~~STRICTLY CONFIDENTIAL~~ 2.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER-OFFICE COMMUNICATION

DATE September 9, 1940.

TO Secretary Morgenthau

FROM Mr. Haas

SUBJECT: Employment in the Aviation Manufacturing Industry

1. Employment in the aviation manufacturing industry has increased by approximately 70 percent since the end of last year. In August 1940, manufacturers of airplanes employed 83,800 factory workers and manufacturers of airplane engines approximately 26,600 factory workers, a grand total of 110,400 factory workers for the entire industry. In December 1939, the aggregate employment was 65,400.

2. Proportionally, the greatest increase in employment has taken place in the airplane engine plants, where the number of factory workers employed in August 1940 was more than double the number employed in December 1939. The largest increase took place at the Allison Engineering Company where employment has multiplied five times (to 4,600) since the end of last year.

3. The August increase in employment was distributed among practically all of the manufacturers in the industry. The largest increase in employment -- approximately 1,700 employees -- occurred at the Glenn L. Martin Company. This brought the employment at the Martin plant back to the peak levels that existed at the end of last year.

4. In recent months Curtiss-Wright (including its subsidiary Wright Aeronautical Corporation) has displaced the Douglas Aircraft Company as the largest single employer in the industry. In August, the Curtiss corporations employed 16,748 factory workers and Douglas had 14,898. The United Aircraft Corporation (including its Pratt & Whitney division) was the third largest employer, with 14,465 employees.

5. The attached chart shows total employment in the aviation manufacturing industry and the employment of selected companies since January 1937. The attached tables give the figures plotted on the chart.

Attachments

Employment in Aviation Manufacturing Industry
(Airplanes and Airplane Engines)

1937-1940

	1937	1938	1939	1940
Airplanes				
Jan.	22,100	23,700	25,000	56,300
Feb.				57,200
Mar.	24,100	24,200	27,400	58,700
Apr.				60,600
May				65,200
June	25,200	22,800	36,500	70,300
July				77,500
Aug.				83,800
Sept.	23,400	21,700	41,100	
Dec.	23,800	24,100	52,800	
Airplane Engines				
Jan.	5,500	6,500	7,300	13,700
Feb.				15,600
Mar.	6,000	6,600	8,100	17,100
Apr.				18,400
May				20,500
June	6,600	6,900	8,900	22,600
July				24,900
Aug.				26,600
Sept.	6,400	7,000	9,500	
Dec.	6,600	7,100	12,600	
Total Industry -- Airplanes and Airplane Engines				
Jan.	27,600	30,200	32,300	70,500
Feb.				72,800
Mar.	30,100	30,800	35,500	75,800
Apr.				79,000
May				85,700
June	31,800	29,700	45,400	92,900
July				102,400
Aug.				110,400
Sept.	29,800	28,700	50,600	
Dec.	30,400	31,200	65,400	

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 6, 1940.

Employment of Selected Aircraft Manufacturing Corporations

1937-1940

	1937	1938	1939	1940
Bell Aircraft Corp.				
Jan.	615	222	654	859
Feb.				865
Mar.	850	290	912	896
Apr.				840
May				873
June	808	440	1,410	1,192
July				1,480
Aug.				1,963
Sept.	718	235	703	
Dec.	213	606	799	
Boeing Aircraft Co.				
Jan.	1,834	1,493	2,666	5,567
Feb.				5,445
Mar.	1,726	1,742	3,016	5,319
Apr.				4,776
May				5,785
June	1,249	1,836	3,374	6,513
July				7,313
Aug.				7,910
Sept.	1,109	1,948	4,468	
Dec.	1,380	2,485	5,199	
Consolidated Aircraft Corp.				
Jan.	3,169	2,540	968	2,837
Feb.				3,477
Mar.	3,246	2,518	819	3,807
Apr.				4,349
May				5,040
June	3,099	2,104	832	5,821
July				6,743
Aug.				7,836
Sept.	2,617	989	1,408	
Dec.	2,580	981	2,540	

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

	1937	1938	1939	1940
Curtiss-Wright Corp. (excluding Wright Aeronautical Corp.)				
Jan.	1,241	2,211	3,802	4,380
Feb.				4,744
Mar.	1,500	2,347	2,939	5,016
Apr.				5,213
May				5,698
June	1,933	2,310	2,848	6,314
July				6,531
Aug.				6,597
Sept.	2,202	2,736	1,562	
Dec.	2,007	3,491	3,447	
Douglas Aircraft Co., Inc.				
Jan.	5,591	6,328	4,334	11,952
Feb.				12,077
Mar.	5,961	6,173	4,177	13,119
Apr.				14,033
May				14,656
June	6,653	4,672	5,445	14,957
July				14,662
Aug.				14,898
Sept.	5,532	4,028	6,318	
Dec.	6,771	4,110	10,362	
Lockheed Aircraft Corp.				
Jan.	910	1,577	2,305	5,157
Feb.				4,768
Mar.	1,094	1,594	3,509	4,362
Apr.				4,400
May				5,016
June	1,338	1,797	5,699	5,591
July				6,599
Aug.				7,296
Sept.	1,383	1,997	5,324	
Dec.	1,428	2,123	5,156	

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

	1937	1938	1939	1940
Glenn L. Martin Co.				
Jan.	1,364	1,814	2,905	10,984
Feb.				9,407
Mar.	1,716	1,892	4,092	9,133
Apr.				9,010
May				9,357
June	2,044	2,134	6,029	9,133
July				9,513
Aug.				11,200
Sept.	2,032	2,341	10,070	
Dec.	1,818	2,777	11,174	
North American Aviation, Inc.				
Jan.	829	1,713	2,223	4,049
Feb.				4,324
Mar.	889	1,935	2,457	4,154
Apr.				4,371
May				4,336
June	841	2,400	3,125	4,782
July				4,918
Aug.				4,916
Sept.	1,272	2,685	2,992	
Dec.	566	2,530	3,795	
United Aircraft Corp. (excluding Pratt & Whitney)				
Jan.	2,350	2,245	1,826	2,757
Feb.				3,051
Mar.	2,444	2,168	1,766	3,468
Apr.				3,735
May				3,912
June	2,497	1,972	1,952	4,282
July				4,823
Aug.				5,016
Sept.	2,439	1,880	2,123	
Dec.	2,338	1,774	2,588	

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

	1937	1938	1939	1940
Vultee Aircraft, Inc.				
Jan.			364	742
Feb.				938
Mar.			440	959
Apr.				1,008
May				1,334
June		560	533	2,127
July				2,618
Aug.				2,857
Sept.		430	288	
Dec.		334	662	

Employment of Selected Airplane Engine Corporations

1937-1940

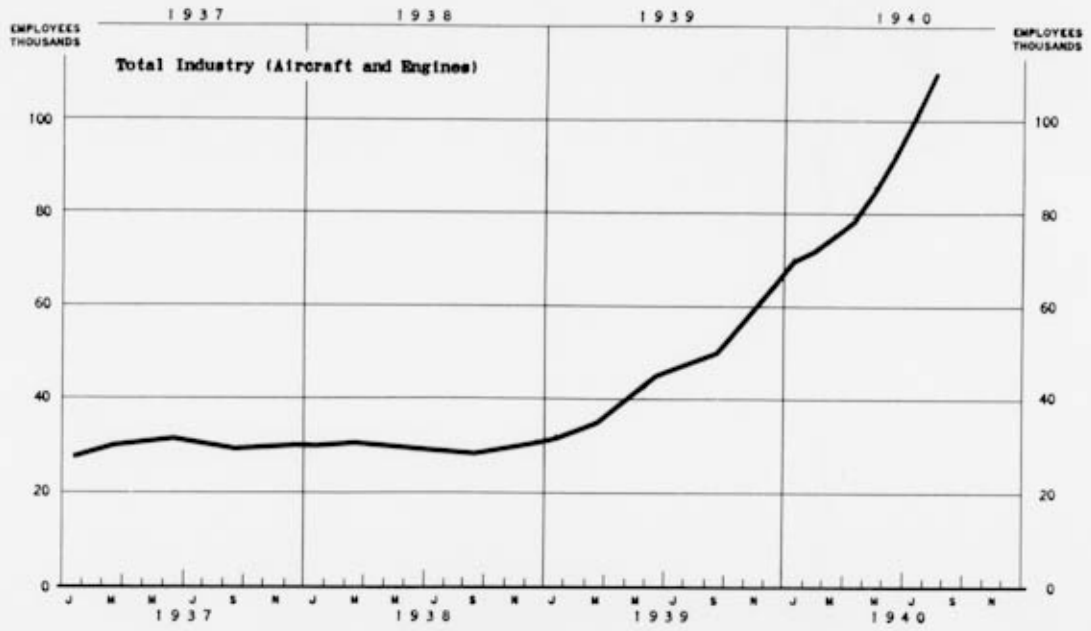
	1937	1938	1939	1940
Allison Engineering Co.				
Jan.	218	262	454	1,114
Feb.				1,261
Mar.	229	297	466	1,610
Apr.				1,958
May				2,766
June	238	339	558	3,254
July				3,917
Aug.				4,595
Sept.	238	382	642	
Dec.	266	439	901	
Continental Motors Corp. (Airplane Engine Division)				
Jan.	151	153	134	288
Feb.				344
Mar.	153	152	138	358
Apr.				368
May				378
June	162	144	171	388
July				398
Aug.				382
Sept.	135	146	203	
Dec.	152	142	243	
Lycoming Division of Aviation Manufacturing Corp.				
Jan.	849	729	519	581
Feb.				638
Mar.	889	704	521	657
Apr.				711
May				765
June	901	549	573	819
July				873
Aug.				970
Sept.	756	514	644	
Dec.	762	506	689	

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

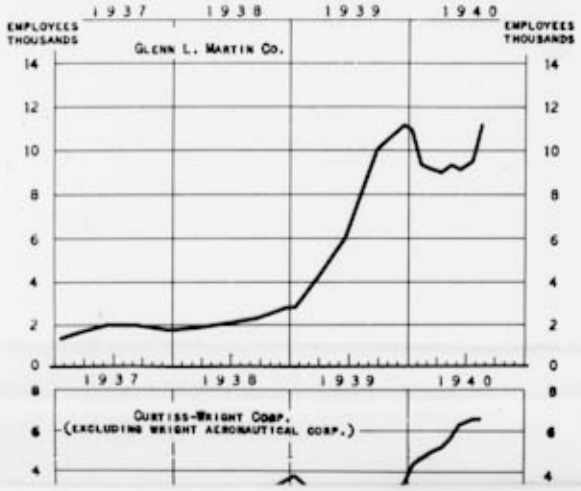
	1937	1938	1939	1940
Pratt & Whitney Aircraft				
Jan.	1,931	2,567	2,264	5,642
Feb.				6,549
Mar.	2,119	2,489	2,659	7,158
Apr.				7,541
May				7,765
June	2,384	2,555	3,066	8,504
July				9,121
Aug.				9,449
Sept.	2,471	2,384	3,394	
Dec.	2,618	2,227	5,022	
Wright Aeronautical Corp.				
Jan.	2,254	2,607	3,398	5,411
Feb.				6,081
Mar.	2,515	2,705	3,771	6,537
Apr.				6,984
May				7,882
June	2,800	2,930	3,997	8,682
July				9,491
Aug.				10,151
Sept.	2,690	3,184	4,026	
Dec.	2,608	3,374	5,141	

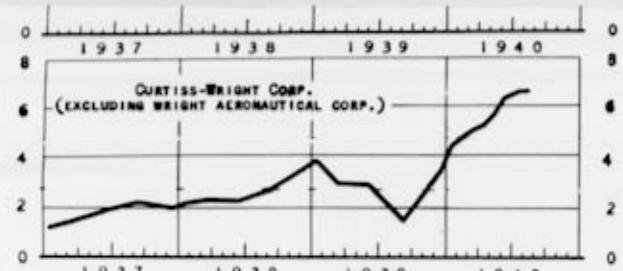
EMPLOYMENT IN AVIATION MANUFACTURING INDUSTRY

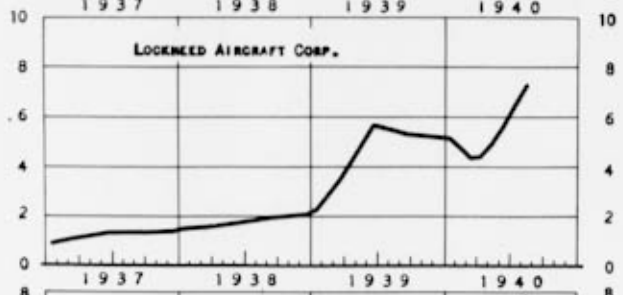
Factory Wage Earners

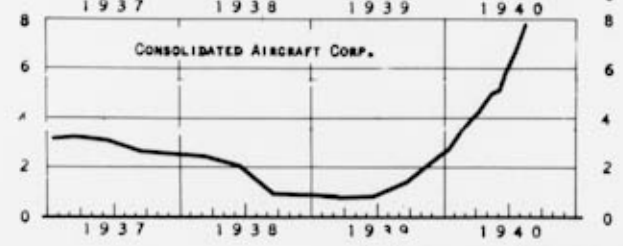


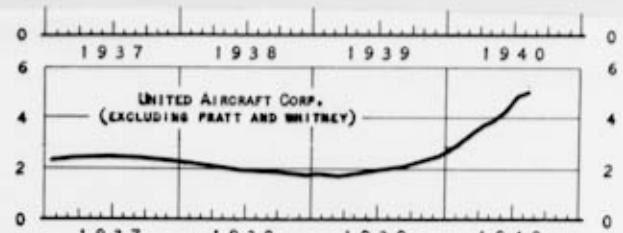
Selected Aircraft Manufacturing Companies

