

DIARY

Book 334

December 1 and 2, 1940

- A -

	Book	Page
Allison Engineering Company		
See War Conditions: Airplanes (Engines)		
Argentina		
See Latin America		

- B -

Budget		
See Financing, Government		
Business Conditions		
Commodity reports (Lindeteves, Incorporated) - 12/2/40..	334	166
Haas memorandum on situation - 12/2/40.....		171

- C -

China		
See War Conditions		

- F -

Federal Bureau of Investigation		
Klaus memorandum - 12/2/40.....		110
Financing, Government		
Budget: For discussion of <u>normal</u> and <u>abnormal</u> or defense budget, see Revenue Revision		
France		
See War Conditions: Foreign Funds Control (Martinique)		

- G -

Germany		
See War Conditions: Foreign Funds Control		

- J -

Japan		
See War Conditions: China (Senate testimony by H.M.Jr and Hull on loan)		
See War Conditions: Foreign Funds Control		

- L -

Latin America		
Rocksefeller report on activities - 12/2/40.....		160
Argentina: Loan negotiations - material in connection with..		194
Lindeteves, Incorporated		
See Business Conditions: Commodity reports		

- M -

Martinique

See War Conditions: Foreign Funds Control (France)

Morgenthau, Henry, Jr.

West Indies trip: Notes on (McKay) - 12/2/40.....

Book Page

334 133

Munitions

See War Conditions: Plant Expansion

- P -

Plant Expansion

See War Conditions

- R -

Revenue Revision

Budget: Normal and abnormal or defense budget discussed at White House conference; present: FDR; HMJr and Sullivan; Harold Smith; Senators Harrison and George; Congressmen Doughton and Cooper - 12/2/40.....

83

- S -

Shipbuilding

See War Conditions: Plant Expansion

Statements by HMJr

Before Senate Committee on Banking and Currency, in connection with loan to China - 12/2/40.....

85

- U -

Unemployment Relief

Work Projects Administration report - 12/2/40.....

148

United Kingdom

See War Conditions: Military Planning

- W -

War Conditions

Airplanes:

Engines:

Allison Engineering Company: Shipments - 12/2/40..

123

Plant Expansion:

See War Conditions: Plant Expansion

	Book	Page
War Conditions (Continued)		
China:		
Proposed Loan:		
Conference at HMJr's home; present: HMJr, Gaston, Bell, Foley, White, Bernstein, and Cochran;		
Soong joins group later - Sunday, 12/1/40.....	334	4,29
a) Jones' letter to FDR discussed		
b) Jones' letter indicating that legislation will be necessary "if China proposes to use proceeds for war materials"		27
Senate testimony by HMJr and Hull - 12/2/40.....		85
Hull asked by HMJr <u>himself</u> to make arrangements so that HMJr may have State Department background when loan is under consideration - 12/2/40.....		153
Exchange market resume' - 12/2/40.....		151
Export Control:		
Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, as shown by departure permits granted for week ending November 30, 1940.....		128
Foreign Funds Control:		
General over-all control (and situation in Japan particularly) covered in Wiley memorandum to HMJr - 12/2/40.....		99
a) See Viner comment - 12/3/40: Book 335, page 61		
1) Wiley approves above and asks for "green light": See Book 335, page 154		
France:		
Martinique: Inquiry made concerning exchange credit - 12/2/40.....		129
Germany:		
Transactions with Chase National Bank - 12/2/40.....		108
Japan:		
See War Conditions: China (Senate testimony by HMJr and Hull on loan); Foreign Funds Control		
Military Planning:		
Reports from London transmitted by Lothian - 12/2/40...		135,139,143
Plant Expansion:		
Airplane, munitions, and shipbuilding programs - additional British orders: Conference at White House; present: FDR, HMJr, White, and Young - 12/1/40.....		1
a) HMJr asks FDR for written note to be shown to Stimson, Knudsen, and Jones, authorizing United States funds for necessary plant expansion.....		2
1) Knudsen and HMJr to confer.....		111
2) Jones and HMJr to confer.....		114
3) Knox asked to conference with Stimson, Jones, Knudsen, and HMJr.....		116

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Purchasing Mission:		
Airplane, munitions, and shipbuilding programs - additional orders:		
See War Conditions: Plant Expansion		
Vesting Order: Official sales of British-owned dollar securities - 12/2/40.....	334	109
Federal Reserve Bank of New York statement showing dollar disbursements - 12/2/40.....		124
British financial requirements in United States - 12/1/40.....		188
West Indies Trip by HMJr		
Notes on (McKay) - 12/2/40.....		133
Work Projects Administration		
See Unemployment Relief		

Notes on Meeting at the White House
with the President at 2:30 P.M., Sunday,
December 1, 1940, Concerning Orders Which
the British Wish to Place for Airplanes,
Munitions and Ships.

Secretary Morgenthau, Mr. Harry White, and Mr. Philip Young arrived at the White House about 2:25 P.M. and waited until admitted to the President at 2:48 P.M. Secretary Morgenthau introduced Messrs. White and Young. The President said he had received the Secretary's letter with its attached "Statement of the Estimated Value of Additional Orders to be placed under the Air, Munitions and Shipbuilding Programs recently under discussion with the Administration" received from the British Purchasing Commission.

The Secretary read from his copy of the same statement saying that the total value of orders which the British wanted to place amounted to about two billion dollars and required capital investment of about 700 million. In addition, another 500 million dollars would be required as a 25 per cent down payment on the orders or a total of about \$1,200,000 right away.

The President looked over the statement again and said that it was the capital investment that was the thing. Secretary Morgenthau said that he had another statement with him showing what the British say they have for money and also what we think they have. The Secretary handed it over to the President who said "Yes, that's the thing I haven't got". The President skimmed through this additional statement which had been prepared by Mr. White and then threw it down on the desk and said "Well, they aren't bust -- there's lots of money there".

After thinking about it for a moment, the President said that we needed capacity to produce, and, after a little hesitation, added that the United States should build the plants. The President cited the example of the Navy armor plant at Charleston, South Carolina, saying it had been built in the last part of 1917 and completed just before the Armistice. However, that plant had not been used; the machines were put in grease and the plant maintained as a stand-by capacity for twenty years before it was finally put into production just a few years ago. The President said that this capacity which would be necessary for British orders should be created by the United States as stand-by capacity if that could be done.

Secretary Morgenthau explained briefly that a scheme had already been worked out known as the Continental Motors pattern where the Army and Defense Commission had certified to the RFC that so much capacity was essential to National Defense and where the RFC, in turn, had financed plant expansion. Mr. Young added that the British, however, would pay their proportionate share of the capital cost as a surcharge on the unit price. The President said he understood that and that the United States should pay the capital investment.

The Secretary asked the President to write a chit on a piece of paper or on the bottom of the statement which he had before him so that the Secretary could show it to Messrs. Stimson, Knudsen, and Jones saying that United States funds should be made available for this plant expansion. The Secretary asked Mr. Young if anyone else should be brought in on that, and Mr. Young suggested that perhaps Secretary Knox should also be consulted because of the shipbuilding program which was included in the statement.

The President looked at the statement again, but before beginning to write said "There are other things in here--the ships can be done on the loan idea." The Secretary interrupted the President to say that he had talked with Admiral Land about that and that Land didn't like the idea of leasing. The President inquired why not and the Secretary replied that Land said they would be of no use to us when the war was over as they were not the type which could be used. Further, that Knox had some ideas about what ought to be done. The President wrote a statement on the bottom of the value statement saying that capital investment for planes and munitions should be made available from United States funds. The Secretary interposed the suggestion that he should say "RFC funds" as "United States funds" might mean the President's money. The President said it might mean anything, and the Secretary said "They might nick you". The President replied "I haven't got anything left to nick." The Secretary added further, with a chuckle, "They tried to nick me", but the President passed over this remark without comment.

Concerning the ships, the President said, as he continued writing, that they should be two-thirds Class A and one-third Class B explaining that the Class A ships were the ones that you bought by the yard and that the Class B were shaped ships. The President asked the Secretary as to what kind the British were getting and how fast they would go. The Secretary answered that they were of the box-end type with Scotch boilers using machinery which would not conflict with Knox' schemes. The President again asked how fast they were and the Secretary replied "Ten knots".

- 3 -

"Not fast enough", said the President. "They have got to be faster. They will have to use the same machinery but cut down the size of the vessel from 7500 tons to 6500 to 5500 tons or even less. They must do more than 10 knots or they can't get away in time to avoid sinking."

The President handed his written comment over to the Secretary who looked at it and read it aloud. There was some hesitation over the phrase "United States orders" as that meant the Army would place the orders and would probably have to have the money to do it. Mr. Young said that was something new as the RFC had put up money only for plant expansion and not for the purchase of actual items in the past. Mr. White said he did not know as to whether the War Department had the money or could legally do it if it did have it. Mr. Young added that he doubted if the War Department has the money available. It was apparent, however, from the comments and the attitudes of the President that the United States should place the orders, the RFC should finance the capital investment and that then the individual items would be sold to the British on a unit basis payable upon delivery.

The Secretary asked Mr. White and Mr. Young to wait outside while he saw the President alone for a minute. About five minutes later, the Secretary left the President and explained to Messrs. White and Young that he has asked the President alone whether he really wanted these British orders to be placed or not. The President had replied that he did want the orders placed. Because of the swiftness with which this decision was reached and the great responsibility involved in carrying it out, Secretary Morgenthau stated that Mr. Knudsen, Secretary Jones and Secretary Stimson should be consulted in order that the responsibility might be shared and in order that some line of action might be evolved.

The group left the White House at approximately 3:15 P.M.

Sunday, December 1, 1940
4:00 P.M.
(At Secretary's Home)

RE CHINESE LOAN

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

H.M.Jr: White and Young and I went down to see the President about whether or not we should let the English place any more orders, and the President read my memorandum on what the assets were and he said that I had said right along that they had lots of money. He said, "I want additional facilities built and let the Army order the stuff and let the English have it." I got him to try to write something for me, and this is what he writes: "Use United States RFC funds for plant capital on United States orders." Ships two thirds class A, one third class B. He doesn't sign it. So I say this doesn't say it is for the English. So he says, "Let them use their imagination." You see, the President - and there is my authority, after ten minutes with him, to go ahead and let the English place another two million dollars worth of orders.

Gaston: More speed, less tonnage. That is another matter. I think that is all right. I think the right way to do this is for United States to build all the facilities and place the orders and then sell the - let the British pay for what they get when they get it.

H.M.Jr: That is what he says.

Gaston: I think that is right.

H.M.Jr: Yes, but --

- 2 -

- Gaston: But it is a good charter. Keep them simple.
- H.M.Jr: Yes, that is what he says, but what's Knudsen and the rest of them going to say?
- Gaston: I don't know. This is general orders.
- H.M.Jr: I am going to let it cook until Tuesday.
- Well, they got out the statement we wanted and I called up Jesse Jones last night and I said, "Why didn't you show me that letter of yours?" You people saw it, didn't you? He said, "Oh, I thought you saw it." I said, "No, I didn't see it." "Well," he says, "I was pretty busy." I said, "Well, I see you want me to look after your funds." He says, "That is what the President wanted." He says, "I was awful busy." So he says, "I ask you now, to look after money that I give." I said, "I think you might have asked me." "Well, I was awful busy," he says.
- Bell: That third paragraph is just what we tried to get out of the other one.
- H.M.Jr: Well, what Jesse Jones writes the President doesn't commit me, because I have no doubt that they cooked it up between them and - but I got what I wanted so I have no kick coming. I can't complain. I can go before the committee tomorrow and say I have no commitment.
- Bell: I wonder if Welles had a copy of that letter when we were talking to him.
- H.M.Jr: Well, what Welles said, he said, "I understand."
- Foley: That assumes the thing has been done.
- H.M.Jr: Welles says, "I understand there is a letter between Jones and the President." Isn't that what he said?
- White: He referred to a letter. I don't remember the terms.
- Bell: I don't know how he said it now.

- 3 -

Bernstein: I thought he said Jones was writing a letter to the President.

H.M.Jr: Something like that. Anyway, they pulled a fast one, but I am all right. I don't care. The President got his headlines. It will have the effect I hope they want. As far as I am concerned, ethically and morally, I am all in the clear. I can go before the committee and say I made no commitment and I am here to ask for guidance.

