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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau

FROM Mr. Haas *[Signature]*

Subject: Butter under loan or owned by Department of Agriculture.

In response to your request of yesterday, I have learned that the Commodity Credit Corporation has acquired under its 1940 price stabilization program 66,000 pounds of butter, valued at approximately \$19,000, and the Surplus Marketing Administration has 25,000 pounds (chiefly 1939 butter) for relief distribution, valued at about \$8,500. This represents the total present interest of the Department in the butter market.

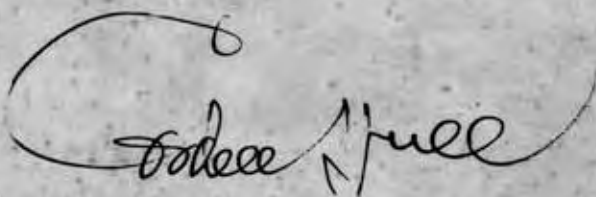
THE SECRETARY OF STATE
WASHINGTON

December 18, 1940.

Dear Henry:

Thank you very much for your note of December seventeenth and its enclosure regarding British plans for the future, which I anticipate examining with keen interest. I shall not forget their confidential nature.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Cordell Hull". The signature is written in dark ink and is positioned above the typed name of the sender.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

December 18, 1940
9:17 a.m.

H.M.Jr: Hello.

James
Forrestal: Henry?

H.M.Jr: Good morning.

F: Good morning. I was going to bring this message over sometime this morning. I think you want to see it. It's fairly complete and it's a report on

H.M.Jr: Why don't you do this to save yourself. Haven't you got a Naval Aide?

F: Well, yeah, but he's on a mission today.

H.M.Jr: Oh.

F: I can get the Secretary's Aide to do it, Mort Deyo.

H.M.Jr: I mean, it would save you trouble unless you want to see me about something.

F: No. Well, I'll just do that because I didn't want to let this

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

F: Yeah, I'll bring it over - so long as he hands it to you.

H.M.Jr: Yes, if he could - I'm always glad to see you but I want to save you that trouble.

F: Right. O. K., Henry.

H.M.Jr: If he'll come over about quarter of 11:00 - he may have to wait a little bit, and I don't like to keep you waiting.

F: O. K., Henry.

H.M.Jr: How's that?

F: That's fine.

H.M.Jr: How are you after yesterday's meeting?

F: Well, I think that - I don't know whether we'll get it by today or not, but I think that it has progressed and I think that's a - there's only one thing that - I'd like to have it on a basis where we could have reference to you on these things - we'd not flatter you at all about it but because I think that procedure - these are men who don't know some of the temperamental qualities down here, you see, and I think that they need guidance.

H.M.Jr: Well, they can have whatever is left of me.

F: Yeah.

H.M.Jr: I'm available. I mean, I'm available whenever, you know, there is something like yesterday, or any other time.

F: Well, I think you'll be - there'll be need for more and more of that as the pressure gets on, because this isn't going to be fun from here in.

H.M.Jr: Well, it's been that way since 1928. (Laughs).

F: (Laughs). I know it. I know it.

H.M.Jr: All right.

F: All right, Henry.

H.M.Jr: Good-bye.

December 18, 1940
9:30 a.m.

GROUP MEETING

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

H.M.Jr: That worked out all right with the press. Where is Schwarz?

Schwarz: Yes.

H.M.Jr: The Times, I haven't had time to read them all. The New York Times, I thought, handled it all right.

Gaston: I think all of them substituted the correct quote.

Schwarz: The transcript, that is right.

H.M.Jr: But that was a dirty piece of business, that subcommittee up on the hill.

George, if you would come here a minute. I won't fuss with this now, but in the next two weeks, if

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you could fill in - I think back of this line, give me one figure (indicating chart) from January through July 6. If you give it all, it would be too much, but if I could have a total from January 2 through July 6. A total, one figure, and then totals here.

Haas: Until the beginning of the year?

H.M.Jr: Yes. Do you need this?

Haas: No.

H.M.Jr: Who is working on ships for me, the whole shipping question?

Foley: Herbert and I.

Gaston: I had a date to go over, but I didn't go on account of other matters yesterday, and there is another meeting this morning.

H.M.Jr: Good morning, Professor.

Chamberlain: Good morning, Mr. Secretary.

H.M.Jr: I won't be able to read this today, and I haven't. This is a confidential thing. I got it and the President and three Cabinet members.

(Memorandum from Lord Lothian to the Secretary dated December 8, 1940, giving data on shipping losses and replacements, November 1940) *Filed 12/8/40*

H.M.Jr: This is the whole shipping question, the loss of their shipping and everything else. It is confidential on the background. The President, Hull, Knox, Stimson, and Knudsen got copies of that this morning. I am giving you as good service.

Ed, this Congressman (Ludlow) is only interested in, could we, under our present laws, make a loan

to Canada. Couldn't you, on the telephone, call him up and say we are interested, is there anything in the law which would keep our Government or a private citizen from making a loan? Which would it be?

Foley: Well, in so far as the Johnson Act is concerned, the Johnson Act only applies to private citizens, and the Attorney General answered, among other questions back in 1934, the question that a political subdivision or a dominion of a country that was in default on its indebtedness to the United States would not be under the ban of the act, and an individual in the United States could make a loan to a political subdivision or a dominion of such an empire, so that if England were actually in default under the Johnson Act, there would be no prohibition in so far as a loan to London is concerned--

H.M.Jr: But if England was under the law.

Foley: That was one of the questions discussed, and at that time he held she wasn't because there were negotiations looking to an adjustment of the War debts. Now I don't think there is any question about the fact she is in default within the meaning of the act.

H.M.Jr: How about the Neutrality Act?

Foley: The Neutrality act doesn't apply to the United States, probably by a construction that was placed on it by a discussion on the floor. It does apply to corporations, the Import-Export Bank, and the RFC, but not to the Treasury.

H.M.Jr: What I would do is, I would call him on the telephone. He is a lawyer. He is a member of a law firm. Then there is nothing in writing. Don't you think that is a better way to do it?

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- Foley: All right. And then we will hold this letter and not send the letter?
- H.M.Jr: Kill it.
- Foley: All right. I perhaps spoke out of an over-abundance of caution, and the only reason that I wanted to bring it up was--
- H.M.Jr: Well, your caution is justified. You just don't know how these - the afternoon headlines - when I went home and read the headlines in The Star and then read the body of the story, it was a most outrageous thing. They headlined three times in the body of the story. Did you read it? The Star?
- Gaston: Yes.
- H.M.Jr: The story they hedged all the way down the line, but the headlines were terrible.
- Schwarz: Not enough words in the headline to explain it.
- Foley: I don't like to see you quoted in the paper as having said that the Johnson Act prevents you from making loans or giving credits.
- H.M.Jr: I didn't say that.
- Foley: Well, I know, but I don't like to have it appear that you said that.
- H.M.Jr: Well, I said that--
- Foley: The Johnson Act doesn't apply.
- H.M.Jr: What I said was, and I still hold, that as long as the Congress feels as it does, I, personally, will not make any loans to England.
- Foley: As a matter of policy?

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H.M.Jr: As a matter of policy. Are we together on that?

Foley: Yes, that is all right.

H.M.Jr: I said irrespective of what the lawyers said.

Foley: I know. You said they look for loopholes, too, but there is no question of loopholes.

H.M.Jr: I am sorry. (Laughter) Do you feel better now?

Foley: Yes, I feel better. Dan is giving me the bird.

Klotz: Oh, I love that. Oh, that is marvelous.

H.M.Jr: We are putting a united press in your office (Schwarz).

Schwarz: That was what I asked six months ago.

H.M.Jr: Well, I always told you if you didn't holler loud enough around this place--

Schwarz: I got your support for it this time.

H.M.Jr: You didn't ask me for it, did you?

Schwarz: I asked Norman.

H.M.Jr: He is the watchdog. He is the head of the Treasury Budget Committee. I am just Secretary of the Treasury. (Laughter) It costs 75 dollars a month.

Do you think we are all right on our publicity now, Herbert?

Gaston: Oh, yes, the President took all the heat off. Anyway, I wasn't seriously concerned about the story, except as a matter of your own understandings here in the Government.

H.M.Jr: His statement and mine ran all right because

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after he got through making this talk about the fire hose, he ended up by saying, "Well, we will maybe have to give it to them anyway." He criticized Mrs. Roosevelt indirectly, not too indirectly, for the banal suggestion of a gift and then ended up by saying, "Well, maybe we will have to give it to them anyway."

- Gaston: I have no difficulty in underwriting your statement. I have a lot of difficulty in underwriting the President's talk about leasing and all that sort of thing.
- H.M.Jr: Well, it is all right.
- Bell: Does that include bombs?
- Gaston: It may be a good psychological approach.
- H.M.Jr: I have got to take a share of the responsibility with it. He said, "I want you to be my public," at lunch, and he rehearsed the thing word for word, and I told him it was all right because he should be a little tougher than what I thought Congress might be, rather than Congress tougher than he, and to break the ice, I think it is all right.
- Gaston: I think it is a good way to open it up.
- H.M.Jr: I will take whatever my proportion of the responsibility is.
- Gaston: I think just as it lies now, it is sort of impractical, but then I think it is a good way to open it up.
- Foley: I think it could be worked out legally without going to Congress the way he suggests.
- White: I am wondering whether, before Cabinet meeting tomorrow or before anything is done, we couldn't

have a chance to discuss it with you or submit a memorandum. I share Herbert's feelings, and I think, though it is a very excellent move, puts the thing on the right basis, excellent politically and psychologically, that it can be implemented in such a way as to avoid many of the disadvantages, and I am wondering whether before you see the President or before you - whether we couldn't have a chance to submit suggestions and discuss the disadvantages in the way of implementing it.

- H.M.Jr: I am just sewed up so tight, I can't even see Commissioner Helvering.
- Sullivan: He didn't holler loud enough. It was 10 days early, but not loud enough (speaking loudly). (Laughter) We will have to get him a megaphone for Christmas.
- White: He is just learning fast.
- Sullivan: I have got a memorandum herefor you to give the President, and that takes care of that thing.
- H.M.Jr: Well, I go on the theory that it either takes care of it or bursts. You (Sullivan) look all right. You look very happy.
- Gaston: By the way, did I call your attention to that paragraph in the transcript where you said that you think all of this about Great Britain and Canada should stay within the room? After you got done talking about Great Britain and Canada and the Johnson Act, you said that, "I think all of this about Great Britain and Canada ought to stay within this room.
- H.M.Jr: Mrs. Morgenthau said last night, "Its lovely to have all these editorials that you should go up on the Hill and consult Congress, but look what happens when you do." I mean they will just spill it.

Schwarz: Within an hour.

H.M.Jr: Well, the difference is, I should only consult the Democrats. It is true. Just as soon as you let a Republican in you see what happens.

Bell: Yesterday. I am not so sure that it was a Republican yesterday, though.

H.M.Jr: You are not?

Schwarz: Partly a Republican.

H.M.Jr: Who do you think it is?

Bell: Well, for a while I suspected Mr. Johnson who has a son on the United Press.

H.M.Jr: Who is Johnson?

Bell: The one who sits at the right of the Chairman, the old man from West Virginia.

H.M.Jr: Well, now, I thought I would call up the Chairman. What is his name?

Schwarz: Ludlow.

H.M.Jr: And tell him that he embarrassed me terribly yesterday. What harm is that?

Bell: I don't think there is any harm. I think you ought to tell the Committee--

Sullivan: They are going to be there for the next three or four days, your various bureaus, testifying in detail, and he can make it pretty unpleasant for for the boys.

White: I am wondering whether that isn't a good thing to remember the next time you go up, or the next time they ask you, rather than calling it to their attention now.

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Gaston: He was very much upset, both he and Mark Shields, the clerk, and he called an executive meeting of the committee yesterday afternoon on this thing, and went over this transcript.

H.M.Jr: Shall we let it ride?

Gaston: I think I would, yes.

White: If for no other reason, that after all you frequently go over testimony correcting errors and so on, and if you get tough with them they are liable to get tough with you.

H.M.Jr: Well, on the train back, I heard this voice from the wilderness.

Sullivan: John is the name.

Bell: John from the wilderness.

H.M.Jr: If you have a memorandum sometime and you holler early enough and loud enough, maybe I will get to it, and this is the important thing. The meeting with Senator Glass is at eleven tomorrow. Now, who is going to tell the story.

Foley: Well,--

H.M.Jr: You see, I think that you should go, I think I should go, and I think Delano should go, but I don't think - don't you think that is enough?

Foley: All right. O.K.

H.M.Jr: Can you learn it?

Foley: Yes.

H.M.Jr: Between now and tomorrow?

Foley: Yes.

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H.M.Jr: And can you get it to Senator Glass' hotel?

Foley: Yes, the memorandum is all ready. Do you want to read it?

H.M.Jr: I haven't got time. Why don't you personally arrange to drop it over there or arrange to give it to--

Foley: Ritchie Smith.

H.M.Jr: He can come and get it.

Foley: All right, I will.

H.M.Jr: Are you (Bell) going with us tomorrow?

Bell: I can.

H.M.Jr: It is not necessary.

Bell: No.

H.M.Jr: All right, I will save you.

Bell: This is a letter to Leon Henderson on the statistics of income tables. Are you going to do anything about getting Phillips and Prebisch together on the British securities, is that our job?

H.M.Jr: No. I have mentioned it now to everybody, and I think that in view of what happened, I wouldn't push it. I have told Prebisch about it, and I have told Phillips about it.

Bell: Prebisch, last time he was in, asked if you wanted a joint conference, and I told him I didn't know if you had that in mind, but I would find out.

White: That was one of the items on the agenda that was

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sent down to them, but I think it could be well handled in the next discussion we have in Mr. Bell's office without bothering you about it, because I don't think anything will develop from it at this end.

- H.M.Jr: I think I would let the two of them get together. I would simply say this, "They are here and let the two of them get together; and, if they have anything, we will be glad to talk to them." I don't want to be pressing them.
- White: I think it is better that they do it.
- H.M.Jr: Let the two get together.
- Bell: I don't think we are interested unless they use our dollars.
- H.M.Jr: That is right. What else?
- Bell: That is all.
- H.M.Jr: Harold? I still will see you. I don't think it will be until next week now, because I am going up Thursday night to this dinner, and I hope not to come back until late Friday. Chick?
- Schwarz: Sylvia Porter gives us some ideas in her column. They have got a good line there. They suggest defense liberty bonds.
- H.M.Jr: I saw her at my house yesterday.
- Schwarz: That may be a result.
- H.M.Jr: I had quite a talk with her. She is an awfully swell girl.
- Schwarz: She is very smart.
- Bell: Not so friendly at times, is she?

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- H.M.Jr: Well, she was right, Dan.
- Bell: It wasn't exactly right. The Treasury was a party to it. She intimated that the Treasury did it so that they could have the free riding. That isn't quite true. She could have pointed out all the steps we have taken to eliminate the free riding.
- H.M.Jr: Well, but the woman is smart.
- Schwarz: She analyzed the situation.
- H.M.Jr: We may have her down here. Yes, sir, I am serious about having her come down for six months. No likee?
- Bell: It is hard enough around here now. (Laughter)
- H.M.Jr: She knows this racket in New York.
- Foley: Who is that, Mr. Secretary?
- H.M.Jr: Mrs. Porter. She writes for the New York Post, and she knows the racket, how to beat the game better than anybody I have seen. I don't say she knows it any better, but at least she will tell.
- White: We are making studies on the individual corporations, the British corporations. I am just letting you know so that in case you want them, we have a study on each separate industry. We are beginning with the largest and going down the list.
- H.M.Jr: Right.
- White: And we had thought, unless you feel to the contrary, that we would also cooperate with the SEC man whom they are loaning to us in evaluating these. I don't know whether you would rather postpone that until some later date or not. We

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had thought merely of going ahead.

- H.M.Jr: Use your own judgment.
- White: O.K. That is all. Did I understand you to say that you would read a memorandum if we prepared it on--
- H.M.Jr: Yes, if you get it to me within - Cabinet is tomorrow, that is the trouble. I am all fixed up.
- White: It is only because it is taking so much of the stage that it is worth while.
- H.M.Jr: If you can get it to me in my waking hours.
- Haas: Mr. Secretary, you have asked if we would work up some charts on the different bank holding companies. We have completed three, and I have got another one here. Do you want me to turn them in to you, or--
- H.M.Jr: To Professor Foley. He is going to give this lecture tomorrow; and, if you have some other than trans-American, it would be very helpful.
- Haas: Yes. This makes four.
- H.M.Jr: Yes.
- Haas: Cy Upham is getting the dope from the banking men. That is the big one.
- H.M.Jr: Is it pushing you too much, Ed, to have this lesson ready by tomorrow?
- Foley: No. I don't think we will have that second part of the legislation that you spoke to me about.
- H.M.Jr: That is all right.

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Foley: I have got the holding company legislation, but the other part I won't be ready with.

H.M.Jr: Good. I will have to just sit there with Carter Glass and listen.

Haas: I forgot to attach copies of - I put the wrong name on this, on that steel thing.

H.M.Jr: This should be Henderson?

Haas: Yes. That was your suggestion, you know.

H.M.Jr: I hadn't had time to read it yet. Philip?

Young: Air Commodore ^{Slessor}~~Schlesser~~ has sent in another note in reply to the reply of the War Department to his original note.

H.M.Jr: How does he know about the War Department note?

Young: I don't know, but he takes up the points one by one. I thought I would summarize all three and give you a short summary of the bunch before he has a chance to get out another one.

H.M.Jr: Good.

White: Mr. Secretary, did you happen to hear a report that the CIO is going to present to the President ways of expanding airplane capacity by using other factories and so on? You said something about it. I wonder whether you might not want to get hold of it.

H.M.Jr: Yes.

White: I don't know who can get it for you. I can't.

H.M.Jr: CIO?

White: The various vice presidents are indicating in a

- 14 -

memorandum how plane production can be increased and why it is under produced now.

- H.M.Jr: Well, the person to get it through is the Commissioner over there.
- Schwarz: Hillman.
- H.M.Jr: The CIO fellow?
- Schwarz: Hillman.
- White: Well, I don't know what avenues you have, but if you are interested in the report--
- Schwarz: That has been published, that they were planning such a report.
- H.M.Jr: Call up his office and say if there is such a report, I would like to have a copy of it.
- White: I will do that for you if you like.
- H.M.Jr: Do it direct.
- White: Is there somebody here who deals with him at all?
- H.M.Jr: No.
- White: I will call up Lubin, his assistant.
- H.M.Jr: Yes, that is good.
- Young: I haven't yet been able to get out of Nelson's office a copy of his recommendations on treatment of foreign priorities. I understand that he has gone home and won't be back until after the first of the year. He left about a week or so ago. Because of pressure on that stuff, unless you have some objection, I thought I would write up a few sample cases of foreign priorities for the formal presentation to the Priorities Board as such and then see what they do.

- 15 -

- H.M.Jr: I haven't got it enough, Phil. If you think it is good, all right, but I can't give you any judgment on it. I don't know enough about it.
- Young: All*right.
- H.M.Jr: But I think I would talk it over with Graves and discuss it with Graves. My judgment is no good because I don't know enough about it. You will have to decide whether it would be helpful or harmful in view of what we are trying to do.
- Young: All right.
- H.M.Jr: Discuss it with Graves, and whatever the two of you decide, O.K.
- Young: That is all.
- Pehle: Was there anything particular about Martinique that I should know? I sent you that memo as to what we did--
- H.M.Jr: Well, just this, that two hundred seventy thousand - if that is correct - I read the memorandum. Why don't we just call up the State Department and say, "Why don't they release it."
- Pehle: Well, we had a conference while you were away over at State in Mr. Berle's office, and at that time they were having a great deal of difficulty with the Admiral, the French Admiral in charge of Martinique, who has since been supplanted from Vichy, and he was threatening at any time to take one of the boats and put some gold on it and leave, and the State Department felt that in view of that attitude they had better go very slowly, particularly on a monthly allowance. Then they asked for this large amount monthly, and which is quite large in comparison with the individual amounts that they have asked

- 16 -

for. Since then I have heard, although it hasn't been confirmed, that the French have agreed to cut that amount in half, but we still haven't heard from the State Department about the monthly license. Now, if you want to, I will be glad to call them up.

H.M.Jr: Well, just ask them where it stands.

Pehle: We had a letter within the past week saying that that was still under consideration.

H.M.Jr: Well, ask them again.

Pehle: I will.

H.M.Jr: The French Ambassador - I sat next to him Saturday night - raised the thing.

Pehle: I don't think they really have any complaint.

H.M.Jr: Raise it, will you?

Pehle: Yes, sir.

H.M.Jr: Professor Chamberlain?

Chamberlain: We had an appointment at three o'clock this afternoon, Mr. Secretary.

H.M.Jr: It still stands.

Haas: Mr. Secretary, may I be excused to go up to that Appropriations Committee?

H.M.Jr: Sure.

I have a note here for you. Read this. It is in my own handwriting. I would like to know more about it. I happen to be related - he is a first cousin by marriage, and if there is anything more, I would like to know.

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Wiley: All right.

H.M.Jr: I know what his firm in Paris has done, and I have always been very curious.

Merle?

Cochran: I have this memo from the British on gold. I have circulated it to Bell and White and Bernstein. And I have these figures on allowances that you wanted to see. Then there is a cablegram from Shanghai that I think you ought to read when Archie is here, at least have it before you.

H.M.Jr: Well, tell Archie to bring it in, and let Archie read it.

Cochran: All right.

H.M.Jr: Can't Archie read it?

Cochran: Sure.

H.M.Jr: Let Archie read it, and I won't be at a loss.

Cochran: That is all.

Bell: By the way, should Archie sit in on these Chinese--

H.M.Jr: Well, you had better wait until I see him. Now, I am seeing him at eleven. He doesn't want to go and all the rest of it. He will be here at eleven o'clock.

Bell: We are going to have a conference this morning internally on the agreement. The Chinese are not in it at all.

H.M.Jr: Well, let him sit in on that anyway. He is all right.

- 18 -

Cochran: The State Department fellows are coming.

H.M.Jr: Let him sit in on it.

Sullivan: Here is another memorandum.

H.M.Jr: Good.

Sullivan: And here is a memorandum from Commissioner Helvering on the Ramspeck bill. We have got 25 hundred people who are under our service, and we are taking another thousand next month. If the President issues the order covering Internal Revenue under the Ramspeck bill, we loose them all.

H.M.Jr: John, if this isn't important--

Sullivan: It is.

H.M.Jr: Is this a letter to the President?

Sullivan: No, that is a memorandum to you from Mr. Helvering.

H.M.Jr: But then, the fellow who controls it is the President.

Sullivan: That is right.

H.M.Jr: Then fix it up for me in the form of a letter to the President.

Sullivan: A letter from you to the President?

H.M.Jr: Yes, and if you will give it to Mrs. Klotz, she will see that I get it within the hour, and I will sign it, if you will write it.

Sullivan: All right, sir.

H.M.Jr: If you leave it that way, it is - you know - but

- 19 -

if you get it to her, she will get it to me, and I will sign it.

Sullivan: All right, sir. The collections for the first four months of this year are up two hundred sixty-two million over last year, and of that amount, a hundred and forty-seven million is in defense taxes. The tentative figures for November indicate that we are up about a hundred and six million dollars just in the month of November. Of course, we are getting practically no income tax payments. This would seem to indicate that our estimate of a billion dollars for the Revenue Act of forty for a full year are going to be low.

There is a man out in Kansas who is a friend of Commissioner Helvering's who was brought over from Amsterdam. He is a foreign trade expert, and he sent to the Commissioner a resume of the South American situation, and I thought I might turn that over to Dr. White.

H.M.Jr: Good.

Sullivan: You wanted to be acquainted with the steps that were being taken to familiarize the public with the necessity of filing returns.

H.M.Jr: Yes.

Sullivan: I don't suppose you have time to look them over, but we have here all of the information we send out to the newspapers and the radio programs, the forms that are being distributed in the army camps for those boys to file, and all that sort of business. Now, in addition to that, there were two different people who were writing scripts for movie skits. Rogan, the collector in California, got in touch with the movie people and asked them if they would be willing to do a skit, and they said they would, but they didn't think it should be confined to California, it should be used all over the country. They spoke

- 20 -

of using either Clark Gable or Spencer Tracy. And I asked him to have the skits sent on here and let us look them over. If the skit isn't any good, it doesn't make any difference who plays it.

H.M.Jr: That is right.

Sullivan: I assume your veto on Bert Lehr still holds?
(Laughter)

H.M.Jr: All right.

Foley: The important thing, Mr. Secretary, is this meeting of the State Department on ships yesterday. Herbert wasn't able to go, but I went. I have a memorandum here. There is a meeting over there at ten o'clock this morning to work up a memorandum for presentation to the President to cover what can mobilize ships in our ports, what action should be taken, and how, what distribution is to be made of them between our Army and our Navy and our own shipping lines, if we get them, and what is to be done about new ship construction facilities like Hog Island, for instance. Now, the one thing at this meeting yesterday that was attended by the Army and the Navy and the Maritime Commission and the State and the Treasury was that there is a disposition on the part of everybody to do something about the problem this time. Hull made the rather naive suggestion that each Department submit its problems and its policy and he take them all over to the President, and I said I thought that was unfair to the President and would delay and confuse the situation, and I thought that we ought to get a joint memorandum and put down the conclusions of the group and the recommendations, and he said that that sounded fine and suggested a meeting this morning at ten o'clock, and he asked me if I would come and--

H.M.Jr: You ought to go.

- 21 -

Foley: Yes. If I have got these other things, I won't be able to stay over there all day; but, if it is all right with you, I will take Huntington on this ship control business and Cox, who was with me yesterday, and leave them over there to work on the memo.

H.M.Jr: That is all right.

Foley: I told them that--

H.M.Jr: Who called this meeting?

Foley: Hull. Land was there, and Land was very cooperative yesterday. He said that he understood the President had in mind some kind of a statute whereby we could take over these immobilized ships belonging to the French and Danes and Germans and Italians in our ports; and, of course, we can hold them. Now, I pointed out that we had a request for clearance for this Sheherazade, a big tanker, down in New Orleans. She is a French tanker and wants to clear for martinique. Hull said we should hold her until after this memorandum could be gotten up, and he could clear it with the President.

Gaston: That was a test case.

H.M.Jr: I think you had better go on over and leave those two boys behind. I think you had better go right away.

Foley: Yes. There isn't any objection from the Belgian Ambassador to ask Bernie to come to lunch today, and I told him I didn't think there would be any objection as long as he didn't become a cookie pusher. (Laughter)

H.M.Jr: That is all right.

Do you have anything, Herbert?

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Gaston: Yes. Just one thing. Steve Early called me yesterday afternoon and wanted to urge very strongly that you agree to the request of the Star to submit an article for your signature on that special inaugural section of the Star. He said that everybody else in the Cabinet was going to do it, and it would break up the scheme, which apparently Steve had agreed with Ben McKelway to do.

Schwarz: He already told Mr. Noyes we would.

Gaston: Who had told him?

Schwarz: We sent another letter.

Gaston: Does that letter say that it would be done?

Schwarz: Would not be done.

Gaston: That letter is on my desk. It hasn't gone out.

White: What is the subject matter, Herbert?

Gaston: Oh, just general about the past and future of the Treasury Department.

H.M.Jr: Well, I have never done it.

Gaston: I know you have never done anything of that sort. I thought you ought to know about this direct request from the White House. It is apparently Steve's scheme worked up with Ben McKelway of the Star.

H.M.Jr: Well, I am the only Cabinet member that wouldn't do anything on that famous book that they got out four years ago.

Gaston: Yes, the campaign book.

H.M.Jr: I wouldn't do it, either.

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Gaston: Yes.

H.M.Jr: There are a lot of things I don't do, Herbert.

Schwarz: If you change your policy now, it will be hard for us to turn down other things.

H.M.Jr: I am sorry, I am not going to do it.

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Copy left with Bertha Jones
at 12:15 on 12/18/40, Mr. Young'
being at the British Purchasing Mission.

December 18, 1940
11:23 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

Sumner
Welles: Hello, Henry. How are you?

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

W: All right, thanks. Struggling along.
Mr. Hull gave me this morning a letter to
him in regard to these Greek planes.

H.M.Jr: Yeah.

W: I must admit that I'm in a state of the
most helpless confusion because Butler the
night before last came in to see me to say
that he just received a telegram from his
Government informing him that General Metaxas
had advised the British Government that
he would be quite satisfied with the Defiance
planes in substitution for the P-40 planes.

H.M.Jr: Well, I'll be damned.

W: Now, we've got in touch with Butler in view
of the Greek Minister's statement to you
which he also made to us last night. Butler
is talking to - what's his name - Morris Wilson
is it and he is to let us know by noon today.
And I think also the best thing we'd better do,
Henry, is to telegraph to our Minister in
Athens and tell him to try and find out exactly
what the situation is because here we have two
completely diametrically opposed statements.

H.M.Jr: Let me just get this - I'm breathless. Metaxas
sent word to the British Embassy here

W: Metaxas informed the British Government and
the British Government informed the British
Embassy here and the latter informed me
personally the night of the 16th

- 2 -

- H.M.Jr: That it's O. K.
- W: that they are glad to receive the Defiance planes instead of the P-40 and yesterday the Greek Minister goes to you and to us and says just the contrary.
- H.M.Jr: And now you're going to do some checking up and I'll sit tight and do nothing until I hear from you further.
- W: Now Butler is going to check with Morris Wilson and we're going to instruct our Minister in Athens to find out just exactly what the situation is.
- H.M.Jr: Of course if they will take those Defiance, it would relieve us all I think. It was a very embarrassing situation.
- W: Why it would solve the whole problem.
- H.M.Jr: And I personally think that the English are sincere about the Defiance, and that they are carrying the whole burden of the fight in the air. They really ought to know.
- W: Yes.
- H.M.Jr: And my people tell me that the Defiance is a good plane.
- W: Yes. Well, I have no doubt it would be entirely suitable for the operations there.
- H.M.Jr: That's right. Well, I'll sit tight until I hear further from you.
- W: That's right. Now, with regard to the other question you asked; that is, the 10 planes for Siam and the Philippines and the 6 completed to Siam in California. My understanding is that the Chinese do not want them and that our Army does want them.
- H.M.Jr: Well, the word that I got yesterday was that the Army has again changed its mind for about the fifth time and does not want them.