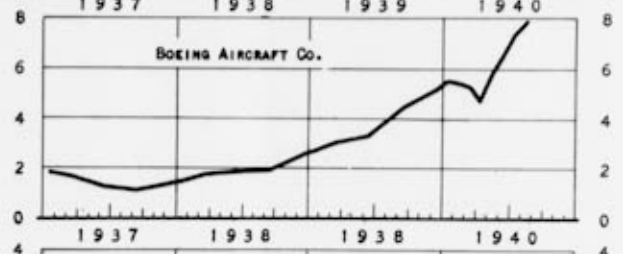


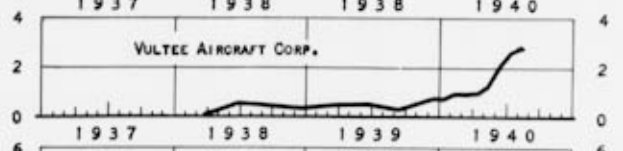


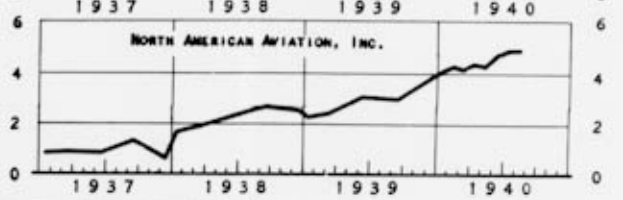


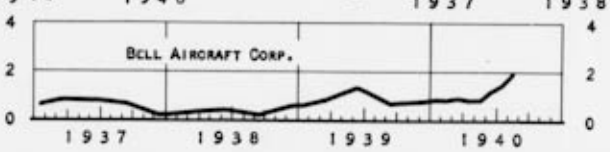




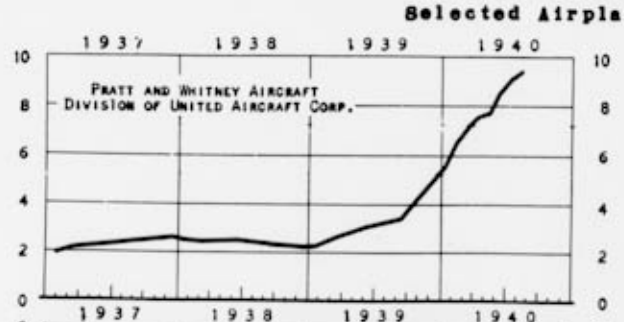


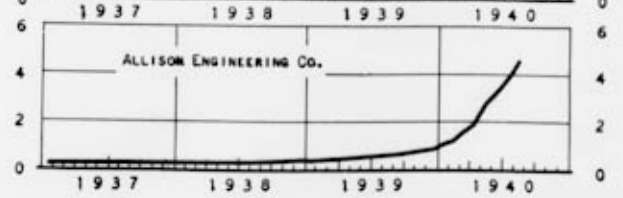


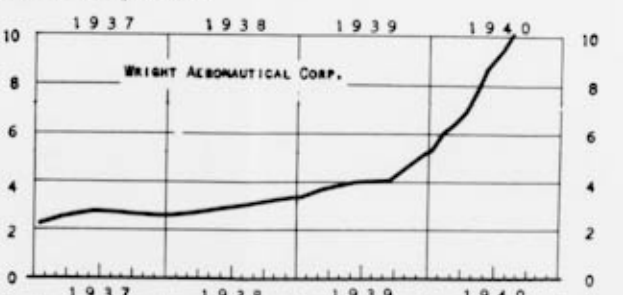


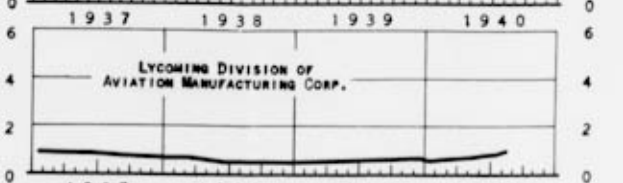


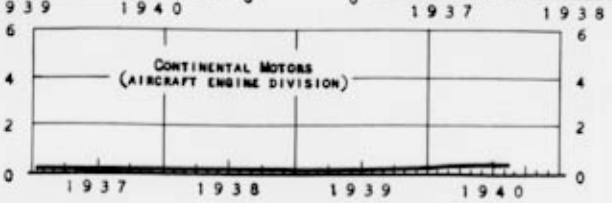
Selected Airplane Engine Companies





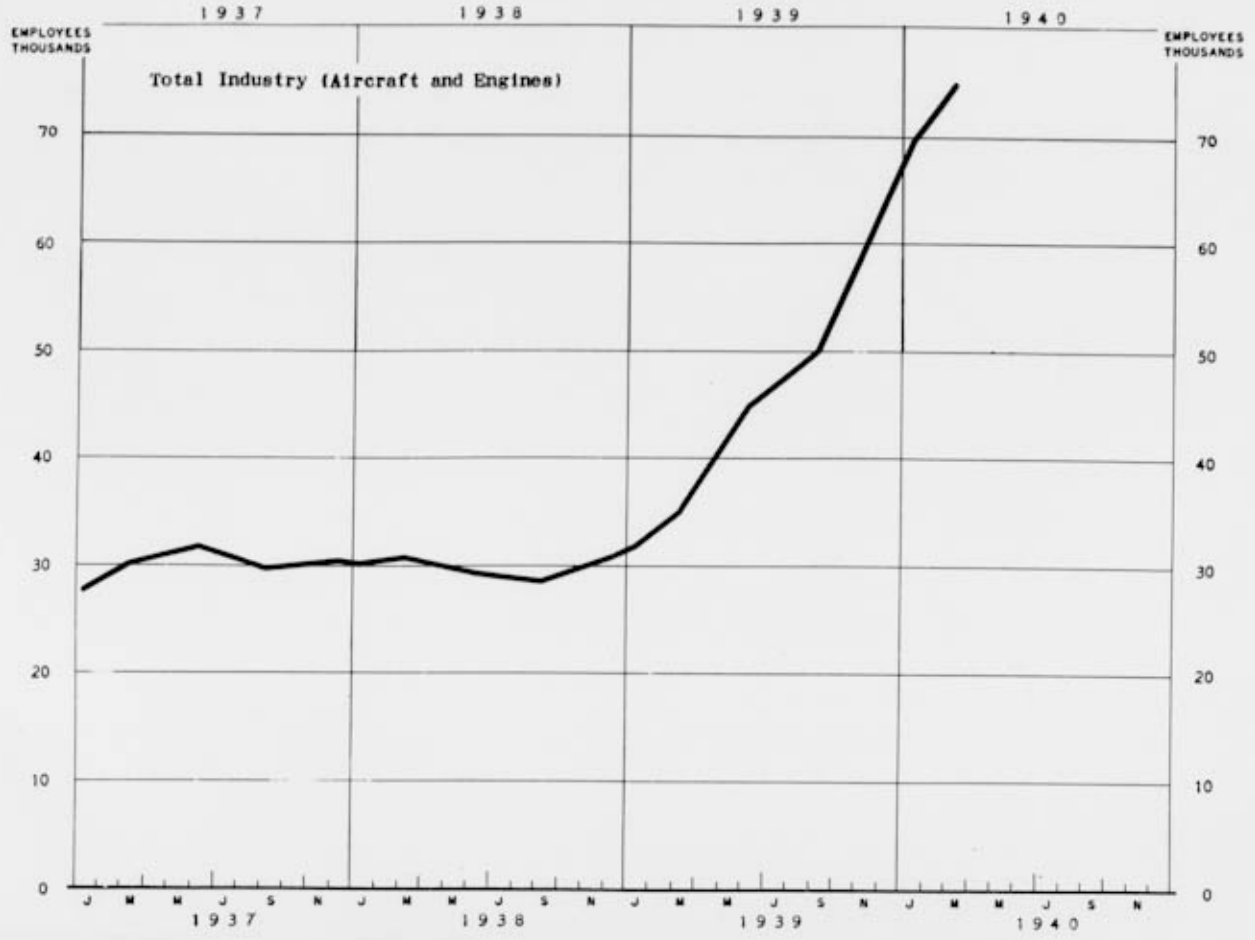




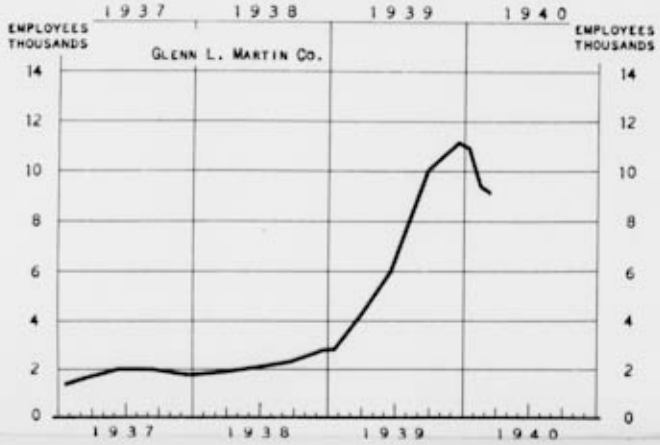


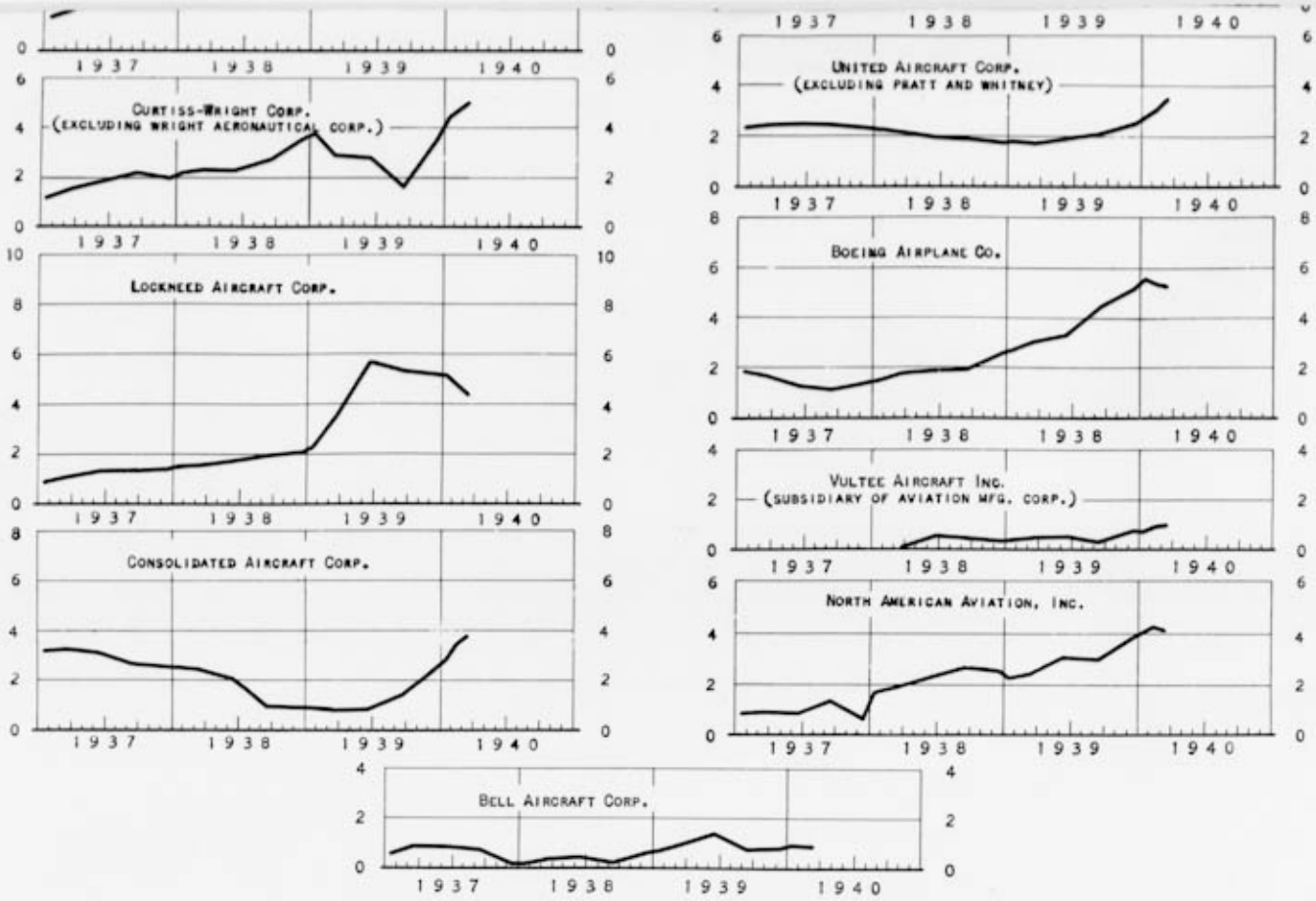
EMPLOYMENT IN AVIATION MANUFACTURING INDUSTRY

Factory Wage Earners

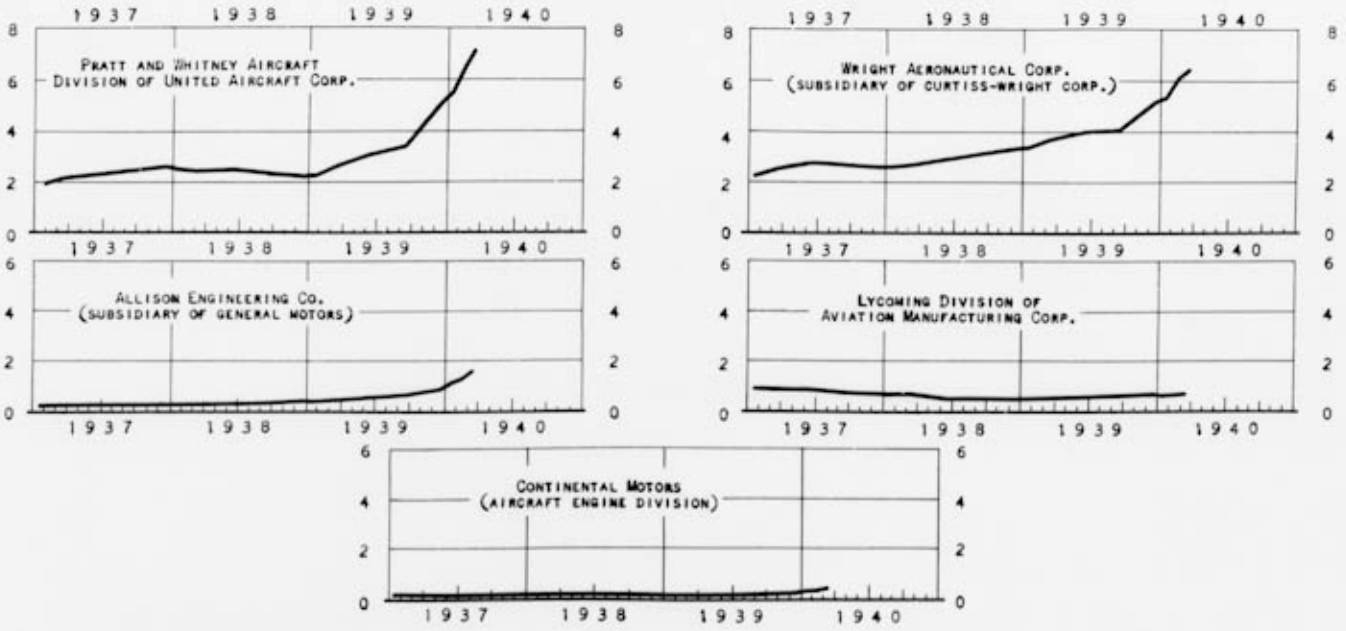


Selected Aircraft Manufacturing Companies





Selected Airplane Engine Companies



PSF: Morgenthau
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THE SECRETARY OF THE TREASURY
WASHINGTON

September 11, 1940

MEMORANDUM FOR THE PRESIDENT

Recent Petroleum Information

The following information is based on recent communications received from London by British oil authorities now in this country who have made it available to the Treasury:

1. In contrast with recent estimates that the quality of German aviation fuels is declining, it is now determined that the average octane number for German aviation fuels has been steadily 88, varying from 87 to 92. (This octane has been attained by adding the relatively high tetraethyl lead content of 5.5 cc's per imperial gallon, or 4.6 cc's per U.S. gallon, to base gasoline of 70 to 72 octane. In other countries, this quality fuel is normally attained by adding 3 cc's per gallon to 74-78 octane basic stock.)

This determination was made by examination of gasoline in German airplanes brought down in the war period up to September 9, 1940.