Gaston: This is a mere contemplation. This doesn't bind anybody. It says they have agreed to lend 50 million and it is contemplated that the Treasury will give further assistance.

H.M.Jr: Does he use the words "contemplated"?

Gaston: Yes. "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." They have agreed to make a loan in contemplation of an arrangement with the Treasury - there are two things. They have agreed to make a loan. They contemplate a joint supervision.

H.M.Jr: It says, "contemplated that disbursements of 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." The contemplation is in the disbursement.

Gaston: I know, but that doesn't bind us or doesn't say the Treasury is going to advance anything.

H.M.Jr: But Herbert, how can he bind me by writing the President of the United States?

Bernstein: The only disadvantage I see of it is it sounds as though there is the real deal there and it is all prearranged.

H.M.Jr: That is what they wanted. You don't think that is an accident?

White: But in your relationships between the committee and yourself, that is the important thing.

Foley: This is the only sour note, here.

H. M. Jr: What?

White: The relationship between you and the committee is the only thing at stake.

H. M. Jr: Yes.

White: Then you are in the clear. You didn't even see that letter. They might take umbrage at the fact that you came down and by the time they came there you were already committed.

H. M. Jr: In the first place, I talked to Hull last night and said, "Are you going to go up?" and he said, "Yes." So Hull is going up and I am a great believer in precedent, so I am going to let him talk first. So Hull is going up himself.

Bell: Stand on protocol?

H. M. Jr: Yes. This is a piece of slick book work. You know that.

Gaston: Yes.

Foley: Sure.

H. M. Jr: But that is all right. Now look. I have not had my siesta today, so I am kind of - I am not in very good shape, having been down to see the President. I had a few minutes to talk with Harry. We have got Soong coming here at 8:30 tonight. Harry made the suggestion he thought the time to make a deal with Soong was before the thing was accomplished, you know and we are thinking of saying to Soong tonight, "Now look, how much money can you get the private banks to put in and how much money can you put in yourself," and say to him, "Now all of these monies will be used first before the United States Stabilization Fund money is used," see.

- 5 -

- White: Before the American money is used, including the Export-Import Bank money.
- H.M.Jr: The Chinese money goes first.
- White: Only the Stabilization' money first. Then the Chinese private banks, then the Export-Import Bank funds and by then you have got about a hundred million dollars before you come to the Stabilization Fund.
- Bell: What do you mean, dollar credits owned by Chinese banks?
- White: They have about ten million dollars, or at least they did have. I don't know what they have got now. They had about ten million dollars. It wasn't sterling but at that time it was in free sterling and I assume it is the same now. It is equivalent to dollars but we will have to find that out, which they will put into this and they - a couple of months ago he said that the private Chinese banks were prepared to contribute - participate to the extent - I think it was ten or twelve million dollars and if they put that in, that will be, let us say, twenty million dollars, and they will use that first. If they need any dollars, they will resort to those first. Then the Export-Import bank, they have got 70 million dollars which they haven't yet used. Now, the arrangement could be that they will not resort to the United States Stabilization Fund money for any funds that could be appropriately met with the Export-Import Bank funds, so that if it is a case, for example, there is a demand for dollars because of the imports, we will say, "Well, the place to get that is out of the Export-Import Bank Funds," so that you might end up with not using the Stabilization Fund for a long time. You might use a little of it because it may not fall in that second category, but you certainly wouldn't use it very soon.
- Cochran: You said they hadn't used any of their 70, Harry.
- White: No, they have promised 50 and they have just got 25.
- Cochran: You mean this new 50?

- 0 -

- 1001: Yes, and the new \$5. So if they use those funds and if the fund is properly controlled, I think that the dollars will be good for some time. If there is peace - you get a lot of velvet, in other words --
- 1002: What do you think of putting it up to them, Dan?
- 1003: I think it is fine, putting it up to them. He might say, "All right with me," but I don't know whether you would get the Export-Import Bank to agree.
- 1004: Well, I have been told he that I am to be controller of his funds.
- 1005: And, Dan, they can't take any other position because they certainly shouldn't use those funds for inappropriate purposes and the appropriate purposes are for exports. The only purposes for which they should use capital movements, and those should be restricted - the only kind of capital movements that should take place should be very few - should be the Stabilization Fund and for that they use the Chinese funds first and then the American Stabilization.
- 1006: Jones said to me and he has put it out in the press now, that is going to cost him about 50 million dollars, that statement, and he said I am going to look after his money and by God I am going to look after it good. (Laughter)
- 1007: You will look after yours first.
- 1008: Yes.
- 1009: I think that is fine.
- 1010: I asked who wants to go to China and look after it and Harry jumped so he almost knocked me off my feet. I have turned him down, though. He was serious.
- 1011: Harry recommended me, Mr. Secretary.
- 1012: You weren't here when I recommended myself. I recommended you when you were around.

- 7 -

H.M.Jr: Say, listen, if anybody is going to get out from under the yoke, it is going to be me. We will all stick and die together. Seriously, who --

White: "I don't know of a better man," said he modestly, "but if I can't go, we will try to think of somebody else."

H.M.Jr: There are four different kinds of Chinese currency and he wanted to make it look as difficult as possible.

Bernstein: We will see if we can't work out something about it.

White: There are a few more angles about it.

Foley: We will fix you.

White: Think of a hundred fifty million slipping through your fingers that way.

Bell: There is a fellow here in town, or I think he is in town, who was formerly Auditor General for the Philippines for several years, and then he went to China and went in business and was there about 20 some years and, of course, his business blew up and he is just back here. He was over to see me not very long ago. Mack sent him over. He wanted a job.

Gaston: That is Murphy's man.

H.M.Jr: He is the fellow that tried to get a job with me.

Gaston: Yes. I can't think of his name. That is the same man.

H.M.Jr: He taught accounting in Indiana or Michigan or some place.

Bell: You're not thinking of French?

H.M.Jr: The fellow that I mean, two years ago was the Minister of Finance for the Philippines.

Bell: Jones?

H.M.Jr: Yes.

- 8 -

Bell: He is over in the Budget, Head of the Fiscal Division.

H.M.Jr: That is the fellow I mean, Jones.

Bell: No, this is another fellow. I have got his file down there.

H.M.Jr: Is Jones with the Budget?

Bell: Yes, he has gone over, I understand, to be in charge of the Fiscal Division.

Gaston: How good a man is this Martin Nicholson that we have in Shanghai?

H.M.Jr: Oh no.

White: This is a pretty technical job.

H.M.Jr: He is --

Gaston: Just a Customs man?

H.M.Jr: I wouldn't say that, but he is too mixed up with too many people. When it comes to sitting on 150 million dollars....

Foley: How about Shirley, Dan?

Bell: He wouldn't do bad, would he?

H.M.Jr: No.

White: Don't you think you could insist on K. P. Chen as being one of the group?

H.M.Jr: I would rather send Dean Bates.

White: That certainly is a good comeback.

H.M.Jr: He must be a lawyer. Is that okay?

Bell: That is okay.

White: K. P. Chen could be among the group. That would be

- 9 -

helpful because I don't think they will pick them unless something of that kind is done.

- H.M.Jr: Well, we can think about it.
- Gaston: How about Archie?
- H.M.Jr: I thought about that.
- Bell: Archie is tied up for three more years, isn't he?
- H.M.Jr: Let him stay on his payroll and go over and I will use him. We couldn't get anybody better.
- Gaston: He ought to have that job. He doesn't need to stay here and sell Tung oil.
- White: That would be all right. Next to me, he would be the best man. (Laughter)
- Bell: I can't imagine anybody wanting to go.
- Cochren: I think Archie would like a trip out there. He has never been out there, you see.
- H.M.Jr: Well now, look, is this thing - how are we going to explain this thing tomorrow when we go before the committee?
- White: Well, I should think the less detail the better. Merely that it is the same arrangement such as you had except that you are modifying the collateral position. You are no longer going to ask for dollar for dollar for gold. It is going to be something less. How much depends upon what the situation is. There might be 20 million and there might be 10 million.
- H.M.Jr: What are they going to use this for, Mr. White?
- White: They are going to use it to meet demands for dollar exchange that need to be met in order to stabilize the dollar you want to exchange.
- H.M.Jr: Would they meet this only in so-called free Shanghai

- 10 -

or would they meet it in Shanghai?

White: They will have to meet it in Shanghai because unless and until they change their monetary system they are trying to maintain their national government currency in many of the areas which theoretically are controlled by the Japanese but actually are not. They are only the lines of communication but all the forces - the people on the interior still use Chinese currency and many of the banks - Chinese banks still use currency. The moment they don't use national currency in Shanghai and in the interior, then they have suffered a severe blow.

Cochran: Would this facilitate the Japanese any in getting foreign exchange?

White: Sure, but that is one of the things they have to take care of. It is one of the ways the Japanese had of getting foreign exchange formerly, and that is how they lost a good deal of the early Stabilization Funds, but they haven't lost much recently; but that is one of the big leaks.

Bernstein: They must have a man on the scene.

White: Oh, you have to have a first rate man. This is the really most difficult monetary job there is in the world, because it is the only country which has so many currencies operating in areas over which it doesn't have complete control.

H.M.Jr: Did the English give them any money?

White: Yes. The English got a good deal out of the first batch, first Stabilization Fund. Now, there is another thing. We might put up to them - maybe the English ought to give money and let them share part for part. They asked the English and they might give it to them. Phillips is coming here in a couple of days. Those can be some of the details that can be worked out.

H.M.Jr: Which is the more important for the English, to give them 25 million dollars to help China stabilize

- 11 -

or to give United States 25 million to buy airplanes here?

White: The second.

Foley: Airplanes here?

H.M.Jr: I was thinking in terms of what they have on order, Herbert, the English.

Gaston: I was just thinking you couldn't afford to do it for more airplanes for the British.

H.M.Jr: There is a scheme on foot on that now which isn't so bad. The scheme is this. They find that Curtis can turn out, over and above their present orders, when the present orders are through, a hundred and ninety-four Curtis P-40's. I mean, they have got the stuff to do it and everything, you see, at the end of the run and while they are getting under way on whatever their next ship is. So we will divide that hundred and ninety-four among these various countries. That is the thought.

White: I think before the committee, if you are asked the question, and you may be, the answer is rather clear. If they ask, "Is this stuff risky?" I think the answer is, "It sure is."

H.M.Jr: Oh yes.

Bell: Have you read the statement?

H.M.Jr: Which statement?

Bell: The one I gave you.

H.M.Jr: I had better get Ed to read it.

White: It is risky, but that doesn't mean that you can lose it all. Even if there is peace between China and Japan, as a matter of fact, you will probably recover - I don't know whether the Export-Import Bank will recover but - you will still have your yuan.

Gaston: Yes. We are asking them for a hundred percent margin.

- 12 -

Thirty or forty percent margin might be sufficient to cover this bet.

White: It might. I don't know about that. As long as you didn't try to sell all of that.

Gaston: Merle thinks it is ample.

White: It is all right as long as you hold it.

Bell: You can't sell assets as long as you keep it in the bank.

Foley: In view of what has happened, I think it is terribly important that we don't make this committee feel tomorrow that we are asking them for approval of anything or that we are asking for any kind of guidance. I think what we want --

White: Do you think the statement does?

Foley: No, I don't.

White: Just repeat that when the Secretary is in here, because he is apt to finish that statement by saying now --

Foley: That is what I wanted to say to you fellows. It would be a great mistake in the first place and in the second place I think the chairmen of the two committees are going to wonder why - what the purpose of this is, unless you tell them the purpose is to inform them, to tell them what is going on and what you propose to do. I think they may feel that you are trying to duck the responsibility and pass it off on them. I think that would be my reaction if I were in their place. I was just saying, Mr. Secretary, I think it is terribly important in the presentation of this to the two committees that we don't give them the impression that we are asking for approval or we are asking for any definitive action on their part either way. I think we ought to make it perfectly clear that we are merely coming before the fact and not after the fact.

H.M.Jr: Let me see, "I asked Chairman Wagner," and so forth.

- 13 -

Incidentally, I heard the end of what you said. Somers doesn't agree with you. Somers said he hoped if he could adjourn to meet separately with his committee to pass a resolution endorsing what I was preparing to do.

Foley: Well, supposing, Mr. Secretary, they don't. That is what I am afraid of. What good does it do us to have their approval?

H.M.Jr: Well, what are you going to say now, "Gentlemen, I said I would come up here for guidance?" That is the language I used.

