

DIARY

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December 5, 1940
8:50 a.m.

H.M.Jr: Hello.

Walter
Butterworth: Hello. Good morning, sir.

H.M.Jr: Hello, Walter.

B: How are you?

H.M.Jr: I'm fine.

B: It's very nice to hear your voice after a very long time. I simply telephoned - I wired Merle as you probably know a couple of days ago and inquired what about Phillips and what about your plans for seeing me and I got a telegram from him yesterday

H.M.Jr: What?

B: I got a telegram from him yesterday.

H.M.Jr: Yeah I saw it.

B: with my own plans for my holiday and I simply telephoned because I thought you might be motivated by consideration for me and not want to interrupt my holiday and I simply wanted to tell you that I was pleasantly prepared to come anytime you wanted to see me and if I could be of any use at all in connection with Phillips visit, needless to say I'd be delighted to be.

H.M.Jr: Yes. Well, of course I don't know how long you plan - and of course I don't know what material you have or what you gave anybody. Hello?

B: Yes.

H.M.Jr: I say, I don't know what material you have or what contribution you can make.

B: It's very hard for me to say. I've got my impressions at my fingertips because I've just come back.

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H.M.Jr: I think if you got back here - how long have you been down there?

B: I've been down here about two weeks now.

H.M.Jr: Well, I think if you got to Washington by Monday - whatever you have naturally I want to benefit by. I don't know what you've got.

B: Oh, well I'll be glad to come on Monday if you'd like to see me.

H.M.Jr: Well naturally I can use all the information anybody has.

B: All right, sir.

H.M.Jr: So if you'll be back Monday then I can see you and you can give me what you have.

B: All right.

H.M.Jr: O. K.

B: Well, I'll look forward to seeing you then.

H.M.Jr: Thank you.

B: Good-bye.

GROUP MEETING
(Re Financing)

December 5, 1940
9:30 a.m.

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

H.M.Jr: It was a good party last night. Mrs. Morgenthau and I enjoyed it very much. Thank you all.

Stay behind a minute, Mr. Wiley. I have got something for you.

What I have done is this. I am going to have here - I think at 4:15 - that part of the Democratic members of the Ways and Means who are in town. I have now got in a call for Doughton and I can't locate him. I had a half hour this morning with Jere Cooper on Government financing and I am going to try to do the same thing tomorrow if I can get hold of Harrison, once I get this other thing straightened out. I am not at all sure whether you (Bell) and Eccles and all of you are right. I don't know. I don't want to do the kind of financing that a month from now would make it difficult for me to get a limit, you see, and he isn't at all sure.

Bell: Jere isn't?

H.M.Jr: No. Well, he said I had put up something new to him. He doesn't know. He feels that it is the most important thing, the raising of the debt limit, that whether we should have a debt with no partitions or whether we should have defense bonds, he doesn't know, but he is going to think about it. He is going to try to bring the Speaker down, too, at 4:15. He is acting as majority leader, Cooper is. He is tickled to death to come.

If I run this today and Harrison is in town tomorrow I am going to try to do the same thing. I don't know. I think it is much more important than just the usual thing.

Bell: I think so, too.

H.M.Jr: And this question of what is best from the standpoint of the country as a whole --

Bell: I think that is very important.

H.M.Jr: Very important. And the latest idea I got is if I could change this United States savings bond thing around so that if a fellow bought \$25 of that, he would feel that every dollar of that money went into national defense, and just how to do that I don't know, but that is the idea.

Bell: Well, that is part of our program in this legislation, to get more flexibility in the savings bond section. Then I hope you will permit Bryan and Sloan to go out to these large industries that have just expanded and see if we can't sell savings bonds to these workers who are getting high wages.

H.M.Jr: But now Dan, look. I am working in an

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armor plate factory. I don't know. I get \$25 or \$30 a week. I get a slip from the United States Government in my pay envelope to subscribe to these bonds. How can we make it so that this fellow feels that if he does put aside two or three dollars a week - we will give them a method, going back to these war stamps - that every dollar of that will go to national defense.

Bell: Well, that is a little difficult to say that every dollar of it - it is very difficult to segregate your receipts.

H.M.Jr: Well, you have got - I don't want to call it the orthodox - I agree with you from the standpoint of good financial housekeeping it is right. There is no argument about it. But I mean, I want the Treasury to make his contribution toward national unity and get the people in a frame of mind that they realize what is going on. I can't do it alone, but I could make a contribution. How can I get this workman who is - I am using this case - who is in an armament factory to put aside a couple of dollars because he wants to do it just the way the Lockheed workmen are making one plane and giving it to the British, you see.

Bell: I think we have got to work on something like that. We are now working on the form of a letter that you can sign to go out with the savings bond literature along that line. We have had a number of donations to the Government for the national defense and many of them have said they were for a battleship or for an airplane, and if they have been large contributions, \$10 or more, we have written to them and told them we had no authority to accept donations for a specific

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item in our national defense, that we would accept donations if it didn't have any strings to it and was for national defense and that money would be covered into the Treasury as miscellaneous receipts, donations for national defense. 90% of them have come back and said that is exactly what they wanted and we are authorized to accept it.

- H.M.Jr: But you can't --
- Bell: I believe we can put that across.
- Maas: If your budget is balanced except for national defense, all the contributions will be for national defense.
- Writer: Why can't you just call it national defense bonds? Then obviously if you called just those issues national defense bonds, you can take the position honestly that all of that money is going for defense. There may be more money going for defense, but at least that much is going for defense.
- H.M.Jr: Well, the budget - the way they do it now for non-defense items - I think they have got about seven billion, isn't it?
- Bell: For regular or national defense?
- H.M.Jr: Regular.
- Bell: About that, yes. I think it could be less.
- H.M.Jr: You and I both think it could be less. But it is about seven. And the rest will be how much, John?
- Sullivan: The net will be about that, less the earmark.

H.M.Jr: Less the earmark, and less the social security.

Sullivan: That is right.

Bell: That is right.

H.M.Jr: So you can say that for regular expenditures, without going through any drastic cuts, which I think - there are a lot of things they could cut. It is balanced so that what it gets down to, these various issues which are coming in will be just a refunding operation, so that the new money - what I would like to say is all the new money borrowing would go for national defense.

White: If that shouldn't be true --

Bell: You can put practically all the new money on that basis, I am sure.

White: Where that isn't true, just issue some bills so that it will take up the discrepancy so that you would be able to state that every one of these bonds being issued is for national defense.

H.M.Jr: Well, no, what I would like to be able to say is that every dollar of new money that I borrow - I mean, I want to get - we have got the vehicle in this baby bond thing. There is the vehicle. I would like to be able to say to the fellow, "Now, every time you buy that baby bond, that money is going for national defense," or any new money borrowing, but particularly the baby bonds.

Bell: I agree with that. We are working on a letter now.

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- H.M.Jr: But I mean - I don't want to, you see. You see, what the whole Federal Reserve crowd wants, unanimously, they don't want me to issue the national defense notes, because they say it is bad financing, and if I do I commit myself and I should not do it and I should say to Congress, "I am serving notice I don't like it."
- White: Is there this possibility of issuing national defense bonds of very small denominations as you have indicated with a very small limit to one person, one year, which would mean that it would fall on the low-income groups and give a much higher interest rate than you would on the large, make it even 3 or 3½%?
- H.M.Jr: Well, you have got that in the baby bonds.
- White: Make it four, then.
- H.M.Jr: There is no trouble selling - we are selling 45 million a month and we can very easily increase it.
- White: Yes, but a good deal of that money goes to people with incomes of \$5,000, \$8,000, \$10,000 a year. I was thinking of the worker that you were speaking of, have a special bond. He isn't ever able to buy more than \$25 a month.
- H.M.Jr: You distinguish as between people by incomes?
- White: By restricting the amount of bonds which can be purchased.
- H.M.Jr: We have that now.
- White: But the restriction is much too high. If the

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restriction were lower and the interest rate higher, you would tap a different strata.

Bell: You can buy an \$18.75 bond now.

White: Yes, but I mean the interest rate isn't high enough to attract a workman. If you want to attract his savings --

H.M.Jr: But the present baby bond thing - Marriner Eccles, for instance, - was it Eccles who said yesterday that if anybody figured out, he is a damn fool to take life insurance because this thing is so much higher?

White: That is all very true, but there must be at least 35 million earning persons in this world who couldn't possibly and who wouldn't buy a baby bond because it is - the rate of interest isn't attractive enough to them. Their incomes are too small.

H.M.Jr: That is the point, but what else is more attractive?

White: Nothing. They don't save. You want to enforce some saving on that group.

H.M.Jr: Because I told our boys not to put any selling campaign on on United States savings bonds. I don't let them go out and sell the thing. Today the United States savings bond pays a higher interest than any other piece of debt paper that there is.

White: That is right, with that interest. That is true.

H.M.Jr: But I am not going to do what you suggest.

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- White: Well, I would like you to give it some thought.
- H.M.Jr: Whether the fellow has \$100,000 income or whether he has got \$1,000 income, I am not going to distinguish - I am trying to get unity as between all classes. I want to do away with this class distinction. I don't want to work toward more class distinction.
- White: Well, that is the interpretation. That is almost like saying that you have equality by letting anybody who wishes to sleep under the bridges.
- H.M.Jr: That doesn't make sense.
- White: Well, it is a famous statement by a certain --
- H.M.Jr: Well, I still say it isn't applicable.
- White: Well, what I mean is this, that you don't make an invidious comparison between the different classes by paying higher interest because the same - the \$100,000 man can also buy the bonds at the high interest, except that he can only buy \$25 a month or \$10 a month, or something of that character, which doesn't interest him at all, but it does interest very greatly the man who is earning \$30 a week.
- Gaston: I think you are a hundred percent wrong, Harry. People who shop for higher interest rates are people with more money.
- White: Oh, I know that. So he buys \$50 of bonds a year. What of it?

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- Gaston: As a matter of fact, the little fellow, the working man isn't so choosy about the interest rate. He doesn't shop around so much for the interest rate.
- White: I will put my ideas in writing and circulate them. I don't think I am a hundred percent wrong. I think I am a hundred percent right and I will try to justify it by a memo.
- H.M.Jr: Do that, will you?
- White: Yes.
- Gaston: I should think you could easily handle this proposition by making the savings bond strictly a national defense bond so long as, one, either the budget is balanced, or two, you have enough general obligations which are not specified as national defense bonds, whether they are notes or bonds or bills, to lick up - to absorb the deficit. Just enough general obligations to absorb the deficit and then you can truthfully say that your baby bond is strictly a national defense bond and it wouldn't take much of general obligations to absorb the difference.
- H.M.Jr: But Herbert, with the legislation as it is, how would you feel that for the new money that we would like to borrow next week, to use these five-year notes, just for the new money, to use the national defense notes for new money?
- Gaston: Well, I don't know so much about the disadvantages of carrying two different classes of securities and accounting for two different funds, but I think they are probably considerable.
- H.M.Jr: Well, forget about it. I mean just from the

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standpoint of 130 million people and trying to make them realize - from the Treasury standpoint, the debt standpoint, the spending standpoint, the tax standpoint, that we are preparing ourselves.

Gaston: From the selling standpoint it has an advantage.

H.M.Jr: What do you mean?

Gaston: That is to say, a special defense security can probably be sold more easily and distributed more widely than one that is not a - I mean particularly the wide distribution. You can probably get a wider distribution with a strictly national defense security.

H.M.Jr: Well, the five-year note will go likely to the banks, anyhow.

Gaston: Well, it wouldn't be a factor to the banks at all.

H.M.Jr: What?

Gaston: It wouldn't be a factor as far as bank investment goes, the fact that it is a national defense note. It wouldn't be an influence, wouldn't help to sell them at all, and so far as I can see wouldn't have any advantages. I think you ought to save the national defense securities selling point for a security which you want to distribute as widely as possible among actual final purchasers and holders.

H.M.Jr: Well, that is what I do.

Gaston: Yes.

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H.M.Jr: But we haven't got the set-up.

Gaston: I know you haven't.

H.M.Jr: And I don't want to make a mistake next week.

Gaston: I wouldn't sell these notes if you can do it otherwise, as long as they are only going to the banks, because I think you are sacrificing an advantage in salesmanship.

H.M.Jr: Now, wait a minute. The alternative which they are recommending to me is that I get out a 20-25 year $2\frac{1}{2}\%$ bond, but limit it, say, to \$10,000 to any one person, and he has to keep it a year. That is the alternative.

Gaston: 20-25 year - was it --

H.M.Jr: 25-30 year, $2\frac{1}{2}\%$ bond, tax-free --

Sullivan: Oh, no.

H.M.Jr: Just a second, let everybody get in on this. Tax-free, limiting to any one person \$10,000. Let's say \$10,000, and you have got to keep it for a year.

Sullivan: That is out the window. You have given your word on that, sir.

Bell: Oh, no, you haven't.

Sullivan: Oh, I beg your pardon. You made it very clear to those committees in the first defense act, that the securities that are floated under that extension of the debt limit were not to be tax-free.

Schwarz: That is not under the extension --

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Sullivan: Well, I know, but they are for that purpose.

Gaston: That doesn't make any difference. I don't see what is the purpose of the one-year restriction on a security of that kind. It just reduces its marketability.

Bell: This is the idea, Herbert. If we just float 700 million dollars of bonds, the large part of them are going into the banks if we don't give the little fellow an opportunity to get securities, because if a fellow subscribes to \$10,000 he gets 10%, which is a thousand. Now, we want to put these bonds in the hands of permanent investors, particularly the little fellow, though we say that anybody who subscribes up to \$10,000, we will give you a full allotment if you keep that security a year or some period which we may agree upon and that keeps him from being a free rider, that the fellow who wants more than that, he has to take his chance with all the other subscribers and take his chance on what we allot in percentage.

Gaston: Then you wouldn't put that one-year requirement on the whole issue, but only on those who - the small bidders, in order to get a full allotment?

Bell: And he doesn't have to come in under it at all, he merely says, "I will take \$10,000 worth of registered bonds deliverable sometime in the future." If he wants to take his chances with everybody else, he just puts in a \$10,000 subscription and he gets probably a 10% allotment. It is to keep the free riders out of the small class.

Gaston: Can you police it?

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- Bell: Oh, yes. We have done it twice and it has been very effective. On the December issue last year we got 22 million dollars of a five thousand dollar subscription and when the time came along for delivering the bonds, eight million of them took coupon bonds. It doesn't mean that they were sold, it means that they took them to be sold if they wanted to. We followed up two cases. One bank had 171 trusts of different amounts and they did not sell them. They took them and put them in their vaults for those trust accounts. In the July issue, we had that same thing again, only put 90 days instead of 60 days, and we got 39 million.
- Gaston: It is a good experiment.
- Bell: At the time the 90 days is up, 11 million of those securities - 11 million dollars worth of requests had been made for coupon bonds.
- H.M.Jr: I have been trying to get Doughton.
- Sullivan: It will be murder if you don't have him here.
- H.M.Jr: I can't help it.
- Sullivan: I gave you a memorandum of a conversation he had with me while you were away.
- H.M.Jr: Well, I have called two places in North Carolina and I have been calling his office steadily since 9:00 o'clock this morning.
- Foley: Mr. Secretary, on the tax exemption question, didn't you say at your press conference the other day that the financing for national defense would be made fully taxable?
- H.M.Jr: If I used the notes.

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Schwarz: For defense.

H.M.Jr: If I used the notes.

Bell: But then you said before the committee that if the discretion was yours --

Foley: I think we are no better than the Republican administrations that gave good service to the elimination of the exemptions all during the year, and when we continue to offer to the public obligations that are fully exempt from taxes within the law where we have the discretion to make them taxable --

(Telephone conversation with Mr. Meekin follows:)

December 5, 1940
9:54 a.m.

H.M.Jr: Hello.

Mr. Meekins: Yes, sir, Mr. Secretary, this is Meekins, secretary to Mr. Doughton.

H.M.Jr: Right. Meekins, this is what I have in mind. About 5 o'clock this morning or afterwards I got the idea that I wanted to get the advice of those members of the Ways and Means who are in town in regard to our financing on account of next month we'll have to do something about the debt limit.

M: Yes, sir.

H.M.Jr: Now, is Mr. Doughton in town?

M: No, sir, I'm sorry. He is at Sparta, North Carolina, Mr. Secretary.

H.M.Jr: I put a call in there for him and I couldn't get him. Now, you remember the last time I called a meeting - this isn't a meeting, this is just to get some advice and I don't want to have any misunderstanding with the Chairman.

M: Yes, sir.

H.M.Jr: Do you think it would be all right to have a few of these people drop in and see me quietly?

M: I would certainly think so. Yes, sir.

H.M.Jr: Do you think Mr. Doughton would take any objections?

M: I certainly wouldn't think so, Mr. Secretary. I think probably I could get him on the line in a little while.

H.M.Jr: Well, would you and maybe I could talk to him then.

M: I think I could.

H.M.Jr: Because - I mean, you know how devoted I am to Mr. Doughton

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M: I surely do know, Mr. Secretary.

H.M.Jr: and I don't want any other misunderstanding.

M: I tell you what. I could send a telegram down there right now and if he isn't at Sparta they could contact him pretty quickly I am sure and wire them to tell him to call you or me. That would certainly show that we had tried to get in touch with him.

H.M.Jr: Yeah and then if we could fix the publicity in some way that would be agreeable to him - if there is any publicity.

M: I see.

H.M.Jr: See?

M: Yes, sir. All right, sir. Mr. Secretary you weren't going to call them - were you going to call them in right away?

H.M.Jr: No, not until this afternoon.

M: All right, sir, and I'll send a wire immediately to Sparta and have his people get in touch with him and request that he call you immediately.

H.M.Jr: And have it in mind that whichever way we handle the publicity that I'm only doing this with the consent and approval of Mr. Doughton. You see?

M: That's right. And I would appreciate it greatly if your office would let me know if he did call and get in touch with you because I'm going to keep on trying until I contact him.

H.M.Jr: I'll let you know myself.

M: Thank you very kindly, Mr. Secretary, and I'll go to work on it immediately.

H.M.Jr: O. K.

M: Thank you

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H.M.Jr: The world moves on, you know.

Sullivan: He is going to ask you if you can't have a meeting tomorrow and then he will be back here.

H.M.Jr: Well, if he does, I will.

White: I can't help but feel as Ed does, and even more so. I don't think that this is in line with what I gathered was going to be your policy of taxation. When you start crack off the bat at the first chance you get on an important issue, it seems to me it is an excellent occasion to pursue the policy that you had indicated, though there may be certain technical disadvantages. I think those technical disadvantages are far less important than the social advantages that will accrue from the adoption of a policy of non-tax exempts on new defense issues, whether if you just stick to the statement with regard to notes and not to bonds it appears to me you are quibbling, although you would be technically accurate.

H.M.Jr: Well now, this is what I - check me, Dan - this is the suggestion that I said I sent up yesterday, didn't I? I mean, my suggestion was that the new money that we borrow would be defense notes and the refundings would be into the old bonds. Is that right?

Bell: That is right. Will be into long bonds.

H.M.Jr: Yes, with the restrictions that if somebody - you will get a hundred percent allotment if you will take the long bond and keep it for a year. That is what I set up and I had no support whatever from anybody.

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White: Well, I don't think you need support for a position of not issuing further tax exempts.

Foley: How long is it for?

H.M.Jr: Five years.

Foley: And then convert into long terms?

H.M.Jr: Convert them into whatever kind of security is around.

Bell: Whatever is offered at the time of maturity.

H.M.Jr: How do I know?

Foley: I didn't understand the refunding thing you just mentioned.

H.M.Jr: Let me give you the whole picture. We have a note which is maturing on the 15th of March and we also have a 3-3/8ths bond which we call. The two together amount to a billion two. The suggestion was that we refund the note and the bond into a long bond or a long bond and an intermediate bond, you see, but the new money - this is my suggestion which everybody is opposed to - the new money would go into the defense notes.

Foley: Yes.

H.M.Jr: Now, I set that up and the whole advisory group, plus my own crowd, say no for various reasons.

Foley: Well, what is the alternative, Dan, to the five-year notes for defense?

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- Schwarz: You don't have any more borrowing authority left, do you, after your refund?
- Bell: I wouldn't borrow except under the 45 billion dollar limitation, because you have got more flexibility there.
- Foley: How much margin have you got?
- Bell: Oh, we will have about 900 million by the time this issue comes out in the general limitation, because what we are doing now is pushing Treasury bills to defense bills. That is reducing the four billion dollar limitation and increasing our - the proposition was to issue a long-term bond for cash.
- (The Secretary retired from the conference to take a telephone call)
- H.M.Jr: (Returning) It is taken care of, Phil. He said he would do it today.
- Where were we? Were you through?
- Foley: Well, Harry was elaborating on what I had said.
- White: I was through.
- Foley: I think we ought to issue fully taxable obligations where we can in the future.
- H.M.Jr: Say it again.
- Foley: I think if we don't issue fully taxable obligations in the future where we can within the law, I don't think we can expect the municipalities to acquiesce in any attempt to eliminate the exemptions in so far as their obligations

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are concerned by permitting any legislation to get through Congress to accomplish that fact.

- White: More than that, I think the Federal Government ought to lead in matters of social progress and I think that is definitely in that direction.
- Foley: And if we are going to put on a campaign to eliminate the exemption --
- (Mr. Morgenthau, Sr. entered the conference)
-I think we have to show our good faith.
- Bell: I am in favor of that, Mr. Secretary, when you get legislation that will permit you to have some flexibility in issuing taxable securities, but right now you are confined to one very narrow channel and I am in favor in this session of getting legislation on Treasury bonds and every other security the same as you have on Treasury notes, and when you come to that point, then I would say to issue taxable bonds and taxable notes and every other kind of thing.
- Foley: I think that is entirely true, Dan, but I think when we have the discretion in so far as the notes are concerned to issue them completely taxable, that we ought to show our good faith and issue them completely taxable and then go to Congress and say we would like to have the same discretion so far as the bonds and bills and certificates are concerned.
- Bell: Even though they are not the kind of securities that the Secretary should issue at this time?

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- Foley: Oh, that is something different.
- Bell: Oh, no, it isn't; it is part of the picture.
- Haas: The reason I suggest, Mr. Secretary, the bond rather than the taxable note - the decision wasn't based on the taxable feature at all, but I felt that the new money should be obtained from real savings and therefore issue a security which would appeal to real savers, and if you issue a note it goes to banks and increases the banks' deposits and you raise your money by extension of the bank credit.
- Foley: What do you mean when you say appeals to real savers? Because it has an exemption? Why add to the outstanding exempt securities?
- Haas: It is the maturity rather than the tax feature of the bill.
- Bell: It is the coupon.
- Haas: Notes are --
- White: Do I understand you are not going to issue any more notes during the next few years?
- Haas: Not for new money.
- White: You are going to eliminate notes --
- Foley: Until they are put on a parity in so far as the tax features are concerned with the other types of borrowing?
- Bell: I don't see any objection to putting a taxable note out in a refunding. We have had them before.
- Foley: Well, when would you do your refunding?

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Bell: Right now. That certainly shows good faith.

H.M.Jr: You use up your borrowing power.

Bell: No, Mr. Secretary, because you have got 700 million dollars of notes maturing and you just roll them over and --

(Telephone conversation with Jere Cooper follows:)

December 5, 1940
10:10 a.m.

H.M.Jr: Hello.

Operator: Congressman Cooper.

H.M.Jr: Hello.

Jere
Cooper: Hello, Henry.

H.M.Jr: Jere.

C: Yes.

H.M.Jr: This is what I was thinking about. I'm trying like hell to locate Doughton.

C: Well, I checked up since I got up here. He left yesterday morning for home, Henry.

H.M.Jr: Well, now, what I thought we'd do is this, if it's agreeable to you. Let's wait an hour or so.

C: What was that?

H.M.Jr: Let's wait an hour or so. His Secretary Meeker, is that his name?

C: Meekins.

H.M.Jr: has sent him a telegram because Doughton may say he'll jump on the train and come back. See?

C: Uh-huh.

H.M.Jr: Now if he says he wants to come back, we'll hold it tomorrow, because the old boy was so damn sore the last time

C: That's all right.

H.M.Jr: So let me wait and if I let you know by noon it will be time enough.

C: Oh, yes, that'll be all right.

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H.M.Jr: But if he says, Henry, I'll come back on the train, can't you hold it tomorrow, all right. But if he says go ahead and hold it this afternoon, all right.

C: Fine.

H.M.Jr: But I don't want to hurt the old boy's feelings.

C: Oh, sure. You're right. Absolutely.

H.M.Jr: Fair enough?

C: Yes, that's right. I checked up as soon as I got up here and I found that he'd left here yesterday morning for home.

H.M.Jr: Well, he'd say I waited until he got out of town or something.

C: And I've also checked up and Sam Rayburn is going to leave on the 6 o'clock train and I just told him that it might develop that we'd like for him to sit in with some of us in a little conference late this afternoon if it could be arranged.

H.M.Jr: What did he say?

C: He said that he'd be very glad to around about 4:30 - not later than 4:30 provided we could meet in his office.

H.M.Jr: Well, that's a good idea.

C: I told him that would be perfectly all right I was sure, but I told him that it wasn't definitely known yet but that

H.M.Jr: Meet in his office. Well, that would help with the Doughton situation because I could tell him that Sam is leaving town tonight.

C: Yeah. That's right. Sam is leaving at 6 o'clock and says he would be glad to meet with a few of us

H.M.Jr: At his office.

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- C: at his office around 4:15 or 4:30 and then of course you'd get in touch with these other boys here.
- H.M.Jr: Well, you'd do that or Sam would do that. Well, let me work on Doughton between now and noon, see, and then I'll call you back.
- C: Fine. All right. Good-bye.

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- H.M.Jr: He says Stam is leaving town tonight, but he would like the meeting in his office. Well now, that would take a little of the curse off, wouldn't it?
- Sullivan: I don't think it would. I think Doughton would resent that.
- H.M.Jr: Well, I am doing the best I can.
- Sullivan: I understand that, sir.
- H.M.Jr: Where were we?
- Bell: Finished; at least I am.
- H.M.Jr: Well, you two birds feel what?
- Foley: I feel that if we issue any notes at all that we ought to issue them fully taxable under our discretion, and I think as Dan suggests that we ought to ask Congress at this session to give us the same privilege and the same discretion in so far as the bonds and the certificates and the bills are concerned and I think when we get that, we ought to take advantage of it and we ought to do all our borrowing in the future, even if we have to pay a slightly higher rate of interest.
- Bell: I agree with that.
- Foley: Complete taxation, and I don't think we are going to get the legislation in order to submit the state borrowings to the same thing until we show our good faith by taking the lead and issuing all our obligations subject to taxes.
- H.M.Jr: Would you make these new bonds taxable?

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Foley: In so far as we can. They are exempt from the normal tax and the first \$5,000 of the surtax. We are limited there by the law. But I would ask for a change in the law so that we have the same discretion in so far as our bonds are concerned that we have so far as the notes go. We have four alternatives so far as the notes are concerned and we can issue them completely taxable.

H.M.Jr: But the notes?

Foley: The notes, we have that discretion. We don't have that discretion in so far as the bonds go.

H.M.Jr: What partitions are there in the 45 billion now?

Bell: None.

H.M.Jr: There are no partitions now?

Bell: No.

H.M.Jr: They are all removed?

Bell: You can issue 45 billion Treasury bills if you wanted to.

H.M.Jr: There are no partitions?

Bell: No, sir.

H.M.Jr: Because there is one other argument. I tried this out this morning on Phil Young. Tell them your reaction, Phil. You can tell it yourself better than I can.

Young: Well, my reaction to it was simply leaving out the technical side, which I am certainly

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not qualified to talk about, this country at the present time is already in some state of economic war, war on economic basis, and will be more so, increasingly, as this situation keeps on. I think anything which can be done to increase the tax consciousness of the people of the United States primarily on a defense basis is going to have to be done, and the sooner it is done the better, because it is going to cost everybody a lot more money than they have ever paid out yet to carry the load and some definite program is going to have to be put on to make those people aware of the fact that we are carrying on economic war and we are going to pay for it and you have got to hit the coal miner as well as the fellow at the top and all the grades in between. I think that is just a reaction on my part, looking at it purely from the outside, because I haven't been doing any work on it or anything of that sort.

Foley:

I agree with that. I think that is fine, but I think that every time you issue a tax-exempt security you add to the burden of the other fellow who doesn't have a tax-exempt security, because he has to carry the fellow that holds that obligation, and I think if we use this time to add to the reservoir of fully tax-exempt securities that are outstanding, the greater disproportionate burden we create in so far as the ordinary fellow is concerned.

Sullivan:

And this Administration has floated more tax-exempt securities than any other. Isn't that correct, George?

Haas:

More tax exempts? That is right.

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- H.M.Jr: Sure; we have borrowed more.
- Sullivan: I know that.
- Foley: Well, we haven't taken advantage of all our opportunities to eliminate the exemptions.
- H.M.Jr: You mean on the Hill?
- Foley: No, in so far as our powers are concerned that we have under the law.
- H.M.Jr: True.
- Bell: But it really hasn't made a lot of difference because of the low interest rates and your securities have gone into your banks and they haven't gone into the hands of individuals, so the tax-exempt features --
- Foley: Well, that doesn't make any difference, because if they get into the hands of people who make income taxes in the high brackets --
- Bell: But they don't.
- Foley: The advantage they get isn't reflected in the rate of interest.
- Bell: Well, they don't buy them because the rate of interest is so low. Three quarters of a percent for five years is not even of any interest to a high bracket for tax exemption purposes.
- Sullivan: But instead of that you would be giving them a security that would enable them to avoid the --
- Haas: Here is a way, Mr. Secretary, you might handle it, and take care of all sides of

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the argument. You can say that for new money you would like to issue taxable securities and you want them to tap real savings but you don't have the flexibility in the statute at this time, so you can issue bills as a temporary - get your new money temporarily and then after you get the legislation, go ahead and refund the bills and put them out into the longer term securities, fully taxable. In other words, make it a temporary situation.

Sullivan: And no refunding until that legislation comes along, you mean?

Haas: Well, I was talking about the new money proposition.

Foley: What would your bills be, George, 90 days? You probably wouldn't have the legislation in 90 days. Then what would you do?

Bell: We can make them more than 90 days if we want to, up to a year, but that has the same effect on bank credit.

Haas: That is right, but it would come down. Deposits would come down, you see, when you refunded them later on.

White: Isn't it --

Haas: Reduce them when you took them out of the bank.

White: Isn't the important thing --

Bell: The money to create other deposits.

Haas: No, if you cut down the bank investments, the

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deposits --

- White: Isn't the important thing to attain at this time the understanding on the part of the public that whenever the Treasury has the legal power to do so, it will issue taxable bonds, and to avoid no opportunity in trying to obtain wider powers to that extent, but until those wider powers are obtained as a gesture, even though it may have technical disadvantages. I think the gesture is an important one and will have kept faith with your general policy, so that if you have an opportunity to issue these notes taxable, they should be issued, even though I can well see there might be technical advantages in varying that practice now.
- Schwarz: I think Harry is right on that, Mr. Secretary. If we are going to make a drive or any kind of an effort for removal of tax exemption, I think the gesture is important at this time.
- Foley: If you are going to issue a one-year bill that is completely tax-exempt, why not issue a one-year note that is completely taxable? What is the difference?
- Haas: You can understand a defense bill.
- Bell: If you are going to issue anything under five years, I am in favor of a taxable note. I agree with Harry's statement, when conditions permit, to issue taxable securities when conditions are such that you can do it in the interest of the country and the Government.
- White: I am wondering whether you are not in a stronger position when you come before Congress when

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you make quite a play on that fact. You say that even though it might have been possible, had we more flexibility we might have commenced this expenditure in a slightly better way, but not having the flexibility we had to pursue the less desirable method. Therefore, we must have the flexibility. That is the way of putting pressure on them and at the same time maintaining the principle.

- H.M.Jr: Well, I can't see - some of these people felt that if I use the four billion authority that I have that I give the approval to that, and that I shouldn't use that, so that we won't have special obligations outstanding.
- Foley: We have already issued some. We have issued a hundred million against that.
- H.M.Jr: Oh, more than that in the bills.
- Bell: Four hundred.
- Foley: Four hundred?
- H.M.Jr: In the bills. I mean, we have started to use that. I mean, do you tax fellows feel that at this time in one of these refundings if we got out a long bond which has certain tax-exempt features that that would be a mistake?
- Sullivan: The fight is over. You are planning on going to the country with a series of radio speeches, telling all the things that are wrong about this, and somebody says, "Well, were we wrong? Didn't we read in the paper that a new long bond just came out that was tax exempt?"
- Schwarz: That is a different situation, John. In

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that case you have restrictions on bonds now.

Sullivan: Oh, sure.

Foley: But we don't have to issue bonds.

Sullivan: They know just as well as we do that we don't have to issue it and there are other ways of doing it. I think that- as was just suggested here- that the fact that it is embarrassing to you to use these notes rather than the long-term bonds will be very helpful when we get into the fight on the Hill.

H.M.Jr: Say it again.

Sullivan: I think the fact that using a taxable note now is not as professional a way of doing the financing as issuing a long-term tax-exempt bond will be very helpful to you when you get upon the Hill, because you can say, "Well, see here, gentlemen. Here is the situation I was up against last December," and tell them exactly what it was and why you would have preferred to have done it on the long-term bond, but you couldn't and keep faith because you were just perpetuating an inequitable situation that had been causing trouble for a long while. Even if we get the legislation we want, it is going to take 30 or 40 years, and maybe longer, to clean up these tax-exempts.

Gaston: Do you still feel that way, John, if you felt sure that at the time of the expiration of these notes, say in five years, that we would be in a very tight-money, high-interest situation, and that it would be very expensive to refund them?

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Sullivan: Yes, I think I would.

White: I think that would have to be reduced to quantitative terms. I think you are right on qualitative grounds, but I think in order to evaluate the general effect of this approach as against the possible increased cost, I think one would have to --

Gaston: I say four percent of 20-year money.

H.M.Jr: Well, that won't happen in the next three months.

Bell: Five years --

Gaston: We are talking about a five-year note.

Foley: When they become due and he refunds them.

H.M.Jr: But if I sat tight and said I wouldn't issue any more taxable - tax-free bonds until Congress does something - that is what you fellows think?

Sullivan: Yes, sir.

H.M.Jr: Because I can only do this if this crowd tonight says, "Fine, we will see you through on this."

Foley: That is right.

Sullivan: That is right.

H.M.Jr: And that is why I am seeking legislative advice.

Sullivan: The Senate crowd won't see you through on it; the House crowd will.

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- Bell: Well, certainly Harrison didn't have the committee on this petition or on this special fund arrangement at all last year. Why, George and Connally and Byrd and Clark and every one of them said, "Why, this is a ridiculous thing to do. It ties the Treasury's hands, there is no flexibility in it, and it looks like a trick." Connally said that and so did Barkley.
- Sullivan: George was for it at the time. He is not for it now, Dan.
- Bell: Well, Senator Harrison certainly didn't interpret --
- Sullivan: Oh, at the time we had the preliminary meetings I think that they were all agreed that that was the only way you would get your debt limit raised.
- Bell: By the time we got to them --
- Sullivan: But you were talking about interpreting the sentiment of the committee and I think he did as of that time in those early conferences in May, Dan.
- White: Mr. Secretary, I would like to direct myself to Herbert's point, because I think he has raised a very important point. There is danger of interest rates on long-term borrowing rising very sharply. If we accept that, it is all the more reason why you should issue notes and not bonds because it is unfair to the bondholder to sell him a bond now which in two years may lose ten, fifteen, twenty, or twenty-five percent of its value by virtue of the rise in interest rates. You are taking, I think, - I would like to --

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- H.M.Jr: Well, I have approached that from a different angle. The thing that worries me, that nobody said yesterday the only inflation we have had is in the Government bond market, and to get out a series of long-term Government bonds at this time, knowing that interest rates are going to rise, you are going to have a hell of a hole in the bottom of it, but nobody talked about it but I am very - there has been no gambling in the stock market. All the gambling is in Government bonds and they are absolutely on an artificial level, because their answer would be, "We will get out some bonds and --" That wouldn't help it, if we have a general rise in interest rates and the bonds begin to sink. If we did this, it would even make the bonds go up that much more, wouldn't it, temporarily?
- Bell: Well, it has done that the last couple of times because of the backlog, but ordinarily you are supplying the market with a lot of --
- H.M.Jr: What taxes do United States savings bonds pay?
- Bell: Aren't they the same as the regular bonds?
- Foley: Yes.
- H.M.Jr: When do you pay those taxes?
- Bell: At the end.
- Foley: At the end, when you get the money.
- H.M.Jr: Supposing I keep them five years.
- Gaston: Well, when you sell them, the interest on the accrued --

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- H.M.Jr: How do I pay taxes? How do I pay the tax?
- Bell: The income is --
- Foley: On the income that you received in the year in which the sale is made.
- Gaston: Buy them at 75, say, and turn them in at 80.
- H.M.Jr: And if I get \$20 worth of income, I pay it on that income?
- Foley: That is right; it is exempt from the normal tax and from the first \$5,000 of surtax, but the remainder is taxable.
- H.M.Jr: We have only got two minutes more to think about it, of the possibilities if these were to be United States Government bonds, to be the vehicle through which we were going to raise the bulk of the money, whether they should continue to have that extra privilege or they should be completely taxable.
- Foley: I think they should be completely taxable.
- Bell: I think they should follow the other bonds.
- H.M.Jr: This has been helpful to me. May I caution everybody particularly - discuss it with anybody in the room, but please don't discuss it with anybody who isn't in the room now.
- If I go up on the Hill, Dan, of course you will go with me, and Sullivan and Foley will go with me, too. I will let you know.
- Foley: This afternoon?
- H.M.Jr: Well, it is now tentatively for 4:30 at the

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Speaker's room, but I am going to be able to say to Doughton, "There is no meeting until I speak to you."

Oke doke?

Sullivan: Hope so.

H.M.Jr: All right.

(Phone conversation between Mr. MacKenzie-King, Prime Minister of Canada, and Secretary Morgenthau.)

December 5, 1940.
10:02 a. m.

HM,Jr: Hello, Mr. Prime Minister.

Mr. McK-K: Good morning, Mr. Secretary.

HM,Jr: How are you?

Mr. McK-K: Very well, indeed. I hope you are.

HM,Jr: I am calling for a little advice and a little help. I will put it bluntly and you can tell me. You know, Arthur Purvis is in London.

Mr. McK-K: Yes.

HM,Jr: And the head of the Purchasing Mission, sort of nominally, is Jean Monnet, the French

Mr. McK-K: I did not get the last.

HM,Jr: Monnet. Monnet, you know, who was head of the Purchasing Mission when France was fighting. Now, I have no confidence in Monnet. They also have Sir Walter Layton here whose position I don't quite understand. Now, frankly, when Lothian made the statement that he did when he came back, it just, well it just upset things terribly. I mean, when he came out and said that England was at the end of its rope financially. And ever since I have been back I have tried to straighten the thing out and have it in pretty good shape.

Sir Frederick Phillips is here to talk on that business. What I want, if you think

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you can help me, is to get Layton out of town and get him back to England and get Purvis to come back at once because I have nobody to talk to here and I can't work with Layton. Have you met him?

Mr. McK-K: Oh, yes! I know him. I know him.

HM,Jr: And there is no responsible head here of the Purchasing Mission and the whole thing, the whole question of England's buying, and its finances, is up. It's a very delicate thing.

Mr. McK-K: Yes.

HM,Jr: Lothian did not help one damn bit and for the good of the Empire -- and I think the sooner Layton goes back -- he said yesterday to somebody in my office that he was contemplating going back Monday on the Clipper, but he felt he ought to stay here until Purvis returned, and I think the sooner Purvis got back and Layton went home the easier it would be and the Empire would go forward that much quicker.

Mr. McK-K: Yes.

HM,Jr: I, frankly, don't think I can tell this to anybody but you, but I think Churchill ought to know this and the sooner he knows it, the better.

Mr. McK-K: Yes. All right.

HM,Jr: Because I can work with Phillips beautifully, but the whole buying program of the Empire right now is at a standstill and that includes things for Canada as well.

Mr. McK-K: Yes. Well, I will be glad to see that word goes across.

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HM,Jr: Do you think

Mr. McK-K: Oh, yes!

HM,Jr: you think you could get that to Churchhill?

Mr. McK-K: Yes.

HM,Jr: You can see my dilemma.

Mr. McK-K: oh, yes! Quite clearly.

HM,Jr: And with the peculiar situation with this Monnet here and with Sir Walter Layton here, neither of them really the head -- Layton, a perfectly nice fellow but a fussy old woman

Mr. McK-K: Yes, I know.

HM,Jr: and he gets everybody nervous. You know?

Mr. McK-K: Yes, I know.

HM,Jr: And, frankly, I don't know what his status is and really the whole purchasing program for the moment is frozen.....

Mr. McK-K: I see.

HM,Jr: and I am trying my best to unfreeze it.

Mr. McK-K: Yes. Well, I will get that word across today.

HM,Jr: Thank you so much.

Mr. McK-K: Thank you so much for letting me know.

HM,Jr: I would not call you, but really the interest of the Empire is at stake.

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Mr. McK-K: Thank you. Thank you very much indeed,
Mr. Secretary.

HM,Jr: Right!

Mr. McK-K: I am sorry I was out at the time you called,
but I just got in.

HM,Jr: If you could get that across pretty soon,
because there is a plane Monday that Layton
could go back on.

Mr. McK-K: Yes, I will.

HM,Jr: That was Layton's own suggestion.

Mr. McK-K: I don't get it.

HM,Jr: Sir Walter Layton raised the point in my --
to someone in my office.

Mr. McK-K: Should he go back Monday.

HM,Jr: Oh, yes.

December 5, 1940
10:58 a.m.

H.M.Jr: Hello.

Mr. Meekins: Mr. Secretary.

H.M.Jr: Talking.

M: I have found that Congressman Doughton is at Laurelsprings, North Carolina - that's his old home and he doesn't have a telephone there, but I have sent a message out to him that you want him to call right away and I have also sent a telegram so I'm confident he'll call sometime this afternoon or

H.M.Jr: He'll call when?

M: I'm sure he'll call just as soon as he gets that message and certainly some time this afternoon.

H.M.Jr: Well that isn't going to help me because the Speaker, Mr. Rayburn, wants this meeting in his office at 4:30 this afternoon.

M: I see.

H.M.Jr: See?

M: Yes, sir.

H.M.Jr: But if I don't hear from Mr. Doughton until this afternoon, that's too late.

M: All right, sir.

H.M.Jr: Where did you send the message from?

M: I talked over the telephone to Sparta and I learned at Sparta that he was out on his farm.

H.M.Jr: And he has no phone there?

M: No, sir, and then I sent a messenger out there to Laurelsprings to tell him to get to the telephone and call you.

H.M.Jr: I see. Well, you've got a call in to have him call me.

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M: Yes, sir.

H.M.Jr: O. K. Well, I tell you, I'll wait until - if I don't hear from him by 2 o'clock, I'll have to tell the Speaker.

M: All right.

H.M.Jr: Do you think I'll hear from him by 2?

M: Yes, sir. I'll try to make it a point that you do hear from him by 2.

H.M.Jr: O. K. Thank you so much.

M: Yes, sir, Mr. Secretary.

RE ARGENTINE LOAN

December 5, 1940
11:00 a.m.

Present: Mr. Bell
Mr. White
Mr. Pierson
Mr. Collado
Mr. Espil
Mr. Cochran
Mr. Prebisch
Mr. Ravndal
Mr. Grumbach

H.M.Jr: I don't think we really lost any time, because by Mr. Hull and myself going before Congress and getting their good will in the case of China, which is technically at war, if we can do it for them we can certainly do it for the Argentine, who is at peace, but you see we sort of have to break the ice and this is something new that we are proposing to do with you, and now that I know how Congress feels, I am ready to go ahead very rapidly, so I really don't think there is any time lost because I was under a moral obligation to consult them if a country was at war and I wasn't going to quibble with them, is China at war or is it not? I mean, she hasn't declared war. We have not invoked the Neutrality Act against her, but Mr. Hull and I having such a good reception, I now feel that I can go ahead very rapidly with you gentlemen.

Now, from my standpoint, this is my understanding that I have with Mr. Hull and Mr. Welles and with Mr. Jones and with Mr. Pierson. You have certain negotiations with the Export-Import Bank and they will go ahead with yours (Pierson's) just as rapidly as possible. Did you see them yesterday?

Pierson: Yes, we did, Mr. Secretary.

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H.M.Jr: Have you made some progress?

Pierson: We are making progress.

H.M.Jr: And we are prepared now to talk with you on what I understand you would like to talk about, an arrangement to stabilize your currency with ours, vis-a-vis, and we are prepared to talk with you on any amount up to \$50 million. Just how you would like to proceed - I mean, if you are ready figuratively to take off your coat and go to work now, we are ready.

Prebisch: Certainly, sir, we are ready.

H.M.Jr: Now, Dan, do you want to outline some of the things that we have in mind?

Bell: Well, I wondered, Mr. Secretary, if you wouldn't like to have us sort of talk about it before we come before you and see what we can do.

Our general theory was that we might enter into an arrangement to, say, purchase not to exceed \$50 million of your (Argentine) currency over a certain number of months. As you know, we do have a limitation on our power. It expires next June. We hope to get it extended, but we might have to make some arrangements to meet that situation in case it isn't extended. And then there are certain details in connection with that agreement that we might want to discuss with them.

H.M.Jr: Well, why not let's go along a little bit now. I have got an hour and let's go as far as we can and - we are talking first. We would be very glad to hear from you if you would rather take the initiative, either way that you want.

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Prebisch: I think, Mr. Secretary, if we could get some of the broad lines of this suggestion.

H.M.Jr: Right. I think if Mr. Bell and Mr. White would go ahead. Why not give them - I think the easiest way is just as though you were giving it to me. We will give you what we think you would like to have and then we will strike a happy medium. That is the way we always do.

Bell: Well, if you want to go ahead with that in that way. As I say, we would agree to purchase their currency over a period of months and we would assume that there would be a rate on that, service charge, of $\frac{3}{8}\%$ above the discount rate in the Federal Reserve Bank of New York, which at the present time is 1%, making a rate of $1\frac{3}{8}\%$ to you, and that if this transaction is with the Bank, as we assume it will be, we get the guarantee of the Government for the repurchase of the pesos.

And there are several things that we might like to discuss in connection with the further security of that operation. We understand that you are going to reduce your imports, possibly 80 million, maybe 100 million, and the other one was as to whether we could enter into an arrangement to keep, say, not pledged but unencumbered gold in the Federal Reserve Bank of New York under earmark. We understand that the pledged gold has to come out of your balance sheet, but we wanted to discuss with you as to whether or not it was possible to keep on deposit as part of your reserve under earmark in the Federal Reserve Bank in New York. I think that is about all, Mr. Secretary.

