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MEMORANDUM FOR THE SECRETARY'S DIARY

Legislation to Aid the Democracies

Wednesday, January 8, 1941

At 11:25 a.m., Mr. Foley conferred with Cox about the proposed legislation. He told Cox that John McCormack wants to have a different title to the bill and doesn't want to use the words "belligerent or neutral".

At 11:45 a.m., Foley and Cox spoke to Middleton Beaman and John O'Brien on the telephone. Foley told them that there had been a conference this morning over in Hull's office at which Secretaries Morgenthau and Hull, and Messrs. Rayburn, McCormack, Deschler, and Foley were present. Foley said that McCormack didn't like the title. Both Foley and Beaman said that they weren't concerned how the title read, and whatever way they wanted it to read would be all right with them. Foley said that there was one thing that McCormack mentioned which worried him. McCormack wanted to take out the word "belligerent". Foley pointed out that that was the heart of the bill, but McCormack thought the language "notwithstanding any other provisions of law" would do the same thing. Foley said that the Neutrality Act had a prohibition in it and unless that prohibition was expressly removed, this Act would have to be read with the Neutrality Act. McCormack said he was talking psychology. He thought the word "belligerent" would give someone who was out to wreck the bill a way to do it. Beaman said he didn't like to see it come out. Foley said he told McCormack that if we did it this way, we would be submitting an argument for a certainty and he wanted to make the bill air tight. Beaman said he would think about it and see if he could find substitute language that would meet the objection and yet be as good. Foley said that other than these two items, there were no objections. Foley said, confidentially, that they were going to try and introduce the bill on Friday. They thought that they would adjourn until Friday. Deschler said that unless the bill was overhauled, he would have to rule that it would go to the Foreign Affairs Committee in the House. Foley thought McCormack wanted it to go to the Ways and Means Committee so that Bloom would not have to handle it on the Floor, but Hull thought that Committee was too big. Foley said that the Speaker has four vacancies on the Foreign Affairs Committee to fill. Foley said that Hull felt more keenly about the Senate Committee. He wants it to go to the Finance Committee. Foley said that there is to be a meeting this afternoon in Hull's office with Senator Barkley, Pat Harrison, and the Senate parliamentarian. It would be logical to have the President pro tem in on the meeting and then if Senator George's committee is to handle it, they can call him in when the President sees the chairman of the two committees on the bill before it is introduced.

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At 11:55 a.m., Mr. Foley spoke to Mr. Hackworth on the telephone. Foley told him of the conversation that he had had with Beaman and suggested that in addition to talking to Townsend, perhaps Hackworth would like to talk to Beaman. He thought it wasn't necessary. Foley said he thought he would put it up to Stinson, as he was a good lawyer, and get his reactions. Foley said that although we couldn't transcend the whole body of international law by an act of Congress, we can show that Congress gave it some consideration and expressed itself as desiring to go beyond international law and give help to a belligerent. Hackworth said he had just talked to Townsend, and he wanted to call him back right away and get him on the right foot with regard to this international law angle.

At 12:19, Foley spoke to Ben Cohen and told him of the meeting at Hull's office and what transpired. From a practical point of view, Ben said he was inclined to agree with McCormack because of the avowed purpose of the bill that there would be no risk. Those who administer this bill know what the President wishes and they are the ones who are going to interpret the Act. Ben said as a lawyer he would prefer to have "belligerent and neutral" remain, but he thought the circumstances outweighed this desire. Foley said he hadn't given up yet, but he was inclined to go along. He said that the Secretary felt as Ben did. Ben said that we have used statutes that were less clear than this one is going to be. Foley said that if we left out "belligerent and neutral", he thought "American republic" should be left out. Ben said he thought that would be much better. Foley said we get away from the rule of ejusdem generis then. Ben wanted to know about the committee decisions, and Foley brought him up to date on that. Foley explained that Hull was taking more time on the Executive Order so that it would not be signed over this weekend.

At 12:30, Mr. McCloy called Mr. Foley. Mr. Foley told him that he wanted his judgment on suggested changes in the pending joint resolution which were made at a meeting in Secretary Hall's office this morning by Speaker Rayburn, McCormack, and the Parliamentarian. They didn't like the title, and thought it was a little too pointed and suggested that it be changed to read "To promote the defense of the United States, and for other purposes". Mr. Foley asked Mr. McCloy to turn it over in his mind and perhaps talk to Secretary Stinson. Also, Foley said they want to change Sec. 3(a)(1) by leaving out "belligerent or neutral" and just say "any other country". He said there was some argument on this point. Mr. McCloy asked what the argument was that dropped out the British Commonwealth. Mr. Foley said Hall said he didn't want to single out any one nation. That is foreign relations, and his judgment on that is all right. Mr. McCloy said it was his off-hand judgment that it doesn't make much difference about "belligerent or neutral". Mr. Foley said if we take it out, we ought to take "American republic" out also. McCloy agreed. He said he hoped to see the Secretary

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some time this afternoon, at which time he would get Secretary Stinson's judgment on it, and in the meantime give it further thought himself. Mr. Foley said he would appreciate having his judgment and having him speak to the Secretary, and asked McCloy to call him back before the 4:00 meeting this afternoon.

At 2:30 p.m., Foley spoke to Beaman over the telephone. Beaman said they were talking to McCormack and he was agreeable to this suggestion we made. That is, to strike out "any American republic" and make it for "any country". That seems to satisfy McCormack, and Beaman thinks it's all right. Foley and Beaman agreed that this gets us around the Neutrality Act. Foley said he would rather do it the other way--but thinks this is all right. Foley said that way we would be naming the guilty party and if we leave it out, it's up to the opponent to insist it's there. Beaman said he didn't see how we were going to pass the bill without having people suspect it's intended to give aid to the British. Foley says he thinks McCormack is sincere and is trying to eliminate the difficulty for himself, but Foley wants to be sure.

At 3:15 p.m., Foley spoke to Green Hackworth over the telephone. Hackworth said that Townsend talked to the Attorney General, and the Attorney General thinks that no harm would result from leaving those words out. Foley told him that Beaman and McCormack had gone over the thing and McCormack wanted to know if it would be all right, and this will satisfy McCormack, to strike out the words "any American republic or any other country" and the words about belligerent and neutral, and Foley told him that if we did it, that's the way it ought to be done. Hackworth didn't think there was any objection to that. Hackworth thought that was a happy solution.

Foley attended the conference at Secretary Hull's office with Secretary Morgenthau from 3:54 to 5:11 p.m.

At 5:15 p.m., Foley spoke to McCloy over the telephone. McCloy said that he hadn't had a chance to call back before but he had talked with Secretary Stinson, who agrees with the suggestion to strike out "the government of any American republic or any other country belligerent or neutral" . . . Mr. Foley said that is what we decided to do. He said that the Secretary and he talked with Berkley and Harrison and the Parliamentarians and they think that, subject to final clearance with Sam Rayburn, they will kick this into Military Affairs. They are afraid of the Republican boys on Foreign Relations--Nye, Johnson, Vandenberg and some others who are "all over the lot" and there is Herring and a couple of others and they have three vacancies, and while they may pick good people, you don't know whether they will be all right. We have Austin, the ranking Republican on Military Affairs, and they think that is better. He is all for it, and this fellow Andrews from New York--he's all right on this, isn't he? Mr. McCloy said he was on this particular thing. Foley

said he is a good friend of Wadsworth who thought this should not go to Bloom's committee in the House, and they thought it would be better to get it into Military Affairs. Mr. McCloy said he knew that was Stimson's idea and he was shocked about its going to Foreign Relations and I think he called the President. He said Jones asked for a copy of the bill and said he had heard it was a good job, and Mr. McCloy thought it was a good idea to let him have a copy. Mr. Foley then told Mr. McCloy of Barkley's suggestion that in (4) on page 2, he thought the wording is too broad; that it relates to the internal defenses of the United States. Mr. Foley said he told him we would talk it over with you and call him in the morning, and agreed that Barkley does have a point. If we strike out the last three words of (b) on page 1, and put a period . . . Mr. McCloy said "But from time to time, without any statute, we have been giving dope to these fellows." Mr. Foley told Barkley that, and he doubts if there is any power to restrict the President as he has the constitutional power to do what is best to defend the country, and if that means giving information to those whose defense is related to ours, I doubt if his hands could be tied. Barkley said he realized all that, but he thought that is one thing they might pick out and make a lot of noise about, and it would be better not to give them the chance. Mr. McCloy said he would give Foley a ring in the morning.

From 5:20 to 6:00 p.m., Foley told Cox about the results of this afternoon's meeting.

January 8, 1941
11:26 a.m.

Operator: Yes, Mr. Secretary.

H.M.Jr: Who is the young lady that sits next to General Watson?

Operator: Miss Barrows.

H.M.Jr: Can I have her?

Operator: Yes, sure, just a minute. (Pause)
There Miss Barrows.

Miss Barrows: Yes, Mr. Secretary.

H.M.Jr: Miss Barrows, I have quite a long message that I'd like General Watson to give to the

B: You have what?

H.M.Jr: I have quite a long message that I'd like General Watson to give to the President and I thought the easiest way was to dictate it to you over the telephone.

B: Good. All right, sir, go ahead.

H.M.Jr: Now at that 11:00 o'clock meeting tomorrow morning - he's got Stimson and Knox and those others coming.

B: Just a minute - who?

H.M.Jr: This meeting at 11:00 o'clock with Stimson and Knox and the whole group, I'd like Mr. Hull added to that list - Secretary of State. That's No. 1.

B: All right.

H.M.Jr: No. 2, I've just come from Mr. Hull's office and Sam Rayburn and McCormack were there and their proposal is that they're going to adjourn Congress until Friday with the intention of introducing the bill of Aid for England on Friday.

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S: Yes.

H.M.Jr: Now, in order to accomplish that we're meeting with Senator Barkley at 4:00 this afternoon at Mr. Hull's office and then after that Rayburn and Barkley are going to have a meeting to decide which committee this bill will go to. Then what they'd like - and I want to emphasize this - that this is Speaker Rayburn's suggestion. He said it is most important that the President invite down to the White House Thursday afternoon the Chairman of the committee in the Senate and the House that this Aid to Britain Bill is going to go to so that they will feel the responsibility and that he personally can explain it to them.

S: Don't know who it will be yet though.

H.M.Jr: No. We'll know that the first thing in the morning, but the purpose of this is that General Watson will be saving some time Thursday afternoon, and then the bill will be introduced Friday morning and they're going to adjourn Congress until Friday and letting them know something important is coming.

S: I see.

H.M.Jr: So it's a very tight timetable, you see.

S: I see. All right. I'll type this and give it to the General.

H.M.Jr: Wait a minute! One more.

S: All right.

H.M.Jr: In speaking with Secretary Hull

S: In what?

H.M.Jr: In talking with Secretary Hull, he said that he had been so busy that he would greatly appreciate it if he could have over the weekend to study this so-called freezing order. It's the one that the President was going to sign tomorrow morning for me.

B: I see.

H.M.Jr: Freezing of foreign funds, and the Secretary of State says if he could have over the weekend, he would appreciate it, and I recommend to the President that he does give him over the weekend to study it.

B: I see. All right, sir.

H.M.Jr: There were so many things that I thought I had better give it to you.

B: Uh-huh. Well, fine. I'll type it just as you've said it. I've taken it down.

H.M.Jr: And if there is anything that General Watson finds out that the President isn't in accord with, would you please see that he calls me back.

B: Indeed I shall. I think he'll show this to the President just as I typed it.

H.M.Jr: And if I don't hear from him I'll take it - and you might add - hello?

B: Yes.

H.M.Jr: that we got a very good reception this morning from Speaker Rayburn and Mr. McCormack and they also had their Parliamentarian there.

B: Oh, they did.

H.M.Jr: Yes, and everything is going swell.

B: Oh, good. All right, thank you.

H.M.Jr: Thank you.

January 8, 1941
12:00 Noon

RE AID TO BRITAIN

Present: Mr. White
Mr. Young
Mr. Stewart
Mr. Cochran
Mrs. Klotz

H.M.Jr: While we are waiting, do you know Lovett of Brown & Harriman?

Stewart: I don't know him personally.

H.M.Jr: Do you know his reputation?

Stewart: I think he is good.

H.M.Jr: He made a good impression on me.

Cochran: I have known him for four or five years.

H.M.Jr: Is he good?

Cochran: He is tops.

(Mr. Young entered the conference.)

Cochran: We left the British in my office.

H.M.Jr: Are they sweating or cooling or what?

Cochran: Oh, they are getting along all right.

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Klotz: Isn't White supposed to come in?

H.M.Jr: Yes. Who else is working on the British thing?

Young: Danny Bell?

H.M.Jr: No.

(Mr. White entered the conference.)

H.M.Jr: Harry, sit down. There will be two interruptions and you fellows can listen.

(Telephone conversation with Secretary Stimson follows:)

January 8, 1941
12:00 noon

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello, Henry talking.

Henry L. Stimson: Yes.

H.M.Jr: I just had a Mr. Lovett here and I like him enormously.

S: I'm very glad. He's a very good man.

H.M.Jr: I talked to him right from the shoulder.

S: Well, how did he talk to you?

H.M.Jr: Shoulder to shoulder.

S: Well, that's good.

H.M.Jr: How's that? I mean, I unburdened on him everything that has been burning me up for the last two years and

S: Well, I'm very glad.

H.M.Jr: and gave it to him for what it's worth and said if he wanted

S: Well, I think you'll find him pure gold.

H.M.Jr: I do. So much so that I want to make a suggestion.

S: Yes.

H.M.Jr: You know we're having this meeting tomorrow at 11:00 at the White House.

S: Yes.

H.M.Jr: Now this thing - we're going to have to do a lot of finagling to get the British by for the next month or six weeks.

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S: Yes, I know it will be a hard job.

H.M.Jr: And it's largely financial and I wondered if in working with you whether I couldn't have the benefit of Lovett's advice and help on this particular phase on account of his financial background.

S: You don't mean by that that you want to steal him from me?

H.M.Jr: No, I just mean that when I want something that affects the War Department that has to do with financial aid to the British that I talk to him and he keep you posted.

S: Of course his specialty is airplanes.

H.M.Jr: I know, but he knows finances.

S: Oh, of course you can that.

H.M.Jr: I mean, I want somebody that - I want to show them the British balance sheet. There's going to have to be a lot of finagling for the next six weeks, purely on the financial front. I'd like to be able to call him up and say, now look, will you tell Mr. Stimson this.

S: Oh, of course, Henry. That goes without saying. Of course you can do it.

H.M.Jr: But purely on the financial things so that when I

S: Oh, I mean you can do it anyway you like.

H.M.Jr: I mean when I want to get

S: The fact is that I may sometimes keep talking to him at the same time myself. (Laughs).

H.M.Jr: Well, then I'll wait. Then I'll wait.

S: That's all.

H.M.Jr: And if I may also make a suggestion in view of this being financial, I'd like to suggest that you bring him to that meeting tomorrow at the White House, but you can think that over.

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S: Yes. Well; I'll think that over and see how it is. I think it would be all right, but I didn't want to - it seemed to be a meeting that was going to be rather small.

H.M.Jr: Well, maybe you're right at that.

S: I think we'd better keep it confined to

H.M.Jr: Well, I'd like to - for instance there are a lot of things, and if he could digest them and then give them to you, that have to do purely with money in relation to the English contracts

S: Well, if you think it would help there why I'd be very glad to.

H.M.Jr: It would help me in my relations with you.

S: Yes. All right.

H.M.Jr: And will you tell him it's all right? Will you tell Lovett it's all right?

S: By that you mean what?

H.M.Jr: Well, that if I call

S: Oh, for you to - oh, yes, I'll tell him that. He'll understand that.

H.M.Jr: And that he's to keep you posted.

S: Yes. Oh, sure. Yes, I'll arrange that.

H.M.Jr: That's all.

S: Right off.

H.M.Jr: Thank you.

S: Thank you. I'm very glad to have that feeling that you approve of him.

H.M.Jr: Oh, yes, I think he's swell and I want him to know the exact financial situation of the English and then he can keep you posted.

- 4 -

S: Yes. Well, that'll be a great help.

H.M.Jr: Thank you so much.

S: Yes. Well, that's fine. Good-bye.

H.M.Jr: Good-bye.

- 3 -

H.M.Jr: You have to do everything three times. Just one second until I get Knox, and then I can concentrate on this thing. I have got hopes to have this bill introduced Friday. They are adjourning Congress especially to hold it - they were adjourning it until Monday, and I got them to adjourn it until Friday morning.

White: Were there any substantial changes?

H.M.Jr: The only change was which Congressman McCormack made, where it said "any neutral or belligerent," he wants that left out. He says "or any nation." But at the beginning of the bill, it says, "notwithstanding any other legislation." Out, you see. And they are consulting Bob Jackson to make sure it is all right.

(Telephone conversation with Secretary Knox follows:)

January 8, 1941
12:05 p.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

H.M.Jr: Hello, Frank.

Frank
Knox: Hello, Henry.

H.M.Jr: How are you?

K: Fine. I read that Order and I'm 100% with you.

H.M.Jr: Well, Cordell has asked us to hold it until Monday because he has not had a chance to read it - he says he's too busy - so I asked the President to wait until Monday.

K: I see.

H.M.Jr: But his people down the line are plaguing Cordell, I think, to go against it.

K: I don't think it's Cordell that's against it, but I think it's some of those subordinates of his.

H.M.Jr: Yeah, that's right. That's what I mean.

K: Yeah. Let's organize a hanging bee over there some day and hang the ones that you and I pick out.

H.M.Jr: We won't leave many people over there.

K: (Laughs). All right.

H.M.Jr: Well, I'm glad - this is what I'm calling you up for. In the next six weeks while we're trying to get this legislation through we're going to have to do a lot of skating on thin ice and wrangling to get some money for the British, and I wondered if it would be agreeable to you in my contacts with you if I kept Forrestal posted purely on the dollar side - the financial side, and if occasionally

- 2 -

he could drop over. I'd tell him what we're doing, he could give me his advice, and then he could tell you.

K: Well, his advice would be a damn sight more valuable than mine because he's trained in that particular line and I'd rather have him there than go myself.

H.M.Jr: Well, would you tell him that?

K: I will and you can have him function in my stead, because he knows a damn sight more about banking than I do. All I do is borrow money from banks.

H.M.Jr: Yeah, I heard you the other day.

K: (Laughs).

H.M.Jr: You're one of these fellows that has got these excess reserves that Eccles is going to remove.

K: (Laughs). All right. I'll tell Jim.

H.M.Jr: Tell him, and I've asked Stimson whether I could use Lovett in the same capacity and he says yes.

K: I see. Well, that's another good idea too because he's a good man.

H.M.Jr: So between the two of them they'll know what I'm doing and they can advise me. There's going to have to be a lot of wrangling done in the next six weeks. They just haven't got the cash.

K: Yes. I've got that spendthrift, Arthur Purvis, in my office now.

H.M.Jr: You have.

K: Yeah. Looking at me and laughing. (Laughs).

H.M.Jr: All right. Give him our best regards.

- 3 -

K: What?

H.M.Jr: Give him my best regards.

K: I will.

H.M.Jr: Thank you.

K: All right, Henry. Good-bye.

- 4 -

H.M. Jr:

Well, that takes care of that. Now, what I want, gentlemen, is this. For tomorrow morning when I go into this meeting at eleven o'clock - I want this at ten, and you (Stewart) won't be here but you can help, and I am looking to you two fellows (White and Cochran) to have it at ten o'clock without fail. I want a statement and I want Stewart to collaborate it and see it before he leaves, letting me know how much money these fellows have got and how long it is going to last; and I don't want anything very complicated, but I want to be able to say to the President, "Now here is the situation," and I want to be able to tell him the moves that they have made, the more important moves that they have made recently, you see. I mean, Hull, Stimson, Knox, and Jones are going to be there and I want to say, "Now, this is what they have done. I think they are scraping the marrow," how many securities they have been selling and so forth and so on, about their direct investments.

In other words, so that I can give the President a story tomorrow and once more rub his nose in it, which he doesn't like me to do on this thing, what is this situation. Then he is going to say, "All right, Henry, what are you going to do about it," and such suggestions as the possibility of the Army and Navy taking over some of the contracts, which Lovett likes.

I will tell you what we are going to do. We are going to make this tomorrow morning at 9:15 instead, and I am going to have Lovett - we will have a dress rehearsal. "This is what happened, Mr. President, in the last month. They have sold so many securities and they are doing this."

- 5 -

Harry, call up Jerome Frank and find out what the situation is on that investment trust thing, the man that is working on that is Schenker, you see. I mean, I would like to know. In other words, I want to be able to tell a story - I mean, not too much but enough, this is what it is, so I can let him know and then we have these suggestions, this interim report which I sent to these fellows, Jesse Jones possibly doing the thing, you know.

- White: You say there is an interim report?
- H.M.Jr: Yes. It went to everybody last night.
- White: Can I ask you one question about something else that relates to this?
- H.M.Jr: All those in favor?
- Klotz: Aye.
- White: That is all I need.
- H.M.Jr: Did you say "Aye", also?
- White: That makes it unanimous. (Laughter)
- The question of the extension of exchange controls, if it is likely to go in within the next day or two --
- H.M.Jr: It isn't. Mr. Hull said he had to have time over the week-end to study it.
- White: Fine, because there is a lot of work that has to be done, and we would like as much notice as possible.
- H.M.Jr: You (Klotz) tell Pehle it will not happen before Monday.

- 6 -

White: O.K.

H.M.Jr: I mean Hull - the man is so pressed. I see how he works. He has got his mind all in on this and the people below him are bedeviling him and he is upset, and I see he can't take any more.

White: It is just as well, because there are a lot of problems.

H.M.Jr: He is all upset, and these people down his line are all upset, so --

White: Can the proposal be set forth independent of the extension of control? I think it can.

H.M.Jr: Well, I am also upset and I am concentrating on this one thing, so I won't get to this thing before Monday; but I do want a workmanlike job from you fellows on this thing at 9:15 tomorrow morning, a review of what has happened.

Does everybody know what I want? When I told Lovett, for instance, that they would run out of cash, he was just amazed. I said, "We could take a lot of their contracts over."

Young: They have taken one over.

H.V.Jr: O.K. Do you (Stewart) want to see me before you leave today?

Stewart: I don't think it is going to be necessary. There is one point, do you want to raise tomorrow morning the question of whether you want any comment made by the British on the coming of Peacock and further vesting? They have put their vesting order through, and it will go through Saturday.

- 7 -

H.M.Jr: You mean do I want publicity?

Stewart: Yes, as to whether or not the Prime Minister should make any comment. You don't care?

H.M.Jr: No, I mean that was all the trouble with Sir Frederick Phillips coming over, there was all this publicity and all the rest of it. Let Peacock come over here and after he has done a little something, I think it is time enough. I personally, shooting again from the hip, I would let him come and accomplish something and then say, "Well, Peacock is here and he is the fellow that did it." That is my reaction.

Stewart: Well, the sort of thing Purvis had in mind last night is the possible action which could be referred to by the Prime Minister as an indication of their extent of representation over here.

H.M.Jr: Well not now. I mean, I am listening - I think if this bill is introduced Friday, which I think it will be now, we can tell much better.

Stewart: When may you go up? Have you any notion of that now?

H.M.Jr: No, but it won't be before Monday. Did you (White) get a copy of my conversation with Wagner?

White: I did last night.

H.M.Jr: It is just crazy to start talking with Wagner's committee about British investments at this time. If I do it, I will do it just once and that will be before Foreign Affairs, so think up something else for the Wagner Committee to do.

- 8 -

- Cochran: Mr. Secretary, Gifford is here. Do you want us to have any contact with him? You asked him down.
- H.M.Jr: Well, I want him to see this man (Stewart) and --
- White: Congress is going to want to know that among the very first things.
- H.M.Jr: Well, that is all right, but not - take it from me - not a committee that has nothing to do with it. I am only going to tell the story once, and that is to the committee that is considering the bill and not Senator Wagner's committee.
- White: That specific question happens to be in their list of questions.
- H.M.Jr: Well, it is unfortunate. It is a mistake, Harry. Take the old man's word for it. Listen, let this fellow Gifford see Walter Stewart and then --
- White: We don't have - we can get later information by calling on the British now. I take it there is no objection to his getting in touch with them. Some of his information is a week or two old.
- H.M.Jr: Make sure what Stewart has got. The three of you get together. I will tell you what we will do. In view of this thing of their bringing a man over, let him talk with Mr. Stewart today if he cannot stay over tomorrow, if he has to be in New York on account of the thing. I would let him go back and I will have him come down again next week.
- Cochran: Just discuss things to date with Mr. Stewart?

- 9 -

H.M.Jr: That is right.

Cochran: And if he stays over until tomorrow, would you care to see him?

H.M.Jr: I would rather not.

Stewart: You want the three of us to talk with him?

H.M.Jr: Yes, but I would like from the three of you - four of you a memorandum at 9:15 which is a workmanlike document, and which - I mean so that anything that I should get over to the President is there, plus some concrete suggestions.

January 8, 1941
5:13 p.m.

H.M.Jr: Hello.

Edwin "Pa"
Watson: Yeah.

H.M.Jr: Pa, H.M., Jr.

W: Yeah.

H.M.Jr: Now I just left Hull's office - hello?

W: Yeah.

H.M.Jr: I left Hull's office with Barkley and Harrison there and they're going back up on the Hill and meet with Sam Rayburn and they say they don't think they'll be able to tell me until tomorrow morning

W: That's all right. I tell you what I've got reserved - after Cabinet tomorrow afternoon, and it's all square.

H.M.Jr: Good. Now there's one thing

W: You'll tell me then who to invite.

H.M.Jr: Yeah. One suggestion that Hull made which I think is very good and that is a suggestion to bring the Republican minority.

W: Yes, that's all right. He asked me what you'd told me and I told him that you hadn't mentioned it. He said he thought it was a good idea.

H.M.Jr: Who said that?

W: Hull.

H.M.Jr: Oh, you talked to him.

W: Yeah.

H.M.Jr: Did he just talk to you?

W: No, about 3:00 o'clock.

- 2 -

H.M.Jr: I see. Not the other thing: on this stenotype thing that you spoke to me about - hello?

W: Yeah.

H.M.Jr: This stenographer, you know. I told him about your call and told him to think it over and he's going to talk to Kannee and I told him to let him make up his own mind.

W: Yeah. He hadn't broken his hand, had he?

H.M.Jr: No.

W: You were just kidding me.

H.M.Jr: Yeah, but I mean here's an offer - I never stand in anybody's

W: Well, look here, what I mean is we'll start him with five and Kannee was getting six. If he makes good he'll get that. The reason I thought about that was McReynolds said he was a very trustworthy fellow and that you liked him very much and you could vouch for his being all right to get him close in to the President.

H.M.Jr: That's all right; that's all true, but I'm sore as hell at Mac if he can't find somebody else in the whole of Washington, but if the President wants him, he comes first.

W: Well, don't - just tell him that you're going to let him go if we have to have him.

H.M.Jr: Well, I talked to him right after you called me

W: What kind of looking fellow is he?

H.M.Jr: He's a nice looking fellow and he's getting in touch with Kannee to find out what the job is like. See?

W: All right. That's fine.

H.M.Jr: But as soon as you called up I sent for him and said here's an offer, now you decide what you want to do.....

- 3 -

W: Yeah.

H.M.Jr: to this man. So he's thinking it over and he's going to talk to Kannee tonight.

W: All right. That's fine.

H.M.Jr: But if the President wants somebody why the President

W: Of course the President doesn't know a thing about him. He just told me to go scurrying around, you know.

H.M.Jr: Well, it took me two years to find this fellow and another two years to break him in.

W: Well, if I can get another fellow I won't take him from you.

H.M.Jr: But I'm being very honest - it has taken me a long time to break him in and it took me two years to find him, and there's one thing I want to point out.

W: Yeah.

H.M.Jr: He's a stenotype operator and not a shorthand operator so when he goes on the trips and runs after the President on these automobiles, he can't take shorthand.

W: Well, he won't do then.

H.M.Jr: He has to have his machine.

W: Well, he won't do.

H.M.Jr: But I've seen Kannee run up behind the President on his trips taking down shorthand.

W: Well, that's the way he has to do.

H.M.Jr: Well, this fellow has to have a machine.

W: Well, I don't think he can do it then.

H.M.Jr: But I wanted to point that out to you.

- 4 -

W: All right, sir.

H.W.Jr: But I made him the offer. My President comes first always.

W: I know. Then you and I will talk about the other thing tomorrow morning. I'm afraid that's going to knock that boy out.

H.W.Jr: Well, I was kidding you about his hand.

W: I knew that.

H.W.Jr: And immediately after you called me I made him the offer.

W: Yeah. All right. Thank you very much. You'll tell me tomorrow about the other.

H.W.Jr: Right.

W: All right, sir.

Copy of Letter from B, Mexico City, January 8, 1941.

One item of news is the appointment of the new Administrators of the Railways, who took charge of the National Lines on Monday last. For the position of Director General, the President selected Gen. Enrique Estrada, an old time politician with quite a revolutionary and military record but who, to the best of our knowledge, has had no experience in railroading. He is reputed to be energetic, which may be a prime necessity for the job. His success will greatly depend on his ability to return discipline to the Union of Railroad workers. We have heard hardly any comments regarding this appointment, and cannot very well judge it ourselves, as we know too little about Gen. Estrada.

On the Board of the Railroads appointed by the Government went Juan Gutierrez, at one time Manager under the Union administration, but, we believe, thoroughly disillusioned in regard to the Union. Gutierrez was forced by the Union to resign for having proposed a drastic reorganization. The other three Board members selected by the Government are Pablo M. Hernandez, Ing. Manuel Buenabad and Roberto Lopez, of whom we know very little, except for Lopez, who is a scheming pseudo economist. The Union's choice of the 3 remaining Board members fell on Santos Fierro, Pablo Cardoso and Alfonso Saucedo, all three unknown to us.

That is the set up, and now it remains to be seen what they will be able to accomplish.

Next on our list are labor matters concerning our industry. We have been informed that the Real de Monte contract discussions came to an end last Saturday, when an agreement was reached between the Company and the Union, whereby 650,000 pesos were to be paid by the Company for two years to meet economic demands of the Union. It is said that everything was ready for the signature of the corresponding documents on Monday last, when the Union backstepped and refused to sign what had been accepted by them. We heard from some one that Agustin Guzman, head of the Union, had seen the President between Saturday and Monday. In any event, discussions were reopened and no agreement reached so far.

The Rosita strike also continues, and it seems to be difficult to obtain any concrete information on its present status. Some of the A.S. & R. Co's men seem to think that some settlement is not far off, whereas others seem to be thoroughly pessimistic. We have been informed, however, that coke stocks at the Smelting Company's metallurgical plants are running low and will be used up by about the last days of this month. If the Rosita strike is not ended before then, it will certainly raise havoc with the whole industry, including those of the Union's Cooperativas which are dependent on the custom smelters, as we understand that the Penoles smelters will run out of coke at about the same time. We find it discouraging that the new authorities have been unable to clean up these two cases, left over from the old administration.

There is certain talk about the possibility of an extraordinary

legislative period to be called in February, but this has not taken form yet and is, in our opinion, dependent on the President's intentions to modify present legislation. We believe that the initiative rests entirely with the President.

The power situation in this part of the country is getting rapidly worse, according to statements made by the Power Company. New and severe restrictions may be expected between now and the beginning of the next rainy season, restriction which will certainly affect the economic side, considering that quite some of Mexico's industries are located in this central section.

Copy of Letter from an American in Monterrey, N.L., January 6, 1941.

It seemed to me that the New Years dance at the Casino was a better attended and much gayer affair than for some years past. I have a feeling that the people were celebrating not only the coming of a new year but also a definite turn for the better in the political situation. Avila Camacho has done remarkably well so far. Everybody is wondering whether he can keep it up.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE January 8, 1941

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

January 7. At the CIO annual convention in November the United Mine Workers Executive Board held a secret meeting at which it was decided to send J. C. Lewis to the West Coast to "ease" Harry Bridges out of control because of Bridges' alleged Communist connections; Lewis was president of the A.F. of L. Iowa State Federation for 15 years prior to entering the CIO.

W

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 8, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£52,000
Purchased from commercial concerns	£12,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

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

Sold to commercial concerns	£ 1,000
Purchased from commercial concerns	£ 3,000

Closing quotations for the other currencies were:

Canadian dollar	13-15/16% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2357
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	7-13/16% discount
Chinese yuan	.05-5/8

There were no gold transactions consummated by us today.

No new gold engagements were reported.

No gold or silver prices were received from Bombay today.

In London, the prices fixed for spot and forward silver were both 1/16d lower, at 23-5/16d and 23-1/4d respectively. The dollar equivalents were 42.33¢ and 42.21¢.

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 one purchase of silver amounting to 300,000 ounces under the Silver Purchase Act. This represented a sale from inventory.

According to the Commerce Department's daily statement of silver exports and imports, a refined silver bullion shipment of approximately 300,000 ounces was sent from New York to an unnamed consignee in Le Locle, Switzerland around January 6.

In yesterday's report, reference was made to the \$5,500,000 reduction, during the week ended December 31, in deposits and bills held by the New York agency of the Yokohama Specie Bank for account of Japanese banks in Japan and Manchuria. It was observed that, since Japanese bank deposits with the New York agency were credited with \$3,000,000 resulting from the sale of Japanese gold imported on December 27, as much as \$8,500,000 may have been withdrawn from deposits in New York by Japanese banks. Today it was learned that the New York agency also credited Japanese deposits on their books with another \$3,000,000 resulting from a gold import on December 31, and that the amount withdrawn from such deposits was in the neighborhood of \$11,500,000. The Yokohama agency stated that the bulk of this amount was used by the head office of the Yokohama Specie Bank to purchase bills arising from goods imported by Japan.