Foley: Well, you are telling them --

H.M.Jr: Now give me some guidance.

Foley: I think it would be a mistake to ask them for guidance. I think that --

H.M.Jr: I said I would.

White: But this statement gets out of it, I don't know whether it is a lie or not.

Foley: This is not the kind of situation you had in mind when you said you would ask for guidance.

H.M.Jr: What do you mean?

Foley: The state of war between China and Japan has never been recognized to exist. The neutrality act hasn't been invoked. It isn't the situation between France and England, which was the situation that we had in mind when we made the statement.

H.M.Jr: You mean the neutrality act hasn't been invoked against China and Japan?

Foley: That is right.

White: I think you could avoid that by avoiding the use of the word "guidance" after the statement, and it is avoided here, by merely saying "Now, I wanted to put this before you."

- 14 -

Foley: "Put it before you. Here I am and I haven't taken that action and I propose to do it."

Bell: Four of us worked on it yesterday afternoon.

H.M.Jr: Are you in on this, Herbert?

Bell: Five of us. I like that, "Accused of quibbling where my word is concerned."

Foley: That is good.

H.M.Jr: That is very good. Well, I think that is an excellent statement. I know enough about the Chinese thing that I wouldn't argue about this, you see. I think it is an excellent statement. No one yet has explained to me what Argentine wants.

Gaston: It is the same type of transaction exactly as the Argentine, as I understand it.

White: We thought it would be better if you would make that orally.

H.M.Jr: But I have got to sometime know what this Argentine thing is.

White: Whenever you are ready --

H.M.Jr: Right now.

Bell: I also sent you a folder on that.

Cochran: May I mention one part on China, Mr. Secretary?

White: I can describe it orally, Mr. Secretary, very quickly.

Foley: Here is a copy of it. You want it before you while he is describing it.

Bell: I think Harry could, however, explain it to you.

H.M.Jr: Is that the same thing you have got?

Foley: I think so.

Bell: No.

White: That is the second page.

Bell: It is part of the second part, yes. That is what the Argentines submitted.

H.M.Jr: Oh, Harry, save my eyes and talk to me.

White: I think I can tell you very briefly. It is a --

Foley: I just thought he might want to have it in front of him while you are talking. It is easier to explain it.

White: He has it, Ed.

H.M.Jr: Go ahead. He has got such a lovely voice.

White: My wife thinks so.

Foley: Is that what she likes, Harry?

White: Yes..... No -- I will begin all over again. You almost had me there, Ed. They are going to get a hundred - they are asking for --

H.M.Jr: We won't let him go to any more football games.

White: The proposal is to let them have 100 million dollars; 50 million dollars the Export-Import Bank is going to extend, the usual credit to them.

Gaston: Up to this point the same as China. The Export-Import Bank lends them 50 million.

(The Secretary leaves room to take telephone call.)

H.M.Jr: Stimson was calling me. He wanted to tell me all his troubles, which he did. He didn't know that I had called him. So he is agreeable, too, see. He said he thinks it is a terrible way to do things. He says he thinks we have just got to decide what we are going to do for England. He says doing it this way is not doing anything.

Cochran: Phillips didn't leave Lisbon today. They think they

- 16 -

will leave tomorrow now.

H.M.Jr: What?

Cochran: Phillips' plane did not leave Lisbon today so it may be tomorrow.

H.M.Jr: Now, I am sorry. Where were we?

White: We said the first 50 million dollars that the Export-Import Bank contemplates letting the Argentine have is exactly, as Herbert says, like the 50 million that the Export is letting China have. The terms and the conditions have not yet been discussed. The second 50 million would presumably be made available from the Stabilization Fund and they would buy Argentine pesos either during the next six months or it can be arranged that you can buy them thereafter. Bernie has a plan in which it could extend beyond that. And the - there were three ways of securing it and Dan thought, and I think the rest of us agree with him, thought the best security, best way of those available is to arrange that they will always keep gold on earmark with the Federal Reserve Bank of New York to an amount equal to whatever Argentine pesos you buy, plus ten percent. It will not be pledged, because they cannot pledge it.

H.M.Jr: Somebody told me that.

Bell: I told you that.

White: And in that way, since they need permission from the Treasury to take such gold out anyway, you would always have dollar for dollar collateral. They have got about 400 million dollars worth of gold. They have to have by law a hundred million dollars against the outstanding liabilities, so there is a 300 million balance, so they can easily keep 50 or 60 on deposit. They have 70 on deposit now. They could easily keep that. So that really under this arrangement, the Stabilization Fund takes practically no risk for the first year.

Gaston: They can still show it on their books as part of

- 17 -

their unsegregated reserves.

Bell: If they pledge it they have to take a dollar balance.

White: Yes, they won't --

H.M.Jr: Well, up to now what you have told me is nothing new because Bell had told me this, but what I asked Bell to find out was about Chile. Now, in the case of Chile we bought 300,000 tons of nitrate from them and some copper and I don't know what else.

White: No, the nitrate, 300,000 tons, for which they probably will get about 7 million dollars, they won't get much out of that because the intention is that they will have to pay some of the piled up - the arrears, which amounts to almost that. The copper hasn't been settled yet. It is still being discussed. If they do go through with it and the Council of Defense - Metal Reserves does buy it, it will amount to over 20 million dollars, of which Chile will get probably half, a little more than half, possibly, in foreign exchange, so it will help them out very considerably plus a 5 million dollar extension which the Export-Import Bank, I think, is thinking of letting them have. They also have 12 million dollars allocated to them by the Export-Import Bank separately. And that 12 million dollars is being kept for special projects, each one of which has to be approved by the Export-Import Bank, long run projects. So far they have only approved 2 million. So that there has been no Stabilization operations suggested to them yet.

Bell: Then the purchases haven't been large, of strategic materials.

White: From them?

Bell: Yes.

White: No. The one which has just been decided is the 300,000 tons of nitrate which is going into a stock pile. It will yield them about 50 or 60

- 18 -

million because freight is extremely heavy.
Copper has not gone through.

Cochran: Copper has not?

White: Copper has not gone through. I think that nitrate thing --

H.M.Jr: Isn't there something comparable in the Argentine which we can buy?

White: There are some things we are trying to arrange, some wool, and there are some other items. Now, the thought that we have was insofar as they buy anything of that character, it will mean that they will use the proceeds to repay any pesos you have, so that if they export more than they are reckoning on, as a consequence of any such percent that we may make, it means you will have to buy less pesos.

H.M.Jr: Now just look. You see this is a matter - I am just one human being. Tomorrow morning is Monday. That will be gone testifying. Monday afternoon I have got a press conference and Lothian coming in at 4:30. I have got to do a little mail so that is gone. I have got to do Tuesday afternoon this Argentinian thing. No, Tuesday afternoon I am going to have the English. Now, Wednesday we have got to do - talk about our financing, Wednesday morning.

Bell: At 10:30, up until 12:00, anyhow.

H.M.Jr: Do you think we could get started talking to the Argentinians Tuesday morning, maybe?

White: I think so, if you wanted to --

H.M.Jr: So we don't have them sitting around.

White: If they are willing to agree to that arrangement, and I imagine they would.

H.M.Jr: Should I have Jones sit in with me or talk to the Argentinians alone first?

Bell: I think Jones would like to have a joint conference

- 19 -

first on whether or not you are willing to go along.

White: Without the Argentines?

Bell: Yes.

White: He is waiting for that.

Foley: That will be all right. I think you ought to see him first.

H.M.Jr: Tuesday morning.

White: Not only Jones, but I think there is also Welles, a committee.

Foley: And see the Argentinians afterward.

H.M.Jr: I will call up Hull and ask him who he wants to sit in with me Tuesday morning.

White: Do you think you ought to see the Argentines first?

Foley: Before Jones? No, I think he ought to talk to Jones but I think he ought not to have Jones there when he talks to the Argentinians if there is time, but Jones can bring him up to date as to his talks.

H.M.Jr: I will talk to Jones first and somebody from the State Department.

White: Yes. After all, when Jones talks Export-Import Bank with them he doesn't call you in. But --

Bell: You see, if you say to Jones, "We are willing to take the Stablization Fund - the Stabilization Fund is willing to take this 50 million dollars, we understand the Export-Import Bank will take 50 million," and then the negotiations can sort of split off. They can go ahead with the Export-Import Bank and the Treasury can go ahead with them on the other side. But Harry, I think you ought to tell the Secretary what is behind this whole thing, give him some statistics. That all grows out of a trade balance debt.

- 20 -

- H.M.Jr: I tell you what I am going to try to do. I am going to try to read this thing tomorrow.
- Bell: You will get it then.
- White: It is all summarized in the first page. Just the first two memos, note there is but --
- Bell: There are three memos that summarize it, Harry's summarization of his statistics, and then he has a proposal at the end which is summarized.
- H.M.Jr: I will try to do that.
- Cochran: Then will you mention the Argentine tomorrow to the committee?
- H.M.Jr: Oh yes.
- White: This Argentine thing, the first year, the trouble is at the end of the first year they may not be in a better position so that a similar arrangement the second year won't be nearly - will have the risk, but the first year doesn't have any risk and the problem of whether or not what you are undertaking can extend beyond the 6 months and how is something that Bernie has worked out. It is possible either way.
- Cochran: Would they be obliged to call that gold encumbered, Bernie?
- Bernstein: Beg your pardon?
- Cochran: Is that gold under an arrangement so that it must be encumbered?
- Bernstein: No, it is simply the usual control we have over all gold here and we simply give instructions to the Federal that they are not to let any of that out without letting us know.
- Cochran: If the other people undertake to leave it here, are they thereby encumbering it? The reason I ask is --
- White: Are they encumbering it so far as their reserves?

- 21 -

- Cochran: Yes, because their statutes oblige them not to do that, I understand.
- Bernstein: That will be a problem they will have to decide for themselves as to whether under their law they can leave the gold up here on earmark.
- H.M.Jr: Well now, I will tell you. I think I have gone about as far as I can go. Soong is coming tonight at 8:30. Do some or all of you gentlemen want to come tonight?
- Bell: Do you want anybody present?
- H.M.Jr: Oh yes.
- Bell: Well, whoever you want. Harry is the one that has got the story.
- White: Well, I am not going to give him the story, just ask him some questions.
- Bell: We were going to meet at three o'clock to try to draw up a memorandum.
- H.M.Jr: Well, Harry was with me.
- Bell: Yes, I know, so he is the only one that has got the data.
- H.M.Jr: Well, I hate to have you all come back. Can you (White) come back?
- White: Yes, I can come back. There is no harm in having them all come back. It lends more.....
- H.M.Jr: Well, I am delighted to have you all. You fellows can be honest, if somebody has got something --
- Foley: I have nothing to do. I don't know what I can contribute, but I will be glad to come.
- Gaston: Same here. I don't know what use I can be, but I will be very glad to come.
- White: Well, I think Dan ought to be here anyway to get more familiar with it.

- 22 -

Bell: I will be glad to come.

H.M.Jr: I think Merle ought to be here.

Cochran: I shall.

White: And I think that one of the lawyers ought to be here.

H.M.Jr: Well, why don't you all come? Are you busy, Herbert? Be honest.

Gaston: No, I am not busy.

H.M.Jr: How about you?

Foley: Nothing to do.

H.M.Jr: Father?

Bernstein: I am just working here.

H.M.Jr: We won't stay very long. I will try to keep it down to half an hour.

White: Are you clear on tomorrow's discussion? We didn't really end that. I don't think we ended it, as to what you are going to - in addition to your statement.

H.M.Jr: I am going to read this thing and then I will go up early and ask Wagner and Somers to see me and I will say, "Now here is my statement, how should I conduct myself, you tell me." Ask their advice. When I get through, should I ask for a vote of confidence or should I simply say, "Now, gentlemen, unless you tell me not to do it, I am going to do it."

Foley: I wouldn't ask them. I think we ought to tell them we don't want a vote of confidence.

Gaston: You are not asking their opinion, you are just telling them.

Foley: We are just informing them, in conformity with the

- 23 -

working arrangement with the two committees as to full and complete disclosure. There are no secrets. "This is what we are doing. We want you to know about it before we do it," and not ask for any vote of confidence at all because the risk is too great. You just can't afford to take that risk.

Bernstein: The risk isn't simply they will pass a resolution against you, but --

Foley: Danaher and those fellows will want a lot of information, want to go into it more, want to talk with the Chinese, anything to delay.

