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GROUP MEETING

November 29, 1940
9:30 a.m.

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

H.M.Jr: What is new?

Bell: In arranging for the Open Market meeting on Wednesday of next week, did you want me to ask Jones? I didn't.

H.M.Jr: No. I don't see any reason.

Bell: I think he was at the last one.

H.M.Jr: Well, that was a little --

Bell: That was the reason I asked you.

Did you want any memoranda or papers on the Argentine matter that you would like to read?

H.M.Jr: Well, is Espil - he is coming in at 10:00 just to introduce this fellow, and I think if I could honestly say I don't know, it would be much better, but I would like you here when he comes.

Bell: At 10:00, you say?

H.M.Jr: Yes. I am waiting to hear from you, you know, on that now.

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Bell: You are waiting to hear from me?

H.M.Jr: Yes. I asked you to look up what they did on Chile.

Bell: Oh, yes.

White: That is ready this morning. I can tell you orally, or it is ready in a memo.

H.M.Jr: Well, that is the way we left it.

Bell: That is all right. We are ready any time that you want to sit down and go over the whole matter.

H.M.Jr: May I just say for everybody, this telling me you are ready - if you don't mind my using you (White) as an example - you mentioned to me in passing, riding up to the house, something about Dr. Soong, but you don't tell McKay - if you don't mind my using you as an example. If anybody wants me to see anybody and make an appointment, I can't remember these things, so if somebody wants - besides mentioning it to me, would you mind mentioning it to McKay.

White: I merely wanted to know whether you would like to see him and I told him to get in touch with Mr. McKay. I didn't expect you to make the appointment.

H.M.Jr: Well, he did call up either last night or this morning, but I can't remember. But it helps me.

White: Right. So I understand, Mr. Secretary, that - aren't you going to have a meeting on Argentine?

H.M.Jr: Yes.

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- White: I mean nothing definitive is going to be done until --
- H.M.Jr: No, no. They are coming in this morning just to introduce this fellow.
- White: Ed, that is what they told me last night. But there is nothing going to be said about - no definite opinion?
- H.M.Jr: Well, I wouldn't think of approving it without first talking to you.
- White: I didn't mean that, but I didn't think you would turn it down without giving me a hearing.
- H.M.Jr: Oh, Harry, you are so suspicious.
- White: I am glad it is just suspicion. (Laughter)
- H.M.Jr: All right.
- Sell: That is all.
- H.M.Jr: All right.
- Thompson: The Bureau of the Budget yesterday gave us our figures on our '42 estimates. I think there is only one bureau in the whole department, possibly Coast Guard, that might want to protest.
- Gaston: There are two things there that are rather serious. The aids to navigation they cut down to about a third and they have got a terrific problem in Alaska and on the Mississippi River and some other places, and the other thing is that on harbor boats they allowed us only two of that ice-breaking type of tugs. We asked for four. We asked for 30 78-foot boats for harbor police work and they allowed us 10.

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They cut out the infirmary at the Academy.
They can get along without that.

Those particular things are rather serious items. They cut out all the additional light senders and lighthouse vessels which is - which the Navy particularly asked for.

H.M.Jr: Well, I don't often do any boasting but I - we had a little time to spare at San Juan and I asked to be taken around on the A.B. boat. It was awfully noisy and I said, "There is something the matter with the engine," and the fellow said, "Oh no, no." I said, "Yes, there is. There is a piston rod bearing loose," and there was. He didn't know I used to play around with marine engines when I was a kid.

But here they are running this boat day and night and boarding all of these Army transports that are coming in and they have got an engine running around with a piston rod bearing loose.

Gaston: There isn't any crank.

H.M.Jr: So I think you ought to go after that stuff, Herbert.

Gaston: You mean after the --

H.M.Jr: More boats.

Gaston: Yes.

H.M.Jr: I think you ought to go after them.

Gaston: They gave us the three big cutters, but I think we really need the ice-breakers and harbor boats more than we need the three big cutters. It is the Navy that needs the three big cutters.

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H.M.Jr: If you want some help, let me know.

Gaston: Right.

Thompson: We asked for 19 airplanes and we got 17. They cut out two training planes.

H.M.Jr: But if you need some help, let me know.

Gaston: Yes.

Thompson: That is all.

H.M.Jr: Can I leave this in your (Thompson's) lap? This is a man, and if we could find him some work, I would like to do it. He lives in my district. This stuff keeps flowing in to me from Leon Henderson. This isn't you, Norman, this is price stabilization division. Who would get that?

White: They mostly deal with foreign countries, yet.

H.M.Jr: This is price stabilization.

White: No, that is the name of the committee, isn't it?

H.M.Jr: No, finance and amortization of capital expansion, private and government equipment, government plants operated by private firms.

White: Oh, that is the latest report.

Bell: I would like to see it.

H.M.Jr: Supposing I start with you, and can somebody - I mean, that wouldn't interest you (Foley).

Young: I would like to see it also.

H.M.Jr: Excuse me?

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Young: I would like to see it also.

H.M.Jr: Oh.

White: I am wondering whether there might be a criticism in the digest appended, and then it would be pretty easy --

H.M.Jr: Would you handle it, Bell?

Bell: All right.

H.M.Jr: I mean, when I get those things, should they go from Mrs. Klotz to Norman and then let Norman Thompson find out who wants them?

Bell: Just get the one copy?

H.M.Jr: Evidently.

Foley: I think that Leon Henderson sends us copies of those things and I send them to Chuck Kades.

White: I get one, too. I think he will be glad to send them to whoever you want to indicate.

H.M.Jr: I want somebody to read it for me.

White: We have four now, and they are being digested and comments made, and then they will be sent to whoever is interested.

H.M.Jr: All right.

Bell: Would you like to get a memorandum back only in case there is something --

H.M.Jr: Which I am working on. Okay, Norman?

Thompson: Yes.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Harry?

White: We would like to get your permission, if you think it is desirable, to examine the income records of numerous companies who are recorded in - as being among the British assets, as being the only way that we can get an idea of their current value. There are quite a few of them.

H.M.Jr: Well, I would like you to take it up through Sullivan and he will get you what you want. I want you to have what you want.

Give him whatever he wants.

Sullivan: Okay.

White: All right.

Here is the thing from Kamarck on the shipping which shows much less destruction and --

H.M.Jr: Isn't that funny? I was going to ask you about that last night. I dreamt of that.

White: It is another dream. It seems to be much less than what the press seem to be reporting, but as you know, those come from our Naval Intelligence, so - I mean - (Laughter)

If the press is right, they are wrong, or vice versa.

Schwarz: Which do you think?

H.M.Jr: I want you to know we have a - what are you, able seaman? Mr. Robert Morgenthau, apprentice seaman.

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White: This was before he joined.

H.M.Jr: I don't want him discouraged.

Gaston: Harry is just pointing out that the intelligence is only relative.

H.M.Jr: What do you mean, total excluding the Axis?

White: Well, those are the shipping - not including German ships sunk and Italian ships sunk.

H.M.Jr: That is surprising, isn't it?

White: If those figures are at all right, the situation is not - won't be critical for some time.

The shipments of lubricating oil to Japan have been tremendous, a quarter of a billion barrels in the last four weeks.

H.M.Jr: Can I have it for lunch? Frank Knox is having lunch with me.

White: Yes. But scrap iron has stopped.

H.M.Jr: Scrap iron has stopped?

White: In the last three weeks, no scrap iron.

Gaston: We are still granting courtesies of the port to official Japanese vessels which come in on the Pacific Coast to take on cargoes of gasoline, fuel oil, and lubricating oil.

H.M.Jr: But scrap iron is stopped?

White: In the last three weeks there has been no scrap iron.

Gaston: October 16 was the cut-off date on licenses.

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- H.M.Jr: What happened yesterday interests a number of people. It is supposed to be secret. Admiral Land was in here and there is evidently a deal on for us to buy the Danish ships which were in our ports. The President has approved it providing that the money that we pay goes into the frozen funds. That is why I mention it here, it will affect so many people. Philip Young has it and he is going to ask Foley to look up the law on the thing, how it can be done, because Land didn't know just how to do it. He said nobody in his shop was working on it.
- Sullivan: Who owns the ships?
- H.M.Jr: I believe it is an American company.
- Pehle: Isbrandtsen & Moller, isn't it?
- H.M.Jr: Yes.
- Gaston: Do they own any ships or are they simply operating agents for those Danish ships?
- Pehle: I think some are one way and some are the other.
- H.M.Jr: Well, the point is, I gather from what he said that the English have tried unsuccessfully to buy these and now I think he is talking, isn't he, about having the Maritime Commission buy them?
- Young: Yes, anybody buy them that could get them away from the Danes to resell to the British.
- H.M.Jr: But I am mentioning it because so many people will be interested.
- Gaston: He did have a good many questions come up about these ships. They are considered

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generally rather bad actors.

- Sullivan: What goes into the frozen funds, the gross or the net?
- H.M.Jr: I don't see why either should if it is an American corporation.
- Pehle: It is owned beneficially by Moller, who is in Denmark. He has a very large interest in it.
- H.M.Jr: Well, Phil, you can see how many people are interested. We threw it into Foley's lap, didn't we?
- Young: Yes, sir.
- White: In the last three weeks - four weeks, there has been - German balances here have declined by more than half.
- H.M.Jr: Where did they go?
- White: Either into American sources or out of the country. I wouldn't know. But they have disappeared so far as our control is concerned.
- Bell: They have gone into Swiss --
- H.M.Jr: Wiley, in your letter for me, you might see whether you could use that.
- Wiley: Yes, sir.
- White: And also the Italian balances, you know, have declined.
- H.M.Jr: Pick that up, too, will you?

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- Wiley: There was one big Italian movement to South America recently, a million and a half.
- Cochran: The German balance has gone to Switzerland, Sweden, and Portugal.
- White: And that does not include the last two weeks. We can't get those figures until a week from now, so it might be substantially more than that.
- H.M.Jr: Mr. Wiley is writing me a letter over the week-end for additional arguments on why we should freeze all funds, so if anybody has any ideas, if they would give them to Mr. Wiley, he can incorporate them in the memorandum for me. It is a follow-up letter on the one which was written before.
- White: I think we could take a list - there are at least 15 or 20 cables that indicate what is happening to funds that would be very effective and they just could be listed and appended to the letter.
- H.M.Jr: If anybody has any ideas, if they would give them to Mr. Wiley, he can incorporate them for me so I can have it Monday.
- I was surprised to see in Time Magazine this week an article on freezing all the funds, by a State Department Aide.
- Gaston: That has been going around to all the papers, the Star, the Merry-Go-Round, and the Newsweek, last week.
- White: You would be interested in Lindley's column this morning.
- H.M.Jr: I haven't seen it.

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White: It is on the British assets.
I just want to call your attention to the fact that there is --

H.M.Jr: Chick, fish it out of here.

White: I think you would be interested, if you haven't noticed it. We have got a billion eight million dollars of gold on earmark.

H.M.Jr: Who has?

White: The United States has, on earmark. Oh, various countries. France has 500 million or so, but it amounts to a billion eight.

H.M.Jr: Good.
On that note that you sent me up to the house, if you would have him come down, I would be glad to see him.

White: I will do that.

H.M.Jr: I take it you know him personally.

White: That is right. I will make an appointment with Lieutenant McKay.

H.M.Jr: If you would, please. He is now a Commander.

White: I beg his pardon.

H.M.Jr: What else?

White: That is all I have.

Bell: You read, of course, the article on aluminum?

H.M.Jr: Yes.

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Bell: He said nothing about steel.

H.M.Jr: You would be interested - at luncheon yesterday I said to the President, wouldn't he get after him, and he said, "I have been after him on steel and I can't get him to do anything."

Sullivan: Ed Boots, Vice President of United States Steel, was in about ten days ago. I asked him about it and he said they couldn't possibly hope to meet the demand.

H.M.Jr: Well, I read while I was away a story where one of the branches of U. S. Steel is increasing their production by 400,000 tons in the Alabama district.

Bell: That is half of one percent.

Haas: One percent of the total steel industry.

H.M.Jr: But it is 25 million dollars.

Sullivan: He said they couldn't handle it.

H.M.Jr: Well, you boys have got to feed me this stuff and I will feed it to the President.

Haas: They will need all that, I guess.

H.M.Jr: Are you through, Harry?

White: Yes.

H.M.Jr: George?

Haas: I have got a very short version of Mr. Sexaur's troubles. It is very urgent.

H.M.Jr: Well now, we will go from frozen funds to ice cream.

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White: They melt the same way.

H.M.Jr: Is that funny?

White: They are melting almost as rapidly.
That is an exaggeration.

H.M.Jr: What does he want me to do, George?

Haas: He would like to have you - there is political pressure trying to force a decision and by putting the pressure on, they will force a decision that he doesn't want. It will be a hasty one. What he would like to have you do is to hold it up to give him time to work on them over there and really get his case over, and he thinks if they take time out to go into the problem they will decide it his way.

H.M.Jr: Do you know Paul Appleby?

Haas: No.

H.M.Jr: Call him up and say --

Haas: I met him once in your office here.

H.M.Jr: Call him up and tell him the thing and say that you don't know - I would tell him Sexaur is the president of the Dairymen's League Co-op, of which I am a member, and I would like to bring this matter to his attention, and could you come over and see him so he can get both sides of the story, and I would like to know, you see. Call up Paul Appleby and tell him who you are, and could you come over and see him.

Haas: Fine.

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H.M.Jr: "I don't know the pros and cons, but just what is the situation?"

Haas: I will be glad to do that.

H.M.Jr: Isn't he the Under Secretary now?

Haas: He is the Under Secretary.

Gaston: Yes.

H.M.Jr: He is a smart fellow. Call him up when you go out.

Haas: All right, I will do that.

I have got one other thing. I am running into some difficulty on this Transamerica chart, in getting material. All the material the SEC has collected is now on the Pacific Coast. They are hearing a case. And all the men who know the subject are out there, so we won't be able to get the chart for you by Monday.

H.M.Jr: That is all right. Foley is breathless about it, but Tuesday or Wednesday will do just as well.

Foley: Well, I suggested to George that he send the chart to the Chief Examiner out on the West Coast and let him bring it up to date, and then check it with the SEC people and have it brought back here by Wednesday or Thursday of next week.

H.M.Jr: Good.

Haas: That is all I have.

H.M.Jr: Philip?

Young: I am practically swollen with a lot of foreign

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purchasing items you ought to know about.

H.M.Jr: You are what? What was the word?

Young: I said swollen.

H.M.Jr: You look normal to me. Take his pulse, Professor Chamberlain, will you?

Chamberlain: I haven't got a license to practice medicine. I am afraid I would get arrested.

H.M.Jr: It did look a little crowded, with the four of you on that bench there.

Young: It is very congenial.

Are you having lunch with Secretary Stimson today?

H.M.Jr: I am not.

Young: Are you going to see him, on his letter?

H.M.Jr: No.

Young: What has happened on that?

H.M.Jr: He called me up, and I will repeat the conversation as near as I can remember it. He says, "I feel like a fox," and I said, "Well, I have been trying to smell you all day," and he says, "I am so busy I can't even smell myself." That was our conversation. (Laughter)

So he said, "Will you approve of that letter?" I said, "I do." He said, "Well, you will do me a great kindness to let me out of lunch," so the letter is approved.

Gaston: I have an appointment with Budd at 10:00 o'clock.

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H.M.Jr: Okay.

(Mr. Gaston left the conference.)

So, Philip, you will have to be good until tomorrow morning at 9:00, and like it.

Young: Right. That is all.

Chamberlain: I haven't anything particular, Mr. Secretary. We are working over this problem - the division is working over the problem of the wider freezing, but we haven't any --

H.M.Jr: Is there anything doing that you know of? I saw Norman Davis and Lamont were over there to see the President. Is there anything doing on food?

Chamberlain: I wanted to call your attention to that.

H.M.Jr: What is happening?

Chamberlain: All I know is that the Quakers are very enthusiastic about it, and I heard an interesting comment on Mr. Hoover that I think would be interesting to you from a Quaker friend of mine who had had a long talk with him. He said Hoover said that the food for Europe ought to go particularly to Belgium and perhaps to Holland, and he took the position it shouldn't go to occupied - unoccupied France. I wasn't able to get the arguments, but it was - he was obviously interested particularly in Belgium.

I saw Mr. Dave Hannon Morris several days ago, who told me that he and another group of people were getting up a memorandum on the Belgian needs, which he promised to send me. I haven't had it yet.

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- H.M.Jr: Well, as far as you know, nothing has been decided, has there?
- Chamberlain: As far as I know, nothing has been decided. If you like, Mr. Pehle and I could go over and see Mr. Davis and ask him.
- H.M.Jr: I wish you would.
- Chamberlain: I wouldn't want to do it without speaking to you, but if you would like to have me, I will see if I can get it.
- H.M.Jr: Pickett, is that the name?
- Chamberlain: Pickett is the Quaker.
- H.M.Jr: If he has a memo why he thinks these people should be fed, I would like to see his memorandum.
- Chamberlain: I can get that as soon as I can get in touch with Pickett, and I can find out through the Registrar's Office where he is.
- Pehle: We have a memorandum with regard to unoccupied France that Pickett prepared. It was entirely definitive.
- Chamberlain: I think I know generally what view --
- H.M.Jr: I saw that Mrs. Roosevelt saw him, or something or other, and I think he is leaning toward doing it.
- Chamberlain: He is not leaning, Mr. Secretary, he is strongly and openly advocating it.
- H.M.Jr: Oh, he is?
- Chamberlain: He is going to speak at a meeting of the Association a week from tomorrow.

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H.M.Jr: Has anybody in the Treasury got the reasons why he is for it?

Chamberlain: I think generally he is in favor because he thinks that in the first place, as a Quaker, he naturally leans toward taking care of people. He thinks that there is not only this great weight of refugees from northern France but - and from Belgium - but there also is this new weight from Lorraine. How big that is, I don't know.

H.M.Jr: Do you think I ought to see him?

Chamberlain: Pickett? I think it would be interesting for you. You would get probably the most vigorous presentation of the cause for relief.

H.M.Jr: Well, could you arrange the next time you are here to have him here?

Chamberlain: I think - I am quite sure that I could, one way or another, yes. I expect to come down next Tuesday. That would be next Wednesday, Mr. Secretary?

H.M.Jr: Yes.

Chamberlain: I will try to arrange that, and then Mr. Pehle could come with him. I think it would be a good plan for both of us to be here, and probably Mr. Cochran, too.

H.M.Jr: I will set it tentatively for 3:00.

Chamberlain: On Wednesday?

H.M.Jr: Wednesday.

Chamberlain: I think we can produce him easily enough on Wednesday at 3:00.

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- H.M.Jr: Do you think I should see him?
- Klotz: I think it would be very interesting. I think you would get an amazing picture.
- H.M.Jr: Have you seen him?
- Klotz: No, but I have heard so much about it.
- H.M.Jr: I like to get both sides of the story, and if there is somebody out advocating it, I would like to listen.
- Chamberlain: Well, we will see that he is here, and I will try to get to see either Norman Davis or Earnest Swift, of the Red Cross, today and find out what happened.
- Bell: Some think that by withdrawing all help from France we are pushing the French people into the arms of the Nazis.
- Chamberlain: You see, Mr. Secretary, the point is not only have they got to take care of their own people but they have this number estimated around a million of refugees from different parts of Europe there and the Germans are just - but the serious thing, the Germans have just sent over this ten thousand people who are living in very bad conditions in various camps in France. The Germans sent over from towns in the southern Rhineland, upper Rhineland - sent nearly 10,000 elderly non-Aryan refugees to camps in southern France where they are living under very difficult conditions. We have had that matter up and have authorized the sending of relief.
- I knew of one case that came to my attention, and no doubt Mr. Pehle has had others, of a man of over 80 whose family in the central

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part of the United States wanted to send him money. We did what we could to take care of the situation.

But you can see the argument that is going to come is two-edged. One is, the Germans are loading these people into France to help eat up what the - unoccupied France has got in the way of food, and if you send food freely into France and don't arrange that that shall be stopped, then you will run into some difficulty.

Now, I was talking with Admiral Warren, of the State Department, who has been about there and tells an interesting picture of the way the Germans have been getting food for themselves, and he says that he thinks this ten thousand-odd people were sent to France as a warning to the French that they had better be good, and the Germans could send other people in.

H.M.Jr: Who is that?

Chamberlain: Admiral Warren, who is the head of the Visa Division of the State Department.

H.M.Jr: Ought I to see him? Has he got a story?

Chamberlain: Well, he has got a story but whether it would be worth - it would interest you very much to hear what he has to say about the conditions in Germany and the food conditions in other parts of Europe - I don't know of any one who has been through the country --

H.M.Jr: I would like to see him.

Chamberlain: All right, I will try to make an appointment with him. He may have to clear with the

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State Department. When would you like to see him? That would be next week, I suppose.

H.M.Jr: Yes, next week. How long would Pickett take, half an hour?

Chamberlain: Oh, I know Pickett very well. He would take as much time as you have got to give him, Mr. Secretary, but I think half an hour would be all you need.

H.M.Jr: Why don't we have Pickett from 3:00 to 3:30 and then bring Warren in at 3:30?

Chamberlain: I will try to get them.

H.M.Jr: Anything else?

Chamberlain: No.

Pehle: There has been one development in connection with that France matter that you will probably want to know about. Pickett has been talking to the French here, with a view to getting some funds from them out of their frozen funds here to use in France, unoccupied France, and apparently he now says they would be willing to give him, say fifty thousand dollars and maybe that much a month, but the French will not make an application to do that until they are advised that the application will be approved. Pickett wrote a letter to that effect and we wrote back and told him that we were glad to know about the matter and we would consider it if any application were filed. We would indicate obviously how it would be decided. That would raise the problem in a more difficult way, I should think.

H.M.Jr: Well, nothing was decided?

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Pehle: No, I just wanted to tell you.

H.M.Jr: How did that deal ever work out? Was it Lithuania where we gave the people some money to pay off a debt and they were going to move a certain number of people out?

Chamberlain: Mr. Secretary, that has not yet been settled.

White: That went through.

Pehle: No.

Chamberlain: It hasn't yet been settled, because that was to help them arrange for wider exodus from Lithuania.

H.M.Jr: Does Mr. Wiley know about it?

Chamberlain: I don't know. We will talk to him.

H.M.Jr: That is why I brought it up.

Chamberlain: I will be very glad to talk to him about it, because the matter hasn't yet gone through.

H.M.Jr: He is the Minister to Lithuania.

Wiley: No, sir, it is Latvia and Esthonia.

H.M.Jr: Oh, I am sorry.

Chamberlain: We are waiting for word that the deal can go through. There is no use sending this amount, forty thousand dollars, over unless it is an inducement to make a further deal, and so far they haven't got clearance from us --

H.M.Jr: You might mention it to Mr. Wiley.

Chamberlain: I would be very glad to talk to him.

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H.M.Jr: Anything else?
Chick?

Schwarz: If you have no objection, I think it would be a good idea if I could tell the boys that Ambassador Espil is coming in, because the Argentine Embassy will tell them.

H.M.Jr: He is bringing this - what is his name?

Schwarz: Prebisch.

H.M.Jr: He is bringing Prebisch with him.

White: I might tell you, Mr. Secretary, that Mr. Prebisch, if you haven't heard before, is an extremely able and very competent man, straightforward and very competent.

Schwarz: I think you will want to see Joe Driscoll's story in the Herald-Tribune. He took over Gregory's notes from the press conference. He emphasizes a different fact about the base at Port Royal.

H.M.Jr: I was amazed. It was a very friendly story.

Cochran: Did you see the Argentine story in the Wall Street Journal?

White: Yes.

Schwarz: Yes.

H.M.Jr: Wiley?

Wiley: How long should this letter be, or how short must it be?

H.M.Jr: Long enough to be convincing. How is that?

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Wiley: Very good, sir.

H.M.Jr: Does that answer you?

Wiley: It does.

H.M.Jr: Merle?

Cochran: Will you sign the Canadian silver letter?

The purchase of silver so far in these eleven months was 109,000,000 ounces as against 151,000,000 last year. That is total purchases from Canada.

H.M.Jr: I see.

Cochran: We had a report from Jay Crane's expert in Paris on Russia. Does that interest you today?

H.M.Jr: At the house.

Cochran: All right.

H.M.Jr: Sullivan, I announce here to you that I want you here after the Argentinians. I don't think I told him about this, but back in 1928, I think, Dr. Luther Gulick did a perfectly amazing job. He gave me a report on the taxation of New York State for the great sum of six hundred dollars. It was the best report that I have ever had and we have used it in New York State on Roosevelt's tax program, the basis of it. Gulick gave a report that was the basis for all we did on schools and highways, and so on. He has agreed to come to work for me on overlapping taxes. He is outside now. I am finally going to do it, after seven and a half years, so after I see the Argentinians, I want you to sit in. He is a perfectly grand fellow. He is on the

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President's committee of three, of reorganization. He did the job that Harry Byrd took all the credit for in the State of Virginia. He is really a grand fellow on taxes and he came in and volunteered his services, and after seven and a half years we are going to go to town. The reason I asked him to come in this morning, I wanted to know how far he could go, so we could use it tonight.

Sullivan: Is there anything else you are going to want tonight?

H.M.Jr: Yes, but I can't tell you.

Ed?

Foley: Here is the correspondence with Tom Beck on that matter that he came in and spoke to you about. He seems to be satisfied in submitting the thing to the Bureau.

H.M.Jr: Did we get an honorary subscription to Life or Collier's?

Foley: It hasn't come in yet.

H.M.Jr: Hold it up until you get it.

All right, you are staying, Bell, aren't you?

November 29, 1940
10:45 a.m.

H.M.Jr: Hello.

Sumner Welles: Henry, first of all, welcome back.

H.M.Jr: Thank you.

W: Did you have a good trip?

H.M.Jr: I had a very good trip.

W: Well, I'm awfully glad.

H.M.Jr: Little bit too hot down there to be active but a pleasant place to relax.

W: Well, I'm delighted - glad you're back. Henry, I wanted to ask you about a matter that's just been brought to me. I'm told that you've invited Air Marshall Downing to get here as quickly as possible and the question arises in connection with his coming back on one of the Pan-American Clippers.

H.M.Jr: Well, what happened was, oh I think maybe six weeks or two months ago, I suggested that they bring somebody over here from the air fighting arm who could advise with us as to that type of plane and out of that I take it has come this.

W: I see. I understand. I tell you, what worried me was this.

H.M.Jr: This suggestion is at least six weeks or two months old, and it was made when Purvis was here and then they sent me over a man - I can't remember his name. There has been a man here for some time - an Air Commander.

W: Yeah.

H.M.Jr: But I did make the suggestion that they send us a responsible officer - I didn't name anybody.

W: Well, the British Embassy is using your name in

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vain. What happened is this. At the beginning of the war the State Department reached an agreement with the Pan American Airways that they would not transport members of the armed forces of the belligerent powers without obtaining a statement from such individuals that they were not members of the belligerent armed forces, because otherwise the airships would be in exactly the same situation as ordinary merchant vessels, subject to seizure and search. And now that the Germans are occupying Southern France and in view of the importance of this man, it wouldn't be difficult for them to send a squadron of fast planes to force the Clipper down and take the man off, and I think that would endanger the lives of the passengers and be a precedent that might create a good deal of trouble, so my suggestion was going to be that we tell him to go with the rest of his people on the boat and not on the Clipper.

- H.M.Jr: Well, it's all right with me because there can't be any hurry because, I don't remember the date, but it's at least six weeks or two months ago.
- W: Well, thanks a lot, Henry. That clears it up perfectly. They were using your name in vain and saying that you wanted him to go on the Clipper.
- H.M.Jr: Oh, no. It's the first I've heard about it - I mean that he wants to get on the Clipper
- W: Yeah. That takes care of it perfectly. I just wanted to be sure that you didn't have some particular reason.
- H.M.Jr: I'm very anxious to see him when he comes here but I've waited two months and so whether I wait a week more or less doesn't make any difference.
- W: All right, Henry.
- H.M.Jr: Thank you.
- W: Thanks so much. Good-bye.

Notes on Conference in the
Secretary's office 11:15 A.M., Friday,
November 29, 1940.

Those present at this meeting were, Secretary Morgenthau,
Major Fleet, Mr. Schnacke, and Philip Young.

Major Fleet opened the conference by saying that the log
job was breaking, that the new Consolidated B-24 had just broken
the world's record by carrying 53-1/2 pounds per square foot of
wing area. The Secretary inquired as to arrangements which Fleet
had made with Sperry for the installation of the Sperry bomb
sight, and Fleet replied that you would have to catch the planes
two months before delivery in order to get the thing installed
on the production line.

The Secretary said that he had flown in one of Major Fleet's
Consolidated PBV's from the Virgin Islands, and in talking with
the Navy people down there he had gotten the impression that the
Sperry stabilizer and bomb sight was just as good if not better
than the Norden stabilizer which seemed to be a very tricky in-
strument. Fleet said that the Norden was very tricky.

Then Major Fleet went on to say that all the various changes
were responsible for his production difficulties, but that the
wings were now beginning to come through from Brewster. The
Secretary asked him if he was going to extend the wing contract
with Brewster, and Fleet replied that he was as Brewster had all
the tools, jigs, etc. Further, that Brewster would have done
the job all right except for Mr. Work being sick and out of the
picture.

Fleet said that he would have the first six B-24's done
before the first of the year, and the Secretary asked him if he
would really have all twenty B-24's delivered by March. Fleet
replied that the Secretary was up on everything. The Secretary
said that he should be for he had spent a year and a half at it.
Fleet said that the Treasury had done more for him in the last
two months than everyone else put together.

Fleet added that Foley, Buckley, and Kades had done a good
job out on the coast, and that he thanked his stars for the day
he came into see Mr. Young because the latter wrote such a good
report on his problems. Fleet said that he wished he could get
these people away from the Secretary to go to work for him because

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he knew what it was like to work for the Government as he had done it himself for six years.

Fleet said his airport was coming along fine, and that Foley had the whole story about it, but, of course, the runways were not as important as the sewer. Fleet stated that there were 500 people sick every day from the sewer and that it should be fixed by private rather than public contracts. The Secretary sent for Foley who joined the conference. Foley assured the Secretary that Fleet's problems were being worked out satisfactorily.

ooOoo

Fy.

RE LOAN TO CHINA

November 29, 1940
11:30 a.m.

Present: Mr. Foley
Mr. Cochran
Mr. White
Mr. Bell
Mr. Bernstein

H.M.Jr: The President just called me up and told me in strictest confidence - and this is in strictest confidence - that he is sending part of the fleet to the southern part of the Philippines. He is worried about China and he is evidently worried about something going on between Wang and Chiang, and he wants me to make a stabilization loan of fifty million dollars to the Chinese in the next 24 hours, and I know Jones was sitting there, and he is telling Jones to make another fifty. It would be a hundred million dollar loan, and he says Cordell Hull insists that we put somebody in there to manage it. We lend them the money, but it would be under our direction, so he said I should get hold of the committee chairmen and notify them that I am going to do this.

Bell: You mean the Congressional committee?

H.M.Jr: Yes.

White: Oh yes, I think the statements you made about countries being at war requires that. I think you made it also to the House committee and to the Senate committee.

Foley: George?

H.M.Jr: George?

Foley: No, that was Foreign Relations. Wouldn't it be Wagner?

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- Bell: It would be the Wagner committee and the Somers committee in the House. Of course, at the time you made the statement you had a loan outstanding to China.
- White: Not from the stabilization fund. It was a collateralized loan. You said, "If at any time I buy foreign currency to stabilize a country at war, I will come to you," and the Congressmen replied by asking you again - they said they were very glad to hear that and said that your word was as good as your bond, or something like that.
- Bell: That was Wolcott of Banking and Currency.
- H.M.Jr: Where could we get this?
- Bell: It is in my papers that I was giving you over the week-end to read on Argentina.
- White: Culled out all the statements that you made.
- H.M.Jr: Have you got that statement? (See attached copy)
- White: Yes.
- H.M.Jr: Is it in your room?
- Bell: It is in my room. I will get it.
- White: It is absolutely essential that you have an American in charge of that fund, because it could be so handled that it would flicker out without doing any good very quickly.
- Cochran: Did they specify or did they suggest it should be through the stabilization fund or is it in the central bank, or how?
- H.M.Jr: I didn't care. He wants to be able, evidently, to send word to Chiang Kai-shek that he will

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make that loan.

- White: We can tie that up so that they can use it only gradually and it will have considerable effect. I would be strongly opposed to, it seems to me, using any rate which would let them use it as quickly as they want to. It won't serve the purpose.
- Bell: It has got to be announced at once?
- H.M.Jr: He says he doesn't want to wait more than 24 hours, but I don't know. Of course, he was talking there for Jones' benefit.
- White: Here is one statement which bears on it. Shall I read it? This might be interpreted to be that we were at war, but there are others that are clearer.
- H.M.Jr: Who is Mr. Reed?
- Bell: Reed is --
- Bernstein: A Congressman.
- Foley: Reed comes from New York. He is a Republican.
- Bell: What is that, the Ways and Means?
- White: No, that is Banking and Coinage.
- Foley: Banking and Currency.
- Bell: Reed is on Coinage, Weights & Measures.
- H.M.Jr: This is on Coinage, Weights & Measures.
- Bell: I think that is a different Reed.
- H.M.Jr: In case of war.

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Foley: Is China at war?

H.M.Jr: Yes.

White: It is not clear whether you meant we would be at war, but there are statements that are a little clearer. That is the thing you really had in mind at the time, was this European war.

H.M.Jr: That is one. Where is the other thing? Here is the next one. Here it is again. Here I am saying to Townsend, "If there should be a war, I would certainly come before the proper committee and ask them how we should conduct ourselves." That is in connection with our being at war.

White: The implication, I think, at the time was your being at war.

H.M.Jr: Here, Townsend says, "Does the Treasury construe its authority under the stabilization fund to include the power to deal with wartime problems of international exchange precisely as with peacetime exchange without further instructions from the Congress?"

"Well, the best way I can answer that question is this: In the Treasury, nobody is thinking of war.

"Townsend: Thinking of war?"

"Secretary Morgenthau: Of war.

"Senator Glass: You had better be."

Townsend says, "Well, you are different from anybody else in the country, aren't you?"

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"Secretary Morgenthau: Well, I mean that in our operations we are not making any plans for war, in the Treasury. And if there should be a war, I would certainly come before the proper committees and ask them for direction as to how we should conduct ourselves."

- White: That was war with the United States. The context was that you were speaking of the United States getting involved.
- H.M.Jr: No. But he was reading from the other statement.
- White: You will remember the discussion, in general, at the time was about whether you would help France and England and buy sterling if we became involved in the war.
- H.M.Jr: Here: "Secretary Morgenthau: Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist a country in prosecuting that war, I would come up before the proper committee and ask for guidance." That is the statement.
- White: That is a clear-cut statement.
- H.M.Jr: I would ask for guidance. Now, I can't do this thing.
- Bell: You were there before the war was declared between England and Germany, too.
- H.M.Jr: I can't do this thing without coming up before the proper --
- White: I don't think you have to go before Congress, but I think you ought to go before those committees, or at least before the heads of them.

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- H.M.Jr: This is the statement. I mean, that certainly is clean-cut enough, isn't it?
- Foley: Yes. Then the only other thing would be whether or not a state of war exists there.
- H.M.Jr: Well, that is pretty much begging the point.
- White: Except that when you made that statement there was fighting going on there.
- Bell: And you did have the Chinese loan.
- White: No, but when you made that statement there was fighting going on, so therefore the implication might well be that what you were thinking of was not of the Chinese-Japanese fighting but of the European war.
- H.M.Jr: That doesn't make any difference.
- White: I still think you ought to go before the committee, but I doubt in my mind whether you ought to go before Congress.
- Foley: Well, you can't go before Congress.
- White: I thought the Secretary said he was going before Congress. Maybe I misunderstood him.
- Foley: Well, I think that he meant only the committees.
- H.M.Jr: Well, - "Townsend: Does the Treasury construe its authority under the stabilization fund to include the power to deal with wartime problems of international exchange precisely as with peacetime exchange without further instructions from the Congress?"
- White: Yes, but you don't say no. I think you dodge

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that question, and in any case you aren't now dealing with it precisely as --

- H.M.Jr: But this thing, you know I asked you once before. You looked through it before and you couldn't find anything that time. You used to argue with me about this.
- White: I have said that there is never any reason why you should undertake stabilization operations with either China or Japan.
- Bell: Didn't you look through it on South America?
- White: Chile was the question.
- Cochran: The twenty million dollar arrangement you have for purchasing yuan expires at the end of December. There might be some possibility of working in a new arrangement there. I suppose this would be one without collateral.
- White: Well, it would have - no, you might be able to work something.
- H.M.Jr: Just a second, gentlemen. Let me just read this. Here is the final thing which just clinches this thing. There are two places here. Just reading it casually - I know when the President wants something, he wants it. Here is the one. It is in my letter to Vandenberg. (See attached copy)
- White: Letter to Vandenberg?
- H.M.Jr: Yes. Vandenberg writes me, "I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement

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under which we continue to operate in conjunction with England and France or any other foreign countries."

"When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

"'Suppose there is a foreign war and suppose you go out and do what you can to buy two billion dollars worth of pounds: Isn't the effect of that to give England the power to buy two billion dollars worth of goods in this country under the cash-and-carry provisions?'"

Then I say, "I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"'Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance.'"

White: I say we are committed to that.

H.M.Jr: That covers the whole thing.

White: I think that one statement --

H.M.Jr: No use going through the whole thing.

White: And that letter has better status, anyway, than oral statements before the committee, because it refers back to another reference.

H.M.Jr: Speak out loud, Bernie, I can't hear you.

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Bernstein: I didn't think you said that in the letter.

H.M.Jr: All this whispering - either talk so I can hear, or not.

(Miss Chauncey entered the conference)

Get me these two letters, please: Morgenthau, dated October 24, to Honorable Arthur Vandenberg. That is 1939. Also Senator Vandenberg's letter to me, October 17, 1939. Get those two, will you? And hurry.

What is it, Bernie?

Bernstein: I thought the statements could be made orally. I don't know whether it is much different whether it is oral or in writing.

H.M.Jr: But this goes back to my conversation where I reaffirm it. Senator Taft asks me and I repeat in my answer. It is much better to have the two letters and show them to the President. I have got to ask to come up to this committee for guidance.

White: I think there is no way out. Your honor is at stake on that matter of coming to them for guidance. It is not a legal question. It is a question of a promise that you made, and you might not take their guidance. After you have presented it to them, you can act accordingly, but I think you are morally committed to come before those committees and state your case, as a personal matter.

H.M.Jr: I can't do it any other way.

Cochran: No, it is such a departure from your practice with the fund that you should.

White: And it is up to the President to get that

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committee to acquiesce, although you can act without their acquiescence. I don't know that you are committed to taking this guidance. I don't know what the status of that is, but you are certainly committed to talk to them about it.

Bell: If you ask their guidance, are you going to ask it and then ignore it?

White: It is quite possible. The responsibilities of the Secretary are not theirs.

Aside from that one point, if there are any funds to be extended, there are ways of partially protecting it and there are other funds available which if, let us say, 50 million dollars were made here, that thing could be made to 100 million dollars or 150 million, using funds which they promise they would ship in, the Chinese banks.

H.M.Jr: Well, look, I can't do this in 24 hours. I can't get - no committee is going - I can't get this committee.

Bell: They are not in town. They can't get a full committee. You might get the chairmen. A lot of these people have gone home.

White: Well, you might announce - this is a possibility. You might announce that you are going to undertake stabilization operations. Now, the terms and the conditions, which don't have to be announced, can be such that in effect there will be no risk unless and until the committee - so that you could get the effect. There is no sense - they don't need the money right away, anyway, Mr. Secretary.

H.M.Jr: Now, wait a minute. Why can't Jones do this

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thing? Why does he sit there and tell the President, "Why don't you call up Morgenthau and get him to chip in 50 million?"