[Handwritten signature]

CONFIDENTIAL

JT

GRAY

ROME

Dated January 8, 1941

Rec'd 3:59 p.m.

Secretary of State,
Washington.

21, January 8, 7 p.m.

The Italian Council of Ministers yesterday approved the national budget estimates for 1941-42 involving, according to press reports, expenditures of 39876.5 million lire and income of 31082.4 million. As compared with the corresponding initial estimates for 1940-41 these figures which obviously pertain only to the "normal" budget involve an increase of 14.3 percent in expenditures and 7.2 percent in receipts and the estimated deficit of 8794.1 million compared with previous "initial deficit" of 5892.9 million (See Embassy's telegram No. 51, January 22, 6 p.m., 1940).

For the Military Ministries (War Marine Aeronautics) the combined estimate is 12210.4 million, an increase of 12.6 percent. Allotments for other Ministries also show increases except for Italian Africa for which the decrease is explained as due chiefly to cessation of appropriations
for

..... -3- 21, January 8, 7 p.m., from Rome

for colonization. The increase of the aggregate estimate over that for 1940-41 is attributed in the press communique to the "greater costs of functioning of various services" and to the increases in salaries and allowances of Government employees decreed last April. The allocation for the Ministry of Finance is 15636.5 million lire an increase of 2199.3 million. This increase is reported to represent chiefly interest charges in connection with the "inevitable further increase" of the public debt.

The estimate of a deficit of 8794.1 million lire in the "normal" budget throws no light on the real deficit which will be incurred since the vast extraordinary outlays growing out of war operations are not included. An illustration of the great difference between real deficit and deficit from "normal" operations is furnished by figures of final results for 1939-40 which were reported at the same meeting of the Council of Ministers. Whereas the initial estimates for that year had envisaged a deficit of 4755 million lire the total actual deficit as now reported was 28038.4 million—incidentally exceeding the 26 billion predicted by the Finance Minister near the end of the said fiscal year, see Embassy's telegram No. 375, May 18, 9 a.m., 1940. This deficit arose from expenditures of 60388.9 million lire (of which 21890.5 million

-3- 21, January 8, 7 p.m., from Rome

million were "for exceptional expenditures incurred because of military exigencies" and for "valorization of the Empire") against receipts of 32350.5 million. The deficits for "normal" operations is stated at 6147.9 million.

No statistical information is available as to progress of the current year's budget but that the deficit will dwarf the 1939-40 figure of some 28 billion lire is a logical deduction from the fact that the latter deficit was incurred even before war operations began.

KIRK

OSB

PLAIN

Shanghai via E.R.
Dated January 6, 1941
Rec'd 2:55 a.m. 8th

Secretary of State,

Washington.

31, Eighth.

Shanghai's 17, January 6, 5 p.m.

Article January 1 FINANCE AND COMMERCE states that establishment of central reserve bank result of demand Nanking regime for financial independence, that Japanese army consent given only reluctantly inasmuch as bank in conception and aims "strikes right across the scheme of planned economy devised by the Japanese army" and any continuation of "currency war" in China through medium of new bank notes will injure military yen more than National Government fapi. Maintenance fapi said essential to continuance Shanghai imports from non-yen bloc countries, while military yen under existing military economy essential for continuance imports from other parts yen bloc area, including Japan. Whereas fapi and military yen supported respectively by British-American financial resources and Japanese economic power "behind the Chinese central reserve bank note there will be nothing but big political ideas". Article states that development new bank on lines foreshadowed by Nanking would injure yen bloc system as well as fapi and predicts that "when the new note begins to make itself a nuisance to the military yen its further activities will be abruptly halted".

Article calculates on basis information "authoritative sources" circulation military yen Central China one hundred twenty million, South China fifty million and notes steady upward movement during recent months military yen exchange value. "Supported by Japanese trade control, the military yen is gradually usurping the role of the fapi and is trespassing upon the fapi reserves"; the military yen can hold its position while such trade control is maintained and it is inconceivable army will sacrifice pet scheme to further Nanking designs, therefore Nanking will probably be left to own resources to do best it can with central bank but no (repeat no) material change financial outlook to be anticipated.

Third branch Kiangsu High Court located French Concession in proclamation dated January 6 announced that court fees guarantee deposits et cetera henceforth shall uniformly be paid in the new currency; that if Chinese residents of the French Concession should harbor intent to destroy or refuse to accept such currency they shall upon apprehension be punished severely.

Sent to Department. Repeated to Peiping, Chungking. By airmail to Tokyo.

LOCKHART

1/11 copy

G-2/2657-220

RESTRICTEDM.I.D., W.D.
January 8, 1941.
12:00 M.

No. 287

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.

During daylight on the 7th there were scattered raids by single German planes over England and the North Sea. Last night neither side conducted offensive operations because of bad weather.

II. Greek Theater of War.

Local actions reported. Very limited aerial activity.

III. Mediterranean and African Theaters of War.

The British report that operations toward Tobruk are proceeding satisfactorily. The main Tobruk airbase at El Adem, fourteen miles southwest of Tobruk, has been captured, together with forty planes in unserviceable condition. The R.A.F. continued to attack along the Mediterranean littoral. Italian fighter reaction seems to have been slight.

RESTRICTED

State Dept. Conf.

MAJORITY LEADER BARKLEY AND SENATOR PAT HARRISON SPENT MORE THAN AN HOUR IN SECRETARY HULL'S OFFICE LATE TODAY. SECRETARY OF TREASURY HENRY MORGENTHAU ALSO ATTENDED THE CONFERENCE. NONE OF THE CONFEREES WOULD GIVE ANY DETAILS OF THE MATTERS DISCUSSED BUT BARKLEY SAID IT WAS "FAIR TO ASSUME" THAT CONGRESSIONAL ACTION TO IMPLEMENT FOREIGN POLICY WAS UNDER CONSIDERATION.

1/8--W0534P

January 8, 1941

Memorandum

To: Secretary Morgenthau

From: Secretary Hull (Via Mrs. McHugh)

Congressman James Wadsworth came in this morning, and he is very strongly with us on our program. He said that he would like to suggest privately that it would be very helpful, on his side of the House, if the President could see his way clear to invite an appropriate minority Republican to his conference with Democratic leaders at the White House.

I pass this on for whatever it may be worth to you and the President.

January 8, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston 

At your request, through McKay, I called Jean Monnet and said we would like to have him talk to John Davenport, who would call him. Monnet said he would comply gladly, but that he would like to talk with us first and so I made an appointment with him for four o'clock. He has just left.

He wanted to know if he could talk freely to Davenport about what he regards as your essential contributions not only to the British-French program but to the present defense program and particularly whether he could tell Davenport how resistance in the War Department caused most serious delays. I told him that he could talk perfectly freely to Davenport, since I felt sure John would check with us the stories he writes.

Jones - Eichel Plan

SECRETARY JONES TOLD HIS PRESS CONFERENCE THAT HE WAS OPPOSED TO CERTAIN PHASES OF THE FEDERAL RESERVE BOARD'S PLAN TO INCREASE ITS MONETARY AND FISCAL POWERS.

1/8--W0448P

ADD JONES

ASKED FOR COMMENT ON THE RESERVE BOARD'S PROPOSAL TO DECREASE EXCESS BANK RESERVES BY RAISING REQUIRED RESERVES, JONES SAID "I'M FOR EXACTLY THE OPPOSITE."

JONES INDICATED HE FELT THE BOARD'S PROPOSAL WOULD HAVE THE EFFECT OF DECREASING LENDING POWER OF BANKS.

"I'M TRYING TO GET THE BANKS TO LEND MORE," HE SAID. "I WANT TO SEE AS MUCH BANK CREDIT AVAILABLE AS POSSIBLE."

JONES DERIDED THE BOARD'S CLAIMS THAT IT MADE ITS PROPOSALS TO FORESTALL POSSIBLE MONETARY INFLATION.

"I HAVEN'T SEEN ANY INCLINATION TOWARD INFLATION," JONES SAID. "AND I DON'T SEE WHY WE SHOULD EXPECT IT."

1/8--W0455P 20-0

J. Henderson
Copy to Mr Henderson
1/10/41

JAN 8th 1941

42

My dear Mr. President:

I think you may be interested in the attached chart, which shows that the cost of a 6-room frame house in the St. Louis area has increased 13 per cent since July, and shows in detail the individual cost items responsible for this increase.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

CC to Mr. Thompson

By Messenger 6th

JA

CC:law 1/10/41

FILE COPY

Residential construction costs 13 per cent above July

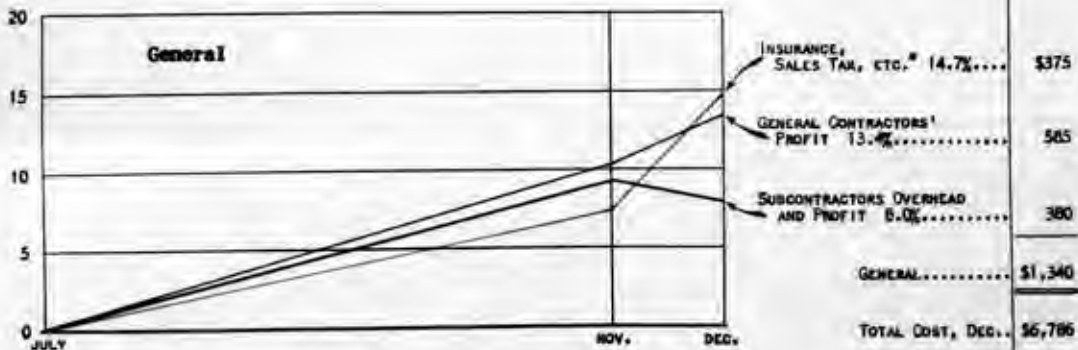
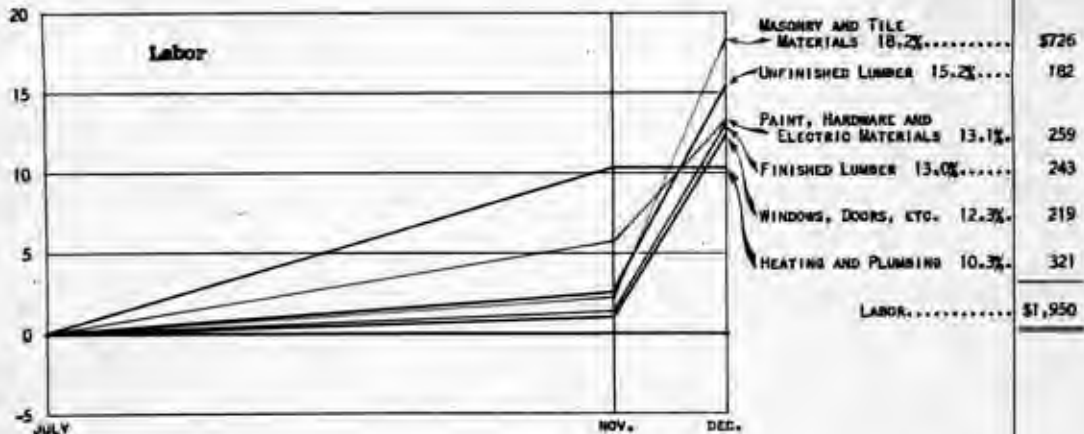
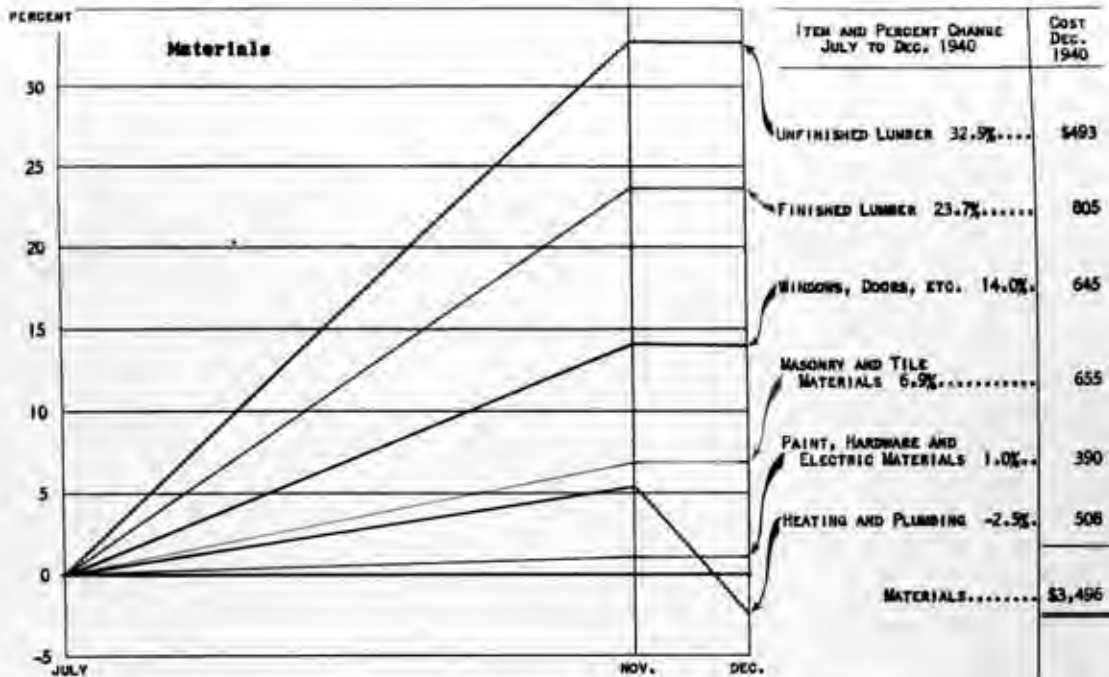
Estimated costs of construction for a standard 6-room frame house in the St. Louis district, compiled each month by the Real Estate Analyst, show an increase of 13 per cent since July. The itemized increases for materials, labor, and general costs are shown on the attached chart.

It will be noted that the largest percentage increase has been in the cost of finished and unfinished lumber. Lumber costs, however, levelled out between November and December. (The BLS figures on wholesale lumber prices also show a leveling out during the three weeks ended December 14, but in the last two weeks of December a further rise has carried them again to new highs.) The cost of heating and plumbing materials in December, according to this compilation, declined below the cost in July.

The greatest advance during the past month was in labor costs, and certain general costs have also increased. (Lower sections of chart.)

CHANGES IN COST OF CONSTRUCTION OF STANDARD
6-ROOM FRAME HOUSE, ST. LOUIS

Percentage Change, November and December over July 1940



* MISSOURI SALES TAX (NOW 2 PER CENT ON MATERIALS) OLD AGE AND UNEMPLOYMENT TAX (FEDERAL AND STATE), LIABILITY AND EMPLOYEES' COMPENSATION INSURANCE, FIRE AND TORNADO INSURANCE, COMPLETION BOND.

SOURCE: REAL ESTATE ANALYST.

TOTAL COST, DEC.	\$6,786
TOTAL COST, JULY.	\$6,004
INCREASE.....	\$782
PERCENT.....	13.0

~~Copy~~ sent to J. Walker
1-8-41
3 per meeting

MEMORANDUM

January 8, 1941

45

TO: The Secretary

FROM: Mr. Young

RE: Machine Tools for Russia

I discussed our entire clearance procedure with the Russian Ambassador and representatives of Amtorg on October 31, 1940. At that time they agreed to supply us with information as to outstanding orders, with particular reference to machine tools, and to establish a system of Preliminary Negotiation Reports so that future orders would be cleared through the President's Liaison Committee before they were placed.

On November 1, 1940 a representative of Amtorg came in and discussed the machine tool situation, and left with us the following machine tool lists:

1. List of equipment inspected and accepted by Soviet purchasing agencies for which export licenses have been thus far refused.
2. List of equipment in the process of manufacture, for which export licenses have thus far been refused.
3. List of equipment retained by the United States Government at manufacturers' plants.
4. List of equipment for which applications for export licenses have been filed, but not yet been acted upon.
5. List of equipment for which orders are intended to be placed.

During this conference it was agreed that Preliminary Negotiation Reports would be filed for all the machine tools included in Category 5 above.

On December 6, 1940 we received nine Preliminary Negotiation Reports from Amtorg. These covered 26

- 2 -

machine tools from Miles-Bement-Ford Company, Cincinnati Planer Company, and Clearing Machine Corporation, with a total value of approximately \$1,200,000. These were the first of such reports received from the Russians, and we have received none since. These reports were forwarded to the Army, Navy, and Defense Commission for clearance in the usual manner.

On December 20, 1940 while these reports were still pending, we discussed this list with Mr. Yost of the State Department over the telephone, and sent a complete list of the tools to Mr. Berle with a letter dated December 21 so that they could be checked against the agreements which the State Department had made with the Ambassador.

On December 26 we were advised by the Defense Commission that all these reports would be disapproved because of the needs of the U. S. defense program, but we suggested that they hold them in status quo rather than forward them with a disapproval pending receipt of word from the State Department as to whether they were covered by agreements with the Ambassador. We then contacted the State Department and were told that it would be necessary for them to know whether export licenses had been requested on these tools before they could determine whether they were included in those which the State Department had agreed to release. We inquired on this point from Amtorg on December 27, but were told that it was impossible to determine exactly which tools were covered by license applications since these under present regulations of the Administrator of Export Control must be filed by the manufacturer instead of by the purchaser.

We have discussed this situation briefly with representatives of the State Department since that time, but as yet have no reply to our letter of December 21, and the matter is therefore still pending. As it stands today these Preliminary Negotiation Reports will be disapproved by the joint recommendation of the War and Navy Departments and the Defense Commission, unless it is established that they are included in the tools which the State Department has agreed to release in its conversations with the Ambassador. The problem is for the State Department to indicate whether these particular tools were included in their agreement.

JCH:mc

STRICTLY CONFIDENTIAL

January 1, 1940 - January 4, 1941

	Bombers	Parasuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - July 6	589	630	986	104	480	2,693
July 7 - July 20	63	71	96	6	40	376
July 21 - Aug. 1	59	59	131	6	54	346
Aug. 2 - Aug. 15	55	74	139	4	51	360
Aug. 16 - Aug. 31	66	85	131	14	53	377
Sept. 1 - Sept. 14	28	61	172	6	45	300
Sept. 15 - Sept. 28	28	104	171	9	77	369
Sept. 29 - Oct. 12	25	116	206	8	64	419
Oct. 13 - Oct. 26	24	50	144	8	35	305
Oct. 27 - Nov. 9	38	108	159	8	58	342
Nov. 10 - Nov. 23	39	93	5	37	253	
Nov. 24 - Dec. 7	61	116	179	10	19	405
Dec. 8 - Dec. 21	63	134	136	2	72	368
Dec. 22 - Jan. 4	95	134	179	4	26	438
Subtotal July 7 - Jan. 4	621	1,223	1,579	92	601	4,116
Total Jan. 1, 1940 - Jan. 4, 1941	1,210	1,853	2,585	200	1,021	7,209
ARMY						
Jan. 1 - July 6	34	50	532	65	-	681
July 7 - July 20	4	21	60	2	-	91
July 21 - Aug. 1	17	40	74	4	-	189
Aug. 2 - Aug. 15	17	29	42	4	-	119
Aug. 16 - Aug. 31	6	32	45	6	-	135
Sept. 1 - Sept. 14	6	16	78	3	-	99
Sept. 15 - Sept. 28	6	52	87	1	-	145
Sept. 29 - Oct. 12	6	34	66	1	-	124
Oct. 13 - Oct. 26	6	14	62	1	-	112
Oct. 27 - Nov. 9	6	6	22	1	-	79
Nov. 10 - Nov. 23	4	6	31	2	-	43
Nov. 24 - Dec. 7	4	10	26	1	-	41
Dec. 8 - Dec. 21	1	12	43	1	-	56
Dec. 22 - Jan. 4	3	7	32	1	-	42
Subtotal July 7 - Jan. 4	72	283	313	16	-	1,284
Total Jan. 1, 1940 - Jan. 4, 1941	106	333	1,445	81	-	1,965
NAVY						
Jan. 1 - July 6	42	3	92	19	-	176
July 7 - July 20	7	-	12	2	-	21
July 21 - Aug. 1	2	-	13	2	-	18
Aug. 2 - Aug. 15	4	-	1	3	-	8
Aug. 16 - Aug. 31	4	-	7	6	-	18
Sept. 1 - Sept. 14	6	6	16	3	-	31
Sept. 15 - Sept. 28	8	13	26	3	-	50
Sept. 29 - Oct. 12	8	13	23	3	-	47
Oct. 13 - Oct. 26	8	12	9	3	-	37
Oct. 27 - Nov. 9	14	11	26	7	-	50
Nov. 10 - Nov. 23	17	5	30	4	-	46
Nov. 24 - Dec. 7	10	6	52	10	-	78
Dec. 8 - Dec. 21	10	11	49	8	-	78
Dec. 22 - Jan. 4	16	7	27	4	-	52
Subtotal July 7 - Jan. 4	86	74	285	74	-	519
Total Jan. 1, 1940 - Jan. 4, 1941	128	77	377	113	-	695
BRITISH ENGINE AND FINANCE*						
Jan. 1 - July 6	500	344	203	2	10	1,099
July 7 - July 20	25	44	17	2	-	114
July 21 - Aug. 1	42	57	29	1	-	147
Aug. 2 - Aug. 15	42	51	27	1	-	111
Aug. 16 - Aug. 31	22	48	15	1	-	65
Sept. 1 - Sept. 14	17	39	17	1	-	61
Sept. 15 - Sept. 28	11	62	14	1	-	61
Sept. 29 - Oct. 12	11	69	36	1	-	124
Oct. 13 - Oct. 26	13	21	38	1	-	73
Oct. 27 - Nov. 9	15	76	19	1	-	111
Nov. 10 - Nov. 23	28	67	27	1	-	123
Nov. 24 - Dec. 7	47	80	21	1	-	152
Dec. 8 - Dec. 21	54	61	21	1	-	166
Dec. 22 - Jan. 4	74	113	43	1	-	300
Subtotal July 7 - Jan. 4	424	743	437	2	26	1,672
Total Jan. 1, 1940 - Jan. 4, 1941	924	1,167	640	4	36	3,771
OTHER						
Jan. 1 - July 6	13	193	119	2	410	737
July 7 - July 20	-	6	7	-	40	53
July 21 - Aug. 1	-	4	2	-	29	35
Aug. 2 - Aug. 15	-	-	2	-	29	31
Aug. 16 - Aug. 31	17	-	2	-	42	61
Sept. 1 - Sept. 14	3	-	4	-	74	81
Sept. 15 - Sept. 28	3	-	4	-	74	81
Sept. 29 - Oct. 12	-	-	4	-	68	76
Oct. 13 - Oct. 26	-	-	4	-	34	42
Oct. 27 - Nov. 9	15	13	47	-	15	90
Nov. 10 - Nov. 23	7	11	6	-	15	39
Nov. 24 - Dec. 7	7	11	10	-	15	43
Dec. 8 - Dec. 21	6	7	7	-	16	36
Dec. 22 - Jan. 4	-	-	-	-	16	16
Subtotal July 7 - Jan. 4	39	63	544	-	278	1,094
Total Jan. 1, 1940 - Jan. 4, 1941	54	478	643	6	940	2,178

Subtotal July 7 - Jan. 4
Total Jan. 1, 1940 - Jan. 4, 1941

OFFICE OF THE SECRETARY OF THE TREASURY, DIVISION OF BUDGET AND FINANCE
* Includes all military aircraft purchased since July 7, 1940

January 4, 1941

January 1, 1940 - January 4, 1941

STRICTLY CONFIDENTIAL

TOTAL ALL PURCHASERS	Boomers	Parentite	Trainers	Other military planes	Commercial planes	Total
Jan. 1 - July 6	549	630	946	108	420	2,693
July 7 - July 20	63	73	98	6	40	276
July 21 - Aug. 1	56	99	131	8	58	346
Aug. 2 - Aug. 17	55	71	139	3	52	320
Aug. 18 - Aug. 31	52	65	111	34	53	317
Sept. 1 - Sept. 14	16	61	72	6	45	200
Sept. 15 - Sept. 24	26	104	171	9	77	389
Sept. 25 - Oct. 12	116	116	206	64	64	615
Oct. 13 - Oct. 26	28	50	144	6	95	309
Oct. 27 - Nov. 9	36	108	179	9	98	342
Nov. 10 - Nov. 23	39	93	146	6	19	303
Nov. 24 - Dec. 7	61	116	179	10	27	353
Dec. 8 - Dec. 21	53	113	156	9	72	366
Dec. 22 - Jan. 4	95	134	179	8	66	418
Subtotal July 7 - Jan. 4	621	1,023	1,979	82	601	4,516
Total Jan. 1, 1940 - Jan. 4, 1941	1,170	1,653	3,959	201	1,021	7,909
ARMY						
Jan. 1 - July 6	36	50	149	65	-	401
July 7 - July 20	4	31	40	1	-	76
July 21 - Aug. 1	11	40	74	4	-	129
Aug. 2 - Aug. 17	7	39	41	1	-	119
Aug. 18 - Aug. 31	6	37	46	2	-	107
Sept. 1 - Sept. 14	6	36	47	2	-	107
Sept. 15 - Sept. 24	4	34	45	-	-	102
Sept. 25 - Oct. 12	6	14	42	-	-	112
Oct. 13 - Oct. 26	6	4	31	2	-	63
Oct. 27 - Nov. 9	4	4	36	-	-	60
Nov. 10 - Nov. 23	4	30	56	-	-	130
Nov. 24 - Dec. 7	3	12	43	-	-	66
Dec. 8 - Dec. 21	3	7	32	-	-	42
Dec. 22 - Jan. 4	72	283	513	16	-	1,264
Subtotal July 7 - Jan. 4	106	333	1,445	81	-	1,965
Total Jan. 1, 1940 - Jan. 4, 1941	42	3	58	39	-	176
NAVY						
Jan. 1 - July 6	7	-	11	2	-	14
July 7 - July 20	2	-	1	3	-	6
July 21 - Aug. 1	6	7	14	6	-	14
Aug. 2 - Aug. 17	6	7	14	5	-	13
Aug. 18 - Aug. 31	4	6	14	3	-	13
Sept. 1 - Sept. 14	4	13	23	8	-	58
Sept. 15 - Sept. 24	8	12	9	6	-	37
Sept. 25 - Oct. 12	11	11	26	9	-	60
Oct. 13 - Oct. 26	17	5	30	4	-	46
Oct. 27 - Nov. 9	10	6	32	10	-	78
Nov. 10 - Nov. 23	2	11	43	2	-	64
Nov. 24 - Dec. 7	2	11	27	4	-	52
Dec. 8 - Dec. 21	14	74	205	78	-	519
Dec. 22 - Jan. 4	66	74	205	78	-	519
Subtotal July 7 - Jan. 4	128	77	177	113	-	695
Total Jan. 1, 1940 - Jan. 4, 1941	500	349	803	2	10	1,699
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - July 6	55	44	12	2	-	114
July 7 - July 20	42	27	42	-	-	111
July 21 - Aug. 1	48	38	74	-	-	160
Aug. 2 - Aug. 17	25	49	17	-	-	91
Aug. 18 - Aug. 31	17	22	14	-	-	53
Sept. 1 - Sept. 14	13	49	24	-	-	86
Sept. 15 - Sept. 24	11	69	56	-	-	134
Sept. 25 - Oct. 12	13	21	56	-	-	71
Oct. 13 - Oct. 26	13	76	76	-	-	165
Oct. 27 - Nov. 9	19	81	21	-	-	126
Nov. 10 - Nov. 23	14	81	21	-	-	126
Nov. 24 - Dec. 7	64	81	53	-	-	196
Dec. 8 - Dec. 21	74	113	113	-	-	300
Dec. 22 - Jan. 4	424	783	437	2	26	1,672
Subtotal July 7 - Jan. 4	924	1,167	640	4	36	2,771
Total Jan. 1, 1940 - Jan. 4, 1941	13	193	119	2	420	737
OTHER						
Jan. 1 - July 6	1	6	7	-	40	54
July 7 - July 20	1	2	2	-	58	63
July 21 - Aug. 1	17	-	29	-	99	145
Aug. 2 - Aug. 17	1	-	11	-	65	77
Aug. 18 - Aug. 31	1	-	44	-	73	120
Sept. 1 - Sept. 14	1	-	43	-	74	120
Sept. 15 - Sept. 24	1	1	45	-	34	81
Sept. 25 - Oct. 12	5	13	47	-	16	81
Oct. 13 - Oct. 26	5	13	47	-	16	81
Oct. 27 - Nov. 9	1	12	10	-	33	56
Nov. 10 - Nov. 23	1	12	10	-	33	56
Nov. 24 - Dec. 7	5	9	13	-	28	100
Dec. 8 - Dec. 21	39	63	344	-	26	444
Dec. 22 - Jan. 4	52	276	463	-	26	617
Subtotal July 7 - Jan. 4	52	276	463	-	26	617
Total Jan. 1, 1940 - Jan. 4, 1941	39	63	344	-	575	1,041

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

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

January 4, 1941.

103 NEWLANDS STREET
CHEVY CHASE, MARYLAND

7th January, 1941

Dear Mr. Magenta,

I take pleasure in enclosing
a telegram from General Chiang Kai shek, thanking
you for receiving the hundred percent planes
for us. I hope I may not be considered
effusive, but I am profoundly touched
by your working even on Christmas and New Year's
Day to help us.

I learn that you will soon be
leaving Washington for a couple of weeks, and I
hope you & Mrs. Magenta will honor us by
coming to a Chinese dinner at my house before
you leave.

Truly Yours
T. V. Song

January 8, 1941

Translation of Chinese telegram from General Chiang Kai-shek to Secretary Morgenthau dated January 6, 1941.

I have just received a telegram from Dr. T. V. Soong that your untiring efforts to obtain the much needed airplanes for the defence of our cities and of the Burma Road have proved successful. My appreciation is all the greater as I realize the tremendous pressure from all countries for the release of airplanes, the production of which is still so limited.

It is an urgent matter for all of us to secure air support for our large scale counter-attack on the Japanese in China, and in particular to bring home the attack by bombing Japan itself, and may I beg you to continue your efforts along that line. Again with warmest thanks.

(signed) Chiang Kai-shek

(Copy of rough draft of memorandum handed by Mr. Pinsent of the British Embassy to Mr. Cochrane in the Treasury on January 8, 1941.)

1. Stepping up of expenditure

1939 may be ignored; the Neutrality Act was only amended in November, and no serious purchasing by the British Missions was started till 1940.

The following figures show, in round figures,

the actual expenditure of the missions for 1940 and the estimated expenditure for 1941:-

January - June 1940	\$350,000,000
July - December 1940	\$ 1,000,000,000
January - June 1941	\$ 2,000,000,000
July - December 1941	\$ 2,500,000,000

These figures, giving a total estimated expenditure of \$4,500 millions for 1941, cover only the programmes (known as Programmes 1, 2 and 3) which have been submitted to the Secretary of the Treasury during his discussions with Sir Frederick Phillips. If the schedule of needs which Mr. Purvis has since submitted is taken into account, and assuming that the maximum effort is made to meet those needs from American production, the total expenditure for 1941 might amount to \$7,500 millions; but there may be a wide margin of error either way in this figure.

2. Payments and deliveries.

During 1940, the British Purchasing Missions made payments to the amount of \$1,350 millions and received deliveries to the value of \$800 millions, so that payments exceed deliveries for 1940 by \$550 millions. Of this about \$160 millions in capital and \$390 millions down payments on contracts.

3. Drop of reserves during 1940

At the beginning of 1940 our holdings of gold and foreign exchange amounted to \$2,100 millions. At the end, they amounted to \$400 millions. Thus, during 1940 there was a net loss of some \$1,700 millions.

Many factors went to build up this figure. The net adverse balance of the sterling area with the United States during that period was of the order of \$1,380 millions, including \$1,350 millions expended by the British Purchasing Missions. On the credit side have to be brought in newly-mined gold (\$500 millions) and the sale of U.S. securities (\$250 millions); on the debit side there is the loss of gold and dollars to third countries, and above all to Canada.

Beside these current items, there is a very large element of capital withdrawal in our dollar balance of payments. Since the beginning of the war something like 2 millions of U.S.-owned capital was withdrawn and sold on the free market. This sterling was available to pay debts in the sterling area, while the dollars counterpart never reached our control. Our desire not to penalise foreign holders of balances and investments led, therefore, to an enormous indirect drain on our resources: such the greatest beneficiaries of this policy were residents in the U.S. who held larger balances and investments than any other class of non-residents.

b. Net dollar deficit of the sterling area.

Setting on one side all the orders which have been placed, or would be placed by the British Purchasing Missions but for the lease-loan plan, the sterling area still has a net deficit of some \$200 millions a year, in round figures, on current account in gold and dollars. This is arrived at as follows:-

(In millions of U.S. dollars)

Favourable balance of sterling area with U.S., excluding payments by British Purchasing Missions	195	Expenditure in gold and dollars by sterling area in countries other than U.S. and Canada	248
Newly mined South African gold	480	Net adverse balance with Canada (see note below)	620
Net dollar deficit	<u>193</u>		<u>868</u>
	<u>868</u>		<u>868</u>

This figure of \$193 millions is likely to increase as our purchases of essential goods from Canada increase; and it must be met from our reserves of gold and dollars. The figure given above for our adverse balance with Canada takes into account all they can do to help us by repatriation of debt and purchase of Canadian securities from us.

If the lease-loan plan did not cover the whole of what would otherwise be procured by the British Purchasing Missions, the difference would have to be added to the above net dollar deficit of \$193 millions.

