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November 27, 1940
12:40 p.m.

H.M.Jr: Hello.

Senator
Wagner: Henry?

H.M.Jr: Hello, Bob.

W: How are you?

H.M.Jr: Fine.

W: Good.

H.M.Jr: I'm just back.

W: Henry, I'll tell you what I wanted - I don't mean it's immediate today or tomorrow but I'd like to have you think about it. I want to talk to you sooner or later about this - you know about this money study.

H.M.Jr: I'm very anxious to talk to you.

W: Yeah, and I also want to talk to the President but, frankly - Jesus, for a fellow that works as I do for F.D.R. - Jesus, I can't get past Watson. It's the first time it's happened to me, but I'm not complaining at all, but I don't want to do a thing which is not in conformity with the President's plan or your plan, don't you know.

H.M.Jr: Well, I'm at your service. When would you like to get together?

W: Well, we're having - supposing I drop in - I'll call you up tomorrow morning and see if you have a little time free.

H.M.Jr: I'll make it now if you'll tell me when.

W: Well, let's make it tomorrow, say, at 11 o'clock.

H.M.Jr: That's yours.

W: Is that all right?

H.M.Jr: That's yours.

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W: Huh?

H.M.Jr: I'm at your service at 11.

W: All right. I'll be in your office at 11 o'clock.

H.M.Jr: I'm at your service.

W: I've got no plans arranged but the answers are coming in now, don't you know, and the newspaper fellows - they're after me.

H.M.Jr: I'd be delighted to see you.

W: All right, Henry.

H.M.Jr: Thank you.

W: Good-bye.

November 27, 1940
3:00 p.m.

Admiral Emory

S. Land: Hello, Mr. Secretary.

H.M.Jr: Yes. The reason I'm calling - if it is something that will not wait until tomorrow of course I'll see you.

L: Well, I can tell you very briefly what it is. It can wait - it's quite O.K. to wait. The President wanted me to talk to you about this British shipbuilding program and also to get a slant on the thing from the Purvis outfit, and I thought rather than to go to Purvis I'd see you first and then if it was necessary to go to Purvis why I'd do so, but I thought you probably knew all that he knew. He wants me, right after talking to you and Purvis, to write a memorandum to him.

H.M.Jr: Well, that thing would keep until tomorrow wouldn't it?

L: Sure, but I've got to get it in before the end of the week, but then that's the only reason - but it'll keep until tomorrow.

H.M.Jr: Well, how about

L: Could you make it in the afternoon because I've got

H.M.Jr: Yes, I can make it at 3:30.

L: 3:30 tomorrow.

H.M.Jr: 3:30 tomorrow.

L: O. K. and you can give me a little indoctrination and give me some idea as to how to write this up for the Boss.

H.M.Jr: I'll do the best I can.

L: All right, sir. 3:30 tomorrow. All right. Thank you.

GROUP MEETING

November 27, 1940
3:00 p.m.

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

H.M.Jr: Well, Herbert, what have you got?

Gaston: Well, here is a little paper that Mr. Hoover sent over to tell you what they have been doing.

H.M.Jr: Shall I read it?

Gaston: Well, you can read a little of it and see what the nature of it is.

H.M.Jr: I will take it to the house.

Gaston: There are some pretty colored charts.

H.M.Jr: That is lovely.

Gaston: They are colored very nicely.

H.M.Jr: Thank you.

Have you (Wiley) seen it?

Wiley: Yes, sir.

H.M.Jr: What else?

Gaston: I went over to talk to Mr. Berle on Monday about this question of pressure of the British

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to have us relax our regulations as to armament of ships in American waters. Of course, we didn't want to be put on the spot of violating written directives already given by the State Department, so Berle said he would call an interdepartmental meeting on the subject within the next 48 hours.

H.M.Jr: That was the same thing as when I left?

Gaston: That is the same thing.

H.M.Jr: Still there, is it?

Gaston: Yes.

On a previous conversation, his idea was that we would just sort of close our eyes to what was going on, but we have a specific case which came up. I thought we had better get some understanding, so he promises to get a meeting on the subject.

While I was there he talked about this fund freezing and said that it seemed a good many complications would be forthcoming from any general fund freezing and he was trying to work out some alternative for it. He hadn't gotten the correct formula yet, but the thing was on his desk and he was trying to work out something.

H.M.Jr: Well, I take it that Bell has that. I don't know just where it is. But nothing happened on it?

Gaston: Nothing happened.

H.M.Jr: I didn't expect it would.

Gaston: No, he still has it.

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H.M.Jr: Who?

Gaston: Berle. There has been, as you know, quite a bit of publicity on the subject.

H.M.Jr: What else?

Gaston: There is nothing else.

H.M.Jr: I don't know whether McKay told you, but I wish you would get from him - he got it from a naval officer at St. Thomas. Four times since the America has come to St. Thomas, every time she has had an accident with her lifeboats. While we were there, they dumped several men out of lifeboats. One man, I think, broke his neck, and the Coast Guard was there and rescued the fellow. He can give you the story. I don't know how far he went that time with Wayne Taylor on steamboat inspection.

Gaston: Wayne was quite enthusiastic about it and I have talked to him about it twice since then and he says he has made some progress, but he hasn't convinced Jesse Jones yet.

In the meantime, two representatives of the Budget came over to see me and said that they had been directed to make an exhaustive inquiry and the matter would probably take them a long time. They have already gone over all this ground, but they are going to go over it all again.

H.M.Jr: Here is a good case to prove the - how lax the steamship inspection is.

If you get a chance, let's get together. I think if I can have a chart to show the President how the thing is done, and then give him, at the same time, a chart to show the divided

authority, and then be sure on these four cases of the America that we are right, although a naval officer told it to me, and what a disgrace it is to have a boat like that come and every time have an accident and every time have a delay in the sailing. Then the New Amsterdam comes and everything is handled beautifully, and they say, "That is how the Europeans do it."

Gaston: The Dutch line have big power lighters which they handle on deck, and they can take a good number of people aboard. The U. S. line doesn't have anything of the kind.

H.M.Jr: It is faulty equipment.

Gaston: They just don't have that equipment. They tried to get permission from Customs to buy some of those Dutch lighters without the payment of duty on them.

H.M.Jr: Well, if you get me up a chart and a story like that, I will take it to the President.

And Herbert, this thing here of this political appointment, I am going to give it back to you, and some time not in the too distant future I want to talk to you, anyway, about the question of political appointments in Treasury. I don't want to have anything to do with them. Maybe we will want to set up a little committee to handle them.

Gaston: Yes.

H.M.Jr: I will talk to you about it.

Gaston: Yes.

Now, also on this particular job, Norman Thompson has an appointment which has been

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cleared, and we had a special request from across the street to expedite that particular one.

H.M.Jr: Is this on the same thing?

Gaston: It is on the same job that I used as an instance here.

H.M.Jr: Is this what the President wants?

Gaston: This is what all the political authorities have recommended, and Watson - yes, that is what he wants. They asked us to expedite it and hurry it over there.

H.M.Jr: Is that what Flynn wants?

Gaston: Yes. Wagner and Mead and everybody.

H.M.Jr: Is he any good?

Gaston: They all - Harry Durning tells me that he is a very fine fellow.

H.M.Jr: Have you had him investigated?

Gaston: Yes, we have had him investigated.

Foley: Queens?

Gaston: Yes, Queens, State Senator.

H.M.Jr: What does that mean?

Foley: Somebody told me that he wasn't so good.

H.M.Jr: Has he gone through the regular investigation.

Gaston: He has, yes. We haven't the written report from Helvering, but he told me over the phone

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that he had - that the investigator had advised that he was sending a favorable report.

H.M.Jr: It isn't attached.

Gaston: No, because it hasn't arrived. It won't get here until tomorrow.

H.M.Jr: I will sign it, but I am going to put the responsibility on you --

Gaston: Not to send that to Pa Watson until I get Helvering's recommendation?

H.M.Jr: Favorable recommendation.

Gaston: Favorable recommendation. All right.

H.M.Jr: What else?

Gaston: Nothing.

H.M.Jr: Dan?

Bell: I have a number of things which I will talk to you about tonight.

H.M.Jr: Okay.

Bell: There are two items. One is, we are having a call day from the special depositories of 107 million. Heretofore, that has been given out in each Federal Reserve Bank, and I thought we might give it out here and tell the amount that comes out of each district.

H.M.Jr: Okay.

Bell: I will give that to Schwarz.

The other thing is, Roy Blough has been requested to go down to the University of

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Alabama and participate in a roundtable discussion. His subject would be "National Defense Spending," 1940 and beyond that period.

H.M.Jr: That is not his field.

Bell: Well, it is not his field, he admits, and he is not particularly anxious to go unless the Department thinks --

H.M.Jr: That is not his field --

Bell:somebody ought to go. He is not asking for it. He just wanted to know what the policy of the Department is.

H.M.Jr: No. I would be glad to have him go if it was on taxation, but not on National Defense spending.

Bell: Well, I take it the whole subject is around defense spending and taxation.

H.M.Jr: Well, Sullivan is boss and says no.

Sullivan: I don't want to get tangled up in that, Dan, at a time when we are going to be on the Hill.

H.M.Jr: He says no.

Sullivan: It is best to keep out of it.

Bell: He doesn't want to go, particularly.

H.M.Jr: What else?

Bell: Nothing.

H.M.Jr: You are going to have all that stuff?

Bell: Most of it. I will have some sort of an answer.

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H.M.Jr: Incidentally, did you tell the President my idea about FWA and WPA?

Bell: No, I haven't seen the President, but I talked to Harold Smith, and at the Friday Cabinet meeting after you left, the President told John Carmody that he wanted him to look into the WPA expenditures for next year because he said, "I have a feeling that they are going to be cut materially," and Carmody himself volunteered the information that - or the recommendation that WPA ought to get out of National Defense, that the Army and Navy ought to get their appropriations directly from Congress and do it on regular contract, and the President said that suited him.

H.M.Jr: That is what I said.

Bell: Yes, that is what you cabled.

H.M.Jr: But if Carmody specified what I did, that the National Defense must take their people first from the --

Bell: No, he didn't, but he assumes that they are picking up these people through regular contract.

H.M.Jr: I think it should be specified that the Army and Navy must give first choice to the certified list of the unemployed.

Bell: Of course, if they do their work through contract, that is a little bit - if they do it by themselves, then they force labor --

H.M.Jr: I went all through that in New York State. We got the contractor to do it.

Bell: Smith has it under consideration.

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H.M.Jr: We did that in '32 in New York State. Remember, Herbert?

Gaston: Yes.

Bell: They have allocated about 108 million dollars for National Defense programs. They will not get any expenditure statements until the middle of next month. Lawton, in the Budget, says it is estimated there will be about 200 million dollars of WPA funds used for National Defense this year.

H.M.Jr: Anything else?

Bell: That is all.

Gaston: You speak about a political committee. We had an old political activities committee. I suppose that same committee might function. That was Guy Helvering and Norman Thompson and myself.

Thompson: And Mr. Foley.

Gaston: That is right.

H.M.Jr: I think that is a pretty good committee. It isn't too big, is it?

Gaston: No.

H.M.Jr: You might add John L.

Sullivan: That is big enough.

H.M.Jr: This fellow was sitting there on the dock yesterday. A fellow came along and says, "Who is that?" I said, "John Sullivan," and John says, "Put an 'L' in it." The guy says, "Is he kidding me?" I said, "No, he is very,

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very serious about it." Right?

Sullivan: You bet. I will remember that one.

H.M.Jr: All right.

Ed?

Foley: A man --

H.M.Jr: I saw a fellow by the name of Jim Rowe in Bluebeard's Hotel.

Foley: Virgin Islands?

H.M.Jr: Yes. He told me all the gossip.

Foley: I haven't seen him.

H.M.Jr: He had all the dope on election returns and everything else. I had to go down to the Virgin Islands to find out.

Foley: While you were away --

H.M.Jr: You should have asked my advice.

Foley: I don't know what you are talking about.

H.M.Jr: Yes, you do.

Foley: No, I don't.

Oh, yes. (Laughter)

H.M.Jr: I went down to St. Thomas at 10:30 at night and looking over these beautiful lights, and here was this fellow.

Foley: I thought maybe you would pick him up for me.

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While you were away, Congress passed the Walter-Logan bill. Dan and I talked about it. Dan called Pat Harrison. He attended the strategy meeting in Senator Barkley's office, and they said they wanted to make the bill as bad as they could make it --

H.M.Jr: You attended the meeting?

Foley: No, Pat did, after Dan talked with him, and they said they didn't want to make any exceptions or any amendments. They just wanted it to go to the President, and they had been assured by him he would veto it, and they had assured the President, in turn, they had enough votes to sustain his veto, so the bill passed and it is going to conference. It will take a quorum in the House in order to adopt the conference report, and I don't think there is a quorum of the House present now and there may not be before the session dies and the new Congress convenes. So it may not - it may never become law. If it does, it is imperative that the President veto it, and I understand he will, but we did go down, as you will remember, last summer and give Pat the proposed amendment to give the Treasury a complete exemption. They already gave exemptions for the Comptroller of the Currency and the Internal Revenue. Pat was willing to offer it, until after he went to this strategy meeting, but they decided down there that it was better to make it bad than to try to improve on it.

The other bill that passed is the Ramspeck bill, which extends the President's powers insofar as Civil Service is concerned. I have a little memorandum here that explains the bill, if you would like to have it, or you might want to turn it over to Norman.

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- H.M.Jr: I think I would turn it over to Norman.
- Thompson: I had a couple of fellows up here this morning.
- Gaston: The Collectors of Internal Revenue would be covered in under that bill.
- Foley: Yes, the Deputy Collectors are in and they were exempt in one of the bills, but the conference struck out the exemption and it applies now to the Deputy Collectors. The only exemptions are Presidential appointees subject to Senate confirmation and the Assistant U. S. Attorneys.
- Gaston: That will take care of a lot of Internal Revenue employment. The jobs won't look so good when there is no patronage connected with them.
- H.M.Jr: That will help your committee.
Anything else, Ed?
- Foley: I prepared a little memorandum on credit to belligerents. I thought you might be asking for it when you came back.
- H.M.Jr: Well, hold on to it and we will have a little meeting about it. I am not quite ready for it yet.
- Foley: I was asked to speak at a meeting of the Municipal Law Officers next Friday at the Mayflower. That is a subdivision of the League of Municipalities. I talked with John about it, and if it is agreeable with you, I thought I would talk about the elimination of exemptions.
- H.M.Jr: Good.

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What else?

Foley: Huntington Cairns' broadcast will change from Sunday to Tuesday evenings at 10:15. That is all I have.

Oh yes, one other thing. On the deferment of training for draftees, I have one here from Phil Wenchel who has recommended that the fellow was needed. Now, we were talking about having a committee to review those cases.

H.M.Jr: Well now --

Bell: Harry has one, too.

White: I have rather an urgent one.

Thompson: We have made provision for that, Mr. Secretary.

H.M.Jr: Those will be referred to Norman until they get too heavy. I will personally clear them with Norman, and unless there are too many --

Thompson: There are just those two on that.

H.M.Jr: Norman and I will be the committee on that.

Foley: I will give this one to Norman. That is all.

Sullivan: Here is a list of the things you asked for. I thought I would give it to you, and if there is anything else you wanted, let me know tonight or tomorrow morning and we can have it before noon.

H.M.Jr: Wonderful.

Sullivan: Want me to write that letter to the fellow in Savannah and thank him for last night?

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H.M.Jr: I did thank him. You might thank the girl who gave us our supper.

Sullivan: I didn't get her name.

Klotz: No?

Sullivan: No, I didn't. (Laughter)

H.M.Jr: We chased all over town, didn't we? We finally ended up in the railroad station.

Sullivan: Want me to drop a line?

H.M.Jr: Yes.

Sullivan: All right. Appreciation of you and myself. I think he felt pretty badly last night.

H.M.Jr: Well, he should. I was hungry. We tried to get supper late at night. I wish you would see these - every one of them. You know, these metal containers you get milkshakes in, you know how big they are. They are about that size (indicating). We had two of them apiece.

Klotz: Of what?

H.M.Jr: Milkshakes. (Laughter)

Sullivan: We had four of them and a piece of Ry-Krisp.

Cochran: I have two letters for you from Lord Lothian.

H.M.Jr: Lord Lothian?

Cochran: Yes, he is back.

I have a draft of a communique from the British in regard to our two friends in

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London who are leaving there today for Lisbon, so they won't be here until sometime next week.

H.M.Jr: Meaning Phillips?

Cochran: That is right.

H.M.Jr: Could you give me actually what the President said?

Cochran: Yes.

H.M.Jr: Have a clipping?

Bell: You have got that, haven't you, Chick?

Schwarz: Yes, sir.

H.M.Jr: Would you send it up to the house?

Schwarz: Yes, sir.

H.M.Jr: This is from Lothian. It is a message from Churchill thanking me for my assistance.

Cochran: I have some memos and a few cablegrams I have held out.

H.M.Jr: Hold them, and I am going to try to take a minimum of stuff to the house and do the things individually with you.

Cochran: I can explain them in ten or fifteen minutes.

H.M.Jr: Speak to McKay.

Chick, I got your request here. I wasn't going to have any press conference tomorrow.

Schwarz: You weren't planning any tomorrow?

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H.M.Jr: What do you think? I thought until I got all the questions and until I see the President at this Friday meeting, and everything else, I would let it slide.

Schwarz: It would be all right, unless you had any comments you would like to make on your trip.

H.M.Jr: No. And I never knew that Lord Rothermere.

Schwarz: They said he had high regards for you and he would appreciate it.

H.M.Jr: They must have got a message from heaven.

Schwarz: We couldn't suggest anything because we didn't know whether you knew him or not.

H.M.Jr: Herbert, do you think it is a mistake not to have a press conference.

Gaston: Yes. I would have a press conference just to say hello to the boys and tell them obviously you haven't gotten into anything yet. If you put it off, I am afraid it would increase the heat after you have seen the President.

Sullivan: They are going to ride you terribly on taxes. They have been calling me all hours of the day and night.

Gaston: You can merely say you are not prepared to talk.

H.M.Jr: You think I had better see them?

Gaston: I think you had better.

Schwarz: It won't give rise, then, to speculation on what you are doing.

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- H.M.Jr: All right, if that is the way you feel.
- Schwarz: We have a request from the syndicated feature of the American Forum. That is a companion piece of the radio program. It is asking for a statement from you on why the debt limit should be generously increased, and I believe they wanted to get Senator Byrd on the other side. It may be a good opportunity.
- H.M.Jr: Well, I don't know what committee sent me that telegram, but I was ready to go on the air next week.
- (Mr. Sullivan raised his hand)
- Who else?
- Sullivan: Well, mine is up.
- (Mr. Bell, Mr. Gaston and Mr. White raised their hands)
- H.M.Jr: Well, after I see the President. What day is that?
- Bell: The second, the morning of the second.
- H.M.Jr: I think you are all wrong, but possibly you didn't know what I had in mind. I would have to talk on the night of the second.
- Bell: Oh, you wouldn't have to. It would be a matter of explaining them.
- H.M.Jr: You wouldn't?
- Bell: They are published in very summary form.
- H.M.Jr: Just hold everything until I get my feet on the ground.

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White: I don't think this is an opportunity that should be passed up. It wouldn't involve very much, only 1500 words.

Schwarz: 900 words.

H.M.Jr: You mean I don't have to read it?

White: No, it is printed.

Bell: I would make a statement before the Ways and Means Committee when the opportune time comes. Why should he answer Senator Byrd's --

Schwarz: If we wanted to pave the way in advance --

H.M.Jr: I wouldn't decide anything this afternoon, Chick. I have got some definite things I am going to do on publicity, both on taxes and on spending.

Schwarz: Fine.

H.M.Jr: But I am not ready and I don't know just - I am going to do it and I am going to take it to the public, but I want to do it very carefully and --

Schwarz: I will hold this. There is no great hurry, and I will keep it open in case we want to take advantage of it.

H.M.Jr: All right.

Schwarz: I want to report on your request to check the West Coast papers a week before election. There was no mention at all of any such - any Giannini statement.

H.M.Jr: What has happened to those branches?

Bell: They were held up until your return.

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- H.M.Jr: Any pressure?
- Bell: Not much. A little from McNaughton up at Portland. He keeps wiring, but not a lot of pressure. The only thing that was said on the West Coast was the employees of the Bank.
- Schwarz: That appeared throughout the country.
- H.M.Jr: That was while I was here.
- Schwarz: That was the only thing. It was also used out there, of course, but it was the same statement that appeared in the East.
- White: Now that Chick has mentioned Giannini, I don't know whether it has come to your attention, but apparently the Bank of America cooperates very closely with Japan, even to the extent that it might bear investigation. I merely mention that.
- Bell: Probably Italy, too.
- White: Possibly; but we have got some cables about their activity in Japan.
- H.M.Jr: Anything else, Chick?
- Schwarz: I have here the current issue of Social Justice magazine. It has a few unkind remarks about your father. I thought you might want to see it.
- H.M.Jr: Does he say that same story?
- Schwarz: No. It is Wall Street, "Wolf! Wolf!"
- H.M.Jr: Nothing very unkind about that that I can see. It says my father made his money from real

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estate. It is a perfectly honest way. It is more honest in dealing with silver than most of them. Is that all he says?

Schwarz: That is all he says. That is all I have.

Pehle: Professor Chamberlain is coming down tomorrow, I guess. If you could see us tomorrow at 3:00, or is that a bad day?

H.M.Jr: Tomorrow is a bad day.

Pehle: There is nothing terribly pressing.

H.M.Jr: Call him up and put it off until next week.

Pehle: I think he wants to come down anyhow.

H.M.Jr: All right. I can't do it.

Pehle: Everything is under control.

H.M.Jr: All right.

Philip, here is a letter that came in a few minutes ago from Secretary Stimson referring - "Before confirming to Sir Walter Layton the substance of our recent conversation, I would appreciate your suggestion on the enclosed message."

Young: That is in reply to Layton's 14th letter.

H.M.Jr: Yes.

Young: That is --

H.M.Jr: Will you read it and talk to me about it?

Young: Layton has to get an answer to it before he can go home.

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H.M.Jr: When is he going home?

Young: As soon as he gets an answer to the letter.

H.M.Jr: And you had a vacation?

Young: Yes. We went to New York. A cable came to Mrs. Klotz the day after I left with respect to aircraft standardization, so I had a perfectly lovely time.

H.M.Jr: I don't get the significance. I told you to go on a vacation.

Young: I did, and I had a wonderful time.

I have a number of memos here on various subjects, all of them short, dealing with the current British programs. The only important one is on the ordnance program which for the first time we have got one basic complete ordnance program laid out.

H.M.Jr: Well, anything that won't keep for 24 hours?

Young: No. I think it will keep all right for 24 hours because I would rather talk to you about it when you have time.

H.M.Jr: Well, hold it then.

Young: Major Fleet would like to see you when he is in town Thursday or Friday.

H.M.Jr: Well, I will see him Friday.

Young: On Friday? What time?

H.M.Jr: 11:15.

Young: Major Fleet also asked Secretary and Mrs. Morgenthau, Mr. and Mrs. Foley, and Mr. and

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Young to dinner at the Shoreham tomorrow night.

H.M.Jr: You (Foley) have had your vacation, haven't you?

Send him our regrets. We have a previous engagement.

Young: When would you like to see Air Commodore Slessor?

H.M.Jr: All of that - just right now when I am doing taxes and budget from now until noon tomorrow. I am not going to do anything else.

Young: Well, he can keep. He has kept for a week very well. I think that is all I have immediately.

H.M.Jr: George?

Haas: I have a few reports here. Business is at an all time high and so is your bond market.

H.M.Jr: Good. One thing I would like you to do for me, I would like a chart - work with SEC on this - Transamerica.

Haas: Organization?

H.M.Jr: Yes, and what they have, their holdings. I mean various businesses.

Haas: What they control?

H.M.Jr: Yes. And then if there are any other companies like Transamerica, similar, who are in the bank holding business, I would like to have that, also. I think if you go over to see SEC, they may have it.

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Haas: I will do that.

H.M.Jr: But Transamerica first. You know the kind I like. Starting with the ultimate control and working down.

Haas: I thought we had one on that once.

Bell: There is a chart in the Comptroller's office on the Bank of America.

H.M.Jr: I didn't say Bank of America, Transamerica.

Bell: There is one on that, too.

H.M.Jr: As soon as you have got it, I would like to have you give it to Bell and Foley, and I want a draft of a bill which will within three years liquidate the Transamerica and every other holding company like it.

Foley: Three year death sentence?

H.M.Jr: Right.

Foley: We are working on the bill. Dan spoke to me.

Bell: The Comptroller is also working on it.

Foley: He called me.

H.M.Jr: Find out what SEC is doing, sec.

Foley: Yes.

H.M.Jr: I would like it fairly soon, and if you could have that chart for me on Transamerica, I would like to have it when Senator Wagner is coming in. When is that? Senator Wagner is coming in. You stand by, Harry, in case it is agreeable to him to have you in.

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He is coming down to discuss his legislation on financial matters. I will ask him when I get going whether I can have you and Bell and Foley come in, you see. I don't know how he feels. Just at the moment he has got some other things on his chest he would like to get off first.

Sullivan: He is very much interested in Noonan and I think Mr. Thompson told me he was staying an extra day to put Noonan's confirmation through the Senate.

H.M.Jr: Well, he has got some other things, but I am indeed earnest about a death sentence bill on Transamerica, no "if" and "and" about it, and I am going to take it to the public myself, the explanation, et cetera. Mr. Giannini has asked for a fight now for seven years and he is going to get one now. And how! We will find out whether SEC will back us up or go along with us. No fooling this time.

Haas: How soon do you need this?

H.M.Jr: Oh, a couple of days. I won't get to it before Monday, but any others like it, you see.

There is nothing personal about this. It is just that I don't like those kind of holding companies. (Laughter) If there are a couple more like it, all to the good.

Foley: You hope.

H.M.Jr: I will tell you, Dan, how I feel about bank holding companies. I am perfectly willing to leave it within the state. I don't care how many branches they have in the state. Would you go along on that?

Bell: Oh, I don't know.

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- H.M.Jr: Do you want to go further than that?
- Bell: No, I don't think I do.
- H.M.Jr: That is the way I feel. I can't help it if Eccles has them in two states.
- Foley: There are a couple up in St. Paul.
- H.M.Jr: One state, that is the way I feel.
- Gaston: Why not just rule out the holding companies, and if any state wants to permit branch banking, that is a different matter.
- Bell: I was thinking you might want to go to an area rather than a state.
- H.M.Jr: I thought a state would be easier, then let the state laws supervise it, but we can argue about it.
- Bell: You have got the New York area, and it seems some of them may be across the line in New Jersey.
- Gaston: You don't have to bother with geographical areas if you rest on the principle that the holding companies whereby they can control a bank through minority stock ownership is bad, and if they want to operate throughout a state and the state law permits it, they can operate as state branches, not as holding companies.
- H.M.Jr: That is right, but keep it within the state.
- Gaston: Well, leave it up to the state.
- Foley: You are separating the branch banking from the holding problem.

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Gaston: If Congress wants to permit branch banking in two or three states, which they have never done, that is another matter. If the states want to permit it, that is all right. But the holding company would be outlawed from intra-state or inter-state.

H.M.Jr: Good. How about that, Dan?

Bell: That is something to think about.

H.M.Jr: Harry, you frighten me with all of that stuff in your lap.

White: And I didn't come from the Virgin Islands.
(Laughter)

Well, here is something you asked about for the President. I thought you might want to take this home and possibly put this in shape. It is about the British assets. There are a series of things in there and you might want to use them.

Here is another one which you might want to use.

H.M.Jr: I am glad to see you feeling a little better.

Foley: He didn't take any care of himself while you were away.

White: The detailed material is available. I take it you don't want to take it with you. It is on both their needs and their assets.

H.M.Jr: I will take this.

White: The Argentine matter, Dan hasn't mentioned it, but it is waiting your pleasure and all material

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is ready for your examination. I have a specific proposal for your examination. They are pushing and everything is in a state of suspense, awaiting your return, and they know the hour at which you will hit the shore, so it isn't something you can postpone very long.

Bell: That is one of the things I was going to talk to the Secretary about tonight.

White: I don't know whether you will want any --

Bell: I would like to have the summary.

H.M.Jr: Give Dan anything. He is coming to the house at 8:30.

White: Then I will give him the material on it.

H.M.Jr: Hasn't anybody done anything, I mean in the sense - I thought that the arrangement I had with Mr. Jones was that we were to go forward simultaneously.

White: They are going forward simultaneously. That is why they can't go any faster than you go. I mean they have gone - excuse me, I didn't mean to be funny. I mean, they have gone as far as they can. (Laughter)

H.M.Jr: The point is, if I ask Jones to come over here, he will act as though he never heard about it.

White: Jones come over here?

H.M.Jr: Yes. Has he heard anything about it?

White: He has been the acting chairman of the various meetings they have had in your absence, but they have decided, as Dan will explain tonight, to await action until you return.

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- Bell: They have got to the point, Mr. Secretary, where it is a question of policy as to whether you are going to commit yourself to the next program, and they don't want to commit themselves to part of the program until they find out how far you are willing to go.
- H.M.Jr: Can you bring with you, if you can get it from the files, two things tonight? Is there a committee still standing that the President appointed on bank legislation, of which I was chairman, and I think there is a committee on that. And then I also - if there isn't a committee, I want a committee appointed to which I will ask the President to make me chairman of governmental agencies which will control the issuing of issues, where we don't want somebody to get out an issue, and we can definitely have his backing to stop anybody that wants to get out an issue that we feel --
- Foley: There was something on that.
- Thompson: Yes, we have a committee.
- H.M.Jr: I think there are two committees on that, and I just want to bring them to his attention and ask him if he says to go ahead, because I think we ought to begin to tighten up a little bit on some of these issues.
- Bell: Nobody has an issue now, without the approval of the Secretary. Even though it isn't in the law, they come here as a matter of course.
- H.M.Jr: I have a feeling that there are two committees at the present time.
- Foley: There was a committee appointed. They had a large block of municipals in the RFC portfolio and they dumped them on the market while you were going into the market and we

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got by, but it disturbed the market a little bit, and it was after that that you went to the President and I think he issued orders that no selling should be done while you were in the market or without your approval.

H.M.Jr: Would you?

Bell: Yes.

H.M.Jr: Well, Harry, I will speak to Dan tonight and see where we are at.

White: Yes.

We got a request from the Naval Intelligence for some additional information about American interests in Germany, Italy, and Japan. We have been giving them some material about intercorporate connections, and they are very appreciative. I take it it is all right to continue to give them material of that character.

H.M.Jr: What kind of information?

White: Intercorporation connections. They want to know what American firms are operating in these various countries and which of their firms are operating here.

H.M.Jr: Surely.

White: The oil situation with Japan continues to be acute. I don't know whether you want to take that up. It needn't be taken up today.

You have probably been noticing that gold is continuing to come in, gold imports being 4.4 billion.

H.M.Jr: Kemmerer evidently made a good speech on gold.

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I saw it in today's Times. Would you get a copy of it? It was very favorable to, more or less, a long statement I made three or four months ago.

Schwarz: Our office sent it to your office, Harry.

Cochran: It was a good one.

H.M.Jr: Weren't you quite surprised?

Cochran: It was very timely and very good.

White: I have here a list of the changes in the balances of Japan, Switzerland, Italy, and so on.

H.M.Jr: That can wait.

White: This is something I would like to have you glance at.

That is all. The other things can wait.

H.M.Jr: What is this I hear, you haven't been taking care of yourself?

White: I am making progress.

Foley: He took Saturdays off.

White: I am progressive.

H.M.Jr: You stay behind and I will scold you.

White: I am responding to medical treatment.

H.M.Jr: Harold?

Graves: I have nothing of any importance except to tell you that the orders for coins at the

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Mints have been very high, higher somewhat than our capacity to manufacture coins, working every day, all day and all night. Of course, in prior years, if we can take that as a criterion, the demand has fallen off abruptly just before Christmas, and of course it is probable that that will occur this year, although we are not certain of that.

As I told you, our capacity is 42 million pieces per week. Last week our orders were 62 million pieces. If orders were to stop now, it would take us about two weeks to catch up. That is, we are about two weeks behind on orders for the Treasury.

- H.M.Jr: How are you getting along on your investigation in the Office of Personnel?
- Graves: Well, we are just about through. We will be through very shortly.
- H.M.Jr: When you are ready, will you let me know?
- Graves: Mr. Thompson and I have done a good many things as we have gone along with that Division.
- H.M.Jr: Things that I will approve of?
- Graves: I am sure you will. I will be ready, I hope, very shortly to refer it to you.
- H.M.Jr: Mr. Wiley?
- Wiley: We are all settled down stairs. So far, everything is going pretty well.
- H.M.Jr: Do you want a chance to talk to me later?
- Wiley: I would like very much to.

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H.M.Jr: Not today, but - being in Mr. Berle's hands, I guess it isn't a matter of --

Wiley: It isn't urgent.

H.M.Jr: I will get together with you very soon. But you have been occupied?

Wiley: Yes.

H.M.Jr: Enough to do?

Wiley: Oh, yes.

H.M.Jr: Really?

Wiley: Oh, yes. The office is very nicely arranged. We have some very helpful people around there.

H.M.Jr: I will get together with you.

Norman?

Thompson: I have several routine matters. They are very short.

H.M.Jr: You had better bring it in to me. Walk it in.

These memoranda, I am going to try - it may hold you up a little bit, my asking to see the man with the memorandum, but if I clear it at the time, you are more apt to get action than if I take these things and then they float around my desk. I think for the moment until I get it started it will take a little longer, but I think in the long run we will get a little more action and we will be a little bit more intelligent about it. These memoranda cluttering up at home and I have to get up at six in the morning and read them is too much.

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- Cochran: May I just mention one thing, Mr. Secretary, in connection with Harry's statement? Mr. Hull had Herbert Feis telephone today and say that he would like for his own instruction, not for release or distribution or anything, a statement in regard to British assets here.
- H.M.Jr: Who wants it?
- Cochran: Mr. Hull, the Secretary of State. I told him we had nothing today but we had certain data which we were working over for your return, and so on.
- H.M.Jr: Do we have it?
- White: We can give them a duplicate of that, but I think that you could - if you have a chance to glance at it tonight, you can tell me tomorrow whether you want to pass that on before you give it to the President.
- H.M.Jr: Well, I was planning to give it to the President tomorrow, but would you (Cochran) remind me? When did the request come in?
- Cochran: Just before noon today.
- H.M.Jr: Well, remind me in the morning at the 9:30 meeting. I will have read it by then. If it is all right, we will pass it on to Mr. Hull tomorrow. If he gets it within 24 hours, that is all right. I would like to have it go directly and not through Herbert Feis.
- Cochran: I could take it over and give it to the Secretary.
- H.M.Jr: Is Butterworth back?
- Cochran: He came through and he was here a few days

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and then he went down to New Orleans. He wrote you a little note that he would be available if you wanted him to come up.

On this British visit, Bewley isn't coming. There is a man named Playfair coming in his place.

- H.M.Jr: I didn't think if the man asked me about this statement I would have any comments.
- Cochran: They are getting in a little argument about the press themselves, because they had this item in the Washington Post yesterday which looked as if part of it may have come from the White House and it gave very high estimates, and Pinsent was in this morning wanting to know if you would care to say anything to straighten that up. I told him I didn't think you would.
- Schwarz: The Senate Foreign Relations Committee voted today to defer consideration of the subject until after the first of January, and there is no reason until then for the executive branch to discuss it openly.
- White: Does Ernest Lindley have access to you?
- H.M.Jr: No.
- White: He would like to see you.
- H.M.Jr: I used to know him very well, because I knew him in Albany.
- White: He would like to see you.
- H.M.Jr: All he has to do is call up, the way everybody else does, call up McKay and ask him.

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White: All right.

H.M.Jr: He had just better call up McKay and ask to see me.

Cochran: He carried a story this morning in the Post on that same thing.

White: He is going to carry several more, and he talked with me and I suggested that before he talk any more that he might see you.

H.M.Jr: I have known Ernest Lindley since --

White: He said he would very much like to see you if you would see him.

H.M.Jr: I call him by his first name and everything. I have known him since '28. All he has got to do is to call up McKay and ask him.

Okay.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 27, 1940.

TO Secretary Morgenthau

FROM Mr. White

Subject: Some of the Problems Calling for Action or Decision by the Secretary of Treasury in the near future.

1. Defense against inflation - via: tax program, borrowing policy, excess reserves, monetary policy, capital market, specific price measures, export and import control, and possible price controls.
2. Tax program for financing increased defense expenditures.
3. Financial assistance to Great Britain (and possibly to Canada).
4. Stepping up of shipments of equipment to Great Britain.
5. Extension of exchange control.
6. Gold policy.
7. Silver purchase policy.
8. Renewal of the Stabilization Fund.
9. Proposed assistance to Argentina.
10. Proposed assistance to Mexico.
11. Extension of economic defense against Japan.
12. Wagner Committee Hearings.
13. More effective prevention of foreign funds used for subversive activities in United States and in Latin America.
14. French gold.
15. Reexamination of the world oil situation.
16. The control of the export of currency.

17. Monetary and Fiscal Commission to Cuba.
18. Monetary survey of Brazil.
19. Financing problem in contemplated revision of social security program.
20. Strengthening of export and import controls through exchange controls.
21. Possibilities of "preclusive" buying as a means of economic defence.
22. Walter Logan Bill - particularly as it affects our administration of foreign funds control.
23. Monetary and customs union of free countries (?)

Treasury Department
Division of Monetary Research

40-A

Date..... November 27, 19401939

To: Secretary Morgenthau

From: H. D. White

Shipments to Japan

1. Lubricating oil shipments are high: 243,000 bbl. in four weeks - equal to 50% of total 1939 exports to Japan. (24,000 bbl. were aviation lubricating oil).
2. Gasoline shipments continue high: 375,000 bbl. in last four weeks - all of it high octane and licensed. (This quantity is more than one-third of total 1939 shipments).
3. Crude Petroleum shipments in the last four weeks are below the preceding four week period, but are still high (1,000,000 barrels) and apparently rising. Half of the exports are high grade and licensed.
4. Fuel and gas oil shipments are relatively high: 600,000 bbl. in four weeks - and are rising.
5. No scrap has been shipped in the last three weeks.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 27, 1940

TO Mr. White
FROM Mr. Ullmann
Subject: Export Control — Shipments to Japan

1. In the four weeks ending November 25, we exported 375,000 barrels of gasoline to Japan — all of it high octane and licensed under export control. This quantity is equivalent to more than one-third of our total 1939 shipments of gasoline (all types) to Japan.

In these four weeks, the highest shipments were in the last week reported.

Total gasoline shipments since the President's Proclamation of July 26 have amounted to 1.6 million barrels — compared to 1.2 million barrels in the whole year 1939.

2. In the four weeks ended November 25, we exported almost one million barrels of crude (all types). While this quantity is below shipments in the preceding four week period (1.5 million barrels), exports rose toward the end of the recent period.

Of the one million barrels of crude shipped in the last four weeks, a half million consisted of high octane or blended crude, and was licensed for export. 342,000 barrels of the licensed crude were shipped in the last week of the period.

3. In the four week period, we shipped to Japan approximately 600,000 barrels of fuel and gas oils, which can be used without further processing. These exports, although at a slightly lower rate than in 1939, rose toward the end of the recent period.
4. In the last four weeks, we shipped 243,000 barrels of lubricating oils — approximately one-half of our total lube oil shipments to Japan in 1939. This is supposed to be a product for which Japan is especially dependent on imports.

24,000 barrels of the recent shipments consisted of aviation-quality lubricating oil, all subject to license.

5. In the week of October 19-26, 21,000 tons of scrap iron were shipped to Japan. No shipments have been made in the period since then.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 27, 1940

M. H. C.
TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. Feis telephoned me from the Department of State at 11:15 this morning to inquire whether the Treasury kept a running account of the British financial position, particularly with respect to assets in this country. I told him that we had no statement prepared to date, but that we would assemble data of this character and would have certain figures available for Secretary Morgenthau within the next day or two. Feis said that Secretary of State Hull would like to have such a statement for his own instruction, and not for any distribution. I told Feis that I would take this matter up with Secretary Morgenthau and let him hear from me later.

W. M. C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 27, 1940.

TO Secretary Morgenthau
FROM Mr. Wiley

The problem of tracing the use of foreign funds for subversive activity is an integral part of the problem of identification of all foreign fund movements within the United States and between the United States and other countries. So far, while several hypotheses have been suggested by the meager facts available, we do not know how subversive activity is being financed, nor do we know whether the sources of such financing are from dollar balances brought into the United States or from dollar balances created here out of Axis-controlled assets. FBI is collaborating with good will, but there are inherent difficulties in being serviced by another organization primarily concerned with other and very pressing problems. Should a general foreign exchange control program be launched, as recommended in your letter of a few weeks ago to the President, the Treasury would have a legitimate reason, if not the duty, to assume the entire job of investigating and supervising the use of all funds. (The relations with FBI would then become only those of liaison.) I have prepared in a separate memorandum, supported by several underlying memoranda, a program for this contingency. Should the Administration not embark upon a program of general freezing, the task would be one of closer association with other agencies of the Government. In the meantime, however, whatever the conclusion with regard to general freezing, a quiet census has been begun of Axis funds in the United States in order that we may be able to ascertain what clues may exist with regard to the use of foreign funds in this country for subversive activity. For this purpose, two studies are under progress in the Bureau of Internal Revenue, one an enumeration of names and addressees and other printed information with regard to withholding of taxes on account of dividends, royalties, and rents to non-resident aliens, and the other a quiet survey of income tax data in various revenue agents' offices, particularly New York.

It is necessary, however, if the entire pattern is to be worked out, that provision be made for a continuous foreign study. Our records would indicate large movements of funds from the United States to South American countries and movements in turn from South America into the United States. Likewise, there are transactions which originate in Switzerland and Sweden as well as in countries like Bulgaria and Yugoslavia, but which suggest that they are actually ultimately controlled from Germany and Italy. A tentative exploratory discussion with Mr. Berle of the State Department has not been fruitful. It is respectfully suggested that this subject deserves greater consideration.

The recommendations of the Secretary of the Treasury of November for an extension of foreign funds control, if approved, will create a situation of vast magnitude which calls for the immediate elaboration of a detailed plan of action and intensive preparatory work. Otherwise, the Treasury Department might find itself at a great disadvantage.

In any such plan of action, the problem of identifying and tracing the use of foreign funds should be considered as an integral part of the general question of controlling foreign funds and other assets in the United States. The technique hitherto employed by the Treasury Department in respect of the funds of certain invaded countries should be revamped and made much more comprehensive. The following suggestions are therefore respectfully submitted for consideration:

A plan of action should be worked out in two phases in order to secure (1) a minimum of evasion and a maximum of authority over all foreign holdings, and (2) flexibility of administration and a reasonable degree of decentralization.

In phase one, Treasury enforcement personnel should be prepared to enter key banks, industries and other institutions under foreign control on the zero hour in a synchronized operation throughout the nation and the territorial possessions, in order to prevent the evasion of assets and the concealment of records. The authority for their intervention would derive from reporting requirements.

Phase two would come into operation when all funds and assets had already been frozen. It would provide for a decentralized but complete control over all foreign banks and institutions and, wherever desirable, for their normal functioning without nullification of the purposes of the freezing operation.

By "voluntary agreement" each key foreign institution, in exchange for relaxation by the Treasury of the requirement of special licenses to cover each transaction, would employ an associate comptroller with co-signing powers. He would enjoy the confidence of the Treasury and would report to the Treasury under appropriate Treasury regulation and be vested with the authority of permitting certain types of transactions without the necessity for prior Treasury approval. This person would have appropriate assistants

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and would report to the Treasury both suspicious past transactions (bearing on subversive activities, espionage, sabotage, etc.) as well as other useful information. The Treasury would supervise the activities of these persons.

Necessarily there would follow coordination and investigation by reviewing personnel in the Treasury. This would require intelligence work here and abroad, particularly in countries under general license (Latin America, etc.).

The following steps are proposed in preparation for an efficient functioning of the foregoing:

- (1) Determination of the specific enterprises falling under phase one, and the formulation of a detailed list of items to be reported. In so far as possible the reporting requirements should be so handled as to operate as a prohibition of transfer and evasion.
- (2) Personnel should be carefully chosen and trained in advance and secretly for the operation of phase one. This personnel would probably be limited to the Treasury field force of Revenue Agents and enforcement men, including possibly national bank examiners. However, collaboration with the SEC, FBI, Anti-Trust Division, Defense Commission and State Department, should be considered.
- (3) Personnel should be selected for the implementation of phase two. Here consideration should be given to avoiding all reasonable charges of confiscation, self-interest, etc., and procedure should be evolved to insure loyalty and impartiality.
- (4) Foreign service personnel should be chosen by arrangement with the State Department, if possible, but under the direction of the Treasury.
- (5) A procedure should be evolved and personnel chosen for following up clues, determining questions of fact, and preparation of material on possible violations of law as well as for liaison with the Department of Justice (including FBI).

MEMORANDUM ON PHASE ONE

The purpose of this phase is not only to freeze (which would be accomplished by the order itself), but in so far as possible to prevent the concealment or alienation of (1) property subject to the order, and (2) relevant, important evidence. Though the monetary position of the United States would not be substantially impaired by concealment of balances, our bargaining and control position (and powers of set-off) vis-a-vis other governments could be materially affected; and the purpose of discovering clues to subversive activities might be frustrated. The statutory justification for phase one would be the provisions for reporting, and both in law and in fact the Treasury would be obtaining a detailed census of all frozen assets and of much relevant information.

Phase one presents difficult special problems. Among these would appear to be the following:

- (1) Close association of FBI.
- (2) Agreement upon a list of enterprises to be visited on the zero hour.
- (3) Decisions with regard to the information and material to be sought on the zero hour.
- (4) Choice of appropriate personnel to conduct the visiting.
- (5) Drafting of instructions and procedure.
- (6) Procedure for watching and investigating employees and other persons associated with the concerns under supervision.

A. FBI Association

At the threshold we are faced with the necessity for a clear understanding with the Attorney General or with Mr. Hoover. Since a prime purpose for phase one is the discovery of facts bearing on subversive activity, the concurring views and the intimate collaboration in this phase of the FBI are essential. Should FBI have contrary views, the entire undertaking might have to be reconsidered in the light of the Treasury's remaining interests. This would not necessarily mean an abandonment of the project, but it would certainly mean its revision.

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B. Identification:

We must proceed with lists already prepared of foreign corporations and individuals having interests in the United States, adding to these lists such additional names as we may have. These lists include —

- (1) Lists prepared by Monetary Research on the basis of Department of Commerce studies of income tax data.
- (2) Lists prepared by ENEC, Anti-Trust Division and FBI, concerning foreign interests in defense materials.
- (3) Lists of withholding agents now being prepared under supervision of Special Agent Peabody in the Bureau of Internal Revenue.
- (4) Miscellaneous material, such as possible SEC lists, Department of Commerce lists, State Department lists and British Intelligence Black Lists.

As to each establishment, an informative statement should be drawn up indicating whether special attention is desirable. In the case of certain establishments and particular problems, the application of phase one might not be profitable, desirable or feasible. This is a stage to which the Division of Monetary Research should make an immediate contribution, presumably by the assignment of one or more persons working with the greatest possible speed and with the largest economy of effort.

When the important enterprises have been chosen, they should be grouped by location and character. It should be borne in mind that the possessions of the United States are also included in the general freezing program (Japanese interests in Hawaii and the Philippines come to mind).

C. Method and Contents of Reporting:

In view of the fact that it is desired to make the reporting requirements operate as injunctions against concealment and alienation, it would seem that consideration should be given to compelling constant and immediate disclosure of essential facts. It would be desirable to prepare in advance for each organization a list of the persons whose sworn statement with regard to assets, records, etc., it is necessary to have and to compel these persons to state immediately, under oath, every essential fact and then to compel them to report in advance every material change, so that we may be in a position to frustrate such changes by appropriate methods (publicity, if necessary). This is a problem which requires the most careful attention of the Legal Division.

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It may be borne in mind that an appropriate category for reports is the necessity of determining nationality. This is a concept which is divisible into nationality of personnel, nationality of affiliation, nationality of control, etc., etc.

Information sought under the reporting system should include:

- (1) Detailed list of all assets and where kept. In particular, bank accounts, safe deposit boxes, strong boxes, cash on hand, securities, etc., should be identified and verified in the presence of Treasury Agents. If possible, attempts should be made to seal concealable or disposable assets (for example, caveats may be sent to safe deposit companies).
- (2) All cancelled checks, books of account, codes, correspondence, expense accounts and the like should be identified, described and examined. It should be discovered what forms are used for correspondence abroad and who is in charge of such correspondence. A complete list should be obtained of all expenditures with explanations, of the existence of secret records and funds, etc. Special attention should be given to such problems as gross receipts, accounting systems of operating companies, salesmen, etc., as a device for concealing income or expenditure.
- (3) Special attention should be given to reports on employees. It should be ascertained who are alien and who are naturalized, what the function of each is, etc.

Information obtained in the reports should be reduced to writing immediately and signed under oath by the appropriate representatives of the establishment. Since this is the point at which legal sanctions enter, care should be taken that the oath is so phrased as to provide the maximum basis for criminal prosecution should there be any material misstatement or misrepresentation.

It may also be borne in mind that special questions will arise with regard to particular establishments and that, therefore, we must have, in addition to items of a general character applicable to all enterprises, items which are applicable to each particular enterprise.

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D. Personnel:

It is clear that the personnel problem for phase one must be decided on the basis of what is possible as well as what is desirable. We are necessarily limited to the Treasury personnel especially since we must make our preparations with the highest secrecy. No doubt Revenue Agents and special agents are most familiar with corporations and individuals already examined for income tax purposes, and national bank examiners will be most able to handle banking matters. In no case should fewer than two persons be sent in -- as a precaution. In all probability it would be desirable to have a stenographer as well. The views of the FBI should be obtained with regard to any particular corporation which may be under scrutiny, although it is undesirable that the Treasury should share with any other agency the responsibility for the execution of this phase.

A list should be prepared of Treasury personnel, assigned to particular institutions, after consultation with Messrs. Peabody, Fehle, White and Bernstein.

E. Supervision and Coordination:

It will be necessary to set up a procedure for coordination and supervision of phase one. It must be borne in mind that action may be necessary in Hawaii, the Philippines and many parts of the United States in complete synchronization. The zero hour will have to be fixed sufficiently in advance to enable as thorough a preparation as possible. But since the determination of the zero hour may not be left to us, thoughtful consideration must be given to formulating a procedure for synchronization. A manual of instructions will have to be prepared, and report forms, oath forms, etc., drawn up. Telephone and other communication facilities will have to be provided for.

F. Publicity:

The question of presenting phase one to the public as a normal, routine Treasury operation should be given great attention. This is not only important for public opinion at home, but is essential in order to prevent unnecessary complications and repercussions abroad.

MEMORANDUM ON PHASE 2.

The purpose of Phase 2 is at least twofold: First, to provide an effective decentralization of foreign funds control necessitated by the magnitude of the task and to alleviate the difficulties inherent in centralization in Washington. Second, to provide an efficient means of observation and investigation of questionable transactions.

Decentralization of control would enable us to shift the scrutiny of lesser, day-by-day transactions to a man on the spot, reserving to us in Washington consideration of large questions of policy and of coordination. It is recognized that the system of relying upon banks for scrutiny has its merits, but the burden that it would place upon the banks in the event of general freezing would be so large that we could properly expect either a spottiness of enforcement or a resistance to enforcement that would frustrate our program. The plan herein proposed would promise a much more effective and equitable regime in the case of a general system of control involving large financial, industrial, and commercial institutions, not all of them dominated by friendly management.

Ultimately, Phase 2 would provide a smooth method of alien property custodianship, should events call for it.

Phase 2 would appear to be divisible into several parts:

1. Development of a procedure for passing from Phase 1 into Phase 2.
2. Choice of personnel for implementation of Phase 2.
3. Development of a procedure of investigation, supervision, liaison, and reporting under Phase 2.

A. Passing from Phase 1 to Phase 2.

Theoretically, the second phase requires voluntary agreement on the part of the affected enterprises wherein the Treasury would offer a desirable alternative to detailed special license arrangements. In the case of large enterprises such as banks, brokerage houses, and similar financial institutions, it would be suggested that a co-comptroller be installed at the earliest possible moment.

Several considerations, however, must be borne in mind. In the first place, should enterprises refuse or neglect to consent to a co-comptroller, what alternatives would the Treasury be willing to adopt? Would we, in fact, be willing to undertake passing on individual transactions? No doubt this is a problem which has been receiving careful study by the Foreign Funds Control Committee. It may, perhaps, appear advisable to compel acceptance of the co-comptroller idea rather than to present it as a more palatable alternative.

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There are, also, practical considerations concerned with the public relations aspects of the program. It must be made clear that this is not a system for political patronage or the handing out of juicy plums, or a scheme to steal trade secrets on behalf of competitors. A constant watchfulness against unfavorable propoganda will no doubt be necessary.

Phase 2 not being applicable necessarily to every single enterprise in the list of enterprises involved, those selected for this phase must be the more important, complex, and potentially useful. For this purpose we must keep in mind, among other things, possible later Americanization and constant coordination with the defense program as well as with the FBI.

Finally, it will be seen that a study might well be made of the experience and files of the Alien Property Custodian's office. This point should not need elaboration at this time.

D. Choice of Personnel.

It has already been indicated how important personnel will be in this phase. The problem is not an easy one. Clearly, however, required personnel would fall into several classes. There would be executive types to act as co-comptrollers and in large enterprises there would be assistants to the managers. Each enterprise must be considered separately with a view to its own special requirements. The cases would be handled, in other words, as are rehabilitations of sick industries where rehabilitators are generally persons chosen on the basis of special capabilities for specific jobs.

However, the general qualifications of personnel should be carefully considered, in order to avoid charges of political patronage, etc., etc. It would appear desirable, for example, that an appropriate oath or pledge be formulated, prohibiting use of information for personal gain or otherwise, and for the interests of the Government and the corporation in question, etc. Consideration should be given to the appropriate sanction for violation of this oath--a legal problem. The persons chosen might well be members of a profession having its own canons of ethics with appropriate sanctions--such as the legal profession, the accounting profession, etc.

The question of compensation is a difficult one. Arguments can be plausibly made on both sides of the issue whether the Government or the enterprise should foot the bill. Payment by the enterprises would save us budgeting ourselves. But from a public relations standpoint no doubt payment by the Government, at the Government scale, would

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remove a possible charge of patronage. On the other hand, the salaries paid by industry would be higher than those paid by the Government and would therefore attract abler personnel. The task anticipated is so difficult that we could not very well draw even on the present higher grade Government personnel for the purposes of this program. While, therefore, we must call on outside men, and permit the affected enterprises to retain them on salary, careful consideration should therefore be given in each case to the reasonableness of salary paid and the ability of each enterprise to foot the bill. Of course, the alternative system of special licenses might be so much more burdensome and expensive to any particular enterprise that the superimposition of a new salaried officer would be relatively cheaper.

D. Procedure for Investigation and Reports.

It will be necessary to work out a manual of instructions and a procedure for supervision and reporting in order that essential information may be coordinated, consistent policy determined, and essential information conveyed to the appropriate quarters within the Treasury and elsewhere in the Government. For this purpose the supervisory organization in the Treasury will have to be revamped and perhaps expanded. The problems arising here would be largely different from the bulk of problems now handled by the Foreign Funds Control. The training, however, which Foreign Funds personnel has undergone should be useful in tracing the outlines of this new supervisory program.

MEMORANDUM ON COORDINATION AND INVESTIGATION.

After we have instituted general freezing and have embarked upon either phase 1 or phase 2, difficult problems of enforcement, coordination and investigation will be presented. Presumably, general licenses will be given for certain areas, particularly South America. The tendency will therefore be for countries in fully-blocked categories to shift to, or to assume disguises of, areas under more general license. Furthermore, should subversive activity be frustrated by freezing, movement of funds into the United States for those purposes would be attempted through less supervised countries--Mexico, Brazil, etc. Our experience heretofore offers few criteria; hitherto, it would seem, the problem of evasion has not been important because the opportunities for evasion are so great, and we have been dealing with more or less friendly enforcing and self-enforcing agencies.

It would seem that three general types of activity will be necessary in this third phase:

First, we shall have to have the use of foreign service personnel to investigate abroad, so far as possible, the foreign aspects of transactions. For example, in order to determine whether a Mexican firm is actually of Mexican nationality and fealty, or only so disguised, machinery should be available for effective and prompt investigation in Mexico. We should, however, be able to receive continuous reports with regard to relevant activities in all foreign countries. A careful canvass would have to be made of key foreign cities. Such important places as Rio and Mexico City would probably have to be examined on the spot.

While the State Department would have to be consulted, it is to be borne in mind that the Treasury would have the whip hand; and if the State Department is unable to furnish a satisfactory servicing organization, the Treasury would be entitled to insist upon its own. This organization would to a large extent be quite open, but it is highly probable that a certain amount of secret activity might be necessary.

In the second place, a more or less elaborate enforcement machinery would have to be devised for the United States. Whether to recruit a new organization, from all sources (coordinated with the foreign service unit), or to create a unit in the Treasury agency service must be determined. It may be anticipated that the problems requiring attention would be both routine and undercover. For example, certain persons

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might have to be shadowed or their personal affairs discreetly inquired into. It would be advisable to coordinate such activity with that of the FBI, especially where a case of subversive conduct was indicated. In other instances we would have the problem simply of checking upon representations to the Funds Control Division.

The necessity of using both foreign and domestic investigative services would either arise from requests and reports from personnel placed in the enterprises under Phase 2, or from circumstances coming to the attention of the Treasury in either phase. Presumably, it may become advisable to adopt more or less of a policy of holding hearings on questions of fact rather than relying upon affidavits or other ex parte paper representation. A hearing procedure in the field or in the Department would call for the resolution of issues of fact. A procedure for preparation of criminal cases based on perjury would be indicated by the possibility of violations of the reporting regulations under Phase 1, as well as by presentation of affidavits and making of reports under oath in either phase.