H.M.Jr: I am not sure that you are right. I will sleep on it, though, but I am certainly going to ask Wagner and Somers what they think.

Bernstein: Could you ask them what they think after you suggest the way you ought to do it because their first reaction may be, stemming from the conversations and guidance and so on, well, maybe we will then ask for a vote or something like that.

Bell: A vote has no legal effect at all.

Foley: No, it isn't their responsibility.

Bell: I think if they say, "What do you want us to do," just tell them we don't want them to do anything, we realize they are limited legally, and all we want to do is work with them and keep them informed.

Foley: "I am not ducking any responsibility. I am willing to assume the responsibility for my action but I want you to know what I propose to do before I do it and I am willing to answer any questions."

H.M.Jr: Don't you give me that baby stare. You can save that for those fellows tomorrow. (Laughter) It doesn't convince me of anything.

Foley: That is what I was afraid of.

Bell: Eight o'clock?

H.M.Jr: Eight thirty.

Bell: Okay.

- 23 -

working arrangement with the two committees as to full and complete disclosure. There are no secrets. "This is what we are doing. We want you to know about it before we do it," and not ask for any vote of confidence at all because the risk is too great. You just can't afford to take that risk.

Bernstein: The risk isn't simply they will pass a resolution against you, but --

Foley: Danaher and those fellows will want a lot of information, want to go into it more, want to talk with the Chinese, anything to delay.

H.M.Jr: I am not sure that you are right. I will sleep on it, though, but I am certainly going to ask Wagner and Somers what they think.

Bernstein: Could you ask them what they think after you suggest the way you ought to do it because their first reaction may be, stemming from the conversations and guidance and so on, well, maybe we will then ask for a vote or something like that.

Bell: A vote has no legal effect at all.

Foley: No, it isn't their responsibility.

Bell: I think if they say, "What do you want us to do," just tell them we don't want them to do anything, we realize they are limited legally, and all we want to do is work with them and keep them informed.

Foley: "I am not ducking any responsibility. I am willing to assume the responsibility for my action but I want you to know what I propose to do before I do it and I am willing to answer any questions."

H.M.Jr: Don't you give me that baby stare. You can save that for those fellows tomorrow. (Laughter) It doesn't convince me of anything.

Foley: That is what I was afraid of.

Bell: Eight o'clock?

H.M.Jr: Eight thirty.

Bell: Okay.

**FEDERAL LOAN AGENCY
WASHINGTON**

Jessie Jones
General Loan Administrator

December 2, 1940

Dear Mr. President:

Respecting the extension of additional credits by the Export-Import Bank of Washington to China, this is to call your attention to the fact that such loans cannot, under the law, be made " . . . for the purchase of any articles, except aircraft exclusively for commercial purposes, listed as arms, ammunition, or implements of war by the President of the United States in accordance with the Neutrality Act of 1939."

This restriction was removed with regard to the governments of the countries of the Western Hemisphere but left in force as to other borrowers by the Act approved September 26th last, which authorized additional lending powers for the Bank.

If China proposes to use the proceeds of our loans for war materials, we will have to ask Congress to modify the law.

Sincerely yours,


Administrator

The President
The White House

FOR THE PRESS

IMMEDIATE RELEASE

NOVEMBER 30, 1940

STATEMENT BY THE PRESIDENT

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.

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.

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 \$60,000,000, 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 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.

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"

RE CHINESE LOAN

Sunday
December 1, 1940
8:30 p.m.

(Conference held at
home of Secretary)

Present: Mr. Gaston
Mr. Bell
Mr. Foley
Mr. White
Mr. Bernstein
Mr. Soong

H.M.Jr: I am sorry I had to change my appointment, but the President changed his on me. We always seem to do things here in Washington in a hurry, once we get started. We are a little slow in getting started.

You know all the gentlemen present, don't you? Mr. Bernstein you will know better because he is the kind of lawyer that puts in all the extra words.

Soong: I first want to express the thanks of my government, and that I cannot put in words.

H.M.Jr: Well, what I wanted to tell you was this, you see. I have to appear before these committees tomorrow and explain what I am proposing to do, you see, because when we got this stabilization fund through Congress, they asked me very, very closely whether we would use this fund to finance any nation which was at war, and I said no, unless I first came up and explained it to them. So, having to go up tomorrow to explain, I wanted to have some kind of an understanding with you before as to the method that we had in mind.

This is the plan that we had in mind. You see, this loan to your government that we have now of 50 million dollars expires on

- 2 -

December 31st.

Soong: But that was really not a loan, was it?

H.M.Jr: Well, we don't call it a loan.

Soong: I understand at that time the Chinese Minister of Finance wanted some window dressing and that is what it was and it has been so regarded by our people and by everybody in China, you see, so if you are going to make it as a continuation of that, it might be misunderstood, you see.

H.M.Jr: Well, possibly, but also I have to get it by Congress and in the proposal for the extension of this, naturally we are not going to ask you to put up gold for the balance because we know you haven't got it, so it will not be window dressing this time. It is quite different. I mean, we are not going to ask you to put up gold for the money that we advance you against yuan, you see. That would be the first and basic difference.

Soong: I suggest that in the future in case there is an announcement, that point be borne in mind when the statement is made public. Is it possible to do that?

H.M.Jr: Well, I hoped there would be no more announcements. The papers jumped to the conclusion. One said a hundred million dollar loan and another said 160 million dollar loan. Well, what you wanted was the effect all over the world.

Soong: Of course, it is very important that it shall not be regarded as window dressing.

H.M.Jr: Well, let's say that when I go before Congress

- 3 -

tomorrow - Mr. Hull is going also at 10:30 - and they say, "This is all right; you go ahead. As far as we are concerned, there is no reason for any more announcements." Do you see any reason, Dan?

Bell: Not except at the time you actually conclude the agreement, you might say --

H.M.Jr: Well, I mean, we can if the Chinese Government wishes to, but it isn't necessary.

Bell: No, it isn't necessary, but now, after having announced it, you probably will have the newspaper people on your neck all the time.

H.M.Jr: As a matter of fact, at the request of your government, we have never said how much that loan was.

Soong: You mean the first time?

H.M.Jr: The 50 million. It has never been public property.

White: There may be much to be gained by not making a public statement, but if they press you in your ordinary press statements to say that negotiations have been completed or the details are being arranged, or something of that character, so that it will appear that affirmative results - if affirmative results do resolve --

H.M.Jr: Dr. Soong, what we are trying to do is to be helpful to your government. Anything that I can do, as I have proven many times, to be helpful, I am ready to do. See? Because the whole idea is to help you win. Is that right?

Soong: Surely.

- 4 -

- H.M.Jr: We want you to win. Now, as long as I can do it legally and not have my head cut off, as Mr. Chen once told me - he didn't want to be a politician, he wanted to be a banker because he said all bankers live to a ripe old age, so I want to stay as a banker and not as a politician. He said in China all politicians die young.
- Soong: They are inclined to.
- But we are deeply appreciative, because you have to make some special efforts to help us.
- H.M.Jr: Well, this is very difficult.
- Soong: I know that.
- H.M.Jr: We are doing something that I refused to do consistently, and this going before these committees tomorrow is not a pleasant experience.
- Soong: I know full well, and my government also knows.
- H.M.Jr: We have several things in mind that we would like to ask that you do, because we would like you to meet us halfway. And Harry, supposing you outline those things that we want.
- White: Well, one of the aspects of the problem that we are interested in is, do you feel that this announcement will have the effect of increasing the confidence in the yuan and might even have resulted in your ability to pick up a little more foreign exchange?
- Soong: I believe so.
- White: With your stabilization funds?

- 5 -

Soong: Yes.

White: How much were in the stabilization funds before the announcement?

Soong: You mean at present, today?

White: Yes.

Soong: It is about - it is in two items. One is two million seven hundred fifty thousand pounds.

White: Pounds sterling?

Soong: Pounds sterling.

White: What kind of sterling is that?

Soong: It is free sterling.

White: It is not blocked?

Soong: No. It can be converted readily into U. S. dollars. And an equivalent of three million pounds in gold dollars.

White: That is seven altogether as of before the effect of this news.

Soong: Yes.

White: How much do you anticipate that this news will give it?

Soong: Five.

Foley: One is dollars and the other is pounds?

White: 5.7 million pounds, that is it.

- 6 -

- Soong: Yes.
- White: How much do you think you will pick up, just as a guess?
- Soong: I can't really estimate.
- White: Then on these funds "A" and "B", I take it that in line with your previous memorandum that those funds will become part of the new stabilization fund?
- Soong: Well, the fund "A" and "B", we are under agreement with Great Britain on. It is an Anglo-Chinese fund. Of course, we are willing to have it that way, but we have to consult Britain.
- White: How much of an interest does she have in that?
- Soong: Well, the first fund she has half-and-half interest. In the second fund, the interest is smaller because they have already gone to war. It should be two to one, our two million to their one million pounds.
- White: In your earlier memorandum, if I remember correctly, you already felt that you could put that in the new fund. Had you already had the word of the British Government on that?
- Soong: I thought it might be negotiated in a different way; that is to say, have those funds go first and act as a first cushion to any possible loss that we might sustain, but of course as you well know we have dropped the matter of discussion of the stabilization fund because we learned that it was very difficult to put it through Congressional

- 7 -

committees, the Senate committee, and therefore no formal discussion has ever been made with them.

White: With the British?

Soong: With the British.

White: Then you are saying that will be first, and then you will have, as far as you know, 5.7 million pounds plus whatever you pick up as a consequence of the recent good news?

Soong: Yes. But as I said, one would normally pick up a good deal, but coming after the announcement of the recognition of the public government by the Japanese, which creates a good deal of confusion, normally we would be losing a good deal, you know. Normally, we would expect it to go down.

H.M.Jr: What fund do you pay the 100,000 you want out of if you get the head of Mr. Wang. What fund does that come out of? (Laughter)

Soong: I think there will be no contribution.

H.M.Jr: I just wondered whether that was fund "C" or "D" or "E".

White: That would be fund "W".

Soong: You see, we have two counteracting forces and it is anybody's guess what the net result will be.

White: Well, I think we would be very interested to get current reports on that as the thing progresses, and if you can ask for some information on that --

- 8 -

Soong: I will give you day-to-day reports on that.

H.M.Jr: On this fund with the British, do they have a man who sort of sits there with you and looks after it?

Soong: Yes, there is a man from the Bank of England, a Mr. Cyril Rogers, who was with the Leith-Ross Commission in China and he was recommended by Sir Frederick to stay there.

H.M.Jr: How much control does he have?

Soong: He is the chairman of the Anglo-Chinese committee, which consists of five members. One is from the Bank of China, one from the Bank of Communications and one from the Hongkong Bank and one from the Chartered Bank. The two British banks presented the fund. The Englishmen are recommended to the Chinese Government and appointed by the Chinese Government as chairmen of the committees.

H.M.Jr: And that is this Englishman?

Soong: Yes.

H.M.Jr: Because one thing both the President and Mr. Hull have insisted on in this fund is that an American will be there to supervise the fund.

Soong: We are very anxious to have an American.

H.M.Jr: I see.

Soong: I mean, giving us so much help, we feel it is only due to you that you should know all the transactions, and more than that we would like to get your - the advice of your man

- 9 -

daily, not after a long time, daily consultation. I may say that this afternoon I called on Dr. White. In the conversations between General Chiang Kai-shek and Mr. Johnson, I do not know whether it was separated by the Cabinet or not. I took it - I didn't give it to you. May I say all this to you in confidence? General Chiang asked for assistance from Great Britain and the United States for two to three hundred million dollars --

H.M.Jr: Excuse me. Have we ever seen this?

Cochran: No, sir.

Soong: I will translate for you.

....two or three hundred million dollars for the sole purpose of support of the currency and in addition we ask for assistance in our air force. Finally, he asked that you would send experts on finance and economics, and certainly an expert on transportation to help us in devising means for the situation.

H.M.Jr: No, I have never seen that. Maybe that is what the President had in mind.

Soong: Yes. Now, I ventured to ask Dr. White if there was any hope that he could come on invitation of the Chinese Government, because we feel that not only on this particular matter but on other matters we would like to get some expert assistance.