5. Marketable securities.

(In millions of U.S. dollars)

A. Sold, as of January 6, 1941

Vested		117
Unvested		<u>216</u>
		<u>333</u>

B. Unsold, as of January 6, 1941.

Vested		229
Unvested	527	

Deduct sterling bonds with
dollar option which in
practice may prove un-
saleable

<u>140</u>	<u>387</u>
------------	------------

<u>Remaining total</u>		<u>616</u>
------------------------	--	------------

The total of securities set out above, including the sterling bonds with dollar options, comes to \$1.090 millions, as compared with the Federal Reserve Board's estimate of \$735 millions. (December 1939 Bulletin). It appears that a material part of the investments classified by the F.R.Bd. as "direct investments" have in fact been registered under our regulations and are available for vesting.

January 8, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Additional Data on West Coast Aluminum Situation

We have now received more specific information on the West Coast aluminum situation from the Defense Commission which can be summarized under the following headings:

1. Ingot

All West Coast ingot requirements in 1940 were supplied by Alcoa's Vancouver, Washington, and Los Angeles, California, ingot facilities. These are now being expanded, and it is anticipated that they will be more than adequate for all contemplated West Coast requirements. In addition, there are several secondary smelters on the West Coast which are believed to have sufficient capacity to remelt all available scrap.

2. Forgings

Alcoa's Los Angeles, California, forging plant is the only one on the West Coast. It supplied 65 per cent of West Coast aircraft forging requirements in 1940 and is being expanded so as to care for approximately 85 per cent of these requirements. The remaining 15 per cent, consisting probably of large forgings, will be supplied from Alcoa's Cleveland, Ohio, plant.

3. Sand Castings

Alcoa's foundry at Los Angeles, California, together with other West Coast foundries supplied 100 per cent of West Coast requirements during 1940. A substantial increase in Alcoa's capacity will be available in March, 1941, and it is believed that this increase, together with existing facilities, will take care of all anticipated West Coast requirements for sand castings.

4. Permanent Mold Castings

Facilities on the West Coast were adequate to satisfy the entire demand in 1940, and it is estimated that they are also adequate to supply any anticipated increased demand.

5. Rivets

Approximately 50 per cent of West Coast requirements were taken care of by the plants there during 1940. Substantial increases in this capacity will be available by August, 1941, and it is anticipated that this increased capacity will be sufficient to take care of present or anticipated West Coast requirements.

6. Extrusions

There was no capacity for the production of extrusions on the West Coast during 1940. Alcoa is installing at Los Angeles, California, 5 large extrusion presses and all auxiliary equipment necessary for their operation. The first two presses will be in operation in March, 1941, and all of them by September, 1941, at which time extrusion capacity will be sufficient to take care of approximately one-half of West Coast requirements.

7. Sheet

There was no sheet capacity on the West Coast during 1940. With respect to the future, the Defense Commission advised us as follows:

"Alcoa does not contemplate installing, for the present, a sheet mill on the West Coast although it plans to do so eventually.

"In order to meet national defense requirements for high strength aluminum alloy sheet, Alcoa now has under construction sheet mill expansion at Alcoa, Tennessee, (near Knoxville), capacity approximately 10,000,000 pounds per month, which, when completed, will supplement existing sheet facilities in the country to an extent ample to take care of all sheet requirements at present contemplated by national defense as well as normal civilian requirements. The reason for locating this sheet mill expansion at Alcoa was that it could be put into operation much more speedily there than at any other location because machine tools necessary to its operation are already available at Alcoa and trained personnel, which more than any other factor determines the speed with which such a mill may be put into operation, also is available at Alcoa. Due to these two factors, a sheet mill located at Alcoa will be producing large quantities of aluminum sheet by a number of months sooner than would have been the case at any other location.

"Alcoa plans eventually to build a sheet mill on the West Coast to take care of all or a part of West Coast requirements. This will be done either by establishing a new sheet mill there, or else transferring some of its present sheet mill machinery to the West Coast, only when, however, the national defense aircraft sheet requirement status shall have become such as to permit the transfer of rolling mill machinery to the West Coast, the securing of the necessary machine tools to maintain such a plant at that location, and the training of the necessary personnel to operate such a plant."

8. Rod, Wire, Tubing

There were no facilities on the West Coast for the production of rods, wire, or tubing in 1940, and the installation of such capacity is not contemplated at present.

FDU.

Treasury Department
Division of Monetary Research

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Date.....19

To: Miss Chauncey

From: L. Shanahan

Both memos went to Mr. D. W. Bell

Jan. 8, 1941.

The Recommendations Made to Congress by the Board of Governors of the Federal Reserve System, Presidents of the Federal Reserve Banks and the Federal Advisory Council

Summary. The Federal Reserve System recommends:

1. Additional powers over reserve requirements for the Reserve System. It wants Congress to establish a statutory floor for reserve requirements equal to the present maxima, give power to the Reserve System to double these statutory levels, power to fix reserve requirements for non-member banks, and authority to vary the rates for types of banks.

2. Expanded powers for the Open Market Committee and contracted for the Board of Governors. Control of reserve requirements should be transferred from the latter to the former; the Open Market Committee is the body which the Treasury is asked to consult on certain other matters.

3. Removal of certain monetary powers from the President and the Treasury. These are the powers to devalue the dollar, to issue \$3 billion of greenbacks, to monetize purchases of foreign silver, and to issue silver certificates against the seigniorage on previous silver purchases.

4. Consultation by the Treasury with the Open Market Committee. They request consultation prior to any operation of the Stabilization Fund which will affect excess reserves and in the event that any gold purchases are not sterilized or "insulated" from the credit system.

5. Policies for the Government to follow. They want the issuance of gold certificates to be stopped, Government borrowing from commercial banks to be either stopped or curtailed, and the budget to be balanced as nearly as possible and as soon as possible.

The above recommendations, in their present form, have serious disadvantages:

(1) They are aimed primarily at increasing the rate of interest and the income of bondholders.

(2) They give to an agency which has no fiscal responsibility and which is only remotely responsible to the public, powers: (a) greatly to increase the cost of the defense program and (b) even to impose serious obstacles in the

- 2 -

path of that program should the banking group so desire.

(3) They cut down the emergency powers of the President and the Treasury at a time when the Government is confronted with an entirely unpredictable economic situation, comparable in its potentialities with the year 1932.

It is a specious argument that the mere possession by the Government of such powers constitutes a threat of inflation. The Federal Reserve System has the power to increase bank reserves by \$20 billions or more through the purchase of securities. But the Reserve System does not argue that possession by them of such an inflationary power is dangerous.

(4) They greatly augment the powers of the banking group as against the Board of Governors by giving the representatives of the Federal Reserve Banks five votes as against six (or seven) votes of the Board in determining changes in reserve requirements. Essentially this development would be a reversion of monetary control from the Government to the bankers.

(5) It is quite misleading and alarmist to imply that the mere existence of a large volume of excess reserves of itself constitutes an imminent danger of inflation. This is not to deny that the time may come when it will be desirable to tighten the money market in order to curtail borrowing by private interests. Still further, this is not to deny that at the present time there are occurring price increases resulting from monopolistic control and bottlenecks of capacity raw materials or skilled labor which require the application of specific measures of control. It does deny that the present situation calls for overall monetary controls to prevent inflation.

(6) If emergency measures to reduce excess reserves are called for, it should not be overlooked that the Treasury and the Federal Reserve System already have strong powers. For example:

(a) The Reserve System now has the power to raise reserve requirements by about \$1-1/4 billion.

(b) The Reserve System can sell some of its \$2-1/3 billion worth of Government securities and thereby reduce excess reserves.

(c) The Treasury can withdraw sums without practical limit by the simple operation of selling bills and transferring the proceeds to the Federal Reserve banks.

- 3 -

(d) The Treasury can reduce excess reserves by an additional \$1/2 billion merely by transferring its deposits from banks to the Federal Reserve banks.

(e) The Treasury already has the power to sterilize inflowing gold as it did in 1937.

(f) Finally, the Federal Reserve Bank has the power to reclassify banks. This power of reclassification, which could be used for the emergency period, enables the Board to increase reserve requirements by several billion dollars.

(7) However, in the near future it may be deemed desirable to give additional control over excess reserves by means of a single device. Adequate attention to the needs of the defense program, and more generally of the public interest, would require that if this broad power is granted to the Federal Reserve System Congress should require that it be exercised only with the approval of the Secretary of the Treasury.

Treasury Department
Division of Monetary Research

62

Date 1/8/41 19

To: Mr. Bell

From: Mr. White

This is the final revision suggested by Dr. Viner for the so-called "weak" draft. It is referred to as Draft No. 1. Will you please destroy the earlier version of this draft and write at the top of the other so-called "strong" draft Alternative Draft No. 2

The Recommendations Made to Congress by the Board of Governors of the Federal Reserve System, Presidents of the Federal Reserve Banks and the Federal Advisory Council

Summary. The Federal Reserve System recommends:

1. Additional powers over reserve requirements for the Reserve System. It wants Congress to establish a statutory floor for reserve requirements equal to the present maxima, power for the reserve system to double these statutory levels, power to fix reserve requirements for non-member banks, and the authority to vary the rates for types of banks.

2. Expanded powers for the Open Market Committee and contracted for the Board of Governors. Control of reserve requirements should be transferred from the latter to the former; the Open Market Committee is the body which the Treasury is asked to consult on certain other matters.

3. Removal of certain monetary powers from the President and the Treasury. These are the powers to devalue the dollar, to issue \$3 billion of greenbacks, to monetize purchases of foreign silver, and to issue silver certificates against the seigniorage on previous silver purchases.

4. Consultation by the Treasury with the Open Market Committee. They request consultation prior to any operation of the Stabilization Fund which will affect excess reserves; and also whenever gold purchases are not sterilized or "insulated" from the credit system.

5. Policies for the Government to follow. They want the issuance of gold certificates to be stopped, Government borrowing from commercial banks to be either stopped or curtailed, and the budget to be balanced as nearly as possible and as soon as possible.

Comment.

The Treasury concurs fully in the statements of the Reserve System as to the importance of the problems of financing the Defense Program, as to the undesirability of inflation, and the need to strengthen the powers to deal with the financial emergencies that may lie ahead.

- 2 -

The Treasury would agree with the Reserve System that the rapid increase of defense expenditures makes it desirable that the Government should be given additional powers to prevent inflation.

1. Additional Powers for Reserve System. The Treasury agrees that there should be greater and more flexible control of reserve requirements. This is in line with the general principle that discretionary powers should be available in order to deal with rapidly changing financial conditions.

These additional powers over reserve requirements if vested solely in the Reserve System would enable the Reserve System, in periods like the present, substantially to affect the ability of the Government to finance its defense effort. Therefore, the discretionary powers to change the reserve requirements should not be exercised without the concurrence of the Secretary of the Treasury.

2. More powers for the Open Market Committee. The Treasury believes that the proposed enlargement of the powers of the Federal Open Market Committee and the proposed contraction of the powers of the Board of Governors are unwise. To give the Open Market Committee control over reserve requirements in addition to their control of open market operations would be to depart even further than at present from the principles of democratic control and of centralized authority over the monetary system. On the contrary, we would recommend that not only the proposed power to regulate reserves but also the existing powers over open market operations should be given to the Board of Governors of the Federal Reserve System and that the Open Market Committee should be made exclusively an advisory board.

3. Less powers for President and Treasury. The Treasury does not agree with the Reserve System in its contention that the specified emergency monetary powers of the President and the Treasury should be abolished. The emergency monetary powers in question were granted to the Government to enable it to cope with extraordinary deflations. The fact that no such deflation is now expected does not mean that one will never occur. The Government's record on this matter -- largely a record of not using these powers -- does not warrant any fear that they will be used to generate an inflation. It might be pointed out that the Reserve System has a similar power of much greater magnitude, with respect to which it has made no similar recommendation. For

- 3 -

instance, the System has the power, by the open-market purchase of securities, to increase the reserves of banks by more than \$20 billion, and consequently to facilitate an increase in the supply of money of even greater dimensions.

4. Consultation with Reserve System. The Treasury believes that free consultation between the Reserve System and the Treasury on all important banking and monetary matters of mutual concern should be the general practice.

5. Government Policies. The Treasury is in general agreement with the statements of the Reserve System on the subjects of the budget, taxation, and borrowing from banks. However, on the subject of gold acquisitions the Treasury believes that their effect upon excess reserves is only one of several important considerations which should determine the Government's policy.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE January 8, 1941

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Recent Movements in the High-Grade Securities Markets;
 Excess Reserves; Estimated Supply of Tax-Exempt
 Securities.

Summary

- (1) Sharp declines in the prices of Treasury securities have accompanied the publication of the Federal Reserve System's "five-point program" of monetary and banking policy (Charts I and II). High-grade corporate bonds meanwhile continued strong (Chart II), but municipals declined (Chart III).
- (2) In the year ended December 31, 1940, the excess reserves of member banks increased by about \$1.4 billions to \$6.6 billions. This increase is about double the average increase during the preceding 7 years. The increase in excess reserves since 1932 has been due almost entirely, and that during the past year completely, to the increase in monetary gold stock (Chart IV).
- (3) During the year ended June 30, 1940 the amount of privately held tax-exempt securities outstanding increased by about \$1.5 billions. This increase was more than accounted for by the increase in partially tax-exempt Federal issues. During the decade of the thirties such issues have accounted for about 80 percent of the total increase of \$25.8 billions in tax-exempt securities. This contrasts with the preceding decade during which the decrease in the outstanding supply of partially tax-exempt Federal securities was just about offset by the increase in the wholly exempt securities of State and local governments (Chart V).

Secretary Morgenthau - 2

1. United States Government and Other
High-Grade Securities

The announcement of an impending policy statement by the authorities of the Federal Reserve System and the subsequent release on January 1 of the Special Report of the System to Congress, embodying the "five-point program", were accompanied by sharp declines in the prices of Treasury securities. Long-term Treasury bonds have fallen about 1-3/4 points since the close on Monday, December 30. Intermediate-term bonds have lost somewhat less than long bonds. The weakness of Treasury notes has been relatively less than that of bonds. Price changes are shown, by maturity classes, in Chart I and in the following table:

	Average price change December 30 - January 7
	(Decimals are thirty-seconds)
<u>Notes</u>	
1 to 3 years	- .05
3 to 5 years	- .10
<u>Bonds</u>	
5 to 15 years to call	-1.07
15 years and over to call	-1.22

Offerings during the break were not large but buyers showed little interest except at rather substantial price reductions and appeared to be unwilling to follow prices up.

In surprising contrast to the movement of the average yield of long-term Treasury bonds our index of high-grade corporate bond yields indicates a slight rise in corporate bond prices since December 30 (Chart II). Municipals, however, have declined on balance (Chart III).

Secretary Morgenthau - 3

II. Excess Reserves

In the 12 months ended December 31, 1940, the excess reserves of member banks increased by about \$1.4 billions to \$6.6 billions. The latter figure represents some decline from the all-time high of \$7.0 billions reached on October 31. This decline, however, is due entirely to the seasonal increase of money in circulation, and there is no reason to suppose that the factors which have been making for the increase in excess reserves during the past 3 years, will not resume their forward march from now on.

Changes in the factors contributing to the growth of member bank reserves, in the factors offsetting the growth of member bank reserves, and in member bank reserves themselves, are shown in Chart IV and in the table below:

	Dec. 31, 1938	Dec. 31, 1939
	-Dec. 31, 1939	-Dec. 31, 1940
	(Billions of dollars)	
<u>Factors Contributing to the Growth of Member Bank Reserves:</u>		
Monetary gold stock	+ 13.4	+ 4.3
Treasury currency	+ .8	+ .1
Federal Reserve holdings of Government securities	+ .6	- .3
Other Federal Reserve credit	- .2	0
Total	+ 14.6	+ 4.1
<u>Factors Offsetting the Growth of Member Bank Reserves:</u>		
Money in circulation	+ 2.2	+ 1.1
Treasury gold	+ 2.1	- .2
Other Treasury cash	+ .7	- .3
All other	+ .5	+ 1.1
Total	+ 5.5	+ 1.7
<u>Member Bank Reserves:</u>		
Required reserves	+ 4.5	+ 1.0
Excess reserves	+ 4.6	+ 1.4
Total	+ 9.1	+ 2.4

Secretary Morgenthau - 4

The increase of \$1.4 billions in excess reserves during the past year is about double the average increase of \$0.7 billion during the preceding 7 years.

The increase during the past year, even more than that during the preceding 7 years, has been dominated by the increase in monetary gold stock. This one factor, which accounted for about 92 percent of the total of all factors contributing to the growth of member bank reserves during the earlier 7 year period, accounted for more than the whole of them during the past year -- the other factors (principally Federal Reserve holdings of Government securities) operating, on balance, in the reverse direction.

III. Estimated Amount of Privately Held Tax-exempt Securities

An estimate of the amount of privately held tax-exempt securities outstanding as of June 30, 1940 was published in the December issue of the Treasury Bulletin. Changes during the twelve-month period ended June 30, 1940, in the privately held supply of tax-exempt securities are presented in the table below. (Securities held by the Federal Government, its agencies and trust funds, Federal Reserve Banks, and by State and local government sinking funds are not included in the privately held supply.)

(Billions of dollars)

Issuer and type of tax exemption	: Net change - year : ended June 30, 1940 :
State and local governments	+ .2
Federal Government and instrumentalities:	
Wholly exempt	- .4
Partially exempt	+ 1.7
Total	+ 1.5

Secretary Morgenthau - 5

Chart V shows the estimated amounts of privately held tax-exempt securities annually, as of June 30, since 1913. It is interesting to compare the changes in the past decade with those during the twenties. These changes are shown in the following table:

(Billions of dollars)

Issuer and type of tax exemption	Net change	
	: June 30, 1920— : June 30, 1930	: June 30, 1930— : June 30, 1940
State and local governments	+ 9.0	+ 2.3
Federal Government and instrumentalities:		
Wholly exempt	+ 1.7	+ 3.1
Partially exempt	- 9.3	+20.4
Total	+ 1.4	+25.8

It will be seen that during the decade of the twenties wholly tax-exempt issues of State and local governments accounted for an increase of \$9.0 billions, most of which was offset by a decrease in the Federal debt, principally in partially exempt securities. The total increase in tax-exempt securities for the decade was \$1.4 billions. During the last decade, however, about 80 percent of the total increase of \$25.8 billions in tax-exempt securities was accounted for by partially tax-exempt securities of the Federal Government and its instrumentalities.

Chart I

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

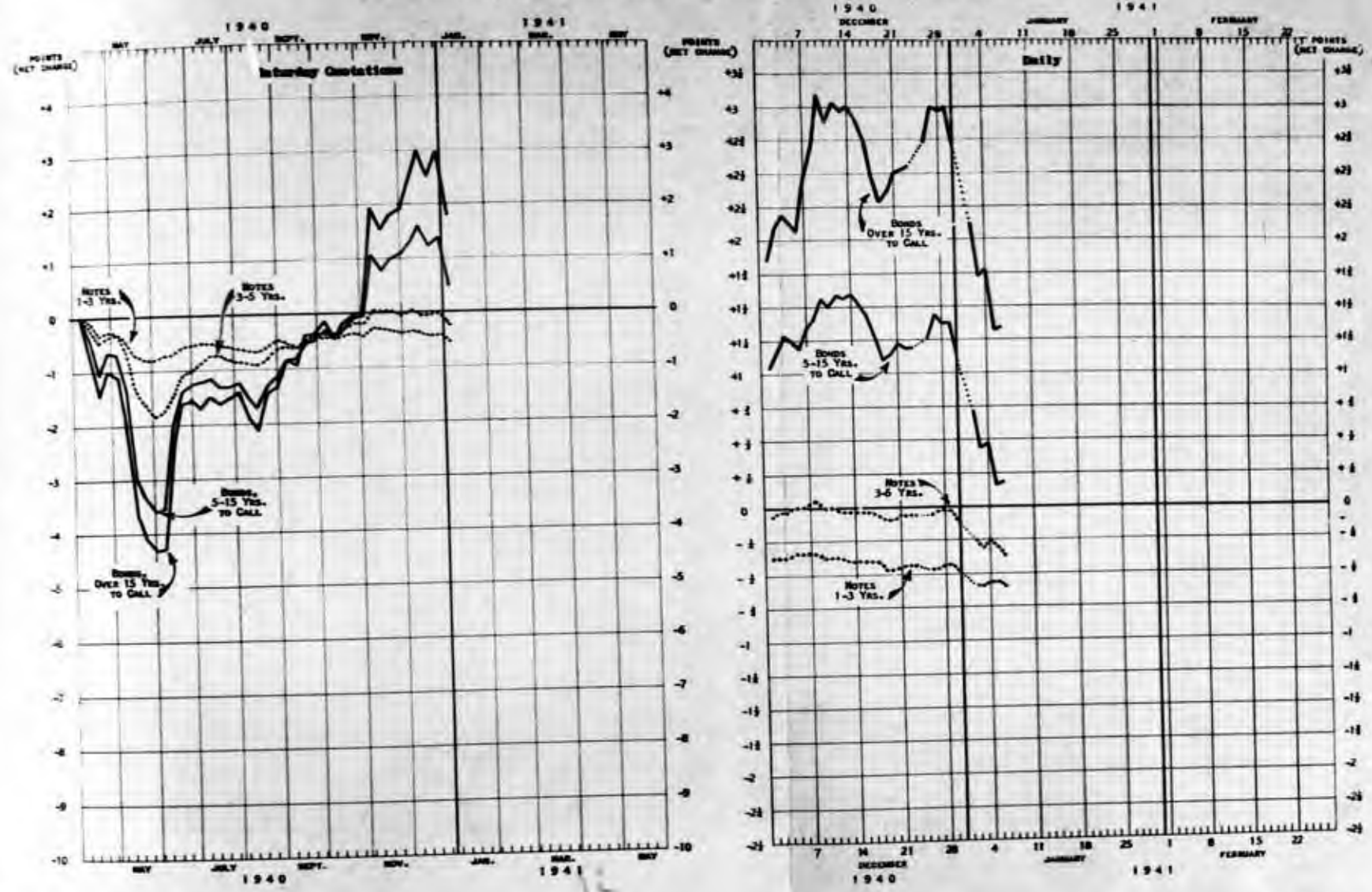
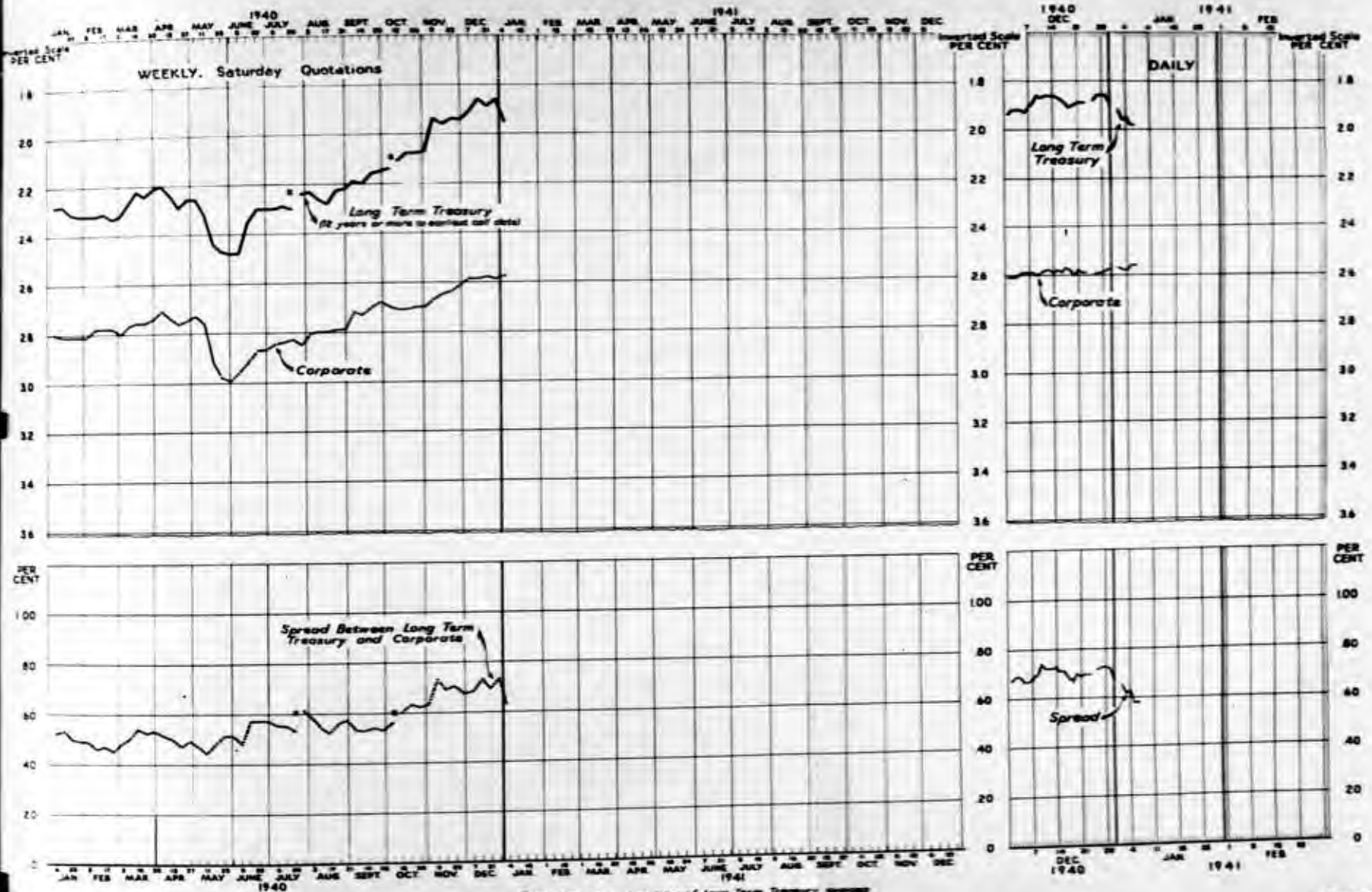


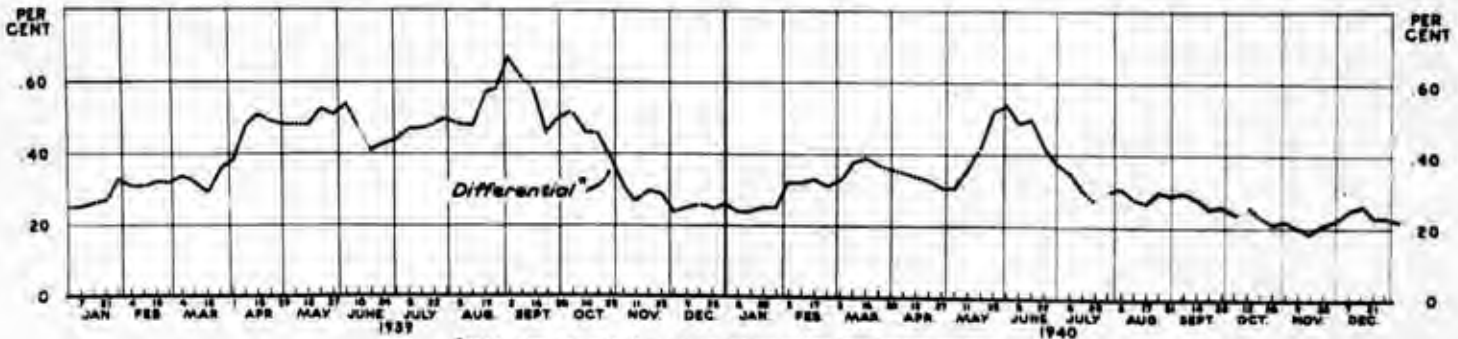
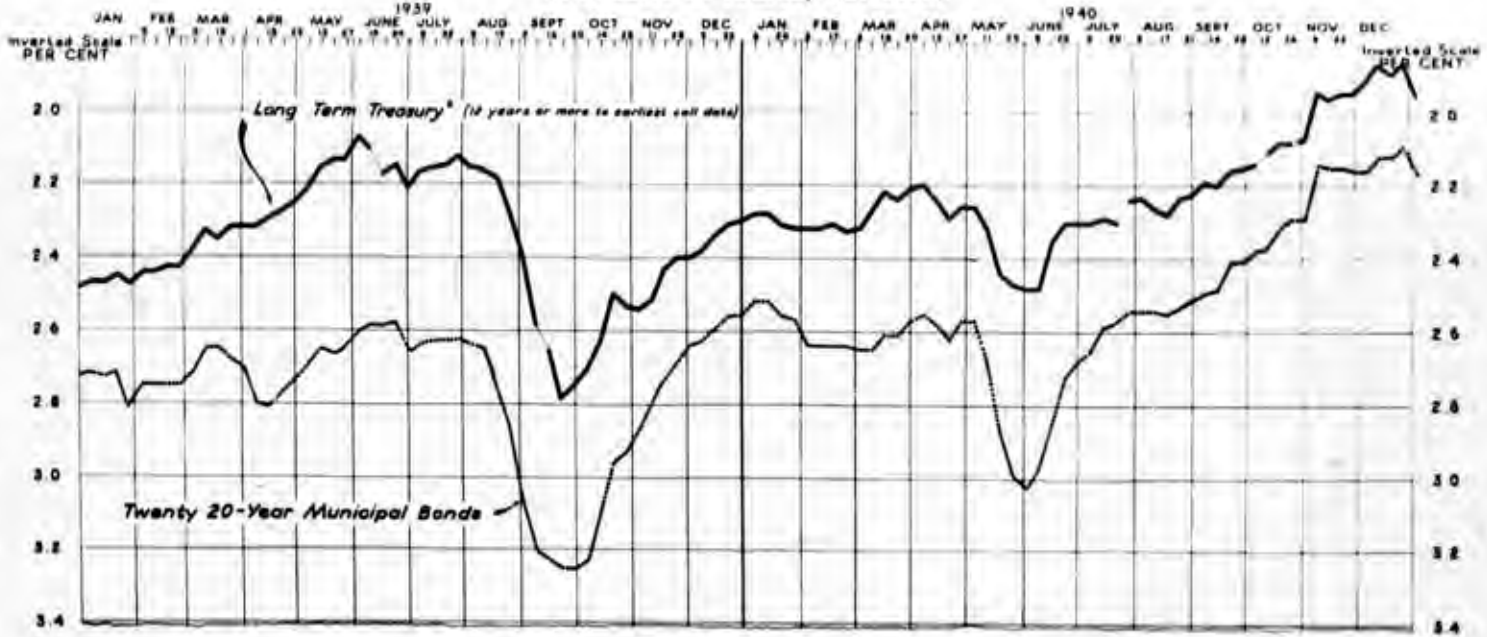
Chart II

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

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 Economic Warfare

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

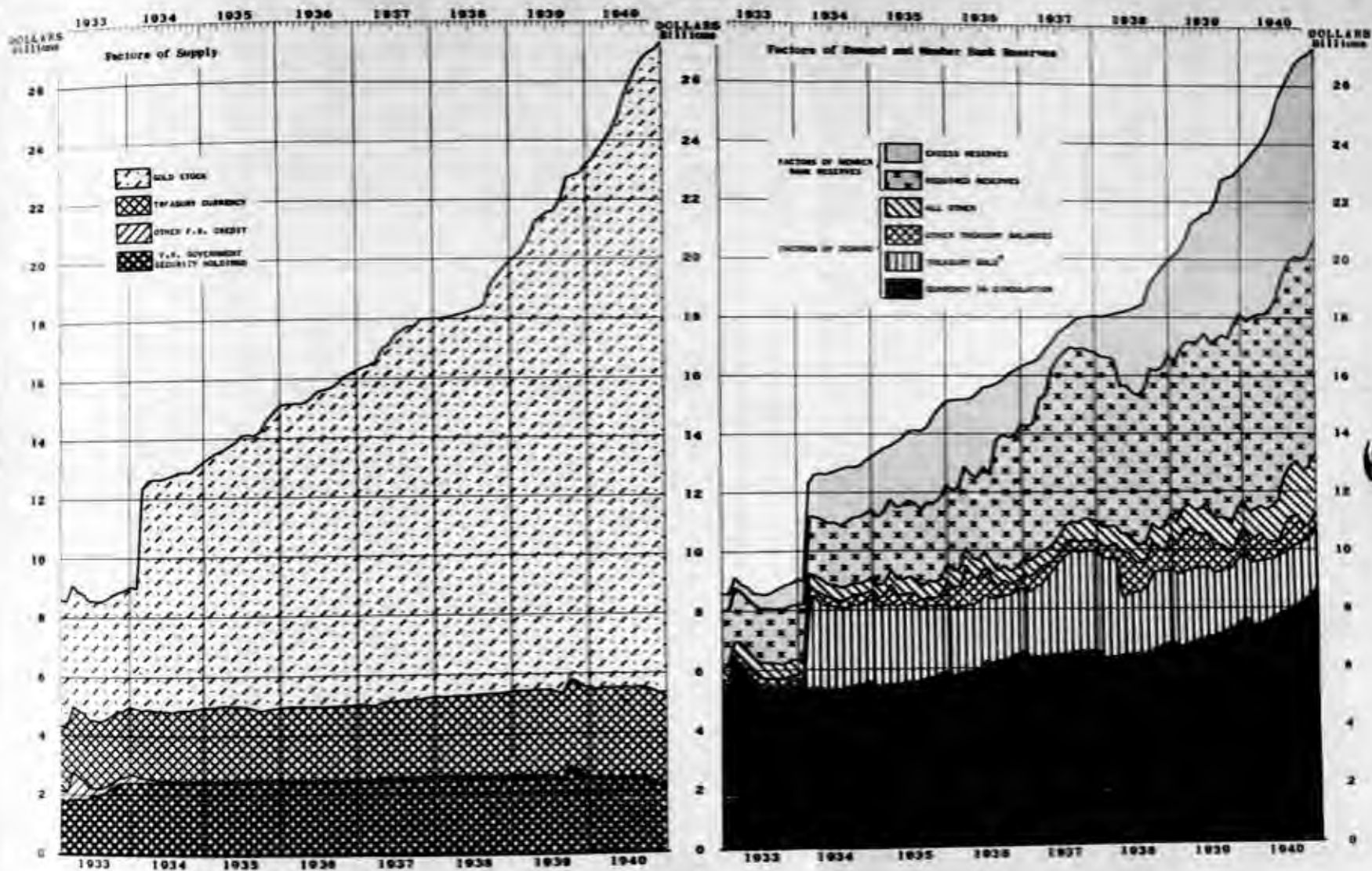
F-134-A

73

74 Chart IV

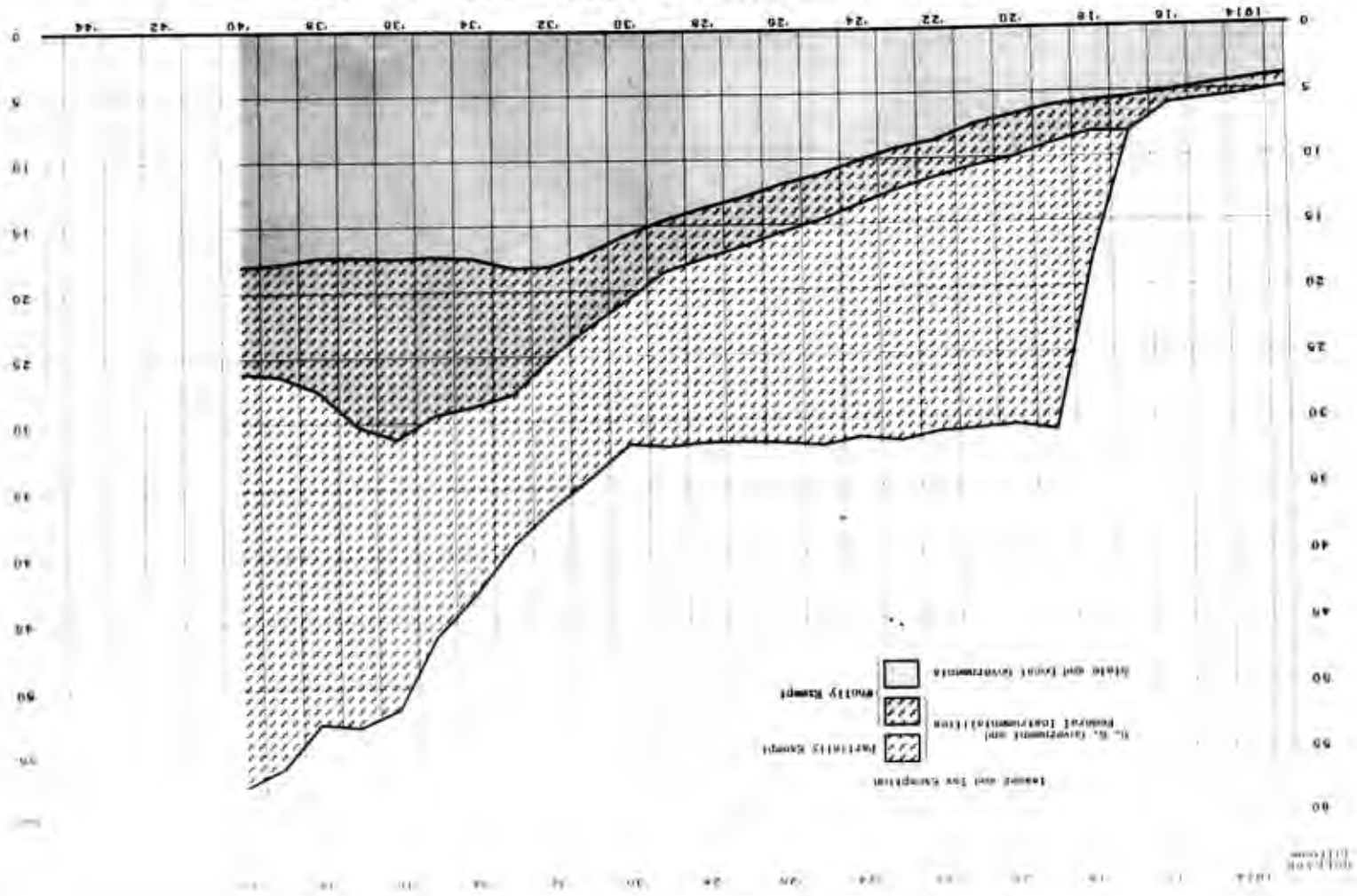
FACTORS AFFECTING MEMBER BANK RESERVES

MONTHLY



*Data to Stabilization and General Probs.