2. This opinion conforms with the opinion of Standard Oil's military aviation expert (who returned from London in July) that Germany is using aviation gasoline of 87 octane. The latter expert pointed out that German motors operate as efficiently on 87 octane as United States and British motors on 100 octane, because of the substitution of direct fuel injection in place of carburetion in the motors.

3. Spanish stocks of all petroleum products have declined from 217,000 tons on August 1 to about 180,000 tons at the beginning of September, and will further decline in September.

4. The British and Spanish Governments have agreed that Spanish stocks will be maintained at 160,000 tons (1.1 million barrels).

This stock represents about 2½ months' supply at present restricted Spanish consumption, which is estimated at 63,000 tons per month (440 thousand barrels).

"Special limitations" are placed on stocks of lubricating oils and aviation gasoline.

(The estimated consumption of 63,000 tons per month, or 760,000 tons per year, is below requirements in the years preceding Spain's civil war -- imports amounted to 859,000 tons in 1934 and 790,000 tons in 1935.)

5. The British Government has required assurances that none of the oil imported into Spain will be made available for enemy aircraft, military or civilian.

6. The 160,000 ton stock is the result of a compromise. The British originally wanted the figure to be 150,000 tons, while the Spanish wanted more.

The British compromise was made partially as a result of political considerations, in the hope of avoiding an unfavorable Spanish attitude. (The Fascist Falange Party has been working to involve Spain in war against Britain, while Franco presumably has favored neutrality.)

7. Spanish consumption will probably not rise in the near future, since the Government is unwilling to remove the restrictions on the use of gasoline, in view of a shortage of foreign exchange.

8. Since the British estimate that Spanish tankers can carry only 42,000 tons of petroleum per month, it is contemplated that non-Spanish tankers will be needed.

Since Spain's oil is supplied chiefly by American companies, the British believe it is reasonable that vessels owned by American companies be used (whether under United States or other flags). All controlled shipments to Spain will be "navicerted."

9. The British anticipate the conclusion of a similar agreement with Portugal, allowing stocks equal to two or three months' supply, and contemplating the use of non-Portuguese tankers to maintain stocks.

Fighters and Trainers. PSF: Morgenthau

Estimated Deliveries of Airplanes to United States Army and Navy and to the British Between September 15, 1940 and June 30,1941*
(including spares)

Company	U. S. Army and Navy	British	Total
Beech Aircraft Corp.	136	1	137
Bell Aircraft Corp.	264	300	564
Boeing Aircraft Co.	116	18	134
Brewster Aeronautical Corp.	181	561	742
Cessna Aircraft Co.	37	-	37
Consolidated Aircraft Corp.	256	109	365
Curtiss-Wright Corp.	850	929	1,779
Douglas Aircraft Co., Inc.	891	333	1,224
Fairchild Engine & Airplane Co.	526	-	526
Grumman Aircraft Engineering Corp.	368	156	524
Lockheed Aircraft Corp.	319	1,106	1,425
Glenn L. Martin Co.	179	313	492
North American Aviation, Inc.	1,131	944	2,075
Republic Aviation Corp.	123	-	123
Ryan Aeronautical Co.	349	-	349
Spartan Aircraft Co.	90	-	90
Stearman Aircraft	1,473	-	1,473
Stinson Aircraft	122	-	122
Vought-Sikorsky Aircraft	581	50	631
Vultee Aircraft, Inc.	853	77	930
Total	8,845	4,897	13,742

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 27, 1940.

* For all Army, Navy and British programs shown in the National Defense Advisory Commission Airplane and Engine Division's Report No. 8-A.

Trainers

Estimated Deliveries of Trainers to United States Army and Navy and to the British Between September 15, 1940 and June 30,1941*
(including spares)

Company	U. S. Army and Navy	British	Total
Beech Aircraft Corp.	88	-	88
Cessna Aircraft Co.	37	-	37
Curtiss-Wright Corp.	163	-	163
Fairchild Engine & Airplane Co.	526	-	526
North American Aviation, Inc.	917	766	1,683
Ryan Aeronautical Co.	349	-	349
Spartan Aircraft Co.	90	-	90
Stearman Aircraft	1,473	-	1,473
Vultee Aircraft, Inc.	853	-	853
Total	4,496	766	5,262

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 27, 1940.

* For all Army, Navy and British programs shown in the National Defense Advisory Commission's Airplane and Engine Division's Report No. 8-A.

Fighters

Estimated Deliveries of Airplanes Other Than Trainers to United States Army and Navy and to the British Between September 15, 1940 and June 30, 1941*
(including spares)

Company	U. S. Army and Navy	British	Total
Beech Aircraft Corp.	48	1	49
Bell Aircraft Corp.	264	300	564
Boeing Aircraft Co.	116	18	134
Brewster Aeronautical Corp.	181	561	742
Consolidated Aircraft Corp.	256	109	365
Curtiss-Wright Corp.	687	929	1,616
Douglas Aircraft Co., Inc.	891	333	1,224
Grumman Aircraft Engineering Corp.	368	156	524
Lockheed Aircraft Corp.	319	1,106	1,425
Glenn L. Martin Co.	179	313	492
North American Aviation, Inc.	214	178	392
Republic Aviation Corp.	123	-	123
Stinson Aircraft	122	-	122
Vought-Sikorsky Aircraft	581	50	631
Vultee Aircraft, Inc.	-	77	77
Total	4,349	4,131	8,480

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 27, 1940.

* For all Army, Navy and British programs shown in the National Defense Advisory Commission Airplane and Engine Division's Report No. 8-A.

PSF HMJr

THE SECRETARY OF THE TREASURY
WASHINGTON

September 25, 1940

My dear Mr. President:

I think you will be pleased to learn that the Allison Engineering Company now seems to be on a good production basis for their Class "C" engines. Their production for the period September 1 to September 21 has been as follows:

Sept. 1 to 7 28
Sept. 8 to 14 52
Sept. 15 to 21.... 61

Yours sincerely,

H Morgenthau Jr

The President,
The White House.

PSF; Morgenthau

THE WHITE HOUSE

WASHINGTON

September 27, 1940

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What can I tell Harry Hooker in confidence about this?

F. D. R.

Enclosure

Let to Major Henry S. Hooker, 50 Broadway New York, New York 9/9/40 fromLt. Colonel A. Fischer, Royal Netherlands Indies Ordnance Commission, 10 Rockefeller Plaza, New York, New York. re the difficulties the y find themselves in connection with their aircraft procurement program.

FST
HMJr

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

~~STRICTLY CONFIDENTIAL~~

files

FRANCE

The Treasury Department has granted the licenses necessary to permit the French Government to pay from its dollar balances in the United States the expenses of its diplomatic and consular establishments in the United States. The licenses were issued on September 11, providing for withdrawals at the rate of $97,500 per month. Subsequently this rate has been increased by $100,000 per year, since it was found that the provisional figures upon which the first rate was calculated were placed too low by Mr. Alphand, the French Financial Counselor. The application to permit the French Government to utilize its dollar resources in the United States for meeting the expenses of its diplomatic and consular establishments in Latin America, amounting to approximately $2,640,000 per year, is still pending. This matter was referred to the Department of State at last week's Cabinet meeting.

Under date of September 24 Mr. Alphand submitted to the Treasury a letter in support of an application filed by the French American Banking Corporation to permit withdrawal from the official French account in the United States of $1,500,000 to pay for purchases in Argentina of 2,500 tons of canned meat destined for French prisoners of war in Germany. The purchase would be made immediately by the French Red Cross, with funds provided by the French Government, and would be shipped by the steamer "Mendoza" now in the port of Buenos Aires, which vessel would be chartered by the French Red Cross. Mr. Alphand states that the goods would be destined exclusively to French prisoners, and that the distribution of the food products in Germany would be carried out under the supervision and control of the International Committee of the Red Cross at Geneva. The $1,500,000 requested would cover the expenses of both merchandise and freight. Mr. Alphand has emphasized the humanitarian character of this request. Mr. Alphand has addressed a letter to the Department of State on this subject. Mr. Berle has provided this Department with copies of Mr. Alphand's communication, and has made the following comment thereon:

> "I have not gone through the Department about this yet, but I personally see no reason why this should not be done, provided you are convinced that what Alphand says is true. In any event, I think the Committee, in deciding matters, should have in mind the possible effect on European settlement were it assumed that the United States was putting obstacles in the way of sending food to French prisoners.
>
> "The case raises, directly or indirectly, a good many issues; but I don't see any way out of it."

Mr. Swift of the Red Cross estimates that the number of French prisoners now in Germany is around one million.

The French Financial Counselor is also pressing for action on an application made for the transfer from the account of the Bank of France with the Federal Reserve Bank of New York to the dollar account of the Bank of Portugal of $775,000 to cover the escudos to pay for canned sardines and tuna fish purchased by France and now stored in Portugal, but which cannot be transported to France by rail until payment has been effected. In supporting this application Mr. Alphand insists "on the fact that the question of these canned goods is particularly important at the present time for the food supply in my country."

The French Financial Counselor has additional applications before the Treasury for the withdrawal of funds to pay for horses, wool and meat purchased in Argentina for shipment to France totaling $1,260,000. Likewise $410,000 is requested for payment for beans and lentils purchased by France from Chile under contracts dated March 4 and April 19, 1940. These products are still in Chile and Mr. Alphand insists that there are no negotiations at the present time with the British Purchasing Mission for the transfer of this stock, which remains the property of France. Our advice from Chile is, however, that the British are willing to take over these contracts. The release of $253,481 is also requested to pay balances due in Uruguay for canned meat purchased under contracts of March 15 and April 11, 1940. This sum presumably would pay for meat that has already been shipped, and for cancellation of the contract on the unshipped portion. A previous item of $210,000 to pay for meat already shipped was licensed after the Uruguayan Legation had confirmed the facts.

Finally the French Counselor has asked the release of $216,370 for the upkeep of certain steamships of French nationality in Latin American waters.

ARGENTINA

At the request of the Argentine Ambassador the Secretary expedited the issuance on September 19 of a license to permit the withdrawal from official French dollar accounts in the United States of $3,751,000 for payment due Argentina under its exchange agreement with France, and which the Ambassador stated Argentina is entitled to receive in dollars. As late as yesterday our information is that the French Government has not authorized the Bank of France officials in New York to make the transfer in question, although the license by the Treasury has been granted. The Argentine Ambassador has telephoned the Governor of the Central Bank of his country on this subject, urging that the French officials at Buenos Aires be asked to have the issuance of the necessary instructions from Vichy to New York expedited. The application for the above license had been filed at the request of the French, but subsequently some question arose which the French Embassy now states it is endeavoring to clarify by cable with Vichy.

H. M. J.

PSF Morg

Tele
Personal
Confidential

THE SECRETARY OF THE TREASURY
WASHINGTON

September 27, 1940.

MEMORANDUM FOR THE PRESIDENT:

Appended is a confidential table submitted to me September 26, 1940 by Sir Andrew Agnew, on the lubricating oil situation in Europe.

The conclusion that is arrived at is of considerable interest. It is stated as follows:

> "On the basis of this estimate, which allows for a rationed consumption even in neutral countries, there is a shortage of supply over industrial demand of 275,000 tons per annum before allowing anything for service consumption of Italy and Germany."

Henry Morgenthau Jr.

Attachment

~~STRICTLY CONFIDENTIAL~~

~~STRICTLY CONFIDENTIAL~~

L U B O I L S

Thousands of Tons

	Peace-time Consumption Incl. substitutes (1938)	Estimated war-time Industrial Consumption Per Annum	Indigenous Production incl. substitutes	Surplus or Shortage for Axis War Effort
Germany	510	600	391	130
Austria	23		48	
Czechoslovakia	52		4	
Danzig & German Poland	32		27	
Russian Poland	8	8	53	45
Denmark	26	12	-	12
Norway	21	10	-	10
Holland	54	25	-	25
Belgium & Luxembourg	66	37	-	37
France	272	160	31	129
	1,064	852	554	298
Italy & Tripolitania	116	70	-	70
Albania	-	-	15	15
Carried Forward on page 2.	1,180	922	569	353

L U B O I L S

Thousands of Tons

	Peace-time Consumption incl. substitutes (1938)	Estimated war-time Industrial Consumption Per Annum	Indigenous Production incl. substitutes	Surplus or Shortage for Axis War Efforts
Brought Forward	1,180	922	569	353
Finland	18	5	-	5
Sweden	64	35	-	35
Estonia	4	2	-	2
Latvia	4	2	-	2
Lithuania	4	1	-	1
Switzerland	20	15	-	15
Hungary	22	15	-	15
Jugoslavia	16	10	-	10
Roumania	23	15	100	85
Bulgaria	8	6	-	6
Greece	9	8	-	8
Turkey	8	8	-	8
TOTAL	1,380	1,044	669	375
RUSSIAN SURPLUS FOR GERMANY				100
				275

On the basis of this estimate, which allows for a rationed consumption even in neutral countries, there is a shortage of supply over industrial demand of 275,000 tons per annum before allowing anything for service consumption of Italy and Germany.

3.8.1940
Revised 21.9.40

THE SECRETARY OF THE TREASURY
WASHINGTON

October 3, 1940

My dear Mr. President:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Faithfully yours,

Henry Morgenthau Jr.

The President,
The White House.

COPY

BRITISH PURCHASING COMMISSION

October 2nd, 1940.

Dear Mr. Secretary

I have been instructed by the British War Cabinet to give to the American Administration a general picture of our supply position and to supplement by way of explanation in detail the orders that have been transmitted to the British Purchasing Commission.

Many detailed lists of proposed orders have already been submitted to the appropriate authorities. In many cases programmes have been agreed and many orders have been placed. Little progress has, however, been made in the case of weapons for the army.

In the attached memorandum, therefore, which puts forward considerations affecting the supply position as a whole, I have included a statement about the scale and character of the Army programme towards which our orders in America are designed to make a contribution.

~~STRICTLY CONFIDENTIAL~~

 ~~STRICTLY CONFIDENTIAL~~

Arising out of the considerations in the memorandum, I venture to submit as matters of outstanding importance the three following requests, the granting of which would very greatly assist us in our war effort:-

1. We invite the assistance of the Administration in accelerating and treating as a matter of special urgency the delivery of armaments on British order which can be produced before the spring and early summer of 1941. Priority in production should apply in particular to the output of aeroplanes and aero-engines.

It is also urgent that the extended programme of aeroplanes and engines should be ordered as soon as possible.

2. Permission is sought to place orders for an extended aircraft programme and for guns, small arms and various weapons included in the Army programme; and it is common ground that as far as possible these orders should be for material of the same type as that on order for the American Army. But we ask that the rule barring the placing of orders for planes or weapons of types which are not standard in the American Army should be relaxed in cases where the ordering of alternative types is needed to make good specific deficiencies in the British programme, to provide insurance against a severe loss of British output as the result of enemy action, or to increase fighting efficiency at the earliest possible date.

3. In July the President approved the principle that where the orders of our two countries are complementary the initial capital expenditure would be advanced in the first instance from the funds of the United States Administration. In view of the large volume of British orders in the United States and the need for conserving British financial resources, we ask that this principle should be applied to all British war orders in the United States. This course we suggest would be justified

~~STRICTLY CONFIDENTIAL~~

on the double ground that the manufacturing capacity created by such capital expenditure is a permanent addition to America's own war potential which can be adapted at comparatively short notice to America's needs and that the goods produced therefrom in aid of British armament are, in the present world situation, a definite contribution to America's security.