- 3 -

- W: (Laughs).
- H.M.Jr: That's why I wrote the letter.
- W: Well, as you know, the Chinese have said they didn't want them.
- H.M.Jr: Well, I am writing Hull a letter today suggesting that he have a meeting in his office Monday morning with whomever is in his Department. We have here about 20 different requests for planes, engines and parts from about 20 different countries. I'm sending the complete list over to him today.
- W: Good.
- H.M.Jr: I'm asking him to have Mr. Stimson and Knox present because each one has his own ideas. I think there are about 20 different requests
.....
- W: There must be at least that.
- H.M.Jr: and the ones - the list will be ready to be sent over - because the ones for South America - I do think we ought to at least tell them yes or no.
- W: I think it is of the utmost importance that we tell them yes to the fullest extent possible.
- H.M.Jr: But this thing has gotten so that it's kicked around and kicked around and we do the best we can but each day we hear something else, and I think out of the meeting - if State, War and Navy would say, well, on this question we'll meet once every two weeks, or we'll meet once a week or something. You know.
- W: That's a very useful suggestion. It would solve a lot of difficulties.
- H.M.Jr: Yeah, because these people have a grievance, just like this one - you say the Army says they do or don't, and I hear something different. It's gotten to a point where they should say yes or no.

- 4 -

W: Exactly. Well, I think that's a very helpful suggestion. I think it ought to be done just that way.

H.M.Jr: Six planes to Siam are just as much trouble as a thousand planes.

W: Exactly.

H.M.Jr: Well, thanks for the call.

W: All right, Henry. Then I'll let you know as soon as we get some verification.

H.M.Jr: Thank you.

W: Thanks.

December 18, 1940
12:16 p.m.

H.M.Jr: Hello.

Guy
Vaughn: Hello, Mr. Morgenthau.

H.M.Jr: Talking.

V: This is Guy Vaughn.

H.M.Jr: How are you?

V: This Studebaker building engines for the British and for the United States Government has got some complications in it as far as our own future business is concerned, and we would like very much to discuss it with you at your convenience.

H.M.Jr: Right.

V: If you are coming up around Christmas or if you would be in Washington on Thursday - either way, whatever your convenience is between now and then except that I am definitely tied up here on some very important things that must be cleared immediately so that I couldn't come to New York this week - Washington this week.

H.M.Jr: How pressing is this thing?

V: Sir?

H.M.Jr: How pressing is the thing that you're talking about?

V: Well, it's got to be done before a meeting and it's in the interest of national defense to get things cleared and under way.

H.M.Jr: Well, I mean

V: It's just a delay in our own production schedule; that is, propeller particularly and that, you know, is being done last and therefore will be a bottleneck and I've been working

- 2 -

night and day on it and I could come down there and get right back I suppose this week. Be better for you.

H.M.Jr: Well, the trouble is I'm tied up solid now until tomorrow and I go up to a dinner in New York tomorrow night late. Hello?

V: Yes. I hear you.

H.M.Jr: I'll be in New York Friday morning.

V: You'll be in New York Friday morning.

H.M.Jr: Yes.

V: Well, will you have a moment?

H.M.Jr: Yes.

V: Well, now, you just set your own time and place and we'll be there.

H.M.Jr: Well, I tell you what you can do. I'm staying with my father at 1133 Fifth Avenue.

V: 1133 Fifth Avenue.

H.M.Jr: And he lives just above Wilkie.

V: Yes, I know just about where it is - about 98th - 97th Street.

H.M.Jr: Yeah, 93rd. And if you were there at 9:00 o'clock I could see you Friday morning.

V: 9:00 a.m. Friday morning. Well, that's perfect. It's just a matter of policy. I'm not going to bother you with a lot of details but after all you want to protect us in a fair and equitable manner and we don't want any more than we have to have to exist.

H.M.Jr: That's all right.

V: All right, sir. Well, that's fine and thank you very much indeed.

H.M.Jr: Good-bye.

December 18, 1940

My dear Mr. President:

For your confidential information, I am inclosing herewith a report from the British showing the number of airplanes and pilots they had on hand as of May 10, September 27 and November 29.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.

By Message 4/15

December 18, 1940

My dear Mr. President:

For your confidential information, I am inclosing herewith a report from the British showing the number of airplanes and pilots they had on hand as of May 10, September 27 and November 29.

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of the Navy.

By Message 4'5

December 16, 1940

My dear Mr. Secretary:

For your confidential information, I am inclosing herewith a report from the British showing the number of airplanes and pilots they had on hand as of May 10, September 27 and November 29.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of the Navy.

By Messenger

December 18, 1940

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Yours sincerely,

(Signed) H. Morganthau, Jr.

The Honorable

The Secretary of the Navy.

By Messenger

December 18, 1940

My dear Mr. Knudsen:

For your confidential information, I am inclosing herewith a report from the British showing the number of airplanes and pilots they had on hand as of May 10, September 27 and November 29.

Yours sincerely,

(Signed) E. Mowbray, Jr.

Mr. William S. Knudsen,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

By Messenger 4¹⁵

December 18, 1940

My dear Mr. Knudsen:

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Yours sincerely,

(Signed) E. M. Hughes, Jr.

Mr. William S. Knudsen,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

By _____

December 18, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

By Messenger 4¹⁵

December 18, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable
The Secretary of State.

By Messenger

December 18, 1940

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Yours sincerely,

(Signed) E. Maganahan, Jr.

The Honorable

The Secretary of State.

By Message

December 18, 1940

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Yours sincerely,

(Signed) E. M. Sweeney, Jr.

The Honorable

The Secretary of War.

By Messenger 4 '15

December 18, 1940

My dear Mr. Secretary:

For your confidential information, I am inclosing herewith a report from the British showing the number of airplanes and pilots they had on hand as of May 10, September 27 and November 29.

Yours sincerely,

(Signed) E. H. Hagan, Jr.

The Honorable

The Secretary of War.

By Message

STRICTLY CONFIDENTIAL

*orig. as filed 12/14/40
date it was given
to Dept*

SECRET AND MOST CONFIDENTIAL

	May 10.	Sept. 27.	Nov. 29
Stocks	3.209.	3.735	4.185
(Hurricane, Spitfires, Wellington, Blenheim, Whitley & Hampden)			

N.B. Planes shipped to other theatres of war by Britain were included in September figures, but not in November. (These numbered 374 in period from May to November.) Consequently improvement between September and November is greater than appears at first glance.

Pilots	3.101	4.149	4.398
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N.B. Pilot wastage last quarter about 400 per month, allowing for half wounded returning to duty.

C.R.O.	1.874	1.882
(Awaiting repairs and inspection)		

STRICTLY CONFIDENTIAL

December 18, 1940
3:30 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Thank you. Hello.

Cordell
Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: That's going on?

H.M.Jr: Well, I sent you over a letter which ought to get to you in a few minutes and I've asked whether you would call a meeting at your office Monday morning with myself, Stimson and Knox.

H: Yes.

H.M.Jr: And I'd like to lay before you -and I sent it in the letter - there are about 20 different countries that have requests in for airplanes and we're not giving them any answer and I think we ought to say either yes or no to these people.

H: Yes.

H.M.Jr: And I sent you over a list of the requests from the various countries for airplanes, engines and parts up to date.

H: Well, now, we'll fix up anything that we can get - I think I told you that Stimson and Knox have been coming in here every Tuesday morning for an hour to go over the points of our situation together and I guess - it will suit me 100% Monday.

H.M.Jr: Well, I just sent the letter over and I sent the list of the various requests and there are 300 Curtiss P-40's to be divided up. You see?

- 2 -

H: Well, now suppose I call them - shall I

H.M.Jr: I'd much rather you'd have your office do it.

H: All right. I'll tell them that you want us to meet together here and discuss that situation.

H.M.Jr: And I'm laying on the table 300 Curtiss P-40's which can be gotten and which can be divided up.

H: Now this is Monday morning.

H.M.Jr: Yes.

H: All right, Henry.

H.M.Jr: Now, what time would suit you?

H: 9:30?

H.M.Jr: 9:30 Monday.

H: I'll let you know if there's any trouble about their being present.

H.M.Jr: But I thought that if we could do this once in a while and then - like those damn 10 planes in the Philippines - instead of having it knock around for two months if we could say yes or no. You know.

H: Yes.

H.M.Jr: And Sumner called me on that Greek thing. Have you heard the last one on that?

H: On which?

H.M.Jr: On the Greek? The last thing on the Greeks?

H: I turned it over to Sumner and told him that he had failed to communicate with you as I asked him to and he overlooked it I knew.

- 3 -

H.M.Jr: Well, he called me up this morning.

H: Yes.

H.M.Jr: You know I sent to him a memorandum last night.

H: You see he got in that picture originally and that's the reason I have to keep him in it.

H.M.Jr: Well, he called me up this morning and tells me that General Metaxas says he wants the planes that England wants to give him and the Greek Minister last night told me that they didn't want it.

H: Well, the Assistant Greek Minister is telling somebody else here something else.

H.M.Jr: Well, I told Sumner I'd sit tight now and do nothing until I heard from him further.

H: All right.

H.M.Jr: Because he says he wants to carry it.

H: All right, Henry.

H.M.Jr: So he and I are together since this morning.

H: Well, fine.

H.M.Jr: If I don't hear from you again I'll be at your office at 9:30 on Monday.

H: Now, if the Secretary can't come is it all right for the Chief of Operations to come or do you want to put it off?

H.M.Jr: No, I think if it's possible, I think we ought to go to town on it.

H: With

H.M.Jr: Well, with whoever is here.

- 4 -

H: All right.

H.M.Jr: Whoever is here.

H: All right.

H.M.Jr: Thank you.

December 18, 1940
4:30 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Young
Sir Frederick Phillips
Mr. Bell
Mr. Cochran

H.M.Jr: Sent for Mayor LaGuardia of New York, and I am trying to squeeze you in. When he comes, I will have to stop.

I was just reading this thing here.

Young: My note?

H.M.Jr: Yes.

Young: I must say that everyone and their pup today have been on my neck about the ship program.

H.M.Jr: Well, do I gather from this that you want to do the ship program first, is that it?

Phillips: That is my belief, yes.

Bell: That comes ahead of the ordnance.

Phillips: I think it comes ahead of the ordnance, yes. Whether it comes ahead of the airplanes, I don't know.

Young: Certainly, Sir Frederick, ships and planes come before ordnance.

(Mr. Cochran entered the conference.)

- 2 -

- H.M.Jr: Do you (Phillips) want to read this (Young's memorandum) and see if this expresses the way you feel? *11.4.5 am meeting (12) 18/41 = call out*
- Phillips: Yes. Yes. I did put the first question to Mr. Young, as to the status of these new orders under Program 1 and Program 2. You know the President's press statement drew a distinction between the future orders and existing orders, and the question I put to Mr. Young is, are these Program 1 and Program 2 orders which you have given us a clearance for future orders or are they existing orders, and I thought the answer was, "They are future orders," and I thought he rather agreed with me. We haven't got it in black and white.
- Young: They are future orders today, in that no contracts have been signed for anything on either of those programs.
- H.M.Jr: Is that the first question?
- Phillips: The first question, yes.
- Bell: Future orders but existing programs. The program has already been put before this Government.
- Phillips: Oh yes, that is perfectly true.
- Bell: The orders haven't been entered under those programs, is that what you mean?
- Phillips: I don't think there is any doubt. They are future orders. We haven't got it in black and white.
- H.M.Jr: There is Program 1 and 2, existing orders or future orders. That is question number one.
- Phillips: Yes, number two follows from this table. We submitted to you a program showing an expenditure,

- 3 -

1343 before the end of February on orders already placed, Program 1 and Program 2.

H.M.Jr: On orders already placed?

Phillips: Yes, plus Program 1 and Program 2 and our outgoings as we estimate them by the end of February are 1,343 million dollars, which exceeds our immediate resources --

Young: One billion.

Phillips: By 800 million dollars and I want to know what is the thought on that subject.

H.M.Jr: Let me have that again. If you placed - would this be correct? If you placed orders for one and two, plus what you already have on our books --

Phillips: That is right.

H.M.Jr: If orders one and two were placed, plus existing orders - what is the date?

Phillips: By the end of February.

H.M.Jr: Would you say by March 1st?

Phillips: Yes. We estimate cost at 1,343 million, of which capital, 287 - 1,343 is the figure and our immediate resources are about 570.

H.M.Jr: How much?

Phillips: 570, and as you know, sir, Gifford is selling at about a million dollars a day. He pushed it right up to 6 million dollars a week.

Bell: It is just about doubled.

Phillips: That is as far as it has gone.

- 4 -

H.M.Jr: Now, what you want to know is, where do you go from here.

Phillips: Yes.

H.M.Jr: Well, I can't tell you that until I ask the President.

Phillips: That is what I felt sure your answer would be.

H.M.Jr: Well, this boils down this whole thing, doesn't it?

Phillips: I think that is the lot, except that I again mentioned to Mr. Young the question of the end of the war. We are running our gold right down during this period. Then the question of what gold we have at the end of the war becomes much more important to my people. We want to know what will we do if that gold reserve comes right down, what chance of building it up again before the end of the war to a minimum figure. The minimum figure, I mentioned before, is 800 million dollars.

H.M.Jr: The other thing, I am going to put down three, the order of priority which you select.

Phillips: We would like to have it. I have got my people working on that at this moment.

H.M.Jr: Oh, you don't have it yet?

Phillips: I can get it tonight.

H.M.Jr: No, if I can get it tomorrow morning. We will have Cabinet tomorrow. If I could have it before two tomorrow. You give me the order of priority that you would like.

Phillips: Very well.

*See Phillips
the date*

- 5 -

Young: In what detail?

H.M.Jr: Oh, not too much. Talk about ships, planes, and ordnance.

Young: Those three?

H.M.Jr: Yes. I tell you what you can do. You could have the word ships at the top on one sheet, and then give me all the details. Ships and the total cost up on top, you see. Then if anybody in Cabinet says, "Well, what kind of ships," and so forth, well, I have it there if I want it. Then another sheet, Ordnance, then as much detail as you can. But you will have to number which comes first, ships, ordnance, or planes.

Phillips: All right, we will do that.

H.M.Jr: Is that practical?

Phillips: Yes, I think we can give you what you want all right.

H.M.Jr: If I say they want ships first, Frank Knox may say, "What kind of ships, what speed, what tonnage," and so forth. Well, I will have some of that information.

Phillips: Well, what I am giving you, sir, is only Program 1 and Program 2. Would you like me to go on and deal with Program 3? That would take me some time.

H.M.Jr: No, you would sink this ship (indicating self) if you did.

Phillips: All right.

H.M.Jr: But on the one and two, if you could give me the order in which you want it, with just a heading, "Ships", and then this, "Planes", and so forth, so if they ask me --

- 6 -

Phillips: Yes.

Young: Of course, those two programs do not include other expenditures which may be made for products outside of ordnance and ships.

Phillips: They do include steel and iron.

H.M.Jr: Well, I think that - it isn't plain to me - if you get it between now and two we can squeeze another time in. But you have got what you want right now.

Phillips: Yes, you have given me the answers I expected to get.

H.M.Jr: You are luckier than I am.

*referred to at
4:30 meeting
in Hays' office
12/18/40*

CONFIDENTIAL

December 18, 1940

To: The Secretary

From: Mr. Young

Re: Conference with Sir Frederick Phillips
11:45 A.M. at his request.

Sir Frederick Phillips asked me to come over to his office inasmuch as he said he had some questions to ask concerning the President's statement on financing for Britain. I attach herewith a table which he made up showing estimated monthly distribution of payments against existing commitments plus commitments to be made under Programs 1 and 2.

Sir Frederick has two things on his mind: first, he is very anxious to find out how to tackle the problem of placing orders as the British Purchasing Commission feels that contracts must be made immediately for new capacity to build ships and planes. In this connection he pointed out that the B Program was included in Program No. 1, and that, if it is a question as to allocation of available resources, London feels that the money should go to ships and planes rather than to ordnance. I think Sir Frederick is right on this point, and as the B Program is included in the over-all picture the British should have the right to say what should get priority.

The second problem on Sir Frederick's mind is the question of drawing down the gold reserve to the vanishing point. He feels very strongly that this can only be done in the case of a going concern, such as the United Kingdom, provided it was understood that the United Kingdom would be permitted to accumulate a comparable reserve for exchange stabilization, etc., to be available after the war.

Sir Frederick is anxious to talk with you about these matters, and he said that he and his colleagues would give us 100 per cent cooperation in getting information or in laying all their assets out on the table at any time.

(Initialed) P.Y.

FY:bj

CONFIDENTIAL

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pu

Is program 1 & 2
existing orders or
future orders?
—

2. If orders 1 & 2
were placed plus
existing orders
by March 1st ~~we~~ ^{they}
estimate cost
at \$1.343 million
immediate resources
\$570 million.

3.

CONFIDENTIAL

December 18, 1940

To: The Secretary

From: Mr. Young

Re: Conference with Sir Frederick Phillips,
4:30 P.M.

Sir Frederick submitted a table, attached herewith, showing estimated monthly distributional payments against existing commitments plus commitments to be made under Programs 1 and 2.

Sir Frederick stated that there were two principal problems on his mind:

- (1) Are Programs 1 and 2 to be regarded as existing orders or future orders. (No contracts have yet been signed for any of the items included under Programs 1 and 2).
- (2) If orders covering Programs 1 and 2 were placed immediately and the necessary payments added to balances due on orders already placed, \$1,343,000,000 would have to be paid from December 1, 1940, to March 1, 1941. To offset this \$1,343,000,000 Sir Frederick said that he had immediate resources of \$570,000,000.00, leaving a deficit of \$773,000,000.

D.Y.

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.

		<u>Millions of U.S. Dollars</u>					
		<u>Total</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Total</u>	<u>After</u>
			<u>1940</u>	<u>1941</u>	<u>1941</u>	<u>Dec. - Feb.</u>	<u>Feb.</u>
						<u>1940 1941</u>	<u>1941</u>
Balances due on Orders already placed							
	Product	1284	156	147	125	428	858
	Capital	17	10	5	1	14	5
Programme No. 1							
	Product	2062	86	197	187	470	1592
	Capital	699	55	89	159	265	436
Programme No. 2							
	Product	1225	65	59	58	160	1065
	Capital	10	10	-	-	10	-
Total							
	Product	4571	505	405	548	1066	5515
	Capital	<u>726</u>	<u>55</u>	<u>92</u>	<u>140</u>	<u>287</u>	<u>439</u>
	TOTAL	<u>5297</u>	<u>560</u>	<u>495</u>	<u>488</u>	<u>1345</u>	<u>3954</u>

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.

December 18, 1940

CONFIDENTIAL

To: The Secretary

From: Mr. Young

The following is a summary of comments by General Marshall and General Brett regarding Air Commodore Slessor's notes on United States air production:

1. Air Commodore Slessor's notes were apparently based on incomplete information or written with the ultimate aim of effecting a change in United States productive facilities.
2. The speed and armament of United States bombers and fighters is considered for the most part as good as or superior to their British equivalents. The specifications are the result of joint Army-Navy-British technical consultation based on recent combat experience.
3. It is agreed that new productive capacity should be reserved in large measure for advanced-design planes using new 2000 h.p. in-line motors, such designs to be also those which can be soonest translated into United States production.
4. Any general increase in capacity such as envisioned by Commodore Slessor (to 4500 per month) would involve a restudy of delivery objectives.

General Marshall expresses his concern as to the effect of this type of criticism on the aircraft manufacturers and on the consummation of our own airplane program.

Dy.

MOST SECRETTHE U. S. AIR PRODUCTION PROGRAMME -NOTE BY AIR COMMODORE BLESSOR

1. The following note conveys my impressions of the main problems in connection with the programme of production in the United States, arising from a very brief visit to this country.

There appear to me to be two main directions in which the programme of aircraft production in the U. S. A. falls short of requirements of modern warfare, from the point of view both of Great Britain and the United States - namely, in the fighting efficiency of the aircraft due for production and in their numbers. It must be remembered that the contribution of U. S. industry to the air war will not make itself felt to a really important degree until the second half of 1941 and early 1942.

Fighting Quality

2. The bombers now being produced in U. S. A., while they have good speed and range and a fair bomb load, do not incorporate the important lessons that the R. A. F. have learnt from the fighting of last summer, notably in the direction of defensive armament. The types coming on to production early in 1941, such as the Consolidated B.24 and Martin B.26 show a marked improvement in this direction. And, although no U. S. bomber at present in sight compares for fighting efficiency with our own heavy bombers now in production - such as the Halifax and Stirling - the American bombers will be quite adequate for night operations and will constitute a most valuable contribution when they appear in any substantial numbers, though we should have liked a considerably larger proportion of the heavy four-engined types.

3. As regards fighters, however, it is difficult to avoid the conclusion that United States types that will be available in any numbers by the summer of 1942 are for the most part

unlikely to be of sufficiently high fighting quality to meet really effectively the requirements of the air war by that date. If there is one lesson which sticks out more than others from the lessons of last summer, it is the enormous importance of fire-power in the fighter. It is hardly too much to say that it was the 8-gun fighter that saved England in August and September.

This is not to say that it was only the 8 guns which did the trick. It was also (apart from the fighting value and training of the crews) the superior performance and quality of the British types - Hurricanes and Spitfires. We must keep that superiority - we cannot afford inferior quality aircraft as well as inferior numbers. Any production man knows that to introduce a new type into existing capacity means a terrible drop in production of the existing types before the new one comes in in any numbers. The enemy has now at his disposal the potential - the floor space, machine tools and raw materials - of all the conquered territories, notably of France; and always in the background is the possibility of the Germans, with their drive and efficiency developing the vast potential of Russia.

4. It is, therefore, of great importance that at least those U. S. fighter types for which new capacity is to be created in this country should be a really substantial advance on British types now in production and at least equal in fighting quality to the new British type, the Typhoon, now going into production in the U. K. I do not claim to be a technical expert, but I do not feel that they do come up to this standard. For instance the Curtiss 87, which starts coming in in substantial numbers in the spring, may attain about the same speed as the Spitfire III (on paper - actually it probably won't be as fast), but it only mounts four .50 machine guns as against the eight .303 of the Spitfire III. The firm say that, with the best will in the world, they cannot promise to install six guns till the

151st aeroplane; this may mean that we shall still have 4-gun fighters being delivered in England in January 1942. As compared to the Typhoon, the Curtiss 87 is very much slower, and the Typhoon has twelve .303 or six .20 m.m. cannon guns against the four .50 guns of the Curtiss.

5. There are other more advanced fighters now under development. The Bell Aerocobra, for instance, of which we have several hundred on order, may have a rather higher performance than the Spitfire though less than the Typhoon, and the firm have proposed the installment ultimately of a powerful armament amounting to five 20 m.m. and two .50 guns. It has, however, certain doubtful features such as a very high wheel loading, and its performance when the improved armament is installed must be to some extent a matter of conjecture.

Another fighter type now under development in the United States, namely, the Republic P.47.B, will have a useful armament of eight .50 calibre guns and a good top speed at high altitude (25,000 feet). On the other hand I understand that its performance so far is only on paper and it will not fly until January or February 1941, whereas the Typhoon has been flying for some months already. In general, except at its specialized height of 25,000 feet, it seems certain to be inferior in speed, performance and operational qualities to the Typhoon, and the Technical Officers of the British Air Commission have not thought it desirable to go in for it.

Both the Aerocobra and the Republic P.47 incorporate certain untried experimental features, which may or may not be successful in larger scale production, whereas the Typhoon is a normal development of a tried type, The Hurricane.

6. Reference should be made to the question of gun calibres. It is true that the guns in the initial issue of Typhoons are .303 as against the .50 calibre machine guns in the U. S. types. But the British view, which has received some confirmation in recent trials in England, is that the

.50 calibre, while greatly superior in hitting power to the .303 - is not likely to be fully effective against the degree of armour which must be anticipated in enemy aircraft by 1942. For this reason the British intend to mount in the Typhoon six 20 mm. cannon guns as they become available -- a type of gun against which they believe it to be quite impossible to armour. Indeed, British policy is ultimately to turn over to cannon guns in all fighters, including existing types.

7. It seems to me therefore the best chance of getting in substantial numbers by June 1942 a really marked advance in the spheres both of performance and armament, is for U. S. industry to produce the Typhoon - a type of which, incidentally, I have little doubt we could satisfy the U. S. Air Corps that they could make very valuable use in emergency. The arguments in favour of producing American as against British types in U. S. A. are well known; but it is hard to believe that the difficulties (anyway as far as fighters are concerned) are insurmountable. The production of the airframe should be relatively easy; the main difficulty is going to be to make the engine, the 2000 h.p. Napier Sabre. Both of course involve the creation of new capacity, and both will involve difficulties in the direction of machine tools. But it is hard to believe that the vast engineering resources and skill available in the U. S. A., if really vigorously directed along the right channels, could not overcome the difficulties and produce Typhoons by the spring of 1942.

Numbers.

8. This can only be dealt with on more general terms. Very briefly, the situation is this. The "3000 a month" scheme has, for the present, faded out of the picture as a practical proposition in the reasonably near future. The present scheme involves 26,000 aircraft for the Empire by June 1942 - the 14,000 on existing orders and the new 12,000 - which works out at an average of about 1300 a month. But this programme is only being achieved by continued use of existing capacity

and part use of new capacity already being created under the U. S. Defence programme. The joint U. S. - British capacity which will probably be in existence by June 1942 on present plans, would be of the order of 2500 combat planes a month, of which only 10%, or 250 a month would be heavy bombers. This planned figure is probably little, if any, more than the present capacity of Germany alone. And - in view of the possibility of really serious and widespread interference with production in England by bombing - it seems impossible to sit back and accept a situation in which the British and U. S. Air Forces are backed by so inadequate a production. It will no doubt be suggested that shortage of machine tools precludes the possibility of creating any further capacity in the near future. But there seems some reason to hope that the machine tool situation will show an improvement in the near future. And in any event experience in the U.K. has shown that, where one is really up against it, it is surprising what can be done by going out into the highways and hedges and making use of all sorts of hidden capacity, normally in use for other purposes and, if the best is not available, making do with the second best, such as the plant and tools of the automobile industry. It would be an admission of defeat to accept that the production of aircraft engines and the necessary accessories such as guns, radio, etc., cannot be greatly increased in scope and accelerated in tempo. But it cannot be done without far more drastic measures than are at present in force.

9. As a practical suggestion (which has the authority of Sir Henry Self) the following seems the programme at which we should aim. We had originally assumed that by June 1942 we should see a production on joint account of 1250 combat planes a month (as against the 2500 mentioned above) with a further capacity for 1250 a month, to be started early in 1941 and to be in full production by the end of 1942.

-6-

Our aim therefore should be first to create immediately capacity for at least an additional 250 a month of an improved type of heavy bomber - a class which are of vital importance to the defeat of Germany and in which there is a serious deficiency on present programmes.

This should be followed as soon as possible after the first stage is under way (by which combat plane capacity will have been increased as above to 2750 per month) by the creation on joint account of capacity for the production of new types to bring the total of United States production up to 4500 a month.

November 27th, 1940.

MOST SECRET

74

THE U. S. AIR PRODUCTION PROGRAMMESecond Note by Air Commodore Slessor.

* * * * *

1. As a result of visits to certain aircraft factories and to Wright Field, and of further discussions with U. S. Air Corps officers, I think it may be desirable to amplify the views expressed in my note on the U. S. Air production programme dated 27 November 1940.

2. There are two main desiderata in the field of aircraft production in the United States, from the point of view both of the British Air Force and of the U. S. Air Services who have their own great programme of expansion. These are (a) the need to produce as large a number as possible of adequate combat types to meet the requirements of expansion and of wastage in the campaign of 1941, and
(b) the need to produce, in as large quantities as possible, aircraft of improved performance and fire power that will be better than, or at least as good as, the greatly improved types that we must anticipate will form a high proportion of the enemy air forces in the campaign of 1942.

3. Unfortunately these desiderata are to some extent conflicting. If we were to attempt to introduce the new 1942 types into existing capacity, the result could only be that we should not get adequate numbers of existing types during 1941. The suggestion in my previous note, however, was that we should not mortgage all the new capacity to be created by extending the production of existing types, but should reserve at least some of it for the production of new types which are a really substantial advance on those now in production.

4. The previous note dealt mainly with fighters. If it were possible to apply the foregoing principle to the production of bombers it would obviously be desirable to do so. There is, however, no suggestion that we should attempt to produce the Halifax or Stirling in U.S.A., I do not believe it would be possible to get into substantial production on these types before an U. S. type bomber could be produced of quality equal to either.

5. As regards fighters, I should make it clear that my previous note implied no criticism of U. S. fighter types as 1941 fighters. What I

was, and still am, concerned about is whether there is anything now in sight which will be of sufficiently high all-round fighting quality - speed, climb, manoeuvrability, and volume and hitting power of the armament - to be 100% effective against the bombers of greatly improved speed, armament and armour that it is only prudent to assume will be met in the spring and summer of 1942. And, if we are to have fighters of that quality in sufficient numbers by that time, we should be creating the capacity for them now.

I do not suggest that all our fighters must or can be of this high quality - obviously they cannot be; the Hurricane now is markedly inferior ^{in performance} to the Spitfire, yet it is still shooting down a great many Huns; and we ourselves in England shall still be in large scale production of Spitfires in 1942. But at least some of the new capacity now to be created in this country should be allocated to the production of a really first class 1942 fighter.

6. The problem is what type to select for this purpose. It seems likely that the only way of achieving with certainty the required fire-power and performance will be to make use of much higher powered engines than any now in quantity production. In my previous note I suggested that the best solution would be to produce the Typhoon with the 2000 h.p. Napier Sabre engine in this country. The crux of this is the production of the Sabre engine of which the drawings are now in the hands of the U. S. technical experts. I think the Typhoon still holds the field as the best 1942 fighter now in production. The only possible alternatives would seem to be to build a fighter round either the 1650 h.p. Rolls Griffon (which might be introduced as a follow-on for the Merlin at Packard's) or one of the big radial engines coming into production in this country, such as the Wright 3350 or the Pratt and Whitney 2800. I cannot help doubting whether it will be possible to achieve adequate overall performance in a fighter with one of the big radials; the British technical officers have not taken a favourable view of the only fighter at present projected using the P and W 2800, namely the Republic P.47. It may be possible to introduce such improvements into the Bell Airacobra and Allison engine as will give that type the necessary performance as well as gun-power as an interim type; and in my note annexed to Sir Henry Self's letter of December 14th I have recommended taking a chance on that.

- 3 -

7. To sum up, the U. S. type fighters now coming into production such as the Curtiss Hawk 87, the North American 73, and the Bell Airacobra with existing armament will be very formidable fighters for 1941. For the fighting season of 1942 we should endeavour to produce in the United States, from new capacity to be created, as many fighters as possible with 1942 fighting qualities - which means at least 400 m.p.h. at operational height and multiple cannon.

ember 15, 1940.

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Office of Public Works
Federal Government

December 18, 1948

Dear General Marshall:

Thank you for sending me your comments and those of General Brett regarding Air Commodore Slocum's notes on the United States Air Production program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

Wills
Pu.

December 18, 1940

Dear General Marshall:

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Air Production program.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

General George S. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

GPW:ia

SECRET

79

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

*Asken &
summary*

December 11, 1940.