Estimated gross assets outstanding from estimated amounts held by U.S. Government, its agencies and trust funds. Federal Reserve banks and by State and local government clearing funds.



U.S. GOVERNMENT PRINTING OFFICE: 1973

January 8, 1941

My dear Cordell:

I am transmitting herewith,
for your records, a photostat of
the initialed copy of the bill to
promote the defense of the United
States.

Yours sincerely,

Henry

Honorable Cordell Hall,

Secretary of State.

Enc.

By ~~_____~~ 9th 1/9/41

January 8, 1941

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**Honorable Cordell Hull,
Secretary of State.**

By Messenger

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By Messers

January 8, 1941

My dear Mr. Stimson:

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States.

Yours sincerely,

(Signed) E. M. Mowbray, Jr.

Honorable Henry L. Stimson,
Secretary of War.

Enc.

By Messenger 7⁰⁰ on 1/9/41

January 8, 1941

My dear Mr. Stimson:

I am transmitting herewith, for your records, a photostat of the initialed copy of the bill to promote the defense of the United States.

Yours sincerely,

(Signed) E. M. V. *[Signature]*

Honorable Henry L. Stimson,
Secretary of War.

By Message

January 8, 1941

My dear Mr. Stinson:

I am transmitting herewith, for your records, a photostat of the initialed copy of the bill to promote the defense of the United States.

Yours sincerely,

(Signed) E. Morganthau, Jr.

Honorable Henry L. Stinson,
Secretary of War.

By Messenger

January 8, 1941

My dear Frank:

I am transmitting herewith,
for your records, a photostat of
the initialed copy of the bill to
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States.

Yours sincerely,

Henry

Honorable Frank Knox,
Secretary of the Navy.

Enc.

By Messenger 9⁰⁰ am 1/9

January 8, 1941

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Secretary of the Navy.

By Messenger

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Henry

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Secretary of the Navy.

By Messenger

January 8, 1941

My dear Mr. Forster:

I am transmitting herewith, for the official records, three photostats of the initialed copy of the bill to promote the defense of the United States.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Mr. Rudolph Forster,
Executive Clerk,
The White House.

J. E. M.

By Messenger 6⁰⁰

January 8, 1941

My dear Mr. Forster:

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By Messenger

January 8, 1941

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(Signed) H. Morgenthau, Jr.

Mr. Rudolph Forster,
Executive Clerk,
The White House.

By Manager

A BILL

To furnish support to those nations whose defense is vital to the defense of the United States.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "An Act to promote the Defense of the United States."

Sec. 2. As used in this Act —

(a) The term "defense article" means:

- (1) Any weapon, munition, aircraft, vessel, or boat;
- (2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
- (3) Any component material or part of or equipment for any article described in this subsection;
- (4) Any other commodity or article for defense.

Such term "defense article" includes any article described in this subsection: Manufactured or procured pursuant to section 3; to which the United States has or hereafter acquires title, possession, or control; or owned, leased, or otherwise held by any foreign government.

- 2 -

- (b) The term "defense information" means any plan, specification, design, prototype, or information pertaining to any defense article or to defense.

Sec. 3(a). Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government:

- (1) To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, any defense article for the government of any American republic, or any other country, belligerent or neutral, whose defense the President deems vital to the defense of the United States.
- (2) To sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any defense article.
- (3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order any defense article for any such government.
- (4) To communicate any defense information to any such government.

(5) To export any defense article to any such government.

(b) The terms and conditions upon which any such foreign government receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the United States may be payment or repayment in kind or property, or any other direct or indirect benefit which the President deems satisfactory.

Sec. 4. All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee, or agent of such foreign government.

Sec. 5. The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 1090), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

Sec. 6(e). There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise

- 4 -

appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended in acquiring the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Sec. 7. The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any such defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which is hereby authorized to be disposed of and the payments collected for royalties on such patents shall be paid to the owners and holders of such patents.

Sec. 8. The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the

- 5 -

defense of the United States.

Sec. 9. The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct.

OK for OK H.S.

OK. J.M.P.

FK
OH

1/10/41

93

Mrs. Klotz told Mr. Young today that the Secretary wanted him to work directly with Secretary Knox on this matter.

URGENTCONFIDENTIAL

January 8, 1941

To: The Secretary

From: Mr. Young

1/4

Attached herewith is a memorandum which I have received from Mr. Charles T. Ballantyne of the British Purchasing Commission. This memorandum states that the British have submitted a bid to the Maritime Commission for twenty cargo vessels and they would like to know if it is possible for the Navy Department to take over this bid of approximately 11 million dollars.

Should I forward this directly to Secretary Knox or would you like to take it up yourself. This would make a good case for the Navy to work on in order to find out what it can do on interim financing for the British.

D.Y.

Wish 25th Knox

MEMORANDUM FOR MR. PHILIP YOUNG

We have put in a bid for twenty cargo vessels in the hands of the Maritime Commission and the deal, which should have been closed on January 6th, has been on technical grounds postponed but must be closed not later than January 13th.

In view of our credit position it is felt that we cannot complete this deal and are, therefore, likely to lose those vessels.

Our arrangements for the necessary reconditioning of those vessels are also completed.

We wish to know whether it would be possible for our bid to be taken up by the Navy Department with the intention that the vessels might ultimately be transferred to us. If this could be done at once the reconditioning could go forward and time might be saved which, under present circumstances, might be invaluable. A sum of approximately \$11,000,000, which includes the cost of reconditioning, would be involved in this transaction.

January 8, 1941.

MEMORANDUM FOR THE SECRETARY:

I understand that the Executive order extending the foreign funds control is likely to be signed within the next few days. In the form in which it was submitted it will be immediately effective.

This will of course necessitate a substantial increase in the force employed under Mr. Pehle.

If administratively feasible, I believe that there would be important advantages for this force to be transferred to New York, except for a supervisory and liaison group, of course including Mr. Pehle himself, which would remain in the Department. In the first place, such a move would put our men closer to the place where the bulk of the transactions occur, and would tend to expedite action and minimize delay. In the second place, I am afraid that it will be very difficult to secure office facilities in Washington sufficient to accommodate a force much larger than we now have assigned to the funds-control work.

I suggest that the feasibility of making this change should be fully explored before Mr. Pehle's force in Washington is further enlarged.

orig. to Pehle, after Sec'y
marked "MS" in upper right-hand
corner, with note - "I think
these possibilities should be
surveyed. DWB." - 1/9/41

January 8, 1941

Dear Mr. Berle:

On behalf of the Secretary of the Treasury, may I acknowledge your letter of January 2nd, concerning the desire of the Turkish Government to acquire twenty P-40 planes.

As you are aware, the planes which were the subject of Secretary Mergenthau's letter to the Secretary of State, dated December 18th, were discussed at a meeting in Secretary Hull's office on Monday, December 23rd. As a result of the actions taken at that time, there are no P-40 planes available for acquisition by the Turkish Government.

Sincerely yours,

(Signed) Philip Young

Philip Young
Assistant to the Secretary

Honorable Adolf A. Berle, Jr.,
Assistant Secretary of State,
State Department,
Washington, D. C.

PI:bj



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
NE 868.248/

January 2, 1941

My dear Mr. Secretary:

With reference to your letter of December 18, 1940, regarding surplus P-40 pursuit planes which might be produced by the Curtiss-Wright Corporation for delivery in May, June and July, 1941, there are enclosed herewith copies of two memoranda of conversation, dated November 23 and December 27, between the Chief of the Division of Near Eastern Affairs and the Turkish Ambassador with regard to the desire of the Turkish Government to obtain twenty additional pursuit planes.

It will be observed that the Turkish Government would welcome the acquisition of twenty P-40 planes, and has inquired concerning the price of the planes, fully equipped with machine-guns, radio, spare parts and other equipment.

The Ambassador has been informed that his Govern-

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

- 2 -

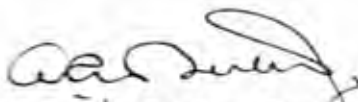
ment's wishes would be communicated to the competent authorities of this Government.

Sincerely yours,

For the Secretary of State:

Enclosures:

2 memoranda
of conversation,
dated November 23
and December 27, 1940.



Adolf A. Berle, Jr.
Assistant Secretary

100

Department of State

BUREAU
OF
CONSULS

NE

ENCLOSURE

TO

Letter drafted 12/30/40

ADDRESSED TO

Treasury

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: November 23, 1940.

SUBJECT: PURCHASE OF PLANES BY THE TURKISH GOVERNMENT

SUBJECT:

PARTICIPANTS:

Mr. Mehmet Münir Erteğün, Turkish Ambassador

Mr. Murray

COPIES TO:

At Mr. Berle's request, I inquired of the Turkish Ambassador this morning whether the airplane orders placed by his Government in this country were moving along satisfactorily and I reminded him of our interest in meeting the needs of the Turkish Government for military supplies as far as this might be possible within the framework of our aid to Britain and our own defense requirements.

I then inquired of the Turkish Ambassador whether he believed that his Government might require at an early date some 20 additional Curtiss-Wright P-40 pursuit planes which had become available and which would be earmarked for the Turkish Government in case it desired to avail itself of these planes. I mentioned that the planes would normally

-2-

normally become available about next June or July and might even be obtainable as early as January.

The Turkish Ambassador expressed great satisfaction and gratitude at this friendly gesture from the Department and said he would communicate at once with his Government by telegraph and inform us of the reply at an early date. He added that, while he did not of course want to emphasize the question of price, he would, if there were no objection and after he had communicated with his Government in the sense of the above, inquire of Mr. Young regarding the cost of the 20 planes.

The Turkish Ambassador informed me, at the same time, that his Government had placed an order two years ago for 50 Vultee pursuit planes and had recently become interested in obtaining 50 dive bombers which he understood were among the 100 planes purchased by France before the collapse and which were now being held at Martinique. He also stated that he had been instructed only recently by his Government to explore the possibility of obtaining 50 training planes in this country and indicated that he intended to discuss this matter with Mr. Young.

ED:VSM:EMA

DIVISION OF NEAR EASTERN AFFAIRS

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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: December 27, 1940.

SUBJECT:

PARTICIPANTS:

Turkish Ambassador
Mr. Murray

COPIES TO:

FORM 1-100

The Turkish Ambassador called on me this morning to give an official expression of the appreciation of his Government as a result of the inquiry which I was authorized to make of him some weeks ago as to whether Turkey might be in need of twenty P-40 planes.

It will be recalled that in the discussions which took place at that time, when it was decided that planes should be made available to Greece and to China, it was suggested that I should sound out the Turkish Ambassador as to whether his Government might be in need of twenty more American planes.

The Ambassador has now been informed by his Government that it would indeed welcome the acquisition of twenty P-40's; that it would be helpful if we could

meanwhile

- 2 -

meanwhile advise them as to the price of the planes, and that in any case the Government would need to receive the planes fully equipped with machine-guns, radio, spare parts, and other equipment.

I told the Ambassador that I would make a record of his Government's wishes in this matter and communicate with the competent authorities of this Government.

HE WSM/CC

INVESTIGATION DEPARTMENT

NOV 2 1945

SECRETARY OF INVESTIGATION
OFFICE

BRITISH EMBASSY,
WASHINGTON, D.C.

January 8th, 1941.

Dear Mr. Stewart,

I enclose some rough notes on the point you raised with me this morning. It has been very difficult for me to do so as the proper answer should come from His Majesty's Government but I hope you may find them useful.

I am sure it is in all your minds, but I do hope someone will bring out emphatically at the right moment, the bearing of the French collapse on the unexpectedly early exhaustion of our resources. For over six months the burden has been doubled and the resources halved.

I have been thinking over also once more whether we cannot here find any improvements on present procedure which would be of a nature to assist the Secretary in his very important task with Congressional Committees. I have been wondering whether it might not be of use to him possibly if he could say that he was personally satisfied with the present rate at which our marketable securities were being sold and that he had complete daily information on that point from a representative of his own in whom he had complete confidence.

I am sure that we would welcome it if Mr. Morgenthau were to arrange that you should be in daily supervision of Gifford's operations in New York.

BRITISH EMBASSY,
WASHINGTON, D. C.

-2-

As regards direct investments I understood from you that Sir Edward Peacock's appointment would be agreeable to Mr. Morgenthau and I have cabled London urging that his immediate arrival here, with the fullest possible powers, is of the greatest importance. I am also agreeing with them an announcement in London of his appointment which I will ask them to hold until they hear from me in case, so far as Mr. Morgenthau is concerned, there is any particular choice of dates which would be most suitable.

On Peacock's arrival I have no doubt it would be agreeable to us if Mr. Morgenthau saw his way to arrange that you should collaborate in a similar manner with Sir Edward in the matter of the direct investments. In the meantime, and pending Sir Edward Peacock's arrival, we would ask His Majesty's Government to empower Mr. Gifford to consider with you what can be done to advance matters.

If these suggestions fall short in any way, I shall be most happy to take up any further ideas you may have.

Yours sincerely,

F Phillips

Mr. Walter Stewart,
Treasury,
Washington, D. C.

Handwritten: *... Mr. Cochran Jan 9th 1946*
... Cochran who does this come from
Wmk

1. Our remaining marketable securities are about \$600 millions with some less easily marketable amounting to another \$140 millions. (As you know, these sums are substantially above U.S. estimates.) There are also the direct investments which American estimates put at a minimum of \$900 millions, though the realisable value of them in practice it is not possible to state.

There are no other assets in American dollars of any kind which could be pledged.

2. The marketable securities are already being sold more rapidly to finance ourselves during the interim period prior to Congressional action on the pending legislation, and when that interim period is over we shall of course still have to go on selling them both to maintain our working dollar balance at the minimum safe figure and because we have uncovered dollar liabilities outside the British Purchasing Commission's expenditures to an extent of at least \$200 millions a year.

If in fact the lease-loan plan on its final passage did not cover the whole of the expenditure of the Purchasing Commissions, there would of course be another continuing drain of dollars which could only be financed out of the marketable securities.

3. As regards the direct investments it would be of course very difficult for us to put any specific value on these, and I am a little doubtful whether the suggested pledging to the corporation really adds anything to the present position. As the British Government have already indicated, they are having immediate practical examination made of the extent to which these United Kingdom investments can in fact be used for the purpose of raising dollar exchange whether by way of sale or, if that does not seem

- 2 -

suitable in certain cases, by requiring the British interests concerned to raise money in the United States by capital issues or otherwise.

They are also sending Sir Edward Peacock (whose appointment we understand would be agreeable to the Secretary) to guide policy in these respects, and they are ready to announce this appointment at any time that is convenient to the Administration.

British Embassy, Washington.

8th January 1941.

- 2 -

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British Embassy, Washington.

8th January 1941.

January 8, 1941.

The following are suggested as possible methods of meeting the claimed deficit of \$251 millions, and avoiding the exhaustion of the dollar balances of the British Government: -

1. Sale of \$18 millions of American Government securities now in Canada but not yet vested.
2. Export-Import Bank credit against future deliveries of tin, rubber, wool, etc.
3. Purchase by the Metals Reserve Corporation of strategic materials, to be delivered in the future, but payment to be made in advance.
4. Realization of present vested securities through offer to private purchasers in an entire block of around \$220 millions at perhaps a 10 percent discount below current market value.
5. The purchase by some Government agency of the vested securities with an arrangement that the British Government will repurchase them at the same price over a period of months.

Mr. Foley thinks this procedure is legal, but wishes to examine the matter further before committing himself definitely.

6. Sale to a Government agency of some or all unvested but registered American securities. These total \$440 million of which \$140 million would not be readily salable in the American market.
7. R.F.C. loan against securities as collateral.
8. Sale of any immediately marketable direct investments.
9. Arrangements by the Army and Navy to relieve British of current payments on contracts for material which might be utilizable by the American forces. The War Department believes not more than \$50 million can be made available through such arrangements.
10. Purchase of sterling with funds from the United States Stabilization Fund, thus making the dollars available to the British, as needed.

In view of the Secretary's commitments to Congressional Committees, their approval should be a prior condition to such a step.

11. It may be possible that the British Government will be able to reduce private dollar balances held by U.K. residents. On December 18, our report showed \$312 million so held. A substantial portion is doubtless needed for the conduct of business, but some of it may be available, at least temporarily, for the British Government's use.

12. The British Government may be able to arrange a loan of some of the gold held by her Allies (excluding France). They have \$568 million of gold in the U.S. and \$520 million in the British Empire.

13. The gold reserves of the Empire countries, excluding U.K. and Canada, total over \$600 million. It may be possible for the British Government to borrow some of this gold to tide her over the acute emergency.

14. The British list \$75 million payments as due to Canada during the next 2 months. It may be possible for the British to arrange with Canada that she take Canadian securities (or sterling balances) instead of dollars for those 2 months.

15. In addition to the foregoing, the British have investments in Canada, Latin America and elsewhere, there is French gold in the British Empire, and there exist various types of Allied assets. Whether this can be utilized to tide her over the present emergency and how much are matters of policy.

DOLLAR REQUIREMENTS AND RECEIPTS OF UNITED KINGDOM
FROM JANUARY 1 to MARCH 1, 1941

(As Submitted to Mr. Cochran by the British Government)

A. Requirements	(In millions)
1. Payments to Canada.....	\$ 75
2. Payments for purchases in United States by British Purchasing Mission on	
(a) Commitments on orders already placed.....	280
(b) Repeat orders.....	50
(c) New contracts (minimum).....	250
3. Other items in the Balance of Payments (net).....	10
4. Dollar advances to Greece.....	<u>5</u>
Total requirements.....	\$670
B. Receipts -- Cash that will be available from Jan. 1 to March 1	
In Federal Reserve Bank.....	\$ 54
Gold in transit and otherwise available....	285
Sales of vested securities.....	<u>80</u>
Total Receipts.....	\$419
Deficit.....	\$251

(British Exchange Equalization Account authorized dealers balances of \$49 million which cannot be drawn down and consequently not included in the above total.)

(There is approximately \$33 million of gold in widely scattered localities such as Singapore, West Africa, Bombay and London; early shipment of some of this is impossible and switching against gold in Canada gives rise to difficulties.)

From the figures submitted by the British, it appears that the British cash resources will be exhausted at the end of January, and a deficit of \$251 millions would be incurred by the end of February. This does not take into account the necessity of the British Government having a working balance on hand -- which they estimate should be a minimum of \$250 millions.

Rangoon, Burma, January 5, 1941.

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CONFIDENTIAL

SUBJECT: American training planes for China to be assembled in Rangoon and flown to China; Chinese hope that British permission in this instance will serve as precedent for future operations; Japanese report of recent destruction of planes in Yunnan exaggerated.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

SIR:

I have the honor to report that 66 American training planes for China are to be assembled in Rangoon, the British Government having approved a recommendation by the Governor of Burma that the required permission be granted. The planes consist of 36 North American and 30 Ryan trainers, and they will be assembled at the Rangoon airport by 90 Chinese workmen from the plant of the Central Aircraft Manufacturing Company at Loiving, China. It is expected to have the work completed within the next three months.

The assembled planes will be flown from Rangoon to destinations in China by Chinese pilots. Use will be made of emergency landing fields between Rangoon and Lashio in making the flights.

The planes to be assembled in Rangoon, and which are now at this port, form part of 100 American trainers (50 North American and 50 Ryan) sold to the Chinese Government by Harvey Greenlaw, an American representing North American Aviation, Incorporated, and the China Airmotive Company, Federal Incorporated, at a reported price, c.i.f. San Pedro, California, of \$2,300,000. The cost of the North American planes, which are advanced trainers, was given as \$1,800,000, and that of the Ryan machines, as \$500,000 (despatch no. 321, of June 24, 1940). Thirty-four of the 100 planes were shipped, several months ago, to the factory of the Central Aircraft Company at Loiving, China, for assembly there, and several of the assembled planes were damaged when the factory was bombed by the Japanese on October 25, 1940.

British Action Possible Precedent.

Chinese interests hope that the British permission for the assembly of training planes in Rangoon will serve as a precedent for similar action in connection with future operations of this kind. They have particularly in mind the possibility of being able to assemble fighting planes here, in the event that present efforts to obtain such planes from the United States are successful.

Japanese Exaggerate Raid Results.

On December 12, 1940, eight Japanese planes flew over the airfield at Yunnanyi, China, a point on the Burma Road about 200 miles from Kunning where the Chinese Air Force maintains a cadet school, and riddled and set on fire with incendiary bullets 20 training planes then on the ground there, according to G. B. Adair, of Greenville, South Carolina, a United States Air Corps reservist who has been serving as check pilot at the Yunnanyi school, and who is now in Rangoon on his way to the

- 2 -

United States. Mr. Adair says that the Tokio report of the raid, broadcast from Manila, placed the number of planes destroyed at 44, and described half of them as Russian fighters. He explains that 18 of the planes were old Fleet trainers that had been in use for a long time, and that the other two planes were new Ryan trainers. No fighting planes of any kind were destroyed. The engines of several of the burned machines were salvaged.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

In quintuplicate to Department.
Copy for Embassy, London.
Copy for Embassy, Chungking.
Copy for Consulate, Kunming.

800
ACB/cp

A true copy
of signed original.

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MEMORANDUM FOR THE SECRETARY.

January 8, 1941.

Since just before the Christmas holidays the general mail has been almost exclusively on the subject of international relations. It reached its peak numerically between the "good risk" statement and the President's radio address December 29th. Since then it has been going off, and this morning there were only three or four letters.

I am therefore sending a brief summary of this particular group. There is little use in quoting from individual letters as they cover exactly the same ground in the main divisions of the mail. In some cases they are almost identically worded, but on the whole, these letters do not seem to be rubber stamp campaigns. The nearest approach to that is the California mail on aid to China, where there is a form post card that evidently has been distributed widely for signatures.

In all this mail there was only one letter against aid to China, and 262 strongly for it. The greater part of these letters also mentioned stricter embargoes directed against Japan, and the farther West the postmark, the greater the anti-Japanese feeling.

The feeling against Great Britain is also very strong and very widely distributed. Since the abstract on which the group from Massachusetts was noted, there has been no one part of the country from which most of the mail seems to come. The general reaction is that ample security should be given for any loans -- the security mentioned, of course, is usually British territory on this hemisphere. The old war debts, the Neutrality Act, the Uncle Shylock wisecracks, and in a few scattered cases the British loan to China and British credit elsewhere are points made by the different writers. A few suggest an outright gift, others possible ways of getting around the Johnson Act, but in the majority of the letters the feeling seems to be that England has plenty of security to put up and should be expected to do this. In general, there were 41 letters pro-British and 351 anti-British. This does not include scattered anonymous comment.

There was a marked increase in the number of suggestions for raising money. Small denomination bonds along the line of Liberty Loan ones were most favored as a general method of raising money. It is interesting that there were quite a few suggestions of annuities to old people to whom the Savings Bonds do not appeal because of their form of maturity. There are scattered offers of a week's pay, a day's pay, a cash contribution, etc., and every now and then a check or Money Order forwarded from the White House.

- 2 -

Memorandum for the Secretary.

January 8, 1941.

There are also all sorts of comments showing the general reaction to war conditions. One man suggests that brewers be forced to change from aluminum to wooden kegs and containers. He wrote that the brewers would "put up a terrible howl" because they are almost all Germans and would not want to be forced to release this valuable metal.

Another writer protesting the set up of the Defense Council writes, "General Motors has forty million dollars invested in Germany. I have never met a General Motors man who was not an admirer of the Nazis. Mooney, their Vice President, is the biggest, and fought the selection of President Roosevelt in every dirty way".

A few quotations from the "Foreign Relations" mail are as follows:

Mrs. O. C. Craft, South Haven, Kansas. U. S. Treasury is not personal purse of the Administration. A country cannot be a good risk that has not offered any payment whatsoever or any interest thereon, on a debt over twenty years old. England has never said she wants to pay us, or intends to do so. No more help of any kind and no sending of the boys. No more aid to China, they could not pay it back. Only financial announcement we want from U. S. Treasury is lowered taxes.

O. E. Geppert, Chicago, Ill. By our sympathetic attitude toward Britain, by making it easy for her to secure needed materials, we have strengthened her militarily as well as in morale. We were of tremendous help in the World War, but after it was over, we received little thanks for it, and the bills are not yet paid. Jefferson made good trade with France for Louisiana. Time for similar action. Price paid Denmark for Virgin Islands might serve as basis for valuing Bahamas. Bermuda, haven for tax-dodgers, would be useful as well from naval considerations. British Honduras taken over as credit on old debt, then turned over to Mexico or Guatemala. Help to reduce debt and make good impression on Latin America. Commend giving aid to China. Full stoppage of war exports to Japan.

Thomas Williamson, Frederick, Md. Great many people could be induced to purchase low interest bonds on plants manufacturing war supplies, if under Government supervision, as were the Liberty Bonds of the World War.

Dorothy Joralemon, New York City. Quotation from Winston Churchill to William Griffin of the New York Inquirer in 1936: "Legally we owe this debt to the United States, but logically we don't, and this because America should have minded her own business and stayed out of the World War". Present situation same. We have a right to insist that Britain state her peace plans in detail before we even think of financing them. Lay mind knows that before it spends money it should know something about the object it is buying.

- 3 -

Memorandum for the Secretary.

January 8, 1941.

Erwin W. Eahn, Garden City, N.Y. How do we even dare to contemplate loans or credits to England in the face of her default on the last war's debt, and in the face of her recent huge loans to China? Best take outright possession of as much Western Hemisphere territory of British empire as will cover default, and bank new loans with first mortgage against additional English territory in this continent.

W. S. Holmes, Hamden, Connecticut. Britain is fighting Germany for trade and empire and nothing else. Not our war. One side is as crooked as the other. If money is to be given away, let it be to give parity prices to the overworked dirt farmer, real pension system for our aged and unemployed, food and hands for the southern sharecropper, and reduced or cancelled mortgages to the overtaxed home owner. Rather be taxed for these things. No democracy in England with its nobility and rigid caste system. Forget the British empire.

J. P. Jones, Long Beach, Calif. "To be a sucker once is enough."

Jim Grosse, Mill City, Oregon. Aid needed for starving American families, not Europe.

J. Hastings, Wollaston, Mass. Get rid of war mongers. Not our war. Germany and Italy never did anything to us. Belongs to 7 fraternal organizations, membership 3,000, all opposed to aid for Britain.

John Merlin, Boston, Mass. "England is justly crushed -- keep America at peace .."

Ess. L. Stauffer Oliver, President Judge, Court of Common Pleas, No. 7, Judge's Chamber, 467 City Hall, Philadelphia, Pa. Tell the people the truth. Loans to Britain could not be repaid in gold or goods. Trade for outright ownership of the islands on which we have been granted bases, or ownership of the limited territory actually needed for the bases, or if not possible, give to Britain what she needs. Intellectual dishonesty will drive our two countries into a mutual feeling of ill-will and misunderstanding. People can bear the truth.

Jacob A. Bigler, Chicago, Ill. England's past record - failure to repay former debt, failure to support our 1931 protest to Japan on latter's seizure of Manchuria, and failure to protect Czecho-Slovakia against aggression -- cannot make her a good risk.

Mr. and Mrs. John Stanley, Hollywood, California. "83% of the American people are opposed to any participation in this war. Loans are the fastest way to getting us in."

J. P. Jones

- 3 -

Memorandum for the Secretary.

January 8, 1941.

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J. P. Jones

Paraphrase of Code Radiogram Received
at the War Department 14:07,
January 8, 1941.

London, filed January 8, 1941.

1. On Tuesday, January 7, planes of the Coastal Command carried out routine patrols. All flights of Bomber Command planes on January 7 and on the night before were cancelled because of unfavorable weather.

2. During daylight hours of January 7 the Germans dispatched single airplanes to areas all over Britain and were particularly active over London, the Thames Estuary and Southeastern England. The German raids were the most severe in a number of weeks. During the night of January 7-8 there were no German air operations.

3. On January 6 the British carried out a successful raid on Valona. On January 4-5 the British Air Force was very active in Libya; a total of 17 tons of bombs were used against the Tripoli and Tobruk defenses; the British destroyed seven Italian fighter planes and seven bombers. Copies of Mr. Churchill's speech on Italy were also dropped in these areas.

4. While there is no conclusive evidence that German troops are in Italy at present it has now been determined that the German secret police are very active there. There are also many German military technicians and specialists in Italy.

5. Two British destroyers collided at night and were considerably damaged. Twelve merchant vessels in convoy have

CONFIDENTIAL

arrived in England without the loss of a single vessel.

6. The greatest damage to the city of Cardiff from the German raid of January 2-3 was caused by the fires that were started. An extremely large number of incendiaries were used by the Germans in this raid. While an equally large number of incendiaries were used in the German attack on this place during the night of January 4-5, practically no damage from fires resulted because of the fact that the civilian population and the fire watchers profited by their experience in the earlier attack and were very successful in controlling the fires. Railway traffic in Cardiff is now back to normal.

7. In the German attack on London of December 29-30 incendiary bombs were used almost continuously and investigation reveals that practically all of the damage resulted from fires. No fire watchers were in the "City" on that night and with the exception of the regular police force there was practically nobody in this area. This fact is largely responsible for the effectiveness of the fire bombs. In addition, the lanes and streets in this area are so narrow that it was practically impossible to maneuver fire fighting equipment. Also the merchandise and furnishings in buildings in this area were highly inflammable. While the British war effort will not be affected by this raid, the destruction of historical buildings is to be regretted and the

financial losses of private owners and citizens are great. London railway services are now back to normal.