The problem of organization of an appropriate enforcement unit must be given serious thought. The special questions would seem to call for a higher or different order of training than is required for the usual Treasury enforcement units, although there will be a large amount of investigative work that could be well handled under appropriate supervision by any of the Treasury enforcement agencies. We could call upon personnel now in the Alcohol Tax Unit or Narcotics Bureau.

It would seem advisable to consider the formation of a special unit drawn from the ablest personnel in all the Treasury agencies as well as from outside the Treasury, possibly to be attached entirely to the Foreign Funds Control organization. The size of this unit would necessarily be small to begin with and its growth would be determined by the number of problems arising. Personnel for the foreign service job could to some extent be recruited from existing State Department foreign service personnel, to some extent from the Treasury Customs Agency service, but to a large extent from new personnel, possibly including individuals already resident in the countries in question.

Finally, we shall need a coordinating organization here. The extent to which the routine enforcement work of the Foreign Funds Control Division shall be linked to the subversive activity problem could, no doubt, be more easily determined after the entire investigation has been longer under way.

There are undoubtedly types of reprehensible activity not made criminal by any statute and which a regime of foreign exchange control would probably not affect in any direct way. For example, the employment by the Glenn Martin plant of substantial numbers of persons suspected of being Nazi sympathizers; against this FBI has apparently been unable to do anything today and in the absence of action by the plant itself nothing further of a remedial nature can apparently be expected. A twilight zone exists with regard to American enterprises and funds used for pro-Axis purposes--an example, perhaps, is the alleged fortune of Whitehead, deceased operator of the Coca Cola bottling business.

The following are some transactions which have already taken place over which the Treasury would have a measure of control in the event of the institution of a foreign exchange control regime.

1. Use of American dollar balances (frequently in currency) in transactions involving alleged repatriation of German securities held in this country. It has been estimated by Mr. White's division that during the month of October and the first two weeks of November \$15,000,000 in cash alone was spent repurchasing \$75,000,000 par value of German bonds as a minimum estimate, amounting to about 60 per cent of all German dollar bonds held in the United States. Under a regime of foreign exchange control we would know more about the precise purpose of such transactions (the British have intercepted evidence that this has to do with German preparation for an appeasement program in the United States and the continuance of the fraudulent bankruptcy program involving a cheap depletion of United States bargaining power by way of off-sets). It also appears from FBI reports that German refugees

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in this country are being used in some of these transactions (for example, Jakob Goldschmidt, A.E.B. Corporation) and that in this connection these transactions are being used to cover up the salting away of funds for other purposes, possibly subversive (for example, FBI's discovery of Margaret Goyl, a stooge for Hermann Kollmar, and the Transfer Trust Limited's activities in Mexico City).

2. The Rueckwanderer mark system involves the probable dispoiling of the life savings of large numbers of gullible Germans in this country for various ends (the Chase National Bank alone from July through October handled \$1,160,000 of this kind). Today nothing is being done to stop this (although we have turned the matter over to the FBI) but under a system of foreign exchange control this fraud upon residents of this country could be promptly stopped. Related to this is the food package racket also indulged in by the Russians.

3. Axis powers are receiving royalties on American patents and copyrights in substantial sums but are refusing to make any payments except in blocked accounts to Americans in similar circumstances. Under the proposed regime this might promptly become a matter for negotiation.

4. Tremendous amounts of currency are being shuttled between this and other countries for activities largely subversive. The amount of money carried by Italian couriers to South American is, as any realist knows, sufficient to purchase the allegiance of persons of the highest importance in these countries, and the American dollar is undoubtedly being used as the currency of payment for activities against our interests throughout the world. The pro-

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posed regime could prevent cash from being paid out of bank accounts to such diplomats and could be used for diplomatic demarches to prevent importation or exportation abuses.

5. Payment and receipt of remittances from Soviet sources, undoubtedly for Communist purposes, are now entirely lawful and have taken place in substantial amounts. The proposed regime would prevent this.

6. Payments by consulates, embassies, corporations, and individuals falling under the inhibitions of foreign exchange control could be scrutinized. Today the Chemical Marketing Company and other organizations of the kind referred to in the Dies Committee "White Paper" would be subjected to close scrutiny.

7. Transfers of credits amounting to flight of Axis credits to Latin America to be used undoubtedly, however, within the United States by gradual repatriation in currency or disguised credit transactions are now taking place. The Italians, for instance, are reported to have in this manner built up a balance in Rio of no less than \$10,000,000. The Japanese and Germans are doing the same. The purpose of these activities is to place beyond our control all these funds. In view, however, of the fact that dollar creation sources remain in the United States a regime of foreign exchange control, such as is proposed, would prevent a continuance of this practice; and it might even enable us to control the repatriation, however disguised.

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A partial list of corporations suspected of subversive activity or of concealing assets subject to freezing:

A. Japanese. Mr. White has estimated that our assets in Japan are around \$200,000,000. Obviously our bargaining position with regard to Japan may turn on the concealment of substantial assets by Japanese in the United States.

1. Yokohama Specie Bank. This Bank has branches in New York, Hawaii and San Francisco, is controlled by the Japanese government, and has already been found to have filed false reports concealing about \$100,000,000 in assets from American banking authorities.

2. Mitsubishi Bank, Ltd., New York.
3. Mitsui Bank, Ltd., New York.
4. Bank of Chosen, New York.
5. Sumitomo Bank, Ltd., New York.
6. Bank of Taiwan, Ltd., New York.
7. Kyodo Fire Insurance Co., Ltd., New York.
8. Meiji Fire Insurance Co., Ltd., New York.
9. Nippon Fire Insurance Co., Ltd., Honolulu.
10. Tokyo Marine and Fire Insurance Co., Ltd., New York.
11. Iwai and Company, Ltd., New York (import and export).
12. Morimura Brothers, Inc., New York (import).
13. Mitsubishi Shoji Kaisha, Ltd., New York (import and export).
14. Yamanaka and Company, Ltd., Osaka, Japan (dealers in art goods with whom Customs has had difficulties).

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15. Nagoya Seito Kaisha, Ltd., New York (chinaware).
16. Mitsui and Company, Ltd., New York (trading in commodities).
17. Nissho Company, Ltd., New York (import and export).
18. Fuso Marine and Fire Insurance Co., Ltd., New York.
19. Yamacho and Company, Ltd., Seattle (import and export).

(All of the above have been incorporated in Japan, but are doing business in the United States. The 1939 tax returns in many of the above cases show alleged losses.)

20. Among the large accounts being monitored by FBI is Showa Tsusho Kaisha, which in New York City shows balances in excess of \$500,000.

In addition there are Japanese banks in Hawaii (two or three) and the Philippines which are apparently viewed with suspicion by FBI.

B. German. German controlled corporations which are more or less subject to suspicion include the following:

1. German Dye Trust. This consists of a group of corporations, including General Aniline and Film Corporation and subsidiaries some of which are as follows:

Agfa Ansco.

Agfa Raw Film Corporation.

Ozalid Corporation.

Winthrop Chemical Company (50 per cent).

American Magnesium Corporation (50 per cent).

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This group was described as far back as the last war (Alien Property Custodian report, 1919) as follows:

"The relation between the German Government and the great German chemical houses was so close that representatives of the industry were naturally almost direct representatives of the government and their work in this country gave them unequalled opportunities for examining our industries from within * * *. After the war began the industry became a center not only of espionage but of propaganda and of direct governmental activity. The number of striking instances of this development is so great that only a few can be detailed, but these appear sufficiently striking * * *."

The FBI is watching the Dye Trust activities, especially since two persons posing as aspirin salesmen in its employ were found actually to be engaged in subversive or at least dubious activities in the Western Hemisphere, including the carriage of secret codes (the Hoehne and Wolff cases).

2. Chemical Marketing Company and German Gold and Silver Refining Institute (Dr. Kertess and associates) are undoubtedly engaged in activities close to espionage according to the Dies Committee report.

3. Ufa Film. This is a propaganda agency and is being used in connection with the Agfa Ansco for taking pictures of military objectives in the Western Hemisphere in the guise of producing "educational films" for consumption in Germany.

4. German Shipping and Tourist Agencies (HAPAG, North German Lloyd, German Railroads Information).

5. German Money Forwarding Agencies (Robert Hautz and Company, New York and Chicago; Hans Utsch and Company, New York; Carl Marks and Company, New York; etc.)

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6. Durez Plastics and Chemical Company, North Tonawanda, New York.

FBI is interested in this company.

7. Pilot Reinsurance Company, 70 Pine Street, New York. Forty-six per cent of the stock is owned by non-resident German aliens worth \$1,240,000.

8. Allgemeine Elektrizitäts Gesellschaft, Berlin.

C. Italy. Italian banks represent the chief subject of interest with regard to Italy. They are controlled by the Italian Exchange Institute and their transactions as reported to us have been multifarious and mysterious. They include the following:

1. Banca Commerciale Italiana, New York agency (a foreign corporation).
2. Credito Italiano, New York agency.
3. The subsidiaries of the Italian Exchange Institute, such as the Banco di Napoli Trust Company, New York and Chicago, and the Banca Commerciale Italiana branches. The FBI has been observing these banks. The resident alien president of the Banco di Napoli, Chicago, was recently discharged by the Italian Exchange Institute for not being sufficiently pro-Fascist.
4. The General Insurance Company, Ltd., Trieste. This company is being watched by British Intelligence and is engaged in mysterious financial transactions in the United States through an individual named Hornik, residing in the Hotel Pennsylvania, New York.

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5. De Nobile Cigar Company, Brooklyn, New York, is Italian controlled; paid dividends to non-resident Italians in 1939 of about \$86,000 with a stock value of \$1,546,000.

D. Switzerland. The largest amount of payments to non-resident aliens in non-frozen Continental Europe today is in Swiss names. It is believed that the largest portion of this is German (for example, I. G. Farben).

The Electrolux Corporation is a suspect company. Thirty-seven per cent of the total outstanding stock is represented by dividends to non-resident aliens with Swiss addresses. The FBI has been watching the Swede, Axel Wenner Gren (owner of the yacht SOUTHERN CROSS), of this corporation very closely. The company has 331 branch offices manufacturing and selling vacuum sweepers etc.

Other Swiss companies that might bear examination are Hoffman-LaRoche, Inc., of Nutley, New Jersey, paying dividends to Swiss names showing a stock value of over \$5,000,000; Sandoz Chemical Works, New York City, paying dividends to a company in Basle, Switzerland, showing stock worth about \$1,500,000; Spur Distributing Company of Nashville, Tennessee, paying dividends to one Adolph Ganeg, Zurich, with stock valued at \$1,314,000; etc.

NOV 27 1940

Secretary Morgenthau

Mr. Tolay

Inquiry has been made as to whether the fact that the Stabilization Fund (Section 10 of the Gold Reserve Act of 1934, as amended) expires June 30, 1941 presents the Secretary of the Treasury from entering into an agreement with the Argentine Government and the Central Bank of Argentina under which the Argentine Government would acquire Argentine pesos and the Government of Argentina would receive United States dollars in exchange over a period of time, perhaps a year. The agreement would also provide for the repurchase of the pesos by Argentina and its Central Bank with United States dollars or gold at any time determined by this Government upon giving thirty days' notice.

I believe that a dollar-peso arrangement along such lines can be worked out which would be entirely legal despite the expiration of the stabilization laws on June 30 next.

I agree that it would be quite doubtful that a contract calling for purchases after June 30, 1941 of pesos with dollars would be legal, since it would be difficult to say that such a contract was "authorized by law" or "under an appropriation adequate to its fulfillment". (H.S. 3732, as amended - U.S.C. Title 41, sec. 11)

However, a valid contract accomplishing the same purpose could be drawn along either of the following lines:

(1) The Stabilization Fund, from time to time between now and June 30, 1941, could purchase the total amount of pesos agreed on, making payment therefor in dollars at the stipulated rate. The pesos purchased would be set up in an account on the books of the Central Bank of Argentina to the credit of our Stabilization Fund. Payment for the pesos would be made by establishing an equivalent dollar credit in favor of the Argentine Government or its Central Bank in an account on the books of the Federal Reserve Bank of New York. Title to the dollars and title to the pesos would immediately pass to the Government of Argentina and to the Government of the United States, respectively. The Government of Argentina would agree, however, that dollars would only be withdrawn from the account in its favor on the books of the Federal Reserve Bank in fixed weekly or monthly amounts over the one-year period. The agreement would also provide that any attempted withdrawal of dollars by Argentina in excess of the agreed amount would constitute a default under the agreement obligating Argentina immediately to repurchase all of the pesos held by the Stabilization Fund, and authorizing the Federal Reserve Bank to retain the balance of the dollar account on its books and apply it in liquidation of the repurchase by Argentina of the pesos.

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Such an arrangement would be legal, since it constitutes an outright purchase by the Stabilization Fund prior to the expiration of the powers and title to the dollars will have vested in Argentina immediately upon such purchase, even though Argentina agrees to limited withdrawals over a period of time extending beyond June 30, 1941. Moreover, the fact that Argentina has an obligation upon request to repurchase the pesos with dollars after June 30, 1941 does not affect the validity of the contract. So far as the United States and the Stabilization Fund are concerned, the repurchase of the pesos with dollars constitutes merely the liquidation of certain assets of the Stabilization Fund. Even if the Stabilization Fund expires on June 30, 1941, the liquidation of its assets is permissible, that is, it would be entirely proper for the Secretary of the Treasury after June 30, 1941 to liquidate any foreign currency held by the Fund and cover the dollar proceeds into the Treasury. Congress did not intend that upon the termination of the Stabilization Fund powers foreign currencies held by the Fund should be retained. The liquidation of the assets of the Stabilization Fund on its termination is comparable to the liquidation of the affairs of a corporation upon its termination, and in both instances there is legal authority to carry out such liquidation. Cf. (1900) 23 Op. Atty. Gen. 163. The opinions of the Attorney General and of the Comptroller of the Treasury cited below clearly indicate the existence of authority to liquidate after the expiration date of an appropriation contracts and other transactions properly entered into during the life of the appropriation. Since foreign currencies held by the Stabilization Fund at the date of its expiration may be sold in liquidation, there is no legal objection to entering into a contract prior to the date of the expiration of the Stabilization Fund which would assure the Fund of a customer for a particular foreign currency held by the Fund. This kind of agreement would appear to be not only legal, but prudent.

(2) Alternatively, the Secretary of the Treasury could acquire the pesos from Argentina before the expiration of the Stabilization Fund and make payment for such pesos over a period of a year extending beyond June 30, 1941. In cases in which officers of the Government have sought, after the expiration date of an appropriation, to use funds covered by such appropriation for the purpose of paying for purchases properly made during the life of the appropriation or otherwise to liquidate contracts made during the life of such appropriation, the Attorney General and the Comptroller of the Treasury have held that the appropriation in question may be used. (1877) 15 Op. Atty. Gen. 357; (1920) 32 Op. Atty. Gen. 399; (1901) 8 Comp. Dec. 346. Attorney General Charles Devens, in the opinion in 15 Op. Atty. Gen. 357, held that for two years after the expiration of an appropriation, the unexpended and unobligated portion of the appropriation could be used to meet commitments properly made during the existence of the appropriation.

(initialed) E. H. F., Jr.

cc: Harry White

Orig. to Sec. 11/27/40

Eeles speech
on November 27, 1940.

See Mr. Gaston's memo
of 12/4 reporting on
Jury's meeting with Messrs
Ball, Garton, White and
Mrs. Klutz to discuss
the speech and also
reporting on the meeting
with Messrs. Eeles,
Goldman and
Shurston at 3 pm.
12/4.

delivered
11/27/40

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Z-439

In appearing before the National Industrial Conference Board, it is appropriate that I should appraise the national economic outlook as I see it at this time. As Chairman of the Board of Governors of the Federal Reserve System, I am primarily concerned with banking and monetary problems and with fiscal policies as they affect monetary conditions. I can speak only for myself, and not for my associates on the Board or in the Reserve System, or for the Government. Many of the issues which I must touch on in order to present a rounded picture of present and potential problems as I see them are by their nature highly controversial. I wish to indicate my own views as frankly as possible for what they may be worth as a part of the full consideration and discussion that are required by the gravity of the times and the importance of the problems before us.

Underlying my approach to all of these problems is my belief that democracy and the system of free enterprise can function to provide reasonably full and sustained employment for all of our available man power, in peace as well as in war times. The great bulk of that employment is and must be provided by private enterprise. Public policy, therefore, should be directed to creating an economic climate that will give the greatest possible encouragement to private initiative and private enterprise that is consistent with orderly and continuous national progress.

The experience of the past decade has served to confirm my conviction that having given this encouragement to private activity, Government should assure employment on useful public works, on a basis that is noncompetitive with private industry, for those able and willing workers whom private industry is unable to employ. Far from being wasteful, that is the essence of conservation

for it means adding to the store of national wealth, in providing roads, schools, hospitalization, public housing, and other betterments, that private enterprise does not and cannot be expected to provide. We gain all these things instead of irreparably losing the product of labor by keeping it idle. Such a policy is economically sound, and when supplemented by an adequate social security program of pensions, public health and relief for the unemployables, compensates for the loss of buying power when the expenditures of private enterprise decline. This in turn benefits private business and restores national income and national revenues.

While fundamental principles of Government policy do not change, policies must vary as economic conditions change. Policy that is appropriate to a period of deflation and under-employment is not appropriate for a time of full employment and the inflationary possibilities that then arise. At a time when activity is rapidly expanding, and we are approaching conditions of reasonably full employment, the fiscal and monetary policies appropriate to the depression period need to be altered to fit the changed conditions.

A condition of rapidly expanding employment and production has now begun to develop, primarily as the result of our vast defense effort and British purchases and their stimulative effects, both directly and indirectly, on the entire economy. I wish now to discuss what seem to me to be the major factors, in the light of present conditions, that should be taken into account as they affect the banking and monetary field, the budget and taxation.

We are again hearing much about the dangers of inflation. It is vitally important to face the inflation issue squarely, but it is also important

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not to become mere inflation alarmists. We have had too much loose talk about inflation for seven years. First of all, we must distinguish between a price inflation due to non-monetary causes and one resulting from monetary causes. I have several times in the past defined the latter as a condition arising when the means of payment in the hands of those who will spend it increases more rapidly than the production of goods. This means that the economy has reached the limit of its ability to produce, that is to say, full employment of its man power and productive facilities, but that, nevertheless, the creation of money continues, uncontrolled and unchecked. A price inflation, due to non-monetary causes, arises when production in particular fields is interrupted or curtailed, whether from bottlenecks, short-sighted wage and price policies, monopolistic practices by capital or labor, or related causes, when there is pressing consumer demand for the goods produced in these fields and when there is neither a shortage of facilities that exist or can be constructed or a shortage of man power. The cure for such a condition is not less, but more production. It cannot be remedied by monetary means, except at the cost of restricting the entire economy.

The immediate danger is that the upward spiral of prices in particular sectors of the economy will throw these sectors out of balance with the rest of the economy, to the detriment especially of agriculture, unorganized labor and both the low income and fixed income groups. Since our major objective at all times, and especially when we cannot afford to lose time in building our defenses is full production and employment, it is essential in the general welfare that business and labor avoid strikes and lockouts that interrupt the flow of production, and likewise avoid price and wage policies that induce forward-buying

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and inventory bulges due to fears of higher prices.

It would be best for all concerned if through self-discipline capital and labor prevented these abuses from developing, but if they fail to do so, regulation by Government will be necessary. Through increased efficiency and operating for longer hours, capital and labor can increase production. To avoid bottlenecks due to skilled labor shortages in certain fields, it will be necessary not only to utilize existing skills as fully as possible by working longer hours, but also to increase as rapidly as possible vocational and apprenticeship training. In these ways bottlenecks and unwarranted price rises can be avoided. Otherwise, governments have no choice, as we have seen in other countries, except to intervene directly by enforcing priorities, by preventing strikes and lockouts and by fixing prices as well as wages and hours.

These are vital considerations at this time when production must not merely be sustained, but must be greatly expanded to provide defense requirements and at the same time take care of normal civilian needs. I do not think it possible to over-emphasize the evils in the kind of inflation originating in what essentially are monopolistic practices either by capital or labor. The result is not only greatly to increase the cost of defense as well as the general cost of living, but the need to redress the unbalanced conditions that inevitably follow calls for increased subsidy payments to agriculture and increased payments in pensions and relief for the aged and the unemployed in order to try to make up for their diminished buying power. Likewise, it leads to demands on the part of all who are employed for increased wages and salaries to help them meet the increased cost of living. The result is the familiar general upward

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regiment of all prices which in the end benefits nobody, and defeats the essential national purpose of substantially full employment and production for defense as well as for civilian needs.

I am aware that some men in business and in the ranks of labor feel that they should be allowed to make up now for some of the lean years. Past losses cannot be made up now except at the risk of those inflationary consequences. The price and profit increases necessary to make up for such past losses would have to come out of the economy generally, at the expense of all other groups.

This problem -- what may be called the bottleneck problem -- requires that now more than ever before we keep a discriminating eye on price movements. Any increase in business activity characteristically produces relative scarcities in certain areas of production relative to the whole. These relative scarcities tend to cause price advances. This is particularly true of a period dominated by defense expenditures. The defense program is concentrated upon specialized sectors of the heavy goods industries. Every effort must be made to increase supply in these areas. To the extent that supply cannot be increased with sufficient rapidity to keep pace with both Government and civilian requirements, priorities and rationing may be necessary as a check upon undue price advances.

There would be no economic justice in permitting the necessities of a great national emergency to yield excessive returns to producers in specialized areas at the expense of the rest of the community. Primary responsibility for preventing the breakdowns, the price distortions and consequences to the entire economy that would result from the attempt to take advantage of the emergency

rests upon business and labor leadership. We need above all in this crucial period rapidly expanding production in the industries where preventable bottlenecks are most likely to develop. The time may come when we shall have to curtail private purchases of automobiles and private and public construction in order to give the defense program the right of way in the heavy industries. But priorities and rationing should not be applied until we have exhausted every effort to enlarge productive capacity in the bottleneck areas.

We must also keep a vigilant eye on speculative forward-buying and excessive inventory accumulations. We should be alert to the possibility that the large cash and credit resources available might be turned into speculative channels under the favorable expectations which a prolonged defense program creates. We would be better protected against such speculative inflationary developments if the volume of idle funds already existing were curbed and prevented from increasing still more and if our bank credit structure were again brought within range of control.

What I have been discussing are inflationary conditions due to bottlenecks and other non-monetary causes. Looking beyond these immediate problems, we should be prepared to protect the economy also against the evils of general inflation due to fiscal and monetary factors.

As the result of gold imports, silver purchases, and purchases by banks of United States Government securities the volume of bank deposits has increased to the highest levels in the history of the country. Demand deposits and currency now amount to \$41.5 billions, or about \$14.5 billions above the peak of the boom period of the Twenties. At the same time, gold and silver

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purchases have raised the volume of excess reserves to \$7 billions, which is a wholly unprecedented volume, capable of supporting a bank credit expansion of fully \$60 billions in addition to the present total of deposits.

As long as these funds have been relatively dormant, they have not presented a serious problem except as they have tended to depress the interest rate structure to excessively low levels. To avoid that extreme -- to keep the bank credit picture within the realm of control that is the special responsibility of central banking authorities -- I advocated, in connection with the Banking Act of 1935, that Congress give the Reserve System adequate powers to absorb the excess, and I subsequently urged that consideration be given to the main causes of this condition, that is, to silver purchases and to the causes of the inflow of gold from abroad which are almost entirely responsible for the present and continuing growth of excess reserves. The authority granted by Congress has been entirely inadequate to cope with the unprecedented growth of excess reserves. For that reason, the Board of Governors as long ago as 1938 recommended in its annual report that Congress take cognizance of and deal with this rapidly enlarging problem.

The need for dealing with it becomes increasingly imperative because of the rapid expansion generated by the defense program. It is essential now that the excess reserves be brought within a range where they can be adjusted to the needs of legitimate business through the open-market function of the Reserve System, and not be left as a basis for an uncontrolled multiple credit expansion such as could be built upon them.

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By the open-market function, I mean simply the authority which the Reserve System has to buy or sell Government and certain other securities for its own account, these operations being carried out by the System's Open Market Committee. The importance of these operations lies in the fact that when securities are bought it increases member banks reserves. Conversely, when securities are sold from the open-market account it absorbs and thus decreases the reserves of member banks. The open-market instrument is a flexible one, affecting only banks that desire to purchase or sell securities, largely in accordance with their reserve position, whereas raising reserve requirements affects all banks in accordance with their classification. I want to say in passing that, contrary to a persistent popular fallacy, the Reserve System does not use reserves deposited with it by member banks to buy Government securities. Such bank reserves are quite literally locked up by the System and cannot be used as a basis for credit expansion. The System has specific authority to create the funds used in open-market operations. These funds are in no way dependent upon or related to such reserves as member banks carry with the Reserve Banks.

Regaining control over excess reserves is a necessary precaution against the inflationary possibilities of over-expansion of bank credit based upon these redundant reserves. It is not a step that would in any way restrict legitimate business expansion, Government financing or development of the defense program. It is a safeguard against necessary expansion developing into over-expansion -- into inflation of the means of payment out of all proper relationship to production. How this step may best be accomplished is a matter for Congress to determine.

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However, I see no feasible way to accomplish it except by increasing the reserve requirements of the banks to a point which would reduce the excess reserves to an amount that could be absorbed by the sale of Government securities from the System's portfolio, leaving only enough securities to take care of system expenses. In addition, adequate provision should be made for absorbing future gold or silver acquisitions that add to excess reserves. This power of raising or lowering reserve requirements should be made applicable to New York, the money center, or to all reserve cities, or to country banks, or to any combination of the three groups. This would provide for flexibility and make it possible to adjust reserve requirements more in accordance with needs.

Furthermore, reserve requirements must be made applicable to all banks of deposit, whether they be members of the Federal Reserve system or not. It is not equitable to ask only the member banks of the Reserve system to subject themselves to increases when those who elect to remain outside the System, or those who are now members and who choose to withdraw, can escape sharing in what is a national responsibility. This situation is not only inequitable but it renders monetary control ineffective so long as any bank that does not like the reserve requirements can relieve itself of the restriction by withdrawing from the system. Demand deposits are the major part of our money supply -- and control over their expansion and contraction must reach all banks that are in a position to create them.

As long as we have a vast oversupply of excess reserves, the inducement exists throughout the banking system to expand and to put those resources

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to work in loans and investments. When the economy is reaching the stage of full production and employment that inducement should be removed.

Not only do the excess reserves afford an opportunity for over-expansion but they also tend to depress the interest rate structure to excessively low levels. I have continuously advocated a policy of monetary ease as the appropriate accompaniment of a period of under-employment, but I have never favored artificially low rates such as have been brought about through an uncontrolled surplus of excess reserves. No such oversupply of excess reserves is necessary to carry out a policy of monetary encouragement to business recovery. Instead, excessively low interest rates tend ultimately to induce inflated prices of Governments, municipals, and other high-grade securities. The effects are reflected in credit lines generally, and are felt by insurance companies, savings banks, educational institutions, and other fiduciaries representing the accumulations of many millions of our people, small as well as large savers. Moreover, this creates a future problem for monetary authorities because at such time as it may become necessary to curtail further credit expansion, as a safeguard against inflationary developments, this step cannot be taken without causing a decline in the price of outstanding securities.

Although some interest rates have become extremely low, rates in the home and farm mortgage field have been relatively slow to respond to the general decline and are not now too low, in my judgment. I think there would be no justification for increased rates on home or farm mortgages, and that increases in such rates would be unwise and unwarranted. The volume of existing idle funds

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is so large that some of the higher bond and mortgage rates may go lower even though there is no further expansion of existing funds.

I am concerned with interest rates not as an end in themselves, but as a means to the end of stability in the progress of our economy. Excessively low rates do not contribute to stability any more than do excessively high rates. Neither is fair to lender and to borrower. It is one thing to have interest rates low as the result of the pressure of savings or investment funds on the market. It is a quite different thing to depress the interest rate structure abnormally through excess reserves created by causes extraneous to our economy. I have always contended, and I reiterate now, that these abnormal pressures should be removed, and they must be removed as an essential element of defending the economy against possible inflationary over-expansion later on.

As an additional measure I favor exempting deposits held with the Reserve Banks and vault cash held by banks from assessments for Federal deposit insurance. While I have never been against interbank deposits, I do not favor over-concentration of funds that serve no useful purpose at money market banks, but tend to depress short-term rates to such low levels that the very banks which concentrate their funds in the money centers find themselves in an adverse competitive position. Nor is it to the interest of the money market banks to accumulate excessive correspondent bank balances on which they can earn nothing, but on which they pay the assessment. Furthermore, if a bank's funds are locked up by the authorities to serve as reserves, it is not fair to the bank to require it to pay assessments on the locked up funds that earn nothing for the bank. Another reason for exempting reserves is that there is no risk involved in depositing these funds with Reserve Banks and thus no justification for assessing

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a premium to insure them.

Some of the large city banks have been much interested in getting legislation that will exempt them from paying deposit insurance assessments on the interbank deposits they hold. It seems to me that since they pay no interest to the depositing banks on these funds, that the more equitable amendment would be to exempt the originating bank from paying the assessment if these funds are deposited with Reserve Banks. In other words, if any bank is to be benefitted by exemption from the assessment, it should be the originating bank which deposits the funds as a reserve in the Reserve System, and not the bank that gets the use of the funds without paying anything for them. It is not in the interest of the city bank to have interbank deposits in abnormal amounts because they cannot be profitably used by reason of their volatile nature. The city banks should be interested in having only such correspondent bank balances as reflect the business done by the correspondent banks and the services rendered for them.

I have dwelt at some length on the general subject, with some of its ramifications, with regard to controlling monetary inflation by controlling excessive bank reserves. This subject, however, cannot be considered separately from the other sources of money-creation, that is, Government deficit-financing through the banks, and gold and silver policy. As an integral part of the general policy that is necessary for the period we are entering, we must discourage the purchase of Government securities by banks. For that creates new deposits. With the volume of bank deposits and currency greatly in excess of the highest levels we have ever had, it becomes important that we do not continue to add to this total, particularly at a time when one effect of the defense program is to activate the existing volume of deposits as they are drawn upon by business

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and put to more active use. Instead, Government securities should be sold to private and institutional investors. This has the effect of using existing funds rather than creating additional deposits. When the Government borrows existing funds it does not reduce the supply because as soon as these funds are expended by the Government, they go right back into the money system again, chiefly as bank deposits. Another popular mistake is to suppose that Government deficit-financing creates excess reserves. Instead, they originate from gold, silver, or other currency acquisitions. When the Government sells its securities to the banks, instead of creating excess reserves, this absorbs them because the new bank deposits thereby created have to be based upon or charged against the bank reserves.

So long as banks have an oversupply of excess reserves, they have every inducement to invest in Government securities. That inducement can only be reduced or removed by reducing or removing the excess reserves which, as I have sought to indicate, should be adjusted to the normal requirements of business. If this is done the rate on Government bills and short-term notes would be likely to increase sufficiently to attract the large amounts of idle corporate balances, representing reserves of various kinds, that have accumulated. For the most part, these funds are now deposited in banks and earn nothing for the corporate owners. They would be inclined to invest them in short-term Governments if the yield were raised from the prevailing artificially low levels. At the same time, longer-term issues should be adapted to the requirements of insurance companies, savings banks, and individual or institutional investors. Thus the non-banking market for Government securities would be broadened out to absorb whatever Government financing may be necessary during the period in which we are making large defense outlays.

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But deposits as well as reserves are also increased as gold and silver continue to flow into our money system. Even if we had authority to offset the effect of the gold and silver acquisitions on excess reserves, these acquisitions would still continue to add to deposits, unless we are prepared to deal with these factors at their source. I have publicly stated my opposition to the purchase of foreign silver as unjustified from a monetary standpoint. If, for other reasons, at this time it is considered desirable to assist silver-producing countries, that could be done by making loans secured by silver or other assets. Therefore, Congress should repeal the present legislation, and at the same time cancel out the billion and a half of seigniorage which could be used for issuance of additional silver certificates. Likewise, I favor canceling the authority under the so-called Thomas amendment to issue \$3 billions of greenbacks. Both of these sources of funds, if resorted to, would add to excess reserves and to deposits, and would greatly accentuate the problem of the monetary authorities.

While the expenditure of the gold stabilization fund would have the same effect, the problem of gold presents a particularly difficult question. I believe that Congress, in considering all the interrelated elements of the monetary picture, should consider whether or not it would be wise to make credits available at low rates, as a means of aiding the British, taking as collateral their gold, as well as their security holdings here, in Canada, or elsewhere, rather than to continue to accumulate more and more of the world's gold supply at the cost of inflating our banking and credit structure.

I have come last to the problem of the budget -- but not because it is of least importance. As long as we continue to operate on a deficit basis, it will be necessary for the Government to go to the market for the funds to make

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up the difference between tax collections and expenditures. I believe that we should at this time take further steps to close the gap between income and outgo as far as can be done without either confiscatory taxation or the retarding of private enterprise. So long as the Government is rapidly increasing its total expenditures, I do not see how these outlays can be covered on a pay-as-you-go basis because the increased national income and the tax revenues resulting therefrom cannot be realized until some time after the sums are spent. In other words, there is a lag between the time when the Government has to raise the money and the time when it takes effect as income among the people who ultimately receive it in payment for goods and services. Taxes on 1940 incomes are paid in the fiscal years 1941 and 1942. There may be a lag of a year or a year and a half before money borrowed for defense, in effect, shows up in expenditures, then in higher national income, and finally in increased tax receipts.

It would not be wise to try to put sufficiently high rates into effect to close the gap entirely until we have reached a condition of full production and employment. But at that time, the tax system in effect should be adequate to bring about the balancing of the Federal budget.

Revision of the tax structure should not be delayed until a full-employment income is reached. We should begin to re-design the tax system in the near future. First and foremost, we should revise our corporate, individual and inheritance tax structure so as to close very important existing loopholes that make tax rates much less effective than they should be. For instance, there is not much use in raising individual surtax rates if corporations are permitted to hold back earnings in the form of idle funds instead of paying them out as dividends to stockholders. If the estate and the individual surtaxes are to be made as pro-

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ductive as they should be, then the gift tax must also be revised. The excess profits tax, which is clearly inadequate, should be revised to apply to all earnings above a certain ceiling, say, of 10 per cent of invested capital, with such exceptions as may be necessary as a matter of equity or to stimulate new business. The present law allows an option under which corporations are able to make abnormal earnings after all taxes, including the excess profits tax, are paid -- earnings in some cases larger than they have ever been before. I am heartily in accord with the proposals of the Treasury with reference to the excess profits tax and to eliminate tax free securities.

The present tax structure, strengthened in the ways I have indicated, will bring in enormous revenues once the national income has risen to \$90-100 billions. As national income approaches these levels, rates should be raised still more if necessary to balance the budget.

In addition to our own large defense expenditures, the amount of which we cannot foresee at this time, there is the increasing amount of help to Great Britain which must also be taken into account. If the total of these reaches a much larger figure than is now apparent, it may be necessary to impose selective consumption taxes on those things that are most essential to defense and the least essential to civilian consumption, in order to divert production and income to defense purposes. This may become necessary as a measure against a general price inflation. But such taxes should not be imposed until we have first placed in the statute books a tax structure sufficiently progressive to insure that the defense program will not increase the current inequality of wealth and income. Indeed, tax policy should be designed to minimize this inequality, bringing about

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a wider distribution of the benefits as well as the burdens. When full employment and production have been reached, increased consumption taxes are the most effective means of preventing a general price inflation, but they presuppose the prior enactment of steeply progressive income and estate taxes.

Direct responsibility for taxation is, of course, outside the realm of monetary policy, but the subject of taxation cannot be separated from the primary concern of those charged with monetary powers and responsibilities. It is not possible to appraise monetary policy realistically without taking account of the effect of taxation and of Government financing on the banking and credit structure. When the time arrives when monetary restraints may become necessary, deficit-financing should be discontinued, thereby bringing the budget into balance. The time for such action will arrive when the economy has reached full production, that is, substantially full employment, and both monetary and fiscal policy may need to be invoked to maintain a proper relationship between production of goods and creation and use of money.

Since it would be practically impossible to balance the budget while public expenditures are rapidly increasing and before a much larger national income has been achieved, we might consider viewing certain expenditures for defense as a capital investment. In effect, it may be considered a necessary substitute for an equal amount of capital expenditure by private industry which in borrowing for capital outlay would amortize the debt over the life of the investment. If we were to treat the investment in ships, bases, arsenals, factories, powder plants and the other capital investments paid for by the Government as private business would treat similar capital investment, we might then consider covering only the amortization, operating and maintenance costs out of current receipts.

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No matter how these outlays may be regarded for bookkeeping purposes, the defense program is demonstrating before our very eyes the feasibility of raising the national income through governmental expenditures. Nor can there be any doubt that once a full income is achieved we can, out of a full income, raise enough taxes to cover expenditures. We can then have a balanced budget.

A full defense effort will bring very large profits. Profits of manufacturing and of trade were already very favorable in the five-year average 1936-1940. Indeed, for a great many companies they were larger than in any previous five-year period in their history. Many of our industries have learned how to live very well even under quasi-depressed conditions. At a national income level of from \$90 to \$100 billions, profits can be expected to rise to unprecedented levels. Without a steeply progressive tax structure these profits would bring increased concentration of wealth. Business leadership cannot afford to let the defense program yield this result. We shall do well, therefore, after the tax collection lag of the first years of defense expansion is overcome, to raise the whole of the budget through taxes.

There is one more suggestion in this field. Some considerable borrowing, in lieu of taxes, from the mass of the population, in the form of a modified "baby" bond, would be highly desirable, especially after a full employment income has been reached. If savings bonds are held widely through the country, by the whole population, a degree of security is achieved against unforeseen contingencies. In so far as such bonds may, after the defense effort is over, be converted into cash and the proceeds spent, business activity would thereby be stimulated just at the time when it needs to be sustained. Such a program would provide in some measure a post-defense cushion against depression. It therefore would seem to me

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wise, as employment increases and the income of the mass of the population rises, to intensify the national campaign to sell as many savings bonds as possible, especially to the middle income classes. Such borrowing would not preclude us from balancing the budget because we could use the proceeds from the sale of savings bonds to retire a part of the Federal debt now outstanding in the hands of banks and corporations.

Our productive capacity is greater today than ever before. It exceeds by far the peak reached in the boom of the Twenties. If we have the will to do it, we have the organization, man power, and resources to provide both adequate defense and a higher standard of living than any hitherto reached in our history. We are witnessing in the defense program what can be achieved in national prosperity, income and employment through adequate governmental expenditures. It is my hope that the country will never forget this lesson; that we shall henceforth use fearlessly the resources of the state to help maintain employment and business activity at a full income level. Once such a program is boldly adopted as a permanent policy, businessmen can plan their operations on the expectation of a gradually rising national income. This they have never been able to do in the past. Such a policy, boldly conceived and persistently carried out, would revitalize private enterprise. There is nothing in this program that calls for Government operation of productive processes. All production, even on Government projects, can and should be carried out under private contract. Private business would be assured a full market. The necessary tax bill would be a small price to pay for an assured market adequate to absorb all the productive capacity of modern industry. Think what such a market would mean to business!

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After the capital investment in defense is made, we will still have the heavy cost of maintaining our armed forces, which should be met out of current receipts. In addition, it is reasonable to expect at that time there will be large accumulated deficiencies in private construction of all kinds and other capital requirements. But it is unlikely that the volume of private activity would be enough to make up for the deficiency in production and employment once the heavy defense outlays, including the large exports of military supplies to Great Britain, are over. At that time, it is of crucial importance that we be prepared to make the transition to a peace-time basis without precipitating a period of idle men, idle factories, declining national income and increased Federal deficits.

It would be tragically ironic if we, as a nation, solved the problem of unemployment by making instruments of destruction, but were unable to maintain employment by making the things of peace. It is not for the purpose of returning us to the broadlines that we are making this vast defense effort to preserve our political and economic system. The transition will be effected more readily if at that point the budget is in balance. On the same principle that I stated at the outset, we should then be prepared to have Government take up the slack of employment, employing surplus labor, beyond what private activity absorbs, in useful ways. There are many with which you are familiar, such as public health and hospitalization, and particularly the urgent need for a vast reconstruction and improvement of our entire highway system to keep pace with automotive progress.

There is no excuse for defeatism, for having a static economy frozen at a level of under-employment. We are moving towards relatively full utilization

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of our men and our machines because of defense needs. When peace is restored to this world, we can, if we have the will and the wisdom, divert such of our productive facilities as are now employed in the destructive work of war into constructive work of peace. Thereby we can lay the foundations for a new and better world -- a world in which democratic institutions can survive.

PARAPHRASE

A confidential telegram (no. 1217) of November 27, 1940, from the American Embassy at Tokyo reads substantially as follows:

The American Consul at Dairen states in a despatch of November 22 that, according to information received confidentially from the representative at Dairen of an important French firm, attempts to negotiate barter arrangements for the exchange of goods between French Indochina and Manchuria have been entirely unsuccessful. According to this representative, who acted on behalf of local representatives in Manchuria in connection with this matter, a firm refusal was made in response to an offer to exchange Japanese tinned goods at present in storage for rice which the Kwangtung Army desires as a reserve in the event of war. This refusal was accompanied by a statement that French Indochina cannot afford to have unnecessary Japanese goods dumped upon it. In response to further inquiries, it was learned that French Indochina is not interested in obtaining any of the exportable products of Manchuria. The conclusion was reached by the above-mentioned informant that inasmuch as the authorities in Dairen are not able to supply foreign exchange, the use of forcible measures is the only means offering any prospect of developing trade between French Indochina and Manchuria.

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(CONFIDENTIAL)

P A R A P H R A S E

A telegram (no. 489) of November 27, 1940, from the American Embassy at Peiping reads substantially as follows:

It is believed that the only publicity given so far in Peiping to the five year plan for north China is the article in the September 20 issue of the Ch'engpao (see telegram no. 486, November 26, 1940, from Peiping) and a similar article which was published in July 1940. In neither of these articles has the Embassy found any evidence on the part of the Japanese of a realization that previous plans were too optimistic or any suggestion of a possible change in economic policy. Japanese spokesmen have admitted from time to time that their experimental process has not worked out satisfactorily in some respects and should be altered, and it is clear that many of the earlier plans have not been successful in application. However, the fact remains that at least for the past two and one half years there has taken place no noticeable abandonment of basic Japanese policy with regard to the economic exploitation of China, especially north China and "Manchukuo". Although there are from time to time isolated cases of improved treatment promised or given Chinese and commercial interests and unimportant changes in local regulations, the Embassy is not aware that the burden imposed by the chief restrictions on almost all forms of normal economic development in the Japanese-occupied areas has been generally lightened or permanently removed. Instead the trend in general still is in the

- 2 -

direction of complete control by the state with Japan as the principal beneficiary, if not the only one. Therefore, it is the opinion of the Embassy in Peiping that in the absence of developments to the contrary the announcement in Peiping of a five year plan for north China and the announcement in Tokyo of a ten year program for the yen bloc should be considered not so much an increasing sense of realism in connection with China's economic potentiality as the expression of an intention to strengthen policy now existing.

Copy:eb

TO THE SECRETARY
OF THE DEPARTMENT OF STATE
WASHINGTON, D. C.
OFFICE OF THE
ATTORNEY GENERAL

640 DEC 1 10 10 51

THE VISA DEPARTMENT
RECEIVED

HSM

PLAIN

London

Dated November 27, 1940

Rec'd 10:44 a. m.

Secretary of State,
Washington.

3859, November 27.

FOR TREASURY.

1. Asked in Parliament whether recent discussions between Mr. Morgenthau and a British Treasury official included a proposal for Britain to return to the gold standard, the Chancellor of the Exchequer replied in the negative. Asked if he would assure the House that no fundamental change would be made in the British financial system until Parliament is given an opportunity to express its views, Sir Kingsley Wood said: "Subject to the exigencies of the war, our monetary policy remains as set out in the second paragraph of the monetary agreement of 25th September, 1936, and is aimed at the greatest possible equilibrium in the system of international exchanges."

JOHNSON

OSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Hugh Cumming telephoned me from the Department of State this morning. He said that the Norwegians had asked the intervention of the State Department for the purpose of obtaining a reservation on a Pan American Clipper from Lisbon to transport to this country the Norwegian Minister of Finance, a member of the refugee Norwegian Government in London. Cumming stated that the Department of State hesitated to intervene in such cases unless there is some real interest of this Government concerned. He asked, therefore, whether the Treasury Department had any particular desire that the Norwegian Minister of Finance arrive in this country at an early date. I told Mr. Cumming that we had no negotiations up with the Norwegians which require the presence of the Minister of Finance here, and that the Treasury was not even aware of his contemplated visit to this country.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

11-28-40
TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

President George Harrison of the Federal Reserve Bank of New York called me at noon today. He stated that the National City had today received from the Reichsbank a cablegram closing out the Reichsbank account with the National City and instructing the latter to transfer their balances to the Swiss Banking Corporation, Zurich. Furthermore, the National City was not to accept any payments on behalf of the Reichsbank but to have these placed likewise in an account of the Swiss Bank Corporation, Zurich. It is Mr. Harrison's understanding that the National City is the principal depository in New York for Reichsbank funds.

Mr. Harrison also let me know that the National City had reported that the Japanese were very nervous in regard to their funds on this market.



EH

GRAY

Moscow

Dated November 27, 1940

Rec'd 7:08 p.m.

Secretary of State,
Washington.

1627, November 27, 5 p.m.

According to an announcement published in the Riga press on November 25 the Soviet ruble was as of November 24th declared legal tender in Latvia, Lithuania and Estonia. The local currencies will continue temporarily to circulate as legal tender together with the ruble. According to this announcement the rate of exchange is one ruble for one lat, lit and crown respectively.

STEINHARDT

EMB

bj:Copy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

Miss ✓
 TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£12,000

The Federal Reserve Bank of New York purchased £38,800 in registered sterling from the French American Banking Corporation, New York.

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

Sold to commercial concerns	£46,000
Purchased from commercial concerns	£ 5,000

The Swiss franc moved off slightly to close at .2320-1/2, as against yesterday's final quotation of .2321-1/2.

The other currencies closed as follows:

Canadian dollar	12-7/8% discount
Swedish krona	.2382
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

We sold \$502,000 in gold to the Central Bank of Uruguayan Republic, to be added to its earmarked account.

We purchased \$50,158,000 in gold from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank of New York reported that the Central Bank of Chile shipped \$572,000 in gold from Chile to the Federal for its own account, disposition unknown.

The State Department forwarded cables to us stating that the following gold shipments were consigned to San Francisco, for sale to the U. S. Mint there:

\$15,194,000 from Australia, shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.
 1,147,000 from Japan, shipped by the Yokohama Specie Bank, Osaka, to the Yokohama Specie Bank, San Francisco.
 135,000 from Australia, shipped by the Bank of New South Wales, Sydney, to the American Trust Co., San Francisco.
 \$16,476,000 Total

The report of November 20 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$10,240,000, a decrease of \$847,000 in the short position. Net changes were as follows:

Country	Short Position November 13	Short Position November 20	Decrease in Short Position
England*	\$ 898,000	\$ 370,000	\$528,000
Europe	3,915,000	3,746,000	169,000
Canada	198,000	46,000	152,000
Latin America	346,000	293,000	53,000
Japan	4,472,000	4,427,000	45,000
Other Asia	1,274,000	1,341,000	67,000 (Increase)
All others	16,000 (Long)	17,000	33,000 (Increase)
Total	\$11,087,000	\$10,240,000	\$847,000

*Combined position in registered and open market sterling.

The Bombay gold price was equivalent to \$33.79, off 5¢, and silver was unchanged at the equivalent of 43.66¢.

A price of 23d was fixed in London for both spot and forward silver, 1/16d lower in each case. The dollar equivalent of this price is 41.76¢.

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

We made three purchases of silver totaling 175,000 ounces under the Silver Purchase Act, all of which consisted of new production from various countries, for forward delivery.

We also purchased 100,000 ounces of silver from the Bank of Canada under our regular monthly agreement to buy up to 1,200,000 ounces. This represents the first purchase which we have made from that source in November.

[Handwritten Signature]
CONFIDENTIAL



OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

House
TREASURY DEPARTMENT

WASHINGTON

forwarded

93

November 27, 1940.

MEMORANDUM FOR THE SECRETARY:

1. Congressman Ludlow plans to start his hearings on Treasury 1942 estimates on Monday, December 16, on which date he probably will ask you to appear before the Committee. A statement on our budget will be prepared for you in advance of that date.

2. General regulations have been issued on the subject of deferments for employees called in the draft. A deferment may be requested for a "necessary man" in an activity "which is necessary to the national health, safety or interest". A "necessary man" is one who cannot be replaced satisfactorily because of a shortage of persons with his qualifications or skill in the activity in which he is employed and his removal would cause a material loss of effectiveness in such activity. I anticipate that deferment requests will be negligible and when a request comes in I will bring it to your personal attention.

3. About two years ago a model was constructed of a proposed booth in which a guard might be stationed to overlook the cash room of the Treasurer's office. I understand that you had planned to look at the model and to decide whether a permanent booth should be installed. You may wish to do this sometime when convenient.

4. The rules prohibit smoking by messengers in the corridors of the Treasury Building and its Annexes. The messengers report for duty at 8 a.m. and are here frequently until well after the usual closing hours. I have been requested to grant permission to the messengers to smoke before 9 a.m. and after 4:30 p.m., confining the "no smoking" rule to the regular 9 to 4:30 hours. This request seems reasonable and I will modify the order accordingly if it meets with your approval.

5. I have asked Mr. Reynolds, Commissioner of Public Buildings to have an album prepared for you which will include photographs of all public buildings erected during your term of office as Secretary of the Treasury and bearing your name on the corner-stone. Mr. Reynolds has promised to have this done.

6. A new dictaphone installation has been made in Mr. McHugh's room for recording your telephone calls and the old system of wiring has been checked over and put in first-class order. The Edison machine was looked into as to performance and cost but it did not seem to have any merits superior to the dictaphone which would justify substituting it for the dictaphone.

7. Following your instructions on "election contracts" -- Alfred Domiano has been given a 90-day appointment in the Office of the Collector of Internal Revenue at Brooklyn and Victor Thompson has returned to his work in the Procurement Division.

John

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Minister Procope of Finland telephoned at 9:15 this morning from New York. He said that the rumor was current there that the Treasury planned to freeze the assets of all European countries except Switzerland and Sweden. He said that to tie up Finnish funds would embarrass his country very much. He made the point that Finland is just now beginning to make a little progress in obtaining shipping permits from Great Britain, and hopes to improve its depleted economy without further undue hindrances. I told the Minister that there had been a different story printed in the press each of the past ten days on the question of the Treasury's freezing policy, particularly with respect to the possibility of extending the control to other areas. I told him there was nothing new on this to report. I added that the Secretary had been absent since November 7. The Minister will be back in Washington in a day or two and hopes to call on us upon his return.

301P

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

Share

 to Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, asked for an appointment to see me at 11:30 this morning. When he arrived he referred to the article in the Washington Post of yesterday, a copy whereof is attached, which the Ambassador felt grossly overestimated British financial resources. The Ambassador was unhappy because the story seemed to have some White House sources behind it, and asked that it be brought to Secretary Morgenthau's attention to see whether the latter cared to do anything about the story. I told Pinsent that I would be sure that Mr. Morgenthau saw the article, but that I doubted whether he would care to contribute any statement to the present speculative articles appearing in the press with respect to the British financial position. I remarked that with a Congressional inquiry into this subject likely, particularly if a revision or amendment of the Johnson Act comes up, and with Sir Frederick Phillips arriving here in a few days, I thought it very unlikely that the Secretary would see fit to make any statements on figures. Pinsent was particularly annoyed because Latin American investments of the British had been estimated at four billion dollars. He said this was roughly the nominal value thereof, but that the actual market value was far under that figure.

Administration Believed Viewing Plea for Financial Aid as 'Premature'

By George B. Bookman.
Post Staff Writer

Just back from London, Lord Lothian, the British Ambassador, declared yesterday after an 80-minute talk with President Roosevelt that to win the war Britain will need financial help next year as well as ships, planes and munitions.

He repeated the same request, in an interview with reporters, after an hour-long conference with Secretary of State Hull.

The Administration view, however—learned by The Post on high authority—is that the British request for financial aid is "premature," that the British should liquidate and spend some more of their estimated \$9,000,000,000 in Western Hemisphere investments before receiving loans or grants of American dollars.

(This figure presumably includes Canada, Mexico, Brazil, Argentina and other American countries in which Britain has heavy investments.)

When Lord Lothian stepped out of the President's office he volunteered to reporters, before being asked any questions:

"The President and I never mentioned finance at all."

Reported on War

He volunteered the same information after seeing Secretary Hull.

The Ambassador, who returned two days ago from a month's stay in England, left the President's office carrying a bulging dispatch case. He said he had given the Chief Executive a report on progress of the war.

"Is the outlook optimistic?" a newsmen asked.

"Yes, it is optimistic provided we get some help from you," the Ambassador said.

He then listed the forms of aid which he said Britain will need in 1941: finance, ships, and planes and munitions.

Asked whether the term ships included warships, the envoy said he had used the word "ships."

The problem of credits is one for "the first half" of 1941, Lord Lothian said, but he asserted that "the President made no promises."

Roosevelt, Hull Confer

Lord Lothian's afternoon calls at the White House and State Department came as financial help for Britain appeared to be a dominant topic in Administration conferences.

President Roosevelt conferred for a half hour with Secretary Hull during the morning, shortly after holding a long interview with the Congressional leaders, Speaker Sam Rayburn, Majority Leader Barkley and Senator Byrnes (Democrat), of South Carolina.

Barkley said afterward that he did not believe the matter of British loans or credits would be brought up in Congress during the remaining days of the present session.

The viewpoint of White House advisers, as disclosed to The Post, bore out Senator Barkley's statement.

These officials calling British requests for financial help premature, pointed to investments that Britons have in the United States, Latin America and Canada, and said that a large share of these investments should be sold in exchange for dollars before Britain is granted

American financial help.

It has been estimated that Britons have long and short term investments in the United States totaling \$2,000,000,000, in many types of manufacturing and distribution enterprises. More than half is in readily marketable stocks and bonds.

British holdings in Latin America, government experts said yesterday, are probably in the neighborhood of \$1,000,000,000. The largest share is in Argentina, where the British own many railroads and mines, but there are also heavy British holdings in Chile and Brazil.

In Canada, British has investments estimated at \$2,850,000,000. The largest share is in railroads, but there are important sums in manufacturing, mining, public utilities and government bonds.

Further, White House advisers point out that Canada has an estimated \$1,070,000,000 invested in the United States, which could be sold in exchange for dollars to spend on war supplies.

One thought in the mind of officials who explain this view is that, if Britain sells out these investments before borrowing money here, the United States at the end of the war will be the owner of much debt property in its own part of the world which is now in British hands.

The Administration view, it was further explained, is that public opinion in the United States is not ready for repeal of the Johnson Act, which bars loans to foreign nations in default to the United States, or for amendment of the Neutrality Act, which forbids loans to belligerent nations.

It was pointed out by high officials, meanwhile, that Britain could be extended financial aid that would not be forbidden by the Johnson Act or the Neutrality Act.

The law does not forbid outright gifts of money to Britain, officials said, nor does it bar "deals," such as trading American financial aid for British West Indian colonies.

Lord Lothian said in this regard, after seeing Secretary Hull, that the question of the West Indian islands had not been discussed.

Meanwhile, Chairman Walter F. George of the Senate Foreign Relations Committee arranged to sound out Administration views on possible further steps in aid of Britain at State Department and White House conferences.

Committee to Meet

Preliminary to the first post-election meeting of his Senate committee tomorrow, George will call on Secretary of State Hull this morning and later will confer with the President.

In general agreement with the Administration aid policy already laid down, George was withholding specific commitments on other steps that might be taken until he receives the "general picture" from Hull and Mr. Roosevelt.

Attention of the Foreign Relations Committee will be given tomorrow at its first meeting under the chairmanship of the Georgia Senator to a resolution for an investigation of the credit resources of Great Britain in the United States, including British property holdings. It was introduced in the Senate yesterday by Senator Nys (Republican), of North Dakota.

George expressed belief that this information, if and when needed, could be obtained from the Treasury Department.

On the King resolution, to allow the United States to lend money or extend credit forbidden by the Johnson Act, the Foreign Relations Committee was expected to either refer the resolution to the State Department with a request for recommendation—a course considered doubtful at this time—or temporarily "pass over" the resolution, postponing action.

Lacking a specific Administration request, the latter course appeared likely. Senator Johnson (Republican), of California, author of the Johnson Act, and ranking minority committee member, probably will ask that action be deferred.

Hull yesterday would not express an opinion on whether some form of aid would be possible without revision of the Johnson Act and the Neutrality Act. He said, however, that the whole question of financial aid to Britain would have to be considered by Governmental and Congressional authorities, to

establish a basic policy, before details could be discussed.

During the day, the President conferred with Dr. Paul Prebisch, head of an Argentine economic mission that has come to Washington reportedly in quest of a \$100,000,000 loan. The mission chief said he had not discussed the Argentine export problem with the President. He described his visit as just a "courtesy call."

Averring that morale in Great Britain is high, Lord Lothian told newsmen that the Royal Air Force gained mastery of the skies during

daylight hours in September, but that night bombings "present a problem."

The Labor Party "is now in an ascendancy it has never had before," he said, adding that "you can't do anything in England against public opinion."

His countrymen, the envoy said, were determined to bring the era of bombing to an end and create a world which would provide every man a job, as an inherent right.

In answer to statements attributed to Ambassador Joseph P. Kennedy, "democracy is dead" in Britain, Lord Lothian declared he had never seen "a more democratic country" in his life.

War Cost Rises

Glasgow, Scotland, Nov. 23 (AP)—Describing this as the most costly war the world ever has known, Sir Kingsley Wood, chancellor of the exchequer, said today that Britain's average daily war expenditures had risen from £5,300,000 (\$31,300,000) for the first year to £9,100,000 (\$49,400,000) for the first 77 days of the second year.