There was one other alternative. They might not

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allow their total gold reserve to go below a certain point without discussing it with us, but I think if they agree to keep the gold under earmark, that alternative might well be thrown out.

- H.M.Jr: How about the rate?
- Bell: Rate of what? On the loan or on the transaction?
- H.M.Jr: No, the rate between the peso and the dollar.
- Bell: Well, that certainly is a matter for discussion.
- White: That is something we would have to discuss.
- H.M.Jr: It is very important.
- White: Yes, it is. We wanted to see whether we couldn't get a rate which, in line with the Secretary's earlier suggestion of what he wanted, we could have closer monetary cooperation between the two countries, whether we couldn't get a kind of rate which would be mutually satisfactory, which would be beneficial, and about which the rate could be stabilized during the intervening period. The rate of interest that Mr. Bell referred to would be the interest that you would pay on deposits of pesos. I mean the pesos would be with the central bank to use as they see fit, re-lend or anything else. It would be an interest rate on those peso deposits and the interest rate would apply only in so far as we bought pesos. It wouldn't apply to the whole amount, because the purchases - when and as needed.
- H.M.Jr: Before we get down to details, there is one

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subject that I would like to bring up. I don't know how much has been done, but we all know that the English own a lot of your securities. Sir Frederick Phillips arrives here tomorrow. He is in the country now to talk about English finance. Well, when we talk to them about the English finance, I would like to talk to him some about the securities which they own in your country and what disposition they have in mind in regard to those. Now, has any progress been made with this - what is his name?

Cochran: D'Arcy Cooper.

H.M.Jr: Have you gentlemen seen D'Arcy Cooper?

Prebisch: We had a very short talk nearly two weeks ago, but without any decisions on any matters.

H.M.Jr: Did you, as we say, get anywhere?

Prebisch: Well, we had no dealing with them but only a general discussion of the possibilities of doing some arrangement with you and them.

H.M.Jr: But nothing definite?

Prebisch: Nothing definite, because we thought that before speaking with you it would not be convenient to exchange more than a general idea with them.

H.M.Jr: Did they talk about English-owned securities in the Argentine?

Prebisch: We talked about the possibility of using their investment there in Argentina as a basis for

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liquidation of our block of exchange and perhaps as a way of getting dollars for additional repatriations of investments, so that at the same time two problems would be involved. First, the transfer of investments to our accounts, and second the helping - the provision of dollars to them.

- H.M.Jr: But that is - you didn't get anywhere?
- Prebisch: Only a general conversation.
- H.M.Jr: Now, this other Englishman - is he in your country now, Lord something?
- Prebisch: Yes, Willingdon, but I understand he is not studying that matter, only commercial matters.
- H.M.Jr: Well, I am sure the State Department would have no objection. Could that question be brought here to Washington so that you two gentlemen could have the authority to talk to me about it?
- Prebisch: Certainly. In our instructions we have the authority.
- H.M.Jr: You have?
- Prebisch: And in our memorandum we put this matter, too.
- H.M.Jr: You have the authority?
- Prebisch: Yes, sir.
- H.M.Jr: Because I just assumed as Sir Frederick Phillips gets settled I would like very much to meet with you and with him here and put all of our cards on the table, if that is agreeable.

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Prebisch: Certainly, sir.

H.M.Jr: Purely on the financial side, you see. I mean, I am not talking about the trade, but from the standpoint of - well, England needs more dollars, both to buy in the Argentine and here, and I have always had in mind that - the possibility of a three-cornered arrangement which would be mutually agreeable to everybody. But would it be agreeable?

Prebisch: Yes, sir.

H.M.Jr: So somebody else isn't doing that. You are not talking about that to anybody else in this Government.

Prebisch: No, no, no. We have no talk.

H.M.Jr: You don't know --

Collado: No, that question hasn't been taken up.

H.M.Jr: Well, when it comes to the question of stabilizing the currency and the question of making more dollars available, it is very important and I would like to - I mean, take it into the whole picture, if that is all right, Mr. Ambassador.

Espil: We have instructions to go over it.

H.M.Jr: Now, on that question, have you got a pretty good list of what the English own?

Prebisch: We have all the information that you may require.

H.M.Jr: Have you checked that against ours?

Prebisch: No, we have not.

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White: I haven't gone into that with them at all.

H.M.Jr: Well, could you begin to do that immediately?

Prebisch: Certainly, sir.

H.M.Jr: So that we could say, "Well, this is what we have. We will show you what we think they own and you can say, 'Well, this is what they really own,' and give us some idea of what it is worth."

Prebisch: Yes, sir.

H.M.Jr: You see.

Prebisch: We have all the available information in our hands.

H.M.Jr: Because I have always felt that the time would come, and it so happens that I am not, I don't think, revealing any secrets. When I took Sir Frederick to see Mr. Roosevelt, he raised that very point with him, "What are you going to do about your South American securities?" That is when he was here in July. So the President himself has it very much in mind. So if we could begin by getting a sort of a - so that we could really know what they have, then you could say to us, "Well, these - this is what they are worth if they force them on the market and this is what they are worth if they were liquidated over a year, and these have a ready market and these haven't," and the whole question of - if you could give us suggestions; for instance, if it was a street railway, if the street railway was given so much time they could buy them themselves and resell them to your public. I don't know whether that is a good example, but there must

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be certain corporations which they own which, if these corporations had time or even possibly a little assistance from us, you see, that over a period of time they could buy them, maybe resell them back to your public or something.

This interests you, doesn't it?

Prebisch: Yes, sir.

H.M.Jr: Because I should think it would, just the way we are interested in buying back our own companies which are held by England, English stockholders. So I am personally very much interested in it and so is Mr. Roosevelt and I would like to go forward on that whole front. And you (Collado) tell that to Mr. Hull and Mr. Welles. I am sure they have no objection. And you (Pierson) -- are you acquainted with this end of it?

Pierson: Just in passing. I haven't anything to do with it.

H.M.Jr: Well, we are not going over the same ground?

Pierson: No.

H.M.Jr: I think you would be interested, too, wouldn't you?

Pierson: I would.

H.M.Jr: I mean, but you haven't covered this ground?

Pierson: No.

H.M.Jr: I just wanted to make sure that I am not doing something that somebody else might do better. I wanted to bring that in.

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- elli: Mr. Secretary, Dr. Prebisch suggested a discussion on that as one of the points he brought out here in his memorandum that he submitted to us. He said for discussion of the following possibilities or alternatives between the scope of the agenda prepared by the Treasury - and he means his Treasury - and he has listed triangular operations with Great Britain. The frozen sterling representing --
- H.H.Jr: I am familiar with that, but on account of Dr. Prebisch being here I didn't know that possibly he had covered this with somebody else and I knew that these two separate English missions - there are really three. There is this M'Arcy Cooper and Lord - what is his name? Willingdon. And now there is Sir Frederick Phillips and there are really three separate missions and I just don't want to be treading on somebody else's toes, but I think Sir Frederick is the man to take it up with.
- Prebisch: Because it is our understanding that Lord Willingdon is only dealing with trade matters, not any financial matters.
- H.H.Jr: I see.
- White: Mr. Secretary, that was the first one on the agenda that the Treasury sent Argentina to be discussed here, so it is quite appropriate. They will expect it.
- H.H.Jr: Good, but I mean you haven't got down to the point of getting their list or suggestions. You see, I would very much like it if they would say, "Well, they own the 'KYZ' railroad company. This is what might be done with this. They own some packing companies,

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a meat company. Well, this can or cannot be liquidated." If it was forced, it is worth so much and if they had a year, it would be worth so much. You know.

Prebisch: I see.

H.M.Jr: Is that possible to get?

Prebisch: I think so.

H.M.Jr: If not, you can call for it.

Prebisch: I have many informations here, but any additional information that you may want it is very easy to get on the phone.

H.M.Jr: Well, if we could have a kind of over-all picture, a list of these companies, on forced sale they are worth so much. Given time, they are worth so much. And then a possible suggestion as to how you think best to repurchase those securities and get them into the hands of the citizens of the Argentine. Have you given us your position vis-a-vis England as to the exchange situation?

White: Yes.

H.M.Jr: Have you got all that?

White: Yes.

H.M.Jr: And you have got also where they stand as to their sales and purchases from England?

White: Yes. They have supplied us with all the information very quickly that would fill out the picture, but we didn't want to touch on those items because there were

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several items in the agenda which we hadn't taken up.

- H.M.Jr: I have said my say. Now, what suggestions have you got, Dr. Prebisch? Where would you like to start?
- Prebisch: Start with this \$50 million arrangement. You were referring, Mr. Bell, to an arrangement per month. You have an idea in mind about the length of this operation?
- Bell: Well, the maximum operation would be June 30, 1941.
- Prebisch: '41?
- Bell: We said we would buy up to \$50 million of pesos over a period of months. We would have to complete the operation or make some provision for it up to June 30, 1941.
- White: With this modification, Dan, that we talked about; that is, that the dollars will be available to you throughout the year, per month, but it may be necessary for us to make some arrangement by virtue of our special laws that - with which we would have to complete the arrangement by the end of June. However, so far as Argentine is concerned, it will be spaced over a 12 months' period, because all our figures and all our examinations that we had talked about were for a yearly period, so that we would have to fix it on our books for a six-months' period, but so far as the arrangements with Argentina --
- Bell: We would have to make some arrangements in June, that is what I meant.

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White: It may not be necessary, but if it is necessary, the arrangements would have to be made in June.

Prebisch: And after this time has elapsed, we have to pay in the gold that we make - may put as a reserve?

White: Well, there were several possibilities which we haven't discussed and those are some of the things which we want to discuss and that is that there is no specific time limit. I thought that we would purchase the Argentine pesos as mutually satisfactory at that rate, depending upon what the circumstances are at the time, and if, for example, you export more than you anticipate at the moment, if business booms, then you won't need as many dollars and there would be less purchased during those current months. If you need more, there would be more, providing it was within that sort of average rate. But the arrangement would probably be that you would agree to repurchase those pesos at the price we pay whenever it is requested of you with some reasonable notice, with the understanding, I take it, that if things go along nicely, as we both expect, there won't be any such request.

Now, when it comes to the end of the year I think the situation - or sometime before the end of the year - would be reexamined. I take it that that is --

H.M.Jr: Which year?

Bell: '41.

White: Several months before the end of '41, I take

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it that you will want to reexamine the situation from the circumstances then prevailing.

H.M.Jr: You want to make plain that our authority expires June 30, '41, but we can commit ourselves to the full amount. We are able to commit ourselves.

Prebisch: And to --

H.M.Jr: That wouldn't mean you would have to repay it. They will explain it to you further. We can have that amount outstanding.

Bell: That amount can be outstanding even after June 30. There is no limit on that.

Prebisch: Yes.

H.M.Jr: As a matter of fact, your (Pierson's) bank authority expires June 30, doesn't it?

Pierson: No, we have extended it to June 30, '47.

White: You see, Mr. Prebisch, that would be in the nature of a stabilization operation as distinct from a loan. That is, as we acquire pesos with mutual agreement as to the amount, then we have on deposit pesos. Then the other end of the operation, the conversion of pesos to dollars, might take place at any time thereafter if the conditions were suitable, but that would be dependent entirely on the circumstances. But the way we were thinking about it is that we would probably give you some notice, although we don't anticipate the kind of conditions that would require that in the near future.

Prebisch: Can I ask how this operation would work in our present circumstances? For instance,

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now we know that we have a deficit of 160 million dollars in our balance of payments for 1941. A part of this deficit is going to be covered by the loan made by the Import-Export Bank to the amount of 60 million dollars. Our part would be eliminated by drastic import restrictions. The other may be covered by gold exports of our reserves and by this stabilization operation. Now, according to the figures, we may be quite sure that at the end of 1941 in order to pay that amount it would be necessary to pay in gold, because we cannot expect for next year any increase of our exports in substantial amount so as to pay for the 50 million dollar advance. Then in that case is it possible to make a new operation or would it be necessary to take the 50 million dollars of gold that we would have put aside in order to pay for this advance?

White:

Well, I take it that, as the Secretary has indicated, that 50 million might be a revolving fund. If that is what you are speaking about, that 50 million - if you are speaking about the circumstances that would prevail at the end of the year as to your future needs, I take it that is something you would discuss some time in the summer. That is what your idea was, that that 50 million might be revolving if the circumstances were satisfactory?

H.M.Jr:

You see, the thing we are trying to do here, the fundamental thing, I told the newspaper men - they asked me about this thing - I said, "All the contracts in the world aren't worth the paper they are written on if there is not good will and faith between the two governments." Now, we have faith in you.

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We want - the good will is there and I know we have to have something in writing, but I would much rather have the word of you two gentlemen than all the contracts in the world, because no sooner than the ink is dry it isn't worth the paper it is written on if there isn't good will and confidence between the two governments, and that is what I told these newspaper men.

Now, what I would suggest - because I think if - I don't know whether the Ambassador wants it, that is up to him, but if we could adjourn and you could go into Mr. Bell's room. Are you available?

Bell:

Yes.

H.M.Jr:

And I think you gentlemen can just get down to business and when it gets down to something that needs my consultation or something, Mr. Bell and Dr. White and these others are ready to go, as we say, full speed ahead.

Prebisch:

All right.

H.M.Jr:

So it is just a question of how fast you can work.

Prebisch:

We are prepared to begin our work.

H.M.Jr:

They are prepared to, so I think if they could adjourn --

White:

Well, we will first take up these stabilization operations and then we will need additional time for the security matter.

H.M.Jr:

Bell, I think you might - I forgot about it.

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It is an oversight on my part. I think you might call up Mr. Eccles and ask him to send Dr. Goldenweiser over and he can sit in. Then they know what is going on.

- Bell: I went over the two matters now before us with him last night and he is not much inclined to sit in on all of them but only be consulted at such times as the operation would increase bank reserves or something of that kind. He is not inclined to go as far as the Chairman would.
- H.M.Jr: He doesn't want to sit in?
- Bell: He will if we want him to and he is perfectly willing to sit in, but he doesn't think they are interested except when the operation actually affects bank reserves.
- H.M.Jr: Does the Chairman know that? We will talk about it.
- Bell: I don't think so. Probably not.
- H.M.Jr: But it is not necessary to have him come in?
- Bell: No. We can keep him advised.
- H.M.Jr: All right.

Well, I think if you can go in with Mr. Bell, who is just across the way, and then I will see you again as soon as it is necessary.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

December 5, 1940

MEMORANDUM FOR THE FILES:Subject: Conference with the Argentine representatives

Those present were: Ambassador Espil, Dr. Prebisch, and Mr. Grumbach representing Argentina; Mr. Pierson representing the Export-Import Bank; Mr. Collado and Mr. Ravndal representing the State Department; Dr. White, Mr. Cochran, and myself representing the Treasury.

This conference was a continuation of the conference in the Secretary's office, at which, in a general way, we went over the proposed Stabilization Fund operation with the Argentine Central Bank. I asked Dr. White if he would explain to the Argentine representatives the nature of our previous transactions in the Stabilization Fund and point out how this transaction differs and the reason for some of our requirements.

Dr. White said that the agreements that we had made with other central banks have been for the purchase of their currency over a certain period with full security of gold pledged and held in the Federal Reserve Bank of New York. This proposed transaction with Argentina would be of the same general character; namely, that the Secretary would agree to purchase not to exceed \$50,000,000 of Argentine pesos during the calendar year 1941 at a rate of not to exceed a certain number of pesos a month. He called attention to the fact that the authority under the Gold Reserve Act for operations in the Stabilization Fund expires on June 30, 1941, and that while the Treasury could not continue to operate after that date, we could, before its expiration, make the dollars available in such form that they could be used by Argentina after June 30, 1941. He also said that the dollars advanced by this Government for the purchase of Argentine pesos could be used as a revolving fund during the period of operation.

He told the Argentine representatives that it had been a definite policy that because of the nature of our law and the type of transactions which we are authorized to carry on under the Stabilization Fund authority, it was necessary for us to require the Central Bank to enter into an agreement to repurchase the currency acquired by

the Stabilization Fund at any time the Secretary of the Treasury might request, with, of course, a reasonable notice in advance. He also told them that this arrangement with the Central Bank should be guaranteed in all of its aspects by the Government. Dr. White also told them that the rate at which the pesos were to be purchased should be the subject of further discussion and that the pesos so acquired should be repurchased at the same rate. The pesos so purchased by the Fund would be deposited to our credit with the Central Bank of Argentina and the Central Bank should agree to pay the Treasury $1\frac{1}{2}$ per cent per annum on such balances, this being $\frac{1}{2}$ of 1 per cent above the discount rate of the Federal Reserve Bank of New York. The representatives from Argentina were also told that this arrangement could be made for the calendar year 1941 and that before the end of the calendar year, certainly early in the fall, we should reexamine the whole situation with a view to either extending the arrangement for another year, at which time, and in which case, the rate of interest for the second year could be established, or requesting repurchase of the pesos so acquired.

We also told the representatives that we fully appreciated the reasons for not wanting to pledge gold for the pesos purchased, and we wondered if the same thing could not be accomplished by having an informal understanding that the Central Bank of Argentina would keep on deposit with the Federal Reserve Bank of New York under earmark unencumbered gold in an amount of approximately 10 per cent in excess of the dollars advanced for the purchase of Argentine pesos. This would not be a direct pledge, but if conditions radically changed in Argentina and another group came into power, the Stabilization Fund would be protected against loss. We were not worried about the present government or the present outlook, but conditions over the world are changing so fast that we would like to have more than just the usual protection through a government guarantee.

Dr. Prebisch said that he appreciated our position but they would much prefer to have this strictly on a government to government basis and if this government is willing, as the Secretary had indicated, to trust the Argentine government, he would like to leave out any questions concerning their gold reserves. I asked him if he would prefer to have the arrangement go to the total reserve; for instance, we could agree that whenever the total Argentine gold reserve fell below a certain point, say \$250,000,000, we could then reexamine the situation and determine where we should go from that point. Dr. Prebisch said that in his mind this is in effect the same as the former suggestion. He said that any arrangement made with the United States, either formal or informal, must be published and if it is shown that there is a moral pledge of any of their gold reserve, he feels that it is going to do much harm to Argentina. He feels quite strongly that this government must trust the Argentine government in this matter and look to its past debt record for its security.

When asked as to what he contemplated as a matter of policy as to the amount of gold which would be kept on earmark in New York over the next year or so, he replied that he could not conceive of any reason why the present policy of keeping a substantial amount of gold in New York would be changed and if it were necessary in the course of the next few months to substantially reduce the gold now under earmark, he would immediately replenish it by shipping other gold from Argentina and in all probability he would ship even more gold to indicate to the United States that his government was not concerned about keeping a large part of their gold reserve under earmark in this country.

We told Dr. Prebisch that that was a matter we would like to have him think about and we would discuss it at a later meeting, which was fixed for Friday, December 6, at 11:30 A. M.

Clms

Treasury Department
Division of Monetary Research

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Date Dec. 5, 1940.

To: Secretary Morgenthau

Report on Argentine conversations
held with Export-Import Bank

MR. WHITE
Branch 2058 - Room 210

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 5, 1940.

TO Mr. White

FROM Mr. Coe

Subject: Report on Conversations on Export-Import Loan to Argentina

Present: Messrs. Prebisch and Brumbach (Argentina),
Messrs. Pierson and Clayton (Export-Import Bank),
Mr. Ravndahl (State) and Mr. Coe (Treasury).

Proposed Loan

Mr. Pierson proposed that the present \$20 million credit be extinguished and a new credit of \$60 million be extended. Of this \$5 million could be drawn monthly for the next twelve months. Maturity would be six years. Amortization would begin eighteen months after the first availment (middle of 1942) and interest and amortisation would be paid semi-annually. Interest to be 4%.

After discussion a second meeting was arranged for Thursday at 2:30 to enable Argentina to look at the Treasury terms before the final decisions were made.

Interest

Dr. Prebisch thought that the interest rate of 4% was too high. He explained he thought Argentina needed money at any rate, but that they had even hoped for 2%. The probability that the interest rate on the Treasury Stabilization operation would be low enough to make the overall average low was mentioned to him.

Maturity

Dr. Prebisch said that duration was the most important aspect. He was disappointed in the six-year maturity and said he feared the annual payments (\$10 - \$11 millions) might cause them difficulties which he would prefer to avoid.

Argentine Argument

The main Argentine argument is that a high interest rate and a short-term loan will look bad in Argentina and will defeat the object which is being sought, namely a new phase in United States-Argentine relations.

Export-Import Bank Argument

Messrs. Pierson and Clayton emphasized that the Export-Import Bank had to pay 3% for its money and that it would be embarrassing to charge different interest rates to different countries. They said 6 years was the longest loan they had yet made.

Miscellaneous

Imports — Mr. Prebisch corroborated the Argentine desire to restrict imports to \$300 million. (This will involve a 65% reduction in the imports from the United States of automobiles and agricultural machinery). Mr. Pierson hoped that none of the loans would be used to stimulate competition with American enterprises — he mentioned particularly oil.

Mr. Pierson said that they would use commercial bank funds with the RFC guarantee.

Announcement

Argentina would prefer that the public announcement of these 2 operations should not lay stress on the fact that loans are being made, but should state that available exchange for essential imports is being made possible. The announcement will emphasize the present operations as items in a new program of United-States-Argentine cooperation.

December 5, 1940
2:05 p.m.

H.M.Jr: Hello, Bob?

Operator: Just a second.

Robert Doughton: Hello.

H.M.Jr: Bob, this is Henry talking.

D: Yeah, I understand you. What's the story?

H.M.Jr: Well, the story is this. I was planning to see Sam Rayburn and some of the men from the Ways and Means Committee late this afternoon.

D: When?

H.M.Jr: Late today.

D: Well

H.M.Jr: Unless you were coming back to town and then if you were, I'd wait.

D: No, I'm not coming back. If I had known anything about it I would have been glad to have stayed over.

H.M.Jr: Well I didn't know anything about it until today myself. It's in connection with our financing next week and I wanted to get some advice as to whether we should get out a tax-free issue or an issue which will be taxable. You see?

D: How's that?

H.M.Jr: I wanted to get some advice that should we, - the next financing we do, should it be tax-free or should it be an issue which will be taxable, and this matter only came up today and I don't want to do something which will make it more difficult when I come before you to get my debt limit increase.

D: Well are you going to have to decide it right soon?

- 2 -

- H.M.Jr: Well, I've got to decide it between now and Monday.
- D: Well, I'm sorry I left up there. Why McCormack is there and Cooper. I suppose John is there - John McCormack and I suppose Cooper is there and Pat Harrison, I reckon, and Senator George - Senator Harrison and Senator George.
- H.M.Jr: Yeah. Well, I didn't want to do anything without first talking to you.
- D: Well, that's very kind. I appreciate that but I don't know enough about it just on long distance this way to offer an opinion that I would consider worth anything myself.
- H.M.Jr: Well, I was going up to see the Speaker. I am going to do it up there. I don't know whether there will be any publicity or not, but you know how it is, and we only met yesterday with the Federal Reserve Board and there was so much difference of opinion and I don't want to do something so that when I come up before you next month it will make life that much more difficult.
- D: Well, wouldn't it be a little unusual to do that unless there was some legislation, in fact, you've been issuing them all tax free haven't you? They've all been sold free of taxes.
- H.M.Jr: Yes, but you gave me the right to issue 4 billion of tax defense notes.....
- D: Yeah.
- H.M.Jr: which pay no taxes.
- D: Yeah, that's what I thought.
- H.M.Jr: And I can also issue some long-term bonds which are partly tax exempt and I just don't know, and I wanted a little advice.
- D: Well, if you can't take care of it with a short term obligation of some kind and you all get together, why just go ahead and use your own judgment about it. I'd rather have your opinion about that than mine anyway.

- 3 -

H.M.Jr: Well, I just

D: That's not purely a matter of taxes, you know.

H.M.Jr: Yeah, but I just wanted to talk to you. I didn't want to talk to anybody on the Hill until I cleared it with you.

D: Well, I appreciate that very much. But whatever you folks that you think wise to call into conference about it decide to do, why I'll stand by you, whatever it is.

H.M.Jr: Well, that's all I want. I just want to know that you're behind me.

D: Whatever you and the Speaker and John McCormack and others you want to call in decide - if you want to call in some members of the Finance Committee - whoever you want to call.

H.M.Jr: Well, I'll call up Sam Rayburn and I'll ask him to arrange the meeting.

D: All right. Is that all?

H.M.Jr: That's all.

D: Well, thank you. Good-bye.

H.M.Jr: Good-bye.

December 5, 1940
2:09 p.m.

H.M.Jr: Hello.

Operator: Speaker Rayburn is presiding.

H.M.Jr: He's presiding. Well, who's in his office?

Opr: You mean in the Speaker's office or in his own office.

H.M.Jr: In the Speaker's office.

Opr: All right. (Pause). Mr. Wright.

H.M.Jr: Let me talk to him.

Opr: Go ahead.

H.M.Jr: Hello.

Mr. Wright: Mr. Secretary.

H.M.Jr: Yes.

W: This is Ted Wright speaking. Mr. Rayburn is over - the House is still in session.

H.M.Jr: Well, that's all right. Now, I wonder if you could do me a little favor?

W: Yes, sir.

H.M.Jr: I was talking this morning with Jere Cooper about coming up on the Hill and giving a little informal talk with some of the boys on one of my financing problems and he was talking with the Speaker and the Speaker suggested we hold it in his office at 4:30.

W: That's today?

H.M.Jr: Today. Now, could you get in touch with the Speaker and Jere Cooper and fix it up?

W: I sure will. Mr. Rayburn - he's going home this afternoon.

- 2 -

H.M.Jr: I can be there at 4:15 if they want me.

W: 4:15?

H.M.Jr: Yeah. I understood that the Speaker didn't want it until 4:30 but I can be there at 4:30

W: Well, I'll arrange it for 4:30 and then if there is any change, why I'll call you.

H.M.Jr: Yeah. Now just one little thing - if there is any publicity on it, see, for God's sake say it was done after we consulted Chairman Doughton.

W: Yeah.

H.M.Jr: I just got through talking with Doughton and he knows about it and it's all right. But if there is going to be anything, please, please say that we did it after talking with Doughton.

W: Oh, I sure will. I won't let anything out.

H.M.Jr: I mean to bring Doughton's name into it if there is any publicity.

W: Well, now, that's the only two

H.M.Jr: No, as I understand it, Mr. Cooper is going to have all the Democratic members of Ways and Means there.

W: Oh, I see.

H.M.Jr: See?

W: Un-huh. All right, Mr. Secretary.

H.M.Jr: All the Democratic members of Ways and Means who are in town.

W: All right, Mr. Secretary, I sure will.

H.M.Jr: I'll leave it in your hands?

W: That's right.

H.M.Jr: And you'll contact Cooper also.

W: Yes, sir. Sure will.

H.M.Jr: Thank you.

W: Good-bye.

December 5, 1940
2:51 p.m.

H.M.Jr: Hello.

Operator: Duffield.

Eugene
Duffield: Hello.

H.M.Jr: I hear this is your busy day.

D: Gee, this has been a terrible one.

H.M.Jr: Good.

D: I thought I'd come over if I could late this
afternoon after 4 o'clock if not tomorrow
morning.

H.M.Jr: Well, my trouble is that I have - I'm solid
right through now.

D: I see, the rest of the day.

H.M.Jr: Yeah. Are you alone?

D: No, I'm not - that's the trouble.

H.M.Jr: I see.

D: As I told Mac you're not losing anything by
this delay, I can assure you. (Laughs).

H.M.Jr: I don't know what that means.

D: That means I'm leaning

H.M.Jr: Leaving?

D: Yeah.

H.M.Jr: Leaving

D: Your way.

H.M.Jr: Leaning.

D: Yeah, leaning.

H.M.Jr: Oh, leaning.

D: Yeah.

H.M.Jr: Well, lean a little heavier.

D: (Laughs). O. K.

H.M.Jr: Well, now do you want to make an appointment for tomorrow before I get all booked.

D: Yes, I'd like to. Anytime you say tomorrow.

H.M.Jr: Well, why not let's say - will you be in town by 10 o'clock?

D: Yeah. Fine.

H.M.Jr: I'll put you down for 10 o'clock.

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

H.M.Jr: All right.

D: Yeah.

December 5, 1940
3:02 p.m.

H.M.Jr: Hello.

Pat
Harrison: Hello, Henry.

H.M.Jr: Hello, Pat.

H: How are you, sir.

H.M.Jr: Is this Pat Harrison?

H: Yeah.

H.M.Jr: How are you?

H: I just got

H.M.Jr: Yeah. Pat, I felt - we've got to do some financing next week, see, and I'm kind of in a quandary and I don't want to make a move which will make it more difficult for me to get my debt limit or on our tax exempt, and I wondered if I couldn't come up tomorrow and see some of the Senators and just talk it over a bit.

H: Well, when do you want to see me?

H.M.Jr: Well, any time tomorrow afternoon.

H: Tomorrow afternoon. Who do you want me to have here?

H.M.Jr: You say the place.

H: Huh?

H.M.Jr: You name it.

H: Well, do you want me to have some other fellows here?

H.M.Jr: Yeah.

H: Uh-huh. I don't know who's here - Walter George is gone. He left this morning.

H.M.Jr: I see.

- 2 -

H: Of course I can get any of these fellows that are in town. But I'd rather find - suggest who you think.

H.M.Jr: Well, any of your members. Would you have Republicans there or not.

H: Well, I don't think so.

H.M.Jr: I didn't either. Well, whatever Democrats are in town. I'd just as leave have Harry Byrd there if he's there.

H: Well, we can have - pretty good idea to have him here. I'll see if he's in town. Not many of these fellows are here. Alben Barkley is out of town, and you just want two or three?

H.M.Jr: Yeah. I'll leave it with you, I mean, whatever you think.

H: What time is satisfactory?

H.M.Jr: Well, 4 O'clock - is that too late?

H: Well, anytime you say will be all right.

H.M.Jr: Well, is that a good time on the Hill?

H: Why I think it would be about as good as any.

H.M.Jr: Well, supposing we say in your office.

H: Yeah, I think that is better.

H.M.Jr: Your office 4 o'clock.

H: Yeah.

H.M.Jr: O. K. I'm seeing some of the fellows on the House side this afternoon.

H: Yeah, all right, Henry. Say 4 o'clock.

H.M.Jr: I'll be at your office at 4 o'clock unless I hear to the contrary.

H: All right, Henry.

H.M.Jr: Thank you.

Ford Motor Company

OFFICE OF THE PRESIDENT

ROUGE PLANT
DEARBORN, MICHIGANDec. 5, (see ltr to
1940
Mr Ford of
12/3)

Hon. H. M. Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In answer to your letter of
December 3rd, 1940, requesting certain
information relating to airplane engine
production and orders, I have directed
our Auditing Department to send the in-
formation you desire to Mr. G. C. Haas,
Director of Research and Statistics.

Yours very truly,

Edsel Ford
President

EBF:C

December 5, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



The memorandum which I showed you yesterday in regard to a rumored secret shipment to Italy from the United States, by way of Brazil, of a steel hardening element which may be titanium, is a paraphrase of a code message from the Naval Attache in Rome. We have asked Naval Intelligence to try to get us by cable to Rome all possible details, including source of information.

We have also given instructions through Customs to check most carefully all shipments to South America, especially by air from Miami and Brownsville, and to check back on the report received yesterday that boxes of tungsten rods and discs unlicensed went by steamship to Buenos Aires by air to Recife and thence by the Italian Lati Air Transport Service to Rome.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 5, 1940.

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Financing

As you brought out in the discussion this morning, it seems that (1) the aim of not issuing any more tax-exempt securities, pending Congressional legislation on that subject, and (2) the aim of placing future debt issues as far as possible in the hands of real savers, each of which is desirable in itself, apparently conflict under present circumstances. You might wish to consider in this connection the following proposal, which is very similar to a suggestion which you made at the meeting yesterday. This proposal is as follows:

(1) The refunding of the 1-1/2 percent notes and the 3-3/8 percent bonds be postponed until March, unless legislation removing tax exemptions from future issues of Federal, State and local securities can be obtained before that date;

(2) The cash necessary in the meantime be raised by the sale of a one-year Treasury note, National Defense series. This note would be made as fully taxable as is permitted by present law -- i.e., it would be subject as to interest to the Federal income tax, including both normal tax and surtax, but would be fully exempt from all State and local taxation.

From the point of view of tax exemption, the suggested course of action could lay the foundation for a vigorous campaign on the subject. If this campaign had not succeeded by the time for the March financing, it would probably be possible to refund the notes and bonds then maturing into long-term, partially tax-exempt securities without adverse criticism, as Congress would have been given an ample opportunity to clear the way for the issuance of such securities as fully taxable. The impendency of the March financing might indeed be turned to good advantage as an argument for prompt action on the proposal for the removal of tax exemptions. This argument would not be good, however, if the issues due or callable in March had already been refunded and the issue expected to be refunded in March was not due until June.

Secretary Morgenthau - 2

From the point of view of the bank deposit problem, the suggested course might appear at first sight entirely unsatisfactory. It is true that the proposed one-year Treasury note would be chiefly absorbed by the banks, and so would result in a further increase in bank deposits. This in itself is undesirable, but could be reversed in one year by refunding the notes upon their maturity into long-term taxable securities.

This, it may be objected, is merely to say that the effect of the suggested course of action on the volume of bank deposits would not be too bad and could be soon reversed. From a broader point of view, however, it may be urged that the suggested course of action might be a more effective way of dealing with the bank deposit problem than would be the issuance of long-term securities without delay. This is because the elimination of tax-exemption provisions from future issues of Treasury securities would make far more feasible than at present a drive to place as large a proportion as possible of the increase of the Federal debt in the hands of private investors. A temporary deviation from the policy of issuing long-term securities, therefore, if it helped the legislative prospects of the proposal for the removal of tax exemptions, might be more effective in the ultimate solution of the bank deposit problem than would be the issuance of a long-term security at this time, if such issuance would materially impair the legislative prospects of the tax-exemption proposal.

DEC 5 1940

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My dear Mr. Secretary:

Thank you for your letter of November 30, 1940, enclosing a copy of a letter from Mr. Elias Kly, setting forth a plan to extend financial aid to Great Britain. The substance of this plan is to have the Treasury sell one to two billion dollars of gold to Great Britain, payment to be in the form of a special issue of sterling which may be resold over a period of twenty-five years, beginning two years after the end of the war.

There are legal obstacles to the use of the gold in the Treasury in the manner proposed by Mr. Kly. Excluding the Stabilization Fund, the Treasury held \$20,015 million of gold on December 2, 1940, for the following purposes:

Gold certificates outstanding, in the gold certificate fund, and in the redemption fund	\$19,662 million
Statutory gold reserve against United States notes and Treasury notes of 1890	196 "
Held in the general fund	197 "
Total	20,015 "

Aside from a comparatively small amount in the general fund, the gold in the Treasury, it should be noted, is held for specific purposes provided by law. Under the terms of the Gold Reserve Act, the amount of gold certificates issued and outstanding may at no time exceed the value of the gold held against those certificates. The gold set aside for this purpose cannot be used except to retire the gold certificates. The statutory gold reserve against United States notes and Treasury notes of 1890 must be maintained.

I should like again, however, to thank you for submitting Mr. Kly's plan to me.

Sincerely,

(Signed) E. Morganthau, Jr.

Secretary of the Treasury.

CC to Mr. Thompson, balance of copies to Room 210.

The Honorable,

Secretary of the Interior.

gac
236 vrc
ADMINISTRATIVE
12/1/40
HBN

FILE COPY

By Memorandum 330



THE SECRETARY OF THE INTERIOR
WASHINGTON

November 30, 1940.

My dear Mr. Secretary:

I am forwarding to you for whatever consideration it may merit, a suggestion by Mr. Sims Ely of a plan which might enable us to provide Great Britain with a large sum in gold from our supply.

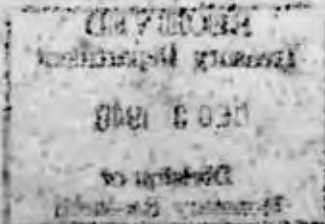
Sincerely yours,

Harold T. Johns

Secretary of the Interior.

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

Enc.



UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
WASHINGTON

November 15, 1940.

OFFICE OF THE COMMISSIONER

Personal

Dear Mr. Secretary:

The subject of this letter is a plan I have been thinking about, which might enable our Government to provide Great Britain with a large sum in gold, from our supply, through a method which, I believe, would have the almost unanimous approval of our people. If in your own good judgment you find it a sound plan, I should like for you to pass it on to the President, with my personal greetings. The other day, in a visit with Mr. G. H. S. Pinsent, the Financial Counselor of the British Embassy, I gave him an outline of my idea; I have not mentioned it to anybody else.

The central thought, of course, is to provide financial aid for Great Britain in such a way as to avoid complaint that we are sending good money after bad in now going to the assistance of a nation that is in default on its debt to us. Accordingly, the following would seem to be a simple procedure, quite readily understandable by the man in the street, and certain to have his approval.

1. Let Great Britain buy our gold, in the sum of (say) one billion dollars (it might be desirable to make the amount two billions);
2. Let payment be made in the form of a special issue of Sterling, to be made for this purchase; the value of the pound in this transaction to be its average value through a ten-year period ending now;
3. Let this issue of Sterling be lodged with the U. S. Treasury, for redemption through a period of (say) 25 years, beginning two years after the end of the current war, such redemption to be in equal annual installments.
4. Redemption would be made with Dollars; or, with any foreign exchange acceptable to the United States at the time of each redemption. (Other foreign exchange would be acceptable to us, in cases of adverse trade balances against this country.)
5. No interest would be paid by either party.

I don't know whether the mechanics of this Repurchase Agreement to be performed by the British government as here suggested would be in violation of the Johnson Act. But if congressional authorization be necessary, this device of requiring collateral to be put up by the British government, the same to be redeemed in annual installments, would not only be understood by the man in the street, but popular approval of the plan should do away with any serious opposition in Congress.

This plan, I would add, would seem to be preferable to the simple use of the Stabilization fund--for the reason that mechanics of the Stabilization fund constitute considerable mystery for the average man.

Very truly yours,


Sims Ely.

Honorable Harold L. Ickes,
Secretary of the Interior.

December 5, 1940

My dear Mr. Secretary:

In connection with a study of some aspects of the Canadian internal revenue tax system, the Treasury Department desires to send Mr. Roy Blough, Director of Tax Research, to Canada for a period of approximately two weeks. It is respectfully requested that the Department of State ascertain as promptly as possible whether the projected trip is agreeable to the appropriate Canadian authorities. Any assistance which the Legation can render in connection with Mr. Blough's mission will be appreciated.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

The Honorable

The Secretary of State

(Not mailed here. Given to Mr. Ecker-Race to transmit to Mr. Wallis, State Dept., Canadian desk. He has filed.)

CC to Mr. Thompson.

L-R/nr
12/5/40

UNOCCUPIED FRANCE

and the

AMERICAN FRIENDS SERVICE COMMITTEE

Neutral observers with long experience in relief work are in unanimous agreement that the unoccupied zone of France will be the most critical area in Europe these next six months. A number of factors have contributed to the real dangers of starvation. France as a national unit was nearly self-sufficient. The zone now "in occupation" is a productive agricultural country, and includes important industrial cities. All grain stores are in this zone, as are available supplies of meat and milk. Unoccupied France, on the other hand, is primarily vineyard country.

The present unoccupied zone has, in the months since May, fed a surplus population of more than 7,000,000 refugees. At least a million of these homeless people still remain and new thousands are arriving daily from Alsace and Lorraine. Unoccupied France has supported and continues to support homeless refugees, despite the fact that many fields were untilled because the men were in the army and that the actual crop yield in 1940 was under normal. Supplies have, therefore, been depleted beyond safety.

Peacetime economy has not been resumed, due to the lack of raw materials. Factories are idle, ports empty, and men are being demobilized from the army to unemployment.

-2-

THE QUAKER ORGANIZATION IN FRANCE: The American Friends Service Committee has 56 representatives in unoccupied France. Full maintenance of these workers is paid by our Committee, the average monthly allowance approximating \$100 per person. A list of this personnel is attached hereto.

THE TASK: Since May, when refugees from Belgium, Holland, and the northern departments of France sought haven in the South, the American Friends Service Committee has maintained field offices at Toulouse, Montauban, Perpignan, Auch, and more recently at Marseille. These emergency services included the purchase of beds, blankets, medical equipment for the hostels for women and children, and large-scale feeding operations in all of these cities.

Toulouse, where the largest relief service was maintained, fed 5,000 a day in a canteen, in addition to daily food distributions to the nearby villages and distribution of clothing and food to 85,000 Belgian boys who, although under military age, were subject to Belgian military authority. The Toulouse services were further extended in mid-July to assist in the feeding of a million refugees, who had started north and, because bridges were out and roads impassable, had been stopped at the line between the two zones. As this country is extremely poor, with barely enough food

-3-

for its own population, emergency service was essential. As indicative of the scope of the Toulouse service, it may be stated that in one two-month period 600 tons of food were distributed.

The Montauban service has maintained a canteen, feeding 1,000 women and children two meals daily, and is also directing the work for 1,000 mutilated men, who are not only being fed and housed, but are also learning new skills and trades. A day nursery for 120 children is also maintained.

The Perpignan office, serving three departments in the South, has provided clothing, food, and medicines to some 20 refugee hostels in the area, in addition to a dry food packet service, distributed in the cities of Montpellier and Sete. This office has continued to work in the concentration camps, and is providing supplementary food for 1500 Spanish children in camps, as well as school materials. A small hospital has been built and equipped in the camp of Bram. Food, medicine, blankets, books, and some clothing have been distributed to all the concentration camps in southern France.

In Auch clothing distributions have been made to children and a canteen for 500 women and children has been in operation.

The Marseille office, in addition to directing

-4-

the field services, is the purchasing unit for the entire Quaker relief service, and administers nine children's colonies for 604 children. A refuge for women and children has been in operation and a special feeding program for infants and school children has been undertaken.

PURCHASE OF SUPPLIES: The American Friends Service Committee has since June attempted, as far as possible, to do its purchasing outside of France, in order not to deplete the already low food stores of the country. Regular monthly shipments of three thousand cases of milk, five tons of cheese, and two tons of canned meat have come from Switzerland. Oil and sardines have been purchased in Portugal; dried fruits and some grain from North Africa and from Greece and Bulgaria. Warm clothing and shoes, which are urgently needed, have been purchased in France, but it is increasingly difficult to make these purchases in any quantities.

URGENT NEEDS:

<u>Service</u>	<u>Cost per Day per Person</u>	<u>Estimated Monthly Cost</u>
Milk for 10,000 needy babies in Marseille, Perpignan, and Montpellier	10¢	\$30,000
Supplemental feedings for 20,000 school children by provision of rice, cocoa, and milk	2¢	12,000
Colony care for 604 children in Quaker houses scattered over southern France	25¢	4,600
Care of 1,000 mutilated men	21¢	6,300
Distribution of children's clothing, warm clothes for mothers, layettes for newborn babies		1,000
Food packet service to approximately 675 needy families to permit mothers to cook at home	6¢	5,000
Concentration camp visiting: for clothing, medicines, provision of books, toothbrushes, wood for beds, and supplementary food for 1500 children		8,000
Individual case work with refugees "in transit," including some tempor- ary help until they are able to procure funds from relatives over- seas.		2,000
Personnel	\$100 per month	5,600
Transmissions for Mennonite Central Committee to support child feeding stations at Gerbere, Banyuls, and Perpignan		1,000
TOTAL AMOUNT NEEDED PER MONTH		\$75,500

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DIVIDENDS IN DEMOCRACY: To the workers in the Quaker service in France, it has been increasingly evident that an American relief organization which functions at this critical time does more than give material assistance. It is a hand of friendship, a faith in the spiritual and democratic values of France which, as an expression of the goodwill of this democratic nation, gives France renewed confidence in the democratic way.

PERSONNEL IN FRANCE
(As revised November 5, 1940)

Marseille

29 Boulevard d'Athenes

Howard E. Kershner, Director, A.F.S.C. Relief Work	
Gertrude Kershner	Colony program, canteens
Allen Bonnell, American	Statistics and Accounting
Benjamin Gerchenovitch	Assistant to Mr. Bonnell
Dorothy Bonnell, American	Publicity, some interviewing
Herbert Lagler, American	Personal assistant to H.E.K., has charge of all permits, official papers.
William Frey, Swiss	Refugee case work.
Dr. Bessie Strongman, American	In charge, rest home for women and children.
Burns Chalmers, American	Refugee case work.
Josiah Marvel, American	Refugee case work.
Una Mortished, Irish	Office, negotiator and contact person in interviews with officials.
Mrs. Caroline Hill, American	Inspection work in milk distribution.
Miss Becq	Office worker
Miss Millescamps	Office worker
Mrs. Cavallion, French	Telephone Operator
Albert, Uruguayan	Chauffeur and general handy man.
Isabel Needham	Colony director
Edna Ramsayer	Colony director

PERPIGNAN

30 Avenue des Baleares

Mary Elmes, Irish	Directrice Perpignan Office, in charge of work in Departments of Pyrenees Orientales, Herault and Ande
Rosa Poy, Spanish	Stationed in Montpellier (Herault)
Three Spanish office workers, one French assistant; also warehouse staff.	

TOULOUSE

1 Place St. Scarbes

Helga Holbek, Danish	Directrice, Toulouse Office
Toot van Cordt, Dutch	Refugee case work
Harriet Marple, American	Visiting surrounding villages, reported on need and distribution.
Alice Resch, Norwegian	Nurse, assists with colony at La Rade, Refugee case work, and in charge of canteen.
Seraphine Lieven, Latvian	Investigations and general assistant to Miss Holbek.
Henry Wiens) American Ernest Bennett) Mennonites Antonio Gartner	Direct warehouse, motor equipment Driver
Madame Serrie, French	Assistant and secretary to Miss Holbek.

Ten or fifteen Spaniards complete the staff in Toulouse.

M. et Mme. Dubois, Live in Toulouse office, belong to Service Civil and collaborate with A.F.S.C.

MONTAUBAN

Celina Rott de Neufville, American citizen, French born	Co-Directrice Montauban
David Blickenstaff, American	Co-Director case work.

Miss Rott is assisted by a number of French and Spanish people in this area.

AUCH

Donald Stevenson, American	Director
Madame de Beylier	Co-Director

BORDEAUX

47 Rue de Verginaud

Arthur Gamble, American	In charge occupied territory.
Barbara Watkins, American	Aide to Arthur Gamble.