END

Distributions

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
AC
G-3



Paraphrase of Code Radiogram Received
at the War Department 14:07
January 8, 1941

London, filed January 8, 1941.

EXTRACT

On January 7 the Chief Medical Officer of the Ministry of Health announced that the general health was good in spite of the fact that 29 percent of the population of central London are in domestic, communal, or public air raid shelters. The public shelters alone are taking care of eight percent of the population. There was great fear that the crowding of large number of persons into subway stations and other improvised shelters in times of bad weather conditions would result in spread of communicable diseases. The following tabulation indicates that, with the exception of cerebral spinal meningitis or spotted fever, there has been no serious increase in the number of cases of certain dreaded diseases since 1936.

	<u>No. of Cases</u>	
	<u>1936</u>	<u>1940</u>
Cerebral spinal meningitis	1,268	12,500
Enteric	1,300	2,800
Dysentery	4,170	2,500
Pneumonia	45,000	46,000

LEE

Distributions

Secretary of War	WFD
State Department	GHI
Secretary of Treasury	FMS
Asst. Secretary of War	SO
Chief of Staff	G-1

CONFIDENTIAL

Paraphrase of Code Radiogram Received
at the War Department 14:07
January 8, 1941

London, filed January 8, 1941.

EXTRACT

1. Conversations with the Director of Military Operations and with the Deputy Chief of the Imperial General Staff in the War Office bring to light several interesting aspects of the British campaign in Libya.

2. As previously reported, absolute secrecy in Cairo as well as in London was primarily responsible for the great success of this campaign. The information contained in General Wevell's official reports to the War Office concerning his operations and plans is no more detailed than that appearing in the daily newspapers. It is thought that he will continue his drive into Libya, exploiting his successes to the utmost. This is what would be expected of the biographer and disciple of General Allenby.

3. Practically all successful operations in all theaters during this present conflict teach the same general lesson. That is, that success depends upon a determination to cooperate in every possible manner and upon the absolute flexibility of all components of the armed forces. In this campaign the Royal Air Force assisted in obtaining surprise by making its initial bombing attack in a direction different from that of the main attack and by neutralizing observation by the Italians. In addition to assisting by gunfire the Navy evacuated prisoners and supplied advance units with water.

CONFIDENTIAL

4. It is possible to debate similar lessons within the Army. The success of the Infantry in carrying out reconnaissance and in wire cutting was followed by action of Engineer units in clearing tank obstacles and making them passable for mechanized units. The armored fighting vehicles were followed up closely by Infantry troops who mopped up and took the prisoners. The main attack as well as the initial feint was supported by artillery fire.

5. It was emphasized that a relatively large percentage of personnel must be used in keeping a numerically small cutting edge in continuous operation.

6. One element in the operation which greatly pleased both the Director of Operations and the Deputy Chief of Staff was the complete lack of preparation on the part of the Italians for defense against the heavy Infantry tanks which were sent to Egypt secretly during the summer of 1942.

III

Distribution:

Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
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**Paraphrase of Code Radiogram
Received at the War Department
at 15:41, January 8, 1941.**

None, filed January 8, 1941.

I was assured by Under Secretary of War, on whom I called by invitation January 7, 1941, that no German land units of any size are in Italy. He appeared quite depressed. There appears no concern by the Germans over Italian reversals and apparently the Germans if necessary will intervene only enough to occupy British in Mediterranean and force shipping by way of South Africa. The decision is hoped for in the north by means of air bombardment and shipping drive.

FISKE

Distribution:

**Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
V.P.R.
O.W.L.**

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Paraphrase of Code Radiogram
Received at the War Department
at 16:25, January 8, 1941

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Rome, filed 20:25, January 8, 1941.

The total number identified Italian Divisions in North Africa prior to attack on Sidi Barrani by British was composed of 9 regular 3 Blackshirts and 3 native plus corps and army troops although never confirmed there were 4 other divisions reported. The strength of colonial divisions is (?) probably about 260,000. The strength of armed forces is (?) about 310,000 with police included. It is estimated losses to date and not replaced are about 70,000. In addition to corps artillery engaged much of other corps and army artillery lost at Bardia. Have positively identified 17 complete divisions in Albania as well as three partial divisions. Italian troops in Albania estimated as 250,000. This accounted for by low strength of many special divisions. Troops are now generally transported by plane to Albania and are barely sufficient for replacements. It is probable Sedda will be relieved as Cavallero is in Albania.

FISSE

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence

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January 9, 1941
8:45 a.m.

RE AID TO BRITAIN

Present: Mr. Young
Mr. White
Mr. Lovett
Mr. Forrestal
Mr. Cochran
Mr. Bell
Mr. Foley
Mrs. Klots

W.H.Jr.:

The reason I asked for this meeting, particularly to have you two gentlemen here who are supposed to know a little bit about money, is this. We have got two situations. We have got the legislative situation which is well in hand, and if we have any luck it is going to be introduced tomorrow. It is in good shape. The other one is, what are we going to do for the English to find the money so they can pay their bills until this thing is passed. They are so worried that they are really, for the first time, talking in the Treasury, that they are getting hysterical about it, and they are beginning to get me, for the first time. Now, I asked for this meeting at eleven o'clock at the White House, which Hull and Stimson and Knox and Jones and Knudsen will attend, and I have asked Phil to give a copy - I thought the chances are nine out of ten these fellows haven't got this. This is the latest statement of British requirements in quantities as to what they need.

(See Attachment 1)

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Has it got down to you?

Forrestal: No.

Young: That is the only copy we have in the building.

W.M.Jr: Well, I will have a copy made of my copy and send it, but this is in quantity. I am going to give you the whole picture. I haven't delivered it to the President, but this is from Churchill to Roosevelt. Now, what I want to do for your benefit and for mine, is to give you a thumbnail sketch in strictest confidence of what is the British situation today, and then I would like to take the time - what the hell can we do to stretch this thing out, not only here until the legislation is passed but to find the money for them to pay for the things that they have already got on order, and of course the worst thing that could happen to them would be for their morale - would be to default on those payments. It seems to be getting Churchill's goat for the first time. He is sending cables to the President which I think are a little unwise.

Forrestal: I am wondering if some of that may not - it gets to real hysteria, Henry.

W.M.Jr: I will show it to you. Yes. I don't want to get that way myself. I never have. Now, who can give me a thumbnail sketch as to their financial situation?

Walter: It is on this page. (See Attachment 2)

W.M.Jr: Dollar requirements of January 1 to March 1, '41. Are we all set? Payments to Canada, 75 million dollars; payments for purchasing, United States; commitment on all the orders placed, 280; repeat orders, 50; new contracts, 250. Now, let me interrupt. Two fifty, that is going on the assumption that they have to make the usual down payment?

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- White: Yes. That is the usual - they have to make down payments. None of those orders will be ready within two months, or very little, and that is a minimum. They expect that will be higher.
- H.M.Jr: Well, I am going to question the 250. Other items in the balance payments, 10; dollar advances to Greece, 5; total, 670 million. Receipts in cash available in Federal Reserve, 54; gold in transit, 285; sale of vested securities, 80. What is that, at a rate of--
- White: At the current rate, and that assumes that current market conditions will continue.
- Cochran: Ten a week.
- H.M.Jr: And that is not taking into account the sale of any direct investments?
- White: No.
- H.M.Jr: Total receipts, 419; deficit, 251. British Exchange Equalization Account authorized dealers balances of \$49 million which cannot be drawn down and consequently not included in the above total.
- What does that mean?
- White: They have 49 million dollars in various accounts which they feel are not available, though it is included in their account of the British equalization. We put it down here. Merle thought that someone might ask how about their British equalization fund, haven't they got some money?
- Cochran: That is in the hands of banks. Part of it may be covered.
- H.M.Jr: There is approximately 33 million in gold in locations such as Singapore, etc.

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(Mrs. Klots entered conference)

H.M.Jr: From the figures submitted by the British, it appears the British cash resources will be exhausted at the end of January and a deficit of 200.

(Mr. Foley entered conference)

H.M.Jr: Good morning, Ed. Do you know Mr. Lovett? The early Mr. Foley. He never gets to work, but he brings home the bacon. How is that? Pretty good, isn't it, Ed. (Laughter)

Foley: It is all right.

H.M.Jr: I like this, "...it appears that the British cash resources will be exhausted..."--

Foley: I haven't had breakfast.

H.M.Jr: We will save your breakfast until afterward. "...and a deficit of 251 million dollars would be incurred by the end of February. This does not take into account the necessity of the British Government having a working balance on hand - which they estimate should be a minimum of 250 million dollars."

H.M.Jr: Well, there is the sad news, gentlemen. Now, the first thing I am going to challenge is on the new contracts, the 250. I am just going to talk with you gentlemen as though we are all in the Treasury. Yesterday, by accident, I learned that in the War Department, Mr. Purvis didn't seem to know anything about it, they had a scheme whereby they are proposing to repay the British a hundred and 60 million dollars, money which was advanced on contracts, principally ordnance, and as I say, I have just heard about it by accident through one of my spies, and I just wondered if we couldn't

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talk about that a minute, because, you see, that is a hundred and 50 million dollars and that isn't to be sneezed at.

White: Mr. Secretary, as their situation is not serious and they certainly can, in my opinion, meet these payments, and I think it would be a gross tactical error from their own point of view for us to step in in any way to help them meet these payments, besides suggesting ways in which it might be done.

E.M.Jr: You have got to back that statement up, Harry.

White: Yes.

E.M.Jr: How are they going to do it?

White: There are numerous ways. The most obvious way - well, we have got various ways listed here, and then we can talk about the way in which I think it would be very simple and which they can arrange themselves. They have got about seven hundred million dollars of unvested and vested securities, of which, they maintain, a hundred and 50 are not readily marketable. Let's assume that to be so. They could make arrangements to sell those seven hundred million dollars of securities within two months to some corporation, some group, provided they were willing to take a substantial discount. It might be 10 percent. It might be 15 percent. And that only taps one source and they needn't do more than they actually need. They probably can dig up amounts here and there, but they have got a deficit, according to their figures, of 250 million. They probably need a couple of hundred million as a working balance. They certainly can raise 450 million. They have got private balances here of 350 million. I am pretty sure they could borrow from those a hundred million or a hundred and 50 million without disturbing anybody. In other words, I think it is a problem that they can settle themselves.

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- H.M.Jr: Well, they say not.
- Forrestal: I think they are trying to put pressure on, Henry, and I think it is awfully bad tactics for them. I agree with Harry. The banks can't loan them money but Bob will check on this. Bob, couldn't you make a corporation that - into which these equities would go and the securities which they hold over here and the banks loan to that company whatever they want to get?
- Lovett: Yes, Jim, we suggested that in May 1939.
(Breakfast was delivered to Mr. Foley by messenger)
(Laughter)
- White: Talk about your quick service.
- Foley: What, no bacon? (Laughter)
- H.M.Jr: It is perfectly good coffee, now, don't be snooty about it.
- Foley: I will drink it.
- H.M.Jr: What, no bacon! (Laughter)
(Off the record)
- Cochran: Well, we are admitting that this is one of the means.
- White: We have the various ways down.
- H.M.Jr: Well, before we - I just want to talk a minute because, as I say, the War Department is off on this angle and I say, there is a hundred and 60 million dollars involved. As I understand it, they started yesterday with the Kelsey Wheel and they concluded a verbal agreement whereby they would pay back the English eight or nine million dollars.

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- Lovett: Mr. Secretary, my recollection is that we discussed this very fully last night. We had a meeting here. My recollection is that the War Department has scraped the bottom of the box and has turned up unobligated funds which total approximately two hundred and 90 million dollars.
- White: Plus a possible hundred million.
- Lovett: Plus a further possible 100.
- H.M.Jr: Two ninety?
- Lovett: Two ninety, sir. Plus a possible hundred which is - should be marked doubtful and underlined. Of the 290, 60 million comes from unobligated aircraft funds, the use of which is limited by their original directive and 230 we have roughly classified, I believe, as ordnance, wasn't it, Dr. White?
- White: That is what they said.
- Young: Yes.
- Lovett: Now, the arrangements under that were discussed very fully last night with the British representatives here, and I think that can be taken to represent the maximum that the War Department can do and the legalities apparently making it possible to make any down payments out of that.
- H.M.Jr: Now, I want to write it down. Just do this again.
- Lovett: Sixty million, sir, recaptured from unobligated aircraft funds.
- H.M.Jr: Now, let me get that. That is 60 million that the English have advanced to American manufacturers?
- Lovett: No, sir, that is 60 million of Air Corps

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appropriations which have to be expended beginning in April 1941, and which will have to be replaced in some subsequent budget.

H.M.Jr: I still don't understand how are you going to use 60 million dollars--

White: Can't, that is the trouble.

H.M.Jr: I never say, "Yes," until I know. How are you going to use 60 million dollars of Air Corps' money to help out the British?

Lovett: It can't be done, sir, except by buying for Air Corps' account those common planes in the new program.

Bell: And when they come out of the factory you turn them over to the British, is that the idea, and the British will have to reimburse you?

Lovett: They won't be ready for some months.

Foley: The legislation will be through then.

H.M.Jr: I still don't understand.

White: There are still some strings, and I think Phil could begin from the beginning on that because the net result of that is that they thought possibly 50 million of all the monies which they were able to scrap together, not more than 50 million, possibly less, would be available as a contribution to help the British out now, and the reasons for that small proportion of the total funds which they can spend on various items, I think Phil can explain.

H.M.Jr: That doesn't check with information--

White: No, the information you have just given us is something different.

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Young: There are two different things, Mr. Secretary.

H.M.Jr: Phil, you know what I know and what I don't know, so put them both together.

Young: All right. There are two things the War Department could do. One is to place new orders for American type goods which subsequently may be turned over to the British for the War Department account. That is one thing. The other thing is to take over, as in the Kelsey Hayes plant, some British contract outstanding for an American type specification and take that over in the name of the War Department and have the manufacturer refund money to the British.

H.M.Jr: Now, in that group I am told that it amounts to 160 million dollars.

White: They didn't mention that last night.

Lovett: No.

Young: That didn't come up at the meeting last night.

H.M.Jr: Of the type of the Kelsey thing, there are 99 million of ordnance and 60 million dollars of that is Air Corps - I don't mean Air Corps, I mean all of this money as I was told is a hundred and 50 million which the English have advanced for plant and down payment.

Young: Yes. Well, this is the difference.

Lovett: That is right, sir.

H.M.Jr: For plant and down payment and that the Army were under the impression that they could take those contracts and reimburse the manufacturer, and as I understand it, in the case of the Kelsey Wheel, the Kelsey Wheel is going to the banks and borrow

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the money and reimburse the British. I understand that is the way it is being done.

Young: Yes, I understand Kelsey said they would go to the banks.

H.M.Jr: Go to the banks and borrow money and reimburse the British and look to the Army for ultimate payment. Is that right?

Young: Well, I don't think that is so.

H.M.Jr: Well, that is what I was told. That is the contract they made verbally yesterday.

Young: It can't work that way. This is the difficulty, putting it very simply, the hundred and 60 million dollars represents money the British have put out for contracts of American type stuff which conceivably can be taken over by the War Department, in the name of the War Department, and that excludes all contracts for British specifications.

H.M.Jr: How much?

Young: I mean this hundred and 60 you are talking about. The War Department says if it replaces that, that a hundred and 60 represents down payments and capital assistance. Now, the War Department, if it had a hundred and 60 million, sir, couldn't take over all those contracts because they have to earmark the total value of the contract with their funds instead of just the down payment.

H.M.Jr: Well, let me put it this way.

Young: It is only maybe 20 million of it.

H.M.Jr: Let me put it this way because evidently it is a mess. We have tried our best to find out and

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certainly - and I am handling the financial part for the President - I am entitled to know as he is entitled to know and we can not find out. You can see this three-cornered conversation, I mean, how silly it sounds, the three of us not knowing each - not understanding each other. So what I am going to ask you - I told Mr. Stimson I was going to look to you on the financial side - Can you find out so that you can let me know within a reasonable time - I know you are going away, but if somebody - I don't know if you have anybody.

Lovett: Yes, we can get it in the works.

H.M.Jr: So that in 24 hours, what I call a reasonable time, I can be told how much is the net amount of money that the British can be reimbursed that they are out of pocket, cash. As to the method, I won't bother with the explanation now, but I want to understand it later on. But how much money can the Army or the manufacturer put back into the pockets of the British that they can spend during the next two months. That is plain, isn't it?

Lovett: Yes, sir.

H.M.Jr: And I would like to ask the same thing of the Navy. I know you haven't worked on it, but if you would work on it, Jim.

Forrestal: That was the question you asked last night, Phil.

Young: Yes.

H.M.Jr: But I think McCloy - I don't like to criticize somebody who isn't here, but Phil has tried des-
perately to find out during the last two weeks what is going on and we can't find out. I don't know whether Mr. Stimson knows himself.

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White: I think that is information you definitely ought to have, but I would like to say this, Mr. Secretary, I think it would be a grave error to permit them to do that. I think the repercussion on the Hill when it is developed sometime in the future will look very bad.

H.M.Jr: Harry, Mrs. Morgenthau says she has never seen me so excited as last night at a quarter past nine when I stumbled on this information, and I wouldn't call Purvis because I was afraid I would lose my temper. I said just what you said, you do this thing without anybody knowing it when I work day and night on this legislation, to have this thing in the War Department, that the program is over, there is a verbal agreement and I am not told, I think it is outrageous, because I said just the same thing that you said, that - here, I faced Barkley, Harrison in the morning, in the afternoon Rayburn and the rest of them, and they said here is the whole picture, you know everything that I know, and they don't. They know everyting that I know, but I don't know the story. And that this thing is beating the gun, and I thought if the Hill found this thing out it might be - I said supposing Bert Wheeler gets hold of this information. If I can find it third-hand, Bert Wheeler can find it out. What does he do to the legislation? He says, "Why, Roosevelt isn't sincere. He is a two-timer."

White: You mean if the Army should reimburse them?

H.M.Jr: Well, Harry, I know what I am talking about. I know they closed a verbal agreement yesterday with Kelsey Wheel for eight or nine million dollars.

White: Mr. Secretary, I would have no part of that. I think that is very, very bad.

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- H.M.Jr: That is why I asked yesterday for Mr. Lovett to work with me on this thing so this wouldn't happen again.
- Lovett: Well, this is all news to me. It didn't come up in our--
- H.M.Jr: I know it is.
- White: But you see the political possibilities?
- H.M.Jr: Well, I learned about it at nine-fifteen last night just by accident.
- Lovett: Well, we will try to find out about it.
- H.M.Jr: If I know and the President looks to me - I am not talking about the contracts, but on the finances, to let him know at eleven o'clock today what the situation is, all I am asking is, let me know and then if I know and I make a mistake, then it is my responsibility, but I can't be held responsible for what I don't know.
- Forrestal: Henry, was this an order the British placed through the Army?
- H.M.Jr: This is an order - you check me - that they had with Kelsey Wheel for machine guns and they had advanced to Kelsey Wheel either eight or nine million dollars and the agreement which was entered into verbally yesterday afternoon was that the Army and Kelsey Wheel between them agreed to turn back the eight or nine million dollars to the British, cash, and the Army assumes the entire contract.
- Lovett: Did the information indicate where the Army got those funds?
- H.M.Jr: I believe Kelsey Wheel is borrowing the money themselves. There is some kind of promise from

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the Army that they will in turn be reimbursed. I mean, they made the remark, "Well, we can go to the Chase Bank and borrow it." Kelsey Wheel did. What do you think about that, Jim?

- Forrestal: Well, I think the whole thing is being handled in a very unfortunate fashion, myself.
- H.M.Jr: Well, I think you are being very self-controlled.
- Forrestal: That is what I call understatement.
- H.M.Jr: Well, I am leaving it to you (Lovett) if I may. If you will work for Mr. Stimson and the President and me, let's get what the facts are on this thing.
- Lovett: All right, sir.
- H.M.Jr: I am watching the clock for you. What time did you tell Patterson?
- Lovett: I guess he has already gone, sir, and there is another one standing by. I can get it about nine-thirty or nine-forty-five.
- H.M.Jr: I will hurry.
- White: This is the next thing you asked for.
(See Attachment 3)
- White: We have listed all the possibilities. Some are much better than others.
- H.M.Jr: "The following are suggested as possible methods of meeting the claimed deficit of \$251 millions."
You read it outloud, Harry, will you?
- White: "1. Sale of \$18 millions of American Government securities now in Canada but not yet vested."

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Mr. Gifford stated he thought that within two months it would be easy to consummate that transaction and expected to.

Cochran: But they planned to vest those this summer.

White: Yes, they planned to rest them and they will be available in a few weeks so that is 19 million which they are going to get.

"2. Export-Import Bank credit against future deliveries of tin, rubber, wool, etc."

Similar arrangements such as was made to China. How much they would have available and whether they would do it, I don't know.

H.M.Jr: You are wrong. Ed, they can't do that under the - either the neutrality or the Johnson Act, can they, to a belligerent?

Bell: Not the Johnson Act.

Foley: You mean number one?

H.M.Jr: Number two. Export-Import, credit to Great Britain. What? Out, isn't it?

Foley: Out, right.

H.M.Jr: Yes, that is what I thought.

White: "3. Purchase by the Metals Reserve Corporation of strategic materials, to be delivered in the future, but payment to be made in advance."

H.M.Jr: Purchase from England?

White: From - well, it would be from the British Empire.

H.M.Jr: It is out. It is illegal.

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- White: I don't think that is, Mr. Secretary.
- Bell: I don't think so.
- Lovett: Mr. Secretary, wouldn't those purchases be made from the suppliers, from the wool suppliers in Australia through the Commonwealth Bank?
- H.M. Jr: Ed?
- Lovett: In other words, it does not have to be made from the British Government because we are bringing that wool in now.
- H.M. Jr: Well, ask Ed.
- Lovett: It is a normal shipment of wool shipped to this country for use in all sorts of stuff. It is probably a total of these raw commodities, around three hundred million.
- Foley: Who would buy it?
- Lovett: A syndicate of--
- Foley: In this country?
- Lovett: Yes, ordinary users.
- Foley: Ordinary users would buy the usual wool requirements, and they would make payment for it.
- Lovett: That is right.
- Foley: There would be no credit and it would be a purchase.
- Lovett: Well, the American purchasers would have to receive credit from private banks, but the purchases would be made through the British banks and thereafter what happens to the funds are no concern of ours.

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- White: They pay in advance several hundred million dollars when the first shipload comes in, although they won't get the deliveries until six months or a year beyond.
- Foley: Well, if it is not a credit, if it is a purchase, it is all right.
- Lovett: It is a credit to American purchases.
- Bell: Doesn't Jones have authority to make purchases under recent legislation which were subject to both the Johnson and Neutrality Acts which is involved here? I think he is authorized to make advance payments.
- Lovett: Well, the Metals Reserve Corporation can do that right now.
- White: There are a lot of obstacles on any larger amount.
- H.M.Jr: Well, let Ed take a look at it. I question it.
- White: The next one is "Realization of present vested securities through offer to private purchasers in an entire block of around \$220 millions at perhaps 10 percent discount below current market value."
- Walter Stewart thought that with a 10 percent discount they shouldn't have any difficulty in selling the block. That includes only the vested securities. They have additional unvested.
- H.M.Jr: Well, with you here - Forrestal was here the day they were yelling because they had to pay a dollar twenty, wasn't it, to the distributors. Was that what it was?
- Forrestal: About one dollar thirty-seven.

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- H.M.Jr: If they had to pay 10 percent, they would just faint.
- White: There is no doubt about it, but the alternative is that we pay.
- H.M.Jr: Well, I don't know - did Gifford say yesterday how fast he is concluding these transactions?
- Cochran: He doesn't think that they can speed it up much beyond the present speed.
- H.M.Jr: What is the rate a week now?
- Cochran: About 10 million a week.
- H.M.Jr: He doesn't think they can go faster?
- Cochran: No. He says they can throw in this extra 18 million dollars for the United States Government as soon as they get them, but he doesn't think they should go beyond 10 million a week.
- Foorestal: Well, they didn't think 3 million was excessive before. He thought three and a half million was the limit.
- Cochran: This was his statement yesterday, and he wanted to know if we had any reaction to that, Stewart and me. We said we would speak with you about it.
- H.M.Jr: Ed, would it be legal for a group of banks to advance them against these securities 90 percent, and then for the banks to liquidate this over the two or three months' period?
- Foley: It would be a purchase on the part of the bank, titles of the securities to pass to the banks?
- H.M.Jr: Yes. And then give the banks 90 days.

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- Foley: I think that would be all right.
- H.M.Jr: Or these investment trusts that the SEC is forming--
- Lovett: I think it is all right, sir.
- White: They are going to be down here this morning.
- H.M.Jr: The SEC is organizing all the investment trusts.
- Forrestal: It is perfectly easy to do it, I think.
- Lovett: I agree with Mr. Forrestal, I think that is the obvious, immediate way and I believe the advance against non-deteriorating essential raw commodities is a perfectly legitimate transaction which could be easily handled by the Commodities Corporation, which would borrow from the banks to make it possible to carry and enter into contracts.
- H.M.Jr: But as to the securities this group of investment trusts have got lined up, they could do that, couldn't they?
- Foley: So long as it is a purchase and not a loan, it is all right. If they bought the securities and took title to them and then distributed them when they could get a market, that would be O.K.
- Forrestal: But they could get a loan from the banks, Ed.
- Foley: Yes, so long as they didn't pay more than the market value for the securities, so long as it didn't take on any of the aspects of a loan or credit.
- H.M.Jr: But an outright purchase?
- Foley: That is all right.
- H.M.Jr: How would you ex-bankers suggest - I mean that the

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investment trusts buying these - I mean how much cushion would they want in order to be fair to the British?

- Lovett: Jim, I suggest that would depend on the quality and diversity of the securities. Most of the stuff which has been sold is not a wholly investment class. I should think to be safe you would have to count on this 10 percent discount which--
- H.M.Jr: And they they could, if they got more, say, "We will pay you up to 98½ percent of what we received?"
- Lovett: If they took the risk of the market going down, they, of course, would expect the right to any depreciation which occurred, but if you set this 90 percent lower, I think they might do what Mr. Cochran and I discussed in Paris in 1939, May, of taking over the whole works at, say, 75, and agreeing to split the difference with the British on actual sales.
- H.M.Jr: But something could be worked out?
- Lovett: I am confident it could be. Jim, what do you think about it?
- Forrestal: Oh, I don't think it would be any trouble at all. I think that you could - you might even cut out the investment trusts and form a separate - a new corporation right over the telephone this morning, which I think you could do in very short order and have that--
- White: Would it be possible--
- Forrestal: "Shadow company", if you will, which will be the holder of these securities, get a loan from the bank.
- White: Jim, would it be possible to have any competition

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in that? Could they bid for that block? Could there be two or three groups to bid for it?

Forrestal: If you have time to do it, surely.

White: You have got two months.

Forrestal: Then you have ample time for procedure. I was thinking of what the Secretary said, that the British felt that they--

H.M. Jr: They are not down - how much?

Cochran: They will be down exactly at the end of January.

H.M. Jr: That is a lifetime.

Forrestal: I know that if Mr. Lovett wasn't in the War Department and could work with your people, it could be worked out in 10 days.

H.M. Jr: Then I wouldn't ask him to do it, but with you two fellows where you are, you are in a perfect position to help me tell the SEC what I want and let the SEC do it. If you will guide me as to what I should ask for, then I will just tell the SEC this is what I want, please do it, just the way they are doing this other thing now. But if you just guide me--

Forrestal: Of course there is another way, Henry, subject to limitation of the Sherman Act. You could sell some of these assets to American companies for dollars and they could make a loan. I am speaking of the direct investments.

H.M. Jr: To the companies themselves?

Forrestal: To the American companies in similar - I mean Viscose could be sold to DuPont for cash and they could borrow it from the bank.

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- H.M.Jr: Well, of course we haven't been able to get them to agree to sell indirect investments.
- Lovett: That will take time, Jim, because we will have to figure out the valuation.
- Forrestal: Oh, much quicker, but I am just saying that on a desperate basis. They could certainly sell over 75 percent of what they have. You could get a bid from Lever Brothers tomorrow morning.
- H.M.Jr: What is the next thing?
- White: The fifth is like what you just indicated, Mr. Secretary.
- "The purchase by some Government agency of the vested securities with an arrangement that the British Government will repurchase them at the same price over a period of months."
- That is so there won't be any loss in the transaction.
- H.M.Jr: That is the President's suggestion.
- White: But Walter Stewart felt that that should be out because he said that is a repurchase agreement and hence is regarded in our courts as a loan. We called up Ed about and he didn't have much time to think about it and he just gave me a horseback opinion over the phone and he thought it was legal but he wanted a chance to work on it.
- Foley: The boys worked on it last night.
- White: Did they come to a conclusion?
- Foley: I don't know.

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H.M.Jr: Ed is good on horseback, you know. (Laughter)

White: This is all right, then.

H.M.Jr: This happens to be the President's suggestion, number five. All right.

White: Number six. "Sale to a Government agency of some or all unvested but registered American securities. These total \$440 million of which \$140 million would not be readily salable in the American market."

That is, the RFC might buy them and attempt to distribute them to the SBC over a period of years. There is a possibility, but it is not as good as the others, but it is a possibility. Next is a "R.F.C. loan against securities as collateral."

H.M.Jr: No.

White: And the next is "Sale of any immediately marketable direct investments."

That is what Jim was just talking about. It might take two months to sell some of their best ones, but they might be able to raise a hundred and 50 to two hundred and 50 million that way.

Bell: I take it there is the same objection against seven as there is against two, Export-Import Bank credit.

White: Yes, I should think so, definitely, except that in two there is a definite specific loan, whereas in seven I don't know. Ed hasn't seen this, so I don't know whether those are legal or not.

"9. Arrangements by the Army and Navy to relieve British of current payments on contracts for material which might be utilizable by the American forces. The War Department believes not more than \$50 million can be made available

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through such arrangements."

That is what we discussed last night, and what we discussed this morning.

H.M.Jr:

And that is the thing there seems to be direct conflict on the information. Mr. Lovett will run that down. I would also like to find out as to the advisability of doing that in the face of the legislation. I think the red flag ought to be put up on that for at least 24 hours.

Lovett:

It is very doubtful.

White:

The next is one we mentioned with a little hesitation.

H.M.Jr:

It is all right.

White:

"Purchase of sterling with funds from the United States Stabilization Fund, thus making the dollars available to the British, as needed.

"In view of the Secretary's commitments to Congressional Committees, there approval should be a prior condition to such a step."

Bell:

It wouldn't be a bad way to liquidate your securities, buy the British sterling and repay it.

White:

You can't buy your securities with the Fund.

Bell:

No, but they could put them up as collateral and liquidate them as they go along over a period of months and repay the Fund.

White:

Well, the fact that they would put the securities up as collateral and the fact that there would thereby be no risk, I don't think would alter the fact that you are extending a credit out of the Stabilization Fund and something which the Secretary said very definitely he would not do.

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- Bell: Oh, I agree with your last statement--
- White: But it would be the easiest way to do it if it weren't for that.
- H.M.Jr: When Harry defends my honor, I don't want to go against Harry.
- Bell: You really have to sit up and take notice when he turns around on the Stabilization Fund.
(Laughter)
- H.M.Jr: Dan, this is a big day for me.
- Bell: I'll say. It is usually the other way around.
- H.M.Jr: But you notice it was on the page just the same.
- Bell: Yes, sir.
- White: Walter Stewart said it shouldn't be on and Merle thought it should. Now, the next page--
- Bell: It is a little better than a couple we are just going through, I think.
- White: The next page, neither Mr. Stewart nor Mr. Cochran thought I ought to include, but I feel differently, so I put them in.
- Cochran: Well, we thought the Secretary ought to have the information, of course.
- White: Oh, did you? I am sorry. Who didn't you think should have the information? (Laughter)
- H.M.Jr: Around here you will get on that we just try to keep it from getting too tense. Otherwise we would be weeping all along. Go ahead.
- White: "11. It may be possible that the British Government will be able to reduce private dollar balances held by U.K. residents. On December 18,

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our report showed \$312 million so held. A substantial portion is doubtless needed for the conduct of business, but some of it may be available, at least temporarily, for the British Government's use."

You see, they may be able to borrow that and if Congress passes the legislation which we hope and think they will, I think that the British Government will be able to accumulate currently little sums with which they can repay these - this amount over a period of six or eight months. "The British Government may be able to arrange a loan with some of our allies (excluding France). They have so much in the United States and so much in the British Empire. When we asked Sir Frederick about two months ago, he said that they may be able to get a loan from Belgian gold for a short time.

Cochran: They have been trying and they haven't succeeded with any of them. The only way that the Belgians would agree would be if the United States would underwrite it to deliver an equivalent amount of gold to them after the war if the British couldn't.

H.K.Jr: After that earmarking of gold that they had, they can do anything. They took the French gold in Canada and sold it down here and mentally earmarked some gold in South Africa for France. Now, if they can do that, they can do anything.

Ball: Still in the ground? (Laughter) I think that is all right.

H.K.Jr: If they can do that, they can do anything.

White: Of course, the further down we go, the less - more difficult it becomes.

Gold reserve of Empire countries, excluding U.K.

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and Canada, total over six hundred million dollars and it may be possible that the British Government may be able to borrow some of the gold reserves of her Dominions for an acute emergency. There is a possibility. Their credit ought to be good with their own Dominions.

"14. The British list \$75 million payments as due to Canada during the next 2 months. It may be possible for the British to arrange with Canada that she take Canadian securities (or sterling balances) instead of dollars for those 2 months."

Because you remember in our examination of the Canadian position we showed that she will increase her gold holdings over a year on the basis of the data they gave us, so they may be able to part with this 75 million or a portion of it, getting down to smaller amounts.