- Bell: This is probably a fifty-fifty proposition with Jones, the same way as the Argentine.
- White: I think there is a substantial difference between the stabilization operation and their loan and I don't think they serve the same purpose, and I think that particularly if they are going to chip in fifty I think that you can so arrange the stabilization that there is very little risk, very little risk, that the risk will be borne by him, not by the stabilization fund.
- Bernstein: Merle, were the original terms of the Chinese loan 50 million, rather than 20 million, to which it is now reduced?
- Cochran: I don't recall.
- Bernstein: If it were 50 million, could you simply announce that you were prepared to extend that loan - the outstanding stabilization arrangement of 50 million dollars, and as Harry says, you don't have to announce the terms, and then when you rearrange your terms perhaps you can eliminate the gold provision.
- White: You can either fix the terms so that you can be a substantial help, or you can fix the terms so that all it amounts to is publicity, without any actual content. It doesn't require any action now.
- H.M.Jr: What you fellows are saying doesn't make sense to me, because I don't know what you are talking about.

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White: I mean you could make an announcement that you were going to extend the stabilization loan or undertake stabilization agreements. I wouldn't say stabilization loan. And if you don't mention the terms and the conditions now, but leave that for subsequent decision on your part, you can later decide upon such terms and such conditions that will yield no risk or loss.

H.M.Jr: Well, let me just - let me do a little questioning, will you, so I can get this thing in my own way? Isn't that a 50 million dollar loan now?

Cochran: It is twenty. They have borrowed twenty from us.

H.M.Jr: I thought it was a 50 million dollar loan.

White: It originally was more than that. They have paid part of that back.

H.M.Jr: Wasn't it a 50 million dollar loan?

White: It was almost. I think it was 47.

Cochran: I will have to check up on that.

Foley: Can't you reinstate that?

H.M.Jr: That is what Merle was saying.

Foley: Let's find out.

Cochran: Let me find out.

H.M.Jr: Go find out.

Cochran: Because it expires, you see, and we have to fix it up by the 15th.

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H.M.Jr: Of what?

Cochran: Of December.

H.M.Jr: If that could just be extended --

Foley: It was outstanding at the time you appeared before the committees, and this statement of yours could apply to future operations and not to operations that have been made before.

White: If they collateralize that with gold and silver, they haven't got that now, but they may have the other things that they may be able to collateralize the --

Bell: You can change the collateral.

White: You can change the collateral, possibly, so if they have got 20 million collateral that can go against the 50 - but my point is that when it comes to the actual use of those funds, you can hedge it in so that you aren't taking any risk.

H.M.Jr: No, but you have got this statement in this letter from Vandenberg. I have got to cross that thing and I am not going to go around the block about it. I have got to do it.

(Miss Chauncey reentered the conference)

Look, Miss Chauncey --

Chauncey: Give you a copy of that?

H.M.Jr: How long will it take you to give me a copy? Is that Vandenberg's letter to me?

Chauncey: That is your letter to Vandenberg. Maybe

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I can get a copy from Mr. Foley's office.

Bell: Not that one, I don't think.

H.M.Jr: That isn't the part I want.

Chauncey: Here is the incoming.

H.M.Jr: This isn't the right letter.

Bell: That is the gold letter, isn't it?

H.M.Jr: This isn't Miss Chauncey's fault. The person who has done the reference is wrong.

Bell: That is the gold letter.

H.M.Jr: Letter from Secretary Morgenthau dated October 21. Well, whoever did this is wrong. I mean, they have done - whoever did this reference work here is --

White: Your (Bell's) batch contains the letters.

H.M.Jr: Who did this work?

White: It is either the stenographer's fault or the typists's fault or the man who copied it, but I gave him the original batch of the letters so he can have the letter from which that was excerpted.

H.M.Jr: It is the answer to this letter.

Chauncey: That is right.

H.M.Jr: Yes, but this is - where is the answer to it?

Chauncey: This is your answer, right here.

H.M.Jr: No.

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- Chauncey: You are replying to Senator Vandenberg.
- H.M.Jr: Yes, but look, Miss Chauncey, then we go on here. This is an extract from it that has to do with the stabilization.
- Here it is; it is here. It is all right. I have got it. Now, what I want is a copy of my letter to Vandenberg and Vandenberg's letter to me. I want this and I want a copy - maybe it is here.
- What are they looking for now?
- Foley: They are getting the information in regard to the stabilization loan to China, when it was made and the terms.
- White: I think both committees might acquiesce, but if you are going to bring it before the committee, I would like to prepare the kind of plan you are going to show them. There wouldn't be a great deal of risk.
- H.M.Jr: That goes without saying.
- Foley: Well, if the chairman would assume the responsibility --
- White: Could he?
- Foley: Yes.
- White: Chairman of the minority committee?
- Foley: Yes.
- Cochran: Yes, that was up to 50 million dollars. Then they paid back some of it. They have reduced it down to 20 million. The original agreement was for 20, and then they increased it to 50, and now it is down to 20 again.

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- H.M.Jr: Well, is the original for 50?
- Cochran: No, the original was for 20 and then they increased it to 50 and they went up as high as 48, utilizing that. Now they have reduced it down by repayments to 20.
- H.M.Jr: I mean, have they got, so to speak - have we got an agreement with them? Have we ever cancelled the 30 million outstanding?
- Cochran: I would have to look through this whole thing.
- Bernstein: The agreement is for 50 million and that has been extended from time to time, but as Merle says, they only took up to 20 if their present commitments --
- H.M.Jr: Could they come in tomorrow and say, "We would like to have the balance of the 30"?
- Bernstein: Sure.
- White: They left the gold for collateral for that amount.
- H.M.Jr: Is the gold here?
- White: Twenty million of it. It is all covered. It really isn't a loan. They have covered with gold for the value of the loan now. You described that operation specifically before the Senate committee. That operation was described in detail, that kind of operation. It isn't quite the kind of operation which is contemplated now.
- Foley: It is a revolving fund, Mr. Secretary. It says the total amount purchased by them and standing to their credit on our books.
- Bell: It shall not exceed fifty.

(Telephone conversation with Jesse Jones follows:)

November 29, 1940
12:15 p.m.

Jesse
Jones: Hello, Henry.

H.M.Jr: Are you just back from the White House?

J: Just back. How are you?

H.M.Jr: I'm all right. How are you?

J: Oh, I'm pretty good. Been romped on a little bit.

H.M.Jr: What?

J: I got romped on a little bit.

H.M.Jr: Romped on?

J: Yeah.

H.M.Jr: How much?

J: I couldn't tell whether it was 10, or 25, or 50 or 100 or a billion. Different figures - different amounts.

H.M.Jr: Well, I don't know just - are you alone?

J: Yeah.

H.M.Jr: Here's my situation. Of course, you were there when the President was talking to me. I've got a letter that I wrote to Arthur Vandenburg. See? In which I - I won't read the whole letter - but I simply say this - I say: "I'd like to reaffirm the position that I took at that time". That was before I appeared before Senator Taft. I say, "Senators, if there is a war in any foreign country, before we would use the Stabilization Fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper Committee and ask for guidance." Now, that's pretty plain isn't it?

J: Why don't you do that? Who is your Committee, Henry?

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- H.M.Jr: Well, it's Banking and Currency in the Senate and Weights, Coinage, and Measures in the House. Now, I can't make any commitment before - I've given my word I'll ask for guidance. You wouldn't, would you?
- J: No, I certainly wouldn't, but I would go see the Committee.
- H.M.Jr: Oh, I'm perfectly willing.
- J: Yeah, I'd do that.
- H.M.Jr: But I can't do that between now and tonight.
- J: Well, no, I don't think you could possibly.
- H.M.Jr: Can't even locate Wagner. I've been trying to locate him ever since the President called me, but how are you fixed on your borrowing power.
- J: Well, what I have told Soong - Cordell wanted us to get up a minimum of \$100,000
- H.M.Jr: \$100 million.
- J: \$100 million, and I had Soong down and I told him I didn't see how we could go beyond another 25. That would be 100 total for the bank.
- H.M.Jr: You've already given them 50.
- J: We've already given them 75 - 70 maybe, and so I suppose we could work around and commit a little bigger crime and make it 50 if that is absolutely necessary and it seems to be pretty necessary because they're saying they are going to send these ships and things all of which is a good big move and so
- H.M.Jr: Well, I tell you, I'm certainly going to bring it up at Cabinet and I'm going to read this letter. I'll cheerfully go before the Committee and ask for guidance and I'm perfectly willing to recommend it but I can't do this until I get a chance to appear before the Committee.
- J: Well, I think you can get that Monday.

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H.M.Jr: Oh, sure, if they'll come to town.

J: Yeah. I think there ought to be enough of them come - I would think.

H.M.Jr: Well, we need some Republicans.

J: That's right. Poor John Townsend - he's always pretty cooperative and he's just had a very serious - loss of his son. But anyway

H.M.Jr: Well, I'm going to bring it up.

J: O.K. Anything you want me to do you let me know.

H.M.Jr: Yeah. But I don't see that there is any - I told the President I'd ask you to come - get together with you, me and Soong, but I don't see any sense in it until I get before the Committee, do you?

J: No, I don't think so. Anyway I saw Soong day before yesterday and he is coming back here about - I told him to see what he could work out on a basis of 25 and when he comes back why - that'll be the first part of the week, I suppose, or it might be before. But whatever tack you want me to take why let me know and I'll try to do it.

H.M.Jr: Well, that's fair enough. Well, I tell you, I'm going to try to get these Committees and I'll see you at 2.

J: O. K.

H.M.Jr: Thank you.

J: Thank you.

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H.M.Jr: Well, I think the thing to do, gentlemen,
is this.

(Telephone conversations with Tom K. Smith
and Senator Wagner's secretary follow:)

November 29, 1940
12:20 p.m.

Tom
Smith: Henry?

H.M.Jr: Yeah.

S: This is Tom Smith. How are you, Henry?

H.M.Jr: I'm all right.

S: Henry, I wanted to see you a moment and I thought if you had a moment tomorrow morning I'd come down to Washington.

H.M.Jr: I can't do it Tom.

S: Can't do it.

H.M.Jr: No, I'm all tied up tomorrow. What's on your mind?

S: Well, here is the point. I didn't want to talk to you about it over the telephone but I'll have to. My son has applied for a commission in the Ordnance and he's been recommended by the local area and I understand that there are so many applications in there that unless some interest is taken in it they never get anywhere. I wondered if you could help me out on it.

H.M.Jr: An application for what?

S: Second Lieutenant in the Ordnance Department, in the Ordnance Corps.

H.M.Jr: Well, I tell you what let me do, Tom.

S: What did you say?

H.M.Jr: Let me switch you on to McKay and he can make notes of the son's name and all the rest of that, you see, and then I don't know whether I can do anything but I'll take a look at it.

S: Well, I'll give it to McKay then.

H.M.Jr: Just a second.

S: All right. I hope you can, Henry.

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H.M.Jr: I'd see you any time but I just can't do it tomorrow.

S: I see.

H.M.Jr: Just a minute. Hello.

Operator: Operator.

H.M.Jr: Give Mr. Smith to Mr. McKay please.

O: All right.

November 29, 1940
12:23 p.m.

H.M.Jr: Hello.

Sen. Wagner's
Secretary: Yes.

H.M.Jr: Miss Ruppert, Henry Morgenthau.

Miss
Ruppert: Yes, Mr. Secretary.

H.M.Jr: I wonder if you can help me out. The President has asked me to make a Stabilization loan to the Chinese Government. When I appeared before the Finance Committee - Banking and Currency - during the course - I said to Senator Taft that before I would make any loan to any country that was at war, I would come up and ask for guidance. See?

R: Come up and do what?

H.M.Jr: Ask for guidance. Then I followed it up and confirmed that in a letter to Senator Vandenburg.

R: Yeah.

H.M.Jr: Now, inasmuch as this is up and the President wants action, I wondered if I can't get possibly a joint meeting between both Banking and Currency and Weights, Coinage and Measures in the House and let me appear before both of them or as many of them as can come on Monday.

R: You want that meeting arranged Monday.

H.M.Jr: Yeah.

R: You want to get a joint meeting of the Banking and Currency and Wages

H.M.Jr: Weights, Coinage and Measures.

R:, and Coinages of the House. Did the Senator reach you?

H.M.Jr: You mean in the last half hour?

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R: Yes, in the last half hour.

H.M.Jr: No, I've been trying to

R: Well, I gave him your message - District 2626. Now, he was just about to go into the Senate. I'm going to have him call you again. He probably tried to reach you but maybe your line was busy.

H.M.Jr: No, no, no.

R: He didn't try?

H.M.Jr: No.

R: Well, he's got the message and I'll call him back and see - but this is really what you want - you want a joint meeting and you want to appear before that meeting to present to them the plan for making a loan to the Chinese Government.

H.M.Jr: That's right. Out of the Stabilization Fund.

R: Yeah. All right. I'll call you back as soon as I can reach him.

H.M.Jr: Right. Hello.

12:25 p.m.

H.M.Jr: Hello, Miss Ruppert.

R: Yes.

H.M.Jr: If this is going to be held, I just wanted to tell you that I want it kept confidential.

R: Yeah. Well, what I had intended to do - I'm trying to reach the Senator now - to get him and talk to him.

H.M.Jr: Right, but I just - it was stupid of me not to say it in the first place, because this is a highly confidential matter.

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R: Well, I'm not mentioning it to anybody except the Senator and I'll say to him that this is very confidential.

H.M.Jr: Yeah, it's dynamite.

R: Right.

H.M.Jr: T.N.T.

R: I understand.

H.M.Jr: O. K.

R: Thank you.

November 29, 1940
12:55 p.m.

H.M.Jr: Hello.

Senator Wagner: Hello.

H.M.Jr: Hello, Bob.

W: Hello, Henry.

H.M.Jr: It never rains but what it pours.

W: What's the trouble?

H.M.Jr: Well, strictly in confidence, the President called me up this morning and he said it is very important that Jesse Jones and I together make a loan to the Chinese and he wants me to make a Stabilization loan out of the Stabilization Fund.

W: Yeah.

H.M.Jr: Well, in going through my correspondence I find that I wrote a letter to Speaker Bankhead and one to Arthur Vandenburg in which I said I would not make any loan out of this Fund to any country at war without coming before the Committee and asking for their guidance.

W: Yes.

H.M.Jr: Now, China may not have declared war on Japan or vice versa, but she is certainly at war, isn't she?

W: Oh, I suppose so. I don't know as anybody would raise any question.

H.M.Jr: And the thing that I had in mind was that if you and Somers would call a meeting Monday I'd appear before them and ask them for guidance.

W: Yeah, if I can get anybody here. You know there are only a few fellows here now but I'll do it, Henry.

H.M.Jr: Well, you think in view

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- W: Well, you wrote to Vandenberg - I don't think the Committee would - you didn't say anything that you would - oh, you said you would come before the Committee.
- H.M.Jr: Just a minute and I'll tell you exactly what I said. In a letter I said, "I want to reaffirm" - it was in answer to a question originally from Taft. You see?
- W: Yeah.
- H.M.Jr: I said: "Senators, if there is a war in any foreign country, before we would use the Stabilization Fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper Committee and ask for guidance."
- W: Yeah. Well, do you think you ought to try and have a meeting - call a meeting for Monday?
- H.M.Jr: Well, I'd like it - the President wanted me to do it in twenty-four hours but I wanted
- W: Well, hell, I haven't got anybody here.
- H.M.Jr: No, but I wanted to tell him that I could do it Monday morning or Monday afternoon.
- W: Yeah.
- H.M.Jr: Now, I got in touch with
- W: I tell you, Henry, what I could do - let me try in the next hour to find out how many members - I'm sure there aren't more than three or four out of the nineteen that are here. That wouldn't be quite enough, do you think so?
- H.M.Jr: I don't think so in view of
- W: And I can understand your position - having said that you've got to keep straight with Congress.
- H.M.Jr: Well, after all, the only thing I've got is my word
- W: Yeah, that's right

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H.M.Jr: and that's the most valuable

W: I think it is very important.

H.M.Jr: And you see Taft asked me, then Vandenberg went after me and I made all of this correspondence. What I've read to you I gave out to the newspapers, at the time.

W: Yeah. Well, must it be done so soon?

H.M.Jr: According to the President, yes.

W: Well, I tell you what I shall try to do - today is Friday. I can send some telegrams to the absent members and ask them to be at a Committee meeting on Monday morning to hear the Secretary of the Treasury. How would that be?

H.M.Jr: On a confidential matter.

W: Yeah, on a confidential matter, and see how much response I can get.

H.M.Jr: Well, and I'll appear before whoever is there.

W: Yeah. Tuesday, of course, would give them a little more time, but you think that would be too late.

H.M.Jr: Well, the way the President is talking, I'd rather have it Monday.

W: Oh, all right, Henry.

H.M.Jr: And the way I feel about it is we've given them notice. You and I keep faith with them. If they don't show up well

W: Yeah. That's all right, that isn't your fault.

H.M.Jr: That isn't my fault. And Somers office is waiting to be advised by you what you'd like to do and he'll do whatever you do.

W: Well, I'll call a meeting for Monday.

H.M.Jr: It'd be a joint meeting.

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W: Well, I don't know about a joint meeting.

H.M.Jr: Well, I don't want to appear twice - once before

W: Yeah.

H.M.Jr: Why can't it be a joint meeting?

W: Well, except that I - you know those boys over there are their own masters and

H.M.Jr: Well, Somers is

W: What Committee over there was it - Banking?

H.M.Jr: No, it's Weights, Coinage, and Measures, and Somers is willing to do it.

W: Oh, Somers! The Judiciary, is it?

H.M.Jr: No, Somers of Brooklyn.

W: Oh, it was his Committee. I see. Oh, yes.

H.M.Jr: And he's willing to come to any place that you designate.

W: All right. Well, that's fine.

H.M.Jr: No, it's Somers of Brooklyn.

W: Oh, I see, it's that Committee. I was thinking of Banking and Currency.

H.M.Jr: It's not Steagall.

W: All right.

H.M.Jr: And Somers will come and call his meeting at any place that you say. Don't you think it's easier than to have to do the damn thing twice?

W: Oh, yes. Yes, well, I was thinking of Henry Steagall.

H.M.Jr: No, no.

W: Terrible man to handle.

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H.M.Jr: No, Somers is a nice fellow.

W: Oh, yes. I know him very well. Yes, I can work with him.

H.M.Jr: And his girl talked to him and said whatever you say, if you'll let her know, his secretary, she'll get out the word - whatever Senator Wegner wants - time and place.

W: All right.

H.M.Jr: Of a joint meeting and simply say a confidential matter.

W: Yeah. All right.

H.M.Jr: O. K.?

W: All right, Henry.

H.M.Jr: You saw the President?

W: I saw him. Yeah. Say, the General came after me. My God, you know, a little bluffing, but I didn't know how to get out of it. I said, oh, I was only fooling.

H.M.Jr: Well, you saw him, didn't you?

W: But I was on the level - yes, I talked to him and now what he said - he said, go right on with it. Well, I told him I was kind of working with you on the thing.

H.M.Jr: Good.

W: But he said, I don't see any objection to going into these money questions - we've got to know something about them, and of course, he said one thing which was true - he said, you know neither you nor I know an awful lot about this. I said that's true. (Laughs). All right.

H.M.Jr: Bob

W: Finally the General apologized in every way and said I got in the house whenever I wanted and

- 6 -

all that - you know.

H.M.Jr:

Yeah.

W:

Cheer up. Yeah.

H.M.Jr:

You'll let me know what time it will be.

W:

Well, I'll tell you know. It'll be 10:30 on Monday.

H.M.Jr:

10:30 Monday.

W:

And if I'm the only one there I can't help it.

H.M.Jr:

I can't either.

W:

Yeah. All right.

H.M.Jr:

All right.

W:

Good-bye.

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H.M.Jr: I think that is the thing to do, don't you?

Foley: Yes.

H.M.Jr: I am thinking when I go to Cabinet I will tell the President I have asked for this now, and he will just have to be patient until Monday.

Foley: "...shall not at one time exceed in the aggregate one hundred million dollars."
It does call for gold as collateral.

H.M.Jr: Ed, I don't want to see it. I will tell you why in a minute.

Suppose I worked out a way and said, "Well, we had an outstanding loan, and so forth." Vandenberg could just take it and tear me to pieces. Damn it, these fellows have given me this loan three times on the good faith in Henry Morgenthau, Jr. Even if I didn't hold my word as the highest thing I have got, it would still be stupid to do it, because I have got to go up again in June and that is all these fellows would need to take it away from me.

White: Each one of the years would be sufficient.

Foley: Well, I am merely showing you what you have got.

(Telephone conversation with Congressman Somers follows:)

see first page

November 29, 1940
12:27 p.m.

Operator: Miss Roche, Congressman Somers' secretary.

H.M.Jr: Hello.

Miss Roche: Yes, Mr. Secretary.

H.M.Jr: How-do-you-do. Miss Roche, I want to talk to you about a highly confidential matter which I'd like you to get to the Chairman.

A: Yes.

H.M.Jr: When I appeared before the Committee for the extension of the Stabilization Fund, I said before I would make any loan to any country which was at war, I would come up and ask for guidance.

R: Yes.

H.M.Jr: Now the President has asked us here to make a loan to the Chinese Government. I'd like to do it but I don't want to do it without doing what I said I would do. You see?

R: Yes.

H.M.Jr: Now, I've spoken to Senator Wagner's secretary and the suggestion I've made is that if possible Monday a joint meeting be held between Mr. Somers' Committee and Senator Wagner's Committee which I could appear before and explain what the loan is and carry out what I said I would - ask them for their guidance.

R: Yes.

H.M.Jr: Now do you suppose you could get that word to Mr. Somers?

R: Yes, I shall call him right away.

H.M.Jr: Will you? And have him get together with Senator Wagner on the possibility of arranging it, and possibly Monday.

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R: Yes.

H.M.Jr: And will you also stress that this is terribly confidential because if by any chance it were turned down, I mean, it would be very harmful.....

R: Yes.

H.M.Jr: to our whole position in the Far East.

R: Yes, I understand.

H.M.Jr: And you'll let me know.

R: Yes, I will.

H.M.Jr: And if for any reason you get word and I should be at Cabinet, would you speak to Mr. Bell, the Undersecretary?

R: Yes, I will.

H.M.Jr: Thank you.

R: All right. Thank you.

November 29, 1940
12:50 p.m.

H.M.Jr: Hello.

Operator: Miss Roche.

H.M.Jr: Hello, Miss Roche.

Miss Roche: Mr. Secretary, I have just called Mr. Somers on long distance and given him your message and he has given me instructions to call the Committee members and have them ready for a Committee meeting - Executive Committee meeting Monday morning and has asked me to get in touch with Senator Wagner and have him decide the hour and the place and the meeting. However, I didn't want to call the Senator's office without advice from you as to whom you had spoken to over there.

H.M.Jr: Yeah. Well, it's Miss Ruppert.

R: Miss Ruppert.

H.M.Jr: I couldn't locate the Senator. Miss Ruppert knows all about it.

R: Well, then I shall get in touch with her and leave the plans of the meeting up to her.

H.M.Jr: Do you know Miss Ruppert?

R: Yes, I do.

H.M.Jr: Good. Well, then if you'll talk to Miss Ruppert - I say, would you talk with Miss Ruppert.

R: Yes, only.

H.M.Jr: Only.

R: Yes.

H.M.Jr: Thank you.

R: All right, sir.

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- White: Ed doesn't disagree with that.
- Foley: I don't disagree with that at all. I just wanted him to know all the tools that he has.
- H.M.Jr: Well now --
- White: You speak of it as a loan, Mr. Secretary. I wonder in the light of what - if you may do it later, in the realities of the case anyhow, if you could refer to it as stabilization operations? It is not really wrong. We get yuan for it. If you are going to meet them Monday, I think we will have to concentrate on getting as comprehensive and specific and clear-cut a proposal between now and then as we can.
- H.M.Jr: She has got this thing mimeographed.
- White: Yes, we released the letters.
- Bernstein: You also have a letter to the Speaker. (See attached copy)
- H.M.Jr: Have I?
- Bernstein: Yes.
- H.M.Jr: What does it say?
- Bernstein: Same thing. You quote from your letters to the Senate.
- H.M.Jr: What do I say to the Speaker?
- Bernstein: You say - it is right here. On top of that is a letter to Congressman Somers.
- H.M.Jr: A letter to the Speaker would be ample. I can't keep getting - Harry, you and I argued

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about this once and you kept saying I never said I wouldn't make a loan.

Bell: I think it was on South America.

White: That was Chile. You said, and I said, it wouldn't apply to Chile.

H.M.Jr: Well, it doesn't apply to South American countries.

White: It doesn't apply to any country that is not at war. And you remember when the China case was up before, Mr. Secretary, and I recommended the loan, I said I also recommended that you first go before the committees.

H.M.Jr: I don't remember that, but I will take your word for it.

White: That would be a necessary step in the process if you thought you wanted to do that.

H.M.Jr: Miss Chauncey, if I could have this by five minutes of two. This is from Bernstein's files. You may be able to find it in our own. This is my letter from Speaker Bankhead. I want that copied.

This is a nice job I have as Secretary of the Treasury!

White: 24-hour policy.

H.M.Jr: Why does anybody want it?

Foley: Plenty do.

H.M.Jr: As I told Fleet --

White: There is a waiting line from here up to Johnny Hanes.

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H.M.Jr: Major Fleet was in, thanking me for everything, and so forth, and I said, "Major, I am sore at you." "Why?" I said, "Because everybody you meet in the Treasury you have offered a job to, except me." He had no answer, did he?

Foley: No.

White: He was pretty nice to the Commandant out there. Maybe he was offering him a job.

H.M.Jr: He offered Foley \$30,000 a year, didn't he?

I am not going to help anybody get any commissions (referring to Tom K. Smith, Jr.).

White: He can get a commission on his own merit. Is that what he wanted, or to get put in the Ordnance?

H.M.Jr: Put in the Ordnance.

White: Then he has no commission.

H.M.Jr: He has applied for a second lieutenancy. He has been drafted, you see.

White: Maybe you can get him a commission in the infantry.

Foley: This was a New York Times headline last time.

H.M.Jr: Who said that?

Foley: You did.

H.M.Jr: What did I say?

Foley: It is right here (indicating newspaper clipping). (Laughter) That is what I say, who is at war?

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White: Mr. Secretary, you didn't tell him to tell that to Knox, did you?

H.M.Jr: What?

White: What you just said about that commission? I mean, for Smith.

H.M.Jr: Oh, no.

White: I was afraid for a moment you sent the message back that way. Excuse me.

H.M.Jr: I don't see what else there is we can do right now. I will simply go to Cabinet with these two documents, that is all, and simply say to the President, "I have gotten busy and I have asked them for a chance to appear before them and I have got to carry this thing out."

Foley: Don't you think we could go ahead and set this up the best way we can?

H.M.Jr: Oh, sure.

Bell: It may be that when we find that you have got to go to Congress - when the President finds that, that he would rather get it through some other means. You don't think there is a chance?

H.M.Jr: What?

White: It is the committee, not Congress.

H.M.Jr: I had a dream about it.

Bell: Is this another dream come true?

H.M.Jr: No, I said I had a dream about this. If I have to go to Congress, maybe we could put the screws on Jesse Jones. When we go up,

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I am going to ask Mr. Hull to go with me, or send somebody with me, to explain the necessity as a foreign policy.

Cochran: Let them decide whether they want the fund to be used for a political loan.

H.M.Jr: Let who?

Cochran: The committee up there.

White: We have been following their price movements. They are getting very bad and there are good economic reasons if there are no political reasons.

H.M.Jr: It is a loan of expediency.

Look, if I hadn't, in order to get this thing through, tied myself up this way, if you said to me, "Mr. Morgenthau, do you think it is worth a hundred million dollars to keep Chiang Kai-shek fighting?" You don't have to ask me that. Who the hell got through the first loan? I got through the first loan and I couldn't get it until Hull was out of the way down to Lima. There is no question of how I feel about the thing, but these fellows up in Congress believe me, and when I say that I won't make this kind of a loan without asking them for their guidance, they take me at my word and that is what my whole standing in town is based on and I am not going to dodge around that. I don't think any of you would recommend it.

White: There is no reluctance on your part to go before the committees?

H.M.Jr: None whatsoever. I never had any reluctance on this thing.

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Bernstein: If Mr. Hull insists that there is no state of war existing in any sense and is prepared to take the responsibility for the statement that no war exists, they will put the question to you under those circumstances, and you still feel committed to go up to the Hill? Supposing that question was put to you in Cabinet?

H.M.Jr: That what?

Foley: That there is not a war.

H.M.Jr: I still feel I have to go up.

White: You do?

H.M.Jr: Sure.

Bell: There is a lot of fighting going on.

White: Sure.

H.M.Jr: I mean that again is a technicality and I am going to say, "Leave everything else aside, Mr. President. If you want this thing extended and - don't ask me to do this thing without appearing, and the die is cast. I have asked for the meetings anyway."

White: I think you are committed to it. I think you should. You can't slide out of it. And I think they will give it. They will give you guidance.

H.M.Jr: Well, there is nobody here who has the slightest doubt that I should go up before Congress and carry out what I said, is there?

Bell: No, sir.

- White: Before the committees.
- H.M.Jr: Yes. And I have asked for it jointly. Don't you think that is the way to do it?
- White: I think so, because Congress will talk less than would the Senators probably.
- H.M.Jr: Well, it saves time. What is the use of doing it twice?
- Foley: It is a matter of expediency if you can do it all at once.
- White: They will have to communicate that by telephone to the various Congressmen. If that doesn't leak out and probably - it will be very difficult. I don't know what the effect will be if it does leak out.
- H.M.Jr: Well, if it leaks out, it is all right. I personally would say that the chances are three out of four I can get it.
- White: I think so.
- Foley: Well, I wouldn't put it on that basis. I would say, "Gentlemen, this is what I propose to do. And when I was here I said before that if I had anything of that kind I would come down and lay the matter before the committee."
- H.M.Jr: Now --
- Foley: "And I want you to know what I am doing."
- H.M.Jr: Now, what I think a good way to do it when we go up is to say, "Gentlemen, this is the position. We have got an outstanding commitment of 50 million dollars and they

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have got 20 million of collateral up. Now, what I am proposing to do is lend them another 50 million, but we will keep the 20 million against the whole 70, plus the yuan, whatever they put up.

White: Or you will agree to undertake those operations over a period of time. Don't you think it would be helpful, Mr. Secretary, if before you went up there you had at least explained the matters and got the leaders to support you there, so they will understand it before you go there?

H.M.Jr: Oh, yes. I have got to understand it myself and I want to get the one that sounds the best.

White: We will have that.

H.M.Jr: Jesse Jones - Export-Import has already loaned them 75.

White: Seven of which - yes. 30, 25 and 20.

H.M.Jr: And the 25 which you heard about from Soong is --

White: This last 25 that he is talking about.

H.M.Jr: Yes.

White: Well now, that could protect - that is why I say you can so arrange this loan that if you use the 20 million in gold and if you let the Export-Import Bank take the impact, the thing can be undertaken at little risk.

H.M.Jr: My loan is going to be to the Central Bank of China, anyway, isn't it?

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White: Guaranteed by the Government, and it will be an arrangement to buy yuan if and when and as needed, so it is not alone and they may not get any of it. Besides, if you make any such arrangement, they will be able to put up anywhere from 25 to 40 million of their own, so you can make - the sum can look like a very large amount before it comes to you.

H.M.Jr: Well, you fellows who work on this better get busy.

White: Yes. Fortunately, we did a lot of work on it a couple of months ago, so it won't take us very long.

What I would like to do is get together with the boys and prepare a plan and have it - today is Thursday.

Foley: Friday.

Bell: You have lost a day, Harry, some place.

H.M.Jr: Well, I guess that is all for now.

STATEMENTS MADE BY SECRETARY MORGENTHAU BEFORE COMMITTEES,
IN LETTERS, SPEECHES AND PRESS CONFERENCES, RELATING
TO THE USE TO BE MADE OF THE STABILIZATION FUND

Report of Secretary Morgenthau's Press Conference,
March 21, 1940, Pages 11-13, 15-16

I have never felt that the stabilization fund was designed to earn money. We have earned money and a lot of money, but I have never felt that that was the purpose of it and I still feel that the stabilization fund, as long as I am here and trustee of it, I am going to guard it with the last breath in my body against some unforeseen emergency. But to use up that money now when there is no emergency and no particular purpose would seem to me unwise. That is there for some national crisis or emergency which I don't see today and I don't see it on the horizon, but it is there and in this crazy world the unforeseen and the impossible is happening every day and that money is there and I feel Congress did me the great honor to make me the trustee for that fund. I am still going to guard it carefully and not use it when there is no national emergency.

Q. Would you then, Mr. Secretary, have any objection in principal to Congress, which set up the trust fund, by its own initiative decreasing the size of the fund and turning it into the general fund for use for these other purposes?

A. I believe the most sensible thing is to leave the stabilization fund alone. Now it is there; we have guarded it; we have been fortunate enough to have it increased slightly and I repeat that in this crazy world the time may come where we may get down on our knees and be thankful for the fact that it is there against something I don't see now but which may happen. There is no need to use that instead to circumvent the debt limit or anything like that. After all, France held on to its gold — the Bank of France — until recently and they resisted all similar pressure to take the gold away from the Bank of France. It is there and I am sure they were very pleased that they had it there to use it at this time.

Extension of Stabilization Fund and Powers, etc.
Hearing before the Committee on Coinage, Weights, and Measures
House of Representatives — March 3, 1939, pages 40-41, 42, 43-43

MR. MORGENTHAU. Then this fund is not used to stabilize Federal securities so as to afford a better market for the Treasury issues?

SECRETARY MORGENTHAU. It has never been used for that purpose, and not only — I would like to see this opportunity to say — not

only has this fund not been used for that purpose, but we have scrupulously avoided, to use the market term, we have never attempted to "rig" the Government market because I have felt it was unwise. And we have never used any of our various trust funds other than to invest them as wisely as we thought possible. As you may know, we are custodians for some 69 different trust funds. In those funds we have three and one-half to four billion dollars' worth of securities. And I am very happy that those trust funds are worth more today than the time at which we bought the securities. But we have never gone into the market to support an issue and we have never attempted more than to stabilize the market, in that we try to buy when the Government bonds are down. We don't try to buy when they are at the highest. But we have been very, very careful, to use the market term, not to "rig" the market. And as long as I am Secretary of the Treasury I never will.

MR. ANDERSEN. Or has any of this \$200,000,000 been used to affect dollar exchange credit for any foreign power or group of individuals in other countries?

SECRETARY MORGENTHAU. No. What we try to do, sir, is as I say, the purpose of this fund is in order to keep the minimum of fluctuations in the dollar. And I think we have done it. So that the dollar today is, or ranks, as the most stable currency in the world. And all of our efforts are directed toward that end. I do not feel it is my duty to assist other countries to attain that end. But under the so-called Tripartite Agreement we do offer them certain technical machinery so that they can, with their own money, stabilize the dollar, the pound, the guilder, Swiss franc, or the Belgian franc, but always with their own money.

.....

MR. ANDERSEN. As I understand it, then, under no circumstances is any of this fund used to give aid directly to the British Government to stabilize their money or their pound sterling?

MR. BECKE. That money is not being used by the Treasury for that purpose.

MR. ANDERSEN. Yes. And we hear a good many remarks made about the activities of the Treasury and other agencies of the Government, and I want to ask you this: In connection with the stabilization fund, has any of the stabilization fund been used in any manner to finance a foreign government in the purchase of armaments or any other war supplies?

SECRETARY MONROETHAL. I can answer that under oath to that question No.

And I will answer further. As long as I am Secretary of the Treasury and as long as Congress gives me that responsibility, the answer is no. I answered yesterday to it before the Senate committee, and I would like the privilege of answering here again. If we ever become involved in any war, I would come to this committee, and to the committee before the Senate, and ask for guidance and directions as to how I should conduct myself in relation to the stabilization fund.

MR. ANDRESEN. Then this fund, from your answer, is to the effect that it is not used in any manner as part of the foreign policy of this Government with reference to supplying war supplies to any other country?

SECRETARY MONROETHAL. Mr. Congressman, under oath, it is not used that way, directly or indirectly.

MR. ANDRESEN. How long we turn just for a few questions with reference to the gold matter which is up before the committee.

SECRETARY MONROETHAL. May I --

MR. ANDRESEN. Yes.

SECRETARY MONROETHAL (continuing). Offer information, because I also read the newspapers?

MR. ANDRESEN. I am glad to have it.

SECRETARY MONROETHAL. In connection with the so-called French plan, the French are paying cash. The money is provided in their budget. They are using the same machinery as England is using, namely, they authorize the Bank of France to pay on presentation of certificates of the manufacturer to the Federal Reserve Bank of New York. The manufacturer of the planes will indicate on that certificate that he has finished so many planes. And the money is on deposit, or will be on deposit in the Federal Reserve Bank of New York, to meet those payments. And that is the exact manner in which England was buying planes here. And I would like also to add, if I may volunteer, in so far as the Johnson act is concerned, I am in hearty sympathy with the Johnson act. And as long as I am Secretary of the Treasury I will not permit any country that owes us one dollar to break in any way the law or the spirit of the Johnson act. And I will defend that just as long as I am there. There have been occasions when countries have attempted to circumvent the Johnson act and I have refused to let them do it.

Extension of Stabilization Fund and Powers. Etc.
Hearings Before the Committee on Finance, Education and Commerce
House of Representatives -- March 3, 1939. pages 77-78. 80

MR. REED. Mr. Secretary, last week when you were here, as I recall, you stated that in case of war, so far as the Administration's stabilization fund was concerned, you would feel it to be your duty to come to the Congress and ask advice and ideas as to how this fund should be administered.

SECRETARY MORGENTHAU. That is right.

MR. REED. I think that every member of this committee has confidence in your integrity and your good faith.

SECRETARY MORGENTHAU. I thank you for that statement.

Mr. Secretary, did I understand you to state to this committee on March 3 that the stabilization fund is never used to support foreign currency?

SECRETARY MORGENTHAU. I said that we do not use the stabilization fund to support foreign currencies.

MR. SMITH. The law provides that the fund shall be used for the stabilization of the exchange value of the dollar, does it not?

SECRETARY MORGENTHAU. That is correct.

DEVALUATION OF DOLLAR AND STABILIZATION FUND
Hearings before a Subcommittee of the Committee on Banking and Currency
United States Senate -- March 2, 1939. pages 17-18. 27-28. 32

SENATOR TOWNSEND. Weren't the yuan transactions, above referred to, the equivalent of loans to a foreign government for the purpose of stabilizing a foreign currency of minor world importance, rather than operations designed to stabilize the American dollar?

MR. LOCHHEAD. I could not put them just on that basis, sir.

SENATOR TOWNSEND. Well, will you please say what basis you would put them on?

SECRETARY MORGENTHAU. Well, I can answer that: We do not consider it anything formally loaned. I mean, the Chinese Government,

through their central bank, wishes to acquire dollar exchange and, in order to acquire this dollar exchange, they sell us a fixed amount of yuan; and in exchange for them, we give them a fixed amount of dollars. Now, in order to be sure that we are still protected, they not only put up the yuan as collateral, but they also put up, to at least 100 percent in gold, collateral equaling the amount of dollars finished.

In other words, if they bought a million dollars' worth of dollars, they would pay for them with a million dollars' worth of yuan, and they would put on deposit with the Federal Reserve of New York a million dollars' worth of yuan, plus a million dollars' worth of gold as collateral.

SENATOR TAFT. What is the use of the stabilization fund? If they have that gold, why do they go to New York to buy dollars, or buy dollars in China? Why is there any use of the stabilization fund?

SECRETARY MORGENTHAU. Well, the answer is that the Chinese Government evidently feels that it is a service that they need. It gives them dollars with which to buy our merchandise. If they could get it any other way, I take it, they would not come to us. We did not seek the business. But in their desire to get dollar exchange, in order to pay our merchants, they use this device.

And as far as we are concerned, you might say that the risk is nil. We have not only the 100 percent gold collateral but the full amount of the yuan.