Sir Kingsley, speaking at the opening of War Weapons Week in Glasgow, said the rise in expenditures was a cause for gratification "provided always that the increase means output and not merely senseless increases in prices or wages or wasteful use of resources."

The chancellor explained that new and expensive weapons had resulted in the big increase of war costs.

"An airplane costs something like seven times as much as it did between 1914 and 1918," he said.

Referring to losses suffered by the Italian air force in the Battle of Britain, Sir Kingsley asserted that "an inferior airplane, as the Italians are discovering to their cost, is largely money thrown away."

Pointing out that taxation in Britain "already has reached very considerable proportions," Sir Kingsley said that the gap between income and expenditure must be bridged by the people "saving every pound and every penny to the point of real sacrifice."

He declared that the response of the British people to the war savings campaign had "confounded the gloomy prophets . . . and we can look forward to the future with confidence and hope."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Alexis Leger, whom I know in France for many years as Under Secretary in the Ministry of Foreign Affairs, called on me yesterday. As you may recall, Mr. Leger came to the United States at the time of the French armistice, and is remaining here indefinitely, his French citizenship having been cancelled by the present regime. I had assisted Mr. Leger with regard to his bank account when he first arrived, and he dropped in yesterday only to let me know how he was getting along and to gossip about France.

Leger feels that the present few weeks are a very critical period for all of Europe. He stressed the importance of Europe having a proper understanding of American sentiment. For instance, he thought that Russia would be guided in her diplomatic program to a large extent by the outlook for a British victory. That is, if Great Britain may not only show a strong resistance, but also be shown to enjoy close American friendship through which she will receive vital necessities for the pursuit of war. Russia is more likely to refrain from joining up with Hitler.

Likewise it is very important that the Petain Government may still feel that it has a friend in the United States. Leger was bitter in his description of the ruthlessness of Laval in striving toward bringing France directly within the Axis system. He feels that Laval will go to any length to Masify France and to fight Great Britain. While Germany has conquered France and has its own man in the person of Laval, this, according to Leger, is not enough to complete the influence which Germany desires to have over the French people. To accomplish this, it is essential to have the cloak of Petain over Laval, just as it was necessary to have Hindenberg back of Hitler when the latter was beginning his domination of Germany.

Leger states that there has been a strong swing of sentiment in France recently toward the British, and that seventy-five or eighty percent of the French are now hoping for a British victory over Germany. He said that it was so important that Petain should enjoy as great confidence as possible of the French people during this period of transition. Petain is an old man whose mental facilities function normally only part of the day, and who may drop out of the picture at any time, perhaps through a stroke or some illness that might result from winter weather, influenza etc. While Petain is in the picture he will be guided importantly by French public opinion. Laval has not been able to carry Petain along as far as Laval desired to go in subjugating France to Germany. The French resent very much the developments through which Laval has now caused to be rescinded the German promise to liberate French prisoners of war. Furthermore, the French dislike the Gestapo which is being built up in France with Laval's connivance, and resent the activities of the group of lackeys, including Bonnet, who are now surrounding Laval. Leger thought it was highly important that we

- 2 -

should have chosen such a distinguished citizen as Admiral Leahy as our new Ambassador to Vichy. He hopes that Admiral Leahy will be free to handle the broad lines of Franco-American policy and not be tied down to details. Leger ventured the opinion in this connection that we have been inclined in recent weeks to be a little too narrow in our diplomatic relationships with France. He said the danger of this is that France will think we have been alienated from our old traditional friendship with the French people, that we are now suspicious of their every move, and that as a consequence they may be forced to move toward consolidation with the Nazis, rather than to look to an eventual return of freedom through the efforts of their old friends Great Britain and the United States. Leger mentioned particularly our note to the Vichy Government which he thought stressed unduly the subject of the French fleet. He thought we had taken it too much for granted that France had any idea of permitting its fleet to be used by the Germans against Great Britain.

Furthermore, Leger thought we were wrong on our policy toward Martinique. He thought we were unduly worried about this island being used as a base to our disadvantage. On the other hand, he thought it unwise that we should make efforts at this time to obtain from France a concession for a base in Martinique or Guadeloupe. He said that our arrangement with Great Britain had set a certain precedent, but to obtain a similar concession from France in present circumstances would set up an even more dangerous precedent. That is, if we should now bring such pressure on Vichy that Petain granted us some arrangement for Martinique, in spite of the domination of France by Germany, the latter country might very conceivably demand naval bases in French colonies, most particularly the port of Dakar in Senegal.

In summary, Leger's arguments were that our manifestations of friendship and assistance for Great Britain would not only strengthen the morale and the physical resistance of that country, but would also at this critical time give Russia reason to think seriously before casting her lot further with Germany. Likewise Turkey and Greece, with both countries now encouraged by Greek resistance to Italy, might be further heartened by America's aid to Great Britain. In the third place, it is important to France that while Petain is still in office the United States should be friendly rather than too critical and assist Petain insofar as possible in his moral resistance to Germany's demands and Laval's intrigues. When we bear down too heavily on the Vichy Government because of Martinique incidents or for other reasons, we play into the hands of Hitler.



For Miss Gandy

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in Italian accounts maintained with:

Federal Reserve Bank of New York
Chase National Bank
National City Bank



Federal Reserve Bank of New York

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 25				\$500,000	Banco de Napoli Trust Co., N.Y.	Federal Reserve Bank, N.Y., for account of Guaranty Trust Co., N.Y.
				595,687	"	Check to order of Bankers Trust Co., N.Y.

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 27				\$ 60,000	Banca Commerciale Italiana, N.Y.	Check to order of Federal Reserve Bank of New York in Federal Reserve Funds
				50,000	Banca d'Italia, Rome	Chase National Bank, N.Y., for account of Banco Esperito Santo e Commerciale de Lisboa, Lisbon

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 25				\$ 300,000	Banco di Napoli Trust Co., N.Y.	Banca Commerciale Italiana, N.Y., by order of Istituto Nazionale per I Cambi con L'Esterio, Rome
				250,000	Banca Commerciale Italiana, N.Y.	Irving Trust Co., N.Y.
				48,628.02	"	National City Bank, N.Y., for credit and account of R. A. Cavin at City Bank Farmers Trust Co., N.Y.
Nov. 26				50,000	Banco di Napoli Trust Co., N.Y.	Banca Commerciale Italiana, N.Y.
				1,500,002.44	"	National City Bank, N.Y., for account of Banco do Brazil, Rio de Janeiro, by order of and for account of Istituto Nazionale per I Cambi con L'Esterio, Rome

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported to us the following transactions in the account of the Sveriges Riksbank, Stockholm, maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 26	\$60,000	Banca Commerciale Italiana, N.Y., by order of Banca d'Italia, Rome

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy

DATE: November 27, 1940, 7 p.m.

NO.: 1046

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Reference, telegram No. 83 of July 16, 10 p.m.,
from the Embassy.

It will be recalled that the banks in the occupied area were informed by the Germans that except when German finance officials were present no safe deposit boxes were to be opened. Since that time instructions have been received by the banks to advise their clients that the Germans must examine the contents of their safe deposit boxes, and they have set dates on which such examinations are to be made. For example, the branch of the Guaranty Trust in Paris was told that on November 21 all box holders were to visit the bank. They have set a second date, December 3, since many persons could not appear on November 21. Those who do not appear on December 3 will have their names referred to Wiesbaden, presumably for decision as to whether force is to be used to open their boxes.

It is necessary to remove all gold, uncut precious stones, foreign currencies and foreign securities, as well as French securities payable in a foreign currency, which
are

- 2 -

are found in the boxes. The holdings are then placed in a special blocked account in each bank, and receipts for the holdings thus sequestered are furnished by the bank to the clients.

END OF MESSAGE.

MATTHEWS.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 27, 1940

TO Secretary Morgenthau
 FROM Mr. Klaus

House

FBI reports:

November 20. The German Consulate has been attempting to prevent seamen from shipping on ships carrying cargoes detrimental to the German government; a Lutheran minister in Hoboken connected with the German Seamen's Missions is being used for this purpose; men are given free residence at the Mission in consideration of deserting ship and the German Consulate stands the expense. An affidavit dated October 18, 1940, by an Arab or Egyptian seaman indicates such activity with regard to a Yugoslavian ship by direction of Draeger of the German Consulate General, New York.

November 22. The manager of the Bond Department of Post and Flag was formerly with the B.C.I. in New York and it was probably through him that Post and Flag obtained its present Italian accounts. The B.C.I. agency is being used for the purchase of Italian bonds and miscellaneous securities in very small amounts.

November 22. The dollar value of Reichwandlerer marks traded in by the Chase National Bank from July through October 1940 aggregates \$1,160,000 in round figures.

November 23. Anglo-California, San Francisco, received \$60,000 by telegram from National City November 20 with instructions to pay German Consulate General, San Francisco, "by order of the Foreign Office, Berlin," the funds having been received by National City, New York, from the Reichsbank, Berlin.

November 23. Miscellaneous movements of foreign funds, including an October 19, 1940, item concerning the use of the accounts of the Governor of the Vatican with the Guaranty Trust Company and the Irving Trust Company to make payments for the Hungarian Steamship Company in favor of the Swiss Banking Corporation (totaling \$44,777) and further activities concerning the repatriation of German securities through Topken and Farley.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation.

Summary

(1) Commodity prices are continuing the gradual but persistent rise that has been under way since mid-August. The BIS price index of 28 basic raw materials last week reached a new high since last May, representing a rise of 11.4 per cent since its August low. The broad all-commodity weekly index has risen 3.1 per cent in that period.

(2) The cost of living index, as reported for October, has not yet started to rise. A decline in retail food prices during October, in fact, reduced the index very slightly in that month, representing the fourth successive decline.

(3) Backlogs of orders in the steel industry are continuing to rise, since production is unable to keep pace with incoming orders. While the operating rate of the U. S. Steel Corporation during November has varied between 98½ per cent and 100 per cent of capacity, new orders have increased to 141 per cent of capacity. The operating rate of the steel industry has not increased this week, holding unchanged at 96.6 per cent.

(4) Our new orders index remains at a high figure, though a falling off in textile and certain other orders has reduced it from the extreme peak reached in the first week of November. Civilian buyers are finding difficulty in obtaining delivery on textile and other products needed for defense purposes. Large defense orders for lumber have raised lumber prices far above the 1937 peaks.

(5) Following a rise in the FRB index to a record high of 128 in October, weekly business indexes show a further advance during the first half of November.

Secretary Morgenthau - 2

Steel output lags behind orders

An outstanding feature of the current business situation is the increasing inability of steel production to handle the rising volume of new steel orders. (See Chart 1.) The rate of steel output during the past two months has been pushed upward only with great difficulty, and this week's scheduled rate, at 96.6 per cent of capacity, shows no further advance over the previous week. New orders, in the meantime, have been steadily advancing. Orders reported by the U. S. Steel Corporation (shown on Chart 1) rose in the week ended November 14 to 141 per cent of capacity. The operating rate of the Corporation (lower section of chart) has dropped back to 98 1/2 per cent of capacity, after reaching 100 per cent in one week.

It is evident from an examination of the trend of steel orders so far, and confirmed by the National Defense Advisory Commission, that a relatively small proportion of the actual steel orders for the defense program has yet reached the steel mills. The increase in steel bookings during the past six months has apparently represented, in large part, an increase in civilian buying, largely of an anticipatory nature. Exports of steel, also, have more than doubled during that period. The renewed expansion of orders during the past few weeks seems to indicate that defense buying is getting more actively under way.

As a result of the heavy volume of business on hand, it is reported that steel products, with only a few exceptions, are now being quoted for January delivery at the earliest. Some sources anticipate that by April 1941, reserve stocks of pig iron, ingots and semi-finished steel may be exhausted and the industry entirely dependent on current production for supplies. As an outgrowth of the recent heavy bombings of certain British industrial centers, some trade observers are expecting an increase in purchases from that quarter.

Commenting on current operations in the steel industry, the Iron Age states that while the defense program is providing an ever increasing proportion of total steel business, a tremendous demand is coming from manufacturers who are engaged in the normal peace time lines of trade. The automobile industry, manufacturers of refrigerators and other household equipment as well as makers of a wide range of miscellaneous products, have been taking more steel.

Secretary Morgenthau - 3

Rise in commodity prices continues

The persistent rise in raw material prices that has been under way since mid-August continued during the past week, though some tendency toward levelling out was apparent in both industrial raw materials and food products. (See Chart 2.) The combined indexes, representing 28 basic commodities, have risen to the highest level since last May, representing a gain of 11.4 per cent since the August low.

Among the spot prices of individual raw materials (lower section of Chart), wool, hides, rosin, tallow, wheat and butter show gains of 25 per cent or more since August. Some weakening in individual prices during the past week, particularly in hides, wheat, corn, and cottonseed oil, appears to represent in some degree a movement toward the liquidation of speculative accounts built up during the previous rise.

Although spot prices of wool tops increased 4.7 percentage points in the week ended November 25, December futures increased but 0.4 percentage points. Wool spinners are now using partly foreign wools in filling military orders. The great proportion of the yarn under production now is for Army use, and spinners are sold ahead on fine grade yarns for the next two to three months.

Butter prices increased again last week, although other fats and oils were unchanged or lower. The general tendency of this group has been upward recently, the increase in butter prices being partly seasonal.

Cost of living lower despite price rise

The cost of living index declined slightly in October to 82.0 from 82.1 (revised) in September, despite a sharp upturn in general wholesale prices. (See Chart 3, upper section.) This decline, due solely to lower retail food prices, is the fourth in succession, apparently reflecting the delayed influence of the previous reduction in general wholesale prices which began early in the year.

Secretary Morgenthau - 4

The general movements of commodity prices week by week are shown in the lower section of Chart 3. The weekly all-commodities index continues to advance. A gain of 3.1 per cent in this index since the August low compares with the rise of 11.4 per cent in the more sensitive index of 28 basic commodities.

Lumber prices influenced by military orders

A sharp rise in lumber prices in October to a level far above the peak reached in 1937 (see Chart 4, upper section) promises to increase building costs, and may affect the volume of civilian construction. An important contributing factor to the price increase, according to press reports, was the ordering of lumber for eight military cantonments at once, which caused an increase of 30 per cent in lumber prices in two weeks. Stocks of lumber (lower section of chart) declined during September; October figures are not yet available.

According to a recent report of the Lumber Survey Committee of the Department of Commerce, the consumption of lumber in 1940 will approximate 28,500 million feet, which is the largest on record for any year since 1929. The Lumber Survey Committee is a special committee established upon recommendations of the Timber Conservation Board, June 1931. The Committee estimates that about 1,200 million feet of lumber, a large part of which has already been purchased, will be required for troop housing by June 1, 1941, or 4.2 per cent of estimated 1940 consumption. Housing plans for Army and Navy personnel and for civilian defense workers are said to total 500 million feet; this represents 1.8 per cent of estimated consumption in 1940. For the Navy, it is believed that 400 million feet or 1.4 per cent of estimated 1940 consumption will be required. These three needs combined equal 7.4 per cent of estimated 1940 consumption.

As a result of recent increases in the demand for lumber, new orders on a seasonally adjusted basis have maintained a considerable margin above production since the middle of July. The adjusted index of lumber production has shown a slight upward trend in the same period, but no material increase in lumber production has yet occurred. According to the National Lumber Manufacturers' Association, unfilled lumber orders in the week ended November 16 were 40 per cent higher than a year ago.

Secretary Morgenthau - 5

Zinc prices appear high

Prices of zinc during both September and October were higher than our "estimated basic price" determined from a study of the past relationship of zinc prices to United States production, deliveries, and stocks. (See Chart 5, upper section.) During the past two weeks, a sharp gain in zinc prices in the futures market has occurred, which doubtless foreshadows another mark-up in spot prices.

Zinc prices have been raised in spite of increased production. Daily average production of zinc in September and October (center section of chart) exceeded that of August by 11 per cent. Deliveries in October (including exports) actually declined, but because the deliveries were already considerably in excess of production, stocks of zinc (lower section of chart) fell to a new low for the year.

Zinc buyers are unable to obtain any metal for delivery this year, but are concentrating on January and February of 1941, although there is very little available for delivery in those months according to trade reports. Sales for the week ended November 23 were 7,000 tons, about equal to the average for the year, compared with the very low figure of 4,000 tons in the previous week. The backlog of unfilled orders rose to 12,000, another new high for the year.

New orders high despite textile drop

Our index of new orders for the week ended November 16 remained at a high level, though somewhat below the peak reached in the first week of November. (See Chart 6.) New orders for textiles have declined sharply since early November, causing the downturn in the combined index. The principal factor tending in part to offset the reaction in textile orders has been a rise in steel orders to the highest levels since the week ended July 11.

The demand for certain types of gray goods last week (not yet reflected in our new orders index) has been stimulated by expected Army purchases, according to trade reports. Drills, twills, and combed broadcloths could not be secured for nearby delivery. For some drills the earliest delivery date was reported as late March; for combed broadcloths, delivery in January and February was the best available.

Secretary Morgenthau - 6

Weekly business indexes

Due to a sharp reaction in the adjusted indexes of freight car loadings, the New York Times index of business activity for the week ended November 16 declined 1.6 points and thus lost nearly all of the gain made in the previous week. As a result the index stood at 109.9 as compared with 111.5 (revised) for the week ended November 9 and 109.7 for the week ended November 2. (See Chart 7.) Bureau's index of business activity for the week ended November 16 rose to 120.5 from 119.5 in the previous week. Both indexes, it will be noted, exceed those of the best week in October, indicating that the rise in industrial production which carried the PRB index to a record high of 128 in October is continuing during the current month.

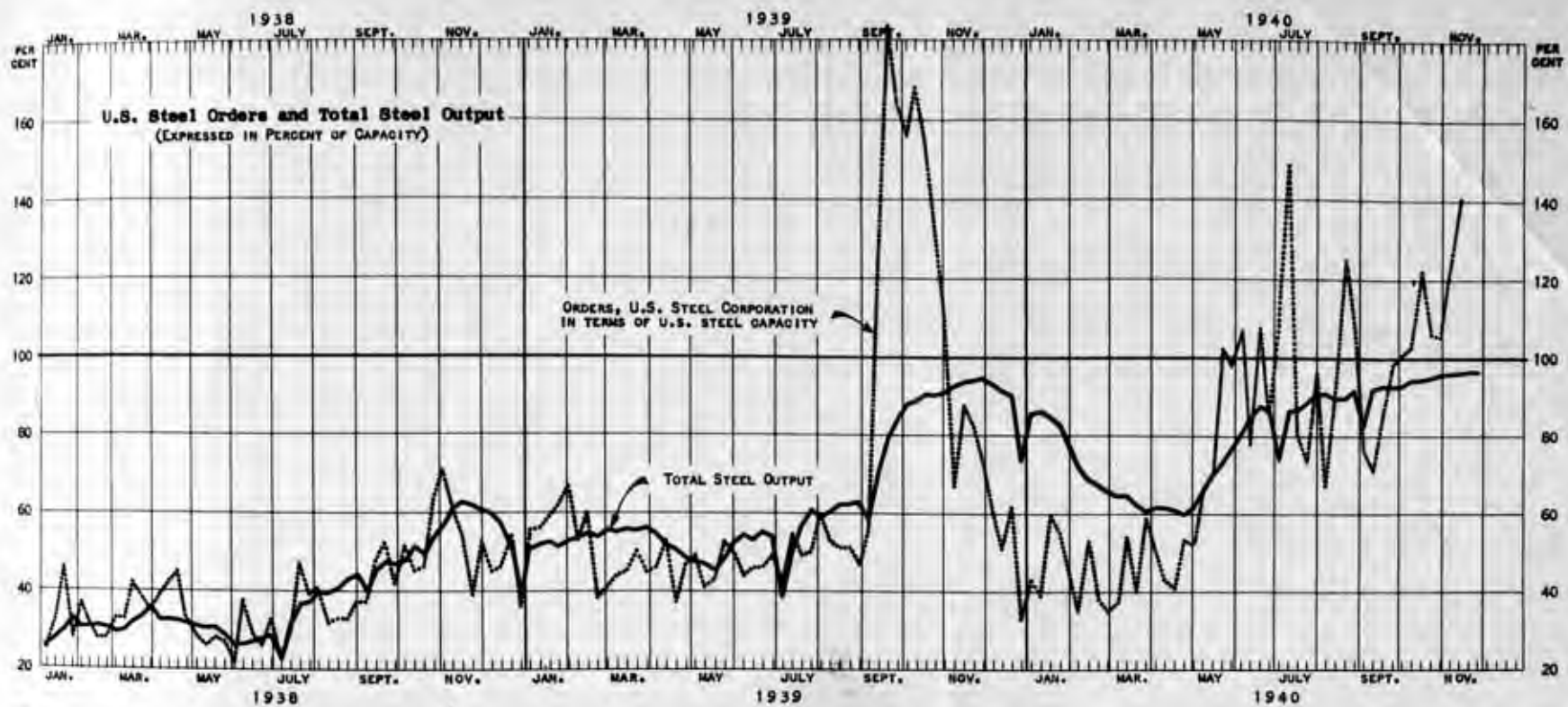
The greater than seasonal decline in railroad traffic during the week ended November 16, which influenced the New York Times index, is reported to have been due in part to adverse weather conditions in certain areas. However, a more important factor was apparently a faulty statistical adjustment for the effects of Election Day which had resulted in pushing the indexes up to an unduly high level in the previous week. Cotton mill activity also declined more than seasonally during the week, and the adjusted index of automobile production showed another substantial decline despite the maintenance of actual production around the highest level of the year.

The most important factor tending somewhat to offset the declines mentioned was a greater than seasonal rise in electric power output to the highest figure on record. The adjusted index of lumber production also showed a substantial gain, while the adjusted index of steel ingot production rose to a point slightly above its 1928 high.

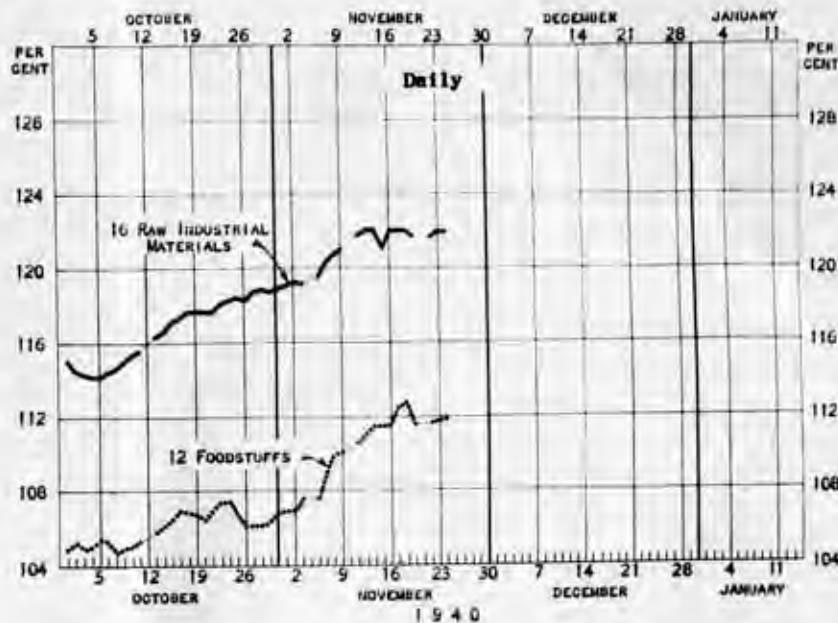
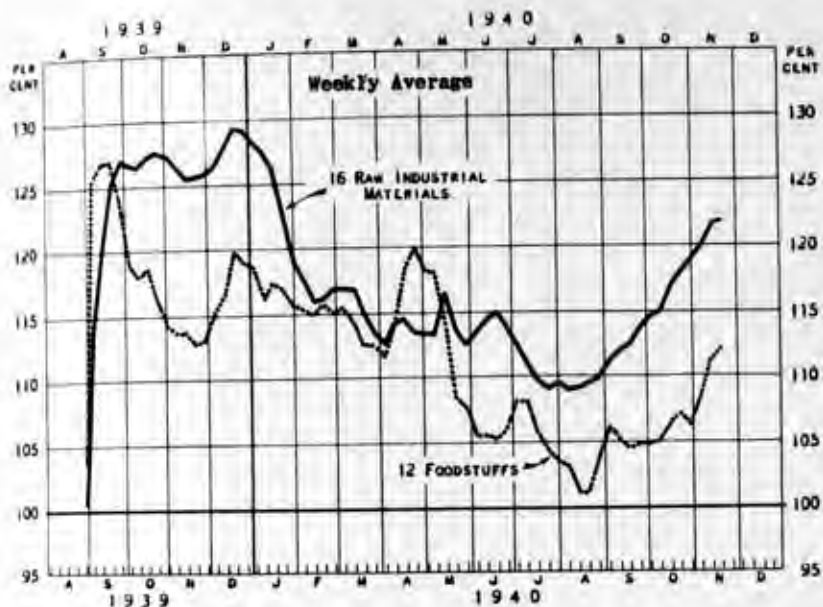
Preliminary data for the week ended November 23 reveal a further slight contra-seasonal rise in steel ingot production and the first gain in the adjusted index of automobile production since the week ended September 28. Although actual automobile production showed the first substantial decline since the long rise began around mid-August, the drop was more than accounted for by the Thanksgiving holiday.

STEEL INGOT PRODUCTION AND U.S. STEEL CORPORATION ORDERS

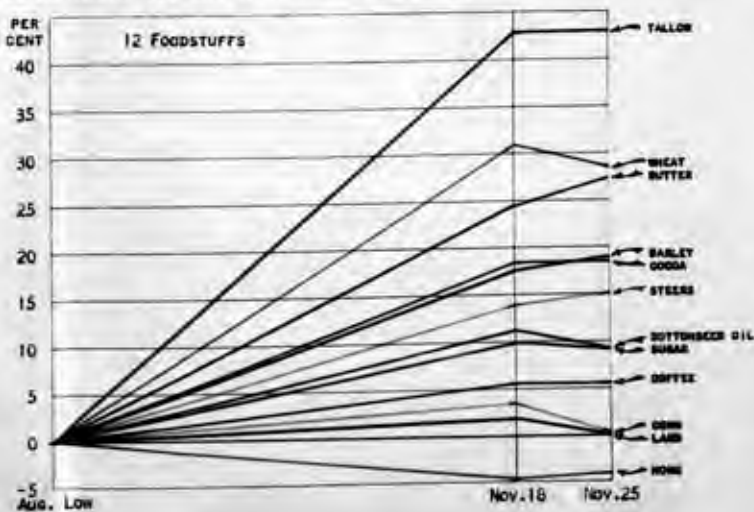
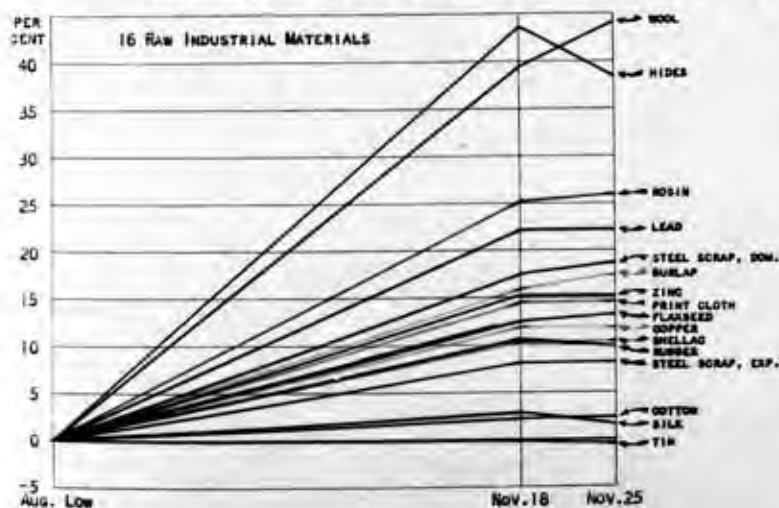
Chart 1
CONFIDENTIAL



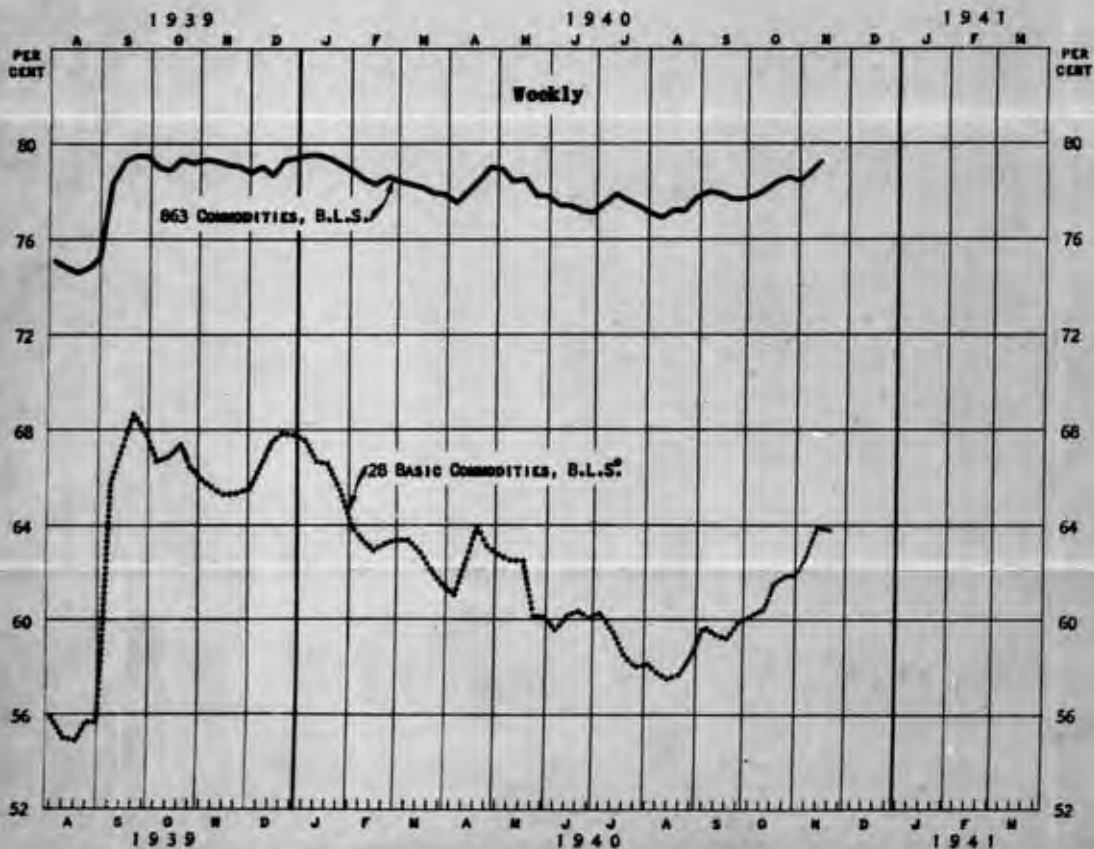
MOVEMENT OF BASIC COMMODITY PRICES
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to November 18, and to November 25, 1940

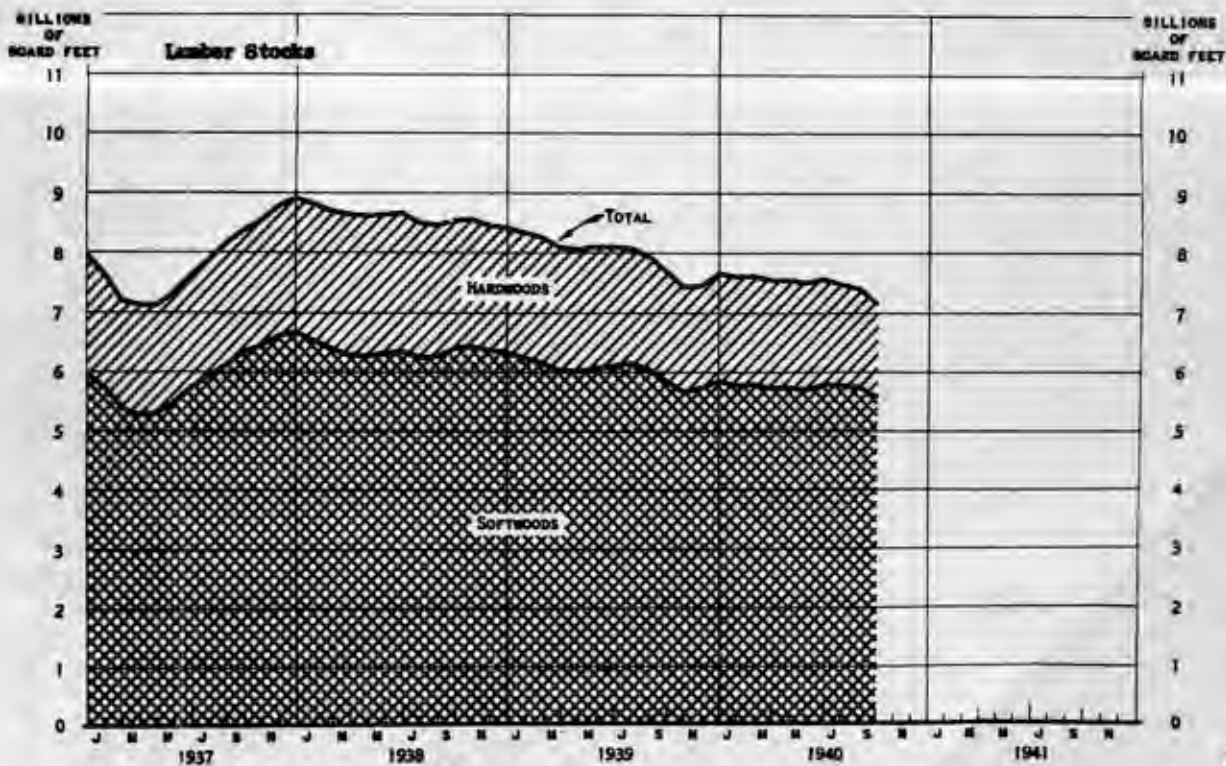
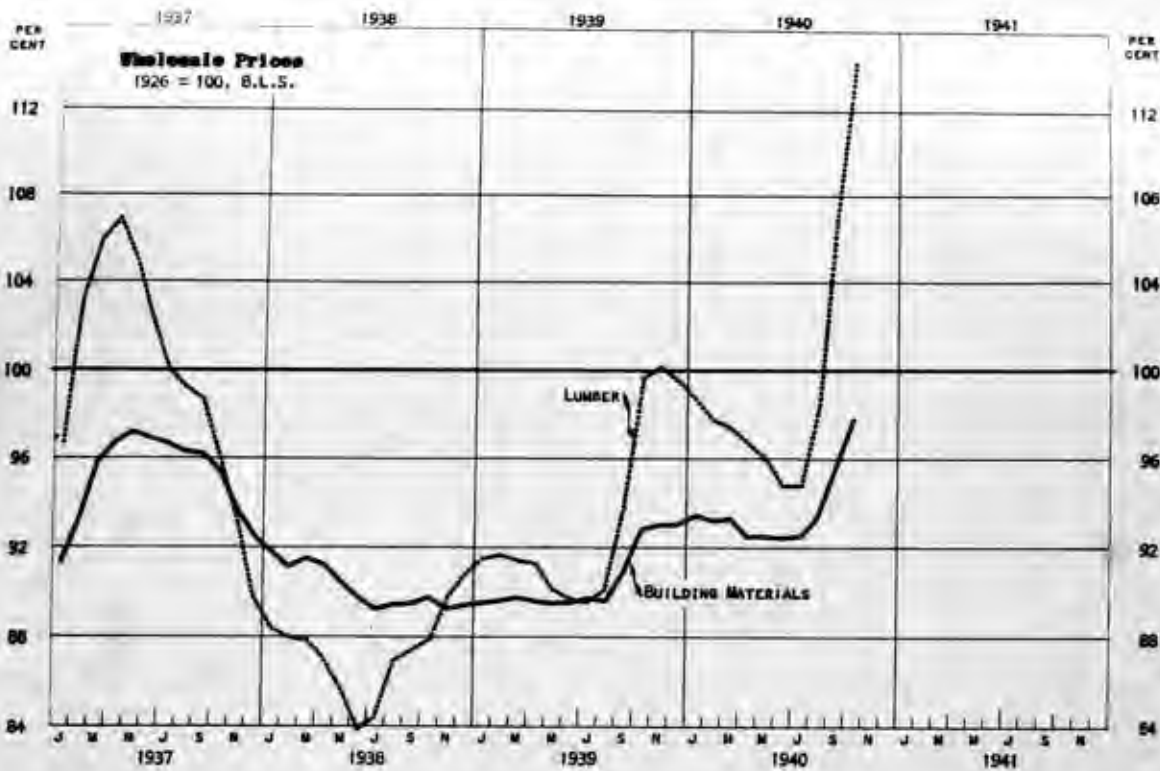


COMMODITY PRICES AND COST OF LIVING
1926 = 100

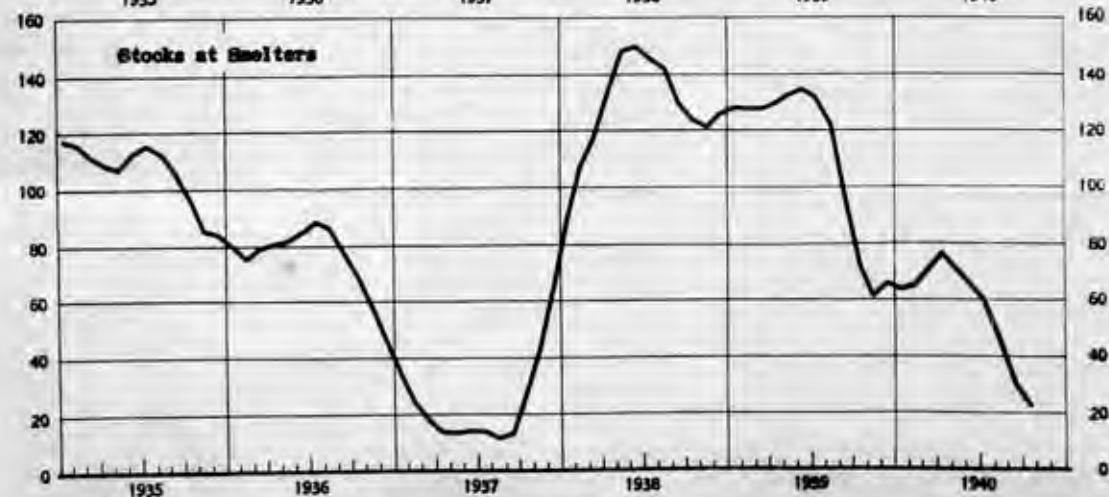
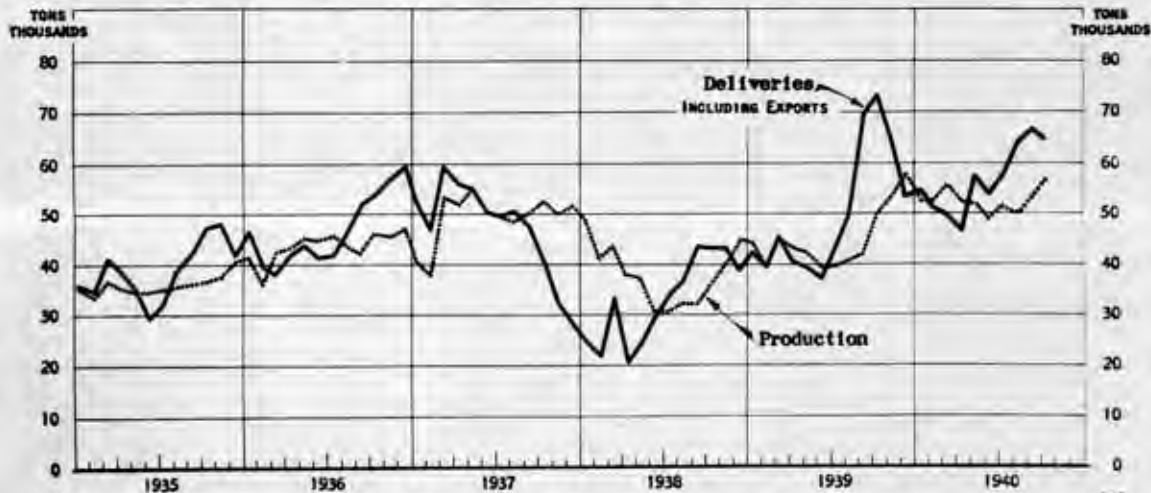
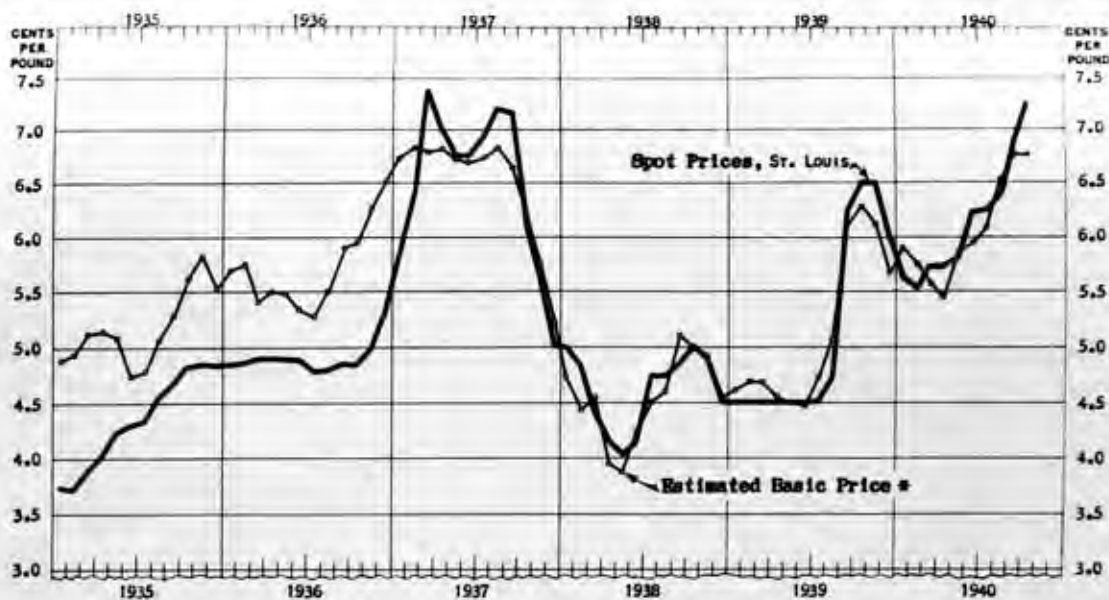


*30 Commodities Prior to January 1940

LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



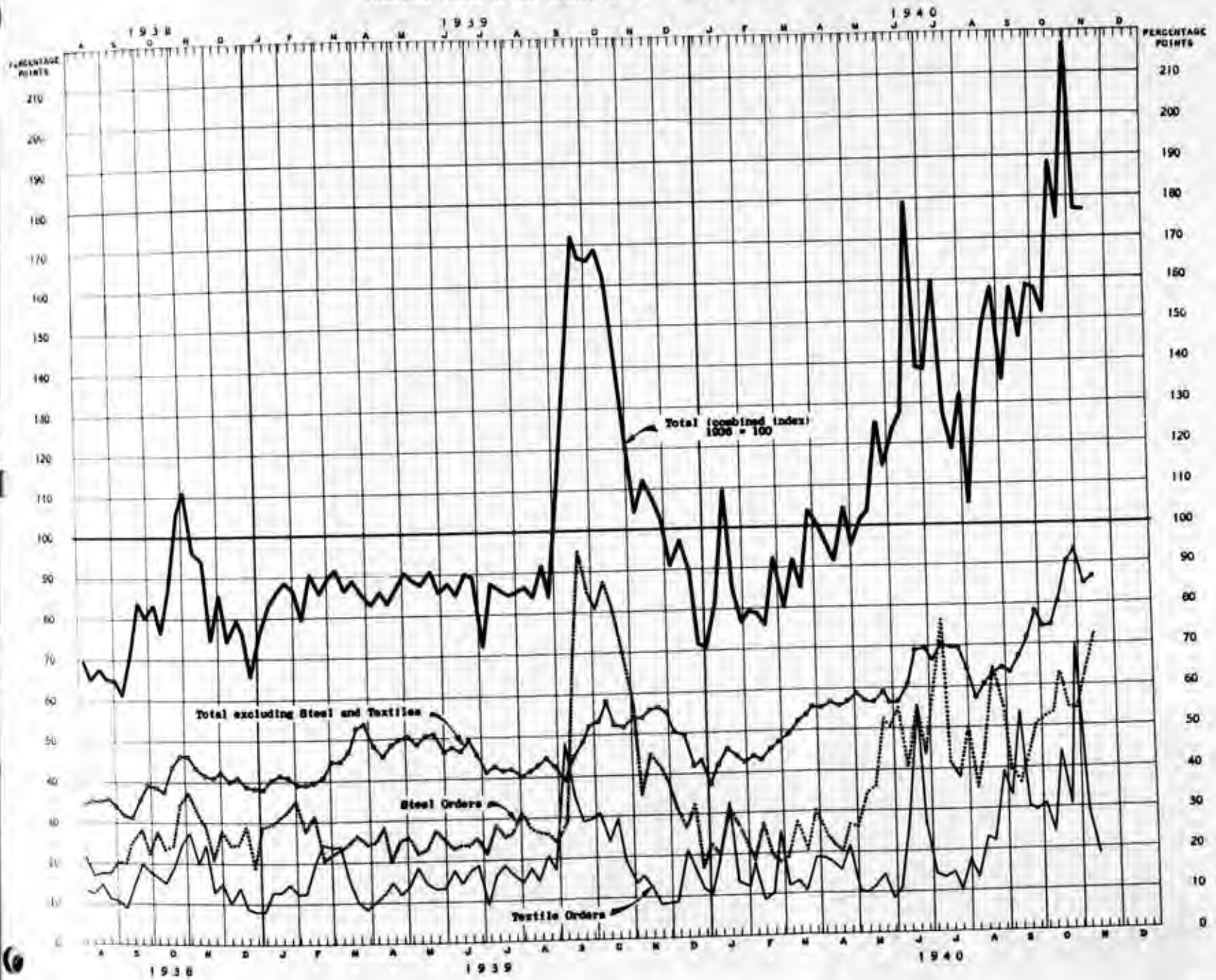
ZINC PRICES, PRODUCTION, DELIVERIES AND STOCKS



* COMPUTED FROM AVERAGE RELATIONSHIP OF ZINC PRICES TO U. S. PRODUCTION, SHIPMENTS, AND STOCKS OF ZINC.

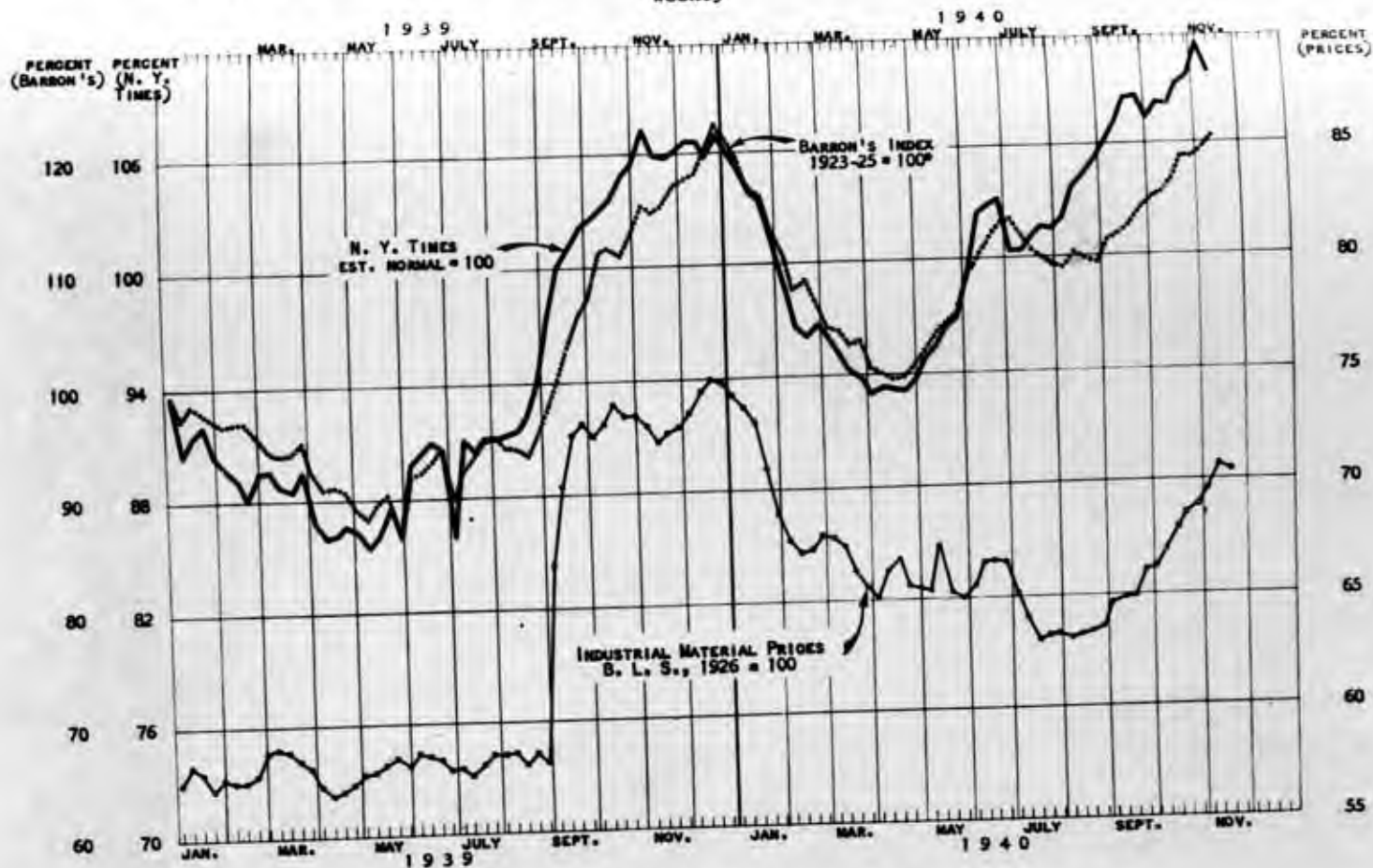
INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



U.S. Department of the Treasury
Bureau of Economic Analysis

INDEXES OF BUSINESS ACTIVITY AND PRICES OF INDUSTRIAL MATERIALS
Weekly



*ADJUSTED FOR SEASONAL, NOT FOR TREND

G-2/2657-220

RESTRICTED

No. 255

SITUATION REPORTM. I. D., W. D.
November 27, 1940.
12:00 M.

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

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

Weather apparently improved but still unfavorable.

During daylight of the 26th small German raids occurred over England. Last night the Germans made a brief heavy attack on the Bristol area and made light attacks elsewhere, including London. The Germans claim heavy attacks on shipping.

The R.A.F. bombed in Germany last night and reached the Berlin area.

II. Greek Theater of War.1. Ground Operations.

The Greek offensive has slowed down and is meeting the beginnings of Italian resistance. The Greeks continue to advance slowly near Pogradec. Italians are reported to have rallied and made counter attacks in the area near Porto Edda. Fighting was reported near Premeti. An Italian force is reported as still cut off in the Pindus Mountains.

2. Air Force Operations.

There was a strong Italian aerial reaction yesterday throughout the combat zone and as far to the rear as the Kalamas river. The Greek-British air effort appeared small.

III. Mediterranean and African Theaters of War.

No ground operations reported. The British bombed in Italy, presumably Turin or Milan, last night. There was little air action in Africa.

RESTRICTED

THE SECRETARY OF THE TREASURY
WASHINGTON

November 27, 1940.

*At staff
Conference
Nov 28
Very disappointed
the letter and
asked matter
to be taken up*

Dear Mr. Budd:

On my return to Washington I find your letter of November 23rd on the subject of ice breaking in the Great Lakes, to which you attached a copy of your letter of November 16th to the Commandant of the Coast Guard, and a copy of a telegram from Mr. A. T. Wood of the Lake Carriers' Association.

This matter has been thoroughly explored with Admiral Waesche and other officers of the Coast Guard who are familiar with the problem. It is our considered judgment that the possible advantage to the Lakes traffic which might be gained by the transfer from the Atlantic Coast of one of the four 110 ft. ice-breaking tugs which the Coast Guard possesses would not justify the loss of the services of this tug during the winter in eastern harbors.

Admiral Waesche has explained in his letter to you of November 23rd the urgent need for more ice-breaking equipment on the eastern seaboard than we now possess. There is in addition very serious doubt that the opening of the Great Lakes channels could be much expedited by the addition of a vessel of this type to the fleet of three cutters which will winter in the Great Lakes and will be prepared for ice breaking activities in the spring. Probably more could be accomplished by the Straits of Mackinac car ferry, which was employed with very good results in this work in the spring of 1937. This is a much larger boat than any of our cutters and far more effective in heavy ice.

I realize that the movement of traffic in the Great Lakes, especially the movement of iron ore, is of very great importance, and you may rely on the Coast Guard's using every practicable means to facilitate it.

Sincerely yours,

Secretary of the Treasury.

Mr. Ralph Budd,
Transportation Commissioner,
The Advisory Commission
to the Council of National Defense,
Federal Reserve Building,
Washington, D. C.

*Rec. gaster
minutes of
11/29
reporting
on a point
reached in
conference
with Mr
Budd*

November 27, 1940.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston

Noted by Mr. [unclear] and [unclear] to H.S. 200 28

Re: Attached letter for your signature

The attempt to have one of the 110 ft. ice-breaking tugs sent to the Great Lakes before the freeze-up is a project of A. T. Wood, President of the Lake Carriers' Association. He tried to get the Coast Guard to do it by direct negotiation with Waesche and then went to Ralph Budd, with the result that Budd first wrote to Captain Chalker and then, at Waesche's direct suggestion, addressed a letter to you. I have talked to Waesche at length and to Mauerman, who formerly commanded the ESCANABA on Lake Michigan. The project doesn't make sense. At best we might save a day in opening the Saint Mary River at the cost of a whole winter's service of the tug in New York, Boston, the Delaware or the Chesapeake.

We are, however, in a bad way about our ice-breakers. The Coast Guard has been attempting to replace some eighteen obsolete type of tugs with a 110 ft. tug which has a cutaway reinforced bow and makes an excellent harbor ice-breaker. We now have just four boats of this type, two in New York, one at Boston and one at Philadelphia. We should have a dozen. There were four in last year's budget, strictly as a replacement item, but they were cut out by the Budget under the general order not to permit any new shipbuilding. Four are included again in this year's budget. The Navy is quite insistent about keeping the channel open to the Washington Navy Yard this winter, as you would expect them to be. If we get a bad winter we are going to have a tough job keeping open the channels that the Army, Navy, and Defense Commission will want to open and we shall have to use a lot of unsuitable equipment for the work.

Two of the three cutters which will winter on the Great Lakes are of the type best suited among the big cutters for ice-breaking; they were built with that in view, but are not quite as efficient for restricted channels and harbors as the new 110 ft. tugs.

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

November 23, 1940

My dear Mr. Secretary:

I am attaching herewith a copy of my letter of November 16 and telegram of November 23 on the subject of providing adequate service for breaking ice in the Great Lakes early next spring.

Your assistance is respectfully requested.

Yours sincerely,

Ralph Budd

Ralph Budd
Transportation Commissioner

*Pelona
Lainda*

Attachments (2)

The Honorable Henry W. Morganthau
Secretary of the Treasury
Washington, D. C.

*4 ice breaking logs 110
2 N.Y. 1 Box 1 Philadelphia
4 in estimate for budget
[in last year] reference
3-165 [initials]
N.Y.*

*Chief Wawatam
1937 Carter & Spence
Michigan Co*

COPY

November 16, 1940

Commandant, Coast Guard
U. S. Treasury Department
Washington, D. C.

Attention: Captain L. T. Chalker

Dear Sir:

The commodity that seriously concerns the Transportation Division of the Advisory Commission to the Council of National Defense is iron ore, which, as you perhaps know, is largely moved via the Great Lakes. In other words, approximately 85% of the iron ore consumed in American furnaces moves from the head of the lakes to the lower lake ports.

There has been in some respects this season the largest movement of iron ore in the history of lake traffic, and with the possibility of increased steel production in the year 1941 along with the loss of certain lake tonnage during recent storms, there will be required a greater efficiency of operations of the lake carriers than has heretofore been experienced.

One of the conditions that will greatly assist in accomplishing the necessary results will be the opening of navigation as early as possible in the spring of 1941, and likewise, maintaining open navigation as late as practical the following fall. You, of course, know of the available ice-breakers and the locations at which they will be able to accomplish the best results. Therefore, under the circumstances, I will be pleased to have you give this subject serious consideration, with the idea of moving such available ice-breakers as are consistent to the strategic locations on the Great Lakes to insure their availability next spring.

Yours sincerely,

Ralph Budd
Transportation Commissioner

COPY

CLEVELAND OHIO

KARL W. FISCHER
NATIONAL DEFENSE COMMISSION 20252 FEDERAL RESERVE BLDG.

NOV 23 AM 10 39

REFERENCE MR BUDDS LETTER TO COMMANDANT OF COAST GUARD
RELATIVE TRANSFER ICE BREAKING TUG FROM COAST TO
GREAT LAKES FOR POSSIBLE SERVICE NEXT SPRING AM ADVISED
CANADIAN CANALS IN LOWER ST LAWRENCE RIVER WILL CEASE
OPERATIONS NOVEMBER 29 IMMEDIATE ACTION NECESSARY IF
ICE BREAKER IS TO REACH LAKES THIS YEAR

A.T.WOOD

Prepared by: Mr. Turner
Mr. Murohy
Mr. Hass

TREASURY DEPARTMENT

128

INTER-OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. Hass
Subject: Recent Developments in the High-grade Security Markets. Analysis of Allotments of Cash Subscriptions to Government Securities.