MEMORANDUM for the Secretary of the Treasury:

My dear Mr. Morgenthau:

I have had Commodore Slessor's notes on the United States Air Production Program checked over by General Brett and his officers. The following are their comments:

A careful study of these notes indicates clearly that they are based upon incomplete investigation and information; that Commodore Slessor had not at the date of these notes consulted with or conferred with the Air Corps engineers charged with development and production; that the information as furnished in his notes is contrary to much of the information furnished by other members of the British Purchasing Commission such as Mr. Fairey, Commodore Mansell and Commodore Baker; that he has not personally gone into the details of any of our later models nor has he examined those models, which are available at the various factories.

Also, reading between the lines, it appears that Commodore Slessor's ultimate objectives are:

- a. Production in America of a British design long range bomber (the Sterling)
- b. Production in America of a new British design pursuit airplane.
- c. Increased productive capacity of the American aircraft industry (i.e. from 2500 airplanes a month, as now set up, to 4500 airplanes a month by 1943)

General Brett submitted the following detailed comments:

a. LONG RANGE BOMBERS.

Fire Power - It is stated that: "No U.S. bomber — compares for fighting efficiency with our own heavy bombers now in production."

Comment - The fire power of the "Sterling" and "Halifax"

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British bombers consists of eight .30 caliber guns mounted in three turrets. The fire power of the B-24 (Consolidated) and the B-17 (Boeing) consists of six to seven .50 caliber and one to two .30 caliber, or the equivalent of twelve to thirteen .30 caliber guns. The overall combat efficiency of the American bomber is considered superior to the English.

Commodore Mansell, in meetings with our technical specialists, has stressed the desirability of the British changing from .30's to .50's. By yardstick methods, we consider one .50 equal to two .30's in a bomber. Prototype of two models of 5300 mile bomber provides for fourteen .50's and two .20's. These are scheduled to be ready for production in early 1942.

Speed - The production articles of both the B-17 (Boeing) and the B-24 (Consolidated) are at least the equal of the British types now in production. The advantages due to turbine super-charger installations of the American types have been stressed by technical and tactical representatives of the British Purchasing Commission.

New Types, Heavy Bombers -The placing in production of the British bombers now in production would require at least a year, and probably two years, in view of the differences in American technique. The Army now has under construction service test orders of a heavy bomber with greater range, with greater fire power, with greater speed, greater bomb capacity, than either of the British bombers discussed.

b. FIGHTERS (PURSUIT)

In regard to comparison of the British "Hurricane" and "Spitfire" with the modernized pursuit types now in production (i.e., the Bell P-39, and Republic P-47, and the Curtiss P-40D), the following comments are pertinent:

The Bell P-39 is equipped with one 37 mm. cannon, two .50 caliber synchronized guns in the nose, and four .30 caliber wing guns as compared with the Spitfire's eight .30 caliber gun.

The P-47B (Republic) has provision for eight .50 caliber wing guns.

The Curtiss P-40D has a normal equipment of four .50 caliber wing guns; provision is also made for substituting two 20 mm. cannons for two .50's.

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The Curtiss P-40B (a stop-gap airplane) is equipped with two .50 caliber guns and four .30 caliber wing guns.

The gun installations and armament details of all these airplanes were coordinated with representatives of the British Commission, based on combat experience available last August and September.

New Types - We concur with Commodore Slessor's statement that: "It is of great importance that at least those U.S. fighter types for which new capacity is to be created in this country should be really a substantial advance in British types now in production" (see paragraph 4, page 2). It is believed that a 2000 horsepower liquid-cooled engine is essential to meet this requirement. The Pratt & Whitney Aircraft Company discontinued the development of the Army engines of this type after they were well under way. The Navy has an experimental 2000 horsepower liquid-cooled Lycoming engine. A conference between the Army, Navy and British, with the view of determining whether the Navy Lycoming engine or the British Sabre engine should be put into production for this purpose is highly desirable in view of the Pratt and Whitney change in experimental policy. The British engine appears to be in a more advanced state of development. Provided the engine can be made available, the production of either the Typhoon type or the American design could be effected.

PRODUCTION.

Commodore Slessor's suggestion that the production be increased to 4500 airplanes per month is a re-statement of the request of July 24 for additional productive capacity. The means for obtaining this increased production appears to be practical. The present production capacity as now set up will reach 2500 airplanes per month, neglecting Government factories now authorized. Tentative British orders for 12,000 airplanes, now being placed, are sufficient for the first increment of increased productive capacity, suggested by Air Commodore Slessor, provided that both the Army and British place additional orders for at least 24,000 airplanes, for delivery in 1943, at an early date.

RE STUDY OF PRESENT PROGRAMS.

The suggestions made by Air Commodore Slessor for increasing production requires a restudy of the delivery objectives established July 23 and 24 for the period June 30, 1940 to April 1, 1942. Consideration should be given at this time to the following:

- (1) The release of all airplanes to the British over and above the actual requirements to equip 54 groups.
- (2) The matter of finance, facilities.
- (3) The matter of placing orders with proper consideration to the ability of the industry to absorb the additional load.

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Personally, I am inclined to believe that there is an ulterior motive behind this statement, having in view a complete rearrangement of production and procurement procedure. I am deeply concerned over the slow rate, the dwindling rate of plane deliveries to the Army; but I am becoming even more concerned over the possible effects of the present campaign in certain portions of the press, particularly if supported by statements such as this from Commodore Slessor.

It is natural that Slessor should be dominated by the desire to help the British situation, however superficial his knowledge of conditions in this country may be at the moment. My interest must center on our situation, and I am worried over the disturbing effect this sort of thing has on the airplane manufacturer and other agencies involved.

Our problem is hard enough as it is - in time of peace with an unrestricted press, with the varied interests of Latin America, China, the British Empire, and our own vast expansion - but it is becoming increasingly difficult and confused under the various pressures, some very powerful, and each of which has a special purpose in mind. Incidentally, the recent publicity campaign directed against American types of planes in England as a reflection on the general efficiency of our program, is really an outrageous piece of business. The British Government was given what they pled for, in some cases to our serious embarrassment in training; now we are being damned in the press for that action.

Please note General Brett's statement on the subject, which is attached.


Chief of Staff.

encl.

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SECRET

WAR DEPARTMENT
Public Relations Branch
Tel. - RE 6700
Brs. 3438 and 3425

I M M E D I A T E

R E L E A S E

DATA ON AIRPLANES RELEASED FOR EXPORT

Major General Geo. H. Brett, Acting Chief of Air Corps, made the following comments today relative to the release of Army airplanes for export and the consequent efficiency of such airplanes now in use by the British.

"Prior to March, 1940, it was the policy of the War and Navy Departments to release for foreign sale only such equipment as was classed as obsolescent. Under this policy many airplanes, only some of which could be regarded as United States Army types, were purchased by and delivered to the British and French Governments in the full knowledge that they were not the latest types.

"At the urgent request of Foreign Purchasing Commissions, the War Department released obsolete equipment (the A-17 planes) which were used only for pilot training. Ninety-three of these airplanes were turned back to the manufacturer by the Army in exchange for new models at the insistence of the Anglo-French officials and after the Army Air Corps had made it clear to them that these airplanes were completely obsolete for fighting purposes.

"The DB-7 Douglas bomber was initially ordered by the French and taken over by the British in considerable quantities. This combat airplane was not found acceptable when offered to the Air Corps by the Douglas Company in a competition held early in the year 1939.

"The Martin-167 bomber, for which large orders were placed by the French and taken over later by the English, was likewise found to be unacceptable by the Army in a competition held in April, 1939.

"The Curtiss P-36, which was purchased in considerable numbers by France, was determined by the Air Corps, in competitions held in 1939, to be obsolescent.

"On March 25, 1940, the policy was liberalized to permit the release of modern equipment for foreign sale provided an improved model of the released type was available for procurement by the Army Air Corps. On that

date, which was before any severe air fighting had occurred between German and British or French air forces, the first model of one of our latest pursuit planes, the P-40, was in production. It mounted four machine guns, but had no armor nor leakproof fuel tanks. Some of these early models were purchased by the British and it is understood that after the addition of two machine guns and leakproof tanks and limited improvised armor, they were sent to England. Whether any of these planes have been used in combat is unknown.

"When the P-40 was released to Britain, although a modern plane, it was regarded as obsolescent by the War Department which was placing in production an improved model known as the P-40D which has greatly increased fire power, leakproof tanks, and protective armor. These planes are now being manufactured for both the United States and Great Britain.

"The above statements should clarify in the minds of the American public the fact that the War Department has not only developed but is procuring equipment which, from all information that can be secured by our observers in Europe, is equal or superior to that now employed abroad.

"Close relationship has existed between the technical members of the British Purchasing Commission and our War Department. Every advantage has been taken of the lessons learned during the War and the incorporation of new features of design and equipment has been made as rapidly as possible in all the equipment now under production. But the development and production of airplanes is a lengthy process and cannot be interrupted for each new improvement if necessary numbers are to be obtained."

END

**WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON**

Dec.16,1940.

The attached was inadvertently omitted as Enclosure to letter signed by the Chief of Staff dated Dec.11, 1940 to the Secretary of the Treasury, which was delivered about 1 P.M., today, by special messenger.

3-2271

SECRET

December 10, 1940.

MEMORANDUM FOR - The Chief of Staff.**SUBJECT - Comments of Air Commodore Slessor.**

1. Herewith attached are comments on notes submitted to the Secretary of the Treasury by Air Commodore Slessor.
2. A very careful study of these notes indicates clearly that
 - a. They are based upon incomplete investigation and information.
 - b. To the knowledge of the undersigned Air Commodore Slessor had not at the date of these notes consulted with or conferred with the Air Corps engineers in charge of development and production.
 - c. The information as furnished in his notes is contrary to much of the information furnished by other members of the British Purchasing Commission such as Mr. Fairay, Commodore Mansell and Commodore Baker.
 - d. To the knowledge of the undersigned he has not personally gone into the detail of any of our later models nor has he examined those models which are available at the various factories.
2. The comments herewith attached are a statement of fact and are based upon the best possible information available from England. Further study and further factual data can be furnished upon request.

Inalt
Comments.

GEO. H. BERRY,
Major General, U.S.A.,
The Assistant.

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COMMENTS ON NOTES SUBMITTED TO THE SECRETARY OF THE TREASURY BY
AIR COMMODORE BLESSOR ON THE UNITED STATES AIR PRODUCTION PROGRAM.

12-10-40.

1. Reading between the lines, it appears that Air Commodore Blesor's ultimate objectives are:

a. Production, in America, of a British design long-range bomber (the Sterling).

b. Production, in America, of a new British design pursuit airplane.

g. Increased productive capacity of the American aircraft industry (i.e., from 2500 airplanes a month, as now set up, to 4500 airplanes a month by 1943).

2. The notes appear to be based upon incomplete investigation and information, therefore are in part misleading and contrary to information furnished by other members of the British Purchasing Commission. Air Commodore Blesor had not visited Wright Field nor consulted with Air Corps engineers. Cognizance has not been taken of improvements that have been made as a result of British experience in combat airplanes now on order or of our experimental program. In particular, it is desired to invite attention to the following:

a. LONG RANGE BOMBERS.

Fire Power - It is stated that "No U.S. bomber - - - compares for fighting efficiency with our own heavy bombers now in production".

Comment - The fire power of the "Sterling" and "Halifax" British bombers consists of eight .30 caliber guns mounted in three turrets. The fire power of the B-24 (Consolidated) and the B-17 (Boeing) consists of six to seven .50 caliber and one to two .30 caliber, or the equivalent of twelve to thirteen .30 caliber guns. The overall combat efficiency of the American bomber is considered superior to the English.

Commodore Hancoll, in meetings with our technical specialists, has stressed the desirability of the British changing from .30's to .50's. By yardstick methods, we consider one .50 equal to two .30's in a bomber. Prototype of two models of 5300 mile bomber provides for fourteen .50's and two .30's. These are scheduled to be ready for production in early 1942.

Speed - The production articles of both the B-17 (Boeing) and the B-24 (Consolidated) are at least the equal of the British types now in production. The advantages due to turbine supercharger installations of the American types

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have been stressed by technical and tactical representatives of the British Purchasing Commission.

New Types, Heavy Bombers - The placing in production of the British bombers now in production would require at least a year, and probably two years, in view of the differences in American technique. They now has under construction service test orders of a heavy bomber with greater range, with greater fire power, with greater speed, greater bomb capacity, than either of the British bombers discussed.

b. FIGHTERS (PURSUIT).

In regard to comparison of the British "Hurricane" and "Spitfire" with the modernized American pursuit types now in production (i.e., the Bell P-39, the Republic P-47, and the Curtiss P-40D), the following comments are pertinent:

The Bell P-39 is equipped with one 37 mm. cannon, two .50 caliber synchronized guns in the nose, and four .30 caliber wing guns as compared with the Spitfire's eight .30 caliber guns.

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The gun installations and armament details of all these airplanes were coordinated with representatives of the British Commission, based on combat experience available last August and September.

New Types - We concur with Commodore Slesser's statement that: "It is of great importance that at least these U.S. fighter types for which new capacity is to be created in this country should be really a substantial advance in British types now in production" (see paragraph 4, page 2). It is believed that a 2000 horsepower liquid-cooled engine is essential to meet this requirement. The Pratt & Whitney Aircraft Company discontinued the development of the Army engines of this type after they were well under way. The Navy has an experimental 2000 horsepower liquid-cooled Lycoming engine. A conference between the Army, Navy and British, with the view of determining whether the Navy Lycoming engine or the British Sabre engine should be put into production for this purpose is highly desirable in view of the Pratt and Whitney change in experimental policy. The British engine appears to be in a more advanced state of development. Provided the engine can be made available, the production of either the Typhoon type or the American design could be affected.

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3. PRODUCTION.

Comodore Slesser's suggestion that the production be increased to 4500 airplanes per month is a restatement of the request of July 24 for additional productive capacity. The means for obtaining this increased production appears to be practical. The present productive capacity as now set up will reach 2500 airplanes per month, neglecting Government factories now authorized. Tentative British orders for 12,000 airplanes, now being placed, are sufficient for the first increment of increased productive capacity, suggested by Air Comodore Slesser, provided that both the Army and British place additional orders for at least 24,000 airplanes, for delivery in 1943, at an early date.

4. REVIEW OF PRESENT PROGRAM.

The suggestions made by Air Comodore Slesser for increasing production requires a reappraisal of the delivery objectives established July 21 and 24 for the period June 30, 1940 to April 1, 1942. Consideration should be given at this time to the following:

- (1) The release of all airplanes to the British over and above the actual requirements to equip 54 groups.
- (2) The matter of finance, facilities.
- (3) The matter of placing orders with proper consideration to the ability of the industry to absorb the additional load.

SECRET

BRITISH EMBASSY,
WASHINGTON, D.C.

December 18th, 1940

Personal and
Secret

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 December 17th.

Naval.

The French torpedo-boat "Branlebas" manned by Royal Navy, which sailed on December 13th from Dartmouth as escort to a West bound channel convoy, has failed to answer any signals and must be presumed lost.

The S. S. "Orari" has arrived safely in port.

2. Military.

Italian prisoners taken by the Greeks now number more than 10,000. Their morale is extremely low as indicated by their abandonment of equipment and criticism of their officers and Fascist leaders who are considered responsible for the unpopular war with Greece.

3. Royal Air Force.

Night of December 16th/17th. A total of 120 heavy and 8 medium bombers carried out a very successful attack against the industrial targets at Mannheim. All returned safely except two.

4. German Air Force.

Night of December 16th/17th. Only about 30 enemy aircraft were operating. The majority visited the North Midlands and Manchester where eleven persons were killed and 13 seriously injured; damage was confined to private property.

5. Aircraft casualties in operations over and from British Isles.

Enemy: Nil. British: two bombers missing.

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WASHINGTON, D. C.

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The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram from London dated December 16th.

Naval.

British naval forces have been continuing to support operations in the coastal area between Sidi Barrani and Bardia.

2. From Air reconnaissances on the 14th and 15th, the following is the disposition of the Italian naval units. At Taranto: 2 damaged battleships, 1 6-inch cruiser, 1 destroyer. One Littoria class battleship, one 8-inch cruiser, 4 destroyers and 2 large merchant vessels entering the harbour. At Naples: 2 (possibly 3) battleships, 4 or 5 cruisers, 15 or 16 destroyers, 11 merchant vessels. At Tripoli: 4 destroyers, 3 torpedo boats. At Messina: 3 cruisers, 3 destroyers, 4 or 5 submarines.

3. Germany. Air reconnaissances December 14th shows "Lutzow" and one old battleship at Kiel, "Tirpitz" at Wilhelmshaven, and "Bismarck" at Hamburg alongside Blohm and Voss yard.

4. Shipping Casualties. A Danish ship (2300 tons) in south bound convoy, has been sunk by E-boat off the East Coast.

5. Ship mentioned in the second sentence of paragraph 2 of the summary of the 15th has now sunk.

6. A convoy of 21 ships has arrived from Canada; none were lost on the passage.

7. Royal Air Force. Night of 15th/16th. 59 heavy bombers were sent to attack military objectives in Berlin and 10 others to Frankfurt. In both areas many large fires and explosions caused. In addition 6

-2-

heavy bombers were minelaying. Three aircraft are missing 2 crashed crew being injured in one case, and one came down in the sea crew saved.

8. Night of 15th/16th. About 125 enemy aircraft were operating of which 20 were mine-laying.

G-2/2657-220

RESTRICTEDM.I.D., W.D.
December 18, 1940.
12:00 M.

No. 273

SITUATION REPORT

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

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

Unfavorable weather prevailed.

The German Air Force executed no offensive operations.

The R.A.F. carried out small night raids against Mannheim and the Channel invasion ports.

II. Greek Theater of War.

The heaviest fighting appears to be in the Tepeleni-Klisura area, where the Greeks have been able to make little headway. Apparently, Italian resistance is stiffening in the Porto Palermo area and along the coast road where recently the Greeks have made their farthest advances. Air activity was limited by weather.

III. Mediterranean and African Theaters of War.

In extreme western Libya all Italian strongholds except Bardia, where the Italians are resisting strongly, have been captured by the British. The British mechanized forces have apparently penetrated west of Bardia to the main Bardia-Tobruk road.

The Italians claim to have increased their air activity over western Egypt. There were widespread minor raids by both sides throughout these theaters, including an apparently effective Italian attack on Port Sudan, on the Red Sea.

RESTRICTED

CONFIDENTIAL

Paraphrase of Code Radiogram Received
at the War Department 10:20 A.M., Dec-
ember 18, 1940.

London, filed 15:15, December 18, 1940.

EXTRACT

In a confidential conversation the Assistant Quarter-
master General in charge of the supply of food and petroleum
products in the War Office advised Colonel Command, Q.M.G., special
observer in this office, that it was his conclusion that enemy
bombing has caused severe losses of food, to include the destruc-
tion in Liverpool of rations valued at \$80,000,000. Recent
enemy attacks have destroyed two oil casing factories, where
gasoline and lubricants are sealed in tin containers for use
by Army tactical units. These plants had a total capacity of
2,400,000 gallons a day and their destruction handicaps motor
transport forces overseas, whose divisions have a daily require-
ment of 100 tons. The Army is now contemplating reducing the
present meat ration of 10 ounces to 7½.

LEE

Distribution:

Secretary of War
State Department
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 10:20 A.M., December 18, 1940

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London, filed 15:18, December 18, 1940.

1. On Tuesday, December 17, planes of the Coastal Command carried out attacks on a factory and two airbases in the Calais area and on a French port. No planes of the Bomber Command operated that day. The preceding night British bombers made a concentrated attack on an important industrial city in the Rhine Valley. It was reported to be very successful.

2. Daylight operations of the German Air Force on December 17, were limited to coastal reconnaissance flights; and no German planes flew inland that night.

3. During the night of December 18-19, a total of 77 planes operated against enemy targets. Of these 10 attacked Frankfurt and 59 Berlin, while eight heavy bombers laid mines. Of these, three planes are missing and two crashed on landing. The same night 125 enemy planes were plotted, of which 20 laid mines.

4. Station naval vessels are now based on Messina, Naples, and Taranto.

5. British aircraft in Egypt bombed Tobruk and other Italian troop concentrations. The 8th Armoured Division participated in most of the recent action in this theater. British bombers based in Greece attacked the harbor of Durazzo, Albania. The Italian prisoners captured in this theater have an extremely low morale, as indicated by their criticism of Fascist leaders and their own officers and by their abandonment of equipment. The Italian Centauro Armored Division in

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this theater is equipped with about 220 tanks, probably between two and five tons; but it apparently did not operate as an armored division. Some troops in this Division fought as dismounted Infantry and one regiment of Bersaglieri was detached from the Division early in the operations for use elsewhere.

6. A 2,300 ton Danish ship was sunk off the east coast by an E-boat. A convoy from Canada of 21 ships has just arrived without loss in Britain.

7. The German attack on Sheffield during the night of December 12-13, did considerable damage to the business district but the larger munitions plants suffered but little.

8. The general apprehension continues of an enemy invasion of the British Isles before the New Year; but in spite of this no significant change in the disposition of enemy shipping has as yet been observed.

LXX

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff -2
War Plans Division
Office of Naval Intelligence
AG-2
G-3,1

-2-

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 16, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

November 18. FBI is monitoring Czechoslovakia funds in San Francisco.

November 27. FBI is watching Italian bank accounts in the Los Angeles area through confidential informants employed in key positions in various banks; special emphasis is being placed on the account of a sister of Cesare Grinaldi, reported as having been a former bodyguard of Mussolini. FBI is also monitoring Japanese bank accounts in the same area.

December 2. A report that an officer of the Corn Exchange National Bank in Philadelphia states that the German Consul has not been paying any bill by check since January 1940; he has even been paying his hotel bill in cash.

December 13. The Dutch Consulate General in New York City has learned from the Dutch Embassy in London that the Nazis in Holland have confiscated an unknown number of genuine Dutch passports which are being issued to Nazi espionage agents, particularly to German-Jewish agents who are posing as Dutch refugees.

December 14. The German and Italian Ministers in Guatemala are said to be buying up United States bank notes, preferably of high denomination.

December 14. A strike was called December 11 on the Standard Fruit Company boats at New Orleans; the boats are of Honduran registry and the strike is said to be led by Communist elements in the American Communications Association and the National Maritime Union (Joe Curran's organization).

December 14. A large number of American securities have been transferred from Switzerland to the National Bank of Haiti, Port-au-Prince, Haiti, for the account of a new company to be organized in Haiti; the Haitian bank officials are suspicious and the FBI is investigating further.

81.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

State Department reports:

December 10. From the Embassy in Vichy: The Germans vetoed a French proposed law requiring the registration of all foreign securities held in France; the ground of the refusal is presumed to be the Germans' desire to keep their operations in bearer securities secret.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

FBI reports:

December 9. The Italian Air Attache and the Italian Ambassador on December 11 cashed two Banco di Napoli Trust Company Treasurer's checks amounting to \$9,788.35, receiving 8 \$1,000 bills and the remainder in currency of small denomination. FBI has the numbers of 5 of the \$1,000 bills.

December 12. The German Embassy purchased a \$7,500 draft payable to the German Consulate General in New York City in 5 \$1,000 and 5 \$500 bills which are being traced.

December 17. The outstanding \$10,000 notes traced to the German Consulate General, New York, have been reduced to \$30,000; 10 notes have just appeared at J. P. Morgan and Company in payment for Hamburg-American Line bond redemption obligations.

December 17. The Banco de Mexico is reported to be buying \$12,000,000 in gold in New York City, having thus far transferred \$9,000,000 to its account at the Federal Reserve in payment for the gold.

dc.

DEC 18 1940

My dear Mr. President:

My interest in forestalling potential inflationary developments that would react unfavorably on the economy of the country, as well as our whole fiscal program, and in guarding against possible shortages of defense materials, leads me to express my serious concern over the growing congestion in the steel industry.

No expert knowledge is necessary to see that the steel industry will be unable to handle the volume of orders that lies ahead. In addition to the huge British orders that are now in prospect, the bulk of our defense orders are still to be placed with the steel mills, and the ordinary non-defense demand will undoubtedly be enlarged as the national income rises. As you will note on the chart which I am attaching, there is very little capacity available in any steel district for a further increase in output.

A system of priorities, applied except as a temporary expedient, would seriously hamper the program for achieving full employment of labor and resources.

I have not been greatly encouraged by recent press announcements of expansion plans by certain steel companies. In an attached table I have listed all of the proposed increases in steel ingot capacity that I know about, plus the new capacity (electric furnace) completed this year or under construction. Taken together, this amounts to a prospective increase in ingot capacity of only 2.7 per cent, the bulk of which apparently will not be completed for 12 to 18 months.

You will recall the large steel expansion that was found necessary during the World War, when the ingot capacity was increased about one-third between 1914 and 1918. In view of the increasingly urgent need for more steel, it seems to me that an immediate major expansion program for the steel industry is clearly called for.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Copies to:
Mr. Stettinius
Mr. Henderson

GCE:lmw

Handwritten signature/initials

FILE COPY

79 Morgenthau / 16

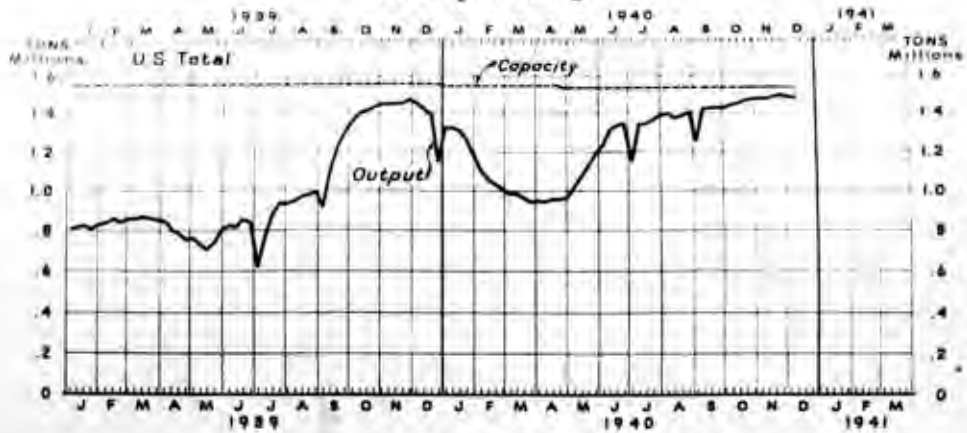
**New steel capacity completed, under construction
or authorized since January 1, 1940**

	Net tons
Bethlehem Steel Corporation	870,000
U. S. Steel Corporation	400,000
American Rolling Mill	90,000

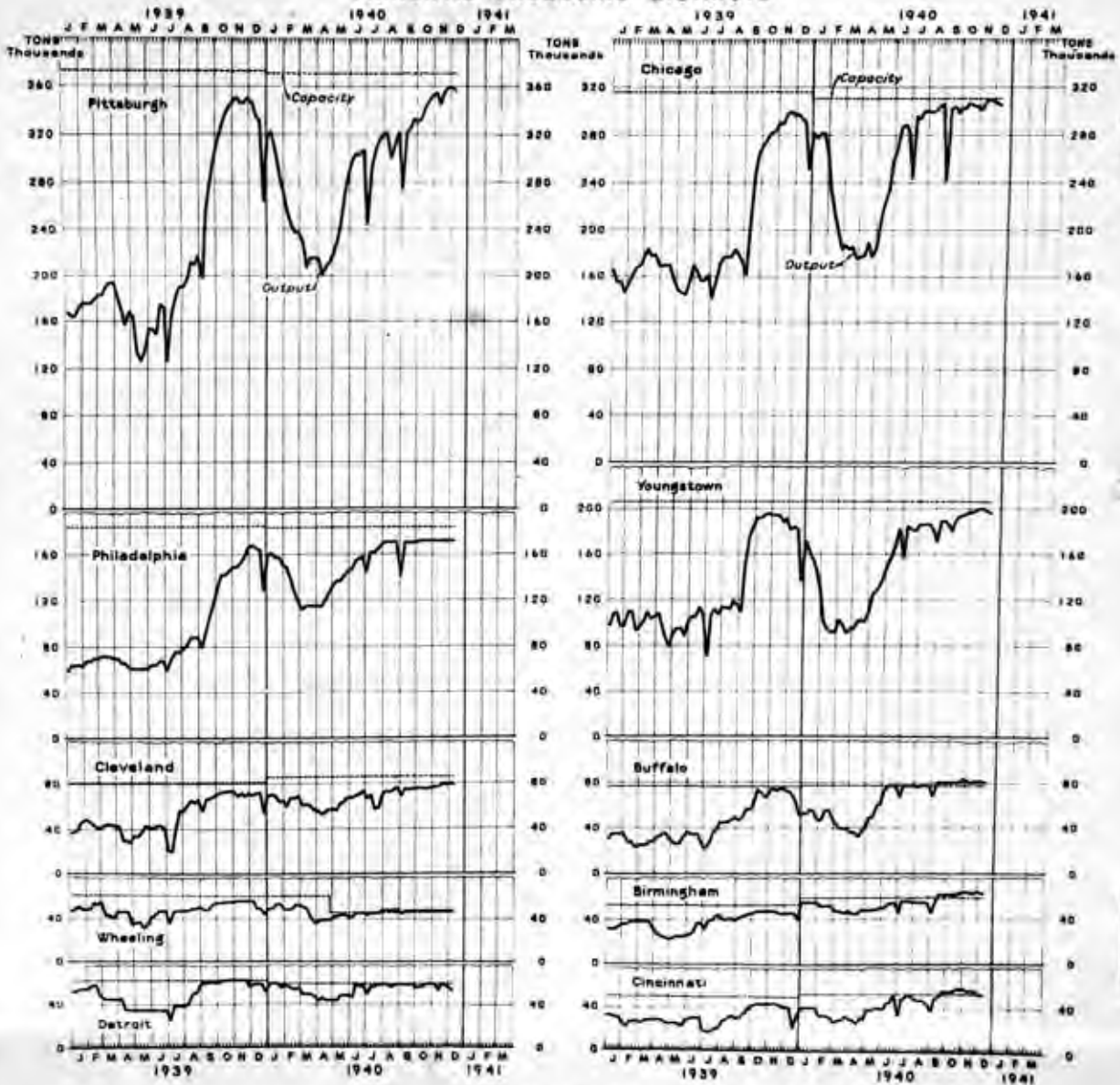
Electric furnaces
(American Iron and Steel Institute
estimate of capacity of 21 new
electric furnaces now in operation,
or expected to be in production
early in 1941)

<u>900,000</u>
2,200,000

STEEL OUTPUT AND RATED CAPACITY* Weekly Tonnage



PRINCIPAL PRODUCING DISTRICTS



*Based on Iron Age data

Prepared by: Mr. Turner
Mr. Murphy
Mr. Baas

TREASURY DEPARTMENT

104

INTER-OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Mergenthau
FROM Mr. Haas
Subject: Recent Developments in the High-grade Security Markets;
The Market Value of Tax Exemption

SUMMARY

- (1) New record high prices were attained during the first half of December by long-term Treasury, corporate and municipal bonds (Charts I, II and III).
- (2) The new National Defense Treasury notes are now selling to yield about 12 basis points more than it is estimated that a five-year note identical with outstanding notes would yield (Chart IV). Part of this differential is due to uncertainty as to the future "rights" value of the new notes, and part -- probably the larger part -- is due to the difference in tax exemption between the Defense notes and outstanding Treasury notes.
- (3) Estimates of the market value ascribed to the tax-exemption privilege vary widely and are subject to a large error of estimate. The differential between the yields of taxable corporate bonds and tax-exempt municipal bonds has shown no definite relationship to the maximum rate of the Federal individual income tax since the initiation of that tax in 1913 (Chart V). The largest spread in favor of municipals occurred before the institution of the Federal income tax.