SENATOR TAFT. But they could do the same thing if there were no stabilization fund? They perhaps would do it in a different way, but it would be a very simple thing to do, would it not?

SECRETARY MORGENTHAU. I do not know.

.....

SENATOR TOWNSEND. Mr. Secretary, Senator Vandenberg placed in the Congressional Record four questions which he said you were willing to answer. This is the first one of them:

Is the Government of the United States under agreement with the Governments of Great Britain and France to sustain the value of the French franc and the British pound in relation to the value of the American dollar?

SECRETARY MORGENTHAU. The answer to that question is "no".

SENATOR TOWNSEND (reading):

What is the nature and extent of this agreement, if any; and if any, is it summarily revocable in the event that any of these nations become involved in war?

You say there is none?

Are there any agreements of this same general nature with any other foreign governments?

SECRETARY MORGENTHAU. No, sir.

SENATOR TOWNSEND (reading):

Does the Treasury construe its authority under the Stabilization Fund Act to include the power to deal with wartime problems of international exchange precisely as with peacetime exchange without further instructions from the Congress?

SECRETARY MORGENTHAU. Well, the best way I can answer that question is this: In the Treasury, nobody is thinking of war.

SENATOR TOWNSEND. Thinking of war?

SECRETARY MORGENTHAU. Of war.

SENATOR GLASS: You had better be.

SENATOR TOWNSEND: Well, you are different from everybody else in the country, aren't you?

SECRETARY MORGENTHAU. Well, I mean that in our operations we are not making any plans for war — in the Treasury. And if there should be a war, I would certainly come before the proper committees and ask them for direction as to how we should conduct ourselves.

.....

SENATOR TAFT. There is a purely hypothetical question which I should like to ask you: Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country, under the cash-and-carry provisions?

SECRETARY MORGENTHAU. Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance.

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SENATOR TAFT. I have no doubt you would, perhaps. But nevertheless, the authority granted in this extension would give you power to do that, would it not, if you did choose to do so?

SECRETARY MORGENTHAU. To do what?

SENATOR TAFT. What I suggested: To buy pounds, and in effect, create an English credit here of \$2,000,000,000; and we would make up, in the end, and find ourselves with \$2,000,000,000 worth of pounds that were worth nothing? I am not asking whether you would do it. My question is whether that is not legally possible. Isn't that legally possible?

SECRETARY MORGENTHAU. Well, if I lost all sense or reason in the performance of my duty, I might do a lot of things.

SENATOR TAFT. In other words, it is legally possible?

SECRETARY MORGENTHAU. Well, a lot of things are legally possible, which you would not do under the rule of common sense.

STATEMENT OF SECRETARY MORGENTHAU BEFORE THE SUB-COMMITTEE OF MONETARY
POLICY, BANKING AND DEPOSIT INSURANCE OF THE SENATE COMMITTEE ON BANKING
AND CURRENCY, March 2, 1939, 10:30 A.M.

During these operations it is frequently necessary for the Stabilization Fund to acquire foreign currencies. The Fund attempts to carry out all such transactions with a minimum of risk. In the past, we have been successful in avoiding risk of exchange loss through special reciprocal arrangements between cooperating Treasuries under which foreign exchange is immediately convertible into gold at a price fixed each day. Incidentally, it should be pointed out that because we wish to avoid the possibility of an exchange loss we frequently forego the possibility of an exchange profit.

There are also occasions when the exchange rate between the dollar and the currency of a country with small gold holdings is subjected to pressure because of unfavorable political or economic developments. The Fund can be employed, and has occasionally been employed in such circumstances, to help stabilize the dollar exchange.

For example, our arrangement with China was just such an operation. There was strong pressure against the dollar-yuan exchange and China needed dollars in order to strengthen the dollar-yuan exchange rate, thus avoiding additional obstacles to our trade. To eliminate

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any risk of exchange loss, China agreed to repurchase the yuan at the same rate at which the United States purchased them and China's premises was backed by adequate gold and silver collateral, which was kept on deposit with Federal Reserve Banks.

An arrangement of like character was made with Brazil in 1927, but owing to subsequent developments the arrangement was not utilized.

A similar arrangement was made with Mexico. We purchased Mexican pesos and in exchange made dollars available. Again, as in the case of China, the Mexican Government agreed to repurchase the pesos at the price we paid for them and deposited adequate collateral with the Federal Reserve Banks.

Letter to Hon. William B. Bankhead, Speaker of the House -- Nov. 1, 1922

As is made clear by the above-quoted provision, the stabilization fund may lawfully purchase foreign exchange only for the purpose of stabilizing the exchange value of the dollar. It has been for this purpose and not for the purpose of supporting the currencies of any foreign country that the Fund has from time to time acquired foreign currencies. Furthermore, I should like to state that the stabilization fund is not acquiring any currencies of belligerent countries and is at present holding 745 pounds sterling (approximately \$2,980) and 3,652 French francs (approximately \$82) which were acquired long before the outbreak of the war.

Letter from Secretary Harman, dated October 24, to Honorable Arthur H. Vandenberg (Replying to Senator Vandenberg's letter of October 17, 1922.)

You write:

"I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries."

When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

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"Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?"

I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

The stabilization fund is not acquiring any currencies of belligerent countries and is holding only a trifling amount of foreign currencies of belligerent countries acquired long before the outbreak of the war.

I trust that this furnishes you with the information you requested.

OG:ash
11/25/40

UNITED STATES SENATE
Committee on Finance

October 17, 1929.

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

My dear Mr. Secretary:

I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries.

I should also appreciate your viewpoint on another phase of this problem. I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned? If we put our foreign trade with belligerents on a strict "cash and carry" basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply? Would this not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our enormous gold hoard? Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?

I am not asserting any pre-conceived judgments of my own in submitting these questions to you. I am simply seeking information from authentic sources and I shall greatly appreciate a reply within the next few days.

With warm personal regards and best wishes,

Cordially and faithfully,

(Signed) A. H. VANORBERG

October 24, 1939.

My dear Senator:

I should like to answer in some detail the questions in your letter of October 17, so as to clarify certain aspects of problems relating to gold.

You write:

"I assume that you are continuing to purchase at \$35 an ounce, all foreign gold that is offered. In view of depreciated foreign currencies, is not this equivalent to paying considerably more than \$35 an ounce so far as the foreign seller is concerned?"

I am uncertain what you mean by this question. It is subject to several different interpretations and to make certain that you obtain the information you ask I will endeavor to answer each of them separately.

1. Does the question ask whether the foreign seller of gold receives more purchasing power over goods and services here than he did prior to depreciation? If that is the sense of your question then the answer is "No". The \$35 per ounce (less 1/4 of 1 percent) which the foreign seller of gold receives probably represents less and certainly not more purchasing power in terms of goods and services in this country than it did before the depreciation of currencies in recent months. Such purchasing power of \$35 in the United States varies, of course, with changes in prices of goods and services in the United States. Since most goods and services that can be purchased here by a resident of a foreign country have risen in price during the past two months, it follows that the foreign seller of gold probably gets less goods and services for his \$35 now than he did a few months ago.

2. Does the question ask whether the foreigner can get more units of his own currency for gold by selling it in the United States than by selling it in his own country? If this is the sense of your question, again the answer is "No". We pay no higher price for gold (allowing for commissions, handling charges, etc.) than other countries do. After a foreign seller of gold converts the dollars he obtains for his gold into sterling, for example, he finds that he has approximately

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the same amount of money as he would have had if he had sold that gold in London. (For a further explanation of this I refer you to pages 7, 8 and 9 of my letter to Senator Wagner, dated March 22, 1939, a copy of which is enclosed for your convenience.)

3. Does the question ask whether the foreign seller of gold gets more units of his local currency for his gold now than he did before the depreciation of his currency? If this is the sense of the question, the answer is clearly "Yes". That is exactly what depreciation of a currency in terms of gold means, namely, that each unit of a depreciated currency is exchangeable for less gold.

4. Does the question ask whether the greater number of units of the depreciated currency which the foreign seller obtains for his gold can purchase more goods and services at home than could the smaller number of units he obtained for his gold before depreciation? The answer to this question is "Probably yes". Prices in the country of a depreciated currency do not usually rise as much as the currency depreciates for a considerable period of time, if at all. During that period the holder or producer of gold will get more local goods and services for an ounce of gold than he did before. But he gets more goods only if he buys goods at home; furthermore, he gets more goods for an ounce of gold not because he continues to pay \$35 an ounce for gold, but because his own country gives more units of its currency for an ounce of gold.

When taken in the context of your whole letter one further possible interpretation of your question suggests itself. You may be asking whether the recent depreciation of foreign currencies will of itself lead to an increased inflow of gold. If this is the sense of your question, the answer is "Probably no". It is, of course, impossible to foretell at this time the total effect of a Europe at war upon our balance of payments. The specific effect of the recent depreciations of foreign currencies, however, would clearly seem to operate in the direction of a reduction in gold offerings. Depreciation of foreign currencies vis-a-vis the dollar means that American goods and services are less attractive to the foreigner because he must give more of his own currency in exchange for a dollar's worth of merchandise than formerly. In other words, the depreciation of foreign currencies is a factor which operates in the direction of reducing our exports to and increasing our imports from the countries involved. Thus the effect of the change will tend to reduce our favorable balance of trade and consequently such inflow of gold as may be attributable to our export surplus. It is true that price changes may in time offset the effect on the relative attractiveness of foreign and American goods initiated by the depreciation of foreign currencies. But even in normal times this adjustment usually does not take place for some time.

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You ask the further question:

"If we put our foreign trade with belligerents on a strict 'cash and carry' basis, will it not be likely to substantially increase this inflow of foreign gold - perhaps to so dangerous an extent that we finally shall practically monopolize the world's gold supply?"

The prohibition of credits to belligerent governments may possibly have the effect of reducing our exports to belligerent countries. This might in turn reduce the value of our total exports compared with what our exports would be were the prohibition not included in the Neutrality Act. Were the belligerent governments to purchase some of their imports from the United States on credit, a portion of the payments due us might be postponed. However, whether this postponement would result even in a temporary reduction in the inflow of gold cannot be forecast because:

(1) It is not known what proportion of the dollars used for payments would be acquired from the sale to us of gold, and what proportion would be acquired from other sources.

(2) It is not known whether an extension of credits to belligerents would result in greater purchases from the United States or whether there would simply be a substitution of some credit purchases for cash purchases. Only in the latter instance would it be possible for part of the inflow of gold to the United States to be postponed. In the former case it would mean that the gold inflow would be the same over the short period of time and would be greater at some subsequent time when credits were liquidated.

You ask this further question with respect to gold:

"Would this (increased inflow of gold) not seriously threaten the world's subsequent return to the use of monetary gold - and thus relatively threaten the ultimate value of our own enormous gold hoard?"

This war demonstrates, if any demonstration were needed, that gold constitutes the best form in which foreign exchange resources can be held. Even under the most difficult conditions of war, belligerent governments which possess gold can buy with it anything that is for sale.

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The new situation in world trade brought about by the war in Europe will, of course, introduce some changes in the distribution of gold among the nations of the world. Belligerent countries will probably lose gold, but numerous neutral countries, which now have little gold, may be put in a position to increase their holdings as a result of improvements in their trade balances. As a consequence, the war may well have the effect of causing a wider distribution of gold among the countries of the world. Such an increase in gold holdings by many countries would give more countries a stake in the continuation of gold as a medium of international payments. The gold producing countries, of course — including the British Empire, which now produces half the world's gold — will continue to have a vital interest in the use of gold as a monetary metal.

These considerations, as well as others, indicate that gold will emerge from this disturbed period with added prestige as the international medium of exchange. For further discussion of the future usefulness of gold as a monetary metal, you may wish to refer to pages 16, 17, 18 and 19 of my letter to Senator Wagner referred to above.

Your last question on gold relates to a suggested change in our monetary policy. You ask:

"Should not the purchase of foreign gold be curtailed and re-priced at least for the period of the war?"

I am not clear whether by re-pricing gold you have in mind an increase or a decrease in the price of gold. I judge from the context of your letter, however, that you are inquiring about the effects of a reduction in the dollar price of gold.

My views with respect to the consequences of reductions in the price of gold are fully set forth in my letter to Senator Wagner referred to above. The discussion appears on pages 13 to 16 of that letter, and I think it may be appropriately re-read in connection with your inquiry.

You raise the question of the advisability of reducing the price of gold "for the period of the war". Any substantial change in the price of gold which is known to be temporary would have seriously disrupting influences on trade and international capital flows. It would introduce a still greater risk element in business relations with foreign countries and would, moreover, increase world speculation in dollar exchange.

I now turn to the question in your letter referring to the Stabilisation Fund.

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You write:

"I should like to inquire - if I am entitled to the information - whether the stabilization fund is now being used in connection with the stabilization of the British pound and the French franc; and whether there is any stabilization agreement under which we continue to operate in conjunction with England and France or any other foreign countries."

When I appeared before the Senate Committee on Banking and Currency last March, Senator Taft raised the following question:

"Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds: Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?"

I would like to reaffirm the position which I took at that time. My reply was, and still is, as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

The stabilization fund is not acquiring any currencies of belligerent countries and is holding only a trifling amount of foreign currencies of belligerent countries acquired long before the outbreak of the war.

I trust that this furnishes you with the information you requested.

Sincerely,

Enclosures.

(Signed) HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

Honorable Arthur H. Vandenberg,
United States Senate.

-oOo-

COPY

November 1, 1939

My dear Mr. Speaker:

You have informed me that in connection with the present consideration of the neutrality legislation by the House of Representatives there has been discussion concerning the use of the stabilization fund as a means of lending money to and aiding a belligerent country to finance the war. You have asked me for an expression of my views concerning this matter.

The stabilization fund was created pursuant to Section 10 of the Gold Reserve Act of 1934 which provided in part as follows:

"For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section."

Congress by legislation in 1937 and 1939 has continued these stabilization powers until June 30, 1941.

As is made clear by the above-quoted provision, the stabilization fund may lawfully purchase foreign

-2-

exchange only for the purpose of stabilizing the exchange value of the dollar. It has been for this purpose and not for the purpose of supporting the currencies of any foreign country that the Fund has from time to time acquired foreign currencies. Furthermore, I should like to state that the stabilization fund is not acquiring any currencies of belligerent countries and is at present holding 745 pounds sterling (approximately \$2,960) and 3,652 French francs (approximately \$82) which were acquired long before the outbreak of the war.

When I appeared before the House Committee on Coinage, Weights and Measures last March in connection with the bill to extend the stabilization powers, the following colloquy took place between Congressman Andresen and myself:

"MR. ANDRESEN. Yes. And we hear a good many remarks made about the activities of the Treasury and other agencies of the Government, and I want to ask you this: In connection with the stabilization fund, has any of the stabilization fund been used in any manner to finance a foreign government in the purchase of armaments or any other war supplies?

"SECRETARY MORGENTHAU. I can answer

-3-

that under oath to that question. No.

"And I will answer further. As long as I am Secretary of the Treasury and as long as Congress gives me that responsibility, the answer is no. I answered yesterday to it before the Senate Committee, and I would like the privilege of answering here again. If we ever become involved in any war, I would come to this Committee, and to the committee before the Senate, and ask for guidance and directions as to how I should conduct myself in relation to the stabilization fund.

"MR. ANDRESEN. Then this fund, from your answer, is to the effect that it is not used in any manner as part of the foreign policy of this Government with reference to supplying war supplies to any other country?

"SECRETARY MORGENTHAU. Mr. Congressman, under oath, it is not used that way, directly or indirectly."

When I appeared before the Senate Committee on Banking and Currency, Senator Taft raised the following question:

"SENATOR TAFT. Suppose there is a foreign war and suppose you go out and do what you can to buy \$2,000,000,000 worth of pounds. Isn't the effect of that to give England the power to buy \$2,000,000,000 worth of goods in this country under the cash and carry provisions?

My reply was as follows:

"Senators, if there is a war in any foreign country, before we would use the stabilization fund or any money in the Treasury to assist any country in prosecuting that war, I would come up before the proper committee and ask for guidance."

-4-

My replies to the foregoing inquiries remain the same, and I would like to reaffirm the position which I took at that time before the House and Senate committees.

I am also enclosing as of possible interest in this connection copies of a recent exchange of correspondence which I have had with Senator Vandenberg.

I trust this furnishes you with the information that you desire.

Very truly yours,

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

Hon. William B. Bankhead,
House of Representatives.

November 29, 1940
1:02 p.m.

Cordell
Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: What's doing?

H.M.Jr: Well, the President had me on the wire and said I had to make a loan to China today for \$50 million.

H: Well, I haven't gone into the technical side of that. I have been giving attention - talking to Jesse Jones about his branch of it.

H.M.Jr: Well, this is the point, and I wanted just to tell you. I've looked up my correspondence and I wrote both to Speaker Bankhead and Vandenburg a letter that before I would make any loan out of the Stabilization Fund to a country which was at war, I would come up before the Committee and ask for guidance.

H: I see.

H.M.Jr: Now in view of that I've got to appear before these committees and I've asked Senator Wagner and Somers of New York to call a meeting for Monday morning - a confidential meeting, and I'll appear before it and tell them the story and ask for their guidance.

H: Yes.

H.M.Jr: But I couldn't get my legislation through originally unless I gave them my word that I would do that.

H: Yes, I see.

H.M.Jr: I'm going to tell that to the President too, but I wanted to tell you before hand so you could be thinking about it.

H: Yes.

H.M.Jr: And he seems in such a hurry, and I'll want somebody from the State Department pretty high up to go along with me and say that this is necessary as a matter of foreign policy.

- 2 -

H: Well, I think the President - he probably when he finds out the extent of your commitments, he'll understand that.

H.M.Jr: But I'll want somebody that you'll let me have to go along and say how you feel.

H: Yes. Well, I think - do you and Feis - do you confer any these days?

H.M.Jr: Well, I haven't seen him but I'd rather have - I think it's important enough that Sumner Welles go or

H: Oh, I see. This is so technical I don't know much about it.

H.M.Jr: Well, it isn't on the technical end

H: You mean somebody to go up with you before the Committee.

H.M.Jr: Yeah and so if they say, well, does the State Department say that this is a matter that they approve on the foreign policy - not on the

H: I see. All right. I'll take it up with my folks.

H.M.Jr: And because - I say I'm going to bring it up at 2 because the President shot this at me and I wanted you to

H: Yeah. They've got an emergency situation in the Far East. I guess that's the reason he's in a hurry.

H.M.Jr: Well, help me out now. I need some help.

H: Yeah. Much obliged, Henry.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to our conference this morning in which I reported that our agreement to purchase yuan by the Stabilization Fund from the Central Bank of China expires on December 31, 1940. If the Chinese wish a renewal of this agreement they are supposed to request such a renewal thirty days prior to the expiration date, which would be December 1. In the past the Chinese have usually overlooked this stipulation in the agreement and we have consequently let ten days elapse before inquiring whether they desired a renewal of the agreement. Our present plan is to have the Federal Reserve Bank of New York cable China on December 10, if they may not have had word by that date that the Chinese desired the renewal.

In view of the new situation, however, it is suggested that you might immediately, or simultaneously with Mr. Jones' announcement of a new credit by the Export-Import Bank, give out a press release along the following lines:

"Secretary Morgenthau announced today that he is offering to extend (or is extending) for a further period beyond December 31, 1940, the arrangement made public on July 9, 1937, under which the Central Bank of China is enabled, under conditions which safeguard the interests of both countries, to obtain from the Stabilization Fund of the United States \$50,000,000 of dollar exchange for currency stabilization purposes."

We have issued communiques on certain occasions in the past when this arrangement has been renewed. This new extension, in the sum of \$50,000,000, requires no further authorization or even consultation with Congressional committees.

CONFIDENTIALTREASURY DEPARTMENT
WASHINGTON

November 29, 1940.

MEMORANDUM FOR THE SECRETARY

Conversation with Mr. Swift of the American Red Cross. (Mr. Davis was not available today, so that Mr. Fehle and I had a talk with Mr. Swift)

Mr. Swift said that this information was highly confidential and that he was particularly anxious that it should not be widely known or sent to the press.

Mr. Thomas Lamont had been to Hoover about relief matters and wanted to come here and wanted to find out the Administration's point of view. So he and Mr. Davis saw the President. The President is definitely in favor of sending at this time to unoccupied France for the use of the children milk, cod liver oil, and concentrated vitamins, and so informed Mr. Lamont and Mr. Davis.

A short time before this conference, Mr. Davis had written to the British Ambassador suggesting that the British expand their definition of medical supplies to include milk, cod liver oil, and concentrated vitamins. The letter suggested that these supplies should be sent to France both occupied and unoccupied. They would be sent in packages under the auspices of the Red Cross, on Red Cross ships, would be received in France by the Red Cross, and would be distributed under Red Cross auspices and on Red Cross responsibility to make it certain that only children would receive these supplies. In the event of any interference with the Red Cross control either by the French or by the German authorities the shipments would be stopped. The letter was in the form of a suggestion to the British that the action be taken by the British Government on its own accord and not that it be taken as a consequence of pressure in this country or even as a consequence of a request from the American Red Cross.

Mr. Swift told us that he understood that the Ambassador was favorable and Mr. Swift thought it quite likely that the British would add these articles to their list of medical supplies allowed to go through the blockade.

Mr. Swift further told us that the letters which the Red Cross were receiving indicated that the people in this country were favorable on sending supplies to the children, but were not favorable to general relaxation of the blockade.

We understood that Mr. Hoover favored sending food to Belgium, Holland, Norway, Sweden, and possibly Denmark. He was not concerned with Finland, nor with unoccupied France. This agrees with a conversation reported to me, that Hoover said the greatest need was Belgium, and that he wanted to start there.

My personal comment on Mr. Lamont's interest is a guess that he has been talking to Hoover, but that he is personally strongly pro-British and may have been concerned in the result of Hoover's decision and that he wanted to find out how much effect it was going to have in Washington. Mr. Swift had no opinion on this point. It is based on a conversation with Mrs. Lamont recently in which she expressed herself very strongly against any relaxation of the blockade, suggesting even that she had been told that there was plenty of milk in Switzerland which could be purchased for use in France. Mr. Swift definitely said that the milk supply in Switzerland is limited, but perhaps there is available twenty-five thousand dollars worth a month for the next three months, entirely an insufficient amount, so that in his judgment there is a great need of milk from this country. It will interest you to know that the Red Cross sent milk to Poland previously in tin cans. The British Government objected to their sending the milk in cans so that the Red Cross sent them dry milk in packages in order that the Germans would not get the cans. If the milk goes to France, it would also go in paper or cardboard packages as dry milk.

Joseph P. Chamberlain
John W. Pille

JT

PLAIN

LONDON

Dated November 29, 1940

Rec'd 4:15 p.m.

Secretary of State,
Washington.

3900, November 29.

FOR TREASURY.

Mr. Morgenthau's press conference of yesterday is reported in some of the London papers today. The FINANCIAL TIMES quotes the passage stating that the Secretary of the Treasury is "not ready to express any views on possible financial aid to Britain. He suggested that the United States should look at some of the cash assets of the British before considering the purchase of any of Britain's West Indian Islands in order to facilitate war purchases." The same passage is quoted also by the FINANCIAL NEWS and the Washington correspondent of the TIMES. Both financial papers state that Mr. Morgenthau declined to answer a question as to whether he was prepared to reply to Senator Wagner's forthcoming request for a statement of the exact extent of British investments in the United States. The FINANCIAL NEWS in the same article quotes

-2- 3900 November 29, from London

quoted Senator George's statement that he favors aid to Britain and will "go the distance with the Chief Executive" and infers from this that "something definite will be done as soon as the new Congress meets in January". The Washington correspondent of the TIMES points out that the Senate Banking Committee was authorized more than a year ago to investigate foreign capital in the United States and quotes Senator Wagner as saying that, "The study of how Germany, England and the other nations are financing their costly outlays and avoiding inflation" will be included "on the ground that legislation in the United States may be necessary to control any tendency towards inflation" there. Of particular interest in the TIMES report from Washington is the following statement: "Mr. Morgenthau's reference this morning to liquid assets carried the official implication that there would be discussion between the governments 'on the next and proper step towards some settlement".

JOHNSON

NPL

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Friday, November 29, 1940.

The Secretary of the Treasury gives notice that tenders are invited for Treasury bills to the amount of \$100,000,000, or thereabouts. They will be designated National Defense Series, 91-day bills; and will be sold on a discount basis to the highest bidders. Tenders will be received at the Federal Reserve Banks, or the branches thereof, up to two o'clock p. m., Eastern Standard time, on Monday, December 2, 1940. Tenders will not be received at the Treasury Department, Washington.

These bills will be issued pursuant to the provisions of Section 302 of the Revenue Act of 1940, approved June 25, 1940. Under the authority of that section "National Defense Series" obligations may be issued to provide the Treasury with funds to meet any expenditures made, after June 30, 1940, for the national defense, or to reimburse the general fund of the Treasury therefor.

The Treasury bills will be dated December 4, 1940, and will mature on March 5, 1941, and on the maturity date the face amount will be payable without interest. They will be issued in bearer form only, and in amounts or denominations of \$1,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by the Federal Reserve Banks or branches upon application therefor.

No tender for an amount less than \$1,000 will be considered. Each tender must be in multiples of \$1,000. The price offered must be expressed on the basis of 100, with not more than three decimal places, e. g., 99.125. Fractions must not be used.

Tenders will be accepted without cash deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by a deposit of 10 per cent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour for receipt of tenders on December 2, 1940, all tenders received at the Federal Reserve Banks or branches thereof up to the closing hour will be opened and public announcement of the acceptable prices will follow as soon as possible thereafter, probably on the following morning. The Secretary of the Treasury expressly reserves the right to reject any or all tenders or parts of tenders, and to allot less than the amount applied for, and his action in any such respect shall be final. Those submitting tenders will be advised of the acceptance or rejection thereof. Payment at the price offered for Treasury bills allotted must be made at the Federal Reserve Banks in cash or other immediately available funds on December 4, 1940.

The Treasury bills will be exempt, as to principal and interest, and any gain from the sale or other disposition thereof will also be exempt, from all taxation, except estate and inheritance taxes. (Attention is invited to Treasury Decision 4550, ruling that Treasury bills are not exempt from the gift tax.) No loss from the sale or other disposition of the Treasury bills shall be allowed as a deduction, or otherwise recognized, for the purposes of any tax now or hereafter imposed by the United States or any of its possessions.

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Treasury Department Circular No. 418, as amended, and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or branch thereof.

-oOo-

CONFIDENTIALFOR YOUR INFORMATION

November 30, 1940

To: The Secretary

From: Mr. Young

Re: Economic Defense

During your absence I endeavored to keep in touch with developments concerning economic defense outside of the Treasury. I understand that preparation has been made and some sort of a plan set up for the establishment of an Economic Defense Board, presumably under the direction of Colonel Maxwell and with the help of Mr. Alexander Henderson of the Defense Commission. In addition, I understand that Mr. Stettinius has asked the Budget for an extra appropriation for carrying on economic defense activity.

I have talked with Mr. Berle several times concerning this subject, and he is insistent upon the fact that the job should be done by the Treasury Department with the help of the State Department and possibly Jesse Jones. He is definitely opposed to anything being done on it, except in a mechanical way, by either the Defense Commission or by Export Control.

Of course, the logical place for this job is the Treasury due to frozen funds control, foreign purchasing coordination, and other activities which tie in on that picture. Incidentally, the Department of Justice has also contacted me indirectly in order to confer on the undercover aspects of economic defense. Of course, if extension of exchange control is approved, it will tend to throw the whole situation into our hands.

It would seem to me that perhaps some arrangement could be made whereby you would be apprised of what Stettinius and Maxwell propose to do before a definite recommendation is sent to the President.

Young

see entry
of 11/27/40 105

November 29, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

MS

I called Ralph Budd's office yesterday and suggested to his assistant, Fisher, that Waesche and I would be glad to come over and see Mr. Budd to talk over the Lakes ice breaking situation. As a result Budd's office called me this morning and asked if we could come in at ten o'clock. The result was, I think, an entirely satisfactory solution all around. Budd talked to A. T. Wood in Cleveland over the phone and at Wood's suggestion we agreed to transfer the TAHOMA, now at Cleveland, to Sault Ste. Marie and bring the OSSIPEE, which is an old coal burning cutter with reciprocating engines, down to Cleveland for the winter. The TAHOMA is one of the class of five 165 ft. cutters which were designed with a view to having pretty good ice breaking qualities along with sea worthiness. She is of the same class as the COMANCHE, which was the pioneer boat to Greenland. We also agreed that Coast Guard would pay the cost of hiring from the Pennsylvania Railroad, for ice breaking purposes in the spring, the car ferry, Chief Wawatam, which regularly runs from St. Ignace to Mackinaw City, across the Straits of Mackinac. This is a good sized ship, about six to eight thousand tons, with two propellers aft and one in the bow, having been designed especially as an ice breaker. It will walk right through ice that would stall any of our cutters.

I told Budd that you were anxious that we should work out an arrangement completely satisfactory to him and he seemed entirely pleased by this plan, as did A. T. Wood.

I am attaching a copy of a letter that I wrote to Budd today.

Attachment.

November 29, 1940.

Dear Mr. Budd:

For record purposes, in view of our meeting this morning, I am writing to acknowledge on behalf of Secretary Morgenthau receipt of your letter of November 23rd on the subject of ice breaking in the Great Lakes, with which you enclosed a copy of your letter of November 16 to the Commandant of the Coast Guard and a copy of a telegram from Mr. A. T. Wood of the Lake Carriers Association.

In accordance with our understanding today orders have been issued by Admiral Wessche that the cutters *TANOMA* and *OSSIPEE* are to exchange stations, the *TANOMA*, which has better qualities as an ice breaker, to winter at Sault Ste. Marie and the *OSSIPEE* to winter at Cleveland.

It is our understanding that Mr. Wood will ask the Pennsylvania Railroad whether the Straits of Mackinac car ferry, the *Chief Hewatan*, can be engaged to supplement the ice breaking work of the Coast Guard cutters. The Coast Guard will undertake to ascertain from Canadian authorities what facilities they will have available for this work in the spring.

I believe these steps promise the best solution that could be reached under all the circumstances and we greatly appreciate your help and suggestions.

Very truly yours,

Herbert E. Gaston
Assistant Secretary of the Treasury.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKay of the Far Eastern Division of the Department of State talked with me by telephone at 10:30 this morning. He wanted to bring me to date in regard to conversations between his Department and Mr. Frederick Dolbeare, Advisor to the Government of Thailand. He had instructions from Mr. Hamilton, Chief of his Division, to refer to my conversation with Mr. Livesey, and to let me know the oral message which Mr. Hamilton had given Mr. Dolbeare as a consequence of my message to Livesey. It will be recalled that there has been an interchange of information between State and Treasury in regard to Dolbeare's interest in obtaining a loan for Thailand. When Livesey talked with me last he let me know that Dolbeare had told the Department of State that he hoped to obtain such a loan either from the Export-Import Bank, the Federal Reserve System, or commercial banks. The State Department had promised to give him its views on these three alternatives. When Livesey mentioned these to me he referred particularly to the third alternative, which would involve the use of Thailand's 10,000,000 of gold on deposit with the Federal Reserve Bank of New York as collateral for loans which might be given to Thailand by commercial banks. I have told Livesey that the Treasury would not discuss such a possibility with Dolbeare or with the Federal Reserve Bank of New York or with commercial banks until or unless the Department of State might let us know definitely that it favored the Treasury giving such exceptional consideration to a request of Thailand. I reminded Livesey that we had not followed the practice in the past of permitting gold held by the Federal to be used to collateralize a loan privately made. We had refrained from going ahead with our contemplated approval of a Spanish proposition in this respect when the State Department had let us know that they objected to such a plan on political grounds. I told Livesey that the conditions in the Far East are such at the present time that the State Department must surely have some positive views as to what the attitude of the Treasury should be in the premises.

Mr. McKay told me that, following up the idea of my conversation with Livesey, Mr. Hamilton had canvassed the opinion in the Department of State and had then telephoned Dolbeare in New York along the following lines. The idea of a loan from the Export-Import Bank or from the Federal Reserve System had been deemed not advisable. With respect to the third alternative above listed, the State Department did not feel that present circumstances would warrant it to recommend to the Treasury Department that any measures be taken in the present instance which have not been taken in the past. Hamilton did not preclude the possibility of Mr. Dolbeare reopening this question with the Department of State at some more propitious date. Likewise he did not discourage Mr. Dolbeare when the latter suggested that he might take up the matter directly with the commercial banks, with the request that they in turn approach the Treasury through the Federal Reserve Bank of New York. Mr. Hamilton asked, however, that we in the Treasury let him know before we give any definite answer to a request received through such channels.

I told Mr. McKay that if one of the private banks got in touch with us now we would definitely discourage such a bank from making a formal application, considering the political factors involved. I told him that we had preferred a year ago, when this question came up, that the National City Bank should not file a formal application. Our advice to the National City or whatever bank might apply in the present circumstances would be the same. I promised to let Mr. Hamilton know if the question might be posed to us. Mr. McKay understood what the Treasury's answer would be if this question comes up immediately, but hoped we would consult with Mr. Hamilton before giving any answer if the matter is dropped for the present but should be revived at some later date when conditions are different. I gladly agreed to this.

B. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£19,000
Purchased from commercial concerns	£31,000

Open market sterling remained at 4.03-3/4 until late in the day. It closed at 4.04. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£7,000
Purchased from commercial concerns	£2,000

As for the other currencies, there was a slight weakening in the rates for the Canadian dollar, Swiss franc and Cuban peso. Closing quotations were as follows:

Canadian dollar	13-1/16% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-5/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada made two shipments of gold totaling \$9,117,000 from Canada to the Federal, for account of the Government of Canada, for sale to the New York Assay Office.

The Bombay gold price was unchanged at the equivalent of \$33.77. Silver in Bombay was also unchanged at 43.71¢.

In London, a price of 22-7/8d was fixed for both spot and forward silver, representing a decline of 1/8d in each case. The dollar equivalent of this price is 41.54¢.

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¢.

- 2 -

We made ten purchases of silver totaling 834,934 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 634,934 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 250,000 ounces of silver from the Bank of Canada under our regular monthly agreement, raising the total bought from that source this month to 350,000 ounces, as against the agreed monthly limit of 1,200,000 ounces. It will be observed that, in the past four months, the Bank of Canada has sold us only 2,175,000 ounces of silver, compared with a limit of 4,800,000 ounces. At the end of September, an official of the Bank of Canada confirmed that the Canadian Mint had acquired substantial amounts of that country's newly mined silver for coinage purposes. In view of the fact that its sales to us during October and November were far short of the limit allowed by the agreement, it is apparent that Canada is still using much of its silver production for coinage.

During the month of November, we purchased 7,348,700 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	6,124,700
2. From Canada under agreement	350,000
Inventory	874,000
Total	7,348,700



CONFIDENTIAL

For Main Summary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

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>
Nov. 28	\$ 41,425	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Vongibara
	750,000	"	Brown Bros. Harriman Co., N.Y., for account of Stockholms Enskilda Bank, Stockholm
	500,000	Narodni Banka pro Czechy a Moravu, Prague	Chase National Bank, N.Y., for account of Credit Suisse Zurich for account of Narodni Banka pro Czechy a Moravu, Prague

B.M.P.

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

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 National City Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 27	\$200,000	Banco di Napoli Trust Co., N.Y.	Check to order of Banco di Napoli Trust Co., N.Y., deposited for its account with Federal Reserve Bank of New York
November 28	29,858.55	"	Check to order of Swiss Bank Corp., N.Y.
	29,857.95	"	Check to order of Credit Suisse, N.Y.
	33,000	Banco Nazionale del Lavoro, Rome	Chase National Bank, N.Y., in favor of Sussana A. Matthein

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to earlier memoranda in which Minister Procope of Finland has discussed with Under Secretary Bell and myself the questions of Finland's payment due December 15, and the reopening of the whole debt question by Finland.

Minister Procope called on me at 3 o'clock yesterday and left with me the attached copies of notes which he has now addressed to the Department of State on the above-mentioned subjects. Although the first of these is undated, I understand that the two letters were filed simultaneously. The second is dated November 25, 1940.

Minister Procope realizes that the subject matter of these notes must be discussed by the Department of State with the Treasury Department. He reminded me that December 15 is not very far away, and he hopes that he may have an answer from our Government before the press may start bringing pressure upon him for information as to what he will do on December 15 with regard to the installment then falling due.

The Minister referred in passing to the resignation announced yesterday morning of President Kallio of Finland. He thinks that our friend Ryti will succeed to the presidency. He regretted that the outlook for the British giving considerate treatment to Finland's shipping request was not as bright as he thought it was two days ago. Again he stressed the difficult economic situation of Finland, and hoped that the Department of State would increase its efforts with the British to obtain permits for Finland to buy fats and other necessities from the United States, utilizing funds allotted by the Export-Import Bank for this purpose. The Minister reiterated his hope that if the United States extends its control of foreign funds, Finland may be given exceptional freedom.



11046

Excellency,

Referring to Your Excellency's note of June 22nd, 1940 regarding the Public Resolution No. 84 approved on June 15th, 1940 by the President of the United States to authorize the postponement of payment of amounts payable to the United States by the Republic of Finland during the period from January 1, 1940 to December 31, 1940 under the agreements dated May 1st, 1923 and May 23rd, 1932, I have the honor to submit to Your Excellency the following.

In spite of the many difficulties confronting Finland at present and notwithstanding her limited resources that are badly needed in the rehabilitation of the country, it is the firm intention and desire of the Finnish Government to maintain her credit record and to keep all her obligations in the same way as she has always done in the past.

However, the Finnish Government has with sincere gratitude noted the above mentioned Resolution, which, having been passed by both Houses of the Congress, was enacted by the President of the United States on the 15th of June, 1940, and offers the Finnish Government the opportunity of the postponement of payments specified therein. My Government appreciates this renewed proof of understanding and sympathy, so much the more as they see in this Resolution itself and in the debates which preceded it a sign of willingness on the part of the United States Government for a more extensive consideration of the two debt agreements to which the Resolution refers.

Under these circumstances and taking into consideration the present difficulties confronting Finland, my Government most gratefully accepts the offer contained in the said Resolution.

In consequence of the aforesaid I have the honor, under instructions from my Government, most respectfully to inform Your Excellency that my Government is ready to enter into an agreement for the postponement of the payment of amounts payable by Finland to the United States on December 15th, 1940, as provided for in the Public Resolution No. 84.

Accept, Excellency, the renewed assurances of my highest consideration.

His Excellency
The Hon. Cordell Hull
Secretary of State
Department of State
Washington, D.C.

copy-lap;11/28/40

November 25th, 1940

Excellency.

Referring to previous verbal exchanges of views I have the honor, under instructions from my Government, to bring to Your Excellency's attention the following considerations in regard to Finland's indebtedness to the United States under the agreements dated May 1, 1923 and May 23, 1932.

During the years 1917 to 1920 Finland made purchases in the United States in the amount of some \$36,000,000. The greater part of these purchases were paid in the ordinary way of business. For commodities valued at \$8,281,926.17, received through the American Relief Administration, the latter took obligations of the Finnish Government in that amount.

By an agreement made on May 1, 1923, this credit was funded, accrued and unpaid interest at $4\frac{1}{4}$ percent being added to the principal amount of the obligation and a cash payment made to round off the resulting amount to the exact figure of \$9,000,000 which with interest at 3 percent per annum from December 15, 1922 to December 15, 1932, and thereafter at $3\frac{1}{2}$ percent per annum, was to be repaid over a period of 62 years. Each semi-annual instalment has been promptly paid by Finland except the instalments in the fiscal year 1932 that were postponed under the moratorium proposed by President Herbert Hoover and approved by the United States Congress. The postponed amounts are being repaid in ten annuities with interest at 4 percent per annum from July 1, 1933.

As appears from the above Finland has to pay interest upon interest and in addition to this compound interest Finland, in meeting her obligations, has had to make the payments at an unfavorable rate of exchange between the Finnish marka and the dollar. Furthermore it is to be noted, that the commodities in question were purchased at the high prices prevailing at the end of and just after the war 1914-18.