SUMMARY

- (1) Since the end of October the prices of Treasury bonds have risen markedly (Chart I). The average yield of long-term Treasury bonds, moving inversely to prices, stood at a new all-time low at yesterday's close (Chart II).
- (2) Sales of Government securities by the Federal Reserve Open Market Account have amounted to \$115 millions since October 30. Weekly reporting member banks increased their holdings of Government securities by \$228 millions in the first three statement weeks of November.
- (3) The yields of long-term Treasury bonds have declined farther below their previous low for the year on April 3 than the yields of short-term bonds (Chart III). The yields of Treasury notes are still above those of issues of like term on April 3 (Chart IV).
- (4) High-grade corporate and municipal bonds have reached new all-time high prices during November (Charts II and V). The volume of new bond issues in the New York market during November will probably be the smallest for any month this year except June.
- (5) Individuals and trust accounts and insurance companies have received larger percentage allotments of cash issues of Treasury bonds in the past three years than they have of cash issues of Treasury notes and short-term guaranteed obligations during the same period. Banks, on the other hand, have received larger percentage allotments of the shorter securities (Chart VI). The data for allotments of cash subscriptions give a rough indication of the relative degree of absorption of long and short Government securities by "real savings" and by "credit expansion", respectively.

Secretary Morgenthau - 2

I. Market Movements of United States Government Securities during November

Since the beginning of November, the prices of Treasury bonds have risen to new record highs. Treasury notes have risen also, but not in proportion to the rise of bonds. Most of the rise in prices occurred during the three-day period November 6-8. Since then, the market has moved rather irregularly. Price changes of Treasury bonds and notes are shown in Chart I.

The average yield of long-term Treasury bonds, which moves inversely to prices, on November 1, first equaled the previous all-time low of 2.07 percent established June 5, 1939. By November 26 it had decreased to a new low of 1.92 percent (Chart II).

II. Bank Holdings of Government Securities

The Federal Reserve Open Market Account has continued during November to reduce its holdings of Government securities. Such holdings as of Tuesday's close amounted to \$2,218 millions, as compared with \$2,333 millions on October 30, a net decrease of \$115 millions. Of this amount, \$72 millions were bonds and \$43 millions were notes.

Changes in the Government security holdings of weekly reporting member banks between October 30 and November 20, the latest date for which figures have been reported, are shown in the following table:

	: Banks in : : New York City : :	: Banks outside : : New York City : :
	(In millions of dollars)	
Treasury bills	+ 41	- 3
Treasury notes	- 5	+ 26
Treasury bonds	+ 109	- 13
Guaranteed securities	+ <u>70</u>	+ <u>3</u>
Total	+ 215	+ 13

Secretary Morgenthau - 3

It would appear probable from the table that New York banks acquired all or most of the Treasury bonds sold by the Federal Reserve Banks, and that banks outside New York were the principal purchasers of notes. The increase in holdings of guaranteed obligations, aggregating \$73 millions for the two groups of reporting banks, reflects in the main the sale of the new issue of USHA notes which amounted in all to \$117 millions.

III. Relative Movements of Different Maturity Classes of Government Securities

It has been pointed out in an earlier section of this memorandum that the prices of long-term Treasury bonds attained new all-time highs during the month of November and that their yields have correspondingly fallen to record lows. The present position of the market for Government securities, as compared with its position on the dates of the previous high and low prices in 1940 -- April 3, the high before Norway and Denmark were invaded, and June 10, the subsequent low -- is shown in Charts III and IV. It will be seen that the yields on long-term bonds have decreased relatively more than those of short-term bonds from the levels of April 3 (Chart III). The yields of Treasury notes, however, are at the present time still above those of issues of like term on April 3 (Chart IV).

IV. Other Domestic High-grade Securities During November

Like Treasury bonds, high-grade corporate and municipal bonds have reached new highs during November. The rise of corporates was less marked than that of Treasury bonds (Chart II). Municipals rose sharply in the first full week of November, but have since declined slightly (Chart V).

Despite the strength of the market for high-grade securities, the volume of new bond offerings in the New York market during November will probably not exceed \$80 millions. This will be the smallest monthly volume, except for June, in 1940. According to the Wall Street Journal, however, the volume of new financing in December promises to approach, or even to surpass, the October total of \$414 millions, the previous high for the year.

An interesting sidelight of the market in new securities may be found in the fact that the Southern California Edison issue, offered in October, is now selling about one point

Secretary Morgenthau - 4

above its offering price. This issue when first offered moved slowly, and was quoted at a slight discount from the offering price.

According to press comment, an important addition to the volume of private placements will probably be made in the near future when the American Telephone and Telegraph Company places an issue of about \$100 millions, for which negotiations are now in progress.

V. Analysis of Allotments of Cash Subscriptions to Government Securities

In view of the Treasury's probable financing needs in the near future it is interesting to examine the proportions of recent cash offerings of Government securities allotted to various classes of subscribers, with particular reference to the effect of the maturity of the issue upon the class of subscriber. Chart VI shows the percent of each cash offering of Treasury bonds in the past three years allotted to banks, to insurance companies, to individuals and trust accounts, and to other subscribers, and a corresponding distribution of the allotments of the cash offerings of Treasury notes or short-term guaranteed securities issued at dates most nearly corresponding to those of the Treasury bonds.

It will be seen that individuals and trust accounts and insurance companies have received far larger percentage allotments of Treasury bonds than they have received of the shorter-term securities. Banks, on the other hand, have received substantially larger allotments of the shorter-term securities.

The percentage allotted to "all others" has been about the same for bonds as for shorter securities in each of the last two issues, amounting in each case to slightly less than one-fourth of total allotments to each class of security. "All other" subscribers include dealers and brokers, non-financial corporations, and financial corporations other than banks and insurance companies, as well as unclassified subscribers. At the last cash offering of each class of security, dealers and brokers accounted for about 7 percent of total allotments, and non-financial corporations for about 10 percent.

The percentage distribution of allotments to the most recent cash offering of Treasury bonds (the 2-1/4's of 1954-56 offered in July) and to the most nearly corresponding offering of short-term securities (the GCC notes issued in August) are compared in the table below:

Secretary Morgenthau - 5

Comparison of Allotments of Cash Sub-
scriptions to Treasury Bonds of 1954-56 and CCC
Notes of May 1, 1943

Class of subscriber	:	Treasury	:	CCC
	:	bonds	:	notes
	:	(Percent of total)		
Commercial banks and trust companies		37		60
Savings banks		<u>7</u>		<u>6</u>
All banks		44		66
Insurance companies		17		7
Individuals and trust accounts		15		4
All others		<u>24</u>		<u>23</u>
		100		100

The principal value of the above figures consists of the indication which they give of the relative degree of absorption of long and short Government securities by "real savings" and by "credit expansion", respectively. Unfortunately, the story which they tell is not entirely clear. It is probably correct to assume that the allotments to insurance companies, to individuals and trust accounts, and to "all others", except brokers and dealers, represent absorption by real savings. The principal difficulty lies in allotments to banks. It is easy to say that allotments to savings banks represent absorption from real savings, while those to commercial banks represent absorption from credit expansion. This is not entirely accurate, however, as commercial banks play over the greater part of the Union the same role in marshalling individual savings as is played in the northeastern part of the country by mutual savings banks. It is probably conservative to assume that an amount of the allotments to "commercial banks" as large as the total allotment to "savings banks" may be assigned to real

Secretary Morgenthau - 6

savings. On this assumption -- and assuming further that allotments to brokers and dealers are ultimately placed in the same proportion as all other allotments -- about two-thirds of the total allotments of the Treasury bond and about 40 percent of those of the short-term security were to "real savers".

Allotments, of course, do not necessarily indicate the final distribution of holdings. The percentage distribution by maturity classes of Treasury bonds held by commercial banks -- the only class of institution for which such information is available -- accords fairly closely, however, with the original allotments of such securities. These data are shown in the following table:

Percent of the Total Privately Held Marketable
Supply of Treasury Bonds Held by Insured Commercial Banks
June 29, 1940

Bonds maturing:

Within 5 years	57
In 5 to 10 years	43
In 10 to 20 years	33
After 20 years	31

Finally, it is interesting to note the effect of the offer of preferential allotment to subscribers for \$5,000 or less who are willing to accept delayed delivery in registered bonds. Such allotments amounted to about \$39 millions, or about 6 percent of total allotments of the last cash issue of Treasury bonds. Of this sum, \$30 millions were allotted to individuals and trust accounts. Thus, out of total allotments to individuals and trust accounts of 15.5 percent of the issue, 4.8 percent, or almost one-third, constituted preferential allotments and 10.7 percent, or about two-thirds, ordinary allotments.

Attachments

Chart I

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

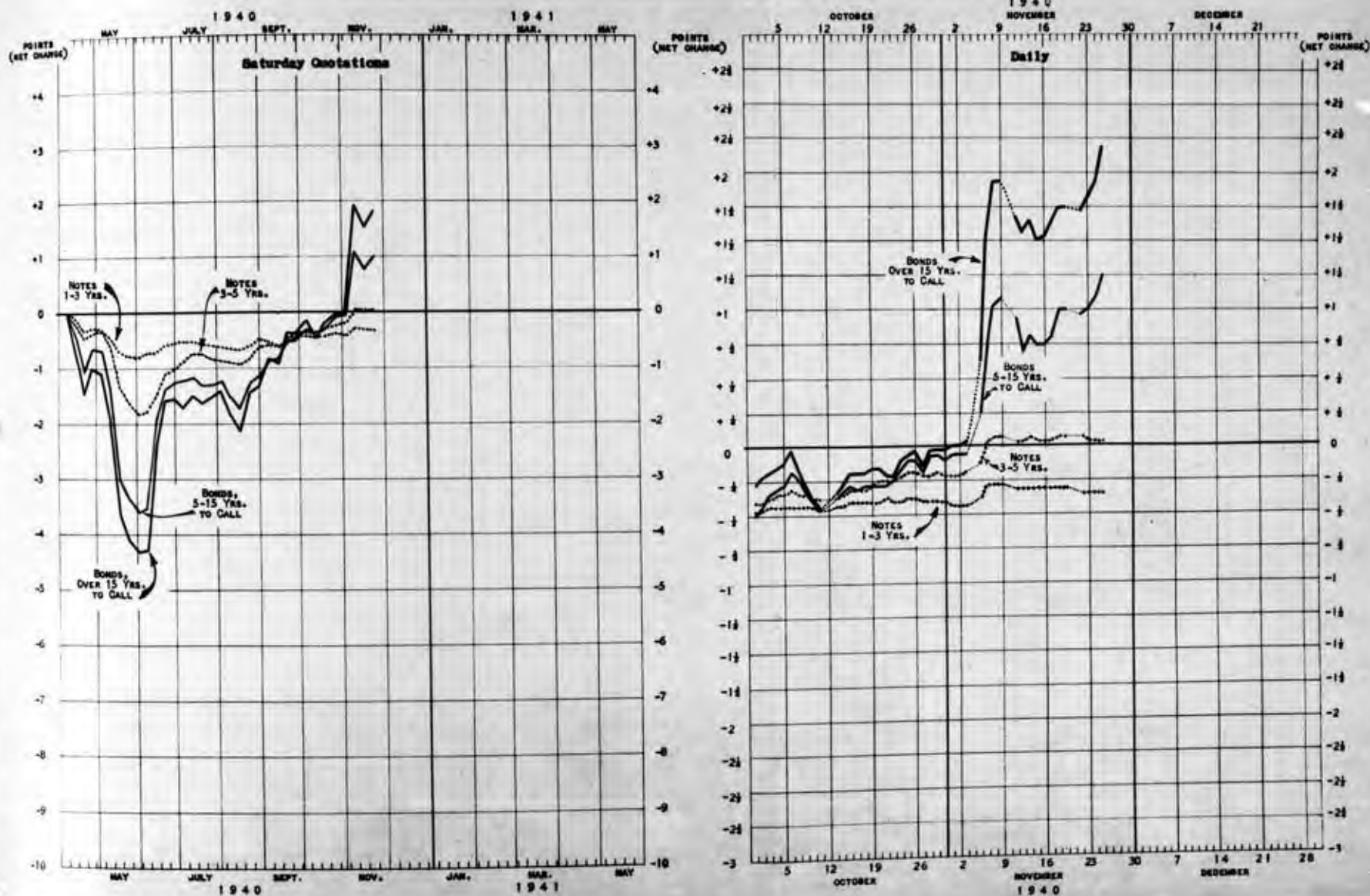
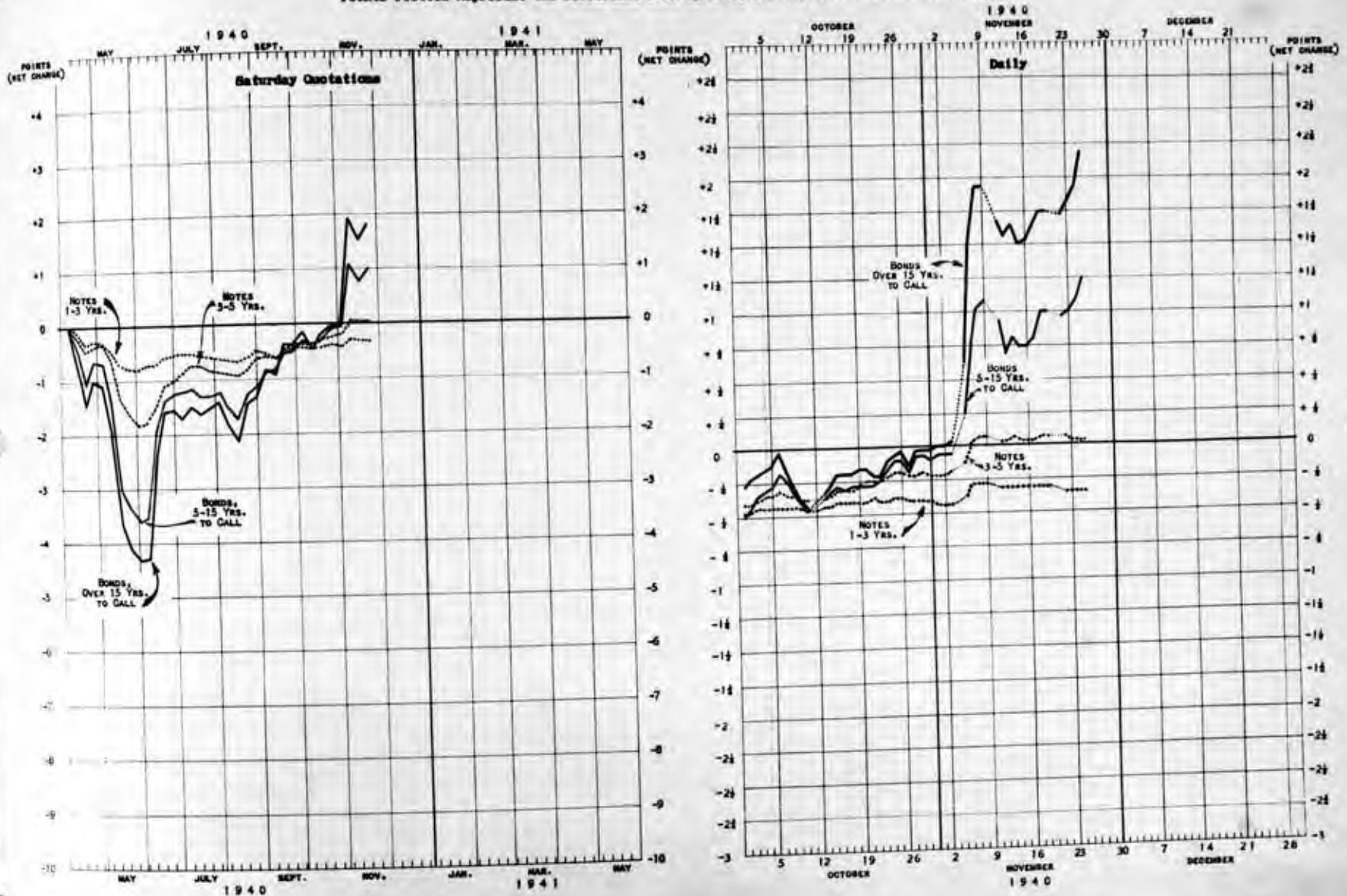
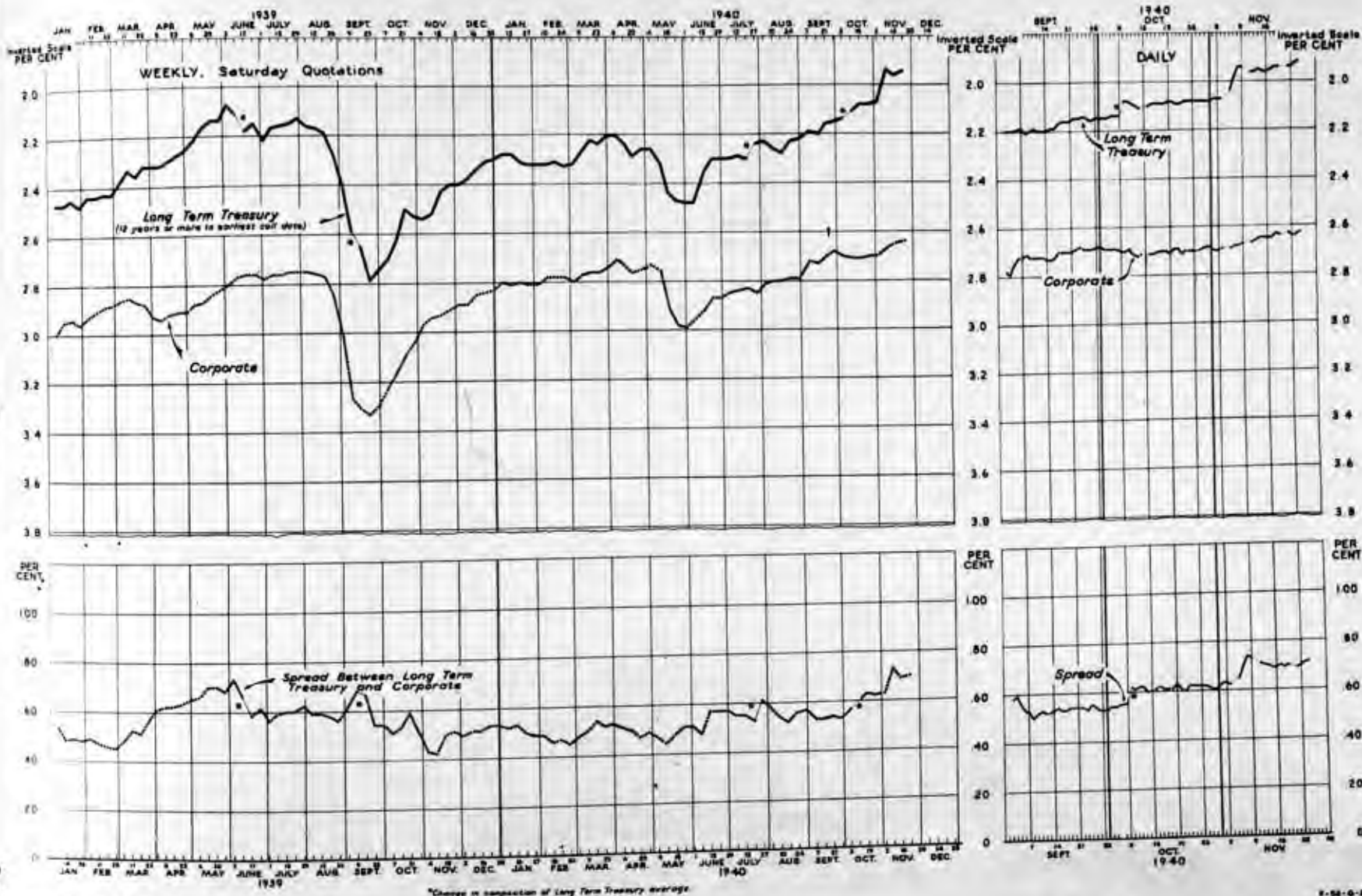


Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
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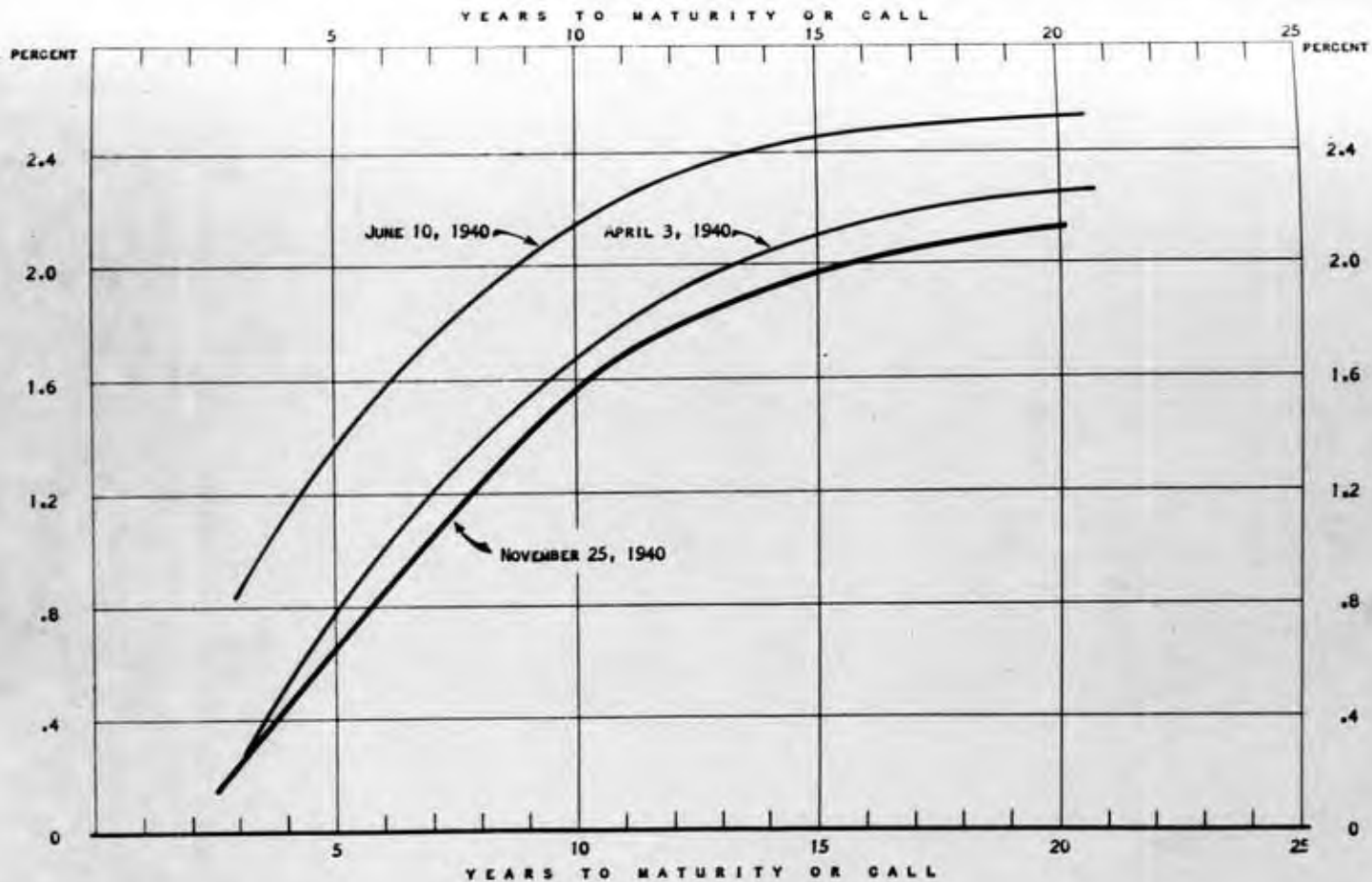
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



*Change in composition of Long Term Treasury average

U.S. Office of the Secretary of the Treasury
Division of Research and Statistics

YIELDS OF TREASURY BONDS



YIELDS OF TREASURY NOTES

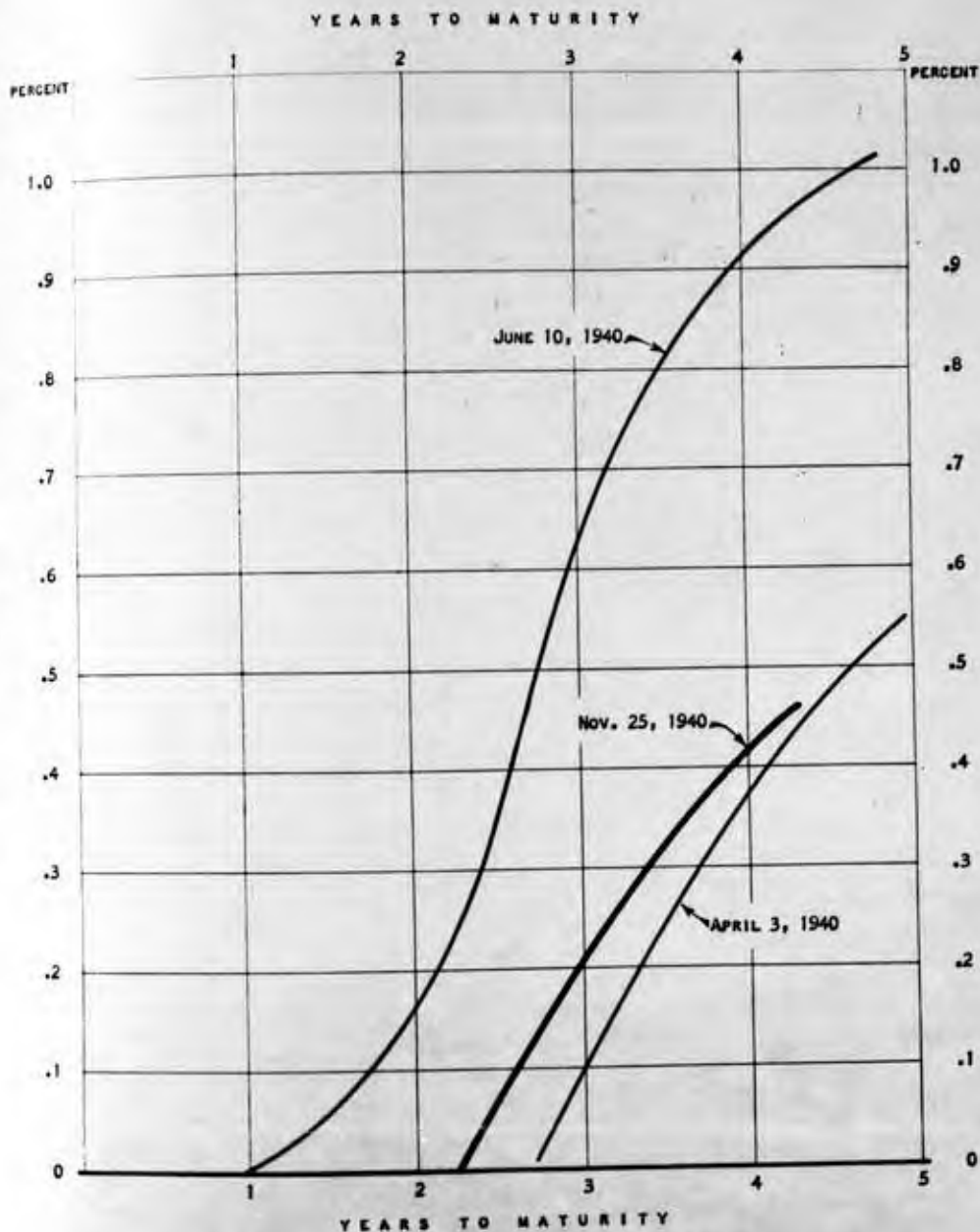
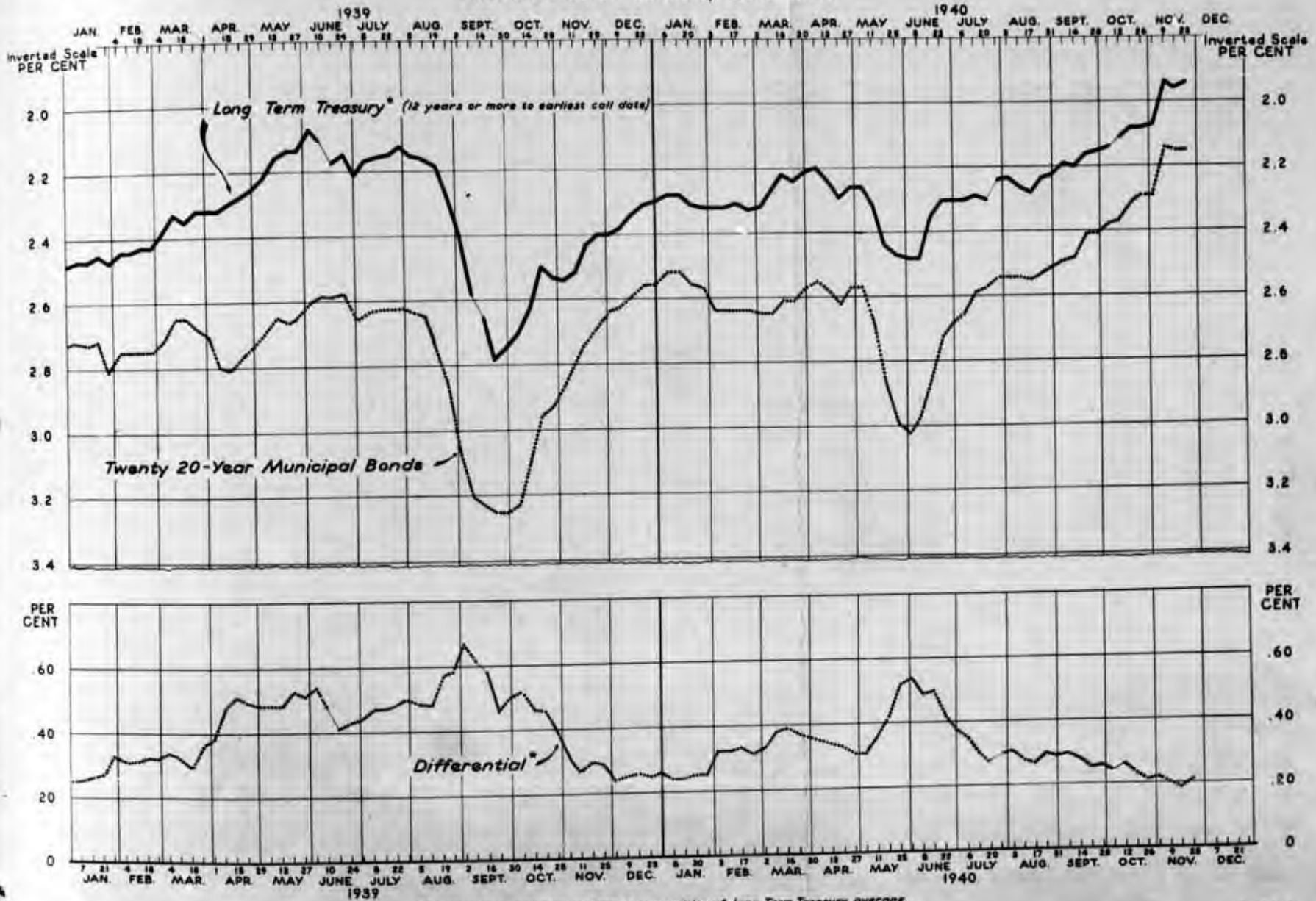


Chart V

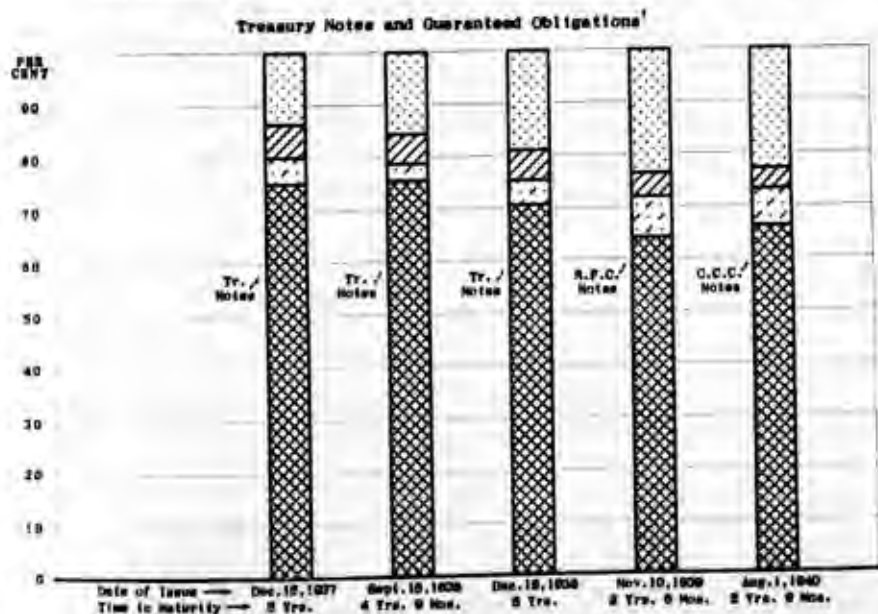
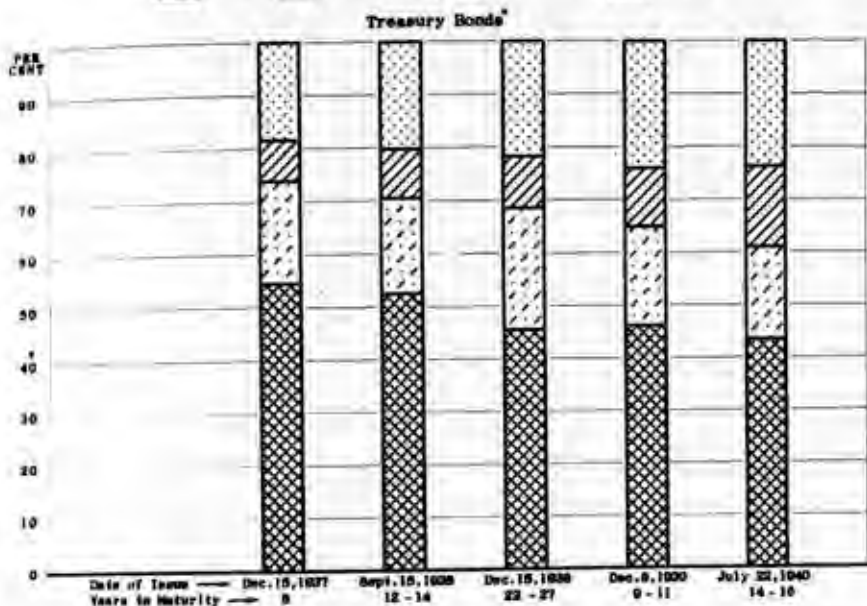
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS
Yields Based on Saturday Quotations



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

Chart VI

PERCENTAGE DISTRIBUTION OF ALLOTMENTS
OF RECENT CASH ISSUES OF GOVERNMENT SECURITIES



*All issued for cash to meet their price.

¹Yield issued for cash at date was partly appropriated to issue of the bonds.

CONFIDENTIAL

November 27, 1940

To: The Secretary
From: Mr. Young

Re: Aircraft Standardization

In response to your message to Mrs. Klotz of November 18th requesting the most glaring examples of lack of coordination and design on both engines and planes as between Army and Navy and English, Mr. Buckley in my absence last week consulted with Admiral Towers, General Spaatz, Assistant Chief of the Air Corps, and Air Commodore Baker of the British Purchasing Commission.

As a result of those requests, memoranda were received from all three persons, but these memoranda do not directly answer your request as the emphasis in each case is thrown on those places where standardization is currently achieved. At the present time the Navy is making a detailed survey of differences between Naval airplanes on order and those either purchased or to be purchased by the British. In the case of the Navy, standardization so far as practical has been agreed upon as a result of conferences in the case of the Consolidated PB5, the Brewster F2A-3 fighter, the Brewster SB2A-1 pursuit bomber, the Grumman F4F-3 fighter, and the Martin PM3 bomber. A conference is tentatively scheduled for the standardization of Consolidated PB2Y-3.

With respect to the Army, standardization is as complete as possible on the Consolidated B-24 and is being achieved on the Martin B-26 medium bomber and the Douglas A-20 light bomber. One problem here is that on all bombardment airplanes certain difficulties arise from the bomb sight installation. In addition, the Curtiss P-40D is completely standardized and arrangements are being made to standardize on experimental models.

The problem of standardization must be attacked from two angles; first, from the standpoint of current production, and, secondly, from the standpoint of future production and component parts. The attack on current production is under way, and the Army-Navy-British

- 2 -

Aircraft Standardization Committee is meeting regularly and doing good work. Even this will be expedited when the British experts arrive from England.

It seems to me that standardization in the future can only be achieved through standardization of component parts where there are now basic differences. Some of these differences are caused by operational requirements and some by conflicting engineering and technical considerations. The technical arguments can be ironed out, but in many instances the operational requirements cannot be completely eliminated.

An example of an operational requirement is tire pressure. The British need low tire pressure because English airfields are small, part pasture or part desert, whereas American airports are well equipped with concrete runways, large areas, and require high tire pressure. Unfortunately, this change in tire pressure involves changes in basic wing and fuselage construction in all cases where retractable landing gear is used. Further, standardization can be achieved relatively simply on pursuit ships and other similar types, but it becomes a much more complex problem on the larger ships especially with respect to bomb stowage, bomb sights, radio, gun calibres, turrets, oxygen, cameras, barrage cutting equipment, etc.

It would seem that on all future orders standardization could be achieved more quickly if these basic components were standardized first. It is my belief that the Army-Navy-British Standardization Committee is achieving standardization as rapidly as possible on planes already in production, but that little can be done for the moment to increase the standardization pace.

P.Y.

CONFIDENTIAL *Final*

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TREASURY DEPARTMENT

WASHINGTON

Mar. 27, 1940

Subject: Plan of procedure to use for detecting industrial bottlenecks and abnormal price increases.

1. What is a bottleneck?

Two different meanings have been given to the term "bottleneck." From the standpoint of national defense alone, a bottleneck would be any shortage of capacity in an industry which might prevent completion of the full defense requirements within the required period of time. This limited view is held, for example, by many in the steel industry, who believe that through the use of priorities and civilian rationing the defense program can eventually be completed without a bottleneck developing in steel.

From the broader viewpoint of national interest, which concerns itself with the full employment of our labor and our industrial resources, the definition of a bottleneck must be extended to cover any shortage of capacity for meeting civilian as well as defense needs within the time required for completion of the armament program.

2. How can bottlenecks be detected?

A bottleneck occurs whenever the capacity of an industry is insufficient to meet the actual volume of demand for the given product within the required time. Ordinarily this results in prices of the product being forced up under the competitive bidding of buyers until some of the bidders drop out or defer their buying, thus limiting the volume of sales to the industry's capacity.

Three methods of detecting bottlenecks are available. To detect a bottleneck before it occurs, giving ample time to develop new capacity if necessary, an industry survey is needed. This must determine (a) the production capacity of the industry and (b) the amount and timing of prospective defense and civilian orders. A limitation on the industry survey method is the difficulty of determining actual capacity

- 2 -

of an industry. Estimates are likely to differ rather widely, and to vary with the personal bias of the estimators. Furthermore, they are usually expressed only in terms of plant capacity, without consideration of possible bottlenecks in other production factors, such as labor or materials.

A second method, designed to indicate when capacity is becoming over-taxed, is based on periodic surveys of the length of time required for delivery on new orders for selected products. For example, if an order for structural steel can normally be delivered in four weeks, and now requires eight weeks, it indicates a definite strain on the capacity for producing structural steel, which can be measured from week to week. It will be noted that this method takes into account not only plant capacity, but all factors affecting the rate of output. It serves to indicate capacity bottlenecks in their early stages.

A third method involves watching the price movements of individual products for signs of a bidding up of prices due to supply shortages.

3. Procedure for detection of bottlenecks by industry surveys.

The Bureau of Research and Statistics of the National Defense Advisory Commission is engaged in making detailed surveys of industries important in the defense program, to determine the capacity of each industry, the prospective defense and civilian requirements by years, and the extent to which bottlenecks are indicated.

Summaries of confidential tentative surveys made for steel, aluminum, zinc, copper, and apparel wool are appended as Exhibit 1. Conclusions arrived at tentatively for each of these products are quoted below:

Steel. "It would appear that...more than 94 million net tons will be required in fiscal year 1942. Roughly, steel ingot capacity is estimated at approximately 82 million net tons. Therefore, it is obvious that if the above requirements are in any way correct, there will be a very marked shortage of steel ingots in fiscal year 1942. Also... there is every likelihood that the level of steel needs before the close of the present fiscal year will be considerably in excess of steel capacity."

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Aluminum. "It is obvious that the past capacity of the aluminum industry will be far from adequate in meeting the anticipated military, British, and civilian needs. . . . The smelting capacity of the aluminum industry, it has been announced, is to be expanded substantially. There is still very serious doubt that the proposed expansion will be sufficient, and this commodity, no doubt, deserves further consideration."

Zinc. "According to these data it would appear that shortages in zinc may be expected within the next six to nine months. . . . Within nine months direct defense needs will be expanding rapidly and it would appear that existing capacity will not be sufficient to handle this increased load."

Copper. Conclusions as to adequacy of copper capacity not given. Requirements estimated at 1,980,000 short tons in calendar year 1941 and 2,150,000 short tons in 1942.

Apparel wool. "Supplies in the leading export countries are abundant, and from the point of view of foreign capacity the increased requirements raise no problem. . . . There may, however, be a real problem in obtaining shipping to handle the greatly increased imports needed to cover our expanding requirements. . . . In case of a shortage in the finer grades, it might be necessary to increase the use of coarser grades by the civilian population."

Studies have also been made for coke, hides, fiberglass, and magnesium. Commenting on the results of these surveys, in a confidential memorandum, Mr. Stacy May says: "In view of our efforts, we believe that definite shortage problems are going to be encountered in the fields of steel, aluminum, copper, zinc, wool, and coke. This does not mean that such shortages cannot be overcome by expanding stock piles or productive capacity, but it does appear that unless very drastic measures are taken, these raw materials may come to the attention and consideration of the Priorities Board."

Surveys of this type are being continued, and the results will be made available to the Treasury as studies are completed.

4. Procedure for detection of bottlenecks by watching lengths of delivery periods.

For watching the capacity situations in individual industries, the purchasing agency for national defense should develop a procedure to obtain regular reports from manufacturers showing how many weeks would be required to make delivery

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on additional orders at that time. From such reports, averaged for a group of manufacturers of each product, indexes could be worked out to indicate where production capacity was being subject to increasing strain.

Such an index would be computed as a ratio of (1) the number of weeks required currently to make delivery on a new order to (2) the normal number of weeks required to produce the article. An index of 200, for example, would show that the industry had orders on hand equal to twice its producing capacity, based on the realistic judgment of corporation executives.

For certain products, some information of this nature may be obtained from trade reports. In the steel industry, for example, weekly trade periodicals mention changes in the delivery situation on certain basic steel products in the various steel districts. A summary table showing changes in the delivery situation on steel bars from September to November in the Pittsburgh, Cleveland, and Chicago districts is appended as Exhibit 2.

Similar information may be obtained from data on unfilled orders in comparison with production or shipments, where such data are available in published form or can be obtained from confidential reports. The published figures on steel shipments by the U. S. Steel Corporation combined with the figures on new orders which they report to us confidentially, enables us to calculate changes in the backlog of unfilled orders of this company. Adding these to a figure between 2,400,000 and 2,500,000 net tons reported by the Chairman of the Board as the backlog at the end of July 1940, we may calculate the approximate total unfilled orders of the U. S. Steel Corporation at the end of each month. (Exhibit 3.)

Unfilled orders of this company at the end of October, according to these calculations, were equal to about 1 3/4 months' shipments at the October rate. Shipments in that month were reported as equal to 95.8 per cent of the Corporation's capacity. While this, by itself, does not indicate a bottleneck, the significant facts that provide a basis for such concern are (1) the steadily growing backlog of unfilled orders, and (2) the fact that, according to the steel survey of the N.D.A.C. dated November 12, "the impact of the Defense Program has been felt to only a minor extent to date." While new orders currently are running substantially above capacity, the operating rate of the Corporation has fallen back to 98 1/2 per cent after reaching 100 per cent of capacity in the first week of November.

5. Procedure for detection of bottlenecks by watching prices.

Wholesale prices of 28 basic raw materials, of which 16 are industrial raw materials, are available daily from the Bureau of Labor Statistics. We have prepared a chart (Exhibit 4) showing (1) the general trends of raw industrial material and foodstuffs prices, and (2) percentage changes in individual prices for the 28 commodities, from their August 1940 low to two selected recent dates. This should provide some indication of shortages in available supplies among the leading raw materials.

For a broader list of products, including manufactured and semi-manufactured goods as well as raw materials, wholesale price indexes are published weekly by the Bureau of Labor Statistics for 10 major groups, and are available confidentially on a weekly basis for 49 subgroups. (Listed in Exhibit 5.)

A chart will be prepared for each significant major group in the all-commodity index, showing price movements in the several subgroups. Evidence of a price rise developing in any subgroup can then be checked to determine what individual commodity is responsible for the rise, and whether the price upturn in that commodity is due to a shortage of capacity.

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE

FEDERAL RESERVE BUILDING

WASHINGTON, D. C.

November 25, 1940

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Mr. George C. Haas,
Director of Research and Statistics
Treasury Department,
Washington, D. C.

Dear George:

At Mr. May's request I am enclosing copies of reports we prepared on several raw materials. In the first place, it is important to emphasize the fact that these reports are absolutely secret. Secondly, and perhaps inconsistently, it is very important to state that all the figures are very tentative and subject to revision. The further we delve into the source material upon which such reports are based, the more hesitation we have toward distributing these reports.

You will notice that all the reports are on a fiscal year basis except the one on copper, which is given for calendar years. As we translate the basic requirement figures into more satisfactory time schedules, it will be possible for us to present time schedules of raw materials for shorter intervals than years.

We hope these brief reports will be useful to you, and we know you will appreciate their secret character.

Sincerely yours,



Robert R. Nathan
Bureau of Research and Statistics

REQUIREMENTS AND CAPACITY IN ALUMINUM

SECRET

According to the Commodities Division of the Army and Navy Munitions Board, approximately 500 million pounds of aluminum was estimated as the requirements for the Army and the Navy for a two-year major effort. Of this total the Army would require 355 million pounds and the Navy 144 million pounds.

A translation of Fiscal Year 1941 Appropriations as to raw material needs indicates total requirements of approximately 200 million pounds for the Army and 272 million pounds for the Navy, or an aggregate of 472 million pounds. The figure for the War Department no doubt is smaller than the requirements of the Army for F. Y. 1941 and F. Y. 1942. On the other hand, the requirements of the Navy are greater than will actually be needed over the next two fiscal years, since existing enactments cover a five (5) year shipbuilding program designed to provide a 70 per cent expansion in the Navy. The following estimates are the most reasonable that can be made at this time of probable Army and Navy needs for aluminum for F. Y. 1941 and F. Y. 1942, assuming about half of the Army Plans requirements for Aluminum under present enactments will come in F. Y. 1941 and some additional appropriation in F. Y. 1942.

	<u>F. Y. 1941</u>	<u>F. Y. 1942</u>
	<u>(in millions of pounds)</u>	
Army	115	150
Navy	<u>60</u>	<u>80</u>
Total	175	230

(Only a moderate proportion of the F. Y. 1941 requirements have probably been consumed to date, so that the F. Y. 1941 figures are largely requirements for the balance of the fiscal year).

Of the Army requirements, well over half is required by the Air Corps, with the largest remaining needs representing the Quartermaster Corps, especially for field ranges and mess outfits. Approximately three-quarters of the Navy requirements are accounted for by the Bureau of Ships. It should be noted that for the new Navy Shipbuilding Program, the Aluminum Company estimates requirements of aluminum as 68,000,000 less than does the Navy Department.

Unfilled orders for airplanes for Great Britain will require at least 125 million pounds of aluminum. In addition, there is a very large amount of the semi-fabricated aluminum on order. The total of these two aggregate approximately 200 million pounds, and it is probable that over 100 million pounds of this total will be needed within F. Y. 1941; the remaining 100 million pounds or less will appear in F. Y. 1942. This figure on British orders is no doubt a minimum, since a large proportion of British orders is not accounted for in the data on which these estimates were based. At least a 50 per cent expansion of estimated requirements would appear to be entirely conservative, with

a much higher increase appearing to be more reasonable.

The consumption of aluminum in the United States in calendar year 1938 was 435 million pounds. No doubt the F. Y. 1940 consumption was larger, but no data are as yet available for this period. Taking into account probable defense expenditures of 5 billion dollars in F. Y. 1941 and of ten billion dollars in F. Y. 1942, it appears that civilian demands for aluminum unless restricted by supply, will increase to 560 million pounds in F. Y. 1941 and 670 million pounds in F. Y. 1942. Of course these civilian needs are based on the assumption that all bottlenecks will be anticipated and corrected and that there will be no restriction on consumption because of shortages.

It is obvious that the past capacity of the aluminum industry will be far from adequate in meeting the anticipated military, British, and civilian needs. As a matter of fact, there is every indication that capacity in recent years is not adequate to satisfy purely civilian consumption at prosperity levels without taking into account the military or British requirements. There has been a sharp upward trend in aluminum consumption in recent years and that is why the estimated civilian needs of 560 million pounds in F. Y. 1941 and 670 million pounds in F. Y. 1942 are far beyond the civilian requirements given in the Army and Navy Munitions Board Aluminum Plan of 305 million pounds, the latter represents an average over a number of preceding years.

The smelting capacity of the aluminum industry, it has been announced, is to be expanded substantially. There is still very serious doubt that the proposed expansion will be sufficient and this commodity, no doubt, deserves further consideration.

We have always depended largely on foreign sources. In 1939 more than two-thirds of our bauxite requirements were imported.

SECRET

Bureau of Research and Statistics
Requirements and Capacity Division
November 10, 1940

APPAREL WOOL: REQUIREMENTS AND CAPACITYRequirements

Requirements under the M-Day Plan prepared by the Commodities Division of the Army and Navy Munitions Board. These estimates assume the mobilization of a 4-million man Army and a maximum naval effort and cover a period of 2 years beginning with M-Day.

Apparel Wool Requirements: Under M-Day Plan

	<u>1st year</u>	<u>2nd year</u>
	(Million pounds of grease wool)	
Military (Army)	579	368
(Navy)	56	30
Civilian	<u>531</u>	<u>538</u>
Total	1,165	930

Estimated Requirements for the fiscal years 1940-41 and 1941-42 under present military program. These estimates for military needs for F.Y. 1941 are based on existing enactments, and for F.Y. 1942 on a continuation of the same military force through F.Y. 1941 that will prevail at the close of the present fiscal year. The F.Y. 1942 estimates of military needs are based on rough approximations of the replacement factor in soldiers' apparel. The estimates are probable understatements rather than overstatements. Orders had already been placed by October 12, 1940 by the Quartermaster Corps of the Army for items requiring over 160,000,000 pounds of wool. Non-military needs are based on estimated levels of production and national income resulting from defense expenditures of 5 billion dollars in 1940-41 and 10 billion dollars in 1941-42.

Apparel Wool Requirements: Fiscal Year 1941 and Fiscal Year 1942

	<u>F. Y. 1941</u>	<u>F. Y. 1942</u>
	(Million pounds of grease wool)	
Military (Army)	282	225
(Navy)	15	25
Non-Military	<u>600</u>	<u>670</u>
Total	917	920

More than 95 percent of the military requirements represent needs of the Quartermaster Corps of the War Department. The estimates for the Quartermaster Corps were developed from Bills of Materials for each item. These Bills of Materials showed wool equivalents for nearly all items in terms of scoured wool. The translation of wool from a scour to a grease basis was made on a ratio of 2.4 pounds of the latter to 1 pound of the former. Roughly this is the average which has prevailed over the past few years for apparel wool. It may be noted that the ratio is higher for domestic wool, i. e. more grease wool is needed per unit of scour wool than for imported wool.

Capacity to Meet Requirements

This has two aspects: (1) capacity to produce wool in the United States, (2) ability to import wool.

Capacity to Produce in United States

During the 5 years 1934-39, the United States production of pulled and shorn wool averaged 433 million pounds, grease basis, or 195 million pounds, clean basis (approximately 1.11 pounds of scour wool is needed per pound of clean wool), with little variation from year to year. Virtually all of this was consumed domestically and accounted for about 76 percent of domestic consumption during the same period.

Capacity to produce domestic wool cannot be increased substantially in less than 2 years, though some increase could, in an emergency, be effected in 1 year.

In addition to the time required to increase the number of sheep (wool capacity), substantial inducement must be offered to sheep growers if they are to increase their flocks materially. Moreover, it is not apparent that an increase in the price of wool alone would prove to be sufficient inducement. Wool is produced as a joint product with lamb, and the latter is usually the principal source of income to the growers. Prices of both wool and lamb would have to be considerably higher than at present, and give promise of remaining higher for some time before sheep raisers could justify an important increase in their flocks, because a decline in the price of lamb, either absolutely or in relation to other meat, might effect a significant increase in wool prices. While the possibility of increasing the number of sheep grown in the United States warrants further consideration, particularly with respect to how such an increase would be induced in the absence of any emergency inducement, no substantial increase in United States wool production may reasonably be expected in the near future.

Ability to Import Wool

Ordinarily the United States imports about 100 million pounds of wool a year to make up the discrepancy between domestic production and consumption. In 1937, however, 150 million pounds were imported. This wool is expressed "in condition reported" and is neither an a

grease or scour basis. Roughly converted, the average imports of the last 5 years approximate 150 million pounds on a grease basis, and the 1937 total roughly approximates 225 million pounds on a grease basis. On the basis of the estimated military and non-military requirements, these imports would have to be increased to around 300 to 350 million pounds "in condition reported" in each of the fiscal years of 1940-41 and 1941-42.

Supplies in the leading export countries are abundant, and from the point of view of foreign capacity the increased requirements raise no problem. Potential capacity of foreign areas to supply U. S. needs has been enhanced by the fact that the wool exporting countries have lost outlets for about 1 billion pounds in the European market because of the British blockade. There may, however, be a real problem in obtaining shipping to handle the greatly increased imports needed to cover our expanding requirements.

Special Aspects

Stockpile. As of August 1, 1940, it is estimated that there was slightly in excess of 240 million pounds of scoured wool in the United States, which is the equivalent of approximately one-half billion pounds of wool on a grease basis. This is slightly less than average stocks for the same month. Within the next few months, 250 million pounds of wool from the British Empire is to be sent to the United States for storage. While this wool is to remain in British ownership, arrangements have been made permitting the United States to draw upon this source at an established price if needed. The acquisition and use of this wool would, with normal production and commercial imports and existing stocks, more than cover all requirements for the fiscal year 1940-41. If, however, this stockpile is to be held in reserve and existing inventories maintained, the import level of 300 to 350 million pounds as suggested above would be necessary over and above the shipments for stockpile.

Grades. The military requirements are almost entirely for the finer grades. This means that we cannot look wholly to South America, whose production is primarily of the coarser types, to cover these requirements. In case of a shortage in the finer grades, it might be necessary to increase the use of coarser grades by the civilian population, diverting the finer grades to military uses. The importance of grades can easily be over emphasized, particularly in the long run, but there could easily be supply difficulties as between grades pending decisions to effect substitutions. In addition, there are certain technical difficulties involved in a transition from utilization of the finer to the coarser grades.

Restriction of military requirements to domestic wools. Existing laws restrict military purchases to items made of domestic wools, but the Defense Commission is proceeding rapidly to prevent this from constituting a choke point in obtaining military requirements.

Substitutes. Other fibers may be substituted to a considerable extent for wool if a shortage develops. Cotton and rayon may be exten-

sively substituted for or mixed with wool for a number of uses, especially in fabrics for civilian consumption. Military specifications preclude the use of substitute fibers, but the Army is now testing uniforms made of 70 percent wool (64s) and 30 percent rayon in order to have basic information on such fabrics in case of urgent need.

STEEL REQUIREMENTS AND CAPACITY**SECRET**Steel Mobilization Plan

The Steel Mobilization Plan, Revision of July 1, 1940, of the Army and Navy Munitions Board indicates that military requirements, exclusive of military and productive facilities' construction, in the maximum year of a 4-Million Man effort will total 18,633,390 tons of steel ingots. Of this amount, 7,144,000 tons are for the Army and somewhat less than 1,000,000 tons for the Maritime Commission. The balance is for the Navy.

Steel Needs Under F. Y. 1941 Enactments

The Minimum steel ingot needs of the Army and Navy under F. Y. 1941 appropriations and authorizations, inclusive of construction at all Army and Navy military posts, but exclusive of all production facilities, whether or not they are provided for in Congressional Enactments, are estimated at approximately 7,000,000 tons. Of this total, the Army needs are 2,500,000 tons and the Navy 4,500,000 tons. Of the Navy total, about 2,225,000 tons will be used for ship construction and 1,250,000 for ordnance, both of which will be distributed over a five year program. These estimates are submitted directly by the Navy Department, but for the Army they are derived from Bills of Materials.

Probable F. Y. 1941 and F. Y. 1942 Steel Requirements

	(Net Tons of Ingots)	
	<u>F. Y. 1941</u>	<u>F. Y. 1942</u>
Military	2,800,000	4,100,000
Non-Military ^{1/}	62,000,000	74,400,000
Foreign	<u>14,700,000</u>	<u>15,700,000</u>
Total	79,500,000	94,200,000
Gross Tons Total	70,982,000	84,107,000

^{1/} The 1929 ingot production was approximately the same as is estimated as non-military requirements in F. Y. 1941.

In arriving at estimates of probable steel needs for direct military purposes during the present and the next fiscal years, several elements must be considered.

1. Fiscal Year 1941 appropriations and authorizations for Army Ordnance are estimated to require 1,200,000 tons of steel ingots. This provides for only a limited portion of the requirements for a 1,200,000

man army and of the reserve items for an additional 800,000 man. Since the balance of needs will come up under F. Y. 1948 appropriations, in addition to some added equipment, the probable minimum Army Ordnance needs for steel are 1,000,000 tons in F. Y. 1941 and 1,800,000 tons in F. Y. 1948.

3. Army needs of steel for other branches than Ordnance will likely jump sharply in F. Y. 1948 in many areas which have been only slightly provided for under F. Y. 1941 Expenditures. For instance, when compared with the K-Box Plan, the F. Y. 1941 provisions for the Engineers Corps and the Quartermaster Corps are very small. Estimates of 800,000 tons in F. Y. 1941 and 700,000 tons in F. Y. 1948 are conservative approximations.