In Treasury testimony before Congressional Committees about a year and a half ago, the differential between the yields of long-term, high-grade bonds attributable to "full" tax exemption was estimated at between 1/4 of 1 percent and 1/2 of 1 percent, and that attributable to "partial" tax exemption at between .05 percent and .15 percent. Current observation would show larger differentials, but it is questionable whether such larger figures measure the rate at which a substantial volume of new borrowing could be accomplished through the issuance of tax-exempt securities.

Secretary Morgenthau - 2

I. Recent Movements in the High-grade
Security Markets

Prices of long- and intermediate-term Treasury bonds advanced to new all-time highs during the first half of December, but have receded slightly during the first two days of the current week (Charts I and II). Prices of Treasury notes show little net change since the beginning of the month.

High-grade corporate and municipal bond prices also reached new highs during the first half of the month (Charts II and III). Corporates declined in price slightly yesterday.

II. Reception of the New National
Defense Treasury Notes

The new $3/4$ percent, 5-year National Defense Treasury notes opened on a when-issued basis on the day after the closing of subscription books at 100-16/32 bid, and have since then suffered a net decline of about $1/32$. Chart IV shows as of yesterday's close the yields of all outstanding Treasury notes selling on a positive yield basis, including the new National Defense notes, and, for comparison, the yield of the partially tax-exempt 2-1/2 percent Treasury bonds which mature on the same date as the new notes.

Because the new note is fully subject to Federal income taxes and there is some question with respect to its "rights" value, its yield cannot be compared directly with the yields of outstanding Treasury notes. A yield of .65 percent for the new note is, however, about 12 basis points higher than the estimated yield basis on which a 5-year Treasury note identical in all respects with outstanding issues would sell. This spread represents the combined market effect of the increased taxability and the diminished prospective rights value.

It is extremely difficult to determine how much of this spread is the result of each of these factors taken separately. The impairment of rights value is, of course, due to the provision of the First Revenue Act of 1940 requiring that the national defense obligations therein authorized

Secretary Morgenthau - 3

be paid from specified tax revenues. This presumptive absence of rights value would be of dominating importance if taken at its face value, for it is estimated that prospective rights values result in a diminution of as much as 20 basis points in the yield on outstanding five-year notes. It is clear, however, that only a fraction of this maximum valuation of the rights privilege on outstanding notes can be allowed for its impairment in the present case. Five years is a long time, and it doubtless appears to the market that chances are excellent that by the time the notes just issued mature they will be on all fours with other outstanding issues as far as the rights privilege is concerned. The possible impairment of the privilege in the present case has occasioned considerable market discussion, however, and probably accounts for some portion of the existing differential in yield between the new note and outstanding issues.

It seems, however, that the larger portion of the differential should be ascribed to the complete taxability of the new notes for the Federal income tax. In this connection it is interesting to observe that the yield of the 2-1/2 percent Treasury bonds, due December 15, 1945, is 11 basis points lower than that of the new notes, and only 1 basis point above the estimated basis for a five-year note of the traditional type. As far as individuals are concerned, these bonds are exempt from only the 4 percent normal tax; but for corporations their exemption is equivalent, under present laws, to that of the wholly exempt Treasury notes. This would suggest that the additional value placed by the market on "full" as compared with "partial" tax exemption is very small in the case of securities with a five-year maturity.

III. Estimated Market Value of Tax Exemption

Estimates of the market value of the tax-exemption privilege -- i.e., the yield differentials attributable to differences in taxability -- vary widely. Chart V and the attached table compare the yields of fully taxable high-grade corporate bonds with those of fully tax-exempt high-grade municipal bonds annually since 1900. There is also shown (in red on the chart) the maximum rate of the Federal individual income tax annually since its initiation in 1913. It will be noted that the differential between corporate and municipal bond yields has varied widely, and that on occasion the yields of the municipals have been higher than those

Secretary Morgenthau - 4

of the corporates. It is also interesting to note that the maximum differential in favor of the municipals occurred before the introduction of the Federal income tax. There does not seem to be any definite relationship between the differential and the maximum rate of this tax. It would appear, therefore, that tax exemption has never been the decisive factor in determining municipal bond yields, that the value attached by the market to the tax-exemption privilege has probably varied widely from time to time, and that it is subject to a wide margin of error of estimate.

It would appear, however, that the market does attach some value to tax exemption. This has already been indicated in the previous discussion of the new Defense notes. A substantial market valuation of tax exemption is also indicated by a comparison of the yields of Federal with high-grade State and municipal bonds. The State of New York, for example, offered early this month an issue of serial bonds of which the 20-year maturity was priced to yield 1.35 percent and the 25-year maturity was priced to yield 1.45 percent. On the day these bonds were offered, the partially tax-exempt Treasury bonds of 1960-65 sold to yield 2.10 percent to earliest call date (20 years) and 2.20 percent to final maturity (25 years). This is a yield differential of 75 basis points in favor of the New York State bonds. While a portion of this may be explained away on various grounds, a substantial portion must be due to the superior tax-exemption qualities of the State as compared with the Federal bonds.

Although it is thus clear that tax exemption has a real value in the market, the measurement of this value is extremely complex. Thus the differential between the yields of high-grade corporate and municipal bonds shown on Chart V is currently about 67 basis points. The use of other sets of indices would give substantially different results, however. This is due principally to the difficulty of maintaining a uniform standard of quality for the inclusion of issues in the indices, and to the difficulty presented by the large number of corporate bonds now selling above their call prices. It is necessary, therefore, in the final analysis to resort to comparisons of individual issues.

Secretary Morgenthau - 5

It was estimated in the testimony of the Treasury Department before the Special Senate Committee on the Taxation of Governmental Securities and Salaries in the spring of 1939 that the differential due to "full" tax exemption was between $1/4$ of 1 percent and $1/2$ of 1 percent, and that the differential due to "partial" tax exemption was between .05 percent and .15 percent. These estimates were reaffirmed in the testimony before the House Ways and Means Committee in June 1939. They referred in each case to long-term, high-grade securities. Both the total value of tax exemption and the difference between the value of "full" and "partial" tax exemption is much less for shorter maturities.

These estimates were based upon observations of the market differentials made before the cessation of further issuance of tax-exempt securities was generally considered a strong probability. We are now making a detailed study of the value of the differential at the present time, but it is clear that, at least in the case of the "full" tax-exemption privilege, it is substantially higher now than it was a year and a half -- or even three months -- ago. It may well be, however, that the earlier measurements embodied in the testimony before the Congressional Committees in 1939 are more representative of the differentials at which substantial amounts of new borrowing through the issuance of tax-exempt securities could be accomplished than those prevailing today, which may reflect in large part an expected scarcity value for the outstanding supply of tax-exempt securities.

Attachments

Comparison of the Differential in Yield
between High-Grade Corporate and Municipal Bonds
and the Maximum Rate of the Federal Individual Income Tax, 1900-40

Year	High-grade corporate bonds ^{1/}	Municipal bonds ^{2/}	Differen- tial	Maximum Federal individual income tax
1900	4.05	3.12	0.93	—
1901	3.90	3.13	.77	—
1902	3.86	3.20	.66	—
1903	4.07	3.38	.69	—
1904	4.03	3.45	.58	—
1905	3.89	3.40	.49	—
1906	3.99	3.57	.42	—
1907	4.27	3.86	.41	—
1908	4.22	3.93	.29	—
1909	4.06	3.78	.28	—
1910	4.16	3.97	.19	—
1911	4.17	3.98	.19	—
1912	4.21	4.02	.19	—
1913	4.42	4.22	.20	7
1914	4.46	4.12	.34	7
1915	4.64	4.16	.48	7
1916	4.49	3.94	.55	15
1917	4.79	4.20	.50	67
1918	5.20	4.50	.70	77
1919	5.29	4.46	.83	73
1920	5.79	4.98	.81	73
1921	5.57	5.09	.48	73
1922	4.85	4.23	.62	58
1923	4.98	4.25	.73	58
1924	4.78	4.20	.58	46
1925	4.67	4.09	.58	25
1926	4.51	4.08	.43	25
1927	4.31	3.98	.33	25
1928	4.34	4.05	.29	25
1929	4.60	4.27	.33	24
1930	4.55 ^{3/}	4.07	.48 ^{3/}	25
1931	4.58	4.01	.57	25
1932	5.01	4.65	.36	63
1933	4.49	4.71	-.22	63
1934	4.00	4.03	-.03	63
1935	3.60	3.41	.19	63
1936	3.24	3.07	.17	79
1937	3.26	3.10	.16	79
1938	3.19	2.91	.28	79
1939	3.01	2.76	.25	79
1940 ^{4/}	2.85	2.54	.31	81
1940 ^{5/}	2.71	2.04	.67	81

^{1/} Yields from 1900 through 1929 are those reported by Standard Statistics Co. for 15 high-grade railroad bonds. Yields from 1930 through 1940 are those reported by Moody's Investors Service for high-grade corporate (Aaa) bonds.

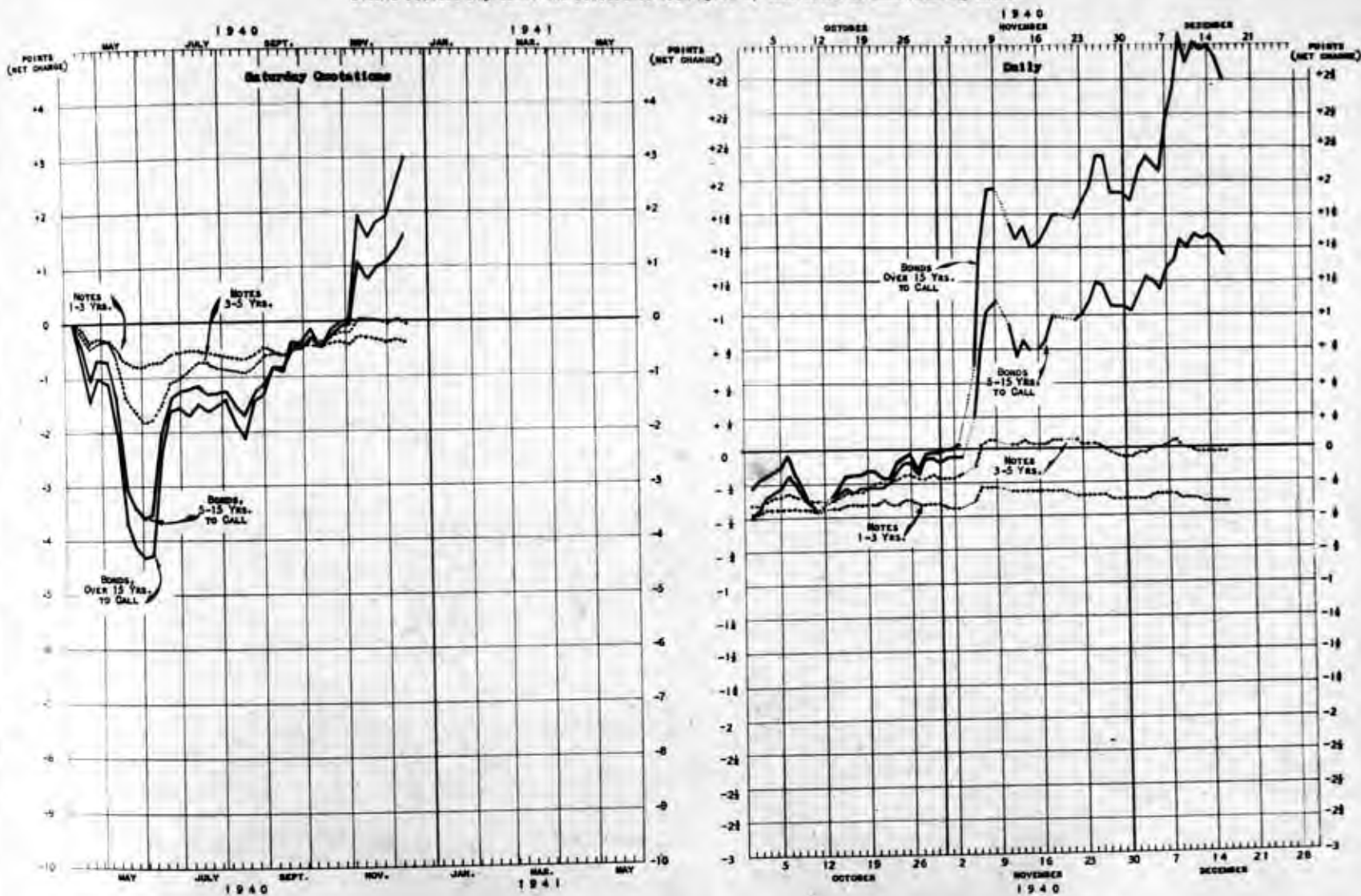
^{2/} Yields are as reported by Standard Statistics Co.

^{3/} Standard Statistics Co. index of yields of high-grade railroad bonds was 4.39 percent for 1930, and the differential based upon this index, 0.32 percent.

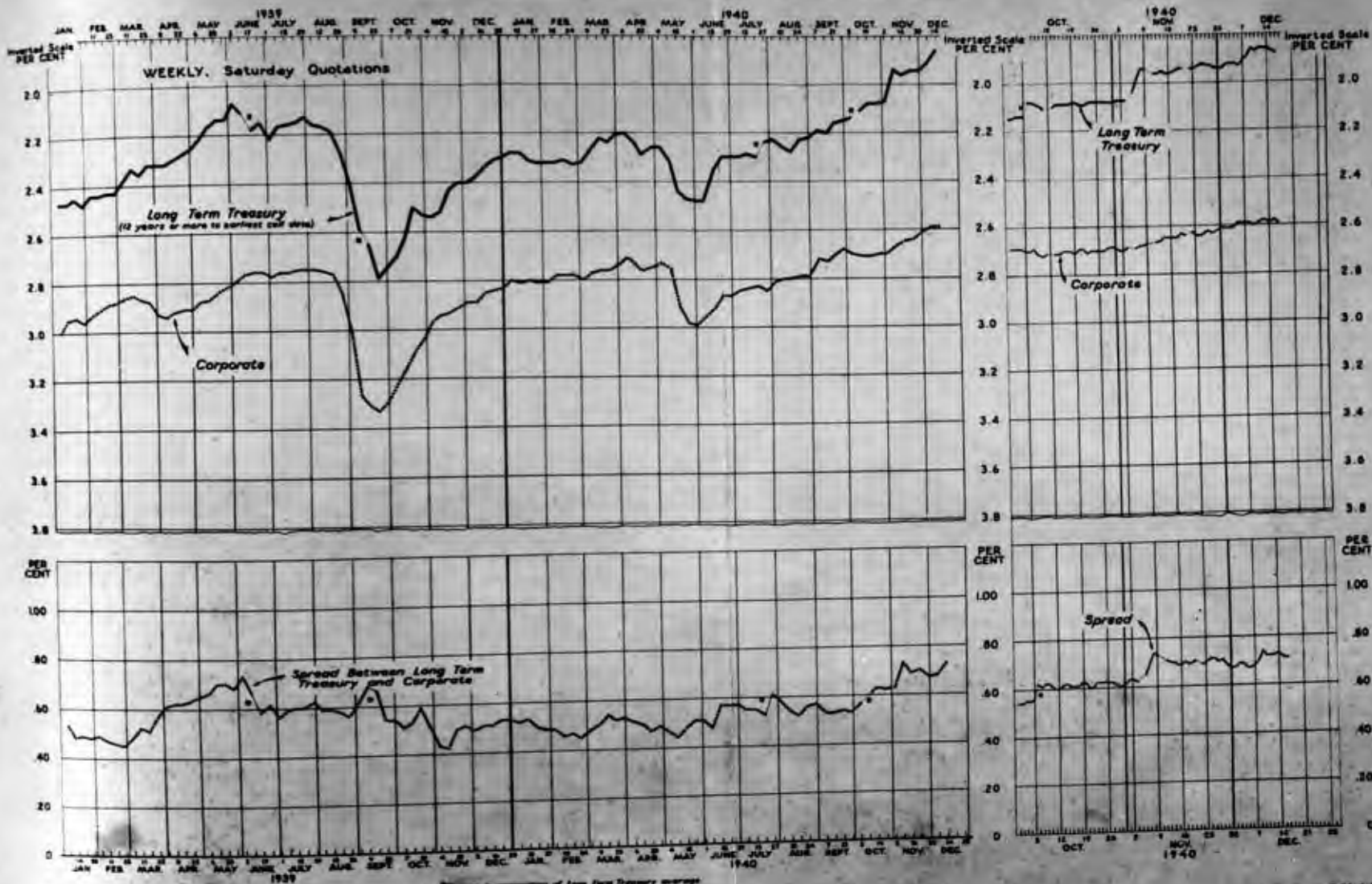
^{4/} Average for first 11 months.

^{5/} December 11, 1940.

CHANGES IN THE PRICES OF U.S. SECURITIES
Points Plotted Represent the Difference from April 6, 1940 Price of Each Maturity Class



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

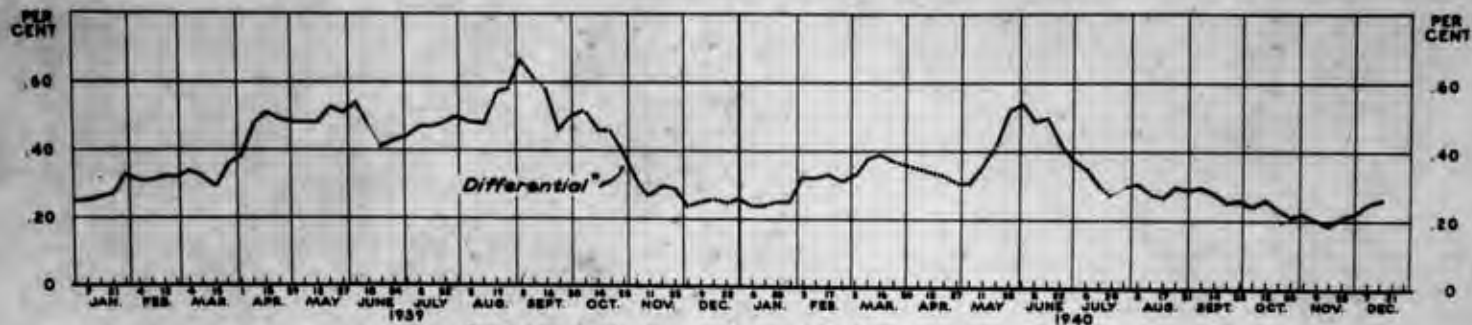
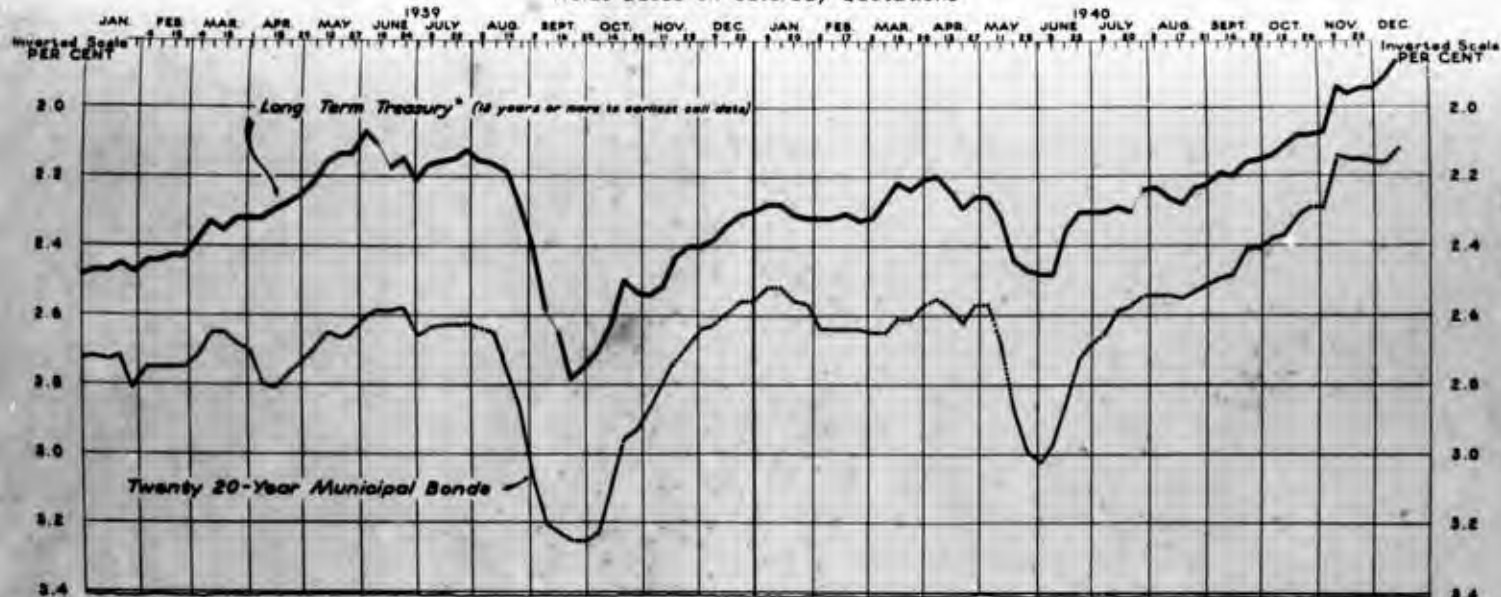


*Change in composition of Long Term Treasury average

Chart III

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



Office of the Secretary of the Treasury
Bureau of Research and Statistics

*Break in line indicates change in composition of Long Term Treasury average.

F-134-A

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Regraded Unclassified

Chart IV

**YIELD OF TREASURY NOTES AND
2½ TREASURY BOND OF DEC. 15, 1945**

Based on Closing Bid Prices, Dec. 17, 1940

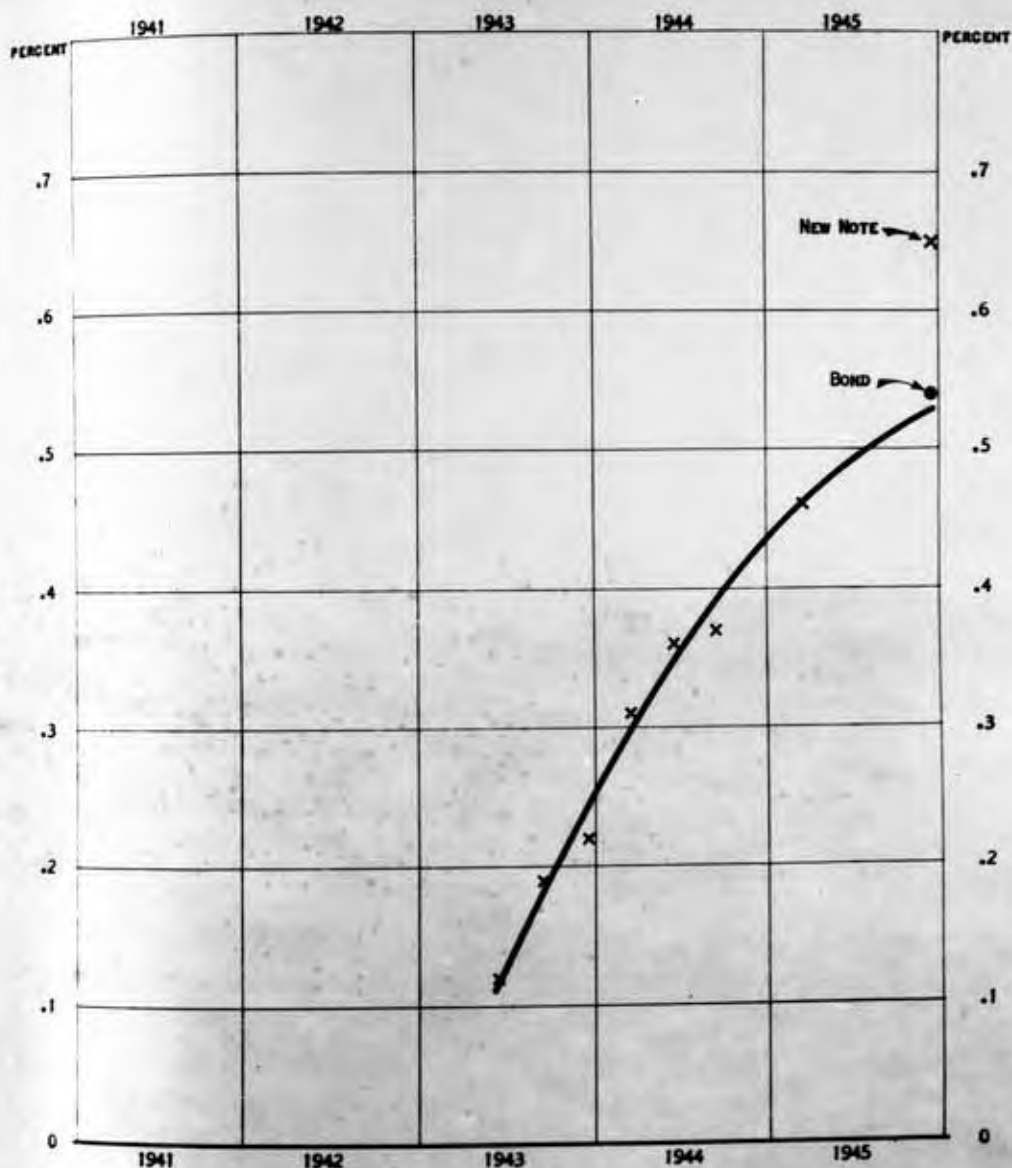
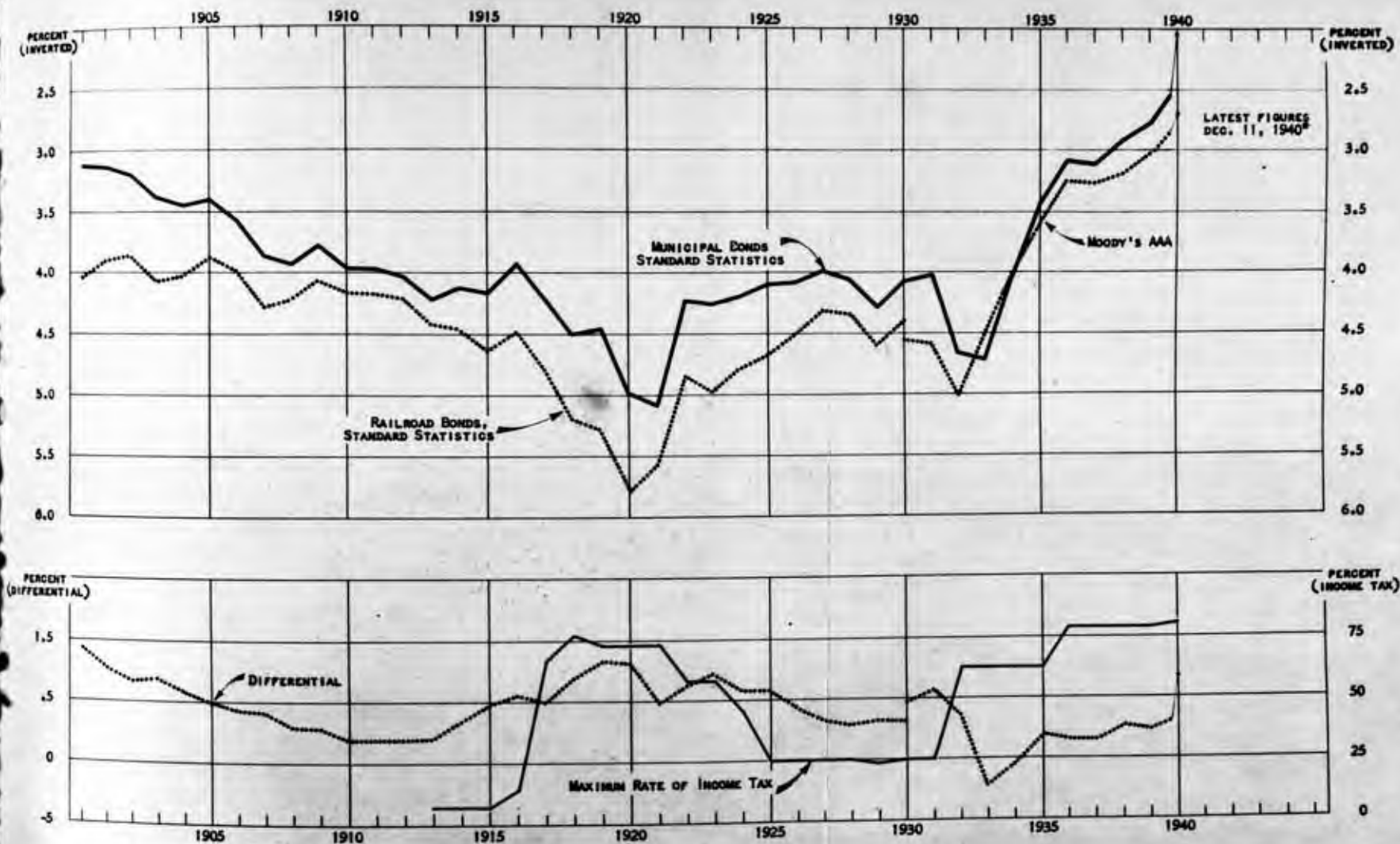


Chart V

COMPARISON OF THE DIFFERENTIAL IN YIELD BETWEEN HIGH-GRADE CORPORATE AND MUNICIPAL BONDS AND THE MAXIMUM RATE OF THE FEDERAL INDIVIDUAL INCOME TAX, 1900-40



*YIELD FIGURES FOR 1940, AVERAGE OF FIRST 11 MONTHS

CONFIDENTIAL

December 18, 1940

To: The Secretary

From: Mr. Young

Re: Additional P-40 planes.

The representatives of Curtiss Wright have insisted that they must get an immediate release on at least 100 of the 300 additional P-40 planes if materials are to be ordered and production maintained. They feel that they cannot wait until next week.

There are two possible solutions: first, for you to ask Guy Vaughan to have Curtiss Wright undertake this commitment on its own; or, secondly, to let the British place an order for 100 of these right away, leaving the allocation of the 200 to other purchasers until next week. (The British have already been promised fifty, and I think they should get 100 out of the 300 to be produced.)