Personnel in France -3-

PARIS (Ve)

12 Rue Guy de la Grosse

Henry Van Etten, French Friends Centre

Marguerite Czarnecki Friends Centre

Relief Office - 30 Rue de Gramont

(No personnel)

BIARRITZ

28 Avenue Republique

(Colony office only)

JR

PLAIN

London

Dated December 5, 1940

Rec'd 2:30 p.m.

Secretary of State,

Washington.

3960, 5th.

FOR TREASURY.

One. This morning the press reports of Sir Frederick Phillip's arrival were coupled with Secretary Jesse Jones' press conference reference to Britain as a good risk, with the report and Mr. Eccles' denial of the scheme for a loan against British Empire gold production, and with Secretary Hull's press conference statement regarding aid for Britain. All reports also mention Secretary Morgenthau's meeting with eight important administration members, the TIMES Washington correspondent noting that "whenever this group has met before some announcement about aid to Britain has followed", while the STAR report states: "Three similar meetings in recent months were each quickly followed by a major step to aid Britain".

The TIMES report also stresses that "Sir Frederick Phillip's arrival is the really important event. Mr. Morgenthau and he know each other well and their exchange of

-2- #3960, December 5, from London.

of views and information on the British need for dollar exchange is indispensable if the foundation is to be laid for future American action." The NEWS CHRONICLE comments as follows: "The importance of the visit is shown by the fact that whenever Anglo-American finance has come up for discussion in recent years it has been Sir Frederick who has headed the British side. As Permanent Secretary he has for some years been regarded as one of the most powerful men at the Treasury."

Two. Asked in the House of Commons whether he is satisfied that recent heavy exports of gold from Lisbon to the United States include no bullion seized by Germany from occupied countries, Dalton, Minister of Economic Warfare, replied:

"A strict watch is being kept on all shipments of gold from Lisbon. If we had reason to believe that any consignment was German property, I should not hesitate to take the necessary action. If my honorable friend has any information in respect of any shipment, perhaps he will be good enough to communicate it to me."

Asked further whether he had any facilities for discovering whether the gold is German he replied:

"We have more than one line of communication on this subject, and we are keeping close watch on it, although it is difficult to distinguish one bit of gold from another."

TFC

JOHNSON

100

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£104,000
Purchased from commercial concerns	£ 12,000

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

Sold to commercial concerns	£ 4,000
Purchased from commercial concerns	£ 13,000

The Canadian dollar discount narrowed to 12-15/16%, compared with yesterday's closing discount of 13-1/8%.

In very light trading, the Argentine free peso advanced from .2355 at the opening to .2362 at the close.

Closing quotations for the other currencies were:

Swiss franc	.2321
Swedish krona	.2385-1/2
Reichsmark	.4005
Lira	.0505
Brasillian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-9/16% discount

The yuan rate received from Shanghai this morning was 6¢, as against 5-31/32¢ yesterday.

We purchased \$1,000,000 in gold from the earmarked account of the Central Reserve Bank of Peru.

Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfer of gold in its vaults today:

\$564,000 from B.I.S. account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia. Gold in B.I.S. account No. 2 is owned by the B.I.S.

- 2 -

There were no new gold engagements reported to us today.

A gold price equivalent to \$33.79 was received from Bombay today. This was 2¢ higher than the quotation of November 30. Silver in Bombay was priced at the equivalent of 43.41¢, representing a decline of 1/8¢ since last Saturday.

In London, a price of 22-15/16d was fixed for both spot and forward silver, unchanged from yesterday's quotation. The dollar equivalent of this price is 41.65¢.

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

We made one purchase of silver amounting to 250,000 ounces under the Silver Purchase Act. This represented a sale from inventory.

[Handwritten signature]
CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 5, 1940

1199
 TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 2	\$ 57,218.75	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Carl Marks
	250,000	Reichsbank, Berlin	Chase National Bank, N.Y., for account of Svenska Handelsbanken, Stockholm
	500,000	"	Chase National Bank, N.Y., for account of Swiss Bank Corp., Zurich
	140,400	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Vongibara

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 5, 1940

Miss O-
 TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 2	\$183,913.43	Banca Commerciale Italiana, N.Y.	Check to order of Chase National Bank of New York, for account of Intex, S.A. Luxemburg, by order of Banca Commerciale Italiana, Biela

Guaranty Trust Company

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 5	\$ 30,000	Banco di Napoli Trust Co., N.Y.	Guaranty Trust Co., N.Y.
	40,000	Banca Commerciale Italiana, N.Y.	Chemical Bank and Trust Co., N.Y.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 5, 1940

M. J. C.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Skandinaviska Banks, Stockholm, by order of the Reichsbank, Berlin, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 2	\$ 94,400	Chase National Bank, N.Y., for account of Corn Products Refining Co., N.Y., for account of Konversionskasse fur Deutsche Auslandsschulden, Berlin, by order of Reichsbank, Berlin

J. M. S.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 5, 1940

Misc
 TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in the account of the State Bank of the U.S.S.R. maintained with the Guaranty Trust Company, New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 28	\$ 500,000	Chase National Bank, N.Y.
December 2	57,219.03	Received payment under Letter of Credit opened by Macandrews and Forbes covering shipment of licorice to U.S.

[Handwritten signature]

COPY

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No. 150

AMERICAN CONSULATE

Kunming (Yunnanfu), China, December 5, 1940.

CONFIDENTIAL

Subject: Report on Strategic Metals.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my telegram of December 5, 4 P.M., to the Consulate General at Hong Kong on the above subject, and to report more fully on recent developments in Yunnan.

As stated in my telegram under reference, the balance of the 1,200 tons of refined tin remaining in Yunnan was shipped from Kunming to Burma during the month of November. No stocks of refined tin are now held in Yunnan, and it is stated that none will be available for export until about February of 1941. Stocks of native or refined tin now held in Yunnan total 5,000 tons, of which 3,000 tons is at Kokiu and 2,000 tons at Kunming. Production of native tin maintained a level of 1,000 tons per month during the months of October and November, but the estimated output for the month of December is about 500 tons. The reduction is said to be due primarily to the reduction of water supplies (used in ore dressing) consequent upon the beginning of the dry season.

With reference to plans for future production, I am reliably informed by an official of the National Resources Commission that the board of directors of the new Yunnan Consolidated Tin Corporation has decided against the proposal to erect a temporary refinery near the Burma border, and instead the company will rebuild its Kokiu plants, which apparently were not as badly damaged as at first reported. The company has already purchased a small smelter (capacity 10 tons daily) at Kunming, which has hitherto been used for lead smelting. This plant will be used to refine the 2,000 tons of native tin now in Kunming.

As a matter of interest, it may be mentioned that according to my informant, only about half (1,500 tons) of the contract with Rondon & Company mentioned in my despatch No. 30 to the Embassy at Chungking* has been delivered to that firm; presumably this was all delivered prior to June 20, 1940, when outward rail shipments from Yunnan ceased. My informant states that the Chinese Government has refused to deliver the balance of the contract on the ground that the tin was destined for the French Government, even though Rondon has been requesting delivery in Rangoon.

Respectfully yours,

Troy L. Perkins,
American Consul.

863.5 SCB/acb

Inquintuplicate to the Department.

Original and one copy by air mail.

Copies to Embassy, Chungking and Peiping.

Copies to Consulates General, Shanghai and Hong Kong.

Copy to Consulate, Rangoon.

-
- Despatch No. 583 to Department from the Embassy at Chungking (July 3, 1940), Report on Production of Certain Minerals in Yunnan.

12/5/40

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Copies of Mr. Jones' letter to HM Jr
and the inclosure were sent to Messrs.
Bell, White and Foley on this date.

CONSTRUCTION FINANCE CORPORATION
ELECTRIC HOME AND FARM AUTHORITY
FEDERAL HOME LOAN BANK BOARD
FEDERAL LOAN CORPORATION
FEDERAL NATIONAL MORTGAGE ASSOCIATION

FEDERAL HOUSING ADMINISTRATION
HOME OWNERS' LOAN CORPORATION
FEDERAL HOME LOAN BANK BOARD
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
EXPORT-IMPORT BANK OF WASHINGTON

FEDERAL LOAN AGENCY
WASHINGTON

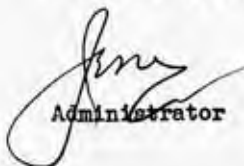
JESSE H. JONES
FEDERAL LOAN ADMINISTRATOR

December 4, 1940

Dear Henry:

I enclose copy of a letter which I am sending to the Secretary of State in connection with our loans to China.

Sincerely yours,


Administrator

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

December 4, 1940

Dear Mr. Secretary:

With reference to the additional credit of \$50,000,000 which the Export-Import Bank is arranging for China, my attention has been called to the possibility that dollar credits might, to some extent, facilitate the flight of capital from China to the United States.

May I suggest, therefore, the advisability of this phase of the situation being discussed with the Chinese Ambassador with a view to proper measures being taken to prevent any such movement.

Sincerely yours,

(Signed) Jesse H. Jones

Administrator

Honorable Cordell Hall
Secretary of State
Washington, D. C.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

5th December, 1940.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Murray

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated 3rd
December, 1940.

Naval.

The armed merchant cruiser "Porfir" has
sunk.

2. The armed merchant cruiser "California" intercepted a German ship (8,550 tons) in Eastern Atlantic. The German crew abandoned the ship after attempting to scuttle her. The boiler and engine room are flooded.

3. Approximately 13 ships homeward bound convoy on 1st/2nd were torpedoed by U boats 300 to 400 miles west of Ireland. At least 4 of these were still afloat some hours after being attacked and two of them proceeding to the United Kingdom under escort.

4. December 2nd a British tanker (12,250 tons) outward bound was torpedoed in North Western approaches and another ship (2,500 tons) in convoy to Gibraltar was sunk.

5. Survivors landed from the British ship "Oakcrest" confirmed the loss of this vessel off West of Ireland on November 25th.

6. Royal Air Force.

Daylight December 2nd. A Blenheim attacked 2,000 ton merchant vessel off the Norwegian coast; one burst reported on stern caused black smoke.

7. Night of December 2nd/3rd. Nine heavy bombers sent to attack submarine base at Lorient. Our casualties 3 aircraft but all crews safe.

EW/S. Greece.

- 2 -

8. Greece.

December 2nd. Five Blenheims bombed Valona, very large explosions resulted, buildings were hit and photographs confirm damage to main seaplane jetty, a small ship in the harbour, and in the ammunition dump area. Our aircraft were persistently attacked by enemy fighters one of which is believed shot down.

A Gladiator destroyed an Italian aircraft near Argyrocastron.

9. Lybia.

On December 1st two Blenheims attacked about 100 grounded aircraft at Benina and destroyed two bombers.

10. German Air Force.

Night of 1st/2nd.

Southampton. A flour mill, two food factories and naval stores were badly damaged but war production factories were not seriously hit. The situation with regard to food and utility services is satisfactory with the exception of gas, which at present affects several factories. Casualties so far reported are 40 killed and 100 injured.

11. Night of 2nd/3rd.

About 125 enemy aircraft came over in addition to 30 minelaying. Attacks against Bristol mainly concerned residential districts. Many fires started but all under control by midnight. No damage to war production factories is reported although private property suffered severely. The Bishop's Palace and University were damaged.

- 3 -

12. Birmingham. Railway services are practically normal; water supply is completely restored and gas pressure is approaching normal.

13. Coventry. About half the repair work on water mains has been completed.

14. Aircraft casualties (in operations against Great Britain:

Enemy, by day, by our fighters: Two destroyed, three probable, one damaged, unspecified one damaged:

By A/A fire: Unspecified one damaged.

British. One aircraft (pilot safe).

15. Italy.

The presence of General Dietl in South Italy is confirmed. He commanded the Mountain Corps in Norway and is one of Germany's leading mountain warfare commanders. It is possible that some German mountain troops have arrived in Italy.

Telegram from London dated 4th
December, 1940.

Naval.

On November 26th during operations in Central Mediterranean six dive bombers attacked "the Glasgow" and scored one near miss. The "Glasgow" shot down one dive bomber with pom-pom, also six Fulmars were slightly damaged. No enemy aircraft were sighted east of Malta throughout this operation.

2. On December 3rd the "Glasgow" hit by two torpedoes from aircraft when at Suda. She is proceeding for repairs at 16 knots.

3. Homeward bound convoy H.Y. 90 of which number of ships torpedoed 1st and 2nd attacked by enemy aircraft 120 miles North West of Bloody Foreland, one ship set on fire but may be salvaged.

4. Two cases occurred last few days of sighting of E. boats off East coast but in each case they have made off at high speed before possible even to damage them.

5. German shore batteries have now fired over 1,500 rounds at Dover convoys and other ships.

British 10,000 ton tanker torpedoed off Ireland by /? group omitted/ has arrived in the United Kingdom.

6. Military.

Sudan. In Kassala sector patrols of Sudan defence force have been active and have killed and captured members of enemy patrols besides taking some light machine guns and ammunition without loss to themselves.

- 2 -

7. Royal Air Force.

Night of 3rd/4th. Twenty-one aircraft were sent to attack following objectives:

<u>Locality</u>	<u>Targets</u>	<u>Number of Aircraft.</u>
Essen	Krupp Works	9 medium
Duisburg-Ruhrort	Inland port	3 medium
Ludwigshaven	Railway station	9 heavy

8. All heavy bombers returned. Three medium bombers crashed. Two crews saved.

9. German Air Force

Night of 2nd/3rd.

Operation Bristol. Although no important factories were hit, damage to utility services has affected production in aeroplane works and Malmouth docks. Casualties reported 31 killed and 131 seriously injured.

10. Night of 3rd/4th.

It is estimated that 120 enemy aircraft came over. Of these 55 went to the midlands, 25 to London, 35 worked over southeastern counties, and 5 were mine laying.

11. In London a direct hit occurred on a public shelter causing 10 deaths and 59 hospital cases. Birmingham was attacked between 6.15 and 10.15. A fire was caused at one gas works and at 4 factories and 5 others reported hit.

12. Casualties reported not serious. Chatham was also attacked and some casualties occurred in dockyards.

13. During the period, our fighters damaged 2 enemy aircraft without loss and another was damaged by anti-aircraft fire.

CONFIDENTIAL

TENTATIVE LESSONS BULLETIN
No. 72
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 5, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

THE GERMAN FIELD ARTILLERY SCHOOLSOURCE

This bulletin is based upon a report covering the observations of several American officials on two trips to the German Field Artillery School—one in September, 1940, and one in October, 1940.

While this bulletin is limited to remarks on organization and methods of instruction peculiar to the school itself, the following TENTATIVE LESSONS BULLETINS also based on observations at the Field Artillery School will deal with topics of broader and more general interest, as follows:

- No. 73 - THE GERMAN 210-MM. HOWITZER AND ITS PRIME MOVER
- No. 74 - DEMONSTRATION OF FIRE BY CONVENTIONAL GERMAN FIELD ARTILLERY TYPES
- No. 75 - MISCELLANEOUS OBSERVATIONS AT THE GERMAN FIELD ARTILLERY SCHOOL

CONTENTS

1. GENERAL OBSERVATIONS
2. METHODS OF INSTRUCTION

CONFIDENTIAL

CONFIDENTIAL1. GENERAL OBSERVATIONS

The German Field Artillery school is located at Jüterbog, about 70 kilometers south of Berlin, where the terrain is rolling, partially wooded, and well suited for military maneuvering and artillery firing.

The buildings constitute a quadrangle, with the central unit used for purposes of instruction and students' quarters located on either side. These quarters are small and rather crowded, but livable and scrupulously clean.

Horses are given special care, and all officers are encouraged to turn out on Sundays for hunting and riding.

The commandant of the school is a major general, and his chief assistants are his adjutant and the command of school troops. Instructors are frequently rotated in order that students may work under officers with recent experience in the front lines.

There are some 800 students in the school, divided into three groups as follows:

Officers: About 100 officers are given a refresher course of one month. Upon return to the different regiments from which they come, these students are expected to spread the latest principles and doctrines, which they have been taught at the school.

Non-Commissioned Officers and Selected Privates: 300 men from the enlisted grades of the army are given a course of four-months' duration. Successful students are given commissions.

Other Officer Aspirants: 400 men are given a three-month course after considerable civil-life study of army subjects and after serving short apprenticeships in the enlisted grades.

The student's workday begins at 7 a.m. and ends at 7 p.m. He has two free hours in the middle of the day, and his ten working hours are divided between classroom instruction and outside instruction. He has no home work, and his Sundays and Wednesday and Saturday afternoons are free.

2. METHODS OF INSTRUCTIONa. General ProcedureCONFIDENTIAL

CONFIDENTIAL

The American observers were impressed with the similarity of procedure at the German Field Artillery School to that at the United States Army's school at Fort Sill.

b. Pictures and Motion Pictures

In the classrooms there are many photographs and illustrations showing correct and incorrect methods of procedure. The observers were told that excellent results were obtained through the true and false picture method. Much instruction is provided through the medium of motion pictures, and a large assembly room is equipped for their projection.

c. Class in Meteorological Data

A number of students were observed working a classroom problem which employed meteorological data. The problem progressed in stages, and at each stage the instructor called upon a different student to explain the work he had done up to that point.

d. Class in Terrain Board Firing

A great deal of time is spent in terrain board firing, and a student is not permitted to fire a battery with live ammunition until he has thoroughly mastered general procedure—especially sequence of commands.

The sand table is at one end of a large room, and student observers can be placed at any angle with respect to guns and target.

The use of sulphuric acid produces puffs very similar to those of high explosive shell. They last just the proper length of time and require observation by field glasses.

e. Instruction on the Miniature Artillery Range

The miniature range at the school is housed in a large room resembling a theater but without chairs. Although normally only one 4-gun battery problem is fired at a time, 100 students can observe.

The model representing terrain to be fired upon is located on the stage and tilted to a slope of ten degrees. A scale of 1000 to 1 is used, and buildings, as well as features of the landscape, are realistically reproduced. Forest areas are represented by patches of sod, while streams and ponds are painted a bright

CONFIDENTIAL

CONFIDENTIAL

blue. The entire model is floodlighted, and presumably the method of light control permits adjustment to simulate all field conditions. Realistic features of the model are particularly evident when binoculars are used.

Students firing problems stood in a control pit about 100 feet from the stage and observed the effect of fire through normal battery instruments. The firing battery was located about 30 feet behind the control pit. It consisted of four tripod-mounted short .22 caliber rifles, on each of which was mounted the standard artillery sight—identical for all German guns.

Problems were fired rapidly. Students telephoned instructions and corrections to the firing battery, and their orders were recorded on a blackboard. The impact of the small .22 caliber bullet proved an effective substitute for shell burst in the field. Excellence of training was enhanced by the fact that the result of this impact was fleeting and somewhat more difficult to observe than actual shell burst. At the end of each problem the student commander was required to explain his commands and the reason he gave them as he did.

Since corrections were set just as they would be in the field, gun pointers got valuable training. These men gave the order, "Fire" and executed it two or three seconds later. Sights were often checked for the range and deflection ordered by the control officer.

f. Firing on the Range

The American observers were given an opportunity to watch firing from the observation post of a 105-mm. howitzer battery. An advanced class was occupying the upper floor of the observation tower, while another class, not so far advanced, was located on a lower floor from which its members could see the fire and hear the commands. The system of adjusting one gun and then bringing in the battery, usually for two rounds, was the same as that used in the United States. After firing, the student consulted the recorder's blackboard and went over his problem quickly giving reasons for his commands. The instructor offered a short critique.

During a three or four-month course, each student has the opportunity to fire 18 problems.

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G-2/2657-220

RESTRICTED

No. 262

SITUATION REPORTM.I.D., W.D.
December 5, 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.

During daylight of the 4th the German Air Force made scattered raids along the south coast of England. Last night, despite bad weather, Birmingham was attacked fairly heavily and London lightly.

The R.A.F. conducted some operations over Western Germany, where Dusseldorf was raided.

II. Greek Theater of War.

The Greek High Command reports the occupation of Premedi, which is in the central sector of Albania, about 35 miles northeast of Porto Edda. The Italian Air Force continued its attacks against Greek troops and communications.

III. Mediterranean and African Theaters of War.

No ground operations reported. Minor air operations included an attack on Turin by British planes based on England.

RESTRICTED

Paraphrase of Code Radiogram
Received at the War Department
at 3:27 P.M., December 3, 1940.

London, filed 20:00, December 4, 1940.

1. Daylight operations of the Bomber Command on Tuesday, December 3d, were all cancelled because of very bad weather; and attacks on occupied ports in France during the previous night were largely ineffective for the same reason. On December 3d the Coastal Command carried out routine patrols and convoy escorts and made successful attacks against four French airfields.

2. Daylight activity of the German Air Force on December 3d was limited in nature, consisting of about 80 planes operating generally singly over most of Ireland and England. That night the attacks began at about 6:00 p.m. as usual, the industrial Midlands area being the principal objective and London the secondary target. In addition there were other single raids ranging from Gloucester to Bedford. These raids were over by midnight but there was a small attack over the Suffolk area lasting from 1:00 to 6:00 a.m. Official statements of the number of planes participating in the night attack are not available but it was believed that it was fairly large. Information of the extent of damages is not available.

3. The British lost no planes and claim that two enemy aircraft were damaged.

4. Royal Air Force patrols over Greece continue very

active; and two Italian planes were destroyed.

8. Reports by a reliable eyewitness of the German bombing of Southampton during the nights of November 23-24th and November 30th-December 1st indicate that the damages to industry, shipping facilities and dwellings were considerably more extensive than press reports would indicate. The attacks during the latter night were especially severe, lasting for six hours and the damages were greater than those at Coventry. This observer reported that two shipbuilding yards, the General Motors Plant, and dockyards and warehouses were burned or gutted. The city was raided for the third time on the night of December 1st-2d and reports indicate that this attack substantially destroyed the business section of the city. It is the opinion of our informant that as far as commerce and business is concerned, Southampton is completely finished.

LEN

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
G-3
Air Corps

Paraphrase of Code Radiogram
Received at the War Department
at 2:05 P.M., December 5, 1940

London, filed 19:15, December 5, 1940.

The following is a resume of the strictly confidential statements of General Sir Alan Brooke, Commander-in-Chief of the British Home Forces, on December 5th:

1. There has been an immense improvement in the general situation at home since last September. The Army garrison now consists of the following elements:

26 Infantry Divisions, of which two are in Northern Ireland.

4 Armoured Divisions, one of which is complete and the others in process of organization.

25 Infantry Brigades.

2. All of the Infantry Divisions have been withdrawn from defensive positions to carry out a vigorous program of winter training. The Infantry Brigades occupy the sectors for defense of the coast line. They are formed of excellent material and are competent to carry out their defensive mission. One of the two original Armoured Divisions, together with practically all Australian units (presumably the force of about one division in England - G-2), have been sent to the Middle East. The Poles are the only troops of the various foreign units in Britain that are rated excellent in quality and number.

3. The shortage in experienced company and battalion officers is the principal training handicap. Newly formed battalions have only three Regular officers on the average. The temporary officers are very willing to work and are of high quality but they lack command experience and military technique. These deficiencies are being corrected rapidly by exercising them with Regular Army troops in tactical problems.

4. Irrespective of its state of training, each division carries out one division exercise each month in order to give its command, staff and supply immediate training. Due to the lack of previous experience these exercises are in some cases disorderly and confused, but each time much is learned. They are considered invaluable in forming the division into a tactical unit. The division problems being carried out at this time are based upon the situation of the sudden arrival in rear areas of a German division carried in air transport. It is assumed that the entire enemy division can be landed in less than five hours. The division is required to make the movement to launch a counterattack.

5. The Home Guard now has a strength of about 1,700,000 men and is of great value for local defense. There had been a growing tendency to place too great a reliance on this force; but this attitude is changing since all commanders now realize that the Home Guard cannot carry out extensive mobile operations.

6. The British are now experimenting with the air transport

of troops; but the absence of an excellent system of civil air transportation, such as is found in the United States, and the unsuitability of the planes available handicap these tests.

7. The General considers that the organization of the new Army Co-Operation Command is only a makeshift but that it is the best possible solution under present conditions. In exercises so far carried out the air support for ground forces has not been able to arrive in less than one and one-half hours after the request was made. Continued drill and a better system of communications should reduce this time. He visualizes that the ultimate solution of this problem will be the organization for operations with the Army of a part of the Royal Air Force consisting of specialized planes and personnel.

8. While he does not discount the possibility that the present German attacks on industrial cities and merchant shipping will be supplemented by a strong invasion raid, he is very confident that Britain is secure against a land attack.

9. His principal concern is that the Home Forces are being bled to carry out other operations. Bombers that are essential for the support of ground forces are wanted for movement overseas, off-shore patrol ships are diverted to other uses, the Navy tries to withdraw the 6-inch coast defense guns, commanders of other theaters demand additional troops, etc.; all of which makes clear that all

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arms engaged in the entire problem of defense are completely independent.

10. It is the estimate of the Training Branch, GHQ, that under the most favorable conditions it takes not less than nine months to organize a division from a standing start and to train it ready for entry into battle; and that from twelve to fifteen months more likely will be required.

LEE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-5
GHQ

CONFIDENTIAL

MEMORANDUM

December 6, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Conference in the office of Speaker Rayburn at 4:30 p.m., December 5, 1940. Present: Secretary Morgenthau, Messrs. Bell, Foley, Sullivan, Speaker Rayburn, Congressman Cooper (the only member of the House Ways and Means who could be found in Washington this afternoon).

General statement by the Secretary on his immediate financing problems. He stated that he did not wish to do the impending refinancing with long-term bonds because they would be partially tax exempt and this action might interfere with his plans for asking Congress to eliminate exemptions on future issues. On the other hand if he used defense notes this might embarrass him in his attempt to have Congress eliminate the distinction between the two present debt limits of 45 billion and 4 billion. He proposed that he issue a half billion defense notes and explain in a public statement that he is doing this to tide over the immediate requirements and that he intends to ask Congress:

1. To remove the partition between the two present classes of national debt;
2. To increase the debt limit 14 or 15 billion dollars;
3. To vest in the Secretary of the Treasury discretionary power as to the taxability of future issues of Federal securities of all types;
4. To ask the Congress to permit Federal taxation of state and local securities.

Speaker Rayburn and Congressman Cooper stated that Item 4 would provoke long, hard fighting and that whereas the other part of the program might be pushed through Congress March 15th it would be impossible to have Item 4 enacted by that date.

It was concluded that the Secretary should issue a half billion defense notes next week and at that time make a public announcement of the recommendations he is to make to Congress.

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It was agreed that any statement to be made to the Press should come from Speaker Rayburn. The Secretary suggested to him that he advise the Press that this meeting had been called only after consultation with Congressman Doughton and his approval of the meeting.

While riding from the Capital to the Treasury the Secretary and Messrs. Bell, Foley and Sullivan agreed that the attempt to eliminate the tax exemption of the state and municipal securities should be in a separate bill, that the Federal Government should take the initiative in taxing all of its own securities as soon as it had the power, and that we should attempt to consolidate the national debt into one sum without classification or restriction on any part of it.

JLS

December 6, 1940
9:14 a.m.

H.M.Jr: Hello, Jesse.

Jesse Jones: Hello, Henry. How did you get along yesterday?

H.M.Jr: Well, I thought I'd climb on your bandwagon.

J: I saw that. Well, the Gold Dust Twins.

H.M.Jr: Sure. Well, we clean 'em up.

J: That's right.

H.M.Jr: How's that?

J: That's fine. Well, it went off well in New York.

H.M.Jr: Did it?

J: Oh, yes, and everybody I - I spoke to those life insurance presidents and everybody I saw - they want us to do everything we can do. Well, it's a good thing to send up the balloons a little bit.

H.M.Jr: That's right and

J: While the Boss is away.

H.M.Jr: That's right and this fellow, Taft, is just a so-and-so.

J: Oh, yes. Well, he'd be that anytime.

H.M.Jr: And Wagner answered him.

J: And very well. I read that. Well, anyway I think we're plowing the ground, Henry, just the way it ought to be done.

H.M.Jr: I think so. There's one thing that happened that I don't understand. I got a letter from Welles and he brings up the Chile thing. I thought that was all settled.

J: The which?

H.M.Jr: Chile. Welles wants me to do something for Chile. I thought you had taken care of them.

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- J: Well, I think we have, Henry, or I think we are doing it. When I get over to the Board in a few minutes - I think we are doing everything that Chile needs, and we are also fixed to take care of Peru so I think - my present judgment is from my present information that there'd be nothing to do there. We are planning to buy some copper and nitrates from Chile and that together with a modest amount of loans ought to take care of them. That's what we thought.
- H.M.Jr: Well, I
- J: Are you through on Argentine?
- H.M.Jr: Well, we're through to this extent that I sent up a trial balloon on it and then they went into Bell's room and they went to work and they're going to draw the thing up.
- J: I see.
- H.M.Jr: You know how those things are - I suppose if they do it in a week, I suppose that would be moving fast.
- J: I see.
- H.M.Jr: What?
- J: All right. Well, now is there any reason why we should wait on ours?
- H.M.Jr: No, no. I love what Warren Pierson said.
- J: What did he say?
- H.M.Jr: Well, you see, he was outside the room and got a couple of newspaper men following him and he said he didn't see why the Export-Import shouldn't do at least as well as the Treasury.
- J: I see. Well, I thought we might, while you were working along, we might just go ahead if it's agreeable to you and complete ours.
- H.M.Jr: Oh, sure. I think that after they left here yesterday - I think they went over to your shop.
- J: I see. Well, I haven't seen the boys this morning.

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H.M.Jr: No, there's no reason to wait. And Pierson sat in and so did Collado, so there was good teamwork, and you know - did you see Marriner's denial?

J: No, I didn't see it. Did you get his whole speech?

H.M.Jr: Yeah.

J: I want to get that.

H.M.Jr: Not too good.

J: Not too good.

H.M.Jr: No, he just covers the waterfront and takes in the whole territory.

J: I suppose I'll get a copy of the speech today. I told the boys last night I wanted it.

H.M.Jr: As I told him, here we are sending the Vice President, Wallace, down there to help build up goodwill in Mexico and he comes out with an announcement that we should cancel buying all foreign silver.

J: Uh-huh. Well, that's teamwork, isn't it.

H.M.Jr: Absolutely.

J: Oh, by the way, I came down on the train last night with - Sir Frederick was on the train.

H.M.Jr: Oh, did you?

J: And I had an hour's chat with him, just over a highball in my room.

H.M.Jr: Oh, good.

J: When are you going to see him?

H.M.Jr: At 11 this morning.

J: I see. Well, I just wanted you to know that I had that little visit.

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H.M.Jr: Did you just bump into each other?

J: Absolutely.

H.M.Jr: Just bumped into each other.

J: As we got on the train leaving at 3:30 and we both were on the 2nd section and we ran into each other going down the steps.

H.M.Jr: He is a loquacious fellow isn't he?

J: Well, I got him to talk a little bit, but talking generally about conditions over there.

H.M.Jr: Yeah. Well, after we get something - well, you see, we're having this meeting next Tuesday, aren't we.

J: Yeah.

H.M.Jr: Well, whatever I get from him between now and Tuesday, I'll report at that meeting and if there is anything special that you want, let me know.

J: O. K.

H.M.Jr: How's that?

J: That will be fine.

H.M.Jr: All right.

J: Good-bye.

December 6, 1940
9:30 a.m.

GROUP MEETING

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

Thompson: We have a request from the Inaugural Grandstand Committee, asking for permission to construct the usual inaugural reviewing stands at the north and the south ends of the Treasury.

H.M.Jr: Yes, but I am going to do a little swapping. I would like a few tickets up in front of the Capitol.

Thompson: We ought to be able to get them.

H.M.Jr: Sure. I want a dozen on that flat place right in front there.

Thompson: There will be no objection to this --

H.M.Jr: I want a dozen, the flat place, you know.

Thompson: Yes, on the plaza.

H.M.Jr: I won't budge an inch, either. I am serious.

Thompson: I don't know if Mr. Foley will be able to put up

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with the hammering here for about three weeks.

Foley: My roses?

H.M.Jr: One dozen on the flat place.

Thompson: I will go to work on that.

H.M.Jr: Well, just --

Thompson: Nothing doing here unless you get them.

H.M.Jr: Absolutely. That is selling out cheap enough.

Thompson: I have two or three other little matters I would like to see you about.

H.M.Jr: Well, you won't be able to today. I can take you on at three this afternoon.

Thompson: All right.

H.M.Jr: I can take you on at three.

Bell: The only thing I have is Jay Crane has an appointment with you today.

H.M.Jr: Which was cancelled.

Bell: The first advices they received from all over the British Empire was that they had to take sterling for all of their oil, and he wanted to come down and talk to you about it, and day before yesterday they received advices from London that that was not true, and apparently they are going to get dollars for all of their oil.

H.M.Jr: Won't I get a Christmas present?

Bell: He was very pleased. He says he won't have to bother you until the decision is reversed.

H.M.Jr: All right. Well, you will be here when Phillips is here at 10:30 and White and Merle, please.

Bell: We may want to talk to you some time today on this

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Argentine thing. They are relying on our good will and trusting them, rather than the gold. They don't want to put up the gold.

- H.M.Jr: Jesse called me up at 8:25 this morning, and I got him a little later. Through pure accident he and Sir Frederick Phillips were on the same train yesterday afternoon, and they had an hour's conversation. Just as they were going down the stairs they bumped into each other.
- White: Did they know each other?
- H.M.Jr: I don't know. They do now.
- Bell: Do you think there is any need for the 10:30 conference? (Laughter)
- H.M.Jr: He was sort of hinting around, so I told him whatever information we got between now and Tuesday, I would report on it Tuesday.
- Gaston: I see the Association of Life Insurance Presidents told Jesse that whatever they did in the campaign was purely unofficial and they now repudiated it.
- Bell: Fictitious, was it?
(Mrs. Klotz entered the conference.)
- H.M.Jr: All right?
- Bell: Yes.
- H.M.Jr: Harold?
- Graves: Whenever you have time, Mr. Thompson and I are ready to talk to you about this Personnel Division. I should think it would take 15 minutes or so.
- H.M.Jr: Well, I just gave Lou Douglas 3:15 --
- Graves: We are in no hurry. If you want this to go over until next week, it is all right.
- H.M.Jr: Well, the Bank of America certainly will not take

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more than 15 minutes, so I will give you - did I hear a snicker?

Foley: Not I.

H.M.Jr: All right. Ten thirty Monday.

Bell: You have got 19 questions. I should think you ought to handle them in 15 minutes.

H.M.Jr: Well, I told them I would give them careful consideration.

White: Nothing.

(Secretary writes on paper and White takes it, without reading it.)

H.M.Jr: Wait until he reads it. George?

Haas: Mr. Sexaur called yesterday afternoon and asked me to thank you and told me how much he appreciated the help you gave him.

H.M.Jr: What did I do?

Haas: Well, I was surprised too, because I was -- (Laughter.) But you know, they didn't take action on that. They held him over and they are treating him fine over there.

H.M.Jr: You want to know what happened?

Haas: Yes, I would love to.

H.M.Jr: The Secretary of Agriculture sees me at Cabinet and he said, "I hear you want us to stall on this stuff." I said, "No, I didn't say that." I said, "I sent word to you that I didn't know anything about it, good, bad, or indifferent. I am a member of the Dairymen's League, and I just wanted to bring this to your attention." "Well," he said, "I sent off letters and we promised LaGuardia certain things and he called off the strike, and if I see that man I have got to see them all and I am practically settled." Of course, I didn't

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know what it was all about yet, so I say, "Well, I am simply saying I just wanted to bring it up to your attention and the rest is up to you." He said, "Well, if that is all you want to know, I will go ahead with it." But he did see him?

Haas: Oh yes. He did do it. The President has to approve it and he is out of town. He said they haven't got even what they wanted yet, but they are very hopeful.

H.M.Jr: Well, we will take full credit. All right, George.

Haas: The other thing is, you know we added more to the airplane statistical group. You might be interested to know - you know you sent that letter out Wednesday night and asked if they could have their reply back to me. It came in this morning. They are very prompt and efficient.

H.M.Jr: I had no trouble with Edsel. When I saw him back in May I got along with him beautifully until he started to talk to Papa Ford and Mamma Ford, and evidently Edsel is still on a leash and doesn't it.

Haas: They are the best customer now, promptest one, anyway.

H.M.Jr: What else?

Haas: That is all.

H.M.Jr: Philip, you gave me some stuff last night at the house which - well, part of it was unsigned. Is this Air Commodore Slesser?

Young: Yes.

H.M.Jr: And who is this?

Young: That is Slesser, too.

H.M.Jr: Well, do you mind sending it in to Mrs. Klotz with a couple of memoranda so we can identify them?

Young: That is right. This is the thing which he says can't be shown to anybody.

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H.M.Jr: Would you take that and reduce it to one page for me?

Young: Right.

H.M.Jr: Would you reduce that to one page? And that is not what they gave me last time.

Young: Who gave you the other?

H.M.Jr: Purvis.

Young: It isn't supposed to be. This is some stuff which was sent over for your information and he has instructions not to show it to anybody except you, Knox, Stimson, and the President.

H.M.Jr: Now, this criticism of our own air --

Young: That is this memorandum.

H.M.Jr: Yes.

Young: That is not as secret as the other. You can give this to anybody you want.

H.M.Jr: Well, I would like - Forrestal is coming for lunch and I think Patterson, and I think they ought to have that.

Klotz: I think we ought to make a record of who gets what.

H.M.Jr: But would you send them a copy and have two copies, one for Forrestal and one for Patterson at lunch, and give it to me. Can you have it at five minutes of one, please.

Young: Yes.

H.M.Jr: Have you got anything?

Young: Do you want to see Slesser any more?

H.M.Jr: Yes.

Young: This week?

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H.M.Jr: No.

Young: Not this week?

H.M.Jr: No.

Young: He is trying to arrange his activities so that he is around when you want him.

H.M.Jr: Well, I am waiting to hear from Slesser. You can tell him this.

Young: He also sent me in that organization chart.

H.M.Jr: I am waiting to hear from Slesser as to when - to whom did he give those plans on the Typhoon --

Young: They were sent to Knudsen, not on the Typhoon but on the engine. The plans on the plane have never been announced.

H.M.Jr: Too, when can we see a complete Typhoon plane in this country. Tell him I won't do anything about the thing until I get word that there is a Typhoon plane on the way over.

Young: All right.

H.M.Jr: But I won't get to him over this week-end. And then would you tell your friend, who I couldn't get last night, the Secretary of the British Purchasing Commission, Ballantyne, please tell him I tried all day yesterday starting the night before to get Purvis and Purvis wouldn't wait for me yesterday morning. They called me at 20 minutes to seven, and would I talk to him at seven and I said yes, and then at seven he had left the office and said would I talk to him at six, and I said I would talk to him at seven and he had gone to the country. He has gone English on me. So you can tell Mr. Ballantyne that the message I wanted to get to Purvis was please to come back to the United States if they expected to do any buying in this country and the sooner the better. You had better get that message to Ballantyne. I am not going to

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hang on the telephone, if Mr. Purvis can't wait five minutes to talk to me. I got a telephone call at 20 minutes to seven yesterday morning, would I talk to Purvis at seven, and I said yes. And then they rang through a little later and said Purvis was out. He was out at 20 minutes to seven. And last night he was in the country. So you can tell Ballantyne that evidently Purvis has been there ten days and he has gone English, reverted to type.

Young: I can tell him.

H.M.Jr: You can use your discretion on how much you tell him. The message is, I would like him to come back. (Laughter)

Young: You asked me yesterday as to where the deliveries on the 4 engine bombers were.

H.M.Jr: Yes.

Young: Do you want a written note on that, or shall I tell you now?

H.M.Jr: Give it to me at five minutes of one.

Young: Also, Nelson's order, evidently, from the Priorities Board to the various aircraft companies on commercial planes for export is just raising the devil all the way around. They don't know what to do. However, I am working up two sample cases, on Lockheed and Douglas, showing exactly what is happening and how much international chaos has been created in the plants, as a result of it, which I will give you just as soon as I can give you the dope.

I have here the first two statements on the Dutch program, which you might like to look at sometime.

H.M.Jr: Five minutes of one.

Bell: You will have a light luncheon.

Young: Now, the original idea was that the statements on

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the official purchasing missions would be sent out and distributed the same way as the others. Now, we are also getting a statement which we are compiling on the same basis from Lindeteves, this big Dutch export house in New York, which is extremely anxious to keep its figures confidential because it is a private commercial house and not a government organization, and if those figures go out to Army and Navy or Defense and get back to the Dutch Missions, they will just have heart failure on the spot.

H.M.Jr: Well, after all, I think that our Army and Navy are entitled to those figures for the national defense. If they have heart failure, it is just too bad. We can't hide anything. It puts you and me on the spot if we withhold that information. It is just a question of who gets heart failure. It is better for the Dutch to have it. (Laughter)

Haas: They were worried about the Dutch Government. I mean, the Dutch citizens running the Lindeteves.

H.M.Jr: Why should they be worried? Why should there be anything to hide from the national defense?

Young: They are not hiding it from the government here, but they don't want the government here to give their figures back to the Royal Dutch Missions.

Haas: They are worried about their own government.

H.M.Jr: Well, maybe something smells there.

Young: As a matter of fact, I think that may be straightened out because they have appointed this new coordinating mission over the top which is going to take over in this private stuff, I think.

H.M.Jr: No question in my mind at all. We should pass it on to the responsible people in our own government.

Young: I think we ought to tell them that.

H.M.Jr: Sure.

Young: What we are going to do with that. That is all I have.

H.M.Jr: You (Pehle) see Mrs. Klotz afterward, please.

Pehle: Yes.

Schwarz: The morning papers carried Senator Wagner's comment on Senator Taft. I think if you haven't seen it, you also could --

H.M.Jr: You (Foley) write a strong letter of appreciation to Wagner for me to sign today, will you, please? Ed Foley did a beautiful job on that.

Foley: Chick checked it.

H.M.Jr: Between you, thank you, but please write a letter for my signature.

Schwarz: It was mostly Ed's job. The Times has a piece on the Argentine thing which I know you would be interested in.

H.M.Jr: Well, Jones called me up and said it went over big in Wall Street.

Schwarz: That is what they said. They like it.

H.M.Jr: Wonderful. Must be something the matter with them.

Schwarz: For my own guidance, I assume you won't want to say anything about Sir Frederick from now on until he is ready to leave.

H.M.Jr: That wouldn't necessarily follow, but I wouldn't say anything today.

Wiley: Nothing.

H.M.Jr: Merle?

Cochran: I told Bell that we have a Consul on detail in Shanghai who has been their expert there on financial matters, and he wants to be of any help to us he can.

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H.M.Jr: Good. And bring Archie Lockheed down here Monday, will you? If he is going to go over there and do this thing for us, he ought to know what it is all about and he can undoubtedly make a contribution.

Bell: You haven't talked to him on that, have you?

H.M.Jr: No, you do it.

Bell: Talk to him over the telephone on it?

H.M.Jr: Please.

Bell: Do you have any other suggestions?

H.M.Jr: Only that this one man has been pressing himself on me.

Bell: He is still under consideration, isn't he?

H.M.Jr: No. I can't spare him.

Bell: You haven't any other suggestions?

H.M.Jr: No.

Bell: I thought Jesse had made a suggestion.

H.M.Jr: Are you serious? Jones? Jones said he left it entirely to me.

Bell: But he had a suggestion.

H.M.Jr: Who was it?

Bell: Warren Pierson.

H.M.Jr: Well, Jesse can't spare him. (Laughter)

Bell: Well, he said he could put Clayton in there.

H.M.Jr: No, I wouldn't take him.

White: Jesse can't spare him the way you can't spare me, is that the idea? (Laughter) That is awful.

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H.M.Jr: I don't want Jesse to sell me Warren Pierson. I am serious about you.

White: I wasn't serious about going.

H.M.Jr: No?

White: You got them mixed up between two things, Mr. Secretary.

H.M.Jr: Yes? What are the two?

White: Well, I mean, when I spoke about going, I spoke about going just for a month or six weeks if they wanted me to go to survey the whole monetary field.

H.M.Jr: Oh. Who is going to advise me how to handle Eccles if you go to China?

White: Yes. (Laughter)

H.M.Jr: Wasn't I good yesterday? Even Lauch Currie said I was good. I talked with Lauch last night. I told Lauch what we were thinking of doing on this financing. He is all for doing it the way I want to do it.

Sullivan: Here is a memorandum on yesterday's conference. This is what you were so anxious to see.

H.M.Jr: All right. You will have to sell that to me. (Raises for Terleau and Surrey) Did you? I don't think he is worth it. You have got to keep him in line.

Sullivan: Thank you very much. Are we going to see Senator Harrison this afternoon?

H.M.Jr: Four o'clock. Bell, Foley and I see Harrison at four. And Sullivan. Well, he just reminded me.

Foley: The neutrality act provided that after the President names a country in a proclamation, it is unlawful for any person within the United States to solicit or receive any contributions for that country. There was an editorial in the Herald Tribune not

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long ago called "Funds For Fighting", and it was suggested that funds be collected in the United States and sent directly to England and that wouldn't be a violation of the statute, because it wouldn't be soliciting or receiving in the United States. It would be voluntary payments to be received in England. Then some fellow wrote to the editor of the Herald Tribune and said he had had correspondence with the Chancellor of the Exchequer and he suggested that the checks are made payable to the Federal Reserve Bank of New York for the credit of the account of His Britannic Majesty's government. They have been getting a lot of checks. It is unlawful for them to receive them, and they have got to send them back. Logan would like to have the British make some kind of a statement so that the people to whom they send the checks will know that in returning the checks the British government acquiesces the action of the bank.

H.M.Jr: Well, you two fellows fix it up.

Foley: Okay.

Here is a letter about that thing I am going to talk about this morning. (Mr. Anderson, December 7)

E.M.Jr: All right. Good. Anything else?

Foley: I have nothing else.

Gaston: We are still waiting for a decision from State and Justice on how much improvement can be made on ships. We expect to get a decision in a day or two. In the meantime, we are holding one tanker which out on a gun mount.

H.M.Jr: Okay. All right.

Gaston: That is all.

December 6, 1940
10:30 a.m.

RE BRITISH PURCHASING PROGRAM

Present: Sir Frederick Phillips
Mr. Playfair
Mr. Pinsent
Mr. Cochran
Mr. Bell
Mr. White
Mr. Young
Mrs. Klotz

H.M.Jr: I think Phil Young ought to be in on this. He helps me on the purchasing end and he is up to the minute on that. Have you any suggestions as to the method of procedure?