5. In the Navy, the estimates for F. Y. 1941 are exclusive of the shipbuilding program indicated in prior years, which in dollar volume is perhaps equal to one-sixth or one-seventh of the new program. The Bureau of Ships and the Bureau of Ordnance call for about 3,800,000 tons under the new program. It would appear that 800,000 tons in F. Y. 1941 and 1,000,000 tons in F. Y. 1948 would be a minimum figure for these two Bureaus, under both the new and old programs.

4. Other Bureaus in the Navy require moderate amounts of steel. These and other miscellaneous military needs may total 300,000 tons in F. Y. 1941 and 400,000 tons in F. Y. 1948.

6. It is important to note that the Army and Navy Munitions Board figures presumably do not include construction items. The probable needs of 800,000 tons in F. Y. 1941 and the same in F. Y. 1948 by the Bureau of Yards and Docks of the Navy Department is indicated by data from that Bureau. There are not sufficient data yet for translating Army military ports and therefore the needs for this purpose are not accounted for in this report. These figures do not include any road building program for defense purposes, nor the needs of the Maritime Commission.

Non-Military Requirements

In the case of steel the impact of the Defense Program on the industry appears to come primarily from indirect, rather than direct sources. This is at least true in the early stages of the Defense Program, when the immediate impact will mean expanding productive facilities in the form of both plant and equipment. Also, and particularly important, is the probable increase in general steel demand resulting from a markedly expanding level of industrial operations.

It appears probable that defense expenditures for Fiscal Year 1941 will total 8-billion dollars and that a 10-billion dollar defense expenditure may be contemplated for Fiscal Year 1942. On the basis of these levels and various assumptions which have been approved by economists from a number of government agencies, the estimated national income for Fiscal Year 1941 is 80 billion dollars and for Fiscal Year 1942 is 90 billion dollars, measured at existing prices. The latter figure would, at 1929 prices, be well in excess of 100 billion dollars. The attainment of these levels of national income will mean a widespread expansion in demand for consumer goods and producer goods, both from investment resulting directly from defense needs and investment resulting from higher levels of business activity.

On the basis of the above assumptions, the non-military steel demand is estimated at 82.0 million net tons in F. Y. 1941 and 74.4 million net tons in F. Y. 1942. On the basis of recent trends and considered judgment as to the future outlook, it is expected that total foreign demand will aggregate 14.7 million net tons in F. Y. 1941 and 15.7 million net tons in F. Y. 1942. These estimated exports appear to be in line with independent estimates of probable needs of Great Britain, and they are projected on a rather conservative basis.

SUMMARY

Summarizing the above figures, it would appear that approximately 80 million net tons of steel will be required during F. Y. 1941 and more than 94 million net tons will be required in F. Y. 1942. Roughly, steel ingot capacity is estimated at approximately 82 million net tons. Therefore, it is obvious that if the above requirements are in any way correct, there will be a very marked shortage of steel ingots in F. Y. 1942. Also, while the requirements in F. Y. 1941 can be satisfied by nearly full utilization of capacity throughout the year, there is every likelihood that the level of steel needs before the close of the present Fiscal Year will be considerably in excess of steel capacity.

There may have been a slight rise in inventories in recent months in the hands of steel consumers, but available data on inventories show no significant changes. It appears fairly certain that currently steel is being consumed or exported at approximately the rate at which it is being produced. If this is true, there is basis for much concern, since the impact of the Defense Program has been felt to only a minor extent to date.

Bureau of Research and Statistics
Requirements and Capacity Division,
November 6, 1940

REQUIREMENTS AND CAPACITY IN ZINC

SECRET

Military Requirements

According to the Commodity Reports of the Army and Navy Munitions Board the military requirements for zinc for a two-year major effort, including a four-million-man army and a maximum naval effort, are as follows:

	(Millions of Pounds)		
	<u>1st year</u>	<u>2nd year</u>	<u>Total 2 years</u>
Army	264.6	257.9	522.5
Navy	(not given)	(not given)	<u>179.0</u>
TOTAL			701.5

The military requirements of zinc under existing appropriations and authorizations are estimated at approximately 125 million pounds for the Army and approximately 55 million pounds for the Navy. Converted, these figures represent requirements for 63,000 tons and 28,000 tons for the Army and Navy, respectively. Zinc is an important raw material in the production of small arms and ammunition. Fiscal Year 1941 Enactments do not provide much more than half of the ammunition needed for a two-million-man effort, which is the objective, in terms of critical items, of the F. Y. 1941 Enactments. Presumably, the balance of the requirements, and perhaps more, will be provided for under F. Y. 1942 appropriations. The Navy requirements represent a four or five year program for Ships and Ordnance provisions for these Ships.

Taking into account existing appropriations and probable F. Y. 1942 Enactments to take care of a two-million-man effort on critical items and a 1,200,000-man effort on essential items and also progress toward the 70 per cent expansion of the Navy, it would appear that military requirements for the next two fiscal years will be:

	<u>Military Requirements</u>	
	<u>F. Y. 1941 (tons)</u>	<u>F. Y. 1942</u>
Army	40,000	75,000
Navy	<u>10,000</u>	<u>20,000</u>
TOTAL	50,000	95,000

- 2 -

British orders for this fiscal year for zinc ingots will exceed 100 million pounds, or 80,000 tons. Zinc content of brass orders will add 50,000 tons and zinc content of cartridges purchased will amount to about not less than 12,500 tons. The total of these three items alone is 142,500 tons of zinc, and the needs in the following fiscal year will probably be at least as large.

Non-military consumption of manufactured zinc (primary and secondary) totalled 625,000 tons in calendar year 1929, and it is estimated that 700,000 tons were consumed in F. Y. 1940. On the basis of levels of production and national income which have been arrived at through considerable discussion and many conferences, it appears that non-military requirements in zinc in F. Y. 1941 will reach 755,000 tons and in F. Y. 1942 will approximate 895,000 tons. It should be stated that the levels of production and income underlying these requirements were, in turn, based on an estimated defense expenditure by the Government of 5 billion dollars in F. Y. 1941 and 10 billion dollars in F. Y. 1942. These estimated levels of expenditures appear to be reasonable if problem areas or industries are anticipated in advance and corrected.

To summarize, total zinc requirements for military, British, and civilian purposes for fiscal years 1941 and 1942 are as follows:

	F. Y. 1941 (Thous- ands of tons)	F. Y. 1942
Army	40	55
Navy	10	20
Total Military	50	75
British	112	112
U.S. Non-Military	755	895
TOTAL	917	1,102

The 1929 production of zinc approximated 725,000 tons, and it appears probable that a similar level of production can now be obtained without great difficulty. Any substantial expansion, however, may present difficulties. Obviously, therefore, zinc presents a serious problem.

Zinc metallurgical works show a decline of 10 per cent in rated capacity during the past decade. The rated capacity at the start of 1940 was 1,080,000 tons per year. In addition, electrolytic plants had an estimated plant capacity of 215,000 tons, bringing the total rate of capacity to 1,295,000 tons. This would appear to provide an adequate capacity for almost any capacity expansion, but it is generally recognized and agreed that these figures on rated capacity are far too high probably the obtainable capacity is not over two-thirds of rated capacity. The American Bureau of Metallurgical Statistics indicates that at the beginning of 1940 the practical capacity of zinc distillation smelters probably was not in excess of 600,000 tons and an additional 214,000 tons should be accounted for by the electrolysis process. This aggregate of 814,000 tons per year

- 3 -

may be too high. The production in September, when there was a sharp increase in active orders, was only slightly over 55,000 tons, indicating a level of 650,000 tons with some crowding of capacity.

According to these data it would appear that shortages in zinc may be anticipated within the next six to nine months. During the interim the requirements will expand largely in the civilian area, as a result of expanded consumption resulting from defense expenditures, and also from industrial expansion based on defense needs. Within nine months direct defense needs will be expanded rapidly, and it would appear that existing capacity will not be sufficient to handle this increased load.

SECRET

Mr. Donald H. Wallace

November 8, 1940

Mr. V. Lewis Bassie

Copper Requirements

SUMMARY TABLE
(On Calendar Year Basis)

Estimates of Copper Requirements in 1941 and 1942
(In thousands of short tons)

	<u>1941</u>	<u>1942</u>
Military Requirements	200	240
Non-military Requirements, total	1180	1310
Normal Consumption	850	850
Increased domestic consumption due to indirect military re- quirements and increased pur- chasing power	330	460
Exports, total	600	600
British purchases	400	400
Other Exports	<u>200</u>	<u>200</u>
Total	1980	2150

Military Requirements

An analysis of bills of materials covering military supplies to be procured under present cash appropriations for the Army and Navy indicates that at least an additional 405,000 tons of copper will be required in the next two years. Of this total, 200,000 will be required in 1941 and 240,000 in 1942.

Non-Military Requirements

1. According to W. R. Ingalls, Director of the American Bureau of Metal Statistics, the normal annual consumption of copper is 850,000 short tons.

3. The estimates of normal consumption and military requirements for copper do not take into account the sizable increase in the demand for copper that will result from government expenditures of 10 to 15 billion dollars for defense in fiscal years 1941 and 1942. Additional demand for copper may be expected for the following reasons:

- (a) The military requirements for copper listed above do not include copper to be used in the construction of barracks, expansion and modernization of yards and docks, placement construction for large arms and special expenditure appropriations for modernization of plant and equipment and expediting equipment.
- (b) Construction of new plants and expansion of existing plant and equipment to meet military orders (airplanes, ammunition, powder). Thus, under the authorization of the Defense Amendment to the R.F.C. Act, the R.F.C. has already authorized loans and made loan agreements amounting to \$590,000,000, of which \$200,000,000 is for construction and equipment. This sum does not include the loans of banks which are granting loans jointly with the R.F.C. Jesse Jones has indicated that the R.F.C. is ready to lend one billion dollars under the Defense Amendment.
- (c) The rapid expansion of capacity to meet defense needs requires a complementary expansion of basic industries, such as electric power, steel, and machine tools.
- (d) The War and Navy Departments and the Federal Works Agency have special appropriations to provide housing for defense workers. In addition, the protracted depression in residential construction and the recent upswing indicate the possibilities of a boom in construction.
- (e) The increase in employment and payrolls arising from cumulative effect of the defense program should stimulate additional demand for consumers' durable goods. Among these durable goods will be such copper consuming products as automobiles, radios, and refrigerators.

3. An interdepartmental conference of government economic analysts attempted to measure the over-all cumulative effect of

the defense program on national income and production in the next two fiscal years. It was their opinion that we will reach a national income of 80 billion dollars in fiscal year 1941, and 90 billion dollars in fiscal year 1942. Moreover, it is expected that the Federal Reserve Board production index will, in fiscal year 1941, be 15%, and in fiscal year 1942, 30% above the 1937 level.

In order to measure the increased demand resulting from the indirect effects of the defense program, a study was made of the deviations of actual copper consumption from normal consumption as they are related to changes in the Federal Reserve Board production index. The conclusion from this study is that an additional demand for copper amounting to 330,000 short tons in calendar year 1941, and 460,000 short tons in 1942, may be expected from the cumulative effects of the defense program.

These estimates are similar to those resulting from a more detailed analysis of copper used in construction, producers' durable goods, and consumers' durable goods as related to anticipated levels of expenditures for these categories.

In both analyses, effect was given to the relatively reduced level of copper consumption during the thirties. These estimates must, therefore, be considered conservative.

4. The pre-depression trend of per-capita copper consumption was steadily upward. If we assume that with generally improving business conditions at levels of production considerably shown 1929, the 1929 per-capita consumption of copper is again attained, we

can expect that domestic, non-military consumption of copper will be 400,000 short tons above normal. This estimate is based on the American Bureau of Metal Statistics figure of 19.08pounds of copper per-capita consumed in 1929 and the population of 131 million in 1940. Should the per-capita consumption of copper in 1941 and 1942 be equal to the 1929 per-capita consumption, the non-military requirements for copper will be 800,000 short tons above normal consumption for the two years. This is 10,000 short tons above our estimates of increased domestic consumption in 1941 and 1942 due to indirect military requirements and increased purchasing power.

As a matter of fact, with steadily increasing production and purchasing power, it may be expected that the upward pre-depression trend of per-capita consumption of copper will continue in the future and go above 1929 levels. While, on the one hand, there is increasing efficiency in the use of copper as witnessed by the telephone and telegraph industry, there are, on the other hand, new uses for copper in consumers' durable goods and an increasing use of copper in construction. Rural electrification and mechanization on the farm will also increase the demand for copper. Since such a large proportion of copper is used as a producers' goods, one may expect a more than proportional increase in the use of copper with improving business conditions. Moreover, with the heavy demand on aluminum for use in airplanes, it may be expected that in the next few years aluminum will not be as serious a competitor of copper as in previous years.

Exports

British purchases of copper ingots and copper in brass will, according to the best available estimates, amount to approximately 400,000 short tons in 1941. This estimate is based on existing unfilled and anticipated orders. The British Government has ordered over 750 million car-

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tridges (cases) of various sizes. On the basis of an analysis of exports in earlier years and the first eight months of 1940, it is expected that 200,000 short tons of copper will be exported to countries other than belligerents in the European war. Assuming that the European war will continue in 1942, it is estimated that our export requirements will not diminish and may be expected to increase in 1942.

Exhibit 2.

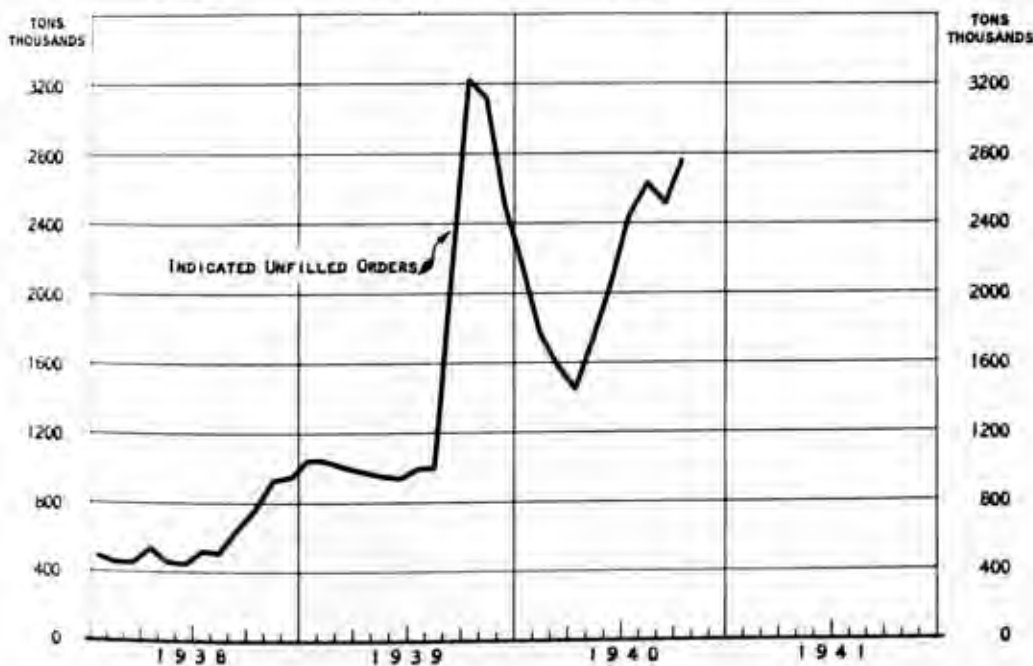
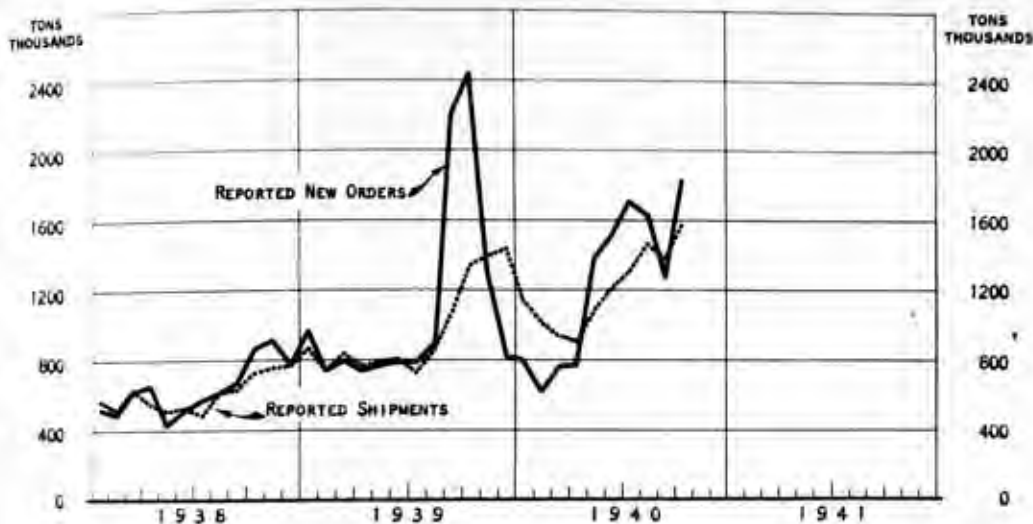
Average delivery periods reported in Iron Age and Steel magazines

Steel bars*

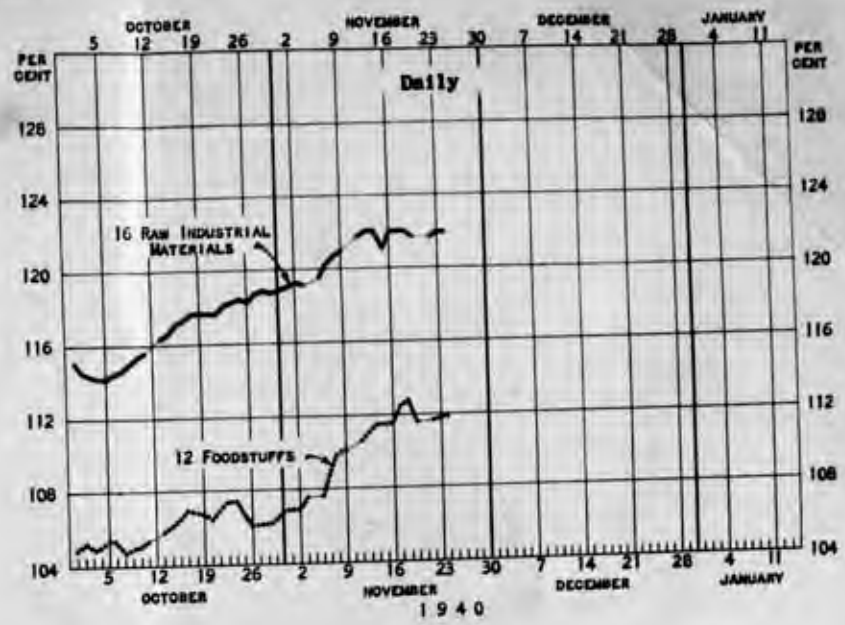
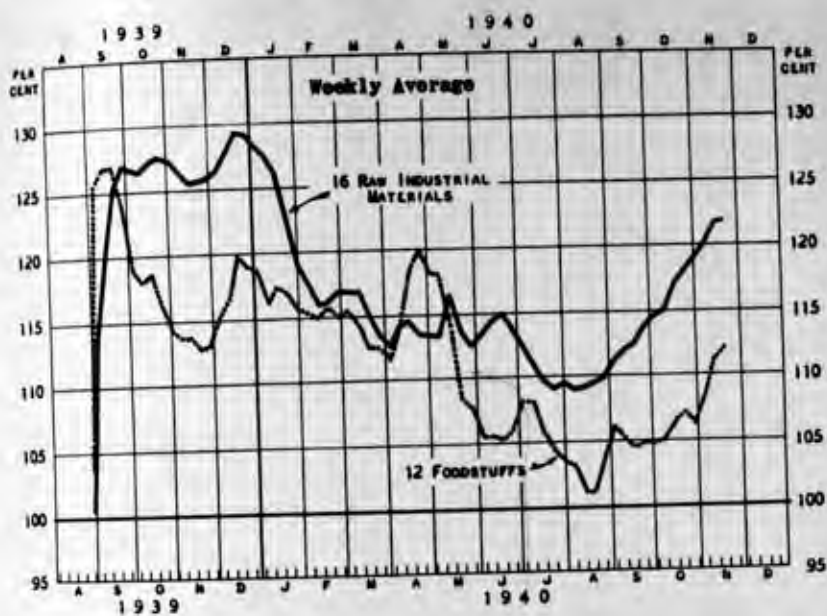
	<u>September</u>	<u>October</u>	<u>November</u>
Pittsburgh	4-6 weeks to 6-8 weeks	4-8 weeks Some for first quarter	"Extending deliveries" 2 months
Cleveland	"Backlogs getting heavy"	Cold bars: extended Hot rolled: 6-8 weeks Small bars: 7 weeks Carbon bars: 6-8 weeks	2 months
Chicago	2-4 weeks	4-8 weeks Carbon: 2-6 weeks (By end of month, "booked through end of year.")	Backlogs increasing, especially in carbon and alloy bars Some orders for first quarter

* Situation reported particularly critical in carbon and alloy bars.

REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION



MOVEMENT OF BASIC COMMODITY PRICES
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to November 18, and to November 25, 1940

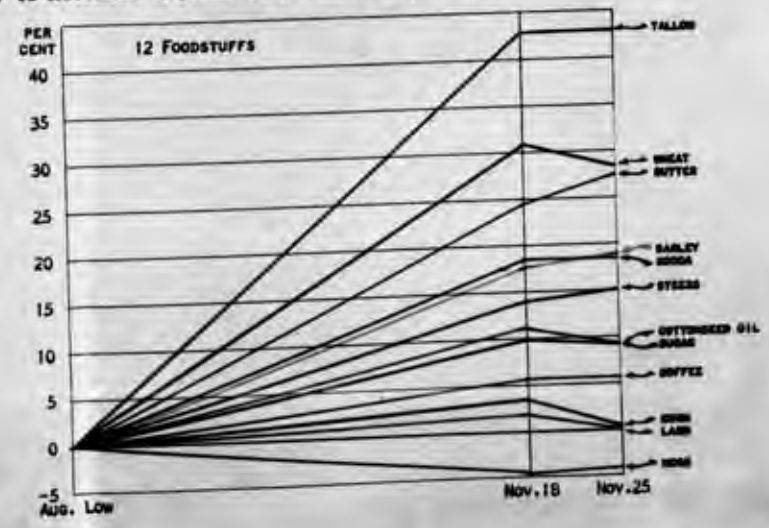
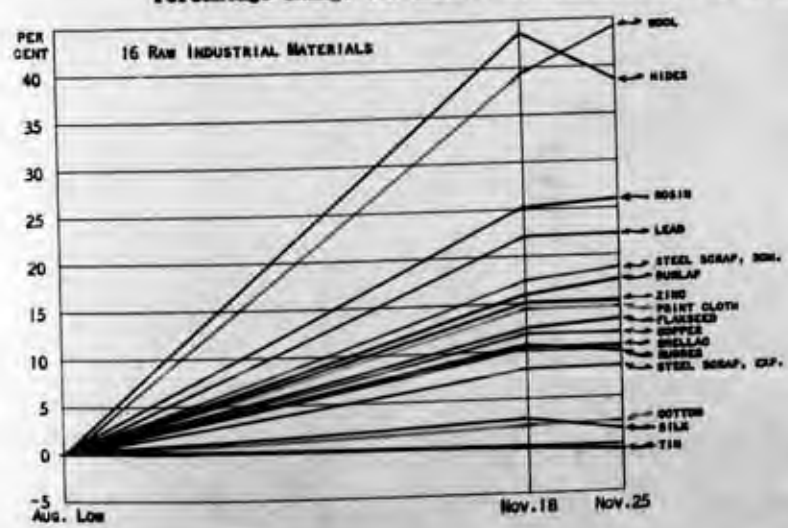


Exhibit 5.Major groups and subgroups of the
ELS all-commodity indexFarm products

Grains
Livestock and poultry
Other farm products

Foods

Dairy products
Cereal products
Fruits and vegetables
Meats
Other foods

Hides and leather products

Shoes
Hides and skins
Leather
Other leather products

Textile products

Clothing
Cotton goods
Hosiery and underwear
Rayon
Silk
Woolen and worsted goods
Other textile products

Fuel and lighting materials

Anthracite
Bituminous coal
Coke
Electricity
Gas
Petroleum and products

Metals and metal products

Agricultural implements
Iron and steel
Motor vehicles
Non-ferrous metals
Plumbing and heating

Building materials

Brick and tile
Cement
Lumber
Paint and paint materials
Plumbing and heating
Structural steel
Other building materials

Chemicals and allied products

Chemicals
Drugs and pharmaceuticals
Fertilizer materials
Mixed fertilizers
Oils and fats

Housefurnishing goods

Furnishings
Furniture

Miscellaneous

Automobile tires and tubes
Cattle feed
Paper and pulp
Rubber, crude
Other miscellaneous

GROUP MEETING

November 28, 1940
9:30 a.m.

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

H.M.Jr: I have got some stuff here I wanted to catch up on.

Herbert, I don't know whether I agree with you on turning down this request of Ralph Budd. If by sending - how many days earlier than normal could we open up the ice for ore traveling.

Gaston: It is just a gamble, probably not any at all. We might save a day. What we have is the Ossippe which gets frozen in up at St. Mary's, up at the Sault Canal. She breaks her own way out and breaks a passage out through the river part way. Then the Escanaba, which winters at Muskegon, goes up to meet her. The Escanaba is the ice-breaking type of heavy cutter.

Then we have the Tahoma in Cleveland, which does the same sort of work on Lake Erie.

It would mean losing this tug for the entire winter, you see, on the Eastern seaboard where we have all this demand. We only have four of them. She would have to go up there now

- 2 -

and it is a question of whether she could even get in now and she would be frozen in all winter.

H.M.Jr: Is that a better one than we have up there?

Gaston: These 110-foot tugs are the best things we have for shallow harbors and short areas. They can turn in short radius and they can turn in close places. They are pretty good ice-breakers. But for heavy ice, we haven't anything that is any good.

H.M.Jr: How about if we could still get one up there and then pull out one of these others to take the place of it?

Gaston: I don't believe we could still get one of those others out. That would leave us with a less seaworthy boat for ordinary winter operations.

H.M.Jr: I think it is a mistake to turn him down.

Gaston: You think it is a mistake to turn him down?

H.M.Jr: Yes, because I am going to raise hell with them on this steel. I am going after them on scrap iron and not increasing steel, and so forth, and they would come back on me and say, "Well, when we asked you for a little thing like that, you turned us down."

Gaston: It isn't a little thing. We only have four of those boats on the entire seaboard. The Navy is asking us to keep the Anacostia River open.

H.M.Jr: Well, take another look at it, will you, Herbert?

Gaston: Yes, but if we do anything we have got to do

- 3 -

it today and it may be too late today.

H.M.Jr: Find out. I am available. If it is possible to send a llo-footer up, then take something out of there in place of it.

Gaston: It is a very serious question whether this boat would be as good as one of those others for breaking the passage up on the way they go, from Lake Michigan, for instance.

H.M.Jr: Will you take another look at it?

Gaston: Yes. As we mentioned in the letter to Budd, we haven't any boat for real heavy ice work. There is a car ferry up there which is as good as a dozen of our boats. That is that car ferry that runs regularly across the Straits of Mackinac and keeps the passage open all winter. It is a 6,000 ton boat.

H.M.Jr: Could that go up there?

Gaston: It is there and will be there all winter. It is just a question of somebody finding the money to hire it, as they did in 1937, to break out the St. Mary's River. It cost \$40,000 in 1937.

H.M.Jr: Why don't you call them up on the telephone and tell them?

Gaston: I mentioned it in this letter.

H.M.Jr: I don't like to turn him down.

Gaston: Not cooperative?

H.M.Jr: I can't turn him down. Why don't you call him up and explain it?

Gaston: I will do it.

- 4 -

H.M.Jr: You could see him.

Gaston: All right.

H.M.Jr: He has got a man with him from the Great Lakes. Couldn't he come over and see you? I have seen in the paper they have a Great Lakes navigation man on this committee. Send for that fellow to come over and see you, and put the whole thing to him.

Gaston: Yes, and I will get Waesche over here and we will talk it over. I went over this pretty extensively.

H.M.Jr: You will find there is a Great Lakes transportation man in Budd's office.

Gaston: In that connection, I have learned since that apparently as a result of A. T. Wood to Budd, Budd sent a memorandum to the Budget and recommended the transfer of the Bureau of Marine Inspection and Navigation to the Coast Guard, apparently after talking to Wood. He did it on his own initiative.

H.M.Jr: Who is Wood?

Gaston: Wood is the president of the Great Lakes Carriers Association.

H.M.Jr: That is the fellow I want you to call up.

Gaston: Wood isn't here. Wood is the man that started that.

H.M.Jr: I think Wood is here. He is on this committee.

Gaston: He was down here a few days ago.

H.M.Jr: He is an assistant to Budd. I will tell you how I will prove it to you.

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Gaston: That may be true; I don't know. I know Wood.

H.M.Jr: You (Thompson) get me the list McReynolds sent me of the people in the National Defense Committee. Haven't you got that book?

Thompson: Yes, I can get it for you.

H.M.Jr: Can you get it?

Thompson: Yes.

H.M.Jr: Get it for me.

Now, let me just see. Have you (Sullivan) got a copy of Section 102?

Sullivan: I can get one for you.

H.M.Jr: Have one, so when we get together we will have it. Will you have it by 10:00 o'clock?

Ed, this is not exactly in your line, but having worked once for Mr. Ickes, I thought I might give it to you. This is the story, and if we could do it, it would be really a - Puerto Rico has a tariff law that nobody, no corporation - if you listen to me. It isn't in there, what I am going to tell you. No corporation can hold more than 500 acres. They have been very lax about enforcing that and there is somebody who has taken it through the courts there, you see. It is really legal.

Now, I think I am correct. Bell can check me. There should have been a bit of money that goes to the Philippine Islands go to the fund for the purchase of land and redistribution of land for resettlement in the Philippines.

Bell: It goes into a fund and it is to be available

- 6 -

for sort of a 3-A program down there. Just what is done with that I don't know, but it is something like that.

- H.M.Jr: See? Now, you will find a list there of the nine million dollar sugar benefit in the amount - how much of it goes to people in ten thousand dollars or over. It says right on the front page.
- Foley: 93 checks of ten thousand dollars or more were issued.
- H.M.Jr: Amounting to about five or six million dollars.
- Foley: Five million two hundred forty-two thousand.
- H.M.Jr: Now, the situation down in Puerto Rico will be changed over night. They hold their land for around nine hundred dollars or a thousand dollars an acre. All of the profits that these sugar corporations make is in this sugar benefit money. Therefore, they hold the land and it is worth a lot. If the sugar benefit money would go into a 3-A program to buy land for resettlement, it would solve the Puerto Rican problem over night. They have got a law there in the statute that no land should go to any corporation - over 500 acres - and over night you just cut the bottom out of that. This money should go into - not this blankety-blank - it is the most outrageous thing.
- Foley: Puerto Rican Reconstruction Corporation.
- H.M.Jr: This fellow spent four million dollars on a University that I wouldn't give forty thousand dollars for. Talk about your money being thrown away! We gave them 45 million dollars, didn't we?
- Bell: Oh, we have given them a lot of money.

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- H.M.Jr: Anyway, four million dollars went into a University that - it is the most outrageous thing you ever saw, but if the President wants to solve the Puerto Rican problem, the thing is to take the sugar benefit money and put it into a revolving fund to buy the land. I saw where they had it years ago and gave these fellows two or three acres and a little house. They can build a house there for five hundred dollars. And then give these people a chance to buy two or three acres, then they bring their sugar to a central cooperative and a hundred dollars cash is rich for them, but the secret of the whole thing is this sugar benefit money which, as I say, 93 corporations are getting --
- Foley:checks for more than ten thousand dollars.
- H.M.Jr: And there is your solution to the whole thing. I should think that Harold Ickes would just jump at it. But it is in the courts down there now, and look up what we do on the Philippine thing. I would really like to know what is being done in the Philippines. The Philippines ran it up to 70 or 80 million dollars, didn't they?
- Bell: It is a large fund there now.
- H.M.Jr: Would you look into that?
- Foley: Yes, I will look into it. I will get all the facts.
- H.M.Jr: I brought that fact with me. You get the idea, don't you?
- Foley: Yes.
- H.M.Jr: And did you (Bell) have a chance to speak with Greenbaum?

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Bell: He wasn't there, but I spoke with his assistant and he is going to call me sometime this morning.

H.M.Jr: You haven't got it?

Bell: No, it will take a little time to work it up.

H.M.Jr: Where is that paper you swiped from me? This fellow gives me memoranda and steals them from me.

Bell: I was afraid you would show it. Those are the items in the six billion seven, that list on the back, that large item.

H.M.Jr: Oh, good. Now, I gave you White's statement on the English assets.

Bell: I just turned it --

White: He made a very excellent summary, but I think there are a few changes in some of the figures and notations we would like to make if we have a chance. It won't take long.

H.M.Jr: Could you - well, could you have that ready for me just before 12:00 o'clock?

White: Oh, yes. You name the hour and we will have it ready.

H.M.Jr: I am going to say 11:45. Could two of you come in then and go over it with me again, plus Merle Cochran?

Cochran: Yes.

Bell: All right.

H.M.Jr: Will you please? And then, you see, at that

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time if it is all right I will give you a copy of it to take over to Mr. Hull.

Cochran: All right, sir.

H.M.Jr: It was too complicated.

White: This summary makes it very simple.

H.M.Jr: Good.

Bell: I think the details will have to remain attached because it has some explanatory notes in there.

White: Otherwise it gives it a specious air of accuracy which it doesn't possess.

H.M.Jr: All right. Have you got that list?

Thompson: I can't find it on the list. I can't find any Wood on there.

H.M.Jr: There is a more recent one than that.

Thompson: This was just about ten days ago. I looked on the older ones, too.

H.M.Jr: I guess I am wrong. Well, he has got somebody from the Great Lakes Transportation.

Here it is. Alex W. Dan, Consultant on Inland Waterways.

Gaston: Alex W. Dan?

H.M.Jr: Wait a minute, except for the Great Lakes. Now, there is somebody - there must be somebody in the Great Lakes.

Gaston: Wood may be the man, though I am quite sure he doesn't spend all his time down here.

- 10 -

- H.M.Jr: That is possible.
- Thompson: They probably wouldn't list him unless he spent full time here.
- H.M.Jr: Harry, is your organization so constituted that you have got somebody that could give me what I call the social revolution that has taken place in England in the last two or three years?
- White: Oh, yes.
- H.M.Jr: Could you give me a review of that?
- White: Oh, yes.
- H.M.Jr: The things that they have done on social legislation.
- White: I doubt whether it is - there is ~~is~~ enough there to be called a revolution, but we will give you whatever there is. (Laughter)
- H.M.Jr: Well, whatever it is.
- White: We have a couple of men that know England very well.
- H.M.Jr: Now, this comes to me from Leon Henderson. Maybe you got a copy. Price stabilization, defense finance section. Have you seen that?
- Bell: No, sir.
- White: I have got a copy.
- Foley: I got a copy.
- H.M.Jr: Bell is the forgotten man.
- Is it something that interests the Treasury?

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White: Well, I am having it digested and commented upon and a criticism made, and I will pass it around.

H.M.Jr: Would you do that?

White: It is being done.

H.M.Jr: Has it to do with raising money?

White: It has to do with the ways in which to raise the money, but chiefly from the point of view of the effect on prices. It is not a startling job. I know the man who did it. But it would make an interesting subject for discussion and it ought to be read.

H.M.Jr: Who did the job?

White: Well, that is what I would rather not tell you.

H.M.Jr: Come on.

White: It is a chap I know. I would rather not say, if you don't mind.

H.M.Jr: He is so nice about it. You have everybody with his tongue hanging out. You are going to digest it?

White: Yes, it is being done, and comments on it.

H.M.Jr: All right.

And then this is Philip Young to Mr. - Assistant Secretary of War. You know I appointed a joint committee - this is Patterson writing - "I appointed a joint committee in September with the concurrence of the authorized representatives of several agencies involved for

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the purpose of coordinating the matter of standardization, with the authority to make decisions," and so forth. This committee is now functioning. "...brought to my attention several days ago in the matter of granting priority. The functions of several agencies now concerned, Army and Navy and other agencies involved, require that all matters affecting priority or allocation of productive capacity of the aircraft industry be coordinated with the Army-Navy-British Purchasing Commission joint committee."

He didn't read Kintner and Alsop today, did he?

Young: That was a few days ago.

Gaston: Maybe they read this.

H.M.Jr: Have you got something from Nelson and Mr. McReynolds?

Young: Yes. I had lunch with Nelson yesterday and he is sending a memorandum to the President recommending that priorities on foreign orders be handled directly between my office and his office, on all foreign orders, and that he appoint one person in his office to be the stumbling block or the -- (Laughter)

Haas: To be the coordinator. Quite. Is one enough?

Young: Anyway, somebody to receive all complaints from these various foreign purchasing people directly, having to do with priorities, and that any coordination which is done on clearance of orders for production in the future, coordinating be done through his office directly, rather than our going direct to

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Defense, Army and Navy.

- H.M.Jr: Well, how would that fit in with this letter?
It doesn't, does it?
- Young: Yes, that would take care of his complaints
in this letter on priorities.
- H.M.Jr: It would?
- Young: Yes, sir.
- H.M.Jr: You are sure of it?
- Young: Oh yes, I am sure of it. And in my answer
to it, I told him I would be very glad to
sit down and talk to him about the procedures
we are trying to work out any time.
- H.M.Jr: But for the benefit of yourself and myself
and not for the State Department men, what
does it do with Joe Green?
- Young: I am still serving as the liaison between
Joe Green and the State Department. (Laughter)
- H.M.Jr: He is good today.
Which means?
- White: Do either of them know it?
- Young: I will get it from both ends.
- H.M.Jr: Seriously, Phil. Take for instance those
ten planes in the Philippines.
- Young: Yes, they are still there on the dock.
- H.M.Jr: Seriously, what does it do with Joe Green?

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- Young: This question of priorities doesn't have anything to do with Joe Green, because any questions where foreign policy is involved for clearance on foreign orders, I have been clearing direct with Berle before putting a request in to Defense or Army and Navy, as to availability of production or priorities or surpluses.
- H.M.Jr: Say that again, Phil.
- Young: Well, if any foreign purchaser wants to come in and buy planes, Iraq, for instance, which for the minute is on the doubtful list, any question of foreign policy as to whether or not we should sell planes to Iraq I take up with Berle even before I go so far as to find out whether production is available.
- H.M.Jr: I see. Then does Berle say anything to Joe Green - supposing he says as to foreign policy it is okay and it comes to issuing the license.
- Young: This is even before the order is placed.
- H.M.Jr: That is where you are the liaison between the State Department and Joe Green?
- Young: Yes.
- H.M.Jr: You get to the point there is some production, they can get a plane, and the order is placed, but they have got to get a license to export it.
- Young: That is right. Then the manufacturer puts in an application with Joe Green for the export license.
- H.M.Jr: I see.

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- Young: And Joe Green, if he doesn't know what to do with it, sends it to Maxwell. Maxwell chews the rag with everybody around town, including the Defense Commission and General Watson, and so on, depending upon the nature of the item, and gives Joe Green instructions to reject it or pass it on.
- H.M.Jr: Well, you raised the question with me about priorities, and Nelson and I got McReynolds in on the thing before I left. Are you satisfied with the way the thing is taking shape?
- Young: No, not yet. On priorities, I am, for the moment.
- H.M.Jr: On priorities?
- Young: Yes, priorities is all right for the moment.
- H.M.Jr: And you can do what I want you to do the way Nelson is proposing to handle it?
- Young: I think so, but I would like to get a whack at Nelson before he sends in the final recommendation to the President on it.
- H.M.Jr: Now, has McReynolds done his end of the work? Was he helpful?
- Young: I think he was helpful in that he brought it to the foreground with Nelson and other people in the Defense Commission on the priorities end of it, and I think we are getting into two very serious situations, one on this whole angle of economic defense where there are several people going ahead on it independently and without coordination, and secondly on this whole question of making production capacity available in bottleneck items such as planes for South American countries, for instance, where on the one hand you are yelling for

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hemispheric defense and on the other hand saying, "We are sorry, we haven't got any planes to sell."

Now, those other potential foreign purchasers were never taken into account or considered from a foreign policy angle at the time the Defense Commission allocated all of the production capacity.

H.M.Jr: Well, that is another thing, but just at the moment you are all right as far as priorities and Nelson are concerned? That is going along nicely?

Young: That is going all right, and I would like to get Mac to get a whack at the recommendation that Nelson will make to the President in its final shape before he sends it out.

H.M.Jr: Why don't you do this? Arrange for Nelson to show it to me. I would like to sit down with Nelson, Mac and you, before it goes to the President.

Young: Right.

H.M.Jr: Or don't you think it is necessary?

Young: Yes, I do.

H.M.Jr: I tell you how you do it. Ask to see it. If they won't let you see it, then say I would like to see it. If you find it is all right, don't bother me. If it isn't the way you want it, bring me into the picture, but don't bring me in unless you really need me. Okay?

Young: Okay.

H.M.Jr: Now, I have taken 28 minutes out of the 30. I can't help it. I have got the stuff off

- 17 -

my desk.

Who has got something important?

Thompson: I have two deferment cases. In one of them, the draftee is supposed to be called today.

H.M.Jr: If you will stay behind, I will handle it at once. I want to sit down right after this meeting - I want Bell to stay, and Sullivan, and Gaston, please. Who has got something that they need done between now and noon?

White: Well, the sooner we get at it --

H.M.Jr: What?

White: On this question of the British assets we have been working on, and part of it involves the question of the estimating of their direct investments and some of them may be included in what they have given as a list of securities and we don't always know whether they value their securities properly. I was wondering whether that list could be made available to us for reexamination and comparison.

H.M.Jr: Who has the list?

White: I think you have the only copy there is.

H.M.Jr: Ask Mrs. Klotz. She will give it to you. You will have to explain to her what you are talking about.

White: Explain to who?

H.M.Jr: To Mrs. Klotz.

Bell: Didn't you have a copy, Merle?

Cochran: No, the Secretary has it.

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H.M.Jr: Anybody want anything, have anything that has to be cleared between now and noon?

Well now, I will do him (Thompson), and who did I say to stay?

Bell: Merle and Gaston and myself.

H.M.Jr: And Foley.

NOV 28 1940

My dear Mr. Secretary:

There are referred to you herewith for your consideration a number of transactions involving the French Government relative to which applications are now pending. All of these applications are for licenses to be issued by the Treasury Department pursuant to Executive Order No. 8389, as amended.

1. An application (NY 78917) is pending which seeks to debit the account on the books of the French American Banking Corporation, New York, of *Paierie Generale aux Etats Unis* with the sum of \$1,290,000 monthly and credit such amounts to a free account to be opened in the name of "French Government C Account" with the French American Banking Corporation. It is stated that such monthly amounts would be used for the supplying of the French West Indian Colonies, as follows:

(a) Martinique			
Foodstuff		\$270,000	
Clothing		52,000	
Agricultural, industrial			
material and miscellaneous		<u>468,000</u>	
			\$790,000
(b) Guadeloupe			
Foodstuff		150,000	
Agricultural and industrial			
material		<u>330,000</u>	
			480,000
(c) Guiana			
Penitentiary expenses		<u>30,000</u>	
			<u>30,000</u>
			\$1,290,000

2. An application (NY 77401) is pending which seeks to debit the account of the French Government with the French American Banking Corporation in the amount of \$133,000 in payment of flour and 1,000 tons of bunker fuel to be imported into Martinique. For your information, there is attached a copy of a letter

from the French Financial Attaché, dated November 19, 1940, relative to the above transactions.

3. An application (NY 76228) is pending which seeks to debit an account of the Banque de France with the Federal Reserve Bank of New York and pay \$98,914 to the French American Banking Corporation for account of the Banque de La Guadeloupe to cover imports into Guadeloupe. A photostatic copy of such application is enclosed.

4. An application (NY 76088) is pending which seeks to debit an account of the Banque de France with the Federal Reserve Bank of New York and pay \$27,000 to French American Banking Corporation for account of Banque de La Guadeloupe, to cover imports of Flour into Guadeloupe.

5. An application (NY 76086) is pending which seeks to debit an account of the Banque de France with the Federal Reserve Bank of New York and pay \$45,968 to the French American Banking Corporation for account of Banque de La Martinique to cover imports into Martinique as follows:

\$ 4,838	imports of food products
14,211	clothing and haberdashery
6,500	stationery and school items
6,200	fishing implements
2,500	ironmongery
5,193	chemical products
6,618	spare parts for motor cars
962	miscellaneous.

It will be appreciated if this Department is advised of your views with respect to the several transactions enumerated above.

Very truly yours,

(Signed) D. W. HELL

Acting Secretary of the Treasury.

TO THE SECRETARY
OF THE TREASURY
FROM THE ATTACHE
FINANCIER
BANQUE DE FRANCE

The Honorable,

The Secretary of State.

Enclosures

NY 76198 11/27/40

JR

GRAY

(Paris)
Vichy

Dated November 28, 1940

Rec'd 9:52 a.m., 29th.

Secretary of State,
Washington.

1054, November 28, 8 p.m.

FOR THE TREASURY FROM MATTHEWS.

Last night's Journal Official published a law designed to eradicate some of the "reforms" introduced in the laws and statutes governing the Bank of France by the Blum Government in 1936. All persons of French nationality who hold shares in the bank may henceforth attend the general meeting of shareholders. The bank is to be administered by eleven councilors who will function under the supervision of four "censors". (END SECTION ONE,

MATTHEWS

DDM

AS

GRAY

(Paris)

Vichy

Dated November 28, 1940

Rec'd 9:04 a.m., 29th

Secretary of State,
Washington.

1054, November 28, 8 p.m. (SECTION TWO).

Three councilors will be elected by the shareholders and four will be appointed by the Minister of Finance from representatives of industry, commerce and agriculture. The remaining positions will be occupied by the Director General of the Caisse des Depots et Consignations, the Governor General of the Credit Foncier de France, the Director General of the Credit National and a representative of the bank chosen by the Minister of Finance from a list submitted by the Governor.

A discount committee is also to be formed. It will be made up of twelve members all of whom must be shareholders and engaged in business in Paris.

(END MESSAGE).

MATHEWS

RR

RE DEFERMENT

November 28, 1940
10:00 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Foley
Mr. Sullivan
Mr. Thompson

Thompson: This first case is a lawyer who is acting as Assistant Head of the Penal Division. The Assistant Head, the regular man, is sick and probably will be out for six months or more, and to lose this man who is acting in his place would cause material loss. I think it is a good case.

H.M.Jr: Who has written on there?

Thompson: Foley has.

H.M.Jr: Well now, you don't say anything about the man. How old is the man?

Foley: He is 35. He will be 36 in December.

H.M.Jr: Has he dependents?

Foley: He has a wife and two children. He is overweight. He probably wouldn't be called anyway, but Phil feels that it would take him six months, because the head of that division has tuberculosis and this fellow is serving as the Head of the Penal Division, to break in a new man.

Thompson: They sent him a questionnaire so he has to answer that and has to report.

H.M.Jr: Supposing this fellow had to go?

Thompson: Well, if he had to go, of course Phil Wenchel would get along, but it would be somewhat of a handicap, I imagine, with both the Head

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and the Assistant - the Acting Head away. It would really be --

H.M.Jr: What are the chances of their taking him?

Thompson: Oh well, there is about one chance in a hundred.

H.M.Jr: You mean without --

Foley: Without it, yes.

Thompson: I don't see how they would possibly take him if he has a wife and two children dependent on him, but the fact that the Board didn't defer him and calls on him to go through with it makes it doubtful. I see no harm in not having the request in there.

H.M.Jr: I didn't know they were taking married men with dependents.

Thompson: They go into all phases of the situation, I think, and if the draft board official feels that a man can be spared, the dependents are not wholly dependent, they may take him. They don't defer anyone permanently, anyway. They just pass them along six months at a time. But in this case if the fellow is married and has two children, as I understand he has, I shouldn't think there would be any question but what he would be deferred.

H.M.Jr: Have you (Sullivan) been listening at all?

Sullivan: Yes, sir.

H.M.Jr: What do you think?

Sullivan: Well, I don't know. It seemed to me that here is a case of a fellow that isn't going to be taken. I can understand Mr. Wenchel's

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apprehension and uneasiness and worrying about whether he has got to break in a new man or not. I don't know what the policy is on asking to have these men excused.

H.M.Jr: Well, the policy is being made right now.

Thompson: The draft board officials at headquarters expect us to be very liberal. They don't feel that it is necessary at this time with the number of volunteers they are getting and --

H.M.Jr: Do you mind? Let me just hear Sullivan a minute. What is your attitude?

Sullivan: I think that if we had a different situation, where we were afraid we were going to have difficulty in getting the men we really needed excused, this would be a good fellow to pass over because we would feel confident that he wouldn't be ultimately accepted for service, but with the situation as Norman just stated it to be, they have more volunteers than they need, I think we might just as well ask to have him excused because you can figure he is going to be excused anyway, and it will save that uneasiness in the department. There are only two cases, as I understand it, aren't there?

Thompson: Yes.

Foley: Phil says this is practically the only one he would ask for.

Thompson: I figure that we will have a negligible number of cases.

Foley: It is only for six months, Mr. Secretary. It comes up again in six months.

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- Thompson: It is not like asking a deferment or exemption for a reserve officer. This draft is different. It is more liberal. We have so many people in the draft.
- Sullivan: They are really very liberal.
- Thompson: They don't want to take anyone that there is any particular reason for not taking at this time.
- H.M.Jr: What do you think?
- Gaston: I think we ought to be awfully careful about asking deferments in the draft, because the first thing you know there is going to be some public criticism that all these politicians and bureaucrats appointed in Washington, that they grab that as an excuse. I think we have to think of that a little. If this man is likely to be excused anyway on account of his family, I would be inclined to - they are not taking family people, are they?
- Thompson: No, they are not, but there is that one chance in a hundred that he might be taken, and then we wouldn't have the request in.
- Gaston: Why not let him personally take a chance on that basis?
- H.M.Jr: What do you think about this, Dan?
- Bell: No, I don't know the cases. I agree with what Herbert says. The only case I know about is Harry White.
- H.M.Jr: Harry White?
- Bell: Harry White's man.
- H.M.Jr: This is a man, and Phil Wenchel says he needs him.

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Thompson: You see, the regulations put out provide for that liberal instruction.

H.M.Jr: But I am not on the draft board.

Bell: It is hard to see why they can't --

Thompson: They are very liberal. Exceptions are being requested by stores and organizations of one kind or another.

H.M.Jr: I am not going to do it. I won't do it. I am not a draft board.

Gaston: It is so much better if it comes from the other side and not from us.

H.M.Jr: I am not going to do it. This thing is refused. I am not going to set up a draft board.

Thompson: In this one, Mr. White feels it would be a terrible loss to him. Mr. Ullman, one of his economists who studies strategic materials, oil and scrap iron, and so on. He says that he has nobody he can put on this work in his organization. It would be a definite handicap to his unit if he didn't have this man.

H.M.Jr: Is he married?

Thompson: No, I think he is single.

H.M.Jr: Well, here is a fellow who is working on war strategic materials.

Gaston: Yes, I think that is a very definite case.

H.M.Jr: How would you feel about that, Herbert, working on oil and scrap iron?

Gaston: Well --

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- H.M.Jr: Feel the same way?
- Gaston: I would want to look pretty deeply into whether he really is essential or not.
- Thompson: Harry White says very definitely he is. He hasn't any other person in his organization --
- Sullivan: What good is he going to do in bayonet practice down at some camp? He is doing the work he is best fitted to do and serving the Government right there at his desk where he is, and he is worth a thousand men at bayonet practice.
- Bell: The only feeling I have on this case is that I think Harry White's division is overloaded with work and Harry White is sick and he really can't spare his good men, and if you take his good men you are going to throw another load on Harry's shoulders. If Harry were well and he had an organization as big as Phil's, I should think you could do it differently. Phil Wanchel has got an organization of how many hundred people?
- Foley: 330.
- Bell: Harry has got how many, 30?
- Thompson: Including stenographers.
- H.M.Jr: I feel a little bit different about this thing because this fellow is really doing this oil and this scrap iron. I feel differently about this fellow.
- Thompson: I don't think anyone could criticize that.
- H.M.Jr: Herbert?
- Gaston: Yes, I think so.

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H.M.Jr: This is really strategic materials.

Gaston: It is national defense work, and I think what Dan says about Harry's situation --

H.M.Jr: Do you think I am inconsistent?

Foley: A little.

H.M.Jr: Well.... There is a hell of a lot of difference between taxes and strategic materials, though.

Thompson: You don't have to sign that.

H.M.Jr: I am perfectly willing to initial it.

Thompson: You just okay the memorandum and then I will sign it.

H.M.Jr: All right. That is what makes horse races.

Thompson: There is that memorandum with a few items. There is nothing rush about it.

H.M.Jr: Do you mind going through Mrs. Klotz's room and just dropping those on her desk?

Thompson: Yes.

RE TAXATION

November 28, 1940
10:10 a.m.

Present: Mr. Bell
Mr. Sullivan
Mr. Foley
Mr. Gaston

H.M.Jr: Now, where are we on our tax stuff?

Sullivan: Where do you want to start in?

H.M.Jr: Where do you want to start in?

Sullivan: Yes.

H.M.Jr: I would like the list of my five or six things that I think that you can go after.

Sullivan: Not much good.

H.M.Jr: What do you mean, not much good? This is what I told Sullivan, that before I would take any part in raising any new taxes, I wanted to recommend to the President that we do away with those taxes which give certain groups special privileges. We listed those things, tax-exempt securities, capital gains on taxes held over 18 months, percentage of depletion of oil, community properties, coordination of gift and estate taxes, insurance of real estate under estate taxes, 14 million; stock and bond transfer taxes.

Sullivan: That is merely changing the basis of the tax. That is where they get that 51 million.

H.M.Jr: You don't get a hundred - well, except the tax-exempts, you don't get an awful lot.

Sullivan: You don't get that much out of tax-exempts right off the bat. The estimate there is the ultimate yield. You will find it on page one.

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Now, you will recall in the memorandum we sent to you when you were on your vacation, we pointed out to you that the largest loopholes had been closed up and the more dramatic kind that had a public appeal. Now, I would seriously question the advisability of going after the community property states when you are only going to save four million dollars a year. That is, before you start anything else. You have got those ten states that are dead set against you from then on on anything important you want to do in a tax way.

H.H.Jr: None of these things have got much appeal, have they?

Sullivan: No, they haven't, sir. You will recall I said that outside of tax-exempts, there wasn't anything that readily lent itself to both an intellectual and emotional attack.

H.H.Jr: Well, you did have the thing - let's go back. One thing that we did agree on was that we should announce there would be no more taxes on 1940 income, and bring Section 102 to their attention. Where is Section 102? We can agree on that. Anybody speak up and interrupt me any time, please.

Sullivan: "There shall be levied, collected, and paid for each taxable year (in addition to other taxes imposed by this chapter) upon the net income of every corporation (other than a personal holding company as defined in Section 501 or a foreign personal holding company as defined in supplement P) if such corporation, however created or organized is formed or availed of for the purpose of preventing the imposition of the surtax upon its shareholders or the shareholders of any other corporation, through the medium of permitting

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earnings or profits to accumulate instead of being divided or distributed, a surtax equal to the sum of the following:

"Twenty-five percentum of the amount of the undistributed Section 102 net income not in excess of one hundred thousand dollars, plus

"Thirty-five percentum of the undistributed Section 102 net income in excess of one hundred thousand dollars."

And then it just goes on to explain the different features of it, but that is the meat of it.

Bell: Can you enforce that? You haven't had a case yet, have you?

Sullivan: Oh yes, we have. In the first four months last year we enforced it in 13 cases.

H.M.Jr: Well, but the beauty of it was we went all through that and it wasn't necessary. The people were conscious of it. But I think Sullivan makes a very excellent point, that if we go along and it gets into court and people will say, "Well, the papers were full of talk and we didn't know but what it might be another tax to be imposed on 1940 income. Therefore, we held that in our surplus."

But if at the meeting tomorrow night, out of that would come an announcement that no more taxes on 1940 income would be levied, and bring their attention to Section 102, he feels that that strengthens his case in court.

Sullivan: I think that rather than having this just come out of a meeting, it should be your statement, in which you can refer to the

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meeting and the fact that it was generally agreed at that meeting, and speaking as Secretary of the Treasury, states that you are not going to request any further taxes and you understand that Congressional leaders are not going to permit it. I have a statement --

H.M.Jr: That is all right. This is the only thing that I want to really get over with the President.

Sullivan: I have a statement here if you want me to read it. It is brief. It is a little bit too much Treasury language.

H.M.Jr: What does it say? *(Handwritten: In view of this policy...)*

Sullivan: "Numerous inquiries have recently been received by the Treasury Department as to whether the department will recommend that further increases be made in the rates of tax applicable to the year 1940. Many of those making such inquiries have indicated the pertinence of this question to the determination of corporate policies with respect to year-end dividend distributions and reserves for taxes. In the light of these inquiries, it seems appropriate for me to state that the Treasury Department will not recommend to the present Congress or the succeeding Congress any increases in the rates of tax applicable to the year 1940.

"In view of this policy, it may also be appropriate to state in its enforcement of Section 102 of the Internal Revenue Code, the department will not regard corporate reserves for 1940 taxes in excess of the rates now provided by law as an accumulation for the reasonable needs of the business."

In other words, if they set aside money to pay

- 5 -

any further taxes, we will slap 102 on.

H.M.Jr: Let me have that. I think it is all right, don't you?

Foley: Yes, I think it is a good thing to do. I think most of the corporations kept out of their third quarter estimates the entire excess-profits tax that they would have to pay. They didn't allocate it - the proportionate amount against earnings in that quarter. They took the whole thing out.

H.M.Jr: I know, and all these statements in papers make me sore as hell.