- Bell: Well, Canada was all right for the period up to September but included in that balance sheet were payments from Great Britain in dollars.
- White: That is right, and this 75--
- Bell: Don't know how much she could take out.
- White: They can take a portion of that because I think they had more than that accruing to them over that period.
- Cochran: But Phillips explained that he had been in touch with MacKenzie King trying urgently to get assistance.
- E.M. Jr: How recently did he say that?
- Cochran: Yesterday.
- E.M. Jr: I see.

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White: Well, another way of stating that is that Canada feels that she cannot lend Great Britain 75 million at the present time.

Cochran: She is giving all the help that she can.

H.M.Jr: Let them slow up on their payments to Canada and maybe MacKenzie King would change his mind.

White: Well, that is a small amount.

H.M.Jr: Well--

White: Then in addition she has the rest of her assets.

H.M.Jr: Do you (Lovett) want to go now?

Lovett: Yes, sir.

Before I go, may I raise one question, Mr. Secretary?

H.M.Jr: Please.

Lovett: Back under item 2, I was just talking to Mr. Foley about it, and we ruled that out in its present statement there, but by changing that a little bit, it occurs to me - Jim, you might check that - that an American corporation would be the appropriate obligor at this end for the purchase of essential raw materials and that that obligor would make payment to the suppliers either in cash or in credit, delivery of the articles being at a later date. That would not, as I see it, be an advance to the British Government or a British Government agency. It would be an ordinary commercial transaction providing funds, the proceeds of which under existing British laws, as I understand them, would be turned over to the British Government by the suppliers.

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- White: That almost duplicates your first arrangement with China in which there was an American corporation set up here, the Universal Trading Corporation, and I think the loan was made to them against future deliveries, but whether in the light of the legislation they would do that with Britain or not--
- Foley: Your Neutrality Act, in so far as China is concerned, doesn't apply because no state of war exists there. I am afraid if your future deliveries are so far in advance and your arrangement is against those future deliveries that it may be construed to be a loan rather than a purchase, but if you could dress it up so it is a purchase and it is a normal commercial transaction between two corporations, then it would be all right.
- Lovett: The reason I go back to it is--
- Foley: But the difference between this situation and the Chinese situation is that the Neutrality Act would apply here, whereas in the Chinese situation it didn't.
- Forrestal: There is no war in China?
- Foley: No war in China under the Neutrality Act.
- Lovett: All of these commodities, or the largest number of them, have a market.
- Foley: They are perfectly normal commercial transactions to handle it in that way - it seems all right.
- Lovett: Supposing we have a look at it because I think that is the quickest, easiest way to get the majority of those funds.

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- Forrestal: Are the British paying for that Australian wool they are storing?
- White: Yes. There is this large amount of wool coming here and we are paying only the freight. It might provide a possibility for buying that wool.
- Forrestal: About two hundred million dollars, isn't it?
- White: Almost that. It is a very large sum.
- A.M.Jr: Mr. Lovett, before you go, I want to ask you a question. Which of these things do you think I might bring to their attention first?
- Lovett: Yes. I think advances against strategic materials is the quickest.
- Foley: Number three?
- Forrestal: Two.
- Lovett: Two and three together, really. There is certainly some way of doing that because the banks all tried to do it directly. Number two would be the realization of present vested securities, through, I think, a separate corporation to make the offering rather than existing investment trusts.
- Forrestal: You will get too many people talking on it, and they will all have different ideas.
- Lovett: Do you agree on that?
- Forrestal: Absolutely.
- Lovett: Private corporation?

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- White: The amount need not be limited to the 220 which they now have vested because they could vest a substantial portion of the remainder, given a few weeks or a month.
- Lovett: Yes, sir, but talking just to this point.
- W.C.W.: What was the suggestion you made as to the 220 million?
- Lovett: That a study be made of the possibility of having a separate private corporation set up to become the purchaser of these vested securities and after purchase, the issuer, if necessary, have collateral notes or other instruments, stocks, provide the portion of funds.
- Forrestal: The same as that old Anglo-British loan.
- Lovett: Yes.
- Forrestal: What would be a new company, Henry, and you would deal with one person, then. You would eliminate the investment trusts. They could buy from that if they chose but it would be an instrument through which you could have an immediate access to bank credit against those securities as collateral. I don't think that would violate the Neutrality Act, would it, Ed?
- Taley: I don't think so, Jim. We could take a look at that one.
- Lovett: Mr. Secretary, I am speaking of two and three together, you see. Then the third one is the vested securities, but I understand Dr. White wants to lump that with number four.
- White: The unvested. I don't know how many of them could be quickly available or I don't know how many of the hundred and 40 million - how much it would fetch, but I imagine--

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- Lovett: Well, I think you could get a reasonable estimate on it.
- White: But at any rate, if you took their vested and unvested securities, they have got 7 hundred million. Certainly 5 hundred million of that ought to be forthcoming within 6 or 7 or 8 or 9 weeks.
- Lovett: If the price of that security is good, and I think--
- White: If it isn't, then a 50 percent reduction.
- Lovett: Throw out 25 percent as being bum stuff. The third thing is direct investments over here which would be like Viscose, Lever Brothers. There are substantial British interest in which the time element is the real--
- Forrestal: I don't think it would take any two months, though, Bob. I think you could do a negotiation within a month.
- Lovett: Yes. Give us four weeks and I think you would get enough to go ahead on.
- H.M.Jr: Because I begged them on my knees to do this six months before the money was needed. That is the time to do it.
- Forrestal: You have been doing it at intervals ever since I have been here.
- H.M.Jr: But I started last July, begging them. I said, "Don't do it when the world knows you need it. Do it when nobody thinks you need it. Put the money away."
- Lovett: Of course the problem is magnified after the arrival of the British financial agent and Lothian's trip.

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- H.M.Jr: Lothian dated it publicly. Well, I am ever so much obliged and we will keep you posted. I wanted you to stay, Jim.
- Forrestal: I have got to go in about 10 minutes.
- H.M.Jr: I was going to send for the English now.
- Forrestal: All right.
(Mr. Lovett left the conference)
- H.M.Jr: I'll tell you what I think I am going to do. Rather than see them now, I think I am just going to shake hands with them and let them go. I think I am going too fast. I want to digest all this.
- Forrestal: You won't really get started before you have to go.
- H.M.Jr: Yes, I mean I have to - so I think what I am going to do is, I want to talk to Mr. Forrestal alone a minute and then I will go down stairs and excuse myself to these people, you see.

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SECRET

BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Willard Hotel
Washington DC

January 5, 1941

Dear Mr. Secretary:

I inclose for transmission to the President the new statement of British Requirements during 1941 and 1942 of -

Merchant Ships
Aircraft
Ordnance
Steel
Machine Tools

- which statement was promised in the Prime Minister's letter to the President of December 8th, 1940, paragraph 16, and again in his cable of January 2, 1941.

Very truly yours,

Arthur B. Harris
Chairman

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

STATEMENT OF BRITISH REQUIREMENTS
of Merchant Ships, Aircraft, Cranes, Steel and Machine Tools
for Delivery from the United States
during 1941 & 1942

Unit of Measurement	Estimated deliveries from orders already placed or under negotiation in United States		Deficiencies to be provided for from United States		Total Deliveries Required from United States	
	1941	1942	1941	1942	1941	1942
Ships						
gross tons	90,000	250,000	3,200,000	2,440,000	3,290,000	2,990,000
single units	150	-	150	200	300	200
units	1,000	-	200	1,400	1,600	1,900
Aircraft						
units	4,500	2,300	3,000	14,000	7,500	16,300
types	4,500	700	1,500	7,500	5,500	8,200
types	300	100	100	600	300	700
types	-	-	1,000	1,000	1,000	1,300
Total Operations	8,700	2,800	5,500	22,000	14,500	25,500
	1,100	350	2,500	5,400	3,700	6,500
Grand Total	9,800	3,150	8,000	27,400	18,200	32,000
Ships						
single units	2,300	1,150	1,100	5,000	1,700	1,700
types	-	-	3,200	-	3,200	1,300
Cranes						
units	400	550	2,400	-	2,800	500
types	-	30	1,200	-	1,200	-
types	-	-	400	-	400	-
types	-	-	1,800	-	1,800	-
types	-	-	11,100	2,700	13,800	2,300
types	5,100	3,700	4,300	4,300	4,300	600
types	80	600	4,000	-	4,080	600
Steel						
tons	4,000	16,000	-	1,000	4,900	17,000
types	1,000	1,000	4,300	1,300	7,300	3,300
types	27,000	49,000	23,500	21,000	46,500	50,000
types	15,000	17,000	27,000	-	42,000	17,000
types	92,000	4,500	68,000	-	166,000	4,600
Machine Tools						
units	350	100	1,500	-	2,200	400
types	165	75	45	100	220	100
types	-	-	90	-	90	100
Cranes						
units	7,400	9,200	-	25,800	7,400	29,000
types	1,600	1,800	-	1,000	1,600	1,400
types	400	-	300	1,000	700	1,400
types	-	-	2,500	400	2,900	1,500
types	1,500	1,200	2,400	7,000	6,900	2,500
types	4,900	6,100	-	1,400	6,300	600
types	150	10	-	-	160	-
Steel						
tons	10	15	20	10	25	15
types	85	165	115	1,700	1,900	1,900
types	730	-	2,120	-	2,850	1,400
types	650	1,100	110	-	760	-
types	12	-	20	20	32	20
Machine Tools						
units	6,500	6,500	-	-	13,000	6,500
types	700	725	-	-	1,425	725
types	18	18	22	-	40	1,900
types	900	900	-	-	1,800	1,900
types	900	900	-	-	1,800	1,900
Cranes						
units	100	-	-	100	100	100

Notes on Requirements:

- Merchant Ships.** Based on maintenance of United Kingdom merchant fleet at existing level, U.S., after allowance for present rate of losses.
- Aircraft.** Based on present British Air Staff estimate of equipment requirements to give preponderance over enemy.
- Steel.** Based on British War Office strategic calculations.
- Ships.** Based on United Kingdom deficiency as a result of loss of Continental sources of supply.
- Cranes.** All of the above activities assume the maintenance of British output.

**DOLLAR REQUIREMENTS AND RECEIPTS OF UNITED KINGDOM
FROM JANUARY 1 to MARCH 1, 1941**

(As submitted to Mr. Cochran by the British Government)

A. Requirements	(In millions)
1. Payments to Canada.....	\$ 75
2. Payments for purchases in United States by British Purchasing Mission on	
(a) Commitments on orders already placed.....	290
(b) Repeat orders.....	50
(c) New contracts (minimum).....	250
3. Other items in the Balance of Payments (net).....	10
4. Dollar advances to Greece.....	—5
Total requirements.....	\$670
 B. Receipts — Cash that will be available from Jan. 1 to March 1	
In Federal Reserve Bank.....	\$ 50
Gold in transit and otherwise available....	205
Sales of vested securities.....	—2
Total Receipts.....	\$253
Deficit.....	\$417

(British Exchange Equalization Account authorized dealers balances of \$49 million which cannot be drawn down and consequently not included in the above total.)

(There is approximately \$33 million of gold in widely scattered localities such as Singapore, West Africa, Bombay and London; early shipment of some of this is impossible and switching against gold in Canada gives rise to difficulties.)

From the figures submitted by the British, it appears that the British cash resources will be exhausted at the end of January, and a deficit of \$417 millions would be incurred by the end of February. This does not take into account the necessity of the British Government having a working balance on hand — which they estimate should be a minimum of \$250 millions.

HW:GM
1/4/41

January 5, 1941.

The following are suggested as possible methods of meeting the claimed deficit of \$251 millions, and avoiding the exhaustion of the dollar balances of the British Government: -

1. Sale of \$18 millions of American Government securities now in Canada but not yet vested.
2. Export-Import Bank credit against future deliveries of tin, rubber, wool, etc.
3. Purchase by the Metals Reserve Corporation of strategic materials, to be delivered in the future, but payment to be made in advance.
4. Realization of present vested securities through offer to private purchasers in an entire block of around \$220 millions at perhaps a 10 percent discount below current market value.
5. The purchase by some Government agency of the vested securities with an arrangement that the British Government will repurchase them at the same price over a period of months.

Mr. Foley thinks this procedure is legal, but wishes to examine the matter further before committing himself definitely.

6. Sale to a Government agency of some or all unvested but registered American securities. These total \$440 million of which \$140 million would not be readily salable in the American market.
7. A.F.C. loan against securities as collateral.
8. Sale of any immediately marketable direct investments.
9. Arrangements by the Army and Navy to relieve British of current payments on contracts for material which might be utilisable by the American forces. The War Department believes not more than \$50 million can be made available through such arrangements.
10. Purchase of sterling with funds from the United States Stabilization Fund, thus making the dollars available to the British, as needed.

In view of the Secretary's commitments to Congressional Committees, their approval should be a prior condition to each a step.

EDW:dm
1/8/41.

11. It may be possible that the British Government will be able to reduce private dollar balances held by U.K. residents. On December 15, our report showed \$12 million so held. A substantial portion is doubtless needed for the conduct of business, but some of it may be available, at least temporarily, for the British Government's use.
12. The British Government may be able to arrange a loan of some of the gold held by her Allies (excluding France). They have \$565 million of gold in the U.S. and \$520 million in the British Empire.
13. The gold reserves of the Empire countries, excluding U.K. and Canada, total over \$600 million. It may be possible for the British Government to borrow some of this Gold to tide her over the acute emergency.
14. The British list \$75 million payments as due to Canada during the next 2 months. It may be possible for the British to arrange with Canada that she take Canadian securities (or sterling balances) instead of dollars for those 2 months.
15. In addition to the foregoing, the British have investments in Canada, Latin America and elsewhere, there is French gold in the British Empire, and there exist various types of Allied assets. Whether this can be utilized to tide her over the present emergency and how much are matters of policy.

January 9, 1941
10:00 a.m.

RE PRESS STATEMENT ON INFLATION

Present: Mr. Gaston
Mr. Bell
Mr. Young
Mr. Haas
Mr. Kuhn
Mr. White
Mrs. Klotz

H.M.Jr: I just want to make a little speech to you people. Haven't you got a big chart, George?

Haas: No. I have one, but it is not up to date.

H.M.Jr: Where is mine?

H.M.Jr: (On Telephone) It is all right with me, and I will bring it up in Cabinet.....

I am not, but he certainly told me.....

That is all right, I would just as lief bring it up in Cabinet.....

But I certainly expect him to see those leaders after Cabinet.....

I wish you would call up Sam Rayburn and Barkley. Will you take care of that?.....

Right. And then Hull and I ought to be there too at 4:30.....

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We have been handling it, and the President hasn't seen the bill and there are several changes which he doesn't know about, see?.....

Well, keep them going between now - that is right. That is right.....

That is all right.....

But the 4:30 thing and I would like to bring Foley with me, too, at that time.....

Yes.....

Well, you ought to have Hull and me and Foley there. You let me know. O.K.

Haas: Mr. Secretary, how about those big ones that we had before? I have those.

H.V.Jr: Well, ask the girl.

Bell: Are they up to date?

Haas: They are up to date as much as the Bureau of Labor Statistics.

H.M.Jr: I didn't want that meeting this morning anyway, because I am not ready. After this other meeting, I am not prepared.

Harry, keep this (handing papers to Mr. White) in your files. Don't let loose of it.

I want to make a speech. There are three things which have happened, none of which as yet I have expressed myself on. One was the Eccles statement, two, Jones' statement that there is no inflation, and three, the President's Budget message.

- 3 -

Now, I feel very, very strongly and that is the reason I asked you people in here to argue with me for 19 minutes, that I, as Secretary of the Treasury, ought to say something. They are certainly going to ask me about the President's Budget message, they are going to ask me about Jones. I feel very, very strongly about this inflation thing, and I think Jones is entirely wrong on it. And this thing in Standard Statistics plus one thing which George suggested adding. Have you all read this thing?

Gaston:

Yes.

H.M. Jr:

Have you (White) read it? Well, I will read it out loud. My thought was that I would just say when they ask me - and that is why I want the big chart; when they see it and they will say, "What is that?" And I will say, "Well, that is the way we watch prices." I want the President to see it, see. I can say, "Well, gentlemen, I study everything I lay my hands on and the thing that expresses my feelings closer than anything I have seen is this statement in Standard Statistics which I would like to read to you, and then when I get through, plus one thing I want to add. And I would be glad to put my name to it."

What have you got, George? Let's see.

Haas:

These are the biggest increases not including lumber.

H.M. Jr:

I don't want to get into the specific ones.

Haas:

Lumber would be way up above the top. There is a separate one on lumber.

- 4 -

White: That looks very scary.

H.W.Jr: It should be scary. Just put the one up.
If anybody wants to see that, they can.
Let me read this thing, you see.

"Credit control policies alone cannot effectively control or prevent inflation. Mere elimination of excess reserves and the establishment of higher interest rates would not prevent an increased turnover of bank deposits, a further increase in deposits as a result of deficit financing, an expansion of bank loans, nor higher prices resulting from non-monetary factors such as rising wages, labor shortages, plant deficiencies, or raw material shortages.

"There has long been a misconception relative to the importance of credit controls. At best, such controls only attack one facet of the inflationary picture. Borrowing, for example, is not discouraged merely by rising interest rates if business prospects are favorable. Credit has no bearing on wage increases in a period of sustained business activity, nor do credit policies produce new raw material supplies, new factories, or skilled workers.

"If ultimate inflation as a result of excessive Government spending is to be averted, it will be because of a far broader control policy than the one proposed by the Federal Reserve last week. Effective restraints on inflation must include (1) reduced non-defense federal expenditures, (2) sales of Governments to investors rather than to banks, (3) restraints on rising wage costs, (4) industrial priorities where necessary, (5) closer cooperation between industry and Government to prevent a vicious circle of price advances," and (6), the thing which I was going to ask you to write a sentence on, George, plant expansion.

- 5 -

- Haas: That is in there, I noticed, as you read it.
- H.M.Jr: I was going to say, "Gentlemen, this comes near, without my having written it, expressing the way I feel." Then if they say, "Well, how do you feel, do you think the President has gone far enough on non - reduced non-defense federal expenditures," I was going to say, "Well, it is a start."
- Gaston: I noticed one very serious - what seems to me one very serious defect in that statement which seems to be an argument against your giving it full endorsement. They stress wage increases, restraining wage costs, and they say nothing about extortionate profits. It isn't realistic to think of wage increases as forcing these high prices. What happens is that when you get a shortage of production of stocks, of capacity, there is an opportunity for those who produce and sell to stick their prices up and profits are always way in advance of any labor increases. They always lag behind, and this is just another example of the - of how the business tendency and the manufacturer's tendency is to blame these price increases on labor, which is neither realistic nor just, and that is the thing that is wrong with that statement. When they see an opportunity to get higher prices, they will get them. They say the market justifies it, and it isn't due to labor costs. Labor costs will lag behind.
- White: I agree with Herbert a hundred per cent on that issue.
- Bell: They haven't lagged behind in this situation, though, have they?
- Haas: Yes, profits have gone up more.

- 6 -

- Gaston: Why you get your price increases is because they see an opportunity to get the price increases. Then after that --
- White: They bid for labor. It is true that there are certain key unions, key by virtue of their excellent strength and position, who are able to get wage increases through their bargaining process, but a great deal of the wage increase which takes place, with the lag, takes place as a consequence of the employers themselves bidding among themselves for wage earners and to center the tension of the rising costs on that as I think that does, at least gives it undue emphasis --
- H.M.Jr: It is one of several things.
- Gaston: But they don't mention the other more important thing, which is the taking of high prices simply because the market situation enables them to take them.
- White: Moreover, I am wondering, Mr. Secretary, whether you couldn't write a better statement that would include all those things.
- H.M.Jr: Oh sure, Harry. You would wait a month for it, too.
- White: No, I think we could do it rather quickly rather than saying, "This expresses my view."
- H.M.Jr: I would wait for one month and let everybody fight about it, and then they would all agree I shouldn't give it.
- White: Well, there is something in that. (Laughter)
- Gaston: Here are two short statements, one that I wrote and one that Ferdie wrote. (See attachments one and two)

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- H.M.Jr: Let's see it. We will go around and around and I can say this thing and I can add the thing about profiteering.
- Gaston: That would be all right.
- White: Yes, if you could say that. Say, Now, you don't agree with all of it, now this part about wages, and then go on.
- H.M.Jr: I don't have to say it. "This is a good statement," I can say, "But one thing they overlook on this thing is the - is war profiteering."
- Haas: They have it in there, Mr. Secretary, that last thing, I think, but it is submerged, where it says, "cooperation to prevent a price spiral" in the last sentence. That is included, but it is under cover, you see.
- White: But why take a crack at wage costs when there is no indication at present that they are rising unduly? There are here and there a few spotty --
- H.M.Jr: Well, I wouldn't include it.
- White: A lot of labor people will hear the statement.
- H.M.Jr: Which are these?
- Gaston: That is mine on top.
- H.M.Jr: Did he say --
- Gaston: Here is Jones' statement. (See attachment three) He just said, "I haven't seen any indication toward inflation, and I don't see why we should expect any such tendency." He didn't say monetary --

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- H.M.Jr: No, he is talking about deflation.
- Gaston: But he was talking about the monetary phase of it.
- H.M.Jr: If he is, it isn't in there. It isn't in the statement.
- Gaston: You could say that you agree with Secretary Jones only to the extent that you don't see any signs of inflation from monetary causes or you could just omit, if they ask you about Jones' statement, you could just omit specific references to Jones and say that, "Well, so far as I am concerned, I don't see any signs of inflation due to monetary causes."
- H.M.Jr: I get back to this thing in this magazine, which is the best thing that has been written. They read the whole thing through. They don't say that the President should have those emergency powers taken away from him in the statement.
- White: That last sentence - in the last sentence you read, it seemed a little troublesome. Could you read - not on the rise, but the last one you read.
- H.M.Jr: "Closer cooperation between industry and Government to prevent a vicious circle of price advances."
- Haas: I think it was under that heading they intended to include this other thing.
- H.M.Jr: If you added to the thing, if you said - to the thing --
- Gaston: Is it all right if you qualified that by saying that --
- White: I don't like that job on that chart, Mr. Secretary.

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- H.M.Jr: It is too bad, it is facts.
- White: Yes, it is facts, but the scale is so high.
- Haas: Fifty-nine and sixty per cent.
- H.M.Jr: What are you worrying about?
- Bell: Should the fact that it is a low of the year be explained?
- H.M.Jr: Harry, inflation is on right now, and nobody has got the nerve to come out and say it. And what Jones is talking about, if you people would take the trouble to read it, he says, "There is no inflation in sight." He isn't talking about monetary inflation.
- Gaston: Well, I think you could say, "If Jones is talking about purely monetary inflation, he is right, but there isn't any sign of that." But we are having a beginning price inflation but I don't see any harm of using that Standard Statistics statement if you say that you think they stress the labor costs too much and they overlook what seems to you a much more important factor and that is the tendency to profiteer on the shortage.
- Haas: That would make it perfect.
- White: The more I think about it the more I would leave the subject alone, this morning.
- H.M.Jr: What subject?
- White: The reason being that either you have to disagree with Jones or you have to give the reporters that kind of a chart and they will make a good deal of it, and whether that is the way to meet the Eccles bill, whether they won't come out and

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say something quite different than what you want them to say - I am not sure that I see what is to be gained by taking this very important issue.

Gaston:

They are going to ask the Secretary about this, and I think he has got to say something and I don't think he needs to disagree with Jones. He can say, "If Mr. Jones was talking about - I wasn't at his press conference, I didn't see his statement, but if he is talking about inflation due to monetary causes, he is right. I agree with him, but we do have a situation about price increases that we have got to do something about."

Kuhn:

And you have been doing something about it, Mr. Secretary.

White:

That is right, that there are some prices which are rising unnecessarily and that we are doing something about it and we will do more - something of that character, which I think is a little bit different than showing --

H.M.Jr:

What you people have lost entire significance of is that I am going to be asked this thing on this Budget business and this statement takes care of that. I mean, I am going to be asked, do I like the President's Budget. We are all worried about this labor costs and the rest of the thing; I am much more worried about what I am going to say on the Budget, which is the news story today. What are you going to say about it?

White:

I would say it is fine.

H.M.Jr:

Well, I don't think it is fine.

White:

Which particular portion do you --

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- E.W.Jr: On the non-military thing I think it is terrible.
- White: You mean that he doesn't go far enough in the reductions?
- E.W.Jr: Yes. He said he would, and he didn't. This thing takes care of it. He didn't touch three A's, he didn't touch the CCC.
- White: Well, I don't think he should have, but it is a difference of opinion.
- Esas: Mr. Secretary, I could only get four in the whole city of those copies.
- E.W.Jr: What do you think, Phil?
- Young: I don't think you can go sit in a corner and hide by any means on this situation. I line up with Herbert a lot more than I do with Harry on that. Secondly, it is going to be much simpler if you are going to have to say something, and I personally think you should, on it, to do it in this way than it is to take a direct issue. Until that is - if and when you want to make a statement of your own on it and sign your name to it, it is a perfectly good sort of a stop-gap in the meantime, and if I recall the language correctly in this, it says when it lists those five factors, it says included and it merely picks those five out of a theoretically larger group as being the most important. If you want to add on one or two of your own to that, I think that is perfectly all right; but I don't think you ought to limit it to the entire list, make a hard and set list of 5 or 6 or 8 or what not, leave the door ajar on it.

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H.M.Jr: What do you think, Dan?

Bell: Well, if you feel you have to say something, I would play it down as much as possible. I should think that you might say that there is no inflationary trend on the monetary side, and so far as the general price level is concerned, it hasn't gone up very much; but there are some individual commodities that need to be watched, and there are some plant shortages that need to be corrected; and we are watching those. I would play it down. I think you can start this talk outside, and it will really cause more harm than the actual rise in prices.

H.M.Jr: What kind of harm?

Bell: Oh, I think getting people scared and they start running certain directions and maybe buying common stocks, buying commodities for coverage. I am afraid that that thing might start something bad.

H.M.Jr: That is just what happens as a result of the Eccles thing. The bonds are going down, and the common stocks are going up, and you have got this price inflation that is on us and nobody has got the nerve to say it. It is on us right now.

White: That is too strong a statement, Mr. Secretary.

H.M.Jr: I disagree with you a thousand per cent.

White: I think you will find, Mr. Secretary, that in any period of rising prices that you get a dispersion on many commodities which may not be as startling as that in three or four, but you will get a substantial dispersion from the low to the high of any year; and you can make it look very spectacular. That doesn't mean, however, that

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the situation mustn't be carefully watched and something mustn't be done like you are doing on Henderson.

E.W.Jr: Oh, nuts on Henderson. He is just a big blowhard who isn't doing a thing.

White: Then I would suggest other measures; but I would take the measures and not make the public statement.

E.W.Jr: The only way you can get it is by talking about it, and if you sit here as Secretary of the Treasury and scared to say anything about anything --

White: Mr. Secretary, why wouldn't you show a chart like that to the President?

E.W.Jr: He has had it.

White: A big one like that?

E.W.Jr: Yes.

White: I would show it to him again.

Boston: I don't think you need the chart. I think you will get some questions on the Jones statement. I don't think you need to disagree with Jones on the monetary inflation thing. There is in certain prices a danger of a price rise which we have got to watch very closely, and we must use means to control it and it isn't a price rise which is going to be due primarily to increased labor costs. Also a shortage produces profiteering.

E.W.Jr: There isn't anybody in town who has got the nerve, and take it from me that we are right in it now.

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Nobody ever recognizes it. Nobody is willing to say it.

All right, you just make the date. You look back six months from now.

Toung: You have got to hit a halfway point from between hiding your eyes on one side and crying wolf on the other, and give a perfectly calm, reasonable statement.

Baston: I agree with Phil.

East: The important thing to emphasize is that we are on top of it and we recognize it.

F.W.Jr: Leon Henderson sat here three weeks ago and said that the lumber thing was all right. Now, suddenly since we put the pressure on him, he is beginning to talk and put a top of \$20.00 on scrap and all the rest of the stuff.

Hall: Steel was all right, too, and I see that the President asked for a report and gave him two days in which to make a report.

White: Well, I wouldn't let his errors of judgment or fact be the determining factor as to whether or not this is the appropriate time or that is the appropriate way to bring to the attention of the public price rises in certain important commodities. I think a reporter looking at that chart will write quite a story about it and they won't uphold the qualifications you would like them to see. It looks from that as though everything in the world is going up. They are not accustomed to looking at charts like that, and I think the statement must be made that there are certain prices which are rising high and that we have got to crack down on them and we mustn't be complacent about

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thinking that things will be all right, and we have got to be watching them and we have got to go further in that direction, anything of that character so long as you can confine yourself to the question of prices of a few commodities, and we have got to get it before you get started.

Klots:

I think that that is what you had intensions of doing.

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thinking that things will be all right, and we have got to be watching them and we have got to go further in that direction, anything of that character so long as you can confine yourself to the question of prices of a few commodities, and we have got to get it before you get started.

Wets:

I think that that is what you had intensions of doing.

I agree with Secretary Jones that there are no present indications of inflation due to monetary causes. I think people often use that word "inflation" without any precise understanding of what they are talking about. The inflation that we need to guard against right now, in my opinion, is not an inflation of monetary origin, but an inflation of some prices due to other causes, such as increased demand coupled with temporary shortages of capacity or other bottlenecks in production. We have had already sharp price rises in some important materials from those causes. There are ways to deal with that situation. Mere monetary controls would not meet the ~~situation~~ need. We ~~shall have to use any powers we have available to prevent those who control supply or production from taking extortionate advantage of the country's need.~~

I'd rather not comment now on Chairman Eccles' proposals. They are being ~~studied~~ studied, as I told you last Monday. But I do want to endorse Jesse Jones's statement yesterday that he could see no evidence of inflation from monetary causes. I agree with that statement completely. The trouble is not with monetary conditions. That bothers me, and what bothers Leon Henderson over at the Defense Commission, is the rise in the prices of physical things. Mr. Henderson spoke about steel scrap, and said that drastic steps to control scrap prices would be recommended unless voluntary action is taken quickly. And steel scrap is not the only commodity, as you will see on these charts.

Now I want to go back ^{six weeks} ~~two months~~ and remind you of something I said at a press conference in November. I said then that ^{price} inflation was one of my chief concerns, and I meant what I said. I have been having constant discussions about it with Leon Henderson, and both of us are determined to nail any sign of a rising spiral, and to nail it hard, as soon as it appears. We are not going to let prices run away or even begin to run away. Where they show signs of doing so, we are determined to stop the process at the very beginning. That, to my mind, is the first and best way to guard the people of this country against inflation. The first and best way, in other words, is not to let it start.

This is not the time for tinkering with money rates. It is the time for a resolute ~~work~~ job on the prices of physical ~~physical~~ things. That is the job the Administration is now doing.

N.Y. Herald-Trib.
Jan 9, 1941.

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STATISTICS

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Jones Assails New Reserve System Plans

Favors as Much Available Bank Credit as Possible, He Declares

Reports No Trend Toward Inflation

Loan Administrator Says He Does Not See Why We Should Expect It

From the Herald Tribune Service
WASHINGTON, Jan. 28.—James H. Jones, as Federal Loan Administrator, said at a press conference today he was opposed to the suggestion advanced by the Federal Reserve system that it should have powers to control the level of excess reserves. In a statement on Jan. 1, the board brought attention to the dangers of inflation inherent in the multi-billion defense program.

"I am for exactly the opposite," Mr. Jones declared when asked to comment on the Reserve board proposals. Furthermore, he added, "I'm trying to get the banks to lend more. I want to see as much bank credit available as possible."

Mr. Jones denied the board's claims that it made its proposals to forestall possible inflation. "I haven't seen any inclination toward inflation," he declared, "and I don't see why we should expect it."

Confers With Messersmith

The R. F. C. administrator said he had first learned of the Reserve board suggestions while returning from the Cotton Bowl football game, when he had glanced at the headlines in the papers.

Mr. Jones disclosed that he had conferred with the American Ambassador to Cuba, George S. Messersmith on the question of an Export-Import Bank loan to that country. However, he declared that the bank is prepared to lend "nothing like \$25,000,000."

Mr. Jones said he could not disclose at this time whether the proceeds of that loan would go to the Cuban government or to sugar companies. But, he declared, the proceeds would be used to pay labor to cut and grind Cuba's sugar-cane crop.

Commenting on the Reconstruction Finance Corp. defense activities, he revealed that the corporation has made more than \$1,000,000,000 in commitments for national defense materials and plants. National defense plants have absorbed about \$200,000,000 of the sum.

About \$200,000,000 has gone for stock piles of strategic materials, such as metals and other materials, while \$250,000,000 has been committed for rubber purchases. The R. F. C. is conducting negotiations for the purchase of 200,000 tons of nitrate as a strategic material, but did not reveal details of the proposed transaction.