On the original indebtedness of \$8,281,926.17 Finland has paid to the United States the sum of \$6,050,689.77, of which only \$960,398.17 represented repayment of principal and \$5,090,291.60 represented interest. The principal unpaid is still \$8,039,601.83 and in addition there remains a balance of \$87,021.03 of the interest postponed under the Hoover moratorium. Under the agreement of May 1, 1923 payments in the amount of approximately \$355,000 per annum, apart from the Hoover moratorium annuities, will continue through the year 1984 in order to extinguish the remaining indebtedness with interest at $3\frac{1}{2}$ percent per annum. Of the

21s Excellency
Cordell Hull
Secretary of State
Department of State
Washington, D. C.

- 2 -

\$356,735 payable in 1940 under the agreement of May 1, 1923. \$76,000 is for reduction of principal and \$280,735 is interest.

It will be recalled that Finland was one of the first countries to fund its indebtedness to the United States and that subsequent agreements with other countries have granted concessions which in some cases have been much more favorable to the debtors as to the calculation of interest and the apportionment of payments between interest and principal.

The recent difficulties of Finland have received a sympathetic recognition in the United States which is deeply appreciated by the Government and people of Finland. In connection with the indebtedness of Finland the President of the United States in December 1939 in a statement expressed the opinion that Finland's payments, both for principal and interest, should be used for the benefit of the Finnish people. On June 15, 1940 the President approved a resolution, unanimously adopted on the previous day by both Houses of Congress, affording Finland the option of postponement of instalments payable during the period from January 1, 1940 to December 31, 1940 under the debt agreements of 1923 and 1932, with provision that the amounts thus postponed should be repaid within ten years with 3 percent interest. In the discussion of this resolution in the Congress, all who spoke were unanimous in regard to the desirability of helping Finland to maintain her record with the payment of her relief indebtedness under the tremendous difficulties she faces today. Statements were made to the effect that the resolution under consideration ought to be only an intermediary measure and that the relief indebtedness of Finland incurred in 1919 and 1920 should be entirely readjusted. It was also suggested that this debt should be entirely canceled.

The Senator reporting the Joint Resolution from committee also introduced into the Congressional Record the report thereon of the Secretary of the Treasury which stated that the Treasury Department would be very pleased if a more liberal measure of assistance to Finland than contemplated in the Resolution were granted.

In view of these developments I have had great satisfaction in bringing these expressions and manifestations of authoritative opinion to the notice of my Government. Having carefully noted the same and being under the impression that an adjustment in their indebtedness to the United States could be expected, my Government, which always has faithfully and scrupulously carried out their obligations under the agreements in question, has now instructed me most respectfully to inform Your Excellency that Finland would greet with deep satisfaction and be sincerely grateful if, in the near future, negotiations be entered into between the two Governments for the reconsideration of Finland's indebtedness to the United States under the agreements outlined in the foregoing paragraphs.

I should be highly obliged to Your Excellency for information in what way such negotiations could be taken up.

Please accept, Excellency, the renewed assurances of my highest consideration.

dm

LONDON, November 29, 1940.

No. 6320

SUBJECT: Transmitting Anglo Swedish Payments Agreement
and Anglo-Rumanian Payments Agreement.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Embassy's strictly
confidential despatch No. 6263, November 19, 1940, with
which was enclosed the Anglo-Portuguese and Anglo-Rumanian
1/ Payments Agreements, and to transmit herewith, in the same
manner, the Anglo-Swedish Payments Agreement and the Anglo-
Rumanian Payments Agreement.

Respectfully yours,

Herschel V. Johnson
Charge d'Affaires ad interim

Enclosure:

1. Sealed envelope addressed to Dr. Herbert Feis, Department
of State, containing the two Agreements, as noted above,
in duplicate.

WCF/JC

eh:copy

Enclosure No. 1 to despatch No. 6320 of Nov. 29, 1940, from the Embassy at London, England.

ANNEX VI

AGREEMENT BETWEEN THE BANK OF ENGLAND AND
SVERIGES RIKSBANK RELATING TO PAYMENTS
BETWEEN SWEDEN AND THE UNITED KINGDOM

1. Payments to Sweden by or for account of H.M. Government (other than payments in respect of goods purchased on behalf of a third country) will be made -

- (a) if the debt is expressed in sterling, by payment to a "Special Account" of Sveriges Riksbank at the Bank of England;
- (b) if the debt is expressed in Swedish kronor, in kronor purchased from the Bank of England.

2. In the case of other debts expressed in Swedish kronor due to persons in Sweden from persons in the United Kingdom, Swedish kronor may be bought by the United Kingdom debtors from the Bank of England through the ordinary channels. Debts covered by this article are those in respect of trade, freight, insurance and of financial payments of a recurrent nature which, in the opinion of Sveriges Riksbank and the Bank of England, are reasonable in character and amount.

3. The Bank of England will use for the purpose set out in Articles 1(b) and 2 any Swedish kronor balances coming into their possession; in so far as such balances are inadequate Sveriges Riksbank will sell Swedish kronor to the Bank of England at the London middle rate for Swedish kronor on the day of purchase against credit of sterling to the Special Account. This rate should continue to correspond approximately to a parity calculated with the London middle rate for U.S. dollars and the official rate for U.S. dollars in Stockholm.

4. Sveriges Riksbank may credit to the Special Account sterling purchased from Swedish commercial banks or other sellers in Sweden, arising, as from the date of the Agreement, out of payments between Sweden and the United Kingdom in respect of trade, freight and insurance, and of financial transactions of a recurrent nature which, in the opinion of Sveriges Riksbank and the Bank of England, are reasonable in character and amount, provided that the exchange has not already been covered. Sveriges Riksbank will arrange, as far as possible, that sterling obtained by Swedish commercial banks from these sources will not be used otherwise except for the purposes set out in Article 5 below.

5. The Special Account may be used for all kinds of commercial or financial payments by persons in Sweden within the British Empire (except Canada, Newfoundland and Hong Kong) and in Brazil, Egypt and Belgium. Sveriges Riksbank will take steps to ensure as far as may be possible that the Swedish

payments in sterling referred to above shall be made by use of the Special Account and not otherwise, subject to the provisions of Articles 4 and 10.

6. If at any time after the existing sterling balances of Sveriges Riksbank have been used in accordance with the provisions of Article 10, the balance on the Special Account should be temporarily insufficient to meet the needs of Sveriges Riksbank, the Bank of England will sell to Sveriges Riksbank against Swedish kronor the sterling required at the London middle rate on the day of sale. Sveriges Riksbank will agree to re-purchase against sterling at the same rate or rates the Swedish kronor thus sold as and when monies are received for the credit of the Special Account.

7. Amounts in excess of £100,000 standing to the credit of the Special Account may at the option of Sveriges Riksbank be transferred to a special Money Employed Account in multiples of £25,000, where amounts so transferred will be employed by the Bank of England for Sveriges Riksbank in the usual manner. Such amounts may be retransferred to the Special Account.

8. On expiry of the Agreement Sveriges Riksbank will have the right to obtain payment in gold for any balance on the Special account and the special Money Employed Account and the Bank of England will have the right to obtain payment in gold for any Swedish kronor balance held with Sveriges Riksbank.

9. When the balance on the special Money Employed Account has reached and so long as it remains at £3,500,000 Sveriges Riksbank will have the right to obtain payment in gold for any amount in excess of £100,000 on the Special Account. Similarly the Bank of England shall have the right to obtain payment in gold for any Swedish kronor standing to the credit of its account at Sveriges Riksbank in excess of Swedish kronor 58,800,000.

10. Sveriges Riksbank will have the right to transfer up to £200,000 every month from its existing sterling balances to the Special Account. Sveriges Riksbank will not sell its existing sterling balances to third parties but if at any time the balance on the Special Account is insufficient, they may be used for the purposes set out in Article 5. Forward sterling arising from the contracts entered into by Sveriges Riksbank before the date on which this Agreement enters into force and proceeds of sterling securities held by Sveriges Riksbank on that date will be considered as part of their existing sterling balances.

11. All gold sold to Sveriges Riksbank under any of the terms of this Agreement will be provided by the Bank of England in London or in South Africa at the option of Sveriges Riksbank. Gold sold to the Bank of England will be provided by Sveriges Riksbank in London. The Bank of England will, however, accept delivery in South Africa to the extent that Sveriges Riksbank had exercised its option to receive gold there in accordance with the terms of this Article.

12. Throughout this Agreement the price of gold will be reckoned at 168/6 per fine oz. against sterling and at Sw.Kr. 142.3825 per oz. fine against Swedish kronor.

13. This Agreement will enter into force on the 20th December 1939 and if not renewed will expire on the 20th June 1940.

Copyists
Bank of England
Governor

Sveriges Riksbank
Governor

Enclosure No. 1 to despatch No. 6320 of November 29, 1940 from the Embassy at London, England.

AGREEMENT BETWEEN THE BANK OF ENGLAND AND
THE NATIONAL BANK OF ROUMANIA CONCERNING
CERTAIN PAYMENTS WITHIN THE STERLING AREA

1. The Bank of England shall, at the request of the National Bank of Roumania, open in its books an Account to be entitled National Bank of Roumania Special Account (hereinafter called the Special Account).
2. The National Bank of Roumania undertake to ensure that all sterling arising from the following transactions and only such sterling shall be paid to the credit of the Special Account:-
 - (a) Sterling in respect of debts due to persons in Roumania from persons in the sterling area (other than the United Kingdom) in respect of trade and of financial transactions of a recurrent nature.
 - (b) All sterling balances belonging to the National Bank of Roumania at the date of this agreement which are not required to meet any Roumanian sterling debts outstanding at this date to persons ordinarily resident in the sterling area (other than the United Kingdom).
3. Of the sums received for the Special Account 25% shall be transferred on the day after receipt to the National Bank of Roumania No. 1 Account, already opened in the books of the Bank of England, the balance on which is at all times convertible into gold to be delivered in London at the Bank of England's selling price obtaining on the day on which amounts were credited to the Account.
4. Sums standing to the credit of the Special Account may be used for any payments in respect of trade or financial transactions of a recurrent nature due by persons in Roumania to persons within the sterling area. The National Bank of Roumania undertake to ensure that payments referred to in this paragraph shall be made only by the debit of the special Account and not otherwise, except as is provided in the Anglo-Roumania Transfer Agreement of the June 1940.
5. Payments under the previous paragraph will be made by the Bank of England on instructions from the National Bank of Roumania and shall be accompanied by a brief description identifying the character of each payment.
6. Any sums standing to the credit of the Special Account after the lapse of a period of three months from the date of this Agreement shall be credited to the National Bank of Roumania No. 1 Account up to a maximum figure of 25% of the amounts received for the Special Account.
7. For the purposes of this Agreement the sterling area shall mean the United Kingdom and any other part of His Majesty's dominions (except Canada, Newfoundland and Hong Kong), any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty's Government in the United Kingdom or in any Dominion, any British protectorate or protected state, Egypt, the Anglo-Egyptian Sudan and Iraq.

Any alteration which His Majesty's Government may make in the definition of this area shall apply equally to this Agreement.

8. This Agreement shall come into force on the 17th June 1940 and may be terminated on the 16th day of any month by either party giving notice to the other on or before the 16th day of the previous month beginning 16th December 1940. At the termination of this Agreement any balance standing to the credit of the Special Account shall only be used as may then be agreed between the two parties to this Agreement.

FARAPHRASE

The following is the substance of a telegram no. 54, dated November 29, noon, received from Hanoi:

The Japanese forces in northern Indochina have received, according to a banking source who is well informed, advances of 3,000,000 yen. Japanese importations will be used to repay the first 500,000 yen. The balance of this advance is to be repaid in United States currency, the equivalent of 500,000 yen per month. Although the first payment is due November 30, the Banque de l'Indochine has received notification from the Japanese that they desire a three months' extension as they are unable to make this payment. Political considerations will probably compel the bank to grant this extension, although it is opposed to such action.

The blocked funds in the United States belonging to the Banque de l'Indochine are causing that institution great anxiety. The bank states that it is compelled to accept yen payment for gold contracted for in 1941 to the value of approximately 1,500,000 United States currency, as the Japanese state that they are unable to obtain from the American Treasury Department a license permitting the transfer of American money to the credit of the French bank.

Indochina is being gradually compelled to join the yen bloc, a high official of the Banque de l'Indochine states, because of the difficulty of securing transfers of American currency to its free account in the United States and because of the freezing of its own deposits in the United States.

I am forwarding by air mail a report setting forth a number of memoranda from the bank.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE November 29, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

November 2. Naval Intelligence reports from Guatemala that Herman Max, a Chilean of German parents but staunchly pro-Nazi, has been employed by the Nicaraguan government preparing a reorganization of the financial system and was several years ago employed by the Costa Rican government as an adviser on financial matters. Max has returned to Chile and President Somoza has stated that "it was not definite" that Max would return to Nicaragua.

FBI reports:

November 6. Agent's report on foreign funds in Cincinnati indicates additional instances where German "travel agencies" have been inducing Germans to turn over their dollar savings for mark credits in Germany; these are additional instances of the Rueckwanderer mark practice.

d/c

12/3/40

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Took this to the conference on taxes held
at the White House on November 29th at
7:30 p.m.

*Note: see Sullivan's report
on the WH meeting is filed 12/2.*

MEMORANDUM

November 29, 1940.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

After leaving your office this morning, Dr. Gulick, Mr. Tarleau, Mr. Elough and I discussed the project of a comprehensive review of taxes for about an hour. We all feel that the creation of a Temporary National Tax Commission is by far the most desirable of the four methods of procedure outlined in Dr. Gulick's memorandum.

Mr. Tarleau, Mr. Elough and I wish to recommend that as soon as Dr. Gulick and his associates are able to come to Washington, they immediately proceed to familiarize themselves with the studies that have thus far been made in the Treasury, and proceed to a completion of the preliminary work as outlined in Method 4 of Dr. Gulick's memorandum. By the time this part of the work is completed we will have had a vote on the elimination of tax exemption of future issues of Federal, State and local securities. At that time we should ask Congress to create a Temporary National Tax Commission as outlined in Dr. Gulick's memorandum as Method 1.

Mr. Tarleau, Mr. Elough and I all feel that if the creation of a Commission to study this problem is announced before such a final vote on elimination of tax exemptions, the Congress will seize upon this Commission as an easy way of avoiding the issue and will direct the Commission to study the problem of tax exempt securities and report back to some future session or to some future Congress. We recommend that the bill to eliminate tax exemptions of future issues of government securities (which is completely drafted and upon which we are ready to go to work the day Congress convenes) be introduced as a separate measure. If this is done we anticipate an early vote.

If you approve this we would like to discuss this with Congressional leaders next week.

I am returning herewith the papers Dr. Gulick delivered to you this morning.

JHS

DATA REQUESTED BY SECRETARY MORGENTHAU,
NOVEMBER 26, 27, 1940

1. Ascertain how much money not now shown in the Budget as being spent on national defense is actually being so spent, for example, by the W.F.A. and by the C.C.C.

2. Select those inequities in the income tax and other taxes each of which, if corrected, would increase the revenue by not less than \$5 or \$10 million. Using one page for each item, describe the item in three or four lines. Give an example illustrating the inequity and indicate the estimated revenue that would be derived from correcting it. Items to be included are community property, percentage depletion, ultimate trusts, etc. On a covering page make a list of the inequities and the revenue estimates. *multiple*

3. Calculate for (a) the Federal Government, and (b) Federal, State and local governments combined, the indirect taxes, that is, those believed to be shifted to consumers.

4. Indicate how much a sales tax imposed only on articles costing over one dollar would yield.

5. For each year beginning with 1932, show:

- (1) For individuals, the number filing income tax returns and the number paying a tax;
- (2) For corporations, the number filing income tax returns and the number paying tax;
- (3) For individuals, the number in each major income class and the taxes paid by the individuals in such class;
- (4) For corporations, the number in each major income class and the taxes paid by the corporations in such class;

6. For the fiscal year 1940-41 show (a) the revenue estimate for the tax system prior to the Revenue Acts of 1940, (b) the estimated revenue to be derived from the first Revenue Act of 1940 divided into earmarked taxes and non earmarked taxes; (c) the estimated revenue for the second Revenue Act of 1940; and (d) the latest overall revenue estimate.

7. Compute the amount of taxes earmarked for national defense and the amount of other taxes and show the extent to which the budget for national defense is balanced and the budget for other purposes is balanced.

Federal Taxes: Federal taxes on consumption collected during the fiscal year 1940 amounted to \$2,563,000,000, or 45% of total collections. The additional taxes on consumption imposed under the two Revenue Acts of 1940 were estimated to yield \$364,000,000, or 25% of the total estimated additional revenue. Including the additional taxes imposed under the two 1940 Acts, it is estimated that approximately 40% of all Federal taxes will consist of taxes on consumption.

Federal, State and Local Taxes: Total Federal, state and local tax collections at present amount to approximately \$14,400,000,000. It is estimated that nearly 42% of this amount are taxes on consumption. The inclusion of property taxes with consumption taxes raises the percentage to approximately 75%. If the estimated yield from the two 1940 Revenue Acts is included, the proportion of consumption taxes in total Federal, state and local tax collections is estimated at approximately 40%, and together with the property taxes at over 70%.

The data are presented in tabular form below.

FEDERAL, STATE AND LOCAL TAX COLLECTIONS
(Money figures in millions of dollars)

	Before the 1940 Acts		Including the 1940 Acts	
	Amount	Percent	Amount	Percent
Federal, State and local taxes	14,441	100.0	15,870	100.0
Taxes on consumption excluding property taxes	6,047	41.9	6,411	40.4
Taxes on consumption including property taxes	10,820	74.9	11,183	70.5
Federal taxes	5,689 ^{1/}	100.0	7,118 ^{2/}	100.0
Taxes on consumption	2,563	45.1	2,927	41.1
State and local taxes	8,752 ^{3/}	100.0	-	-
Taxes on consumption excluding property taxes	3,484	39.8	-	-
Taxes on consumption including property taxes	8,257	94.3	-	-

^{1/} Fiscal year 1940

^{2/} Fiscal year 1940 collections, plus estimated yield of First Revenue Act of 1940, in first full year, plus highest estimated net yield under Second Revenue Act of 1940 at 1940 levels.

^{3/} State tax collections for fiscal year ending in 1939; local tax collections for fiscal year ending in 1938.

SALES TAX ON ARTICLES RETAILING OVER \$1.00

Efforts to secure information of use in considering a sales tax on articles selling for over \$1.00 have been unsuccessful.

An examination of material available and a check with the Commerce Department indicates that there are no data on the volume of retail sales on articles selling for \$1.00 and over. An estimate on the yield of such a tax would, therefore, be highly conjectural.

Any estimate based on present sales would, of course, be subject to large error since the imposition of a tax only on articles priced at more than \$1.00 might induce changes, for example, in size, to reduce the price of the article below \$1.00.

Since many necessities sell for over \$1.00 and many luxury items sell for less than \$1.00, the exemption from sales tax of articles selling for \$1.00 and less would not affect the distribution of the burden as much as would the complete exemption of certain classes of items.

Number of individual income tax returns showing total number filed, number taxable and number nontaxable, 1932-1940

Year	Total number of returns filed 3/	Number of taxable returns	Number of nontaxable returns
1932	4,083,723	1,936,095	2,147,628
1933	3,892,007	1,747,740	2,144,267
1934	4,198,590	1,795,920	2,402,670
1935	4,669,621	2,110,890	2,558,731
1936	5,486,771	2,861,108	2,625,663
1937	6,434,052	3,371,443	3,062,609
1938	6,303,890	3,048,545	3,255,345
1939 1/	7,721,429	3,932,647	3,788,782
1940 2/	Est. 15,000,000	Est. 6,000,000	Est. 9,000,000

Source: Statistics of Income

1/ Filed through September 30, 1940 (Source: Accounts and Collections Unit, Form 6919).

2/ Estimated. These returns will not be filed until 1941.

3/ Includes returns with no net income.

Note: Major changes affecting the number of returns filed during the period are:

- (1) the extension of the Federal income tax to compensation of state and local employees for 1939 and subsequent years; and
- (2) the lowering of personal exemptions from \$1,000 and \$2,500 to \$800 and \$2,000 respectively for 1940 and subsequent years. For the years 1932-1939, inclusive, an individual was required to file a return if his net income amounted to \$1,000 in the case of a single individual or \$2,500 in the case of married persons (or if gross income was \$5,000 or more). For 1940 and subsequent years single and married individuals are required to file returns if their gross income amounts to \$800 and \$2,000 respectively.

Corporation income tax returns, showing number filed,
number taxable, and number nontaxable, 1932-1939

Year	: Number of : returns : filed 3/	: Number of : taxable : returns 4/	: Number of : nontaxable : returns 4/
1932	508,636	82,646	425,990
1933	504,060	109,786	394,294
1934	528,898	145,101	383,797
1935	533,631	164,231	369,400
1936	530,779	203,161	327,618
1937	529,097	192,028	337,069
1938 1/	520,500	169,885	350,615
1939 2/	508,506	191,277	317,029

Source: Statistics of Income

- 1/ Preliminary data, number of returns for 1938 filed through December 31, 1939.
- 2/ Filed through September 30, 1940 (Source: Accounts and Collections Unit Form 6919).
- 3/ Includes returns of inactive corporations.
- 4/ The classification of taxable and nontaxable returns is based upon returns "with net income" and "with no net income." A negligible amount of excess-profits tax was reported on returns with no net income in 1934 and 1935. The classification of returns with "net income" and "with no net income" is based upon "net income for income tax computation" for 1936 which includes dividends received on stock of domestic corporations and interest received on certain Government obligations and excludes contributions or gifts. For 1937, the classification is based upon "net income for excess profits computation" which is greater than "net income for income tax computation" by the amount of the excess profits tax. For years prior to 1936, the classification is based upon taxable net income.

Individual returns with net income showing number of returns, net income
and tax, by net income classes, 1932 - 1938 ^{1/}

(Net income classes and many figures in thousands of dollars)

Net income classes :	1932 :	1933 :	1934 :	1935 :	1936 :	1937 :	1938 :
<u>Number of Returns</u>							
Under 5	3,520,988	3,391,666	3,671,773	4,074,897	4,736,498	5,645,115	5,611,211
5 - 10	251,014	233,754	290,824	339,842	440,826	471,171	415,596
10 - 25	79,210	75,643	102,892	123,564	176,649	178,446	140,781
25 - 50	18,480	18,423	20,931	26,029	41,137	38,948	26,336
50 - 100	5,902	6,021	6,093	8,033	13,620	12,318	7,259
100 - 150	995	1,084	982	1,395	2,606	2,269	1,326
150 - 300	595	695	690	896	1,544	1,358	766
300 - 500	140	141	116	206	330	312	207
500 - 1,000	86	81	86	109	178	162	118
1,000 and over	20	50	33	41	61	49	57
Total	3,877,430	3,793,558	4,094,420	4,575,012	5,413,499	6,350,148	6,203,657
<u>Net Income</u>							
Under 5	\$ 7,412,140	\$ 6,861,120	\$ 7,796,038	\$ 8,814,418	\$10,345,482	\$12,422,513	\$12,099,184
5 - 10	1,677,039	1,537,875	1,952,891	2,283,402	2,977,750	3,170,571	2,783,893
10 - 25	1,160,398	1,112,086	1,513,592	1,822,271	2,628,692	2,639,518	2,059,779
25 - 50	629,639	630,005	708,530	882,309	1,400,493	1,319,431	886,398
50 - 100	393,206	401,049	405,976	535,772	913,518	824,261	484,768
100 - 150	119,896	129,159	117,744	166,379	311,279	272,264	158,413
150 - 300	118,008	139,215	140,960	179,911	307,930	272,724	154,996
300 - 500	52,469	54,570	43,832	77,907	124,523	117,477	78,441
500 - 1,000	57,874	56,700	59,464	73,811	122,762	114,399	81,396
1,000 and over	35,240	86,857	57,775	73,630	107,641	85,416	110,103
Total	\$11,655,909	\$11,008,638	\$12,796,802	\$14,909,812	\$19,240,110	\$21,238,574	\$18,897,374
<u>Tax</u>							
Under 5	\$ 43,074	\$ 36,549	\$ 34,686	\$ 40,232	\$ 60,561	\$ 72,204	\$ 63,630
5 - 10	35,615	35,077	43,086	48,728	79,369	83,529	71,654
10 - 25	50,150	54,977	83,960	103,754	175,613	175,709	134,163
25 - 50	43,546	52,355	84,907	106,670	191,339	179,395	120,594
50 - 100	47,150	57,491	84,792	112,816	216,045	194,507	116,989
100 - 150	24,469	30,369	38,166	54,132	116,156	102,062	58,224
150 - 300	31,912	40,412	57,995	74,039	147,381	131,060	69,743
300 - 500	18,554	17,910	20,854	37,245	71,470	67,489	39,832
500 - 1,000	19,016	21,221	30,745	38,323	78,945	74,156	42,353
1,000 and over	16,476	27,759	32,211	41,499	77,138	61,457	48,035
Total	\$329,962	\$374,120	\$511,400	\$657,439	\$1,214,017	\$1,141,569	\$765,218

Source: Statistics of Income

^{1/} The year to year comparability of the data are affected by changes in rates, exemptions, and definitions of taxable income. The data for 1938 reflect the introduction of an optional alternative tax on net capital gains from assets held more than 18 months.

Corporation income tax returns with net income showing number of returns,
net income and tax, by net income classes, 1932 - 1938

(Net income classes and money figures in thousands of dollars)

Net income classes :	1932 :	1933 :	1934 :	1935 :	1936 :	1937 :	1938 1/
<u>Number of Returns</u>							
Under 5	64,027	61,504	103,031	113,833	132,205	125,644	
5 - 10	6,259	9,143	13,191	16,014	21,438	20,538	
10 - 25	5,930	6,794	13,157	15,751	21,688	20,341	
25 - 50	2,700	4,245	6,425	7,547	10,959	9,879	
50 - 100	1,623	2,633	4,080	4,840	7,046	6,377	
100 - 250	1,159	1,958	2,946	3,448	5,233	4,878	
250 - 500	429	732	1,092	1,335	2,107	1,938	
500 - 1,000	235	385	599	696	1,197	1,139	
1,000 - 5,000	225	312	483	597	1,058	1,046	
5,000 and over	59	69	97	113	230	248	
Total	82,646	109,730	145,101	164,231	211,161	192,228	167,685
<u>Net Income</u>							
Under 5	\$ 64,816	\$ 86,081	\$ 117,234	\$ 133,678	\$ 170,457	\$ 162,932	
5 - 10	44,505	65,169	93,873	114,074	153,967	148,166	
10 - 25	93,642	139,617	208,490	249,713	349,663	326,762	
25 - 50	94,913	149,596	226,765	266,200	368,413	350,281	
50 - 100	113,643	184,378	280,729	339,824	498,682	449,228	
100 - 250	176,676	302,402	467,310	532,638	813,120	750,190	
250 - 500	150,686	254,994	379,416	464,391	732,265	682,812	
500 - 1,000	165,507	263,833	424,504	485,993	835,894	790,255	
1,000 - 5,000	464,892	636,480	945,413	1,166,074	2,145,833	2,135,892	
5,000 and over	783,775	903,731	1,137,754	1,413,077	3,387,367	3,821,519	
Total	\$2,153,113	\$2,989,972	\$4,275,135	\$5,160,723	\$9,278,241	\$9,634,637	\$6,637,089
<u>Tax Liability</u>							
Under 5	\$ 6,936	\$ 12,123	\$ 16,469	\$ 18,944	\$ 21,701	\$ 20,650	
5 - 10	5,137	9,216	13,265	16,323	20,071	19,490	
10 - 25	11,344	19,817	29,443	35,807	44,143	44,206	
25 - 50	11,906	21,240	31,999	38,235	53,637	49,979	
50 - 100	14,555	26,135	40,399	48,766	72,166	66,777	
100 - 250	25,719	42,994	64,165	76,483	119,628	116,038	
250 - 500	20,198	36,064	52,977	66,326	105,664	103,203	
500 - 1,000	21,970	37,324	59,095	68,804	117,712	116,505	
1,000 - 5,000	62,455	89,990	130,881	164,018	273,402	289,237	
5,000 and over	107,814	128,166	157,337	202,408	361,202	450,088	
Total	\$280,034	\$423,068	\$590,048 1/	\$735,125 2/	\$1,191,378	\$1,276,172	\$859,566

Source: Statistics of Income

- 1/ Includes \$38,000 excess profits tax liability reported on returns with no net income.
 2/ Includes \$20,000 excess profits tax liability reported on returns with no net income.
 3/ Preliminary data, returns filed through December 31, 1939. Classification of data by net income classes not available.

Note: The figures showing tax liability includes normal tax, surtax on undistributed profits and excess profits tax. The classification by net income classes for 1936 is based upon "net income for income tax computation" which includes dividends received on stock of domestic corporations and interest received on certain Government obligations and excludes contributions or gifts. For 1937, the classification is based upon "net income for excess profits computation" which is greater than "net income for income tax computation" by the amount of the excess profits tax. For years prior to 1936, the classification is based upon taxable net income.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 28, 1940.

TO Mr. Blough

FROM Mr. Hays

Subject: Estimates requested informally by Mr. Shere on November 27, 1940.

1. (For the fiscal year 1941)

- (a) It is estimated that the net receipts to general and special accounts for fiscal year 1941 under the revenue system which existed prior to the Revenue Acts of 1940 would be \$5,636.6 millions
- (b) The first Revenue Act of 1940 is estimated to have added \$746.2 millions to the estimated revenues for the fiscal year 1941, and of this increase \$557.1 millions is the portion which will be earmarked under Title 2 of the Revenue Act of 1940. This would have made the net receipts to general and special accounts for the fiscal year 1941 under the Revenue Acts which existed prior to the Second Revenue Act of 1940 \$6,382.8 millions
- (c) It is estimated that the Second Revenue Act of 1940 would increase the receipts in the fiscal year 1941 by \$ 209.6 millions
- (d) Latest estimate of net receipts to general and special accounts is \$6,592.4 millions which is a preliminary and tentative estimate prepared a couple of months ago.

The net appropriation for Federal old-age and survivors' trust fund representing an amount equal to the taxes collected and deposited under the Federal Contributions Act less reimbursement to general fund for administrative expenses is estimated at \$631.5 millions, which makes the estimated total receipts to general and special accounts for fiscal year 1941, \$7,225.7 millions.

2. (For the fiscal year 1942)

A preliminary and tentative estimate prepared a couple of months ago for fiscal year 1942 indicated net receipts to general and special accounts of . . . \$7,972.1 millions of which it is estimated that \$756.7 millions will be earmarked under Title 2 of the Revenue Act of 1940.

- 2 -

Mr. Blough:

The net appropriation for Federal old-age and survivors' trust fund representing an amount equal to the taxes collected and deposited under the Federal Contributions Act less reimbursement to general fund for administrative expenses is estimated, for the fiscal year 1942, at \$641.3 millions, which makes the estimated total receipts to general and special accounts \$8,615.4 millions.

3. You ask us to "indicate how much a sales tax imposed only on articles costing over \$1 would yield". We tentatively estimate that for the fiscal year 1942 a tax of 1 percent on retail sales in the United States of articles (tangible personal property) valued at over \$1 would amount to about \$500 millions
4. We now estimate that the increased revenue for the fiscal year 1942 to be obtained by dropping the exemption under the admissions tax from 20 cents to 10 cents would be . . . \$ 24 millions

(In millions of dollars)

	Fiscal Year 1940 (Actual)	Fiscal Year 1941	Fiscal Year 1942
Receipts (net)	\$5,387	\$6,950	\$8,000
Deduct Defense Taxes	-	530	670
	<u>5,387</u>	<u>6,420</u>	<u>7,330</u>
Expenditures			
General	7,439	6,708	5,500
National Defense	1,559	5,000	8,000 <i>Too high</i>
	<u>8,998</u>	<u>11,708</u>	<u>13,500</u>
Deficit	<u>3,611</u>	<u>5,288</u>	<u>6,170</u>

Under Secretary
November 27, 1940

Large Items of estimated expenditures
included in \$6,703M estimated for
1941

A. A. A.	\$ 950 M
C. C. C.	275
N. Y. A. ^{1/}	100
Social Security Board (grants)	405
Rivers and Harbors and flood control	215
W. P. A.	<u>975</u>
	<u>\$ 2,920 M</u>

^{1/} Received approximately \$40M for national defense training in addition to above.

Under Secretary
November 28, 1940

SOME INEQUITIES UNDER THE FEDERAL TAX SYSTEM
AND REVENUE EFFECTS OF CERTAIN REMEDIAL
PROPOSALS

	Estimated revenue effect of certain remedial proposals ^{1/} <u>(In millions of dollars)</u>
Tax-exempt securities	179 - 337 (ultimate yield)
Capital gains on assets held over 18 months	13.1
Percentage depletion	32.0
Community property	3.9
Life insurance companies	Not available
Coordination of estate and gift taxes	23.7 - 70.2
Insurance exclusions under estate tax	13.8
Powers of appointment	Not available
Stock and bond transfer tax	51.3

^{1/} Revenue estimates as of varying dates before enactment of the first Revenue Act of 1940.

TAX-EXEMPT SECURITIES

The exemption of interest received on government bonds from income taxation makes it possible for some members of the community to avoid their just share of taxation. As a result, Federal and State governments are deprived of income tax revenue, necessitating correspondingly more extensive use of other, less desirable revenue sources.

Example:

When an individual, who paid a total Federal income tax of less than \$1,000, died the year following, his estate was found to contain nearly \$35,000,000 of assets consisting almost exclusively of tax-exempt government bonds.

Revenue Estimate:

The exemption of interest on Federal, State, and local obligations was estimated, under the individual income tax rates in effect prior to the Revenue Act of 1940, to cost the Federal Government from \$179,000,000 to \$337,000,000 in annual tax revenue. (Estimate as of 6/28/39.)

CAPITAL GAINS

At present only two-thirds of the capital gains realized from the sale of stocks, bonds, real estate or other forms of property held over 18 months but not over two years, and only one-half of the gains realized from such property held more than two years is taken into account for individual income tax purposes. Moreover, the maximum rates imposed on such capital gains are in effect limited to 22 percent and 16½ percent of the full amount of the capital gains. This special treatment impairs the progressiveness of the individual income tax. It discriminates against some taxpayers receiving ordinary income and in favor of those receiving incomes from certain types of investments.

Example:

In 1938 a certain individual realized a total capital gain of \$15,355,000, all on assets held more than two years. His net income from other sources was \$250,000. If his total income had been taxed at the regular rates, his tax would have been \$12,141,000. The tax actually assessed was \$2,430,000, or 80 percent less.

Revenue estimate:

If the law providing for alternative taxes on capital gains and losses were amended to change the maximum effective rates from 22 percent and 16½ percent to 36-2/3 and 27½ percent, respectively, the increase in revenue would amount to approximately \$13.1 million. (Based on calendar year 1939 - estimate as of 5/5/39.)

PERCENTAGE DEPLETION

Under present law, operators of oil and mining properties are allowed to take as depletion of property, income tax deductions equal to certain specified percentages of the gross income, without reference to the cost of their property. The percentage allowed varies from 5 percent for coal mines to 27½ percent for oil and gas wells. As a result, a taxpayer owning an oil well or mining property may deduct the cost of his property from the income tax base several times instead of only once.

Example:

In 1936, a sulphur company took percentage depletion of \$4,267,000, whereas the depletion necessary to return the cost would have been \$614,000. Percentage depletion in this case deprived the government of \$557,000 revenue for that year alone.

Revenue Estimate:

The elimination of depletion allowances other than depletion on the basis of cost or March 1, 1913 value would produce \$32 million (estimate as of 12/4/39).

COMMUNITY PROPERTY

In nine States income earned by the husband is treated under the property laws of those States as belonging one-half to the husband and one-half to the wife. In these States, the combined Federal income tax on the incomes of the husband and the wife is in general substantially less than in the other States. On a \$20,000 salary all earned by the husband, for instance, the combined tax in the community property States is \$1,320 compared with \$2,336 in the other States.

Example:

In 1938, a certain husband and wife in one of the community property States reported a combined net income of \$289,000, practically all of it salary, which apparently was earned by the husband. If a joint return had been filed, or if separate returns had been filed in a State not having a community property law, the tax would have been \$154,000. Actually the combined tax was \$121,000, or 21.4 percent less.

Revenue estimate:

If the income reported in community property States were taxed to the persons earning it and were divided between husbands and wives in the same proportion as in other States, the increase in revenue would have amounted to \$3.9 millions on the basis of 1935 returns. At the higher income levels of the present time and with the addition of Oklahoma to the community property States, the amount of revenue would be greater than that figure.

LIFE INSURANCE COMPANIES

At present life insurance companies are permitted to deduct for income tax purposes from 3-3/4 percent to 4 percent of their reserve funds, depending upon the anticipated rate of return used in arriving at the premium rates. This exemption discriminates in favor of investment in life insurance as against other forms of investment. As a result of this deduction, none of the sixteen largest life insurance companies paid any Federal income taxes for 1938.

Examples:

Total reported (interest, dividend and rent) income, reserve fund earning allowance, total deductions, and shown losses of the 5 largest life insurance companies for 1938 ^{1/}

(In millions of dollars)

Name	Total : reported : income :	Reserve : fund : earning : allow- : ance :	Total : deduc- : tions :	Shown : losses :
Metropolitan Life	\$206.9	\$159.4	\$228.0	\$21.1
Prudential Insurance Company	157.8	126.3	190.8	33.0
New York Life	115.0	79.2	119.7	20.4
Equitable Life	89.7	75.5	103.2	13.5
Mutual Life, New York	51.0	45.1	64.1	13.1

^{1/} Data taken from transcript cards of individual companies.

Revenue Estimate:

Not available.

At present the Federal estate and gift taxes are in pressing need of coordination. The gift tax, initially enacted to make the estate tax effective, still affords substantial opportunities for tax avoidance. These opportunities are especially great for the holders of large fortunes. The advantages of transfers by gift during life increase more than in proportion to the amount of the property transferred.

Example:

At present the Federal tax on an estate of \$10,000,000 is \$5,430,000. If, however, half of the property is transferred during life the tax is cut to \$3,200,000. Moreover, if the distributions during life and death are made with a view to minimizing the total tax, the Federal taxes can be reduced to \$2,580,000.

Revenue Estimate:

If the estate and gift taxes were integrated so that the estate were taxed as though it were the last gift superimposed upon prior net gifts cumulated from the effective date of the Revenue Act of 1932, if only one \$40,000 exemption were allowed (whether taken for gift tax or estate tax purposes), and if gifts were taxed at the same rates as estates, the net increase in gift tax and estate tax revenue under the rates of the Revenue Act of 1935 was estimated between \$23.7 million and \$70.2 million (on the basis of fiscal year 1940 collections, estimate as of 3/17/39).

ESTATE AND GIFT TAX EXEMPTIONS

Present laws provide three different exemptions which can be utilized in minimizing the taxes on transfers of property from one generation to the next: Estate tax exemption of \$40,000; estate tax insurance exclusion, \$40,000; gift tax exemption \$40,000. In addition, individuals are permitted to distribute each year, free of tax, \$4,000 gifts to each of any number of individuals.

Insurance is favored under the estate tax as against other forms of property. The other exemptions result in great differences in the amounts of tax imposed on property transfers, depending upon the time and manner of distribution.

Example:

An individual with a \$500,000 estate, who retains title to all property until death, is liable to a \$88,400 tax. If he makes systematic property distributions to his wife and three children during the ten years before his death, he can reduce his tax liability to \$18,856 or by 79 percent.

Revenue Estimate:

Disallowing the \$40,000 insurance exclusion would produce \$13.8 million (estimate as of 1/24/39).

Providing only one \$40,000 exemption for both estate and gift tax purposes would produce \$11.2 million (average of calendar years 1937 and 1938).