Yours sincerely

W. T. Layton

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

STRICTLY CONFIDENTIAL

~~STRICTLY CONFIDENTIAL~~

COPY

[redacted]

MEMORANDUM ON BRITISH SUPPLY PROGRAMME

I

The military position of Great Britain has greatly improved since the month of June.

On the sea the partial destruction or immobilisation of the French fleet has removed the fear that a large increment of naval strength might be immediately available for the Axis powers. The addition of the American destroyers to our fleet will enable us to carry out more efficiently the work of convoy and blockade and will release modern destroyers now employed in these tasks for more specifically belligerent action.

In the air the output of our factories has been stepped up substantially. In May last the production of planes was gradually rising in accordance with previous plans. But under the new Minister of Aircraft Production a considerable increase in deliveries was achieved - by more vigorous direction at the centre; by the response of managers and workers throughout the munition industry to the Government's appeal and the pressure of the war situation, and by the instruction to British industry to give I.A. priority to all work related to aircraft production or anti-aircraft defence. Two months of comparative calm enabled this increase of output to be converted into terms of increased squadron strength and stronger reserves.

The greatest improvement has, however, taken place in the state of our land forces. When the British Expeditionary Force - which had lost all its equipment save some of its rifles - returned to England there were available

in the country for issue to units for training some 800 field guns of all calibres, 120 anti-tank guns, 8,000 Bren guns and 4,000 anti-tank rifles. By August the total available had risen to some 2,500 field pieces as a result of the speeding up of output from the factories, the refurbishing of 18-pounder of 4.5 in. howitzers and other survivors of the last war, and the timely release of 75 mm. guns by the American Army. The number of anti-tank equipments in the hands of the Army had risen by the end of August to over 600 while the stock of Bren guns and anti-tank rifles had doubled.

Finally, the release of American rifles and machine guns provided weapons for the new large force of Local Defence Volunteers (Home Guard).

The supply of standard .303 small arms ammunition was not planned on a sufficient scale to meet, in the first year of war, the battle needs of such large forces as those now under arms. But the fact that there has been no land fighting for nearly four months has enabled a stock to be accumulated sufficient to take care of any foreseeable expenditure either on land or in the air during the rest of this year. This, however, does not apply to .30 calibre ammunition.

II

The improvement in our position still leaves us far behind Germany both in the air and on land.

The air strength of Germany, with her great advantage of early planning of large scale production, is already greatly in excess of ours. It is now reinforced by the resources of France to the extent that we must reckon on having to face an output of combat planes of between 2,500

and 3,000 a month next summer.

It is a factor also of considerable importance that as Germany's aerodromes are much nearer to London than ours are to Berlin, the wear and tear on Germany's bomber engines is much less than that of our own.

Yet, thanks to the quality of our machines, our pilots and our petrol, and to the increased output of planes, the disparity in the total number of machines has not been sufficient to give Germany command of the air. On the contrary the British Air Force has carried the offensive not only into France and Belgium but to Berlin and the vital spots of Germany.

German preponderance, however, remains overwhelming in land armaments. Our present stock of weapons is trifling compared with the 15,000 - 20,000 field guns and equivalent other arms of Germany. Italian equipment and the captures from France, Belgium and Britain make the disproportion still greater. Fortunately these resources cannot be effectively used against England without command of the sea and air; nor can they be transported overseas to other theatres of war without hindrance. But the existence of such powerful land forces makes the situation in the Middle East and in Africa a cause for anxiety.

Taking a longer view, a rough idea of Germany's war potential for all purposes is suggested by her capacity for steel production. Before the war, Germany's out put reached about 22 million ingot tons a year. That of France and England was 23 million ingot tons. Today Germany has at her disposal the output of France, Belgium, Luxemburg, Czecho-Slovakia, Italy and Poland. This, with her own production, amounts to 42 million ingot tons against the

15 million ingot tons of Great Britain to which should be added the 3½ million tons of the Empire. This great disparity can only be balanced if we add in the 50 million ingot tons of the United States of America.

But this is only a partial picture. German industry has certain weaknesses. The steel figures, for examples, must be qualified by such considerations as the supply of ferro alloys, forging plant, lubricating oil and many other things. Nor can a purely industrial comparison be converted into terms of military force or regarded as a measure of the prospect of victory without taking account of many factors that will affect the issue of the war. Such influences include:- the extent to which Germany can utilise the full resources of conquered countries; the effect of hunger and the steady influence of sea power on the economic life of Europe and its morale; the prospect of securing ascendancy in the air through the quality and quantity of the pilots and aircraft that can be thrown into the conflict; and finally the possibility which is open to the British Empire of choosing fields and conditions of battle in which the strength of the German army cannot be fully deployed.

Nevertheless, Germany's war potential remains a very formidable menace. We cannot do less than organise to the utmost limit of our strength.

III

One conclusion to be drawn is that for some time to come Germany has no need to devote much of her industrial capacity to land armaments but is free to devise

other weapons. In particular, she can concentrate on increasing her air force and on making the ships for transporting an expeditionary force overseas. The fact that she is removing machine tools from occupied countries into Germany itself suggests that she is in fact doing something of this kind.

We must assume, therefore, that the efforts we have made to overhaul the monthly rate of German aircraft production and training of pilots will have to be redoubled and that the air attack on Great Britain in the Spring will recommence on a still larger scale. The whole course of the war has emphasized the dominating role played by air power and it is vital that we should maintain our effective control of the air over Britain and around our coasts.

Moreover, as we are greatly outnumbered in land armaments, it is the more essential that we force the decision with the weapon of our own choice. Great Britain, therefore, puts in the forefront of her requirements in the United States the speeding up of the programme of aircraft and aircraft engine production that was launched last Spring and is now coming into effect. Among other measures this means that production of 1941 types should not be interrupted by the introduction of new types until the critical period of the Spring and early Summer is over.

Our training of pilots is already on a scale which - in spite of inevitable losses - is planned to permit an appreciable increase in our squadron strength by the Spring and to ensure a sharp rise thereafter. Steps are now being taken to make yet a further acceleration of the supply of pilots available in the early months of 1941. As the wastage of machines in the present air battle is appreciably greater than that of pilots, and as we must be

prepared for the possibility that losses of British factory production through enemy action may be worse than our present experience, the speed-up of plane deliveries from America is of first importance if we are to develop our maximum fighting strength next Spring.

Germany's great lead in the air means also that aircraft production in both England and the United States must be planned on an increasingly large scale if we are to establish air supremacy over Germany within measurable time; and that as a first step arrangements should be made by which the increased production programme which has been discussed with the Defence Advisory Board be put into execution immediately.

In this connection it is of vital importance that the types to be manufactured under this programme should embody the experience that we are daily acquiring of actual fighting conditions, since a quantitative superiority will be of no avail against a superiority in quality. For example, it is suggested that it would be of great advantage, both to England and to the United States, if the new British Tornado Fighter, equipped with the 200 h.p. in-line Sabre engine, were put into production in this country. This machine is now flying in England, and there is no parallel in this country that could be ready in the same time. If this were done, this plane would be flying and fighting within a year and in quantities which might have a decisive effect.

We also attach great importance to being able to lay down in North America for delivery in the Winter and Spring a substantial number of motor torpedo boats and marine engines.

As regards land forces the preceding figures mean that we cannot hope to compete with Germany in sheer weight of metal in the near future.

Yet expeditionary forces in various parts of the world already play an important role in the war as a whole and when air superiority has been definitely established we must assume that action on land will be both necessary and possible even in Europe. What precise form land action may take is difficult to foresee at this stage. When Britain's defence has been assured, Africa and the Middle East will make a heavy call on our military forces. The opportunity may occur to make local raids in Europe, lend assistance to countries which may be in revolt or even, with the aid of local air mastery, recapture and hold a bridge head across the Channel in order to drive back the air menace against Great Britain.

The equipment of the Empire's Army must, therefore, go vigorously ahead. From the point of view of munition-producing capacity we must also not forget that arms may have to be provided for countries which may eventually be in a position to come over to our side.

To provide arms on a sufficient scale requires the creation in England and the United States of armament-making capacity which will turn out planes, armoured vehicles and mobile guns in many thousands a year and small arms or rifles in millions.

It is therefore clear that while the situation must be sustained in the meantime by United Kingdom weapons a final decision must be based on the full development of the great industrial potential of the United States. If the foundations are laid on a wide enough basis and every step is taken to preserve intact the war potential of Britain, the combined strength of America and the British Empire can certainly surpass and outlast that of Germany and her Allies.

America's potential is now being mobilised for the equipment of a rapidly expanding United States

Defence Force. It is essential that the programme of United States and British requirements be as much as possible co-ordinated so as to prevent competition arising in the industrial field. To this end we must seek a common programme agreed and adjusted to the conflicting requirements of immediate and of ultimate needs.

IV

After the French collapse the British Army's munition programme was stepped up by more than 50% to figures which were designed to equip by the end of 1941 the number of divisions which on the previous programme would only have been ready by the end of 1942.

Our forecasts of production of the main forms of army equipment anticipate that the following will be the situation at the end of 1941:

	Stock on 1st August (Home and Abroad)	Output - August 1940 to end 1941.
Field Artillery	2,650	4,850
Medium Artillery	400	700
Anti-tank equipments	600	6,000
Tanks: Light	730	1,260
Light Cruiser	250	1,300
Heavy	230	4,330
Anti-aircraft Guns: Heavy	1,775	1,660
Light	650	3,760
Bren Guns	22,000	54,000
Rifles	2 million (approx)	600,000
Anti-tank Rifles	12,000	28,000

Stocks exclude Indian and Dominion stocks and stocks with Indian or Dominion divisions taking their own equipment to theatres overseas. Machine gun output for aircraft is considerably in excess of figure for Bren Guns. The only overseas deliveries included are 500 37 mm. anti-tank equipments from the United States.

This production has to meet the needs of the British Field Forces both at home and overseas as well as the Air Defence of Great Britain and the Home Guard.

The equipment of the Army at the end of 1941 is not to be regarded as the total of the above columns; from the combined figure we must deduct (a) wastage from wear and losses in the field and (b) obsolete weapons (particularly in the case of field artillery) which will be replaced in due course by modern weapons. I can, however, if necessary, give further information as to the military formations to which the figures are related.

From the production point of view I make the following comments upon this table.

The forecasts on which these total figures are based anticipate that at the end of next year our output will be nearly equal to the peak output of the last war in field artillery (1918). It will be much less in medium and heavy artillery - the demand for which is expected to be relatively small under present-day conditions of warfare. But it will be much greater in heavy and light anti-aircraft guns - the former of which compares in manufacturing capacity to medium artillery and the latter to field guns. The production of tanks and of anti-tank and tank guns will also be on a far higher scale than before. In other words, we expect in two years to reach an output of ordnance equal to that of 1918 in spite of the fact that we are devoting to aircraft production more than four times the labour force that was used on the production of aircraft at the end of the last war.

The chief reason why this is possible is that we expect to have to produce much less artillery ammunition than in the last war. In the siege conditions of 1914-1918 the outpouring of ammunition production on a stupendous scale drained the resources of all belligerents in steel

explosive, machinery and labour power. We may have to provide for a large ammunition expenditure at some stage in the present war; but in the near future this is unlikely, and, in fact, we have an immediate problem of providing storage for the ammunition we are making. We therefore intend to produce a moderate but sufficient flow of ammunition while providing a big reserve capacity of shell and fuse manufacture, filling, etc. But at its maximum the call upon our resources for ammunition will be by comparison with 1914-1918 a moderate one.

The munitions problem of this war is to produce as many weapons of all kinds as possible with an adequate supply of ammunition - not to produce shells in unlimited quantities.

V

British orders in the United States have two aspects. On the one hand they are needed to fill deficiencies - which in some cases amount to a high proportion of our total needs. On the other they are an insurance against loss of British production as a result of enemy action. This insurance aspect has influenced the scale and nature of the orders we have sought to place in North America in every branch of war production. *

The case of raw materials or explosive is straightforward. But in finished munitions the problem

---

* The rate of insurance needed to make good losses from enemy action is at best a guess and in any case must vary with the nature of the product. It is for example not needed for clothing and engineering stores. But in the case of important armaments produced from a few vulnerable sources of supply it would not be excessive for the percentage to run as high as 25 or 35%. In the most important items of production we have assumed a rate of 20 to 25%. Experience up to the present has shown this margin is ample for the loss of output on the whole is less than 10%. Of this 10% far the greater part is due to the effect of lost time through air raid warnings and only a small part to actual bombing losses. But we have been lucky. Prudence suggests that 20% is not an unreasonable basis for planning.

is complicated by the question of types. Clearly it is desirable from the production point of view that types should as far as possible be standardised. But the recent decisions as to the types to be manufactured for the American Army taken in conjunction with the advanced state of the manufacturing programme in the United Kingdom mean that this standardisation is not possible in all cases if American orders are to serve as a real insurance and reinforcement of our own war output.

To illustrate this I will take the case of the 25-pounder. The field gun is one of the most important weapons which determine the number of divisions that can be organised; and in fact the above figures of the production of 25-pounder guns closely corresponds to the growth in the British Army which is contemplated next year. But our forecast may be falsified by enemy bombing and the effect of air raids on the output of our factories. In order to be sure that the military timetable should not be thrown out, we should like to place orders which would ensure that a supply of 25-pounder guns was coming forward from America in the second half of next year.

Since the United States Army has adopted as standard the 105 mm. gun there is undoubtedly a disadvantage from the production point of view in manufacturing a different type of field gun. Nevertheless it is suggested that in the circumstances this argument might be overridden on the following grounds:-

(a) It would not be an effective insurance of our field artillery and ammunition programme to arrange a supply to Great Britain of 105 mm. guns late in 1941. To do this would introduce a new type into the army at a time when a large number of 25-pounders would be in being - probably in various theatres of war. It would moreover be

necessary to replace not a single item only of our production but the whole complex of ammunition and other ancilleries of artillery equipment. Real insurance means that each separate item of a composite programme should be available from some alternative source of supply.

(b) The development of new capacity to make an alternative type of gun is not to be regarded as a competitive form of production but as a means of broadening the capacity of American gun production in general. In particular, forging plant and machining capacity would be created which would be available in due course for other types of gun. Experience of the last war in England showed that the creation of basic capacity is the essential step. In a prolonged war this capacity will certainly not continue to be used only for the production for which it is originally planned but will be adjusted from time to time to the products which the experience of the campaign dictates.

I should welcome the opportunity of putting forward in the appropriate quarter detailed suggestions which would make possible the release of orders for ordnance (anti-aircraft guns, anti-tank guns, field guns and medium guns) and other Army weapons which would involve the production of common types to the greatest practical extent consistent with military considerations and the state of the British programme.

The argument for making exceptions to the rule that common types only should be ordered in this country is even stronger in the case of certain fighting aircraft (to which I have already referred) whose output from British factories cannot be sufficient for war purposes, but which, if put into production in the United States, could be flying and fighting within a year.

VI

It is common ground that the integration of the British programme with that of American defence is necessary in order to prevent competition and lead to the speediest development of America's war potential. A successful start in this direction has already been made in the matter of tank production.