Plant Proposals Asked

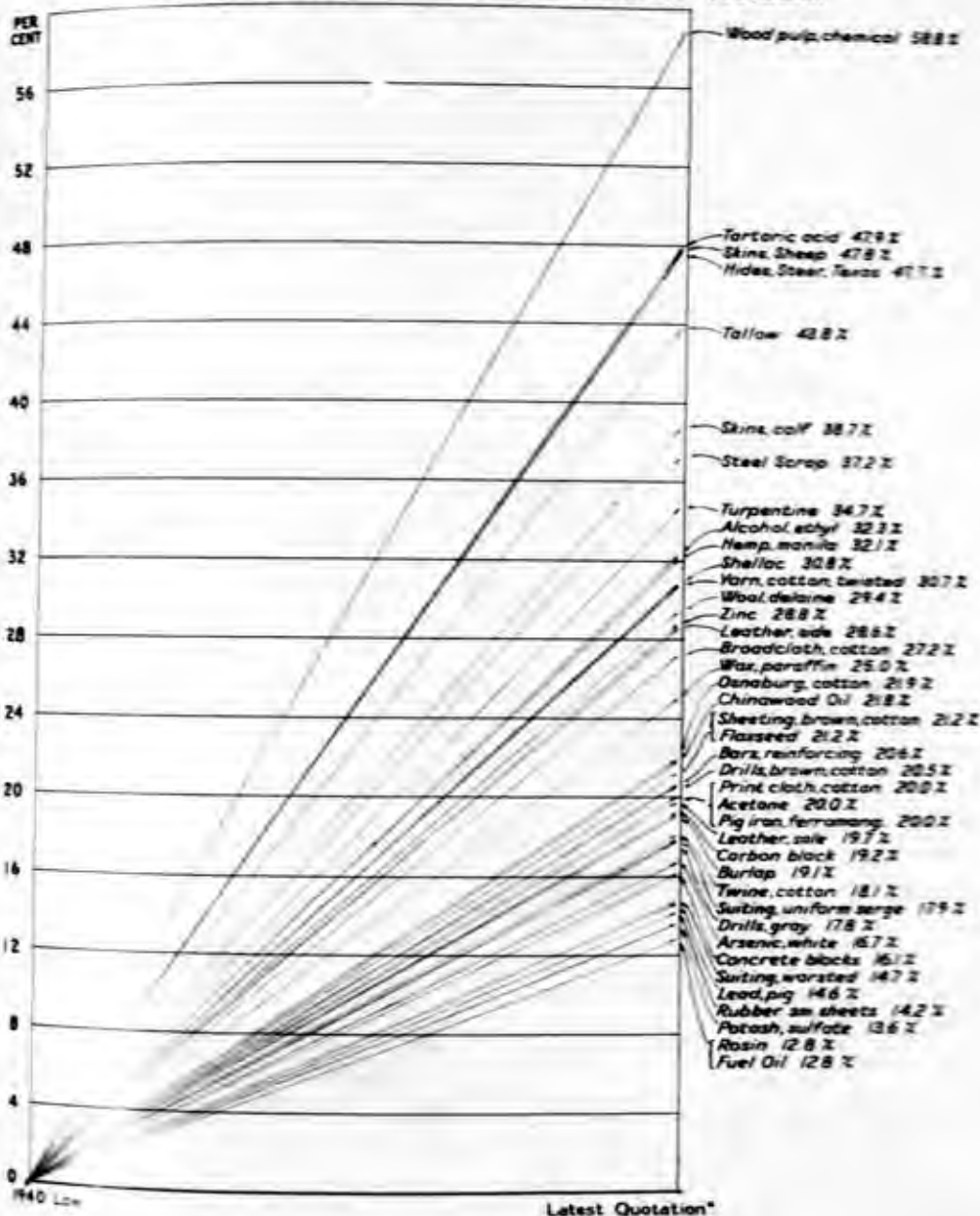
The corporation has "asked for tentative proposals" on the construction of synthetic rubber plants by a group of rubber and oil producers. He declined to disclose the names of the companies.

Mr. Jones declared that negotiations to construct a tin smelter in the United States have not been abandoned and these negotiations are being carried on with two American concerns—American Metals and Phelps Dodge Corp.

"We will build one plant," he declared, "but neither its size or location has been decided." An announcement may be forthcoming in about a week. The R. F. C. has contracted to buy 10,000 tons of refined tin from Bolivia, he said.

PRICE INCREASES FOR SELECTED INDUSTRIAL MATERIALS (NOT INCLUDING LUMBER)

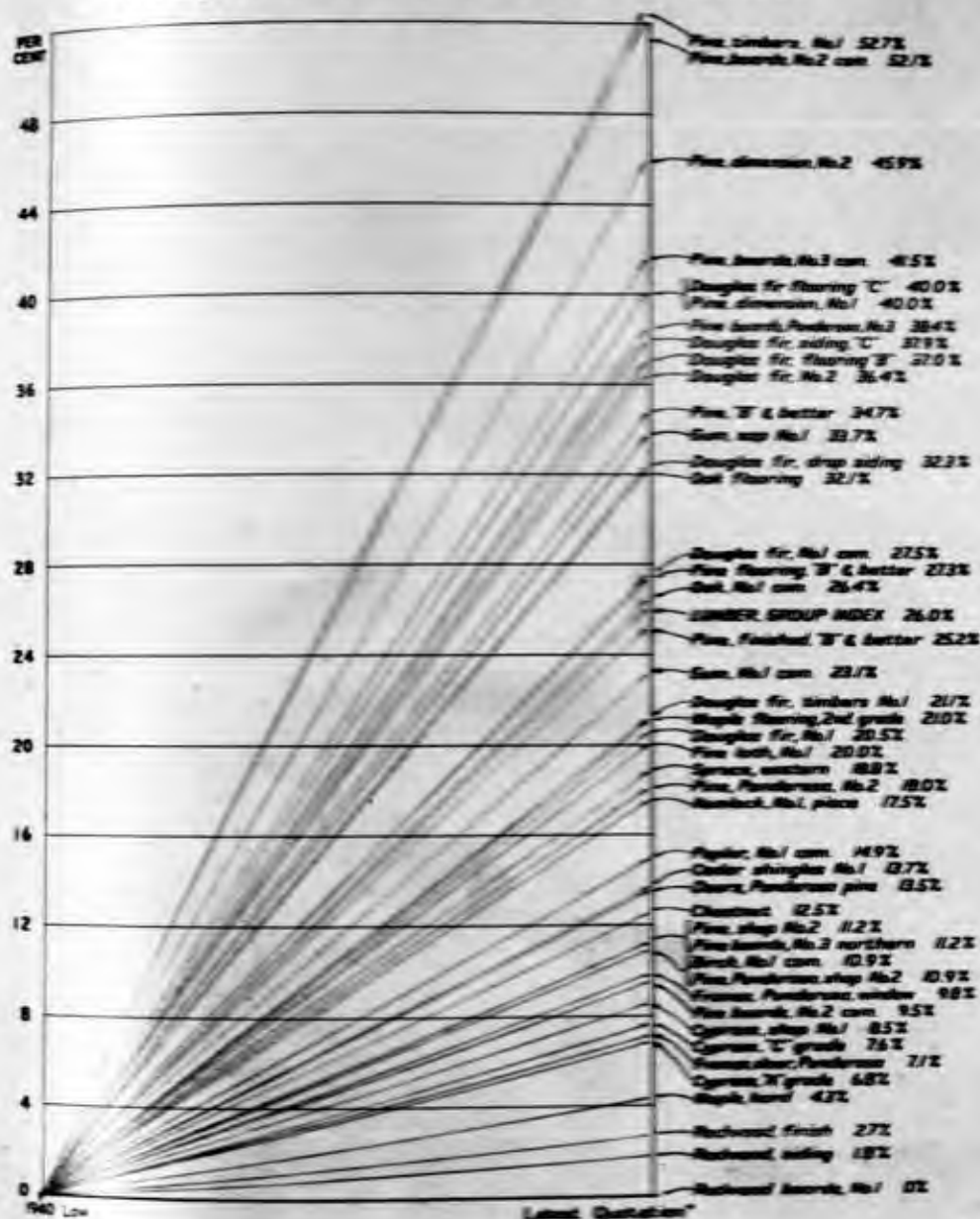
Percentage Increase From 1940 Low To Latest Quotation*



* Latest B.L.S. quotation available Dec. 26, 1940.
Source: Bureau of Labor Statistics

PRICE INCREASES FOR SELECTED TYPES OF LUMBER

Percentage Increase From 1940 Low To Latest Quotation*



*Latest B.L.S. quotation available Dec. 26, 1946.
Lumber items are those used in B.L.S. lumber price index.
Source: Bureau of Labor Statistics

January 9, 1941
11:13 a.m.

H.M.Jr: Hello.

Sen. Robert
Wagner: Henry?

H.M.Jr: Hello, Bob.

W: Henry, on that banking bill I just talked to Carter Glass again and he has agreed to introduce the bill and then later on if there are any objections - he says he's going to do it with reservations. I said all right but of course Barkley won't be available tomorrow and it may be difficult to get together.

H.M.Jr: I see.

W: So that's all right with you.

H.M.Jr: Yes.

W: He'll introduce it today probably.

H.M.Jr: Good. Now can I have you a minute?

W: Yeah. I thought you were the busy guy.

H.M.Jr: I'm never busy when I talk to you.

W: Yeah. All right.

H.M.Jr: Now this thing that you were talking to me about the other day.

W: Yeah.

H.M.Jr: You see, yesterday Hull and I met with Barkley and Harrison and they were to let us know what committee this Aid to Britain Bill was to go to. We haven't heard yet. Now frankly, and it's always best to be frank, I expect that they're going to - whatever committee it is will haul me over the coals as to what the British assets are and I'm going to have to be awful careful about it - not to destroy their credit.

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- W: Yeah.
- H.M.Jr: And I don't think I ought to do it more than once.
- W: All right. It's all right with me. I'll go on with something else. I'll forget it. I was trying to help that was all.
- H.M.Jr: Well, you are.
- W: And if you think otherwise, I'll take your judgment because yours is better than mine on that proposition. I think you're right about it. I don't think you ought to have to go from one committee to the other, but I'm going to start this study as soon as - I'm going to talk to Harry White and a few others on something else, you know.
- H.M.Jr: Yes, there are plenty of other things.
- W: Oh, yes. There are lots of other things. All right, I'll forget that, Henry.
- H.M.Jr: Thank you.
- W: As I understand it, I haven't of course been consulted nor should I have been, but I understand that the bill is such that there is no phase of it that has anything to do with the banking committee so it will have to go somewhere else.
- H.M.Jr: Well, they're thinking in terms of either foreign affairs or military.
- W: Well, I hope they make it military. I'm second in seniority on Foreign Affairs but you're going to have a hell of a time there.
- H.M.Jr: I think they are thinking in terms of military.
- W: That's a swell committee.
- H.M.Jr: I think so.
- W: Yeah, all right.
- H.M.Jr: Thank you.

January 9, 1941
11:16 a.m.

H.M.Jr: Hello.

Operator: Foley.

H.M.Jr: Ed.

Edward
Foley: Yeah.

H.M.Jr: Senator Wagner just called me and said that Glass was introducing the bank holding bill today.

F: His old one?

H.M.Jr: I don't know - that's why I'm calling you.

F: I see. All right, I'll find out what he's doing. I talked to Barkley and also to Rayburn and they decided that the thing would have to go to Foreign Affairs in the House and Barkley says that that means that they'll have to send it to Foreign Relations in the Senate because George would be on his ear if they tried to steer this thing around him and he's already started to talk about what he's going to do and schedule hearings and have Hull come down and all that and he expects to get this bill, so it looks as though it's going to the two Foreign Affairs or Relations Committees. Rayburn says that he just got a call from General Watson that they're to come to the White House at half past four this afternoon.

H.M.Jr: Well, I suggested that Hull, you and I be there. I don't know whether we get invited or not but that's what I asked.

F: Well, I've got language here to take care of Barkley's point and I talked with him about it and he's satisfied and he said he thought when we met at the White House there might be some questions raised as to a simpler bill that gave in more general terms - just gave broad power to the President. He said some

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of them were talking a little bit about that and thought that maybe this was too particularized so he said you might give a little discussion on that when we come down to the White House.

E.M.Jr:

Well, we'll see. Thank you.

F:

O. K.

January 9, 1941
11:32 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

Frank
Knox: Hello, Henry.

H.M.Jr: How are you?

I: Hello?

H.M.Jr: Henry talking.

I: All right. I just wrote you a letter saying that I'll be glad to cooperate with you on that matter the President wants us to do on the Greeks 60 planes.

H.M.Jr: Well, how many planes do I get out of you?

I: What?

H.M.Jr: How many do I get?

I: I don't know. I'll talk it over when you get the bunch together. I don't know that we've got any planes that they want.

H.M.Jr: Well, I never know.

I: I don't either. I'll bring Towers along with me. When do you want to talk it over?

H.M.Jr: Well, I'm going to mention it at Cabinet today because I haven't been able to get anything yet.

I: Well, I'll get hold of Towers and come loaded for you.

H.M.Jr: No, I'm just going to report to the President at Cabinet that I haven't been able to get anything and I'll let the chips fall where they may.

I: Well, the Brits ought to come across with some of them, they're fighting with them.

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H.M.Jr: My God! they've just given up 100 to the Chinese.

I: Aha, ha! 100 next summer!

H.M.Jr: No, no! January, February and March.

I: Are they going to do that?

H.M.Jr: Yeah. Now I'll be damned if I ask them for any more.

I: Uh-huh. Well, we'll talk it over this afternoon.

H.M.Jr: January, February and March.

I: Uh-huh. What did you call me about? Did you have something on your mind?

H.M.Jr: I had a call that you called me.

I: Oh, I called you to find out whether that 11:00 o'clock engagement was on and I found that I couldn't get you so I called the White House and found that it had been postponed.

H.M.Jr: Until 3:30.

I: What?

H.M.Jr: Until 3:30.

I: What?

H.M.Jr: They're going to have it at 3:30.

I: 3:30 after the Cabinet meeting.

H.M.Jr: That's right. They don't want to have it - we're all to march through Pa Watson's room and go in as though there was a new appointment and that way shake the V. P.

I: I see. Go to Pa Watson's room after the Cabinet adjourns.

H.M.Jr: Yeah.

I: All right, Henry.

January 9, 1941
11:37 a.m.

H.M.Jr: Hello.

Henry L.
Stimson: Hello, Henry.

H.M.Jr: How are you?

S: I'm rather troubled.

H.M.Jr: What's the matter.

S: Lovett reported your talk this morning, your evident feeling that something was out of the way. I couldn't understand it.

H.M.Jr: I don't know what you're referring to.

S: Well, I'm referring to what we've been doing in regard to the matter that I brought up in Cabinet with the President with you on December 19th; that is, as soon as he had made his announcement that he proposed to lease and lend or to become - have us, America, I mean the United States become the arsenal for the British and all other liberty-loving, fighting nations, you remember that I

H.M.Jr: Oh, yes. What you said and I remember your saying was that you had several hundred million dollars of

S: Yes, which we were trying to use to promote the President's plan, of getting it started as quickly as possible before he was able to get new appropriations, and I had a couple of papers there which I had gotten from my people showing that we had about \$500 millions. \$300 millions roughly I'm speaking was unappropriated or noncommitted for any particular thing, the last \$200 being committed, so that that would need probably consultation or action by Congress also, but the first \$300 million being free. And then I sent you copies of those papers on your request.

H.M.Jr: That's right but there's no indication that it was to be done the way it seems to have been going yesterday.

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- S: Well, let me tell you the problem that came up at once when we came to apply that money was that some of the most important items of the British were items for which we ourselves could not use - namely, .303 rifles 25-pounder guns, things of that sort, and yet things which were the ones that the British wanted first of all. Well, in the course of the transaction and all of which as we knew was done with the full knowledge of Philip Young
- H.M.Jr: He says not.
- S: What?
- H.M.Jr: He says definitely not.
- S: Well, there are two-to-one against him here. (Laughs). I was very much surprised when I heard that he hadn't told you of it before.
- H.M.Jr: Well, he says that
- S: Wait a minute! Well, it came that the only way in which this most important help could be done for the British in this interval was to take over these other contracts which would be at a nominal cost, and let them use the released money in that way to go ahead with their purchases which we couldn't take. It was an appendix to the whole plan - nothing but an appendix, but
- H.M.Jr: Well, the fact that you call it an appendix I mean, shows that - you referred to the 19th - it couldn't have been explained at that time.
- S: Explained when?
- H.M.Jr: Well, at Cabinet.
- S: Oh, it wasn't. I didn't touch it at Cabinet. What I was touching in Cabinet simply was the use of War Department money to help carry out the President's plan of helping the British by furnishing money at once before he had time to get Congress to do it.

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- H.M.Jr: But this thing
- S: And one of the ways that it once came up in the doing of that was to pay those moneys out to certain of the contracts for things which were useful to us, which we needed, as we could do.
- H.M.Jr: Yeah.
- S: The only thing that we have done was matters which we could do any minute. If we found any contract now of the British was for articles that we needed at once badly enough we could take over that contract and that would automatically release to them moneys which they on their part could do what they wanted with, the whole matter being a bi-lateral matter between the two parties concerned in those contracts; namely, our Department on the one side and the British because they were contractees on the other.
- H.M.Jr: Yeah.
- S: Now, McCloy has been in constant contact - I've been having since I heard you were disturbed about it, I've had the record made and I'm going to show it to you.
- H.M.Jr: I'd like to see it.
- S: I'd like to show you the whole thing, and I'd like you to see both these gentlemen, and I hope you'll certainly do it before you go outside our two Departments in regard to it.....
- H.M.Jr: Oh, I will.
- S: because the only thing that I've been staggered at was that you should have been surprised as that could only happen because you had not had reported to you what one of your people was absolutely conversant with.
- H.M.Jr: The first I heard of it was last night.

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- S: Well, that's a perfectly enormous surprise to me and the thing is so germane to the whole plan that I can't conceive of its not being reported to you. Now, I'm going to ask you this. I am loaded pretty heavily now and making pretty heavy weather of it. I'm going to ask these two men
- H.M.Jr: Which two?
- S: Lovett and McCloy, who have been handling this thing, to take all of the papers over to you and to talk with you about it.
- H.M.Jr: Good.
- S: And I'd like to have that done before you do anything more about it. I think it's too serious a matter for you and me who have been working so absolutely harmoniously, as I thought throughout this last six months, to have anything of this sort come up between us.
- H.M.Jr: Well, I certainly will correspond in the same spirit.
- S: Well, now they'll be ready - they're right here with me now. (Talks aside). They can come over right off.
- H.M.Jr: Well, I can't do it right away. It'll have to wait now until after Cabinet.
- S: Yes, well all right.
- H.M.Jr: This thing is coming up at 3:30 though.
- S: What's that?
- H.M.Jr: The President has postponed this meeting now until 3:30. Maybe
- S: Oh, I hadn't heard that. Great Scott! I heard that he was going to take it up at Cabinet - that's what troubled me
- H.M.Jr: Yeah, he's going to take it up at 3:30

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S:I mean, this isn't a matter to take up at Cabinet first.

H.M.Jr: No, the question I raised - I sent you a memorandum

S: Yes, well

H.M.Jr: I'm just raising the whole question. Supposing you let them come right over.

S: Yes.

H.M.Jr: Can they come right away?

S: Yes. They can come right off. They'll be over in ten minutes. (Talks aside).

January 9, 1941
12:00 noon.

H.M.Jr: Hello.

Operator: Mr. Purvis. I reached him in Mr. Buckley's office.

H.M.Jr: Hello.

Arthur Purvis: Yes, Henry. Arthur speaking.

H.M.Jr: Arthur, this meeting which I thought was at 11:00 is postponed until 3:30.

P: Yes.

H.M.Jr: But what I ought to have and I haven't got - of this list which I'm going to hand the President which you gave me coming from the Prime Minister - is there any priority list, is there anything that is more important than the others?

P: Frankly, Henry, I don't think - it's a straight issue. Of course, I tried to put them in the order of merchant ships and aircraft and so on, but actually it's almost impossible to single out any special priorities other than that I think the extra ten division items being an extra or less important than all the other items, you might say.

H.M.Jr: Well, then you would rather have me consider them as a whole.

P: I think so unless it were a question -- if you wanted - are we talking about the interim period or the total period?

H.M.Jr: Total.

P: The total I think really we should consider as a whole and I believe Knudsen, who called upon me to go over there and see him yesterday and Weir and Self with with me - we went over the things. He was getting the whole thing into man hours.

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H.M.Jr: How about the interim period?

P: Well, now on the interim period, we have already, I think, expressed a list of those items and we have boiled out from that list all those we felt could possibly be postponed, and even now the list is formidable. Now that is a document that does exist on the interim situation. You would like a document before 3:30 giving that again. I'll just check, but I think it's here.

H.M.Jr: Well, make sure that that gets into Mrs. Klotz's hands so that she can get it to me at Cabinet so that I can use it before 3:30.

P: Before 3:30.

H.M.Jr: But it should be put into her hands.

P: Yes. All right, I'll do that, Henry.

H.M.Jr: Thank you.

January 9, 1941
12:00 Noon

RE AID TO BRITAIN

Present: Mr. McCloy
Mr. Lovett
Mr. Foley
Mr. Young
Mrs. Klotz

Lovett: I washed out the trip, Mr. Secretary, because this matter seemed to be of primary importance. When I got back I started to dig into the files, and as my introduction into this only dates to yesterday afternoon, I found that Mr. McCloy had the whole matter on his desk, and I went through it --

H.M.Jr: Through his desk?

McCloy: Yes, he has absolutely no regard to privacy over in our bailiwick. I have the documents that started it. You remember you called Harry one time and wanted the document that had been given to the President. The reason for holding that thing back was because I had in great haste put the words, "But this is illegal" on the memorandum, and we didn't want to have that perpetuated. As a matter of record, it didn't look too good. (Laughter) So we dashed that off in five minutes before he rushed off to the President's meeting, and he got the President to sign this thing and it said, "Dubious but however it is illegal. O.K., F.D.R." And we thought that better not be perpetuated so we were gingery about it and

- 2 -

had another more modest one prepared, which we got the President to sign the next day. This is the one with the O.K., which is the thing that we have been hiding. Then as a result, there is another 200 million dollars which we may possibly get.

H.M.Jr: That is 300?

McCloy: That is 300, and there is another 200 which we hope to be able to get if we can get the legislative leaders to commit themselves to replace that 200 million dollars, because it amounts to a double only if we apply it now. It has already been committed, in other words, but I hope --

Lovett: Jack, let's see if we can't get the Secretary up to date on the actual figures because I don't believe they have been given. We are talking now, as I understand it, about 390 million dollars of unobligated War Department funds, of which 60 million dollars were allocated to the Air Corps and 230 largely to ordnance. Right?

McCloy: All ordnance.

H.M.Jr: Then it is 390 less 60, leaving 330?

Lovett: Two hundred thirty plus 60, making 290 altogether, and we use the figure 300 million, as I get it, as a round amount.

McCloy: Now then, in addition to that, there is also the possibility that we may get another 200 million dollars, but that we have already obligated ourselves for and we feel that we can't apply that to any orders until we get legislative authority.

H.M.Jr: (On telephone) Hello. Right.....

Hello.....

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How do you do.....

Pardon?.....

Thank you.....

And it is all right to bring Foley, too?.....

Got to have somebody to know what it is all about.....

That is right.....

You and me both.....

Give her my regards.

H.M.Jr: He says Anna Rosenberg is his lawyer. It was "Pa" Watson. He says, "My wife is the smartest woman in Washington." I said, "Why is that?" "Because she picked the smartest woman in America to help her run this concert, Anna Rosenberg."

McCloy: Well, Mr. Young is familiar. You know all these figures.

Young: Yes. Well, that total, just to tie that together, that total of the original 230 plus the 200 which you are trying to release from one commitment to another, totals 430, which is the figure given in the interim financing memorandum which was sent over by you to Secretary Stimson and Knox and so on.

McCloy: And on top of that there is another 60 million for aircraft.

Young: The 60 is also mentioned in the same message.

H.M.Jr: It says the War Department has available 60 and 430 for Procurement of ordnance items.

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McCloy: Of 430, 200 million is still questionable, but we are ready to commit on 230 right away, but that is what we have been dealing with the British on, and that is where we are at the present moment. Now, as a result of --

Lovett: That is all on ordnance, Jack?

McCloy: That is all on ordnance. It has, of course, some aircraft items in ordnance, machine guns, and we have agreed on a program with the British in connection with ordering certain types of airplanes and in connection with that I will have to at the same time order the machine guns that go with the airplanes and they come out of the 230 million so they will take up some portion of the 230 million; but we want to get that order in right away. And we also want to get in the balance of the ordnance items and in order to do that, we have discussed with the British, particularly with Weir and of course we did with Fairey and with Self on the aircraft items, and we have been with Weir on the ordnance items. Weir and Wesson, the ordnance people, have been sitting down; and I took part in those conversations, made a memorandum of them, sent them over to Mr. Young. I think I have telephoned you (Young) from time to time to keep you up --

Young: Memorandum of what?

McCloy: Our meeting with Weir.

Young: That was that mimeographed thing?

McCloy: No, no, an ordinary letter.

Lovett: What is the date?

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McCloy: January 3rd.

"Yesterday we had a conference relating to the utilization of the 230 million dollar fund which we found we had available in the Ordnance Department. The conclusions we reached are set forth in the attached memorandum, which I am sending to you for your information. Similar arrangements have been made in consultation with the British for the expenditures of the 60 million dollar fund for air ordnance. I think we made real progress."

Then I telephoned you about the same time about it, and outlined it to you. But you have got a copy of that, too.

Young: I remember the telephone call.

McCloy: You have also got this in your files somewhere because it went out.

Young: I don't recall it.

H.M.Jr: What is the date on it?

McCloy: That is January 3. But I have been constantly telephoning to Mr. Young throughout the whole progress of this thing, because I didn't want to get on any false path. And particularly did I not want to get on a false path because the RFC might have been involved, and I wanted to go over and see Mr. Jesse Jones about some other things, and I wanted to be sure we weren't crossing any wires on that before I went. But that is another story I want to talk to you about later, the Jesse Jones item, in just a minute.

Now, that memorandum of that conference, the substance of the memorandum of that conference --

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H.M. Jr: Now, may I - here is where I claim that I am in the dark, where I shouldn't be. Let me state my grievance.

McCloy: Right.

H.M. Jr: The grievance that I have is that up until last night I did not know that you were proposing to give back to the English money which they had advanced against contracts and new plants in this country. Now, how could I know that? Now, that is --

McCloy: Well, you could know that - the way you state it isn't accurate, but you could get the substance of that from this memorandum because one of the items that was discussed at this conference which Weir and Wesson were present at, was that we found out that they wanted primarily free money to deal with the so-called "A" items, the non-standard items, the three point. They were very anxious to get those. They said they were more important than any of the standard items that were then on order. They wanted to continue the order of the non-standard - American standard military equipment. They didn't have any money to do it, so they told me. As the discussion progressed, it became evident that we might be able to take over from them their existing contracts on items that we vitally needed, such as 50 calibre machine guns and the first contract that was discussed was one with Kelsey Hayes. That was brought up by Weir as a good type, because he said if we took over that contract and they canceled it, there would be a refund due then which they could use as free money for the purchase of items that they, and they only, could purchase.

Well, that seemed like a good idea to me.

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- Lovett: Excuse me, Jack, who would the refund come from?
- McCloy: From Kelsey Hayes. Of course, the War Department isn't going to pay the British anything, but as a result of the cancelation of that contract, there would be monies which could be reimbursed to the British and the Americans would take over lock, stock and barrel, the Kelsey Hayes contract. Kelsey Hayes was only a typical instance, and it was studied as a type.
- H.M.Jr: That is the point that I am getting at. I still maintain that as far as I am concerned, and Phil Young can talk for himself --
- McCloy: Oh, well --
- H.M.Jr: that I didn't know and I am under the impression that he didn't know that there was a program underway --
- McCloy: For the cancelation of British contracts.
- H.M.Jr: Whereby the British would get some new money through cancelation of contracts or any form.
- Lovett: That apparently went out, Mr. Secretary, on January 3 with a memorandum attached.
- H.M.Jr: That plan?
- Lovett: Just exactly that plan.
- McCloy: Just exactly that plan. It wasn't only in black and white, it was also in a number of telephone conversations.
- Young: We talked about the possibility on the telephone of the Army taking over that particular contract.

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McCloy: The Kelsey Hayes, and we talked about it again last night when we --

Young: We talked about it at six o'clock last night.

H.M.Jr: Well, Young can talk for himself. I - Phil, if you told it to me, don't hesitate to say so.

Young: I don't think I ever told you about the Kelsey Hayes. Primarily for the simple reason that so far as I knew, it had never yet reached the point where any particular action was going ahead on it. I talked to Jack McCloy on the telephone about it.

H.M.Jr: Did you know about this thing he is talking about?

Young: I don't ever recall having seen it, the memo.

H.M.Jr: You see, let me just take a minute. Now, for the first time, I bring Walter Stewart down here, who is an able citizen, to take a fresh look at this whole thing, where can he get some money, because I have a statement on my desk in which they say on February 1 they will not only be out of money, but they will be short several hundred million dollars, you see.

Well, according to their statement as of March 1, confidential, they will be short 251 million dollars. Now, have anybody - and Walter Stewart comes in and says, "I think I have got an idea. It may not be any good," but he says, "maybe there is some way of getting a refund on the deposits that the English have on our contracts." This was Monday or Tuesday, as though he discovered something new; and I said, "It is wonderful; let's explore it."

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- McCloy: We did it three weeks ago.
- H.M.Jr: But he got this in conversation with Sir Frederick Phillips and Pinsent.
- McCloy: Well, I don't --
- H.M.Jr: Well, I am just trying - I am not on the contract end. I am on the financial side. I do take responsibility for that, and I am trying to find the money so in case they should default, Congress will say, "Well, why didn't you do something about it?" and so forth and so on. It is a terrific responsibility to carry, and here I find myself through an accident last night hearing that there is a way. I also - that is number one, not that I didn't know that, but I have been given the responsibility, as you know, of carrying the load for the President on this bill and in hourly conversation trying to get this thing through, I find something that looks to me as as though the War Department was trying to beat the gun on us.
- The point that I am making is, now, maybe it is good and maybe it isn't good. Maybe I should have known about it. I am sure nobody has told me about it. Maybe Young did know about it, but the point is that where you are working with these people, I can not let the President be put in the position that something is going on where we are going ahead of the legislation.
- Now, do you see what I mean?
- McCloy: That is just in my mind, Mr. Secretary. I am so conscious of that --

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H.M.Jr: All of this inter-office business and all the rest of the stuff is important to keep our relationships because we are all working under white heat, we are all working 18 and 20 hours a day, and anybody can make a mistake, but we are here facing each other and is there something, after you and Young get straightened out as to your relationship, which is terribly important, but is there something, after careful thought, that we want to do in advance of the introduction of this legislation?

McCloy: Yes.

H.M.Jr: But that is the question which I raise. Now, there are two things, there is that plus the fact if there is 50 or a hundred or 200 million dollars which can be salvaged, that means four weeks for these fellows.

McCloy: Exactly. Well, that is just the problem I was posed with when I first came over to the department there, and that started me scrapping the barrel, trying to find some money because I am very conscious of the fact that this interim period is an extensive period and no orders are going in either on our account or the British account, and it just doesn't make sense. So we have just called Peter to pay Paul. We have taken Peter's late commitments and we are putting them up for Paul's immediate commitments.

H.M.Jr: This is all news to me. It may be the answer.

McCloy: Well, I don't think it is the complete answer, Mr. Secretary, because I can't believe there is enough money. I can't believe there is enough in that 200 million dollars to solve all the British problems, and we had a discussion last

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night on that very subject with Mr. White, Mr. Cochran, and Mr. Young and the British, and we came to the conclusion that there were such limitations on it - the conclusion is a fact - there are such limitations on that 230 million dollars that we can't really carry over the British during this interim period.

Now, I think there are ways of carrying the British over during this interim period, but they - it can't be done by the War Department because there just isn't enough money there. We will use the War Department money to the very limit, the last penny, on items which both the British and ourself can use.

E.W.Jr: Now, could I take two minutes to read this?

McLroy: Surely.

E.W.Jr: Well, you certainly have taken the steps. It says, "cancellation or replacements for new orders," perfectly clear.

McLroy: Don't you think that is a sensible way of going about it?

E.W.Jr: Well, should you go ahead with it in view of this legislation?

McLroy: Yes. Shouldn't we get this money released so that they can put in their orders for the 303, for the 5.7 which Weir tells me is vitally necessary to them; and it seems to me that that is making much more progress than just putting in new orders for American standard equipment.

E.W.Jr: Well, I had an experience yesterday. I mean, I see Mr. Hull take an hour and a half to pass

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on two words.

McCloy: Mr. Hull - pardon me, Mr. Hull doesn't have to --

E.V.Jr: But just the care and trouble that he takes on two words.

McCloy: This is our money, Mr. Secretary. It is War Department money, and we can spend it any way we see fit, so long as it is on American standard items.

Now, we have sat down with the British to find out from them what items of American standard type they would most like to have, so our program will be coordinated with theirs. Our whole object is to help the British, and right away, get some bricks on top of bricks.

Lovett: As I understand it, Jack, the purchase of these 50 calibres, for example, is to meet an urgent shortage that we have at the present time, and it is not merely taking the British planes but drawing a new contract for those same articles.

McCloy: That is right, and even ordering a larger number of them, and then when the legislation comes along, if it goes through, we will be able to turn that over to the British; but in the meantime, there is nothing being done during this interim period which is helping really the British or ourself.

E.V.Jr: Well, that is what I called this meeting for. Did you see the memorandum?

McCloy: Yes, I saw that memorandum. That is just down the line of what we are doing.

Foley: That is right.

McCloy: That is just what we are doing.

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H.M.Jr: Let me just ask Foley. Do you mind a minute?

McCloy: Surely.

H.M.Jr: Relax. (Laughter)

Ed, you have lived with this legislation now day and night for a week. On the assumption that you can't do anything in Washington without everybody knowing it, which is a pretty good assumption, supposing it gets out that this sort of thing is going on, cancelation of contracts and so forth and giving them money and so forth. Would it worry you, as far as we are concerned on the Hill?

Foley: It wouldn't worry me very much, Mr. Secretary, because we may have to explain when we appear before the committees the extent to which such operations could be carried out in furthering the policy that the President has laid down and has advocated to Congress, within the limits that are available to us now, funds and authority, it seems to me that we could go ahead, pending the passage of this legislation and its consideration by Congress --

McCloy: Bear in mind this would have General Staff approval. We have gotten that, gotten Marshall to agree to it.

Foley: I don't see as it is inconsistent at all.