POWERS OF APPOINTMENT

At present, limited powers of appointment enable the passage of property without payment of estate or gift taxes through more than one generation. For example, a father by his will may leave his property to his son to be enjoyed by the son during the son's life; he may at the same time give this same son the power to leave that property at the son's death to such of the son's children as the son wishes to. In such an instance the tax is imposed when the father dies but there is no tax when the son dies and leaves the property to the grandchildren.

Example:

At present rates, the passing of a \$1,000,000 estate by limited powers of appointment to a third generation results in the avoidance of a \$232,000 estate tax (or a \$140,000 gift tax) on the passage of the property from the second to the third generation.

Revenue Estimate:

Not available.

STOCK AND BOND TRANSFER TAX

At present transfers of stocks and bonds are taxed on the basis of the face or par value of the securities. In the case of stocks, an additional determinant is whether the selling price is above or below \$20. As a result, the tax is largely independent of the value of the financial transaction and frequently varies inversely with the selling price of the security. Replacing the present taxes on stock and bond transfers by one based on the value of the transaction would contribute to both revenue and equity.

Example:

	: Market : price : 11/22/40:	: Par	: Tax : Tax : :	: Tax as per- : cent of : market price
Liggett & Myers Tobacco, Pf.	\$187	\$100	\$.06	00.032%
Kelsey-Hayes Wheel "B"	9-1/8	1	.05	00.548
Seaboard Air Line (common)	1/4	no par	.05	20.0

Revenue estimate:

If the present taxes on stock and bond transfers were replaced by a tax of one-fourth of one percent on the sale price, the increase in revenue would amount to \$51.3 million in the first full year. (Estimate as of 1/24/1939.)

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TENTATIVE LESSONS BULLETIN
No. 70
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 29, 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.

OBSERVATIONS ON BRITISH TANKS IN FRANCESOURCE

These observations were made by a British officer in France late in May, 1940.

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2. REMARKS ON TYPES OF TANKS
 - a. Light Tanks, Mark VI-B and VI-C
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 - a. Vision Arrangements
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CONFIDENTIAL1. INTRODUCTORY RELARKS

" In the battle whose results I saw, tanks were used as infantry tanks supporting an infantry attack, but without adequate fire or infantry support."

"It should be noted that German antitank gunners, who from all accounts are very well disciplined, hold their fire until tanks are within 50 to 100 yards. In doing this, they not only reap the benefit of high penetrating power at close range, but also get several tanks before tank personnel realize they are on top of an antitank position."

2. REMARKS ON TYPES OF TANKSa. Light Tanks, Mark VI-B and VI-C¹

"I saw a number of British light tanks Mark VI-C which had been put out of action by enemy fire. I came to the following conclusions:

"One direct hit was sufficient to put the tank out of action, and, in four cases out of seven that I saw, the tanks were set on fire as a result of the shot's going either through the gasoline tanks or into the engine compartment. According to a French staff officer, the Germans fired all captured tanks which were not already burned out.

"An officer on General de Gaulle's staff told me he had information that German staff officers had been seen inspecting British tanks put out of action, so it must be presumed that they have the details of light tanks.

"I saw a CTA plate—a face-hardened 14-mm. plate serving as the upper rear offside side plate of the light tank Mark VI-B—which had been struck by a 37-mm. shot at an angle of 30° to 45° to

1. Each of these tanks weighs 6.27 tons, has an armor basis of 14 mm., and a speed of 30 miles per hour. The only difference between the two is that the Mark VI-B carries Vickers guns while the Mark VI-C carries Besa guns. As to the current manufacturing program, both tanks are obsolete, although Great Britain is still using those she has. G-2.

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the normal. It was badly shattered, and, in addition to the hole made by the shot, a piece of plate 4 inches by 4 inches had been knocked out.

"On the whole, Cavalry units . . . have no use whatsoever for the light tank Mark VI-B."

b. Cruiser Tanks, A.9 and A.10²

"I have no information regarding the performance of A.9 and A.10 tanks, but I have come to this very definite conclusion:

"It is a waste of lives and material to send to France anything with armor less than 30 mm. if it is to come into contact with forward antitank defenses. I think the French are right when they say the minimum armor thickness for any armored vehicle should be 40 mm.

"Cavalry units . . . find the A.9 and A.10 a nuisance on account of their slow speed. I am convinced that most of their running troubles with these cruisers result from their efforts to keep them up with the cruiser A.13."

c. Cruiser Tanks A.13 Mark I and A.13 Mark II³

"I did not see a Mark I which had been hit, but I consider it quite as vulnerable as the light tank Mark VI-B.

"The method of spacing armor on the turret of the Mark II appears to be successful in holding out 37-mm. fire at

2. The A.9 has a weight of 14.56 tons, a speed of 23 miles per hour and armor of 14 mm. The A.10 has a weight of 15.9 tons, a speed of 18 miles per hour, and armor of 30 mm. Great Britain has a number of these cruiser tanks in use, but they are no longer being manufactured. G-2.

3. These are tanks of British Christie design, each powered by one 400-horse power Nuffield Liberty engine. The Mark I has a weight of 14.56 tons, a maximum speed of 50 miles per hour, and armor of 14 mm. The Mark II has a weight of 16.24 tons loaded, an ungoverned speed of 40 miles per hour, a governed speed of 30 miles per hour, and armor on a 30-mm. basis. The tanks are no longer in production. G-2.

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400 to 600 yards. I was told, however, that at close range one turret, which I did not see, was pierced in three places and that the shots dropped inside with sufficient velocity to produce only slight bruises. No bones were broken, but all three members of the turret crew became slight casualties.

"I saw three shots through the wheels of a Christie suspension. It looked as if they had done little damage beyond drilling holes through the wheels. Whether this happened after the tank came to a standstill, I do not know, but it looked to me as if the tank could have run some miles after this damage had been inflicted.

"On the whole, Cavalry units seemed delighted with the cruiser A.13 Mark II and with the power traverse gear. They only wished we could overcome clutch and steering troubles."

d. The French Char B⁴

"Neither 37-mm. nor 47-mm. ammunition will pierce the armor of the Char B, although the shot makes a crater about 10 to 15 mm. deep in the armor.

"I saw two direct hits by explosive shell probably of 75-mm. to 105-mm. caliber. One struck on the front plate a foot below the driver's lookout, scored the armor, blackened the periscope mirror, and smashed the object glass of the left hand 75-mm. sighting telescope but apparently left the right telescope intact. The other burst, which was registered on the front sloping plate of the turret above the mounting, scored the armor badly and blew the cupola completely off the tank—where to, I was unable to find.

"One Char B had been put out of action by a shot straight through the face of the sprocket wheel. The hole measured 45 mm. in diameter, and the final reduction was all jammed up. On the same tank a 45-mm. shot had penetrated the machine gun protecting mask, but it had not gone through the mounting into the tank.

4. According to a British official report, the Char B is a heavy Renault tank. Its weight is 31 tons; armor, 60 mm.; maximum speed on road, 17 miles per hour. For full characteristics of the tanks and for improvements the French intended to effect, see SPECIAL BULLETIN NO. 12, Par. II.

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"On another Char B--whose engine had been fired, presumably by the crew before leaving--there were imprints of sixteen 57-mm. or 47-mm. shots which had done no damage whatever except that one may have jammed the turret. It was interesting to note that one of the shots had struck the track rail obliquely and had heavily indented the end of the track pin. It had not, however, broken the track.

"Since the French attack was in progress while I was making my observations, I was unable to get first-hand information as to the result achieved by a battery of 105-mm. field guns firing solid shot on Char B's. I was told they were putting the tanks out of action. An unconfirmed report indicated that one shell had passed in one side of a Char B and out the other side."

3. GENERAL NEEDSa. Vision Arrangements

"It is early to give a definite opinion on vision arrangements, but the impression I gained was that, although the periscope was as good as the triplex block for vision, the triplex block was preferred in a roomy cupola.

"It is our contention that a tank cannot be controlled from the gunner's position. This can be confirmed by the fact that in one tank, with the commander killed, all sense of direction was lost, and the only way to get out of the battle was for the driver to turn about and follow tracks to the rear. For this reason, as well as for the reason that German antitank guns are so well hidden as to be extremely difficult to locate, it is quite essential to have as many alternative methods of vision as possible in the tank."

b. Revolver Portholes

"A good many of the German casualties were actually inflicted by personnel leaning out of tanks and, with revolvers, shooting Germans who were taking cover in slit trenches as tanks came by.

"In one case, where a tank commander with his head out of the cupola was shot, the Germans were so close that the gun could not be depressed on them. The tank driver raised his visor and shot six of them before closing it.

"This emphasizes the need for good revolver portholes in as many directions as possible. As always suspected by us, a casualty in the turret of the tank prevents its rotation through

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becoming wound up in it. In such circumstances, all round revolver portholes are essential for defense.

c. Armament

"I am convinced that it will be a grave error if any infantry tank of the future is not equipped with at least a 75-mm. shell-firing weapon. Neither slugs nor machine guns can put out of action antitank crew members who drop into their slit trenches when necessary. Thus, unless the antitank gun is overrun in actual fact, its crew pops up in time to bag the next tank. On the other hand, if half a dozen 75-mm. shells could be burst on the antitank gun position, chances are that the crew would be knocked out."

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BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

November 29th, 1940

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the reports from London on the military situation received on November 14th, 15th, 16th, 17th, 18th, 20th, 20th, 21st, 22nd, 23rd, 24th, 26th and 27th.

Believe me,

Dear Mr. Secretary,

Yours sincerely,

L. S. Brown

The Honourable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.

TELEGRAM RECEIVED FROM LONDON

DATED NOVEMBER 27th, 1940

1. Naval During the night of November 26th/25th enemy surface vessels sank Dutch ship (2,000 tons) off Biscaya. (Some) fishing trawlers also reported sunk in the same area. Our naval forces carried out a sweep but failed to intercept the enemy.
2. Air reconnaissance of Taranto thus far reported 2 battleships and 7 cruisers in the harbour.
3. Greece. Situation report to 8.00 p.m. November 25th.
4. In northern sector Greek reconnaissance troops have reached Pogradec and penetrated fifteen kilometres west of Viskopjao. In Pinus sector progress continues. Greek advance on Argyrokastron road encountered reinforcements. In coastal sector Greeks have passed Philates and have landed a detachment behind the Italian flank.
5. Our air reports indicate that Italians are trying to retrieve the situation by landing large reinforcements at Durazzo and Valona; since November 10th at least 21,000 (in) formations have arrived.
6. Royal Air Force. Night of 25th/26th. 36 heavy bombers were sent to the following targets; shipbuilding yards at Kiel (25) naval base at Wilhelmshaven (11). In addition 3 aircraft were given a mine-laying task. All but one returned.

7. German Air Force. Night of 24th/25th. Town Hall and a club at Croydon were hit, 26 people being killed and 33 injured.

8. Bristol.

Casualties reported: 44 killed, 142 seriously injured.

9. Night of 25th/26th.

Fog was widespread and except for a few aircr-ft operating in the Bristol area no enemy activity. London was "all clear" all night. A few small fires from incendiary bombs were reported from Bristol area.

10. Aircraft casualties in operation over the United Kingdom.

Enemy: By our fighters.

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Bomber	1	1	nil

By anti-aircraft (24th/25th)

Unspecified	<u>3</u>		
TOTAL :	4	1	-

British: Three bombers missing.

11. Shipping Casualties.

On the 23rd a British ship of 3,100 tons in convoy was torpedoed and sunk in the northwestern approaches. November 24th British ship of 6,000 tons was mined in home waters and beached.

12. Three convoys totalling 95 ships have arrived in home waters from (Western) Atlantic.

13. Malta. November 24th six Italian fighters made a low flying attack on Luge aerodrome; one Wellington was destroyed and three others damaged.

14. The same day our Blenheims successfully attacked/

attacked four Italian bases in Libya and the following day bombed transport park at Assab with good results.

TELEGRAM RECEIVED FROM LONDON

DATED NOVEMBER 25th, 1940

1. Royal Air Force.

Night of November 24th/25th.

Fifty-one aircraft were despatched to Hamburg shipyards oil plants and gasworks (44 bombers); the remainder went to attack shipping at Haulonge. In addition 3 heavy bombers were minelaying. One medium bomber is missing also 1 heavy bomber.

2. German Air Force.

November 23rd/24th. Further reports. Southampton. Casualties so far reported are 63 killed and 250 seriously injured. Damage to railway and residential property is serious but surprisingly little damage has been done to docks and factories. General morale is good and civil defence services worked with great courage and suffered numerous casualties. Troops are assisting.

3. Night of 24th/25th.

About 90 machines were operating of which 50 attacked Bristol. Commercial and residential property mainly suffered and several fires were caused. Casualties so far reported are about 40 killed and 150 seriously injured. Damage to industry was not serious and war production is unlikely to be greatly affected.

4. Aircraft casualties (in operations against British Isles)

Enemy by day:

Bombers

Destroyed

2

Fighters/

<u>Enemy by day:</u>	<u>Destroyed</u>
Fighters	1
By night: by anti-aircraft	
Unidentified	1
TOTAL :	<u>4</u>
Probably destroyed:	nil
Damaged: by day	
Fighter	1
By night	nil
TOTAL :	<u>1</u>

Our losses. 2 bombers missing.

5. Shipping casualties.

British S.S. "Port Hobart" 7500 tons reported being shelled by enemy raider 600 miles south east of Bermuda on the afternoon of November 24th. Two British ships 6200 tons total were lined in home waters yesterday. One was abandoned the other sank.

6. Greece.

The situation to 8 p.m. November 24th.

Northern Sector. Mopping up continues.

Pindus Sector. Greeks have taken high ground ten kilometers north of Ersek near Ersek-Kovitsa road.

Epirus Sector. Greeks have advanced an average of 3 kilometres and have occupied heights north east and south west of Leskovik. Near the Coast the Italians from Kalamas area reported retreating along Sarande road. The Greeks have sent small force with artillery from Corfu to cut the road.

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TELEGRAM FROM LONDON
DATED NOVEMBER 24th, 1940.

1. Complete inactivity of the Italian Air Force along the whole front on the 21st heavy clouds and snow in the mountains rendered air operations difficult for both sides. On the 22nd the Royal Air Force successfully bombed military concentration at Argyrocastron.

2. Royal Air Force

Night of 23rd/24th.

Seventy aircraft were sent out as follows:-

Three oil-plants (29 machines); targets at Berlin (10 heavy bombers); Royal Arsenal at Faria (10 heavy bombers); and smaller numbers to various other objectives, which included minelaying. One Aircraft is missing.

3. German Air Force

Night of 22nd/23rd.

Casualties reported in London area were: 6 killed, 18 injured. Birmingham relief services still heavily engaged but are dealing with the situation adequately. Utility services especially water, suffered severely although several factories have been affected, later reports indicate slight damage in most cases and in others less severe than at first thought. Casualties reported over 100 killed and 900 injured.

4. November 23rd several high altitude fighter swoops took place but only one reached

Central London. Attacks also attempted on shipping in the Thames Estuary. These formations included Italian fighters.

During the day our fighters destroyed 11 enemy without loss.

5. Night of 23rd/24th.

Weather was favourable to the enemy during the early part of the night but later ground mist developed and his activity slackened. About 190 enemy aircraft were operating 60 of which were mine laying. Southampton was chosen for attack which started at 6.40 p.m. Several fires were started but were all under control by the morning. Burst water mains caused temporary lack of water for fire fighting. In a hospital ship in the dock area, a fire was started but was soon put out and some damage was caused to the Fleet Air Arm and the Admiralty Stores. Casualties so far reported are 40 killed and 150 injured.

6. Aircraft casualties during the above operations (home front):

<u>Enemy:-</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
(German) by day-			
Fighters	4	2	1
Italian fighters	7	2	2
British - 1 bomber missing.			

7. Shipping casualties. By submarine November 23rd; 2 Norwegian ships (5,000 tons total) homeward bound in convey torpedoed North-Western approaches. 2 British ships (10,300 tons total) and 1 Swedish ship (5,100 tons), belonging to out-ward/

ward-bound convoy torpedoed North-Western approaches.

By Mine /November 22nd/-

1 British ship (3,700 tons) sunk off South-West English coast.

B. Middle East

Italy. On night of November 22nd/23rd, our heavy bombers attacked Bari. Fires were started on jetties and explosion near the railway station lit up the Town, and bombs which burst near oil refinery caused large explosions and fires.

C. Kenya.

On November 22nd, two Italian bombers attacked Mura. One was destroyed.

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Telegram from London of the 23rd
November, 1940.

- 1. Malta twice raided by enemy aircraft night of 20th/21st, no damage service or civilian property.
- 2. Netherlands submarine 021 is presumed lost.
M/L 127 mined and sunk off Harwich 22nd.
- 3. Royal Air Force, November 22nd.

Most of our daylight bombers were forced to abandon tasks owing to lack of cloud cover.

A factory, a convey, harbours and barges at 3 ports, and 2 aerodromes were however attacked. Hurats were seen on docks at one port, and also upon one aerodrome. All our aircraft returned safely.

Night of 22nd/23rd. 95 aircraft were sent out as follows: Aircraft assembly plant, Bordeaux (43 heavy bombers); 2 Synthetic oil plants 34 medium bombers); wharves at Duisberg-Ruhrort; shipping at 2 "invasion ports". Other machines were sent to lay mines and drop pamphlets in Northern France and Paris area. One heavy bomber has not returned.

4. German Air Force, November 22nd.

Enemy activity very slight. Consisted mainly of reconnaissance flights to the Southeastern and South coasts in small numbers. Few aircraft penetrated inland, no bombing of importance reported.

5. Night of 22nd/23rd. Enemy activity was principally concentrated on the Midlands, and especially against Birmingham. About 265 machines operated during

the/

- 2 -

the night, of which 30 were mine-laying, 45 crossed over London area, and 100 attacked Birmingham. Individual aircraft visited several other towns and districts.

6. Only minor incidents are reported from London area. At Birmingham bombing began at seven thirty p.m. and serious fires were caused. At ten thirty p.m. when all fire fighting services were fully occupied, there was a further heavy raid. By five a.m. all fires were under control, although the attack did not finish until five twenty five a.m. From preliminary reports, damage appears to have occurred chiefly in the center of the city, affecting Municipal and public buildings and two railway stations. Six factories reported as hit, three of them severely. Fires were caused at two gas works. Elsewhere in England bombing was slight, although damage was caused at one dock, and to a ship at Liverpool.

7. Aircraft casualties.

(In operation against British Isles).

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Enemy (by day)			
Bombers -	2	nil	1
Our losses:	One bomber missing.		

8. Middle East, Libya.

Reference paragraph 2, summary of November 22; eight Libyans killed not one hundred and eight. On night/

- 3 -

night of November 20th/21st, single aircraft attacked Italian bases and aerodromes. At one place a barrack building was set alight and at an aerodrome the control building was hit and several aircraft on the ground damaged. At Benghazi the custom house was hit and another large building blew up after being bombed.

Malta.

On November 22nd, twelve Italian bombers flew over the Island; one was destroyed by anti-aircraft fire.

Telegram received from London dated
November 22nd, 1940 (delayed in transit).

Naval.

1. One armed drifter off Harwich mined and sunk p.m. 21st and on 20th H.M.A.S. Goorangal minesweeper sank with all hands after collision in port Philip Bay Victoria. British ship "Fort Brisbane" reported being attacked by armed raider 1,000 miles west off Fremantle a.m. 21st.

2. Estimated that, in addition to Admiral Scheer who may still be out, there are now certainly three and possibly five raiders at large. The certainties:

- 1 in Indian Ocean;
- 1 in South Atlantic;
- 1 in Australasian waters of Pacific.

Possibles are:

- 1 in North Atlantic and
- 1 additional in Indian Ocean.

3. A.M. 21st two convoys attacked by A/C off Harwich and in Thames Estuary respectively. One ship damaged by gun fire.

4. Military. Greece, Situation to 8.8 p.m. 21st.

5. Since our Gladiator action on 19th, reported summary of 21st, Italian fighters seem to have almost ceased to operate; only two have been seen.

6. On November 19th one of our patrols met enemy somewhat south of Bidi Barrani, machines included 15 medium tanks and 60 mechanical transport. We destroyed 5 tanks and one 20 mm. gun, damaged six tanks and took

1/

-2-

1 20 mm. gun and eleven prisoners; 108 Libyans were killed. Our losses were 1 officer killed, 1 officer and 3 other ranks wounded, one tank and one truck destroyed.

7. Night 21st/22nd. All operations cancelled owing to weather.

8. German Air Force. Night 20th/21st. Further reports. London area: total casualties reported 11 killed and 45 injured.

9. Further reports from Birmingham indicate that house property was chiefly concerned. Damage and casualties were caused by parachute mines and bombing Kenilworth and Wolverhampton districts.

10. Night of 21st/22nd. Only about 115 aircraft were operating.

11. Aircraft casualties in above operations (home front):

<u>Enemy:</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Bomber	1	nil	1
<u>British:</u>	1 fighter		
	1 bomber missing.		

Telegram received from London
dated November 21st, 1940.

1. British ship *Waimoa* at 8.30 a.m. November 20th reported being chased by raider 750 miles west of Fremantle. Another enemy surface vessel probably raider was 1200 miles east of River Plate p.m. November 19th.
2. E-boat sunk by "Campbell" night of 19/20th was engaged at close range, she endeavoured to escape behind smoke screen. Chased at high speed she soon caught fire and having been badly damaged capsized and sank.
3. Enemy aircraft made low bombing attacks on Alexandria night of November 18/19th. Similar attempt on the harbour abandoned when anti-aircraft barrage put up.
4. Convoy in Thames Estuary was dived bombed by two aircraft a.m. November 20th. No damage.

Greece. Achievements to 6 P.M. November 19th.

5. Northern Sector. Operations much retarded by enemy air action. Greeks have not attempted to advance from the high ground immediately east of Koritsa. Hooping up continues; large quantities of supplies captured, including 15 anti-tank guns with ammunition and 20 mountain guns.

6./

W.B.

-9-

7. Pindus Sector. The Greeks have crossed the frontier in many places and have cut the main north-south road near Leskovik.

8. Epirus Sector. The Greeks have occupied Visani.

General. Troops have been ordered to be as active as possible over the whole front in order to disperse the Italian air activity.

9. Royal Air Force. Night of November 20/21st.

Eighty-nine machines were sent out (as follows) a German inland port (43 aircraft); aerodromes in occupied territory (23 medium bombers); submarine base at Lorient; gun emplacements near Calais; fuel installations in Holland.

10. German Air Force. NIGHT of November 19/20th.

Further reports. Casualties in London area: 26 killed, 29 injured; Birmingham area, 193 killed, 682 seriously injured; Leicester, 35 killed, 181 injured.

11. Night of November 20/21st. Widespread attacks by about 230 enemy machines; the industrial Midlands was the main objective. The attack on London was on a small scale and chiefly before midnight. From preliminary reports it appears that the attack on Birmingham was chiefly confined to the East of the city, and although several factories were affected, very little important damage has been reported. At Leicester two parachute mines did considerable damage to residential property and caused a serious fire which was soon under control.

Aircraft casualties in the above operations (home front).

Enemy
By our fighters
Bomber

Destroyed

1

Our/

-3-

Our loss is Nil.

12. Attacks on shipping - A British ship 10,000 tons, reported she was being chased by a raider 750 miles west of Fremantle at 8.30 a.m. November 20th.

13. Middle East

Greece. On the night of November 17/18th our heavy bombers successfully attacked Valona; one crashed on a mountainside in Yugoslavia, the rest returned safely.

On the afternoon of November 19th ten Gladiators which had only arrived at their forward camp the same morning, intercepted a superior number of Italian fighters and destroyed nine for certain and two more probable. All our aircraft returned safely.

Libya. Reported four Gladiators of the Australian Air Force shot down five enemy fighters. One Gladiator missing, another forced landed, pilot safe.

Telegram received from London
dated November 20th, 1940

During air raid night of November 13th/14th at Alexandria four heavy delay action mines or bombs dropped in the harbour, they exploded p.m. November 16th: slight damage and dock out of use for short time.

2. Four merchant ships have been torpedoed within about 250 miles of Freetown during the last five days by U-boat probably German.

3. "Campbell" sank an E-boat off Southwold night of November 19th/20th and picked up survivors.

4. Three M.S. trawlers off East coast attacked by enemy aircraft November 19th one sank.

5. Alexandria bombed night of November 16th/17th damage slight except to some private property. At about 5:30 November 17th believed mines or torpedoes were dropped in the harbour.

6. Convoy off Hartlepool attacked p.m. November 16th by one aircraft and "Lowestoft" bagged it. Later convoy damaged another aircraft as it returned from Tyne.

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7. Royal Air Force. Night of November 19th/20th. Sixty-nine aircraft were sent to the following objectives. A power station and a military objective at Berlin; Krupps and another shipbuilding yard at Kiel, 3 synthetic oil plants in Germany; Skoda works at Pilsen; submarine base Lorient. Four heavy bombers are missing.

-2-

8. One heavy bomber made a daylight raid on Bari on November 19th.

9. German Air Force. Night of November 18th/19th. Casualties in London area were 3 persons injured.

10. Daylight November 19th. Enemy activity consisted of reconnaissance flights in small numbers over the East and Southeast coasts. There was no penetration inland. In the afternoon a formation of about 50 approached Portsmouth but turned back before reaching the coast. No bombing was reported during the day.

11. Night of November 19th/20th. Enemy activity was heavy and widespread, especially before midnight: about 400 aircraft operated chiefly in the Midlands and especially against Birmingham. Five enemy aircraft were destroyed during the night.

12. In London high explosive bombs were dropped in Strand and Covent Garden districts at 8 p.m.: and a large fire was started in Marylebone. A heavy attack on Birmingham started at 7:25 p.m.: house and shop property suffered considerably but damage to factories was only slight. Railways were hit and several large fires were started, but all are either put out or under control. A boot factory was set on fire at Leicester and casualties resulted. A few bombs were also dropped on Coventry.

13. Aircraft casualties in above operations (home front) all during night of November 19th/20th:

Enemy/

-3-

<u>Enemy:</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Destroyed by balloon barrage Bomber	1		
Other causes Bomber	1		
Unidentified	3		
	—		
Total	5		

British: 4 bombers missing.

14. Middle East. Western Desert. Siwa was bombed on the night of November 17th/18th and aerodrome is temporarily out of action.

Telegram received from London
dated November 20th, 1940.

Naval.

Four more ex-American destroyers have
arrived.

2. Greece

Situation to 6 p.m. the 17th.
Northern and Pindus Sectors.
No change.

Epirus Sector

(a) Greeks continue progress along Permet
road.

(b) Opportunity to capture large number of
enemy in Koritza area has been lost owing to heavy
Italian dive-bombing and machine gun attacks pinning
troops to the ground during greater part of the day.

3. Yugoslavs deny the report that Italian tanks
retired into their territory.

4. On November 17th our medium bombers attacked
supply dumps in Albania, and fighter patrols were
maintained over Athens.

5. Royal Air Force November 18th.

Two Blenheims of Coastal Command attacked
and probably destroyed 2 Heinkel bombers off the Dutch
coast. Three other Blenheims destroyed a flying boat
and damaged another off the Danish coast; all of our
aircraft returned safely.

6. Night of 18th/19th.

Projected operations were mostly cancelled
owing to unfavourable weather, some heavy bombers were
sent to the Leuna oil plant, and others on a mine-
laying/

-2-

laying mission.

All returned.

7. German Air Force.

Coventry. Casualties so far reported are 380 dead and 800 injured. Several important factories resumed work on November 18th. The morale of the public and A.R.P. services is reported to be magnificent.

8. At military billets mentioned yesterday 27 soldiers were killed and 35 seriously wounded.

9. Night of 18th/19th.

About 150 enemy aircraft were employed of which an unusually large number were apparently mine-laying off the East Coast.

10. Shipping Casualties.

A north bound convoy was attacked 10 times by aircraft in the Thames Estuary during the early afternoon of November 18th. Three ships were damaged. A south bound convoy was similarly attacked in the same area but sustained no damage. One British ship was sunk by air attack off southern Ireland early on November 18th.

11. During the night of 17th/18th.

Our medium bombers attacked Italian sea bases.

12. Sudan.

Libya. Night of 16th/17th and during the 17th our bombers attacked various military and railway targets in Ethiopia with observed successful results.

Telegram received from London
dated November 18th, 1940

Naval. In spite of extensive search in area of attack on convoy HX 84, no trace of further survivors has been found.

2. It is rumoured that a pocket battle-ship is in the vicinity of the Azores and the German tanker Germanis is reported to have left the Azores P.M./17.

3. On November 16th H.M.S. Colombo shelled a merchant vessel of 1500 tons anchored off Mogadishu and obtained at least 2 hits. Shore batteries opened fire without result.

4. Naval mine sweeper shot down 1 enemy aircraft yesterday.

5. Royal Air Force.

Night of November 17th/18th. Fifty-two aircraft were despatched by bomber command; 43 to Belsenkirchen oil plant and others to Hamm marshalling yards and Lorient submarine base. All returned safely.

6. German Air Force.

Night of November 16th/17th. Further reports. Casualties in London area so far reported are 44 killed and 155 injured. At Southampton extensive damage to property was done by a land mine, 18 people being killed and 30 injured.

W.S.

7. Daylight of November 17th Fifty enemy aircraft approached Maidstone and a further 60 consisting/

-2-

consisting of Italian bombers escorted by German fighters were spread over southeast area but did not penetrate beyond Tilbury. The gas works at Rochester and power station at Newhaven were hit. Elsewhere, there was no damage of significance.

8. Night of November 17th/18th. About 280 aircraft were engaged.

9. No important damage was reported in the London area. At Southampton 19 persons were killed and 20 injured and damage was caused to residential property. In Essex, a parachute mine dropped on a billet containing 260 soldiers; there were many casualties.

10. Coventry. Later news. Estimate of industrial damage specifies 6 factories. 1 reported as gutted; at the machine tool factory previously reported as gutted, damage is less serious than was thought and a large part of the stock will be salvaged. At the other 4 factories damage is only partial and production is continuing. At Courtalde, the munitions section was almost untouched and is in full production; 71% of production from the remainder of the factory is expected from today.

11. In all factories production is temporarily hindered by partial interruption of public utility services.

12./

-3-

12. Aircraft battle casualties in the above operations (home front).

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
<u>By our fighters:</u>			
Fighters	12	5	6
Bomber (Italian heavy bomber)	-	-	1
<u>By Minesweeper</u>			
Unspecified	1	-	-
<u>By Anti-Aircraft fire</u>			
Bomber	1	-	-
<u>Crashed (cause unknown)</u>			
Fighter	<u>1</u>	<u>-</u>	<u>-</u>
Totals	15	5	7

British 5 fighters (4 pilots safe).

13. Shipping Casualties. A British ship (3000 tons) has been sunk by a U boat 350 miles southwest of Freetown.

Telegram from London dated
November 17th.

Naval.

A naval trawler was blown up and one Polish and one British destroyer damaged as a result of a collision in the Clyde on November 16th.

A British cruiser force has arrived in Piraeus with troops from the Middle East.

During an enemy raid on Alexandria on November 13th H.M.S. "Decoy" was damaged - two decks and the bottoms holed.

Royal Air Force.

On November 16th enemy AC/ shelled N.E. Swin light-vessel and machine gunned Butt of Lewis light-house - no casualties but light vessel sustained hits above the water line.

Convoy in Thames estuary twice bombed a.m. November 16th. One ship had engines disabled and another, not in convoy, was bombed but no damage reported.

Daylight November 16th.

A small number of medium bombers attacked shipping at 3 Dutch ports.

Night November 16th, 17th.

128 heavy and medium bombers were sent to continue the attack on military objectives in Hamburg and in addition 22 were detailed to attack aerodromes and Antwerp dockyard and 3 to lay mines. No outstanding results observed mainly owing to heavy clouds over the target area. 3 of our aircraft missing.

German Air Force. Night of November 15th, 16th.

It is now known that 3 enemy aircraft were shot down by anti-aircraft fire. Total casualties reported in London area were 95 killed and 510 injured. There were said to have been 33 fatal and 14 serious casualties at Bournemouth. About 300 incendiary bombs were dropped on Windsor but damage and casualties were slight.

Night of 16th, 17th.

93 aircraft were plotted, of which 16 were mine laying and 48 operating over London. One enemy machine was shot down by anti-aircraft. Parachute mines were again used, but few cases of important damage were reported from London area.

Coventry.

All fires under control.

Aircraft battle casualties in above operations (home front):

Enemy
By anti-aircraft
Unspecified

Destroyed.

4

Greece/

Greece, Northern sector.

Greek troops are within 12 kilometres of Koritza. Near Bilisht stiff opposition encountered from Italians in prepared positions. 450 prisoners, 10 guns captured this area. Commander-in-Chief satisfied with progress.

Pindus sector.

No change.

Epirus sector.

Greek advancing from Doliana nearly reached Basilikon and have taken Delvinskion. Further south 175 prisoners taken by one Greek battalion. Coastal sector, advance towards Egoumenitza continues.

The 47th Italian division has been brought from Valona to Pindus front.

Middle East.

On November 15th Blenheims escorted by fighters attacked 2 enemy aerodromes; and on the night of November 15/16 successful air attacks were made on 5 Italian sea bases in Libys.

Sudan.

During the night of 14th, 15th, an unidentified aircraft was reported off Port Sudan believed to be mine laying.

Italian East Africa.

On the night of 14th, 15th and on 15th our medium bombers attacked various military targets in Ethiopia and 6 machines of South African Air Force bombed an aerodrome in southern Ethiopia destroying 2 Italian bombers and damaging 3.

Roumania.

Evidence has accumulated to show that German forces in Roumania are being continually increased. Although it has not been possible to identify any more units it is possible that there are now elements of several more divisions in the country representing a strength of approximately 80,000 men, including instructional troops and troops required to man anti-aircraft defences. There are also fears that reinforcements are passing through Hungary at the rate of 1 division per week.

Telegram received from London
dated November 16th, 1940.

Daylight 15th.

A Hudson on reconnaissance off the Norwegian coast destroyed a Heinkel bomber.

2. Night of November 15th/16th.

In good weather heavy and successful attack made against transportation, oil and shipbuilding targets at Hamburg. In attack on transportation targets in Linwarder and Moorfleth areas, bursts seen in target areas, hits scored on marshalling yards and large building blew up and appeared to be completely wrecked. At Rhenania - Ossag oil refinery many fires and small explosions caused. At Blohm and Voss shipyard several fires were started at four military objectives in the city. Many aerodromes were attacked. Results observed were as follows. Schipol aerodrome buildings and hangars; Soesterberg buildings on the east side and railway straddled, explosions and fires were caused; Eindhloven, direct hits scored on the railways and buildings; Borkum seaplane base, hits made on slipways and hangars and buildings at the top of the slipway set on fire; Beauvais, bursts seen amongst fourteen twin-engined enemy aircraft, two bursting into flames; Alox, direct hit made on an enemy aircraft taking off. Channel ports of Calais, Boulogne, Dunkerque, Ostend, Seebruge and Cap Gris Nez, boats also attacked. Two of our aircraft are missing.

3. German Air Force

Night of November 14th/16th.

Total casualties so far reported were 23 killed and 64 seriously injured.

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-6-

4. The raid on Coventry was the most serious the City has experienced and lasted for over eleven hours. In addition to numerous high explosive bombs, about 50 parachute mines were dropped and exploded, as well as about 20 unexploded mines and many unexploded bombs. All factories closed down during the daylight of November 15th, and it was not until the morning was well advanced that all fires were brought under control. Production at a number of factories will probably be affected by shortage of electricity. There has been some private evacuation, but the morale is good. Amongst the most important items of damage were railways and railway property, which is now open. One machine tool factory is reported as burnt out, and the Cathedral is almost destroyed. Three hospitals were hit, two of which have been temporarily evacuated. Serious damage was caused to gas and electrical services, some of which will take some time to repair. So far two hundred bodies have been recovered and there are several hundred injured.

5. Other Midland towns, Leamington, Nuneaton and Birmingham were also bombed, but damage was not abnormal.

6. At a Royal Air Force aerodrome in Wiltshire many incendiary bombs and some high explosives were dropped, seriously damaging two hangars and eight aircraft in them, besides two other aircraft on the ground. There were no casualties.

7. Daylight of November 15th.

A total of about 500 enemy aircraft operated in three phases. Our fighters intercepted with considerable success. Bombing was on a minor scale, slight damages being caused in London docks area. Casualties were few.

8/

-3-

8. Night of November 15th/16th.

It is estimated that 340 enemy aircraft were employed. Feature of the attack was the number of parachute mines both exploded and unexploded which fell in the London area and the number of fires.

9. From preliminary reports there were several cases of damage to railways chiefly to suburban lines, two gas works were hit and a fire, which is expected to affect production was caused at Firestone Tyre Works. Three serious fires were caused in Central London area and many other small ones elsewhere; all are under control.

10. Aircraft battle casualties in these operations (home front).

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
By our fighters			
fighters	16	2	4
bombers	1		
(Night 15th/16th)			
By Hudsons	1		
bombers	1		
By A.A. fires			
bombers destroyed	<u>1</u>	<u>—</u>	<u>—</u>
Totals	20	2	4

British Three fighters (two pilots safe).

Two bombers missing.

11. shipping casualties. A homeward-bound convoy was attacked on the morning of November 15th in the North-Western approaches. One British ship, 9300 tons, was set on fire and subsequently sank.

12. Greece and Albania

On the night of November 12th/13th our aircraft attacked/

-4-

attacked Bari, causing much damage and setting fire to oil refinery. On November 13th two medium bombers bombed Valona harbour, destroyed a jetty and sinking a barge. On November 14th six medium bombers destroyed a road bridge near Koritsa and hit a convoy of sixty motor transport; two machines did not return.

13. Middle East

On night of November 14th/15th our aircraft bombed Italian sea bases in Lybia; Alexandria was raided six times by single aircraft but no damage is reported.

14. Malta

On November 15th enemy fighters approached the island but were driven off by anti-aircraft fire.

TELEGRAM FROM LONDON DATED NOVEMBER 15th 1940.

1. NAVAL.

Further to fine exploit of naval aircraft attack at Taranto examination of photographs shows:

One Cavour class battleship apparently abandoned heeled to starboard with only the superstructure and port upper deck from stern to after funnel above water.

Another Cavour class battleship is beached - the ship is upright with an auxiliary alongside, nets laid around her. Littorio class battleship bows now well above water ship has small list to port an auxiliary alongside presumably pumping out nets laid round her. Other battleships and light inch cruiser and probably the two damaged six inch cruisers have left Taranto.

2. MEDITERRANEAN.

During the course of the recent operations seven enemy aircraft were shot down and two unsuccessful attempts were made to bomb fleet.

3. Alexandria was twice attacked by enemy aircraft on the evening of the 13th. Slight damage was caused to dock sheds and shore base.

4. WEST AFRICA.

Fort Gentil was occupied by free French forces early on November 14th.

5. The same morning our naval aircraft reported sighting two destroyers and one merchant vessel about two hundred miles west of Takoradi steering southwest.

6. ROYAL AIR FORCE.

Night of 14th/15th.

Berlin/

- 2 -

Berlin area. Wellingtons attacked Schlesiacher Station. Several explosions and many large fires. Whitleys bombed Putlitzstrasse, Lehrter, Tempelhof marshalling yards and Anhalter Station with similar effect.

7. A large number of aerodromes were attacked, hangars and buildings damaged and runways bombed as enemy aircraft were taking off.

8. Shipping in Channel ports and submarine base at Lorient were also attacked.

9. GERMAN AIR FORCE.

Daylight November 14th. Enemy activity consisted mainly in reconnaissance and attempted attacks upon shipping off southeast coast. Some raiders penetrated inland over Kent and as far south as London. Bombs were dropped at several places in Kent mainly on seaside towns without causing serious damage or destruction.

10. Night of 14/15th. 350 enemy aircraft operated over England. 300 of these were employed in Midlands and remaining 50 against London and southeastern counties. 104 sorties were flown by our fighters but no interceptions have been reported.