Foley: And I think they are going to take another hunk out in the fourth quarter unless we get across the idea that we are going to scan their income tax statements with an eye to see that 102 is carried out.

H.M.Jr: I would do it a little bit differently. I would say, "In our wish to cooperate with business and help them with their fiscal planning, we feel that it would be very good news to them, reassuring, that there would be no taxes, and therefore they can adjust it, and also so they don't get caught with their pants down."

Sullivan: That is the important part.

H.M.Jr: We want to help them, and just bring to their attention this clause of this Section 102.

Sullivan: It is still on the books.

H.M.Jr: And if they are not familiar with it, if they would care to write the Commissioner of Internal Revenue, he would be very glad to explain.

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Foley: That is all right.

H.M.Jr: But I mean more that way, rather than any threat.

Sullivan: In the press conference last December where we explained that there was a lot of smoke and no fire in 102, we went a little bit too far in placating business, and the boys had it all in their mind, "Well, they are going sissy on us. We will hold out some next year." So I think it is well to make that part pretty clear.

H.M.Jr: Now, what else have you got?

Sullivan: All the other things you asked for. You also asked for the estimates on Federal, State and local taxes, and consumption percentages.

H.M.Jr: Yes. Okay.

Sullivan: You also asked us to get some figures on the sales tax on articles over a dollar. You indicated that you thought a study had been made of that. No such study has been made. There was a preliminary survey of many necessities that sell over a dollar. There are many luxuries that sell for less than a dollar.

H.M.Jr: I will bet you a dollar that somebody did make a study on that.

Sullivan: I am just reporting that Blough can't find any.

H.M.Jr: You go through my record, will you please (Reporter), and tell Mrs. Klotz I want my files to be gone through, and look up what I asked, how much would a tax produce, a sales tax on articles selling over a dollar.

Sullivan: Then you ran into another problem there --

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- H.M.Jr: Are you betting me a dollar on that?
- Sullivan: I am not betting a thing. I am merely reporting what was told to me.
- H.M.Jr: Foley will hold the stakes.
- Sullivan: That is not our system. We don't have any stakes. We just bet with fellows we can trust. (Laughter)
- Foley: That is what is the matter.
- Sullivan: Nobody can hold the stakeholder.
- In proportion to a person's income, you see a fellow who is earning 18 dollars a week has to buy a suit of clothes or an overcoat that costs him 35 dollars. But the proportion is greater than it is with the fellow that is earning 25 thousand dollars. He buys suits like Foley's, see? (Laughter)
- Bell: \$37.50, is it?
- Foley: He gets them at the same place.
- Sullivan: Then you wanted some figures on the number of individual income tax returns for all the years from '32 through the next year estimated, and you also wanted a table on corporations and then a breakdown showing the number of returns under five thousand dollars and up by gradations as to both corporations and individuals.
- H.M.Jr: All right.
- Sullivan: They are all there. Then you also asked for some figures on the estimated returns from different types of taxes. They are there.

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Now, there were two --

Bell: Those are new taxes? Or are they taxes --

Sullivan: First and second Revenue Acts of 1940.

Now, there were two items on the list you (H.M.Jr) received from me. Item number one, ascertain how much money not now shown in the budget is being spent on National Defense, is actually being spent by WPA and CCC. Mr. Bell is handling that and he is also --

Bell: That is a little bit difficult to get.

Sullivan: Computation of the amount of taxes earmarked for National Defense, and so on and so forth.

H.M.Jr: Bell is taking that?

Sullivan: That is number 7 on that sheet. I have given you 2, 3, 4, 5 and 6.

Bell: What is 7?

Sullivan: Compute the amount of taxes earmarked for National Defense, and the amount of other taxes, and show to what extent the budget for National Defense is balanced, and the extent to which the budget for other purposes is balanced.

Bell: That is on that statement.

H.M.Jr: Unfortunately, I am going to see the press at 10:30. I wish I wasn't, but I am, and I want to get ready for that and I will say no in about ten different ways, and let me kind of study this thing.

Sullivan: I have Doughton's report. I didn't know whether you wanted to read that before you saw the press.

November 28, 1940
11:50 a.m.

RE BRITISH PURCHASING PROGRAM

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

H.M.Jr: We are talking on assets here, and I thought I would let them listen on this thing that Stimson wrote me.

Young: The draft to Layton?

H.M.Jr: Yes. This is from Stimson. "Before confirming to Sir Walter Layton the substance of our recent conversations, I would appreciate your suggestions on the enclosed draft of reply to his letter of November 14, a copy of which is also enclosed. It is my hope to deliver my reply to him Friday, if possible."

Now, I haven't read this thing. I think you will get the drift of it if I read the thing. I will do it out loud. This is from Layton to Stimson.

"The statement which General Wesson handed to me yesterday in connection with the 10 Division scheme, which shows estimated production under the U. S. programme together with figures of British requirements, brings us to the point where it should now be possible to place orders for major items of equipment.

"The list of requirements submitted up to date does not, of course, provide all the articles required to equip an army, but the other items can for the most part be much more quickly produced than ordnance, and they may be left to be dealt

- 2 -

with by the military officers who will be sent out after my return to London to complete the negotiations and to carry out arrangements in connection with the equipping of this force.

"In the meantime I have received from the British Government a cable in which they state that they appreciate the difficulty, referred to in the note you handed to me on October 31st, of making "A firm commitment fixing the final time of the completion of these deliveries". They are, however, extremely anxious that the production capacity should be increased to the maximum as soon as ever possible, and I have been given authority to place orders for this purpose as soon as quantities have been defined.

"In regard to some of the items on General Wesson's list - chief of which are machine guns and automatic rifles - it is not yet clear what weapons should be used for the arming of the 10 Divisions. But in the attached list, which covers much the greater part of the programme, I have indicated the quantities which we are prepared to order forthwith.

"As this programme is an expansion of capacity for producing United States types of equipment and the material delivered to the British Government will in fact come in large part from factories which are delivering precisely the same goods to the War Department, I have informed the Government at home that the War Department will cooperate in inspection and in progressing the orders; that it will assist generally in expediting delivery of the joint programme and that no initial capital expenditure will be incurred by the British Government.

"I must, here, place on record our warm appreciation of the great practical value of the cooperation of your Department and the effect that it will have in hastening the development of our maximum war strength.

"May I add, however, that while the British Government fully appreciates the reservation in your note of October 31st about giving any guarantee of a completion date for the scheme, its value, as I am sure

- 3 -

you appreciate, largely depends on securing a net addition to our striking force in time for the spring campaign of 1942. Time must be allowed for training, for organization and for transportation. The effective carrying out of the scheme requires that the various items of equipment should come forward in reasonably balanced proportions next autumn, and fully to achieve our object the quantities asked for should be available or in sight by December, 1941.

"As to the Army's "A" programme, I have to report some progress in regard to the items of British types which you authorized us to order in the United States in the note handed to me on November 1st, namely, 2 pdr. tank and anti-tank guns, and .303 Enfield rifles. We are in negotiation, with the knowledge and approval of your Department, with the Republic Steel Company for the former, and with Smith & Wesson and Winchester Repeating Arms Company for the .303 rifles.

"These two items, as I have already pointed out, are at the top of the priority list of the British Army's requirements. On present indications the number of British-made tanks which can be put into the field in 1941 will be determined by the output of 2 pdr. guns, for which there is no possible substitute, British or American, until the spring of 1942.

"In the case of .303 Enfield rifles, there will be no margin next year for losses in fighting abroad or for reserves, for if the Field Army in Great Britain grows according to plan, it will fully absorb the whole output which is at present in sight. Here again there is no possible substitute. The output of .30 calibre rifles from the Rock Island plant will be needed for the 10 Division scheme, and even if additional .30 calibre rifles were available, the prospects for the output of .30 calibre small arms ammunition are not such as to make it a practical proposition to attempt to substitute either .30 calibre rifles or machine guns in the British Regular Army.

- 4 -

"These requirements cannot be met from Canada, although a supply of both these items is in fact on order in that country. Of the total Army programme which we hoped to place in North America as an insurance of our own production of Army supplies, we have now to rely on Canada alone for field guns, machine guns, anti-tank rifles and light anti-aircraft guns. These, with many other orders, have stretched Canada's capacity to the utmost limit. It is out of the question to ask her to do more.

"I hope, therefore, that we may have the benevolent support of the War Department and the National Defense Advisory Commission in expediting the placing of the contracts and securing delivery of these items in our "A" programme.

Yours sincerely,

(Signed) W. T. LAYTON "

H.M.Jr:

This is from Stimson to Layton.

"In answer to your letter of November 14, I am glad to say that I have, since our discussion on November 15, been able to obtain information upon the basis of which it appears practicable for you to obtain in this country equipment of American standard types for the 10 Divisions which you have in mind, subject to the conditions set forth below.

"I am sure you appreciate that it is impossible to give a commitment as to the actual dates of delivery and that, as I have previously stated, conditions at the time of delivery must govern. Also, I should say that the estimate of the situation which I have made is based in large part on the somewhat incomplete list of items for equipment and maintenance of your 10 Divisions (excluding the "Program A" items) which is attached to your letter of November 14.

"On this basis it appears probable that sufficient equipment for your training cadres may be ready by September 15, 1941, further deliveries on most items

- 5 -

may be ready by December 1, 1941, and final equipment, including 6 months' maintenance for a force of 10 Divisions may be delivered by April 30, 1942. This does not mean that it will be possible to make such delivery of all the items which you may wish to have, and it is fairly certain that delivery will be impossible in whole or in part on items such as height finders, 155 mm. guns, 8" howitzers and ammunition therefor, and 37 mm. and 90 mm anti-aircraft guns. In such instances, however, it may be possible to find some substitute or for you to find some other method of perfecting your plans. As to ammunition, the situation is not as clear, but it appears probable that some training ammunition should be available by the end of 1941 if additional new productive facilities can be made effective prior to that date.

"I can not, of course, give you any assurance that there will be no necessity for initial capital expenditures since these matters are not a matter for the War Department, and must be determined with the appropriate department or departments of the Government. In this connection, however, it seems appropriate that in the event that orders for equipment desired by you are placed in manufacturing facilities which have been financed in whole or part by the War Department; such orders should bear a proportionate part of the amortization of such financing, presumably on a 5-year amortization basis.

"The conditions to which I have referred are as follows:

1. That your orders for the 10 Division program be placed promptly in order to initiate at once the production of the items involved and to increase the productive capacity in this country for such items.
2. That such orders shall be placed under the supervision of the appropriate supply branches of the War Department and in such a manner as to result in the creation of additional productive capacity to the extent and in the instances designated by such supply branch.

- 6 -

3. That you also take steps to provide such auxiliary or complementary facilities as the need therefor is indicated by the appropriate supply branch, such, for example, as proving grounds for testing materials.

"This Department will be glad to cooperate as far as possible to assist in matters of inspection and in progressing your orders, and I feel confident that the Defense Commission will likewise cooperate fully to assist in meeting your program.

"In order to expedite the placing of your orders, I strongly recommend that you make arrangements with the British Purchasing Commission to make available to each supply branch of the War Department a representative of the British Purchasing Commission with authority to take prompt action in undertaking commitments for contracts. I also believe it is essential that this Department and the Defense Commission be supplied as soon as possible with a list of all items now on order and those proposed to be ordered to complete the 10 Division program, as well as any other orders which are in contemplation, since without this information it is virtually impossible to make accurate plans. I understand that steps to this end have been initiated through the President's Liaison Committee, and I trust it will be continued and completed as expeditiously as possible.

"While it is always possible that some unforeseen occurrence may impede the progress of your 10 Division program, we will do our best to make possible its timely completion. Since, however, this will require a considerable readjustment in our own plans, and since it is absolutely essential that our forces be given their minimum initial training equipment before deliveries can be undertaken on your 10 Division program, it is improbable that any deliveries can be made on your 10 Division program prior to July 1, 1941. Also, it will be necessary that our full program and your 10 Division program be given preference in the event of any conflict with your "A" Program or any other items which you presently have or may place on order. Moreover, it will be

- 7 -

essential, when the time comes for delivery of your equipment, that as a result of the orders which you now propose to place there shall be in sight the production for early delivery of sufficient quantities of equipment to give assurance that the balance of our program will not be seriously delayed. In fact, it is only on the basis of substantially increased production and production capacity for our types of equipment as a result of your orders that the necessary changes in our program can be contemplated.

"I am glad also to confirm our understanding with respect to your "A" Program which has been under previous discussion and which is covered to some extent in your letter. As to this, it is my understanding that except for the 2-pounder guns and the .303 rifles, which are British type equipment, and the 4.5 howitzer, which has not been adopted by this country, your future orders in this country will henceforth be only for American type equipment. In connection with the 2-pounder guns and the .303 rifles I understand you will require no ammunition from this country other than that already on order or that may be ordered to continue in operation at present level ammunition sources which you are already using. I also understand that only 1,000 2-pounder anti-tank guns will be ordered, the balance to be of 37 mm. U. S. type, and that as to the 2,250 2-pounder tank guns, for use in British made tanks, only the tubes and breech mechanisms will be ordered.

"I am sorry that there must be conditions attached to the actions discussed herein, but I know that you understand the need therefor, and appreciate that they do not indicate a lack of desire to give you every possible assistance.

Very sincerely yours,

Secretary of War"

- 8 -

H.M.Jr: What is the word, your training "cadres"?

White: It means groups.

H.M.Jr: Now, here is the part. "I can not, of course, give you any assurance that there will be no necessity for initial capital expenditures since these matters are not a matter for the War Department, and must be determined with the appropriate department or departments of the Government. In this connection, however, it seems appropriate, that in the event that orders for equipment desired by you are placed in manufacturing facilities which have been financed in whole or part by the War Department; such orders should bear a proportionate part of the amortization of such financing, presumably on a 5-year amortization basis."

He doesn't put this financing in my lap in this letter.

Young: He just disclaims it. That is what his intentions are.

H.M.Jr: Well, I mean, this is --

Bell: He says take it up with other departments, doesn't he?

H.M.Jr: But what does Stimson expect me to say?

Young: Well, he is asking if you have any comment on that letter.

H.M.Jr: I thought it was all on the finance thing. I have no comment.

Young: There is one suggestion I think you might ask him about.

H.M.Jr: What is that?

Young: That is on this 10 Divisions of Layton's, the B program which he talks about in there, where we always have Canada yelling for equipment on a hemisphere basis, possibly an added condition

- 9 -

might be the possibility of training divisions in Canada made up of Canadians, which would solve our problem of giving additional equipment to Canada and at the same time satisfy Layton's program.

H.M.Jr: Well, again, not in connection with this letter to me. Let me just write a letter - you write the Secretary of War (speaking to reporter).

"My dear Mr. Stimson:

"I beg to acknowledge receipt of your letter of November 27 with the enclosed draft of your reply to Sir Walter Layton's letter of November 14. I beg to inform you that I have no comment to make on the draft of your letter to Sir Walter Layton."

White: Pretty cold.

Foley: There isn't any warmth in there, is there?

Bell: Do they have to pay for this five year amortization?

H.M.Jr: You say kind of cold. It is no colder than Stimson's letter to me.

White: When a man asks you for comments, that in itself, unless there is some responsibility that you are tied in with there, that in itself warrants, I think, a little nicer reply without saying any more.

H.M.Jr: If you say any more you are sunk. Right? You see, you haven't got the background. Let me explain to you. The background is, he has told Sir Walter Layton, "I won't go ahead with this unless Morgenthau or somebody says financially it is okay." Now, I have got three choices. I can say I have no comment. I can say it is all right financially. Or, I can say that they haven't got the money. Now, in answer - this thing here costs 400 million dollars of plant expansion and I can't in one minute look at these figures and in another minute say they have got 400 million dollars.

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- White: Can you dodge the responsibility by saying no comment? Is there some responsibility involved in the mere fact that he let you know that there is an expenditure coming of that character? Does it need further study?
- H.M.Jr: When I say no comment, I wash my hands of it, don't I?
- Foley: Thank him for showing you the draft and say that at this time you are not in a position to make any comment, something like that.
- White: I am just wondering, whether there is a responsibility involved in the mere fact that he let you know there is 400 million dollars of expenditure.
- H.M.Jr: He doesn't say that. I get this from Philip Young. He doesn't say how much it costs.
- Bell: The only thing he says there is that you have got to take the financing up with other departments concerned, isn't that what he says?
- White: You can say you presume that the financial end of that is adequately taken care of. That lets you out.
- H.M.Jr: No, no, no.
- Bell: He would come right back.
- Young: You can when the responsibility comes back here.
- White: I am just wondering whether there isn't a responsibility merely by your acquaintance with the proposed expenditure.
- H.M.Jr: Listen, I have taken that right straight along and been whistling in the dark because the President knows and so forth and so on. Now, if I get into it at all, the order isn't placed, that is the way I look at it. I say I have got no comment. I go up before the Hill. They say, "Mr. Stimson said he sent this over to you. Why did you let him place it?" I say, "That is his business if he

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wants it placed. He didn't ask me in the letter. He didn't say to me, 'Mr. Morgenthau, has the British Government got the assets, the money to pay for this?' He didn't ask me a point blank question."

White: He asked you for comments.

H.M.Jr: Well, I have got no comments.

Young: Well, Harry, you have got the feeling that there is an implied approval to go ahead on it.

H.M.Jr: It does not imply.

White: It does imply to me.

Young: It does to some extent.

White: If you weren't Secretary of the Treasury you could have no comments, but your having no comments and his telling you what to do, I think the position might be taken that if you have any objection or if there is any doubt in your mind, that now is the time to speak up, so that there either has to be a caveat in your response saying that you presume --

H.M.Jr: I can paraphrase his. "I would appreciate your suggestions on the enclosed draft." I have no suggestions to make on the enclosed draft.

Bell: Isn't this the letter you were going to talk about tomorrow night?

H.M.Jr: Yes.

Young: I bet he comes back with another draft anyway.

Foley: That is probably what he will do. If he wants - won't take it, and he will come back for more.

White: "I have no suggestion" is better than "I have no comment."

H.M.Jr: I was thinking of doing it this way, waiting and

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saying to Stimson, "Listen, what the hell are you trying to do, put me on the spot?"

- White: I think that would be the best way. Hasn't that been your relation with Stimson, that you can talk that way?
- H.M.Jr: Sure, just like Knudsen, when Knudsen tells me to write a letter approving what he has done, I have got no letters. I have been thinking that there is no way any manufacturer can say, "Morgenthau guaranteed that the English can pay me." I can't be making any verbal commitment. I hope I haven't. Do you know of any?
- Young: No.
- H.M.Jr: Well, I have tried it out on you guys and the answer is we will take it up at lunch tomorrow. All right. Thanks everybody.
- Bell: They have got a lot of nerve, it seems to me, trying to put up 10 Divisions here, I suppose for invasion purposes.
- H.M.Jr: Well, that is another story.



THE SECRETARY OF THE TREASURY
WASHINGTON

See entry 218
of 12/9
Stimson's reply
to Layton

[Handwritten scribbles]

November 28, 1940

[Handwritten mark]

My dear Mr. Stimson:

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I wish to inform you that I have no comment to make on the draft of your letter to Sir Walter Layton.

Sincerely yours,

*taken care
of by phone*

Honorable Henry L. Stimson,
Secretary of War.

November 28, 1940

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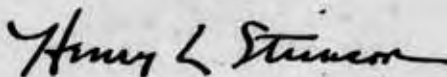
WAR DEPARTMENT
WASHINGTON

November 27, 1940.

Dear Mr. Secretary:

Before confirming to Sir Walter Layton the substance of our recent conversations I would appreciate your suggestions on the enclosed draft of reply to his letter of November 14, a copy of which is also enclosed. It is my hope to deliver my reply to him Friday if possible.

Very sincerely yours,



Secretary of War.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Department,
Washington, D. C.

cc. to:

Secretary of the Navy
Secretary of Commerce
Chief of Staff
Maj. General C. M. Wesson
Mr. E. R. Stettinius, Jr.
Mr. William S. Knudsen
Mr. Donald Nelson

Dear Sir Walter:

In answer to your letter of November 14 I am glad to say that I have, since our discussion on November 15, been able to obtain information upon the basis of which it appears practicable for you to obtain in this country equipment of American standard types for the 10 Divisions which you have in mind, subject to the conditions set forth below.

I am sure you appreciate that it is impossible to give a commitment as to the actual dates of delivery and that, as I have previously stated, conditions at the time of delivery must govern. Also, I should say that the estimate of the situation which I have made is based in large part on the somewhat incomplete list of items for equipment and maintenance of your 10 Divisions (excluding the "Program A" items) which is attached to your letter of November 14.

On this basis it appears probable that sufficient equipment for your training cadres may be ready by September 15, 1941, further deliveries on most items may be ready by December 1, 1941, and final equipment, including 6 months' maintenance for a force of 10 Divisions may be delivered by April 30, 1942. This does not mean that it will be possible to make such delivery of all of the items which you may wish to have, and it is fairly certain that delivery will be impossible in whole or in part on items such as light finders, 155 mm. guns, 8" howitzers and ammunition therefor, and 37 mm. and 90 mm. anti-aircraft guns. In such instances, however, it may be possible to find some substitute or for you to find some other method of perfecting your plans. As to ammunition, the situation is not as clear, but it appears probable that some training ammunition should be available by the end of 1941 if additional

2003
Draft
11/27/40.

Handwritten notes:
10/11/40
12/9/40

new productive facilities can be made effective prior to that date.

I can not, of course, give you any assurance that there will be no necessity for initial capital expenditures since these matters are not a matter for the War Department, and must be determined with the appropriate department or departments of the Government. In this connection, however, it seems appropriate that in the event that orders for equipment desired by you are placed in manufacturing facilities which have been financed in whole or part by the War Department; such orders should bear a proportionate part of the amortization of such financing, presumably on a 5-year amortization basis.

The conditions to which I have referred are as follows:

1. That your orders for the 10 Division program be placed promptly in order to initiate at once the production of the items involved and to increase the productive capacity in this country for such items.
2. That such orders shall be placed under the supervision of the appropriate supply branches of the War Department and in such a manner as to result in the creation of additional productive capacity to the extent and in the instances designated by such supply branch.
3. That you ^{also} take steps to provide such auxiliary or complementary facilities as the need therefor is indicated by the appropriate supply branch, such, for example, as proving grounds for testing materials.

This Department will be glad to cooperate as far as possible to assist in matters of inspection and in progressing your orders, and I feel

confident that the Defense Commission will likewise cooperate fully to assist in meeting your program.

In order to expedite the placing of your orders I strongly recommend that you make arrangements with the British Purchasing Commission to make available to each supply branch of the War Department a representative of the British Purchasing Commission with authority to take prompt action in undertaking commitments for contracts. I also believe it is essential that this Department and the Defense Commission be supplied as soon as possible with a list of all items now on order and those proposed to be ordered to complete the 10 Division program, as well as any other orders which are in contemplation, since without this information it is virtually impossible to make accurate plans. I understand that steps to this end have been initiated through the President's Liaison Committee, and I trust it will be continued and completed as expeditiously as possible.

While it is always possible that some unforeseen occurrence may impede the progress of your 10 Division program, we will do our best to make possible its timely completion. Since, however, this will require a considerable readjustment in our own plans, and since it is absolutely essential that our forces be given their minimum initial training equipment before deliveries can be undertaken on your 10 Division program, it is improbable that any deliveries can be made on your 10 Division program prior to July 1, 1941. Also, it will be necessary that our full program and your 10 Division program be given preference in the event of any conflict with your "A" Program or any other items which you presently have or may place on order. Moreover, it will be essential, when the time comes for delivery of your equipment, that as a result of

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I am glad also to confirm our understanding with respect to your "A" Program which has been under previous discussion and which is covered to some extent in your letter. As to this it is my understanding that except for the 2-pounder guns and the .303 rifles, which are British type equipment, and the 4.5 howitzer, which has not been adopted by this country, your future orders in this country will henceforth be only for American type equipment. In connection with the 2-pounder guns and the .303 rifles I understand you will require no ammunition from this country other than that already on order or that may be ordered to continue in operation at present level ammunition sources which you are already using. I also understand that only 1,000 2-pounder anti-tank guns will be ordered, the balance to be of 37 mm. U. S. type, and that as to the 2,250 2-pounder tank guns, for use in British made tanks, only the tubes and breech mechanisms will be ordered.

I am sorry that there must be conditions attached to the actions discussed herein, but I know that you understand the need therefor and appreciate that they do not indicate a lack of desire to give you every possible assistance.

Very sincerely yours,

Secretary of War.

BRITISH PURCHASING COMMISSION

14th November 1940

Dear Mr. Stimson,

The statement which General Wesson handed to me yesterday in connection with the 10 Division scheme, which shows estimated production under the U.S. programme together with figures of British requirements, brings us to the point where it should now be possible to place orders for major items of equipment.

The list of requirements submitted up to date does not, of course, provide all the articles required to equip an army, but the other items can for the most part be much more quickly produced than ordnance, and they may be left to be dealt with by the military officers who will be sent out after my return to London to complete the negotiations and to carry out arrangements in connection with the equipping of this force.

In the meantime I have received from the British Government a cable in which they state that they appreciate the difficulty, referred to in the note you handed to me on October 31st, of making "a firm commitment fixing the final time of the completion of these deliveries". They are, however, extremely anxious that the production capacity should be increased to the maximum as soon as ever possible, and I have been given authority to place orders for this purpose as soon as quantities have been defined.

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As this programme is an expansion of

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capacity for producing United States types of equipment and the material delivered to the British Government will in fact come in large part from factories which are delivering precisely the same goods to the War Department, I have informed the Government at home that the War Department will co-operate in inspection and in progressing the orders; that it will assist generally in expediting delivery of the joint programme and that no initial capital expenditure will be incurred by the British Government.

I must, here, place on record our warm appreciation of the great practical value of the co-operation of your Department and the effect that it will have in hastening the development of our maximum war strength.

May I add, however, that while the British Government fully appreciates the reservation in your note of October 31st about giving any guarantee of a completion date for the scheme, its value, as I am sure you appreciate, largely depends on securing a net addition to our striking force in time for the spring campaign of 1942. Time must be allowed for training, for organisation and for transportation. The effective carrying out of the scheme requires that the various items of equipment should come forward in reasonably balanced proportions next autumn, and fully to achieve our object the quantities asked for should be available or in sight by December 1941.

As to the Army's "A" programme, I have to report some progress in regard to the items of British types which you authorised us to order in the United States in the note handed to me on November 1st, namely, 2 pdr. tank and anti-tank guns, and .303 Enfield rifles. We are in negotiation, with the knowledge and approval of your Department, with the Republic Steel Company for the former, and with Smith & Wesson and Winchester Repeating Arms Company for the .303 rifles.

These two items, as I have already pointed out, are at the top of the priority list of the British Army's requirements. On present indications the number of British-made tanks which can be put into the field in 1941 will be determined by the output of 2 pdr. guns, for which there is no possible substitute, British or American, until the spring of 1942.

In the case of .303 Enfield rifles, there

- 3 -

will be no margin next year for losses in fighting abroad or for reserves, for if the Field Army in Great Britain grows according to plan it will fully absorb the whole output which is at present in sight. Here again there is no possible substitute. The output of .30 calibre rifles from the Rock Island plant will be needed for the 10 Division scheme, and even if additional .30 calibre rifles were available the prospects for the output of .30 calibre small arms ammunition are not such as to make it a practical proposition to attempt to substitute either .30 calibre rifles or machine guns in the British Regular Army.

These requirements cannot be met from Canada, although a supply of both these items is in fact on order in that country. Of the total Army programme which we hoped to place in North America as an insurance of our own production of Army supplies, we have now to rely on Canada alone for field guns, machine guns, anti-tank rifles and light anti-aircraft guns. These, with many other orders, have stretched Canada's capacity to the utmost limit. It is out of the question to ask her to do more.

I hope, therefore, that we may have the benevolent support of the War Department and the National Defense Advisory Commission in expediting the placing of the contracts and securing delivery of these items in our "A" programme.

Yours sincerely,

(Signed) W. T. LAYTON

The Hon. H. L. Stimson,
Secretary of War,
War Department,
Washington.

BRITISH ARMY PROGRAMME

(a) Orders to be placed forthwith.

1.	RIFLES	Output of Rock Island plant. Capacity 1,000 a day. Minimum requirement for 10 Divisions by December 1941.	205,000
2.	SUB-MACHINE GUNS		6,000
3.	PISTOLS		45,000
4.	MORTARS	60 mm.	1,900
		81 mm.	680
5.	ANTI TANK EQUIPMENTS		
	37 mm.	"A" programme 1,000 } "B" programme 1,500 }	2,500
	6 pdr.	equipments ("A" Programme)	1,000
6.	TANKS	The 2,150 required will be provided by the second 1,500 of the 3,000 already approved (of which 2,185 are on order or about to be ordered) plus a further 650 to be approved.	
		Total now to be ordered	1,465
7.	TANK GUNS		
	37 mm.	(2,500 already ordered)	1,150
	75 mm.	to await trial of 6 pdr.	
8.	A. A. GUNS		
	37 mm.	"A" programme 320 } "B" programme 680 }	1,000
9.	FIELD GUNS	105 mm. Howitzer	950

10. MEDIUM GUNS

4.5" "A" programme	150	}	210
"B" programme	60		
5.5" "A" programme	150	}	250
"B" programme	100		
4.5"/5.5" Carriages			360
(100 carriages are expected to be delivered from Canada)			

11. MACHINE GUNS

(a) Medium (M1919A4)

For Tanks (15,000 already on order)		3,250	
For Infantry (in part substitution for Bren Guns)	5,000		8,250

(b) Heavy (Cal. 50 M.2)

A.T. weapon in lieu of Boys rifle			2,000
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12. BINOCULARS

21,000

13. S.A.A.

30 cal.

275,000,000 plus 43,000,000 a month
(Proportion of A.P. and Tracer under reference)

45 cal.

Ball 17,200,000 plus 1,000,000 a month

50 cal.

A.P. 4,850,000 plus 500,000 a month

MORTAR AMMUNITION

60 mm. 2,600,000 plus 300,000 a month
81 mm. H.E. 1,500,000 plus 250,000 a month
Smoke 800,000 plus 130,000 a month

14. ANTI TANK AMMUNITION

37 mm. A.P. solid shot
1,750,000 plus 250,000 a month
6 pdr. A.P. solid shot
750,000 plus 100,000 a month

16. TANK GUN AMMUNITION

37 mm. A.P. solid shot
2,000,000 plus 200,000 a month

17. A.A. GUN AMMUNITION

37 mm. 2,000,000 plus 200,000 a month

18. FIELD GUN AMMUNITION

105 mm. H.E. 4,250,000 plus 600,000 a month
Smoke 750,000 plus 100,000 a month

19. MEDIUM GUN AMMUNITION

4.5" 250,000 plus 40,000 a month
5.5" 750,000 plus 120,000 a month

(b) Items under reference as to type or quantity

LIGHT MACHINE GUNS (Automatic rifle and M.G. M.1919A4)

MEDIUM MACHINE GUNS (M.G. M.1919A4 and M.1917A1)

ANTI AIRCRAFT MOUNTINGS FOR MACHINE GUNS

90 mm. A.A. and ANCILLARY INSTRUMENTS

CLOSE SUPPORT HOWITZER (75 mm. and 5.5 inch)
(with ammunition)

HEAVY GUNS
(with ammunition)

HEAVY HOWITZERS
(with ammunition)

SPARE BARRELS FOR GUNS AND SMALL ARMS

MECHANICAL TRANSPORT and ARMOURED VEHICLES
(other than M.3 Tanks)

ENGINEER EQUIPMENT.

(c) Contracts under Negotiation

2 pdr. A.T. EQUIPMENTS

2 pdr. GUNS for BRITISH MADE TANKS

.303 RIFLES

November 28, 1940

My dear Mr. Secretary:

It gives me great pleasure to transmit herewith a copy of the British program for major ordnance items. This table includes British Army requirements as of November 26th together with details concerning unfilled orders as of November 1st, orders under negotiation as of the same date, and orders to be negotiated. In addition, the requirements under Sir Walter Layton's A and B programs are itemized.

It is my understanding that copies of this program are being made available to your ordnance officers for study and comment.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

PT:ia

Ry.

By Messenger from
M. Young's office

November 28, 1940

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By Messenger from
Mr. Young's office

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APPENDIX TO STATEMENT OF
BRITISH ARMY REQUIREMENTS
OF
MAJOR ORDNANCE ITEMS

British Purchasing Commission

United Kingdom Munitions Orders
Placed or Under Negotiation in the United States
by the Ministry of Supply

As at November 1, 1940

Statement A - Orders placed

1. Shells and bombs
2. Small arms ammunition
3. Small arms ammunition
4. Ordnance
5. Small arms
6. Tanks and tank equipment

Statement B - Orders under negotiation

1. Ammunition, ordnance and tanks

British Purchasing Commission
Statistical Division, New York
November 20, 1940

British Purchasing Commission

Statement A
Sheet 7 of 8

Small Arms Ammunition
 (In Thousands of Rounds)
 Sub-machine Gun and Pistol
 Continental Deliveries of Orders Placed in the
 United States by the United Kingdom (Including Air and Naval Orders)
 as at December 31, 1942

Item	Supplier	Contract Number	Capital Assistance	Total Ordered	Delivered to Date, 31, 1942	Unfilled Orders	Buyer's Option	Schedule Initial Award	1942												After Date 1942					
									Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.		Nov.	Dec.			
Sub-machine Gun #15	Waddington Arms Co.	A-25	-	3,000	3,000	-	-	-	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	A-230	-	41,840	37,704	15,134	-	7,738	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	(a) A-276	-	-	-	-	(124,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Waddington Arms Co.	A-277	-	65,160	16,400	43,760	-	3,300	-	660	10,000	10,000	10,000	10,000	-	-	-	-	-	-	-	-	-	-	-	-
	Waddington Arms Co.	A-1233	-	35,000	3,000	24,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waddington Arms Co.	P-49	-	15,000	55,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
				156,000	79,704	43,294	-	10,438	2,000	8,660	18,000	18,000	18,000	18,000	-	-	-	-	-	-	-	-	-	-	-	-
				-	-	-	(124,000)	-	-	-	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(8000)	(45,000)
#16	Smith & Wesson, Inc.	A-1011	-	10	10	-	-	8,000	8,000	8,000	8,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	A-257	-	12,000	1,000	10,999	-	6,999	-	3,000	3,000	3,000	12,000	12,000	12,000	12,000	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	(b) A-1428	150,000	50,000	-	50,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
					150,000	100,010	1,011	96,999	-	6,999	8,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Pistol #17	Waddington Arms Co.	A-258	-	40	20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	A-259	-	38	38	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Winchester Arms Co.	A-270	-	1,198	1,198	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Winchester Arms Co.	A-212	-	196	196	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
				1,474	1,472	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#18	Waddington Arms Co.	A-258	-	225	225	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Winchester Arms Co.	A-360	-	1,108	1,108	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Nelson Sporting Goods Co.	A-361	-	42	42	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	J. L. Gelf	A-362	-	34	34	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	U.S. Steel Export Corp. (U.S.)	A-211	-	1,281	1,281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Winchester Arms Co.	A-253	-	72	72	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Winchester Arms Co.	A-282	-	180	180	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Winchester Arms Co.	A-212	-	985	985	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
				3,930	3,930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
#19	Waddington Arms Co.	A-1505	-	500	100	400	-	-	-	100	100	100	100	-	-	-	-	-	-	-	-	-	-	-	-	-

(a) Deliveries under the option are in addition to the rate shown for December 1941 until completion.
 (b) Deliveries shown are estimated.

British Purchasing Commission
ORDERS
Contractual Deliveries of Orders Placed in the
United States by the U. S. (Including Air and Naval Orders)
as at December 31, 1945

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Statement 4
Sheet 4 of 6

Item	Supplier	Contract Number	Capital Assistance	Total Ordered	Delivered to Exr. 31, 1945	Unfilled Orders	Open's Option	Schedule Revised Ahead	1946												Interim or After 1947						
									Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.		Nov.	Dec.				
Army Ordnance																											
2 1/2. Gun Flame 75 mm. # 1217 (with loader)	U.S. Steel Export Corp. (U.S.)	A-411	-	317	317	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2 1/2. Gun Flame 75 mm. # 1217 (with loader)	U.S. Steel Export Corp. (U.S.)	A-411	-	76	76	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2 1/2. Gun Flame 75 mm. # 1297 (with loader)	U.S. Steel Export Corp. (U.S.)	A-411	-	496	496	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2 1/2. Gun Flame 75 mm. # 1297 (with loader)	U.S. Steel Export Corp. (U.S.)	A-411	-	4	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Stokes Mortar 3"	U.S. Steel Export Corp. (U.S.)	A-411	-	315	315	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Anti-Tank Gun 37 mm.	(a) National Pneumatic Co.	A-864	318,000	500	-	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	80	
Anti-Tank Gun 37 mm.	National Pneumatic Co.	A-864	-	-	-	-	(400)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(920)	
Gun Carriages																											
37 mm. Anti-Tank	York Safe & Lock Co.	A-2510	-	900	-	900	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
37 mm. Anti-Tank	York Safe & Lock Co.	A-1630	-	-	-	-	(500)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(920)	
Gun Calasms																											
75 mm. Calasms 75 mm.	U.S. Steel Export Corp. (U.S.)	A-411	-	1274	1274	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
75 mm. Calasms 75 mm.	U.S. Steel Export Corp. (U.S.)	A-411	-	87	87	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gun Linkers (Spares)																											
75 mm. Linkers (Spares) 75 mm.	U.S. Steel Export Corp. (U.S.)	A-411	-	1291	1291	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
75 mm. Linkers (Spares) 75 mm.	U.S. Steel Export Corp. (U.S.)	A-411	-	128	128	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Losses Barrels																											
Anti-Aircraft, finished 3.7"	Midvale Co.	294/G/3048	-	80	17	33	-	33	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, finished 3.7"	Midvale Co.	A-411	-	130,000	230	-	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, finished 3.7"	Oronite Steel Co.	A-622	810,000	1000	-	1000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Midvale Co.	A-1278A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	120	1	119	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	60,000	850	-	850	-	50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.	A-622	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Anti-Aircraft, forgings 3.7"	Oronite Steel Co.																										

**British Purchasing Commission
SMALL ARMS**
Contractual Deliveries of Orders Placed in the
United States by the U. S. (Including Air and Naval Orders)
as at November 1, 1942

Type	Model	Supplier	Contract Number	Capital Assistance	Total Ordered	Delivered to Rec. 31, 1942	Unfilled Orders	Buyer's Option	Schedule		1943																			
									Behind	Ahead	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	after 1943					
Machine Gun	MG 53A	Colt's Patent Fire Arms	A-1773	-	1	1	-	-	-	-																				
			A-1724	-	1	1	-	-	-	-																				
			Total	-	2	2	-	-	-	-																				
Machine Gun	Tano	Marlin	U.S. Steel Export Corp. (U)A-411	-	7,602	2,628	-	-	-	-																				
				Infantry	Lewis	U.S. Steel Export Corp. (U)A-411	-	3,057	3,057	-	-	-	-																	
					Lewis	U.S. Steel Export Corp. (U)A-411	-	500	500	-	-	-	-																	
					Lewis	U.S. Steel Export Corp. (U)A-411	-	500	500	-	-	-	-																	
					Flicker	U.S. Steel Export Corp. (U)A-411	-	7,071	7,071	-	-	-	-																	
					Browning	U.S. Steel Export Corp. (U)A-411	-	10,000	10,000	-	-	-	-																	
					Colt's	Colt's Patent Fire Arms	A-643	-	82	82	-	-	-	-																
					MG 40	Colt's Patent Fire Arms	A-1704	-	1	1	-	-	-	-																
					MG 38	Colt's Patent Fire Arms	A-2108	-	1	-	1	-	-	-																
					Total	-	23,914	23,913	1	-	-	-	-	1																
					Machine Gun	MG 38	Colt's Patent Fire Arms	A-2108	-	1	-	1	-	-	1															
Sub-Machine Gun	Thompson	.45 Auto Ordnance Corp.	F-55	-	1,315	1,328	12	-	12	-																				
			Lewis	U.S. Steel Export Corp. (U)A-411	-	450	450	-	-	-	-																			
			Lewis	U.S. Steel Export Corp. (U)A-411	-	300	300	-	-	-	-																			
			Lewis	U.S. Steel Export Corp. (U)A-411	-	2,000	2,000	-	-	-	-																			
			Lewis	U.S. Steel Export Corp. (U)A-411	-	20,250	16,696	9,554	-	9,554	-																			
			Lewis	U.S. Steel Export Corp. (U)A-411	-	25,000	-	25,000	-	11,000	-																			
			Lewis	U.S. Steel Export Corp. (U)A-411	-	20,000	4	20,996	-	9,996	-																			
			Smith & Wesson	Smith & Wesson Inc.	A-560	-	20,000	-	-	-	-																			
			Total	-	76,340	20,798	55,562	-	30,562	-	17,000	8,000																		
			Rifles	Colt's	.45	Wadsworth Sporting Goods Co.	A-354	-	20	20	-	-	-																	
A-367	-	2,153					2,153	-	-	-	-																			
A-392	-	1,000					1,000	-	-	-	-																			
A-411	-	20,100					20,100	-	-	-	-																			
A-367	-	4,482					4,482	-	-	-	-																			
A-792	-	4,100					4,100	-	-	-	-																			
A-409	-	929					929	-	-	-	-																			
A-363	-	2,150					2,150	-	-	-	-																			
A-365	-	100					100	-	-	-	-																			
A-422	-	4,879					4,879	-	-	-	-																			
A-1586	-	85,000					-	85,000	-	85,000	-	-	-																	
A-411	-	500					500	-	-	-	-																			
A-364	-	177					177	-	-	-	-																			
Yerkes	Yerkes Arms Co.	A-364					-	500	-	-	-	-																		
Barrington	Barrington & Steinhilber	A-1476	-	25,000	-	25,000	-	1,000	-																					
Total	-	130,990	10,990	110,000	-	1,000	-	4,000	5,000	4,000	5,000	12,000	9,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000					
Rifles	Browning Automatic	.30	U.S. Steel Export Corp. (U)A-411	-	25,000	25,000	-	-	-																					
				-	865,000	865,000	-	-	-	-																				
				-	780	-	780	-	-	-	-																			
				-	15,000	-	15,000	-	15,000	-	-	-																		
				Total	-	905,780	890,000	15,780	-	15,000	-	-	150	600	50															

(a) Balance of 14,000 to be delivered in January and February, 1943 but Purchaser is not obliged to accept any deliveries after 1943.

British Purchasing Commission

Statement A
Sheet # 176

TRUCK AND TRUCK EQUIPMENT
 Contractual Deliveries of Trucks Pledged to the
 United States by the United Kingdom (Including Air & Seal Process)
 as at November 14, 1942

Item	Supplier	Contract Number	Capital Assistance \$	Total Ordered	Delivered to Nov. 14, 1942	Shipped Orders	Buyer's Options	Schedule Behind Ahead	1942												Indefinite or After 1942				
									Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.		Dec.			
TRUCK 6 Ton Tanks Medium - U.S. Design Type M-1 Tanks	U.S. Steel Export Corp. (U.S.) Pullman-Standard Car Mfg. Co. Pullman-Standard Car Mfg. Co. Pressed Steel Car Co. Pressed Steel Car Co.	A-213 (a)A-1361 A-1361 (a)A-1795 A-1795	-	212	212	-	-	-	-	-	-	-	-	-	-	-	50	50	50	50	300				
				1,500,000	500	-	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(500+)	
				1,500,000	500	-	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	150
				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(500+)
			3,000,000	1,212	212	1,000	-	-	-	-	-	-	-	-	-	-	50	100	100	100	650				
							(1000+)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1000+)				
TRUCK ENGINE Eight B-77	Continental Motors Corp. Continental Motors Corp.	(a)A-1465 A-1465	4,933,340	3,400	-	3,400	-	-	-	-	-	-	-	-	-	30	60	115	300	300	400	400	1999		
				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1500+)
TRUCK TRANSMISSIONS Transmission Unit	Dodge Traction Ditcher Co. Dodge Traction Ditcher Co.	A-110 A-689	95,000	280	80	162	-	42	-	42	42	80	80	80	80	80	80	80	80	80	80	80	80		
				10,000	450	-	450	-	-	-	30	80	80	80	80	80	80	80	80	80	80	80	80	80	80
				131,000	800	80	712	-	42	-	70	120	120	80	80	80	80	80	80	80	80	80	80	80	80
TRUCK SUSPENSION UNITS American Car & Foundry American Car & Foundry	A-21 A-216	-	19,800	250	144	106	-	51	-	50	5	80	80	80	80	100									
				19,800	590	-	590	-	80	-	50	50	80	80	80	80	80	80	80	80	80	80	80	80	80
				19,800	800	144	656	-	131	-	100	55	80	80	80	80	80	100							
TRUCK BRAKES F Fruder Co. - Axial York Safe & Lock Co. Hunting-Don. Axial York Safe & Lock Co.	A-295 A-22	25,000	550	1	549	-	49	-	60	70	100	150	70												
			20,818	250	142	108	-	8	-	40	50														
			41,818	800	143	657	-	57	-	110	120	150	150	70											
TRUCK TIRE Steel Armour Castings For A-22 Tank Trucks	American Steel Foundries General Steel Castings Corp.	A-1793 A-1794	180,000	400	-	400	-	-	-	109	158	120	13												
				270,000	600	-	600	-	-	-	109	158	120	120	87										
				450,000	1,000	-	1,000	-	-	-	-	218	316	248	173	87									

(a) Deliveries are to continue at the rate shown for December 1942.

AMMUNITION, ORDNANCE AND TOOLS
 Estimated Deliveries of Orders under Negotiation by the United Kingdom,
 as of December 31, 1940

Item	Supplier	Contract Number	Capital Assignment	Total to be Delivered	Supplier's Order	1940		1941												Indefinite or After 1941
						Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	
Ammunition (in Paragraphs of Items)																				
.22 Long Rifle Cartridges	Western Cartridge Co.	A-2233	-	16,850	-	16,850														
.22 Long Rifle Cartridges	Winchester Repeating Arms Co.	A-2296	-	51,120	-		4,000	16,000	16,000	17,120										
.30 Cartridges	Benington Arms Co.	A-2317	-	51	-	51														
.30 Primed Cases	Benington Arms Co.	A-2362	-	3	-	3														
.30 A.P. Bullets	Benington Arms Co.	A-2562	-	3	-	3														
.30 Snapped Cases	Benington Arms Co.	A-2533	-	3	-	3														
.30 Cartridges Loading Bullets	Benington Arms Co.	A-1725	-	1,000	-	1,000														
.50 Cartridges	Benington Arms Co.	A-2317	-	51	-	51														
30 mm. Cartridge Cases	Bridgeport Brass Co.	A-2320	-	10,500	-			500	500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000		
30 mm. Short Projectiles	National Pneumatic Co.	A-2377	-	2	-	2														
37 mm. Cartridge Cases	Bridgeport Brass Co.	A-2303	375,000	1,000	-		10	80	80	80	80	80	100	121	124	124	75			
75 mm. Sapters and Assemblies for D.S. Howitzer Mark II	Dashley-Anderson	A-2358	-	2,000	-			200	200	200	200	200	200	200	200	200	200	200		
3" 10 lb. Mortar Bombs, empty	Tobacco Oil Tank & Pump Co.	A-2331	207,000	750	(750)					50	100	125	125	125	125	125	125	125		
3" 10 lb. Mortar Bombs, empty	Crocker-Wheeler Electric Mfg. Co.	A-2332	161,000	750	(750)					12	80	100	125	125	125	125	125	125		
6" M.K. Shell	Pullman-Standard Car Mfg. Co.	A-2361	385,000	200	(200)					10	16	20	20	20	20	20	20	20		
Case (Number)																				
75 mm. Tank Case	Service Ordnance Corp.	A-2447	-	1,550	-						100	200	200	200	200	200	200	200		
37 mm. M 3 or M 3 Case	American Type Foundry	A-2364	750,000	1,500	(1000)						100	200	200	200	200	200	200	200		
37 mm. M 3 Tank Case	National Pneumatic Co.	A-2311	150,000	1,000	(8)						60	80	80	100	100	100	100	20		
Machine Case (Number)																				
.30 For Tank	Route Engineering Co.	A-1600	2,480,815	9,000	(10)									75	375	750	750	750		
Sub-machine Case (Number)																				
Vickers Model 23A Thompson	Ans Ordnance Corp. Sub Ordnance Corp.	A-2308 A-2300	-	51,000	-				10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000		
Revolvers (Number)																				
3" Felling Revolver .38-200 cal.	Galt's Patent Fire Arms Mfg. Co.	A-2127	-	14,250	(7750)(F)				500	1,000	1,250	1,500	2,000	2,000	2,000	2,000	2,000	2,000		
.45 Automatic Pistol	Galt's Patent Fire Arms Mfg. Co.	A-2086	-	200	-	200														
Long Barrels (Number)																				
3" Mark II A.S.M. Barrels	Oronite Steel Co. of America	A-2360	1,089,700	4,000	(A)						30	60	80	130	130	130	130	130		
17 mm. Gun Barrels	American Type Foundry	A-1961	-	750	(F)						30	100	100	100	100	100	100	100		
Machine Gun Barrels	Galt's Patent Fire Arms Mfg. Co.	A-2086	-	1	-															
Instrument (Number)																				
Prismatic Compasses 6 x 30	Bussell & Lomb Optical Co.	A-2451	-	10,000	-						500	750	750	750	400	500	400	400		
Tube (Number)																				
Medium Tank M 3	Helvia Locomotive Co.	A-1960	1,728,925	685	(1000)									5	15	25	40	40		
Medium Tank M 3	U.S. Locomotive Works	A-1962	1,900,000	200	-									5	15	25	40	40		
Armor Castings For Tank Turrets	Blaw-Knox Co.	A-2121	75,000	250	(100)									(50)	(80)	(80)	(80)	(80)		

NOTE

- A Continues at rate of 1,000 guns per month indefinitely.
- B Continues at rate of 150 guns per month indefinitely.
- C Continues at rate of 750 guns per month through 1941.
- D Continues at rate of 100 guns per month through 1941.
- E Additional 750 guns per month, depending on rate of production can be increased to cover option.
- F Additional amount prior to January 1942 if rate of production can be increased to cover option.
- G Capacity for long barrels continues at rate of 100 per month indefinitely.

British Purchasing Commission
 Munitions Division, New York
 December 30, 1940

BRITISH ARMY REQUIREMENTS OF MAJOR ORDNANCE ITEMS

I. ORDNANCE

	TOTAL All Programmes	Original Programmes			*A* Program To be Negotiated	Original and *A* Programmes		*B* Programmes all required by Dec. 31, 1941
		Unfilled Orders Nov. 1, 1940	Under Negotiation Nov. 1, 1940	To be Negotiated		TOTAL	Required Deliveries	
Rifles .50S	1,000,000	-	-	-	1,000,000	1,000,000	As many as possible in 1941	-
.50	205,780	780	-	-	-	780	Immediate	205,000
Refrs 60 mm.	1,900	-	-	-	-	-	-	1,900
81 mm.	680	-	-	-	-	-	-	680
Anti-tank equipments 2-pdr.	1,000	-	-	-	1,000	1,000	By mid-summer 1941	-
57 mm.	5,000	500	-	-	1,000	1,500	500 by spring, balance by summer 1941	1,800
8-pdr.	1,000	-	-	-	1,000	1,000	To commence end 1941	-
Anti-aircraft gun 57 mm.	1,000	-	-	-	-	520	To commence spring 1941	950
Howitzer 105 mm.	950	-	-	-	-	150	-	100
Medium gun howitzer 5.5"	250	-	-	-	-	150	To commence autumn 1941	80
4.5"	210	-	-	-	-	200	-	160
Common carriage 4.5"/5.5" howitzer	560	-	-	200	-	200	Spring 1941	(*)
Tanks M2A4	200	-	-	-	-	5,000	-	650
M5	3,650	1,000	1,085	915	-	5,000	To commence spring 1941	550
Tank guns 75 mm. or 6-pdr.	3,650	-	1,550	1,450	-	3,200	and complete by end 1941	650
57 mm.	2,850	-	2,500	700	-	2,250	To commence spring 1941	5,250
2-pdr.	2,250	-	-	-	2,250	15,000	To match tank schedules	5,000
Machine guns for tanks .50 M1919A4	18,250	-	9,000	6,000	-	-	-	2,000
for infantry .50 M1919A4	5,000	-	-	-	-	-	-	-
for infantry .50	2,000	-	-	-	-	20,996	By end 1941	6,000
Submachine guns 9 mm.	20,996	20,996	-	-	-	88,567	By mid 1941	45,000
.45	94,567	54,566	54,001	-	-	156,200	By end 1941	-
Pistols	181,200	110,000	26,200	-	-	-	-	-
Spare barrels 4.5" AA	1,000	-	-	1,000	-	1,000	-	-
5.7" AA (finished)	2,485	285	-	2,200	-	2,485	By end 1941	-
5.7" AA (forgings)	5,119	1,119	2,000	-	-	5,119	-	(*)
40 mm. Bofors AA (forgings)	850	850	750	-	-	850	-	-
57 mm. Tank and Anti-tank	1,250	500	-	-	-	1,250	500 by spring 1941, balance by end 1941	-
Height finders	200	-	-	200	-	200	By end 1941	(*)
Predictors for 5.7" AA equipments	249	249	-	200	-	249	By end 1941	(*)
Fuze Setters	200	-	-	-	-	200	By end 1941	(*)
Binoculars	91,000	-	10,000	60,000	-	70,000	To commence spring 1941	21,000

(*) Under reference as to type and quantity.

BRITISH ARMY REQUIREMENTS OF MAJOR ORDNANCE ITEMS

II. AMMUNITION

Ammunition (thousands of rounds)	Original and *A* Programmes				*D* Programme		
	Unfilled Orders Nov. 1, 1940 (for detail see appendix)	Under Negotiation Nov. 1, 1940	To be Negotiated	TOTAL	Monthly Rates	Initial Supply	Monthly Rate Required Thereafter
60 mm. Mortar	-	-	-	-	-	2,600	500
81 mm. Mortar H.E.	-	-	-	-	-	1,500	250
Smoke	-	-	-	-	-	800	150
3" Mortar H.E.	-	1,500	-	1,500	250	-	-
37 mm. A.P. for Anti-tank for Tank	{ 500	-	500	1,000	100	1,750 (1) 2,000 (2)	250 (1) 200 (2)
105 mm. H.E.	-	-	-	-	-	4,250	600
Smoke	-	-	-	-	-	750	100
57 mm. H.E. (A.A.)	-	-	-	-	-	2,000	200
.50	300,000	-	147,000	447,000	50,000	275,000	45,000
.50S	440,000	-	560,000	600,000	100,000	-	-
.50	25,000	-	190,000	215,000	20,000	4,850	500
9 mm. Submachine Gun	99,000	-	110,000	209,000	12,000	-	-
.45 Submachine Gun	85,000	-	117,000	200,000	8,000	17,200	1,000
Pistol	-	-	10,000	10,000	1,000	-	-
5 pdr. A.P.	-	-	750	750	100	-	-
2 pdr. A.P.	2,500	-	-	2,500	400	-	-
75 mm. H.E.	2,000	-	-	2,000	200	-	-
Smoke	-	-	700	700	70	-	-
12" Howitzer H.E. (possibly not wanted)	30	-	-	30	3	-	-
9.2" Howitzer H.E.	200	-	-	200	50	-	-
9.2" Gun A.P.	-	-	10	10	1	-	-
7.2" Howitzer H.E.	-	-	225	225	30	-	-
6" Howitzer H.E.	282	200	100	562	57	-	-
8" Gun CPFC	-	-	10	10	1	-	-
5.5" Howitzer H.E.	-	-	700	700	100	250	40
4.5" Gun H.E.	-	-	-	-	-	750	120
75 mm. A.P. for Tank Guns	-	-	800	800	45	-	-

NOTE: Delivery of initial requirements under all programmes is wanted by the end of 1941, the monthly rates to continue are thereafter.

(1) Includes ammunition for 1,000 Anti-tank guns under *A* Programme.

(2) Includes ammunition for 1,500 Tank guns under *A* Programme.

November 28, 1940
11:57 a.m.

George
Harrison: Henry?

H.M.Jr: Yes, George.

H: Welcome home.

H.M.Jr: Thank you.

H: I hope you had a good trip, and feel well.

H.M.Jr: Very good.

H: Henry, I've been wondering whether you would like - or whether it would be agreeable to you - to have me give you a dinner up here in New York later on in December. I'd like very much to do it before I quit this job

H.M.Jr: I see.

H: but on the other hand I don't want to embarrass you in any way by asking you to come to a party up here unless you'd like to do it. My thought would be to get the principal fellows around town and I thought I might ask some Washington people up too so we'd get an admixture - they wouldn't be just all New York.

H.M.Jr: Why, I'd be delighted, George.

H: And I think it might be nice - wouldn't want it too formal anyway.

H.M.Jr: No speaking, huh?

H: Well, you'd probably have to say - you know - informally just a few things.

H.M.Jr: But I mean no reporters present.

H: Oh, no. Lord no! No, what I'd planned to do, I'd submit the list to you first. I'd just started to mull it over in my own mind, but I would probably want to send out around fifty invitations which would mean we might get around thirty-five or forty and I was planning on -

- 2 -

the date that suits best up here for all our plans would be Friday, December 20th, if that's all right with you.

H.M.Jr: Well, I'd have to ask my Missus. Would you want to know today?

H: Oh, no. I'm going away tomorrow and am going to be in Washington on Monday.

H.M.Jr: Well, I could let you know tomorrow morning.

H: If you could let me know tomorrow morning that would be fine.

H.M.Jr: I could let you know tomorrow morning.

H: Oh, that's quite all right.

H.M.Jr: Good. I'll give you a call tomorrow. I think it's terribly nice of you to want to do it.

H: Well, I think it would be a good idea and I'd love to do it and I thought we'd just sort of mix up a little of New York and Washington and see if we can't make them all feel a little better.

H.M.Jr: Well, I think it's a very nice idea and I'd be glad to come.

H: Well, that's first rate.

H.M.Jr: Then I'll call you in the morning, George.