H.M.Jr: Well, I think it is a very nice compliment to Dr. White, but unfortunately I need his expert assistance also, and I just couldn't spare him at this time, but on this thing, for instance, if we could work it out to

- 10 -

represent the Treasury, I would be more than satisfied if an arrangement could be made to have Mr. Archie Lochhead go out, who is working now for your government, you see. I mean, if he would go out on this fund. He would be entirely acceptable to me if he would be to you, you see. You know him, don't you?

Soong: Yes, I met him.

H.M.Jr: And I think that on account of my old association on this committee, if on this committee could also be Mr. K. P. Chen, it would be very pleasing to me. But if those two gentlemen besides yourself --

Soong: I am not a member of the committee, of any of the committees.

H.M.Jr: But you could be, couldn't you?

Soong: Well, it depends on what my government orders me to do.

H.M.Jr: But I mean if I asked for you and Mr. Chen and Mr. Lochhead.

Soong: Well, I have to - you see, the government desires me to handle not only financial matters but also other matters. Of course, I appreciate very much the compliment of your asking that I be a member of the committee, but I do not know whether the government wants me to.

H.M.Jr: Well, I can ask, and then the government can decide.

Soong: Of course, it would be a compliment to me.

H.M.Jr: But I would like it if you and Mr. Chen and Mr. Lochhead were on. Then I wouldn't worry.

- 11 -

And then what Mr. Jones has done, he has asked that whoever we put on also look after his money, you see.

Soong: That is something that I do not very well understand. As far as the Export-Import Bank loan, the previous loan was made free of any encumbrances. That is to say, the Chinese Government could do with it what it chose. I had no idea that this loan, coming loan of 50 million from the Export-Import Bank, would be a supervised loan, and I do not know what is the nature of this position.

H.M.Jr: All I know is that in a telephone conversation which I had with Mr. Jones late yesterday, he said, "Now, whoever you decide that you want, in response to what the President and Mr. Hull have asked, whoever you decide, I want you to consider the money from the Export-Import just as though it was the same as the Treasury money because," he said, "it is the same."

Soong: Well, if we were to buy things with that, you see, it is not like a committee sitting on it and saying that you should buy airplanes and you should not buy gasoline, see. It is something really which is --

White: Mr. Soong, I think that the kind of supervision which the Secretary has in mind, or at least which --

H.M.Jr: Say the Administration.

White: I think the kind of supervision which the Administration has in mind would be of a character that would be quite in accord with what your general expectations are for

- 12 -

its use. It would be a supervision which would be designed to insure an appropriate use for the funds, and I am sure that you will find out more about it. I doubt whether there will be any kind of strings that would in any way interfere with your most efficient use of those funds.

Soong:

Well, this is something to me quite new, but I could analyze the situation to you in a manner which I should think ought to be satisfactory.

There are only two ways by which we will use money, either in purchases or else in support of our currency. In support of our currency, we will - we have some people on the committee already. As far as purchases are concerned, I personally have not the slightest objection - in fact, I would urge for you that all purchases should be made through the Universal Trading Company. In fact, I believe the Chinese Government should channelize all its purchases through a single institution, one that has a good deal of esteem everywhere. If such is done, then I do not see why any more supervision - I suppose it is a harsh word. I know that America is very anxious that we win the war, for everybody concerned. All that America would desire to see is that the money is well spent and not wasted, and now I have pointed out to you ways by which that is perfectly assured.

H.M.Jr:

Well, I don't - this seems to be a thing which is very much in the minds of these other gentlemen and I imagine that the reason is that they feel that if we can tell Congress truthfully that a representative or representatives of the Treasury are supervising

- 13 -

the expenditure of this money, that it will possibly satisfy some of the fears of some of the members of Congress. I imagine that that is what they have in mind.

You see, after all, it is a lot of money. You now have a commitment from the Export-Import Bank of 70 million, isn't it?

Soong: No, 75 million.

H.M.Jr: And here comes another 50 million from the Export-Import Bank, and on top of that, this arrangement which I hope to convince Congress of tomorrow.

Harry, you were only half through your story. I wish you would continue it.

White: The next item is the participation by the private banks, Chinese banks. What would you propose with respect to that? How much will that be?

Soong: I suggested that the Chinese banks would contribute $12\frac{1}{2}$ millions.

H.M.Jr: Pounds?

Soong: No, dollars.

Cochran: How much?

Soong: $12\frac{1}{2}$. That was in my memorandum. Well, then today, of course, our situation is very much more difficult, and we intend to use all this money, of course, for purchases in this country, but if you desire it, I think I would put it up again to them, and I have no doubt that they will - I believe that they

- 14 -

will agree to it.

White: The fact that the yuan has been made stronger by virtue of these new arrangements, if they do go through, it seems to me would encourage those banks to even put more in, and I think it is highly desirable for them to have a substantial stake in it because a good deal of the success of the control is going to depend on the degree of cooperation that you receive from the various banks.

Soong: Well, I might say that this sum is all from the Chinese Government banks which are under control anyhow.

White: Oh, I see.

Soong: And which would cooperate anyhow?

White: Then there were none of the Chinese private banks that were participating?

Soong: We did not contemplate asking them to do that.

White: Do you think it would be a desirable thing to have them participate in it?

Soong: Well, I have never explored the subject with them. As you know, the situation of our country is quite different from that of Great Britain or any other country at war. Most of the industries are smashed or seized by the Japanese, or else bombed, if they are in the interior, so much so that I feel reluctant in asking them to put up anything because that represents practically the only real capital that the Chinese have today, but of course I have not sounded them and I am not in a good position to sound them because

- 15 -

most of them are in Shanghai anyway.

- White: Well, Mr. Secretary, there are numerous other things, but they bear on technical details.
- H.M.Jr: Well, the thing - one of the things I want to ask is whether the English fund would be used first.
- White: I take it that he indicated that those funds would be the first to be used.
- H.M.Jr: I didn't get that.
- Soong: No.
- White: The "A" and "B" funds.
- Soong: I said I would propose that to the English, you see. Well, there is not such identity of interest between this country and the East that I hope they will consider it in a broad light.
- H.M.Jr: They will, or we will.
- Soong: They will consider it in a broad light, and I hope that they will see that we are quite willing to absorb --
- White: And then the amounts which your government banks would contribute would be the second reserve, so to speak?
- Soong: Yes, anything that we ourselves contribute.
- H.M.Jr: Let's get it, because I have got to tell the story tomorrow, you see. Could I say this, that we have asked that this "A" and "B" fund which amounts to --

- 16 -

White: About 20 million dollars, roughly.

H.M.Jr: More than that, isn't it?

Bernstein: About 23, Harry.

Soong: Not with free sterling. You know free sterling is - it is about 3.68 or 3.70.

White: Around 20.

Bell: It is free sterling, worth less than four dollars, and it is about 20 million, roughly.

White: They might have a little more, depending upon what comes in.

H.M.Jr: We will be on the conservative side. We will say we have asked that the first cushion be the 20 million dollars. Then is there anything else?

White: Then the next cushion is the figure of $12\frac{1}{2}$, which he has just mentioned and which the government banks will contribute, in addition to --

H.M.Jr: I thought he said that was their only capital.

White: When I asked him whether there were additional funds that might be contributed by private banks, he said the difficulty of getting it from the private banks would be that such capital is the only capital they have to work with.

H.M.Jr: But the government banks have $12\frac{1}{2}$ million?

White: Yes.

Cochran: That is in dollars now, or is part of it in sterling?

- 17 -

Soong: U. S. dollars.

H.M.Jr: And then --

White: That is 32½.

H.M.Jr: And then this would come --

White: And then, I take it, the 50 million dollar Export-Import would be used for purposes appropriate to that fund, which is distinct from stabilization operations.

H.M.Jr: Yes, it is for the purchases of materials.

White: And such exchange as arises out of that purchase.

Soong: Of course, purchases of materials here must mean foreign exchange.

H.M.Jr: No, if the money they use there is spent here --

White: Well, it might not all be spent here. I don't know that - that may or may not be a condition. That hasn't been worked out.

H.M.Jr: But anyway, that goes for --

White: Foreign exchange purposes.

H.M.Jr: For material?

Soong: Materials, yes.

H.M.Jr: Export-Import Bank?

White: Then the United States stabilization fund operations would come next.

H.M.Jr: Well, that is the way I would like to tell

- 18 -

the story tomorrow. This is the time to talk about it.

Soong: Well, it would have to mean that we discuss it with the British, because after all, we have made an arrangement with them for certain things, and as far as we are concerned, we are quite ready to do that here.

White: You mean so far as they are represented in the "A" and "B" fund, in which the "A" fund you say almost half, and the "B" fund very little, belongs to them, you cannot commit yourself as to their portion of the fund?

Soong: Quite.

H.M.Jr: Well, talking for your half, though.

Soong: Well, talking for our half, yes. But this is - what do you say in America?

H.M.Jr: Joint?

Soong: No, I am groping for the word. Well, it is omelette.

H.M.Jr: Scrambled?

Bell: Mixed.

Gaston: That was the Secretary's idea. It is not two separate ideas, but a joint operation.

White: Combined fund.

H.M.Jr: Well, the negotiations we have with the British may make them glad to agree to this, some of the negotiations which I have with them.

Soong: They are under so much obligation to this

- 19 -

country that I personally feel they ought to do something on it.

H.M.Jr: I think so. And after all, Sir Frederick Phillips is due here any day now from the British Treasury. They are keeping it a secret until he gets here. They don't want him shot down. But he is due here any day. Do you know him?

Soong: I have heard of him.

H.M.Jr: Well, he will be here.

Now, Dan, what can you think of? I mean, what can you think of the things they are going to ask me tomorrow that I ought to be preparing to answer?

Bell: Well, they are certainly going to ask you what is going to be done with this money, how is it going to be spent, I mean the purposes.

White: The stabilization fund or the Export-Import?

Bell: I think all of it. They will want to know if it is going to be spent in this country.

H.M.Jr: Well, I couldn't explain how the Chinese are going to - how would you answer that question? They say to me, "How is this money going to be spent?"

Soong: Well --

H.M.Jr: I mean not the Export-Import.

Soong: Well, in general support of the Chinese currency.

- 20 -

- Bell: They might ask you who will get the dollars in support of that.
- H.M.Jr: Where will the dollars be deposited?
- Bell: No, where will the dollars go in support of that currency? Will they go into Japan or some other country?
- H.M.Jr: If Dr. Soong doesn't mind, ask him a few questions as though he were on the Hill and you were a Senator and he were Secretary of the Treasury. Ask him a couple of questions.
- Bell: The Senators will ask where these dollars are going to go in support of this exchange; what countries are going to get them.
- Soong: Well, I take it the fear is that it might get into Japanese hands, but as far as our records go, the records of the Chinese Government go, the Japanese have not acquired any substantial foreign exchange, although they were supporting their currency for three years and a half, so one would think that it would go to the purchase of such materials as China needs, the Chinese people need, not the purchases by the government.
- Bell: Do you think eventually it might find its way back into this country so either your own business interests or --
- Soong: Well, to date, it seems the European countries are practically excluded. It will probably be largely to America.
- H.M.Jr: How about to Russia?
- Soong: Well, we do not pay Russia in American dollars.

- 21 -

We have credit from them, you see.

H.M.Jr: I see.

White: Well, it is inevitable - isn't there a great danger that some of the foreign exchange may well find its way into Japanese hands through the kind of channels which characterized the operations in the last couple of years, Japanese getting hold of national currency and selling it through Shanghai, through some purchases in the occupied territory?

Soong: Well, our experience has been that the Japanese when they get hold of our national currency are obliged to use it to support their army in China, the army, in Chinese money.

White: Don't they depend upon their military scrip and yen?

Soong: It is because of the action of the gorillas that the yen can only be used in very few spots and on a limited scale. If the Japanese wanted to purchase goods in the country, they would have to use the Chinese yen. Therefore, the fact that Japan gets value out of China does not come through Chinese Government's supporting its own currency but because of the fact the Japanese could levy taxes anyway on Chinese residents in the areas that they control, and the records of the Chinese Government banks so far have been to show that the Japanese have acquired very little exchange, foreign exchange, from the Chinese stabilization fund.

White: I take it you think it will have to be one of the duties of this committee to see that there is a minimum of funds going in that direction, smuggling of goods from Japan

- 22 -

and Manchuria.

Soong: Surely. We are not there to help the Japanese.

H.M.Jr: I have a question which, if I could get a good answer, it would be helpful. You say that there are 5.7 million pounds left.