I recognise also with gratitude that the complementary programme worked out in the case of tanks has been the occasion for putting into effect financial arrangements for easing the burden of initial capital payments. It will greatly ease the financial problem involved in launching the large volume of orders which Great Britain needs to place in this country if the same facilities can be made available in respect of all other types of war purchases.

The joining up of the two programmes in the United States should result in a more efficient production planning; a speedier output, a lighter immediate financing burden for the British Government and a greater capacity of production always available for United States national defence.

VII

Finally, if a substantial proportion of America's munition production is to be shipped overseas, and if we have to contemplate one or more British expeditionary forces on a substantial scale, a very large shipping tonnage will be required. At the moment we have a sufficient supply of ships at our disposal. But the losses from submarine action are running far ahead of our output of new ships which is less than at the peak of the last war and cannot readily be increased if the Admiralty programme of warships

has to be reinstated. The British Government is anxious to acquire a substantial number of ships as soon as possible.

But this is to meet a short-term need. The transportation problem needs to be studied from a very wide angle if a large war potential is to be brought to bear against the totalitarian powers in 1942.

W. T. Layton

2/10/40

PSF: Morgenthau Diary

THE SECRETARY OF THE TREASURY
WASHINGTON

October 4, 1940

File personal

~~STRICTLY CONFIDENTIAL~~

My dear Mr. President:

I am sending you herewith the following cable which has just been received from Mr. Nicholson, Treasury Special Agent at Shanghai:

> "French leaders expect Chinese troops to move into Indo-China within the next few days."

Yours sincerely,

H. Morgenthau Jr

The President,

The White House.

ASF
H. Morg. IV

THE WHITE HOUSE
WASHINGTON

October 4, 1940.

PERSONAL AND [redacted]

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

Will you, some day next week, speak to me about the McNutt personal matter. It seems to me that a fellow should either be tried successfully or unsuccessfully, or be given some kind of a clearance.

F. D. R.

PSF
HMJr Diary

THE WHITE HOUSE
WASHINGTON

October 8, 1940.

Dear Elinor:-

Here is an attempt to answer Joseph H. Choate, Junior's letter to THE NEW YORK TIMES.

As ever,

Mrs. Morgenthau,
2211 Thirtieth Street,
Washington, D. C.

Clipping enclosed with memo to Mrs Morgenthau

TO THE EDITOR OF THE NEW YORK TIMES:

I am rather amazed that as reputable a citizen as Joseph H. Choate, Jr., should make statements to the TIMES for which there is no basis in historical fact.

His letter shows an amazingly superficial knowledge of government as it exists.

For instance, he says that the President "can absolutely insure his own renomination". That is, of course, not true.

The next statement that the President's "control of the colossal expenditures of modern government makes his defeat at the polls a mammoth task" is in effect an assertion that millions of American citizens, who may be employed in turning out work for the Government in private or public plants, and hundreds of thousands on WPA rolls, who have been selected by purely local boards, are purchasable on election day. That is a vile slur on Americans.

The statement that "No Executive before him has made a practice of having all-important legislation drafted by irresponsible assistants and sent up to Congress with a 'must' lable and an order for immediate passage" belies the facts, and attacks the Congress.

During the short Spring session in 1933, and because of the need for haste in the economic collapse, the President did send drafts of legislation to the Congress. At no time since then has he indulged in the 'practice'. It is true that outlines of legislation have been prepared for the Congress at the request of Committees of the Congress.

To label these assistants as irresponsible is a matter of opinion. Some people think that the assistants were more responsible than many of the most brilliant minds in Wall Street.

The slur on the "must" label is a pure fabrication. Every newspaper man in Washington knows that the phrase was devised by hostile columnists and that the President has never either used the word or implied it in his relations with the Congress. For political purposes only the phrase "must label" is still used by writers in violation of every known fact.

I do not know if Mr. Choate, Jr., is personally acquainted with the President. If he is he would realize that in the make-up of the President there is less of the dictator than in almost any of his predecessors.

The letter is unfortunate in that it is wholly untrue.

Very sincerely yours,

File personal

DEMOCRATIC NATIONAL COMMITTEE
WOMEN'S DIVISION
Hotel Biltmore
NEW YORK, N. Y.

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DIRECTOR
MRS. MAY THOMPSON EVANS
ASSISTANT DIRECTOR
MRS. CHARLES W. TILLETT
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PUBLICITY

ADVISORY CAMPAIGN COMMITTEE
MRS. HENRY MORGENTHAU, JR.
MISS MARY W. DEWSON
MRS. HENRY GODDARD LEACH

October 15, 1940.

My dear Mr. President:

Thank you so much for your suggested answer to Joseph H. Choate, Jr.'s letter to the New York ~~Herald~~ Times ~~Tribune~~. Immediately after seeing you last Sunday, I got in touch with Tommy Corcoran who prepared an answer to the Times which was signed by Charles Burlingham. I also sent your suggested draft to Morris Ernst who used the major part of it and added certain thoughts of his own in a letter which he also sent to the Times. Morris Ernst's letter appeared in today's Times.

You may have seen the very excellent letter on the Third Term written by my cousin, Arthur Goodhart, which I sent to the Times and which was published on Sunday.

I was delighted, too, to see James Warburg's statement. It seems to me all to the good.

I have been unsuccessful in getting Sam Lewisohn on our side of the fence - he is still straddling.

If you have any other suggestions of people whom you want me to contact or subject matter on which you want me to send letters to the newspapers, I shall be more than happy to do so.

Affectionately yours,
Elinor M. Morgenthau

The Honorable Franklin D. Roosevelt,
The White House,
Washington, D. C.

/

BF Morg

THE SECRETARY OF THE TREASURY
WASHINGTON

October 14, 1940

file confidential

Dear General Watson:

Referring to my letter to you of this morning in which I enclosed a secret document from Sir Walter Layton, of the British Purchasing Commission, I am now enclosing a photostatic copy of a supplemental memorandum which I have just received from him.

I would appreciate it if you would be good enough to see that this also reaches the President.

Yours sincerely,

H. Morgenthau Jr.

Major General Edwin M. Watson,
Secretary to the President,
The White House.

15 BROAD STREET, NEW YORK

TELEPHONE HANOVER 2-2460

BRITISH PURCHASING COMMISSION

~~STRICTLY CONFIDENTIAL~~

~~SECRET~~

October 12, 1940.

Dear Mr Secretary

In confirmation of the memorandum that I submitted to you with my letter of October 11th, I have subsequently received a cable from the War Office and the Ministry of Supply in London emphasizing the importance of the provision of 1,000,000 - .303 rifles next year. The cable states that even if the full number cannot be supplied by November 1941, they hope very much that it will be possible for the greater part to be supplied by that date. At this moment the supply of rifles is insufficient. The intake of recruits in the next six months should be at least 300,000 and by November 1941 at least another 700,000 will be enrolled. Rifles are at present one of the main limiting factors in the expansion of the army. "If", they say, "capacity now existing or being created in the United States could be adjusted so as to give us some substantial deliveries of .303 rifles by next spring or early summer, this would be of supreme value." It is essential to have some reserve and to allow for wastage and 1,000,000 plus British production affords a very narrow margin.

The cable adds that if the United States could release a further quantity of .30 calibre Enfields in addition to the 1,000,000 - .303 rifles, they would be very welcome. The releases hitherto made have been invaluable; but the Home Guard will not be adequately armed even after receipt of the recent release of 250,000 .30 calibre Enfields. Moreover, if no .303 rifles from U. S. production are available by the spring of 1941, it may well be that the Army will be compelled to take away some of the .30 calibre rifles in the hands of the Home Guard in order to use them for the training of recruits for the regular Army.

You will appreciate from this statement that the request I submitted to you yesterday is one of great urgency.

Yours sincerely,

~~STRICTLY CONFIDENTIAL~~

W. L. Layton

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

THE SECRETARY OF THE TREASURY
WASHINGTON

PSF Morg

October 14, 1940

My dear General Watson:

I am sending you herewith, by hand, a very secret document furnished to me by Sir Walter Layton of the British Purchasing Commission. I would appreciate it if you would personally place this in the hands of the President.

There are only four copies of this document in existence. One has been furnished to the Secretary of War, one to the Secretary of the Navy and I have the fourth copy.

Just as soon as the President has had an opportunity to read the Layton memorandum, I would like very much to discuss it with him, the Secretary of War, the Secretary of the Navy, the Chief of Staff of the Army and the Chief of Naval Operations.

Yours sincerely,

H Morgenthau Jr

Major General Edwin M. Watson,
Secretary to The President,
The White House.

WILLARD HOTEL, WASHINGTON, D. C. TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

11th October 1940.

~~STRICTLY CONFIDENTIAL~~

Dear Mr Morgenthau

Arising out of conversations with the War Department and with Mr. Knudsen, I have been asked to submit as precise a statement as possible of the supplies for the British Army which we should like to receive from North America in 1941 in respect of the main items included in the table on page 8 of the memorandum which I sent to you on October 2nd.

I therefore enclose a short summary of the quantities of artillery and rifles which would be needed to complete the British Army's programme.

I also enclose a fuller statement, which shows the relation of the quantities asked for to the whole British programme and, in a short commentary, sets out the basis of our requirements and the limits within which it would be possible to make an adjustment of British standard types and those of the United States Army. You will appreciate that this second document contains information of a very secret character, since it necessarily gives the key to our military development next year. I am, therefore, enclosing four copies for the personal perusal of the President, yourself, Mr. Stimson and Colonel Knox. I venture to ask that no further copies be made.

I am handing Mr Stimson's copy to him personally. D.L.

I commend to your attention the outstanding urgency of certain items to which the memorandum refers.

We hope to submit to you at a very early date a similar memorandum covering the extended aircraft programme, some notes on Admiralty requirements, and a statement relating to advances of capital to contractors for war supplies. A note on Dominion supplies is also in preparation.

Yours sincerely

D. L. Layton

Secretary of the Treasury,
Washington, D.C.

~~STRICTLY CONFIDENTIAL~~

~~STRICTLY CONFIDENTIAL~~

Enclosure No.1.

Statement of British Army Requirements from North America of Artillery and Rifles in 1941.

The following supplies are needed from North America in 1941 to complete the British Army's equipment and, in part, to provide an insurance against a reduction in British output as a result of enemy action:-

1.	Field Guns (25 pdrs.) ...	1,800
2.	Medium Artillery ... (4.5" Gun and 5.5" Gun Howitzer)	300
3.	Anti-Aircraft Guns.	
	(a) Heavy ...	1,600 plus
	(b) Light ...	1,800 plus
4.	Tank Guns and Anti-Tank Equipments.	
	(a) 2 pdr. Carriages	2,000
	(b) 2 pdr. Guns ...	4,250
	(c) 6 pdr. Guns ...	1,000
	(d) Carriages for 6 pdr. guns (same carriage as (a)) ...	1,000
	(e) 37 mm. Guns for M.3 Tanks ...	1,500
	(f) 75 mm. Guns for M.3 Tanks ...	1,500
5.	Rifles (.303 Enfields)	1,000,000

Notes

1. Suggested capacity 200 a month. Delivery should commence as soon as possible after July 1st 1941, and be completed before March 31st 1942. The rate of supply will determine the rate of replacement of obsolete weapons in the field artillery of the British Army. Owing to the advanced state of the British programme and the complication resulting from mixed types, it is desirable that this supply should be of British type.

2. Suggested capacity rate for British order 30 a month. It is unlikely that 300 can be delivered in 1941; but if deliveries are certain to start in the autumn of 1941, the British Army would be justified in sending the British made guns abroad and running on a narrow reserve margin in the summer of 1941. The supply coming forward in 1941 would be used to complete the initial equipment of existing Army formations. Later deliveries, if British output remains unimpaired, will be needed to replace obsolescent Howitzers still in service. This supply should, if possible, be of the British types now in production.

3. For reasons stated elsewhere, this requirement is practically unlimited. Uniformity of type is not as important in this as in the two preceding cases.

~~STRICTLY CONFIDENTIAL~~

4. The demand for 2 pdr. anti-tank equipments can to some extent be met by a further supply of 37 mm. Anti-tank Equipments, of which 500 are already on order. It is very desirable that as large a proportion of these deliveries as possible should be made before mid-summer 1941.

   The 6 pdr., which is mounted on the same carriage as the 2 pdr., is designed ultimately to supersede the lighter anti-tank gun.

   The demand for 37 mm. and 75 mm. guns for the M.3 tanks will ultimately amount to 3,000 of each, or an equivalent number of whatever armament is used in any subsequent modification of the present tank design. The figure given is the number required for the tanks likely to be delivered in 1941.

5. Delivery of the Enfield rifles should, if possible, be completed during 1941 or at latest by March1942. This will require a capacity of 100,000 a month.

6. Ammunition requirements connected with these artillery items can be dealt with as soon as the programme of weapons is settled.

11th October 1940.

Enclosure No.2

VERY SECRET

Copy No. 1.

STRICTLY CONFIDENTIAL

SUPPLEMENTARY

MEMORANDUM ON ARMY REQUIREMENTS

The British Army supplies which it is hoped to obtain in North America cover a very wide field. But I propose in this note to deal only with artillery of various kinds and with rifles, for it is on the supply of these items that the main questions of principle arise.

Ammunition orders will depend on the decisions taken on the points raised in the following note; the tank programme has been settled and is well in hand, while requirements of various miscellaneous stores will be put forward through the ordinary channels. In my note of October 2nd, however, I pointed out that little progress had been made in settling the programme of weapons for the land army. It is hoped that this note will enable all outstanding points to be cleared and a programme to be put in hand.

In the table below I have added to the figures which I quoted in my previous memorandum a column in which is shown the additional supply of weapons which it is desired to obtain during 1941 from North America:-

	Stock on August 1st.	Forecast of output Aug. '40 to end '41.	Additional supply desired from North America during 1941.
1. Field Artillery	2,650	4,850	1,800
2. Medium Artillery	400	700	300
3. Anti-Aircraft Guns:-			
Heavy	1,775	1,660	1,600 plus
Light	650	3,760	1,800 plus
4. Tank and Anti-Tank Guns:-			
2 pdr. Anti-Tank Carriages	600	6,000 (1)	2,000
" " Guns for A.T. Carriages	600	10,700 (1)	4,250
" " Guns for Tanks	(2)		
5. Rifles	About 2 million (3)	850,000 (4)	One million

(1) Including 500 37-mm. equipments from U.S.A. and 600/700 2 pdr. equipments from Canada.
(2) Most of the Tanks in stock were armed with 2 pdrs.
(3) Including half a million American Enfields.
(4) Including output from India and Australia.

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The following paragraphs explain the final figures here shown.

1. FIELD ARTILLERY.

The stock figure of 2,650 equipments in the hands of the Army on August 1st consisted of (a) 650 75-mm. field guns from the United States;* (b) about 1,000 18-pdr. and 4.5" Howitzer equipments surviving from the last war. (c) Over 1,000 25-pdrs. (655 being converted 18 pdrs and 410 new 25 pdrs.).

Thus, of the 7,500 guns in sight (stock plus production) by the end of 1941, some 1,650 are of old types and should be replaced as soon as circumstances permit. This leaves 5,850 as the total of modern or reconstructed weapons available between now and the end of next year.