H: Thank you very much. Around that number wouldn't - I think would be all right. It's a little big but it's awfully hard to do that without asking around fifty people I should say. I don't know how many could come because there are a lot of them go down to Florida and to Georgia for shooting at that time. I think it's a pretty good date.

H.M.Jr: All right, George.

H: All right. Well, you talk to Mrs. Morgenthau. Tell her my only regret is I can't have her and Gertrude.

H.M.Jr: Right. Thank you.

H: All right. Good-bye.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

November 28, 1940.

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

Dear Mr. Morgenthau:

Thank you very much for the following reports,
which you sent me this date:

Part I - Airplanes
Deliveries of and New Orders for Airplanes,
June 9 - November 23, 1940; Unfilled Orders
and Estimated Deliveries on November 23, 1940.

Part II - Airplane Engines
Deliveries of and New Orders for Airplane
Engines, June 9 - November 23, 1940; Unfilled
Orders and Estimated Deliveries on November
23, 1940.

Faithfully yours,



Chief of Staff.

November 29, 1940

To: The Secretary

From: Mr. Young

Mr. Robert Hinckley called me at 2:15 P.M. today to inquire if he could receive copies of the aircraft and aircraft engine tables prepared by the Treasury. As you know, Mr. Hinckley has been conferring with me from time to time on the aircraft picture and has always given us complete and enthusiastic cooperation.

He is interested in both the tables based on the data received from manufacturers and the tables based on the data received from the British Purchasing Commission. I advised Mr. Hinckley that I would take this up with you immediately and let him know.

D.Y.

Notes on Conference in the
Secretary's office, 3:30 P.M., Thursday,
November 28, 1940.

Those present at this meeting were Secretary Morgenthau, Admiral Land, and Philip Young.

Admiral Land opened the conference by stating that he had been asked by General Watson to write a memorandum concerning the British ship situation and that he was to consult Secretary Morgenthau and Mr. Purvis before doing it. However, as Mr. Purvis was out of town, Admiral Land thought it would be all right if he just talked to the Secretary.

Secretary Morgenthau said that the President had told him and Mr. Purvis that the idea was for the United States to build ships and then lease them to the British. Admiral Land stated that he had heard that indirectly, but that he did not think it was a good idea. The Secretary replied that he was neutral and that he didn't know whether it was good, bad, or indifferent. Admiral Land said it was not a good idea because the United States was not a tramp steamer nation, and, if it just leased the ships to the British, it would probably be stuck with them after the war. The ships would not be good for anything and all the United States could do would be to tie them up.

Admiral Land said that the ships the British wanted to buy were the cheap box-end pointed bow type, equipped with Scotch boilers. Originally, however, the British had wanted a much better type, but Admiral Land and Mr. Knudsen had convinced them that better ships would take too long to build and would interfere too much with the defense program operations. The Secretary inquired as to whether or not cheap ships would be in demand, and Admiral Land replied that the United States would not be able to sell them even to other nations.

Admiral Land said he wanted some financial advice, adding that the British Ship Commission had only so much money, namely, 50 million dollars, and that the sixty ships they wanted to buy cost 87 million dollars. The Secretary said that a representative of the British Treasury was on his way over to the United States, and until he came the Secretary said he could not tell what the situation was. He added, however, that the President presumably wanted the orders accepted, and that probably the British weren't by any means reaching the end of their resources yet.

- 2 -

Admiral Land said that the British Ship Commission had endeavored to get the Todd Shipyards to finance the plant through the RFC, but that the Maritime Commission and the Navy had not given them any support. The Secretary added that if Admiral Land wanted to know how to finance it he should talk to Phil Young about the Continental pattern inasmuch as that system was already working and had been cleared from top to bottom by all the people concerned. //

Admiral Land said that, although the British had gotten clearance from the Navy to negotiate the ship contract, he was not at all sure that Secretary Knox had cleared it. Further, that Knox was very anxious to do something about the ships already existing, both American and foreign, which were immobilized in United States ports. The Secretary said that the Treasury was already looking into the question of taking over ships controlled by frozen funds. //

P.Y.

ooOoo

November 28, 1940
2:35 p.m.

Fred
Sexauer:

Did you have a good vacation?

H.M.Jr:

Very good.

S:

Well, that's excellent. Say, Henry, I won't take but a moment of your time and this is again regarding the milk situation here - up in New York. They are in the throes of rewriting the Order here and a lot of Western influences and outside influences together with some dealer influences seem to have brought terrific pressure on the Department as to some changes. Now, I don't expect you to enter into the details of all the changes because it is a terrifically intricate thing and I know that you're awfully busy and the only thing that I'd like to ask you to give a little consideration to is this. I think some pressures are coming to amend the Order and amend it hurriedly without giving full and due consideration to some of the intricate problems that are involved and particularly some that very vitally affect New York State producers.

H.M.Jr:

Well, now, Fred, let me make a suggestion that will save your time and mine. I have here with me George C. Haas, H-a-a-s

S:

Wait a minute, what was the name?

H.M.Jr:

H-a-a-s.

S:

H-a-a-s.

H.M.Jr:

S, like in Sam - George. He was with me in Farm Credit. Can't somebody come down and explain to him what it's all about?

S:

I'll be very glad to.

H.M.Jr:

He's the head of our Statistical Section and - you might be interested - it was George Warren who suggested I bring him over to the Treasury and put him in charge.

S:

Oh, yes.

- 2 -

H.M.Jr: But he's farm-minded, that's the point and if somebody could come down and explain the whole thing to him then I can get it over the week-end. See?

S: Well, now, Henry, here is an immediate problem. They are figuring on moving this thing, we understand, to a conclusion before the week-end and the one thing above all that I want to do just so you'll know it is to see that they delay this thing sufficiently long so that all points can be argued out to their final conclusion.

H.M.Jr: Who represents you down here?

S: Well, I'm down here at the moment myself and Leon Chaffin.

H.M.Jr: Well, look, I'll tell - if you will just stay on this phone a minute, will you?

S: Fine. Yes, indeed, Henry.

H.M.Jr: And I'll switch you to George Haas and then you can come and see him and tell the story because I couldn't do it myself today.

S: Oh, no, that's perfectly all right, Henry.

H.M.Jr: Just a moment.

Operator: Operator:

H.M.Jr: Put Mr. Haas on this wire and hold Mr. Sexauer on this wire too.

Operator: All right. Mr. Morgenthau, do you want Mr. Sexauer to hear what you say?

H.M.Jr: Yes.

George Haas: Hello, Mr. Secretary.

H.M.Jr: George, where are you?

H: I'm in my office.

H.M.Jr: Right. Mr. Sexauer is on this phone. He's President of Dairymen's League. I'd like you

- 3 -

to talk to him and see him and get the story
of their troubles and then tell it to me later on.
Will you?

H: All right - very glad to.

H.V.Jr: You talk to him now. He's on the phone.

S: Hello, Mr. Haas.

H: Hello, Mr. Sexauer. When would be convenient
.....

FARM TENANT PROGRAM

I. Old Resettlement Program

Includes homestead and relief projects and community developments, under which about one million acres were purchased:

10,017 farm units, total cost of	\$ 77,000,000
4,686 development units, total cost of .	<u>58,000,000</u>
	\$ <u>135,000,000</u>

II. Current Program

Farm tenant loans under Bankhead-Jones Act up to June 30, 1940, purchased 12,234 farms, cost	\$ 69,800,000
For fiscal year 1941 estimated purchases 8,000 farms, cost	<u>50,000,000</u>
	\$ <u>119,800,000</u>

About 2600 units now in process of closing which will cost about \$16,000,000.

November 28, 1940

November 28, 1940
4:18 p.m.

H.M.Jr: Hello.

Henry L.
Stimson: Hello.

H.M.Jr: Henry talking.

S: Glad to hear your voice again.

H.M.Jr: How are you?

S: Well, I'm like a hunted fox today - have been right along. I wish

H.M.Jr: I couldn't even get a smell of you today.

S: Well, I haven't gotten a smell of myself.

H.M.Jr: (Laughs).

S: Now I sent you a letter which I wanted to get through tomorrow so that that thing could go and I was called up last evening, I think it was, by Layton and he indicated he was rather delighted with it. Have you any troubles with it?

H.M.Jr: I have no troubles - I mean - with it. It's all right as far as I'm concerned.

S: Well, it was being circulated more as a matter of form - just in case anybody wanted to say something. They've all had it - it's been a product of all the minds.

H.M.Jr: Well, as far as I'm concerned I haven't

S: All I mean, Henry, is this. If you can spare me an interview I won't come this time because I'm terribly driven with - tomorrow especially - with Frank Knox's going away and I'm trying to clean up some Army and Navy things.

H.M.Jr: That's all right. I thought on account of being Cabinet - I didn't know where you ate.

S: Well, I don't know yet whether I'll eat at all, or where I shall eat, but I am trying to save every minute tomorrow.

H.M.Jr: Well, that's

S: And unless there is something that you deem serious

H.M.Jr: No

S: I've missed you very much.

H.M.Jr: There are a lot of things I want to talk to you about but they can

S: Trememdous lot of things I want to talk to you about.

H.M.Jr: But they'll all keep.

S: Well, things are moving pretty - the ice is breaking.

H.M.Jr: They'll all keep.

S: I say, the ice is breaking and the spring thaw will be in full force pretty soon.

H.M.Jr: Well, you can take this telephone conversation - as far as I'm concerned, I have no suggestions to make.

S: That is all O.K. so far as you're concerned.

H.M.Jr: It's O. K. so far as I'm concerned.

S: Well, thank you very much. I hope you had a nice rest.

H.M.Jr: Had a fine time.

S: Well, I'm very glad.

H.M.Jr: Good.

S: If you miss me sometime perhaps the latter part of next week, you'll know your example is infective.

H.M.Jr: Well, let me know when you have free time and then we'll get together.

S: All right. Good-bye.

H.M.Jr: Good-bye.

November 29, 1940
4:55 p.m.

H.M.Jr: Hello.

Operator: Mr. Kintner.

Robert
Kintner: Hello, Mr. Secretary.

H.M.Jr: Just today, of all days, we had to have a 3-hour
Cabinet meeting.

K: Well, supposing we bring it right over.

H.M.Jr: Well, I'm going to break my rule and let you -
how long is it?

K: Well, there are two pieces.

H.M.Jr: Well, you want to bring it over?

K: Sure, we can bring it right over.

H.M.Jr: O. K.

K: Right.

November 28, 1940

My dear Cordell:

I thought you would be interested in reading a copy of a letter which I have just received from Ambassador Lothian and my answer to the same.

Personally I thought that Lothian did not show very good judgment in the remarks he made on landing in the United States, but I did not think it wise to get into a written discussion with him on this matter.

I am sending you by hand our most recent information as to the financial resources of England. I would appreciate it if you would limit this information to yourself and Mr. Sumner Welles.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

November 28, 1940

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Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

November 28, 1940

My dear Mr. Ambassador:

I beg to acknowledge receipt of your letter of November 25th which I have read with great interest.

I would be very glad to see you at my home, at your convenience, and discuss England's financial problem with you at that time.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
The Ambassador of Great Britain,
British Embassy,
Washington, D. C.

By Messenger

November 28, 1940

My dear Mr. Ambassador:

I beg to acknowledge receipt of your letter of November 25th which I have read with great interest.

I would be very glad to see you at my home, at your convenience, and discuss England's financial problem with you at that time.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
The Ambassador of Great Britain,
British Embassy,
Washington, D. C.

By Messenger

BRITISH EMBASSY,
WASHINGTON, D.C.

November 25th, 1940

Dear Mr. Secretary,

I got back from Europe late on Saturday. You will have seen that on arrival I mentioned to the Press that one of the problems which would come up for solution in 1941 was the financial question. I refused of course to give any indication as to how my Government thought the matter should be dealt with but confined myself to saying that our dollar resources were beginning to run low and that therefore the question would become urgent in the next few months. I thought that inasmuch as discussions will begin as soon as Phillips arrives it is better that the public initiative in asking for a discussion should come in this informal way from a representative of the British Government.

I/

The Honourable

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

I hope you will approve of my having done this. You will remember that I told you, when last I saw you shortly before sailing for England on October 15th, that the red light had gone up about finance and asked you how you would like the matter dealt with. When I got to England I found that Sir Frederick Phillips had been collecting information preparatory to coming here about the date you suggested, namely December 1st. He postponed his departure for a few days in order to get the latest information from Purvis who arrived in England, I think, last Friday or Saturday, but I imagine he will leave by the Clipper which is due to fly from London about the end of this week. I understand that the Pan American Airways have already been asked by the Treasury and State Department to give "A" priority on the Clipper.

Believe me,

My dear Mr. Secretary,

Yours sincerely,

W. H. C. C.

MEMORANDUM FOR THE PRESIDENT:

Appended are summary tables of estimates of various categories of the foreign exchange assets of Great Britain.

There is considerable difference of opinion as to which categories of foreign exchange assets available to Great Britain would be suitable for financing purchases from the United States. This depends, in part, on whether or not the assets are to be sold within the next year or are to be held as collateral against loans.

There is also considerable difference of opinion as to the liquidation and collateral value of the various categories of assets. The following list of assets suggests the possibilities of differing opinion as to the appropriate answer to the question: How much foreign exchange can Great Britain mobilize to finance imports?

1. Gold owned by Great Britain.
2. Dollar balances.
3. American securities held by the British.
4. Direct investments in the United States owned by the British.
5. Securities of Latin America, Africa, Far East, etc. held by the British.
6. Securities and direct investments owned by the British in Empire countries.
7. Similar categories of assets owned by the other Empire countries.
8. Similar categories of assets owned by nations collaborating with the British -- Netherlands, Belgium, Poland, and Greece -- a substantial portion of which are subject to the de facto control of the British.

- 2 -

9. Assets of non-cooperative countries located in the British Empire.
10. The Western Hemisphere possessions of the British Empire (whether these have any substantial economic value, as distinct from the military and strategic value, is open to question).

HPD:VFC:mng
11/27/40

GREAT BRITAIN

For Period Nov. 1 to June 30, 1941

(See tables attached for details and remarks)

(In millions)

Estimated dollar payments.....	\$2,720
Estimated dollar receipts.....	<u>615</u>
Deficit.....	<u>\$2,105</u>

Possible dollar resources available to Great BritainIn United States

Dollar balances, official.....	\$100	
Dollar balances, private.....	290	
(British say these balances are necessary to maintain)		
Dollar securities (Market value).....	645	
Dollar direct investments.....	400	
(Estimated liquidation value)	<u> </u>	\$1,435

Outside United States

Gold (Great Britain claims this is minimum reserve.....)	<u>600</u>
---	------------

Total dollar resources available if all gold is used and all American securities are sold and invest- ments liquidated.....	<u>\$2,035</u>
---	----------------

Other resources which might be made available
either through sale of investments or as
collateral for loans

Great Britain foreign investment other than in United States (Valued at \$16,000 million) estimated collateral value.....	\$6,000
British Empire countries resources in U.S.....	1,040
British Empire countries outside of U.S.....	<u>1,320</u>
	\$8,360

Assets in the United States of countries allied with Great Britain.....	<u>1,150</u>
Total.....	<u>\$9,490</u>

Treasury Department, Division of Monetary Research. Nov. 28, 1940.

TMR:dln - 11/28/40.

Table I

Summary Table - United Kingdom Gold and Dollar
Exchange Assets, November 1940

(In millions)

Gold

On earmark in U.S. - Nov. 20, 1940.....	0
Held outside U.S. - Nov. 20, 1940.....	\$600 1/

Dollar Balances

Official - Nov. 20, 1940.....	100
Private - Nov. 13, 1940.....	290 2/

American Securities

British estimated market value - Nov. 15, 1940..	645 3/
(U.S. Department of Commerce estimated value about \$950 million)	

Direct Investments in U.S.

Our estimated minimum liquidation value - Nov. 15, 1940.....	400
(Estimated book value - \$800 million)	

Total.....	\$2,050
------------	---------

1/ On November 1, 1940, according to British reports, the United Kingdom held \$700 million of their own gold. This does not include gold of other countries held under the jurisdiction of the British Empire. We estimate a reduction of \$100 million since then.

The British assert that \$600 million of gold is the minimum amount necessary for the conduct of their international business and for their necessary monetary reserves.

2/ British authorities stated in July that their private dollar balances were reduced to a minimum necessary to carry on business and that these balances were not available to meet their foreign exchange requirements.

3/ This figure is derived from a British estimate of market value of British-held American securities as of June 30, 1940, adjusted for British-reported net sales of American securities since June 30, 1940, and movements of stock prices as measured by the Standard Statistics Index of prices of 420 stocks.

Table II

Summary Table - Foreign Investments of United Kingdom
Outside the United States ^{1/}

(Par value in millions)

British Empire:	
Canada.....	\$2,200
Oceania.....	2,600
South Africa and Rhodesia.....	1,225
British Asia.....	2,500
Other.....	500
Non-British Empire:	
Latin America.....	3,700
Europe.....	1,100
China and Japan.....	1,250
Netherlands East Indies.....	200
Philippines.....	25
Other.....	600
Total.....	\$16,000 ^{2/}

We estimate these investments to have a collateral value of \$4 to \$6 billion.

^{1/} These figures are based on estimates of Sir Robert Kindersley, a well-known British authority. His estimates are of total holdings for 1938, and distribution by geographic areas for 1936. Adjustments have been made wherever additional information has been available. The estimates cover long-term investments only; they are preliminary and subject to substantial revisions. Further study of United Kingdom foreign investments outside the United States is now being made in this office.

^{2/} The possible margin of error is several billion dollars.

Treasury Department, Division of Monetary Research.
November 27, 1940.

TK:mgg
11/27/40

Table III

Summary Table - Assets in the United States
of British Empire Countries Other than the
United Kingdom, November 1940

(In millions)

<u>Sold - Nov. 20, 1940</u>	0
<u>Official Dollar Balances</u>	
Canada - Nov. 20, 1940	\$ 265
Other - Nov. 20, 1940	10
<u>Private Dollar Balances</u>	
Canada - Nov. 17, 1940	155
Other - Sept. 25, 1940	<u>110</u>
Total	\$ 540
<u>American Securities</u>	
Canada - Estimated value,* Oct. 30, 1940..	500
Other - Estimated value,* Dec. 31, 1939...	40
<u>Direct Investments in U.S.</u>	
Canada - Book value, Dec. 31, 1939.....	460
Other - Book value, Dec. 31, 1939.....	<u>5</u>
Total.....	\$1,005
Minimum liquidation value.....	<u>500</u>
Total - Estimated liquidation value of all assets	\$1,040
(of which, Canada	(\$460)
Other	140)

* Department of Commerce estimates adjusted for net sales.
(Market value for common and par value for other securities.)

Treasury Department, Division of Monetary Research.
November 27, 1940.

WJ:mg
11/27/40

Table IV

Summary Table - Assets of British Empire Countries
(Other than United Kingdom) Held Outside the United States
September 30, 1940

(In millions)

Gold

Australia.....	1 ¹ / ₂	
British India.....	\$274	
Canada.....	2 ² / ₃	
New Zealand.....	23	
South Africa.....	<u>308</u>	
Total.....		\$600

Long-term Investments (outside U.K.
and U.S.)

Canada.....	600	
Other.....	<u>100</u>	
Total.....		<u>700</u>

Grand Total..... \$1,300

1/ On April 30, 1940, the Central Bank of Australia held \$5 million of gold. This is the latest figure available.

2/ On May 1, 1940, gold belonging to the Bank of Canada was transferred to the Foreign Exchange Control Board. On that date the Bank of Canada held \$212 million of gold.

Treasury Department, Division of Monetary Research. Nov. 27, 1946.

TMK:dln
11/27/40.

Table V

274

Summary Table - Assets in the United States of Governments Allied with the United Kingdom, November 1940

Gold - Nov. 30, 1940

(In millions)

Netherlands.....	876
Belgium.....	167
Poland.....	2
Norway.....	18
Total.....	1063

Official balances - Nov. 13, 1940

Netherlands.....	15
Belgium.....	1
Poland.....	1
Norway.....	13
Total.....	30

Private balances - Nov. 13, 1940

Netherlands.....	147
Belgium.....	143
Poland.....	2 1/2
Norway.....	37
Total.....	329

Long-term investments in U.S. - May, 1940

Netherlands.....	600
Belgium.....	150
Poland.....	-
Norway.....	10
The estimated liquidation value of these investments is made small in view of the difficulties which the government would have in securing control of the securities	22 1/2

Grand Total \$1,150

1/ As of September 23, 1940. In New York Federal Reserve District only.

Treasury Department, Division of Monetary Research. Nov. 28, 1940

TKH:ash
11/28/40

EH

PLAIN

Amsterdam

Dated November 28, 1940

Rec'd 10:40 p.m.

Secretary of State,
Washington.

602, Twenty-eighth.

My 597, Twenty-fourth.

In protection cases involving monies owing to American companies for merchandise bought by local companies most cases indicate that the necessary dollar obligations have been bought and paid for but that the Dutch Foreign Exchange Institute has refused to approve of the dollar remittances because of the blocked currency situation in the United States.

There seems to be nothing further that can be done on this end to effect the payments but the suggestion is offered that some action might be taken in Washington whereby evidence could be despatched to the Consulate General for submittal to the Foreign Exchange Institute to the effect that no objection is known in the United States to the release of lien on pertinent dollar deposits there provided appropriate Dutch permission can be obtained in writing.

LEE

NPL

NOV 29 1940
RECEIVED

COPY

PARAPHRASE of telegram from MADRID, no. 683, dated
November 28, 1940

Secretary of State,
Washington.

STRICTLY CONFIDENTIAL

The Spanish and British Governments have initialed a further payments agreement, which covers, in substance, any balance which may exist or be created from sources excluded from the March payments arrangement, for instance, earnings upon or loans against Spanish securities which are held in the sterling area or London, transfers for the payment of insurance claims of the Spanish against British companies, and so forth, and particularly items not covered which pertain to the sterling area.

The agreement provides further that with the British Government's specific consent sterling balances may be utilized by Spain for the purpose of obtaining materials from non-sterling areas in cases in which Great Britain has payments agreements with those countries and there exist balances favorable to Great Britain. The agreement's chief advantage to the British is that it aids in insuring official control of sterling and to that extent diminishes the market in free sterling. The Spanish Government has requested that for the present the text of the arrangement be considered confidential.

WEDDELL

DCA:GKK:BLS 11/28.40
Copy - mlo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Espil, the Argentine Minister, telephoned me at 10:15 this morning. He had heard that Secretary Morgenthau had returned to Washington yesterday. The Ambassador stated that as a matter of courtesy he would like to bring Prebisch in to pay his respects to the Secretary. He stated that on such an occasion there would be no reference to current discussions of the Argentine proposition. I told the Ambassador that the Secretary had been engaged with tax matters since his return, but that I would arrange for an interview as soon as possible. Before closing the conversation, the Ambassador asked if Secretary Morgenthau and Secretary Jones were meeting today. The Ambassador had understood from Under Secretary Welles that such a meeting was anticipated. I told the Ambassador that I had no knowledge of such a meeting.

November 29, 1940.

At 4:30 yesterday evening Lieutenant-Commander McKay told me that the Secretary could receive Mr. Prebisch at 10 o'clock this morning. Consequently I arranged with Ambassador Espil for this appointment. When Messrs. Espil and Prebisch were received by the Secretary this morning, with Messrs. Bell, White and Cochran present, Mr. Prebisch presented a formal letter of introduction to the Secretary. The Ambassador explained that this was a courtesy call. The Secretary regretted that he had not been here when Mr. Prebisch first arrived from Argentina. The Secretary had been on a trip to the West Indies, and regretted that he had not had ample time to go on to South America and particularly to Argentina. In response to the Secretary's question as to what progress the Argentine delegation was making, the Ambassador replied that they had been awaiting the Secretary's return, and had had really no discussions of their problems with Secretary Jones or anyone else, except Dr. Harry White. They had talked informally with Mr. Warren Pierson, but there have been no real discussions. The Secretary explained that he had not yet had time to be brought to date on the Argentine situation, but would consult with his assistants this weekend, and would be in a position on Monday to get in touch with Messrs. Welles and Jones to see what could be done.



TREASURY DEPARTMENT

278

INTER-OFFICE COMMUNICATION

DATE November 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 56,000
Purchased from commercial concerns.....£109,000

The Federal Reserve Bank of New York purchased £100,000 in registered sterling from the Irving Trust Company. The latter stated that this sterling represented the accumulation of balances over the past few days. Of the sterling purchased from commercial concerns today, incidentally, £60,000 was bought by the Irving Trust Company.

Open market sterling was again quoted at 4.03-3/4 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 14,000
Purchased from commercial concerns..... -0-

There was virtually no movement in quotations for the other leading currencies. Closing rates were as follows:

Canadian dollar	13 1/2 discount
Swiss franc	.2322
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

The Federal Reserve Bank of New York reported that it had purchased 580,000 Swiss francs in the New York market by order of the Norwegian Minister to the United States. In his letter of instructions to the Federal, the Norwegian Minister stated that these Swiss francs will be used to meet interest payments due December 1 on a Norwegian 3% Swiss franc loan.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Yokohama Specie Bank shipped \$3,049,000 in gold from Japan to its San Francisco agency, for sale to the San Francisco Mint.

The Bombay gold price was 2¢ lower at the equivalent of \$33.77. Silver in Bombay was priced at the equivalent of 43.71¢, up 1/16¢.

-2-

Spot and forward silver prices in London were both unchanged at 23d, equivalent to 41.76¢.

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

We made three purchases of silver totaling 200,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'BMP' with a long, sweeping tail stroke extending downwards and to the right.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 28, 1940

M-55 C

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

Principal changes in the State Bank of Russia's dollar account during the period November 22 to November 27, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Nov. 22	\$ 75,000	Antorg Trading Corp.	\$311,028.59	Commercial Letters of Credit
	125,000	Chase National Bank, N.Y., by order of Reichsbank, Berlin		
	169,000	Irving Trust Co., N.Y. by order of Banque Mellie Iran, Tehran		
Nov. 23	106,656	Chase National Bank, N.Y., by order of Credit Suisse, Zurich, in cover documentary credit account of and order Credit Suisse, Zurich	101,487.49	Commercial Letters of Credit
			500,000	Antorg Trading Corp.
	71,814	Federal Reserve Bank, N.Y., by order of Bank of England		
Nov. 26	293,376.92	Reimbursement drawing Sveriges Riksbank, Stockholm	54,814.15	Commercial Letters of Credit
	230,000	Chase National Bank, by order of Credit Suisse, Zurich account credit Bulgare SA. Sofia order Sa Bulgarska, Targovia, Sofia		

-2-

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Nov. 27	\$104,000	Chase National Bank, N.Y., by order of Credit Suisse, Zurich	\$500,000	Amtorg Trading Corp.

On November 27 the balances of the State Bank and the Amtorg Trading Corporation were as follows:

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$ 12,409,900	\$ 1,755,300
Cash commercial Letters of Credit	14,535,200	2,136,100
Time deposits	<u>10,300</u>	<u>-0-</u>
Total	\$ 26,955,400	\$ 3,891,400
Changes in total since November 20	- \$ 120,000	+ \$ 503,100

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statement in Italian accounts maintained at:

Federal Reserve Bank of New York

Chase National Bank



Federal Reserve Bank of New York

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 26				\$550,000	Banco di Napoli Trust Co., N.Y.	Check to order of Banca Commerciale Italiana, N.Y. and endorsed by Chase National Bank, N.Y.
Nov. 28				400,000	"	Guaranty Trust Co., N.Y., for account of Banco di Napoli Trust Co., N.Y.

Chase National Bank

Nov. 28	\$151,000	Credito Italiano, N.Y., for account of Credito Italiano, Rome	Chase National Bank, N.Y., by order of Sveriges Riksbank, Stockholm	126,963.11	Banca Commerciale Italiana, N.Y.	Check to order of Socony Vacuum Oil Co. of N.Y., N.Y.
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Miss C.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 28	\$ 285,000	Chase National Bank, N.Y., for account of Swiss Bank Corp., Zurich

JMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 28, 1940

M. J. C.
 TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 27	\$ 200,000	Chase National Bank, N.Y., for account of Svenska Handelsbanken, Stockholm, by order of and for account of Reichsbank, Berlin
	150,000	State Bank of U.S.S.R., Moscow, by order of and for account of Reichsbank, Berlin

National City Bank

November 27	200,000	National City Bank, N.Y., for account of Stockholms Enskilda Bank, Stockholm, by order of Reichsbank, Berlin
	150,000	National City Bank, N.Y., for account of Skandinaviska Banken, Stockholm, by order of Reichsbank, Berlin
	82,000	National City Bank, N.Y., for account of Swiss Bank Corp., Zurich, by order of Reichsbank, Berlin

J. M. B.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 23, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

November 20. On November 6 the Bank of California, San Francisco, directed a credit to the account of Yokohama Specie at the Chase in New York of \$6,179,942.09; the reason for the transfer is being investigated by FBI.

November 20. The strike organizers at Vultee are said to be Communists. Information has also been received, but not checked, that the strike is a collusive one, the Company seeking a wedge to obtain more money on Government contracts.

November 23. Surveillance is continuing of T. V. Soong.

November 23. Heinrich Himmler's visit to Spain is said to have been for the purpose of organizing combined activity of the German, Italian, and Spanish secret services for propaganda in South America.

November 23. A report on Fassbender (whom the Dies' Committee had been publishing as an ex-Gestapo agent, now an informant) shows him to be extremely unreliable, having worked for all sides and being a sort of confidence man; he is 23 years old.

November 23. Complaints have been made regarding the activities of one John Barber, a mechanic at the Lockheed Burbank plant, said to be a Nazi agent.

November 23. The Japanese Ministry for Foreign Affairs in October 1940 advised representatives in Latin America to be prepared to resist economic pressure from the United States and Great Britain through obstruction of settlements of trade accounts in New York, obstruction of trade agreements between Japan and Latin American countries, embargo of raw materials, and difficulties in transit through the Panama Canal.

November 25. More information that the British are engaging in the practice of underbidding Americans in Chile and posting bonds guaranteeing delivery prior to the end of 1940; the Germans are also posting bonds and delivery is being made of American products misrepresented as German.

November 26. There are possibilities of a strike being called by the A.F. of L. in the next few days at the Cessna Aircraft plant at Wichita, Kansas; the Company has contracts with the War Department and employs between 700 and 800 individuals.

November 26. A memorandum on Merck and Company (prepared at Treasury's request) shows that this company has Army contracts; that it was suspected of espionage activities during the last war; there have been anonymous reports that German espionage agents are now active in the plant at New Jersey; it is operating under a restricted agreement with Merck and Company of Germany not to sell for export.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 28, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

Senator Wheeler's resolution (S. Res. 309) for a Senate investigation of foreign investments in the United States affecting the national defense was favorably reported by the Interstate Commerce Committee on September 24, 1940.

The Subcommittee report refers to charges that a situation may exist that parallels 1915-1919 when various fields vital to the national defense were found dominated by German interests. It points out that three-quarters of the Bosch Magneto Company stock-ownership is foreign and that the firm has been producing motor parts for American airplanes. Reference is made to the Alien Property Custodian's experience in which it was found that the chemical industry was a center for espionage for the German Bund, and the point is made that the German chemical industry is still prominent in the United States. The testimony of the TREC on beryllium and other important defense materials, as to which there are restrictive productive arrangements with German interests, is referred to. The practice of using nominees to conceal true ownership of securities or of using foreign neutral countries as "corporate homes for foreign interests linked to American industries" is said to call for investigation.

The Committee appears to have no appropriation. It is reported, however, that through borrowing personnel from other departments the Committee may already have begun preliminary investigation.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 28, 1940

TO Secretary Morgenthau

FROM Mr. Wiley

House

Dies' "German White Paper"

The so-called German White Paper consists mostly of papers, obtained under subpoena, from Transocean News Agency and of some from the German Library of Information and F. A. Kertess, operating the Chemical Manufacturing Company. From the fact that there are large gaps in the correspondence obtained, it would seem that much material has been overlooked or concealed.

An analysis of the books of Transocean shows that Zapp, its representative in this country, had received money from banks in Berlin, Mexico City, Amsterdam, Zurich, Hamburg, Shanghai, Buenos Aires, and from an individual in Rio between the latter part of 1938 and the present day totaling not less than \$57,156.

The German Railroads Information Office submitted a statement to the Committee showing that from January 1933 to August 1940 the Office spent \$1,339,769.18 and has a monthly payroll today of \$2,927.30, which the Dies' Committee considers unnecessarily large.

The report contains persuasive testimony in the form of an affidavit by a newspaper man called Edmonds that F. A. Kertess and others associated with him have been operating the Chemical Manufacturing Company and an office of the German Gold and Silver Refining Institute and a news agency, partly as covers for espionage, at least on British activities.

The report also contains several memoranda and minutes of meetings from Kertess' files relating to a plan for the organization of German industry in America after the war and for the setting up of a German Bank in New York City; the central idea seems to be that the German government is to control all activities of German nationals and naturalized Germans ("Reichsdeutsche" and "Volksdeutsche") and that close collaboration must be effected with American firms and corporations with whom business is to be done. It is interesting to note that among the purposes of the proposed bank is "adjustment of the approaching German monetary policy" and "an exchange of officials between the proposed new bank and members of the German Banking Institute." Apparently, this plan was to be submitted by Kertess and his associates to Berlin for approval.

Other items of interest are contained in the annexed digest.

Enc.

DIES' COMMITTEE "GERMAN WHITE PAPER"

The so-called "German White Paper" (a name given the document by Congressman Dies) purports to be Part II of an Appendix entitled "A Preliminary Digest and Report on the Un-American Activities of Various Nazi Organizations and Individuals in the United States, including Diplomatic and Consular Agents of the German Government." The Appendix consists essentially of two parts, the first a translation with comments on certain documents and the second the documents themselves. These documents are largely papers obtained under subpoena in the office of the Transocean News Agency, the German Library of Information, and the office of Dr. F. A. Kartess, operating the Chemical Marketing Company. The report appears to have been prepared in an extreme hurry, contains numerous typographical errors and other oversights in translation and in composition, and the commentary material adds little to the documents themselves. It would seem from the fact that there are gaps in the correspondence that the Dies' Committee was able to obtain only some of the correspondence and a large part has either been destroyed or concealed (see, e.g., p. 1002). The translation portion of the Appendix is set up in twelve sections of which the first seven or eight are concerned almost entirely with the documents obtained by subpoena from the Transocean News Agency, which is operated under the direction of Manfred Zapp.

From the point of view of use of funds to finance Transocean the report contains several interesting items. In a letter dated August 3, 1940, to the German Embassy Zapp complains about his lack of funds, saying "the supply of foreign exchange has during this month once again broken down and I am in the very greatest need" (p. 982). On August 9, 1939, he wrote the Legation Counsellor Heribert von Strampel, German Embassy, Washington: "Berlin has just now sent us \$934. That is merely a drop in the bucket" (p. 983). Section VI of the report is devoted to a so-called analysis of the books of Transocean News Agency (pp. 1029-1033), and the photostats of the original documents contain original credit notices to the order of the Manfred Zapp, Special account at the Chase National Bank, 48th Street Branch, New York City. These credit notices (Exhibits 134 to 149) show receipt from Transocean of:

<u>Date</u>	<u>Amount</u>	<u>Order of</u>
1/22/40	\$ 1,639.00	Deutsche Ueberseeische Bank, Berlin
1/27/40	6,077.83	Banco de Comercio, Mexico
2/ 1/40	475.00	Amsterdamsche Bank, Amsterdam
2/23/40	931.00	Credit Suisse, Zurich

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<u>Date</u>	<u>Amount</u>	<u>Order of</u>
2/24/40	\$ 6,077.85	Banco de Comercio, Mexico
3/21/40	631.00	H.M.H. Albert de Bary & Co., Amsterdam
3/26/40	6,573.96	Banco de Mexico, Mexico
4/22/40	601.00	H.M.H. Albert de Bary & Co., Amsterdam
4/25/40	6,077.83	Banco de Comercio, Mexico
5/22/40	599.00	Deutsche Ueberseeische Bank, Berlin
6/ 8/40	1,998.40	Credit Suisse, Zurich
6/20/40	6,075.73	Banco de Mexico, Mexico
6/27/40	599.00	Deutsche Ueberseeische Bank, Berlin
7/ 8/40	12,154.89	Banco de Mexico, Mexico
7/23/40	599.00	Deutsche Ueberseeische Bank, Berlin
8/1/40	6,075.49	Banco de Mexico, Mexico

A cable dated June 4, 1940, in code, translated, reads: "Are transmitting today two thousand dollars. Additional amount coming from Venezuela. Request telegraphic information on amount of last sum" (p. 1031).

The report also states that between the latter part of 1938, when Zapp took over the direction of Transocean in the United States, and September 1939, he had credited to his personal account \$14,847.32, received from four different sources: the Deutsche Sudamerikanische Bank of Hamburg; the Deutsche Asiatische Bank of Shanghai, China; the Banco Aleman Transatlantico, Buenos Aires; and A. F. Frisbie, Esq., Post Office Box 1351, Rio de Janeiro. From January 1939 to August 15, 1940, Zapp received \$7,705.02 from his subscribers, but \$128,251.95 by way of subsidy; his subscribers were mainly German Consulates.

Additional items of interest culled from the Transocean material are as follows:

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A close relationship is indicated with Charles A. Wells and his wife, Elizabeth MacRae Boykin, American journalists (p. 977).

In comparing a friend to whom Wells is to be introduced in Germany, Zapp says that the friend is a lawyer "in a big bank like Reuben" (p. 979). (Query: Is this Reuben Clark?)

There is a reference to a friendly association with a "Mrs. Swift" in Chicago (p. 998).

Von Strampel appears to be in charge of the publicity aspects of the German Embassy in Washington and is a superior of Zapp (see, e.g., p. 1008).

Zapp states in a letter that he has tried to sell Transocean "in German circles" and solicited "about 500 large, leading German firms, such as IG-Farben, Hapag-Lloyd, Zeiss, Leitz, * * *."

It appears that Transradio Press was used to receive and transmit news for Transocean in 1938 and 1939 (p. 1015).

Section IV is devoted to Zapp's relations with a Japanese called Furukawa at Tokio.

Section V concerns contacts in the United States. It appears that a Colonel Edwin Emerson, 5 Edgewood Terrace, Alexandria, Virginia, is a strong sympathizer (p. 1022) and that Zapp's Washington employee, Fred Kreutzstein, claims to have worked on "Kenwood of the United Press," as to whom he says to Zapp, "You have definitely succeeded in squeezing him over to the German side" (p. 1024). (Kenwood appears to be Kenworthy.)

Section VI is devoted to the books of Transocean to which reference has been made. In addition to the foregoing this section contains a mailing list of subscribers of whom there are a few individuals, including Mr. John Bolten, c/o The Bolta Company, Lawrence, Massachusetts; Mr. R. B. Strassburger, Waldorf Astoria Towers, New York City, who is Ralph Beaver Strassburger, owner of the Norristown Times-Herald, Norristown, Pennsylvania, figuring in Section II of the report; Dr. Albert Degener, 10 East 40th Street, New York City (who is President of the German-American Board of Trade); Kurt H. Schurig & Company, 50 Broadway, New York City; Mr. S. Collins, 231 West 58th Street, New York City; Dr. L. A. Ewald, 65 East 77th Street, New York City; Mr. Paul Scheffer, 32 East 51st Street, New York City.

A list of employees of Transocean is given at page 1032; among them are Arthur Quisenberry (shown to have been formerly associated with the Transradio Press), William R. Russell, Edwin S. Riker, Arthur F. McCullough, Tom Davis and Mary Hair Davis, and William Hawk (American-sounding names).

Section VII refers to German Consulate aid and it concerns mostly Nazi-party communications over the signature of Dr. F. Draeger (Friedhelm Draeger), "Consul and district leader of the foreign organization of the NSDAP." There is an indication that August (?) W. Halfeld is the Nazi-party press leader in the United States, at least in New York City (p. 1043).

Section VIII concerns the German Library of Information and consists almost entirely of a statement made by it in writing to the Dies' Committee. The head of the Library is Matthias Schmitz. (Note that the heads of the American and German dye trusts are also Schmitz and that the head of the German Railroads Information Office in the United States is Ernst Schmitz.) The statement of the expenditures shows that from May 1936 to August 1940 the Library has expended \$341,694. The financial affairs are handled by the Consulate in New York (p. 1045). A list of employees includes as head of the bookkeeping department "Mr. E. Diase." The statement breaks down the various expenditures into salaries, expenses of publications, etc. (pp. 1048-1050).

Section IX concerns the circumstances of the publication of the first German White Paper and indicates that there was a scheme arranged between E. B. Strassburger of the Norristown Times-Herald of Norristown, Pennsylvania, and the German Library of Information to use the name of the publication firm of Howell, Soakin and Company to send copies of the White Paper to a large mailing list. It may be noted that Harry Elmer Barnes is said to have been formerly associated with Dr. Anshagen of the American Fellowship Forum and to have praised Lawrence Dennis' book, *The Dynamics of War and Revolutions*, "as the best book of the decade on the fundamentals of the world situation" (p. 1056).

Section X is concerned with the German Railroads Information Office under the directorship of Dr. Ernst Schmitz. An itemization is given of the finances of the Company, showing that from January 1933 to August 1940 it spent \$1,339,759.18. While the Exhibit is headed "Revenues of the German Railroads Information Office," it is not clear whether these items are expenditures rather than revenue. For 1938 \$185,500 is given, for 1939 \$139,000, and for the portion of 1940 \$50,000. In July 1939 the Office had a personnel of 20 people with a payroll of \$4,956.91 (it is not clear whether this is a monthly or weekly payroll—presumably monthly); in August 1940 the monthly payroll is \$2,927.30, and the Dies' Committee makes the point that there is no justification for such a payroll in view of the complete loss of German tourist trade. Apparently the German Railroads Information Office circulated propaganda material. Among the items in this connection is a letter from Schmitz to Zapp dated November 30, 1939, which says that on Wednesday, December 6, at 7 p.m., "A number of people of the Intelligence Service of the

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Rome-Berlin Axis are meeting at my private apartment"; the translation "Intelligence Service" would appear to be doubtful since the original German could be translated as "news service" or "information service."

Section XI is concerned with the American Fellowship Forum and more particularly with Dr. F. E. F. Auhagen. The American Fellowship Forum material ties in with the activities of Dr. F. A. Kertess. It appears that Auhagen made a largely perjurious statement to the Committee on September 10, 1940. It appears from his statement, however, that he is a classmate and close friend of Friedhelm Draeger (p. 1067). It is claimed Dr. P. J. Kessler organized the American Fellowship Forum with Dr. F. A. Kertess. Associated with Auhagen in the Fellowship Forum were George F. Bauer, 366 Madison Avenue, New York City, home address 106 North Grove Street, East Orange, New Jersey, formerly with the American Automobile Manufacturers Association (Bauer was born in Port Jervis, New York); C. D. Siegchrist, Jr., 38 E. 38th Street, New York City, born in Baltimore; Richard Koch (Vice President of the Chemical Marketing Company), 907 South 16th Street, Newark, New Jersey, and 10 East 40th Street, New York City, born in the United States; Dr. Edmond F. Kohl, 313 East 86th Street, New York. It appears that the ostensible idea was to have open discussion on the pros and cons of the anti-German boycott etc., but in fact the discussion would be loaded in favor of the Nazi positions. This appears from a letter of one Heinrich W. G. M. Freiherr von Bothmer of Tudor Tower, East 42nd Street, April 26, 1939, suggesting that the American Fellowship Forum be set up with an inner circle and an outer circle, the inner circle to consist of men of known German leanings and affiliations, the outer shell "to serve as a protection in the public eye." For the inner circle he proposed Charles Triller, senior member of the board of the New York Philharmonic and for the outer ring John William Scott, 54 East 83rd Street. While the American Fellowship Forum was allegedly supported by public contributions, an examination of Auhagen's bank account showed that from the end of 1938 on until the very outbreak of the war Auhagen received money from Germany, largely from a Dr. Johannsen, identified as Dr. G. Kurt Johannsen, 217 Boerse Street, Hamburg, Germany. Photostats of various credit notices are contained as Exhibits 200 to 209 and show remittances through the Royal Bank of Canada, 18 Williams Street, New York City, and the National City Bank, New York City, to Auhagen's account in the Corn Exchange Bank Trust Company, University Branch, 113th Street and Broadway. The remittances seem to have been mainly in \$200 amounts.

In this connection a preliminary statement was obtained from Dr. F. A. Kertess September 11, 1940, in which he said he was President of the Chemical Marketing Company, 10 East 40th Street, and resided at Briarcliffe Manor, Scarborough Road, Westchester County, and was

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American representative since 1931 or 1932 of a German chemical and metallurgical concern known as Deutsche Gold und Silber Scheide Anstalt (Gold and Silver Refining Institute) and that a few years ago he formed the Chemical Marketing Company of which he was the sole owner. He said that the Refining Institute imported European chemicals from Germany and elsewhere and that after the outbreak of the war, the Chemical Marketing Company began exporting chemicals to South America and had also taken up the manufacture of chemical specialties. His family consists of his wife, Mrs. Kate Kertess, a German citizen, and two children born in the United States, Hans and Klaus (p. 1077). The Company has a factory at Maywood, New Jersey, where it acquired the Maywood Chemical Company (p. 1080). The Chemical Marketing Company was incorporated May 13, 1935, as the Frank von Knoop and Company which was changed on February 17, 1936, to Theodore von Knoop and Company, and on October 9, 1937, the present name of the company was adopted. (The Dies' Committee report states that the name is Kropp, but other evidence indicates the name to be Knoop.) The Company had assets on October 31, 1939, of \$169,000 and liabilities of \$113,781 of which \$104,000 was held abroad, \$80,000 being allocated to Germany (p. 1081).

The strongest evidence with regard to the subversive activities of Kertess is in an affidavit (pp. 1081-1091) of James E. Edmonds, 27 Sixth Avenue, Brooklyn, New York, a newspaper man who was first employed by Sato, a member of the Japanese Consulate, who posed as a representative of the Domei News Agency, and then by Kertess and Dr. Herbert Gross, 1775 Broadway. Edmonds worked for Sato with the knowledge of FBI. Upon Sato's return to Tokio, Sato recommended Edmonds to Kertess, who, after a period of trial, referred Edmonds to Dr. Herbert Gross, who had Edmonds watch ship movements. Gross operated behind the front of a news agency (p. 1086). Edmonds got from Kertess and Gross between October 1939 and February 1940 about \$1,000, some in cash and some by check. The Committee subpoenaed Kertess' stubs and found various stubs showing checks to the order of James Edmonds, totaling in March, April, and June 1940 \$750; this demonstrated to the Committee that the Edmonds story was true.

Section XII concerns economic penetration in the United States. The Committee admits that this investigation was "pursued in a collateral fashion" (p. 1092) and would appear largely to be simply the discovery in Kertess' files of certain correspondence and notes concerning the organization of German activities in America after the war. The correspondence is between Kertess and his associates in Hanau and Frankfurt, Germany. The Committee suggests (darkly) that Kertess is tied up with the "Barrium Steel Company" and the Sisto Financial Corporation (p. 1093). The correspondence indicates Kertess has been engaged in discussion concerning division of South American territory, particularly for H_2O_2 with Dupont and other chemical companies

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(see, e.g., p. 1095). Furthermore, Kertess has been using his company to fulfill German commitments for deliveries in South America (p. 1093), using for purposes of disguise Zurich "friends" as paying agents (p. 1094). Apparently Kertess' bank in New York is the Irving Trust Company (p. 1094). It is clear that there was a large amount of miscellaneous correspondence which the Committee did not get. The questionable activities of Kertess' group here and in Germany are indicated by the attempts in the summer of 1940 to bring one Heinrich Stiege into the United States; when Stiege's visa was denied by the American Consul in Germany, it was contrived that Stiege should go to South America via Japan on a boat stopping over at Los Angeles, where Kertess and others conferred with him for eleven hours (p. 1100).

It would seem that on June 20, 1940, Kertess drew up for purposes of discussion and subsequent submission to Berlin a memorandum entitled "The Organization of German Industry in America after the War." The purpose in mind was said to be "the closest cooperation between the proper government offices (meaning German government offices) and private industry." It was proposed that the organization would be in three parts, the first the Board of Trade for German-American Commerce, Inc., headquarters in New York, branches in Chicago, New Orleans, and San Francisco; the president of the Board was to be Mr. C. F. Arenkiel and the chairman of the Board of Directors was to be the German Commercial Attache. For consideration as directors were to be included Frank E. Gerdes, Gerhard Schustz, H. Greeven, Harry Hollesen, two other representatives of German industrial firms, and Kertess; a customs attorney, Fred G. Tauber, was proposed to be considered as counsel. The Board of Trade was to be affiliated with the German Trade Council, to be composed of representatives of the several industrial groups, presided over by the local German Attache. The second "pillar" was to be "The American Group for Trade with Germany, Inc.," president, George F. Bauer; proposed directors, Howard P. Ingels of Laird, Bissell and Needs; Herman A. Kollmar of the Chemical Bank and Trust Company; a member of the American Cotton Interests; a representative of General Motors; a representative of the National Manufacturers Association; a representative of the National Council of American Importers, Inc.; A. O. Dawson of Hines, Bearick, Dorr and Hammond as counsel; and Kertess as contact with the German Board of Trade. The Board of Directors was to be presided over by John R. Zellers of Ramington Road, Inc., with members including William A. Schuyler, Dr. A. Scheurer, 3 representatives of leading American manufacturing and trade associations, and C. F. Arenkiel. "The principal duty of this organization will be to make and cultivate personal connections between American manufacturers and analogous organizations in Germany." The third "pillar" was to be "The German University League, Inc., to foster an exchange of cultural and social relations between Germany and America." Proposed for this latter organization were Dr. E. Kohl, Dr. Peter J. Isseler, Mr. Richard Koch, and Kertess. Prerequisite to the work of this organization is the creation of a special office in the Ministry at Berlin (presumably the Ministry of Propaganda in Berlin).

The memorandum further states that all German industry in the United States was to be concentrated by registration with the German Board of Trade, and it was proposed that a banking institution be organized for the local German banks.

The memorandum contains the paragraph:

It is to be observed in this connection that through such an agency (that is, the banking institution) the settlement of transactions involving travelers' marks, Buchwanderer marks especially, and similar paper could be made much more advantageous to German authorities as well as to the owners of the various kinds of obligations and German securities than before the war.* (P. 1106—see original p. 1265)

Apparently associated in the drawing up of this memorandum were Messrs. Kalleraiser and Hollisen (who seem to be associated with the Potash syndicate) (pp. 1104-1106).

Thereafter there are notes which appear to be minutes of conferences at which the foregoing memorandum was discussed. Under date of June 24, 1940, there is a note that Follmer, who has been present at several conferences, has been referred to as the representative of an American bank, first, because both he and his bank have excellent connections in Berlin; but particularly because his bank has been the only one that during the war and even now has exhibited an irreplaceable attitude toward Germany. In contrast, for example, to the Mease National Bank, which was most active in confiscating and calling credits. With regard to the proposed bank Gerdes is said to have asserted that the plan depended absolutely upon its being submitted to the right quarters in Berlin not merely for examination but for support as well. In this connection he referred to the experiences that had prevented Dr. Tannenberg from having his project considered in Berlin and hence from executing it* (p. 1106).

On June 27, 1940, apparently another meeting was held at which it was proposed to include a Mr. von Kless, who is apparently engaged in the hops and the cellulose fibre trade. The American Cotton Interest group was discussed and it was said that neither Anderson-Clayton nor Mohsden was friendly but that a Mr. Schwing, formerly with Clayton, and one Felix Bayp should be considered.

With regard to a meeting held June 28, 1940, the following is said:

*General conversations were had with Mr. Schellenberg, especially about return-travelers' marks (checks).

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"It was suggested that Mr. Schellenberg, Dr. Topkins, and Dr. Auhagen submit a proposal, after which the solution of the return-traveler problem was to be turned over to them exclusively.

"Asked as to my attitude I replied to Mr. Schellenberg that such monopoly could be considered only within the realm of official activities at least within the Board of Trade; that I was compelled to regard it as highly unethical and beyond discussion to confer upon one of a group of three gentlemen a monopoly out of which all three under the ostensible consideration of a premeditated provision of 10% had calculated a very considerable income.

"I regard it highly unethical to take advantage of the expenses of return-travelers and repeated that in the interest of all concerned and in all decency this matter could be regulated only officially, with profit reduced to the lowest possible minimum." (pp. 1107-1108)

Under date of July 5 there is a statement that Kollmar invited Kertess to lunch with Mr. Jackson, First Vice President, and Mr. Bower, Executive Vice President, of the Chemical Bank and that these gentlemen stated that "it was important for America to join with and cultivate the new Central European Bloc in the most friendly and intimate trade relations; but observed that for a long time it will be necessary to combat opposition and to overcome the difficulties of public opinion." The document continues:

"Mr. Kollmar has the assignment to continue to cultivate relations and for this purpose he will meet with Mr. Bower during the coming week to listen to his plans. There appears to be good reason to give Mr. Bower some financial assistance.

"The conference between Mr. Bower and Mr. Kollmar is to be deferred until after a consultation with Dr. Tannenbergh and Mr. von Knoop.

"During the extended discussion Mr. Bower dropped the remark that their notable friendliness for Germany had not been rewarded any too lavishly, for even today the Reichsbank and the Gold-Discount Bank were maintaining their accounts at Chase which certainly had shown itself to be everything else but friendly to Germany, and he hoped that Mr. Kollmar might be successful even if only as an external evidence of recognition ultimately to get the accounts of both these institutions." (p. 1108)

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A memorandum on "The Founding of a German Banking Institution in New York after the War" is the last document in the report. It consists of a history of German banking relations in the United States with the conclusion that there is no German bank in New York today and in order that there be a friendly cooperation between German and American banks it is necessary to found a German banking institution. The proposed activities of the new bank are to solicit the American business of German circles (Reichsdeutsche and Volksdeutsche) and local representatives of German industries. It is pointed out that this would be to the interest of the German government in its exchange control. "Additional activities" suggested include "the management and current liquidation of the remaining foreign obligations--German dollar bonds, etc.," "adjustment of the approaching German monetary policy," and, finally, "an exchange of officials between the proposed new bank and members of the German Banking Institute." (p. 1111) The capitalization of the proposed bank is proposed at \$5,000,000, subscriptions to be from such firms as the Hamburg-American Line, the North German Lloyd, and large importers and exporters who have been in close contact with United States commerce for years. The document states that "if any bank, including the Reichsbank, is not able to participate openly because of old unsatisfied obligations, then it would be necessary to arrange over there for the temporary oversubscription of such parcels by banks in the U.S. which show no such obligations" (p. 1112). The document closes with a proposed charter in English.

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SPECIAL BULLETIN
No. 27
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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 28, 1940

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THE GERMAN ARMORED (PANZER) TROOP SCHOOL
AND ARMY MOTORIZATION SCHOOL

SOURCE

At the invitation of the German General Staff, four American official observers visited the German Armored (Panzer) Troop School and Army Motorization School at Tunsdorf, 25 miles south of Berlin, on October 4, 1940. This bulletin is based upon their observations, as well as upon their conversations with German officers on duty at the school.

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CONFIDENTIAL1. THE ARMORED (PANZER) TROOP SCHOOL.a. Mission

The commandant outlined the mission of the Armored Troop School in approximately these words:

"The modern armored unit with its modern equipment demands the best in leadership and technical ability. Its commander must not only be thoroughly familiar with the capabilities, limitations, and tactical use of materiel in his own particular organization, but he must be equally well informed on materiel in organizations with which he is likely to cooperate in combat.

"We are trying to keep our instruction as practical as possible. All of our instructors have had combat experience, and many of them have returned recently from the front.

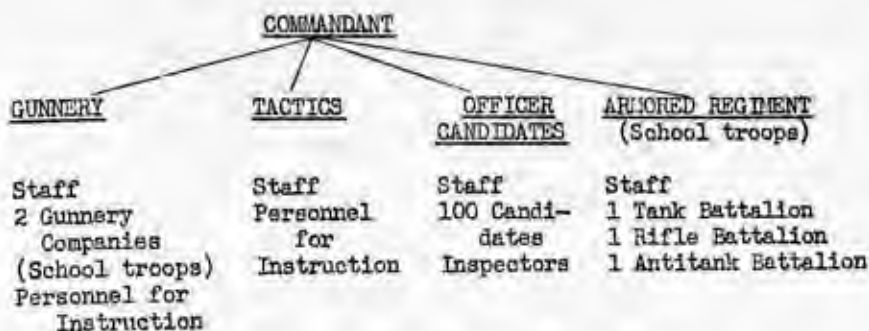
"We have no great secrets at this school. The greatest factor in successful employment of armored troops is speed in obtaining initial coordination of arms and in execution of coordinated missions by various arms.

"Supply is extremely important; hence it is emphasized in all our problems and exercises.

"A correct tactical conception of the employment of armored troops is fundamental. If a highly mobile armored force is launched in combat in accordance with correct tactical principles, it is capable of obtaining rapid success. If, on the other hand, such a force is launched in accordance with false tactical principles, the results are likely to come just as rapidly, but they are also likely to be irretrievably disastrous. Hence, energetic and capable leadership is an essential quality in armored force unit commanders.

"The primary purpose of this school is to train officers and key noncommissioned officers for tank units and to assist in the development and testing of new materiel for armored units."

b. OrganizationCONFIDENTIAL

CONFIDENTIALc. Demonstration: Armored Troops in the Attack(1) Terrain and Weather Conditions

The school troops staged a demonstration in the maneuver area for the purpose of illustrating some of the troop-leading features involved in attack by an armored force and the general technique employed in the execution of such an attack.

The terrain of the maneuver area is gently rolling and sandy, but, since the ground is covered with well-rooted grass, there is a firm footing for both wheel and track vehicles. About half of the reservation is irregularly wooded, but in other areas wheeled vehicles, including motorcycles, can move directly cross country without difficulty.

There was a heavy fog over the area when the demonstration was staged, and, since visibility was restricted to about 150 yards, not more than two or three tanks could be observed in action at one time.