Phillips: Well, I came in the first place to let you know what the facts of our financial position are. They aren't easy to establish in a clear fashion because as you know we have got a purchasing commission in New York, and we have got departments in London and they do their best to keep in communication, but it is not always too easy in wartime. I brought over all the figures I could get in London, and we spent the morning in New York yesterday trying to get hold of the purchasing commission figures and I think if you give us another afternoon we will have something run together which we hope will hang together. What I would like to know is the kind of information - general heads - that you really are interested in.

H.M.Jr: I will tell you exactly where we are. Let's just wait one second until Young gets here. Here is the situation. Last Saturday, Sir Walter Layton --

(Mr. Young entered the conference.)

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- H.M.Jr: I think I can sum up the situation. This was last Saturday. Layton had been working with the Secretary of War for about a month to clear particularly the ordnance program.
- Phillips: Yes.
- H.M.Jr: Have you (Pinsent) a copy of that?
- Phillips: In addition to "B"?
- H.M.Jr: The thing came to two billion and 67 million dollars.
- Young: Two billion, Mr. Secretary, included more than ordnance.
- Phillips: Here it is.
- H.M.Jr: That is it. Is it two billion 62? I was five million wrong. For your information, I put that before the War Department, Navy, State Department, National Defense, and Mr. Jones, whose capacity is lending. Now, we haven't given any answer to the British Purchasing Mission on this because the way we see the picture, going through until about June, before we take that order, the financial picture is that you have about two billion dollars worth of orders placed. Is that right?
- Young: That is right.
- H.M.Jr: Is that right?
- Young: Yes.
- White: Except that Phil and I have gone over it a little more carefully since then and we do not have the information which enables us to know how much of this program was in the program which they earlier presented to us. There may be a certain amount of it. We think there is a substantial amount of double counting or overlapping.
- H.M.Jr: Well, then, that would be, I would say, number one that we ought to find out first, how much are the

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orders and June 1 is a meaningless date to me anyway. What are the orders which the British Purchasing Mission have placed in the United States?

Young: Our record is adequate on that.

H.M.Jr: That should be shown, at least the records that we have should be shown to Sir Frederick. Have you got a figure?

Phillips: Well, we have got the orders they have placed, that part of them which will fall due for payment, and that is a total of one billion 600 million dollars.

H.M.Jr: Does that go through the calendar year of '41?

Phillips: No, that is the war year.

H.M.Jr: What is the war year?

Phillips: The 1st of September.

Pinsent: End of August. That includes what has been spent since the previous September.

H.M.Jr: That doesn't for the moment interest me. Also, I think we - well, I think I would like to have the figure, the total orders placed until they are delivered.

Young: I have that.

H.M.Jr: What is it?

Young: Two billion 299 million, total value of what was placed.

H.M.Jr: How much?

Young: Two billion 299 million.

H.M.Jr: Call it two billion 300 million.

Young: That is the total value of orders already placed as of the 1st of November.

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- H.M.Jr: And that is - I mean, and not yet delivered?
- Young: That includes the 958 million already paid on those orders.
- H.M.Jr: Yes, but these orders are still to be delivered?
- Young: Oh yes. There have been some deliveries on those orders and some payments made. There have been some payments made and some deliveries made.
- H.M.Jr: Let's put it this way. They have placed orders as of November 1 of how much, two billion?
- Young: Two billion three.
- H.M.Jr: We ought to get it as of December 1. There is no reason why it should be a month late.
- Young: That is right. Well, we will have that this week.
- H.M.Jr: Now, two billion three, and there is a down payment of how much?
- Young: 958 million was paid to October 30, leaving a balance due of 1340.
- H.M.Jr: Now, Sir Frederick, in these conversations, do you want to include Canada or anybody else, or just confine it to --
- Phillips: Well, when it is a question of what is the rate of loss of gold and dollars on assets, Canada is, of course, quite vital, a very big item.
- H.M.Jr: I would like to include Canada in this conversation.
- Phillips: I have said nothing to the Canadians about it or suggested that they ought to be included, because I didn't know your mind on it.
- H.M.Jr: It is easier for us because the British Purchasing Mission here also represented Canada.
- Phillips: Yes. Let me say a word - would you like me to say a word on Canada now?

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H.M.Jr:

Very much.

Phillips:

Well, since the outbreak of the war, we have been realizing our resources in Canada as hard as we can and it isn't a question of selling stuff on the market in that case because it is both governments cooperating, that is to say. We haven't got any of these delays due to weak stock market or anything of that kind, because the person who buys our investment is the Canadian government itself, and we had in the first year of war between us arrangements for - in terms of United States dollars, about a hundred and 70 million dollars of our investment to be - in Canada to be realized and for the first six months of the second year of war, we arranged for roughly 140 million United States dollars worth of our investment in Canada to be realized, and the second six months, that is from February next to the end of August, we haven't got the figure yet, but it will be up. You see, that the first year we realized a hundred and 70 million dollars and then in the next six months a hundred and 40 million dollars, and then 6 months more will be substantially the same, so in effect we are realizing what we can in Canada, practically as far as we possibly can. In order to realize our investments, we must send gold steadily. One of the reasons, of course, that commentators often miss, is simply that we can no longer get a lot of supplies from France and Scandinavia, and we have got to get them from Canada. Well, when we got it from there we paid for it by exporting British coal. Now we have got to pay dollars. We don't send cargos of British coal over the Atlantic. They don't want it. So that is the Canadian picture.

H.M.Jr:

They don't want the coal?

Phillips:

Well, not like France and Scandinavia.

H.M.Jr:

Well, I think we have to draw the Canadian picture in because as we go into this thing, I think we will find, well, to put it bluntly, it may be easier to do some of these things for Canada than it will be for England, just the way Layton set up these 10 Divisions, presumably for Canada, you see.

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Now, what happens to them afterward, well, that is something else again. So I mean, we will have to, as we get into this thing, ask Canada to give us a picture of their - financial picture, and you may want somebody to come down here to be here Monday from the Canadian Treasury.

Phillips: Well, Mr. Clark and of course, Mr. Towers.

H.M.Jr: I think Clark.

Bell: He is very good.

H.M.Jr: I think Clark. Is it at all embarrassing for you to ask for them? Would you rather have me ask for them?

Phillips: I think it would come better from you, sir.

H.M.Jr: All right.

Phillips: I am sure they will be quite agreeable.

H.M.Jr: Well, I will ask for them and then you can back it up.

Phillips: Yes.

H.M.Jr: Then the other thing, while we are taking in all this territory, the Argentines have a financial mission here and I asked the Argentinian Ambassador Prebisch, who is here, whether anybody was talking to them about the English owned Argentinian securities.

Now, you have got two missions over here. You have got D'Arcy Cooper and then Lord Willingdon, and they told me that they are not, that nobody is talking with their Treasury or Central Bank on that title at this time, and this man Prebisch has the authority to talk about it here, in Washington.

Phillips: Did he specify what kind of security?

H.M.Jr: He is going to give us a list.

Phillips: It certainly is the case that we are talking with

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them on the subject of Argentine railways.

- H.M.Jr: He was only here yesterday and I asked him very carefully and he said that - I told him I didn't want to be covering the same ground twice, and he said no. Is that right, Dan?
- Bell: Yes.
- H.M.Jr: And Espil, the Ambassador, was here.
- Phillips: Well, we can see them and clear that up. But we thought we were negotiating with them on the subject of Argentine railways.
- H.M.Jr: If you are, these men don't know anything about it.
- Phillips: That might be.
- White: He mentioned something about the negotiations with the British with respect to the use of their sterling balances for recovery of some of the railways and industrials.
- Phillips: Yes.
- Pinsent: Yes, you know Prebisch mentioned that to us, too.
- (Telephone conversation with Sumner Welles follows.)

December 6, 1940
11:00 a.m.

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H.M.Jr: Hello.

Operator: Mr. Welles.

Sumner
Welles: Henry, how are you?

H.M.Jr: Fine. Sumner, Sir Frederick is here with me now and the first thing that comes up that I brought up is the Canadian picture.

S: Oh.

H.M.Jr: And he is more than willing that I bring it in. He thinks it would come a little bit better for me if I asked them to send somebody down like Clarke of the Canadian Treasury, and if you and Mr. Hull think well of it, I'd like to have the Canadian Treasury represented here and be here by Monday.

S: I'll do it by telephone, Henry.

H.M.Jr: You think it's all right?

S: Yes, indeed.

H.M.Jr: Well, we can't England's finances and Canada's - they're so intermingled that it would be helpful if they did have somebody here.

S: I'll take it up by telephone and I'll send you word.

H.M.Jr: And somebody from their Treasury rather than from the Bank of Canada.

S: Well, you suggest Clarke.

H.M.Jr: Yes, I know him and Sir Frederick mentioned him also.

S: Yes.

H.M.Jr: Thank you Sumner.

S: Be glad to do it. Good-bye.

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H.M.Jr: He will do it by telephone.

Well, I am just laying out the field. Canada is very important, we think. The Argentines are here. We have got a deal on with them now, and we believe - if it is a question of the repatriation for their own security when it comes to buying it back, I have hinted to them that it is perfectly possible that we might help them financially to buy back their own securities, do you see.

Phillips: I see.

H.M.Jr: That is the hint which I have thrown out. That is where I come in the picture, our government, which ought to be of interest to you.

Phillips: Yes.

H.M.Jr: Because, again being very frank, if some of your purchases in that way can be spread, you can get some of the supplies, non-munitions supplies, that you need in the Argentine and save all of your dollars for the very necessary munitions here. We think it is all to the good.

Well, we come back. We have a figure here of one billion 340 million net of orders on hand. Right?

Young: Yes. Unpaid balance of orders.

White: That extends beyond --

H.M.Jr: Well, from my standpoint, what I am trying to do here with the help of Sir Frederick, I mean a date on this doesn't help me any. That is why I didn't like that June date that somebody gave me.

White: The end of June we used as a --

H.M.Jr: It doesn't help me. Now, you people think that there is some duplication in what Layton gave us.

White: That is right. We think a part of this expenditure

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may be included in the program which Mr. Layton presented.

H.M.Jr: Now, can that be --

White: Airplanes particularly.

H.M.Jr: We will have those unscrambled.

White: Well, I thought possibly we might be the information from Sir Frederick or from Mr. Pinsent.

H.M.Jr: How about it, Pinsent?

Phillips: I think we can probably do that.

Pinsent: Yes, I am sure we can do that.

H.M.Jr: You see - let me just give you my schedule so you will know where I am at. I have got to decide on our own financing Monday. The first time that I would be free and undisturbed would be Monday night.

Phillips: Yes.

H.M.Jr: See?

Phillips: Yes.

H.M.Jr: I mean, if you would keep Monday night open for working --

Phillips: Yes, certainly.

H.M.Jr: Would you keep that open?

Phillips: Yes, I will keep that open.

H.M.Jr: Because we want to keep this thing moving.

Phillips: Yes.

H.M.Jr: And then you see if I could have all of this and our people are available, I am meeting at three o'clock Tuesday afternoon and again with the same committee, the Secretaries of War and Navy and State Department, at which time I want to report to them something of our conversations and the thing

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that they are doing is, they are taking this memorandum of Layton's and they are going to go through with this. I don't know whether Layton knows this or not. And they are separating the items which they feel have to be placed in order to meet the time schedule, you see. I don't think Layton knows it. I don't think anybody knows it. There are certain items in there, unless orders are placed immediately they can't meet the time schedule that your governments wants. Now, the General Staff of the Army is going through those and we will then know what they are and how much they amount to in dollars, you see.

Phillips: Yes.

H.M.Jr: I don't think Layton knows that, does he?

Young: No, not as far as I know.

H.M.Jr: We haven't publicized it, but that is that we are doing. So the thing - if we could say, "Take this order, separate the duplications, the Canadian orders--" How much has Canada got on order here?

Young: 47 million dollars worth.

H.M.Jr: How much?

Young: About 47 million.

H.M.Jr: Phil, I would work somebody besides yourself day and night to have this as of December 1 by next Monday, will you please?

Young: Yes.

H.M.Jr: It means --

Pinsent: They have made a special effort to get that, sir, and the first figures appeared earlier.

Young: I think we should have it by Monday all right.

H.M.Jr: Now, what is Canada?

Young: Roughly, 47 million.

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H.M.Jr: Is that on orders, or unpaid?

Young: This is total orders.

H.M.Jr: Orders?

Young: Now, I have no figure, I am sorry to say, as to how much Canada has paid down on that.

H.M.Jr: Will you get it?

Young: I can get that.

H.M.Jr: Are you making notes on it?

Young: Yes.

H.M.Jr: All right.

Bell: It seems very small.

Young: Yes, the Empire breaks up into two billion for Great Britain, and the rest of it is divided about 47 million for Canada, about 27 for Australia, and about 3 for South Africa, and 17 for India.

H.M.Jr: How much is South Africa?

Young: Three million.

Phillips: I would just like to be clear what mental process you are following. You have got certain figures of orders placed.

Young: Value of orders placed.

Phillips: And then you have got this bit of paper from Sir Walter Layton on the new program.

Young: That is right.

Phillips: But you mustn't think that when you have got those two things, you have exhausted the position. Take iron and steel, for instance; I believe they placed orders about three months ahead. So what you have got in your figures of orders placed for iron and

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steel is about three months' supply. But then, of course, as that three months advances, they have got to place fresh orders for iron and steel.

Young: That is correct, if you will include that sort of thing that you are talking about, and you run the total value of additional orders which may be placed up to almost four billion.

Phillips: I just wanted to make the point.

Young: Yes, I have that on a different figure.

H.M.Jr: Wait a minute, Philip, carry me along, too. The figure that I was carrying roughly, Layton said he wanted to place an order for two billion more. You said beside that, there was another two billion, you thought.

Young: It won't be quite that much. It will be somewhere around a billion, probably, of additional stuff.

H.M.Jr: Well, I think that we ought to check with Sir Frederick. I think when you talk about the orders that you want to place, August 31 is a perfectly good date.

Phillips: Yes.

H.M.Jr: Well, I mean if we can think that far ahead that is a lifetime, isn't it, the way things are going? Is that your year? That is the way you date it? Well, I think if we can have the additional orders that you can see that you want to place so we can get a total figure.

Phillips: We can do that.

White: Otherwise we have an open end in which some things they place three months in advance and some things a year in advance, and so on.

H.M.Jr: No, I think if Sir Frederick could say, "Now, look --" I mean by the time we meet Monday night, I would like to have what Sir Frederick feels the irreducible minimum is that they have to place in this country, orders and deliveries between now and September 1, '41. Is that the date you have?

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- Phillips: Certainly. As I say, we will give you a list of the orders we think we have got to place, distinguishing and separating out what you have got in this table. We will give you the total and then show you how much in that time.
- H.M.Jr: That is right, and then you start with the figure which we have here, which we think is right, we don't know, but as of today you have orders on hand which will cost you in new money one billion 340 million.
- Phillips: That is right.
- Pinsent: That will be brought up to date at once.
- H.M.Jr: By December 1?
- Pinsent: Yes.
- H.M.Jr: And then we will include Canada, 47 million; South Africa - 50 odd million or whatever it is - whatever the colonies are. We might as well bring them all in the picture.
- So much for the orders.
- Young: There is just one other question that comes into that picture also. Included in these statements that can be segregated if necessary, are figures for orders placed for the British Government in the United States but outside of the British Purchasing Commission.
- H.M.Jr: That is another headache.
- Phillips: Yes.
- H.M.Jr: On which we have no strings. Right?
- Young: They do not go through the British Purchasing Commission but they know of them and report them to us.
- Phillips: Well, we could give you a good shot at those figures, anyhow.

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- Young: There may be additional orders that they don't know about.
- White: We have been judging those chiefly from the past, that is, each month we have been revising it, revising their statements for the future on the basis of what purchases in the previous month have been.
- Phillips: Yes, I can give you a figure for those, I think, up to any date you name, August, but I should find it difficult to give you a figure month by month. The British Purchasing Mission cannot make estimates month by month.
- White: No, we haven't made monthly estimates, but we have adjusted our whole estimate on the basis of those months' changes.
- Bell: Are those private purchases or official?
- White: They are purchases that do not come through the British Purchasing Agent.
- Bell: Are they official purchases or private?
- Phillips: Both.
- H.M.Jr: Well, we would want to include those, wouldn't we, Dan?
- Bell: Well, they are part of the dollar requirements of the British Empire, offset by whatever we purchase.
- H.M.Jr: Well, that would take in all the territory on the spending side, wouldn't it?
- White: Yes. That is the only two sides they have. If we allow service items, et cetera, to be treated, that is, which we do.
- H.M.Jr: Now, on the credit side.
- Phillips: On the credit side. Do you want to know how many dollars we have got or how little?

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H.M.Jr: Yes.

Phillips: And the marketable securities in New York and what else?

H.M.Jr: Well, what are you going to do about the properties you own in the United States, which seems to bother a lot of people?

Phillips: Well, any time I can give you some sort of rational statement about that. I don't profess to have got any very exact figures because, of course, these things haven't got the present size market values, but my general impression is that there is a whole heap of them which represent whatever - when put on a table, represent nothing more than a selling agency of some British institution, like an insurance company, and no doubt they have a considerable value while they are attached to that particular insurance company, which has made a world wide reputation, and what their selling value is, I find it difficult to say, because once you separate it, it is nothing more than an office building with some furniture in it. There is a whole heap of that. That is one of the things which make it difficult to estimate.

H.M.Jr: Well, we have a list and you and I have always been very frank with each other and save a lot of time.

Phillips: Yes.

H.M.Jr: There is a definite feeling, you see, that - well, that thing has - the business men in England, let us say - are they serious enough in this thing that they feel they want to part with their holdings in the United States, which are salable, at a fair price. Now, there is quite a strong feeling about that. Now, for example, the one they keep throwing at me all the time is - what is this rayon company?

White: American Viscose.

Phillips: There aren't a long string of people waiting to buy that.

H.M.Jr: I don't even know what it is. What do they make?

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White: Rayon.

H.M.Jr: Well, we have people, for instance, to mention a name, like Mr. Forrestal, who is Undersecretary of the Navy, and who was president of Dillon Read one of our biggest houses. He says that those particular ones that I am mentioning could be sold readily, very promptly, and at a very good price.

Phillips: And with the result that you get a complete monopoly set up in the United States for the manufacture of rayon.

H.M.Jr: Well, that I must say isn't motivating us. After all, the business is here now. But what is in the mind of our ordinary citizen is that England yet hasn't gone far enough that she is willing to part with these businesses in the United States in order to pursue the war. You may feel that we are motivated by selfish reasons. I don't think we are, but you see, right from the beginning, going back two or three years, our people in our Embassy advised me in London that the English businessmen would never part with these, and up to date, they haven't. It is a matter of - well, convincing the general public of the determination, of just how far the English businessman is ready to go. It is a psychological matter as much as anything else. I think you ought to know about it.

Phillips: Yes.

H.M.Jr: Because it is pretty widespread.

Phillips: Yes. Well, it does make some difference, doesn't it, whether the possible proceeds pay for six months or for six days. I am quite certain that there is no - I am quite ready to discuss it, but I am quite certain there is no salable value in these things which is any way important.

H.M.Jr: Well, I am not conscious of any serious effort being made to find a market for these businesses.

Phillips: Well, of course, it is possible to hold the view that if one holds a very large quantity of the

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very finest marketable American securities and finds he is unable, as we have been for more than six months, to dispose of those at a rate of more than \$ million dollars a week, very likely we shall be able to dispose of - I say, the first line of fire is quite obviously the marketable securities in the stock exchange.

H.M.Jr: Your man who is handling that has refused to take any advice of the United States Treasury as to how he should proceed.

Phillips: Has he been given some?

H.M.Jr: Oh yes. I had meetings here with him and the SEC had. We have spent a lot of time with him. He hasn't once taken any advice that we have given him. Not once. I never see him any more. It is a waste of time. So when you say you can't market more than three, if he prefers the advice of J. P. Morgan to the U. S. Treasury and the Securities Exchange Commission, that is his decision, but he doesn't want our advice.

Phillips: But would you advise him to sell now at a rate of more than 3 or say 5 million dollars a week, irrespective of what happens --

H.M.Jr: I don't know, but just take one thing. It was the opinion here of those who are interested in the financial end that as they completed the sale of any particular list of securities, that they say so. We thought it would help the market. They wouldn't do it. We felt that some of these businesses would buy their own securities. He thought not. I can't remember all the instances. How long is it, Mr. Pinsent, since he has been here?

Pinsent: I should say March or April, Mr. Secretary. I think he arrived here in February and was down here two or three times in his first month, and I think he hasn't been here since.

Cochran: He hasn't been here since early spring.

H.M.Jr: Mr. Frank, the Chairman of the SEC, and I, spent a

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lot of time with him and got just nowhere.

Phillips: I can't help thinking, nevertheless, with respect - in fact, we pushed vigorously the sale of securities and any time, June, July, August, September, the level of security prices in the New York market would have gone down much below what it did, had we pushed it further.

H.M.Jr: Well, you see the trouble is - one of our troubles with our market is, everybody knows that you want to sell but we don't know - the public doesn't know which securities you are out of.

Pineent: I don't think we have run out of any securities yet, Mr. Secretary. It just doesn't seem possible that we could have.

H.M.Jr: I am just mentioning. I certainly have no - would have only the most friendly interest in the advice that I give and where my advice was disregarded - not only mine, I mean the advice of the Securities Exchange Commission, how much or how little could be done or what you have left or what you haven't got left, I mean it is - I am bringing to your attention the things which have left a bad taste in my mouth. When I say my mouth, I mean I am talking for the other people who have to do with this thing, and that does not apply to the British Purchasing Mission because there we have had co-operation and I think we have been able to render them a lot of service, but on the accumulating of cash resources, the cooperation we offered was brushed aside. And I want to let you know just how - this is how I feel.

Phillips: Yes. Well, if there was a belief that we could now accelerate the sale of those securities, that is, of course, very valuable; but we mustn't be blamed, if, supposing we took that advice, the effect is - the result is an unfavorable effect on the general level of securities in the United States. My understanding is they are selling so as not to break the market. It is quite possible they have sold enough to prevent a recovery sometimes, but they have never done enough to actually push prices down heavily as a result of their selling. If they are

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to sell more heavily, it seems to me that they will push prices down. It is a question of judgment.

H.M.Jr: Well, when we give advice, we have got to assume responsibility. I appreciate that.

Phillips: Exactly.

H.M.Jr: But if I followed the advice of Wall Street on my Government Financing all the time --

Phillips: You appreciate sir, don't you, that Gifford isn't doing all the selling by any means. A certain proportion of these securities are called - have been called up by the British Government and Gifford is looking after them. Others we haven't called up and are still in the hands of the private owners and if they are sold for dollars, the private owner gives the dollars to us. Last year, right down to May and June, the private owners were selling without pressure. Mind you, that dropped off.

H.M.Jr: Well, I am frankly out of touch with it. I have lost interest in it. I spent an awful lot of time with those people, an awful lot of time. So did the SEC people, and I don't know how much they know, but I am just out of touch with it. I have got so much to do that where my advice is unwelcome, I am not going to pursue it. I just don't know what they have done. I don't know how they do it. I haven't discussed it. You (Bell) haven't mentioned it to me.

Cochran: We get the figures regularly.

H.M.Jr: I see the totals and I get the figures once a week on the net position of England, but with that exception, I mean, how they do it or what technique they use or what they sell or what they have got left or what they have sold, I don't know.

Bell: The figures we get just represent the weekly sales?

Cochran: We get weekly the sales from the other side and daily the sales in New York.

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- H.M.Jr: But I have just lost interest in the technique that they are using. I haven't lost interest in the results, but I have in the technique. I mean, Mr. Gifford most likely is very smart that he didn't follow my advice, but that is that. Well anyway, I don't know how we got started on this. I take it by Monday night we can have a comparison of the figures that you are bringing over with what we have now as to the gold, securities held in this country, the Canadian picture, as we have. We will show it to you. The picture - your picture in the Argentine, and I wish you would have a look at this French gold in Canada. Six hundred or 650 million dollars.
- Phillips: Yes, I think we can tell you about that Monday night.
- H.M.Jr: You see, the reason that I am saying all of these things is this. I think you will find the disposition on the part of this government, that we are going to have to find some way to supply you with what you need, you see. Some way has just got to be found. Now, that is good while on this side. Now, you will make it lots easier for us to find the method to supply you with the arms that you need if these things which I have mentioned here in the last 15 minutes could be cleaned up so that we can feel that on your part you are willing to go the absolute limit, you see.
- Phillips: Well, I will be willing to see what I can say to you on Monday.
- H.M.Jr: Good.
- Phillips: But I must try to remove an impression that has a direct numerical relationship between the two things you mentioned, the cost of supplying material on the scale which is necessary to any early conclusion of the war, and the value of these assets you have been referring to. There is the same sort of general relationship between, let us say, 50 destroyers and a number of bases. One isn't comparable to the other. The scale of the thing is completely different.
- H.M.Jr: But you have got to have a good setting for this thing.

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Phillips: I quite agree with you, but --

H.M.Jr: And you have to have a good setting for the destroyer base thing, which we have got, and if you remember, going back on that, when we first asked for a base in Trinidad we were told that we could have, I think it was a hundred yards wide, running a parallel length to the present air field. That is what we were first offered, as I remember.

Phillips: You have the advantage of me. I am not familiar with it.

H.M.Jr: I think that is what we were offered. From that we went to where we now have at Jamaica - I am not familiar with the one at Trinidad - we have got a bay there about 25 miles wide that can take all the fleets of the world. We started with a strip a hundred yards wide, and ended up with what we have got, and I don't know how you people feel. Over here the feeling is the best on that transaction. There is an excellent feeling, and I have just been down where I have seen - but we certainly - so I have pointed out the possible points of friction which exists today.

Phillips: Yes.

H.M.Jr: Which if they could be removed, it would make it easier for us and for you.

Phillips: Well, of course there is also on our side, I think, a little - that we can't absolutely disregard our position after the war. As you know, we are strong advocates of liberal policies of trading, extending controls and that sort of thing. We have been driven to it by force and circumstances. At the same time, it is because much of our cash has been used up in the war and our balance of payments to the rest of the world has become increasingly and permanently unfavorable, with which we will not be able to follow the kind of trade policy which otherwise we should have the greatest desire to do. After all, we rely on some of these foreign possessions for food stuffs. If we include some of them that are unable to pay for food stuffs, we have got to, of course, have exports and have got to trade on a policy that circumstances compels us to. We mustn't lose that aspect completely,

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which is certainly there in the mind of the British Government. Mind you, we are as deeply as the United States in favor of --

H.M.Jr:

Well, we haven't lost track of the magnificent fight that you are putting up. We are conscious of it every day and again, I know I am covering the same track twice, but the fact that no move has been made that I know of, even to try to sell, some of the English held companies in the United States - not in some other - not in Shanghai or Hong Kong or the Malay Straits or some other place, but in the United States, raises a doubt in the minds of some of the people here. I know I have said it about three times and you have answered me, but I want to leave it there. And the President is perfectly conscious of this, and the path that you and I have to go down while you are here is extremely difficult and I want all the help that you can give me to remove these doubts, you see.

Phillips:

Yes.

H.M.Jr:

To remove these doubts,

Now, one other thing. Mr. Bell will see that between now and Monday, any information that you want or the matching up of information, getting ready for this - will you and White and Philip Young and Cochran see to it. If Mr. Phillips could look to you if he wants anything. You (Phillips) can just ask Mr. Bell, so if you need anything from us --

Phillips:

Yes.

H.M.Jr:

One other thing I would like you to be thinking about, and I would like your advice on. We are giving very serious thought here to freezing all the assets of all countries. Naturally, in the case of England and Canada as our friends, we would make it as easy as possible, but I would like to get from you as much information as you have on what you think Germany and Italy are doing, for instance, through Switzerland and Sweden, you see. How much can you give us on that, because we feel that they are doing a great

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deal through Switzerland. Which is the particular bank, Merle, they are using?

Cochran: Swiss Banking Corporation, Credit Suisse.

Phillips: What do we think they are doing in gold and dollars through Switzerland?

Cochran: Well, there are dollar transactions passing through those banks, and, of course, so far they are entirely legal, but we are interested in knowing gold that may be exchanged for dollars through Switzerland.

Phillips: Well, I had that subject in mind to raise myself, something related to that subject.

H.M.Jr: Well, whenever you are ready, I am ready.

Phillips: Spain and Portugal owes England nine millions of gold, to my knowledge, and has sold to the United States 14 millions in the last few weeks. I don't know where that 14 millions came from.

H.M.Jr: Well, I am ready to discuss that while you are here, and as I say, anything that you can give us on that, your frank comment, whether you think it would help or not help for us to freeze everybody, you see, and that takes in the Far Eastern situation, too --

Cochran: They have given us a memo, Mr. Secretary, on the Far Eastern situation. I have passed it around.

H.M.Jr: Well, I haven't got to it yet.

Now, what do you think? Have I laid out enough work for everybody from now until Monday night?

Bell: I think you have. There is one other subject I think you will discuss with Sir Frederick.

H.M.Jr: What is that?

Bell: That is the Chinese situation.

Phillips: Chinese?

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Bell: Yes.

H.M.Jr: Well, you want to do that fairly soon.

Bell: We will, in the next few days.

H.M.Jr: We are about to enter into a stabilization loan with them.

Phillips: We had a loan with them already.

Bell: So we understand. We also wanted to discuss that with you, and we understand they asked you for financial aid.

H.M.Jr: I think it was Ambassador Lothian told me they were considering making another 25 million dollar loan.

Bell: Yes. It is reported in the report we have, 5 million pounds.

Phillips: That is keeping it in sterling, isn't it? They can't use that sterling to buy dollars.

White: Free sterling?

Pinsent: It could not be made unless some arrangement could be concluded which would make it cease to be free sterling.

White: The report we have received was with respect to two separate transactions, one of 5 million pounds for possible purchases and the other was for monetary purposes. Which do you refer to when you say --

Pinsent: The first part, the 5 million for purchases, I understand is dependent on the question of whether we can supply goods to China at once. The second part, for stabilization purposes, is, I understand, dependent on an arrangement which will cause free sterling to cease to be free sterling.

Playfair: It is complicated. We would be able to see the --

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Phillips: There is no idea, I am quite sure, of giving them --

H.M.Jr: Well, you would like to discuss that, wouldn't you?

Bell: Yes, and we would like to discuss also the constitution of the present committee. We don't have to do that now.

Pinsent: You will have the problem of filling in your new Stabilization Committee with the existing one.

H.M.Jr: That is right, and also, we have insisted that we are going to have - send a man over there to administer it. That is a bald way of putting it. We will have to save Chinese face some way. Not only this money, but our Export-Import money. Mr. Jones has asked me to take care of that for him, too. So we would like to know how you people do it. Is that right?

Bell: That is right.

H.M.Jr: What else, Dan?

Bell: That is all I have. You have outlined enough to think about for the next three days.

H.M.Jr: Well, I just don't want Sir Frederick to be lonesome. Merle?

Cochran: I just want to let you know that Mr. Pinsent had anticipated a little of that on the Stabilization Fund of China. He has given us a memo which Ed and I have made available to Mr. Bell.

H.M.Jr: Harry?

White: I think that is enough.

H.M.Jr: Phillip?

Young: Not a thing.

H.M.Jr: How about --

Phillips: Well, I sort of feel Monday is a long way off.

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I think we will try to get in touch with Mr. Cochran tomorrow, just to make sure you haven't thought of a lot more things you want to know.

H.M.Jr: Pardon?

Phillips: I say we will get in touch with Mr. Cochran tomorrow just to make sure there is nothing to get ready for Monday. It will take us a little time to get the figures from New York. I will just ring up, if I may.

H.M.Jr: All right. And we will try to have the figures as of December 1, the big figures.

Phillips: Yes. I have done everything I can to get them.

H.M.Jr: Now, as far as the press is concerned, I am saying nothing. I don't know whether you have noticed what I said yesterday about your coming. You have always handled the press very well.

December 6, 1940
11:51 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull.

H.M.Jr: Hello.

Cordell Hull: Yes.

H.M.Jr: Cordell, Henry talking.

H: Yes, sir.

H.M.Jr: I've just finished with my first meeting with Sir Frederick Phillips.

H: Yes, I'm sure it was interesting.

H.M.Jr: (Laughs). But kind of tough going.

H: What?

H.M.Jr: It was kind of tough going.

H: Oh, I bet.

H.M.Jr: Now, next Tuesday at 3 o'clock we're having the same kind of meeting which we had last Tuesday in which Welles represented you.

H: Yes, he and Feis are prepared to go over again.

H.M.Jr: Now, if you wanted to know anything what took place here before Tuesday, Merle Cochran is at your service and will be glad to call on you.

H: All right, I'll be glad for him to come over.

H.M.Jr: Would you like him to come over?

H: Yeah. Tell him to call up my fellows and fix a time when I can talk to him.

H.M.Jr: So then I want you to know

H: Tell him I'll appreciate it very much.

- 2 -

H.M.Jr: I'll have Merle call up and then he can come over and tell you verbally what took place this morning.

H: Yes. Well, thank you so much, Henry.

H.M.Jr: Thank you.

H: Yeah.

December 6, 1940
1:04 p.m.

H.M.Jr: I've tried since the night before last.

Arthur
Purvis:

(in London)
Well, do you know how the message came through - the message came through that Monnet was trying to get me.

H.M.Jr: No, since the night before last.

P: Well, now, that's very peculiar. I never got the message. I simply heard that Monnet was trying to get through and I didn't speak with him either the day before yesterday - in fact, I haven't talked with him until tonight.

H.M.Jr: I thought you'd gone high-hat on me.

P: My God, I was really very worried. I only learned about it half an hour ago. No message came through whatsoever about your name, or you know I'd have been on.

H.M.Jr: I can't understand it - I don't know because the operator - you see, I put it in the night before last and then they said that - they called me at my house at twenty minutes of seven and said - in the morning - and said could I talk then - hello?

P: I never had that message, Henry.

H.M.Jr: And then I said sure, I'll talk and then I got on the wire and then they said you'd left and last night they said you'd talk at six

P: Well, Henry, you see what happened, my secretary was getting these messages as coming from Monnet and the point was that the messages were coming into the offices of Arthur with whom he was associated and what has happened I can see now is that the telephone girl in that exchange has just made an assumption that it was Monnet instead of Morgenthau.

H.M.Jr: {Laughs}. Well, anyway

P: I assure you as soon as I learned of the thing I immediately put in a call of course, because I'm very anxious to have a word with you. Did you have a good trip?

H.M.Jr: Very good.

P: Good.

H.M.Jr: How are you?

P: I'm very well. We haven't had much blitz-stuff since I came - nights in which there has been a good deal of firing but nothing very bad, but they promise me that I shall get a little in the next day or two because the moon is coming up.

H.M.Jr: The what?

P: The moon is coming up. If the moon comes up they are sure to give us a good show, I understand.

H.M.Jr: You're sure what day the moon comes up.

P: Well, I mean - you see the moon is out tonight but they won't come until it is a little fuller.

H.M.Jr: I see.

P: They come but they don't - there are a very few of them. You just get a few at a time.

H.M.Jr: Now my purpose in calling you up was to find out when are you coming back.

P: Well, Henry, I am coming back, if I can get it settled, on the Clipper the 16th.

H.M.Jr: Well, that's an awful long way.

P: Well, I tell you, I have had a terrible rush here. You see I lost two days - three days in New York, two days in Bermuda and five days in Lisbon so that I've only been here a very short time. Now, I am trying to accumulate and get prepared - and I am determined to get it and I think now I will get it - a picture

- 3 -

of the total situation along the lines you and I have so often talked so that I can put it before you as a complete picture of what is necessary.

- H.M.Jr: Well, everything is pretty well solved now.
- P: Yes, I was just hearing that today. I was very worried a bout it.
- H.M.Jr: Yes, well, that's why I'm calling you.
- P: Well, Henry, I'm working 16 hours a day on getting this thing completed now but I do think it is important that I bring to you when I come a sufficiently clear picture
- H.M.Jr: Well, don't you think you ought to have Layton come back so he could bring you up to date?
- P: Yes, they've cabled him tonight asking him to come back not later than Monday.
- H.M.Jr: Yeah. Well, I've been at work.
- P: You have, eh.
- H.M.Jr: Yes.
- P: Is it helpful, Henry?
- H.M.Jr: What?
- P: Is the situation helpful?
- H.M.Jr: Well, it would be helpful to have Layton go back to London.
- P: If I got your point I got that message. You see, that came to me this afternoon.
- H.M.Jr: You did get that message?
- P: That came to me this afternoon.
- H.M.Jr: Good.
- P: I got it in three directions this afternoon for the first time.

H.M.Jr: I see.

P: And also heard at the same time that you had been calling me. See?

H.M.Jr: All right.

P: Well, now, Henry, I will get away as quickly as I can but I am terribly anxious to bring with me things in pretty good shape as to what the whole picture is instead of all these fitful features we've been dealing with so often.

H.M.Jr: All right, Arthur. Well, take care of yourself. You know how I feel.

P: I'm looking forward tremendously to seeing you. How is Mrs. Morgenthau?

H.M.Jr: She's fine, thank you.

P: Good. And, Henry, will things be all right, do you think? I mean, can things be worked out?

H.M.Jr: Well, I'm hopeful.

P: Good, good.

H.M.Jr: I'm hopeful, but it would be very useful to have you here now.

P: You know I really feel - I'd love to be there because I think I've got a better picture through having come over.

H.M.Jr: Well, you see, there's nobody I can talk to here.

P: I know. Well, I'm going to bring you back a picture and I have seen everybody here that you intended me to see and I think I have arranged a sort of letter which will be very helpful to you and to me.

H.M.Jr: Well, I'm glad that my channel of communication on Layton evidently worked.

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P: It did. (Laughs). It did.

H.M.Jr: All right.

P: I got the message this afternoon
and in half an hour it was arranged.

H.M.Jr: Good.

P: So right you are, Henry. It is still working
all right.

H.M.Jr: Thank you.

P: All right, fine.

H.M.Jr: Good-bye.

P: Good-bye.

December 6, 1940

As a result of my lunch with Forrestal and what he told me about his Western trip, I have asked Lew Douglas and his crowd to build up propaganda that every airplane factory and every contractor in the industry should go on a 24-hour basis seven days a week, and in this manner we would get at least another one-third more airplanes and, according to Knox and Forrestal, these additional planes could make it possible for England to win the war. Lacking these additional planes, she will lose. He said he is going to it at once.

December 6, 1940.

Mr. Cochran
Mr. Dietrich

In discussing the structure of the Argentine agreement the question of rates to be used when pesos are purchased by the Fund will come up.

The following is a brief resume of the various rates used in Argentina in connection with exports and imports.

Exports

Official Rate

13.50 pesos	=	\$1.00 (\$4.00)
3.3500 pesos	=	\$1.00
1 peso	=	.297733

This is the official rate for all exchange covering regular exports which must be surrendered to the Central.

Free Market Buying Rate for U.S. Dollars - \$1.00 today

or 4.372 pesos = \$1.00

All exports such as vegetables, grapes or new products which do not come under the classification of regular exports may be sold in terms of pesos, U.S. dollars or other foreign exchange. In such cases the exporter is allowed to dispose of the foreign exchange in the free market.

Imports

Official Rate "A"

15 pesos	=	\$1.00 (\$4.00)
3.7313 pesos	=	\$1.00
1 peso	=	.2680

This rate covers absolutely essential imports.

Official Rate

17	pesos	=	13 (P. 00)
4,200	pesos	=	61.00
1	peso	=	.2750

This rate is applied to essential imports such as products needed but not produced in Argentina.

Open Market Selling Rate for U.S. Dollars - \$1.00 Value

or 4,200 pesos = \$1.00

This rate was formerly applied to imports that did not fall under the above national categories. Exchange was previously purchased in the open market to cover imports for which importation permits were not granted. Recently the exchange regulations in Argentina were amended so that no imports can now be made unless a permit has been obtained.

The rates for the Argentine peso in New York today were \$1.00 bid, \$1.00 offered.

You can readily see from the foregoing that the question of which rate to use in converting the peso would be debatable. If the lower peso dollar rate (the open market rate) is used we will get a greater amount of pesos than we would if a higher dollar rate were used. The U.S. dollar equivalent, of course, would be the same.

In connection with interest it will not make any difference which rate is used as the following interest examples covering one year show:

- 190,000,000 @ 29.7733% = pesos 157,955,700.70 @ 1 1/2% interest per annum = pesos 2,519,035.91 @ 29.7733% = \$750,000
- 190,000,000 @ \$1.60 = pesos 211,600,000.00 @ 1 1/2% interest per annum = pesos 3,177,966.20 @ \$1.60 = \$750,000

In the balance agreement now in force the rate was "at the then prevailing buying rate of exchange in New York for cable transfers in pesos on demand." In that case we used the buying rate in New York for pesos.

In the case of Brazil the agreement stated that the rate for the dollar would be "at the then prevailing buying rate of exchange in New York for cable transfers in dollars on file de Janeiro." In this instance there were two rates

certified by the Federal Reserve Bank of New York, the official and open market rate. The official rate was about 6% and the open market rate was about 5%. The open market rate was used because in the discussion that followed the conclusion was reached that the official rate was one which applied only in Brazil and therefore the open market rate should be the one used for conversion. By using the open market rate it resulted in our obtaining a greater amount of milreis.

The information in this memo will be pertinent when the rate question is discussed.



Wash 12-7-49

HSM

PLAIN

London

Dated December 6, 1940

Rec'd 12:08 p. m.

Secretary of State,
Washington.

3978, Sixth.

FOR TREASURY.

1. With reference to the final paragraph of the Embassy's telegram No. 3945, November 4, it is of some significance that Lord Arnold, a former Labor Cabinet Minister in the MacDonald Government, has written a letter to the TIMES printed today urging the necessity of immediate Government action in the field of establishing a wage policy and citing the "valuable article" by Brand which was forwarded under cover of despatch No. 5638, July 19, 1940.

2. The FINANCIAL NEWS today reports Eccles' confirmation of his loan against gold Empire production scheme and says: "In any event Washington circles hold that important moves towards the extension of credits to Britain are now undoubtedly under way". It also states that these reports are reinforced by Phillips' arrival.

Einzig

hsm -2- No. 3978, December 6, from London

Einzig devotes his Lombard Street column today to a discussion of the Eccles scheme, asserting that it would not involve legislative amendments because in substance loans could be granted to the old producing Dominions unaffected by the Johnson Act.

The MANCHESTER GUARDIAN in an article from its New York correspondent referred to Lord Lothian's statement as a "trial balloon" and says: "Government officials, the press and leading American citizens continue to look favorably on the proposition that Britain must get everything she needs; however the details are arranged."

Wide publicity has been given also to Henry Ford's statement that the United States should give Britain all she wants in order to end the war quickly.

JOHNSON

CSB

GUARANTEED OBLIGATIONS OUTSTANDING

<u>Government Agency</u>	<u>Issue Date</u>	<u>Call and Maturity Date</u>	<u>Coupon Rate</u>	<u>Amount in Millions</u>	<u>Total in Millions</u>
FFMC	1/15/35	1/15 47-42	3	236	
FFMC	3/1/35	3/1 47-42	2-3/4	103	
FFMC	3/15/34	3/15 64-44	3-1/4	95	
FFMC	5/15/34	5/15 49-44	3	<u>835</u>	1,269
HOLC	5/15/39	5/15 41 ✓	5/8	191	
HOLC	7/1/35	7/1 44-42	2-1/4	875	
HOLC	5/1/34	5/1 52-44	3	779	
HOLC	6/1/39	6/1 47-45	1-1/2	<u>755</u>	2,600
RFC	7/20/38	7/20 41 ✓	7/8	211	
RFC	11/1/38	11/1 41 ✓	7/8	299	
RFC	2/15/39	1/15 42	7/8	310	
RFC	11/10/39	7/1 42	1	<u>276</u>	1,096
CCC	8/1/39	8/1 41	5/8	203	
CCC	11/2/39	11/15 41	1	204	
CCC	8/1/40	5/1 43	3/4	<u>289</u>	696
USHA	11/1/40	11/1/41	1/4	112	
USHA	2/1/39	2/1 44	1-3/8	<u>114</u>	<u>226</u>
					5,887

Office of the Under Secretary, Treasury Department
December 6, 1940

AWB

TREASURY DEPARTMENT

188 ✓

INTER OFFICE COMMUNICATION

DATE December 6, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

Professor Viner made a forthright reference, in his memorandum, to the value of freezing in providing offsets in any eventual adjustment of American claims against Germany. I incorporated this into my memorandum. However, the Germans seem to have thought of it first. We have had the following from Mr. Stopford:

Kollmar, who is very active in the repatriation of German securities and works with the Reichsbank and the Chemical, has written from the Hotel Esplanade, Berlin, on October 17, to Richter, assistant manager of the Chemical, that although "it is felt" that the Young and Dawes bonds "will not be repudiated, they will nevertheless become part of a general settlement at the peace conference when no doubt American investments in continental Europe will be offset against continental European investments in the U. S. A."

Wiley

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin
via Bern

DATE: December 6, 1940, 4 p.m.
Rec'd December 7, 2:47 p.m.

NO.: 4937

Reference is made to telegram of September 19, noon, No. 4062 from the Embassy.

For the Treasury from Heath:

Since the above-mentioned telegram, there has been no decisive change in the general economic situation of Germany under war conditions, as far as can be observed under this régime of secrecy and propaganda. Since the aforementioned telegram, Germany has acquired complete command of the resources of Rumania and an increased hold over Hungary. However, even under conditions in peacetime, the impressive but very general treaty of economic cooperation with Rumania which was announced on the fourth of December would only gradually be of substantial aid to Germany. Also, despite German seizure of rolling stock in countries under occupation, the transportation difficulties, which were a main source of difficulty in getting imports from Rumania, are only very gradually being alleviated.

On the other hand, because of the approaching exhaustion of reserve stocks in the territories under occupation, there will be a decrease in imports of raw materials and finished products from these areas, which decrease will probably

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probably be greater than the increase of imports from Hungary and Rumania.

There is still expert and efficient management of monetary and financial affairs, as well as of the essential corollary controls over wages and consumption prices. A year ago discipline of the public regarding these controls was better than it is now; evasions are being increasingly practiced, although proper price controls are still quite effectively observed in Germany. The authorities have been led to issue new and stricter regulations in view of the increase of evasions, especially regulations concerning the keeping of records on cost joined with price. The controls are far from efficiently administered or obeyed in occupied areas, however. Reliable information has come to me that in Poland at least efforts to enforce the regulations thoroughly have practically been given up.

MORRIS

EA:LWW

PARAPHRASE OF SECTIONS TWO TO FOUR, INCLUSIVE, TELEGRAM NO. 4937
OF DECEMBER 6, 1940, FROM BERLIN

The rations of the German people have not been decreased, and there is no perceivable indication that before towards the end of 1941 at least there will be any cutting down in rations.