McCloy: Not at all. It is our stuff. We want it.

H.M.Jr: It isn't Army money that you are refunding to the English?

McCloy: No, the English will get their money from Kelsey Hayes or the typical contractor.

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- H.M.Jr: That must be an unusual contract if they can cancel it.
- McIlroy: Well, they are willing to cancel it.
- H.M.Jr: It couldn't have been written that way. No manufacturer would have written it that way.
- Davette: I think the answer is that there is such an appalling shortage in 50 calibre machine tools as well as the guns themselves, that in order to maintain production for Army requirements alone, Kelsey Hayes would have to go ahead with it. Therefore, they are perfectly happy to have the Army draw a contract for that same production.
- McIlroy: And the Army is perfectly happy to take over all that capacity?
- H.M.Jr: Let me get something which hasn't been explained to me yet. I am Kelsey Hayes and the English have advanced 8 million dollars to me so that I can make this gun and I come along and say to the English, "If you will cancel this contract, I am going to pay you back the 8 million dollars you have advanced to me."
- McIlroy: Yes, somebody else will assume the contract.
- McIlroy: I have got somebody else to assume the contract who is going to give me even more.
- H.M.Jr: Wait a minute now. The 8 million - let's say it wasn't exactly the same production, it was slightly increased. How does Kelsey Hayes get back that 8 million?
- McIlroy: The Army picks up the whole contract, lock, stock and barrel.

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- E.V. Jr: But it is a clean out cancelation.
- McCloy: A clean out cancelation and a new contract.
- Lovett: The Secretary's question, Jack, is that Kelsey Hayes planned to use that 8 million. Where is it going to get that 8 million dollars? It is not going to get it from the Army, but it gets instead an Army contract which is a borrowable piece of paper.
- E.V. Jr: I get you. They get it from the Army. They are not going to give up 8 million dollars advanced for plant and put in their own money.
- Young: They said they are going to borrow from the bank against the Army contract.
- E.V. Jr: But for the plant expansion and tools and all of that, Kelsey Hayes is going to expect you fellows to put it up, aren't they?
- McCloy: Not as much money as they demanded from the British, because our credit is better.
- E.V. Jr: On the down payment, but how about the plant?
- McCloy: I don't know what those two figures are.
- Foley: Is the 8 million dollars related to additional plant capacity or is it related only to the supply contract?
- E.V. Jr: No, it is both.
- McCloy: You are talking about 8 million dollars. I don't know what it is.
- Foley: Isn't that the advance payment?

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- McCloy: I don't know. It may be 10. Something. That is the take out. Whether it is eight million or five million, I don't know. It is composed of both items. To the extent that the Army would have to take over, they probably would take it over. We don't have to put it up. At any rate, it is a net gain of "X" dollars to the British.
- H.M.Jr: Have you heard of it before?
- Voley: No, I just heard of it this morning when you brought it up.
- H.M.Jr: Can you understand why I was moderately excited?
- McCloy: I can understand why you didn't know about it but the Treasury Department as such - certainly Yorg and I have been at one on this all the way along.
- H.M.Jr: You fellows can get together. I don't know where the trouble is, but we are all --
- Lovett: It is understandable if you hadn't heard about it that you should be shocked by it, and as I say, realizing that --
- H.M.Jr: I didn't hear about it until last night.
- McCloy: Well, that is --
- H.M.Jr: No, it is on the Treasury. It is on us.
- McCloy: Well, it is more or less implicit --
- H.M.Jr: No, you couldn't do any more than write that memorandum. When you did that, you fulfilled any obligation you had to keep us posted; so it is on us.

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McCloy: Well, irrespective of who it is, isn't it a good idea, shouldn't we go ahead with it?

H.V.Jr: Well, I am just thinking a minute. I don't work as fast as you New York boys.

McCloy: Why do you have to bring that up? (Laughter)

Lovett: This is balm to one's soul.

McCloy: We haven't got it yet. We are hammering at the door, I am told. I have been just itching to hear the news, but I haven't dared come over here and say "How is it going?"

H.V.Jr: I thought you were to get it Monday night.

McCloy: Have they got it?

Foley: No, but it is all set up. The releases are ready and it is all set.

McCloy: Good news.

H.V.Jr: Ed, if you think - I mean from the British standpoint, that the plan is swell, and it looks to me as though it was all right from the Army standpoint. If they are stuck about a contract they have got something they need bad.

McCloy: General Staff says they needed --

H.V.Jr: It is just a question of whether anybody on the Hill could object to this kind of exchange of contracts that is going on in advance.

Foley: Well --

H.V.Jr: And you --

Foley: I would like --

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H.W.Jr: Go up on the Hill for me.

Foley: I would like to say this. When we got our orders --

H.W.Jr: This is not a legal matter.

Foley: When we got our orders from you last Thursday, you said you wanted two things, you wanted the legislation to carry out what you and the President had in mind, and you also wanted some kind of an interim plan to take care of the situation before they got the legislation, like your post offices. You would have the steam shovels there all ready to dig just as soon as the President signed the bill. And we gave you Friday morning a general outline of both things, and it seems to me that what they are doing is carrying out in a particular way the broader thing that we try to envisage in the interim plan that we suggested, where certain money that the Army had now could be made available for orders that could be placed now and those supplies taken off the Army's hands by the British if this legislation went through, and I don't see any difference, real difference, between what we were trying to outline there and what they are doing. It seems to me that it is all part of the same thing, and it is making their funds --

McCloy: It helps our program.

Foley: go a little way toward relieving the British, so that there will be things that can be made available to the British that otherwise there wouldn't be on order if we waited until we had the legislation.

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- Lovett: But the funds are only used, Mr. Foley, in those urgent shortages that the Army is anxious to have, British or no British.
- Foley: You understand that?
- Young: That is right, and with the added comment that what the Army is trying to do on it, as we brought out last night, cannot eliminate the need for this interim financing in some other form.
- McCloy: That is right exactly. That is another subject.
- Lovett: Exactly.
- McCloy: That is what we - we explored this all last night at 6 o'clock.
- Lovett: I feel increasingly clear on that other financing matter, too.
- H.V.Jr: Which is that.
- Lovett: That we discussed this morning. I think that is becoming apparent, that they have got to have that.
- H.V.Jr: What is that, Lovett?
- Lovett: The matter which you discussed at the early morning meeting this morning, the method of obtaining funds for the British.
- H.V.Jr: They have got to have that besides?
- Lovett: They have got to have that besides.
- H.V.Jr: Oh yes.

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Young: This hardly affects that at all.

E.W. Jr.: No, but now for the first time I feel as though I am on top of my own responsibility, which is to keep these fellows going and that is all. But I definitely was out in the cold up until now.

McCloy: Well now, let me go on, if I may, with what I have been doing with Mr. Jesse Jones. Do you think you ought to know about that? Maybe you know all about that.

E.W. Jr.: No, I don't.

McCloy: Well, when the "B" program - when Sir Walter Layton was here, the "B" program was broached to the War Department, and Secretary Stimson took the responsibility of carrying out the "B" program.

Lovett: What is the "B" program?

McCloy: That is the Ten Division Program. We looked around there for means of building up capacity which would help that program, and we also reviewed our own situation and found that there was a great shortage in ammunition, partly because of the explosion at Hercules and the other powder explosions.

So Marshall - we went to Marshall and asked Marshall whether he would not authorize the creation of additional capacity on powder facilities, which could be used both for the British program and ours. He said, "I am in great need of powder."

So I went over to see Jesse Jones with General Wesson, and we laid that situation before him,

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and he said that if the War Department said they needed it, which we were prepared to say that we did, for our own use, without any consideration for the British whatever, he would give me a hundred million dollars, give the War Department a hundred million dollars, to build that capacity. That hundred million dollars was not contingent on anything other than our statement of our own requirements. There was no take down, he didn't insist on there being any orders on top of that capacity. He simply said, "I will give you a hundred million dollars free and clear, because I think that ammunition capacity in this day and age is a good buy."

So, we have started out a program of spending that hundred million dollars, and they are now talking this afternoon with Jesse Jones' people, the RFC people, the details of getting that money over, and we have gotten some items that are just about to be placed - orders that are just about to be placed there.

Lovett:

Are the British involved in this?

McCloy:

The British are not involved at all, except incidentally it makes it much more possible for us to handle the British ammunition requirements in the "B" program, or in the "A" program, if you please, assuming this legislation goes through, so that it incidentally helps the British; but the only way we could put it up to Mr. Jones is on the basis that it is helping us.

Then I had the idea that we might also ask Mr. Jones to advance further funds out of the RFC to enable us to purchase some British capacity which we also wanted, thus releasing

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to the British more funds for this interim period, with which they could buy non-standard American items. After clearing it with Mr. Young - I didn't want to talk to them without the Treasury knowing about it - I went over to see Mr. Jones yesterday. I told the Secretary, Secretary Stimson, about it, before I went over it, and he said he wanted to go along, so he went along and General Wesson went along.

Unfortunately, the way the conversation took place, there was some damning of the British for some of their slowness, and I think they got off on the wrong attitude, the wrong atmosphere at the beginning, and Jesse Jones held back and said, "I am not sure that I want to do that. I want to examine that more carefully," and we were to have another conversation today on that, but it rather looks as if the possibility of getting any additional money out of Mr. Jones at this particular juncture may be more difficult than I had first envisaged. But it may be that after we go through the particular items that we have in mind with him, and can point out to him how advantageous it would be for our own program to have that British capacity in our own hands, it might be that he would change his mind on that and we could get some additional funds from him for that purpose.

E.V.Jr: Well, I would like to say this in all fairness, that I think that what you are doing is extremely useful.

McCloy: Well, I hope it is. That is all I want to do.

E.V.Jr: I think it is extremely useful, and I am just - now that I know what is going on, I certainly feel better prepared when I meet the British as

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I do, and first Sir Frederick Phillips tells me one thing and then Purvis tells me another on the money thing, that they are running out. I mean that I would like to know - not minute to minute, but as promptly as possible if and where there is any money in sight until this bill gets through, what I call interim plan, and as I say, I asked the President Monday. I thought it was important enough that he call a meeting, and he is seeing us at 3:30 this afternoon on this very subject. I don't want to carry the thing alone, it is too big. It is too big a responsibility.

If these fellows should by chance run out of money and couldn't pay their bills, it would be just as bad as if the Germans landed in Ireland or something like that. I think it would be a major defeat.

Lovett:

Oh yes.

H.W.Jr:

So if you will continue to keep Young posted and between the two of you - I have asked Lovett to help on these various devices to get money, so if between the two of you you could let me know. Ed has to know. I don't know who is going to carry the thing on the Hill, but maybe after this afternoon we can drop it. Have you heard it is going to Foreign Affairs?

Voley:

Yes.

McCloy:

Foreign Affairs?

H.W.Jr:

Yes. Well everything was done. You know what we did.

McCloy:

I know what you did about it, yes.

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H.V.Jr: You told me yesterday Military Affairs.

Foley: Yes, I did. That is what Hull and Barkley and Pittman and Harrison said.

H.V.Jr: It is bad news, but anyway, until this thing is by, if you two gentlemen would drop in to see me when you have something important, it makes it a little bit easier for me.

Lovett: Yes, sir, I am sure it is.

H.V.Jr: But this is definitely on us.

McCloy: Well, it isn't on anybody. It doesn't make any difference.

H.V.Jr: Right, Phil?

Young: Yes, I think so. I would like to inquire into the 160 million. That is one thing that hasn't been cleared up yet.

McCloy: I don't know what that means. It must be part of the 230.

Young: I suppose it is some part of it. I can guess as to what it means.

McCloy: Mr. Jones said yesterday that - he said, "The British have plenty of money, they haven't spent it all so far," and I said, "Well, I have heard differently, but I don't know anything about that, I am just taking a situation and trying to get some guns in the meantime." I said, "Suppose the British made an assignment of all of their non-liquid assets at this juncture, wouldn't it be possible for the RFC to finance that?" He said, "I suggested that some time ago to Mr. Purvis, and I am quite prepared to act

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along that line again." Now, that is not in my realm, but --

H.M.Jr: Well, we don't like it legally and we think there is another way to do it perfectly properly.

McCloy: I have heard about that, yes.

H.M.Jr: We are working on that, and as I say, we have got the SEC on the other end.

January 9, 1941
12:44 p.m.

H.M.Jr: Hello.

Operator: Jerome Frank.

Jerome
Frank: Hello.

H.M.Jr: Jerry, Henry talking. Is there anything
new on those investments?

F: They're coming in at 2:30 to confer with us.
Just about what, I don't know, and I'll let
you know as soon as we're through with them.

H.M.Jr: Fair enough. Thank you.

F: All right.

January 9, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau and Mr. Foley attended the meeting at the White House at 4:50 p.m. today. There were present: The President, Secretaries Hull, Morgenthau, Stimson, Knox, and Jones; Senators Barkley, Connally, Harrison, and George; Speaker Keyburn; Congressmen McCormack, Bloom, and Luther Johnson; Messrs. Knudsen and Foley.

The President read the attached draft of the bill to aid Great Britain section by section. He enunciated the need for speed, and pointed out that while the British had cash to meet present orders, no new orders could be placed until the legislation and the appropriations to carry out the act were passed. The President said that new orders for late 1941 and 1942 should be placed as soon as possible. He pointed out that it might take as long as two months for the legislation and the appropriation measures to pass. He said that all new orders placed by the Army and Navy would be restricted to materiel useful for our own Army and Navy and that nothing which could not be used by us would be ordered and paid for. During the two months' interim, while the legislation and appropriation measures were before the Congress, it would be possible — the President said by reshuffling existing appropriations for the Army and Navy — to place orders for materiel in addition to their present needs which could be turned over to the British or the Greeks or the Chinese when the authorization legislation became law. Likewise, he said there is money now in the Loan Agency — probably as much as \$500,000,000 — which could be used for additional plant capacity. He added that it was his intention to have Secretary Jones make that money available and start plant expansion now.

Senator Barkley asked the President how much of the \$500,000,000 that had been made available to the President for additional plant capacity, was still available. Mr. Knudsen replied that all of it had been committed or expended. The President then said he was not asking for additional money for plant expansion since there were adequate funds available to the RFC for this purpose.

Congressman Johnson asked if it would not be wise to limit the amount that could be made available to foreign countries in the legislation under discussion. The President said "Emphatically, no," since it would probably run to several billion dollars — that no figure was presently available.

Congressman Bloom asked what the amount of the first appropriation would be if the legislation was passed. The President said he couldn't give any figure — for instance, he pointed out that the authorization

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for an appropriation might be five or six billion dollars where the first appropriation or the aggregate appropriations might run only to two or three billion dollars.

Senator Connally asked if the legislation was broad enough to cover Army and Navy materiel on hand as well as new materiel. Foley explained that the legislation very clearly provided that materiel on hand as well as materiel that would be ordered in the future could be made available. Connally asked if the battleship TEXAS could be made available to Great Britain. Foley replied that that would be possible under the legislation if the President determined that it was in the interest of national defense to do so. Senator Connally said he thought that the legislation should be restricted to new materiel since Secretary Knox had already said that he didn't want to make any battleships or destroyers on hand available to the British. The President said no, he didn't want it restricted to new materiel since it might be very helpful to China or Greece if we were able to take airplanes off airplane carriers when those planes could be replaced within a reasonable time, and make them available now to countries fighting with their backs to the wall. Psychologically, the President continued, it would be very useful if those countries knew that we could do that. He pointed out that there was no need for making any battleships or other things that were made for our own defense available but if we didn't make the authorization broad enough to include those things, goodness only knew what we would be excluding by restricting the language. Senator Barkley said that it was his judgment that the broadest discretion should be given to the President and that the fight should be made to keep that language in the bill not only in the Committee but on the Floor.

Speaker Rayburn asked the President to call Frank Kelly, the Democratic leader of King County, to get Congressman Pfeifer removed from the Foreign Affairs Committee. The President asked how many terms he had served in Congress. The Speaker said he thought Congressman Pfeifer was now starting his fourth term. The President said he would be willing to talk to Kelly but the Speaker would have to indicate to him some nice new vacancy that he could suggest to Kelly. The President asked the Speaker to talk to Congressman Cullen and when they had a concrete suggestion to give him a ring.

Speaker Rayburn told the President that he had been talking to the Parliamentarian in the House and some of his associates, and they had come to the conclusion that the bill in its present form would have to be referred to the Foreign Affairs Committee. Senator Barkley then said that he had originally thought that it would be better to send the Senate bill to Military Affairs but in view of the House rule which would make it necessary to send the House bill to Foreign Affairs, he thought the bill should go to the corresponding Senate Committee, i.e., the Committee on Foreign Relations.

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Senator George then told the President that he had a very difficult situation with his Committee — there were two or three vacancies on his Committee which he hoped the Steering Committee would fill with people friendly to the measure. However, Senator George believed that even under the most favorable circumstances, since the minority members would be almost unanimously opposed to the measure, that he could get the bill out with not more than one or two votes to spare. Under these circumstances, Senator George said he had suggested to Senator Berkley that the bill be introduced by the Majority Leaders. Senator Berkley then said that he first believed the Committee Chairman — whatever committee the bill was sent to — should introduce the bill. However, after talking with Senator George, he was willing to introduce it. Senator George pointed out that this would eliminate a controversy on the Floor of the Senate as to committee jurisdiction.

Congressman Bloom then reemphasized that the public would wonder why he, as Chairman of the Foreign Affairs Committee, wasn't handling the measure since it was a most unusual occurrence for the Majority Leader in the House to take custody away from the Committee Chairman. Speaker Rayburn then said that this was not unusual and Congressman Bloom should recognize that by changing a few words in the bill he could send the measure to any one of five committees, i.e., Ways and Means, Appropriations, Military Affairs, Naval, or Foreign Affairs. Under those circumstances, he pointed out that debate and controversy could be eliminated in the House if the measure were handled by Congressman McCormack. The President then said that in view of the particular importance of the measure and its many peculiarities and ramifications, he believed it would be wise for the measure to be handled by the Majority Leaders with the full support and help of the Committee Chairmen.

The Speaker told the President he thought it would be a very good idea if the President would invite some of the Republican members of the Foreign Affairs Committee to the White House. The President said he was willing to talk to two or three of the Republican members but that he didn't want to talk to Han Fish and that Secretary of State Hull wouldn't let him talk to Tinkham. Senator Berkley then said he thought it would be a good idea if the President could find time to talk to Senators Austin and White. Senator George then raised the question as to where Senator White would stand on this measure. The President pointed out that the people in Maine were solidly behind this measure and he had little doubt about where Senator White would stand since the Democratic senatorial candidate in September had lost by fifty or sixty thousand votes and he had lost in that State in November by only six or eight thousand.

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The President said he was willing to talk to a limited number of Republican members in both Houses and that the Leaders should get together and give him their suggestions on it. Speaker Rayburn thought it might be well if the Republican members were taken to see Secretary Hull rather than to annoy the President with this.

It was agreed that the bill would be introduced simultaneously tomorrow in both Houses by Senator Barkley and Congressman McCormack.

Senator George asked Foley if section 3(a)(5) was broad enough to permit the transportation of material in our bottoms to combat areas? Foley pointed out that the language had been changed to "release for export" in place of "to export" which would not permit our ships to be used in violation of the Neutrality Act. Foley pointed out that this was so even under the old language which had been changed only to make it absolutely clear that our ships could not be sent into the war zone. Senator George agreed that this was better. Senator George then asked if the repair section was broad enough to take care of servicing foreign ships. Foley said the section was broad enough to permit the H.M.S. HOOB to be refitted and repaired in the Brooklyn Navy Yard. Senator George said this was good and indicated that he would fight for that provision.

Senator Barkley asked Foley to have 50 copies of a statement for the press ready for him in Colonel Halsey's office at 11:30 tomorrow morning. Congressman McCormack said he wanted only to see the statement but that the press conference would be held for both of them by Senator Barkley.

After Foley returned to the office Speaker Rayburn called and asked that 20 copies of the release be left at his office not later than 11:30 in the morning since he was holding a press conference at 11:45 and didn't want the House press boys to have to go to the Senate for copies of the release.

The meeting broke up about 6:00 o'clock.

January 9, 1941
6:10 p.m.

H.M.Jr: Hello, Bob.

Robert Jackson: Hello.

H.M.Jr: I just got back from the White House this second.

J: Yeah. What I wanted to do was to find out who you wanted to act on that committee to consider this legislation and the plan for handling these property registration and the sort.

H.M.Jr: Now let me think a minute - setting up a committee - property registration. Do you want a lawyer?

J: The Secretary is naming Berle and I'm going to put Shea on from here.

H.M.Jr: Do you want a lawyer?

J: Well, I'm not particular one way or the other. I'd like somebody who knows your policy and can - I think it's pretty important that we get something along fairly fast.

H.M.Jr: How about Foley?

J: That will be all right.

H.M.Jr: Supposing you take Foley.

J: That will be all right.

H.M.Jr: Foley.

J: All right, fine. I'll get in touch with him.

H.M.Jr: Thank you.

J: All right. Thanks.

January 9, 1941
6:18 p.m.

H.M.Jr: Hello.

Operator: Chairman Frank at home.

H.M.Jr: Hello, Jerry.

Jerome Frank: Yes, Henry.

H.M.Jr: I got word you called me.

F: Oh, yes. I wanted to tell you I told Harry White about our conference today.

H.M.Jr: Yeah, I just got back this minute from the White House.

F: I see. Well, I'm going to get over to Harry the first thing in the morning a memo, but I can tell you briefly what it's about.

H.M.Jr: Please.

F: These boys came down - investment bankers who are affiliated with the investment trusts - and they make a fairly persuasive argument along these lines: that the effort to buy these securities ought not, they feel, be restricted to the investment trusts because there are lots of other people eager to buy these things.

H.M.Jr: Right.

F: Harry was interested to know, and you probably will be from his reaction, that they've been - a lot of them he says have been after Gifford for the last year trying to buy this unlisted stuff.

H.M.Jr: I didn't know that.

F: And he thought of them as sitting around with their tongues hanging out to get them. There is no possibility of not getting a good market.

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H.M.Jr:

Right.

F:

But they think and I think there's a good deal in it that there ought to be room for free play. Now, the only thing that I don't agree with them on is that I do think that those investment trusts not affiliated with investment bankers who ordinarily wouldn't be able to get a crack at this stuff ought to be allowed to get together and be one of the competitors.

H.M.Jr:

I see.

F:

And we concede it as fairly apportioned between Quinn and his group and we'd take it up with Thurman Arnold for them so there wouldn't be any trouble, but I'm sure there wouldn't because they are adding to competition and not subtracting from it.

H.M.Jr:

Well, I read your letter that you wrote to the President. It's O. K. with me to have it

F:

Well, I think in the light of this discussion I wouldn't have it just that way.

H.M.Jr:

Well, it's entirely up to you.

F:

O. K. Now, tomorrow morning's meeting is at 10:15.

H.M.Jr:

Yes.

F:

Now, I'm in difficulty. I can only stay about fifteen minutes. I've got a group of out of town stock exchange presidents coming to see me.

H.M.Jr:

Well, now, do you want it at 10:00?

F:

10:00 would be better.

H.M.Jr:

Now, this is what I had in mind. I wanted to put it up to the British and give you a chance to give them a report where we stand on this.

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- F: Fine. I'll be glad to do that.
- H.M.Jr: And I can just as easily get them here at 10:00. I wasn't going to have Gifford here but I can get him here.
- F: Well, I think it would be just as well if he's here, or could be here.
- H.M.Jr: Well, I'll arrange to have him here at 10:00 tomorrow morning. Now, I'll have Phillips here too. Now, here's the point: I've been talking this over with two people and I haven't invited them yet. One is Bob Lovett, who is here with Stimson and has severed his connections with his firm
- F: A very able fellow.
- H.M.Jr: and the other fellow is Jim Forrestal.
- F: Well, now, they'd be very good to have. They'll have the point of view of the fellows who were with me today.
- H.M.Jr: They'll have the same.
- F: Their point of view will be that you ought to let the investment bankers loose on this.
- H.M.Jr: Well, of course, I've never discussed it. All I have them in for is purely to keep the Army and Navy informed as to the British financial condition. You see what I mean?
- F: Yes.
- H.M.Jr: I try my damndest to keep Stimson and Knox informed as to what we're doing so that they'll know how much money is available.
- F: Well, I think really for the kind of discussion you're going to have tomorrow it might be just as well not to have those fellows because they'll have a point of view. I've already talked to Jim about it and I know he'll have the Dillon-Read attitude.
- H.M.Jr: Well, then we'd better not have them.

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- F: I think it is just as well not to.
- H.M.Jr: Well, I didn't invite them until I'd talked to you.
- F: Now may I bring Schenker and Purcell with me?
- H.M.Jr: Absolutely.
- F: Fine. Then they can stay if I have to leave.
- H.M.Jr: Well, I'll make the meeting at 10:00 o'clock and I'll expect you to tell them.
- F: Very good. Fine.
- H.M.Jr: And then - do you think it's far enough along that maybe they could begin to make an offer to these people?
- F: Oh, I think they'd be willing to sit down right away. For instance, the Lehman fellows, they've been after some copper thing they've got - they've been after them for months.
- H.M.Jr: Well, you're rather enjoying using this as a sort of weapon, aren't you?
- F: (Laughs). Oh, it's very amusing - the whole thing.
- H.M.Jr: I mean, you rather enjoy it, don't you?
- F: Sure. Of course the amusing thing to me is these fellows talked about competition, you see, when we're having a row with them under the Utility Act because we've been talking about requiring competition, and there "ain't" no competition in the investment banking business, so it amuses me to death.
- H.M.Jr: Well, now, does Quinn try to dominate this thing at all?
- F: No, it's only that they feel that - what he was trying to do - I don't think with any impropriety, but he was trying to say to

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them now all right, if we come together as the investment trust group, then the bankers affiliated with the investment trusts ought to lay off, and they say that's not fair, that their won't be as much capital or as much competition as otherwise would exist and you can't gainsay that.

H.M.Jr: Now, there are two things in the offing that I think you ought to know about: Jesse would like to do this business very much and the way it is set up I don't see any need for him, do you.

F: I don't, not at all, and I think there'd be terrific resentment if he did.

H.M.Jr: Right. That's No. 1. No. 2: Carter Glass is introducing the bank holding bill with a death sentence.

F: Marvelous. How long are you giving them?

H.M.Jr: I think three years.

F: That's marvelous.

H.M.Jr: That's the way we wrote it, but also Jesse was opposed to that.

F: Oh, of course, and I suppose Judge - as I call him - Judge Bird-dog is working on Jesse. You know whom I mean. Birdzell.

H.M.Jr: Oh, Birdzell.

F: I call him Judge Bird-dog.

H.M.Jr: I see. And on the other thing - all this talk around town to make this aid to Britain through a corporation

F: Yeah.

H.M.Jr: That was Jesse also.

F: Oh, of course, Jesse would like to do the whole job.

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H.M.Jr:

And he got licked on that.

F:

That's fine. Doesn't make me feel bad.

H.M.Jr:

Then I'll see you at 10:00 and you bring your crowd with you.

F:

Fine.

H.M.Jr:

Thank you.

January 9, 1941
6:19 p.m.

H.M.Jr: Hello.

Operator: Mr. Cochran.

Merle Cochran: Hello.

H.M.Jr: Merle.

O: Yes, Mr. Secretary.

H.M.Jr: I was just talking with Jerome Frank and he's coming over at 10:00 instead of 10:15 to tell me what the situation is now on the investment banks and so I wish you'd get word to Sir Frederick to be here at 10:00 instead of 10:15.

O: All right.

H.M.Jr: And I consider it important that Gifford be here too.

O: Gifford here in the morning, too.

H.M.Jr: Right, at 10:00 o'clock.

O: All right. I just got word to Phillips on that other business.

H.M.Jr: Well, make it 10:00 for Phillips and ask them please to have Gifford here because Mr. Frank is ready to report what the situation is.

O: All right. I'll call him right back.

H.M.Jr: Thank you.

O: All right, sir.

BOEING AIRCRAFT COMPANY

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George W. Johnson, Jr.
Secretary

Seattle, Washington

January 9, 1941

Address of Correspondence to the Company
Not to Individuals

~~CONFIDENTIAL~~

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

My dear Mr. Secretary:

In the absence of Mr. P. G. Johnson I have for acknowledgment your letter of January 3, 1941 requesting additional information concerning delays in the receipt of raw material, as mentioned in our letter of December 21, 1940, to Mr. George C. Haas.

I am enclosing herewith a copy of our letter of December 7 to the Assistant Chief, Material Division, Air Corps, which lists specific information regarding aluminum material requirements on order with the Aluminum Company of America for which satisfactory delivery dates have not been established. A copy of the list referred to in the above letter has been revised as of December 31, 1940, and is enclosed herewith. Based on a comparison of estimated shipping dates and deadline requirements, the revised list may be summarized as follows:

10 material items delayed	70 to 81 days
49 " " "	50 to 70 "
56 " " "	30 to 50 "
140 " " "	20 to 30 "
53 " " "	5 to 20 "

This Company has exerted and is continuing to exert every effort, on its own behalf, to obtain satisfactory or improved material deliveries. The purpose of our letter to the Material Division was to enlist the assistance of the Air Corps in our effort. A previous list of unsatisfactory material deliveries similar to that enclosed herewith was submitted to the Priorities Committee with our letter of

of November 28, 1940. A revised list was submitted in a report to General Arnold dated December 31, 1940.

The extent to which these material delays will interfere with our production schedule depends entirely upon the amount of improvement which may be obtained in material deliveries. Our present estimate, based upon information which we are constantly receiving regarding anticipated shipments, indicates that delivery of the first total B-17E airplanes (Contract #535-10-15677) will be delayed approximately sixty days.

We are exerting every possible effort to eliminate or reduce this delay and wish to assure you that any assistance which you may lend in improving the material situation will be directly reflected in our airplane deliveries.

Very truly yours,

BOEING AIRCRAFT COMPANY

H. G. West
Assistant to President



December 7, 1940

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Refer No. 2368

To: Assistant Chief,
 Material Division, Air Corps,
 Wright Field, Dayton, Ohio

From: Schedules and Priorities Section

Re: Air Corps Factory Representative,
 c/o Boeing Aircraft Company,
 Seattle, Washington

Subject: Aluminum Alloy Materials required for
 B-17E Airplanes - Contract W 535 ac-4607

Your assistance in obtaining improved delivery dates of aluminum alloy materials urgently needed for an initial portion of our contract W 535 ac-4607 covering B-17E airplanes, is being solicited. Attached is a schedule sheet dated December 7, 1940. This sheet is representative of the material list submitted to the Procurement Committee and our proposed delivery dates November 23, 1940.

The attached list of materials includes only those items which are required in quantity of three or more and not scheduled deliveries. It is understood that the above schedule represents, as indicated, tentative dates and is subject to the final action of the B-17E project app. at the project. It is desired for us to have a satisfactory basis by the aluminum industry and other sources to supply our aluminum requirements. Based on conversations with the Boeing Company it is believed that planning material for the final portion of our contract may be obtained on a satisfactory basis.

The attached list shows both "normal available delivery requirements" dates, which are the dates on which we would normally expect receipts of materials in order to meet delivery of airplanes in April, and "contract requirements" and "best possible" "baseline delivery requirements" dates, which are the dates possible which would still enable us to meet contract delivery requirements. A comparison of the attached list reveals the scheduled delivery dates as compared to "best possible" baseline requirements and the proposed delivery dates.

Material	Contract	Best Possible	Normal Available
11	70 to 81 days		
67	30 to 70 days		
71	30 to 50 "		
164	20 to 30 "		
63	30 to 20 "		

December 7, 1940

Please note the vendor's dates shown on our list are only estimated. We have not been able to obtain the Aluminum Company's assurance these dates will be met and past experience would indicate a considerable portion will be delayed possibly as much as 60 days beyond the estimated dates.

The Aluminum Company of America has been advised of our delivery requirements and that our contract has ANMS Priority rating A-1. The materials can go immediately into work when they are received as necessary capacity and facilities for fabrication of the various parts are now available. As a matter of fact, lack of these materials has made it necessary for us to lay off men for lack of work.

This company has exhausted every possibility of obtaining satisfactory delivery of materials, including purchase from jobbers' stocks and new sources. Since the contract release, orders for materials to make redesigned parts, as required by B-17E specifications, have been placed immediately after Engineering release and usually by telegraph or long distance telephone. Our Purchasing Department has vigorously pressed vendors for proper material deliveries and, except for the orders listed, has been successful in securing our immediate requirements. During November our Assistant Purchasing Agent spent more than a week at the Aluminum Company's Pittsburgh offices endeavoring to obtain improved delivery estimates and without success on the items on our list, and on which we respectfully request your assistance.

We wish to advise you deliveries of B-17E type airplanes under contract W535 AC15077 will be delayed unless we are able to secure satisfactory deliveries of required aluminum materials. On the basis of deliveries now expected, the B-17E delivery program will be delayed at least 60 days; however, this delay may be prevented or minimized if your efforts to assist us to obtain materials are immediately successful. Please be assured the Boeing Company has made and will continue to make every effort to obtain materials and to maintain the contract delivery schedule.

It will be appreciated if we can be informed of the action taken on this request and if we can be informed of developments as they occur in order that we may plan our production program accordingly.

BOEING AIRCRAFT CO. 1940

(Signed) W. G. Johnson
President

- a. These materials are required on aircraft parts as stated by the Boeing Aircraft Company.
- b. The materials are needed on the schedule indicated.
- c. The Company has employed reasonable diligence in endeavoring to secure the materials by its own efforts.
- d. The Company has endeavored to use sub-contractors' support in lieu of increasing capacity by expanding its plant.
- e. Deliveries of airplanes under Contract W535 AC15077 will be affected as described by the contractor.

John D. Corkille
Major, Air Corps
Air Corps Factory Representative