Soong: Yes.

H.M.Jr: How much was that fund when it started?

Soong: When it was started, it was in the first place ten million pounds, out of which half was given by the Chinese Government banks and half by the two British banks. Of that, about 2,700,000 pounds are in existence. Because of the fact that at one period the fund was almost down to nothing, the Hongkong bank and the two Chinese banks again put up some money to the extent of about three million pounds, so this 5.7 million pounds is the balance of ten million pounds, plus three million, thirteen million pounds.

H.M.Jr: I see. Over how long a period has that been; when did that fund first --

Soong: It started in the spring of '38.

H.M.Jr: A year and a half --

White: They have lost --

Bernstein:two and a half years.

White: If they wanted to close the books and see what they have lost in this period by virtue of the yuan --

- 23 -

H.M.Jr: About half.

White: Not quite half, but I should think pretty nearly half.

Soong: About 4,700,000 pounds.

White: No, I say how much have you lost, the present value of this sterling and the yuan, as compared with the value there? In other words, in a year and a half --

Bernstein: Two and a half years, Harry.

White: Two and a half, but they have lost more rapidly at certain points.

H.M.Jr: About two and a half years.

Bell: They have actually lost that much and got nothing for it?

White: They have the yuan, but the yuan now is worth about five cents, whereas when they bought them they were worth anywhere from 19, 16, 14, to 12.

H.M.Jr: What is the yuan worth now?

White: It has been pretty stable at five cents, 5 and 17/32nds.

H.M.Jr: For how many months has it been stable?

Soong: Since the spring of the year.

H.M.Jr: And how about your cost of living?

Soong: The cost of living has gone up very much.

White: The figures show that prices are about five

- 24 -

times what they were when the war broke out. It varies greatly from district to district.

Boston: In terms of yuan.

White: In terms of purchasing power of the local inhabitants.

Bell: Are they liable to get into the fiscal set-up there?

White: They are in a very bad fiscal situation right now.

Bell: Are we liable to be asked about the budget and the debt?

White: I think they might ask something about the deficit and I think if you have the figures it would be well. They might ask you how their budget picture looks. I can give it to you or Soong can give it to you.

H.M.Jr: I would rather not hear it tonight.

White: It is bad, anyway.

Bell: It might be better to just say it is bad.

White: That characterizes it. I take it, Mr. Soong, you would agree with that?

Soong: I would say after three and a half years of war, it is bad. If any country has been in our situation three years and a half, I don't think it could be much better.

H.M.Jr: And if they ask me how is the financial situation of the Japanese, I would say it was bad also.

- 25-

- Gaston: You could also say it was surprisingly good after three and a half years, couldn't you?
- Soong: Surprising in that financially we have been able to last as long.
- H.M.Jr: Herbert, do you think of something that might come up tomorrow?
- Gaston: No, I don't. I think they will ask something about the financial condition of China.
- White: If they want to go into details, we will have a man there.
- H.M.Jr: Merle?
- Cochran: Does this one committee control both these parts of the fund, of the "A" and "B" funds for the stabilization? Is it the same committee?
- Soong: Yes.
- Cochran: And have we worked out far enough to know what our man would do? Would he sit on that committee or would it be their committee?
- H.M.Jr: I haven't had time. After all, we only - after I saw Dr. Soong, we only agreed to the thing right after he left, so I haven't had --
- Soong: May I say that there are certain possibilities. One, of course, would be that he would sit on the committee. The other would be to form an American committee and have a joint committee of the two funds, together.
- H.M.Jr: Yes, something like that.

- 26 -

- White: With reference to our fund, the fellow might be different than with regard to that. There are all sorts of possibilities.
- H.M.Jr: Oh, yes.
What else, Merle?
- Cochran: That is all I have, sir.
- H.M.Jr: Ed?
- Foley: Well, I think they may ask the relative differences between the use of the Export-Import Bank money and the stabilization fund money, and I haven't been in on all these discussions so it isn't clear in my mind just what shadations there are of difference between the use of the funds.
- H.M.Jr: You can ask Professor White.
- Foley: I am looking at him. (Laughter)
- White: Well, the Export-Import Bank funds would be used presumably for special purchases. They would be able to say if they bring - and if they are not required to spend all the money here, and that has to be gone into, they might say it would be used for special purchases either here or there. The stabilization funds are used to meet the demands on foreign exchange that arise from a large number of sources, some from the imports of private Chinese, some from possible movements of capital over which they may or may not have control - it depends on their policy - some from smuggling, some from Japanese operations and some from the usual governmental operations between countries, so that you cannot always segregate what the money

- 27 -

is to be used for. All you know is that you are called upon to supply exchange from these various sources.

- H.M.Jr: You don't think they could earmark all the various funds from smuggling to be paid back to us, do you?
- White: It would make a sizable fund.
- Foley: Will the Import-Export Bank be used for war supplies, airplanes?
- White: Well, the conditions of that fund --
- Soong: They cannot be used for airplanes. I believe there are restrictions on the Import-Export Bank itself.
- White: Have those been imposed on this new fund?
- Soong: I gather that it was not so much imposed by them --
- H.M.Jr: I thought this last time they said they were not going to ask any questions.
- White: Oh, the 25?
- H.M.Jr: Am I right?
- White: That is what I understood, that there were to be no strings on it.
- Soong: No strings whatever.
- White: So you could spend it for any purpose that was legal in a particular country?
- Soong: No, not for purchase of war supplies.

- 28 -

- H.M.Jr: Is that in the charter of the Export-Import Bank?
- Foley: It is policy.
- Bell: It doesn't apply here, does it?
- Foley: No.
- H.M.Jr: You (White) are a director of the Export-Import Bank.
- White: We haven't decided yet what the conditions are.
- Foley: That condition was imposed, as I remember, Harry, in so far as that belonged to the Universal Trading Corporation.
- White: But not this last 25 million. My understanding was there was no condition. However, with respect to this 50 million, I don't know whether there has been any discussion yet of the terms and conditions, so that I think the question would have to be answered in general that it would probably be used the way - probably so far as you know will be used the way the funds of the Export-Import Bank are generally used. That is Mr. Jones' problem.
- Cochran: Congressman Smith might ask if these funds from the stabilization fund could be used for military purposes.
- H.M.Jr: No.
- White: Well, if he does, if he is smart enough to ask that question, I think that we could answer it by saying that you cannot say for what purposes the funds will be used. All you know is that you have a lot of exchange coming to you which you have to meet in order

- 29 -

to prevent the yuan from dropping, and you cannot say that this dollar was used for that purpose or this dollar was used to provide the Embassy here with funds with which to conduct their business.

Bernstein: I don't know whether you have answered the question, but supposing they ask what are the principles that underlie the expenditures of the funds heretofore out of the stabilization fund, the Anglo-Chinese fund.

White: It has been the necessity to meet the demands for foreign exchange in order to prevent the yuan from depreciating.

Bernstein: Well, they would say that any demand for foreign exchange would be treated the same way.

White: Well, they have exchange controls and they don't permit a number of things to be imported, because they feel the country cannot afford it. They don't permit capital movements of certain characters. The new committee may be - exercise a more stringent measure. It may develop new techniques. It may increase restrictions on capital outflow or imports, but the effort will be to permit China to conduct a war and to prevent the yuan from dropping, and as between those two objectives which have to be reconciled, there are all sorts of possibilities.

Bernstein: Well, in the question of dropping it, I take it it did drop, and you always have a question of judgment at what point you want to stabilize, how you want to see it drop. Do you want to maintain it at the current price or what will happen.

- 30 -

- White: I think it will be made clear that stabilization doesn't necessarily mean keeping it at a point, that much depends on what happens to the price level and the circumstances. The appropriate use of the fund may well be at some time to permit the exchange to drop when it costs too much to keep it where it is. That is what has happened before and it may even go up as it has before. It rose one period from six to eight cents and remained there for a long time.
- H.M.Jr: Suppose they ask me, are there any more crises coming along in China that will cost another hundred million dollars.
- White: Mr. Soong will answer that.
- H.M.Jr: You don't expect anything in the next couple months, do you?
- Soong: Well, a general question like this you would have to answer, I suppose, that in case it comes it is for the American Government to decide whether it would or would not help.
- H.M.Jr: One thing I wanted to ask is this: I don't expect to be asked this tomorrow, but do you consider that the Government of Siam today is friendly or not friendly to China?
- Soong: I think it is distinctly - I would consider it unfriendly to China.
- H.M.Jr: Unfriendly to China?
- Soong: Yes, because it is cooperating with Japan.
- H.M.Jr: I see.

- 31 -

- Soong: I think the Siamese are taking the French - are engaging the French to give the Japanese opportunities. For the peace of the Far East, they must occupy Thailand. They must occupy the naval base at Kam Ran.
- H.M.Jr: Where is that?
- Soong: North of Saigon.
- H.M.Jr: You mean Siam is going in there?
- Soong: No, the Japanese are instigating fighting between the Siamese and the French Government, so that they have an excuse to step in. After stepping in, they would link up with Siam and make further moves toward Singapore and the Dutch East Indies.
- H.M.Jr: Through Siam?
- Soong: Probably through Siam.
- H.M.Jr: But Siam is friendly to Japan?
- Soong: The Japanese have a lot of interests in Siam, particularly with the military clique which it is fostering. Japan has sold some credit, a lot of munitions, anti-aircraft guns, artillery, and also a number of Coastal --
- Gaston: Coastal batteries.
- Soong: Not Coastal batteries, but you would call them monitors for shallow water operations but with heavy guns.
- Gaston: Coastal patrol boats.
- H.M.Jr: The Japanese get so many from Siam and they intend to use it in Singapore some day. You

- 32 -

know the last three weeks here our records show that Japan has stopped buying scrap iron. Where would you suppose that she is getting her scrap iron?

Soong: Japan, before the final embargo was put in, had bought very large quantities, much greater than her needs, and I think she is leaning on that. In addition, she is getting all the iron ore from Indo-China.

H.M.Jr: Indo-China?

Soong: Yes.

H.M.Jr: That is where they are getting it now?

Soong: Yes. Of course, that is not a very great quantity, but it is quite useful.

H.M.Jr: I see.

Did you (White) check up on how much she is getting from the Philippines?

White: Scrap iron?

H.M.Jr: No, iron ore.

White: I don't remember.

H.M.Jr: Make a note of it, because there is iron in the Philippines.

White: Yes, there is, and she is very likely getting some iron ore from there, because her trade over there has been fostered.

H.M.Jr: You might get some cables off.

White: I will find out. Of course, there is no

- 33 -

prohibition of any kind to keep them from it.

H.M.Jr: I know, but it would be interesting to get the tonnage.

What port would the iron ore come out of from Indo-China?

Soong: As a guess, a port called Qui-Nohn. In addition, some goes to Haiphong.

White: There is one question, Mr. Secretary, they might well ask. They might ask you how long is this money going to last.

H.M.Jr: Well, how would you answer that?

White: I would say there is absolutely no way of knowing. The last fund lasted for two and a half years, but the pressure may be much greater now.

How would you (Soong) answer that?

Soong: I think that is a very true answer. Who can tell?

White: Hope for the best.

Soong: We can only go on the record of the past. The record of the past was not very great.

White: But it may go out faster, because the extent of control which the Chinese Government has is not as good, not as wide, and their prices are rising very rapidly, which should increase the pressure on exchange.

Will the fact that the Japanese troops have gone out of Shanghai help you to get control

- 34-

over that coast? Have they left the coast?

Soong: Well, as a matter of fact, although the Japanese say they have blockaded the whole coast, there are any number of points where we send gasoline and everything.

H.M.Jr: How do you explain this withdrawal of troops from Kwangsi and that part of China?

Soong: General Chiang - let's put it this way. The Japanese feel that they could not defeat China by a quick blow now. They have tried for three and a half years and they are no nearer completion today. In consequence, they have been, through the intervention of the Germans, and by their own negotiations, trying to arrive at a peace with General Chiang Kai-shek. Another thing that has come to our government, Ribbentrop, soon after Molotov returned from Berlin, called our Ambassador to him and said --

H.M.Jr: In Berlin?

Soong: In Berlin; we still have an Ambassador there.

He said, "Now look, relations between Russia and Germany are growing every day more cordial. Germany is today the dominant military power of the world and she could reorganize Europe very quickly. We expect to knock out Great Britain by the end of the year or by next spring at least."