German armament production has apparently not been cut down despite the fact that military supplies are now being drawn from the occupied territories, as well as the fact that Swiss factories which a year ago were offered no German orders are now sending military supplies to Germany. Reliable sources have nevertheless told me that German exports have been well maintained, although my sources of information refused to divulge statistical or other details. There is no doubt that German imports are at a higher rate than a year ago due to the process of detaining the resources of occupied and dominated countries; for example, I am reliably informed that Norwegian exports are in value as high as when Norway still had the British market, in view of the German need for raw materials. There has however been a considerable rise in the price of Norwegian exports. Imports into Norway are far under previous levels, despite certain price raises demanded by Germany. Incidentally, Norway is the only one of the countries which resisted
Germany

- 2 -

Germany (Denmark and Rumania have been permitted to maintain nominally independent governments) which is permitted some measure of autonomy in making arrangements of a financial and trade character. Norwegian negotiators must however deal with German officials in Berlin in making arrangements of a commercial nature with Belgium and the Netherlands.

At the present time there are no indications of early definite deterioration of the German military economic machine; however, the potential weak spots noted in the telegram referred to at the beginning of this telegram are still prevalent. I could not find any evidence that there has been any noticeable reduction of German productivity up to the present as a result of bombings by the British, but the canals, the important synthetic oil plants and the strained railway system are still the targets of the British bombers.

There would be a considerable effect on the transportation system if the coming winter should be as severe as last winter. There would unquestionably be a much greater effect on morale than last winter, especially if there is continuation of bombing attacks by the British and no record of important victories by the Germans. Discipline in industry and the morale of the population are fundamental prerequisites

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prerequisites to the functioning of the rigid system of controls and the scarcities imposed on the Germans. It has been possible to maintain that discipline because of the general belief, or at least the hope, that Germany will be sufficiently victorious in the war to have at least the decisive voice in reaching the terms of peace if she cannot dictate the peace terms. It is very probable that there will be steady impairment of ^{productive} morale even if there is no decisive check to German arms or control and the war simply goes on with no clear prospect that victory will come soon with continuing privations and perhaps suffering.

I am told by an exceedingly authoritative source here that the following is about the way German leadership looks on the economic situation -

At the present time there is no dangerous economic weakness nor is it likely that the early future will show such weakness. The present ration rate will be continued for the German people for a considerable time. However, all around the borders of Germany is a ring of European nations in which the living standard has already become unsatisfactory - particularly the food situation in Western Europe. During the next year, if the war goes on, conditions in these nations will presumably become steadily worse.

The

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The blockade maintained by the British is still in effective operation beyond that ring of nations. Back of that blockade the productive capacity of the British Empire remains for the most part unimpaired, with a steadily increasing supply of necessary materials and military supplies being furnished to the British by the United States. The German leaders are aware that despite attacks by submarines and by airplanes, increasing quantities of these materials and supplies will reach Great Britain.

END MESSAGE.

MORRIS.

EA:LWW

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 6, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

FBI reports:

December 3. Baron von Spiegel, German Consul at New Orleans, is reported to have said that Dies and FBI will never find any written evidence pertaining to any German official or employee in the United States; that he fears FBI more than Dies; and that the United States can never be conquered by arms but must be conquered by propoganda.

December 3. An intercepted communication from the French Charge at Panama to the Foreign Minister at Vichy reporting about Panama indicates the Charge's opinion that Dr. Arias intends to establish a dictatorship and pursue a policy favorable to the Axis under the guise of absolute neutrality.

JK

Copy of Letter from A, Mexico City, December 6, 1940

The new Government and Cabinet have taken possession. It is somewhat of a mixture. Some quite conservative elements together with some who were considered quite radical like the Minister of Agriculture and of the newly formed Labor Ministry. However, the latter, on taking office, made declarations which are so much in opposition to his former policy that one can reasonably suspect that the wind will blow now with him and other leaders from an entirely different angle.

Mr. Wallace, of course, is not here to study Spanish and the declaration of the President of Mexico that in future he will put as basis good faith for all dealings with the United States and the rest of America, is very significant, as everybody knows that the basis in former times was bad faith. It is generally expected that some kind of an agreement will be reached in all pending questions which also includes the foreign debt and the railways, and naturally as matters of first magnitude, the land expropriations and the oil. There is a rumor that a certain amount of road bonds will be taken up by the American Government, the rate of interest to be 4%.

As far as the exchange situation is concerned, the Bank is still gaining money. One major theoretical economist has just finished a study by which he declares that the best rate of exchange for Mexico would be 4, which is in conformity with the feeling of most people, as they want to see, for "patriotical reasons", the value of the peso enhanced. The practical people, of course, know that this would be plain suicide as all the money which has come in at 4.85 and is lying about idle in the banks would be extremely happy to buy dollars again at 4.-, and the Bank which has bought 25 million dollars at 4.85 would have to sell about the same amount at 4 again. This, of course, does not take in consideration the nearly complete stoppage of our export trade and the flooding of this market with foreign manufactured goods and the closing of all home industries which have sprung up within the last ten years. It also does not take in consideration the decrease of the earnings of the Government, "aforo", etc. Nobody knows what the new President thinks about the matter and it is he who will have to decide, but the thing in itself is so preposterous that I believe that there is 95% of a chance for the exchange being kept at 4.85 and 5% of its going to 4.50 or 4. However, I beg to repeat that it is generally expected that the exchange will go to 4.50 or 4.

The rumor of the silver price being raised has also been current here for quite some time. It came up two months ago when Mexico was demanding that in case the United States should insist about a better rate of exchange for the peso, Mexico would counterdemand a higher price for its silver. So it is nothing new, and I think it will come up often again, but there is nothing to warrant such a belief at present.

The boom which we had here for the last six months and which put up our Stock Market 100%, for instance Banco Nacional from 26 to 52, Cia Industrial de Orizaba from 29 to 56, has somewhat subsided. Also the prices of houses and lots which had risen in a much more spectacular way, have come to a standstill. As usual the speculation was far ahead of the facts and now the facts will have to prove that the higher valuation given was justified.

CONFIDENTIAL

P A R A P H R A S E

The following is the substance of a confidential telegram (no. 131) dated December 6, 1940, from the Nanking office of the Embassy:

It was admitted by Hsu Liang on December 5 that the delay in the opening of the new bank was due principally to failure to agree by those who at present profit from military scrip. Mr. Hsu stated that the bank, within a month, would start the issuance of the new currency. He declined to say definitely when the opening would be but he promised to supply additional information as soon as the date of the opening should be determined.

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

158

American Consulate General
Tientsin, China, December 7, 1940

DC. 552

SUBJECT: Transmission of Table of "Link Equivalents" to the Customs Information Exchange.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to enclose for the Department's information, and as of possible interest to other Departments of the Government, a copy of my letter of December 7, 1940 to the Customs Information Exchange, U. S. Appraisers Stores, 201 Varick Street, New York, and a mimeographed table of "link equivalents", which shows in United States currency from US \$4.00 to US\$10.00 net link exchange rates to North China exporters and importers for each \$100.00 in Federal Reserve Bank currency.

Since this table may be of use to the District Offices of the Bureau of Foreign and Domestic Commerce, a hectograph copy of the table accompanies the copy of the Despatch marked "For the Bureau of Foreign and Domestic Commerce".

Respectfully yours,

J.K. Caldwell
American Consul General

Enclosures:

1. Copy of letter dated December 7, 1940 to the Customs Information Exchange at New York.
2. Copy of Mimeographed Table of "link equivalents".

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Original and five copies to the Department of State.

Copy to Embassy, Peiping.

Copy to Embassy, Chungking.

Copy to Treasury Attache, Shanghai.

Copy to Consolidated Reporting Unit, Shanghai.

A true copy of the
signed original.

Enclosure No. 1 to Despatch No. 552 159
dated December 7, 1940 from American
Consulate General, Tientsin, China,
entitled "Transmission of Table of
"Link Equivalents" to the Customs
Information Exchange".

Tientsin, China, December 7, 1940

Customs Information Exchange,
U. S. Appraisers Stores,
201 Varick Street,
New York, New York.

Sirs:

In connection with the invoicing of Tientsin merchandise exported to the United States since the application of export exchange control effective March 10, 1939, there are enclosed for your information and possible use by Collectors of Customs, 20 copies of a "Statement concerning Credit Terms in the Tientsin Consular District" which describes the "link" system by which all North China exports are now handled, and 20 copies of a table of "link equivalents" (received from Doney & Company, Tientsin link exchange brokers) which shows in United States currency from US\$4.00 to US\$10.00 net link rates to exporters and importers at North China ports for each \$100.00 Federal Reserve Bank of China currency.

In computing the enclosed table of "link equivalents", the difference between the Bank's "official" rates of US\$0.23:5/8 to exporters and US\$0.23: 7/16 to importers has been absorbed, and it has been assumed that the Federal Reserve Bank of China will withhold from importers 10% of the exchange derived from exporters.

This Consulate General has ascertained that, in certain instances, the Federal Reserve Bank of China has permitted Japanese firms as importers of wheat flour to re-purchase 100% of the exchange derived from their own exports. In such cases, the Federal Reserve Bank would merely profit to the extent of the difference between US\$0.23:5/8 and US\$0.23:7/16; the "link" rate for both imports and exports would be approximately the same; and the interested firm could fix its link exchange rate to suit its convenience.

Very truly yours,

J. K. Caldwell
American Consul General

Enclosures:

1. 20 copies of "Statement Concerning Credit Terms in the Tientsin Consular District".
2. 20 copies of a table of "link equivalents".

Original to Customs Information Exchange, New York.
Five copies to Department of State.
Copy to Embassy, Peiping.
Copy to Embassy, Chungking.
Copy to Treasury Attache, Shanghai.
Copy to Consolidated Reporting Unit, Shanghai.

true copy of the
signed original

COPY

Statement Concerning Credit Terms in the Tientsin Consular District.

Firms in the United States wishing to do business in the Tientsin consular district are informed that the imposition of exchange control on the North China export trade since July, 1939 has greatly increased the difficulties of doing business in this territory, both for importers and exporters, and credit procedure and sales and purchase methods must be adapted to meet existing conditions.

Export Financing.

Since July 17, 1939, North China exporters have been required to negotiate their export exchange through the Yokohama Specie Bank, acting for the Japanese-sponsored Federal Reserve Bank, at an "official" rate of exchange of US\$ 0.257/16 to the Federal Reserve Bank dollar. Despite the imposition of exchange control, Tientsin exporters still customarily quote in buyers in the American market c.i.f. prices in United States currency. Shipments are ordinarily made under confirmed irrevocable letters of credit, issuance of the relative drafts not to exceed four months sight, some of them containing a so-called "red clause" automatically authorizing the Tientsin bank to extend clean packing credits to the local shipper. Foreign exchange banks at Tientsin and Peking are generally insisting upon "red clause credits" or independent collateral before granting clean packing credits to exporters because of additional risks to banks and shippers inherent in the export exchange control system as currently administered by the Federal Reserve Bank.

In some cases where c.i.f. prices have been quoted Tientsin exporters prefer to ship on an F.o.b. basis in which event the exporter instructs the buyer to open the credit for the F.o.b. price.

Import Financing.

Imports into the Tientsin-Peking area at the present time are usually financed by telegraphic remittances of irrevocable without-recourse letters of credit. Foreign exchange banks generally insist upon full exchange coverage in opening such credits and assurances that import permits will be obtainable by importers. Exchange when import permits "without (link) exchange" privileges are granted by the Federal Reserve Bank must be covered in the open exchange market at current rates of about US\$0.257/16 to the Tientsin dollar.

At present, open market exchange is sufficient to pay for "non-essential" imports, but there are no assurances that the open exchange market will be permitted to function indefinitely since import permits "without exchange" will not generally be approved by the Federal Reserve Bank for merchandise originating outside the Yen Bloc. Due to present exchange and trade controls and the possibility of further restrictions on both, foreign exchange banks are unwilling to sell exchange for foreign bank. Generally, shipments in Tientsin on consignment and on D/P or D/A terms have been discontinued.

Status of Federal Reserve Bank Currency.

On March 10, 1939, the "Provisional Government of China" at Peking established the so-called Federal Reserve Bank of China as the "sole" bank of issue in North China, but the authorities failed to provide substantial foreign exchange backing for the note issue of this institution or for the convertibility of the notes into foreign currencies. The value of the Federal Reserve Bank notes was arbitrarily "pegged" at par with Yen and was given the nominal foreign exchange value of that currency. Although non-Japanese foreign exchange banks accept Federal Reserve Bank notes for deposit as

a separate currency, it is not acceptable by such banks for the direct purchase of foreign exchange, except in "link" transactions.

On March 10, 1939, the "Provisional" regime at Peking announced that thereafter the circulation of and conversion to Federal Reserve Bank currency of "North China" notes of the Bank of China, Bank of Communications and Central Bank of China (Chinese legal tender or "fapi") would be prohibited. Nevertheless, North China "fapi" notes continue to be used by non-Japanese foreign exchange banks for foreign exchange transactions on the open market. In the past six months, the value of the Tientsin "fapi" dollar has fluctuated between a premium of 6% and a discount of 10% in relation to the FRB\$ 1.00, and is quoted at FRB\$ 1.00 on.

Although foreign exchange can be bought with Federal Reserve Bank notes only through the medium of Tientsin "fapi" notes, foreign exchange banks in Peking make direct quotations in Federal Reserve Bank notes, based on the current premium or discount of the currency in relation to "Tientsin fapi".

Exchange Control and the "Link" System.

On July 17, 1939, the "Provisional Government of China" at Peking applied exchange control to exports from North China to foreign markets and to Central and South China (south of Tsingtao). According to the export exchange control regulations, exporters are required, as a prerequisite to Customs clearance, to obtain evidence (Certificate of Selling Exchange) from the Federal Reserve Bank of exchange settlement at an official rate of US\$0.257/16 per FRB\$1.00. Since export trade cannot be done at the "official" rate, North China exporters are being permitted to sell ("link") their exchange to exchange for imports, importers compensating exporters for the difference between the "official" rate and a so-called "minimum permissible link" rate of US\$0.137/8 per FRB\$1.00.

In actual transactions, the "minimum permissible link" rate is disregarded and a current "private link" rate of about US\$0.257/16 is used by Tientsin exporters with a somewhat lower rate available to importers, despite the announcement of the Federal Reserve Bank that "certificates of selling exchange" will not be issued to exporters and that exchange will be withheld from importers who "link" their exchange below the "minimum permissible" rate, and the Bank's requirement of written guarantees that exchange is "linked" at the minimum rate or higher. However, when an individual firm acts both as importer and exporter, no letter of guarantee is insisted upon, since it is impossible to verify the truth of such a statement, and such firms are evidently at liberty to fix their export and import exchange at rates most favorable to themselves.

Moreover, the Federal Reserve Bank is authorized by the existing exchange control regulations to withhold, and customarily does withhold, from importers 10% of the exchange bought through the Yokohama Specie Bank from exporters, for the alleged purpose of building up the foreign exchange reserves of the Federal Reserve Bank.

Except for the issuing of import and export permits, the Federal Reserve Bank declines to do business direct with exporters or importers, and acts as a "bank-ers' bank". Since none of the non-Japanese foreign exchange banks will handle "link business" with the Federal Reserve Bank, such business has to be done through the Yokohama Specie Bank, which will buy

foreigners export exchange at the "official" rate on a telegraphic transfer basis against the simultaneous sale to designated importers of 100% of the exchange sold to it. As an illustration of the operation of the "link" system, there is given below the details of a hypothetical telegraphic transfer of US\$10,000:

Transaction with the Yokohama Specie Bank at "official" exchange rates.

	US\$	FRB\$
Telegraphic transfer sold by exporter to Yokohama Specie Bank	10,000.00	
@ FRB\$ 1.00 = US\$ 0.23:5/8		42,322.00
10% of export exchange withheld by the Federal Reserve Bank	1,000.00	
Purchasable from Yokohama Specie Bank by importer at official rate	9,000.00	
@ FRB\$ 1.00 = US\$ 0.23:7/16		38,400.00

Transactions with importer at the "minimum permissible link rate" of US\$ 0.13:7/8.

	FRB\$
@ "official" link rate of FRB\$ 1.00 = US\$ 0.13:13/16, US\$ 10,000 equals	72,292.00
Payable to exporter by Yokohama Specie Bank at "official" rate of US\$ 0.23:5/8	42,322.00
Balance due exporter from importer	30,070.00
Purchase of US\$ 9,000 @ US\$ 0.23:7/16 by importer	38,400.00
Compensation paid to exporter by importer of	30,070.00
Actual cost to importer of US\$ 9,000 (which gives an exchange rate of FRB\$ 1.00 equals US\$ 0.13:1/16)	65,470.00

Since the Yokohama Specie Bank lacks the facilities for handling all "link" transactions, foreign exchange banks in Tientsin and Peking, to aid clients in financing such business, are discounting their export bills and are providing telegraphic exchange transfers on their New York offices payable to the Yokohama Specie Bank, in the name of its Tientsin branch, for the account of designated importers. When an importer receives advice of the receipt of the T. T. remittance, he opens his letter of credit with the Tientsin branch of the Yokohama Specie Bank (or makes a T. T. remittance through that bank to the exporters in the United States), and compensates the exporter in Tientsin for the latter's exchange "loss" resulting from the negotiation of the export exchange at the "official" rate.

Import Control.

On June 27, 1940, control was applied by the Japanese-Sponsored "North China Political Commission" to all imports into North China, effective immediately (and applicable to goods en route), except for passengers' baggage and household effects, samples, newspapers and periodicals.

As a prerequisite to Customs clearance, importers and firms handling "interport imports" (i.e., imports from Central and South China) are required to produce import permits to the Customs approved by the Japanese-sponsored Federal Reserve Bank of China, on one of the following forms:

(1) "Certificate for Buying Exchange" obtained from a foreign exchange bank (the Yokohama Specie Bank or Bank of Chosen) with the "confirmation" of the Federal Reserve Bank for the importation or interport importation (from countries other than Japan and "Manchukuo") of six cereals, i.e., flour, wheat, rice, millet, kaoliang, and maize (corn), for which the import exchange can be arranged either on the open exchange market or through the so-called "link" system;

(2) "Application for Import" approved by the Federal Reserve Bank for merchandise other than foodstuffs (from countries other than Japan and "Manchukuo") for which "link" exchange privileges will be accorded by the Federal Reserve Bank; or

(3) "Permission for Import as Reliance Import Without Exchange" to be "endorsed" by the Federal Reserve Bank, to be used for all other merchandise, including goods imported from Japan or "Manchukuo" for which exchange is unnecessary (due to the parity of Yen and Federal Reserve Bank currency) or for which the Bank desires to approve "link" exchange privileges, and the exchange will have to be arranged on the open exchange market.

Imports "without exchange" from countries outside the Yen Bloc will be permitted for parcel post packages received as gifts, for equipment required by firms for their own use and not for sale, and for a few other purposes, but applications for such purposes will be carefully investigated and will be kept as low as possible as they involve remittances in Shanghai dollars or foreign currencies, a procedure considered to be a menace to Federal Reserve Bank currency and Yen.

When "Applications for Import" are not approved within two months, they are automatically rejected. When approved, such applications have a validity of two months' within which time the "link" exchange must be settled and the goods duly imported; otherwise, the permits become null and void.

Moreover, in granting "link" exchange privileges the Bank insists that the actual "link" rate be disclosed and that selling prices for merchandise imported on the "link" basis be in line with the rate approved, foreshadowing commodity price controls.

No definite and official prohibition has been placed upon the importation of any articles of import, and although preference will be given to the six cereals and to certain other "needed" goods, no list of "preferred imports" will be published. Each import application will be acted upon "on its individual merits" by the Bank in its own discretion, but scant consideration will probably be given to luxury goods or even to ordinary consumers' goods, especially if similar merchandise can be supplied by the Yen Bloc.

In individual cases, the Bank has refused to accept for consideration applications for non-Japanese "luxury" imports, and in other cases importers have been required by the Bank to exhibit sales contracts to enable it to pass upon the ultimate customers before approving import applications.

These restrictions on imports have been imposed for the purpose of paying for foodstuffs needed in North China, to curtail the value of imports to the value of exports (less 10% to be retained by the Federal Reserve Bank), to eliminate the Tientsin open exchange market, to sever the relations between notes of the Federal Reserve and Chinese National Banks, and thereby to enhance the value of Federal Reserve Bank notes as a protection against Chinese currency depreciation.

The Bank has made it clear that any importer in North China will be very ill-advised to place orders for merchandise in markets other than Japan or "Manchukuo" without first obtaining an import permit.

As long as North China exporters quote local merchandise on a United States currency a.i.f. or f.a.b. basis against confirmed, irrevocable letters of credit, and as long as North China importers open "irrevocable without-recourse" credits or make telegraphic remittances to pay for their purchases prior to shipment, the complications of "link" transactions are not of direct interest to buyers or suppliers in the American market.

COPY

LINK EQUIVALENTS

Link basis importer pays Exporters 100% and
Importer acts as Exporter and Importer

Rates in Terms of U. S. Dollars

To Exporter	To Importer	To Exporter	To Importer	To Exporter	To Importer
34	37.6575	36	35.5304	38	37.4536
4-1/16	37.7155	6-1/16	35.5894	8-1/16	37.4935
4-1/8	37.7735	6-1/8	35.6484	8-1/8	37.5525
4-3/16	37.8315	6-3/16	35.7075	8-3/16	37.6115
4-1/4	37.8895	6-1/4	35.7665	8-1/4	37.6705
4-5/16	37.9475	6-5/16	35.8255	8-5/16	37.7295
4-3/8	4.0064	6-3/8	35.8849	8-3/8	37.7890
4-7/16	4.0648	6-7/16	35.9440	8-7/16	37.8480
4-1/2	4.1229	6-1/2	36.0033	8-1/2	37.9072
4-9/16	4.1812	6-9/16	36.0625	8-9/16	37.9665
4-5/8	4.2395	6-5/8	36.1218	8-5/8	38.0255
4-11/16	4.2979	6-11/16	36.1811	8-11/16	38.0851
4-3/4	4.3563	6-3/4	36.2405	8-3/4	38.1444
4-13/16	4.4147	6-13/16	36.3000	8-13/16	38.2037
4-7/8	4.4732	6-7/8	36.3593	8-7/8	38.2630
4-15/16	4.5316	6-15/16	36.4187	8-15/16	38.3224
5	4.5902	7	36.4781	9	38.3819
5-1/16	4.6487	7-1/16	36.5376	9-1/16	38.4413
5-1/8	4.7073	7-1/8	36.5971	9-1/8	38.5008
5-3/16	4.7659	7-3/16	36.6567	9-3/16	38.5604
5-1/4	4.8245	7-1/4	36.7163	9-1/4	38.6200
5-5/16	4.8832	7-5/16	36.7759	9-5/16	38.6795
5-3/8	4.9419	7-3/8	36.8355	9-3/8	38.7391
5-7/16	5.0008	7-7/16	36.8952	9-7/16	38.7987
5-1/2	5.0593	7-1/2	36.9549	9-1/2	38.8584
5-9/16	5.1181	7-9/16	37.0146	9-9/16	38.9180
5-5/8	5.1769	7-5/8	37.0744	9-5/8	38.9777
5-11/16	5.2357	7-11/16	37.1337	9-11/16	39.0374
5-3/4	5.2946	7-3/4	37.1940	9-3/4	39.0971
5-13/16	5.3535	7-13/16	37.2539	9-13/16	39.1568
5-7/8	5.4124	7-7/8	37.3137	9-7/8	39.2165
5-15/16	5.4714	7-15/16	37.3737	9-15/16	39.2762
				10	39.3360

NOTE: Official rate to Exporter US 23-5/8
 Official rate to Importer US 23-7/16
 Official link rate US 13-7/8
 * for Sterling equivalents convert at cross rate.

Compiled by: TJC

By Air Mail

202

AMERICAN CONSULATE

Saigon, French Indochina, December 6, 1940

Subject: Recent Developments Affecting Economic Conditions in Indochina

The Honorable

The Secretary of State,

Washington, D.C.

Sir:

I have the honor to refer to my telegram No. 27 of December 5, 5:00 p.m. regarding present British economic policy towards Indo-china and to report further concerning recent developments affecting economic conditions in this country.

British Policy

It should be stated at the outset that it is difficult to obtain locally a complete picture of British policy with respect to Indochina. This is because the policies of the component parts of the Empire affecting the country do not appear to be always the same at any given time, and because available sources of information in Indochina lack instructions which fully indicate their scope or the policies behind them. Such policies must accordingly be deduced either from the instructions received by those sources after requested information has been submitted to London or to a Dominion Government or, as happens most frequently, from the nature of the information requested. In spite of these limitations, the general outlines of these policies appear to be ascertainable as indicated in the following paragraphs.

Although the shipping problems which have confronted Indochina since the cessation of hostilities in France have undoubtedly been due to provisions of the armistice and German pressure on the Vichy Government as well as to British action, British economic pressure on this country has gradually increased during recent weeks. In this connection it will be recalled that the British Government advised the Government General of Indochina in the middle of October that justification of its liberal policy towards Indochina as compared with other French territory would be difficult unless Indochina should adopt a more cooperative attitude.²

On November 21 local British banks advised importers that, according to instructions received with respect to trade with Australia, goods would in the future be exported to Indochina only on the basis of full payment prior to shipment by arrange-

¹The British Consulate General and the two British banks in this country, the Hongkong Shanghai Banking Corporation, and the Chartered Bank of India, Australia, and China.

²My telegram No. 5 of October 16, 5:00 p.m.

ment approved in London¹; and that, payment having been made, shipment could only be made by British ships of those specified nationalities which included most allied and neutral but not French or Japanese vessels. Since British vessels have not called at Indochina ports since the Dakar incident in the latter part of October, and since ships of the other specified nationalities have recently called only rarely, if at all, these regulations practically blocked most exports to Indochina unless transshipment had been arranged at the normal transshipment ports of Singapore and Hong Kong.

At about this same time, acceptance for orders just previously placed in India for jute bags were canceled, and Indochinese importers were informed that no further sales would be made to this country. Some of the orders were then transferred to Hong Kong, but acceptances arranged there were soon similarly canceled.

Hong Kong also began to hold up certain cargo, such as steel sheets from the United States, sent there for transshipment to Indochina, and arrangements had to be made for shipment to this country via Manila. Carrying these restrictive measures further, Hong Kong and Singapore are now refusing to allow the forwarding to Indochina of transit cargo in general, according to information received from the British Consulate General. The British banks also advise that the United Kingdom and India have put into effect what amounts to a complete export embargo on goods to Indochina.

The banks believe that this policy has now probably become general throughout the Empire,² including Australia. If this be so, imports into Indochina seem to be effectively blocked except for goods that can be shipped directly from other than Empire countries, from such other countries to non-British ports for transshipment, or possibly from Empire countries through other countries.

French Measures

To meet this situation the Government General of Indochina took the steps outlined in my telegram under reference³ to make possible the transshipment of goods in any foreign port without their becoming subject to customs treatment other than that accorded through shipments. Since transshipment must be to a French vessel whenever possible, the measure also helps to assure adequate cargo for the French vessels now in operation.

On the same day (November 21) that local British banks informed French importers of the Australian regulations outlined above, the Government General published a notice instituting a unilateral clearing for trade with Great Britain.⁴ This action was probably caused by Great Britain's previous blocking of certain Indochinese credits but, in view of the present embargo on exports from Great Britain to Indochina, appears likely to be of little further significance.

Significance of British Measures for Indochina

In 1939 imports into Indochina from areas of the British Empire listed separately in the Indochinese customs statistics⁵ amounted to 45.8 million piastres which were 19.2 percent of total imports. However, Hong Kong and Singapore, whose trade with Indochina is mostly in transit goods, accounted for 26.7 million piastres or over 50

¹Although no restriction was in principle placed on credit through French banks, in practice the financing of shipments was thus generally placed in the hands of the two large British banks.

²Except the Irish Free State from which Indochinese imports are insignificant in any case.

³As well as this Consulate's report of December 5, 1940 on "Facilities Accorded for the Importation of Merchandise of Foreign Origin into French Indochina".

See report from this Consulate of November 22, 1940 on "Debts Due to or by British Traders to be Declared or Paid to the Office de Compensation".
Great Britain, HongKong, British India, Ceylon, Singapore, Union of South Africa, Canada, Irish Free State and Australia.

percent of all imports from the Empire, and imports from other British territory were only 4 percent of total imports.

The British Empire potentially increased in importance as a source of supplies for Indochina after the French armistice¹. And, with perhaps an even greater increase in the importance of the United States, the potential importance of Hong Kong also has become greater than previously. The now altered situation, however, has two aspects.

First, import conditions in general may not be as adverse as they at first appear. Most of the goods formerly obtained from the British Empire can be supplied by the United States, although the purposes for which many American industries are now operating may conceivably modify the purchase opportunities open to Indochina. Manila and Shanghai can probably also become transshipment ports for much cargo formerly shipped through Hongkong and Singapore. This should now be feasible since French and Japanese² vessels now call at Manila and Shanghai.

Second, the Indochinese economy is likely, however, to be adversely affected by the lack of one specific import from British India. This import is jute sacks. For the past five years imports of these sacks have averaged 28.3 thousand metric tons valued at 7.2 million piastres which have come almost wholly from India, although customs statistics show Singapore as a large supplier.³ It is in these bags that all the rice exported from Indochina, which has averaged 1.6 million metric tons valued at 3 million piastres for the past five years, is shipped. And it is on these exports that the Indochinese economy is principally dependent. If the bags cannot be obtained, the economic situation in this country may shortly become serious.

The new rice crop will soon come on the market. Harvesting is, in fact, already beginning. Merchants say that they will ship in boxes or in bags made of bamboo fiber, but it is problematical how successful such measures may be. Boxes would add greatly to weight and freight costs, and it is doubtful whether facilities exist for manufacturing either boxes or bags in adequate quantities.

Relations with Japan

There is little actually known as yet regarding the development of economic relations with Japan, but it is understood that they are not altogether satisfactory. Negotiations which have been in progress in Hanoi are to be continued in Tokyo with a large Indochinese delegation is now proceeding.

One of the principal problems is understood to be the means of payment for Japanese imports from this country. Until very recently Indochina has been successful in obtaining payment for rice in American dollars. It appears that this may no longer be possible and that the same situation exists with regard to rubber.

See report from this Consulate of September 28, 1940 on "Indochina's Trade Problems and Possibilities for Increased Trade with the United States".

About two Japanese ships a week have been calling at Saigon for the past month. This is no increase over the average throughout the earlier part of this year, but these vessels are large compared with most other ships which have been calling and, because of the decline in other shipping, Japanese shipping is now dominant in Indochina.

³Actually it is believed that India is the only country in the world manufacturing jute sacks in large quantities for export.

Some weeks ago the Director of Economic Affairs advised this Consulate that, if the United States purchased no more rubber, it would probably be sold to Japan. The Department is aware that the Government General later indicated that rubber was still available for the United States. The contract signed on December 2, 1940 is believed to cover practically all current rubber production and it is generally believed in banking circles that little rubber has thus far been sold to Japan because of failure to obtain the desired means of payments.

Summary and Conclusion

Information available from British sources in Saigon indicates that the British Empire has for some weeks been gradually increasing economic pressure on Indochina, and that an embargo on exports to this country, including transit shipments through Hong Kong and Singapore, now probably exists throughout the Empire (with the exception of the Irish Free State). This embargo is likely to be most severely felt through its effect on Indochina's supply of jute sacks from India which have been essential to the country's all important rice exports. Since the rice crop will soon be on the market, Indochina may be approaching a crisis in its political and economic affairs. A possible result might be the adoption by Indochina of a policy of cooperation with the British, but a more probable outcome would appear to be closer political and economic relations with Japan in spite of the apparent unsatisfactory progress of economic negotiations thus far.

Respectfully yours,

Peter H.A. Flood
American Consul

In quintuplicate
KWH/PHAF/cj
800

Copy to: American Embassy, Chungking
Consulate General - Shanghai, Hongkong, Singapore
The United States High Commissioner, Manila

A true copy of
the signed original,
C.J.

CCPY

EDWARD J. FOLEY, JR.

Since I last had the privilege of addressing this Institute, in November of 1936, a war across the sea has begun and has spread in scope until it threatens every part of the world. When I spoke to you then our thoughts were only of domestic problems. Some of these problems still exist and remain to be solved.

Today, however, our thoughts turn to newer and even more complex and pressing problems arising from the axis aggressions. From one end of the country to the other we are preparing to defend ourselves and to help our liberty and peace-loving neighbors to defend themselves against attack. In this tremendous enterprise we all feel the deep unison of a common, unhesitating national resolution.

There is no need to dwell upon the grave dangers which threaten free democracy everywhere. Time and again President Roosevelt has warned us of the almost incredible events which have occurred and are still occurring in Europe, and has emphasized the necessity of putting our own house in order in the face of storm signals from across the seas. Responding to his leadership, the people of the United States have shown that they intend to make any sacrifice required for our common defense.

To the Seventy-sixth Congress, which has made appropriations and authorized contracts for national defense amounting in round figures to the stupendous sum of twenty billion dollars, "national unity" is not merely a high-sounding phrase or a pious hope. It is the expression of

- 2 -

an indomitable purpose to take immediate steps for the protection of our liberties and to pay whatever it costs to get the job done before it is too late.

I.

In considering ways and means of financing the defense program, it becomes necessary to restudy the problem of tax-exempt securities. The privileges accorded taxpayers who purchase federal, state and municipal bonds are wholly inconsistent with any sensible or rational system of paying for defense.

For many years Republican as well as Democratic administrations have condemned tax-exempt securities as economically unsound and politically unnecessary.¹

The Messages of the President.

On April 25, 1938, and again on January 19, 1939, the President laid before Congress his statement that a fair and effective income tax and a huge perpetual reservoir of tax-exempt bonds could not exist

¹ See W. G. McAdoo, (1919) Letter to Claude Kitchen, Chairman, Ways and Means Committee, House of Representatives, 56 Cong. Rec. 10273; Carter Glass, (1919) Rep. Sec'y Treas. 24-5; D. F. Houston, (1920) Rep. Sec'y Treas. 38; President Harding, Proceedings of the Fifteenth Annual Conference on Taxation held under the auspices of the National Tax Association, Minneapolis, Minn., September 15 to 22, 1922, p. 280; President Coolidge, Message to Congress, December 8, 1923, H. R. Doc. No. 1, 68th Cong., 1st Sess. 4; Andrew W. Mellon, (1927) Rep. Sec'y Treas. 65, 67; President Hoover, Message to Congress, January 17, 1933, H. R. Doc. No. 527, 72d Cong., 2d Sess.; President Roosevelt, Message to Congress, June 19, 1935, H. R. Doc. No. 229, 74th Cong., 1st Sess.; Henry Morgenthau, Jr., Hearings on Tax-Exempt Securities before Judiciary Committee of the House of Representatives, March 8, 1934 (unpublished); Henry Morgenthau, Jr., Hearings on Revenue Act of 1939 before the Ways and Means Committee of the House of Representatives, 76th Cong., 1st Sess., May, 1939, p. 5; President Roosevelt, Message to Congress, April 25, 1938, H. R. Doc. No. 603, 75th Cong., 3d Sess.; President Roosevelt, Message to Congress, January 19, 1939, H. R. Doc. No. 113, 76th Cong., 1st Sess. No record has been found of any statements by Ogden L. Mills when he was Secretary of the Treasury, but in 1923 he stated his opposition to the issuance of tax-exempt securities. Proceedings of the National Tax Association (1923), p. 385.

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successfully side by side, and recommended that private income from future issues of government securities be made subject to the general federal and state income tax laws.²

The Ways and Means Committee of the House of Representatives held extensive public hearings on the question of terminating this tax exemption from June 28, 1939, until July 11, 1939.³ Likewise, a Special Senate Committee held a long series of hearings upon the subject last year.⁴ In addition, the Department of Justice made a monumental study of the constitutional questions,⁵ and a mine of material on the economic as well as legal aspects of the problem was made public by the Conference on State Defense.⁶

Report of the Special Senate Committee.

The report of the Ways and Means Committee has not yet been made. On September 18, 1940, however, the Special Senate Committee recommended that the income of all future bond issues of the United States, or any of its agencies, should be subject to both federal and state income tax laws and that the income from future issues of state and municipal bonds should be subject to the income tax laws of the federal government.⁷

²H. R. Doc. No. 803 and H. R. Doc. No. 113, *supra*, note 1.

³Hearings on Proposed Legislation Relating to Tax-Exempt Securities, 76th Cong., 1st Sess. (1939).

⁴Hearings, S. Res. 303 (75th Cong.), 76th Cong., 1st Sess. (1939).

⁵Taxation of Government Bondholders and Employees, The Immunity Rule and the Sixteenth Amendment (1938).

⁶The Fiscal and Economic Aspects of the Taxation of Public Securities, a Report by Dr. Herley L. Lutz, Professor of Public Finance, Princeton University, submitted to Comptroller Tremaine of New York (1939); The Constitutional Immunity of State and Municipal Securities, A Legal Defense of Attorneys General of the States and Counsel for Certain of Their Municipal Subdivisions.

⁷(1940) Sen. Rep. No. 2140, Parts 1 and 2, 76th Cong., 3d Sess.

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The Senate Committee recommended by a vote of four to two, first, that no more tax-exempt securities should be issued, and, second, that a statute eliminating tax-exempt securities would be within the constitutional power of Congress. In addition, this Committee unanimously recommended that no attempt should be made "to tax outstanding bonds of federal, state, or municipal governments, except as they are taxable by their terms or under the law and practice at the time of their original issue."⁸

Without going over the same ground so thoroughly covered in these voluminous hearings, studies, and reports,⁹ I would like to explore with you the implication of tax-exempt securities and national defense upon the relationship of the federal government with the state and local governments.

Instead of speculating in the traditional manner about the possible effect of taxing the interest on future issues of state and municipal securities upon the willingness of investors to accept a low interest return, let us consider (1) what degree of taxing power is necessary for federal purposes and (2) what the effect of exercising such power is likely to be upon state and municipal governments. The time has come to consider the subject realistically and without resort to lofty legalisms or abstruse econometrics.

⁸(1940) Sen. Rep. No. 2140, Part 1, 76th Cong., 3d Sess. 16. Senator Townsend refrained from expressing any opinion on the constitutional issue.

⁹See Appendix A for list of books, articles, and government publications on this subject.

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II.

We start with the premise that the federal government must have a general power of taxation in order to have a regular and adequate supply of money.

Now let us go back into history for a moment and take a look at the precursor of the Constitution, i.e., the Articles of Confederation. Even the feeble Articles of Confederation intended to grant to the Congress an unlimited power to provide for the pecuniary needs of the federal government. Under the Articles, the Congress was authorized to borrow money and to ascertain the sums of money necessary, in its judgment, for the services of the United States. The requisitions of Congress for such sums, if in accordance with the rule of apportionment, were obligatory upon the states.¹⁰

Requisitions under Articles of Confederation.

Although it could make requisitions on the states, the Congress could not levy any taxes. Only the states could levy the taxes.

What happened? In the years 1780 and 1781, the Congress asked for sums totaling \$10,600,000. The states responded with less than \$1,600,000, and it became necessary for the Confederation to borrow in anticipation of the states' payments in order to pay its bills.¹¹

¹⁰Articles VIII and IX of the Articles of Confederation (1777).

¹¹The first four requisitions by Congress were payable in paper money and amounted to \$95,000,000, of which the specie value was about \$5,000,000. The payments on these requisitions amounted to nearly \$35,000,000 in currency, of which the specie value was \$1,600,000, according to the scale of depreciation recognized by Congress.

As soon as the specie basis was restored Congress made the three requisitions in 1780 and 1781 amounting to \$10,600,000, mentioned above. From 1781, after the Articles of Confederation had been ratified, until the Constitution was ratified in 1789, Congress levied amounts totaling over \$15,000,000 and received about \$5,800,000. Bullock, *The Finances of the United States from 1775 to 1789* (1895) 1 *Bul. Univ. of Wisc.* 152-164.

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By 1786, further borrowing became impossible because requisitions upon the states yielded almost nothing. "Requisitions are a perfect nullity", Washington wrote to John Jay in August of that year, "where thirteen sovereign, independent, disunited States are in the habit of discussing and refusing compliance with them at their option. Requisitions are actually little better than a jest and a byword throughout the land."¹² It was readily apparent that the federal government could not be made dependent upon the beneficence of the states.

By the time the Constitutional Convention got around to taking up the powers to be vested in the Congress, the situation was so bad that the first of eighteen specific powers recommended by the Committee of Detail was the power to levy and collect taxes.¹³ It had become evident to all who sought to render the Constitution adequate to the exigencies of government and the preservation of the Union, and even to those delegates who wished only to amend the Articles, that the one absolutely necessary power for the central government was that of general taxation.¹⁴

The Convention voted unanimously to give Congress power to levy taxes upon individual citizens.¹⁵ The founding fathers had learned their lesson.

¹²Letter from George Washington dated August 1, 1786 to John Jay. The Writings of George Washington, by Jared Sparks, Vol. IX, p. 188.

¹³Proceedings of the Convention, Aug. 6, 1787. Journal, Acts and Proceedings, of The Convention, Boston, Thomas B. Wait, 1819, p. 230.

¹⁴The Making of the Constitution, By Charles Warren. Boston, Little, Brown & Co. (1937) p. 465.

¹⁵Ibid, p. 466.

Federal Power to Tax

Two years later Hamilton in his Report on Manufacturers accurately summarized this power as follows:

"The National Legislature has express authority 'to lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defence and general welfare,' with no other qualifications than that 'all duties, imposts, and excises shall be uniform throughout the United States; and that no capitation or other direct tax shall be laid, unless in proportion to numbers ascertained by a census or enumeration, taken on the principle prescribed in the Constitution,' and that 'no tax or duty shall be laid on articles exported from any State.' These three qualifications excepted, the power to raise money is plenary and indefinite."¹⁶

It is clear, therefore, that one of the chief objects of forming "a more perfect Union" was to "provide for the common defense", and, accordingly, one of the expressed objects of the power granted to the Congress "To lay and collect Taxes, Duties, Imposts, and Excises" is to "provide for the common defense".¹⁷

Until the Civil War, custom duties rather than national taxes constituted the main source of revenue of the federal government.¹⁸ The few internal revenue taxes that had been intermittently in force were largely abolished in 1817.¹⁹ But during the Civil War the Congress, in order to defend and preserve the Union, found it necessary to exert its power of taxation to a greater extent than it had ever done before.²⁰

¹⁶The Works of Alexander Hamilton, edited by Henry Cabot Lodge, New York, G. P. Putnam's Sons, 1885, Vol. III, p. 371.

¹⁷U. S. Const. Preamble and Art. I, sec. 8.

¹⁸(1839) Rep. Sec'y Treas. Table 6, pp. 356-361.

¹⁹Act of December 23, 1817, 3 Stat. 401.

²⁰Act of August 5, 1861, 12 Stat. 292, 300-311; Act of July 1, 1862, 12 Stat. 433, 473-476; Act of June 20, 1864, 13 Stat. 281-283; Act of July 4, 1864, 13 Stat. 417; Act of March 3, 1865, 13 Stat. 469, 479; Act of July 13, 1866, 14 Stat. 98, 137-138; Act of March 2, 1867, 14 Stat. 471, 478; Act of July 14, 1870, 16 Stat. 256, 257-261.

Civil War Income Tax.

The federal government under the Civil War income tax acts assumed authority to collect taxes upon all the income of all citizens, including state and municipal bondholders as well as state and municipal officeholders. As a matter of fact, one of the reasons urged on behalf of the Civil War income tax act was that it was a means, and probably the only means, of assessing government bondholders²¹ and state officeholders "many of whom," it was declared by Congressman Morrill in reporting the measure in 1861 from the Ways and Means Committee, "would not contribute a penny unless called upon through this tax."²²

Down to the decision in *Collector v. Day* in 1870²³ (which was last year overruled by *Graves v. O'Keefe*²⁴) the power of the federal government to tax government bondholders and officeholders was exercised without question.²⁵ In 1872 the income tax expired, and was not levied again until 1894.²⁶ In the next year it was held unconstitutional in *Pollock*

²¹Hill, *The Civil War Income Tax* (1894) 8 Quar. Journ. Econ. 416, 439. See also Speech of Senator John Sherman, January 25, 1871, Cong. Globe, 41st Cong. 3d Sess., Appendix, p. 58.

²²Congressional Globe, March 12, 1862, 37th Cong., 2nd Sess., p. 1196. See Sec. 49 of the Act of August 5, 1861, 12 Stat. 309; Sec. 90 of the Act of July 1, 1862, 12 Stat. 473.

²³(1870) 11 Wall. 113.

²⁴(1839) 306 U. S. 466.

²⁵See Appendix C for copy of an income tax return for year 1867. See also Department of Justice, *Taxation of Government Bondholders and Employees*, supra, Note 5, Appendix, Vol. 2, Doc. No. 54, p. 6.

²⁶Act of August 27, 1894, 28 Stat. 553, 560.

v. Farmers Loan & Trust Co.²⁷

With the ratification in 1913 of the Sixteenth Amendment authorizing the Congress "to lay and collect taxes on incomes, from whatever source derived,"²⁸ the income tax was revived.

Federal Income Tax Today.

The income tax has become the keystone of internal taxes levied by the Congress. Although it has been said to be the most accurate fiscal instrument yet devised for fixing an equitable tax liability, even the graduated personal income tax contains some serious fiscal inequalities when judged by the principle of "from each according to his ability to pay."

²⁷ (1895) 157 U.S. 429; 158 U.S. 801. The Supreme Court unanimously held in the first decision that the Federal government could not tax the income from municipal bonds. Chief Justice Fuller in the prevailing opinion after reargument stated that "as to the income from municipal bonds, that could not be taxed because of want of power to tax the source." (158 U.S. at 818). The reasoning of the Court has been repudiated in at least three recent cases:

1. In *New York ex rel Cohn v. Graves* (1937), 300 U.S. 308, 313, the Supreme Court accepted the theory that a tax on income is not a tax on the property from which the income is derived, but only upon the person receiving the income, holding that "income is not necessarily clothed with the tax immunity enjoyed by its source." Mr. Justice Butler, who dissented with Mr. Justice McReynolds, pointed out that the reasoning and conclusion in the case were inconsistent with the *Pollock* case.

2. Likewise, in *Hale v. State Board* (1937), 302 U.S. 95, 106, Mr. Justice Cardozo, speaking for the majority, said that the decisions of the Supreme Court "forbid us to stigmatize as unreasonable the classification of a tax upon net income as something different from a property tax, if not substantially an excise."