11. A very severe attack was made against Coventry where extensive damage is reported mainly by fire over a large area of the city. Several factories were involved and extensive damage was done to utility services. A large number of fire pumps brought in from other areas but operations were rendered more difficult by the presence of parachute mines and lack of water. Some fires were still burning at 9.0 a.m. to-day. Main line railway services are being diverted and necessary troops are cooperating with the police. Details concerning damage and casualties have not yet been received.

- 3 -

12. Bombing was reported from other towns in the Midlands and also in Yorkshire but only slight damage and few casualties resulted. In the London area a school was hit and a fire caused at an ammunition works.

13. Aircraft casualties in the above operations.
(Home Front).

<u>Enemy</u>	<u>Destroyed.</u>	<u>Probable.</u>	<u>Damaged.</u>
Bombers	16	3	5
Fighters	3	5	4
Total	19	8	9

Our Losses. 2 aircraft, pilots safe. 12 bombers missing.

14. Shipping Casualties.

There are now only five ships from the convoy attacked by enemy surface raider unaccounted for.

15. Convoys. 3 outward bound convoys totalling 134 ships have cleared North Western approaches.

16. Middle East. Sudan. Some casualties were inflicted on the enemy by cars of the Sudan Defence Force in the area south of Kassala on the 13th November.

17. Libya. On the night of November 12th/13th our medium bombers attacked shipping at Benghazi and started a large fire at Derna where barracks were bombed.

18. Enemy fighters attacked one of our aerodromes on the 13th November and destroyed one bomber.

Telegram from London dated November 14th.

1. Regarding the French submarine "Poncelet" which had scuttled herself off the coast of French Equatorial Africa, H.M.S. "Milford" heard under water explosion and subsequently saw the "Poncelet" on the surface who displayed the signal to stop. The "Milford" fired on her piercing the hull with unexploded shell. The submarine dived but owing to water entering, surfaced and was engaged again. The crew surrendered. All saved except one officer drowned.
2. Submarine's logbook captured showed orders to fire two torpedoes at the "Milford".
3. Bad weather prevented further attack on Italian warships in Taranto harbour by Naval aircraft. Night of the 12/13th.
4. It now transpires that the losses from the convoy attacked by the enemy raider amount only to five out of 39 ships.
5. During November 13th, attacks were made on Caen Aerodrome, docks at Tescamp, Boulogne Aerodrome and Amsterdam Canal. All aircraft returned safely.
6. Night of the 14th. In Berlin area attacks were made on Zeilkerscher station, Gruenwald Warholing Yard and a military objective in the city - Good fires were started at both the station and Warholing Yard and buildings to the east of the other target were lit and set alight. Attacks were also made on Nordstern and /

W.P.

- 2 -

and Buer, synthetic oil plants at Geleenkirehen, fires being started in both cases; Mischburg Oil Refinery, near Hanover, causing large fires and vivid explosions; synthetic oil plant at Leuna, large oil fire started. Single aircraft attacked Cologne (Knapsack) electric power station, inland ports of Duisburg, Ruhrort, Dortmund and Dusseldorf and a coke oven battery at Lintfort. bursts seen on all targets and at Duisburg small explosions and fires resulted; Dusseldorf, Derendorf Marshalling Yard large fire started; two enemy aerodromes and on Nordeneye seaplane base hangars and what appeared to be the petrol store being hit at the latter target causing explosions and large fires; Calais and outer harbour at Wilhelmshaven. Three of our aircraft were missing.

7. German Air Force.

Casualties from London region during the night of the 13th/14th are reported as 157 killed and 219 seriously injured.

8. Daylight November 13th. Only incident of importance was damage to one war factory but production will be resumed within twenty four hours.

9. Enemy activity night of November 13th/14th, mainly confined to mine laying. Seventy-eight aircraft operated but only five reached London. No serious damage was done in London or in the provinces.

10. Summary of aircraft battle casualties in the above operations (Home Front).

Enemy/

- 3 -

<u>Enemy</u>	<u>Destroyed.</u>	<u>Probable.</u>	<u>Damaged.</u>
By our fighters			
Bombers	3	-	3
Fighters	-	-	3
By Ground Defences			
Bomber	1	-	-
Totals:	4	-	6

British: Fighters Nil. Bombers 3 (one crashed on landing.)

11. Middle East.

Enemy aircraft attacked Alexandria on the night of November 12th/13th.

12. British aircraft bombed motor transport vehicles near Sidi Barrani on November 12th.

13. On November 11th Italian Naval Base at Massawa and other targets in Abyssinia and Eritrea were attacked. One Italian seaplane destroyed.

14. LIBYA.

Fifty-one Italian prisoners were taken when Gallabat was recaptured.

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

29th November 1940

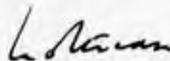
Dear Mr. Secretary,

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,



The Honourable

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

TELEGRAM RECEIVED FROM LONDON

DATED NOVEMBER 27th, 1940

Now learnt during night of 24th/25th what appeared to be 2 enemy destroyers attacked British S.S. "Apollonia". Two other vessels were in the company with latter - one reported as above and second made off to seaward.

2. One Belgian trawler sunk this night. Two missing but maybe fishing. A tug towing two barges in the vicinity missing at present.

3. Free French training ship "Médoo" sunk by torpedo from enemy aircraft in the Channel in the p.m. of 26th. A convoy of 4 merchant vessels arrived at Malta on the 26th.

4. "Rangitane" p.m. 26th reported being attacked by raider 300 miles ENE of Cape North Island New Zealand.

5. An Italian force of two battleships with 5 cruisers and about 12 destroyers was sighted 45 miles south west of Cagliari Sicily at 9.32 November 27th, steering south west. Enemy was engaged at extreme range by our surface forces and withdrew at high speed towards Cagliari. Our air striking force attacked damaging one enemy cruiser. No further details yet received.

6. Dover shelled 3 times 26th 15 rounds some damage to houses no casualties.

7. Air reconnaissance 26th Taranto. 3 battleships 4 cruisers 5 destroyers in outer and 2 cruisers and 48 seaplanes in inner harbours.

Trapani/

Trapani 5 destroyers. Palermo 2 cruisers.
Messina 3 destroyers 5 U-Boats.

8. Coastal aircraft scored 2 hits with bombs on enemy merchant vessels about 4000 tons in Ems Estuary 5.10 November 26th and another aircraft believed hit or near miss small merchant vessel off Gris Nez p.m. 26th. On 26th 3 convoys in Thames Estuary were unsuccessfully attacked by aircraft.

9. During night of 26th/27th 70 medium and heavy bombers despatched to attack industrial and communications targets at Cologne (35) Berlin (15) marshalling yards (8) and targets at Boulogne, Antwerp and Lorient (12). 8 heavy bombers also despatched to attack arsenal at Turin. 4 aircraft crashed on landing.

German Air Force:

10. Night of 26th/27th.

About 70 enemy aircraft were involved of which majority were mine laying.

11. One further Italian division has arrived in Albania. The total reinforcement sent in last 3 weeks is considered to be at least 21,000 bringing the total garrison to an estimated figure of 250,000 less casualties which have been sustained during the recent operations.

G-2/2657-220

RESTRICTED

No. 257

SITUATION REPORTM.I.D., W.D.
November 29, 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.

German daylight activity over southern England on the 28th resulted in rather heavy air combats. Last night Liverpool and another northwestern city were heavily bombed; London was subjected to attacks of moderate intensity.

Last night the R.A.F. attacked many points in Germany, Holland and France, including Stettin, Mainz, Cuxhaven, Boulogne, Antwerp and Politz, and airdromes near Coblenz and Eindhoven.

II. Greek Theater of War.

The Greeks are believed to have made little, if any, progress because of stiffening Italian resistance and counterattacks by the XI Army Corps. The center of fighting in the north is in the vicinity of Pogradetz, which is apparently still holding out. In the south, Argyrokastron is the center of fighting and, apparently, has not been captured. Strong Italian Air Force reaction is in progress.

III. Mediterranean and African Theaters of War.

No ground operations and only minor air activity reported.

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194

Paraphrase of Code Radiogram Received at the
War Department at 8:51 P.M., November 29, 1940.

Bucharest, Filed 17:10, November 29, 1940.

The German Air Attache who went to Berlin with General Antonescu has informed me that the Rumanian asked General Field Marshal Keitel for German reinforcements for Rumania. This officer believes that the Germans will acquiesce.

Ratay.

Distribution:

Military Aide to the President
Secretary of War
State Department
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194-A

Paraphrase of Code Radiogram
Received at the War Department
at 11:51 A.M., November 29, 1940.

Bucharest, filed 7:50 P.M., November 27.

The German General Staff has authorized the German Military Attaché, Bucharest, to give me an official statement concerning the German troops in Rumania as follows:

The German Army has at present one reinforced modern division organized for training purposes with headquarters at Brassov. The various arms (Field Artillery, Pioneers, Signal and mechanized troops) are stationed at the corresponding training areas of the Rumanian Army. The mass of the infantry is in southern Moldavia.

The mass of the air force contingent is located in the area Flocesti-Campina and in Giurgiu. It is organized for defensive purposes with headquarters at Bucharest and consists of 4 flights, of 12 planes each, trained especially for night pursuit and with some observation planes; 12 very modern antiaircraft batteries with normal searchlights and listening units and one battalion of fire fighters. Small detachments for Rumanian air force training are stationed at the principal flying fields.

Thirty thousand is the present total number of officers and men of the German Army and Air Force in Rumania. End of statement by German, Military Attaché.

I find no reason to doubt the statement of the German Military Attaché and regard as absurd all rumors of great numbers

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of German troops, some say as many as 14 divisions, massed in Rumania. The same information was given to me privately by General Speidel, Chief of the German Air Force mission. Locations of German units have been definitely made in 20 different places but in no case does their strength exceed one battalion. Small details of instructors, supply depots, etc., are stationed in about 20 other places. I have checked personally a number of these localities. The report of train loads of motor transport and other types of military equipment seen in Rumania has started rumors of the presence of many German divisions. This is equipment which the Germans have agreed to furnish to the new Rumanian Army (and which they will of course use themselves if necessary). These rumors also apply to the many new airplanes now to be seen. Rumania is getting 200 new planes from Germany.

I believe that the highly mobile force of 30,000 German troops is quite adequate to instruct the Rumanian Army, to preserve order and to maintain General Antonescu in power as long as the Germans care to; also, to protect the oil fields until additional reinforcements held in readiness can arrive.

Although, the Rumanian Army is being demobilized and reorganized there are still about 450,000 men under arms. The 1941 Class was not called to the colors on November 20th. Due to the recent earthquake barracks were not available. Instruction by German troops started on November 11th.

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194.C

The German Military Attache gave me what seems to be the opinion of the German General Staff about the Greek-Italian War: Italy began the war without the consent of Germany whose desire has always been to settle all Balkan problems by peaceful means. Our regard for the Italian Army has never been high, but this operation has astonished us. We hope that it will cure Mussolini's delusions of grandeur and will teach Italy a lesson. Later no doubt peace negotiations will be made more simple. We will continue to maintain our present diplomatic relations with Greeks and want the Italians to bear the full consequences of their actions.

Mussolini was irritated that his country was not asked to supply part of the military mission to Rumania. General Antonescu on his recent visit to Rome to appease Mussolini asked as a matter of courtesy for an Italian naval mission and a regiment of Alpine Chasseurs. After the Albanian debacle it will be embarrassing for Rumania if the request is granted.

There are no German troops in Bulgaria. None have crossed the Danube and none have come by way of Yugoslavia. No anti-aircraft listening posts manned by Germans. The Bulgarian Foreign Minister states that Hitler and Boris have agreed that Bulgaria will refrain from all warlike actions and will not move in Thrace.

RATAY

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194-D

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Comment by G-2:

Statements by writer concerning German forces in Rumania are accepted as substantially correct.

With regard to Bulgaria, it is believed that no uniformed German formations are in that country at this time. It is believed, however, that German agents to the number of several thousand are now in Bulgaria and that probably they are organized for prompt military or quasi-military action on short notice. It is further believed that an unknown number of German technicians are present in Bulgaria and are used in the training of the Bulgarian Army and Air Force.

C. H. M.

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Military Aide to the President
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195

Paraphrase of Code Dispatch
Received at the War Department on
November 30, 1940.

London, filed 16:30, November 29, 1940.

1. Daylight operations of the Bomber Command on Saturday, November 28th, were directed against the Belgian coast, but the primary targets were not reached because of bad weather. The preceding night almost all of the British bomber effort was concentrated on an industrial city in Northwest Germany, light, medium and heavy bombers all being employed. Observations indicated that this raid was a success. The operations of the Coastal Command were routine, with 31 patrols and the usual reconnaissance, convoy escort, and photograph missions. The Fighter Command dispatched 138 patrols.

2. Daylight activities of the German Air Force on November 28th consisted chiefly of high flying fighter sweeps over Sussex and Kent, of patrols over the outer Thames Estuary, and attacks on shipping in the Channel. In addition there were small raids over Bournemouth Bay, Portsmouth, East Anglia and the coasts of Lincolnshire, Harwich and Dover. Only one plane penetrated to the central London area. The British plotted 75 German formations consisting of about 200 planes. That night enemy activity was widespread on a heavy scale. The early raids were mostly south of the line: Bristol Channel—Birmingham—The Wash. Later raids covered the North Wales, Mersey River, Manchester and Preston areas, and also over Lincolnshire and East Yorkshire. London was

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all clear by 3:30 a.m.

3. No damages from these German raids were reported.

4. German plane losses were five confirmed and two probable.

5. On November 27th the Royal Air Force in Greece kept fighter patrols over Jamina and Athens, destroying two Italian planes. In addition it carried out many small scale bomber and reconnaissance missions.

6. The German bombardment of Plymouth during the night of November 27-28th destroyed two oil tanks and caused a few casualties among the Navy and Marine personnel. Most of the bombs fell in the open country.

7. The Home Office has informed us that the bombing of Birmingham during the night of November 22-23d approximately equaled the scale in intensity of the attack on Coventry. In varying degrees 70 key plants producing war munitions were damaged. Out of these 70, only four factories are classified as seriously damaged; while none are permanently out of production. The next to the longest delay was caused by the destruction of a roof that must be replaced. Two other cases of serious damage resulted in partial destruction only but the damaged sections of the plant are still in production. About 600 fires were started but all of these were under control by the time the raid had ended.

8. It is the consensus of opinion of many observers who have observed the results of the recent intensive bombings

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of Coventry, Birmingham, Liverpool, Bristol, and Southampton that while they have resulted in considerable damage to shops, churches, commercial buildings, houses, etc., they have had very little effect on aircraft production. In spite of the fact that some aircraft factories are very large and vulnerable targets, the actual damage and destruction of them or of their component plants has been of a minor character. A very few plants only have actually been hit and in these the damage has not been extensive. Production will be slowed down, but this reduction will primarily arise from the disruption of public services, electric power, water, gas, and transportation facilities and because it will be necessary to make arrangements for housing and feeding or for the evacuation of the workers and their families who have been made homeless. Instead of demoralizing the morale of the inhabitants of these cities, the bombings have increased their will to resist.

9. On November 9th and 16th all men who have reached the age of 20 since July 27th, 1940 and those aged 35 were registered for military service. The number registered totalled 383,607, which includes 1,964 (or 0.512 percent - G-2) registered as conscientious objectors. It will be noted that the percentage of conscientious objectors continues to decrease.

Distribution:

LXX.

Military Aide to The President
 Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff - 2
 War Plans Division

Office of Naval Intelligence
 G-3
 Air Corps

Paraphrase of Code Radiogram Received at the
War Department at 14:39 on November 30, 1940.

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London, filed 18:15, November 30, 1940.

1. Daylight operations of the Bomber Command for Sunday, November 29th, were cancelled on account of bad weather. Attacks during the previous night were principally against the shipyards in North German ports and synthetic oil plants, both of which were well bombed, as well as against inland German ports, towns on the Rhine, gas works and railroad yards. Operations were reportedly successful. The Coastal Command operated 42 patrols and carried out photographic and convoy escort missions. The Fighter Command operated 126 patrols.

2. During daylight hours of November 29th the German Air Force carried out a few small raids over Southeastern England, with few planes reaching London. About 200 German sorties were plotted. That night the attacks were on a heavy scale against London and Southeast England but the "All Clear" was flashed at 1:45 a.m.

3. Of the three British airframes attacked, one is out for day and night use and the others are partially unserviceable. Some fires were set in London.

4. German plane losses were five confirmed and one damaged.

5. Considerable air activity continued in the Middle East. On November 29th, 20 Italian planes were intercepted by British fighters, of which seven were shot down and the eighth

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destroyed by a collision.

6. The military attache for Rumania in London has resigned and will return to Rumania.

7. The British have not solved the problem of night fighter operations but they are increasing this activity. Last night for the first time aircraft cannon and machine guns were heard firing over London.

8. The German economic targets for attack by British bombers are selected by the Ministry of Economic Warfare. The Minister told me that the principal British effort is to cause a breakdown in the transportation system in Germany; and that his experts are satisfied that the British attacks are having a great effect upon all forms of German transport. It is their opinion that German difficulties arising from British bombing attacks are encountered in the following priorities: transportation, lubricating oils, other forms of petroleum products, foodstuffs, rubber, wool, and clothing.

LEE

Distribution:

Military Aide to the President
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RE BRITISH PURCHASING PROGRAM

November 30, 1940
9:20 a.m.

Present: Mr. Young
Sir Walter Layton
Mrs Klotz

Layton: There is a note about these things.

H.M.Jr: Have you (Young) seen this?

Layton: (Exhibiting document) The maximum figure they expect is 16%, which compares with the 25% which we put into our program. You remember in my memorandum I mentioned that the Admiralty's figure is 11%.

Air frames, it goes up to 20. Steel, 12.
Railway traffic dropped down 10.

There are our field guns. Those are the gun barrels and I put these there because they are weekly figures.

H.M.Jr: Which are the weekly figures?

Layton: The dotted line. The main line is the average for the month, the point being that you get them delivered in blocks when they are in small numbers. It is a similar story for the tank.

I will explain the note. These anti-aircraft guns have already attained quite a high level. The interesting thing about this is that there is no disastrous fall as a result of the blitzkrieg which comes here in each case. They ought to be higher, but they are - for some reason the cables are held up and I can't exactly give it, but my best guess is that that is about it. Naturally I am not showing these to everyone. Those light cruiser tanks are being superseded by heavier tanks, but this --

R.M. Jr: This is numbers per week?

Layton: Numbers per week, and this is the average weekly in order to avoid confusion. These are all average weekly. So that is running about a --

R.M. Jr: The solid line is the average?

Layton: The average of those four points.

Then you come to two bad cases. Now, that is an example of folly on our part, relying too much on the Enfield, which is the only source of production, and wherever you find that we concentrated too much in one neighborhood, that has been the sort of result. About July we began to disperse that, to get more factories, and here you will find it just coming up and the rifles are the same. Most unfortunately, they hit our only rifle factory.

Incidentally, that is one reason why I have been so fussy about this rifle story. We simply haven't made proper preparation on the rifles and we do want to pick it up anywhere we possibly can.

That is shell production, which is scattered, and the effect is good. You can't even see where the blitzkrieg starts and it is now running at - working up to two and a half million rounds. But incidentally, sir, broadly speaking, the industry of the country as a whole, there is no disastrous effect. The explosives factories are more or less following the expected curve with an occasional set-back. Something happened here. But it is not any very great change. That is a detail. That particular shell, of course, is

- 3 -

varying from time to time. The filling program is one which we dovetail in from time to time according to what you happen to need at the moment. That is filling anti-tank - anti-tank rifles and anti-tank gun ammunition and small arms, which - there is a pitiful story about small arms because they provided three small arms loading plants and two of them were on the south bank of the river and that was the result.

Here are grenades. There are representative curves of the whole picture.

H.M.Jr: While we are waiting, let me ask you a question. What do you want me to do with this?

Layton: Well, that picture should be in the mind of the President.

H.M.Jr: I agree with you. As I say, you know, since I went away a little over three weeks ago, the atmosphere of this town and the attitude toward England has changed, the worse for you.

Layton: I know. I should like to refer that to the President to counteract the --

H.M.Jr: It is like the time I wanted them to get out what Canada was doing on the air training and everybody said what was the use of giving them planes because they haven't got the pilots, and I am sorry that this thing that I asked for on the 5th or 6th of November isn't here.

Layton: I think we may be getting something entirely different.

H.M.Jr: Have you anything on planes and pilots?

Layton: I can find out quite quickly whether there

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is anything really up to date on that, and we expected it to be in this week, but we are really standing by today waiting for it. I will find out whether the information exists in this country, whether it is actually here at all. It is not coming over regularly. My own department produces that, you see.

- H.M.Jr: I see. Here or in London?
- Layton: Oh, in London. That is all sent to me by the people in London, every week.
- H.M.Jr: I am just amazed to find the atmosphere as it is.
- Layton: I know, and in fact I asked - I suggested that I should refer that statement to the President.
- H.M.Jr: Well, he is so busy. I mean, he is leaving at noon Monday. So let's find out. I mean, I don't even know whether I will see him between now and noon Monday, but let's find out - what about the financing of this program, while I am waiting?
- Layton: Well, that is the statement which we sent in. I understand Mr. Knudsen thinks that that will not be as serious, but this - the title is here.
- H.M.Jr: "Statement of the estimated value of additional orders to be placed under the air, munitions and shipbuilding programs recently under discussion with the Administration, together with an estimate of the capital cost of the further production facilities required to supplement existing capacity.
- "Initial order to be placed, \$1,075,000,000.
- "Capital investment, \$400,000,000."

- 5 -

You told me, Phil, didn't you, about this?

Young:

Yes. Knudsen tells me now that his best figure is about 70 million capital existence.

H.M.Jr:

"Armament, ammunition, bombs, --" Well, Knudsen says it is 70 instead of 400?

Young:

Yes. 400 is the British estimate of it.

H.M.Jr:

Can't they get together? That is quite a difference.

Layton:

There was quite a new point raised yesterday on this, but it depends on whether you can get the sufficient outlook or whether in fact it is slowing down, the United States program.

Young:

That is what Knudsen is counting on. He has been using existing facilities without expansion.

H.M.Jr:

Well, the 70 million, where was that to come from?

Young:

70 million represents capital assistance that would have to be put up by the British for aircraft plants and against which they would get a credit for at least part of the capital assistance they have already put into the aircraft plants.

H.M.Jr:

Doesn't that come to around 70? I remember once I looked it up for the English and French together and it was around 60. So I mean, if they put up a hundred and they need seventy, they have still got thirty to their credit.

Young:

I don't think Knudsen is going to give it all to them.

- 6 -

H.M.Jr: Well, then right on that particular thing, if they have a hundred, so to speak, credit, and he says they only need seventy, if that agrees with what the English say then there is no problem there.

Young: That is right.

Layton: That is right. There is no problem on capital assistance.

Young: If they get adequate credit, there won't be much additional capital expenditure on the air.

H.M.Jr: If you agree.

Layton: Yes.

H.M.Jr: "Armament, ammunition, bombs - \$50,000,000." Are we in agreement on that?

Young: Knudsen hasn't seen any of these figures.

H.M.Jr: Oh, he hasn't?

Young: No one has seen these figures.

Layton: That figure is the War Department estimate.

H.M.Jr: What, the 200?

Layton: Yes, that is the "B" program.

H.M.Jr: Knudsen hasn't seen these?

Young: No.

H.M.Jr: Why not?

Layton: He will have seen that one, won't he?

- 7 -

Young: Oh, yes.

Layton: But not in the form of a table. He will see them separate. I think he must have seen the War Department statement.

Young: Yes, I am sure he has.

H.M. Jr: Phil, supposing I write a letter something along these lines, you see, and you will have to get hold of Harry White, although he is all tied up on this other thing. Get Cochran. Something like this. I mean to bring this thing to a head, you see.

"My dear Mr. President:

"Sir Walter Layton has presented me this morning with the enclosed statement, which shows that the English are about to place \$2,052,000,000 worth of orders, which will require an approximate capital investment necessary for creating new productive capacity of \$700,000,000.

"I am advised that all of these items contained in the two billion dollar total have been cleared by the Army and Navy and National Defense Committee.

"In view of Ambassador Lothian's statement on arrival in regard to the English finances, and also in view of what we know the actual situation to be, before you leave Monday noon, I would appreciate your advising me how I should proceed."

Now, you can take that and he can run that off. I am not putting in the letter what the English situation is. If he wants to

- 8 -

know what it is, I have got the facts, but I want to put him on notice because Mr. Stimson didn't say it, and I think that that thing ought to be typed and this thing sent over to him this morning, rush.

Layton: I quite agree.

H.M.Jr: Because I can't pass on the thing, in view of what Lothian says. Here is the accredited representative of His Majesty's Government saying that England is at the end of its financial rope.

Layton: That will bring it to a head, of course.

H.M.Jr: Well, this, plus what Lothian said, brings it to a head. I have no authority to say. I know what Knudsen will say. He will say, "Will you guarantee this?" That is what he has said right straight along, but I can't guarantee it.

Incidentally, I wish you would ask Stimson whether he has or has not taken over that French gold in Canada amounting to \$650,000,000 which he has kept asking me about, how they should and how they shouldn't do it. There is \$650,000,000 worth of French gold in Canada.

Layton: I know. I wouldn't - this is off the record.

H.M.Jr: There is no one ever sees this except for the President. It goes into the safe and nobody is ever allowed to see it. There is only one copy.

Layton: I have not --

H.M.Jr: It is as sacred as sacred documents.

- 9 -

Layton: This may be wrong, but I believe the position to be that that French gold comes under two categories. Part of it is deposited in the name of Great Britain and part of it is direct from France into Canada. I think you know the point the Canadians are raising is that they have.... (unintelligible)

H.M.Jr: That is what we have in this country.

Layton: It is an acrobat sort which enables you - which would enable them to squelch this.

Now, the part that is in the name of the Bank of England can be dealt with and the only question is whether the other part can also be handled on the basis that a central bank's deposit as a central bank's deposit is on its own, whether the Central Bank of Canada undertakes to do a particular job or --

H.M.Jr: Well, they had better make up their minds whether they are going to stand on central bank etiquette and protocol, or whether they want to win the war. It is the same way that Canada had this gold on board one ship, French gold, and these airplanes on another and let them slip through its fingers and go down to Martinique and give us all this trouble.

Well look, Sir Walter, why don't we do this way? I don't see how I can do very much more this morning than to have you and Philip Young polish up a letter for me to the President, with which I will send this, and get this over to him just as quickly as possible. Don't you think that --

Layton: Much the best.

H.M.Jr: That's serving you the best?

- 10 -

Layton: It certainly is.

H.M.Jr: Philip, do you agree?

Young: Yes.

H.M.Jr: So I think if you fix up that letter for me and - I don't want to go into a statement of how much they have or haven't got. The President can ask me. But this would put the thing on his desk this morning and I want to make it very plain in a letter until he says yes or no, this whole order is held up, but I can't say yes unless he directs me to. You appreciate that.

Layton: Yes. It has been around the corner all the time.

H.M.Jr: Yes, and you see I, not having this - I have nobody to blame but myself. When Stimson brought it up, I didn't say anything, but even if I had had it I don't think I would have said anything because I don't think it was the place to bring it up.

Layton: Yes. But all through, he has been working all this month - the War Department couldn't have been more cooperative - on the question of how far it could be so maneuvered and manipulated, its own arrangement has to make way for this program for us, and they wouldn't say - place their orders on that assumption until they felt they could honestly say it. They have done it in this letter. They have given me a timetable. They have told me what they are going to do in the way of helpful inspection on all the materials. You have seen that. We have had some minor changes, and so on, but broadly speaking it is almost ready to

- 11 -

proceed. I have always said that we don't want to have to put money down at the beginning of this. We want to pay for what we get.

H.M. Jr:

I think the quickest thing we can do and the most effective thing we can do is to get this in a letter from me to the President, which, as soon as you - have it right, Phil. Bring it in and I will take a look at it and if it is all right, I will send it over by special messenger. That gets us on the way, doesn't it? And then if I get this other thing which is bothering me some out of the way, maybe we will have a chance to talk later in the morning. But I have got something which won't keep.

All right?

Young:

All right.

BRITISH PURCHASING COMMISSION

STATEMENT OF THE ESTIMATED VALUE
OF ADDITIONAL ORDERS TO BE PLACED UNDER
THE AIR, MUNITIONS AND SHIPBUILDING PROGRAMS
RECENTLY UNDER DISCUSSION WITH THE ADMINISTRATION

together with

AN ESTIMATE OF THE CAPITAL COST
OF THE FURTHER PRODUCTION FACILITIES
REQUIRED TO SUPPLEMENT EXISTING CAPACITY.

November 29, 1940

	Initial Order to be Placed for output (excluding <u>capital amortization</u>)	Capital Investment necessary for creating new <u>productive capacity</u>
I. <u>New Airplane Program</u>		
a. Smaller scheme to produce 12,000 aircraft by June, 1943	\$ 1,075,000,000	\$ 400,000,000
(NOTE - \$100,000,000 paid in capital on present program, per U.S. Treasury report of Nov. 9, 1940.)		
b. Armament, ammunition, bombs, radio and special equipment for above	125,000,000	50,000,000
II. <u>U.S.-Type Ordnance Program</u>		
a. 10 Divisions equipped with U.S.-Type weapons (<u>B Program</u>) - War Dept. estimate	500,000,000	200,000,000
b. Other U.S.-Type ordnance not yet ordered (including .50 and .30 ammunition)	75,000,000	25,000,000
c. <u>Tanks</u> and Tank guns remaining to be ordered	100,000,000	15,000,000
	<u>87,000,000</u>	<u>9,000,000</u>
III. <u>Merchant Ship Construction</u>		
TOTALS	<u>\$ 2,062,000,000</u>	<u>\$ 592,000,000</u>

This statement is in addition to orders already placed amounting to approximately \$2,500,000,000.

The "New Airplane Program" represents the first step in the expansion of the British aircraft program already established.

The "U.S.-type Ordnance Program" does not include additional items still to be formulated under the 10 Division Army Plan.

November 30, 1940

My dear Mr. President:

Sir Walter Layton has presented me this morning with the enclosed statement which shows that the English wish to place \$2,062,000,000 worth of orders for aircraft, ordnance and ships. The placement of these orders will require an estimated capital investment necessary for creating new productive capacity of \$700,000,000, and in addition advance payments on signing of the contracts which may amount to \$500,000,000.

I am advised that all of these items contained in the two billion dollar total have been approved in principle by the National Defense Committee and with the concurrence of the Army or the Navy.

As you know, the British claim they have no funds to meet these payments. I wouldn't bother you over the weekend if it were not for the fact that you are leaving Monday. I question the wisdom of letting this matter hang in the air until you return. Therefore, if you could spare me a few minutes between now and Sunday night to discuss this problem with me, I would appreciate it very much.

Sincerely yours,

The President,
The White House.

W:p

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Sincerely yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.
Enc.

Delivered by Philip Young 11/30/40

PY:is

BRITISH PURCHASING COMMISSION

STATEMENT OF THE ESTIMATED VALUE
OF ADDITIONAL ORDERS TO BE PLACED UNDER
THE AIR, MUNITIONS AND SHIPBUILDING PROGRAMS
RECENTLY UNDER DISCUSSION WITH THE ADMINISTRATION

together with

AN ESTIMATE OF THE CAPITAL COST
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November 28, 1940.

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a. Smaller scheme to produce 12,000 aircraft by June, 1942	\$ 1,075,000,000	\$ 400,000,000
(NOTE - \$100,000,000 paid in capital on present program, per U.S. Treasury report of Nov. 9, 1940.)		
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	<u>87,000,000</u>	<u>9,000,000</u>
III. <u>Merchant Ship Construction</u>		
TOTALS	\$ <u>2,072,000,000</u> <u>3,062,000,000</u>	\$ 699,000,000 <u>=====</u>

This statement is in addition to orders already placed amounting to approximately \$2,600,000,000.

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RE BRITISH PURCHASING PROGRAM

November 30, 1940
12:15 p.m.

Present: Mr. Gaston
Mr. White
Mr. Cochran
Mr. Bell
Mr. Young

H.M.Jr: Does Layton have to come in now?

Young: No, he doesn't have to come in.

H.M.Jr: What have you been doing all morning?

Young: Changing this around.

H.M.Jr: Phil goes around here and he is all swollen because he can't see me, and then I sit here two hours waiting for him to write three paragraphs.

"Sir Walter Layton has presented me this morning with the enclosed statement which shows that the English wish to place \$2,062,000,000 worth of orders for aircraft, ordnance, ships, and canned pineapple."

Why do you put that in?

Young: Just a slip of the machine.

H.M.Jr: "The placement of these orders will require an estimated capital investment necessary for creating new productive capacity of \$700,000,000, and in addition advance payments on signing of the contracts which may amount to \$500,000,000."

Is that together \$1,200,000,000?

Young: That is why I put that in, you see, because it is more than just a capital expenditure

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- 2 -

that is going to hit them in the face as soon as the program goes through.

H.M.Jr: That isn't clear. Do you think it is \$1,200,000,000?

"....\$700,000,000, and in addition advance payments on signing of the contracts which may amount to \$500,000,000."

Well, that can be written in.

"....and in addition advance payments on signing the contract."

White: Do we have to send him this now on the Chinese thing?

H.M.Jr: No, no, no. I dreamed of that. This isn't going until the Chinese thing is settled. No, this is not going until he has cleared the Chinese thing. I thought of that about five seconds ago. But in view of that - supposing he gets it whenever I hear from Sumner Welles. I mean, Layton comes in here this morning.

At Cabinet yesterday Stimson reads this stuff off and says, "Look what a wonderful boy I am." (Patting self on shoulder) "I have done all this is what he was saying. Then Layton walks in this morning and says, "Yes, but how are we going to finance it?"

White: Are you called upon for a decision or action on this in any way?

H.M.Jr: Yes.

Cochran: Does Layton raise the question in that letter as to the financing?

- 3 -

- H.M.Jr: No, but he did here verbally.
- White: He did orally, you say?
- H.M.Jr: Well, tell him what he said.
- Young: Well, Stimson in his reply to Layton said the financing was up to other government departments, not in Stimson's realm. Whereupon, Sir Walter Layton asked for an appointment with the Secretary to ask how this is going to be financed, as to what measures can be taken to finance this program inasmuch as this practically doubles the orders which the British have placed.
- White: Has he been given that yet? Why can't the Treasury Department be too busy for the moment.
- Young: Sir Walter talked with the Secretary this morning. He has already seen him.
- White: But apparently the Secretary didn't give him a reply.
- Cochran: Couldn't he intimate in here that this request is being made, that Sir Walter Layton wants his explanation from the Treasury as to how to proceed, and then you ask for guidance?
- Bell: I have the same feeling Harry does. What is the President going to do when he gets your letter? He won't know what to do.
- H.M.Jr: He will send for me. "What about it?" I can't let the man go out of town. Now look, if I don't get guidance from the President, I am not going to tell Knudsen that the money is here.

- 4 -

White: Right.

H.M.Jr: All right. Therefore, for another two weeks it would mean that everything is stalled until the President gets back.

White: That is all right.

H.M.Jr: No, it isn't all right. I have got to. Walter Layton runs in here with two billion dollars worth of materials. There is talk around town that Lothian made this statement that if we don't do something they are going to make peace.

Bell: Can you ask for an appointment, that it is important that you discuss this and get a decision before he leaves town?

H.M.Jr: I imply that.

White: You are kind of throwing it in his lap, Mr. Secretary. It is the last paragraph that bothers me.

H.M.Jr: "Frankly, I am stumped and do not know how to proceed. I wouldn't bother you over the week-end if it were not for the fact that you are leaving Monday. I question the wisdom of letting this matter hang in the air until you return. Therefore, if you could spare me a few minutes between now and Sunday night to discuss this problem with me, I would appreciate it very much."

And then on the first line instead of, "Frankly, I am stumped," make it, "As you know, the British claim they have no funds to meet these payments."

November 30, 1940

My dear Mr. President:

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Sincerely yours,

The President,
The White House.

WSP

November 30, 1940
10:05 a.m.

H.M.Jr: Hello.

Cong.
Somers: Hello, Mr. Secretary.

H.M.Jr: How are you? I was sorry I wasn't in when you called but I was at the White House.

S: Yes, they said you were at the White House. I called you at that time with reference to the announcement you were going to make to the Committee on Monday. I thought last night that if there would be a possibility of delaying any public announcement until after the Committee announcement was made, it would be better for both your position and mine, you see.

H.M.Jr: Well, I agree with you heartily, but did you tell that to the President?

S: Yes, I did.

H.M.Jr: Oh, you did.

S: Yes, I did, because the President seemed to be pretty well set and of course I couldn't prolong an argument over the telephone with him.

H.M.Jr: Well, you see, he didn't tell me what you said.

S: Yeah, well, I simply said to him that I thought it would be much easier for us, especially in view of the fact that we may have to extend the Stabilization Fund at a later period. You see?

H.M.Jr: Well, I'm awfully glad you told me that. You told him that you'd much rather no public announcement until after the meeting.

S: I didn't say not to make it; I said it would be better if we did not make it.

H.M.Jr: Well, of course, that's what I've been telling him.

S: But I suppose he's already made it.

H.M.Jr: No, he has not.

S: Oh, he hasn't.

H.M.Jr: No, there has been no statement made.

S: Well, of course, you can discuss it further with him then. I think it would be better because there is going to be some definite Republican opposition. I know from my various conversations with them and some of these Democrats, especially those who have been against adjournment, and those of the - let me describe them as the very conservative type, you know.

H.M.Jr: Yeah.

S: They may oppose this thing and they certainly would oppose extending it if they felt that there was any likelihood of its being dissipated in loans for which they feel they have another fund existing in the treasury of the Import-Export Bank.

H.M.Jr: Right. Well, you and I see eye-to-eye. That's why when the President and Mr. Hull asked me to do this - hello?

S: Yes.

H.M.Jr: I said that I felt absolutely honor bound to take it up with your Committee first. You remember the whole incident, don't you?

S: Yes, I do. I remember it very clearly.

H.M.Jr: Well, I mean - is there any doubt in your mind that I said I would come to you for guidance before I made

S: No, you said it on three occasions to the Committee.

H.M.Jr: Well, do you see in view of that how I can do anything else than come before you gentlemen?

S: Well, I don't - of course you'll have to make the announcement to them in keeping with your word and I thought it might embarrass you a little if Secretary Hull made another announcement preceding that, you see.

- 3 -

- H.M.Jr: Well, there's no question about it, but I'm telling you now I am not going to make any commitment before I see you gentlemen. I have made none.
- S: Yes.
- H.M.Jr: I have made none and it is now ten minutes past ten. I have made no commitment, I have refused to make any commitment and I'm not going to make any until I come before you people.
- S: Well, that will be fine.
- H.M.Jr: And after all, I have only one thing in this world and that is my word
- S: Surely.
- H.M.Jr: and I never could come before you gentlemen again.
- S: Surely, because I recall very distinctly the arguments used at that time when there was some attempt to restrict the use of that fund against any such possibility as is now contemplated and you said at that time that as long as you were Secretary of the Treasury you'd never take any such action without first consulting the Congress.
- H.M.Jr: That's right.
- S: Now you may wonder why it is - I have a very definite fondness for you because of my association and I know that you feel
- H.M.Jr: Well, it's mutual.
- S: that you feel that your integrity may be questioned at the present time and both of us want to do everything in the world to prevent any such reflections as that and I don't hesitate to pledge you that I'm going to do everything I can to cooperate with you. I know that you're on a spot and I'll do everything I can to help you.
- H.M.Jr: Well, I'm on a hell of a spot but I've made no commitments and I am not going to make any commitments before I come before that Committee.