That is what he said. "When that comes, China could expect no assistance whatever from America and Great Britain. As a matter of fact, the assistance from America and Great Britain have today been more nominal than otherwise. Therefore, if the Chinese

- 35 -

Government does not come rapidly into peace terms with the Japanese, which we are trying to make as light as possible, Germany will recognize Wang Ching-wei. In that event, Italy is committed to recognize him, too. As far as we are concerned, by the terms of our Axis alliance, we are obliged to recognize him. Under those conditions, your situation will go from bad to worse. On the other hand, if you were to arrive at peace terms with Japan today, which we know would be very easy, we would guarantee that Japan would carry out the terms of whatever peace arrangement they made with you, and Japan would not dare to go back on these peace terms. We have always held General Chiang Kai-shek with great admiration and respect and we sincerely hope that he will take this last opportunity and make use of it."

That is the gist of the conversation.

H.M.Jr: Between Ribbentrop and your Ambassador?

Soong: Our Ambassador in Berlin.

White: Was that relayed to the State Department?

Soong: Relayed by Mr. Johnson to the State Department here. You see, the general analysis is that the Japanese, knowing that they could not crush the Chinese Government at one blow - they have failed for three years now - have thought, "Well, why should we go in and be mired, bogged. Let us withdraw as many troops as possible for the expedition to take complete occupation of Indo-China and to take Singapore and the Dutch East Indies. Therefore, if we could succeed in making peace with General Chiang Kai-shek - but if not so, let us remove as many troops

- 36 -

as possible and put the rest in strategic points in China like Canton, Hankow, where under heavily guarded fortifications it would be very difficult for the Chinese Army without the support of an air force to attack."

By keeping on the defensive, Japan, which has now a million and a quarter men in China, could pull out a larger number for the expedition to be - to occupy Indo-China, to meet with Siam and take Singapore, and also to occupy the Dutch East Indies. In addition, the Japanese Army now has to be supplied by a large number of transports, food supplies, and so on. These would be released if large numbers of them left China, so I believe that they are now withdrawing troops, putting them in Hainan, putting them in Formosa and in southern parts of Japan proper, ready to jump off when the time comes.

It is our belief - in fact, we have Secret Service information which arrived two or three months ago, even before the signature of the Axis alliance between Germany, Italy and Japan, that there was an understanding with the Germans whereby coincident with attack on Gibraltar, attack on the Suez Canal, there would be launched an attack on Singapore. That is the Japanese side of the bargain, and in this arrangement, all these areas - that is, Singapore and China - are allotted to Japan for her living room and today this is - this has been seen as true, completely true.

H.M.Jr:

What other arrangements do you think - or do you know - took place between Molotov

- 37 -

and Hitler on this recent visit?

Soong:

We have no definite information on that point, but we gather that the result is not as promising as the Germans would like to believe, and we further gather that the Russian attitude toward Japan has not been mollified by their visit.

Foley:

Harry, why is it advantageous for the Chinese Government to support the yuan in occupied territories?

White:

Unfortunately, they have got to support it wherever there is a yuan. There might be a possibility, and it has been discussed at great length and final word hasn't been said on it, - there is a difference of opinion - in which they might segregate the currency in the areas over which they presumably have control from those which they don't, but because of the importance which the Shanghai area has always played in the commercial and financial life of China and because of its prestige and because of the extreme complexity of that kind of segregation of the types of currency, the problem has not been settled. There would be some advantages and there would be some disadvantages and there is disagreement, but if they could cut off that without suffering any disadvantages, it would be an excellent thing.

A complicating factor in the interior is that their guerilla forces, who are very important to China because really they confine the Japanese to small centers, operate with national currency and there is a constant fight between the various currencies there, so that they have got

- 38 -

to keep alive their currency in those areas for two reasons. In the first place, to support the guerillas as much as they can, and in the second place, I think it is reasonable to say that the guerilla's concept of the strength of the national government is much affected by the purchasing power of the currency which they use.

Soong: That is an explanation. In addition, I might say that two or three times in the occupied area a symbol of the national dollar is a symbol of the unity in China. If you were to cut it off, it would be like an entirely different country.

Gaston: Are you putting out a good many yuan? Are the printing presses working pretty rapidly in increasing the issue a great deal?

Soong: Oh, yes.

White: The figures show - and I won't say that the figures are not inaccurate, although there are some who believe that they are - the figures show from up to June to the previous January, in that six months, it is a billion yuan increase, which is a very large increase, a very large increase. Now, I wouldn't ask Soong whether those figures are accurate, but it has been known when countries have been faced with similar situations that they don't always show what they have printed because the psychological effect is important.

Gaston: Well, you have been pretty largely financing your deficit through the printing of yuan, have you not?

Soong: Naturally, because we are maintaining an army of two and a half million men, and in

- 39 -

addition we are maintaining two million guerrillas and therefore three and a half years more is very, very expensive. In addition, the most heavily industrialized areas are in Japanese hands. In such areas industries such as we have are being constantly bombed. On account of that, you see, it would be decreasing.

Gaston: Have you any estimate, Harry, as to the amount of the total outstanding issue of yuan?

White: The figures are almost seven billion yuan, because there are certain bank notes that are outstanding and haven't been called in, but it may be substantially in excess of that. Those are the figures. That is only of the national government. There are three other kinds of currency floating around. Some of them are rather substantial. There is also a further reason. Their tax source is dried up because the Japanese have control over the customs, so that their financial situation is pretty bad.

Gaston: It is not tremendous, matched with our own increase in the national debt, for instance.

White: Oh, their national debt?

Gaston: No, I am talking about this phase of the national debt, the yuan, about perhaps ten million outstanding.

White: Well, the yuan is worth five cents, so that would be a little more than a billion and a half in currency, but some of that replaced the silver in the circulation of coins. They have done pretty well, considering, but it is beginning to get pretty bad now. The

- 40 -

rate of increase is beginning to rise.

H.M.Jr: You mean in the money?

White: In the money.

H.M.Jr: Well, don't give me too much bad news. I have to put up a good front tomorrow. You can save some of your bad news until tomorrow night.

Bell: Harry, it isn't altogether a demand for foreign exchange that has made the yuan go down, is it?

Gaston: That is the point we are just about to --

White: Yes, if you say that the - it has to be the demand, but - that the supply has diminished and the reason why the demand has increased is because of the rising prices, but it is through the demand.

Bell: About the only purchases here have been by the government.

White: But there has been a lot of smuggling and imports. They didn't shut down within a year. They were a year or two late in imposing strict controls by virtue of the difficult circumstances.

Gaston: In the present value, the yuan is about 500 million dollars, all the outstanding yuan, so your 50 million would be about ten years reserve on the outstanding issue.

White: They have more reserve. There is a substantial amount of dollars which they have here which is part of their reserves. I mean, their ordinary dollar balances.

- 41 -

Who, Mr. Soong, does all that money belong to, their dollars here?

- Soong: Some of the dollars belong to this fund, "A" and "B". Some belongs - a good deal belongs to the Minister of Finance for purchases. There is also private funds, funds of private banks we were talking about, altogether.
- White: Do you have any idea of how many dollars there are in the United States?
- Soong: I would like very much to know. You people are keeping tab, aren't you?
- White: Do you know how much there is?
- Soong: The information I get could not be very accurate.
- White: We could tell him what our figures are?
- H.M.Jr: Why not?
- White: Well, there are over 170 million dollars, but that includes Shanghai. It includes - may include part of Hongkong.
- Soong: Hongkong is not --
- White: But I mean in our figures. That is why I was wondering if you knew how much there was.
- Soong: Hongkong we couldn't consider our own. It is a British colony.
- White: I think most of the funds that are there are in Chinese Hongkong. A good many Chinese who could afford it have gone to Hongkong,

- 42 -

but they sent their money here so they could be doubly safe.

- Gaston: Were there any Japanese notables killed in that train bombing?
- Soong: I hoped to give you some good news, but I haven't got it yet.
- Gaston: No news out yet, is there?
- H.M.Jr: What is that?
- Gaston: The guerillas bombed this official train going to Nanking to the coronation of Wang Ching-wei.
- H.M.Jr: Was that on the radio today?
- Gaston: No, in the papers yesterday. The Japanese announcement is that those who were killed were all Chinese coolies, but I suspect that it is not correct.
- Soong: Of course not, because coolies don't go to such things.
- Foley: They don't travel on trains, either.
- Soong: It was a land mine. There were 150 people killed and a hundred or so wounded and that is a very big mine.
- H.M.Jr: A train on the way to --
- Soong:Shanghai to the celebration of the treaty between Japan and China recognizing Wang Ching-wei.
- Bell: Didn't the Japanese announce that what they were doing there with this other leader had

- 43 -

the sympathy of the Chinese nation and that Chiang Kai-shek might come over, too, and then right after that announcement they had this bomb explosion and killed a lot of people in this train wreck, so that the two didn't fit together very well.

H.M.Jr: Would you (Soong) like to ask me some questions?

Soong: How quickly could we - of course, - how quickly could we consummate it, because I am very anxious to know.

H.M.Jr: If I am successful tomorrow, we can consummate it this week.

Soong: That is very pleasant.

H.M.Jr: We can consummate it this week if I am successful tomorrow. Once we make up our mind, the Administration, that we want to do this, the thing will go very, very rapidly, and with Sir Frederick Phillips coming here this week, we can get him in on this thing.

White: A week or two?

H.M.Jr: Well, as far as I am concerned, this week. That is where these lawyers come in, you know. They like to work nights.

Soong: They make us work nights, too.

H.M.Jr: Well, unless there is something else, Dr. Soong, I will finish with these gentlemen.

Soong: So we would --

H.M.Jr: We will let you know tomorrow what success we have met with.

- 44 -

- Soong: I would wish you to consider that instead of announcing that the fund is provided or something like that, we are undertaking with the Chinese Government that we will order by Universal all this stuff, so that it will make a much better presentation to the Chinese Government and people, and as you rightly said, the Chinese politician must look out for his head. I have to, too.
- H.M.Jr: I see.
- Soong: I hope you will bear that in mind. If we get the same result in terms that might arouse the ire of my country at me --
- H.M.Jr: We will give that careful consideration.
- White: I take it also that if there is a statement, he will have an opportunity to see it.
- H.M.Jr: We will let him write it.
- Soong: Unfortunately, my English is not good enough.
Well, how would you like to make this fund? We would have now about 20 million dollars worth from the fund "A" and "B", 50 million from the stabilization. In addition, if we can get it, and I think we ought to be able to get it, another 12½ million. That would make it nearly 82 million, isn't it?
- Gaston: 82½.
- White: I am not sure that I follow him.
- H.M.Jr: Neither am I.
- Gaston: He was adding up the total monetary resources of those three funds.

- 45 -

- Soong: There is the existing 20 million, 50 million and a half --
- White: Well, I take it that those are details, or at least those are matters to be discussed when we know how it comes out tomorrow.
- Soong: You mean these sums could be - how it could be made, how the sums could be tied together? Because I am not sure that the British are ready to tie them up together, you see.
- White: Well, I take it that the Secretary properly, with respect to that, has as much information with the proper qualifications for tomorrow morning. After that, he will be in position to discuss the matter further.
- H.M.Jr: Yes. If, after all, I stick by this extension of the 50 million, you see, and I think I may have to do that, that it is simply an extension; well then, in that it would be just an extension of this fund which would permit you to draw to the extent of an additional 30 million of new money, you see.
- Soong: 30 million of new money?
- H.M.Jr: You have already used 20 and you have 20 million dollars worth of gold.
- Soong: But that would - do I understand that this is only to borrow 30 million, not 50?
- H.M.Jr: No, what we are talking about is an extension of this present arrangement for another year.
- Soong: Well, that 20 million is really our own money, isn't it, for the purpose of window dressing?