The initial equipment of the divisions for which provision has to be made by the end of 1941 calls for at least 5,000 for establishment plus reserves -- the figure would have to be a little larger if the force were dispersed over several theatres of war.

In order to provide what the Army Council consider an adequate reserve and to meet a moderate estimate of wastage during 1941, we should have available 6,650 guns, i.e. we need 800 more than the total available. Further, in order to provide a 20% margin against loss of British output, we should place an insurance order for 1,000 equipments.

In order, therefore, to be assured of meeting our timetable, we should like to receive from North America 1,800 equipments during 1941.**

Canada has already started production of 25 pdrs., but we do not count on receiving more than 100 equipments before the end of 1941.

I have briefly indicated in my preceding memorandum why these 1,800 equipments should be in the form of 25 pounders and not of some alternative weapon.

We are producing at the rate of 150 equipments a month. We expect to be producing at the rate of 380 a month next autumn.

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* Of these 565 were with units in Great Britain and 85 in depots undergoing minor repairs. The balance of the number sent to Britain were afloat or in port waiting to be unloaded on August 1st.

** It will be noted that this is approximately the figure of the obsolete types which we hope to replace.

2. MEDIUM ARTILLERY.

The existing stock of medium artillery consists mainly of 6" Howitzers plus a few 60 pounder guns (5") which have been converted to 4½" calibre and will take the shell designed for the new 4½" gun. The output of new medium artillery shown in the table will consist in approximately equal quantities of the new 4½" gun and the new 5½" gun Howitzer (these two weapons are mounted on a common carriage). Delivery has just begun and one of the first complete 4½" equipments will shortly be on its way to this country.

The forecast to the end of 1941 is about 100 equipments short of the total number required to cover the War Office estimate of wastage and appropriate reserve, on the assumption that the 6" Howitzers remain in service. To the deficiency of 100 should be added a figure for loss of output through bombing which should be fairly high as the production of these equipments cannot be widely distributed. We should, therefore, like to order 300 of these equipments from North America for delivery between September 1941 and June 1942.

It is intended to replace the 6" Howitzers with modern weapons as soon as production permits.

The productive capacity involved in manufacturing these weapons is largely alternative to that required for heavy anti-aircraft guns. If, therefore, we could secure more of the latter from overseas, we could enlarge the output of this medium artillery from our gun factories, and vice versa.

We expect to be producing 66 a month of these equipments next autumn.

3. ANTI AIRCRAFT GUNS.

(a) HEAVY

Our stock of heavy anti-aircraft guns on August 1st consists, as to nearly one half, of 3" and 4.5" guns, the production of which is not being continued, and, as to rather more than one half, of our standard 3.7" guns. The new production shown in the above table is made up entirely of this last weapon.

If the forecast is realised we shall have over 3,400 heavy anti-aircraft guns before the end of next year. In the view of the General Staff this figure should be at least 5,000, and if all vulnerable points are to be protected, as well as provision made for supplying a certain number of these weapons to our field forces, the figure should be 1,300 more. The deficiency is thus at least 1,600 without providing any insurance against our own loss of output. If the full requirement were to be met and insurance provided, from 3,000 to 3,500 guns would be needed.

There is no possibility of filling this demand either from British or overseas sources before the end of next year. But, unless we can assume that the struggle for air mastery will be substantially settled in our favour by the end of next year, these figures serve to show the need for broadening the basis of production of heavy anti-aircraft guns.

In the case of this equipment, the need of uniformity is less imperative than in the case of artillery which is used in the field, for a considerable proportion of these guns can be fixed in position and the ammunition supply can be arranged with comparative ease. Moreover, the total amount of ammunition that has to be dealt with is much smaller than that which has to be supplied to a field force.

Our own demand is, moreover, swollen by the desirability of giving protection to vulnerable points all over the world.

It is, therefore, very desirable that a large production of the most readily produced heavy A.A. gun should be planned in the U.S.A., and that allocation of the early deliveries should be made in accordance with the war situation prevailing at the time.

At the moment we are producing 80 3.7" A.A. guns a month and we expect to be producing 120 a month in the autumn of next year.

(b) LIGHT

Our present stock of light anti-aircraft guns consists almost entirely of 40 mm. (Bofors) guns. The new production shown in the table will consist entirely of this weapon. Our total supply at the end of next year will be some 800 guns short of the Army Council's minimum requirement and some 2,800 short of the total which the army would like to mount throughout the country, in addition to equipping the field force. We must also allow for some loss on our production forecasts.

On the basis of the lower requirement figure which shows a deficit of 800, plus an insurance against loss of, say, 1,000 guns, we should like to order 1,800 guns for delivery during 1941 from North America.

Our present output is 113 a month, and we expect to rise to 460 a month at the end of next year.

The life of the A.A. guns is very short. A large number of spare barrels must, therefore, be supplied. We have ordered, and are anxious to secure quick delivery of, spare barrels for both the 3.7" and 4.5" A.A. guns - which are mounted in considerable numbers for the defence of London. I would ask that these orders may have high priority. Our ammunition supply is abundant and the barrage fire which has recently been put up in London represents the wear of something like 100 barrels a week of the heavy A.A. guns.

4. TANK AND ANTI-TANK GUNS.

Our programme of tank guns and anti-tank equipments is far behind our requirements. At the outset I should explain that the 2 pdr. gun is used both as an

anti-tank weapon when mounted on an anti-tank carriage, and as the main armament of our tanks. The production of the gun itself has therefore to balance against production both of 2 pdr. carriages and tanks.

In the Battle of France the Army was insufficiently equipped with anti-tank weapons and lost all the 850 anti-tank equipments which were on the Continent, as well as several hundred 2 pdr. guns which were in the tanks that were left behind.

We have, therefore, had to build up our supply from the relatively few equipments and guns that remained in England. In other words, we had in this case to start again nearly from scratch.

Though the output of 2 pdr. anti-tank equipments and of 2 pdr. guns for tanks is rising rapidly, we shall be considerably behind the military timetable by May of next year. And though we shall catch up rapidly in the latter half of the year, the completion of the programme by the end of 1941 is not in sight.

Taking first the anti-tank carriage as the measure of our supply of anti-tank equipments, the output will be 2,600 behind the military timetable in June and will still be 1,000 in arrears in December of next year. It will catch up in the early months of 1942.* Allowing a margin for loss of output due to enemy action, we should like to secure an additional 2,000 anti-tank equipments from North America by the end of 1941.

In addition to the guns to be mounted on these carriages, our forecast of tank deliveries will require about 6,000 more 2 pdr. guns before the end of 1941. This, with the 4,850 2-pdr. guns required for mounting on 2 pdr. anti-tank carriages of British manufacture, gives a total gun requirement of 10,850. Our expected production is 9,600, leaving a deficit of 1,250. On this additional gun output for British tanks there should also be a margin of safety of, say, 1,000 guns.

Thus, to complete the programme the following additional supplies are needed from North America during next year:-

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* The deficiency here quoted is after allowing for the delivery from the United States of 500 complete anti-tank 37 mm. equipments and of 600 2 pdr. anti-tank equipments from Canada.

	Guns	Carriages
2 pdr. Anti-tank Equipments	1,000	1,000
Insurance Margin	1,000	1,000
Additional Guns required to complete Tank programme	1,250	
Additional Insurance on Gun production	1,000	
	4,250	2,000

It is not practicable fully to meet these deficiencies by additional output from Canada. We should like, therefore, to be able to secure a substantial supply from U.S.A.

The figures do not include the arming of the M.3 tanks which have been ordered in the United States. For these tanks 1,500 75-mm guns and a further 1,500 37 mm. guns will be required before the end of 1941.

In considering how to provide this tank and anti-tank armament two points should be noted.

The first is that the Army Council, and I think also the American Military Authorities, recognise that by 1942 both the British 2 pdr. and the 37 mm. anti-tank guns may not be powerful enough to pierce the armour with which the German tanks may then be protected. The 2 pdr. anti-tank carriage has, therefore, been re-designed to carry a new 6 pounder gun.

One of these guns is on its way to the United States. If it commends itself to the American Military Authorities it would be a great help if this gun could be put into production promptly in the United States, in parallel with the production of the lighter anti-tank gun. This suggestion is put forward because it is almost impossible to contemplate doing this in England owing to the great pressure on our gun-making capacity and the danger of interfering with the production of the 2 pdr. gun which is in full flight and is the only weapon that will be available next summer.

If the American War Department is not yet ready to reach a decision on this point, we should in any case like to place an initial order for the earliest possible delivery.

The second consideration is that the gap in the British programme in 1941 could to some extent be filled by a further supply of American 37 mm. equipments if they can be made available in time.

Substitution to the full extent of the deficiency would not be entirely satisfactory. On the one hand, a special mounting would have to be designed if the 37 mm.

were to be used in British tanks, and on the other, as concerns the anti-tank equipments, we should like to have both 2 pdr. guns and 2 pdr. carriages in production in the United States in order to meet the possibility that our own flow of equipments might become unbalanced through damage by enemy action to either the gun or carriage production as the case may be.

We should, therefore, like a supply of 2 pdr. guns and carriages to be included in the American supply programme.

For the reasons already mentioned, we are anxious that deliveries of 2 pdr. or of 37 mm. anti-tank equipments on existing or supplementary orders should be brought forward as far as possible to the early part of the year.

In August production of both guns and carriages was running at the rate of about 150 a month, and we have in stock a small surplus of 2 pdr. guns which are being mounted in British produced tanks. Production of the guns will run substantially ahead of carriages in December and at the end of next year we shall be providing from home sources 1,100 guns and 400 carriages a month.

5. RIFLES

In August the British Army, which had lost some 150,000 of its rifles in the Battle of France, possessed some 1½ million .303 Enfield rifles. This enabled it to equip the divisions in formation and supply a certain number of rifles to the Navy, which, in addition to its ordinary requirements, needs a considerable number for the men engaged in trawler and ancillery services.

The new output is, however, very small and the surplus in ordnance stores will with difficulty suffice for the intake of recruits and other urgent demands.

The War Office minimum demand for the field force, for troops engaged in home defence, and for wastage during the campaign of 1941 estimated on a very modest basis, amounts to 2½ millions. This figure is exclusive of the needs of the Home Guard, which have been mainly armed by American Enfield rifles from the United States.

Towards this requirement of 2½ millions, the Army possessed a little over 1½ millions in August. Our forecast of deliveries from existing British factories, from new factories which will come into production at about Christmas, and from small factories in Canada and Australia, amounts in all to an output of 850,000 more rifles before the end of next year.

The figure of 2½ millions is, however, only a minimum requirement. If, as is possible, the number of divisions in formation at that time is increased beyond the programme figure - in spite of a deficiency of some items of their equipment - a larger number of rifles will

be needed. We have also to provide for Polish, Czech, French and other troops in England, for the requirements of the Dominions and Colonies, and fortified posts abroad, as well as for a reserve which should be available to replace wastage if, in the latter part of 1941 or early 1942, it should be incurred on a full battle basis. We need also to provide a margin against possible loss of output from enemy action.

We therefore should like to order for as speedy delivery as possible at least one million Enfield .303 rifles in the United States - the rifle which is standard not only in the British regular forces but throughout the British Empire.

In our view, this order should be in addition to and not in substitution for an expansion of capacity beyond that now available for making .30 rifles; for a large supply from this country may be required not only to meet special British demands that can be isolated from our general programme, such as the Home Guard, but also to meet needs that are likely to arise in the next two years from many other sources.

In this connection it is worth putting on record that during the four years of the last war production of rifles in Britain and North America was approximately as follows:-

Great Britain	1914-1918	4,000,000	.303 calibre
Canada	1916-1918	120,000	" "
U.S.A.	1916-1917	1,250,000	" "
U.S.A.	1917-1919	2,950,000	.300 calibre

So far as I am aware, no preparations have been made to manufacture rifles on anything like this scale. Nevertheless, the Germans must have in their possession, or at their command in the countries under their control, an almost unlimited supply of rifles, while the French supply cannot, as in 1914-1918, be counted in the scale against them.

It may be that the machine gun and the automatic rifle may for certain purposes replace the standard rifle; but these figures suggest that the production of small arms in some form or another should now be envisaged on a very great scale.

6. GENERAL

In order to give a general picture of the scale of our production in relation to military needs and what has been done in the past, I have set out below a comparison of our forecast of production at the end of next year with figures of the last war. I have not available any statistics of French artillery production, which should be added in when considering the output of the Allied and Associated Powers; but I have quoted a figure for the United States from Colonel Ayres' Official Statistical Summary of the War with Germany. For purposes of the table I have assumed that his figure does not include any

considerable number of tank and anti-tank guns.

The British figures were achieved after 3½ years of war; the American - aided by the capacity created by previous Allied orders - was reached in 18 months; the British figures for 1941 represent the prospective situation after approximately 2 years.

Monthly Output of Artillery

	British peak output March 1918	U.S.A. Oct. 1918.	British Forecast Nov. 1941
Field Guns	340		380
	(plus 200 gun bodies)		(plus 80 gun barrels)
Medium	160	420	66
Heavy	64		a few
A.A. Heavy	45		120
A.A. Light	None		460
Tank and Anti-tank guns	285		1,100

The figures are a measure of a part only of the industrial war effort - which can only be estimated as a whole if we also take account of the comparative production of tanks and aircraft.

THE SECRETARY OF THE TREASURY
WASHINGTON

October 14, 1940

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~~STRICTLY CONFIDENTIAL~~

My dear Mr. President:

I am inclosing herewith an extremely interesting interview between Hirochi Kondo and Treasury Agent Nicholson.

I have sent copies of this to the State, War and Navy Departments.

Yours sincerely,

H. Morgenthau Jr.

The President,
The White House.

(Extra Confidential)

COPY STRICTLY CONFIDENTIAL

14 October, 1940

The following is highly confidential: Hirochi Kondo, Vice Minister of Foreign Affairs, Tokyo, who has been in Shanghai for the past five days collecting information regarding the general situation and activities of agents of different Japanese intelligence services, left today for Tokyo. As he is a very old friend of mine, he talked with me more freely than with his Japanese colleagues and the following summary of information was obtained:

First: The purpose of his visit was to get a better understanding of all actions which have been taken by local military and civil authorities on their own initiative.

Second: While here, he got acquainted with various Japanese organizations and their activities and was deeply shocked to learn of their criminal operations. He pointed out that Japan had long since been purged of the dregs of the society involved; then Harbin underwent a similar cleaning process, then North China, following which the whole crowd came to Shanghai to continue their criminal activities along the old lines trying to attain leadership by terrorism and gangster tactics. Kondo stated that there would be sweeping changes by replacing local officials who are supporting such activities.

STRICTLY CONFIDENTIAL

Third: Regarding the new order, Kondo says an essential feature thereof is to destroy domination of Anglo-Saxons in Asia, but that this does not mean expulsion of all foreigners. The struggle is against those foreign groups and financial concerns which want to maintain the high position they acquired a hundred years ago. Against them the struggle will be continued to the end, but others, regardless of nationality, whether French, Jews, British, Americans, will be able to continue their activities on a basis with the new order by simply acknowledging the same.

Fourth: Kondo believes that an agreement ending the war will be reached between Japan and China and that Chiang Kai Shek and Wang Ching Wei share a common point of view on this subject.