- 4 -

- S: Well, that will be fine, and if any newspaper people should get in touch with me in the meantime, I know nothing about it - I haven't yet.
- H.M.Jr: Good, but I appreciate it and I'm afraid that Wagner didn't remember - the President called him too, you see, and I don't think that Wagner remembered - up there it was between Taft and me and Vandenburg and me, and I wrote it to Vandenburg - my conversation with Taft that I wouldn't do this, and that all was given out in the papers.
- S: Yes. Well, in the conversation last night over the phone, I reminded the President - I said it would be better if it came - because of the commitment you had made.
- H.M.Jr: Oh, you did.
- S: Yes, and he referred to that too.
- H.M.Jr: I see. Well, thanks ever so much. What time is that meeting Monday?
- S: Ten-thirty, at the Senate Office Building.
- H.M.Jr: Is it going to be joint?
- S: Yes.
- H.M.Jr: Well, don't you think that that is better?
- S: Yes, it is probably better than making announcement although it has this disadvantage - a joint Committee has no legislative power and for it to come before my Committee if the right psychological impression was made at the conclusion of your speech, it might be proper for me to move or suggest a motion that your action be approved, you see. However, I don't think that it would be possible for me to do that in the Joint Committee.
- H.M.Jr: Well, you could split up.
- S: We might split up. Yes, sir.

- 5 -

- H.M.Jr: But the point, you see, they were such - seem to think it was such a hurry
- S: Oh, well, I don't know - it sounds disrespectful if I say some people seem to be terribly excited about this but I can't see the action they anticipate. I don't see what difference the making of a loan of this sort would have on it.
- H.M.Jr: Well, I can't see the difference between Saturday and Monday - why it makes such a difference.
- S: No, I can't either.
- H.M.Jr: I don't. Well, I'm awfully glad I talked to you and I'm awfully glad to know what you told the President.
- S: All right, Mr. Secretary. I'll see you Monday then.
- H.M.Jr: Thank you.
- S: I'll see you Monday then and we'll see how it works out.

November 30, 1940
10:20 a.m.

RE CHINESE LOAN

Present: Mr. Bell
Mr. Gaston
Mr. White
Mr. Cochran
Mr. Bernstein
Mr. Soong
Mrs. Klotz
Mr. Haas

H.M.Jr:

Let me tell you in strict confidence what has happened since I have seen you all. We were over there last night for supper, as you know, on this tax matter, and there were about - oh, maybe ten outsiders there. In the middle of the supper the President says, "Let me tell you what happened in Cabinet. I said, 'I want some money,' and I thought I would have a lot of trouble with Jesse Jones and it would be very easy to get it from Henry." Then he went on and told the story about how nice Jones was and how he gave him \$50,000,000 and what a mean cuss I was. So I won't tell my answer, but I gave him an answer, so then after supper evidently he had arranged to speak to Wagner and to Somers. And to Wagner, evidently, he said, "Tomorrow Cordell and I want to get out a statement that we want to do this and we will get out a statement." Then he called up Somers. I couldn't hear the conversation, but I gathered that Somers was giving him an argument. I just got through talking to Somers. He said, "You know what I said?" I said, "No." He said, "Well, I'll tell you." He says, "I told him that you had given your word that you wouldn't do this without consulting us and I think it would be a great mistake for any announcement to come out before Monday, that it would make it very difficult to get the extension of the Stabilization Fund, and I thought

- 2 -

it should wait." He said, "I couldn't press it too much, but I did tell the President and I don't think the President liked it," but he says, "as your friend, I hope that they won't do it until Monday. Your honor is at stake."

I am having the thing typed, what he said.

He said, "You told us three times that you wouldn't make this and if you do do it, I don't think there is any chance of getting an extension."

Now, I haven't heard from Hull. Hull is supposed to be drafting this thing. I gave Hull last night at Cabinet a copy of this memorandum. I thought that was the best. Don't you think that is the best one?

Gaston: It includes the testimony.

H.M.Jr: And then I said - have you seen what the Wall Street Journal said this morning, Harry?

White: Well, just the statement that the committee was meeting but it might be for Argentine.

H.M.Jr: No, no. But now you are having a joint meeting and for the President and Mr. Hull to come out and make the statement --

Bell: I think Mike Flynn had the story. He called Ed last night just before he caught the train, and Ed called me and he said that Wagner's office had told him the whole story in confidence and he said, "I can't use it unless I can get something from the Treasury."

H.M.Jr: Sure he knew it.

Bell: And Miss McGuire told him Ed was on his way to New York and he couldn't get him, so Ed called me and told me the story.

H.M.Jr: The thing is, that Congressman Somers, this little insignificant Congressman from Brooklyn, stood up before the President but Wagner just ducked it.

- 3 -

Mrs. Morgenthau said she heard that the bill was going through. She was in the Senate galleries. She remembers it distinctly.

White: I think what she has reference to is Senator Wagner's defense of your handling of the Stabilization Fund, but not any statement. We have combed the Senate once and we can't find it and I am having him go over it again to make sure, but so far we haven't found it, but if it was said while she was there, that would simplify our task, because I know when she was there.

H.M.Jr: It was while she was right there.

White: You were there, too, Bernie.

Bernstein: They are sending my file up on the extension of the Stabilization Fund.

White: Do you remember any statement?

Bernstein: I remember that strong statement he made which impressed everybody.

H.M.Jr: Who made it?

Bernstein: Senator Wagner. It was a statement in defense of your handling the Stabilization Fund. You recall at the time he had talked to you about it.

H.M.Jr: Have you got that?

White: Yes.

Bernstein: That is in the record. We will get that.

White: I just read that.

H.M.Jr: But there is nothing about --

White: Nothing about the fact that you had guaranteed that you would not use the fund for such and such in that place. But we will recomb that. That narrows it down to one day's discussion.

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- H.M.Jr: Well now, supposing I just look at all the things while we are waiting to hear from Mr. Hull. Supposing they draft the statement and I fix it up the way I want it so that they say they are going to announce the 50 million loan from the Export-Import Bank and the Secretary of the Treasury will present to the Joint Committee on Monday his proposal to also loan 50 million?
- White: That would be all right.
- H.M.Jr: But supposing the President when it comes over there changes it, you see, and makes it look as though there is a firm commitment.
- White: Well, the President can't do it without you, Mr. Secretary.
- H.M.Jr: I know. Now, wait a minute. I have done nothing but think. He changes the statement to make a firm commitment and it goes out to the newspapers that the President makes a firm commitment. I know that he can't do it without me or nobody else. But here is the President of the United States saying we are going to loan a hundred million and makes it firm. What do I do between now and Monday? I want to hear Gaston first.
- Gaston: What do you do between now and Monday?
- H.M.Jr: Yes.
- Gaston: You are not consulted about issuing this statement?
- H.M.Jr: I am consulted. The statement goes over the way I want it. It is the way I want it. Then the President changes it.
- Gaston: Without further consulting you?
- H.M.Jr: Without further consulting me.
- Gaston: You can't give out a statement saying that that isn't true. You can't give out a public statement saying that is not true. You certainly would protest

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to the President about it.

H.M.Jr:

I won't argue. Say I don't, then I go before the committee.

Haas:

Of course, they have made it more difficult for you to get the committee's consent.

H.M.Jr:

But supposing I go before the committee. Do I say - well, the President said so, but I haven't agreed to it.

White:

There is a way out.

Cochran:

If we could get China to agree over the week-end or at once to the extension of this \$50,000,000 arrangement which expires today, or which expires at the end of December, and which is renewable today or rather tomorrow, and then you give out something like this, "Secretary Morgenthau announces that he is extending for a further period beyond December 31, 1940, the arrangement made public on July 9, 1937, under which the Central Bank of China is enabled under conditions which safeguard the interests of both countries, to obtain from the Stabilization Fund of the United States \$50,000,000 at dollar exchange for currency stabilization purposes." That could be given out any time. If we get China's agreement, or we could say, we are offering to extend, you see, and that gives you a stop gap if you don't get through the other.

White:

That is right. Then you can go before the committee and say that this arrangement is with gold collateral. "What I am asking you gentlemen for is the privilege to do what I said I would, to make an extension of this kind without a gold collateral. That is just window dressing which we have done before and is not the thing I am coming to you for. It is of no use to China, to speak of." If you are put in that position, I don't think you should --

Gaston:

Then it would be a question of what kind of collateral.

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- White: And in the statement, you have also said this, which paves the way for that. In your statement and discussion of the loan that you - the Stabilization Fund operation which you took with China, you described the operation, which would be the same kind of operation, and then you went on to say, "There has been placed adequate collateral consisting of gold and silver to cover the risks," and now you can say that, "Therefore, that operation was done without you and that is not the kind of operation you would disagree with because that is nothing new and doesn't help China. The kind of operation which I am coming to you for is one which they would not put up gold for and I will not commit myself to that until I get your consent," so that even if the President does make the statement I think there is a way out without trouble.
- H.M.Jr: Let me just think. How would it be if he is hell bent to make a statement that the statement be written something like this, that the agreement with the Central Bank of China for \$50,000,000, a stabilization loan, expires today.
- Cochran: Expires December 31, but it is renewable. Notice is to be given on the first.
- Bell: Renewable 30 days in advance.
- H.M.Jr: And is renewable 30 days in advance and that Mr. Morgenthau is appearing before the joint committee on Monday to advise them that he is proposing to renew this extension. Now, I needn't put in a public statement that the 30 million dollars will not be collateralized. That is what it amounts to.
- White: Well, it would be collateralized, if you want to call yuan collateral.
- H.M.Jr: Won't have gold?
- White: Won't have gold collateral.
- Cochran: Of course, the agreement calls for it and you

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couldn't have the amendment made in that time.

H.M.Jr: I want to say, China hasn't got the gold. "I would like to have your approval that we extend this 50 million dollars. In other words, they can borrow 30 million more without putting up the gold, just putting up the yuan."

Cochran: That is right.

White: If the President wants to make the statement to influence China, then he can inform Soong that he cannot give him final word until after the committee hearing. Soong understands that anyway very well. I've explained that to him when he was here last summer, that there were certain commitments made and they would have to be cleared before any stabilization - so it would be nothing new to him and if on the other hand the President is doing it for public effect, the public wouldn't know the difference and it will get the full effect, so that that could be a happy compromise if you want to make a statement today.

Gaeton: Why couldn't the statement be something like this, that they announced the loan from the Export-Import Bank. In addition, Secretary Morgenthau is renewing the \$50,000,000 commitment to China. This commitment calls for gold collateral for advances. The Secretary will discuss with Congressional committees on Monday the substitution of other forms of collateral for a part of the --

White: That is too honest. That would defeat the purpose.

H.M.Jr: I think this: If he wants to announce the 50 million Export-Import, okay, and Mr. Morgenthau is going to appear before the committees to recommend that this 50 million dollar Stabilization loan be renewed.

Cochran: Or to explain the circumstances under which he proposes?

H.M.Jr: No.

White: Ought to be renewed under conditions appropriate to the occasion.

H.M.Jr: I would just simply say be renewed.

White: In renewing it, you are asking for something more than the renewal, because the terms of that particular agreement call for gold collateral.

H.M.Jr: Renew it under existing circumstances.

White: Some such qualifying phrase. There is another advantage from that even in the President's point of view and your point of view. If you can separate the Export-Import loan from Stabilization, because the proposal that we are developing which I think will meet with agreement, if anything is going to be done, we want to protect the funds in the Stabilization Fund and separate the Export-Import Bank loan which they will have to use first, provide sort of velvet against the Stabilization Fund, and that is easier done if it is an Export-Import Bank loan and not known as a Stabilization loan but merely as an Export-Import Bank loan to give China additional funds with which to carry on. Then when the Stabilization Fund comes along, we can so protect it that it is much less risky by using those funds as the velvet and then your operations will be Stabilization operations as distinct from Export-Import Bank loans, so that there is, I believe, some advantage in not mixing the two up. And we can make the Stabilization Fund loan look like a hundred million dollar fund anyway, operations, in ways which are so - it can sound very big without undertaking the risks that you would undertake if it were the other way.

H.M.Jr: Let me just see. The first part would come the Export-Import announcement, do you see, and then this would go something like this. "The Secretary of the Treasury will appear before the Senate --"

Bell: Appropriate committees of the House and Senate.

H.M.Jr: I think you might name them. "The Secretary of the Treasury will appear Monday forenoon before the Senate," and so forth.

Bell: In joint session. Is that the way you wanted it?

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H.M.Jr: In joint session. Would you say anything about carrying out his pledge?

Gaston: No.

H.M.Jr: Okay.

Gaston: The proposed renewal.

H.M.Jr: "At this time he will bring to their attention the proposed renewal of the \$50,000,000 Stabilization loan."

White: I don't like the word "loan". Stabilization operations.

H.M.Jr: Stabilization what?

White: Operations.

H.M.Jr: Operation with the Central Bank of China which expires on December 31. Now let me just see.

"The Secretary of the Treasury will appear Monday forenoon before the Senate, etc., and House in joint session. At this time he will bring to their attention the proposed renewal of the \$50,000,000 Stabilization operation through the Central Bank of China which expires on December 31."

White: Something of that character. Would this be helpful, Mr. Secretary, if we withdrew quickly and prepared a draft of the kind of statement that the President could issue in which he will make an announcement about the Export-Import Bank and --

H.M.Jr: Let's do it right here, right now. It takes too damned - excuse me, it takes too long. I want to call up Hull. Don't worry about the Export-Import.

White: Well, they go well together.

Bernstein: I wondered if I might offer a suggestion on tentative lines so you can have it in mind. The President would announce the Secretary of the

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Treasury had extended the existing Stabilization arrangements with China, calling for the purchase of \$50,000,000 worth of Chinese yuan against full security. The Secretary of the Treasury is also to appear before a joint meeting of the Senate Banking Committee and of the House Coinage, Weights and Measures Committee, to discuss further Stabilization arrangements with China.

H.M.Jr: No, because you are putting it in the past tense. You say, "Has extended."

Bernstein: That is right. I am saying you can do two things. You can extend the existing arrangement without reference to the --

H.M.Jr: I don't like your suggestion.

Bell: That is one question I have.

Cochran: You would have to agree with China before it is extended.

H.M.Jr: Well, the Secretary of the Treasury will appear Monday forenoon before the joint session and at this time he will bring to their attention the proposed renewal. Extension?

White: Proposed extension, because renewal would be the same - extension might mean --

H.M.Jr: Renewal will be exactly the same.

White: Proposed extension of what was to follow it? Couldn't we merely say proposed extension of Stabilization arrangements --

H.M.Jr: The President wants the \$50,000,000 in there because he wants to say he has made it a hundred, you see.

White: Let's not say it, then. Proposed extension of a \$50,000,000 operation.

H.M.Jr: Of a \$50,000,000 Stabilization --

White: Operation.

H.M.Jr: In conjunction with the Central Bank of China.

White: I don't know about that "in conjunction".

H.M.Jr: It has to be in conjunction.

White: With --

H.M.Jr: Just with?

White: With.

Gaston: Stabilization arrangement with --

White: With, yes.

H.M.Jr: Instead of Stabilization operation?

Gaston: Yes.

H.M.Jr: Stabilization arrangement.

Cochran: Do you want the date of the original?

White: I wouldn't be inclined to refer to the original one at all, because in the public statement one could leave that vague and you get the full --

H.M.Jr: He will bring it to their attention - the proposed extension of the \$50,000,00 Stabilization operation - the arrangement with the Central Bank of China which expires.

White: Then that doesn't seem to leave any way for changing the arrangement. It seems a little misleading.

H.M.Jr: Why? Would you say, "Which expires on December 31?"

White: It weakens the effect.

H.M.Jr: Proposed extension.

White: That is right. Then an extension may be an extension in that direction.

H.M.Jr: I am willing to go that far. Proposed extension of the \$50,000,000 Stabilization arrangement with the

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Central Bank of China.

- Gaston: Or you could say you would come before the committee to discuss with them terms for the extension of --
- White: That might be another way. I don't know which sounds better.
- H.M.Jr: I think this is all right, gentlemen. The Secretary of the Treasury will appear Monday forenoon before the Senate and House in joint session. At this time he will bring to their attention the proposed extension of the \$50,000,000 Stabilization arrangement with the Central Bank of China.
- Cochran: We have never announced, as far as I can find it, that it was a \$50,000,000 operation.
- White: Well, that is what I --
- H.M.Jr: Now, you take this thing - the Secretary of the Treasury will appear Monday forenoon before the Senate Committee --
- Bell: Committee on Banking and Currency.
- H.M.Jr: The Senate Committee on Banking and Currency - will appear Monday forenoon before a joint session of the Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures. At this time - would you say at this time he proposes to bring or at this time he will bring?
- Bell: Why not just go on with that sentence and say he is going to appear in order to bring their attention to the proposed arrangement.
- Gaston: Or in order to propose an extension.
- White: No.
- H.M.Jr: No, I think that is all right. At this time he will bring to their attention the proposed extension of a \$50,000,000 Stabilization arrangement with the Central Bank of China. I don't object to that.

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- Gaston: That is right, but the final thing is --
- H.M.Jr: After all, I have got to be honest with myself. Now, I don't want them to say we have made this loan. This committee is there and I am going up to bring this thing to their attention, proposed.
- White: The only thought in my mind is now that I think it over, do you need the word "extension"? Since you are going to do that, why can't you say, "proposed \$50,000,000 Stabilization arrangement?"
- Bernstein: But the word "extension" has two meanings. It means renewal and it also means giving them a new line of credit.
- H.M.Jr: That extension is beautiful. It can be an extension or a renewal.
- White: Either an extension in point of time or an extension in point of renewal of amount or terms.
- Bell: Will the President be satisfied with an additional \$30,000,000 or does he want a full \$50,000,000 in addition to the twenty?
- H.M.Jr: He has got \$100,000,000 in his mind, but he knows that this is an out for him as of today. If he wants to wait until Monday, he can get \$50,000,000 on top of this, but if he wants it today, I think he will take it and like it.
- Bell: Supposing you go up on this and the committee says no? I mean, they say, "We can't go along with you." Does that mean, first, you can't make the \$50,000,000 extension, and second, that you can't make the additional 20 that is already on the books? Are your hands tied then?
- H.M.Jr: If the committee says no, my hands are tied.
- White: You will meet that difficulty when you get there.
- H.M.Jr: I don't think they will say no on the 20.
- Cochran: We have been renewing it every six months.

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- White: It depends upon what you mean by "guidance" at that point. But you don't have to decide that now.
- H.M.Jr: It is very interesting. I don't know whether I told you people, but at the Cabinet the President said, "Well, I will tell you what I am going to do. I am going to make this announcement, but I want your word, Henry, that if I make the announcement, even though Congress turns you down on Monday, you will go through with it."
- Now, wait a minute. Before I could say anything, Harold Ickes spoke up and he was the only man in Cabinet who came to my rescue. "Well, that is unfair, Mr. President, because how can Henry go up and ask for guidance if he has promised to go through with it if they turn him down?" And Ickes was the only fellow that came - that had the guts to stand up there alongside of me.
- Cochran: Is the State Department helping with the recommendation, Mr. Secretary, as to the political reasons?
- H.M.Jr: Well, I asked Mr. Hull to go up with me and Jesse Jones said he should go. Jones says, "He has put all the heat on me, let Hull go up with you." Hull won't do it.
- Cochran: He won't do it?
- H.M.Jr: At least he wouldn't as of yesterday. But the President's announcement is going to say Mr. Hull and I. The President said, "It is a matter of life and death." He says, "If you don't do it today, it may mean war in the Far East." I couldn't say to Mr. Hull, "Do you agree with that?"
- Now, Somers said over the phone, he said, "In the first place I don't see any hurry and in the second place I don't think the loan would make any difference anyway."
- What they were talking about was this fellow Wang Ching-wei. That is in the Times today. They made their peace with Wang. It is out today. The

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story reads that Chiang Kai-shek isn't going to recognize Wang Ching-wei.

- White: I think they are putting the screws on unnecessarily. Soong's man came down to see me and I was trying to get something out of him and he wasn't specific, but I am not sure that they are not exploiting the opportunity.
- H.M.Jr: Who?
- White: China. I mean, that they are not making the situation appear a little worse than it actually is.
- H.M.Jr: Well, Harry, I am used to having you put pressure on me to rob my Stabilization Fund, but who outside of the Treasury is doing this?
- White: I think it is coming right from Chiang Kai-shek now. In fact, I know it is.
- H.M.Jr: What is this message that Soong had for me?
- White: I think it relates to that.
- H.M.Jr: I should have seen him, shouldn't I?
- White: Did he call up?
- H.M.Jr: No, I haven't seen him.
- White: He is available.
- H.M.Jr: Why don't I get him down?
- White: When his man yesterday spoke to me about it, he said that Soong was planning to go to New York. I said, "Of course, I don't know what is doing, but I think that --"
- H.M.Jr: (To Commander McKay) See if T. V. Soong is available, and if he is, ask him to come down at once.
- White: I thought this was a good time for him to be close to Washington.

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- Cochran: Because they have this story in the press of another loan of a hundred million dollars. That has been in while you have been away. The fact is, they can't use a hundred million dollars. They can't get goods in and the currency is fairly stable right now.
- White: Getting goods isn't their problem. If what they are saying is the truth, and I don't know whether it is, but even if it isn't, it is an exaggeration and even with an exaggeration it is still true that the domestic situation is getting a little out of hand. Prices are rising very rapidly in Chungking, and I think they are taking advantage of what they think is an appropriate time when they feel they can say to this country, "Well, you are either going to tell us you are going to help us in a real big way or we will have to come to terms with the other fellow." Whether they actually mean they are going to come to terms with the other fellow, I am a little bit skeptical, but I think they are using the opportunity. Certainly that should be the State Department's business to find out whether their threat is a real one or not.
- H.M.Jr: Well, the thing I don't understand, evidently Mr. Hull told the President that he wants us to put our own man in to operate this fund.
- White: I wouldn't think of lending them much money without doing it, Mr. Secretary, because there are a million ways of drawing that stuff out so it will dribble right out to the advantage of a good many bankers, as did the first Stabilization Fund that was set up.
- McKay: He will be down just as soon as he can. He is coming from the Chinese Embassy. He said he will be down in five or ten minutes.
- H.M.Jr: All right.
- I am all right, you see, because Hull hasn't called me yet, so I'm not holding up the President. I don't know why I didn't think of that earlier, to call up Soong. When you saw his man, who do you mean?

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White: He has an advisor.

H.M.Jr: Oh, you mean that Pole?

White: Yes, he is a Pole.

H.M.Jr: Polish doctor.

White: Polish physician who is a financial advisor to the Chinese. He is a smooth boy, but I don't know whether to trust him around the corner.

H.M.Jr: I certainly wouldn't.

Cochran: Is Young still advisor?

White: Oh yes. Young doesn't come in.

H.M.Jr: You are seeing this Pole? What is his name, Doctor --

White: Rajchman. Soong sends him when he wants to - uses him sort of as a messenger boy. I don't mean he uses him actually that way, but in his contacts with me he has been sent to find out --

H.M.Jr: If they ask me why I have seen Soong, Soong has asked to see me and he has a message for me, doesn't he?

White: He has a message.

H.M.Jr: From Chiang Kai-shek?

White: Yes. I don't know whether it is for you or not.

H.M.Jr: But didn't he ask to see me?

White: He asked to see you and he has a message.

H.M.Jr: (To Commander McKay) Did Dr. Soong call up yesterday to ask for an appointment?

McKay: Yes, sir.

H.M.Jr: What time?

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- McKay: I didn't talk to him until, I would say, about ten o'clock.
- H.M.Jr: He called you?
- McKay: He talked to the operator first and then he called later on and I told him I wouldn't let him know until Monday.
- H.M.Jr: All right.
- Now look, Gents, while we are waiting, I think if we go up there we ought to be prepared to talk about the Argentinian thing too.
- White: That is a very good idea.
- H.M.Jr: Because certainly if I get the joint committee together and then three days later announce a 50 million dollar loan to Argentine, they will say, "Well, that is a piece of slippery footwork."
- White: Not only that, I think it is also good because it will - it is a loan of a different character and it is well to clear them both off. They are liable to approve the Argentine one and not the Chinese one.
- Bell: He can say while it doesn't come within his promise, he wants to bring it to their attention.
- Gaston: You want to call attention to the fact that you don't promise to consult them on any such thing as that. You only dealt with countries at war.
- White: But I still think he can inform them that he has been doing it and that there are several other Latin American loans that he may be considering and then that will give you a clear way if you do want to grant something that they have heard about and haven't opposed.
- H.M.Jr: Are you fellows going to be ready on the formula?
- White: For China?
- H.M.Jr: No, no, for Monday morning, Argentine.

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Bell: Yes.

White: Yes.

H.M.Jr: When are you going to be ready?

White: I think we are ready.

Bell: What do you mean, Mr. Secretary, formula? Do you mean an agreement and everything drawn up?

H.M.Jr: I want to know what it is all about.

Bell: We have got that information.

White: We gave you a proposal, written out.

Bernstein: When you come to discuss it with them, are you going to try to get their approval on anything like specific terms, because you may be tying your hands, because if you are just in the beginning stages of these negotiations, you may want to shift your position or adopt a different approach. Do you need tell them more than just the general proposition --

H.M.Jr: Well, Bernie, I can't discuss it because I don't know what it is all about.

White: After knowing it, he can pick the general points.

Gaston: Yes, you can generalize it after you see something definite.

H.M.Jr: I think we can say we will meet at four o'clock tomorrow at the house.

White: Do you want both the Argentine and the Chinese plan?

H.M.Jr: Definitely. I can't handle more than one crisis a day.

Bell: You can't get out of this committee, I don't believe, any definite approval. They have no authority, legislatively, to approve anything. I think they might say that they are not going to object to it.

White: That is right, and thank him for the fact that he

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has come to them to tell them and they will express individually, not as a committee, but they will probably express individually their approval or objection. There will be some who will object --

Geston: You are talking about China or Argentine?

White: China. I doubt whether any will object to Argentine.

Cochran: But on Argentine you will decide tomorrow how you feel.

H.M.Jr: Yes. I want to go to school on that, and hear the whole story. I would like all of you to be there, if you would, at four o'clock tomorrow.

Bernstein: Ed will be back for that meeting.

H.M.Jr: Good. We will put him to work.

Bernstein: We have been talking to Ed this morning about the thing.

H.M.Jr: Between the financial writers and the football game --

Bernstein: I don't think he went to the financial writers. He stayed about here last night.

H.M.Jr: What happened?

Bell: I think he left on a nine o'clock train.

Bernstein: I know he was leaving late, although I do notice that he got referred to by the financial writers as the author of the legislation that Wall Street doesn't like.

White: I have got his train seat, so that he can be here in a few hours, and his seat at the game. We can get him.

H.M.Jr: Are you sitting next to him?

Bernstein: Yes, I think we can get that.

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- Cochran: May I mention one thing now about Sir Frederick Phillips? Pinsent wanted to be informed this morning whether we approved that communique. I will show it to you. Because Phillips may leave --
- H.M.Jr: What communique?
- Cochran: Just that one line in the center there, because Phillips may arrive on Monday in New York.
- H.M.Jr: Incidentally, I will read you the letter when it comes in. Layton comes in and he dumps on my desk - I mean, I have been gone over three weeks and just when I come back here is two billion dollars worth of orders, 700 million dollars worth of capital assistance. Well, Stimson brings up the ordnance orders at Cabinet yesterday and gives himself a wonderful sendoff, what a wonderful job he and the Army have done, and they don't mention anything about money.
- White: Two billion seven?
- H.M.Jr: Two billion and seventy. So in the humor the President was in and in the humor I was in, I wasn't going to start a discussion there yesterday as to whether they should or shouldn't place it. I thought Stimson would say something. So I asked Layton this morning, so he said Stimson wouldn't touch the financial thing. So I have written a letter, which I will show you, to the President, sending him a copy of this memorandum from Layton and saying, "My dear Mr. President, here it is. Please advise me what to do with it."
- White: That is two billion in addition to what they have told us.
- H.M.Jr: Yes.
- White: And they need another billion to meet what they have told us?
- H.M.Jr: Then I say something about, "In view of what Ambassador Lothian has said, please advise me how you wish me to proceed." I am certainly not going

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to tell Knudsen or anybody else that the money is in the bank. I said to Layton - I am just killing time - "Have they taken the 650 over in Canada?" "No," he said. You see, it is a question of this is Central Bank money and Canada doesn't know whether it can take it and then under their Trading With The Enemy Act, they haven't yet. I think, declared their war with France. So I said, "Listen, do you fellows want to win this war or don't you want to win this war? When you make up your mind, let me know, will you?"

Klotz: You said protocol or something like that.

H.M.Jr: I said, "Are you fellows going to stand on protocol and etiquette on 600 million dollars?" I said, "You let this gold slip through your fingers in Canada and go down to Martinique and the planes, because you didn't know whether to send a shot across their bow." Imagine if we did something like that. It was in Halifax Harbor, you know.

White: No, I didn't.

Klotz: What was it he said and you said something about turned sour? Do you use that in England? He said no, but they understood what it means. They don't use that in England.

H.M.Jr: I told him I didn't know what happened while I was gone but certainly the attitude in Washington toward England had turned sour. But imagine, they are going to stand on protocol as to whether they should take this gold or not.

White: And they are losing the gold in Dakar because the report is they are beginning to take it out by plane.

H.M.Jr: I knew that would happen. Is that what the Consul is sending?

White: There is one cable that a plane is reported to have left with a substantial amount.

H.M.Jr: They flew it all down, they can fly it all away, can't they?

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Cochran: No, they didn't fly it all down. It went down by vessel.

White: Didn't the Polish go?

Cochran: No, it went on a ship.

White: Well, it flew from the Poles, anyway.

Mr. Secretary, we have drafted a plan that I thought we would have time to clear around and discuss that I think will meet this British situation.

RE CHINESE LOAN

November 30, 1940
11:05 a.m.

Present: Mr. White
Mr. Cochran
Mr. T. V. Soong
Mrs. Klotz

H.M.Jr: I was sorry I couldn't get to you earlier, but I have been away and I understand that you had some message that you wanted to give me.

Soong: Yes. General Chiang wanted to send the statement to the President requesting the urgency of financial assistance in view of the urgent situation. It is getting, as we expected, quite out of hand. I wish to speak to you on that matter.

H.M.Jr: Well, would you do it now?

Soong: Although the foreign exchange rates in Shanghai have been fairly steady, the internal prices have gone up very rapidly, especially noticeably in the last few weeks, and therefore it seems that unless a very substantial assistance could be given, the situation will get out of hand.

H.M.Jr: Well now, let me ask you, how much money have you in mind?

Soong: Well, General Chiang asked for between two and three hundred million dollars, that is what he asked for.

H.M.Jr: What will you take?

Soong: Well, we are not choosers, Mr. Secretary.

H.M.Jr: I see. But as to take care of the immediate situation, say for six months --

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Soong: I should imagine a hundred million dollars.

H.M.Jr: I see. Well now, let me ask you this, if you will tell me this. Who else in Washington have you told this to, I mean officially?

Soong: Of course, I saw the Secretary of State.

H.M.Jr: I see. This week?

Soong: This week. I handed him a memorandum to be presented to the President.

H.M.Jr: Oh. Well, I haven't seen that, so I don't know what it is.

Soong: May I give you a copy?

H.M.Jr: I wish you would. Have you a copy?

Soong: Yes. I can get it, but not here.

H.M.Jr: I would like to see a copy of that. Would you want to use my phone? You can talk in Chinese and then I won't know --

Soong: Well, I have to go - I have locked the door.

H.M.Jr: I see. But you have a very good memory. Approximately what is in it?

Soong: Well, just two things in it. One is for airplanes and the second is for stabilization.

H.M.Jr: Well now, was there any time factor in there, that the thing had to be done today or tomorrow? I mean, is it a matter of 24 hours or does a week make any difference?

Soong: It is very urgent because of the Japanese

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recognition of Wang Ching-wei, of the puppet government in Nanking, and at this time any assistance given now would have very good effect, both politically and psychologically.

- H.M.Jr: But one or two days, would that make any difference?
- Soong: Well, I think if we could follow it up immediately, that would have the most desired effect.
- H.M.Jr: Well now, let's see. You gave that to Mr. Hull on what day?
- Soong: I gave it to him day before yesterday.
- H.M.Jr: That would be Thursday.
- Soong: Yes.
- H.M.Jr: You gave it to him Thursday?
- Soong: Yes.
- H.M.Jr: But I mean if you knew by Monday or Tuesday, would that be quick enough?
- Soong: Well, if it at all could be made today, that would be most desirable.
- H.M.Jr: Why?
- Soong: Because the Japanese have recognized Wang Ching-wei and have been expecting to see what the reaction of the rest of the world will be, particularly that of the United States.
- H.M.Jr: I see. Well, things like this have happened before and you didn't expect the United States to - what shall I say - act as quickly as that.

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- Soong: You remember after the Japanese aggression, a loan for 25 million was announced immediately after the fall of Canton.
- H.M.Jr: Well, that was a happy coincidence.
- Soong: The last loan from the Export-Import Bank came just at a time when the Japanese were announcing further steps.
- White: What is likely to happen within a few days? Supposing people in China and the rest of the world don't know what the United States is going to do within a few days? What would you envisage might happen, if anything?
- Soong: Well, even without the Japanese action, the situation is very, very grave. I don't want to be an alarmist, but the situation is very grave. I have been repeatedly saying it but before it was not impending. Now with this Japanese move, the pressure becomes doubly great.
- H.M.Jr: Has England offered to do anything for you?
- Soong: England indicated - I was also negotiating with England. Our Ambassador indicated that the British are considering it rather favorably and wanted me to go to England. I told him it is out of the question now because I am still negotiating in Washington.
- H.M.Jr: How much do you think they will lend you?
- Soong: Well, I should say between five million pounds and maybe some additional sum for purchases in the British Empire.
- White: They have asked for ten, five for stabilization and five for other purposes.

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- H.M.Jr: Now, as I understand it, the Export-Import Bank has loaned you so far five million.
- Soong: Since I came, 25 million. Before that, 20 and 25. 45, 70 million.
- H.M.Jr: 70 million. And how much of that have you used?
- Soong: Well, the first two loans, 20 or 25, are all used. They actually have not been paid to the manufacturers, but it is all assigned, so it is all used up.
- White: Allocated.
- H.M.Jr: That is 45?
- Soong: Yes. As to the rest of the 25, we have only just got it about a week ago and for our purposes it may seem ungrateful to say so, but to meet such an emergency it is not sufficient. It is not big enough.
- H.M.Jr: Well, the terms that you have, are they reaching China?
- Soong: They are reaching China. The Burma Road has been bombed constantly but as constantly it is being repaired and ferries made to ferry things over.
- H.M.Jr: And these purchases, do any of these recent purchases go through the Universal Corporation?
- Soong: All purchases, as far as I know, have gone through the Universal.
- H.M.Jr: I see. Are you using K. C. Lee?

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Soong: We are not using K. C. Lee.

H.M.Jr: You mean the Government?

Soong: I am not, in my negotiations.

H.M.Jr: Do you use him for purchasing?

Soong: I am not using him for purchasing.

H.M.Jr: Why do you say "I"?

Soong: I mean there may be small purchases that don't amount to very much, but as far as the money that I have secured, I haven't used him.

H.M.Jr: You are using Universal?

Soong: Absolutely.

H.M.Jr: Good. That is a good set-up.

Soong: I am now asking them to make purchases for a thousand trucks and also such supplies of machinery and materials for making munitions through them.

H.M.Jr: Well, do you think I have covered the field?

White: Yes, I think so. The 25 million dollars which they have just got hasn't been touched yet, and all of the loan previous to that has been allocated in the sense that they are placing orders but it hasn't been spent. The only question that I think of raising is that I am not quite clear why a couple of days --

H.M.Jr: Well, would you mind giving me a copy of that memorandum?

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- Soong: Immediately. I will go back and get it.
- H.M.Jr: And if I should be occupied or not here, if you will give it to Mr. Cochran.
- Soong: Yes. I may say that this memorandum is only following up negotiations that General Chiang had with the American and British Ambassadors in which he asked for the sum of two to three hundred million dollars. In the latest memorandum I presented to Secretary Hull, the emphasis was - although both messages were touched - the emphasis was on airplanes.
- H.M.Jr: I see. Well, I am not familiar with it so I would like to have it.
- Soong: Yes.
- H.M.Jr: I am supposed to participate in this. Well, you be available --
- Soong: All the time.
- H.M.Jr:today and tomorrow, because I am working on this very hard, trying to find a way to do it.
- Thank you for coming down.
- Soong: Should I give it to Mr. White?
- H.M.Jr: Either gentleman. Thank you.
- Soong: May I also say that I have just received a telegram from General Chiang. The Export-Import Bank promised to make some further loans and his telegram to me was that - he said, "If you sign this agreement, do not publish it, because it will have a very bad effect."

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- H.M.Jr: Now, wait a minute. Let's get this. This is important.
- White: Do you mind repeating that?
- H.M.Jr: Yes, please.
- Soong: I just got a telegram from General Chiang, because I wired him the other day that the Import-Export Bank will probably lend us some more money and he said, "Well, if you make this agreement, do not have it published, because immediately following the Japanese we are expecting substantial support from the United States." If a sum of, say 25 million is published, that will be worse than nothing at all, and therefore he asked me not to publish it.
- White: The thought is that the 25 million dollar announcement will look to the public as though that is all the assistance they are going to get, and it being so small, it wouldn't help the situation. You would rather let the situation seem uncertain, as though the United States was still going to do something?
- Soong: No, his idea is that even if we get 25, see, the announcement should be "a very substantial sum." We would announce it as a substantial sum.
- H.M.Jr: What would you call a minimum that would be helpful?
- Soong: I should say a hundred million.
- H.M.Jr: Okay.

RE CHINESE LOAN

November 30, 1940
11:20 a.m.

Present: Mr. White
Mr. Cochran
Mrs Klotz
Mr. Bell
Mr. Gaston
Mr. Bernstein
Mr. Welles

White: That is apparently what Soong wanted to see you about.

H.M.Jr: Evidently. And his story checks with what the President told me, other than I don't see that Monday isn't just as good as Sunday.

White: He didn't make that clear and I get the feeling he doesn't either, but at least he wasn't convincing on that one. But apparently he wanted to see the Secretary of State and you, because that is when he spoke to me about seeing you. What are the ethics of showing Cabinet members a message that he has for the President?

Cochran: It should go through the Cabinet members, or Mr. Hull.

H.M.Jr: But I mean his position is sort of a peculiar one. If Chiang Kai-shek has a message, he should give it to his Ambassador and the Ambassador gives it to Mr. Hull.

White: His Ambassador is nothing.

(Telephone conversation with Sumner Welles follows:)

November 30, 1940
11:20 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

Sumner
Welles: Good morning, Henry.

H.M.Jr: How are you Sumner?

W: Fine. Henry, I wanted to take up with you the question of this suggested statement for the President to make with regard to assistance to China.

H.M.Jr: What did they do, dump it in your lap?

W: Well, as usual, I'm trying to be helpful and I thought I'd read you this brief statement and then send you over the text if you wanted to have it in writing.

H.M.Jr: Right.

W: Will you let me have your reaction?

H.M.Jr: Surely.

W: "Discussions between financial representatives of the American and Chinese Governments are progressing satisfactorily. New credits to the Chinese Government of \$100 million are contemplated, of which \$50 million will be through the Export-Import Bank against purchases by the Metals Reserve Company of critical and strategic materials in our defense program, and \$50 million through the Treasury for monetary assistance and management as between American and Chinese currencies." That's all there is to it.

H.M.Jr. Now, Sumner, this is terribly important, and I'd appreciate it if you would bring it over yourself. I've been sitting here all morning waiting to hear from Mr. Hull.

W: Well, I've been trying to get you myself, Henry, for about ten or fifteen minutes.

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H.M.Jr: Well, they told me at ten minutes past eleven that you called. That's the first time I had gotten it.

W: Well, I can't come over myself because I have people waiting here, but I'll send somebody over.

H.M.Jr: Well, that's no good.

W: Well, I'll come over myself then.

H.M.Jr: Yeah, because this is - did you read my memorandum to the Speaker?

W: No, I haven't seen it.

H.M.Jr: That's the whole thing, you see. I gave that to Mr. Hull.

W: Well, I'll bring over all the papers I have. I'll come over right away. Are you free now?