3. Finally, Mr. Justice Stone in *Graves v. O'Keefe* (1939), 306 U.S. 466, which overruled *Collector v. Day* (1870), 11 Wall. 113, as well as *Dobbins v. Commissioners* (1842), 16 Pet. 435, 480, flatly said that "the theory, which once won a qualified approval, that a tax on income is legally or economically a tax on its source, is no longer tenable."

The holding of the *Pollock* case relative to income taxation of municipal bonds has been cited and the reasoning followed by the Supreme Court in (a) *Evans v. Gore* (1920), 253 U.S. 245, 255, which has been discredited by *O'Malley v. Woodrough* (1938), 307 U.S. 277, overruling *Miles v. Graham* (1925), 268 U.S. 501, and holding that the salary of a judge appointed after 1932 was not immune from federal taxation; (b) *Indian Motorcycle Co. v. United States* (1931), 283 U.S. 570, 577, the reasoning of which is irreconcilable with that in *James v. Dravo Contracting Co.* (1937), 302 U.S. 134, which upheld application of a state gross receipts tax to income received by a company pursuant to a contract to build locks and dams for the federal government; and (c) *Burnet v. Coronado Oil & Gas Co.* (1932), 285 U.S. 393, 400, which has been overruled by *Belvering v. Mountain Producers Corporation* (1958), 303 U.S. 376, which held income derived by a lessee of state lands subject to federal income tax.

²⁸ The Sixteenth Amendment to the Constitution of the United States provides: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." The Sixteenth Amendment to the Constitution of the United States was submitted to the states by the Sixty-first Congress on July 12, 1908, and States was declared, in a proclamation of the Secretary of State, dated February 25, 1913, a part of the Constitution after it had been ratified by the legislatures of thirty-six states.

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The Sixteenth Amendment provides that income taxes, from whatever source derived, may be laid without apportionment among the states. Income taxes, therefore, to quote Chief Justice Hughes, "fall into the great class of excise duties and imposts and are alike subject to the rule requiring geographical uniformity."²⁹ But the Constitution does not require more of federal income taxes than that they be uniform in this geographical sense.³⁰ Consequently, the income tax is uniform from the constitutional standpoint, notwithstanding that the tax base excludes significant elements of income which are substantial factors in determining an individual's ability to assume his share of the burden of government.

Beginning with the 1913 Act,³¹ the income tax laws have excluded from gross income "interest upon the obligations of a State, Territory, or any political subdivision thereof."³² One result of this exclusion is that government bondholders owning more than \$23,000,000,000 of federal, state and municipal securities, in computing both their normal taxes and their surtaxes are not required to include the interest received

²⁹(1917) Sen. Doc. No. 105, 65th Cong., 1st Sess. 10.

³⁰Knowlton v. Moore, (1900) 178 U.S. 41; Brushaber v. Union Pacific R. R. Co. (1916) 240 U.S. 1.

³¹Act of October 3, 1913, 38 Stat. 114, 166-181.

³²Ibid., sec. 11(B). Cf. sec. 4, Rev. Act 1916, (36 Stat. 756, 756); sec. 213(b) (4) Rev. Act 1918, (40 Stat. 1057, 1065) Rev. Act 1921, (42 Stat. 227, 238) Rev. Act 1924, (43 Stat. 253, 268) and Rev. Act 1926 (44 Stat. 9, 24); sec. 22(b) (4) Rev. Act 1928 (45 Stat. 791, 798), Rev. Act 1932 (47 Stat. 169, 178), Rev. Act 1934 (48 Stat. 690, 687), Rev. Act 1936 (49 Stat. 1648, 1657), and Rev. Act 1938 (52 Stat. 447, 458); also, I.R.C. sec. 22(b) (4), 53 Stat. Part I, 10.

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from such securities in gross income.³³

Another result is that this shocks the conscience of many rank and file Americans who think it strange that, while they pay income taxes on their earned income, other citizens grow steadily richer from investments in government bonds without being subject to income taxes on the interest received from such bonds.³⁴

Necessity of Taxing All Private Income.

The performance of the federal function of defense necessitates making provision for unforeseeable contingencies. We have seen that the delegates to the Constitutional Convention knew this from their experience under the Articles of Confederation, and that, as long ago as the Civil War, Congress concluded that the federal government must have power to reach all private incomes from all sources to avert a serious social as well as revenue problem.

³³This amount does not include securities in the principal amount of \$10,846,000,000 held by the federal government and its agencies, by federal reserve banks and by state, territorial and local trust, investment and sinking funds. The total outstanding interest-bearing federal, state and local securities wholly exempt from federal income tax, as of June 30, 1939, was \$34,666,000,000.

In addition, there are federal securities outstanding in the aggregate principal amount of \$33,000,000,000 partially tax-exempt, of which about \$3,500,000,000 are held in the funds mentioned above. These partially tax-exempt securities are exempt from the normal tax rates, but are subject to surtax rates of the federal income tax, except that interest derived from \$5,000 of principal amount of United States savings bonds and Treasury bonds owned by any single person is exempt from the surtax as well as the normal tax.

The total of securities outstanding, interest on which is wholly or partially exempt from the federal income tax, is estimated to be \$67,656,000,000. See (1939) Rep. Sec'y Treas. Table 57 at p. 508.

³⁴The Gallup Poll on Tax-Exempt Securities and Salaries (American Institute of Public Opinion) February 7, 1939, showed that 75% of the nation's voters would vote in the affirmative on the following question: "Should people who own United States Government bonds or State or municipal bonds have to pay Federal income taxes on their incomes from these securities?"

For two typical letters to the Treasury Department from taxpayers who became irked because of the large class of persons "the bulk of whose fortunes is invested in a form of security which bears no share of the burden imposed by federal income taxes", see Hearings, supra, Note 4, p. 61.

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Today we accept without reservation the principle that the duty of aiding in the common defense rests upon every citizen according to his capacity for service, only to permit the principle to be violated in practice through tolerating tax-exempt securities. Surely a sound fiscal system calls for a congressional power to levy non-discriminatory income taxes, limited solely by (1) the needs of the nation, and (2) the resources of the people.

We all know that, as a practical matter, it is not possible to meet the whole cost of the national defense program from taxation. Part of it must be met by borrowing. The ability to pay the interest on the bonds which must be issued and to discharge the principal at maturity is restricted only by the power to tax. They should be backed by the full taxing power of the United States, and that taxing power should be able to reach all private income, regardless of its source.

To the extent that any portion of private income is exempted from the operation of the taxing power, the burden of the debt upon the rest of private income is increased.

A wealthy taxpayer gains much more by his federal tax avoidance

than he loses in accepting lower interest on government bonds.³⁵ Furthermore, he is settling his taxes for the future at the rate existing when the obligation to pay interest was incurred. On the other hand, a taxpayer, who is not so fortunate as to have savings to invest in government bonds, will pay his taxes at the rate existing when the obligation to pay interest is performed.

A prudent democracy cannot afford to continue a condition whereby the more government bonds are issued, the less income is available for paying the interest and principal. And few would attempt to justify on equitable principles the issuance by any government, federal, state or local, of securities which are more valuable to persons of large means than to persons of modest means.³⁶

³⁵The Twentieth Century Fund in its survey entitled "Facing the Tax Problem" relates pointedly the damage which tax-exempts inflict upon a progressive surtax, and the lack of compensating advantage to states or municipalities, in this way:

"A wealthy taxpayer gains much more by his federal tax avoidance than he loses in accepting lower interest. This is true principally for the reason that there are so many state and local bonds outstanding that they have to bear interest rates high enough to attract buyers from the low-income groups, corporations, and others that are not subject to the high personal income surtaxes. Under the 1938 federal income tax rates, for an investor with a \$50,000 income a 2 per cent yield on a tax-exempt state or local bond corresponds to a 3 per cent yield on a bond that is not tax-exempt. For an investor at the \$250,000 level, the corresponding percentages are 1 and 3. Actually, there is no such spread between interest rates of taxable bonds and exempt bonds. The states and localities have to pay more than 1 per cent - even more than 2 per cent - to compete with the taxable 3 per cent bond of the same maturity and soundness." (at p. 304)

See also Hearings, *supra*, Note 3, Exhibit 14, p. 40. Table 1 of this Exhibit shows that the greatest differential in favor of municipal bond yields as against corporation bond yields occurred in 1900, thirteen years before the federal income tax was in effect. On the other hand, in 1933, when the federal individual income tax was levied at a maximum rate of 63%, municipal bonds yielded more than corporation bonds. The actual figures are: an excess of 93/100ths of 1 per cent of corporation bond yields over municipal bond yields in 1900, and an excess of 22/100ths of 1 per cent of municipal bond yields over corporate bond yields in 1933 - a net movement of 1.15 per cent against the municipal bonds during the period when the tax situation changed from the remote possibility that there might be a federal income tax some day, if the Constitution should ever be amended to permit it, to a time when such a tax was being levied at rates running as high as 63 per cent!

³⁶It is estimated that individuals held tax-exempt securities in an amount aggregating \$19,000,000,000, of which \$6,600,000,000 were partially exempt. Of the remaining \$12,300,000,000 wholly tax-exempt securities held by individuals, \$8,300,000,000 were state and local securities. It is estimated that persons subject to combined normal and surtax rates higher than 19% held about \$5,000,000,000 of this amount as of June 30, 1937. Hearings, *supra*, Note 3, Chart entitled "Estimated Distribution of Tax-Exempt Securities", facing p. 4; also Exhibit 6, p. 25 at p. 27.

Even assuming that the taxation of interest received by private owners of future issues of federal, state and municipal securities would not be productive immediately of immense revenue,³⁷ the interests of states and municipalities do not lie in attempting to abridge the discretion of the Congress in this respect.

Whatever their relationship may have been in early years of the Republic, it is unrealistic to view the federal government and the state governments as rivals today. The constituents of both governments are the people. If the people today tend to look to the federal government, it is only because our problems are national in scope requiring measures equally national, and not because the federal government is usurping the sovereignty of the states. There can be no question about this where national defense is concerned.

The States' Rights Issue.

States and municipalities should be slow to listen to overstatements about annihilation of their rights if tax-exempt securities are eliminated. No one has contended, for example, that requiring Governor Stassen of Minnesota, as well as Lieutenant-Governor Anderson and Senator Hall of that State, to register for service in a peacetime federal army is a violation of Minnesota's sovereignty,³⁸ but we are asked to believe that requiring a

³⁷The annual additional federal income tax ultimately resulting from the removal of tax exemption from all future issues of governmental securities (federal, state and local) is estimated to be within a range of from \$179,000,000 as a minimum to \$337,000,000 as a maximum. It is impracticable to estimate the initial or intermediate revenue effects of eliminating tax-exemption privileges because there will be an increased concentration of the remaining outstanding tax-exempt securities in the hands of those to whom the tax-exempt privilege is of most value. Hearings, *supra*, Note 3, Exhibit 13, p. 34; see also Exhibits 15 and 16, pp. 48-49.

³⁸Section 5(a) of the Act of September 16, 1940 (Public, No. 783, 76th Congress). Although governors of states are not exempted from registration, deferment of training and service is authorized by section 5(c)(1) for certain state officers including governors, and for members of the federal and state legislative bodies.

private owner of bonds hereafter issued by a city, such as St. Paul, to pay a non-discriminatory income tax on the interest received would offend states' rights, destroy our federal system, and deprive St. Paul of home rule.

In support of these grass-will-grow-in-the-streets prophesies of doom, a New York municipal bond attorney has suggested, apparently in all seriousness, that if tax-exemption privileges are eliminated, "the states would cease to be sovereignties and would become mere geographical subdivisions, existing at the will and for the convenience of the federal government," and that the effect would be "to abandon the fundamental concepts upon which the United States was founded."³⁹ Such remarks are pure demagoguery.

This abstract fear of the destruction of our federal system by taxing all private income, and not exempting private income from a non-discriminatory general net income tax simply because it is derived from a state or municipal bond, is wholly unwarranted and is plainly refuted by the known facts.

Chief Justice Marshall spiked this thought in *McCulloch v. Maryland* when he declared: "The people of all the states have created the general government, and have conferred upon it the general power of taxation. The people of all the states, and the states themselves, are represented in Congress, and, by their representatives, exercise this power."⁴⁰

³⁹Taxation of Tax-Exempt Securities, David M. Wood, *American Bar Association Journal*, Vol. 25, 1939, p. 201, 204.

⁴⁰(1819) 4 Wheat. 216, 436.

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From the time that the Assumption Act⁴¹ was enacted by the first Congress in 1790, under which the federal government assumed all debts incurred during the Revolutionary War, down to the present Congress, which paid out about \$2,300,000,000 for work relief and federal aid to states, municipalities and other public bodies during the fiscal year 1940, the federal government has used its fiscal powers to cooperate with the states. The Acts of Congress providing for aiding the states are so extensive that merely citing the principal ones covered more than eight printed pages in a brief filed in the Supreme Court in 1937.⁴²

So wide has been the range of activities of the federal government affecting municipal administration that almost a decade ago, after an extensive investigation under the auspices of the Brookings Institution, it was recommended that a Bureau of Municipal Information be established in the federal government, "to function as a clearing house of information on all things municipal in the federal government."⁴³ Later, in 1937, a similar recommendation was incorporated in a report of the National Resources Committee, and its Urbanism Committee listed seventy-one federal agencies dealing with urban government.⁴⁴

⁴¹Act of August 4, 1790, 1 Stat. 138.

⁴²Brief for Federal Emergency Administrator of Public Works, pp. 90-98, *Duke Power Co. v. Greenwood County*, (1936) 299 U.S. 259.

⁴³Butters, *Federal Services to Municipal Governments* (Munic. Adm'n. Serv. No. 24, 1931), p. 3.

⁴⁴*Urban Government*, Vol. I of the Supplementary Report of the Urbanism Committee to the National Resources Committee, Washington, 1939; *Our Cities, Their Role in the National Economy* (Rep. of the Urbanism Committee to the Nat. Resources Committee, 1937) 10.

Finally, on August 2, 1940, the President established in the Office of the Secretary of the Council of National Defense and of the Advisory Commission, a Division of State and Local Cooperation. This Division will provide a means for the full utilization of the administrative organizations of federal, state and local governments in integrating and coordinating programs in local communities related to national defense.⁴⁵

A few years ago in reviewing in more detail the development of federal-municipal relationships, I had occasion to point out that the states were being gradually eliminated as the middle-men in negotiations between the federal government and local governmental units, and that, whether this resulted from a growing consciousness that a citizen of a municipality is no less a citizen of the United States and entitled to benefits which his own state may be unable or unwilling to provide, or to a growing independence on the part of municipalities from their states, the important consideration was that the Congress had acted towards municipalities in a new and significant manner foreshadowing a completely

⁴⁵The announcement of the creation of the Division of State and Local Cooperation was made by press release issued on August 5, 1940, which stated that the function of the Division would be as follows:

"(1) serve as the channel of communication between the National Defense Advisory Commission and state defense councils and, through the latter, with local councils in each state; (2) keep the state and local councils currently informed regarding the national defense program as it develops, particularly with respect to the specific activities in which the cooperation of state and local agencies is required from time to time; (3) receive from defense councils in the states reports upon problems of coordination requiring federal attention, recommendations for necessary adjustments in programs, suggestions regarding new activities, proffers of facilities or services and be responsible for their routing and follow-up to insure appropriate distribution; (4) clear information between defense councils in different states regarding matters of council organization, administration and activity."

changed attitude toward the solution of the fiscal relations of Federal and municipal governments.⁴⁶

It is a far cry from the federal grants of public lands to the states for roads, canals, and railroads or the distribution to the states of a \$28,000,000 surplus in the federal treasury in 1937, to the direct fiscal relationship between the federal government and municipalities arising from the activities of the Reconstruction Finance Corporation,⁴⁷ the Rural Electrification Administration,⁴⁸ the Public

⁴⁶Foley, Recent Developments in Federal-Municipal Relationships (1939), 68 U. of Pa. L. Rev. 485-516. See also Appendix B for further references on this subject.

⁴⁷See Reconstruction Finance Corporation Act (1932), 47 Stat. 5, as amended in relation to states, municipalities and other public bodies by:

Emergency Relief and Construction Act of 1932, 47 Stat. 709, (which authorized the making of loans for self-liquidating projects of public instrumentalities), as amended by Joint Resolution of March 23, 1933, 48 Stat. 20; Third Deficiency Act, fiscal year 1933, 48 Stat. 89; Act of June 10, 1933, 48 Stat. 120; and Fourth Deficiency Act, fiscal year 1933, 48 Stat. 283. See also Title III of National Industrial Recovery Act (1933), 48 Stat. 210, as amended by Act of June 19, 1934, 48 Stat. 1110.

Federal Emergency Relief Act of 1933, 48 Stat. 55 (authorizing advances to states and municipalities for relief and work relief).

Act of April 13, 1934, 48 Stat. 589, (authorizing loans to repair damage caused by catastrophes), as amended by Act of July 26, 1935, 49 Stat. 505, and Act of April 17, 1936, 49 Stat. 1232.

Act of August 24, 1935, 49 Stat. 796 (authorizing loans to construct, operate and refinance public school facilities). See sec. 16, Act of June 19, 1934.

Act of February 11, 1937, 50 Stat. 10, (creating Disaster Loan Corporation to lend for catastrophe relief), as amended by Joint Resolution of May 26, 1937, 50 Stat. 211; Act of March 3, 1939, 52 Stat. 84; and Act of March 4, 1939, 53 Stat. 510.

In addition to the above provisions, section 5d of the Reconstruction Finance Corporation Act authorizes the making of loans to states, municipalities and other public bodies "to aid in financing projects authorized under federal, state or municipal law." This section was added to the Reconstruction Finance Corporation Act to ~~provide for the~~ ^{provide for the} ~~purpose of~~ ^{purpose of} ~~the~~ ^{the} ~~act of~~ ^{act of} ~~June 19,~~ ^{June 19,} 1934, 48 Stat. 1108, and has been amended by the Act of January 31, 1935, 49 Stat. 4; the Act of April 13, 1936, 52 Stat. 212; and the Act of June 25, 1940, Public No. 664, 76th Congress, 3d Session.

See also for statutes which continue the functions of the Reconstruction Finance Corporation the Act of January 30, 1934, 48 Stat. 318; Act of January 31, 1935, 49 Stat. 1, as amended by Act of January 26, 1937, 50 Stat. 5, and Act of March 4, 1939, 53 Stat. 510; and Act of January 26, 1937, 50 Stat. 5, as amended by Act of March 4, 1939, 53 Stat. 510; and Act of June 25, 1940, 54 Stat. 572.

See also Reorganization Plan No. 1 (1939), 53 Stat. 1423, 1426, and Joint Resolution of June 7, 1939, 53 Stat. 513 (establishing Federal Loan Agency within which Reconstruction Finance Corporation is included).

⁴⁸Rural Electrification Act of 1936, 49 Stat. 1363, as amended by Rural Electrification Act of 1938, 52 Stat. 869.

Works Administration,⁴⁹ the Works Projects Administration,⁵⁰ and the United States Housing Authority.⁵¹

Scope of Federal-Municipal Cooperation

In addition to this financial assistance, the federal government has recently recognized a preferential status of states and municipalities. More than twenty years ago, for example, the Federal Water Power Act, authorizing the Federal Power Commission to grant licenses for power projects on streams subject to federal jurisdiction, provided for a preference to states and municipalities, and so far as licenses for the development of power at government dams were concerned, gave states and municipalities first preference after the federal government.⁵²

⁴⁹Created as the Federal Emergency Administration of Public Works pursuant to Title II of the National Industrial Recovery Act (1933), 48 Stat. 200. The appropriation for the purposes of carrying out this Act was contained in the Fourth Deficiency Act (1933), 48 Stat. 274. Provisions for additional funds and for authorizing the Reconstruction Finance Corporation to purchase marketable securities from the Public Works Administration were contained in the Emergency Appropriation Act (1934), 48 Stat. 1055. The Public Works Administration was continued until June 30, 1937, by the Emergency Relief Appropriation Act of 1935, 49 Stat. 115. The First Deficiency Appropriation Act (1936), 49 Stat. 1606, authorized the use of funds not to exceed \$300,000,000 for grants from the Public Works Administration Revolving Fund, theretofore available only for loans. The Public Works Administration Extension Act of 1937, 50 Stat. 352. The Administration was again continued until June 30, 1941, by the Public Works Administration Appropriation of 1938, 52 Stat. 809. Sec. 305 of Reorganization Plan No. 1, supra, Note 47, provided that the Federal Emergency Administration of Public Works and its functions should be administered as the Public Works Administration and included the Administration within the Federal Works Agency.

⁵⁰Created as the Works Progress Administration by Executive Order No. 7034 of May 6, 1935, pursuant to the Emergency Relief Appropriation Act of 1935, 49 Stat. 115. Sec. 306 of Reorganization Plan No. 1, supra, Note 47, provided that the Works Progress Administration and its functions (except the National Youth Administration and its functions) should be administered as the Works Projects Administration within the Federal Works Agency.

⁵¹Created by United States Housing Act of 1937, 50 Stat. 889, as amended by United States Housing Act Amendments of 1938, 52 Stat. 809. See also Reorganization Plan No. 1, supra, Note 47, making the Authority a part of the Federal Works Agency.

⁵²Act of June 10, 1920, 41 Stat. 1063, as amended (U. S. C. title 16, secs. 791-823).

Likewise, the Tennessee Valley Authority Act⁵³ and the Bonneville Project Act⁵⁴ also provide preference and priority to states, municipalities and other public bodies in the sale of power, and the Rural Electrification Administration Act contains a similar preference insofar as loans are authorized.⁵⁵

A striking development is that Congress has, in many instances, consented to the states exercising the power of taxation over government property which would otherwise be exempt,⁵⁶ and has also authorized federal agencies to make payments to states and municipalities in lieu of taxes.⁵⁷ The recent Lanham Act, authorizing a \$150,000,000 defense housing program, contains a typical provision of this type.⁵⁸

⁵³Act of May 18, 1933, 48 Stat. 58 as amended (U.S.C. title 16, secs. 831-831cc).

⁵⁴Act of August 20, 1937, 50 Stat. 731 (U.S.C., Sup. V., title 16, sec. 8321).

⁵⁵Section 4 of the Rural Electrification Act of 1936, 49 Stat. 1363, 1365 (U.S.C. title 7, sec. 904).

⁵⁶See, for examples of statutes which specifically authorize the levy of taxes by states: the Act of January 26, 1847, 9 Stat. 118; Act of July 10, 1886, 24 Stat. 143 (U.S.C., title 43, sec. 892); Act of August 13, 1894, 28 Stat. 278 (U.S.C., title 31, sec. 425); Act of March 3, 1901, 31 Stat. 1083 (U.S.C., title 25, sec. 319); Act of May 27, 1902, 32 Stat. 275 (U.S.C., title 25, sec. 379); Act of March 11, 1904, 33 Stat. 65 (U.S.C., title 25, sec. 321); Act of May 8, 1906, 34 Stat. 183 (U.S.C., title 25, sec. 349); Act of June 14, 1908, 34 Stat. 283; Act of March 1, 1907, 34 Stat. 1018 (U.S.C., title 25, sec. 412); Act of August 19, 1937, 50 Stat. 700 (U.S.C., Sup. IV, title 16, sec. 403c-1); Act of August 25, 1937, 50 Stat. 808 (U.S.C., Sup. IV, title 25, sec. 510); and, Act of December 6, 1937, 51 Stat. 4 (U.S.C., Sup. IV, title 12, sec. 1708); National Housing Act Amendments of 1938, 52 Stat. 22 (U.S.C., Sup. V, title 12, sec. 1714); Act of March 8, 1938, 52 Stat. 108 (U.S.C., Sup. V, title 15, sec. 713a-5).

⁵⁷See, for example, section 12(e) of United States Housing Act of 1937, supra, Note 51; section 202(a) of the Act of June 28, 1940 (Public, No. 671, 76th Congress); section 9 of the Act of October 14, 1940 (Public, No. 849, 76th Congress).

⁵⁸Section 9 of the Act of October 14, 1940, supra, Note 57, provides: "The Administrator may enter into any agreements to pay annual sums in lieu of taxes to any State or political subdivision thereof, with respect to any real property acquired and held by him under this Act, including improvements thereon. The amount so paid for any year upon any such property shall not exceed the taxes that would be paid to the State or subdivision, as the case may be, upon such property if it were not exempt from taxation."

In this connection, it may be pointed out that the Home Owners' Loan Act of 1933 has proved to be effective in improving municipal finances by the simple expedient of authorizing a home owner to borrow from the Corporation to pay taxes.⁵⁹ As a result of this provision, one dollar out of every fourteen loaned by the Home Owners' Loan Corporation has gone to enrich local treasuries in urban areas.⁶⁰

The Bureau of the Census made the headlines early this year. Not much publicity has been given, however, to its census of housing which has revealed little-known housing conditions and problems to many municipalities. Few realize the extent to which the child age facts collected by the Census Bureau guide local school districts in their building programs. And the financial statistics of states published by the Bureau give on a comparable basis valuable data concerning the amount of state revenues, expenditures, indebtedness, assessed valuations and tax levies.

The Personal Income Tax and Grants to Public Bodies

These few examples of scores of services and assistance the federal government is constantly rendering to states and municipalities ought to reveal the fictitious nature of the fears of hostile action by the Congress if state and municipal bondholders are subjected to federal income taxation.

In the last decade the federal government has made outright grants to states, municipalities and other public bodies, exclusive of work relief expenditures and social security and other payments to individuals,

⁵⁹Section 4(d) (2), 48 Stat. 129 (U.S.C., title 12, sec. 1463(d) (2)).

⁶⁰(1938) 6 Rep. Fed. Home Loan Bank Bd. 69-70.

which have amounted in the aggregate to more than four and one-half billion dollars, and in the same period the federal government has collected about seven and one-half billion dollars⁶¹ from the personal income tax.

Although, of course, these individual income taxes were not earmarked for any particular purpose nor in any way constituted a measuring rod for federal aid, it is noteworthy that the federal government actually allocated directly to states, municipalities and other public bodies, an amount equivalent to three-fifths of all collections from the personal income tax during the ten years from 1931 to 1940. And for the fiscal year 1940 an amount equal to more than eight hundred million dollars or four-fifths of the personal income tax collections was turned back to states, municipalities, and other public bodies for such purposes as agricultural education and experiment stations, public works, road construction and grade crossings elimination, public health and education of the blind, industrial rehabilitation and vocational education.⁶²

Easing of Burden on Real Estate

It is apparent, however, that to continue these benefits and services depends largely upon the ability of the federal government to obtain revenue from sources best able to meet this need and at the same time help pay for the defense program.

⁶¹ (Nov. 1940) Bull. Treas. Dep't. 7.

⁶² (1939) Rep. Sec'y Treas. Tables 60 and 61, pp. 516-525.

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The important proposal made a year ago by Mayor LaGuardia for the establishment of a system of federally-collected, locally-shared taxes merits careful study. As the Mayor has wisely said, "We have an unscientific system of taxation, which we were able to absorb as a young and growing country, but which is now impossible to go on with in the economic condition of the country * * * the burden resulting from division, multiplicity, and overlapping of taxes is too great."⁶³

Secretary of the Treasury Morgenthau referred to this problem of federal-state tax conflicts in his testimony before the House Ways and Means Committee last year when he recommended "that Congress create a small temporary national commission to report to Congress as soon as feasible on the various aspects of intergovernmental fiscal policy and propose a plan for the solution of the problems involved."⁶⁴

That stronger and better coordinated measures must soon be taken to lighten the local tax burden on real estate is generally accepted. The extent to which this burden has already been alleviated through federal financial aid to states and municipalities is incalculable.

No one will question the basic constitutional principles that the federal government lacks power to tax in a manner which will destroy or substantially interfere with the exercise of state and municipal functions, and that state and municipal governments lack power to tax in a manner

⁶³During a forum conducted in Chicago by the Illinois Tax Commission.

⁶⁴Hearings on Revenue Act of 1939, 76th Cong., 1st Sess., p. 3-4.

which would destroy or substantially interfere with the exercise of the functions of the federal government.

But applying a practical criterion, as the Supreme Court has been doing,⁶⁵ it can no longer be seriously urged that the non-discriminatory taxation by the federal government of the income from future issues of state and municipal obligations, or by the states of the income from future issues of federal obligations, will offend those basic constitutional principles.

No federal system of government other than the United States grants tax exemption to owners of government securities, and, although the income tax has been widely adopted, tax-exempt

⁶⁵ In 1821, long before the economic incidents of the graduated income tax were understood, the Supreme Court in *Weston v. City of Charleston* (1829) 2 Pet. (U.S.) 449, referred to the admission of counsel for the City (at p. 468) that the municipal tax held invalid as to the United States stock would affect adversely the terms on which the federal government could borrow.

But when it was argued in 1909 in opposition to the corporate excise tax, which was applicable to federal, state and municipal bonds, that the tax was destroying contract rights and that state and municipal bonds would not be worth as much as they were before, the Supreme Court was not impressed and, in *Flint v. Stone Tracy Company* (1911) 220 U.S. 107, unanimously upheld the tax.

Again, when the federal estate tax was enacted in 1916, it was argued that state and municipal bonds ought to be excluded from the base of the tax, for otherwise it would detract from their marketability, but, again, the Supreme Court was not impressed and in *Greiner v. Lewellyn* (1922) 258 U.S. 384, unanimously upheld the tax.

Regard was again had to substance and direct effects in *Willcuts v. Burn* (1931) 282 U.S. 216, 219, 221, 222, when the Commissioner of Internal Revenue asserted that capital gain realized from the sale of municipal bonds was subject to the income tax and the Attorneys General of New York and Massachusetts prophesied disaster for the municipal bond market and the end of states' rights if the tax were sustained. The Court was pressed with the now familiar argument that the exemption of municipal bonds from income taxation "does not depend upon degree of burden", that the tax was manifestly "illegal because it is in fact an appreciable burden upon the borrowing power of the States", and that it necessarily would "compel a higher coupon rate upon state bonds than would otherwise be needed."

A unanimous Court, however, rejected these arguments as not an adequate basis for tax immunity.

Only last March the Court in reaffirming "the rule that a tax upon a legitimate subject, measured by net income, including that from tax-immune federal instrumentalities, is not an infringement of the immunity", rejected the theoretical concept that the borrowing power of the federal government was being burdened. *Tradesmen's National Bank v. Oklahoma Tax Commission* (1940) 309 U.S. 560, 565.

It is safe to predict that the Supreme Court will not maintain any doctrinaire distinction between the subject and measure of a tax, whenever a non-discriminatory net income tax is involved.

securities are peculiarly an American problem.⁶⁶

Today the energies of the federal government are devoted in large measure to the realization of an adequate national defense program. It requires for that purpose an increased revenue. If that revenue is to be obtained with due regard to just principles of taxation, we can no longer permit the issuance of tax exempt securities. I have tried to show you that such an exemption is founded upon a mistaken notion of constitutional powers and is a dangerous source of social unrest. The federal government, in its attempt to eliminate this inequitable exemption from its tax laws, will need the cooperation of municipalities. I have given you some instances which illustrate the attitude of the federal government towards municipalities, and I know that you can add many more. We both know that the policy of the federal government towards municipalities is that of the Good Neighbor and that the cause of both is the same: a sound national defense.

⁶⁶Earlier cases in Australia which had held private income from government securities exempt from taxation have been expressly overruled. *Devoren v. Commonwealth Commissioner of Taxation*, (1923) 32 C.L.R. 616. Likewise, in Canada no immunity is accorded income received from public obligations or public offices. *Caron v. The King*, (1924) A.C. 999; *Forbes v. Attorney General*, (1937) 1 D.L.R. 289.

The subjection of income from federal and state obligations to reciprocal and non-discriminatory taxation in Canada and Australia has in no way interfered with the maintenance of their federal systems of government. The Minister of Finance for Canada in a letter to Senator Lonergan on July 13, 1937, said:

"The Dominion issued bonds in the period 1916-18, exempt from Dominion income tax. The last of these issues matures in December 1937. About half of this issue has already been refunded into taxable issues and all other tax-free obligations issued during the war have been converted into taxable securities. It was felt at the time these tax-free issues were floated that the Canadian investor, unfamiliar with bond investment on any large scale, required the tax-free feature in the bonds he purchased. It was imperative that the various issues be successful as cash requirements of the Dominion during the Great War were very heavy. There were some, even at that time, who believed that the funds would have been forthcoming without tax exemption and in recent years, with the aid of hindsight, the number of persons who hold this view has greatly increased. It should be borne in mind that while these issues were exempt from Dominion income tax, they were subject to income taxes levied by a number of Provinces." *Hearings, supra*, Note 4, pp. 63-64.

APPENDIX A

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APPENDIX C

UNITED STATES INTERNAL REVENUE.

ANNUAL TAXES, 1867.

By the act of June 30, 1864, as amended by the first section of the act of March 2, 1867, it is made the duty of any person liable to pay such tax, on or before the first day of March in each year, to make a return to the assistant assessor of the district wherein he resides, of his income, and of the articles in Schedule A owned or kept by him on the first day of March.

Every person failing to make such return by the day specified will be liable to be assessed by the assistant assessor according to the best information which he can obtain; and in such case the assistant assessor will add fifty per cent. to the amount of the tax, and from the valuation and enumeration so made there can be no appeal.

In case any person shall deliver to an assessor any false or fraudulent list or statement, with intent to defraud or evade the valuation or enumeration required by law, the assistant assessor will add one hundred per cent. to the tax.

The assessor's list, when completed, will be returned to the collector, who will "give notice by advertisement in one newspaper published in each county in his collection district, if any there be, and if not, then in a newspaper printed in an adjoining county, and by notification, to be posted in at least four public places in each county in his collection district, that the said duties have become due and payable, and state the time and place within said county at which he or his deputy will attend to receive the same;" and to any sum paid after the thirtieth day of April, and for ten days after demand, there will be an addition of five per cent. as a penalty for such neglect, and of interest at one per cent. per month.

Guardians, trustees, executors and administrators, and persons acting in any other fiduciary capacity, are required to make returns of the income belonging to minors, or other persons for whom they act, and the income tax will be assessed upon the amount returned, after deducting such sums as are exempted by law; provided that the exemption of one thousand dollars shall not be allowed on account of any minor or other beneficiary of a trust except upon the statement of the guardian or trustee, made under oath, that the minor or beneficiary has no other income from which the said amount may be exempted and deducted.

When coupons of United States bonds, or gold received as interest on bonds, are sold within the year, the amount of legal tender currency received therefor should be returned as income under paragraph 9.

When any person has gold, or coupons payable in gold, on hand at the close of the year, its value should be returned at the value of gold at the close of the year. This value in New York was 134.

Articles embraced in Schedule A must be returned in the list printed on this sheet.

The following table may be used for converting Avoirdupois into Troy ounces:

50 ounces Avoirdupois equal	5 ounces Troy.	50 ounces Avoirdupois equal	75 ounces Troy.
20 " " " "	19 " " "	50 " " " "	91 " " "
40 " " " "	37 " " "	100 " " " "	182 " " "
50 " " " "	46 " " "	200 " " " "	365 " " "
60 " " " "	55 " " "	500 " " " "	912 " " "
70 " " " "	64 " " "	1000 " " " "	1825 " " "

When any articles named in Schedule A are owned, possessed, or kept by a partnership, firm, association, or corporation, they must be returned to the assistant assessor of the district in which such partnership, firm, association, or corporation has its office or principal place of business.

When such articles are held by an individual, the return will be made in the district in which he or she resides.

Detailed Statement of Income, Gains, and Profits of John R. B.
 of 8 West 214 Street, County of New York, State of New York,
 during the year 1866, and of Carriages, &c., &c., owned or kept
 by him, March 1, 1867.

1. From profits in any trade, business, or profession from which income is actually derived, or any interest therein otherwise derived	
2. From the payment of debts in a former year considered lost, and which have not paid a previous income tax	
3. From rents	
4. From mining operations—Amount of live stock and Account of agricultural products sold	147 10
5. From profits realized by sale of real estate purchased since December 31, 1862	
6. From interest on any bonds or other evidences of indebtedness of any railroad, canal, telegraph, canal navigation, or other company or interest in any such company, or deposit in any bank, credit company, savings institution, insurance, railroad, canal, telegraph, canal navigation, or stock exchange company	1842 87
7. From dividends of any incorporated company other than those above mentioned	3344 00
8. From gain and profits of any incorporated company not limited	
9. From interest on notes, bonds, or other securities of the United States	542 67
10. From interest on notes, bonds, mortgages or securities issued by any State other than those enumerated above	73 32
11. From salary or fees as an officer or employee of the United States	
12. From salary or pay as an officer or employee of the United States	
13. From profits or interest of gain in any stock, commodity purchased	
14. From all sources not above enumerated	
Total Income	3951 97

DEDUCTIONS.	
1. Exempt by law	\$1,000 00
2. National, State, county, and municipal taxes paid within the year	667 31
3. Losses actually sustained during the year from fire, theft, wreck, or incurred in trade, and not actually realized in ascertaining profits	
4. Losses on sales of real estate purchased since December 31, 1862	
5. Amount paid for land later to cultivate land from which income is derived	
6. Amount paid for fire stock which was sold within the year	
7. Amount actually paid for rent of household	
8. Amount paid for usual or ordinary repairs, including payments for new buildings, permanent improvements or betterments	31 73
9. Interest paid out or falling due within the year	360 00
10. Salary or pay as an officer or employee of the United States from which a tax has been withheld	
11. Interest or dividends from incorporated companies above in paragraph 4	1842 87
Total Deductions	3901 91
Amount of tax at 5 per cent	2050 06
	102 50
	6 40
	1085 34

SCHEDULE A—SECTION 100, ACT JUNE 30, 1864, AS AMENDED JULY 13, 1865.

No.	TAXABLE ARTICLES	RATE.	AMOUNT OF TAX
	Carriage, phaeton, carryall, rockaway, or other like carriage, and any coach, hackney coach, omnibus, or four-wheeled carriage, the body of which rests upon springs of any description, which is kept for use, for hire, or for passengers, and which is not used exclusively in husbandry or in the transportation of merchandise, valued at exceeding three hundred dollars and not exceeding five hundred dollars, including harness used therewith	\$0 00	
2	Carriages of like description valued at above five hundred dollars	10 00	
	Gold watches, composed wholly or in part of gold or gilt, kept for use, valued at one hundred dollars or less	1 00	2 00
	Gold watches, composed wholly or in part of gold or gilt, kept for use, valued at above one hundred dollars	4 00	
	Billiard tables kept for use, and not subject to special tax	10 00	
	Orn. plate of gold, kept for use, per ounce troy	5 0	
88	Orn. plate of silver, kept for use, per ounce troy, exceeding 40 ounces, used by one family	50	4 40
			6 40

STATE OF _____ }
 COUNTY OF _____ } ss.

... being sworn according to law, deposes and says,
 that the within statement contains a full, true, particular, and correct account of his income for the year A. D. 1866, which he has received, whether derived from any kind of property, trade, interest, dividends, or salary, or from any profession, trade, employment, or vocation, or from any other source whatsoever, from the first day of January to the thirty-first day of December, A. D. 1866; both these inclusive, and subject to an income tax under the excise laws of the United States; and that he has not received, and is not entitled to receive, from any of all sources of income together, any other sum for the said year besides what is herein set forth in detail, except such amounts as, though justly due to the affiant, are not good and collectible; and that he is honestly and truly entitled to make the deductions from his income for said year as specifically stated in detail, in accordance with the true intent of the excise laws of the United States; that the statement of the number or weight and value of the articles enumerated in schedule A, aforesaid, presented to him by him, or of which he had the care or management, on the first day of March, A. D. 1867, is also just and true; and that the several rates and amounts therein contained are stated in legal tender currency.

J. R. B.

Given and subscribed, this 30 day of April, A. D. 1867, before me
J. M. Robinson
 Assistant Assessor Division District, State of _____

Assessors should ask the following Questions:

- Had your wife any income last year?
- Did any minor child of yours receive any salary last year?
- Have you included in this return the income of your wife, and salary received by minor children?
- Have you any stocks, and what are they?
- Have you bought or sold stocks or other property?
- Have you any United States securities?
- Have you kept any book accounts?
- Is your income estimated, or taken from your books?
- Have any of the deductions claimed in your return already been taken out of the amount reported as profits?
- Did you estimate any portion of your profits in making your return for previous years?
- Was any portion claimed as worthless, and, if since paid, have you included it in this return?

UNITED STATES INTERNAL REVENUE
ANNUAL TAXES, MARCH, 1867.

To 3 April 1867

ISS Division District

and State of

Tax 108.90
withheld 92.14
\$201.04

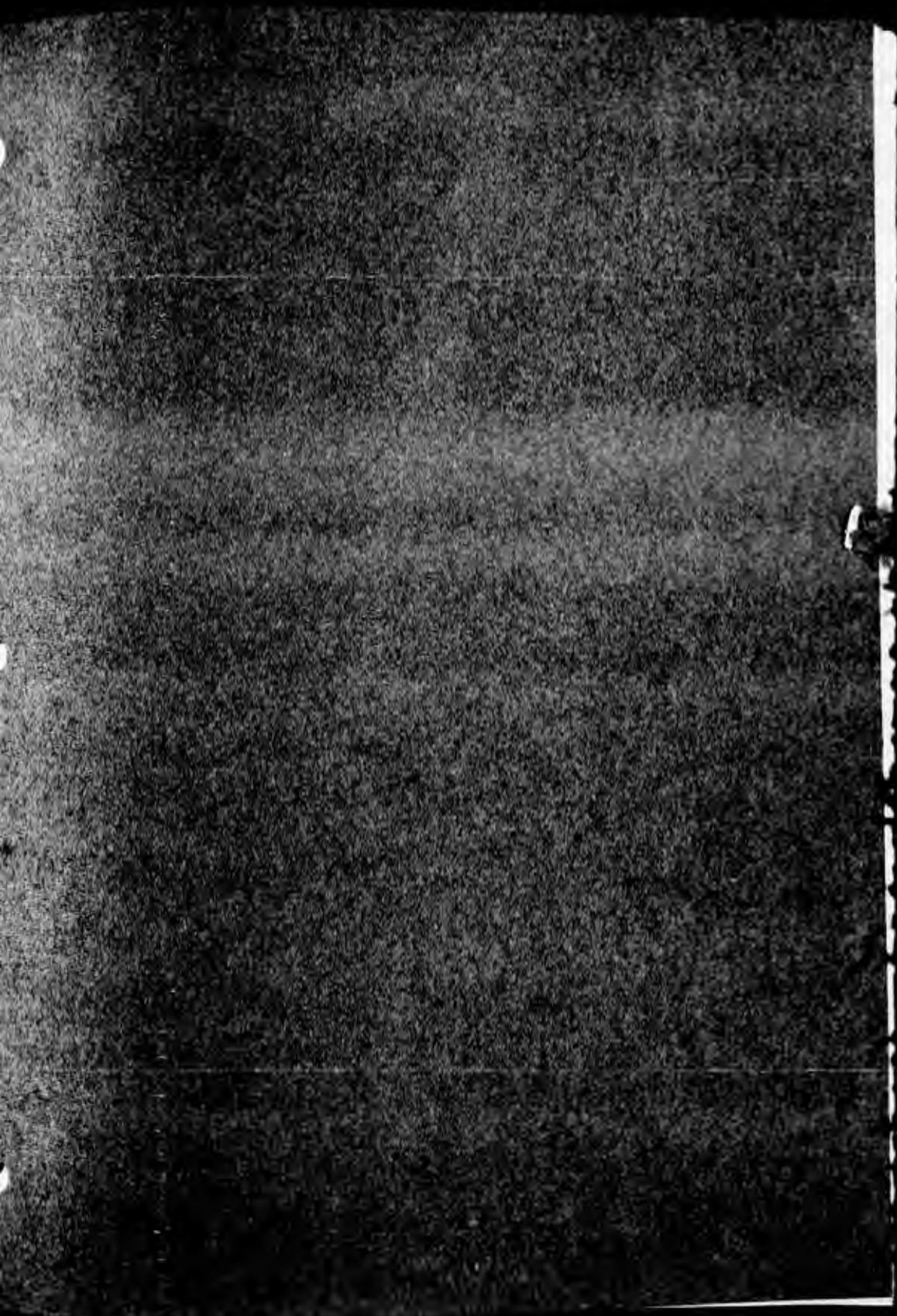
TAKE NOTICE

That in pursuance of the act of Congress you are required to make out a Return according to the forms in this act as the same may be applied to your case and deliver the same to me or my collector. This is to certify the said return for an addition of three per centum will be made to the proper tax.

Received day of 1867

Assistant Receiver

Official



WAR DEPARTMENT
WASHINGTON

December 6, 1940

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

My dear Mr. Secretary:

There is enclosed herewith photostat copy of a letter dated December 3, 1940, from Sir Walter T. Layton, of the British Purchasing Commission, to the Secretary of War, in acknowledgment of Secretary Stinson's letter dated November 29, a copy of which was previously sent to you.

Sincerely yours,

Arthur E. Palmer
(has)

ARTHUR E. PALMER, Jr.,
Special Assistant to
the Secretary of War

Photostat copy of Sir
Walter Layton's letter
also sent to:

Secretary of the Navy
Secretary of Commerce
Assistant Secretary of War
Chief of Staff
Chief of Ordnance
Mr. E. R. Stettinius
Mr. Wm. S. Knudsen
Mr. Donald M. Nelson



BRITISH PURCHASING COMMISSION

3rd December 1940

U.S. DEPARTMENT OF WAR
RECEIVED

Dear Mr. Stimson,

This is to acknowledge receipt of your letter dated November 29th relating to the British Army programmes in the United States.

His Majesty's Government will be very glad to learn that in your opinion it will be practicable for us to obtain in the United States equipment of American standard types for 10 Army Divisions, subject to the conditions mentioned in your letter. Such an addition to our Army resources will be of very great value indeed in accomplishing the task to which we have set our hand, and I must again express my very warm appreciation of the trouble which you and the members of your Department have taken to assist us in making this very considerable addition to our military strength.

My Government are confident that the American Administration also appreciate the importance to our war effort of Programme "A" and other orders already placed, and that any other urgent needs which we may have to put forward will be given most sympathetic consideration. They ask me to express the hope that all such supplies may receive the best possible priority.

Yours very sincerely,

The Hon. H. L. Stimson,
Secretary for War,
War Department,
Washington.