Fifth: War in China and regimentation of economics to military ends are displeasing to Japanese workers. There is a shortage of man power in all branches of industry and commerce. All men are mobilized and are being held in reserves in case more divisions have to be sent south, as armies in Manchukuo and Korea cannot be moved. Wherever opportunity offers, grown men are being replaced in jobs by young boys and girls.

Sixth: Half the people of Japan are socialists. The regimentation of capitalists by force and persuasion is an easy undertaking in comparison with the prospective task of bringing workers and farmers into line. The relation between rural and urban classes is one of antagonism; village blames city for harness of life, and city dwellers are displeased with country districts because farmers do not wish to supply rice and other farm products at controlled prices. This is causing a situation unprecedented in Japan. In town markets there is a lack of most important goods; farmers have them but consider it unprofitable to sell them at fixed prices, hence they keep them in the country. The same situation applies to wholesalers who will not sell to retail shops. As a result, trade is dead and there is hunger in cities. Leftist elements are using this growing displeasure to fan their anti-government propaganda.

Seventh: Konoye is very popular in Japan as a representative of an ancient family, but he is too weak for present demands and unsuited for the roll of a dictator. The tragedy of Japan is that there is in the country no Hitler or Mussolini and the socialists make the most of this. The only authority which still holds the country together is that of the emperor.

Eighth: There was a recent meeting in Tokyo attended by Kondo at which representatives of the Ministry of the Interior considered the present situation. Domestically this was found to be exceedingly difficult. One of the main reasons discovered was that numerous small officials recently appointed to replace drafted men were people without any experience or ideas of government. The meeting considered that it would be necessary to recall former officials from the army and reinstate them in their old posts and introduce some resolute measures to stop further developments of socialism. The growth of the idea of socialistic monarchy may lead to revolution; in fact, Kondo says practically speaking, Japan is living on top of revolution. Nobody expected events would take such a turn.

Ninth: Kondo does not consider war between Japan and America likely. Knowing Matsuoka personally, he believes that the latter will be able to work out some mutual understanding with the United States. Even if such negotiations should fail, and war became a reality, the Japanese fleet is strong enough so that Japan could easily dominate eastern waters against the United States Navy. Japanese Naval Headquarters, so far as he knows, believe that they can easily

defeat the United States Navy and any possible allies in this part of the Pacific and are not worrying at all about the next two or three years.

PSF Morg

THE SECRETARY OF THE TREASURY
WASHINGTON

October 24, 1940

File personal confidential

My dear Mr. President:

To keep you posted on the latest moves between the Army, Navy and the English Purchasing Mission, I am sending you a copy of the Aide Memoire furnished me by Arthur Purvis, head of the Mission.

Yours sincerely,

H. Morgenthau Jr.

The President,
The White House.

Enclosure.

~~STRICTLY CONFIDENTIAL~~

AIDE MEMOIRE

To meet urgent war needs for large bombers, it had previously been arranged to grant the British deliveries of one for one with the United States on B-24 bombers made by CONSOLIDATED, which, according to production schedules then presented, was expected to result in their obtaining 26 of such aircraft by May 1, 1941. In return, the British authorized WRIGHT to defer delivery of 120 Wright 1820 engines and divert said engines to the United States Army. Ten engines have already been delivered.

It was later found that, owing to the state of production at the Consolidated plant, the ratio of one to one would not result in the British receiving the expected number of machines by the date given, and arising from this, the United States Army has offered to authorize Consolidated to deliver to the British the first 26 B24 aircraft, complete with engines, guns and military equipment. This, it is expected, will result in a delivery to the British of 6 by January 10th and the total of 26 by May 1st, 1941. In return, the British are asked to instruct Wright to defer delivery to them of a further 154 1820 engines which are to be diverted to the United States Army. The schedule of these engine deliveries is to be agreed at the meeting of the Engine Allocation Committee on Thursday next, and it is understood that this

schedule will be so arranged as to cause a minimum dislocation to the British effort to get the maximum number of combat planes in the air at the earliest possible moment.

Following the Allocation meeting, a detailed statement will be filed, giving:-

(1) A schedule of the deliveries of the 274 engines to the United States Army;

(2) A schedule of the return of the engines by the United States Army to the British, at later dates;

(3) A schedule of deliveries of the B-24 aircraft to the British;

(4) Proposed deliveries by the British to the United States Army of an equal number of equivalent type planes at a later date, to replace the B-24's;

(5) The number of British aircraft that will in consequence of the deferment of engine deliveries to the British be held up for lack of engines.

The British Purchasing Commission accepts this proposal.

WASHINGTON
October 23
1 9 4 0

~~STRICTLY CONFIDENTIAL~~

NEW YORK TIMES

October 25,1940

MORGENTHAU LAUDS PLANE PRODUCTION

Deliveries of Curtiss Pursuit Craft Are Ahead of Schedule, Secretary Asserts

Special to THE NEW YORK TIMES.

WASHINGTON, Oct. 24—Production of war planes in the United States for defense and for British requirements has been speeded up Secretary Morgenthau said today at his press conference.

Deliveries of Curtiss P-40 pursuit planes from the company's Buffalo plant are several days ahead of schedule, the Secretary added, and other aircraft plants are also meeting their schedules satisfactorily.

"In nearly every instance, both for ourselves and the English, the companies are ahead on deliveries," Mr. Morgenthau said, and British officials were much pleased.

The four-man committee consisting of the Secretaries of the Treasury, War and Navy and William S. Knudsen of the Defense Commission, recently appointed by President Roosevelt to speed up production by bringing about coordination and simplification of design is continuing its work, the Secretary said. The British technicians who will assist in the standardization of British and American requirements for war planes and their armament are on their way.

Mr. Morgenthau commented on criticism in his Chicago speech Tuesday night of the steps taken by the Administration to arrest deflation in 1933. Mr. Willkie had asserted that "not even the most ardent New Dealer" defended it.

"This ardent New Dealer defends it," said Mr. Morgenthau.

The steps taken by the Administration, he added, were "a part of monetary action that has resulted in our possessing a currency whose value is unquestioned anywhere in hte world, one that is the standard of international trade.

"The United States dollar is the soundest currency in the world," said the Secretary. "The Administration's monetary measures stopped a disastrous deflation and have not resulted in inflation. The buying power of the dollar has remained extraordinarily stable.

"Mr. Willkie seems to have a memory conveniently short. He has apparently forgotten what was happening in 1932 and 1933, prices collapsing, profits disappearing, banks closing, gold being hoarded, capital fleeing the country, homes and farms being put on the auction block. Does Mr. Willkie mean that, like President Hoover, he would have done nothing to stop that cruel spiral of deflation and would have permitted all American property and production to 'go through the wringer?'

"Or is he simply on behalf of his associates expressing again resentment of the fact that monetary control has been taken away from his friends in Wall Street and again placed in the hands of the people of the United States?"

BF
HMJr mag'

THE SECRETARY OF THE TREASURY
WASHINGTON

October 25, 1940

My dear Mr. President:

I am inclosing herewith a clipping from this morning's New York Times. By reading the headlines you never would guess that I had something to say about Mr. Willkie.

We had a very successful supper party at my house last night for Wayne Johnson.

I am inclosing a copy of my letter to John Hanes. I am going on the theory that I am not going to let anybody get away with misstatements during this campaign if I can help it.

Yours sincerely,

Henry

The President,

The White House.

C - O - P - Y

October 24, 1940

Dear John:

The October 24th issue of the New York Tribune carries the following statement attributed to you:

> "Mr. Hanes said in submitting his resignation to Henry Morgenthau, Jr., the Secretary of the Treasury, last December he expressed his conviction that 'the country is in the hands of a lot of incompetent men who do not like the American way and want it changed'."

I cannot remember your having made such a statement to me. I wonder if the Tribune quoted you correctly.

Yours sincerely,

(signed) Henry

Mr. John W. Hanes,
Westerleigh,
Purchase Street,
Rye, New York.

PSF: Morgenthau File

THE SECRETARY OF THE TREASURY
WASHINGTON

November 7, 1940

MEMORANDUM FOR THE PRESIDENT:

During the past few months the Treasury has been studying and discussing with the State Department and other interested agencies the extension to wider areas of the present system of exchange control, which has thus far been applied only to invaded countries of Europe and their nationals and colonies. It is my recommendation that exchange control be extended to all foreign countries.

(1) Exchange control is the most effective, comprehensive and flexible instrumentality for controlling international transactions of every kind - trade, capital movements, tourist expenditures, financing of subversive activities, etc. The control may be exercised in most international transactions since such transactions usually involve money payments. The system of licensing will permit varying forms of treatment for different countries, for different commodities, or for different transactions - varying all the way from complete economic blockade against a selected country to conservation of strategic materials. Exchange control would be administered in accord with, and as a supplement to, our national policies. Licenses can be granted or denied or otherwise dealt with in accordance with such governmental policies in a variety of fields.

It is important to note that by the issuance from time to time of general licenses which may be modified or revoked, trade and financial transactions with certain countries or areas can go on substantially on the same basis as though no control applied to that country or area.

(2) Such control will be of significant help in dealing with propaganda and subversive activities. We have had extensive evidence in recent weeks of the withdrawal by the Axis powers of millions of dollars in United States currency and the shipment of such currency to Latin America. At present we have no effective means of controlling such action or even of obtaining adequate information as to the use of such funds.

(3) Protection and control of the assets in this country belonging to the invaded countries or their nationals necessitate

general exchange control because --

(a) very large amounts of such assets in this country are nominally held in neutral names, particularly Swiss, and as a practical matter such assets have not been brought under control, and

(b) large amounts of the assets of the invaded countries have come under the control of the aggressors who, either directly or through neutral countries, may sell such assets for dollar exchange.

(4) The existing control has been criticized on the ground of inconsistency. We control and restrict relief payments and other remittances to the invaded countries, but freely allow all remittances and payments to the aggressors. We have blocked certain of the invaded countries but not others, such as China, Poland, Czechoslovakia, Albania, etc.

(5) The census of all foreign-owned assets in the United States by countries and by individuals will furnish valuable information concerning foreign participation in American industry and other problems before us.

Almost every country in the world has some form of exchange control. Americans having assets abroad find their use of such assets greatly limited, in some cases to the point of virtual confiscation. Exchange control by this Government will put it in a better position to enforce and protect its claims and the claims of its citizens against foreign nations.

I am satisfied that extension of exchange control is an important, if not a vital, element of our defense program, and would be well received in this country.

I am sending a copy of this memorandum to Secretary Hull.

H. Morgenthau Jr.

ACTION

NAVAL COMMUNICATION SERVICE

NAVY DEPARTMENT

ROUTINE

RECEIVED AT ROOM 2629 EXT. 87—19

NAU# 35 Z QUAT Ø913Ø3 MUSK GR 27

FROM SECTREASURY
ACTION OPNAV

PSF: H. Morgenthau

File personal

940 NOV 9 14 20

ROUTINE HT

U. S. GOVERNMENT PRINTING OFFICE 4—7990

THE FOLLOWING FOR THE PRESIDENT OF THE UNITED STATES QUOTE DELIGHTED YOUR PUBLIC ANNOUNCEMENT FIFTY FIFTY FORMULA DELIVERY MUNITIONS TO BRITAIN AND CANADA BEST REGARDS HENRY UNQUOTE

1415BU9NOV

PHONED WHITE 1421/9TH M

MAIL COPY TO:- USHERS OFFICE WHITEHOUSE

Found White House 1421/9th

PSF: Morgenthau I

TELEGRAM

The White House

VIA NAVAL COMMUNICATIONS: Washington

Personal File

San Juan, P. R., November 9, 1940

FOR THE PRESIDENT:

Delighted your public announcement 50 - 50-delivery munitions Britain and Canada. Best regards,

Henry.

9:25 a.m.

PSF: Morgenthau Diary

Memo from Morgenthau to FDR---November 12, 1940

Re:England's and Germany's success in the air being attributed, in part, to centralized control over air branches of air force--suggests U.S. set up same system for Puerto Rico and Virgin Islands. FDR in attached memo to Admiral Towers and General Brett asks their slant on the above suggestion.

See:Navy folder-Drawer 1-1940(FDR's memo of Nov 13, 1940)

THE SECRETARY OF THE TREASURY
WASHINGTON

December 16, 1940

~~STRICTLY CONFIDENTIAL~~

Dear Mr. President:

May I invite your attention to the following facts. Under date of December 11, 9 a.m., the American Consul at Dakar, Senegal, sent the following cablegram for the Treasury:

> "Two sources which usually are well informed have told me that on December 4th, after nightfall, the French cruiser Primauguet came into port and took on a cargo of 50 tons of gold. It left port before dawn."

Shortly after noon on December 14 the following cablegram, dated December 13, 5 p.m., was received through the Department of State from the American Consul at Casablanca, Morocco:

> "Today a shipment of gold bullion will leave on the steamer PRESIDENT DAL PIAZ which is leaving Oran, probably for Marseille, or Port Vendre. This gold bullion had been forwarded on Wednesday evening from Casablanca in 6 freight cars, and the agency of the Bank of France in Oran duly received it yesterday. The source of the gold shipment is Dakar. There are said to be 75,000,000,000 francs in gold bars at Dakar, and all of this gold is to be returned to France. The eventual destination of the gold is the Reichsbank is the fear expressed by the officer who gave this information and who was charged with protecting the shipment up to Oran.
>
> "Warships and airplanes will form a convoy for the steamer PRESIDENT DAL PIAZ.
>
> "This telegram has been repeated to the Embassy at Vichy and to Tangier."

Sincerely yours,

H. Morgenthau Jr.

Secretary of the Treasury.

The President,

The White House.

File Confidential

THE SECRETARY OF THE TREASURY
WASHINGTON

December 17, 1940

My dear Mr. President:

I am sending you herewith some strictly confidential figures on deliveries of airplanes, divided into bombers, pursuits, trainers, and other military planes.

Yours sincerely,

H Morgenthau Jr

The President,

The White House.