*No in view
of statement
my press conference.
We can take this
up Monday at Hull's
11/18/40*

*Get this message
to Buckley
Young and
for afternoon*

CONFIDENTIAL

December 18, 1940

To: The Secretary
From: Mr. Young

Admiral Spear, my Liaison Committee member in the Navy, called me late this afternoon to say that he had been asked to sign a letter addressed to the United States Naval Attache in Berlin, requesting the latter to purchase \$25,000 worth of binocular spare parts from Zeiss for the United States Navy.

This has evidently been a usual peace-time practice in the past and the Navy needs the parts. Despite the fact, however, that these parts include no optical elements and merely consist of frames and the like, it is my feeling that this request should be called to your attention. Admiral Spear is interested in getting the reaction of the Treasury Department.

26 - Forrestal's LO

Bring to Forrestal's attention

Get this message
to Bulkeley
Young away
for afternoon

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£54,000
Purchased from commercial concerns	£ 8,000

Open market sterling remained at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 3,000
Purchased from commercial concerns	£ 4,000

The Swiss franc, which has remained in the neighborhood of .2321 since the end of October, had a weak tendency today. Prior to our opening, the rate of .2318-7/8 was received from the Zurich market, and the first quotation here was .2320. A low of .2313 was recorded at noontime, and the closing rate was .2318-1/2.

There was virtually no movement in quotations for the other currencies, and closing rates were:

Canadian dollar	13-3/8% discount
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the National City Bank, Bombay, shipped \$926,000 in gold from India to its head office at New York, for sale to the New York Assay Office.

The Bombay gold price was unchanged at the equivalent of \$33.82. Silver in Bombay was priced at the equivalent of 43.01¢, up 1/8¢.

The prices fixed in London for spot and forward silver both advanced 1/16d. to 23d and 22-15/16d respectively. The dollar equivalents were 41.76¢ and 41.65¢.

-2-

Handy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}$ ¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This consisted of new production from various countries, for forward delivery.

The report of December 11 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$10,013,000, an increase of \$202,000 in the short position. The largest movement occurred in the sterling position, wherein the banks undertook further commitments to sell pounds equivalent to \$1,448,000. Reduction in the "Europe" short position was concentrated mainly in Swiss francs, with the position here moving from \$512,000 short to \$292,000 long. Net changes were as follows:

Country	Short Position December 4	Short Position December 11	Change in Short Position*
England**	\$ 59,000 (Long)	\$ 1,389,000	+ \$ 1,448,000
Europe	3,950,000	3,114,000	- 836,000
Canada	11,000 (Long)	373,000 (Long)	- 362,000
Latin America	362,000	374,000	+ 12,000
Japan	4,296,000	4,093,000	- 203,000
Other Asia	1,347,000	1,428,000	+ 81,000
(All others)	74,000 (Long)	12,000 (Long)	+ 62,000
Total	\$9,811,000	\$10,013,000	+ \$ 202,000

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

**Combined position in registered and open market sterling.

J. M. S.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 18, 1940

111580
 TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 16	\$100,821.60	Banca Commerciale Italiana, N.Y.	Check to order of Swiss Bank Corp., N.Y.

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 17	\$1,860,000	Banco di Napoli Trust Co., N.Y.	Chase National Bank, N.Y., for account of Swiss Bank Corp., N.Y.
	100,000	Banca Commerciale Italiana, N.Y.	Check to order of Chase National Bank, N.Y.

Federal Reserve Bank of New York

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 17	\$ 40,000	Banco di Napoli Trust Co., N.Y.	Cash withdrawal
	650,000		Check to order of Banco di Napoli Trust Co., N.Y., endorsed in favor of Federal Reserve Bank of N.Y., in payment of subscription for \$690,000, par amount U. S. 3/4% Notes due Dec. 15, 1945

JMP

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In my memorandum of December 17 it was reported that the Banca Commerciale Italiana, New York, had issued a check in favor of the Federal Reserve Bank of New York for \$195,000 against its account maintained with the Chase National Bank, New York. Mr. McKeon reported today that this amount was in payment for \$195,000 par amount of the new U.S. 3/4% Notes due December 15, 1945.

B. M. P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 18, 1940.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in Russian accounts maintained with the Chase National Bank.

Principal changes in the State Bank of Russia's dollar account during the period December 12 to December 18, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Dec. 12				
Dec. 13			\$ 250,000	Amtorg Trading Corp.
			57,733.67	Commercial Letters of Credit
Dec. 14	\$300,000	Chase National Bank, N.Y., by order of Union Bank of Swit- zerland, Zurich, by order of Ungarische Allgemeine Creditbank, Budapest.	471,164.96	Commercial Letters of Credit
	110,000	Chase National Bank, N.Y., by order of Swiss Bank Corp., N.Y., by order of Export Kredit, Hamburg, re Credit #10870 by order of Banque Suisse, Zurich.		
Dec. 16	135,000	Amtorg Trading Corp.	250,562.92	Commercial Letters of Credit
Dec. 17	167,293.33	Chase National Bank, N.Y., by order of Stockholms Enskilda Bank A/B, Stockholm	205,560.88	Commercial Letters of Credit
			1,304,977.94	Amtorg Trading Corp.
	411,349.90	Chase National Bank, N.Y., bills discounted for account of Prom- syriceimport.		

- 2 -

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Dec. 18	\$580,000	Irving Trust Co., N.Y., by order of Ungarische Allgemeine Creditbank, Budapest, by order of Union Bank of Switzerland, Zurich	\$ 99,765.68	Commercial Letters of Credit

On December 18 the balances of the State Bank and the Amtorg Trading Corporation were as follows:

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$ 10,593,600	\$ 1,436,200
Cash commercial Letters of Credit	13,120,200	2,338,700
Time deposits	<u>10,300</u>	<u>-0-</u>
Total	\$ 23,724,100	\$ 3,774,900
Changes in total since December 11	- \$ 904,100	+ \$ 239,300

TREASURY DEPARTMENT

123

INTER OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Gifford telephoned me at 12:30 this noon. He let me know that he had registered with his control \$20,000,000 of United States Government securities, including issues of thirty-four different dates. He would like to vest title in these securities for liquidation early in the coming year. Before doing this, he inquired as to whether this might interfere in any way with our market operations. In compliance with his request, I brought this matter to the attention of Secretary Morgenthau who authorized me to call Mr. Gifford back, which I did, and let him know that we had no objection to this transaction.

JMP

TREASURY DEPARTMENT

124

INTER OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
December 2	32,310	903,235	4,000	1,530
3	5,775	261,254	27,000	18,434
4	21,908	563,481	92,000	53,978
5	29,850	984,768	N11	N11
6	6,818	303,011	N11	N11
7	<u>1,675</u>	<u>86,640</u>	<u>N11</u>	<u>N11</u>
	98,336	3,102,389	123,000	73,942
November 26 adjustment		<u>32</u>		
		<u>3,102,421</u>		
Sales from February 22 to November 30	<u>2,186,324</u>	<u>76,520,977</u>	<u>5,606,500</u>	<u>4,342,191</u>
TOTAL FEBRUARY 22 TO DECEMBER 7	2,284,660	79,623,398	5,729,500	4,416,133

Mr. Opie reported sales of non-vested securities for the week ended November 30 totaled \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 18, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
December 9	24,790	773,937	25,000	9,338
10	26,215	973,629	Nil	Nil
11	18,020	675,001	34,000	13,644
12	27,784	1,068,870	5,000	3,456
13	44,495	1,105,197	1,000	595
14	200	8,618	Nil	Nil
	<u>141,504</u>	<u>4,605,252</u>	<u>65,000</u>	<u>27,033</u>
Sales from February 22 to December 7	<u>2,284,660</u>	<u>79,623,398</u>	<u>5,729,500</u>	<u>4,416,133</u>
TOTAL FEBRUARY 22 TO DECEMBER 14	2,426,164	84,228,650	5,794,500	4,443,166

Mr. Opie reported sales of non-vested securities for the week ended December 7 totaled \$1,250,000.

December 18, 1940

My dear Mr. Secretary:

At the direction of the Secretary of the Treasury, I enclose herewith a copy of a letter of even date, addressed to the Secretary of State, concerning requests from foreign countries for the purchase of aircraft.

Sincerely yours,

(Signed) Philip Young

Philip Young
Assistant to the Secretary

The Honorable,

The Secretary of the Navy.

Similar letter to Secretary of War

PI:bj

December 18, 1940

X

My dear Mr. Secretary:

I have been informed by the Curtiss Wright Corporation that it will be in a position to produce 300 additional P-40 pursuit ships for delivery in May, June, and July, 1941, over and above those already allocated and on order. This 300 includes the 194 P-40's which have been discussed from time to time by Mr. Philip Young with Assistant Secretary of State Berle.

It is my understanding that neither the War Department nor the Navy Department are interested in placing an order for these planes, a situation which might make it possible for them to be allocated to other foreign purchasers, such as China, Greece, and Latin America.

For your information, I am enclosing a list prepared for me by Mr. Philip Young, of the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases, which shows the various requests received from all over the world for airplanes, airplane engines, and parts.

In order that this potential supply of planes may be best distributed in accordance with the demand, may I suggest that Secretary Stinson, Secretary Knox, and myself meet in your office next Monday morning and invite this committee, composed of Mr. Philip Young, General Burns, Admiral Spear, and Colonel Maxwell, to be present.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

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By Messenger 3-27

REQUESTS FOR AIRPLANES AND PARTS BY SOUTH AMERICAN COUNTRIES
PENDING OR RECENTLY DISAPPROVED
AS OF DECEMBER 15, 1940

<u>Country</u>	<u>Request For</u>	<u>Date of Request</u>	<u>Date Forwarded to Defense, Army, Navy</u>	<u>Status</u>
Argentina	600 - Part 16892 - Rocker Shafts for Twin Wasp Junior S2A4G Engines	Nov. 4, 1940	Nov. 23, 1940	Disapproved Nov. 23, 1940
Argentina	Spare parts for Wasp 83H1 engines	Dec. 4, 1940	Dec. 9, 1940	Pending
Argentina	Spare parts for Northrop airplanes	Nov. 22, 1940	Nov. 26, 1940	Pending
Argentina	15 NA-16-1 and 15 NA-16-3 training planes	Sept. 25, 1940	Sept. 28, 1940	Pending
Brazil	2 Douglas DC-3 Commercial Trans- ports	Dec. 5, 1940	-	Pending letter from Govt.
Brazil	Spare parts for Pratt and Whitney Wasp Jr. engines (PWR B-11)	Nov. 13, 1940	Nov. 13, 1940	Pending infor- mation.
Brazil	2 Lockheed Model 18-14 airplanes equipped with Pratt & Whitney S4C4G engines and Hamilton Standard constant speed pro- pellers, Hub #23E50 and Blades #6139A-12. (Filed by Lockheed)	Oct. 28, 1940	Oct. 31, 1940	Pending
Chile	Ryan S.T.M. with Kinner 160 HP (20 to 25) - (PWR D-2)	Nov. 25, 1940	Nov. 25, 1940	Pending infor- mation

<u>COUNTRY</u>	<u>Request For</u>	<u>Date of Request</u>	<u>Date Forwarded to Defense, Army, Navy</u>	<u>Status</u>
Chile	1 S1E3-G Hornet engine and accessories (PNR D-3)	Nov. 25, 1940 (PNR D-3)	Nov. 25, 1940	Pending information
Chile	25 Fairchild Trainers M. 62-B and spare parts (PNR D-5)	Nov. 28, 1940 (PNR D-5)	Nov. 28, 1940	Pending information
Mexico	Spare parts for airplane engines (Wasp S1B1 and Wasp Junior SB)	Nov. 15, 1940	Nov. 19, 1940	Pending
Mexico	Spare parts for airplane engines (Canadian Car & Foundry)	Nov. 15, 1940	-	Pending information
Mexico	21 aeroplanes CW 22 and 6 aeroplanes CW 21	Oct. 10, 1940	Oct. 12, 1940	Temporarily disapproved.
Uruguay	8 Model 6-4000 Ranger aircraft engines (Pluna)	Oct. 24, 1940	Oct. 25, 1940	Disapproved Nov. 14, 1940
Venezuela	2 standard Hamilton propellers, 40 rubber tubings, and 80 clamps	Dec. 4, 1940	Dec. 5, 1940	Pending
Venezuela	3 Curtiss P-36 planes, 3 Stearman A7EL3 planes, 5 North American NA 16-3 planes, 3 North American 76-D-3 planes.	Oct. 22, 1940	Oct. 25, 1940	Pending
Venezuela	1 ED30 (S167A-6 blades) propeller	Dec. 10, 1940	Dec. 13, 1940 (not yet mailed)	Pending

504
129

REQUESTS FOR AIRPLANES AND PARTS BY FOREIGN COUNTRIES
 PENDING OR RECENTLY DISAPPROVED
 AS OF DECEMBER 13, 1940

<u>Country</u>	<u>Request For</u>	<u>Date of Request</u>	<u>Date Forwarded to Defense, Army, Navy</u>	<u>Status</u>
Australia	7 Cyclone GR-1820-GRX Engines for installation in 2 DC-3 Douglas Commercial Transports (FNR 255)	Oct. 30, 1940 (FNR 255)	Nov. 6, 1940	Disapproved Nov. 30, 1940
China	2 Model 18-40 "Lodestar" airplanes equipped with 4 Wright Cyclone GR-1820-G1C2A engines from Lockheed Aircraft Corp.	Oct. 31, 1940	Nov. 18, 1940	Pending
	250 Fighters (Brewster F4F or Grumman 36A or Vultee Vanguard or Republic P-43)	Nov. 25, 1940	Nov. 30, 1940	Pending
	100 Fighters (Curtiss-Wright P-40 or North American NA-73)			
	50 Bombers (Douglas B-23 or older type if more promptly available)			
	100 Bombers (Lockheed-Hudson)			
	Training Planes: 120 Ryan, 50 North American Basic Trainers and 20 Beechcraft AT-18 Bombing trainers 10 Lockheed Lodestar transport planes Spare parts	Nov. 26, 1940	Nov. 30, 1940	Pending
Norway	4 Fairchild M-62 Trainers for use in Canada	Nov. 23, 1940	Dec. 2, 1940	Pending

<u>Country</u>	<u>Request For</u>	<u>Date of Request</u>	<u>Date Forwarded to Defense, Army, Navy</u>	<u>Status</u>
Philippine Government	Spare parts for Pratt & Whitney Jr. Engines Series T1B and SB	Nov. 6, 1940	Nov. 7, 1940	Disapproved Nov. 29, 1940
Turkey	Spare engine parts - Wright Cyclone Engines	Nov. 22, 1940	Nov. 28, 1940	Pending
	50 Curtiss-Wright Model 22 Falcon training planes with necessary R-975-23 450 HP Wright Whirlwind Engines	Nov. 22, 1940	Nov. 28, 1940	Pending
Sweden	Spare parts for Wright Cyclone G102A Engines	Nov. 15, 1940	Nov. 20, 1940	Pending

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Vichy

DATE: December 18, 1940, 8 p.m.

NO. : 856

The following is a message for the personal attention of Mr. Matthews from the Treasury Department.

The payment of \$50,000 out of the blocked funds in the United States belonging to the French Government is being approved by the Treasury, payment to be made to the American Friends Service Committee. The latter wishes to purchase milk in Switzerland for distribution to children in France.

It would be appreciated by Secretary Morgenthau if you would report at intervals on the importation and distribution of such milk by the Friends Committee. Information particularly desired is whether the milk is being distributed under American supervision directly to the children in France.

HULL

(BL)

EA:HF:LWV

EU

TO THE SECRETARY
TECHNICAL ASSISTANT
PA/D
OFFICE OF THE

A-B

EALWV

DEC 20 1940

Copy:bj

RECEIVED
TREASURY DEPARTMENT

EH

GRAY

Baghdad

Dated December 18, 1940

Rec'd 8:40 p.m.

Secretary of State,
Washington.

122, December 18, 4 p.m.

British banks in Iraq have received instructions from their head offices in London to refuse all applications for dollar exchange. The British maintain that Iraqi dollar credits resulting from their exports to the United States are more than sufficient to meet their normal purchases in the United States, but that the Iraqis have permitted their dollar exchange to be utilized for their purchase from Japan. In these circumstances Britain will not permit its meager dollar credits to be utilized by Iraq. It is estimated that Iraqi dollar credits lack by 30% enough to meet their normal American requirements plus the equipment for their army now on order in the United States. The Legation's banker informed me today that the local British banks endeavored to persuade Iraqi Government to institute exchange control in order to safeguard their foreign credits for legitimate needs such as American credits for American goods but no action was taken.

The

EH -2- 122, December 18, 4 p.m. from Baghdad.

The effect of this situation will be a throttling of Iraq purchases in America until steps are taken to control dollar credits for American purchases.

KNABENSHUE

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1954
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1954



DEPARTMENT OF STATE
WASHINGTON

Pehle

In reply refer to
EA

December 18, 1940

TO THE SECRETARY
OF STATE
WASHINGTON
D. C.

DEC 18 11 30 AM '40

RECEIVED
GENERAL INVESTIGATION
DIVISION

Harry White
John Wiley

AW

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits for his consideration a copy of a memorandum of a conversation between the president of the Chemical National Bank and Trust Company and officers of the Department of State regarding purchase by Germans of German properties of American corporations.

Enclosure:

Memorandum of conversation,
December 17, 1940.

RECEIVED
Treasury Department
DEC 23 1940
Division of
Financial Research

ADVISER ON INTERNATIONAL ECONOMIC AFFAIRS

DEPARTMENT OF STATE

136

Memorandum of Conversation

DATE: December 17, 1948

SUBJECT: Purchase by Germans of German properties of American corporations

PARTICIPANTS: Mr. Frank C. Houston, President, Chemical National Bank and Trust Company, New York

Mr. Feis
Mr. Livesey

COPIES TO:

Mr. Houston called by reference from the Secretary of State.

He said that the Chemical National Bank has been making collections in Germany with very good success. It was caught with \$17,000,000 credits outstanding in Germany at the time of the transfer crisis of 1931 and they were frozen under the Standstill Agreement. All these credits have been collected without loss to the Bank. The Bank has recently had in Germany for several months an employee, Mr. Kallmar, German-born, naturalized some 10 or 12 years ago, very able and clever, who in ways that Mr. Houston does not understand, but apparently largely in contact with the Stahl Werke, has succeeded in collecting a million dollars

- 2 -

dollars for the Bank and other sums for a British banking firm. Mr. Kellmar returned to New York last week.

Mr. Kellmar brought word from some important German interests that they were interested in purchasing for dollars the German properties of American corporations. Mr. Houston showed some press clippings dealing with similar German activities and said that he of course had heard of them, including a report that the General Electric Company had sold some of its German interests to the German General Electric Company for \$20,000,000 cash. If some of the friends and customers of the Chemical National Bank actually feel the way that they have talked, they would be glad to sell their properties in Germany for \$.50 on the dollar, if they could get ^{paid} ~~part~~ in cash for the properties which have yielded little or no dollar returns for many years. It appeared therefore that the Chemical National Bank might be in a position to oblige its customers and to make a commission for itself by following up the German proposal. However, before approaching any one with such a proposition, he had wished to come down and put the whole matter before the Department of State and find out whether it had any objections to such activities.

Mr. Feis said that the Department had of course heard a great deal about such purchase transactions, and had observed newspaper reports regarding them. However, it had

little

little direct knowledge of them. He asked where Germany was getting the dollars to pay for such purchases. Mr. Houston said that he did not know. He had heard that certain Belgian and Netherland banks had large amounts of dollars accumulated through the Bank for International Settlements or Swiss banks, and were now using these dollars to purchase American properties in Germany. Mr. Feis said that Germany had not laid hands on the Belgian or Netherland banks. Mr. Houston said that the Germans had not seized the banks but he had heard that they had bought into them and thus obtained control and direction over them. The Reichsbank was said to have used large sums in such investments.

Mr. Feis suggested that the Department might telegraph the American Consul at Basle, Switzerland, and ask him to comment on rumors such as Mr. Houston had mentioned. No mention would be made of the Chemical National Bank. Mr. Houston saw no objection to this.

Mr. Feis said that it was his understanding, subject to correction by his colleagues, that the Department saw such purchase and sale arrangements as private transactions on which the Department did not care to comment - as the phrase was. However, he could not say this without first circulating the memorandum to several others in the Department to ascertain



THE SECRETARY OF STATE
WASHINGTON

December 18, 1940.

Dear Mr. Secretary:

I want to thank you for your letter of December eighteenth enclosing a copy of Lord Lothian's letter to you dated December eighth regarding British shipping questions, which I am very glad to have.

I appreciate your kindness in sending it to me.

Sincerely yours,

A handwritten signature in cursive script that reads "Cordell Hull". The signature is written in dark ink and is centered on the page.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

DEC 18 1940

X

My dear Mr. President:

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 5 by the late Lord Lethbride, together with its enclosures, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the merchant shipbuilding program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Enclosures.

The President,

The White House.



HM:12-12/27/40

By Messenger 10^{AS}

DEC 18 1940

*ackd 12/18/41***My dear Mr. Secretary:**

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 5 by the late Lord Lethian, together with its enclosures, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the war-plant shipbuilding program.

Sincerely yours,

(Signed) H. Maganahan, Jr.

Secretary of the Treasury

Enclosures

The Honorable,

Frank Bess,

Secretary of the Navy.



HMA:lg-12/17/40

By 

DEC 18 1940

My dear Mr. Secretary:

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 5 by the late Lord Lothian, together with its enclosure, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the merchant shipbuilding program.

Sincerely yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury

Enclosures.

The Executive,

Special Mail.

Secretary of State.

HE:lag-12/17/40

By Morganthau 10/4

DEC 18 1940

My dear Mr. Secretary:

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 8 by the late Lord Lethian, together with its enclosures, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the merchant shipbuilding program.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury


Enclosures

The Honorable,

Henry L. Stimson,

Secretary of War.

By Messenger 10¹⁵


HMG:lmw-12/17/40

December 18, 1940

My dear Mr. Knudsen:

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 8 by the late Lord Lethian, together with its enclosures, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the merchant shipbuilding program.

Sincerely yours,

Mr. William S. Knudsen,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

December 18, 1940

My dear Mr. Knudsen:

I have pleasure in enclosing, in strict confidence, a photostatic copy of a letter written to me under date of December 8 by the late Lord Lethian, together with its enclosures, consisting of secret memoranda dealing with British shipping losses and replacement, the position in British shipyards, and estimated deliveries under the merchant shipbuilding program.

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December 18, 1940

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Sincerely yours,

Mr. William S. Knudsen,
Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

CONFIDENTIALACTION REQUIRED

December 18, 1940

To: The Secretary

From: Mr. Young

Re: British Shipbuilding.

Admiral Peoples, representing Todd Shipyards, visited me this morning, and Admiral Land, Commissioner Vickery of the Maritime Commission, Congressman Oliver from Maine, and representatives of the British Purchasing Commission all telephoned me today wanting to know why the Treasury was holding up the British sixty-ship program.

As I explained the other day, clearance had been given for the British to negotiate a contract for these ships with Todd, and, as I advised you, I asked Mr. Ballantyne not to have this contract signed until final clearance was given. My reasons for this request were, first, that Secretary Knox had questioned the advisability of this new ship construction; secondly, that the President during our conference at the White House had made certain comments with respect to it; and, thirdly, because the ship program was one item of the British orders to be placed which is now under consideration.

Admiral Land advised me today that Secretary Knox had no objection to this contract being signed. The British have advised me that about 50 million dollars have been earmarked for these ships (out of the total cost of 96 million dollars, including capital).

Both Todd and the British are ready to sign the contract. The Treasury is in the position of holding it up. My reaction would be to clear it if the British ear-tagged the full amount, otherwise to let it wait pending the detailed clearance of program No. 1.

December 18, 1940

X

Dear Steve:

I am inclosing herewith a memorandum with accompanying charts from which you will note that employment in the aviation manufacturing industry has multiplied more than four times in the last twenty months and has doubled in the last nine months.

These figures were so interesting to me that I thought maybe you or the President might like to make them public.

Yours sincerely,

(Signed) E. Magnuson, Jr.

Hon. Stephen Early,
Secretary to the President,
The White House.

Enc.

photostatic copy of memo for Secretary
from Mr. Haas dated 12/12/40

By [unclear] /s/ [unclear]

December 18, 1940

150

Dear Steve:

I am inclosing herewith a memorandum with accompanying charts from which you will note that employment in the aviation manufacturing industry has multiplied more than four times in the last twenty months and has doubled in the last nine months.

These figures were so interesting to me that I thought maybe you or the President might like to make them public.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President,
The White House.

By Message

December 18, 1940

151

Dear Steve:

I am inclosing herewith a memorandum with accompanying charts from which you will note that employment in the aviation manufacturing industry has multiplied more than four times in the last twenty months and has doubled in the last nine months.

These figures were so interesting to me that I thought maybe you or the President might like to make them public.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President,
The White House.

By Message

STRICTLY CONFIDENTIAL

152

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 12, 1940

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

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

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

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

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

Attachments

Employment in Aviation Manufacturing Industry
(Airplanes and Airplane Engines)

153

1937-1940

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

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

Employment of Selected Aircraft Manufacturing Corporations
1937-1940

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

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

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

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

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

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

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

Employment of Selected Airplane Engine Corporations
1937-1940

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

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

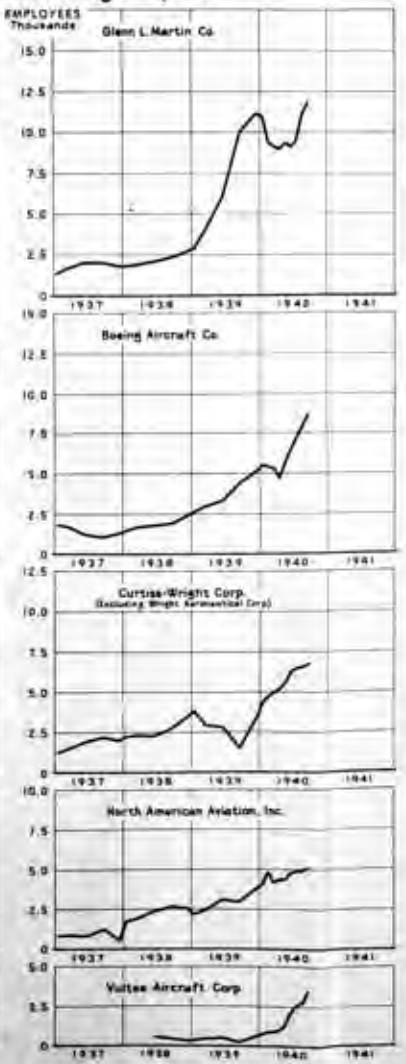
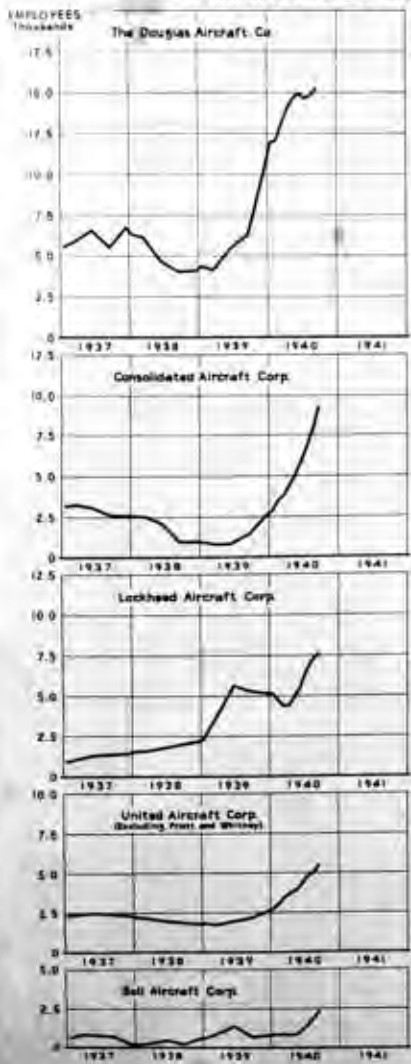
	1937	1938	1939	1940
Pratt & Whitney Aircraft				
January	1,931	2,567	2,264	5,642
February				6,549
March	2,119	2,489	2,659	7,158
April				7,541
May				7,765
June	2,384	2,555	3,066	8,504
July				9,121
August				9,449
September	2,471	2,384	3,394	9,406
October				9,794
November				10,377
December	2,618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

160
EMPLOYMENT IN AVIATION MANUFACTURING INDUSTRY
Factory Wage Earners

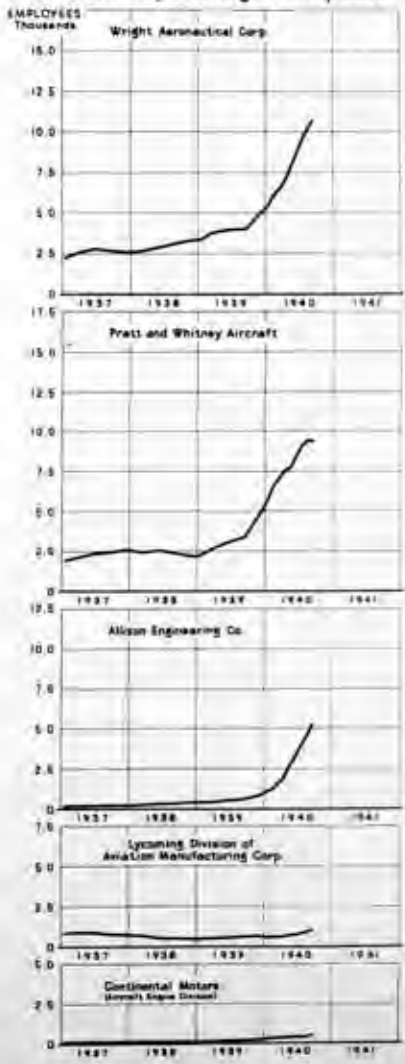
STRICTLY CONFIDENTIAL



Selected Aircraft Manufacturing Companies



Selected Airplane Engine Companies



EMPLOYMENT IN THE AVIATION MANUFACTURING INDUSTRY* BY REGIONS

Factory Wage Earners



* Including Parts Companies

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

✓
162

December 18, 1940.