December 6, 1940

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Heavy Bombers Diverted to the British

The present status of the heavy bombers being transferred to Britain is as follows:

I. Six B-24's from Consolidated

One has been delivered and has just left or will shortly leave San Diego to be flown to England. The remaining five are to be delivered by the end of this month, and the Sperry automatic pilot should be installed in all of them by January 10, in accordance with the original schedule. These ships have no tail guns, no protected gas tanks, no armor plate. For the present they will be used only for transport work, but provision can be made later for protecting the gas tanks and for installing armor plate which might make them available for night bombing.

II. Twenty B-24-A's from Consolidated

Major Fleet estimates that these will be delivered by April 30, 1941, or earlier. They have protected gas tanks, armor plate, and a tail gun, but no tail turret. They will be useful only for night bombing.

III. Twenty B-17-C's from Boeing

These are all completed and are now at Seattle and Sacramento. They will be turned over to the British Purchasing Commission on January 1, 1941. It will be necessary to install in them Sperry automatic pilots and bomb sights, which will mean some additional delay before they can be used by the British. They have protected gas tanks and armor plate but no tail gun. They have a tunnel gun, but the British Purchasing Commission thinks that they will be useful only for night bombing.

Ry.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£44,000
Purchased from commercial concerns	£17,000

In the open market, sterling opened and closed at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£3,000
Purchased from commercial concerns	£5,000

The Argentine free peso was quoted at .2360 until late in the afternoon. It closed at .2365 bid after a small amount of business was transacted at that rate. Yesterday's final quotation was .2362.

Closing quotations for the other currencies were:

Canadian dollar	13% discount
Swiss franc	.2321
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-9/16% discount

The yuan in Shanghai was unchanged at 6¢.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

Gold in Bombay was priced at the equivalent of \$33.81, up 2¢. The silver equivalent was unchanged at 43.41¢.

In London, a price of 23d was fixed for both spot and forward silver, representing a gain of 1/16d 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 5¢.

We made one purchase of silver amounting to 225,000 ounces under the Silver Purchase Act. This represented a sale from inventory.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$25,000 yesterday, setting aside as collateral \$25,306 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$897,000, secured by \$1,003,817 in gold.

A handwritten signature in cursive script, appearing to be 'J.M.P.', is centered on the page.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1940

TO *Miss Channoy,*
Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following information regarding the transactions listed on the attached 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>
Dec. 6				\$200,000	Banco di Napoli Trust Co., N.Y.	Check to order of Banco di Napoli Trust Co., N.Y., deposited with Guaranty Trust Co., N.Y.

277

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 6	\$220,000	Credito Italiana, N.Y.	Banco di Napoli Trust Co., N.Y.	\$220,000	Banco di Napoli Trust Co., N.Y.	Chase National Bank, N.Y., for account of Credito Italiano, N.Y.
	170,000	Banca di Roma, Rome	Chase National Bank, N.Y., by order of Credito Italiano, N.Y., by order of Credito Italiano, N.Y.	170,000	Credito Italiano, N.Y.	Chase National Bank, N.Y., for account of Banca di Roma, Rome, by order of Credito Italiano, Rome

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 6				\$29,000	Bank of Italy, Rome	National City Bank, N.Y., for account of Banco di Napoli Trust Co., N.Y.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1940

For Miss Chauncey,

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the State Bank of the U.S.S.R. maintained with the Bank of the Manhattan Co., N. Y.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 28	\$400,000	Chase National Bank, N.Y., by order of State Bank of the U.S.S.R., Moscow



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 6, 1940

TO *For Miss Chauncey*
Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 6	\$ 51,280	Irving Trust Co., N.Y., for account of Carl Marks

J.M.P.

December 6, 1940

282

My dear General Watson:

At the Secretary's request,
I am returning herewith the letter
addressed to the President by
Mr. Jesse Jones on December 2,
1940.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

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

Enclosure. ✓

By Messenger 4¹⁵

December 6, 1940

My dear General Watson:

At the Secretary's request,
I am returning herewith the letter
addressed to the President by
Mr. Jesse Jones on December 2,
1940.

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(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

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

Enclosure.

By Messenger

12/6/40

284

Dopies of Mr. Jones letter of 12/2/40
and the President's note of 12/3/40
furnished to Mr. D. W. Bell, Mr. White
and Mr. Foley on this date.

Mrs. McHugh

THE WHITE HOUSE
WASHINGTON

Aboard Presidential Special
December 3, 1940.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION

F. D. R.

C O P Y

286

**THE WHITE HOUSE
WASHINGTON**

**Aboard Presidential Special
December 8, 1940**

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

FOR YOUR INFORMATION

F. D. R.

COPY

**FEDERAL LOAN AGENCY
Washington**

287

December 2, 1940

Dear Mr. President:

Respecting the extension of additional credits by the Export-Import Bank of Washington to China, this is to call your attention to the fact that such loans cannot, under the law, be made ". . . for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition, or implements of war by the President of the United States in accordance with the Neutrality Act of 1939."

This restriction was removed with regard to the governments of the countries of the Western Hemisphere but left in force as to other borrowers by the Act approved September 26th last, which authorized additional lending powers for the Bank.

If China proposes to use the proceeds of our loans for war materials, we will have to ask Congress to modify the law.

Sincerely yours,

Jesse H. Jones (Signed)

Administrator

The President
The White House

December 6, 1940

Dear Sir:

Will you please transmit for me by a secret system the following message to the President:

QUOTE - After consulting with appropriate members of Congress, it seems to me advisable not to do the usual refunding into partially non-taxable bonds as I feel by waiting until Congress meets in January, we will have an excellent opportunity to get the necessary authority to make all Federal securities wholly taxable. With this in mind, I would like to have your approval at this time to borrow only between five hundred and seven hundred and fifty million new money through the sale of wholly taxable five year national defense notes. Would appreciate an answer by Monday morning. Hope that you have lost your head cold and are feeling entirely well. - UNQUOTE

Sincerely yours,

The Communications Duty Officer,
Navy Department,
Washington, D.C.

December 6, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

MS

Supplementing my previous memoranda, the following charter of vessels of the United States to aliens is considered of interest:

Tanker AURORA (Official No. 219954) - Application filed by Socony-Vacuum Oil Company, Incorporated, New York, N.Y., for approval of charter to Vsesoyuznoe Obединenie "Soyuznefteexport", an agency of the U. S. Soviet Government, for one voyage with a cargo of motor gasoline from a port or ports in California, to Vladivostok, U.S.S.R., loading about January 2, 1941. Approved 26 November, 1940.

Tanker CHINA ARROW (Official No. 220680) - Application filed by Socony-Vacuum Oil Company, Incorporated, New York, N.Y., for approval of charter to Vsesoyuznoe Obединenie "Soyuznefteexport", an agency of the U. S. Soviet Government, for one voyage with a cargo of motor gasoline from a port or ports in California, to Vladivostok, U.S.S.R., loading about December 10, 1940. Approved 26 November, 1940.

December 6, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

MCS

Admiral Stark has informally notified Waesche that he expects to make a request soon for four cutters of the 250 ft. type for patrol service in the Caribbean to relieve Navy equipment. They probably want to use the destroyers for fleet mobilization and exercises.

The Navy now has the CAMPBELL, which is at Lisbon, and two 125 ft. cutters which they are using as buoy and net laying boats.

We have only ten of the 250 ft. cutters. They can, of course, be turned over but it naturally will leave us rather poorly equipped in some spots for any emergency that might require a large boat for heavy towing or a major rescue operation. Waesche's idea is to strip the Gulf region of big boats, leaving the 165 footers to do the job there, which seems the most logical thing at this time of year.

The State Department has informed Coast Guard that they would like to have three cutters working continuously in Alaska next season; two for the East Coast and one for the West. They want planes on at least two of them and a shore plane base established. Waesche plans to ask Navy if they can't turn over the old BEAR to us after the Byrd expedition is brought back from the Antarctic this winter. The Navy has spent \$300,000 reconditioning her and she can carry a plane, as can the NORTHLAND. She would be useful for the far northern work on the east coast of Greenland.

TREASURY DEPARTMENT

291

INTER-OFFICE COMMUNICATION

DATE December 6, 1940.

TO Secretary Morgenthau

FROM Mr. Haas

In accordance with your request we have priced a 5 year Treasury note, National Defense series, assuming that such a note would be as fully subject to taxation as is permitted by the options allowed the Secretary by existing law.

We believe that such a note could be successfully offered at the present time with a $3/4$ percent coupon, and would sell initially at a premium of about $16/32$, equivalent to a yield basis of .65 percent.

December 8, 1940.

Dear Mr. Spaeth:

On behalf of the Secretary I want to thank you for your letter of December 4th, which gives him a number of facts in regard to the arrangements effected to date between the Chilean mission and the authorities here. Mr. Morgenthau appreciates your passing on this information to him.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Carl B. Spaeth,
Executive Assistant,
Council of National Defense,
State Department Building,
Washington, D. C.

GEX/dba

December 6, 1940.

Dear Mr. Spacht:

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Mr. Carl E. Spacht,
Executive Assistant,
Council of National Defense,
State Department Building,
Washington, D. C.

GKF/dbs

December 6, 1940.

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(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Carl E. Spaeth,
Executive Assistant,
Council of National Defense,
State Department Building,
Washington, D. C.

GXF/dbs

12/6/40

295

Original of this letter was given to Mr.
W. Bell today in accordance with
Mrs. Klotz's instructions.

Mrs. McHugh

30 24
200 8/11

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

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 4, 1940

My dear Mr. Secretary:

In view of your interest in the Chilean mission which came to Washington after the Havana Conference to discuss economic and financial cooperation, and pursuant to the recommendation of the Inter-Departmental Committee, we are pleased to send you a summary of the arrangements effected to date:

(a) The Export-Import Bank will make available a \$5,000,000 credit to the Central Bank of Chile. This has not yet been announced.

(b) The purchase of 300,000 tons of nitrates as a stockpile is expected to net Chile from \$4,000,000 to \$5,000,000. You will recall that Chile, in answering the Treasury's questionnaire, on August 30, 1940, indicated a desire to maintain production at an annual rate of 1,500,000 tons in order to avoid internal problems in the nitrate area. The purchase of a stockpile will be of material assistance in carrying out this objective.

(c) The case for acquisition of Chilean copper has been brought to the attention of the Advisory Commission to the Council of National Defense. It now appears reasonably certain that further assistance to Chile will derive from our expanding requirements for copper.

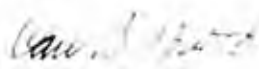
At a meeting of the Inter-Departmental Committee held on December third, it was suggested that the resulting aid to Chile might not be adequate to satisfy her anticipated needs.

The head of the Chilean Mission, Minister of Fomento Quecke, is returning to Chile this week. The Office of the

Coordinator, in collaboration with the Inter-Departmental Committee, will continue to study means of effective cooperation between Chile and the United States.

This letter is written on behalf of Mr. Rockefeller, who has not yet returned to the city.

Very sincerely yours,



CARL B. SPAETH
Executive Assistant

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

DIRECTOR
WILBUR A. SAWYER, M.D.
ASSOCIATE DIRECTORS
JOHN A. FERRELL, M.D.
GEORGE E. STRODE, M.D.
ASSISTANT DIRECTORS
LEWIS W. HACKETT, M.D.
ANDREW J. WARREN, M.D.

THE ROCKEFELLER FOUNDATION
INTERNATIONAL HEALTH DIVISION
49 WEST 49th STREET, NEW YORK
CABLE ADDRESS: ROCKFOUND, NEW YORK

SCIENTIFIC DIRECTORS
STANHOPE BAYNE-JONES, M.D.
ERNEST W. GOODPASTURE, M.D.
HARRY S. MUSTARD, M.D.
THOMAS PARSON, M.D.
LOWELL J. REED
WILBUR A. SAWYER, M.D.
FELIX J. UNDERWOOD, M.D.

December 6, 1940

Dear Mr. Pehle:

Some time ago Professor Chamberlain asked me to send him any descriptive material about the situation in Europe and we have, as you may know, sent him previous instalments. After a long interval, due to delays in the mails, we have now received various reports and have culled from them descriptive material which might be of interest to the Treasury Department. The enclosures consist of the following: 1) excerpts from reports from Dr. George K. Strode, who is in charge of the work of the Rockefeller Foundation Health Commission to Europe with headquarters in Paris, and 2) a report of an extensive trip through Spain by Dr. John H. Janney, who is representing us in Portugal and Spain with headquarters in Lisbon. I am sending a duplicate set of these enclosures separately to Professor Chamberlain.

Since Mr. Fosdick wrote you, under date of October 9, 1940 regarding the work in France, the situation there has changed somewhat. Although there has been a great deal of delay, it now looks as if the program would gradually begin to develop along the general lines of the agreement which is referred to in Mr. Fosdick's letter. In that communication Mr. Fosdick spoke of the intent for the time being to confine activities to the occupied section. On the basis of recent con-

-2-

versations with the State Department it now appears that there need be no inhibition on the work in the unoccupied section, if the need should be compelling, and such inhibition has therefore been removed, although there is no immediate prospect of our doing anything in France beyond the work already planned in the occupied area. I might add that I am planning to go to Europe myself at the end of the coming week and hope to visit Portugal, England, Spain, and possibly France.

Sincerely yours,



Mr. John Pehle
Treasury Department
Washington, D.C.

WAS:R

Enclosures

404 DEC 8 10 3 51

RECEIVED
TREASURY DEPARTMENT
WASHINGTON

DEC 4 1940
RECEIVED

Excerpt from the diary report of Dr. George M. Strode, who is in charge of the Rockefeller Foundation Health Commission to Europe with headquarters in Paris.

September 19, 1940

DR. HUARD O'B and GKS called by appointment for a conference with Mr. H. and to transmit the good news regarding the availability of R.F. funds and also to transmit the message of Dr. Allen about the available hospital supplies and drugs. Mr. H. said that he had an appointment with both Mr. Allen and Dr. Taylor tomorrow and would be glad to look over the list in the meantime. He then spoke on about the seriousness of the food ration which had been prescribed for France as from September 23. GKS had previously been unable to find out who had determined what the ration should be. Dr. H. said that it was categorically imposed by the German authorities and was limited to 1300 calories a day. This is less than is required for a sick person lying in bed and will work tremendous harm, particularly on children and adolescents. The reason given for the ration was that during the winter of 1916-17 the German people had had to exist on a ration which was a low in calories. As a matter of fact, Dr. H. showed us a chart indicating that throughout this entire period the average German consumption was considerably higher. Effect on infant mortality is likely to be tremendous, as it was in Germany. Dr. H. raised the question whether or not the U.S.C. would be in a position to provide some supplementary food and suggested the urgent need of getting stocks in of canned milk and cheese, particularly cheese. The above situation will be one of the major points which Dr. H. plans to discuss with T. and J. tomorrow. We shall be in a position very shortly to give an accurate account of personal experience on 1300 calories a day.

September 22, 1940

AMERICAN HOSPITAL At the suggestion of Dr. Jackson GKS called at the Hospital to see a probable case of avitaminosis recently arrived from Amiens. Dr. Jackson was out of town so that Dr. Jack looked after us. The case in question is a French medical officer, a commandant, who sustained a bad compound fracture of the femur about three months ago and has been in hospital at Amiens since that time. Upon arrival at the American Hospital he was almost moribund, with blood pressure 85 - 60, subnormal temperature, rapid pulse and quite irrational. Mouth was found in very bad condition, teeth loose, considerable general edema and clear-cut evidence of capillary permeability. The patient was recognized as suffering from lack of vitamins and was immediately put on A¹ and C hypodermically. He responded very quickly and soon became rational. Blood pressure and temperature have both risen and the patient is infinitely better. GKS wondered if this case is not a pretty good index of many of the prisoners in camps in the north of France. Obviously the ration of this one was wholly lacking in vitamin C which perhaps was the major cause of the symptoms. Since the American Hospital is continuing to receive bad fracture cases from the north, the nutritionist of the Commission upon his arrival may find among them a good deal of interest.

PROF. ANDRÉ MEYER
COLLEGE DE FRANCE.

September 26, 1940

Prof. M. said the ration on which the nation has been placed is not only poor in total calories, but very badly proportioned respecting both vitamins and minerals. The population on a short but balanced diet will not be permanently damaged; it will be retarded, but able to begin growth again when the diet is returned to normal. With a diet which is so poorly balanced as the one now being applied, the damage is almost certain to be irreparable. In order to undertake the examination of a large number of individuals throughout France, it will be necessary to set up a few experimental centers which can be used for training personnel, doctors and nurses, and it is in this particular phase of the activity that the R.F. may be able to make a distinct contribution. It will be particularly useful to have a man like Youmans or Kruse here because they have had an experience which will be of great value in organizing and administering the work. The selection of the types of test which can be particularly applied in the field is one of great importance and those who have been doing that sort of thing already will be of the greatest assistance. A very considerable corps of doctors must be trained and units set up, particularly in urban centers.

Prof. M. said that the situation in the free zone would be worse than in the occupied because of the greater lack there of both vitamins A and B. In general, rural areas will fare less badly than urban although there are some rural areas which are very bad indeed; Mme. Randouin's survey material has already made this quite clear. Mobile units will be required in all probability for the survey work in rural communities. Concurrently with the field study of the effects of malnutrition, the production of vitamins and vitamin concentrates must be gotten under way. Production of vitamin A at Marseille has already been started with the collaboration of Chevallier. Whether or not France will be able to produce enough vitamin for its needs is very doubtful, in which case Prof. expressed the hope that the United States might be in a position to provide considerable amounts. The vitamins which are produced by French industry will of course be controlled by Mme. Randouin's laboratory.

The survey above envisaged will provide exactly the type of evidence which relief organizations such as the A.R.C. need in order to justify sending large quantities of accessory food elements.

September 28, 1940

On invitation of Dr. Vaucher of the Comite National de Service Social, GKS joined his party which visited the Department of the Oise today. Other members of the party included Mr. Allen, Mr. Gibbon and Miss Carmalt of the A.R.C.; Prof. Lalong, assistant of Prof. Debre; an architect and two social workers also belonging to the C.N.S.S. Prof. V's object in making the trip was to secure exact information regarding needs of the important communities of the department. This is one of the nine departments with which he is particularly concerned. He hopes soon to establish a doctor and a nurse as his local representatives in each of the nine departments. During the day we visited four towns rather thoroughly, including Beauvais, Breteuil, Boys and Noyon. We also stopped for half an hour in Compiègne, but due to the lateness of the hour, none of the officials were seen.

CONFIDENTIAL

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September 28, 1940 (continued)

Due to the fact that Prof. V. had a specific task to accomplish, it was not possible for GKS to secure detailed information on a number of matters without undue interference with the main objective of the journey. However, a good deal of information was secured and, more important, a very accurate picture of the situation in that particular department and its immediate and long term needs.

We drove from Paris direct to Beauvais and were looking out all the time for evidences of the war. For the most part it appeared that this section had been rather little involved. There was an occasional new bridge to replace the one that had been destroyed and an occasional evidence of bombing, but it was not until we reached Beauvais that there were evidences of deep wounds and ugly scars. Throughout the trip we observed that plowing was going on about as usual, fields being prepared for winter wheat and herds of cattle here and there, but not in large numbers, and two sizeable flocks of sheep, although this is not a sheep country. In all the small towns it appeared that groups of the army of occupation were being billeted.

Beauvais. Has a normal population of somewhat over 18,000 which is now about 12,000 but continuing to increase as former residents return. We walked about the destroyed areas; the entire central part of the town except the Cathedral was completely destroyed. The debris has been cleared somewhat so that there are a few streets opened again and some of the former inhabitants have started to dig out the mass of stone which represents their former dwellings. At many places there are signs on the debris giving the name of the store which once occupied the site and its present address if by chance it has been reopened somewhere else. It will take an immense amount of work merely to clear the ground of the present debris and only after this is done can reconstruction be gotten under way. On the central Place of the town, the Mairie has started to construct a series of buildings which are to serve as stores with residence of the shopkeeper above. These are to be rented cheaply to merchants who wish to reestablish themselves. We were told that a small shop can be rented for about 2,000 francs a year. In another part of the town which was not bombarded severely, where there is a large open square, the Mairie is constructing wooden barracks with funds secured from the Secours National. These are fairly well constructed buildings, with a double wall and air space between. Each room accommodates from 4 to 7 people, depending on its size. They have already completed accommodations for 100 persons and are constructing accommodations for one hundred additional. This building costs about 500 francs a square meter. The bulk of the people of the town, however, who are homeless have been taken into homes of those who were more fortunate. The barracks are served by two public hydrants and there are toilet facilities for the barracks at the end of the Place. These, however, already existed and served the population at times of fairs, etc.

At the Prefecture of the Oise we called on Dr. Rouyer, Inspecteur d'Hygiene, and in his office met the German doctor who is in charge of medical affairs in the department. There was also present a local representative of the Secours National, as well as two local pharmacists. The discussion here centered about urgent needs of the department from the point of view of medical and hospital service, drugs, shelter, etc. Here, as in the Seine & Marne, the Inspecteur d'Hygiene stated that the

September 28, 1940 (continued)

Greatest handicap to carrying on the work is the lack of gasoline. There are 2,000 cases of tuberculosis in the department to be cared for and no facilities for doctors and nurses to get to dispensaries regularly or for the patients to go there. Fortunately there have been practically no epidemics except dysentery, which now seems to be pretty much cleared up. Dr. R. spoke of the good effects of the serum used therapeutically. Medical service is of course conditioned by the number of physicians available. These are still inadequate since a number have not returned to the department. On the other hand, the Syndicat Medical has been unwilling to grant permission to other physicians to practice in the department. There is also a shortage of drugs, sulphanylamide being an outstanding one. The departments in the occupied zone have no difficulty in securing sera from the Pasteur Institute, however. Another outstanding need is canned milk, particularly in the treatment of pediatric cases. We were told there was not a single can available at Beauvais.

Hospitals. The situation regarding hospital service is difficult due in part to the occupying forces and in part to some destruction. The Oise has normally 7500 beds, but only 3,000 of these are at present available to the civil population. A number of hospitals, too are short on essential material which was lost or destroyed during the war. The A.R.C. will be able to supply some of the needed materials, at least for a few of the more important centers. Dr. R. has 18 public health nurses on his staff, and in addition there are ten social workers doing mostly relief work. All of his personnel is handicapped by lack of means of transportation.

There is a Centre d'Accueil and refugee camp at Beauvais. The number being handled there is reduced. Unfortunately some of the refugees upon arrival in the Department of the Oise can go no further and are often sent back to the place from which they came. We were told there had been some tendency for local authorities to shift responsibility for refugees, sending them from one place to the other in the department. There were also some abuses by people who were not refugees, but who found the life in the refugee camps rather easier than outside.

The problem of reconstruction in the department seems to depend upon the initiative of the communes. There is no technical expert in the Prefecture upon whom the communes can call for advice.

The water supply of Beauvais is functioning again in part for the undamaged section. People are cautioned to boil water or treat it with Javel water. There was never more than a fragmentary system of sewage, even before the bombardment.

A popular restaurant is in operation where one can live for 12 francs a day, but this is too high for many of the people.

Despite all the difficulties respecting housing, food, medical and hospital services, we were told the Germans were intending to billet 16,000 soldiers during the coming winter.

RECEIVED

September 28, 1940

Between Beauvais and Breteuil we stopped along the roadside for a picnic lunch which was extremely good. The day, fortunately was clear and cool and the sunshine bright where we stopped. Breteuil is 28 kilometers northeast of Beauvais, with a normal population of 2500. Of the 700 houses which made up the town only 200 are now habitable. We were told in Beauvais that it and Breteuil were the two worst bombarded towns in the department. There was plenty of evidence of destruction during our walk about the town. We met the social worker who is the local agent for the Comite Francais de Service Social. She has her office in one of the few public buildings which were not completely destroyed. She said that Refugees were still passing through Breteuil, but few were spending the night there; thirty to fifty was the number she saw during the course of a day. Many were without money or provisions and had to be helped. The Secours National provides funds which under the direction of the Maire are given to those without resources. The population of the town is now about 2,000 and there are about 500 Germans billeted in Breteuil. The thing she spoke of as being needed most acutely at present was clothing. Many are willing to pay for old clothing if they can get it. Payment is preferably made in food, etc.. The social worker reported that the people of the town are wondering if there is an American city which would like to adopt Breteuil. While visiting here the problem of providing the social worker with more adequate quarters which she needs very much was discussed at length, and a location was selected for setting up a barrack which could serve as her office and also a small sub-health center. Breteuil was the one place in which we were told there was ample milk for the town's needs.

Roye (Department of the Somme). East of Breteuil we entered Roye, a town of about 5,000 population with approximately two-thirds of its houses destroyed. There are 4,200 people living there at the present time. The social welfare organization is installed in a building which used to be a maternity. The secours National has its headquarters in the same building; this also serves as a canteen and for meals given in the evening for refugees who do not stay over for more than 24 hours. Ten to fifteen are handled daily. There are also about 800 prisoners encamped quite near the town, who are being used on public work: clearing up debris from bombardments, road-making, etc. The social workers, of whom there are two in Roye, are therefore concerned with civil population, refugees, and prisoners. They have no trouble whatever in entering prison camps and have been able to render useful service there. The medical equipment of the place is still inadequate. A military doctor, who is a prisoner, does the obstetrics of the town. We were told that the infant mortality was very high, specially among children that were born in May and June. There is still a great deal of diarrhea. The local milk supply, while of good quality is wholly inadequate. There are only 9 liters available daily and they are used for those who specially require it. The water supply of the town is a spring which flows into a large tank, possibly used previously for washing. Although the spring could easily be subject to contamination, it is at least better protected than many.

Prof. Leiong and GEB went to see two infants which the nurse said were suffering from dysentery. As a matter of fact, they were simple food cases which had diarrhea because of a poor diet.

September 28, 1940 (continued)

Noyon. (Oise) As seen from the automobile the town was less destroyed than any of the others visited, which perhaps is just since it was supposed to have been very badly destroyed during the World War. Here we spent most of our time visiting a refugee camp where there are some 60 more or less permanent residents, although some 200 or more are fed here daily. The camp is housed in a group of new buildings intended for the Gendarmerie. On the whole, therefore, housing is reasonably satisfactory, but the installations are still inadequate. Straw is used to sleep on, and apparently they are unable to change it very frequently, the result is a great deal of skin diseases among the children. We visited the kitchen which provides for the camp. They were dishing out the soup which constituted the one plate for the evening meal. It was made up, however, with plenty of potatoes and beans and pieces of meat; it was quite tasty and should be pretty near ample so far as calories go. The supply of milk available was being delivered among the children and the aged. Children were getting but 450 cc. a day whereas a considerable number of elderly people were getting from 250 to 400 cc. a day. Dr. Vaucher insisted that the quantity for children be increased and that for older people be correspondingly decreased.

The nurse in charge of this refugee camp has succeeded in organizing it quite effectively. Refugees who are used for various types of routine work about the place are recompensed, also refugees who secure work outside the camp must turn over part of their wages to the common fund of the camp. This is used to recompense the inmates for what they do for the common good and to buy certain things for the use of the members of the camp, which could not otherwise be secured. It happens that there are two shoemakers among the refugees, and she has set up a shop for them to work in so that shoes of the refugees may be repaired. For this work they are also recompensed and part of the money goes into the common fund. A school has also been organized in the camp which takes care of some 35 children; teaching is done by refugees. On the whole, therefore, there is a very distinct effort in this camp to organize it on sound social lines, to keep the people busy, give them a stimulus, and to start general rehabilitation.

From Noyon we proceeded to Compiègne where we arrived at about 7:30 p.m., too late to see anything but the Centre d'Accueil at the railroad station. Here meals are given and accommodations are also available for a certain number of people to spend the night in case of need. The nurse here also mentioned the fact that a certain number of refugees who come to Compiègne are sent back to the points from where they came. This is a very severe hardship to women with young children.

SEP 28 1940

THE NATIONAL ARCHIVES
COLLECTIONS DEVELOPMENT DIVISION
SERIALS ACQUISITION

October 7, 1940

There has just come to our attention the decrees regarding the complete reorganization of the National Health Service of France. This decree is dated September 18, but the Journal Officiel carrying same has only just come to hand. It is exceptionally interesting in that the present system of department health services and city health services seem to be abolished and in their place there will be regional health departments with appropriate sub-divisions. It looks very much as if a career in public health was to be established. The name of the organization which is now in the Ministry of Interior is: Secretariat General a la Famille et a la Sante. Depending directly on the Secretariat will be 20 regional directors, 98 medecins-inspecteurs de la sante and 190 medecins inspecteurs adjoints a la sante. In addition to these definite public health officials, there will be 30 delegues regionaux a la famille; 50 inspecteurs administratifs de l'assistance and 50 adjoints; and finally 50 inspecteurs de l'enfance and 50 adjoints. It is quite obvious that France should create at an early date a first-class school of hygiene for the preparation of men who wish to enter the service. There are 500 positions provided for in this decree, so a school that would produce 50 to 60 graduates a year would have ample to do in meeting the needs of the service. Details regarding the organization and functions of the various positions are to be published later. One remarkable feature of the decree is that appointments are to be made on the basis of competence. Although full-time service is not specifically mentioned, the implication as one reads the decree is to the effect that it will apply throughout the service.

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RECEIVED
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE

Notes on the food situation in Spain

made during October 1940 by Dr. J. H. Jamney; Rockefeller
Foundation - Lisbon

From October 17th to November 3rd, 1940 I made a tour of Spain for the purpose of gathering some first-hand information regarding existing health conditions and how best the RF might assist the National Health Service in meeting certain emergencies and in getting back on the track of its pre-war program. For some months I have been personally interested in learning something of Spain's food supply situation and before setting out determined to find out all the law would allow in each place we visited.

On October 17th we drove from Lisbon to Sevilla. The next day I had a short talk with the manager of a foreign bank. He spoke particularly of the great shortage of bread and its importance in the Spaniard's diet. The only sort available is the rather heavy tough black bread made of a mixture of wheat corn and other unknown ingredients. Here it is rationed to 125 gms per day and even then is not always available. Meat is scarce; coffee does not exist; potatoes can only be had at rare intervals in small quantities, and milk is only available to children who can present a physician's prescription. Certain things such as eggs, butter and olive oil can be bought as "straperlo" from speculators at very fancy prices which only the rich can pay. Their prices have recently advanced as the government is waging an active campaign against the straperlistas with informers receiving a 40% cut on the fine. He thought there might well be trouble this winter in Seville if some arrangement is not made to do more for the poor. The city has a population of about 300,000. In the afternoon we visited two schools. The first was one of the poorest in the city with

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an enrollment of 700. We visited almost all the rooms and never have I seen such examples of undernourishment. Above the first grade there was scarcely a well nourished child to be seen, 90% were thin and all seemed completely pepless. I was immediately struck by the high proportion of children who showed marked anemia. In one or two rooms we found 60% by actual count. Had we done hemoglobins the rate would have been much higher. There was no evidence of other deficiency disease such as scurvy or pellagra and we were inclined to feel that it is a deficiency in quantity rather than quality. The director of the school when asked about school lunches said that although all 700 needed food it was only possible to feed 28 that day and they had only a plate of vegetable soup. Conditions were slightly better in the second school but still very bad; here they were only feeding 25 out of 200 who needed help. Most pitiful was the tale of mothers coming every afternoon asking that their children be fed as there was nothing at home. The Auxiliar Social is doing something here but just how much we could not learn. Political feeling still runs high in Spain and where there was any hesitancy in answering our questions the point was not pressed. The great cry is for wheat.

At Cadis the next day there was not much available information except that bread is very short and there is much unemployment.

On the 19th we stopped for lunch at Algeciras but found it too much of an armed camp to risk any questioning.

The next day we visited Malaga, a town of 150,000. Conditions here are especially bad with the Auxiliar Social feeding 12,000, of whom 8,000 are children, in the city; and 20,000 in the province. Most of the food is prepared in a central kitchen and distributed to neighborhood

dining rooms where children are fed twice a day and to other distribution centers where adults receive their ready-cooked ration and take it home to eat. The director when asked what single article of diet was most needed replied that if there were sufficient bread his difficulties would be over. The normal daily consumption of wheat for the town was 70 tons; less than one-fourth that amount is now available.

On the 21st we were in Granada where conditions are much the same as in Malaga. In the spring Auxiliar Social was feeding 38,000, now about 10,000 with the reduction due to no improvement in supplies but rather to the fact that 18,000 were sent back to the red zone along the coast from which they had fled when the Nationals took it over. There are rich agricultural areas near Granada and production of vegetables in quantity but again bread is the problem, very scarce and closely rationed.

At Almeria we saw more evidence of public hunger than any other place. There were many begging children on the streets, some not older than four or five. We stopped for a sherry at a bar specializing in fried shrimp and langostinas; here children were constantly coming in, not asking for money or food, but pawing over the heaps of shells on the floor and under the tables in the hope of finding a morsel. Those to whom we gave food from our plates grasped it eagerly and without a murmur or even a change in expression turned and slunk out to the street. Anything more like hungry dogs I have never seen. Here are being fed large numbers by Auxiliar Social whose headquarters we visited. We discussed diets with the director but could gather little except that locally available supplies largely determine menus. There is no idea of requirement in either calories or vitamin content and consequently these factors do not enter into

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calculations. From a description of several meals we decided that 400 calories per child per day was a very liberal estimate. Later we visited the central kitchen where the bean and vegetable soup with a few sardines and some meat thrown in was just being put into the containers for trucking to the various distributing stations. It was a good-looking soup but scarcely a meal. Preparation was under the worst possible conditions of sanitation. Faulty administration is to blame. But Auxiliaries Social has a big organization and is feeding many thousands, there has been neither time nor facility for training workers and as a result most of the faults are those of amateurs. Almeria has always been the greatest Spanish grape producer for the English market. This fall that market is closed, and in spite of the order that every Spanish hotel shall serve Almeria grapes once a day, the town and province are a long way from getting a decent revenue from this year's crop.

At Murcia this same day we were told by the health officer that conditions were better. From what we could learn less than 5% of the people were being fed. The bread ration is, however, only 100 gms.

At Alicante on the 24th we learned that there is a severe food shortage but found some reluctance on the part of our informers in going into details as to undernourishment among children and the numbers being fed. This is an industrial town with most of the industry shut down from lack of materials. There is great unemployment.

Valencia is in the middle of a very fertile strip along the coast. Abundant rice fields and orange groves extend for miles along the road. Conditions are apparently a little better in this city of 350,000 than in those cities we had recently seen. Bread is short; meat is scarce, butter and eggs unobtainable except from straparlo.

In Barcelona it was not possible to find out just what Auxilier Social is doing. The general state of the food supply is pretty much the same as further south. Well-to-do people find it very difficult to buy their quota of bread and potatoes, eggs, butter and olive oil are practically impossible to find except in small quantities at four or five times the usual price. One wonders what the poor are living on.

We left Barcelona on the 27th going west. Stopped at Lerida for lunch and were surprised to learn that bread is not rationed although the quality is as in the rest of Spain. There is no great food shortage, meat milk, and milk products are sufficient, and vegetables abundant. Olive oil is short.

At Zaragoza, a city of 225,000, we found things much the same as in Lerida. Aux. Social is giving 5,000 meals a day but many are the families of Reds whose men are either in prison, out of the country, or dead. Bread is not rationed and meat and milk are abundant. Milk is poor because the price has been pegged at below production cost and the difference is made up with water.

At Pamplona in Navarra we again found that bread was not rationed but a ration of 250 gms would become effective November 1st. Meat and milk products are plentiful. The health officer, though perhaps not too well informed, was of the opinion that the relief problem was not greatly increased over normal times. Here we saw plenty of bread being carted about and also several truckloads of potatoes.

At San Sebastian the bread ration is 250 gms and plenty is to be had. Olive oil is short. Otherwise the situation is not bad. We did not see Aux. Social nor learn what they are doing.

Bilbao, with a population of 185,000, is devoted chiefly to heavy industry and mining. There is much unemployment because of shut down particularly in mines. Laborers are underfed. Bread 225 gms ration. Milk short this year due to pasture failure.

Although we arrived too late at Santander on the 29th and left too early the next morning to allow a visit to Aux. Social there was opportunity for conversation with local doctors. There is much pessimism about the prospects for the winter. Bread may be further rationed and there is a shortage of potatoes and meat, olive oil is almost unobtainable. The port is closed down practically and there is much unemployment.

At Oviedo conditions are not so bad; the bread ration is 250 gms and that amount has always been available. Aux. Social is not feeding great numbers. No great unemployment.

At Leon on the 31st we were told that recently food has become a little scarcer but sufficient quantity can still be obtained. The war was scarcely felt here as the province except for a small portion was always Nationalist.

Valladolid further south toward Madrid is an agricultural province. Neither bread nor meat is rationed. There seems to be no serious food shortage and Aux. Social does not have a serious problem.

Our tour finished with two days in Madrid.

We did not visit the extreme west coast of Spain, Galicia, but from what we heard conditions are not as bad there as in other parts. Nor was there opportunity for seeing that part of Spain between the south center and the Mediterranean coast. It is doubtful that those regions are better off than the littoral or Madrid.

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MEDICAL COLLECTOR
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It is my opinion that the greatest need is in the zone which lies south of a line extending from Badajoz on the Portuguese frontier through Madrid passing northeast somewhere between Barcelona and Lerida to the French frontier.

With bread and olive oil the Spanish workman whether he be farmer or factory hand lives very well; this year there is neither. One man said to me, "The house without bread is a house of starvation." The 1940 wheat crop was far short of normal and a normal year has never been enough for Spain's needs. The 1940 oil crop, I am told on best authority, is being exported for foreign credit; local needs will be partially supplied by substitutes.

The great and apparently only serious need is wheat.

It is understood from our Ambassador in Madrid that the Red Cross is sending wheat or flour. Although it is suggested that the Aux. Social through its widespread organization is the only agency equipped to handle actual distribution, certainly there should be sufficient American personnel for proper control and for making surveys as to needs and the extent to which these needs are being met. Since transportation overland in Spain is in a very bad state, it is suggested that relief shipments be sent to Mediterranean ports such as Malaga or Valencia or if the passage of Gibraltar is difficult, then to Cadiz and Seville. Atlantic ports are so far from the zones of greatest needs that proper distribution might be very difficult.

I am of the opinion that long drawn-out slow starvation such as these people have suffered and will suffer more acutely this winter is not conducive to rebellion; on the other hand the present national government is not too firmly entrenched and there might well be internal trouble

which might make one of the international protestors feel that she should step in and preserve order. One Spaniard told me that we should not count on political results from American relief.

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RECEIVED
FOREIGN ECONOMIC CONTROL
DIVISION

MEMORANDUM FOR THE SECRETARY.

December 6, 1940.

The mail commenting on aid to Great Britain was two to one against such help up to 10 a.m. this morning.

There has not been time to receive comment on the Secretary's statement at the press conference yesterday. One telegram (antagonistic) has come in and is being held to include with other communications as they reach us.

All letters on aid to Great Britain to date total 30. Those in favor total 10; those strictly opposed 20. Comments follow:

PRO BRITAIN

Frank Maguire, New York, New York. Suggests relief could be given England through creation of "Debenture Trust", backed up with securities held by the people of England. Writer thinks too much time and thought is being given to taxes, which creates fear, etc. The debt is not too high. Suggests that it be known to the public that no attempt will be made to reduce the debt through taxation.

L. Kay Howze, Palmetto, Florida. In name of 300 members of the William Allen White Committee urges everything possible be done to release at once destroyers, freighters and warplanes to Britain.

B. John King, Pittsburgh, Pa. "God bless you giving boats to Britain, from brother of American seaman who died in Stockholm recently."

George C. Chaney, Salem, Mass. Proposes loan as legitimate banking matter; loan to be made at full market value. In favor of helping England, but not repeal of Johnson Act; if war should come our Navy should be limited to convoy supplies, and Army to take place in England of exactly equal number of their troops sent forth to defend empire and its allies.

Morton J. Newburger, South Norwalk, Conn. (Telegram) "Respectfully urge outright gift to Britain of her needs. No more loans nor trading. We have had all the better of trades so far and we're not in the horse business. Let's not put England out of business after the war and force thereby socialism on her. If her system is to survive after winning, she must be in prime economic shape."

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Memorandum for the Secretary.

December 6, 1940.

Anonymous - Manchester, Vermont. "Help England now; are we going to wait until every city is laid low? I am ashamed."

E. V. Robertson, Cody, Wyoming. "All out for all aid to Britain". One sure quick way to enable Britain to obtain credit in U. S. would be to trade World War debts for military highway through Canada and Alaska, which would remove Britain from provisions of Johnson Act and at same time give to this country something of strategic value.

Percy L. Walker, Duxbury, Mass. In favor of sending liberal amounts to Britain and China; better money than boys; may have to do both, but send money, munitions and airplanes now.

R. F. Starzl, LeMars, Iowa. Proposes use of British-owned American securities as security for war loan. British could sell these securities, which would depress American markets, which would not be in our interest. Unsecured loan to Britain could be financed only at risk of American inflation; at end of war Britain "or Hitler" would repudiate war loan, leaving us holding "sack as usual". Segregation of these foreign owned securities should be first condition of financial aid to any foreign country.

Arthur Moscow, New York, New York. "Thank God you and most members of the Cabinet are realizing seriousness of possibility of England losing this struggle". More and immediate aid is only thing that can save us from threat of dictator's victory.

ANTI BRITAIN

Iven G. Rohrer, Milwaukee, Wisconsin. (Telegram) Interested in statement to the effect that England is a good risk for war loan. Asks question. "Where is the money we loaned England in the last war".

R. T. Robinson, Syracuse, New York. "Have you gone completely insane? This drive to loan great sums to Britain at time of rising taxes and unbalanced budget is treason."

Mise Julia Agnes Swankovski, New York, New York. (Possibly a child.) Against loan to "England"; "they are robbers".

James Merlin, Boston, Mass. Scurrilous post card re war mongering, etc. "The English deserves what's coming to them, and I hope they get ten times more"; Secretary's policy is making enemies and not friends, and he is a traitor.

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Memorandum for the Secretary.

December 6, 1940.

Edward Torney, New York, New York. Let England finance her own wars which are none of our business. England is not broke or poor, but is trying to get U.S. to pay her war expenses. U. S. must keep out of it; should take into consideration billions of dollars owed U. S. by England from last war; against Navy patrolling Atlantic. "I am a better risk than England or China, and 100% American by blood and birth, but can't get help with my home." At least we should live in peace while crooked European politicians fight it out.

Anonymous. Let England pay cash, then trade some of her possessions, "or would you rather see them bulldoze us out of billions again."

William Joy, Whitestone, New York. Forget about Britain and see what can be done for U. S. unemployed; instead of loan to Britain why not one to all unemployed who will pay when they get work -- that's more than England will do.

Anonymous. "Remember 22 million voters voted against the New Deal."

E. S. Whitelessey, New York, New York. All Americans today are too well aware that democratic experiments are at stake, and it is to our leaders that we look to keep it alive; cannot afford to becloud true issue chasing windmills; money should be spent where it will solve troubles within our own democracy; if put off we shall have no credits or merit to show when present turbulence subsides.

Miss Emily G. Wartels, Harrodsburg, Kentucky. Did Mr. Willkie tell truth? Is the Administration trying to lead us into war? And so soon after Mr. Roosevelt's promise to keep us out! "We insist that Johnson Act be maintained and Lord Lothian's request for men be denounced."

Miss Florence Driscoll, New York, New York. No loans to Britain; stop stripping our country of all available equipment; our natural resources are not unlimited.

Georges S. Remelsky, New York City. "If you think England's credit is good, give your own money; but do not speculate with other people's; you can join the British forces also."

Anonymous - Pittsburgh, Pa. Have paid enough of England's bills; we're running our own Government on borrowed money, why finance as powerful and wealthy nation as England?

Joseph Santaky, New York, New York. Collect the previous billions first; "You're groggy from indulging in foreign troubles". Not fooled by war mongering propaganda.

Memorandum for the Secretary.

December 6, 1940.

A. E. Potts, Bureka, Ill. Daily barrage of British propaganda reports Secretary as being worried on how to get aid to Britain; if we are in danger, is it not better to keep our ships than to give them away? We owe England nothing; this is not our war; have done too much to England already, she would do nothing for us; better worry about home affairs and less about England.

Edward A. Klausner, Winnetka, Ill. In view of amount still due us on loans to England, cannot see how further credit could be granted; instead of finding ways and means to prolong destruction of lives and property, we should be working towards peace and revision of our financial system.

Mrs. Vernon A. Ward, Robersonville, N. C. Why should we worry about money a few American citizens have invested in French and British territory? All our country has to do to get people working enthusiastically is to show that they be required to perform constructive as against destructive tasks. The yearning to fight is all wrong. England must rely on herself in this crisis; she declared war on Germany, U. S. did not.

An American. In 1917 we gave Britain credit and our boys. She repudiated debt, called us "Shylock". Now, England is licked as sure as tomorrow's sunrise; we do not need to loan her money.

James J. Chittock, Belmont, Mass. The pro-war forces - few, but strong - are working for their own funeral but do not know it. Protests sending our fleet away from our own territory; Monroe Doctrine intended to work both ways; our job is defense at home.

Rev. Joseph J. Weasendorf, Little Falls, Minn. "We, the American people refuse to have further aid extended to Great Britain". No ships, no planes, no credit, no loans. They did not pay last debt to U. S.; by giving aid to any nation at war we increase and prolong destruction of property and human beings; we must be neutral in spirit and act, to protect and safeguard our American way of life. Nothing to give away or to sell.

December 6, 1940

Dear Bob:

I have read your reply to Senator Taft's unwarranted attack on me in connection with the proposed use of the Stabilization Fund for China, and I want you to know how genuinely I appreciate your timely assistance.

I have learned during the years I have been in Washington that I can always count upon you for sympathetic understanding and support.

It is a great comfort to work with you.

As always,

Henry

Hon. Robert F. Wagner
120 Broadway
New York, New York

RHF:mp
12/6'40

Statement prepared by 12/5/40
Secretary for Sen. Wagner's
use and quoted in press.

I am in complete disagreement with the statement made today in the Senate by Senator Taft concerning the proposed \$50,000,000 stabilization arrangement with China. The transaction is strictly a stabilization operation, is entirely legal, and is fully within the purposes for which the Stabilization Fund was created by Congress. There was no obligation on the part of Secretary Morgenthau to consult Congress or any congressional committees before entering into the proposed arrangement.

The Secretary of the Treasury, together with the Secretary of State, was anxious to keep the appropriate committees of the House and Senate fully informed as to the reasons for entering into the arrangement as well as the terms thereof, and also to obtain the counsel and guidance of the committees with regard to this important stabilization operation. Not only was the Secretary of the Treasury not guilty of a breach of trust as charged by Senator Taft, but actually Secretary Morgenthau in voluntarily asking for an opportunity to appear before a joint meeting of the Committees, was doing far more than was reasonably required of him under the law.