Copies to: Secretary of State
Secretary of War
Secretary of Navy
Mr. Knudsen

~~STRICTLY CONFIDENTIAL~~

~~STRICTLY CONFIDENTIAL~~

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

Bi-weekly, January 2-15, 1940 and June 9 to December 7, 1940

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 2 - Jan. 15	62	26	4	16	16	124
June 9 - June 22	60	44	116	9	37	268
June 23 - July 6	38	127	138	8	41	352
July 7 - July 20	63	71	96	6	40	276
July 21 - Aug. 3	56	99	131	6	54	346
Aug. 4 - Aug. 17	55	71	139	4	51	320
Aug. 18 - Aug. 31	54	85	131	14	53	337
Sept. 1 - Sept. 14	16	61	172	6	45	300
Sept. 15 - Sept. 28	28	104	171	9	77	389
Sept. 29 - Oct. 12	25	116	206	8	64	419
Oct. 13 - Oct. 26	28	50	184	8	35	305
Oct. 27 - Nov. 9	38	133	159	9	28	367
Nov. 10 - Nov. 23	39	93	96	6	19	253
Nov. 24 - Dec. 7	61	118	179	10	37	405
ARMY						
Jan. 2 - Jan. 15	2	-	4	11	-	17
June 9 - June 22	1	16	46	2	-	65
June 23 - July 6	6	19	71	4	-	100
July 7 - July 20	8	21	60	2	-	91
July 21 - Aug. 3	11	40	74	4	-	129
Aug. 4 - Aug. 17	7	29	82	1	-	119
Aug. 18 - Aug. 31	8	38	83	6	-	135
Sept. 1 - Sept. 14	4	16	78	1	-	99
Sept. 15 - Sept. 28	6	52	87	-	-	145
Sept. 29 - Oct. 12	4	34	86	-	-	124
Oct. 13 - Oct. 26	6	14	92	-	-	112
Oct. 27 - Nov. 9	6	6	67	-	-	79
Nov. 10 - Nov. 23	4	4	33	2	-	43
Nov. 24 - Dec. 7	4	10	96	-	-	110
NAVY						
Jan. 2 - Jan. 15	-	-	-	5	-	5
June 9 - June 22	-	1	16	7	-	24
June 23 - July 6	-	2	14	4	-	20
July 7 - July 20	-	-	12	2	-	14
July 21 - Aug. 3	3	-	13	2	-	18
Aug. 4 - Aug. 17	2	-	1	3	-	6
Aug. 18 - Aug. 31	4	3	3	8	-	18
Sept. 1 - Sept. 14	6	6	14	5	-	31
Sept. 15 - Sept. 28	8	-	26	9	-	43
Sept. 29 - Oct. 12	8	13	23	8	-	52
Oct. 13 - Oct. 26	8	12	9	8	-	37
Oct. 27 - Nov. 9	14	11	26	9	-	60
Nov. 10 - Nov. 23	7	5	30	4	-	46
Nov. 24 - Dec. 7	10	6	52	10	-	78

Oct. 13 - Oct. 26	8	12	9	8	-	37
Oct. 27 - Nov. 9	14	11	26	9	-	60
Nov. 10 - Nov. 23	7	5	30	4	-	46
Nov. 24 - Dec. 7	10	6	52	10	-	78
BRITISH EMPIRE*						
Jan. 2 - Jan. 15	60	-	-	-	-	60
June 9 - June 22	58	11	30	-	2	101
June 23 - July 6	31	95	39	-	1	166
July 7 - July 20	55	44	17	2	-	118
July 21 - Aug. 3	42	57	42	-	2	143
Aug. 4 - Aug. 17	44	38	27	-	2	111
Aug. 18 - Aug. 31	25	44	15	-	1	85
Sept. 1 - Sept. 14	5	39	37	-	-	81
Sept. 15 - Sept. 28	11	52	14	-	4	81
Sept. 29 - Oct. 12	13	69	36	-	6	124
Oct. 13 - Oct. 26	13	21	38	-	1	73
Oct. 27 - Nov. 9	13	103	19	-	2	137
Nov. 10 - Nov. 23	28	67	27	-	4	126
Nov. 24 - Dec. 7	47	80	21	-	4	152
OTHER						
Jan. 2 - Jan. 15	-	26	-	-	16	42
June 9 - June 22	1	16	26	-	35	78
June 23 - July 6	1	11	14	-	40	66
July 7 - July 20	-	6	7	-	40	53
July 21 - Aug. 3	-	2	2	-	52	56
Aug. 4 - Aug. 17	2	4	29	-	49	84
Aug. 18 - Aug. 31	17	-	30	-	52	99
Sept. 1 - Sept. 14	1	-	43	-	45	89
Sept. 15 - Sept. 28	3	-	44	-	73	120
Sept. 29 - Oct. 12	-	-	61	-	58	119
Oct. 13 - Oct. 26	1	3	45	-	34	83
Oct. 27 - Nov. 9	5	13	47	-	26	91
Nov. 10 - Nov. 23	-	17	6	-	15	38
Nov. 24 - Dec. 7	-	22	10	-	33	65

Office of the Secretary of the Treasury, Division of Research and Statistics December 17, 1940.

* Deliveries under French contracts included in figures up to June 30, 1940.

~~STRICTLY CONFIDENTIAL~~

PSF: Morgenthau

THE SECRETARY OF THE TREASURY
WASHINGTON

1-40

December 17, 1940

My dear Mr. President:

I am inclosing herewith the following charts which I thought you might be interested in seeing:

(1) Movement of Basic Commodity Prices

(2) Lumber and Building Material Prices and Lumber Stocks

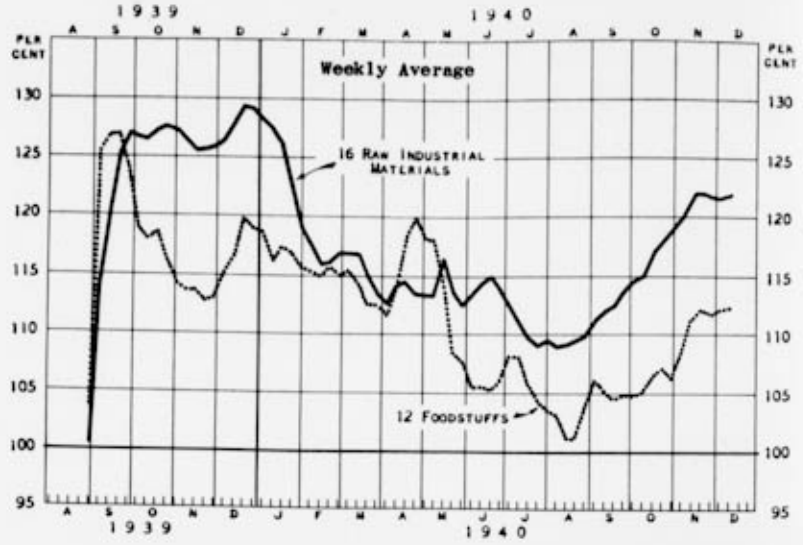
Yours sincerely,

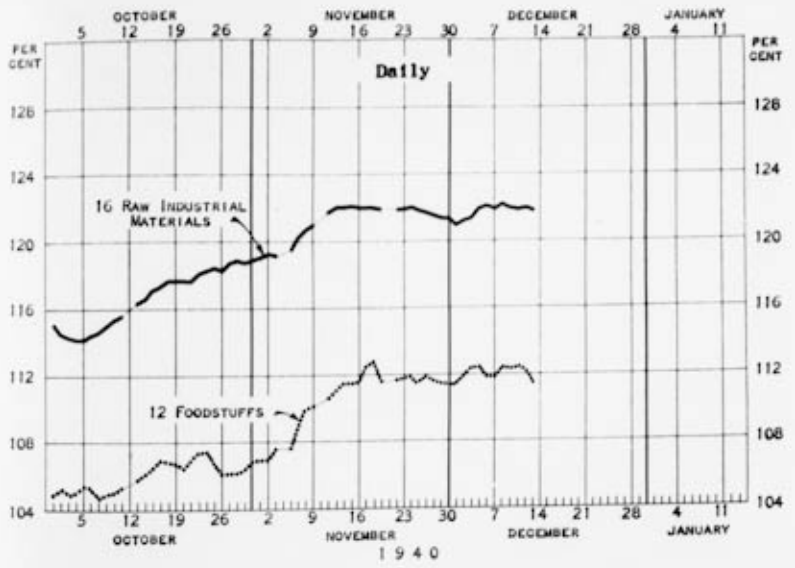
H Morgenthau Jr

The President,
The White House.

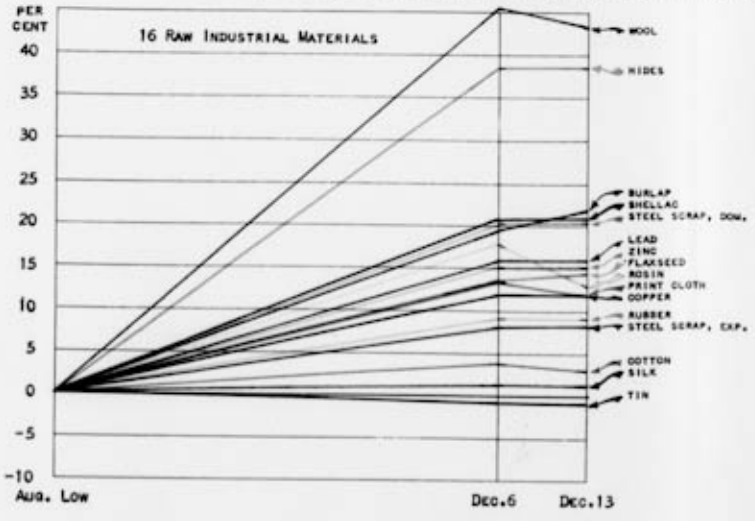
MOVEMENT OF BASIC COMMODITY PRICES

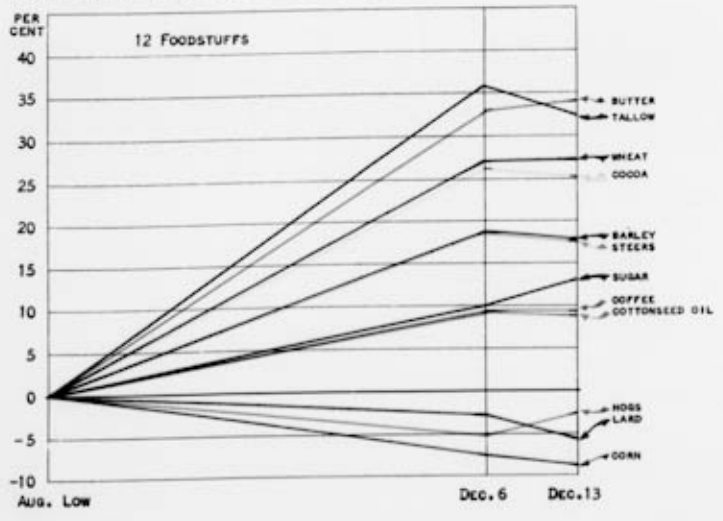
August 1939 = 100





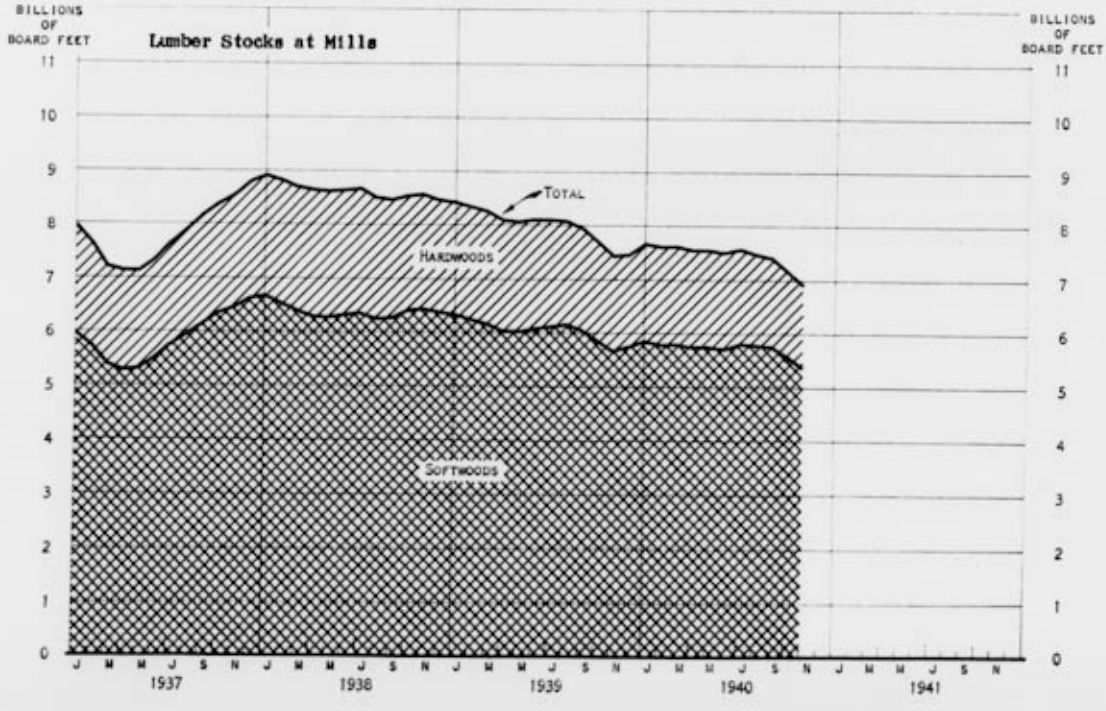
Percentage Change for Individual Commodities, August Low to December 6, and to December 13, 1940





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

LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



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

THE SECRETARY OF THE TREASURY
WASHINGTON

BF

File
Personal
Confidential

December 18, 1940

H Morg
1-40

My dear Mr. President:

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

Yours sincerely,

H. Morgenthau Jr.

The President,

The White House.

~~STRICTLY CONFIDENTIAL~~

~~SECRET AND MOST CONFIDENTIAL~~

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

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

Pilots	3.101	4.149	4.398

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

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

~~STRICTLY CONFIDENTIAL~~

THE SECRETARY OF THE TREASURY
WASHINGTON

December 18, 1940

My dear Mr. President:

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

Sincerely yours,

H Morgenthau Jr.

Secretary of the Treasury

Enclosures.

The President,
The White House.

~~STRICTLY CONFIDENTIAL~~

~~SECRET~~

BRITISH EMBASSY,
WASHINGTON, D.C.

December 8th, 1940

Dear Mr. Secretary,

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

ships/

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

~~STRICTLY CONFIDENTIAL~~

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

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

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

however/

~~STRICTLY CONFIDENTIAL~~

BRITISH EMBASSY,
WASHINGTON, D.C.

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

Believe me,

Dear Mr. Secretary,

Yours very sincerely,

Lothian

~~STRICTLY CONFIDENTIAL~~

~~SECRET~~ ~~STRICTLY CONFIDENTIAL~~

SHIPPING LOSSES AND REPLACEMENT

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

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

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

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

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

~~STRICTLY CONFIDENTIAL~~ have/

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

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

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

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

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

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

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

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

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

Appendix II describes the programme at which we are aiming and the limitations upon it. We shall be fortunate if we attain next year an annual rate of output of 1¼ million gross tons, in view of the urgent claims of naval construction and the demands they make upon our resources in men, material and facilities.

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

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

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

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

APPENDIX I

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

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	93	968	485
Mixed passenger and cargo liners	444	3,433	2,645
Cargo liners	978	5,770	8,141
Tramps	1,009	4,235	7,221
	2,524	14,406	18,692

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

(Tonnage figures in thousands)

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

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

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

(Tonnage figures in thousands)

Number	Gross tonnage	Deadweight
374	2,044	2,873

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

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

The losses are continuing at a high level.

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

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	62	736	350
Mixed passenger and cargo liners	136	1,512	1,004
Cargo liners	132	742	1,021
Tramps	74	257	410
	404	3,247+	2,885

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

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

(Tonnage figures in thousands)

	Number	Gross tonnage	Deadweight
Passenger liners	25	257	109
Mixed passenger and cargo liners	299	1,869	1,729
Cargo liners	811	4,756	6,636
Tramps	1,055	4,313	7,293
	2,190	11,195	15,797

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

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

(Tonnage/

(Tonnage figures in thousands)

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

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

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

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

1940	(Thousand tons)
April	4,207
May	4,177
June	4,054
July	3,369
August	3,939
September	3,017

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

Our programme of requirements (other than oil)

for/