H.M.Jr: I've done nothing - I've just sat here all morning waiting to hear from Mr. Hull.

W: All right. I'll be right over.

H.M.Jr: Thank you.

W: All right, Henry.

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- White: I think your statement, with one slight change there, could just be added right on to that. That is perfect, as I got it. The two statements taken together, I think, would just fill the bill. It wouldn't commit you. It says "contemplated."
- Cochran: Where it says "new credits," that is --
- White: Some slight change could be made there. It is funny, a 50 million dollar loan against the metal reserves. They have already borrowed for 10 or 15 years in advance.
- H.M.Jr: Welles is on his way over here and he has never seen this thing I have written to the Speaker. Hull didn't show it to him.
- White: If we could get a copy of that other and see whether this could be added, you could confront him with that proposition.
- H.M.Jr: I can't in front of Welles show him I have a copy of that. He will be here in two minutes. Soong told us on Thursday he was in to see Hull with a message from Chiang Kai-shek that they wanted to go the day after this fellow Wang was set up, and when we pressed him as to what would happen if they didn't have it for a day or two, he had no explanation. Here is the statement.
- "Discussions between financial representatives of the American and Chinese Governments are progressing satisfactorily. New credits to the Chinese Government of 100 million dollars are contemplated, of which 50 million dollars will be through the Export-Import Bank against purchases by the metal reserves company of critical and strategic materials in our defense program, and 50 million dollars through

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the Treasury for monetary assistance and management as between American and Chinese currencies."

- White: Credits are contemplated, but contemplated to me would be that they are being proposed. I am not sure of that.
- H.M.Jr: If he added my statement to that, I would be satisfied.
- White: Could you read that again, Mr. Secretary? Just the last two sentences.
- H.M.Jr: "...and 50 million through the Treasury for monetary assistance and management as between American and Chinese currencies."
- Gaston: It is being thought about.
- White: Thought about; and then your statement added to that will give force to the word "contemplated," and show what is meant by contemplated.
- Cochran: Could you say, "and management between the currencies"? They say 50 million through the Treasury for monetary assistance.
- H.M.Jr: Currency stabilization.
- White: Currency stabilization would fit the stabilization fund and state a legal objective.
- H.M.Jr: For what?
- White: Currency stabilization.
- Klotz: Well, he dictated it and we have been sitting here taking it down.

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- H.M.Jr: It is easier just to wait until he comes and he will give us a copy. And then let this follow?
- White: I should think so. There certainly wouldn't be many changes and I am sure the President would be satisfied and it would have all the effect that they want, because they will get 50 million anyway, and the other 50 million....
- Bell: They would get the other 50 from the Export-Import Bank if they didn't get it from the stabilization fund. They might get the full 100 million under that without touching the stabilization fund.
- White: You mean they would get the 50 anyway, and the only question remains about the other 50 in the public's mind?
- Bell: Yes.
- White: That is why I think it will fill the bill.
- Bell: A hundred million contemplated could be contemplated from any place.
- White: Does that mean you are planning to, going to?
- Gaston: Contemplate means looking into it, thinking about it.
- White: I don't know whether he used the word advisedly, but if he didn't, it is a fortunate word.
- Bernstein: It is probably intended to mean, "This is what we are going to do." That is what they will want the public to construe the word to mean.
- White: It is one of those words that, defined in

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various languages, can mean any one of a number of things.

Gaston: It is a very weasel word.

(Mr. Welles entered the conference)

H.M.Jr: Sumner, I wish you would read this, my letter to the Speaker, which he asked for, because he couldn't get this legislation through with all of this fear, you see, and he asked me to write him a letter. I also had to write a letter to Vandenberg, but this is the best letter. If you will read that you will get something - I am not taking this very lightly. That gives it to you. (See attachment to meeting re Chinese loan, November 29, 11:30 a.m.)

Welles: That is it.

H.M.Jr: You can keep that. I want to tell you from that point. When the President called me yesterday - I mean, I take it that Mr. Hull hasn't given you the whole history. I may go over it twice, but I would rather take the time to give you the whole story.

He called me between 11:00 and 12:00, and Jesse Jones was there with him, and he said that he would like me to do this thing and I explained the circumstances and he said, "Well, get hold of Wagner and the others," which I proceeded to do. Wagner was in town and everybody else was out of town, and Somers, who is the Chairman of this, was up in New York. The best they could do was get a meeting for Monday morning, which has been called for 10:30, a joint committee, to hear me on this question.

This is the press clipping (handing press clipping to Mr. Welles). You can add this

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to your exhibit.

Last night while I was there, the President talked to Wagner and Somers and said he wanted to make the statement that this had to be done today, and I don't know what either of them said except that Somers called me up this morning and he said, "You know, I tried to argue with the President and tell him I thought it was a great mistake for any public announcement to be made before Monday because," he said, "if he does it, I have grave doubts whether I can get this fund renewed. It has to come up again this June, you see, and in view of the fact of what you told us three times --" He said, "Your honor is at stake. You assured us three times you would not make just this kind of loan without coming up for guidance," and he says, "I can't see why Monday wouldn't be as well, but if the President does make a statement I told him this, that he is going to make it that much more difficult." He said, "It would make it very difficult to get this fund renewed and I hope very sincerely he won't." He said he told him that last night.

I thanked him very much and told him that as far as I was concerned, in view of what I had said, that I would not make any commitment before Monday.

Now, to give you the whole picture, I needn't tell you that I am interested in helping the Chinese, because it is rather laughable. You and I got the thing through, originally, when Mr. Hull was on the water to Lima.

Welles:

I remember well.

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H.M.Jr: You remember the trouble we had in getting the thing through.

Welles: Very well.

H.M.Jr: Now, T. V. Soong asked to see me Thursday and I saw him this morning and I asked him what the circumstances were and he said that they wanted a couple of hundred million dollars and the day after Wang Ching-wei was recognized - I said, "Well, what will you take?" He laughed and said, "Well, we can't be choosers, but I am in a mood of a hundred," and I pressed him pretty hard as to if the announcement was early next week, what difference would it make or what would happen and he couldn't tell me what would happen. There was no threat or indication of threat that they would make peace or anything like that, you see, and he simply said that they are very, very anxious, and then he said they had another message, I think he said as of today, from Chiang that if it was only 25 million not to announce it, but I couldn't get out of him anything.

Now, while we were waiting, we drew up a suggestion and it is based on this. This arrangement which we have is a 50 million dollar stabilization arrangement with these people, which expires on December 31st of this year. We are supposed to notify them today, 30 days in advance, whether we are going to renew it or not. They have borrowed 20 million dollars from us against gold collateral. They thought we could tie this thing up. I take it what the President and Mr. Hull want is the figure, 100 million, and I drew up, with the help of these gentlemen, a statement which I thought would fill in - I mean, I just can't break my word; it is impossible.

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Have you got your statement there? Well, the one that you read to me, I just wonder if this one couldn't follow, and would that make everybody happy.

Welles: So far as I am concerned. This is the original form, which I think covers your idea.

H.M.Jr: "Discussions between American and Chinese authorities are progressing satisfactorily. New credits to the Chinese Government of 100 million dollars are contemplated, of which 50 million dollars will be through the Export-Import Bank against purchases by the metal reserves company of critical and strategic materials in our defense program, and 50 million dollars through the Treasury for monetary assistance and management as between American and Chinese currencies."

Well, would that do it?

Welles: And then I would add right to that this additional statement of yours.

White: That is different than --

Bell: Yes.

Welles: Let me give you the background of this. This is what we ourselves - what you have in your hand is what the State Department thought was the wise thing to do, in view of your situation. Then Jesse Jones made the counter suggestion, which is the one we were speaking of, and so far as we are concerned in the State Department, our original draft is entirely satisfactory and we will be happy to add this to it.

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- Bell: I am not sure it ties in exactly, does it?
- White: That could be added to either draft and have the same effect.
- H.M.Jr: I think that would be perfect.
- White: There is a certain amount of duplication.
- H.M.Jr: That is all right.
- Gaston: There are some advantages in not having any statement made at all today, and I think it would be distinctly better if the statement were not made until Monday, for two reasons I am thinking of. One is the attitude of the committee and our future relations with the committee, and the other is the advertising the fact so widely that you are going to hold this meeting with the committee on Monday and what it is going to be about, so as to give an opportunity for an opposition to be built up, if there is to be a real opposition.
- H.M.Jr: I would say Amen to that, but I don't think the President will listen to it. I think Herbert is absolutely right.
- Welles: Well, the situation, I think, is a little more critical than T. V. Soong gave you to understand.
- H.M.Jr: I see.
- Welles: The Germans have made secret proposals to Chiang for peace terms and there is a danger of a real psychological moral lapse as a result of this recognition of the one regime, and our hope is, of course, that this will act as an immediate counteractive. If you

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wait for two or three days, the effect might be too long delayed.

H.M.Jr:

You are arguing about a world foreign affairs situation, which is your business. I can only state my position as to what I can do with the stabilization fund, which I thought Congress had given to the President and he gave it to me, but Congress gives the fund to me. He has veto power, but it is the fund that they gave to me, and in order to get it through, I had to make that kind of a statement.

Welles:

I understand fully.

H.M.Jr:

It is a trust which I feel terribly deeply that I just cannot --

Welles:

With every reason, and I understand your situation.

H.M.Jr:

I cannot break a trust like that and look myself in the face.

Welles:

Exactly.

H.M.Jr:

As I am constituted, it is just impossible.

Gaston:

With that statement that has been outlined here, you will be keeping complete faith, and you are perfectly in the clear. It is just a question of the effect on the committee. As to that, I think with what Mr. Welles has said of the urgent critical situation, that can be explained to the committee and will go a long way to offset it.

White:

I presume Mr. Hull or Mr. Welles will be up there with the Secretary?

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Welles: I think Secretary Hull had better go with you.

H.M.Jr: I think one or the other of you....

Welles: Right.

H.M.Jr: It is 10:30.

Welles: 10:30 Monday morning?

H.M.Jr: It is Room 301.

White: Now, a statement of that kind, if you could see fit to make it, you see, would just --

H.M.Jr: Now look, if the State Department will take this, the first one, plus what I have added, I am entirely satisfied.

Welles: That, then, will be our position. I will try to arrange it directly with Jesse so he will agree with it.

H.M.Jr: Well, I am not worrying about Jesse.

Welles: No, he has nothing to say about what you have here, but I mean with regard to what relates to him it is slightly different than what he indicated.

H.M.Jr: Could we leave it this way? If I don't hear from you again, and I will never be more than 15 minutes off from my telephone, until I do hear from you it is clear?

Welles: Your understanding with me is that this that you have in your hand, plus your statement, is what you and I agree on?

H.M.Jr: Right. And if it is to be anything else, you let me know.

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Welles: I will let you know immediately.

H.M.Jr: And for my peace of mind, when it is clear, will you let me know?

Welles: I will be glad to do that also.

H.M.Jr: We feel, in view of the fact that we have to get on the Argentinian thing immediately, that I ought to describe to this committee what I have to do, telling them that I don't feel, under anything I said to get this legislation, that I am honor bound to do it.

Welles: Because it is not a belligerent government.

H.M.Jr: Exactly. But in view of the fact that it is going to come up - otherwise, they will say, "You had this in your mind and three days later you announced the thing and you appeared before this committee and you didn't tell us." Don't you think so?

Welles: I think you have every reason to do it, yes.

H.M.Jr: So we are meeting Sunday afternoon and I am posting myself on the Argentinian thing so I will be in a position to recommend it to the committee Monday morning.

Welles: Splendid.

H.M.Jr: And I don't think I will have any trouble.

Welles: That is encouraging.

H.M.Jr: On that, at least. I don't know about this, but I don't think I will on this, either, because - now, mind you, so that you have it a hundred percent what we are doing,

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talking about, it is an extension of this 50 million dollar agreement, of which they already have 20, so it really only gives them 30. You appreciate that?

Welles: Yes. In so far as the effect is concerned, it sounds like a hundred.

H.M.Jr: You have got it. The President called me at our meeting yesterday, and I want to live up to it.

White: Mr. Secretary, I have just one thought. Mr. Jones might have had in mind writing in his draft that he wanted to say there is a phrase there about his giving them this money in anticipation of buying the metallic reserve. If he wants to include that in there, there is no objection, is there, because after all, the Export-Import Bank might have something like that.

H.M.Jr: Well, let's just leave it the way it is.

Bell: Dr. White's question raises this point. Jesse is writing a letter to the President, which can be made public, with regard to the details of the Export-Import Bank operation, so I think that will take care of it.

H.M.Jr: We understand each other. If I don't hear from you, it is your statement plus mine?

Welles: Our understanding is broader than that. You are going to hear from me anyhow.

(Mr. Welles left the conference)

White: The darkest hour is before the dawn.

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- ...Jr: Now, wait a minute. Don't let's whoop it up yet. Mr. Roosevelt hasn't accepted yet.
- ...: I don't think it makes a great deal of difference which of those statements is used.
- ...Jr: Not if they use mine.
- ...ite: I thought the Export-Import Bank statement of yours would have been better.
- ...: With either one, you were safe if they use yours.
- ...ite: Yes. You see, that is what the President might not like. The first part is a little less certain than Jones' first part, whereas your second part is clear.
- ...Jr: They won't give him two pieces. I mean, they are going to give him a finished statement, you see. They are not going to send over one from Jones, one from State, and one from me. I don't know yet. I mean, this is all very nice, Mr. Welles saying that this is a matter of honor with me and all that, but I will let you all know, anyway. You might as well sit in on this other thing. Then I will go home.
- ...: I think even if they issue this, you are not bound to anything more than a Chinese agreement - I don't think you will be bound to anything more than an extension to the Chinese agreement as it is now written, and you can still talk to the committees about modifying it.
- ...Jr: I told what's-his-name to get here. I told Welles - I mean, I made it perfectly plain

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there is only 30 million of fresh money in there.

Bernstein: Mr. Secretary, may I mention one point. You keep referring to the fact in connection with your extension of the stabilization - you originally made the statement in connection with the extension of the stabilization. That is in those hearings. Then the question came up again last fall in connection with the Neutrality Act when they wanted to insert an amendment which would have specifically limited the use of the stabilization fund in this kind of a situation, and it was at that time that you wrote these two letters referring back to your earlier testimony and we kicked the thing out of the bill on the basis of those two letters, one to the Senate and one to the house.

H.M.Jr: Won't you all wait until Young comes in, please?

Bell: Shall we send something up to the house this evening on Argentina that you can look at before the 4:00 o'clock conference tomorrow?

H.M.Jr: Why is it when I come back things always pop?

Bell: We would like to know.

H.M.Jr: I would like to tell you something, young fellow. Do you know what the President said when I said this at the Cabinet yesterday? He said, "Did Bell know this?" I said, "Yes." He said, "Well, why didn't he say something about it?"

Bell: About what?

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H.M.Jr: About my personal honor, et cetera, et cetera.

Bell: In connection with what?

H.M.Jr: When I said I couldn't do this because I promised the committee. The President said, "Well, does Bell know all about this? Why didn't he say something?"

Bell: In what connection? I had no reason for bringing it up. I knew nothing about China until you told me.

H.M.Jr: I knew that.

Bell: He would have heard about it, too, I'm telling you.

H.M.Jr: What?

Bell: He would have heard about it if he had asked me.

H.M.Jr: These things come to my mind. I felt like saying it was like he told me the other thing in Cabinet. He said, "To show you how much Henry knows, he said, 'We are building a base at Port Royal,' and actually it is 20 miles away from there." Now, I didn't say that to the Tribune. I said we were rebuilding the docks at Port Royal and that the base was 20 miles away. And then he said, "Well, the money is mine; I can do what I want with it," and I said, "Well, that is nothing new, Mr. President." We had a good time yesterday.

White: We knew that, because you didn't call us in afterward.

H.M.Jr: Do you know when I got out of there? 5:00 o'clock. And then Kintner and Alsop were

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here waiting with two articles on Lothian.

Gaston: You had better bawl out the Secret Service for not letting Dan know about this Chinese thing.

H.M.Jr: I can't understand that. He knew about it all the time.

Bell: I don't have these dreams. I sleep pretty soundly. I don't dream. (Laughter)

H.M.Jr: That is 1940, third term. You dream it.
Yes, let Foley come around tomorrow afternoon.

White: I don't think he will enjoy the game, if you ask me.

H.M.Jr: Why? We haven't told him.

White: He has got one leg here and one leg there.

Bernstein: We told him to listen to the loudspeaker and we were going to have it stated that Mr. Edward Foley, Jr.'s number had come up and he was to report for duty at once.

H.M.Jr: It isn't over yet, but if it is, it is a narrow squeak. And I will never forget, Harold Ickes was the only fellow that came to my rescue.

White: Did they all have a chance to read the letter?

H.M.Jr: I am not going to read this all the way through. This is a history. I will read this at home.

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I will let you all know if the flag at the House of Morgenthau is still flying. I am glad you told me that was the Neutrality Act.

Bernstein: The first paragraph tells that.

White: I thought there was something wrong.

Bernstein: There was a very heated argument on the floor of the Senate that we - at the same time that we were adopting legislation prohibiting loans to the belligerent countries, that here was the stabilization fund.

White: That gives it added effect, because not only is the stabilization fund involved, but there is a certain moral commitment on the Neutrality act.

H.M.Jr: Well, it shows that in the first instance, I mean, that they did the drafting and they kept me waiting here while they had Jesse Jones go over it.

11-30-40

The Sec of Treas^{unday}
 will appear, before
 the Senate — and
 House in joint session.
~~at this time~~ at this
 time he will bring
 to their attention
 the proposed ^{extension} ~~renewal~~
 of ~~the~~ 50 million
 \$ Habing act, ^{arrangement} ~~operation~~
 with the Central
 BK of China
~~which expires on Dec 31~~

Dictated by the Secretary 11 am Nov. 30/40. 280

The Secretary of the Treasury will appear Monday forenoon before a joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures. At this time, he will bring to their attention the proposed extension of a \$50,000,000 stabilization arrangement with the Central Bank of China.

November 30, 1940
11:20 a.m.

Statement read by Sumner Welles: *over phone*

Discussions between financial representatives of the American and Chinese Governments are progressing satisfactorily. New credits to the Chinese Government of \$100 million are contemplated, of which \$50 million will be through the Export-Import Bank, against purchases by the Metals Reserve Company of critical and strategic materials in our defense program, and \$50 million through the Treasury for monetary assistance and management of between American and Chinese currencies.

Mr. Mills brought this over when he came to see
the Secretary at 11:30 Nov. 30/40.

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The discussions between the American and the Chinese authorities in the field of financial cooperation have progressed. There is contemplated a credit to the Chinese Government of \$100,000,000. Of this, a credit for general purposes to the amount of \$50,000,000 has been decided upon by this Government. Arrangements for early allocation of the balance, namely, \$50,000,000, for purposes of monetary protection and management as between American and Chinese currencies are now in process in consultation with the appropriate Committees of the Congress.

FOR THE PRESS

IMMEDIATE RELEASE

NOVEMBER 30, 1940

STATEMENT BY THE PRESIDENT

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The Secretary of the Treasury will appear Monday forenoon before a joint session of the Senate Committee on Banking and Currency and the House Committee on Finance, Receipts and Measures. At this time, he will bring to their attention the proposed extension of a \$50,000,000 stabilization arrangement with the Central Bank of China.

The following is the text of a letter addressed to the President under date of November 30, 1940 by the Federal Loan Administrator:

"Dear Mr. President:

In connection with the purchase of critical and strategic materials in our national defense program, the Metals Reserve Company, a subsidiary of the RFC, is arranging for additional purchases of wolframite, antimony and tin from the National Resources Commission of China to the value of \$50,000,000, to be delivered during the next few years at prices commensurate with market conditions as the metals are delivered.

To assist China in meeting her present financial problems, the Export-Import Bank has agreed to lend the Government of China an additional \$50,000,000, the loans to be guaranteed by the Central Bank of China and retired through deliveries in this country of the metals covered by the above referred to contracts.

It is contemplated that reimbursements on the loan will be made in cooperation with a representative of the Secretary of the Treasury in connection with further assistance to China by the Treasury of a like amount, thus providing China with additional credits in this country at this time of \$100,000,000.

You will be interested to know that China is up to her schedule in deliveries of wood oil and tin to the United States through which method she is making payments on previous loans made against her commitment to sell us these essential materials.

Sincerely yours,

JESSE H. JONES"

FOR THE PRESS

IMMEDIATE RELEASE

NOVEMBER 30, 1940

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To assist China in meeting her present financial problems, the Export-Import Bank has agreed to lend the Government of China an additional \$50,000,000, the loans to be guaranteed by the Central Bank of China and retired through deliveries in this country of the metals covered by the above referred to contracts.

It is contemplated that disbursements on the loan will be made in cooperation with a representative of the Secretary of the Treasury in connection with further assistance to China by the Treasury of a like amount, thus providing China with additional credits in this country at this time of \$100,000,000.

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Sincerely yours,

JESSE H. JONES"

November 30, 1940
12:17 p.m.

H.M.Jr: Hello.

Sumner
Welles: Hello, Henry.

H.M.Jr: Yes, Sumner.

W: In accordance with our agreement, the statement in the form that you and I agreed upon has just been sent over to the White House.

H.M.Jr: Wonderful.

W: So I think that takes care of it for the moment. You don't want me to send you a copy - you have the text there.

H.M.Jr: I have those - in two pieces.

W: All right.

H.M.Jr: Well, let's leave it though unless we hear from the President I take it it is O. K.

W: Well, I think Mr. Hull is now talking with him on the telephone, but you may want to check with the President yourself.

H.M.Jr: No, no. What about Mr. Hull going up with me Monday?

W: I only talked to him in a preliminary way, Henry. I've got these - about fifteen by now - people waiting to see me and I only told him that you wanted

H.M.Jr: All cash customers?

W: (Laughs). I don't do the same kind of business, unfortunately, that you do.

H.M.Jr: I'm perfectly willing not to do it and leave it all to Jesse.

W: (Laughs).

H.M.Jr: All right. Thank you.

W: All right, Henry. Good-bye.

TO: Mr Young 287

Be ready to
discuss with
the Secretary

From: LT. COMDR. McKAY



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OFFICE OF
THE MINISTER OF MUNITIONS AND SUPPLY
OTTAWA, CANADA.

Personal.

November 30th, 1940.

Dear Mr. Morgenthau:

Re: Aeroplane Motors.

We have on two or three occasions discussed the subject of the manufacture in Canada of aeroplane engines. You have expressed the thought that we would be well advised to undertake substantial production of aeroplane engines here, and have authorized our entry into negotiations with the Pratt and Whitney Company to that end.

At our last meeting I explained that we were having some difficulty in obtaining the co-operation of Messrs. Pratt and Whitney, and asked for and obtained your verbal consent to opening negotiations with the Wright Aeronautical Corp. In subsequent conferences, both Pratt & Whitney and Wright have expressed themselves as entirely willing to assist in a Canadian enterprise, but both request that Mr. Knudsen be asked to advise them of his concurrence in our project.

Under date of November 18th, our Mr. J. B. Carswell, Liaison Officer at Washington, called on Mr. Knudsen. Following is Mr. Carswell's report:

"I explained to Mr. Knudsen,

1. That our fighting plane engines up until a few months ago had been coming from England.
2. That now we must look to the U.S.A. for our supply.

3. That Mr. Morgenthau had suggested it was time that Canada got started on producing horsepower in her own country.
4. That we had asked Ford of Canada to investigate the possibilities and that the Canadian Government had approved of the necessary expenditures.
5. That we would like to have formal authority to discuss the matter with Pratt & Whitney and/or Curtis Wright.

Mr. Knudsen's immediate reaction was that an engine plant in Canada, starting up at this time, would be a great mistake. He instanced all the other new engine plants starting at this same time, Ford, Packard, Allison, Studebaker, Buick, together with large expansions of Pratt & Whitney, Curtis Wright, etc., all of which were making almost hopeless demands on the machine-tool situation. He was quite frank in stating that ten million dollars worth of machine tools could not be found for Canada at this time.

He suggested,

- (a) That the subject be shelved now and reviewed again when the machine tool situation was less obscure.
- (b) That in the meantime Canada prepare a complete statement of her forward requirements in engines and that these be added to the recent British programme of some 12,000 planes and 30,000 engines which had just been approved. "

The position of the Canadian Government has been reviewed in the light of the foregoing. It is obvious that Mr. Knudsen feels that there will be less strain placed on United States engine situation by their furnishing us with our engine requirements of United States manufacture, rather than by permitting us to enter the United States machine tool market for certain of our machine tool requirements for engine production. We have no objection to following this procedure, provided we can be reasonably assured of purchasing our engine requirements in United States.

On the other hand, this Government has approved an appropriation of fifty million dollars to cover the capital cost and working capital

involved in the construction of engine capacity in Canada. We feel that we should not hold back in the matter of making a Canadian contribution to engine production, although personally I am inclined to agree with Mr. Knudsen's contention that our engine requirements can be furnished more economically from United States production presently and in the future, owing to the much larger U.S. aeroplane engine industry and the diversity of engine types and sizes involved in Canadian aircraft.

No doubt you will be discussing our problem with Mr. Knudsen. I will greatly appreciate your advice as to how we can best obtain our aeroplane engines, now that we are completely cut off from British supply.

I intend to leave within the next few days for the United Kingdom in order to better co-ordinate Canadian production with British requirements. I look forward to a meeting with you on my return.

With kind personal regards,

Yours truly,

L. D. Howe

Henry Morgenthau, Esq.,
Secretary to the Treasury,
Washington, D.C., U.S.A.

CONFIDENTIALFOR YOUR INFORMATION

November 30, 1940

To: The Secretary

From: Mr. Young

Re: Allocation of Extra Aircraft Capacity.

For some time the Liaison Committee has been receiving urgent requests from foreign neutral countries friendly to the United States for the purchase of aircraft and aircraft engines. These requests have been principally from South America and China. When the Defense Commission allocated aircraft capacity up through April, 1942, it made no provision for the allocation of production for foreign countries other than the British and the Dutch with the exception of such foreign orders as were already on the books. It should also be noted that there is considerable foreign business for commercial aircraft as well as for military aircraft.

At the present time requests are pending from Argentina, Chile, Brazil, Venezuela, Colombia, Uruguay, Mexico, China, Greece, Turkey, Philippine Islands, Finland, Sweden, and Portugal for aircraft and aircraft parts or accessories. A good deal of thought has been given to the feasibility of arranging to keep a small amount of production capacity available for foreign orders which might be approved by the United States Administration.

The thought in mind was that a single type airplane of each kind should be selected as a standard model and that any foreign purchaser would have to accept this model or go without. For instance, there could be a general purpose pursuit ship, a general purpose light or medium bomber, and a standard primary and advanced trainer, all of which would represent models which had been in production and for which the necessary tools, jigs, dies, and fixtures are available, but models which would be shortly superseded by more advanced types.

This plan would satisfy the State Department from the point of view of aiding foreign policy. It would also tend to satisfy the

- 2 -

the War and Navy Departments because by the use of obsolescent types the military value of the planes released would be lessened, and it would satisfy the manufacturers by preserving foreign good will already established. The same plan could be applied to production of commercial ships.

An actual example of how this plan would work has already developed. The Curtiss Wright Corporation has given notice that 100 additional P-40 planes, over and above orders already placed, can be delivered in June, July, and August of 1941, and that probably another 94 P-40's can be delivered in the fall of 1941. This extra production has been made possible through the use of mass production methods and is beneficial to the manufacturer in that it will tend to absorb the tapering off of production as new models are brought into production.

I wrote a letter to Assistant Secretary of State Berle on November 15th concerning this situation as the Liaison Committee had been hard pressed by the State Department to do something in the way of finding aircraft for China, Greece, and South America. Mr. Berle replied on November 22nd with the suggestion that he would like to see the P-40's allocated as follows:

- 30 to Greece
- 50 to China
- 20 to Turkey or Greece
- 10 to Dutch Indies or China
- 40 to Latin America
- Balance would go to the British.

I have talked in a general way with the Washington representatives of Douglas, Lockheed, Boeing, Martin, North American, and Curtiss Wright concerning the feasibility from a production point of view of the plan outlined above. All of these manufacturers agree that it is practical and can be worked out without any particular interference to the production program as established by the Defense Commission.

One difficulty would arise, however, if the manufacturer could not get a firm commitment from the foreign purchaser in time to purchase materials at the same time that the materials were purchased for production of Army, Navy, and British orders. In such instances, it might be possible for the United States Government to assume the financial risk until such firm orders could be secured, or possibly the Army or Navy might be persuaded to take over a certain number of extra ships which could be released for sale from surplus stocks at the original cost price.

- 3 -

The Curtiss Wright Corporation has been very anxious to have the first 100 of the extra P-40's definitely allocated immediately so that materials may be ordered and production continued without interruption. With respect to the allocation of planes to those countries which need them immediately, such as Greece, it has been proposed that the British or the United States defer current deliveries and substitute deliveries from these extra P-40's next summer. In the case of Greece, the British Purchasing Commission is now awaiting instructions from London with respect to this matter.

It is my understanding that the State Department has told the Greek Minister that he could have some of the P-40 planes, and that the State Department has also told the Chinese that probably some of these P-40's could be made available to them. Insofar as I know, nothing has been said by the State Department to the other countries listed concerning this matter. I advised both the Greeks and the Chinese that I did not know when these planes could be made available and gave the impression specifically that the whole deal was not as certain as the State Department seemed to indicate.

Dy.

CONFIDENTIALFOR YOUR INFORMATION

November 30, 1940

To: The Secretary

From: Mr. Young

Re: Priorities

In accordance with your direction at the Staff Meeting, I asked Don Nelson to give me, so that I could show it to you, a copy of his recommendation to the President before it is officially submitted covering proposed treatment of foreign priorities.

Mr. Nelson said that he would be glad to do this, but as a precautionary measure it might be wise to ask Mr. McReynolds to keep a check on Mr. Nelson to see that his recommendation is not submitted without our approval.

Incidentally, I was informed indirectly last night that Don Nelson is looking for a man to "take over all foreign purchasing activities", also that Nelson expects to assume active foreign purchasing negotiations leaving the Treasury only as a figure head or eliminate it entirely.

F.Y.

Miss E

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE November 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£20,000
Purchased from commercial concerns..... -

Open market sterling was quoted at 4.04, and there were no reported transactions.

The other currencies closed as follows:

Canadian dollar	13-1/8% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Braxilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-5/8% discount

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 \$28,436 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$872,000, secured by \$975,511 in gold.

No new gold engagements were reported.

No gold or silver prices were received from Bombay today.

B.M.P.

EG

GRAY

Berlin

Dated November 30, 1940

Rec'd 7:40 p.m.

Secretary of State,
Washington.

4882, November 30, 1 p.m.

The Reichsbank has announced that it will no longer purchase notes and coins of the formerly independent states of Estonia, Latvia and Lithuania because of the impossibility of disposing of them nor will it accept orders for the sale of these currencies. Repatriated German nationals from these countries who are still in possession of these currencies are required to communicate with the Deutsche Umsiedlungstreuhand Gesellschaft, an organization for the protection of the financial interests of repatriated Germans.

Inform Treasury and Commerce.

MORRIS

DEM

November 30, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during November, 1940.

Roy Blough

Attachment

Monthly Report on Projects in the
Division of Tax Research
November, 1940

I. New projects

1. Tax-exempt securities

Suggested drafts of four radio addresses on the subject of tax-exempt securities were prepared.

(Mr. Ecker-Racz, Mr. Atlas and Mr. Gordon)*

2. Inequities in the Tax System

Materials were prepared indicating certain inequities now existing in the Federal tax system, together with examples of the effects of these inequities and their revenue significance.

(Staff members)

3. Relief provisions of the excess profits tax

A study of how certain abnormalities in income and invested capital which may cause inequities should be treated under the relief provisions of the excess profits tax is in process.

(Mr. Campbell)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

- 2 -

4. Estate and gift taxes

Computations have been prepared showing how estate and gift taxes can be avoided by distributing property in certain proportions by gift and by transfer at death. (Mr. Ecker-Racz, Mr. Mills, Mr. Zorach and Mr. Copeland)

5. Article for Treasury Bulletin

An article for possible publication in the Treasury Bulletin analyzing individual income tax returns according to the states in which they are filed and the states of residence of the filers of the returns is in process. (Miss Coyle)

II. Continuing projects1. War and excess profits taxation

- (a) A memorandum analyzing the problems involved in imposing an excess profits tax

- 3 -

on individual proprietorships and partnerships and on non-business income of individuals is in process.

(Mr. Farioletti and Mr. Mills)

- (b) An analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and present excess profits taxes of the United States, Great Britain, and Canada, is in process.

(Mr. Mills)

- (c) A report on the treatment of the issues raised in the Agenda for the Excess Profits Tax Committee under the War Revenue Acts is in final stages of completion.

(Mr. Ecker-Racz, Mr. Gordon, and Miss Wells)

- (d) Other phases of the issues involved in war and excess profits taxation, including studies of amortization and inventory problems, analysis of statistical information relating to business profits and failures, and consideration of methods of possible tax

- 4 -

avoidance under the Excess Profits Tax Act of 1940, are continuing.

(Staff members)

2. Tax-exempt securities

An estimate of outstanding tax-exempt securities as of June 30, 1940, is in process.

(Mr. Mannen)

3. Income Tax Study--W.P.A.

The work of the Philadelphia project has been divided in the last five months between continuance of the study of income tax returns in process since October 1938 and a special analysis of statistics relevant to excess profits taxes. The special study is now in process; the continuing study is in final stages of completion. Additional text and table forms of the continuing study were reviewed. A study of investment practices as reflected in estate tax returns is also in process.

(Mr. Blough, Mr. Shere, and Miss Coyle)

4. Undistributed Profits Tax

A memorandum is in process analyzing in the light of issues raised by the undistributed profits tax

- 5 -

the statistics made available from income tax returns and other sources.

(Mr. Atlas and Mr. Copeland)

5. Fluctuations of large incomes

An analysis of statistical data relating to the fluctuations of large incomes over a period of years is in process. In this connection, the publication "Million Dollar Incomes" by L. H. Parker will be reviewed.

(Miss Coyle)

6. Tax on value added

A memorandum is in preparation analyzing the economic and administrative issues which would be involved if a value added tax were imposed.

(Mr. Farioletti)

7. Foreign Taxes

(a) Memoranda on the latest changes in British, Canadian and Australian income, excess profits, and other taxes are in preparation.

(Mr. Atlas and Miss Hughes)

(b) In collaboration with the Division of Monetary Research, a study of the Haitian fiscal system is in process.

(Miss Wells)

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8. Articles

(a) An article on problems of Federal tax administration for the March 1940 issue of the Annals of the American Academy of Political and Social Science is in preparation.

(Mr. Blough)

(b) Articles treating on trends and developments in the field of taxation during 1940 for the Britannica Book of the Year and the National Year Book are in process.

(Mr. Atlas and Miss Wells)

9. Treatment of shared taxes in Bureau of the Census Reports

In compliance with the request from the Bureau of the Census, a memorandum containing suggestions as to the treatment of shared taxes in Bureau of the Census reports is in preparation.

(Mr. Mannen and Miss Wells)

10. Inventory of tax proposals

Compilations of proposals for raising additional revenue and for improving the tax system have been prepared and are pending review.

(Mr. Zorach and Mr. Copeland)

- 7 -

11. Income and estate taxation

Reports on the following subjects have not been actively prosecuted during the month:

- (1) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships.
(Mr. Mills)
- (2) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets.
(Miss Coyle)
- (3) Analysis of the problems of estate tax payment.
(Mr. Mills)

III. Routine Assignments

1. Review of publications

- (a) The following publications were reviewed during the month:
 - (1) The page proof of Preliminary Statistics of Income for 1938, Part 2. (Miss Hughes)
 - (2) The corporation income, declared value excess profits and defense tax return for 1940 - Form 1120.
(Mr. Ecker-Racz and Miss Hughes)

- 8 -

- (3) The article on Federal receipts during the fiscal years 1933 to 1940 prepared for the Annual Report of the Secretary for the fiscal year 1941.
(Mr. Atlas and Miss Hughes)
 - (4) The galley proof of the Annual Report of the Commissioner of Internal Revenue for the fiscal year ended June 30, 1940.
(Mr. Zorach)
 - (5) The statistical release Statistics on Alcohol for the fiscal year 1940.
(Mr. Campbell)
 - (6) Review of statistical releases on distilled spirits and fermented malt liquors for the fiscal year 1940.
(Mr. Campbell)
 - (7) The portion of a study by the National Bureau of Economic Research, Inc., dealing with the Treasury Department Income Tax Study.
(Miss Coyle)
- (b) The following publications are in process of being reviewed
- (1) The estate and gift tax sections of

Statistics of Income for 1938, Part I.

(Miss Coyle and Mr. Mills)

- (2) The report "Concentration and Composition of Individual Incomes 1918-1937" prepared by the T.N.E.C.

(Miss Coyle)

- (3) The report "Study of the Delaware State Income Tax Yields" by Walter C. Wilson.

(Miss Coyle)

- (4) A memorandum submitted by B. E. Wyatt of the University of Michigan, entitled "The Equitable Tax Provisions of the Pension Trust Plan in Comparison with the Group Annuity Plan." (Mr. Mills)

2. Statistics

- (a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue several proposals for statistical compilations were examined, including suggested tabulations of estate tax returns. (Mr. Blough, Mr. Shere, and Miss Coyle)
- (b) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)

- 10 -

(c) Data relating to different taxes, digests of tax items, and Congressional activity of tax items of interest to the Division are currently prepared.

(Staff members)

3. Correspondence

The Division handled correspondence pertaining to tax matters.

(Staff members)

G-2/2657-220

RESTRICTED

No. 258

SITUATION REPORTM.I.D., W.D.
November 30, 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.

Fairly intense air fighting occurred over southeastern England during daylight on the 29th. Last night the German Air Force concentrated on the London area; according to British estimates 300 bombers were employed, their attacks centering on rail and water communications.

The R.A.F. last night attacked widespread objectives in northern and western Germany in normal strength.

II. Greek Theater of War.

The Greek offensive has slowed down almost completely. No advance is claimed by either side. The Italian Air Force continued heavy attacks on Greek columns and concentrations.

III. Mediterranean and African Theaters of War.

No ground operations reported. Air activity along the Mediterranean coast was stepped up noticeably but is still on a limited scale.

RESTRICTED

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BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

30th November 1940.

Dear Mr. Secretary,

I enclose herein for
your personal and secret informa-
tion a copy of the latest report
received from London on the mili-
tary situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



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

TELEGRAM RECEIVED FROM LONDON

DATED NOVEMBER 28th, 1940

1. Reference to action south of Sardinia a.m./27 Sunderland A/C reported on return to base one enemy cruiser appeared to be hit and one destroyer damaged.
2. Enemy first sighted by A/C in two groups, one to south-west of Cape Spartivento 16 miles consisted of two battleships five destroyers, second S S W of Cape Spartivento 36 miles consisted of 5 cruisers, 7 destroyers. Full report not yet received but Renown who eventually opened fire extreme range was unable to close range and later retired to rejoin the convoy. She had sighted the battleships and destroyers at 12:39, 20 miles distant, "Manchester" and "Southampton" having sighted the cruisers and destroyers at 12:15 but 12 to 15 miles distant.
3. Plymouth heavily air-raided night of 27th-28th. Two oil tanks alight. Only few casualties to naval and marine personnel. Fire in oil tanks under control. Ev. 23rd morning. Many H B S fell in the open country and damage slight compared with weight of attack. One enemy aircraft one Hurricane shot down in air battle over Malta on 26th. Coastal aircraft on 27th sank in vicinity Terschelling German merchant vessel about 8000 tons and one large tanker. Night of 26th-27th Lorient was well bombed by

coastal/

coastal aircraft in spite of adverse weather.

6. Italian communique Nov. 28th admits one Fiume class hit and one destroyer severely damaged. Claim of damage to our ships by aircraft doubtful. Sunderland aircraft observed attack and stated that they saw no damage.