Satisfaction with the proposal was expressed by the Committees in the unanimous vote of confidence given to the Secretary of the Treasury and the Secretary of State.

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I not only advised Senator Taft in the same manner as all other senators had been advised of the meeting but also spoke to Senator Taft over the telephone and told him what it was the Treasury was going to submit for consideration. It was unfortunate that Senator Taft's prior engagements prevented him from attending the meeting because I am certain that had he been able to do so he, like everyone else present, would have been convinced of the wisdom of the stabilization arrangement with China.

Retyped 12/13'40

BRITISH EMBASSY,
WASHINGTON, D. C.

6th December, 1940.

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Stovall

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London

dated December 5th, 1940.

Naval

His Majesty's Canadian destroyer Saguenay has arrived in harbour. Armed merchant cruiser Porfar, 15 officers and 124 ratings known to be safe.

2. British submarine p.m. November 25th attacked camouflaged tanker off Lorient. Result uncertain.

3. Night of December 3rd/4th a few H.E. bombs dropped at Chatham. Some damage in dockyard but not serious; 8 killed, 11 dangerously injured. A bomb on the R.N. Barracke caused only slight damage. Enemy aircraft dive bombed Lowestoft p.m. December 4th. Very little damage or casualties. Fourteen bombs on Dover area p.m. December 4th, one Naval Officer injured. Tug "Lady Brassey" damaged by near miss. Enemy mine laying by air-craft continues nearly every night, many of West coast ports. Sweepers explode a number every day and although various ports have to be closed temporarily the situation is well in hand.

4. A convoy of 30 ships has arrived in addition to 17 ships from convoy attacked on December 2nd.

5. Royal Air Force

Night of December 4th/5th. A total of 80 aircraft were despatched to attack the following objectives: Dusseldorf, targets armament factory, gas works, marshalling yards. Number of aircraft, 42 heavy and 38 medium. Turin, Royal Arsenal, 15 heavy. From all operations 1 heavy bomber is missing.

6. German Air Force.

Night of December 3rd/4th. Further reports. Casualties in London were 27 killed and 59 seriously injured,

and/

-2-

and in Birmingham 18 killed and 66 seriously injured. Reference to yesterday's summary paragraph 12, only one factory was seriously damaged.

7. Night of December 4th/5th. Estimated that 130 enemy aircraft operated.

8. There were no major bombing incidents in London area. A light (some words omitted) attack was made on Birmingham.

9. It is reported that all Italian civilian airlines have stopped working and their aircraft have been requisitioned for transport of troops into Albania.

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TENTATIVE LESSONS BULLETIN
No. 74
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 6, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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DEMONSTRATION OF CONVENTIONAL TYPES OF
GERMAN FIELD ARTILLERY FIRE

SOURCE

The demonstration of fire discussed in this bulletin was witnessed by an American official observer at the German Field Artillery School at Jüterbog in September, 1940.

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1. FIRST PHASE
2. SECOND PHASE

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CONFIDENTIAL1. FIRST PHASE

The demonstration of conventional types of fire was given by eleven batteries of the Field Artillery School Regiment.¹

The regimental commander's fire computation center was located, for convenience, only a few yards from an observation post, although normally it would be a kilometer or more to the rear. Personnel and equipment of the center are transported in trucks with special bodies in order to permit operation in inclement weather. The American observer, along with others, was shown the methods used in computing firing data.

The observers were taken to the O.P. adjacent to the center for the purpose of watching the following shoots:

- a. Concentration on hostile infantry and machine guns at a range of about 5,000 yards.
- b. Concentration on the crest of a hill about 1,000 yards to the left of the first concentration.
- c. Simultaneous concentrations on four separate and widely scattered targets.
- d. Concentration by 150-mm. guns on hostile trench mortars.
- e. Concentration by barrage in a valley just in front of friendly infantry.

Bursts seemed to be about 25 to 30 feet above the ground and to emit a heavy, dense, black smoke which alone would neutralize the fire of hostile weapons within the area covered by fire.

German officers quoted prisoners of war as saying that the punishment they had suffered from the effects of ricochet fire was worse than any other punishment they had experienced from artillery. Shells ricochet when the angle of fall is below 30 degrees - the ideal angle is 22 degrees - and the best effects are obtained on hard, stony, or frozen ground. Bursts occur about ten meters above the ground, and the radius of destruction from the 210-mm. shell is said to be about 200 meters.

The commandant of the school explained that a division

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1. The Field Artillery School Regiment is organized, for instructional purposes, as an abnormally large regiment. The eleven batteries observed in action were obviously of various calibers.

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CONFIDENTIAL

commander was able to point out any critical area to his artillery commander, ask for fire, and get it within three minutes. By way of demonstration, the American observer was invited to select a point upon which he wished to see fire placed. Within three minutes, all eleven batteries had opened fire upon this point. This performance was made possible by direct radio communication between the regimental commander and the headquarters of each battalion and battery. The commandant explained the system of transmitting data from O.P. to firing battery by radio.

2. SECOND PHASE

The observers were now taken to the actual artillery observation post. It was explained that this O.P. was located on the forward slope of a hill for their benefit, although it would normally be located on the reverse slope.

The officer in charge of the O.P. had five or six enlisted men recording, plotting, and computing data. One man, who operated an instrument that looked like a field telephone, apparently announced data directly to each of the eleven batteries, as well as to regimental staff headquarters for information and for modification if necessary.

The following shoots were observed from the artillery O.P.:

- a. Concentration on targets requested by infantry.
- b. Smoke along a line about one kilometer long. Conditions were ideal for smoke, and the initial pattern, about 300 yards deep, created an effective screen.
- c. Concentration (barrage) at a signal light, as requested by friendly infantry.

At the end of each shoot, a report came from each battery to the effect that all tubes were clear. The operator seemed to be carrying on a normal conversation, and there was no switching of dials or buttons between "receiving" and "sending." A few seconds after he requested that all batteries report, he said, "No. 1, tube clear; No. 2, tube clear," etc.

In one instance, a battery, apparently failed to report, and after all other reports were in, the operator said, "No. 6, report." Shortly afterwards he stated, "No. 6, tube clear." While these reports were probably made to ensure smooth operation of the demonstration, they illustrate the value of the radio system.

CONFIDENTIAL

No. 263

SITUATION REPORTM.I.D., W.D.
December 6, 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.

In daylight yesterday the Germans used single bombers over southern England and the London area. Apparently contact with British fighters was fairly frequent. Last night the German Air Force attacked Portsmouth on a scale characterized by the British as heavy.

In daylight on the 5th the R.A.F. bombed Lorient, Eindhoven and two airports in Holland. All offensive operations were cancelled last night because of bad weather.

II. Greek Theater of War.

The capture of Porto Edda by Greek troops has been officially announced. The Greeks also report further progress in the central sector. The Italians report attacks and counterattacks, especially on their north flank, where Greek pressure is developing. They also report the sinking of a Greek destroyer by an Italian submarine in the Aegean Sea, on November 29. Scale of air activity apparently was low.

III. African and Mediterranean Theaters of War.

The Italians report patrol skirmishes south of Sidi Barrani. Limited air activity.

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**Paraphrase of Code Radiogram
Received at the War Department
at 9:17 P.M., December 6, 1940.**

Bucharest, filed 17:40, December 6, 1940.

A most reliable foreign official source states, with regard to the military situation in Bulgaria, that on December 1 she had mobilized thirteen Infantry divisions. Of these ten were first line. In addition there are two new style divisions. Present locations make five divisions face Greece, one Rumania, one Yugoslavia, and eight Turkey.

RASAY

Distributions:

**Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
British Empire Section**

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Paraphrase of Code Radiogram
Received at the War Department
at 12:41 P.M., December 8, 1940.

London, filed 12:00, December 8, 1940.

1. The Bomber Command conducted no operations during daylight hours of Thursday, December 8. The preceding night, despite weather conditions, a considerable number of heavy and medium bombers carried out attacks, all reported to be successful, on German inland harbors, munitions factories in the Ruhr Valley, freight yards and other targets in Germany, against airdromes and three ports along the Channel, and laid mines off occupied harbors. The Coastal Command reported that during December 8th it had successfully attacked shipping off the Norwegian and German coasts, a power plant and naval dockyards on the French coast, and targets in Holland.

2. Daylight operations of the German Air Force on December 8th consisted of a long reconnaissance flight over Birmingham, Gloucester and Coventry, a small fighter-bomber sweep over Liverpool, Leeds, the west section of London, and away between the Thames Estuary and the Lands End; a small attack on Barking Airdrome, a high altitude, level attack on merchant ships off Yarmouth; and a flight of about 65 planes over Kent as far as Maidstone and Sheppoy. About 250 German planes were plotted. That night operations began with an estimated number of 67 planes launching the main attack on a fairly heavy scale on the Southampton-Portsmouth area, with lighter raids on London. Another formation of about 42 planes was plotted flying over the Lincolnshire

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Coast and in the area between the Thames Estuary and Aldborough Suffolk. This formation did not fly inland and are believed to have been laying mines.

3. German plane losses were 14 confirmed, three probable and two damaged.

4. Final reports indicate that on December 4th, 65 planes flew over by day, with 155 that night.

5. During the night of December 1-2d enemy submarines torpedoed about 13 ships in an incoming convoy between 300 and 400 miles west of Ireland. Four ships are still afloat, of which two are being escorted to home ports. On December 1st the armed merchant cruiser FORPAC was torpedoed and sunk off the Irish Coast. The Canadian 1,357-ton destroyer SAGUENAY was torpedoed at the same place and date, but has made a British port.

6. Your attention is invited to the Embassy cablegram setting forth details of a conversation with Lord Halifax, Secretary for Foreign Affairs (not yet received in G-3).

LEE

Distributions:

Military Aide to the President
 Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 G-3
 Air Corps

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Paraphrase of Code Cables Received at the War Department at 16:24, December 6, 1940.

London, Filed 20:00, December 4, 1940.

The following is a resume of statements made by General Paget, Chief of Staff, GHO, during an interview on December 2d:

1. Lord Lothian has already emphasized the prospective shortage of money.

2. However, the shortage of shipping is a more immediate handicap that is now hampering military operations. The British are sending all the reinforcements to the Eastern Mediterranean that the available shipping makes possible. If sufficient transportation were available, additional troops, to include an Armored Division and Australian units, would be sent to that theater. The Indian Army in India is now reduced to a minimum and few additional units can be taken from it.

3. The shortage of manpower is the next that can be foreseen and this probably will become effective within eight months. This shortage will probably result in a curtailment of the present program.

4. Referring to the organization of the new Army Co-Operation Command, it is his opinion that a strong independent Air Force, with the Navy and the Army each having their own air components, is the ideal solution of the problem of air support. At present it is economically impossible for the British to set up this ideal solution. Therefore, the substitute now adopted is satisfactory under existing

circumstances. The Army at this time is in no position to suggest that the "thin blue line" which is protecting the British Isles be weakened. The lack of aircraft especially designed for the close support of ground forces is the principal weakness of the present organization. However, he believes that bombers now available will be satisfactory for this purpose if staff arrangements between the two services work smoothly enough to make the planes available when and where needed.

5. Referring to operations in the near future, 25 reinforced brigades have been ordered to take over the beach defenses. The divisions relieved from this duty will carry out hard training all winter. For 20 years the British have "lived soft" and they must now catch up with the Germans who for the last seven years have "lived hard."

6. Army training this winter will emphasize the combat team but the training of divisional units will not be allowed to suffer. The training must make it possible for divisions to form quickly as a tactical unit and operate as such. There is still a shortage of an adequate number of antitank guns.

7. It is expected that a Reconnaissance Corps will be organized. This Corps will furnish divisions with necessary reconnaissance units. Most Cavalry regiments are now assigned to the Armored Force and are not available for this purpose.

8. The Army is still on the alert against the possibility that the Germans will land and establish a bridgehead under the

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cover of a dense fog; following this operation up on the first clear day with a maximum attack participated in by all arms.

After Christmas this danger will practically vanish because of the rough water in the Channel.

LEE.

Distribution:

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

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NATIONAL DEFENSE EXPENDITURES
(In millions of dollars)

	Estimates submitted by President's				Estimates used by the Treasury			
	War Dept. (Nov. 30)	Navy Dept. (Nov. 30)	Defense Fund 1/	Total	War Dept.	Navy Dept.	President's Fund 1/	Total
July	79*	98*	-	177	79*	98*	-	177
August	91*	108*	-	199	91*	108*	-	199
September	82*	136*	1*	219	82*	136*	1*	219
October	134*	150*	3*	287	134*	150*	3*	287
November	196*	169*2/	10*	375	196*	169*	10*	375
December	398	240	18	656	-	-	-	435
January	555	231	20	806	-	-	-	493
February	735	232	18	985	-	-	-	520
March	740	225	19	984	-	-	-	550
April	740	207	18	965	-	-	-	570
May	740	208	14	962	-	-	-	575
June	740	211	14	965	-	-	-	600
Total	5,230	2,215	135	7,580				5,000

Actual

Includes estimates and expenditures by War and Navy Departments and other agencies.

Excess of November estimate added to December.

Treasury Department
Office of the Under Secretary
December 7, 1940.

swB

Naval Communications

7 December

S E C R E T

PRIORITY

For Secretary of Treasury x Approve your recommendation to
sell only wholly taxable defense notes for new money x All
well on board x Best of luck x Roosevelt .

December 7, 1940

Memorandum for the Secretary:

The State Department telephoned, this forenoon, that Mr. Welles has been in contact with Ottawa and is now in receipt of a message to the effect that the Canadian Minister of Finance expresses friendly appreciation of Mr. Morgenthau's message and Mr. Clark will be here on Monday morning in time for a meeting.

N. M. Chauncey

PS. Your calendar for Monday shows:

10:15 Bank of America
10:30 Graves - Thompson
11:00 Henry Van Loon
11:30 Harold Smith -- Bell
1:00 Lunch with General Marshall
3:00 Financing and Currie
4:00 Press

Brought in by Fed Board 3000000000
12/10/40

STRICTLY CONFIDENTIAL

December 7, 1940

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Full consideration has been given to the discussion at the conference in the Secretary's Office on December 4. One of the principal matters discussed at that time was the question of the narrowing margin of the general statutory debt limit and whether securities should be issued under that authorization or under the national defense authorization. We recognize that from the Treasury's standpoint there may be grounds for preferring to do the financing at this time by means of the national defense authorization in view of the amount of authority available under the general statutory debt limit. The decision will, of course, be made by the Treasury.

Adequacy of debt limitation

The facts in respect to the limitation, as we understand them, are: At the end of November the remaining authority under the general statutory debt authorization was \$723,000,000. By December 18 it is estimated, assuming the continued program for substitution of national defense bills for regular bills, that the margin under the debt limit will increase to \$900,000,000. If \$750,000,000 of cash is raised through a new issue the margin would be reduced to about \$150,000,000. Assuming completion of the bill program in the aggregate amount of \$1,300,000,000, the margin would thereafter increase to about \$450,000,000 in January, would decline to \$350,000,000 in February and to \$190,000,000 in March, and would be eliminated about the end of April. The question is whether this margin is sufficient and also whether it seems likely that an increase in the authorization can be obtained from Congress before the margin is exhausted.

Regardless of the decision which the Treasury makes at this time, we believe that the Treasury and the System should join in making a recommendation to Congress and possibly a public statement against placing defense financing in a special category and in favor of raising the general debt limitation as soon as possible. Since the passage of the Revenue Act in June 1940 Congress has increased defense appropriations very materially. In order to finance the deficit which must be incurred it obviously is necessary for Congress again to raise the debt limitation. It is our opinion and recommendation that such an increase should provide the Treasury with full authority to raise this money in whatever manner is best suited to the interests of the national economy rather than to restrict the sale of securities to specific types and terms. We would strongly urge Congress to make this change and to make it as soon as possible, and to that end we would be glad to assist the Treasury in any way that we can.

It is our opinion that the margin is adequate and justifies the Treasury in proceeding with the issue of securities under the general statutory debt limitation. If an emergency should arise prior to receiving additional authorization from Congress, the Treasury will have sufficient authority under which to act until the middle of March, at which time sufficient leeway could be obtained by the replacement of the June 15 maturity of \$500,000,000 of notes with national defense series obligations. If still

greater leeway is thought necessary, the refunding of the 3 3/8 per cent bonds could be deferred until March, when if additional debt authority has not been granted, they could be replaced with defense obligations.

Recommendations

1. Cash financing. - We recommend that the Treasury should raise \$750,000,000 of cash in December through a long 2 1/4 per cent bond, which at the present market would have a maturity somewhat beyond the existing range of outstanding issues. It is our judgment that, considered solely from the point of view of the influence of the financing on the national economy, the Treasury's cash requirements should be raised by the issuance of bonds for the following reasons:

a. The issuance of such securities would be an influence in the direction of financing the public debt more largely from the savings of the country rather than from a further expansion in bank credit. Although it is recognized that a long bond would not be distributed exclusively to the savings groups, it would fall into the category of an investment suitable primarily for them. It would, therefore, be a step in the general program suggested.

b. The issuance of bonds would tend to restrain a further rise in prices over the near months.

c. Present market conditions are such that the Treasury could float an issue of practically any maturity that seems desirable, including at least a limited amount of long bonds. An offering of an intermediate and long bonds would be readily absorbed in the market, provided the long bonds are restricted to an amount that the market can comfortably digest, which may be estimated at about \$1,000,000,000.

An argument for short-term securities is that until the uncertainties concerning banking and tax legislation are settled the market cannot be expected to measure long-term interest rates with fairness. If the influence of large surplus banking funds were removed from the market, long-term rates might have to increase somewhat from present record low levels in order to attract the savings of the country. Long-term bonds issued at this time would be vulnerable to such a rise. If this condition is definitely anticipated, the offering of short-term securities at this time is indicated, provided a public statement is issued, in which the reasons for this decision are given.

We recommend (a) that consideration be given to raising the limitation on preferred allotments on cash subscriptions to \$20,000, since this step would tend to encourage subscriptions from individuals and trust accounts and to reduce allotments to banks; (b) that the period during which deliveries of securities on these subscriptions are deferred should be extended from three months to six months, with the dating so planned that it

will not fall immediately prior to or after a Treasury financing date; and (c) that consideration be given to eliminating the provision whereby payment for new securities may be made by credit to war loan deposit accounts in banks having that privilege, since such elimination would be in line with a policy of avoiding the creation of additional bank deposits.

2. Refunding of March 1941 notes. - We recommend that the 1 1/2 per cent March 1941 notes should be refunded in December into a 1 3/4 per cent intermediate bond, which at the present market would have a term of about 1952-54. It would probably be advisable to do this refunding in December, since it would dispose of the problem of the largest maturity of the next six months. An intermediate bond rather than a note is recommended, because (a) investors have a decided preference for intermediate bonds over notes at current yields, (b) an intermediate bond would supply the market with a maturity currently in demand, and (c) an intermediate bond would follow more closely the general financing policy previously outlined. It is recommended that the note holders should not be given an option to exchange into a long bond as well as into an intermediate bond, since (a) the bulk of the exchanges might be for the long bond, in view of the larger premium that probably would be placed on it, thereby creating an outstanding amount considerably in excess of \$1 billion and (b) the limitation of exchanges to an intermediate bond would avoid arbitrage transactions and wide fluctuations in the rights between the time of closing the books on cash subscriptions and the time of closing on exchanges.

3. Refunding of 1941-43 bonds. - It is recommended that the 3 3/8 per cent 1941-43 bonds should be refunded in December into the new 1 3/4 per cent bonds for the same reasons stated above in connection with the exchange of notes. It is also suggested, however, that holders should be given the option of exchanging for the new 2 1/4 per cent bonds under certain restrictions. It is understood that a large proportion of the 1941-43 bonds is in the hands of insurance companies, savings banks, individuals, and trust accounts, many of whom would hold a long bond for permanent investment. If all holders of the 1941-43 bonds exchanged for the long issue and an additional \$750,000,000 were raised through cash subscriptions, the issue would total about \$1,300,000,000. Since this amount is larger than the market could readily absorb under current conditions, it is recommended that the long bonds be issued for exchange but only on the basis of a registered bond which would be delivered after six months and would then be exchangeable for bearer coupon bonds. Such an arrangement would afford sufficient immediate protection to the long-term market.

Refunding of the bonds might be postponed up to any time prior to their maturity in March in order (a) to provide reserve authority under the general statutory debt limitation in case of necessity and (b) to avoid any need for an interest adjustment if refunding is done at this time. The reason for the latter is that the large interest value (27/32) might be a deterrent to the refunding in the event of a decline in the market after the offering is announced. As regards this point, however, the new issues offered in exchange can be so priced as to make the exchange sufficiently attractive to assure conversion.

Recommendations if financing is under
defense authorization

If it is the decision of the Treasury to issue securities at this time under the national defense authorization, it would be advisable, in our opinion, to raise as little as possible of the necessary funds through national defense issues. If any funds are raised through national defense issues, we would recommend first that bills be issued as funds are required. Bills are recommended, since it is our opinion that any issues made under the national defense authorization should be for as short a term as possible in order to insure early retirement. If the Treasury decides to issue notes, the only type of obligation that may be made fully taxable, it is recommended that the issue should be of a maturity of only one year instead of a longer period, also for the reason that we believe such issues should be of as short a term as possible.

Issuance of registered bonds without privilege
of conversion to bearer coupon issues

It has been suggested by the Treasury that bonds which are issued under the deferred delivery plan should be in registered form as at present but without the privilege of exchange for bearer coupon bonds. It is our recommendation, however, that this suggestion should not be put into operation, because

1. Registered bonds would have a higher yield in the market than coupon bonds and this differential is estimated at about 0.10 per cent.
2. The work involved in recording changes in ownership of Government securities would be increased to very substantial proportions.
3. There would be considerable objection in the market to such a procedure. The misunderstanding by the market in September 1959 that the System Account's request for the names of sellers might be for disciplinary purposes infers that a similar misunderstanding would arise if the Treasury should adopt the policy of issuing bonds in registered form only. The effect on the market of innovations or restrictions suggesting partial control of an otherwise free market might be harmful, especially at a time when all indications point to a substantial volume of future financing and when the Treasury probably will be attempting to broaden the market for its securities.

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See transmittal letters
to Plimmon Knoff Starke
etc. on 12/9/40.

THE U. S. AIR PRODUCTION PROGRAMME -

NOTE BY AIR COMMODORE BLESSOR

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

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

Fighting Quality

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

3. As regards fighters, however, it is difficult to avoid the conclusion that United States types that will be available in any numbers by the summer of 1942 are for the most part unlikely to be of sufficiently high fighting quality to meet really effectively the requirements of the air

was by that date. If there is one lesson which sticks out more than others from the lessons of last summer, it is the enormous importance of fire-power in the fighter. It is hardly too much to say that it was the 8-gun fighter that saved England in August and September.

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

4. It is, therefore, of great importance that at least those U. S. fighter types for which new capacity is to be created in this country should be a really substantial advance on British types now in production and at least equal in fighting quality to the new British type, the Typhoon, now going into production to the U. K. I do not claim to be a technical expert, but I do not feel that they do come up to this standard. For instance the Curtiss 87, which starts coming in in substantial numbers in the spring, may attain about the same speed as the Spitfire III (on paper - actually it probably won't be as fast), but it only mounts four .50 machine guns as against the eight .303 of the Spitfire III. The firm say that, with the best will in the world, they cannot promise to install six guns till the 151st aeroplane; this may mean that we shall still have 4-gun fighters being delivered in England in January 1942. As compared to the Typhoon, the Curtiss 87 is very much

and the Typhoon has twelve .303 or six .20 m.m. cannon guns
and the four .50 guns of the Curtiss.

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

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

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

Reference should be made to the question of gun calibres. It is
understood that the guns in the initial issue of Typhoons are .303 as against
the .50 calibre machine guns in the U. S. types. But the British view,
which has received some confirmation in recent trials in England, is that
the .50 calibre, while greatly superior in hitting power to the .303 - is
not likely to be fully effective against the degree of armour which must

be anticipated in enemy aircraft by 1942. For this reason the British intend to mount in the Typhoon six 20 mm. cannon guns as they become available -- a type of gun against which they believe it to be quite impossible to armour. Indeed, British policy is ultimately to turn over to cannon guns in all fighters, including existing types.

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

Summary.

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

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

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

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

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

November 27th, 1940.

DEC. 7 1940

CONFIDENTIAL

Dear Mr. Knake:

Permit me to acknowledge, on behalf of Secretary Morgenthau, the receipt of your letter dated December 5, 1940, enclosing your compilation for the week ended November 27, 1940, showing dollar disbursements out of the British Empire and French accounts at the Federal and the means by which these expenditures were financed.

Faithfully yours,


(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

L. W. Knake, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

FEDERAL RESERVE BANK
OF NEW YORK

December 5, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended November 27, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosures

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)Week Ended **Nov. 27, 1940.**Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS			CREDITS				Net Incr. (+) or Deer. (-) in Balance
	Total Debits	Gov't Expendi- tures(a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Other Securities (incl. (b) adj'ts)	Other Credits (incl. (c) adj'ts)	Net Incr. (+) or Deer. (-) in Balance	Total Debits	Gov't Expendi- tures(c)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1	
Sept. 28 - Nov. 1	106.7	5.6	100.9	142.0	3.2	52.8	85.2(e)	+ 35.3	88.6	51.8	105.4	76.2	35.0	41.2	- 12.4	
Nov. 2 - 29	191.7	9.9	183.8	105.8	37.8	25.0	23.0	- 85.9	78.6	-	-	82.9	55.1	27.5	+ 4.3	
Nov. 30 - Jan. 3	97.7	3.7	89.0	75.2	50.6	14.2	10.4	- 22.5	86.8	28.1	58.7	109.2	93.9	15.3	+ 25.4	
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	30.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6	
Feb. 1 - 28	124.2	15.4	108.6	103.3	56.7	17.9	33.7	- 15.9	72.7	38.8	39.9	71.5	54.8	16.7	- 1.7	
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	21.5	11.8(g)	- 21.5	99.6	35.9	63.7	105.0	78.4	29.6	+ 5.4	
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	13.4	26.2(h)	- 37.0	84.8	39.4	55.4	78.7	50.7	18.0	- 5.1	
May 2 - 29	100.9	23.6	77.3	126.2	93.2	7.1	28.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	18.2	+ 44.0	
May 30 - July 3	285.2	145.3	137.9	319.3	301.3	5.1	18.9	+ 36.1	156.7(i)	127.3(j)	29.4	345.1(k)	335.6	9.5(l)	+168.4	
July 5 - 31	249.7	156.7	95.0	225.0	212.2	2.0	10.9	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	- 4.1	
Aug. 1 - 28	261.1	180.2	80.9	294.8	287.4	1.0	26.4(m)	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0	
First year of war	1793.2	805.6	1,187.6	1,828.2	1,356.1	211.2	350.9	+ 35.0	866.3	416.6	449.7	1,095.3	900.2	195.1	+229.0	
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4(n)	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3	
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0(o)	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-	
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(p)	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1	
Nov. 28 - Dec. 31																
WEEK ENDED																
Nov. 6	55.4	47.7	7.7	61.2	47.2	6.0	8.0	+ 5.8	0.4	0.1	0.3	0.2	-	0.2	- 0.2	
13	74.6	62.8	11.8	76.5	62.2	4.0	10.3	+ 1.9	-	-	-	0.1	-	0.1	+ 0.1	
20	52.4	40.2	12.2	64.5	50.6	6.0	7.9	+12.1	0.4	-	0.4	0.2	-	0.2	- 0.2	
27	58.6	50.4	8.2	57.3	50.0	2.0	5.3(q)	- 1.3	-	-	-	0.2	-	0.2	+ 0.2	

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 million

England (through June 19) 27.6 million
England (since June 19) 60.3 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended **November 27** \$ 9.6 million
Cumulation from July 8 97.1 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (j) About \$3 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (n) Includes \$1.5 million transferred from account of Royal Netherlands Government.

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Nov. 27, 1940.

Strictly
Confidential

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	D E B I T S				C R E D I T S				D E B I T S				C R E D I T S			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from British A/C for Own A/C	Official For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																
Aug. 31 - Sept. 27	17.5	0.6	15.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	15.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	1.9	1.9	-	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	15.1	-	-	0.9	- 5.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.5	0.6	- 0.2
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	1.7	0.9	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 25.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	95.3	-	19.2	2.1	+ 29.4	4.5	-	4.5	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	72.5	55.9	-	19.5	0.2	+ 54.2	6.8	3.0	3.8	5.0	3.4	1.6	- 1.6
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+161.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Apr. 29 - Oct. 2	44.3	-	44.3	43.9	15.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	5.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31																
WEEK ENDED																
Nov. 6	10.2	-	10.2	22.0	15.5	-	6.4	0.1	+11.8	0.8	-	0.8	0.1	-	0.1	- 0.7
13	4.6	-	4.6	3.5	3.5	-	-	-	- 1.1	0.1	0.1	-	2.6	2.1	0.5	+ 2.5
20	12.2	-	12.2	33.3	29.7	-	0.7	2.9	+21.1	1.1	0.4	0.7	0.7	-	0.7	- 0.4
27	8.2	-	8.2	10.8	0.5	-	9.6	0.7	+ 2.6	1.1	0.1	1.0	0.2	-	0.2	- 0.9

Weekly Average of Total Debits Since Outbreak of War (Canada alone)
Through November 27 \$ 6.6 million

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended December 7, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	98,348 Bbls.	---	---	---
Crude -				
Blended or California High Octane Crude*	86,564 Bbls.	---	---	---
All Other Crude	4,965 Bbls.	---	---	---
Gasoline -				
Gasoline A**	---	---	---	3 Bbls.
Gasoline B*	336,255 Bbls.	---	---	---
All Other Gasoline	27,500 Bbls.	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil***	2,975 Bbls.	---	---	1,195 Bbls.
All Other Lubricating Oil	43,495 Bbls.	---	---	888 Bbls.
Tetraethyl Lead***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	4,326 Tons
All Other Scrap	---	---	---	6,511 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
December 9, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£38,000
Purchased from commercial concerns	£ 5,000

The Federal Reserve Bank of New York sold £12,000 in registered sterling to the Bank of Manhattan. The latter turned this sterling over to a commercial house requiring the funds to pay for the importation of carpet materials.

Open market sterling was first quoted at 4.03-1/2. It remained steady at that figure throughout the morning. There were no reported transactions.

Closing quotations for the other currencies were:

Canadian dollar	13 $\frac{1}{2}$ discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	Holiday

A yuan rate of 5-31/32¢ was received from Shanghai this morning, as against 6¢ yesterday.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$25,000 yesterday, setting aside as collateral \$28,305 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$922,000, secured by \$1,032,122 in gold.

The Federal Reserve Bank reported that the Bank of Canada shipped \$5,638,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

There were no gold or silver prices received from Bombay today.

According to the Department of Commerce daily statement of silver exports and imports, a shipment of refined silver bullion amounting to 65,230 ounces left New York on December 5, consigned to Petsamo, Finland. This silver, shipped by the Finnish American Trading Corporation, New York, may possibly be used for coinage purposes in Finland.

EH

GRAY

Berlin

Dated December 7, 1940

Rec'd 2:55 p.m.

Secretary of State,

Washington.

4941, December 7, 10 a.m.

My 4619, November 6, 11 a.m.

FOR TREASURY FROM HEATH.

According to the statement for November 30 the Reichsbank's investment holdings increased by 1233 million marks during the last week of the month to 14036 million marks as compared with 13581 million marks on October 31 whereas holdings of miscellaneous assets decreased by 125 million marks to 1870 million marks as compared with 1858 million marks on October 31. This is a greater than normal increase in investment holdings but should probably not be considered abnormal in view of the approaching Christmas season and the usual Christmas bonuses paid in part at least with the November pay checks.

Of the total end of the month increase in investment holdings of commercial and Treasury bills increased by 1220 million marks to 13532 million marks (which is a record figure,

EH -2- 4941, December 7, 10 a.m. from Berlin.

figure, the previous high having been 13206 million marks on September 30) collateral loans increased by 12 million marks to 26 million marks, eligible securities by 2 million marks to 51 million marks. There was practically no change in holdings of other securities. Reichsbank notes in circulation increased to 13198 million marks a record figure the previous high having been 13026 million marks on August 31. Moreover whereas on August 31st demand deposits stood at only 1608 million marks they were 1706 million marks on November 30th and the Reichsbank's holdings of coin and rentenbank notes totalled 597 million marks on August 31st as compared with 353 million marks on November 30th. Assuming no change in the gross circulation of coins and rentenbank notes since August 31 (there have been only slight changes in recent statements) the net increase in currency circulation from August 31 to November 30 was 412 million marks and in the circulation of bank money as represented by demand deposits at the Reichsbank 98 billion marks i.e. a total increase of over 500 million marks.

MORRIS

EMB

(COPY:DCA)

LEGATION OF THE
UNITED STATES OF AMERICA
La Paz, Bolivia, December 7, 1940.

No. 514

Subject: Financial Practices of German Firms in Bolivia in Transactions
with the United States.

CONFIDENTIAL.

For the Information of the Office of the Coordinator of Commercial and Cultural
Relations between the American Republics.

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report certain financial practices of German firms in Bolivia which have come to the attention of the Legation.

Banking circles report that most of the leading German firms in Bolivia have liquidated their dollar balances in the United States and are now keeping dollar accounts for the most part in the Banco Aleman Transatlantico in Lima, Peru. Apparently, when dollars are desired to pay for purchases in the United States, accounts of the Banco Aleman Transatlantico or its correspondents in the United States are used. As the Department is aware, there have for some time been close connections between some German firms here and Japanese firms with international operations such as Mitsui and others. In some recent cases, payment for German purchases in the United States have been made by drawing on Japanese firms in the United States. It may be that some of the balances in the United States of German firms have been placed in the name of Japanese firms because of fear of the possibility of the United States entering the war against Germany and hope that Japan is not as likely to be affected or it may be that these transactions are the result of balances held by the Japanese firms in connection with German purchases of Bolivian goods for Japanese account. The latter seems the more probable.

In addition, many of the German firms have engaged heavily in recent months in construction of new buildings for store space, etc. While a few of them have large local balances, there has been little borrowing from local banks for the purpose. It is reliably reported that much of the necessary capital has been advanced by the Banco Aleman Transatlantico. In other words, Peruvian deposits are being used to finance German construction in Bolivia. This situation has created some resentment among Bolivian firms which, except the most wealthy, have not been able to enter into the building boom as actively as have the German

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firms because of the restriction, under instructions from the Ministry of Finance, on credits granted to them by local banks. The result is that most Bolivian business is quartered in old buildings distinctly inferior to those of German firms. With an impressionable public, such as that of Bolivia, this adds to the idea of German might and dominance already prevalent because of the German stranglehold on large-scale wholesale and retail trade.

Respectfully yours,

DOUGLAS JENKINS

610.1/851.6

Original and four copies
by air mail.

Copy for the Office of the Coordinator of Commercial and Cultural Relations
between the American Republics.

Copy:alm

P A R A P H R A S E

A telegram (no. 1303) of December 7, 1940, from the American Consulate General at Shanghai reads subetantially as follows:

The Italian commercial attaché at Tokyo, Angeloni, I have been informed by an unquestioned source, departed with 800,000 American dollars from this port en route to Japan a few days ago. I am told that all of this money was obtained here. I was unable to learn for what the sum was to be used and am unable to offer any reasonable guess on this score. Two Italine marines accompanied Angeloni to Japan.

TO THE
SECRETARY OF STATE
WASHINGTON, D. C.

AMERICAN CONSULATE GENERAL
SHANGHAI

12/7/40

EH

GRAY

(Paris)
Vichy

Dated December 7, 1940

Rec'd 3 p.m.

Secretary of State,
Washington.

1098, December 7, 10 a.m.

FOR TREASURY FROM MATTHEWS.

FOR GUARANTY TRUST COMPANY FOR LOREE FROM BARRETT.

"Assume you received my letter October 3rd, Original
by clipper, duplicate through Washington, dealing with
questions related to our reduction program and would be glad
to know date your reply as anxious have expression your
ideas. Our franc deposits now down to about francs
170,000,000 and we plan pay out additional francs 100,000,000
this month provided payments, overdrafts including Columbia,
Lait Gloria, Worthington, received as expected".

MURPHY

EMB

TECHNICAL DIVISION
RECEIVED
DEC 10 1940
RECEIVED
DEC 10 1940

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

363



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 862.5151/2281

December 7, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses 12 copies of telegram no. 4938 dated December 6, 1940 from the American Embassy at Berlin.

EH

GRAY

Berlin

Dated December 6, 1940

Rec'd 9 p.m.

Secretary of State,
Washington.

4938, December 6, 6 p.m.

FOR TREASURY FROM HEATH.

Am planning to be in Davos, Switzerland at sport
Hotel Seehof from December 9th or 10th until Christmas.

MORRIS

EMB

TO THE SECRETARY OF THE
TREASURY DEPARTMENT
WASHINGTON, D.C.

DEC 11 11 00 AM '40

RECEIVED
TREASURY DEPARTMENT

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365

Paraphrase of Code Radiogram
Received at the War Department
at 8:58 P.M., December 7, 1940

Rome, filed December 7, 1940

In reference to the cable numbered 454, from your office: Italy has about two million men under arms, it is estimated. This figure includes 200,000 native troops, besides militia and territorial defense forces. Troops are distributed in the following territory: There is a normal East Africa garrison, which I do not positively know to be at war strength but believe to be so. This garrison also has an unknown number of Black Shirts and native brigades. These should bring the total strength up to 180,000 natives and 90,000 Italians. There are in Libya 4 militia divisions, 15 motor transportable infantry divisions, 2 native divisions, and Army and Corps troops, plus minor units in undetermined numbers. Total strength here may be estimated at 80,000 natives, 350,000 Italians. The total strength in the Dodecanese is equivalent to two infantry divisions, with a complement of anti-aircraft, territorial, and coast defense troops added. Strength in the Dodecanese should total 80,000. In Albania there are 4 Alpine divisions; 4 infantry divisions of mountain type; 7 infantry divisions of normal type; 1 armored division; 1 Celere division. Additional to these are minor units, Corps and Army troops. These include one regiment of Bersagliere, one of Grenadiers, and three of cavalry. The entire strength is estimated at 240,000, not counting 12,000 Albanian troops whose value is questionable.

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Preparations are, we believe, being made to transfer the 2nd Army, with 6 to 8 divisions, to Albania. It will go from Trieste, Venice, and Pola, by steamer, along the Dalmatian Coast, whenever supply arrangements justify such a movement. Its strength is estimated at 100,000.

Not including eight divisions of the 3rd (??2nd??) army mentioned above, Metropolitan Italy has the following forces: 30 infantry divisions; 3 motorized; 2 armored; 2 Celere; 2 Alpines; 2 auto transportable; Totaling (?) 453,000. Army and Corps troops with minor units are 300,000; frontier guards 100,000; sixteen territorial defense commands, including fixed anti-aircraft, 160,000; regimental depot troops, 150,000. Total for Metropolitan Italy: 1,170,000. The north is still the centre of gravity, but a good many troops are being moved southward, bit by bit. It is thought likely that the front of the 2nd army along the Yugoslav frontier will be taken over by the new 8th army, commanded by the Duke of Bergamo.

PAINE

Distribution:

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

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CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 12:40, December 7, 1940.

CONFIDENTIAL

London, filed December 7, 1940.

1. All operations of the Bomber Command on Friday, December 6th, and the preceding night were cancelled because of bad weather. The Coastal Command operated 13 patrol missions and normal convoy escorts only.

2. Daylight operations of the German Air Force were very restricted, with about 60 planes plotted. There were four inland flights and some shipping and coastal reconnaissances. The British fighters made no interceptions. That night attacks were also limited in scale. The principal attack was against Bristol, where considerable damage was done, and there were secondary attacks against Gosport and Portsmouth. There were two gliding attacks from Reading to Oxford and one from London to Northholt. Attacks stopped after 1:00 p.m. About 50 planes were in operations. British night interceptors were in operation but no reports of results were received.

3. Additional reports of the attack on Portsmouth during the night of December 5-6th indicate that the submarine depot ship DOLPHIN suffered minor damage, the destroyer CAMERON (ex-U.S.S. WELLES) was set on fire in its dock and seriously damaged, and that there was a serious fire in the Clarence shipyard. Casualties of 30 dead and 70 seriously injured have been reported.

4. It is now reported that about 270 German airplanes operated during daylight hours of December 5th and about 150 that night.

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5. The general situation at Coventry shows continued improvement. The repair of public utilities is proceeding satisfactorily. The water supply at Birmingham is almost normal but in London it is low in some districts. The water situation in Bristol is fairly satisfactory but considerable shortage has occurred in Southampton because of broken mains.

6. Royal Air Force planes operating from Greek bases obtained a direct hit on an Italian destroyer firing on Greek troops. They also obtained hits on an enemy convoy, probably destroyed an important bridge, and delivered attacks on communications and troop units. In these operations the British lost no planes but the Italians lost eight confirmed, seven probable and others damaged.

7. There are reliable British reports that General Kämpf, who commanded the German forces in Denmark, was drowned while on board a mined ship.

8. The following is the War Office current estimate of the general German situation: There is little evidence of a change in the location and strength of the Army forces along the coasts of Belgium, Holland and Northern France. All manner of preparations for an invasion of England continue and ample shipping for this purpose is available at suitable ports. But at this time there is no definite indication that an invasion is imminent; and reports from certain sources state that an invasion has been postponed until the coming spring. However it is stressed that so long as ships for the purpose are not dispersed and an large numbers

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of German troops are concentrated along the Channel Coast the threat of invasion remains, and that the operation could be undertaken on very short notice if the German High Command should so decide. It is believed that the Germans hope that their high state of preparedness and the disposition of their troops will effectively pin down large British military, air and naval forces to defend the British Isles, thus interfering with the reinforcement of British troops in other theaters. It is believed that German mountain troops have recently arrived in Italy and that they will be used against the Greeks if and when the front is stabilized in Albania.

LEE

Distribution:

Military Aide to the President
Secretary of War
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G-3
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CONFIDENTIAL

TENTATIVE LESSONS BULLETIN
No. 75
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 7, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

MISCELLANEOUS OBSERVATIONS AT THE GERMAN FIELD
ARTILLERY SCHOOLSOURCE

This bulletin is the last of a series of four based upon demonstrations given for a group of American official observers at the German Field Artillery School at Jüterbog in September and October, 1940.

CONTENTS

1. DEMONSTRATION BY A 105-MM. BATTERY
2. THE OBSERVATION BATTALION

CONFIDENTIAL

CONFIDENTIAL1. DEMONSTRATION BY A 105-MM. BATTERYa. General

Observers saw a 105-mm. light motorized battery move into position and open fire. Pieces were staggered, and all guns used natural camouflage.

b. Radio Communication¹

After guns had opened fire, observers were shown a radio set which the commandant of the Field Artillery School said could be used for sending and receiving simultaneously. Each battery has one of these sets at the O.P., one at the battery position, and one for infantry liaison. The set, which is contained in a case 7 x 14 x 15 inches, has a sectional tube antenna 24 feet high.

Each battery also has three or four radio sets for receiving only. Details of their employment were not given. The set inspected by the observers was located at the battery position.

c. Fire Data

Mechanical apparatus is employed for computation of fire data. The apparatus, constructed of light metal, is contained in an aluminum case 3 x 8 x 20 inches. By a combination of cylinders, cams, and plattens, basic range and azimuth are corrected for wind, temperature, site, air density, type of shell, and powder charge. Meteorological information is received by radio from the meteorological section.

The outstanding features of the mechanical device for fire correction are its compactness, light weight, resistance to weather, and uniformity throughout the army. Although the Germans consider it valuable, some officers still prefer to compute their own data.

d. Opinion of the Commandant on the 105

The commandant expressed the opinion that "The first thing America will do . . . in the next war is discard the 75-mm. gun as a field piece for support of infantry and go to the 105-mm. howitzer." He believed that the 75-mm. gun had insufficient power, and pointed to the 105-mm. howitzer as the weapon that had stopped

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1. Use of two-way radio communication by artillery under certain conditions has been described in TENTATIVE LESSONS BULLETIN No. 74.

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heavy French tanks. The horse-drawn and motor-drawn models of the howitzer are identical except in wheel construction, he said.

The commandant especially emphasized the point that all sights and measuring devices are the same on all German artillery pieces. Thus personnel can be shifted freely without extra instruction.

2. THE OBSERVATION BATTALION

a. Organization

The observation battalion consists of a sound ranging battery, a flash ranging battery, a topographic battery, and a balloon company.

b. The Sound Ranging Battery

The observers were shown the sound ranging battery, which, according to the commandant, was credited with 90% of the German success in locating enemy batteries during campaigns against Warsaw, the Maginot Line, and other areas of artillery groupments.

The system employs receiving microphones spaced evenly along a base line the width of the division front. The microphone is a cylinder, seven inches high and ten inches in diameter, placed directly on the ground and covered with a heavy felt cap to protect it from the weather and to deaden extraneous sounds from the air. A guard is placed at a close, convenient, safe location with respect to each microphone and provided with a telephone connection to the receiving car, which contains the recording instruments.

Sounds from the enemy battery are electrically transmitted to the receiving car, where they are recorded on a strip of paper about two meters long. Also impressed upon this strip is a time scale for comparison. The difference in fractions of seconds is determined from this strip, and the solution as to the range and azimuth of the enemy battery is determined by charts prepared separately for each set-up.

It was stated that after three readings, the position of the enemy battery could be determined within the probable error of the "counter battery" artillery.

c. The Balloon Company

There have been several reports of stabilizing devices

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on German balloons, but none was apparent on the equipment of the balloon company, and a noncommissioned officer who was questioned on the subject seemed to know nothing of these devices.

The captain of the company said that balloons were not widely used during rapid advances but that many balloons were now in position on the coast facing England.

Observers saw photographs of a target area taken from balloons and concluded that these photographs, made with a high-powered camera, were very valuable.

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RESTRICTEDM.I.D., W.D.
December 7, 1940.
12:00 M.

No. 264

SITUATION REPORT

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

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

After a day of light and scattered raids on southern England, the German Air Force last night focussed its attention on Bristol, where a fairly large-scale attack was made. Secondary raids were made along the Channel coast. London was not bombed.

On the night of the 6th-7th the R.A.F. concentrated on airdromes in occupied territory.

II. Greek Theater of War.

The Greeks, following the capture of Porto Edda, have continued to press the Italians, especially in the northern, or Pogradec, sector. The Italians announce counterattacks by their troops. Air activity apparently was limited.

III. African and Mediterranean Theaters of War.

There has been no change in the Sidi-Barrani area. There was some patrol activity in the Gallabat area and in the Kassala sector, Sudan, and on the Kenya front. All air operations were minor.

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