MEMORANDUM FOR LIEUTENANT COMMANDER MCKAY:

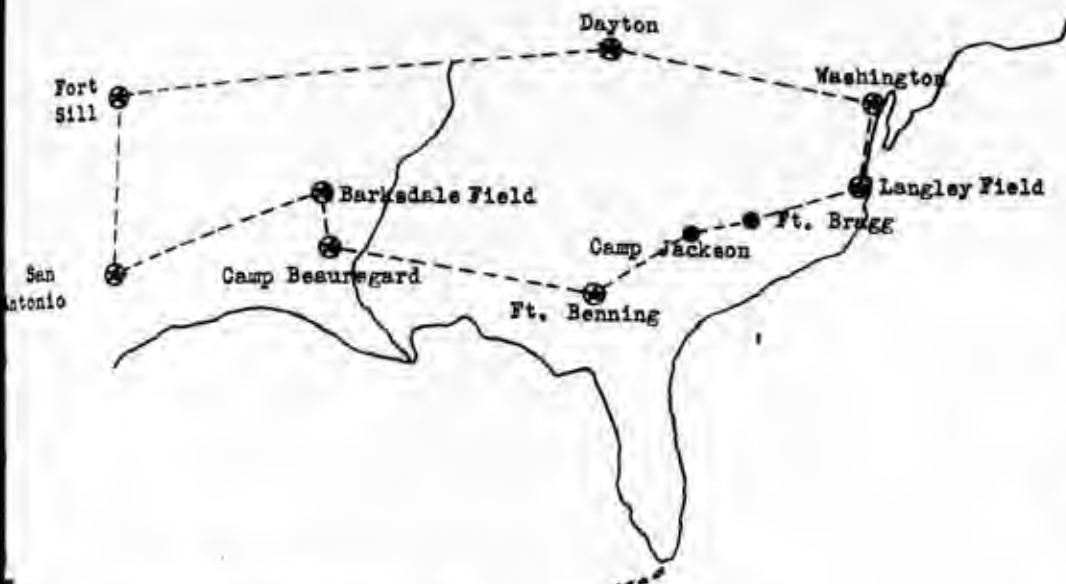
Attached is a proposed itinerary for the Secretary's trip as suggested by the Chief of Staff. It includes visits to type installations in Continental United States. We would have liked to arrange for the Secretary to visit the Puerto Rican area and see some phase of the joint operations scheduled there for February, but the plans of the Navy Department have made the dates of this landing exercise so uncertain that it would be difficult to include it in a short trip. The hours shown on the proposed itinerary are, of course, only tentative and are included simply to give an idea of the time required to make the trip.

W.B.S.
W.B.S.

Incl.

SUGGESTED ITINERARY OF MR. MORGENTHAU
(All Travel by Air)

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- 1st Day Depart Washington 9:00 for Langley Field.
Arrive Langley Field 10:00 A. M.
Depart Langley Field 1:00 P.M. for Fort Benning
flying over Fort Bragg and Camp Jackson.
Arrive Fort Benning 5:00 P.M.
- 2nd Day Inspect Infantry School
Armored Division
4th Infantry Division
Witness demonstration of modern weapons and tactics.
Depart Fort Benning 1:00 P.M. E.S.T. for Camp Beauregard
Arrive Camp Beauregard 3:00 P.M. C.S.T.
Inspect concentration area.
- 3rd Day Depart Camp Beauregard 9:00 A.M. for Barksdale Field
Arrive Barksdale 9:50 A.M., inspect Air Corps combat units
Depart Barksdale 1:00 P.M. for San Antonio
Arrive San Antonio 3:25 P.M.
Inspect Gulf Coast Training Center (Air Corps)
- 4th Day Inspect Fort Sam Houston, * Randolph * Kelly Fields.
- 5th Day Depart San Antonio 8:00 A.M. for Fort Sill
Arrive Fort Sill 10:30 A.M., inspect Field Artillery School
Depart Fort Sill 1:00 P.M. for Dayton, Ohio
Arrive Dayton 5:50 P.M., visit Air Corps Material Division
- 6th Day Depart Dayton 12:30 P.M. CST for Washington
Arrive Washington 4:10 P.M. EST

OCAC 12-18-40

December 18, 1940
5:07 p.m.

Frank
Knox: Hello, Henry.

H.M.Jr: Hello, Frank.

K: I just thought you might be interested to know that we had a very, very satisfactory talk with the President on a matter we discussed with you and in principle the idea was accepted.

H.M.Jr: Oh, wonderful.

K: Yeah.

H.M.Jr: Isn't it marvelous.

K: Yeah, as a matter of fact as I might of guessed, the Old Man had found his way there pretty nearly alone.

H.M.Jr: Pardon.

K: He practically found that - he practically had gone all the way himself in his own thinking.

H.M.Jr: Well, I'll be darned.

K: Yeah. So I guess it's going to come out all right. It's going to be decided this week.

H.M.Jr: Wonderful.

K: Yeah, I think so. I think we'll get a little order out of the thing now.

H.M.Jr: Well, one thing that I - I talked up everybody but ourselves and my boys have told me today that we musn't forget about the guiding of the England in this picture.

K: Do what?

H.M.Jr: Taking care of England and her orders.

- 2 -

K: Well, that's part of the picture.

H.M.Jr: It is.

K: Oh, yes, very definitely.

H.M.Jr: Well, where would they fit in?

K: Huh?

H.M.Jr: I didn't attempt to get my own self into the picture.

K: How will it fit in?

H.M.Jr: Yeah.

K: They become Army and Navy orders.

H.M.Jr: I see.

K: See?

H.M.Jr: I see. I see.

K: The problem that we have got ahead of us is additional appropriations.

H.M.Jr: I see. But you're perfectly happy?

K: I'm very happy over it and delighted with the way the thing was received.

H.M.Jr: Well, I'm awfully glad. I appreciate your calling me.

K: All right, Henry.

H.M.Jr: Thank you.

K: Good-bye.

December 18, 1940

I called up Herbert Gaston at 8:00, and told him that Mayor LaGuardia had told me that the New York Telegraph in New York City is being boycotted, and the reason they are being boycotted is because of a few articles and statements which he gave out during the campaign. I told him that I thought if the articles they were running on me were friendly that it might help the New York Telegraph in New York City. Gaston said that this was an excellent angle, and it looks as though we were doing them a favor instead of their doing us a favor. Gaston said he almost hesitated to tell them this for fear that they might want too much from me. However, he said he would do it, and would get hold of Parker, take him out to lunch and talk the matter over with him. I asked Gaston to write me a memo and tell me what happened when he saw Parker, and he said he would.

December 19, 1940

Guest list for dinner given in honor of
HM, Jr by Governor George Harrison of the Federal
Reserve Bank in New York this evening.

Secretary, Weymouth
 Henry Weymouth Sr.
 Christopher Aldrich
 Stewart Baker
 Arthur Ballantyne
 Daniel Bell
 James G. Blaine
 Donaldson Brown
 Mortimer Buckner
 John Colt (?)
 T. J. Coolidge
 Joseph W. Davison
 Edmund Day
 Leon Fraser
 Walter Frew
 Russell Leffringwell
 Wm McC. Martin (?)
 Frank L. Polk
 William C. Potter
 Gordon Reichler

Chase National
 Manhattan
 Lawyers
 Treasury
 Morris Udland
 Gen. Motors. DuPont F.R.B. NY
 U. G. Trust
 Paulus Trust
 Fruit Company
 Central Hanover
 Pres. Cornell. U. G. Bl. Dir.
 Fruit National
 Com Ex change
 J. P. M. & Co.
 U. G. Stk Ex change
 Lawyers
 Guaranty Trust
 National City

Grandley, Ruul

John M. Schluff

John S. Sinclair

William Sprout

Harold Stanley

Robert Stevens (?)

Walter Stewart

J. C. Trapkagan

T. J. Watson

Fred Williamson

D. W. Baruch

Wm D. Young

C. L. Harrison

Wacy. & Dy F. R. B. U. G.

Kuhn Lorb.

F. R. Bk Philad.

F. R. Bk U. G.

Pres. Morgan Stanley & Co

Pres J. P. Stevens & Dir F. R. B. U. G.

Bk of N. Y. & Trust Co.

Int. Business Mach. & Dir. F. R. B. of U. G.

Pres. U. G. Central

*Eccles
Gov. Harrison
President of First Nat'l of Chicago
brought this in to Secretary
Edward G. Brown
December , 1940 Dec 19*

at 9:30am

SPECIAL REPORT TO THE CONGRESS

by

the Board of Governors of the Federal Reserve System,
the Presidents of the Federal Reserve Banks,
and the Federal Advisory Council

For the first time since the creation of the Federal Reserve System, the Board of Governors, the Presidents of the twelve Federal Reserve Banks, and the members of the Federal Advisory Council representing the twelve Federal Reserve Districts present a joint report to the Congress.

This step is taken in order to draw attention to the need of proper preparedness in our monetary organization at a time when the country is engaged in a great defense program that requires the coordinated effort of the entire Nation. Defense is not exclusively a military undertaking, but involves economic and financial effectiveness as well. The volume of physical production is now greater than ever before and under the stimulus of the defense program is certain to rise to still higher levels. Vast expenditures of the military program and their financing create additional problems in the monetary field which make it necessary to review our existing monetary machinery and to take measures to forestall the development of inflationary tendencies attributable to defects in the machinery of credit control. These tendencies, if unchecked, would produce a rise of prices, would retard the national effort for defense and greatly increase its cost, and would aggravate the situation which may result when the needs of defense, now a stimulus, later absorb

less of our economic productivity. While inflation cannot be controlled by monetary measures alone, the present extraordinary situation demands that adequate means be provided to combat the dangers of overexpansion of bank credit due to monetary causes.

The volume of demand deposits and currency is fifty percent greater than in any other period in our history. Excess reserves are huge and are increasing. They provide a base for more than doubling the existing supply of bank credit. Since the early part of 1934 fourteen billion dollars of gold, the principal cause of excess reserves, has flowed into the country, and the stream of incoming gold is continuing. The necessarily large defense program of the Government will have still further expansive effects. Government securities have become the chief asset of the banking system, and purchases by banks have created additional deposits. Because of the excess reserves, interest rates have fallen to unprecedentedly low levels. Some of them are well below the reasonable requirements of an easy money policy, and are raising serious, long-term problems for the future well-being of our charitable and educational institutions, for the holders of insurance policies and savings bank accounts, and for the national economy as a whole.

The Federal Reserve System finds itself in the position of being unable effectively to discharge all of its responsibilities. While the Congress has not deprived the System of responsibilities or

- 3 -

of powers, but in fact has granted it new powers, nevertheless, due to extraordinary world conditions, its authority is now inadequate to cope with the present and potential excess reserve problem. The Federal Reserve System, therefore, submits for the consideration of the Congress the following five-point program:

1. Congress should provide means for absorbing a large part of existing excess reserves, which amount to seven billion dollars, as well as such additions to these reserves as may occur. Specifically, it is recommended that Congress -

- (a) Increase the statutory reserve requirements for demand deposits in banks in central reserve cities to 26%; for demand deposits in banks in reserve cities to 20%; for demand deposits in country banks to 14%; and for time deposits in all banks to 6%.
- (b) Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (a). (The power to change reserve requirements, now vested in the Board of Governors, and the control of open market operations, now vested in the Federal Open Market Committee, should be placed in the same body.)
- (c) Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes.
- (d) Make reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System.
- (e) Exempt reserves required under paragraphs (a), (b) and (d) from the assessments of the Federal Deposit Insurance Corporation.

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2. Various sources of potential increases in excess reserves should be removed. These include: the power to issue three billions of greenbacks; further monetization of foreign silver; the power to issue silver certificates against the seigniorage, now amounting to one and a half billion dollars on previous purchases of silver. In view of the completely changed international situation during the past year, the power further to devalue the dollar in terms of gold is no longer necessary or desirable and should be permitted to lapse. If it should be necessary to use the stabilization fund in any manner which would affect excess reserves of banks of this country, it would be advisable if it were done only after consultation with the Federal Open Market Committee whose responsibility it would be to fix reserve requirements.

3. Without interfering with any assistance that this Government may wish to extend to friendly nations, means should be found to prevent further growth in excess reserves and in deposits arising from future gold acquisitions. Such acquisitions should be insulated from the credit system and, once insulated, it would be advisable if they were not restored to the credit system except after consultation with the Federal Open Market Committee.

4. The financing of both the ordinary requirements of Government and the extraordinary needs of the defense program should be accomplished by drawing upon the existing large volume of deposits rather than by creating additional deposits through bank purchases of

Government securities. We are in accord with the view that the general debt limit should be raised; that the special limitations on defense financing should be removed; and that the Treasury should be authorized to issue any type of securities (including fully taxable securities) which would be especially suitable for investors other than commercial banks. This is clearly desirable for monetary as well as fiscal reasons.

5. As the national income increases a larger and larger portion of the defense expenses should be met by tax revenues rather than by borrowing. Whatever the point may be at which the budget should be balanced, there cannot be any question that whenever the country approaches a condition of full utilization of its economic capacity, with appropriate consideration of both employment and production, the budget should be balanced. This will be essential if monetary responsibility is to be discharged effectively.

In making these five recommendations, the Federal Reserve System has addressed itself primarily to the monetary aspects of the situation. These monetary measures are necessary, but there are protective steps, equally or more important, that should be taken in other fields, such as prevention of industrial and labor bottlenecks, and pursuance of a tax policy appropriate to the defense program and to our monetary and fiscal needs.

It is vital to the success of these measures that there be unity of policy and full coordination of action by the various Governmental bodies. A monetary system divided against itself cannot stand securely. In the period that lies ahead a secure monetary system is essential to the success of the defense program and constitutes an indispensable bulwark of the Nation.

STRICTLY CONFIDENTIAL

Memorandum

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December 19, 1940

A-L
Mr. Long:

The following representatives of government departments and agencies met on December 18, 1940 to discuss policies covering immobilized foreign shipping in United States jurisdiction:

State Department

Green H. Hackworth, Legal Adviser to the Secretary
J. E. Saugstad, Assistant Chief, Division of
International Communications

Treasury Department

Herbert E. Gaston, Assistant Secretary of the
Treasury
E. H. Foley, Jr., General Counsel
Huntington Cairns, Assistant General Counsel
Oscar S. Cox, Assistant to the General Counsel

War Department

Lt. Col. C. H. Kells, Executive Office, Water
Transportation Branch
Major Frank Ross, General Staff Corps

Justice Department

Judge N. A. Townsend, Special Assistant to the
Attorney General

Navy Department

Capt. R. E. Schuirmann, Director of Central
Division, Naval Operations
Capt. C. S. Alden
Commander H. Biesemeier, Office of Judge Adjutant
General

United States

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United States Maritime Commission

Admiral Emory S. Land, Chairman
Russell E. Lutz, Assistant General Counsel
Eugene J. Ackerson, Attorney, Legal Division
H. T. Morse, Assistant to the Chairman

The attached memorandum for the Secretary of State is
agreed to by these officials although not signed by them.

LE:GHH

IN:JES:FMD

(Copy:pm)

MEMORANDUM OF CONFERENCE ON IMMOBILIZED SHIPPING

Time: 4:00 to 5:40 P.M., December 18, 1940

Place: Room 474, State Department Building

Present:

State Department: Green H. Hackworth, Legal Adviser to the Secretary, and J. E. Saugstad, Assistant Chief, Division of International Communications.

Treasury Department: Herbert E. Gaston, Assistant Secretary of the Treasury, E. H. Foley, Jr., General Counsel, Huntington Cairns, Assistant General Counsel, and Oscar S. Cox, Assistant to the General Counsel.

War Department: Lt. Col. C. H. Kells, Executive Office, Water Transportation Branch, and Major Frank Ross, General Staff Corps.

Justice Department: Judge N. A. Townsend, Special Assistant to the Attorney General.

Navy Department: Capt. R. E. Schuirmann, Director of Central Division, Naval Operations, Capt. C. S. Alden, and Commander H. Biesemeier, Office of Judge Adjutant General.

United States Maritime Commission: Admiral Emory S. Land, Chairman, Russell E. Lutz, Assistant General Counsel, Eugene J. Ackerson, Attorney, Legal Division, and H. T. Morse, Assistant to the Chairman.

Discussion:

Mr. Saugstad of the State Department, raised for discussion the revision of Draft No. 3 of the memorandum, a copy of which is annexed. The Treasury Department raised the fundamental question of whether it was wise to recommend to the President that a Coordinator be appointed since the conferees were apparently meeting for the purpose of coordinating and disposing of the problem of immobilized ships.

The Treasury, through Messrs. Gaston, Cairns, and Cox, also raised a series of specific questions. One was the statement that there was not now an acute shortage of tonnage available for the requirements of the

United States overseas commerce. Mr. Cox pointed out that factually, in the light of what Admiral Land had said, the statement was not true and that as a legal matter, if it were decided to requisition the ships, a record should not be made against the Government on either an unsupported or doubtful statement of fact.

The Treasury also raised the question as to whether or not the statement in Paragraph 3, on page 7, about the inability of the Maritime Commission to requisition under existing law, was accurate. The Treasury also suggested that if it were decided to proceed on the basis of the present plan, one of the major recommendations should be that the Coordinator determine whether or not the immobilized ships could be put to use under the law. All of the Treasury's views were adopted. Other suggested revisions were also introduced and accepted.

Mr. Saugstad said he would send a revised copy of the memorandum to Mr. Gaston on the morning of December 19. Mr. Saugstad also said that he wished to submit this memorandum to the Secretary of State at the same time.

The memorandum was sent, not to Mr. Gaston, but to Mr. Cox at 5:00 P.M. on December 19.

Attachment

OSC:mp
12/20/40

(Copy:pm)

STRICTLY CONFIDENTIAL

MEMORANDUM

For the Secretary of State:

Subject: Vessel Tonnage

It is the consensus of representatives of the Departments of State, Treasury, War, Justice, and Navy, and of the Maritime Commission, after informal discussion, that destruction and disruption of world shipping tonnage caused by current war in Europe have reached conditions in amount and in degree of intensity sufficient to warrant immediate administrative consideration.

Tonnage Destruction

Strictly confidential official sources indicate that from September 3, 1939 to November 24, 1940,

tonnage

-3-

tonnage destruction has been:

British	2,729,000 gross tons		
Foreign	<u>1,828,000</u>	"	"
Total	4,557,000	"	"

Average rate of British loss per week from June 10 to November 24, 1940, 99,000 gross tons, or approximately 14,000 gross tons per day.

Tonnage Immobilization

There are in United States ports (including outlying possessions) 112 vessels of foreign registry totalling 615,000 gross tons which are immobilized by reason of war conditions. They are as follows:

Totals by Flag

	<u>No.</u>	<u>Gross Tons</u>
Denish	41	158,561
French	15	164,018
Italian	27	149,489
Norwegian	6	41,925
Belgian	1	6,429
Greek	4	24,815
Hungarian	1	5,983
Lithuanian	1	1,236
Yugoslav	3	11,642
Latvian	3	19,761
Estonian	3	8,997
Romanian	2	7,309
Swedish	3	24,831
German	<u>2</u>	<u>2,027</u>
Total	112	615,430

There

-3-

There remains of the 112 vessels in the Maritime Commission's laid-up fleet at the outbreak of the war, a total of 45 vessels, 24 of which are up for bid for purchase without restriction, 2 are up for bid restricted to purchase by American citizens for domestic operation, and the remaining 20 vessels are either undergoing reconditioning or are to be reconditioned for use as may be required.

Tonnage Shortage and Reserve

The Maritime Commission is of the opinion that there is not now nor has there been acute shortage of commercial tonnage available for the requirements of the United States overseas commerce. It is generally agreed that it is impossible to predict with any certainty future tonnage requirements. It is obvious in the light of previous experience during war conditions that the Government of the United States must maintain some reserve tonnage.

Shipping Requirements of Government Agencies

The present additional coast line shipping

requirements

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requirements of government agencies other than those of the Maritime Commission are summarized as follows:

War Department: 7 vessels of transport class and 5 vessels of supply class.

Navy Department: 15 combination vessels and 10 cargo supply vessels.

The Maritime Commission has already turned over to the War Department 15 vessels—7 combination vessels and 8 cargo vessels, and there are under construction for the account of the Commission for delivery to the War Department two C-3 type transports. The Maritime Commission has made arrangements for acquisition by the Navy or has turned over directly to the Navy 38 vessels—14 combination vessels, 12 new cargo vessels of the C-2 and C-3 type, and 12 new national defense tankers. The Commission has received bids for the construction of five additional new national defense tankers for the Navy.

Problems

Problems

On the surface, it might appear that we could take over these foreign vessels amounting to over six hundred thousand tons and release the equivalent of that tonnage to the British. This does not necessarily follow. It is a question as to how many of these vessels are desirable or economically suitable for operation in our United States trade. Some of the problems involved are as follows:

1. The acquisition of these vessels and their operation as merchant vessels under the American flag will necessitate, under existing law, alterations to meet our inspection requirements and standard of crews quarters.

2. Being equipped with foreign-built engines, most of which are Diesel, numerous difficulties will be encountered in operation, such as making repairs, securing parts, etcetera.

3. Securing American licensed engineers experienced in operating these engines will be difficult.

4. If these vessels were chartered for commercial operation in our Merchant Marine, it would

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would probably be necessary to retain at least the Danish engine room personnel. Under existing law, all licensed officers must be American citizens.

5. If, in turn, American vessels were transferred to the Navy or sold to the British, the American crews would be thrown out of work with resultant serious objections by American labor.

6. These vessels, being foreign-built, would not, under existing law, be eligible for subsidy or operation in the domestic trade.

7. Many of these ships are of small tonnage rendering questionable their utility to our Merchant Marine or to the Army or Navy. In the opinion of the Army and Navy, the bulk of these vessels are not suitable for Army or Navy needs. However, they might be very useful to the British.

Desired Objective

1. That such control should now be exercised over foreign tonnage immobilized in United States ports on account of war conditions as will keep it available to this Government for use as may be needed by our various services or for possible release to the British Government.

Existing

-7-

Existing Authority to Control and Acquire Foreign Flag Tonnage under Consideration

1. The Treasury Department has authority to take protective control over the immobilized vessels in our ports and may prevent their departure and protect them against acts of sabotage. (U.S.C., Title 50, Chapter 12) An existing presidential proclamation is sufficient basis for the exercise of this authority.

2. The Navy Department has authority to acquire and convert vessels for naval auxiliaries. It may charter or purchase vessels for naval auxiliaries but does not have authority to requisition. (Second Supplemental National Defense Appropriation Act, 1941 (Public No. 781))

3. The Maritime Commission is the requisitioning agency of the Government with respect to American-owned vessels but it does not, under existing statutes, have authority to purchase, charter, or requisition foreign-owned, foreign flag tonnage. (Section 902, Merchant Marine Act, 1936)

Recommendations

1. That the President designate one man as Chief Coordinator under the President for the activities of the various Departments and independent agencies of the Government concerned in

the

-3-

the problem of dealing with the immobilized vessels, tonnage supply and other related emergency problems.

2. That the Secretary of the Treasury, in cooperation with the Chief Coordinator, immediately take such steps as may be necessary to control and safeguard the immobilized vessels now in our ports, including ports of the insular possessions.

3. That the Coordinator ascertain if the immobilized vessels can be requisitioned or otherwise acquired by the Government under existing law.

4. That the Navy proceed, in cooperation with the Chief Coordinator, to exercise the authority which it now has to buy or charter any of the tonnage under consideration that may be needed for its purposes.

5. If existing law does not authorize the requisition of immobilized vessels and if the President submits legislation to the Congress in line with the policy recently announced with respect to granting aid to the British, there be included a section giving him specific authority to acquire or requisition foreign owned foreign flag vessels immobilized by reason of war conditions, found in United States jurisdiction, together with such authority as may be necessary to make such use or disposition thereof as he shall determine.

It

-9-

It will of course be appreciated that any request for legislative authority to acquire immobilized foreign vessels will at once raise the question as to why such authority is needed at a time when we are selling vessels, and also whether the purpose in obtaining such authority is to enable us to turn these or other vessels over to the British Government or to keep available reserve tonnage for national needs. Any opposition would perhaps be more pronounced in connection with an independent bill for this purpose than it would be if a section for the same purpose were included in other legislation of a general character concerning aid to the British.

Le:GHH
IN:JES:FND

December 19, 1940
12:00 p.m.

H.M.Jr: Hello.

Isador
Lubin: Hello.

H.M.Jr: Yes, Lubin. Morgenthau.

L: Is there any chance of my seeing you for one minute?

H.M.Jr: No, but you can do it on the phone.

L: It's the sort of thing I can't talk about.

H.M.Jr: Well, what is it?

L: It's a matter that I think the Boss has got to be spoken to about.

H.M.Jr: Well, can you give me an idea?

L: Well, it's this reorganization of the Commission.

H.M.Jr: Oh. Well, do you want to before Cabinet?

L: I don't care whether - more or less - but I do feel that there's going to be a hell of a reaction particularly in view of John Lewis and his group - to be able to say that the two Republicans - three Republicans, Army, Navy and a big industrialist are going to run this whole show.

H.M.Jr: Well, why don't you be here at 10 minutes of 2:00.

L: O. K. I'll be there.

H.M.Jr: 10 minutes of 2:00.

L: All right, fine. Swell.

December 19, 1940

Mr. Lubin phoned the Secretary at 12 o'clock and wanted to come over to see the Secretary on a matter he preferred not to discuss over the phone. He came over at ten minutes to two.

Mr. Lubin said he thought it was a great mistake to have three Republicans, Stimson, Knox and Knudsen and no Democrats on the council to speed defense. He thinks it is a great mistake not to have a labor man on this committee. He also felt that Knudsen was not the man to head up this council for, in his opinion, he has done nothing worthwhile up to date. Lubin asked the Secretary whom else he should talk to and the Secretary suggested Corcoran, Cohen and Felix Frankfurter.

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE December 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Sir Frederick Phillips, accompanied by Messrs. Pinsent and Playfair, called on me at 12 o'clock noon by appointment. Around 11 o'clock Secretary Morgenthau had explained to Messrs. Bell, Young and myself the circumstances attending the issuance of the simultaneous press conferences held at the White House and the Treasury in which information had this morning been made available in regard to the British program of contracts in this country. It was understood that I should make the ticker reports of such conferences available to Sir Frederick Phillips, but that I could add no information thereto.

When I showed the visitors the ticker reports Sir Frederick Phillips immediately insisted that he had understood the Secretary to have given him the message that the British were free to go ahead with the placing of their contracts, without any restriction being made that they should merely proceed up to the point of signing and then await some action on the part of Congress. In answer to Phillips' inquiry, I told him that Secretary Morgenthau and Under Secretary Bell were not available because of schedules involving the Cabinet Meeting and immediate departure thereafter for New York. I did, however, at my visitors' suggestion, ask Phillip Young to join our group. Phillips concentrated upon the argument that it is very vital to his Government that they know the calendar date by which this situation may be cleared up so that they can actually sign contracts. Young and I argued that as much as it was possible to give had been embodied in the communications and that there was no possible way of telling by what date the whole problem could be resolved vis-a-vis Congress. I promised to speak to the Secretary on this point if I saw him before he attended the Cabinet Meeting, or to ask Mr. Bell to telephone me back from New York any message which the Secretary might feel free to let me pass on to Phillips tonight, particularly if the plans might have crystallized to some further extent at this afternoon's Cabinet Meeting. It was our belief, however, that there could be no further helpful discussion of the question before Secretary Morgenthau's return from New York. Before leaving us at 1 o'clock Phillips asked if he could see me again in the afternoon.

At 5 o'clock this afternoon Phillips returned to my office, accompanied by Pinsent. I explained to Phillips that I had not seen the Secretary before the Cabinet Meeting, but had spoken with Mr. Bell along the lines above indicated, and that I would pass on to him, Phillips, any message which I might receive from the Secretary before his return to Washington tomorrow afternoon. Phillips said there was no use in discussing the question of contracts and supplies further today, but that he was sure he would be having inquiries from his Government tonight or in the morning, and would consequently like to see the Secretary again as soon as possible. He did desire, however, to go into the assets side of the question with me.

- 2 -

Phillips reminded me that when he was explaining British assets to the Secretary he had let it be known that gold holdings of Great Britain, together with foreign exchange assets in the United States and Canada, totaled \$574,000,000. Since the date on which Phillips gave this estimate, these resources have dwindled further. Now that the possibility has arisen that a few days or several weeks may be involved before any definite arrangement is made which will relieve the British of paying cash for their purchases in this country, Phillips feels that we must consider the very immediate problem of the cash question.

He reminded me of the British desire to maintain a minimum working balance of \$600,000,000 in gold. The figure has now gone considerably below that level and this is the one available reserve to be looked to immediately, aside from the securities which are being liquidated. Phillips explained to me that while a large portion of the British gold had been transported to and stored in Canada, the supply there is now nearing exhaustion and there are various problems involved in bringing more gold to the United States from Australia and South Africa where the remaining gold holdings of the British are situated. In this connection, Phillips asked whether it would be possible for the Treasury or the Federal Reserve Bank of New York to buy gold situated in Australia or South Africa. I told Phillips that it had been the consistent policy of the Treasury since the day that the European war broke out in September 1939 to purchase gold only upon delivery in the United States. I let him know that various treasuries and central banks in Europe had approached us on this subject, but that the only gold which we had taken title to outside of the United States after the outbreak of the war was that French gold which we accepted delivery of aboard an American cruiser and brought to the United States in the month of June, 1940. I added, furthermore, that the Federal Reserve Bank of New York has not bought any gold abroad, although both it and private banks have in a few cases made advances to central banks against gold in transit to the United States. Whether this could be done in the present instance was a question. On Phillips' side, he said there was doubt in his mind as to whether the risk should be attempted of bringing gold from South Africa in a merchant vessel. He asked, in this connection, if the American Navy had any vessels in South African waters. I replied that I believed none was maintained there regularly, although our ships occasionally visited South African ports. He was obviously interested in rendering a service to the British similar to that provided the French in transporting one lot of gold by cruiser.

Phillips then raised the question of the British Government acquiring gold from her allies. He said that he believed his Prime Minister would want some expression from President Roosevelt as to the propriety of such action before his Government pursued this point further with the allied governments. In answer to my inquiry, Phillips confirmed that his Government had already taken up this matter with the exile governments of Norway, the Netherlands and Belgium. When the proposal was made to them that they dispose of their gold to the British Government against sterling, in order to help finance the common cause, the Norwegians and Dutch officials insisted that they had certain dollar obligations themselves to meet. They were not willing to accept the proposition. The Belgians likewise refused, but did indicate a willingness to consider the proposition of lending some of their gold to the British, provided an undertaking was made to return it to Belgium at the close of

- 3 -

hostilities, since this constituted the one reserve of Belgium which has been preserved, and which will be needed for post-war rehabilitation. Phillips did not mention whether an approach had been made concerning the comparatively small amount of Czech gold. That of Poland is all in the hands of the French in Dakar. Denmark's gold holdings are quite small.