(2) Orientation of the Tactical Situation

The demonstration was preceded by a brief orientation on the assumed tactical situation delivered by the commander of the armored regiment (school troops), who said:

"The 2nd Armored Division, assisting in a general attack, is advancing in a zone approximately six kilometers wide at this point.

"Yesterday afternoon the divisional infantry brigade, leading the advance, was stopped on the line they now hold. (He pointed to the line).

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"The tank brigade, less one battalion, is to assist the infantry brigade in the attack this morning.

"One tank battalion will remain in reserve for the use of the division commander.

"The woods along the right boundary of the divisional zone of action have been gassed by the enemy."¹

This orientation was given on the friendly front line at a point from which the principal hostile positions that were holding up the advance could normally be seen.

No maps, overlays, aerial photographs, written or mimeographed orders, compasses, or notebooks were used or referred to by the regimental commander or his unit commanders during the entire exercise.

(3) Troop Leading(a) Procedure

The regimental commander, representing the armored division commander, gave the tactical situation in the presence of 26 participating unit commanders. Immediately afterwards, the plan and oral order were given by the infantry battalion commander charged with making the principal attack. The conversations were substantially as follows:

The infantry battalion commander to the commander of the tank regiment cooperating with him:

"My battalion has been stopped by fire from hostile machine guns and other infantry weapons located along the crest of that hill (pointing to right front) and the eastern edge of the woods on that hill (pointing to the left front).

"I do not know yet the exact positions of any enemy antitank guns or artillery pieces.

"My front line is along the eastern edge of this woods (pointing).

"I will attack at 10:35 A.M. in conjunction

1. The observers believed that this use of gas was assumed in order to force the participating tank units to operate on terrain normally within view of the spectators. G-2.

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with the remainder of the infantry brigade.

"The right boundary of my battalion zone of action is along that road (pointing); left boundary, the edge of that woods (pointing), extending to that group of trees (pointing to left front)."

The tank regimental commander speaking to his battalion commanders in the presence of the entire group:

"The tank regiment will attack in two echelons.

"The first echelon, consisting of the First Battalion will move along the route - - - - - (Here the commander indicated a route by naming roads, villages, and woods which presumably were familiar to all concerned as a result of prior map and terrain studies). It will attack hostile antitank and artillery positions.

"Units of this battalion will move directly to their targets.

"The second echelon, consisting of the Second Battalion, will follow the first echelon and attack hostile antitank guns and heavy infantry weapons.

"The support of the tank attack by fire from heavy infantry weapons is requested.

"It is also requested that the bulk of the artillery supporting fire be placed along the flanks of the zone of the tank attack.

"It is further requested that the tanks be protected from any enemy activity from the direction of — woods (pointing toward right front)."

At this point the officer representing the division commander approved the announced plans and requests of the tank and infantry commanders, and directed that they continue with their orders accordingly.

The Second Battalion commander to his company commanders, in the presence of the entire group:

"My battalion, constituting the second tank echelon, will attack in three waves.

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"The first wave, consisting of the First Company, will be followed at a maximum distance of 500 meters by the second wave, consisting of the Second Company. These two waves will attack hostile antitank guns and infantry heavy weapons.

"The third wave, consisting of the Third Company, will operate with and support the attack of the infantry battalion.

"I will be on Hill 326 (pointing) during the attack."

At this point the tank regimental commander approved the plan of this battalion commander.

The commander of the First Tank Company, speaking to his platoon leaders, in the presence of the entire group:

"The 1st Platoon will attack in the right of the battalion zone.

"The 2nd Platoon will attack in the left of the battalion zone.

"I will be with the 3rd Platoon, which will attack behind the 2nd Platoon.

"The battalion commander will be on Hill 326."

The commander of the Second Tank Company, speaking to his platoon leaders, in the presence of the entire group:

"The 1st and 2nd Platoons abreast will attack in rear of the First Tank Company.

"I will be with the 3rd Platoon in rear of the center of the 1st and 2nd Platoons.

"The battalion commander will be on Hill 326."

The commander of the Third Tank Company (carrying a metal marker consisting of an 8-inch red and white disc attached to a 2-foot staff) speaking to his platoon leaders, in the presence of the entire group:

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"The 1st and 2nd Platoons abreast will attack with the leading infantry elements.

"I will be with the 3rd Platoon in rear of the center of the 1st and 2nd Platoons."

At this point one platoon leader asked the question: "What should my platoon do if threatened by hostile antitank weapons?"

The company commander answered: "Go ahead. Your targets are the hostile machine guns and other weapons that are holding up the infantry."

The tank company commander then handed the marker he was carrying to one of the infantry commanders, presumably the commander of one of the leading infantry elements.

At the conclusion of these conversations, the officer representing the division commander briefly reviewed the situation and plan of attack, concluding with synchronization of watches and the familiar "Are there any questions?"

(b) Comment on Troop Leading

Memorizing Maps. It is believed that the map-reading demonstration moved too rapidly for maximum instructional value, especially if students or spectators were unfamiliar with the terrain and the assumed situation. When this point was raised, it was stated that the commanders would have thoroughly studied their maps and aerial photographs if available, and that they would have had at least a general knowledge of the situation before arriving at this phase of preparation for the attack. Terrain appreciation is emphasized in the training of the German combat officer. The individual who must constantly refer to a map for orientation purposes is considered poorly trained. The Germans believe that the map, once studied, should be carried in the mind rather than in the hand.

Method of Formulating Plans. The demonstrated method for announcing plans, requesting coordination with other weapons, and issuing orders orally and in the presence of all unit commanders concerned is a matter of special training in the German Army. It saves time and facilitates team-work, for each commander present is given a complete picture of the part his unit is to play in the operation.

Camouflage of Command Group Transportation.CONFIDENTIAL

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No transportation equipment was visible near the assembled group except a number of motorcycles and two tanks. It was explained that these vehicles were for administrative purposes and would not be present under actual combat conditions. Their presence, however, detracted from the realism of the demonstration.

(4) Execution of the Attack(a) Procedure

After completion of the troop-leading part of the demonstration, visitors were taken to a knoll about 250 yards in front of the line of departure to observe tanks and infantry enroute to their objectives.

At 10:35 A.M., the hour scheduled for the attack, tanks were heard approaching, and rifles and machine guns opened fire. Two minutes later the first tanks appeared through the fog opposite the spectators. These were elements of the first echelon, whose mission was to attack hostile antitank weapons and artillery. All tanks observed in this echelon were M-III and M-IV types, medium tanks of 17 and 22 tons whose principal weapons were 37-mm. and 75-mm. guns, respectively. They were moving directly ahead — not zig-zagging — towards their objectives at a speed estimated at 10 to 12 miles per hour. Apparently no attempt was made to maintain a formation, for intervals between tanks varied between 20 and 50 yards. All tank doors were closed.

Several tanks in this echelon were firing their principal weapons while moving, although German tank officers among the spectators said this was contrary to gunnery instructions. They stated that tanks armed with the 37-mm. and the 75-mm. gun must halt momentarily in order to fire these weapons accurately and to obtain maximum results from the limited supply of ammunition carried in tanks.

Immediately behind the rear-most tanks in the first echelon there were deployed foot troops moving at double time. Apparently none of these troops stopped at any time to fire or to take cover. They seemed to be intent on keeping as close as possible to the tanks.

The first wave of the second echelon caught up with, and began to pass through, the leading foot elements at a point opposite the spectators. The second wave of this tank echelon followed immediately in rear. This apparent merging of the two waves may have been due to limited visibility caused by the heavy fog. The third wave of the second tank echelon moved at a slower speed than the other waves. It was intermingled with what appeared to

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be a support echelon of foot troops. Thus, only the first tank echelon was entirely ahead of the foot troops and able to fire without endangering friendly ground personnel. However, the leading foot elements were only 200 yards from their line of departure at this time, and they still had approximately 500 yards to go before arriving on the forward part of the hostile position.

After foot troops and tanks had passed the observation point, the demonstration halted temporarily while the spectators were moved to another vantage point in the forward part of the enemy's position. Here the first tank echelon was again watched as it moved directly to its assumed targets, artillery and antitank guns farther to the rear. No tanks in this echelon stopped to attack hostile machine gun positions, which were represented by troops, wearing red cloth bands around their helmets and firing light machine guns in shallow emplacements.

In the second echelon, however, the leading tanks searched out these positions and simulated an attack on them. The tanks moving directly toward the positions fired their machine guns in short bursts and halted frequently for a few seconds to fire their 37-mm. or 75-mm. guns. While the tanks in the first wave were attacking their targets, those in the second wave remained some distance in rear, generally in partial defilade. The latter were apparently watching for hostile antitank guns and for new enemy machine-gun positions. Halts for observation or for fire were only momentary - never more than ten seconds in duration, and seldom more than five seconds.

The tanks in the third wave were intermingled with the infantry and, when observed, were moving at the infantry rate of advance. An individual in one of the leading infantry elements carried a red and white disc marker. It is probable that before the attack began the tank company commander gave this marker to the infantry commander with whom he was to operate so as to assist tank commanders in locating the infantry commander, if desired, during the attack.

The infantry-tank wave continued to move slowly forward into the hostile position. About one minute after it had passed the spectators, antitank guns towed by their half-track prime movers came into view and went into appropriate positions. Approximately two minutes behind the antitank guns came the empty personnel carriers. These are armored half-track vehicles designed to transport rifle units of the infantry brigade when they are not actually engaged in combat.

The end of the attack demonstration was in-

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licated by a signal rocket at 11:10 A.M. immediately after the arrival of the personnel carriers. It is of interest to note that the fog lifted just at this time.

(b) Comment on Execution of the Attack

Organization. No information concerning the organization of the armored division was given during the demonstration, and answers to questions on the subject were indefinite and sometimes contradictory. Several tank officers stated that companies equipped with M-III and M-IV tanks were organized into three platoons of five tanks each and that experiments were still being conducted with various types of tank organizations. Observations and conversations at the demonstration lead to the belief that the school regiment is composed of a regimental headquarters, a maintenance company, and two tank battalions, each composed of a battalion headquarters, trains for supply, and three tank companies.

No armored car, motorcycle, artillery, or engineer units participated in the demonstration. The amount and type of instruction given in these organic elements of the armored division were not indicated.

Frontage. It is believed that a tank company is usually allotted a frontage of about 500 meters and a tank battalion a frontage of about one kilometer.

Assembly Point. During the demonstration, there was no indication as to the action or disposition of tank units after completion of the attack. In response to a question on this subject, one of the instructors stated that tank units would assemble in previously designated areas where they would not interfere with the action of foot troops but where they would be available for further action if needed.

d. Equipment and Materiel *(1) Uniform

It was noted that the tank unit officers in the group wore the regulation long grey officer's overcoat and an overseas cap with the German tank unit uniform. No helmets of any type were observed on tank unit personnel. The infantry officers wore German steel helmets, overcoats, grey uniforms, and boots. Apparently there is no special overcoat for tank unit personnel.

* The observers were allowed to see all the personnel carriers, but they could inspect only one specimen of each other type of vehicle.

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CONFIDENTIAL(2) Personnel Carriers

The school carrier has a very thin metal body—2.5 mm.—but the body of the combat type is said to be proof against shell fragments and small arms fire.

One machine gun can be mounted on each end of the body for antiaircraft purposes. There are recesses under the longitudinal seats on each of the two sides of the body for 22 ammunition boxes.

The normal personnel capacity is 12 men, five on each side of the carrier body and the driver and assistant driver on the driver's seat. On the march, the group leader usually stands behind the driver to observe. The rest of the personnel are protected when seated.

(3) 47-mm. Antitank Gun on Self-Propelled Mount

Only two 47-mm. antitank guns on self-propelled mounts were seen at the school, and only one was inspected. They are probably not standard equipment. A manufacturer's disc, attached to the gun inspected, indicated that it was made by the Skoda Company. Apparently it was a Skoda weapon mounted on a German M-I light tank chassis. The following characteristics were estimated:

Total Weight:	5 tons.
Length:	15 feet.
Width:	6 feet.
Height of body:	4 feet.
Height to top of shield:	8 feet.
Crew:	3 men.
Main armor:	3/8 inch, welded.
Armament:	47-mm. gun.
Ammunition:	100 rounds.
Trench crossing:	5 feet.
Vertical obstacle:	10 inches.
Vision:	Eye slits; telescopic sights on the 47-mm. gun.
Track:	Similar to that of the German M-I light tank.
Remarks:	The gun and crew protective shield is welded to the top of the hull. The gun traverse is limited to that provided by its mount. This is estimated to be a total of 30 de-

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degrees. Search is estimated to be +30 degrees and -20 degrees from horizontal. The vehicle is equipped with a radio.

(4) M-II, M-III, and M-IV Tanks

The characteristics of these tanks have been given in TENTATIVE LESSONS BULLETIN No. 23, and the following information is supplementary.

The observers did not see an M-I light tank at the school. It was stated that this type was considered obsolete as a combat tank.

In a demonstration, the M-III tank turret was operated manually by a wheel. It functioned quite rapidly and apparently with ease. In order to operate the turret on the M-IV tank, the driver started an auxiliary gasoline engine which, it is believed, furnished power for an electric turret motor. This turret also turned quite rapidly and seemed to be well balanced.

Both the M-III and M-IV tanks were equipped with interphone systems. The tank commanders wore throat microphones and gave instructions to drivers in a conversational tone of voice.

The crews of the M-III and M-IV tanks are placed as follows:

Driver: left front.
 Radio operator: right front.
 Chief gunner: left side, rear of driver.
 Machine gunner and assistant to chief gunner:
 right side, rear of radio operator.
 Tank commander: turret, rear center.

No vision device was observed on any tank. It was stated that the best vision was obtained through aiming devices of the weapons.

Officers on duty at the school stated that as a result of battlefield experience they considered the M-IV their best combat tank. They added that Germany had built heavier tanks, but that these could not match the M-IV in performance.

The weights given for the M-IV varied from 18 to 22 tons. It is believed that the higher figure applies when the

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tank is fully loaded with crew, ammunition, and combat equipment. Some tanks of this type carried two sections of track, each section six to eight feet long. One section was carried on top of the hull just in front of the turret and the other just in rear of the turret.

e. Class Rooms

In the first of two class rooms visited by the observers, the instructor was conducting a map exercise in which he was questioning individual students as to selection of a "position of readiness"—an intermediate and an assault position combined—for a tank battalion. When answering questions, students stood at attention and gave their answers and explanations in a loud voice. During the visit, the commandant of the school interrupted by calling upon one student to come to the instructor's platform and announce his daily schedule of work.

In the second class, which was studying military law, the commandant again interrupted, this time by calling upon a student to relate his prior military training. Thus the German officer aspirant is trained to be constantly on the alert and to be able to express his thoughts logically and distinctly before a group of subordinates, equals or superiors. The students were all within a narrow age group, estimated at from 22 to 24 years.

On the walls of the class rooms there were aiming charts showing the front and side silhouettes of various types of tanks foreign to Germany. A white disc on the black background of the silhouette indicated the recommended point of aim for weapons firing at these tanks. There were also framed sketches, supplemented by printed remarks, to illustrate simple tank operations against some of the probable types of resistance to be encountered in a tank attack.

2. ARMY MOTORIZATION SCHOOL

a. Mission

The officer in charge stated the mission of the Army Motorization School in approximately these words:

"The purpose of the school is to give technical and practical instruction in the operation and maintenance of motor vehicles used in the German Army. In war time all types of civilian vehicles are taken over by the government for military use. Therefore, our Army mechanics and operating personnel must be acquainted with practically every kind of

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motor vehicle used in Germany today. This applies especially to the leaders in motorized and armored units of the Army.

"The school also assists in development and testing of military motor vehicles and their accessories.

"About 500 supply and tool-room NCO's are trained in the school each year. Members of this group receive a three-month course. There is a two-month maintenance course which can be taken by 50 to 60 students at a time. Instruction in this course runs continuously throughout the year. The instructors and personnel who conduct schools for mountain motor transportation are also trained here."

b. Equipment and Materiel

"In general," continued the officer, "we have four types or classes of motor cargo vehicles—the 1½-ton, 2-ton, 4½-ton, and 6½-ton. You see in the line in front of you all types of motor vehicles used in the Army. School instruction covers use and maintenance of all of them."

The vehicles were lined up neatly on the clean cement surface between two sheds. The doors to all sheds in the Motorization School area were closed.

The following vehicles were included in the line, in this order:

- (1) Three solo motorcycles.
- (2) Three motorcycles with sidecars. One of these motorcycles was operated to show that it could move in reverse speed.
- (3) One cross-country car equipped with four-wheel drive and four-wheel steering facilities.
- (4) Two cross-country passenger cars, one for use in towing antitank guns.
- (5) One cross-country car equipped with an experimental taillight for night convoy driving. The device consists of a small metal box approximately 8 feet x 4 feet x 3 feet. It has a shield which is hinged longitudinally to the center of the box. If turned down, this shield uncovers the upper half of the box, which has four windows. These windows constitute the night convoy lights. If the shield is turned up, it uncovers the lower half of the box

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and covers the upper half. The lower half of the box has two windows which are used for normal night driving.

This particular device is constructed so that the four lights appear to be one light at distances over 100 yards. They appear to be two lights at distances between 40 and 100 yards. At distances less than 40 yards, all four lights can be seen. The device operates on the same principle as the light developed by instructors at the Infantry School, Fort Benning, Georgia, and described in the Infantry Journal of May-June, 1940.

(6) Two 2-ton cargo trucks, one with 2-wheel drive and one with 4-wheel drive. Construction of the trucks is such that they can be changed from 2-wheel to 4-wheel drive in two hours' time.

(7) Two cargo trucks with six wheels and 6-wheel drive.

(8) One 2-ton cargo truck equipped with coal burning gas generator. This truck is provided with an auxiliary gasoline tank for emergency use and for rapid starting. The instructor stated that it cost 4 pfennigs per kilometer to operate this type of truck with gas generator fuel, and 9 pfennigs a kilometer to operate it with gasoline.

(9) Four tanks without turrets or weapons, one of each type: M-I, M-II, M-III, and M-IV. These vehicles are used for instruction of tank drivers.

(10) One truck, $4\frac{1}{2}$ -ton. The front end is modified to provide for a snow scraper, which is attached.

(11) One ambulance with air-cooled engine.

(12) One "Volkswagen", a popular 4-passenger automobile modified for military use. This vehicle has a 28 horse power, air-cooled, horizontally opposed, 4-cylinder engine located in the rear of the body. It is a front-wheel drive. The instructor claimed that its maximum speed was 60 miles per hour and that it used only $6\frac{1}{2}$ liters of gasoline per 100 kilometers, or 2.3 gallons per 100 miles. A fuel tank, estimated to hold ten gallons, is located under the hood in front of the driver. Clearance above ground is approximately 14 inches. The drive shaft from the transmission to the engine is in a tunnel raised about four inches above the floor. An extra tire is carried in front on top of the hood. The vehicle has excellent cross-country ability and appears to be rugged and sturdy.

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The observers were taken on an extended cross-country ride in half-track prime movers, whose ability closely approached that of the full-track type. They appeared to be rugged and capable of extended field service without excessive wear and tear. German officers who had used them in France and Poland expressed satisfaction at their performance.

3. CONCLUSIONS OF OBSERVERS

a. Tanks and other motor vehicles in the German Army are standing the strain incident to extensive field service. They are being maintained in first class condition by rigid and thorough application of up-to-date, intelligent maintenance methods.

b. The German Armored Troop School, with its various sections, is constantly carrying out experiments to develop and test new materiel and methods of employing it to improve standards, already high, in motorized and armored units.

c. Although details of organization may vary in German armored units, instruction imparted at the school serves to obtain uniformity in training and maintenance methods within these units.

d. The purpose of current courses of instruction at the school is to provide qualified personnel for existing vacancies in armored and motorized units rather than to provide personnel for newly created units.

e. The goal of instruction at the school is to make each armored unit a smooth working organization rather than a collection of individual experts. To accomplish these results, three ideas are constantly drilled into the minds of the students: cooperation, simplicity, and flexibility.

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Paraphrase of Code Calligram
Received at the War Department
November 28, 1940.

London, filed 18:00, November 27, 1940.

1. During the night of November 24-25th the Bomber Command dispatched 54 planes, 43 against Hamburg, eight against Boulogne and 11 laying mines. Two bombers were lost. On the following night 50 heavy bombers operated, the principal effort being against the shipyards in Northwestern Germany, with 25 planes attacking Kiel, 11 Wilhelmshaven and three laying mines. One plane was lost. Results were satisfactory. About 712,000 propaganda leaflets have been dropped on Holland, Paris, Belgium and Germany. The operations of the Coastal Command were routine, with five routine and 23 special patrol missions and seven bombing sorties, in addition to reconnaissance flights and convoy escorts. The Fighter Command operated 107 patrols.

2. The German Air Force operated about 155 planes during daylight hours of Tuesday, November 26th, making one sweep with 12 fighters over South England and carrying out persistent but unsuccessful small scale attacks on Harwich, Plymouth and shipping in the Thames Estuary. That night about 90 German bombers were over Britain, of which about 20 attacked Bristol between the hours of 8:00 P.M. and midnight.

3. In Bristol industry was little damaged and the principal damage was to civilians, of whom about 40 were killed and 150 were seriously injured. Production in factories continues.

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4. The British lost no planes during November 25-27th while the Germans lost four confirmed and one probable.

5. Further reports on the bombing of Southampton during the night of November 23-24th indicate that railroads and houses were severely damaged, but there was relatively little damage to docks and factories. Estimated casualties were 63 dead and 280 seriously injured.

6. An Italian raid on Malta on November 24th destroyed one Wellington heavy bomber and damaged three others. The Italians are reported to have landed at least 20,000 of their best troops at Valona and Durazzo in Albania since November 10th.

7. On November 23d a 3,100-ton vessel in a convoy was torpedoed and sunk in the Northwest approaches. On the 24th a 6,100-ton ship struck a mine and was beached and two others, totaling 6,200 tons, were mined and sunk. The following night a German vessel sunk a 2,000-ton Dutch ship near Penzance, Cornwall, England. Three convoys with a total of 95 ships have arrived safely.

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ADDRESS AT MEETING OF
NATIONAL INDUSTRIAL CONFERENCE BOARD
NEW YORK CITY
THURSDAY EVENING, NOVEMBER 28, 1940

BY
MARRINER S. ECCLES

In appearing before the National Industrial Conference Board, it is appropriate that I should appraise the national economic outlook as I see it at this time. As Chairman of the Board of Governors of the Federal Reserve System, I am primarily concerned with banking and monetary problems and with fiscal policies as they affect monetary conditions. I can speak only for myself, and not for my associates on the Board or in the Reserve System, or for the Government. Many of the issues which I must touch on in order to present a rounded picture of present and potential problems as I see them are by their nature highly controversial. I wish to indicate my own views as frankly as possible for what they may be worth as a part of the full consideration and discussion that are required by the gravity of the times and the importance of the problems before us.

Underlying my approach to all of these problems is my belief that democracy and the system of free enterprise can function to provide reasonably full and sustained employment for all of our available man power, in peace as well as in war times. The great bulk of that employment is and must be provided by private enterprise. Public policy, therefore, should be directed to creating an economic climate that will give the greatest possible encouragement to private initiative and private enterprise that is consistent with orderly and continuous national progress.

The experience of the past decade has served to confirm my conviction that having given this encouragement to private activity, Government should assure employment on useful public works, on a basis that is noncompetitive with private industry, for those able and willing workers whom private industry is unable to employ. Far from being wasteful, that is the essence of conservation

for it means adding to the store of national wealth, in providing roads, schools, hospitalization, public housing, and other betterments, that private enterprise does not and cannot be expected to provide. We gain all these things instead of irreparably losing the product of labor by keeping it idle. Such a policy is economically sound, and when supplemented by an adequate social security program of pensions, public health and relief for the unemployables, compensates for the loss of buying power when the expenditures of private enterprise decline. This in turn benefits private business and restores national income and national revenues.

While fundamental principles of Government policy do not change, policies must vary as economic conditions change. Policy that is appropriate to a period of deflation and under-employment is not appropriate for a time of full employment and the inflationary possibilities that then arise. At a time when activity is rapidly expanding, and we are approaching conditions of reasonably full employment, the fiscal and monetary policies appropriate to the depression period need to be altered to fit the changed conditions.

A condition of rapidly expanding employment and production has now begun to develop, primarily as the result of our vast defense effort and British purchases and their stimulative effects, both directly and indirectly, on the entire economy. I wish now to discuss what seem to me to be the major factors, in the light of present conditions, that should be taken into account as they affect the banking and monetary field, the budget and taxation.

We are again hearing much about the dangers of inflation. It is vitally important to face the inflation issue squarely, but it is also important

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not to become mere inflation alarmists. We have had too much loose talk about inflation for seven years. First of all, we must distinguish between a price inflation due to non-monetary causes and one resulting from monetary causes. I have several times in the past defined the latter as a condition arising when the means of payment in the hands of those who will spend it increases more rapidly than the production of goods. This means that the economy has reached the limit of its ability to produce, that is to say, full employment of its man power and productive facilities, but that, nevertheless, the creation of money continues, uncontrolled and unchecked. A price inflation, due to non-monetary causes, arises when production in particular fields is interrupted or curtailed, whether from bottlenecks, short-sighted wage and price policies, monopolistic practices by capital or labor, or related causes, when there is pressing consumer demand for the goods produced in these fields and when there is neither a shortage of facilities that exist or can be constructed or a shortage of man power. The cure for such a condition is not less, but more production. It cannot be remedied by monetary means, except at the cost of restricting the entire economy.

The immediate danger is that the upward spiral of prices in particular sectors of the economy will throw these sectors out of balance with the rest of the economy, to the detriment especially of agriculture, unorganized labor and both the low income and fixed income groups. Since our major objective at all times, and especially when we cannot afford to lose time in building our defenses, is full production and employment, it is essential in the general welfare that business and labor avoid strikes and lockouts that interrupt the flow of production, and likewise avoid price and wage policies that induce forward-buying

and inventory bulges due to fears of higher prices.

It would be best for all concerned if through self-discipline capital and labor prevented these abuses from developing, but if they fail to do so, regulation by Government will be necessary. Through increased efficiency and operating for longer hours, capital and labor can increase production. To avoid bottlenecks due to skilled labor shortages in certain fields, it will be necessary not only to utilize existing skills as fully as possible by working longer hours, but also to increase as rapidly as possible vocational and apprenticeship training. In these ways bottlenecks and unwarranted price rises can be avoided. Otherwise, governments have no choice, as we have seen in other countries, except to intervene directly by enforcing priorities, by preventing strikes and lockouts and by fixing prices as well as wages and hours.

These are vital considerations at this time when production must not merely be sustained, but must be greatly expanded to provide defense requirements and at the same time take care of normal civilian needs. I do not think it possible to over-emphasize the evils in the kind of inflation originating in what essentially are monopolistic practices either by capital or labor. The result is not only greatly to increase the cost of defense as well as the general cost of living, but the need to redress the unbalanced conditions that inevitably follow calls for increased subsidy payments to agriculture and increased payments in pensions and relief for the aged and the unemployables in order to try to make up for their diminished buying power. Likewise, it leads to demands on the part of all who are employed for increased wages and salaries to help them meet the increased cost of living. The result is the familiar general upward

spiral of all prices which in the end benefits nobody, and defeats the essential national purpose of substantially full employment and production for defense as well as for civilian needs.

I am aware that some men in business and in the ranks of labor feel that they should be allowed to make up now for some of the lean years. Past losses cannot be made up now except at the risk of these inflationary consequences. The price and profit increases necessary to make up for such past losses would have to come out of the economy generally, at the expense of all other groups.

This problem -- what may be called the bottleneck problem -- requires that now more than ever before we keep a discriminating eye on price movements. Any increase in business activity characteristically produces relative scarcities in certain areas of production relative to the whole. These relative scarcities tend to cause price advances. This is particularly true of a period dominated by defense expenditures. The defense program is concentrated upon specialized sectors of the heavy goods industries. Every effort must be made to increase supply in these areas. To the extent that supply cannot be increased with sufficient rapidity to keep pace with both Government and civilian requirements, priorities and rationing may be necessary as a check upon undue price advances.

There would be no economic justice in permitting the necessities of a great national emergency to yield excessive returns to producers in specialized areas at the expense of the rest of the community. Primary responsibility for preventing the breakdowns, the price distortions and consequences to the entire economy that would result from the attempt to take advantage of the emergency

rests upon business and labor leadership. We need above all in this crucial period rapidly expanding production in the industries where preventable bottlenecks are most likely to develop. The time may come when we shall have to curtail private purchases of automobiles and private and public construction in order to give the defense program the right of way in the heavy industries. As priorities and rationing should not be applied until we have exhausted every effort to enlarge productive capacity in the bottleneck areas.

We must also keep a vigilant eye on speculative forward-buying and excessive inventory accumulations. We should be alert to the possibility that the large cash and credit resources available might be turned into speculative channels under the favorable expectations which a prolonged defense program creates. We would be better protected against such speculative inflationary developments if the volume of idle funds already existing were curbed and prevented from increasing still more and if our bank credit structure were again brought within range of control.

What I have been discussing are inflationary conditions due to bottlenecks and other non-monetary causes. Looking beyond these immediate problems, we should be prepared to protect the economy also against the evils of general inflation due to fiscal and monetary factors.

As the result of gold imports, silver purchases, and purchases by banks of United States Government securities the volume of bank deposits has increased to the highest levels in the history of the country. Demand deposits and currency now amount to \$41.5 billions, or about \$14.5 billions above the peak of the boom period of the Twenties. At the same time, gold and silver

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purchases have raised the volume of excess reserves to \$7 billions, which is a wholly unprecedented volume, capable of supporting a bank credit expansion of fully \$60 billions in addition to the present total of deposits.

As long as these funds have been relatively dormant, they have not presented a serious problem except as they have tended to depress the interest rate structure to excessively low levels. To avoid that extreme -- to keep the bank credit picture within the realm of control that is the special responsibility of central banking authorities -- I advocated, in connection with the Banking Act of 1935, that Congress give the Reserve System adequate powers to absorb the excess, and I subsequently urged that consideration be given to the main causes of this condition, that is, to silver purchases and to the causes of the inflow of gold from abroad which are almost entirely responsible for the present and continuing growth of excess reserves. The authority granted by Congress has been entirely inadequate to cope with the unprecedented growth of excess reserves. For that reason, the Board of Governors as long ago as 1938 recommended in its annual report that Congress take cognizance of and deal with this rapidly enlarging problem.

The need for dealing with it becomes increasingly imperative because of the rapid expansion generated by the defense program. It is essential now that the excess reserves be brought within a range where they can be adjusted to the needs of legitimate business through the open-market function of the Reserve System, and not be left as a basis for an uncontrolled multiple credit expansion such as could be built upon them.

By the open-market function, I mean simply the authority which the Reserve System has to buy or sell Government and certain other securities for its own account, these operations being carried out by the System's Open Market Committee. The importance of these operations lies in the fact that when securities are bought it increases member banks reserves. Conversely, when securities are sold from the open-market account it absorbs and thus decreases the reserves of member banks. The open-market instrument is a flexible one, affecting only banks that desire to purchase or sell securities, largely in accordance with their reserve position, whereas raising reserve requirements affects all banks in accordance with their classification. I want to say in passing that, contrary to a persistent popular fallacy, the Reserve System does not use reserves deposited with it by member banks to buy Government securities. Such bank reserves are quite literally locked up by the System and cannot be used as a basis for credit expansion. The System has specific authority to create the funds used in open-market operations. These funds are in no way dependent upon or related to such reserves as member banks carry with the Reserve Banks.

Regaining control over excess reserves is a necessary precaution against the inflationary possibilities of over-expansion of bank credit based upon these redundant reserves. It is not a step that would in any way restrict legitimate business expansion, Government financing or development of the defense program. It is a safeguard against necessary expansion developing into over-expansion -- into creation of the means of payment out of all proper relationship to production. How this step may best be accomplished is a matter for Congress to determine.

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However, I see no feasible way to accomplish it except by increasing the reserve requirements of the banks to a point which would reduce the excess reserves to an amount that could be absorbed by the sale of Government securities from the System's portfolio, leaving only enough securities to take care of System expenses. In addition, adequate provision should be made for absorbing future gold or silver acquisitions that add to excess reserves. This power of raising or lowering reserve requirements should be made applicable to New York, the money center, or to all reserve cities, or to country banks, or to any combination of the three groups. This would provide for flexibility and make it possible to adjust reserve requirements more in accordance with needs.

Furthermore, reserve requirements must be made applicable to all banks of deposit, whether they be members of the Federal Reserve System or not. It is not equitable to ask only the member banks of the Reserve System to subject themselves to increases when those who elect to remain outside the System, or those who are now members and who choose to withdraw, can escape sharing in what is a national responsibility. This situation is not only inequitable but it renders monetary control ineffective so long as any bank that does not like the reserve requirements can relieve itself of the restriction by withdrawing from the System. Demand deposits are the major part of our money supply -- and control over their expansion and contraction must reach all banks that are in a position to create them.

As long as we have a vast oversupply of excess reserves, the inducement exists throughout the banking system to expand and to put those resources

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to work in loans and investments. When the economy is reaching the stage of full production and employment that inducement should be removed.

Not only do the excess reserves afford an opportunity for over-expansion but they also tend to depress the interest rate structure to excessively low levels. I have continuously advocated a policy of monetary ease as the appropriate accompaniment of a period of under-employment, but I have never favored artificially low rates such as have been brought about through an uncontrolled surplus of excess reserves. No such oversupply of excess reserves is necessary to carry out a policy of monetary encouragement to business recovery. Instead, excessively low interest rates tend ultimately to induce inflated prices of Governments, municipals, and other high-grade securities. The effects are reflected in credit lines generally, and are felt by insurance companies, savings banks, educational institutions, and other fiduciaries representing the accumulations of many millions of our people, small as well as large savers. Moreover, this creates a future problem for monetary authorities because at such time as it may become necessary to curtail further credit expansion, as a safeguard against inflationary developments, this step cannot be taken without causing a decline in the price of outstanding securities.

Although some interest rates have become extremely low, rates in the home and farm mortgage field have been relatively slow to respond to the general decline and are not now too low, in my judgment. I think there would be no justification for increased rates on home or farm mortgages, and that increases in such rates would be unwise and unwarranted. The volume of existing idle funds

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is so large that some of the higher bond and mortgage rates may go lower even though there is no further expansion of existing funds.

I am concerned with interest rates not as an end in themselves, but as a means to the end of stability in the progress of our economy. Excessively low rates do not contribute to stability any more than do excessively high rates. Neither is fair to lender and to borrower. It is one thing to have interest rates low as the result of the pressure of savings or investment funds on the market. It is a quite different thing to depress the interest rate structure abnormally through excess reserves created by causes extraneous to our economy. I have always contended, and I reiterate now, that these abnormal pressures should be removed, and they must be removed as an essential element of defending the economy against possible inflationary over-expansion later on.

As an additional measure I favor exempting deposits held with the Reserve Banks and vault cash held by banks from assessments for Federal deposit insurance. While I have never been against interbank deposits, I do not favor over-concentration of funds that serve no useful purpose at money market banks, but tend to depress short-term rates to such low levels that the very banks which concentrate their funds in the money centers find themselves in an adverse competitive position. Nor is it to the interest of the money market banks to accumulate excessive correspondent bank balances on which they can earn nothing, but on which they pay the assessment. Furthermore, if a bank's funds are locked up by the authorities to serve as reserves, it is not fair to the bank to require it to pay assessments on the locked up funds that earn nothing for the bank. Another reason for exempting reserves is that there is no risk involved in depositing these funds with Reserve Banks and thus no justification for assessing

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a premium to insure them.

Some of the large city banks have been much interested in getting legislation that will exempt them from paying deposit insurance assessments on the interbank deposits they hold. It seems to me that since they pay no interest to the depositing banks on these funds, that the more equitable amendment would be to exempt the originating bank from paying the assessment if these funds are deposited with Reserve Banks. In other words, if any bank is to be benefitted by exemption from the assessment, it should be the originating bank which deposits the funds as a reserve in the Reserve System, and not the bank that gets the use of the funds without paying anything for them. It is not in the interest of the city bank to have interbank deposits in abnormal amounts because they cannot be profitably used by reason of their volatile nature. The city banks should be interested in having only such correspondent bank balances as reflect the business done by the correspondent banks and the services rendered for them.

I have dwelt at some length on the general subject, with some of its ramifications, with regard to controlling monetary inflation by controlling excessive bank reserves. This subject, however, cannot be considered separately from the other sources of money-creation, that is, Government deficit-financing through the banks, and gold and silver policy. As an integral part of the general policy that is necessary for the period we are entering, we must discourage the purchase of Government securities by banks. For that creates new deposits. With the volume of bank deposits and currency greatly in excess of the highest levels we have ever had, it becomes important that we do not continue to add to this total, particularly at a time when one effect of the defense program is to activate the existing volume of deposits as they are drawn upon by business

and put to more active use. Instead, Government securities should be sold to private and institutional investors. This has the effect of using existing funds rather than creating additional deposits. When the Government borrows existing funds it does not reduce the supply because as soon as these funds are expended by the Government, they go right back into the money system again, chiefly as bank deposits. Another popular mistake is to suppose that Government deficit-financing creates excess reserves. Instead, they originate from gold, silver, or other currency acquisitions. When the Government sells its securities to the banks, instead of creating excess reserves, this absorbs them because the new bank deposits thereby created have to be based upon or charged against the bank reserves.

So long as banks have an oversupply of excess reserves, they have every inducement to invest in Government securities. That inducement can only be reduced or removed by reducing or removing the excess reserves which, as I have sought to indicate, should be adjusted to the normal requirements of business. If this is done the rate on Government bills and short-term notes would be likely to increase sufficiently to attract the large amounts of idle corporate balances, representing reserves of various kinds, that have accumulated. For the most part, these funds are now deposited in banks and earn nothing for the corporate owners. They would be inclined to invest them in short-term Governments if the yield were raised from the prevailing artificially low levels. At the same time, longer-term issues should be adapted to the requirements of insurance companies, savings banks, and individual or institutional investors. Thus the non-banking market for Government securities would be broadened out to absorb whatever Government financing may be necessary during the period in which we are making large defense plans.

But deposits as well as reserves are also increased as gold and silver continue to flow into our money system. Even if we had authority to offset the effect of the gold and silver acquisitions on excess reserves, these acquisitions would still continue to add to deposits, unless we are prepared to deal with these factors at their source. I have publicly stated my opposition to the purchase of foreign silver as unjustified from a monetary standpoint. If, for other reasons, at this time it is considered desirable to assist silver-producing countries, that could be done by making loans secured by silver or other assets. Therefore, Congress should repeal the present legislation, and at the same time cancel out the billion and a half of seigniorage which could be used for issuance of additional silver certificates. Likewise, I favor canceling the authority under the so-called Thomas amendment to issue \$3 billions of greenbacks. Both of these sources of funds, if resorted to, would add to excess reserves and to deposits, and would greatly accentuate the problem of the monetary authorities.

While the expenditure of the gold stabilization fund would have the same effect, the problem of gold presents a particularly difficult question. I believe that Congress, in considering all the interrelated elements of the monetary picture, should consider whether or not it would be wise to make credits available at low rates, as a means of aiding the British, taking as collateral their gold, as well as their security holdings here, in Canada, or elsewhere, rather than to continue to accumulate more and more of the world's gold supply at the cost of inflating our banking and credit structure.

I have come last to the problem of the budget -- but not because it is of least importance. As long as we continue to operate on a deficit basis, it will be necessary for the Government to go to the market for the funds to make

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up the difference between tax collections and expenditures. I believe that we should at this time take further steps to close the gap between income and outgo as far as can be done without either confiscatory taxation or the retarding of private enterprise. So long as the Government is rapidly increasing its total expenditures, I do not see how these outlays can be covered on a pay-as-you-go basis because the increased national income and the tax revenues resulting therefrom cannot be realized until some time after the sums are spent. In other words, there is a lag between the time when the Government has to raise the money and the time when it takes effect as income among the people who ultimately receive it in payment for goods and services. Taxes on 1940 incomes are paid in the fiscal years 1941 and 1942. There may be a lag of a year or a year and a half before money borrowed for defense, in effect, shows up in expenditures, then in higher national income, and finally in increased tax receipts.

It would not be wise to try to put sufficiently high rates into effect to close the gap entirely until we have reached a condition of full production and employment. But at that time, the tax system in effect should be adequate to bring about the balancing of the Federal budget.

Revision of the tax structure should not be delayed until a full-employment income is reached. We should begin to re-design the tax system in the near future. First and foremost, we should revise our corporate, individual and inheritance tax structure so as to close very important existing loopholes that make tax rates much less effective than they should be. For instance, there is not much use in raising individual surtax rates if corporations are permitted to hold back earnings in the form of idle funds instead of paying them out as dividends to stockholders. If the estate and the individual surtaxes are to be made as pro-

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ductive as they should be, then the gift tax must also be revised. The excess profits tax, which is clearly inadequate, should be revised to apply to all earnings above a certain ceiling, say, of 10 per cent of invested capital, with such exceptions as may be necessary as a matter of equity or to stimulate new business. The present law allows an option under which corporations are able to make abnormal earnings after all taxes, including the excess profits tax, are paid -- earnings in some cases larger than they have ever been before. I am heartily in accord with the proposals of the Treasury with reference to the excess profits tax and to eliminate tax free securities.

The present tax structure, strengthened in the ways I have indicated, will bring in enormous revenues once the national income has risen to \$90-100 billions. As national income approaches these levels, rates should be raised still more if necessary to balance the budget.

In addition to our own large defense expenditures, the amount of which we cannot foresee at this time, there is the increasing amount of help to Great Britain which must also be taken into account. If the total of these reaches a much larger figure than is now apparent, it may be necessary to impose selective consumption taxes on those things that are most essential to defense and the least essential to civilian consumption, in order to divert production and income to defense purposes. This may become necessary as a measure against a general price inflation. But such taxes should not be imposed until we have first placed on the statute books a tax structure sufficiently progressive to insure that the defense program will not increase the current inequality of wealth and income. Indeed, tax policy should be designed to minimize this inequality, bringing about

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a wider distribution of the benefits as well as the burdens. When full employment and production have been reached, increased consumption taxes are the most effective means of preventing a general price inflation, but they presuppose the prior enactment of steeply progressive income and estate taxes.

Direct responsibility for taxation is, of course, outside the realm of monetary policy, but the subject of taxation cannot be separated from the primary concern of those charged with monetary powers and responsibilities. It is not possible to appraise monetary policy realistically without taking account of the effect of taxation and of Government financing on the banking and credit structure. When the time arrives when monetary restraints may become necessary, deficit-financing should be discontinued, thereby bringing the budget into balance. The time for such action will arrive when the economy has reached full production, that is, substantially full employment, and both monetary and fiscal policy may need to be invoked to maintain a proper relationship between production of goods and creation and use of money.

Since it would be practically impossible to balance the budget while public expenditures are rapidly increasing and before a much larger national income has been achieved, we might consider viewing certain expenditures for defense as a capital investment. In effect, it may be considered a necessary substitute for an equal amount of capital expenditure by private industry which in borrowing for capital outlay would amortize the debt over the life of the investment. If we were to treat the investment in ships, bases, arsenals, factories, powder plants and the other capital investments paid for by the Government as private business we would treat similar capital investment, we might then consider covering only the amortization, operating and maintenance costs out of current receipts.

No matter how these outlays may be regarded for bookkeeping purposes, the defense program is demonstrating before our very eyes the feasibility of raising the national income through governmental expenditures. Nor can there be any doubt that once a full income is achieved we can, out of a full income, raise enough taxes to cover expenditures. We can then have a balanced budget.

A full defense effort will bring very large profits. Profits of manufacturing and of trade were already very favorable in the five-year average 1936-1940. Indeed, for a great many companies they were larger than in any previous five-year period in their history. Many of our industries have learned how to live very well even under quasi-depressed conditions. At a national income level of from \$90 to \$100 billions, profits can be expected to rise to unprecedented levels. Without a steeply progressive tax structure these profits would bring increased concentration of wealth. Business leadership cannot afford to let the defense program yield this result. We shall do well, therefore, after the tax collection lag of the first years of defense expansion is overcome, to raise the whole of the budget through taxes.

There is one more suggestion in this field. Some considerable borrowing, in lieu of taxes, from the mass of the population, in the form of a modified "baby" bond, would be highly desirable, especially after a full employment income has been reached. If savings bonds are held widely through the country, by the whole population, a degree of security is achieved against unforeseen contingencies. In so far as such bonds may, after the defense effort is over, be converted into cash and the proceeds spent, business activity would thereby be stimulated just at the time when it needs to be sustained. Such a program would provide in some measure a post-defense cushion against depression. It therefore would seem to me

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wise, as employment increases and the income of the mass of the population rises, to intensify the national campaign to sell as many savings bonds as possible, especially to the middle income classes. Such borrowing would not preclude us from balancing the budget because we could use the proceeds from the sale of savings bonds to retire a part of the Federal debt now outstanding in the hands of banks and corporations.

Our productive capacity is greater today than ever before. It exceeds by far the peak reached in the boom of the Twenties. If we have the will to do it, we have the organization, man power, and resources to provide both adequate defense and a higher standard of living than any hitherto reached in our history. We are witnessing in the defense program what can be achieved in national prosperity, income and employment through adequate governmental expenditures. It is my hope that the country will never forget this lesson; that we shall henceforth use fearlessly the resources of the state to help maintain employment and business activity at a full income level. Once such a program is boldly adopted as a permanent policy, businessmen can plan their operations on the expectation of a gradually rising national income. This they have never been able to do in the past. Such a policy, boldly conceived and persistently carried out, would revitalize private enterprise. There is nothing in this program that calls for Government operation of productive processes. All production, even on Government projects, can and should be carried out under private contract. Private business would be assured a full market. The necessary tax bill would be a small price to pay for an assured market adequate to absorb all the productive capacity of modern industry. Think what such a market would mean to business!

After the capital investment in defense is made, we will still have the heavy cost of maintaining our armed forces, which should be met out of current receipts. In addition, it is reasonable to expect at that time there will be large accumulated deficiencies in private construction of all kinds and other capital requirements. But it is unlikely that the volume of private activity would be enough to make up for the deficiency in production and employment once the heavy defense outlays, including the large exports of military supplies to Great Britain, are over. At that time, it is of crucial importance that we be prepared to make the transition to a peace-time basis without precipitating a period of idle men, idle factories, declining national income and increased Federal deficits.

It would be tragically ironic if we, as a nation, solved the problem of unemployment by making instruments of destruction, but were unable to maintain employment by making the things of peace. It is not for the purpose of returning men to the breadlines that we are making this vast defense effort to preserve our political and economic system. The transition will be effected more readily if at that point the budget is in balance. On the same principle that I stated at the outset, we should then be prepared to have Government take up the slack of employment, employing surplus labor, beyond what private activity absorbs, in useful ways. There are many with which you are familiar, such as public health and hospitalization, and particularly the urgent need for a vast reconstruction and improvement of our entire highway system to keep pace with automotive progress.

There is no excuse for defeatism, for having a static economy frozen at a level of under-employment. We are moving towards relatively full utilization

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of our men and our machines because of defense needs. When peace is restored to this world, we can, if we have the will and the wisdom, divert such of our productive facilities as are now employed in the destructive work of war into constructive work of peace. Thereby we can lay the foundations for a new and better world -- a world in which democratic institutions can survive.

MEMORANDUM FOR THE SECRETARY.

November 28, 1940.

Following the Election, and the Secretary's statement in regard to taxation and inflation, letters of criticism and of commendation began to reach the Treasury, and these were supplemented by other letters which were written as a result of Congressional debate on international affairs.

The sentiment is overwhelmingly for aid to China and Great Britain, with scattered opposition - in letters which often use exactly the same phraseology as to the desirability of observing the Monroe Doctrine and "minding our own business". There have been relatively few letters about the possible increase in taxes, and these show little opposition to the idea. In a group of several hundred letters, only one was actually abusive and it was anonymous. A count of mail of this type follows:

Aid to China	234
"Support the Monroe Doctrine"	34
Comments on Taxation and Inflation	14
General Comments and Suggestions	45

The representative letters quoted on the following pages are classified according to these general subjects. There is also a rough classification according to states.

W. E. Forbush

As of last mail, Thursday 1/10/41

AID TO CHINA

Carl Winters, Minister, First Presbyterian Church, Troy, Ohio. What would happen to sources of supply for Great Britain if China suddenly made peace? This consideration plus our own future interests seem to point to a liberal financial policy with China; also, a clamping down of aid to Japan.

S. Blatt, Bronx, N. Y. Where do laces, ornaments, etc., labelled "made in China" come from? Anxious to know if they come from Japanese occupied China or from free China.

C. E. Bliss, Warren, Mass. Representing American Committee for Non-Participation in Japanese Aggression; stop sending Japan raw materials but don't see why we should embargo imports; help China; would feel more comfortable if we had a berth in Singapore; war not wanted; was for League of Nations and believes in Good Neighbor program.

Dorothy Perham, Racine, Wisconsin. Why not give China money lending it; if China falls, won't England fall too?

George Van Santvoord, Lakeville, Conn. Strongly support proposal for large loan in delivery of planes to Chinese. Hopes Mr. Morgenthau will favor the project.

Zenas F. Neumeister, Exeter, N. H. Urges Mr. Morgenthau's support of immediate financial aid and airplanes for China. Believes we must combat the adversaries of democratic ideals with more tangible weapons than mere words and moral support.

Derk Bodde, Assistant Professor of Chinese, University of Pennsylvania, Philadelphia. Urges that Mr. Morgenthau use his great influence to give financial and material aid to China, quickly, as cost now will be nothing compared to what we shall have to pay if we wait until it is too late.

Dr. George A. Wyeth, Hanover, N. H. Whole-heartedly supports proposals of practical aid to China, and counts upon our Government to see that no military aid or economic aid is allowed to get through to Japan, either directly or indirectly.

Elizabeth S. Ballitt, New York, N. Y. "If Wendell Willkie can be placed in the President's Cabinet, we will remain The United States of America". Sale of ammunition to Japan should be stopped.

John W. Morgan, New York, N. Y. With Election over, hopes it will be possible to strengthen non-provocatively our policy in the Far East by increased aid to China, and increased restrictions on trade with Japan, thereby lessening pressure on Britain in Far East and enabling it to reinforce forces in Suez area.

Aid to China - Continued.

G. M. Palmer, Normal, Ill. States it is high time to do something to help England and China. Opposes sale of copper, finished steel, lead, gasoline, motor vehicles, etc., to Japan. "Nothing the Government can do will so delight the people who have voted to retain the present administration in power, as action in the direction of helping China and Great Britain. Why any further delay?"

Beessie C. Stern, Baltimore, Md. "I am glad that the reelection of President Roosevelt means your continuance as Secretary of the Treasury". Thinks it wise to restrict further sale of pig iron, copper, oil, gasoline, motor vehicles and machinery to Japan by extending embargo to these items. Urges increased aid to China.

Dr. G. Leonard Johnson, Englewood, N. J. As Chairman, Englewood Chapter of Committee to Defend America by Aiding the Allies in England, 4,000 members, they heartily welcome any Government announcements of: aid to Britain, aid to China, and stopping aid to Japan.

E. S. C. Handy, Fairfax, Va. The urgency of large-scale material aid to Britain is generally recognized. If this country is to checkmate Japan's "Manifest Destiny" in the Pacific there must be decisive action before it is too late by aiding China.

Mrs. William S. Sims, Newport, R. I. Deplores policy which United States has too often followed in past year or two of giving supplies to powers opposed to freedom. Hopes that aid will be given promptly to China of \$200,000,000 credit and sorely needed 500 planes.

R. C. Bishop, Enid, Oklahoma. Requests consideration of buying from China chunk territory connecting Alaska with U. S., leaving Canada a corridor to ocean at Van Couver and giving us perpetual right to connect railroad from main U. S. to Alaska across corridor in return for credit.

Mrs. E. E. Ramsey, Terre Haute, Ind. Speaking as chairman of Terre Haute Civic Committee, is gratified to learn that Government is considering \$200,000,000 credit and scheduled delivery of 500 planes to China. Wishes to commend this action heartily.

Miss Ora E. Senger, Woodstock, Ill. Desires aid to China, who is helping us by resistance to Japan. Gallup poll indicated that 90% of citizens desire extended embargo on war supplies to Japan; asks why no further action taken in this direction.

C. D. Judd, Texas State College for Women, Denton, Texas. China holding democratic front in Asia. Aid to Great Britain mounting, whereas aid to China small. Desires more.

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By States, the Aid to China group is divided as follows:

New York	26
Massachusetts	18
California	9
Illinois	9
Ohio	7
New Jersey	5
Pennsylvania	4
Vermont	4
Connecticut	4
Rhode Island	3
New Hampshire	3
Virginia	3
Maryland	3
Maine	2
Florida	2
Oregon	2
District of Columbia	2
Michigan	2
North Carolina	2
Washington	1
Wisconsin	1
Utah	1
Iowa	1
Minnesota	1
Missouri	1
Oklahoma	1
Colorado	1
Indiana	1
Texas	1
Kentucky	1

"SUPPORT THE MONROE DOCTRINE"

Jean Roorbach, Everett, Mass. Requests that all within Mr. Morgenthau's power be done to keep U. S. out of war. Our country should not be an arsenal for Great Britain, and our fleet must be kept in our own territory.

John Carmone, Bristol, R. I. Objects to U. S. assuming control of Singapore Naval Base and other British bases. Protests against sending fleet away from our own territory. Doesn't want U. S. to meddle in foreign countries' affairs, and hopes promises made during election concerning keeping America out of war will be fulfilled.

G. Dahlstrom, Hamden, Conn. Hopes that rumor concerning U. S. being asked to assume control of the Singapore Naval Base and other British bases will not be seriously considered by Government. Desires that we confine our fleet to patrolling the waters around U. S. and its possessions. Does not want our Government sticking its nose into affairs and quarrels of other nations.

Mrs. C. M. Bryan and Mrs. Ellen M. Bryan, West Springfield, Mass. Asks if Mr. Morgenthau knows he is considered one of the most "war minded" of the Cabinet. Protests against sending fleet out of our own territory and begs consideration of our Democracy and country's welfare first.

Richard D. Cooper, Brockton, Mass. Asks that fleet not be sent to British bases. Such action, at this time, would look like an act of direct aggression. "In these times we cannot afford to be further misunderstood by our Japanese brothers."

The significant thing about this small group is the count by States. 19 came from Massachusetts, showing a definite anti-Administration campaign there. In the 100 or more "Aid to China" letters, only 17 came from Massachusetts. In this smaller group there were 3 from New York, 2 from Connecticut, 1 each from New Hampshire, Rhode Island and Florida.

"COMMENTS ON TAX PROGRAM AND ON GENERAL ADMINISTRATION POLICIES"

Edith I. Boyd, New York, N. Y. Story in New York paper that Secretary does "not fear inflation with Mr. Roosevelt as President" is good news. But what is his reason for that lack of fear?

Herbert B. Sanson, New York, N. Y. Extends congratulations upon announcement that new issues of Government bonds will not contain tax-exempt provision. Higher taxes desired rather than pass huge debt on to son.

Clifton E. Wolcott, Alice, Texas. Emphatically states "No" to increasing national debt to care for defense. Suggests eliminating dead-end Bureaus, luxuries of counter-irritant Boards and Authorities born of New Deal, luxuries of whim and pranks of political bigwigs.

Eddie Mayo, Brooklyn, N. Y. Desires to submit or explain plan for state lottery that will produce two billion dollars each year for Government. "Carry on, Mr. Secretary * * * you're doing a swell job and we all know it."

Ida C. Dickman, Chicago, Ill. Approves of strong defense but protests any effort of administration to increase national debt.

W. R. Campbell, Bath, N. Y. Approves elimination of tax exemption of Government borrowings for defense purposes in future.

Flomb Tool Co. - Pendleton, M. B., Los Angeles, Calif. Commends Secretary on his stand relative to Tax Exempt Securities and expresses hope he will maintain continual pressure upon Congress for legislation removing exemption from public issues on which there are tax exemptions. Believes for past six years money has gone into tax exemptions, which should have gone into industrial issues.

Cornell Man, New York, N. Y. Says people alarmed at prospect of inflation which would be followed by gigantic crash. Voted for Willkie yet consoling to think no Hitler, Mussolini or Stalin can stop him from voting as he pleases.

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T. J. Dickey, Miami, Florida. The United States would be foolish to release money belonging to the countries now taken by Germany without first collecting or applying any funds to the liquidation of their War debts. Annenberg was made to pay the money he owed the Government and ~~that~~ foreign countries should be dealt with in the same manner. Believes that his letter expresses the sentiment of the average person and for the Secretary to feel that the American people will be with him 100% on this issue.

N. O. Crawley, San Antonio, Texas. Feels that supporting foreign countries with American monetary guarantee is very unfavorable for our Government under present conditions. Claims that Mexico is our worst enemy and for years has been undermining the United States through diplomatic service, has taken advantage of European protection to steal and destroy millions of dollars of American property, and they are holding out for Japanese and German assistance for their future aid and development.

Mrs. Lovilla Rice, Sullivan, Oregon. Members of her community favor repeal of law forbidding war aid to England short of sending men abroad; agrees with Ambassador Bullitt that we are next.

Mr. and Mrs. F. B. Cowles, Monrovia, Calif. Encloses article by Eintner-Alsop which indicates the distress many citizens are feeling at delayed action concerning relief to England. Many are critical of the Administration while others are alarmed and look to Washington for word that red tape has been cut. Aid should be given to England immediately, further delay is criminal. Urges Secretary to use his influence for definite and favorable action at once. Feels that we have done much which could be interpreted as violating our neutrality and that gifts or sales of equipment to Great Britain at this time would make little difference if handled discreetly. Urges aid to greatest extent without plunging our nation into war.

Opal Essant, New York, N. Y. Scoffs at Great Britain's offer of an island for part of our navy; we should demand all British islands off our shores in part payment of five billion dollar owed to us; we "will not" give, trade or sell any part of our navy to Great Britain, as every American owns an equal share therein, and "it does not belong to F. D. R."

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By states the comments on taxation classify as follows:
New York 7, California 3, Illinois 2, and 1 each from Colorado,
New Jersey, Pennsylvania, Texas, Minnesota, Connecticut and
Ohio.