The question of French gold held in Canada was then discussed. Phillips reminded me that part of this was earmarked directly with the Bank of Canada by the Bank of France, and that the remainder had been earmarked originally with the Bank of England, and that the latter had now placed this with the Bank of Canada. The British do not feel that they should take steps toward "pinching" that French gold which is with the Bank of Canada in the name of the Bank of England unless and until the Dominion Government is reconciled to the idea of the Government of Canada, through the Bank of Canada, taking similar action with respect to that French gold earmarked directly with the Bank of Canada. Phillips told me that the proposal toward this end which he had submitted to the Government of Canada last summer after his visit to Washington had been turned down. He has again taken the matter up with Deputy Minister of Finance Clark during the latter's visit to Washington several days ago, and is still waiting some word from Ottawa. He added that another cause for a cautious policy on the part of the British in this respect was the concern of Purvis lest contractors in the United States might become excited if the British were taking over French gold in this hemisphere. He thought this might lead to difficulties in placing British orders. Now, however, Phillips feels that the purchasing program has developed to such a point that there is no longer need for concern on this ground. On the other hand, there has been a new development in France which gives cause for pause. That is, with the sentiment in France having become decidedly more pro-British in recent weeks, there is a question as to whether any step should now be taken through "pinching" the French gold in Canada which might strongly antagonize the French. Furthermore, Phillips pointed out that only a part of the French gold is accessible to the British, that part aside from the stock in Canada being distributed in the United States, Martinique and Senegal.

With respect to United States dollar securities held by the British, we discussed the efforts of Mr. Gifford to speed up the liquidation thereof, and shared pleasure at the progress which Gifford has made the first three days of this week, from which it appears that it will be possible considerably to increase the rate at which dollar securities have been marketed at New York. Even if this total does, however, go along at the rate of the first half of this week, or even increases further, the total proceeds therefrom will be entirely inadequate to meet the cash requirements of the British. Phillips asked whether there had been any further thought given to the subject of the Treasury or the R.F.C. taking over these securities. Pinsent agreed with me that a recent statement by R.F.C. Chairman Jones indicated that he felt that no loan could properly be made against such securities in the absence of Congressional action. Pinsent and I also reminded Phillips of recent statements of Secretary Morgenthau wherein he denied any intention of rendering financial aid to Great Britain, which might conceivably violate even the spirit of the Johnson Act, without prior approval of Congress.

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Phillips then let me know that he had seen Prebisch of the Argentine Financial Delegation a few days ago and had discussed the proposition which the British have had up with the Argentines for some time of the latter redeeming the British-owned railways in Argentina. Phillips believes that the maximum value of such securities in present market conditions is \$45,000,000, or approximately \$180,000,000. Various arrangements have been talked over with the Argentines, but Phillips thought the one most likely to offer possibilities was one whereby Argentina might borrow around \$100,000,000 from the United States and pay the British in dollars for their securities and also, I believe, the equity involved. I asked Phillips if it was his understanding that Prebisch would look to us for this \$100,000,000 in addition to the two transactions, one by the American Export Import Bank and the other by our Stabilization Fund, which are now being consummated. Phillips replied in the affirmative. He realized that there might be another plan worked out whereby the British would be reimbursed for their Argentine securities through 4 percent sterling debentures which would run 60 years. I told Phillips that we have had no recent conversations with the Argentines on this subject, leaving the field to the British and the Argentines themselves to cover.

As a next possibility, Phillips brought up the question of direct investments in the United States. He thought the Department of Commerce estimate thereof was too high, especially since some of such investments really consist of securities which have been taken over already by the British Government and have brought the total of their United States dollar securities up to about \$1,000,000,000, which is in excess of the Department of Commerce estimate. Phillips feels that the marketability of most of their investments in the United States is small because of the importance of the connection of the parent concern in England with the affiliates in the United States. He seemed to favor the idea of borrowing under mortgages covering such properties, rather than attempting outright sales. In answer to my question, he said that Gifford had not looked into this possibility, and that some other agent than Gifford, who is purely a security expert, would probably be selected if any comprehensive effort to dispose of direct investments is undertaken.

Finally Sir Frederick raised the question as to whether immediate and direct assistance could be obtained from our Stabilization Fund. I explained to him the simple process which we use in our current and proposed operations with certain countries. I added, however, that I doubted whether Secretary Morgenthau would feel that his clearance with the Congressional committees on the Chinese proposition left him free to carry out a similar transaction with Great Britain, the latter being definitely a belligerent. Poinsett agreed with me that other statements of the Secretary might preclude such a possibility. They hoped, however, that I would broach this subject to the Secretary, since it would be the most prompt and immediate method of providing dollar exchange, if it is at all feasible. I ventured to suggest that the Secretary might refrain from such action, even though the law might permit it, now that the big program has been launched of putting the British situation squarely before Congress. That is, I thought that in view of the statements made by the President and the Secretaries of State, Treasury and Commerce, there might be the risk of damaging the whole British cause here if the Treasury Department should

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now proceed independently and take the position of anticipating Congressional approval. Sir Frederick hoped that I would talk this whole subject over with the Secretary, considering the urgency of the British cash position and the arrangement for the Secretary to let Sir Frederick have his views as early as possible.

J. M. S.

✓
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BRITISH EMBASSY,
WASHINGTON, D.C.

19th December 1940.

Dear Mr. Secretary,

I enclose tables in the form in which you asked me for them yesterday afternoon, showing the order in which we should wish to place the various orders contained in Programs Nos.1 and 2. I hope this will give you all the information which you require.

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

F Phillips

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

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.

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		After Feb. 1941
					Dec. - Feb. 1940	1941	
Balances due on Orders already placed							
Product	1284	156	147	125	428		858
Capital	17	10	5	1	14		5
Program No. 1							
Product	2062	86	197	187	470		1592
Capital	699	35	89	159	283		456
Program No. 2							
Product	1225	65	59	58	160		1065
Capital	10	10	-	-	10		-
Total							
Product	4571	505	405	548	1056		3515
Capital	<u>726</u>	<u>55</u>	<u>92</u>	<u>140</u>	<u>287</u>		<u>459</u>
TOTAL	<u>5297</u>	<u>560</u>	<u>495</u>	<u>488</u>	<u>1343</u>		<u>3974</u>

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.

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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	30	67
Capital	<u>9</u>	<u>9</u>	<u>-</u>
	106	39	67
<u>AIRCRAFT</u>			
Product	620	160	460
Capital	<u>500</u>	<u>75</u>	<u>225</u>
	920	235	685
<u>MINITIONS</u>			
Product	444	70	374
Capital	<u>55</u>	<u>55</u>	<u>-</u>
	479	105	374
<u>TOTAL</u>			
Product	1161	260	901
Capital	<u>344</u>	<u>119</u>	<u>225</u>
	1505	379	1126
	<u>=====</u>	<u>=====</u>	<u>=====</u>

A. SHIPSNew Ships.

This is the Todd scheme for the construction of 60 new merchant ships, 410 feet long, 9500 tons, 10½ 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 3660 aircraft from existing capacity (clearance pending), and
 (c) the creation of capacity for further production, especially for urgently needed heavy bombers.

C. MINITIONSBritish Types.

This represents the "Army Program A" required to complete the equipment of the divisions already formed or forming, together with Oerlikon 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>MINITIONS</u>			
Product	100	50	70
Capital	<u>15</u>	<u>4</u>	<u>11</u>
	115	54	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>251</u>

D. AIRCRAFT

These orders cover the continued employment of existing capacity from April to June 1942.

E. MINITIONS

The above covers orders still to be placed to complete our program for 5000 M5 American Type Cruiser Tanks.

THIRD GROUP OF ORDERS

200

(Millions of U.S. Dollars)

	<u>Total of Orders</u>	<u>Estimated Payments Dec. 1940 - Feb. 1941</u>	<u>Estimated Payment 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.

TREASURY DEPARTMENT

201

INTER OFFICE COMMUNICATION

DATE December 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Gifford telephoned me from New York at 10:30 this morning. He stated that yesterday he consummated one single transaction for a total of between \$1,250,000 and \$1,500,000. This involved the sale of its own stock to an issuing company and took place after a revival of a heretofore unsuccessful effort to make the deal. Mr. Gifford let me know further that another transaction is under way envisaging a distribution operation through Smith Barney, amounting to about \$2,500,000. This second deal is contingent upon the state of today's New York stock market. If the market recedes beyond a certain point, and it was noted that the opening was weak, Smith Barney may withdraw from the arrangement under the privilege which they have. Gifford telephoned me these two items to let us know that he is making a real effort to speed up transactions, and is following insofar as possible the lines which he thought the Treasury desired that he pursue.

December 20, 1940

Late yesterday afternoon Mr. Gifford tried to reach me by telephone, but I was in a meeting. Following that, Piment told me when calling here with Sir Frederick Phillips that Gifford had asked him to communicate to me the message which he had hoped to give directly, that is, that the \$2,500,000 deal (which Gifford had mentioned to me and which is described above) had been consummated and will appear in the report covering yesterday's transactions. Thus there will be included in the sales of December 18 an item amounting to \$1,250,000 to \$1,500,000, and in the report of December 19 this other item of about \$2,500,000.



JR

PLAIN

202 ✓

London

Dated December 19, 1940

Rec'd 2:05 p.m.

Secretary of State,
Washington.

4144, 19th.

The President's "lend our neighbor the hose pipe" declaration at his press conference was reported in yesterday's press but not until this morning did journalists have time to catch their breath and comment on the proposals. The scheme is universally praised, nearly all comments emphasizing the fact that the statement revealed a determined effort for speeding up production as the primary problem eclipsing any technical considerations of finance or foreign exchange. The TIMES diplomatic correspondent refers to the statement as "one of the most important suggestions to come across the Atlantic since war began" and states that "seldom can a few words have offered the prospect of so complete a change in a great and vital problem". This writer also asserts that "in London it is thought that hardly less important than Mr. Roosevelt's statement is the one made at about the same time on Tuesday by Mr. Cordell Hull on the great task that faces Great Britain during
the

-2- #4144, December 19, from London.

the next few months". The TIMES long editorial on the subject points out that America realizes that loans on the scale needed would simply create difficulties after this war similar to those which helped to wreck the world after the last war, and that Britain could only repay by increasing exports to the United States which would stimulate higher tariffs to protect American industry and employment. This editorial also points out that Britain has freely made all secret and technical information available to the American authorities and that a distinguished American soldier has described these facilities as worth many millions of dollars; the editorial contains a warning that the suggestions must be submitted to Congress and suggests the various types of opposition it will doubtless meet but adds that by many it will be hailed as the "first gleam of economic sanity in a world bedevilled by finance" and that there will be relief that at the end of the war the "world may be spared the nightmare of unpayable war debts and reparation which after 1918 helped to produce such conditions as made social unrest, Hitlerism and war almost inevitable." This editorial urges that the British Government should make it clear that no repayment is expected of the advances made to Greece and of similar advances.

The

-3- #4144, DECEMBER 19, from London.

The MANCHESTER GUARDIAN, like the DAILY TELEGRAPH, emphasizes that the President's statement reveals that he is alive to the importance of increasing American production. "As we have found production at war speed cannot be secured by peace-time hours of labour and methods of organization and the United States is making the same discovery."

The News Chronicle stresses the same point in its editorial referring to Secretary Hull's emphasis on the need of increasing the flow of arms to Britain. The FINANCIAL PRESS naturally stresses the foreign exchange implications. The FINANCIAL TIMES, for example, stating "whether intentionally or not the plan has the advantage of avoiding pitfalls inseparable from international loans and credits and it effectually bypasses the difficult problem of foreign exchange." This editorial concludes that the scheme foreshadows extended economic collaboration and "may later adumbrate the appearance of a new order of a very different type from the slavery system envisaged by Hitler." The FINANCIAL NEWS points out that it is reasonable to assume that the scheme can well provide a "useful possible war cushion for British industry" as well as avoiding the confusion arising from an entanglement of dollar debts. "Responsible American statesmen do not of course doubt the efficacy of gold as international currency but

-4- #4144, December 19, from London.

but they have long recognized that further considerable additions to a redundant gold stock serves merely to ensure that ultimately the United States will suffer the fate of Midas." This editorial ends with a warning similar to those contained in the comments of the DAILY TELEGRAPH and the MANCHESTER GUARDIAN that the United States cannot exert its full weight except with a reduction in living standards and assumes that the Defence Commission must be given more powers in due course. The favorite subject of today's cartoons is the presentation of the President as Santa Claus. In one case (the DAILY EXPRESS) Britain's stocking hangs on the fireplace of a bomb-shattered room with a note "thanks a million--sorry I couldn't wait--I'm on duty." In another case (DAILY HERALD) Uncle Sam asks "can we afford to give all that to Britain" and Santa Claus replies "can we afford not to?" Please give a copy of this telegram to Treasury.

JOHNSON

CSB

THE ASSISTANT SECRETARY OF WAR
WASHINGTON



December 19th, 1940.

My dear Henry:

I acknowledge with thanks receipt of your letter of December 9th, enclosing two communications from Air Commodore Slessor, relating respectively to the British operational aircraft and pilot situation and Air Commodore Slessor's impressions of the United States Air Production Programme.

The confidential nature of this material has been noted and it will be held in the appropriate files.

Sincerely yours,

A handwritten signature in dark ink, appearing to be "R. L. P. P." followed by a long horizontal flourish.

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



THE SECRETARY OF STATE
WASHINGTON

December 19, 1940

Dear Mr. Secretary:

I wish to thank you for your kindness in sending me enclosed in your letter of December eighteenth the report on the British air force. Your courtesy in making it available to me is appreciated.

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Cordell Hull".

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 19, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

Re: Baron Wolfgang zu Putlitz.

Supplementing my memorandum of December 4, the FBI now reports that Baron Putlitz arrived in the United States on June 20, 1940, from England, and quotes him as stating that he had been in the German Diplomatic Service for many years, had served with Von Ribbentrop in London, and was last stationed in The Netherlands. Because he was anti-Nazi and was suspected of un-German activities and sympathies, he had been kept under surveillance for several years by the Gestapo. In October, 1939 he fled from the Hague to England by private plane, where he claims he furnished valuable information, particularly to Van Sittart. Though he offered his services to the British Government he was not used, and when Churchill came to power conditions in England became impossible for any German. He was then given a visa for Jamaica.

He gave the name of Lottie Lehman as his best friend in the United States, where he was permitted to remain thirty days en-route to Kingston. He told FBI various anecdotes; For example, when he was working with Von Ribbentrop in London he knew a man who was receiving £50 a month from Von Ribbentrop for the sole purpose of contacting Chamberlain's brother-in-law. This stool-pigeon, an Englishman, was a house-guest practically every weekend in Scotland, where the innermost secrets of the Chamberlain government were freely discussed. This sort of thing stopped abruptly when Churchill took over the government.

Since the British did not think it was worth while to make use of his services, I see no special reason from his record why we should. His personal peculiarities, too, would suggest that it might be better for him to remain in Jamaica.

Mr. Wiley gave
this to the Secy
after the 9:30
meeting this am;

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 4, 1940

TO Mrs. Klotz
FROM Mr. Wiley

I return herewith the correspondence regarding Baron Wolfgang zu Putlitz.

Within a day or so I expect to receive reports from several sources on him. It appears that he is very well known to the State Department, where views regarding his admission to the United States are divided. In any event, should he be given a quota visa at Jamaica, he would not become eligible for a quota number for some three months, so the matter is not urgent.

As soon as further information is received I shall send it to you.

*Jaw
W*

Air Mail.

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SECRET AND PERSONAL.



29th November, 1940.

Dear Mr. Morgenthau,

Concerning Baron Wolfgang zu Putlitz, I enclose a copy of a letter I have sent by this mail to Lord Lothian. It is self-explanatory. He only made two copies of the typescript, one which I had sent for him to the New York publishing firm and one for himself. He is now busy typing a copy for you, which I will send through Lord Lothian.

With best wishes,

Yours very sincerely,

A. Richards

The Hon. Henry Morgenthau, J.R.
Secretary of the Treasury
WASHINGTON, D.C.

Secret and Personal.

29th November, 1940.

Dear Lord Lothian,

Six months ago I received here Baron Wolfgang zu Putlitz and his valet Friedloe Wilhelm Schneider, at the request of His Majesty's Government. I was asked to look after them and to intern them separately as the Baron had rendered great services to the British Government. We have a military hill station above Kingston and a small house was allotted for their use. It is a lonely and miserable life for a man of considerable culture. He has no one to talk to and nothing to do. During the six months he has written a book - an autobiographical criticism of the Nazi regime. I sent it recently for him to a New York firm:-

Graystone Press, Inc.,
East 49th Street
New York

and if they publish it I am confident it will have a great sale. Putlitz is only forty years of age and in my view may play a big part in the post war world. He is a friend of Sir Robert Vanaitter and is well known in many diplomatic circles. He mentions as people who know all about him three names:-

Michael Huxley, British Embassy, Washington; Hugh S. Cumming, Jr. State Department, Washington; Walton Butterworth, American Embassy, London.

During the recent visit of Mr. Henry Morgenthau to Jamaica I mentioned the matter to him and expressed the opinion that keeping such a man rotting in idleness and eating his heart out here was a great mistake. I have recently suggested to London that he might be sent back to do Intelligence Work under the Foreign Office there. No reply has yet been received. Mr. Morgenthau before leaving Jamaica suggested to me that I might send a copy of the typescript of the book to him through you and he would consider whether United States Government could make use of his services. Putlitz has only one copy and is now busy typing another which I will send to you as soon as it is ready. It will take about a fortnight.

Meanwhile if you think fit, you might care to speak to Mr. Morgenthau on the subject. I have sent him a copy of this letter.

With best wishes,

Yours very sincerely,

A.H.

P.S. The idea of obtaining entry into the United States under the quota has been enquired into, but as you know there is a long waiting list and it may take years. A.H.

The Most Hon. The Marquess of Lothian
H.B.M. Ambassador Extraordinary and Plenipotentiary
British Embassy
WASHINGTON, D.C.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£33,000
Purchased from commercial concerns	£53,000

In the open market, sterling was 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	£ 2,000

Following yesterday's decline to .2318, the Swiss franc had a steadier tone today. The final rate for that currency was .2320.

Closing quotations for the other currencies were:

Canadian dollar	13-5/16% discount
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,030,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The Bombay gold and silver prices were both unchanged at the equivalents of \$33.82 and 43.01¢ respectively.

The prices fixed in London for spot and forward silver were also unchanged at 23d and 22-15/16d. The dollar equivalents were 41.76¢ and 41.65¢.

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

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.

-2-

The Federal Reserve Bank's report of December 11, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$101,895,000, an increase of \$1,440,000 since December 4. As usual, nearly all of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on December 11:

	<u>December 11</u>	<u>Change from Dec. 4</u>
Liabilities: Deposits for Japan & Manchuria.....	\$53,361,000	+ \$2,969,000
Deposits for China.....	36,328,000	- 597,000
: U.S. Treas. bills, comm. paper, etc....	31,187,000	+ 761,000
Claims : Loans.....	\$40,269,000	+ 2,703,000
: Other - mainly Jap. import bills.....	17,891,000	- 538,000

The last three categories refer almost entirely to Japanese banks in Japan and Manchuria. The rise in deposits for account of such banks mainly reflects an increase in loans made by the New York agency.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

For Miss Chaucey

DATE December 19, 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 Credito Italiano, New York, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Account Credited</u>	<u>Amount Credited</u>	<u>Received From</u>
December 19	Credito Italiano, N. Y., for account of Credito Italiano, Rome	\$ 214,400	Chase National Bank, N. Y., by order of Sveriges Riksbank, Stockholm

TREASURY DEPARTMENT

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For Miss Gurnea

INTER OFFICE COMMUNICATION

DATE December 19, 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 Banco di Napoli Trust Co., New York, maintained with the National City Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 18	\$ 300,000	Federal Reserve Bank of New York, for account of Banco di Napoli Trust Co., N.Y.

[Handwritten signature]

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 19, 1940

TO Secretary ^{Channey} Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Deutsche Golddiskontbank, Berlin, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 18	\$ 67,560	Irving Trust Co., N.Y., for account of Carl Marks and Co.

H. M. S.

The New York Times
Times Square

December 19, 1940.

Dear Mr. Secretary,

This is just to tell you that I shall be at the Treasury on Monday morning at 9, ready for business. My temporary address will be the Hay-Adams, beginning Sunday night.

As I told you at lunch last Saturday, you can count on my full devotion in this new work. I am proud of the opportunity to be of use to you, and I am deeply grateful.

Faithfully yours,

Franklin D. Roosevelt

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

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4-41

X

December 19, 1940

My dear Mr. President:

The "informal committee to represent the American Government in its contacts with the interested foreign governments in all matters relating to the purchase of war materials in the United States", which you appointed on December 6, 1939, has been forced to extend the scope of its work due to the current international situation.

Originally established to service the British and French purchasing missions, this Committee today is not only aiding and closely supervising the British programs, but also helping the Government of the Netherlands and other British allies, as well as China and the countries of Latin America. Faced at the outset only with the necessity of arranging for friendly foreign purchasers to acquire supplies from surplus stocks, it now has the infinitely more complex task of fitting foreign procurement into our own defense program with its priorities and its almost complete absorption of our productive capacity.

This Committee is constantly in touch with the British Purchasing Commission and has been instrumental in working out detailed programs for the procurement of aircraft, tanks, and ordnance material. To a large extent, it has been the means whereby your policies in dealing with the British have been implemented and followed up.

To give the greatest possible assistance to the British programs and still prevent conflicts with our own defense effort, a clearance procedure has been established through this Committee for all substantial British orders. This procedure bridges the gap between the British Purchasing Commission and the War and Navy Departments, the Advisory Commission to the Council of National Defense, the State Department, the Reconstruction Finance Corporation, and the Administrator of Export Control. Every request for clearance is processed by this Committee with these departments and a single coordinated reply is furnished to the British.

In addition, the Committee has been instrumental in bringing the fighting experience of British technicians and British engineers to the notice of United States agencies in working out standardized arms, ammunition, and material of war; in developing ways and means of increasing production; in securing all kinds of information from the British for interested United States Government agencies; and in arranging for the financing of new facilities to be used by both the British Government and the United States Government.

To assist these United States Government agencies in studying the impact of the British purchases on our economy, statistical surveys and reports have been secured from the British Purchasing Commission covering value of orders placed, value of orders to be placed, capital commitments made and to be made, cash requirements, and financial resources.

The same treatment and assistance accorded the British is also being given to the Netherlands Purchasing Commission which has the second largest foreign purchasing program. Here, however, a frequent check is made with the State Department through Assistant Secretary Barlow to be sure that these purchases are consistent with our foreign policy. With the development of our own defense program and the expansion of British orders, it is being increasingly difficult to fit the Dutch requirements into our productive capacity and many of their requests have had to be denied.

Even greater difficulty has been encountered in arranging for the placing of orders by Latin American countries. The Advisory Commission to the Council of National Defense has repeatedly given little heed to the requirements of foreign buyers other than the British. In most instances it has been impossible to find sources of supply which are free to fill Latin American requirements within a reasonable period. The Liaison Committee is working closely with Mr. Bolton Woolworthier and the State Department in an attempt to solve this problem which is making it extremely difficult to give Latin American any tangible evidence of the United States "good neighbor" policy in the matter of war supplies.

The Committee has also received representatives of China, Greece, Norway, Poland, Portugal, Turkey, Iran, Thailand, Rangoon, Sweden, and Russia. In every case the State Department has cooperated closely with the Liaison Committee.

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The contacts which the Committee has established with every foreign government purchasing war supplies in the United States, and the clearance procedures which it has set up, have developed an important system of controls over foreign purchasing. For the first time, it is now possible to guide foreign purchasing from the standpoint of foreign policy, economic defense, and the purchaser's "ability to pay" before any attempt is made to ascertain the availability of production capacity. In addition, the Committee is surveying all foreign orders for war supplies already placed in the United States.

Faithfully yours,

(Sgd.) H. Morgenthau, Jr.

The President,

The White House.

FX:bj
Copy: jpt

CONFIDENTIAL

PARAPHRASE

The following is the substance of a confidential telegram of December 19, 1940, from the American Consulate General at Singapore:

The Embassy has been informed in confidence from an official source that a British officer who has recently completed a trip over the Yunnan-Burma highway states that because of extra bridges, the present width and improvements on the road and the availability of coolies to make repairs, the likelihood of a complete break in traffic by either weather or accident is negligible. It is also stated that to interrupt traffic by artificial landslides, it would be necessary to bomb one spot practically daily and systematically.

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 18:19 P.M., December 19, 1940

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London, filed 19:30, December 19, 1940.

1. During daylight hours of Wednesday, December 18, 15 Lockheed Hudsons of the Coastal Command bombed the Bergen-Oslo railroad. A direct hit on Mysen (?) was observed. The Maas Estuary in Holland, was mined. The preceding night eight medium bombers attacked ports and airbases in France and Belgium and nine heavy bombers attacked Mannheim.

2. During the night of December 18-19 enemy air activity was slight. Probably this is partially explained by weather conditions on the Continent, but in the past large scale operations by long range bombers have taken place under more adverse weather conditions.

3. On December 17 four British bombers were missing and one enemy plane was destroyed.

4. In the Greek theater the coastal town of Oepare (?) has been occupied and Topoluzi has been subjected to artillery fire. Weather conditions have limited operations.

5. British planes reported nine large vessels at Durazzo on the 18th of December.

6. On December 17, the British took Shaffersan, Masaid (?) and Sidi Omar in the Egyptian theater. At Capusse and Saluz, 10 Italian fighter planes (Fiat G.R. 42) were captured intact. On the night of December 16-17, British fighter planes harassed the retreating Italian troops at Februk, inflicting heavy losses; a motor transport and the city of Bardia were also bombed.

CONFIDENTIAL

CONFIDENTIAL

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7. On December 18, a South African Brigade made a successful attack on El Wak in Kenya.

8. It was reported by sources in Yugoslavia that an Albanian Gramos battalion has been disarmed by the Italians. This battalion was attached to the Italian Ferrara Division (23rd) and it is believed that all other Albanian troops will also be disarmed. Desertions of Albanians to the mountain regions are frequently reported.

9. On December 18, photographs were made of practically all of the Channel Coast from Belle Isle to St. Nazaire and almost no land or shipping activity was observed. Twenty-nine barges and three coastal vessels, which appeared to be unloaded, were observed at Boulogne. Shipping activity at Brest appears to be primarily naval, with patrol vessels and mine sweepers being observed. The photographs reveal that there has been only a minor redistribution of craft since December 10.

10. During high speed trials on December 17, the British 1350-ton destroyer *ACHERON* sank after an explosion from an unknown cause. There were some survivors.

11. It was stated in reports from Tangier that white troops had replaced a thousand Moors who were withdrawn because of their discontent with the long mobilization and the shortage of food. In all probability white troops will replace other Moorish units.

LEE

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
AC-3
G-3, 1

CONFIDENTIAL

G-2/2657-220

RESTRICTED

M.I.D., W.D.
December 19, 1940.
12:00 M.

No. 274

SITUATION REPORT

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

I. Western Theater of War.

1. Air Force Operations.

There was no important German air activity over England in daylight yesterday or last night. According to press reports heavy aerial fighting is in progress over London today.

The R.A.F. attacked Mannheim for the third successive night.

II. Greek Theater of War.

The Greeks continued their pressure but there seems to have been little change in the situation. Despite bad weather, there was minor air activity by both sides against troop concentrations.

III. Mediterranean and African Theaters of War.

1. Operations continue in the Bardia area. Bardia appears to be encircled by the British, and its fall is believed to be only a question of time.

The British report a successful road on El Wak (El Wakh), which is in the Jubaland territory near the Kenya border.

2. Reports on air activity in the Egyptian-Libyan theater are inconclusive.

There were sporadic air raids in East Africa, including another Italian attack on Port Sudan.

Last night the R.A.F. operated over northern Italy in limited force, perhaps two squadrons, attacking factories at Milan and docks and the airdrome at Genoa.

RESTRICTED

December 19, 1940

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Preliminary Report on West Coast Aluminum
Fabricating Capacity

It appears that the West Coast inspection trip started everyone in town worrying about the aluminum situation, for when we asked the Aluminum Section of the Advisory Commission for West Coast information they threw up their hands with horror and said that they had been deluged with work in the last two weeks and begged us not to insist on detailed information unless we were prepared to wait a week or ten days. They seemed to be the only people having anything like a complete picture, for neither the Reconstruction Finance Corporation, Department of Commerce, War Department nor Navy Department has anything that is specific.

We gather that it is only recently that the Aluminum Section of the Defense Commission has really begun to get complete data on fabricating capacity. Heretofore there have been a good many press releases on how the "poundage" of aluminum capacity is great enough to meet our needs, but I think it is only now that they are beginning to wake up to the necessity for an intensive analysis for the various major types of fabricating capacity which will be required to meet the needs of the various aircraft programs.

At this point the following is all the information we have been able to collect on the West Coast situation:

1. The only ingot production on the West Coast will be the new Aluminum Company plant at Vancouver, Washington, which has a present capacity of about 60,000,000 pounds per year which will be increased to about 150,000,000 pounds by June, 1941. The bulk of this production will probably have to be shipped to the Middle West or to the East for fabrication.

2. The Aluminum Company has forging capacity at Los Angeles which is to be increased in January, 1941. No information is available at the moment as to the percentage of West Coast forging requirements which this plant will be able to cover.
3. The Aluminum Company also has some capacity for producing extrusions at the Los Angeles plant, but probably not a very substantial portion of West Coast requirements.
4. There is a small amount of independent casting capacity in the Los Angeles area, but probably relatively small in relation to requirements.
5. There is no capacity for the production of bars, rods, and sheets on the West Coast now nor does it seem that any is contemplated. All of this material required by the West Coast aircraft industry must come from middle western or eastern plants.
6. The Defense Commission will be able to tell us shortly:
 - a. The percentage of the potential ingot output at the Vancouver plant which can be fabricated on the West Coast.
 - b. The percentage of West Coast requirements which can be produced by plants in the area.
 - c. Whether there is any serious planning at the present for bar, rod, or sheet capacity on the West Coast.

P.Y.

Letter 12/17/40

STRICTLY CONFIDENTIAL

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

January 1 - December 7, 1940

	Bombers	Fighters	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - July 6	589	630	946	108	420	2,693
July 7 - July 20	83	71	96	6	40	276
July 21 - Aug. 3	86	99	131	6	54	346
Aug. 4 - Aug. 17	55	71	139	4	51	420
Aug. 18 - Aug. 31	54	85	131	14	53	437
Sept. 1 - Sept. 14	16	61	172	6	45	300
Sept. 15 - Sept. 28	28	104	171	9	77	589
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
Subtotal July 7 - Dec. 7	463	1,001	1,664	86	503	3,717
Total Jan. 1 - Dec. 7	1,052	1,631	2,610	194	923	6,410
ARMY						
Jan. 1 - July 6	34	50	532	65	-	681
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	6	6	67	-	-	79
Nov. 10 - Nov. 23	4	4	33	2	-	43
Nov. 24 - Dec. 7	4	10	96	-	-	110
Subtotal July 7 - Dec. 7	68	264	838	16	-	1,186
Total Jan. 1 - Dec. 7	102	314	1,370	81	-	1,867
NAVY						
Jan. 1 - July 6	42	3	92	39	-	176
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	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
Subtotal July 7 - Dec. 7	70	56	209	68	-	403
Total Jan. 1 - Dec. 7	112	59	301	107	-	579
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - July 6	500	384	203	2	10	1,099
July 7 - July 20	55	44	17	2	-	118
July 21 - Aug. 3	42	57	42	-	2	143
Aug. 4 - Aug. 17	44	34	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	-	4	81
Sept. 29 - Oct. 12	13	69	36	-	6	124
Oct. 13 - Oct. 26	13	21	34	-	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
Subtotal July 7 - Dec. 7	296	614	293	2	26	1,231
Total Jan. 1 - Dec. 7	796	998	496	4	36	2,330
OTHER						
Jan. 1 - July 6	13	193	119	2	410	737
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
Subtotal July 7 - Dec. 7	29	67	324	-	477	897
Total Jan. 1 - Dec. 7	42	260	443	2	887	1,634

* Deliveries under French contracts were made up to June 30, 1940.

STRICTLY CONFIDENTIAL

Regraded Unclassified

*delivered from
by fax to, Minister-Counselor*

*photos return to
HSC
Mr. Young has
copy 12-27-40
B.J. ✓*

ROYAL GREEK LEGATION
WASHINGTON

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MEMORANDUM

CONFIDENTIAL FOR MR. MORGENTHAU

The reasons for which the Greek Government insist on securing P. 40 airplanes are clear. Today we confront a great power well equipped with a strong and powerful air force, while tomorrow we might have to confront another still stronger and more powerful; therefore, our present air force must urgently be strengthened with more modern and effective planes. Defiance planes are unwieldy for pursuit purposes, slow in taking off, two seaters, consequently do not fill the real purpose of our needs. That is why these latter are no longer used by Great Britain.

Washington, D. C.
December 19, 1940.

Received 4.25 P.M. Dec 20th 1940.

December 20, 1940
4:02 p.m.

Sen. Robert Wagner: Hello, Henry.

H.M.Jr: How are you?

W: Pretty good.

H.M.Jr: Where are you?

W: I'm in Washington.

H.M.Jr: Oh, for heaven sakes.

W: I was on a little cruise and I landed at the Virgin Islands and saw the spot where you did your swimming.

H.M.Jr: (Laughs).

W: (Laughs). It was a nice little spot too.

H.M.Jr: Did you go in?

W: I didn't go in, no. We didn't have enough time.

H.M.Jr: Oh, it's beautiful there.

W: Yes. How long did you stay - you had a rest there too, didn't you?

H.M.Jr: Two days.

W: Oh, yeah. Well, it's a great place to be.

H.M.Jr: Well, I'd like to stay there two weeks.

W: So would I some time or other.

H.M.Jr: Of all those places I think that's the most attractive.

W: That is, yes. If there are any - well, of course the climate is wonderful and all that but I went around those slums - how those poor people live and I think it's distressing.

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H.M.Jr: Did they tell you I walked all through those?
W: Yeah.
H.M.Jr: I walked all through those.
W: Yeah.
H.M.Jr: Did they tell you?
W: Yes, they did. Well, I didn't have time enough. I had to take the car, but it's sad and I don't know what you can do about it. You know - right away.
H.M.Jr: Yeah.
W: Well, Henry, the reason I called is: Ed Foley called the office I think it was yesterday that you wanted to sit down with me sometime.
H.M.Jr: That's right.
W: When did you intend that to be?
H.M.Jr: Well, at your convenience.
W: Well, I mean how soon because I was leaving again tomorrow noon and, you know, Christmas is on and
H.M.Jr: I know.
W: Is the first of the year too late?
H.M.Jr: Well, I tell you, Bob, it's something on bank legislation and I did what you always tell me to do - I spoke to Carter yesterday and he's all for it. Some special kind of legislation I want.
W: Yes.
H.M.Jr: And he wants us to prepare - work on a bill for him.
W: I see.

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H.M.Jr: But I wanted to find out, naturally, how you felt and try to get your support also.

W: Yeah.

H.M.Jr: Now that's what it is.

W: Well, then it's got a little time hasn't it, I mean, as long as he's got it in charge.

H.M.Jr: Oh, yes. Well, you know you always ask me when I come to see you - have you seen Carter

W: Yeah. Well, that's all right. Yes, we've got to humor him a little bit. He annoyed a few Senators this last time at our China conference - they told me afterwards, but he doesn't mean - he gets impatient, you know.

H.M.Jr: Well, he's all right on this and this thing will

W: Well, that's all right with me.

H.M.Jr: Is it all right with you?

W: Yes, absolutely.

H.M.Jr: Well, then, why not let's leave it until after the first of the year.

W: Yeah, I believe it'll go until after the first

H.M.Jr: Would you have someone call me when you come back? I need about an hour.

W: Yeah. All right.

H.M.Jr: I'll need about an hour but I wanted to tell you because without your help I can't get anywhere.

W: Yeah. All right, Henry.

H.M.Jr: Thank you.

W: All right. Good-bye.

December 20, 1940
4:35 p.m.

H.M.Jr: Hello.

Wallace
Murray: Hello.

H.M.Jr: Mr. Murray.

M: Yes, Mr. Morgenthau.

H.M.Jr: How-do-you-do. I'm calling you because I find that Mr. Welles has gone home. Mr. - well, I don't know - Depasta, the Minister-Counselor

M: Depasta, I think his name is.

H.M.Jr: Depasta. Well, he was here and he gave me a memorandum which I let him read me. It was some more stuff on these Greek planes. I said, I have no comment that you and Mr. Welles are handling this thing until they can find out what's straight. I said it's gotten beyond me.

M: Yes.

H.M.Jr: So he said, won't you make any suggestion. I said absolutely none and I said, the only suggestion I do make is please give a copy of what you've given to me to either Mr. Welles or Mr. Murray. So I made absolutely no comment of any kind other than that he should walk it over to you.

M: All right. Now I take it that - of course, we haven't - I only heard indirectly that there was something in the works. I take it that he's bringing a second communication around saying that they still want the P-40's. I presume that's what it is. Is that it?

H.M.Jr: When you boil it all down, that's what it is.

M: That's what it is. Well, I had a talk with Mr. Philip Young, who I presume has talked with you meanwhile or will do so, giving some

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suggestions which we are going to - we've already wired our Minister in Athens to take a hand in this thing to try to clear it up and I have a feeling, Mr. Morgenthau, if we can safely say that there would be a delay in any case in this P-40, in the delivery of it, much less in the transportation of it and we can bear down on that point, I told Mr. Young that I thought we could break the Greek resistance and have them look at this thing reasonably and I think they are being unreasonable.

H.M.Jr: Well, I personally think that they are being very unreasonable considering the fact that England has over 400 planes there now fighting their battle.

M: That is subject to a little qualification. She is stated to have 400 planes assisting Greece. The Greeks claim that the actual number there in Greece - permanently there is of course a very much smaller number, but that's a detail. But in any case I think the important point is that here are planes in hand in Egypt that can be flown to Greece, the spare parts are available - the P-40 spare parts would not be available - and the British are willing to wait for the later delivery which, I take it, may be June whereas they can get these planes right now. And so that is the line we are taking and the line we have instructed our Minister in Athens to take and I have a feeling that it will - and furthermore, I have talked both with the Counselor of the British Embassy and he has talked with the Purchasing Commission people here, Mr. Morris Wilson, and I think really we can bear down on them and get this thing cleared up. I can assure you that we are bringing - taking every pressure that we can from this end to do it.

H.M.Jr: Well, I'm glad because I personally think that that is the angle to take and I agree with you. I think the Greeks are being very unreasonable.

- 3 -

- M: And I even - I think I might just give you the word that the British even think that the Greeks are trying to play both ends against the middle and get planes out of both of us.
- H.M.Jr: It wouldn't surprise me.
- M: And they want both the P-40's and the of getting P-40's when they probably can't fly them and then they will use the British and their Defiance planes for the actual work.
- H.M.Jr: It wouldn't surprise me - I've been in Greece.
- M: (Laughs). Your father has also.
- H.M.Jr: Well, I've been there too.
- M: (Laughs). If you get a chance to talk to Mr. Young today he will tell you a great deal more. I won't bother you with telling you what I said to him but I think that whenever you have a chance to talk with him you'll see that I think we've got the answer and I think the answer is that at the time we cannot assure them that these planes will be available immediately and furthermore Mr. Young tells me that he has not ever assured the Minister that they would be ready immediately. Now I think there is the answer to the whole question if I can with all assurance say that Mr. Young or you or nobody has ever told the Minister they could have these planes at once.
- H.M.Jr: Well, you can go further: you can say that nobody in the Treasury ever told them that they could have them at all, which is the truth.
- M: (Laughs). Yeah.
- H.M.Jr: I sent a written report saying that to Mr. Hull. I don't know whether you saw it or not.
- M: Yeah, I did. I just saw it. It got out of my hands and went back to you before I had a chance to finish it. I wanted to read that report.

- 4 -

- H.M.Jr: Well, in that report we made a statement we haven't promised the Greeks anything because we couldn't. The Army says they won't give up a plane and we couldn't promise planes that don't belong to us and belong to the British.
- M: But did I understand that the Army actually has any P-40's ready that could, I mean everything else being equal, just be taken down off the shelf and given to the Greeks.
- H.M.Jr: I don't know.
- M: I don't think there is such a thing.
- H.M.Jr: I don't know, but the Army evidently is very reluctant and I think that at this time it would be a mistake to take anything from the Army. They've got too little as it is.
- M: I know.
- H.M.Jr: I think it would be a mistake.
- M: Yes. Well, thanks a lot for this information and if you have occasion to talk to Mr. Young I think you will approve, and I sincerely hope you will, the line which I took with the Greeks and which we're taking in that
- H.M.Jr: Well, I approve it heartily now. I approve it most heartily.
- M: Yes.
- H.M.Jr: A hundred percent, and if this fellow comes over and said that I said anything other than that he should see you, he's just telling a whopper.
- M: Well, that's a good double check to have on them. You know these wily Greeks.
- H.M.Jr: I know them.
- M: All right. Well, that's very helpful Mr. Morgenthau. Thank you very much and I'll bear that in mind.
- H.M.Jr: Thank you.

December 20, 1940
4:45 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. White
Mr. Cochran
Mr. Young
Sir Frederick Phillips

H.M.Jr: This was a little party last night, and I answered questions and all they wanted to know was England's problems and ours. They didn't get on anything else.

Sir Frederick, I have not had a chance to have any of these gentlemen bring me up to date on anything that has happened. I have been back about an hour and a half. So - and I told them that unless there is some emergency, I am going to try not to work Saturday and Sunday, but I will read reports. I am going to try not to see people because the last three and a half weeks have been a little bit more strenuous than usual, but I have asked Mr. Hull to have a meeting Monday morning at his office. I don't want to let you know this the night before so that you have to stay up until 9:30.

At that time we are going to discuss the so-called order for 300 Curtiss P-40's. Now, the story is this. Some time along in August or September, we don't know just exactly when, the Curtiss Wright Company runs out of orders on the Curtiss P-40. They are making 8 a day. And with these extra engines which amount to 500 and how much?

Young: I think Sir Henry said he had about 530 or 60,

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something like that.

H.M.Jr: Well, you were there. Which became available of Allison engines due to the cancellation that you had with Lockheed, this order can be placed. Now, what I am doing before these three Cabinet members is to lay before them all the orders we have from all of the various countries for pursuit ships. Not orders, but requests. I misspoke myself. Requests, you see.

Now, we can't promise them any of your engines unless we get your consent, but I would like to be in a position to be able to say that the English do or don't want "X" number of these pursuit ships and they have or have not got the money earmarked for this similarly to the deal on the 60 ships, you see.

Phillips: Yes, I see it all except the money earmarked, which I don't quite follow.

H.M.Jr: Well, Philip Young told me that in connection with these 60 ships, that there was 50 million dollars earmarked for that deal. On that basis, I so told the President and the President said, "All right, let it go through." I take it that wherever Young got that information, it was correct. Is there any doubt about that?

Phillips: Well, I am not familiar with the phrase "earmark", but I don't think that particular point matters very much, but certainly as regards the Curtiss planes and my understanding is that it is simply an ordinary British purchase. We have made no special provision or earmarking of funds in advance for it.

H.M.Jr: Well, this has nothing to do with any other transaction but we will have to take each of these transactions up separately. Here is one I have got to settle,

- 3 -

because the pressure comes from the manufacturer. If he is going to continue and not shut down, whatever the date is - he said September 1. I saw him in New York. But he wasn't sure. Let's say he is right, but he is checking. He has to place his order for materials now or else he will have to shut down his line and, naturally, the pressure comes from him, not from me. We also have pressure from about 20 other countries that want pursuit ships, and I said we want to know from the British government between now and Monday, do they want any or all of these if they can get them and too, do they consider that they have the funds wherewith to pay for them.

Phillips: Well, I will get the proper people in touch with Mr. Young tonight.

H.M.Jr: If I could have the answer by nine o'clock Monday morning.

Phillips: Yes.

H.M.Jr: And anything else that you discussed with Cochran, I just haven't had the chance, but he has written it out and I will absorb it Saturday and Sunday, so you can figure you can have a quiet week-end unless there is some emergency.

Phillips: Oh, I don't know about that.

H.M.Jr: Well, as far as I am concerned. I am really going to try not to work for two days, if possible, other than to study, but if I could have that and it has nothing to do with anything else other than here is the manufacturer and he says if you people want these and you want him to continue to make 8 a day, you have got to tell him Monday what you want, because it takes him 6 months to place his orders at least for his materials.

- 4 -

Phillips: Yes, I have got the point. Production is like that (indicating up), and if we do nothing it will go down and then shoot up later.

H.M.Jr: Exactly. And this is the only company in America that is really turning out ships in any number.

Phillips: Yes.

H.M.Jr: Thank you.

Phillips: I haven't got any reply from London on the last statement of the President's. It is just as well, perhaps, that I don't try to discuss it now.

H.M.Jr: Well then, maybe by Monday, but I really am a little extra tired. You have nothing until Monday either?

Phillips: I don't know.

H.M.Jr: Well, just this one thing which is really something quite by itself.

Phillips: Very well, thank you.

December 20, 1940
4:54 p.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello.

James
Forrestal: Yes, Henry.

H.M.Jr: Jim, they say you called me. Have you forgot

F: Well, I must be disintegrating, Henry, I can't remember what it was about.

H.M.Jr: Well, that's all right.

F: I think everything looks pretty good - the other thing.

H.M.Jr: Oh, do they.

F: I don't think you're going to get perfection. This isn't going to get any miraculous sudden change but I think it's at least in the channels.

H.M.Jr: Well, that's the way democracies work.

F: One thing - I think that that little Brewster plant up at Long Island City is in good shape now. I talked to the fellow today and they are really hitting.

H.M.Jr: Wonderful. Well, if you remember I'll be here for another half an hour.

F: You will.

H.M.Jr: Yeah.

F: O. K., Henry.

H.M.Jr: Thank you.

December 20, 1940
5:16 p.m.

H.M.Jr: Hello.

Operator: Mr. Lubin. I reached him in Mr. Hillman's office.

H.M.Jr: Hello.

Isador Lubin: You don't give me a chance to call you to thank you and tell you what a swell job it turned out to be.

H.M.Jr: Well, I did it at Cabinet, and I put it on the note that you'd been around to see me and had made the suggestion to me.

L: Oh, swell.

H.M.Jr: I mean, I said that Lubin has been here and made this suggestion and I agree and I underlined it.

L: Well, it turned out beautiful.

H.M.Jr: Well, I gave it to the President yesterday at Cabinet.

L: And everybody's happy and it's going to work too because we've got four people who really can work together.

H.M.Jr: Well, I just thought you'd want to know I did give it to him and I did put it on that you'd come to see me and that I agreed with you heartily and I thought he ought to do it.

L: Swell. Thanks a million times.

H.M.Jr: Well

L: You know, we've got another problem now.

H.M.Jr: Only one more?

- 2 -

L: We've got a liaison person to pick.

H.M.Jr: Meaning what?

L: Between him and the group.

H.M.Jr: Between who?

L: The Skipper.

H.M.Jr: Oh, really?

L: Yeah.

H.M.Jr: Oh, isn't he going to work with them directly?

L: Yeah, but I mean, he wants a full-time person to keep his eye on things.

H.M.Jr: Pardon?

L: He wants a full-time person to keep his eye on things.

H.M.Jr: Besides these four?

L: Somebody between yeah.

H.M.Jr: I didn't know that. When did that happen?

L: Well, he's been thinking in those terms apparently.

H.M.Jr: You mean he wants liaison people between these

L: A leg-man really. (Laughs).

H.M.Jr: Well, what the hell does he want a leg-man. - why can't these men come and see him?

L: Well, I suppose

H.M.Jr: You can't talk where you are.

L: Yeah. That's it.

- 3 -

H.M.Jr: What?

L: Yeah. Are you going to be in your office tomorrow?

H.M.Jr: No, but I'll be home.

L: May I call you or come over?

H.M.Jr: Give me a ring tomorrow. I made a little oath I wasn't going to see anybody for two days, but I'd love to have you call me.

L: I could see you this evening if you're free.

H.M.Jr: No, I'm going to the concert.

L: O. K. Well, I'll call you at the house and if you're free I'll come; otherwise, I'll understand.

H.M.Jr: How's that?

L: O. K.

H.M.Jr: Yeah, I'd like to and every rule has its exceptions.

L: What's the home phone?

H.M.Jr: For you and you only?

L: Yeah.

H.M.Jr: I mean, you won't tell anybody.

L: No, absolutely.

H.M.Jr: Because it's unlisted: North 8898.

L: O. K. Thanks so much.

H.M.Jr: It's unlisted. North 8898.

L: Thank you ever so much.

- 4 -

H.M.Jr: I'm delighted because I think it was a major mistake. Labor has to be there, we have to recognize labor, we need labor and it's got to be a partnership.

L: Yeah. Well, I think so.

H.M.Jr: And I was a hundred percent for it.

L: Fine. Thanks a million times.

H.M.Jr: Right.

L: All right.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....	£101,000
Purchased from commercial concerns.....	£ 6,000

The Federal Reserve Bank of New York sold £20,000 in registered sterling to a non-reporting bank.

Open market sterling remained at $4.03\frac{3}{4}$, and transactions of the reporting banks were:

Sold to commercial concerns.....	£ 5,000
Purchased from commercial concerns.....	-0-

The Canadian dollar has had a slightly firmer tone in the last few days. As against a discount of $13\frac{9}{16}\%$ at the beginning of the week, that currency closed today at $13\frac{1}{4}\%$. It is believed that seasonal tourist demand has influenced the quotation.

The Swiss franc gained another point in today's trading, closing at .2321. The rate is now back to the level which prevailed prior to the decline on December 18.

The other currencies closed as follows:

Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	$8\frac{5}{8}\%$ discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay gold price was equivalent to \$33.84, up 2¢. Silver was $\frac{1}{2}$ ¢ higher at the equivalent of 43.57¢.

In London, the prices fixed for spot and forward silver both advanced $\frac{1}{16}$ d. to $23\frac{1}{16}$ d and 23d respectively. The dollar equivalents were 41.88¢ and 41.76¢.

Handy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}\phi$. The Treasury's purchase price for foreign silver was also unchanged at 35ϕ .

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This represented trading silver.

J. M. R.

CONFIDENTIAL

... MASS Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 20, 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 Credito Italiano, New York, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 20	\$100,000	Chase National Bank, N.Y., for account of Sveriges Riksbank, Stockholm, by order of Credito Italiano, Rome.

J.M.P.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION*For Miss Chauncey*

DATE December 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 11:35 this morning Mr. Knoke telephoned me from the Federal Reserve Bank at New York. He mentioned an arrangement entered into by the Government of the Netherlands East Indies with the Guaranty Trust Company of New York for the purchase on an installment scale of 6,000,000 ounces of silver to be used by the United States Mint in making coins for the Netherlands East Indies. I told Mr. Knoke that I was not aware of this business, and that I would arrange with Mr. Howard of our Mint service to keep my office currently informed of such transactions, and that we, in turn, would give all pertinent information to the Federal Reserve Bank of New York. Such important operations as the present one will affect directly the amount of silver which the Treasury may be called upon to purchase.



AB

PLAIN

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Shanghai via N. R.

Dated December 30, 1940

Rec'd 11:03 a.m., 21st

Secretary of State,
Washington.

1415, twentieth.

Special Financial. Minister Finance Nanking regime yesterday announced New Central Reserve Bank to be opened Nanking January 6th and to issue currency temporarily at par with "the old lapi" until the latter system collapses. Branches to be opened in principal cities and notes to be considered legal tender for payment taxes, for official and private business and for foreign exchange transactions. Lapi is to be allowed circulation temporarily pending ultimate rehabilitation and unification. Statement also assails indiscriminate inflation by Chungking financial authorities causing high costs living, thus necessitating issuance of a new currency. New bank to be in principle the Central Bank in North China where present federal reserve banks currency to be permitted temporarily to continue circulation. Present Hua Hsing issue to be abolished. The

military

AS-2- No. 1415, twentieth, from Shanghai.

military yen scrip to continue in circulation as it has a coordinating and complementary value in relation to the new currency, hence the two to be allowed to achieve their respective objectives. Minister also announced the regulations governing a foreign exchange reserve control committee to consist of four experts yet to be appointed.

INFORM COMMERCE.

LOCKHART

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PLAIN

Nanking via H. R.

Dated December 20, 1940

Rec'd 2:15 p.m.

Secretary of State,
Washington.

139, December 20th, 4 p.m.

Opening of Central Bank of Issue by the Nanking Regime.

Following is a free translation of an item appearing in today's local Chinese press:

"The Central Reserve Bank regulations which were passed at the 38th Central Political Council meeting and referred to the Legislative Yuan for examination have been approved by the latter on December 14th after amendments. They were promulgated by mandate of the National Government on the 19th.

In connection with the opening of the Central Reserve Bank which is to take place on January 6th Mr. Chou Fu-hai, Minister of Finance, made the following statement yesterday: "The rehabilitation of economy and strengthening of finance is an important administrative policy of the National Government. In order to be able to stabilize finance and rehabilitate economy a sound national bank must be organized. Since the outbreak of hostilities the people have been in great distress and economy is on the verge of bankruptcy because of the continued drop in the value of currency and the increasing high cost of commodities.

Therefore,

AS-2- No. 139. Dec. 20th, 4 p.m., from Nanking.

Therefore, unless a fundamental adjustment is made in China's finance the sufferings of the people cannot be relieved, and the foundation of social economy cannot be stabilized. At the time when the Government returned to its capital, this Ministry made a solemn declaration in regard to maintaining the value of currency and the stabilizing of finance. Later a petition was made to the Government for the organization of a preparatory committee for the establishment of the central bank. After careful deliberations and positive planning for the past several months, preparations on all matters such as the raising of reserve fund, business policy, internal organization and issuance of notes have now been completed. In accordance with a resolution passed at the Central Political Council meeting in March 1937, the name of the bank will be the Central Reserve Bank. The formal opening of the bank will take place in the capital on January 6, 1941 on which date business will commence. With a view to enlarging the scope of its business, branches will be gradually established in the principal cities. The notes to be issued will be called "legal tender" and may be used for paying taxes, exchange purposes and all public and private payments. In order to avoid any disturbance to the financial market and to safeguard the resources of the people all old legal tender notes which are now in circulation will for the time being be allowed to circulate at par value with the legal tender notes to be issued by the Central Reserve Bank. Gradual
adjustment

AS-3- No. 139, Dec. 20th, 4 p.m., from Nanking.

adjustment will be made and means will be devised to unify them. This Ministry has already drawn up effective measures to deal with the possibility of Chungking's again increasing its note issue which would cause further depreciation in the value of its notes, produce disturbance in the market and affect the livelihood of the people. With regard to the circulation of Japanese military notes which is in a special condition during the continuation of hostilities, the new legal tender will give mutual assistance so that both may be able to complete their respective tasks. The Federal Reserve Bank is an important financial organ in North China therefore efforts should be made to afford it a healthy development. The present status in the areas where the Federal Reserve notes are circulated should be maintained. As regards the Hwa Hsing Bank, its note issuing rights will be nullified and its business in the future will be confined to foreign trade, finance, and ordinary commercial banking. From now on China's economic development, enrichment of its National Treasury, social prosperity and international prestige all depend on the authority of the Central Reserve Bank. Every care will be exercised in the issuance of the new notes, and it may be taken for granted that both the nation and the people will be benefited. I sincerely hope that people in all walks of life will understand this and give their assistance to the new notes so that they may be circulated without obstruction and the living conditions of the people may be stabilized and their sufferings reduced."

Sent to the Department. Repeated to Chungking, Peiping and Shanghai.

By mail to Tokyo.

PAXTON

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PARAPHRASE

A telegram (no. 1422) of December 20, 1940, from the American Consul General at Shanghai reads substantially as follows:

Upon obtaining detailed information in regard to the plans for the new Central Bank of the Wang Ching-wei government and for the bank's currency, bankers in Shanghai expressed themselves as feeling relieved since it seems that the scheme is not nearly so drastic as it was expected to be. Although Shanghai bankers admit that the new currency will definitely threaten the currency of the Chinese National Government in the Shanghai area, they do not feel that the dangers will be immediate. Shanghai bankers are of the opinion that counter-measures having for their aim elimination of speculative assaults on the foreign exchange value at Shanghai of the currency of the National Government and a reduction in the extent of profit which the new currency measures may afford the Nanking regime and the Japanese will probably be taken by the authorities at Chungking. It is not likely, in the opinion of Chinese bankers, that foreign trade at Shanghai will be made impossible by such counter-measures, at any rate not for some time yet, depending upon developments in the situation.

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A summary of the comments of bankers follows:

(a) As the published announcements show that not much authority is given to the Nanking regime for support of the new currency, views held previously that the Japanese did not favor the introduction of the currency but for political reasons granted the right to the new regime are confirmed;

(b) Toleration concerning the continued circulation of the notes of the North China Federal Reserve Bank and of fapi with no provision for the circulation in North China of the new currency discloses the new currency's weakness;

(c) As the present fapi is acceptable even for payment of tax, no compulsory measures are seen in the announcements for circulation of the new currency;

(d) No definite time is fixed for elimination of fapi in any area under the control of the Nanking regime;

(e) Provisions for competition of the new bank with private commercial banks in accepting private deposits and in dealing in commercial foreign exchange matters directly (not a function usually exercised by a government reserve bank) discloses the deceptiveness of the position of the new bank as a central bank solely;

(f)

CONFIDENTIAL

-3-

(f) Attention was called to the fact that it was only after foreign trade control measures were instituted and compulsory tactics enforced that the currency of the Federal Reserve Bank in North China was successful; although it is admitted that it is likely the regime at Nanking has the authority to make drastic measures effective, doubt exists whether such action will be encouraged by the Japanese authorities in the near future; rapid success of the new currency is not expected for this reason.

(g) It is pleasing to observe that none of the stated provisions seem to involve measures for the control of trade;

(h) As the announcements concerning foreign exchange are very vague and are considered impractical, especially without cooperation on the part of exchange banks--Chinese and foreign--it is not anticipated that an attempt will be made to control foreign exchange.

The abolition of the Huahsing currency as the unit of currency used in paying customs duties is a matter of concern in business circles which are fearful that increases in the effective tariff rates may result therefrom.

Message from Chase Bank in China received through courtesy
of Federal Reserve Bank of New York, December 20, 1940.

C
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CABLE RECEIVED FROM SHANGHAI DECEMBER 19, 1940

"PRIVATE AND CONFIDENTIAL

It is expected Nanking China Government opening new Central Bank of China
in Shanghai early in January and will issue bank notes; for that reason
exchange market weak

For your information only English banks American banks have agreed amongst
themselves not to accept nor have dealings with new banknotes"

P A R A P H R A S E

A telegram of December 20, 1940, from the American Consul General at Hankow reads substantially as follows:

Consular offices in Hankow have been informed by the Japanese Consulate General of new regulations governing the carrying, by travelers between Hankow and points down river, of drafts, letters of credit, or cash. The new regulations, which are effective retroactively as of December 1, provide that each traveler may carry without a permit 300 yen in cash. Travelers desiring to carry more than this amount in cash, drafts or letters of credit must obtain a permit from the Japanese military. The letters of credit or drafts are to be obtained from Japanese banks. Travelers must upon departure from or arrival at Hankow or other ports submit to the military authorities a formal declaration in regard to the letters of credit, drafts or cash in their possession. Confiscation of their money or other treatment considered suitable is to be meted out to travelers violating these regulations.

Although the Japanese circulated to foreign banks the limitation regulations, the regulations have been disregarded by the foreign banks, which continue to send funds to Shanghai without obtaining permits from the Japanese military. Travelers will suffer no practical hardship from the regulations as long as the banks continue
the

-2-

the above-mentioned practice and travelers are permitted to carry 300 yen without obtaining a permit. Strict enforcement of regulations, however, may result later on in seizure by the Japanese of letters of credit and drafts which non-Japanese banks have issued without having obtained the permission of the Japanese military in advance. Attempts at penalty confiscation of funds of boat transporting such bank transfer may also be possible in case of a strict enforcement of regulations. The question of discrimination against an American bank does not arise as the branch in Hankow of the National City Bank of New York closed on December 12.

At the present time it is not clear what were the motives for the promulgation of the above-mentioned regulations. The principal factors involved seem to be a desire to prepare the ground for crowding non-Japanese banks out through discriminatory permit system for all transfers, to strengthen the Japanese military yen on the Hankow market, and to stop shipments to Shanghai, by speculators (including Japanese) in military yen, of large amounts of Chinese national currency. In the opinion of some persons the regulations are being used also for the purpose of putting into operation at an early date an issue of paper money projected by the regime of Wang Ching-wei

-- such

-- such currency to be exchanged at par in Hankow for currency of the Chinese National Government. After consultation with British and French banks and Chambers of Commerce the British and French consular representatives are refraining for the present from replying to the Japanese Consulate General's notification. For this reason and on account of the situation described above, the Consul General suggests that pending clearer signs of Japanese intention to interfere seriously with the transfer of funds of American citizens he also refrained from making any reply to the Japanese notification.

PARAPHRASE

CONFIDENTIAL 262

A telegram (no. 70) of December 20, 1940, from Consul Reed at Hanoi reads substantially as follows:

Although previous to 1940 the amount of Indochinese rice imported by Japan was insignificant in amount, according to information received on December 19 from an official of the economic section, the Japanese demand now that they be allowed to receive during 1941 approximately 700,000 tons, which is about one-half of the exportable surplus. The 450,000 tons of rice imported by Japan in 1940 and imports in previous years were paid for in American dollars. However, the Japanese propose that a barter arrangement be made for 1941 imports. The informant remarked that it was necessary to find another market for Indochinese rice, even on the basis of a barter arrangement, since the loss of the French market, which was most important in the past.

General reports indicate that Japan is lacking in exportable commodities suitable for the Indochinese market. Therefore, it would appear that Japan's adverse trade balance with Indochina which is already large would be considerably increased by greater imports from Indochina and that large unusable credits in Japan would result. By means of clearing agreements Japan, through her debtor position, would secure for herself profitable commercial relations with Indochina comparable to the position of Germany in the Balkans before the war.