- 46 -

- H.M.Jr: Well, they didn't - I don't think Dr. Kung ever called it window dressing. It is the first time I have ever heard it called window dressing.
- Soong: But it is so, isn't it?
- H.M.Jr: I don't think so, no. Certainly Dr. Kung thought it was a good piece of business.
- Soong: Well, as far as that is concerned, he made what he called loans in silver, but it amounted to the same thing, only paying a little more interest, that is all; but I don't quite get it. Didn't the President announce that something like a hundred million - 50 million from the stabilization and 50 million --
- H.M.Jr: You can get a copy of the announcement. It was in today's paper. What the President said was that I would appear before these committees tomorrow. It is all in the newspapers. I forget just how the language was.
- Bernstein: A proposed extension of the stabilization arrangement with China, and in our discussion with the State Department we made it perfectly clear to them what we had in mind.
- H.M.Jr: And then Mr. Jones wrote a letter to the President, which I never saw until after it was given out, in which he made certain statements entirely on his own, but after all, what Mr. Jones writes the President is between Mr. Jones and the President. But I never saw the letter until after it was given to the newspapers. I have a very, very difficult task. I am not at all sure that I am going to be successful. I have to do some window dressing tomorrow.

- 47 -

Soong: Well, I don't want to be ungrateful. We have no right to ask anything of you, but it does seem to me that it will come as a great shock to our people if they think - if they had the misconception that it was a hundred million and now it is only eighty, because as far as General Chiang is concerned, he was asking for two or three hundred million for the currency loan. I cannot but feel that he would be very disappointed.

H.M.Jr: Of course, he hasn't got anything yet. The only thing definite is the 50 million from the Export-Import Bank, but until these Congressional committees tell me they are satisfied, I can't move, and I have made that very, very plain to everybody, and I mean there would be no purpose to ask these two committees to call a meeting tomorrow and let Mr. Hull and me appear before them if the matter was all settled. I mean, if you read the paper today, it is all very, very tentative. I mean, they may tell me to do nothing tomorrow. I am going to do the very best I can, with Mr. Hull's help, to get their approval, but as the matter stands now I am committed under my word of honor to do nothing until I appear before these committees.

Soong: I know what a difficult task, Mr. Secretary, you have before you, but couldn't you ask for 50 million instead of 30 million, because the situation in China is really very bad and we are not optimistic. All the facts and figures go to show it is so. At best we have - even if we only get 50 million we have only about 80 million dollars funds.

H.M.Jr: Well, leave it with me, will you? You have

- 48 -

to, anyway, and let's see what happens tomorrow. We will see what happens tomorrow. I mean, if Senator Vandenberg and Senator Taft appear tomorrow, I don't know what is going to happen.

Soong: I say quite frankly, although I say it on my own responsibility, and it might sound ungrateful, but I would rather that I failed than to present it to my people, because from what I saw I had given them to understand that it was a hundred million, and as far as the circumstances of the Chinese are concerned, for what we deserve, we do not deserve that much, but for what we need, we need that and more.

White: Well, Mr. Soong, it wouldn't be a question of your failure being involved in this one way or another. I think the Secretary has pointed out that he will do the best that he can and beyond that I don't think there is any reason for discussion.

Soong: Well, don't think that I am ungrateful. I am very grateful for all you have done for us. This is the most that you have done for us, but I do hope that you will find it possible to give us - I hope it will be --

H.M.Jr: I am very unimportant. We do these things and we hope for the best. I gave a good many years of day and night to the French Republic and today there is nothing to show for it, so as I say --

Soong: Well, we hope you will not disappoint us, Mr. Secretary.

H.M.Jr: One just doesn't know. I have spent day and night trying my best to help the French save

- 49 -

themselves, and all of that has gone to waste, so fortunately I am an optimist and believe in democracy and I do the best I can.

Soong: Thank you very much. I hope I have not been rude, but I was really taken aback.

H.M.Jr: Well, I thought, you see - I knew more of it than you did, that was all.

(Mr. Soong left the conference)

Of course, this fellow couldn't dream I made it perfectly clear to Sumner Welles that what we were talking about was that thirty.

White: I think it came as a shock to him.

H.M.Jr: And he had no way of knowing what was in our minds.

White: No. They didn't tell him, apparently. I don't know whether they approached him.

H.M.Jr: Listen, I hate to show before him that we have an American Ambassador, and the Secretary of the Treasury doesn't even know what is in his cables.

Cochran: We haven't seen any of his cables.

White: It would have shown some light.

H.M.Jr: It is the most outrageous piece of business I ever saw, that the State Department withholds these cables from me.

Cochran: And then bring pressure on us to do something over the week-end without any knowledge of the situation at all.

- 50 -

- H.M.Jr: I mean it is - well, I won't say it is humiliating because I am so used to it now that I don't get humiliated, because I think it is disgraceful on the State Department's part that they withhold that information when we do everything possible to constantly service them with everything that we have.
- White: Not only that, but if you don't know you are not getting the information - but you think you are getting the information. It was quite interesting, what he had to say.
- H.M.Jr: Why, it is outrageous that this thing that comes through, which has to bear on this stuff, that they don't tell us. When Alexander Kirk was in there, he made some references to some cables he sent and I said, "Well, I don't see them." He said, "You mean to say that they don't show them to you?"
- Bell: I kind of have a feeling that we have been taken for a ride, anyhow, over the week-end.
- H.M.Jr: Oh, I know it.
- Cochran: It a ricksha.
- Bell: Yes.
- H.M.Jr: With Jones' letter to the President and the rest of us. I mean, I am perfectly conscious that I have been taken for a ride.
- Foley: Jones' letter says an additional hundred. That is where he gets the impression.
- White: I think he had a right to be a little bit shocked.

- 51 -

Gaston: Oh, yes.

H.M.Jr: I know it. I read it ten times.

Bell: Our statement didn't say that.

Bernstein: But Jones' letter specifically said additional credits of a hundred million dollars.

White: Probably the first thing he did was cable that to his government.

Bell: That is 70 million from the Export-Import Bank.

Gaston: Of course, your statement prepared for the committee is such that the gold could later be surrendered. They will make a straight credit of fifty under that statement you are making to the committee. What he is asking for, you could do under that statement you are making to the committee.

Cochran: I wouldn't rush to do that, though.

Gaston: No, it doesn't have to be written that way.

White: You don't have to make that decision until later, but the way it is fixed, you can let the 20 drop to 15.

H.M.Jr: He is on the spot and it is through no fault of his, but when he got that way I just thought I would let him know --

White: It was embarrassing.

Foley: Well, he kept saying it was window dressing. He asked for it.

White: He added 15 and 20 --

- 52 -

Gaston: He knew all the time. That is the reason he made that addition.

White: No, he didn't know.

Bell: Well, it was stated right at the first.

Bernstein: No, he was really taken aback, Herbert. Don't you think so?

H.M.Jr: How could he have known it?

Bell: I thought it was said in the first part of the conference, something that --

White: Nobody mentioned the thirty. That is why when he added it I didn't want to say yes.

H.M.Jr: Harry says, "You want us to tell him?" I said, "Go ahead."

White: He was incorrect, and I didn't know whether you meant to let him have it or not.

Bernstein: When he didn't get that 20 million after what the Secretary said, he probably blamed it on the lawyers.

CONFIDENTIAL
Paraphrase of Code Radiogram
Received at the War Department
at 17:46, December 1, 1940

London, filed 14:49, December 1, 1940

1. The Bomber Command carried out no operations during the day of Monday, November 30, nor that night because weather conditions were adverse. The preceding night this Command dispatched heavy and medium bombers against naval shipyards in North Germany, medium bombers against airdromes in the occupied countries, heavy planes against transportation facilities in the principal cities in the Ruhr, and mine laying planes against enemy harbors. The Coastal Command attacked the naval dock yards, and the submarine base at Lorient, France. Reports indicate that all of the above were successful. On November 29th planes from the Coastal Command sunk enemy merchant vessels totalling 8,000 tons. During the night of November 29-30 the Fighter Command operated 23 patrols but results are not yet available.

2. On November 30th the German Air Force operated about 440 planes in daylight operations in four attacks which were restricted generally to the East Kent area. Only four planes penetrated into Central London. There were small raids over Bristol, Cornwall and Cardiff and a convoy off Ramsgate was attacked.

CONFIDENTIAL

UNCLASSIFIED

That night enemy activity was confined almost entirely to a heavy attack on Southampton. Two single planes flew over Central London to Northolt.

3. The reports of damages from these attacks are not available.

4. German plane losses were four confirmed and two probable. The British lost two planes but the pilots were saved.

5. During the past 24 hours there was much British air activity in the Middle East.

6. During daylight hours of November 28th, the Germans operated about 200 planes over England; and that night they operated about 380.

LEH

Distribution:

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
O-3
Air Corps (2)

UNCLASSIFIED

MEMORANDUM

December 2, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan
SUBJECT: Conference at the White House, evening of Friday,
November 29, 1940.

Present: The President, Secretary Morgenthau, Director of the Budget, Harold Smith, Senators Harrison and George, Congressmen Doughton and Cooper and Mr. Sullivan.

The conference started with a discussion of the relationship of receipts to "normal" budget and the statement by the President that next year (fiscal 1942) we would come within \$600,000,000 of meeting the "normal" budget and that this \$600,000,000 was about the sum of earmarked taxes which under the First Revenue Act of 1940 would have to be applied against the defense or "abnormal" budget. The President then announced that he was going to make every effort to cut to the bone other expenses that were not necessary. He indicated that he thought WPA could be reduced by half and gave the example of the thousand WPA workers in the Norfolk Navy Yard, half of whom had been taken on to the regular Navy payrolls.

Concern was expressed by all over the limits on the national debt and the President said that he thought this problem presented a very nice legal question: Can one Congress, by setting a legal debt limit, bind a subsequent Congress to the necessity of repealing that debt limit before making appropriations which exceeded it; or does the action of a subsequent Congress in appropriating beyond the previously established limit by this specific action repeal the previous general action of a preceding Congress? Except for Senator Harrison who refrained from comment, all others present believe the present debt limit inadequate and believed it unwise to segregate the national debt into different classifications. Senator George was particularly emphatic on this point and was in opposition to the earmarking of taxes.

- 2 -

The President next expressed a desire to pass the "Glass Plan". The discussion that followed seemed to be along the line of repeal of the exemption of future issues of government securities. Senator Harrison believed that we could not pass such a measure. All others present believed we should try. Congressmen Doughton and Cooper seemed to think it would be a very difficult task and appeared to be very much disturbed about Mayor LaGuardia.

The next topic of the conference was the revision of Social Security taxes to eliminate the present method of the Federal Government's matching the contribution by the States and to substitute therefor a uniform minimum contribution by the Federal Government, — a step toward the ultimate objective of having the Federal Government assume full responsibility and administration of Social Security. Senators George and Harrison favored this proposal while Congressmen Doughton and Cooper opposed it.

All were in accord that income earned during the 1940 calendar year should not be subjected to any future taxes, that whatever new taxes passed during the coming session should apply only to 1941 and subsequent income. It was also believed desirable in view of the probable retention of earnings as a reserve against future taxes that Senator Harrison and Congressman Doughton should announce that policy immediately.

It was also agreed to continue the studies on overlapping taxes although Congressmen Doughton and Cooper seemed to think it was a hopeless task and would accomplish nothing. It was understood that the problems of the debt limit and specific taxes were to be discussed at a later date, and there was general agreement that there was no need to introduce a tax bill in January or early in the session.

TJS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:30 this morning there met in joint session in Room 301 of the Senate Office Building the following members of the Senate Committee on Banking and Currency:

Robert F. Wagner (Chairman)
Carter Glass
Alben W. Barkley
Alva B. Adams
Francis T. Maloney
George Radcliffe
James H. Hughes
Clyde L. Herring

John G. Townsend
Lynn J. Frazier
Charles W. Tobey
John A. Danaher

together with the following members of the House Committee on Coinage, Weights and Measures:

Andrew L. Somers (Chairman)
John J. Cochran
Herman P. Eberharter

August H. Andresen
Robert Luce
Leonard W. Hall

Senator Wagner, Chairman of the Senate Committee, presided, with Chairman Somers of the House Committee at his side.

Secretary of State Hull and Secretary of the Treasury Morgenthau appeared before the Committee. Secretary Morgenthau was accompanied by Messrs. Ball, Gaston, Foley, White, Bernstein, Schwarz and Cochran.

Senator Wagner opened the meeting with the remark that this was an executive session to hear the Secretaries of State and Treasury on confidential matters pertaining to our foreign relations. Senator Danaher urged the keeping of a record of the meeting, arguing that in previous instances, most particularly with regard to an appropriation for the Export-Import Bank, there had been difficulty in reconciling memories of the members with respect to sums involved, a variation as far as one billion dollars having developed. Senator Adams said that there would be no occasion for a conflict in memories if members did not seek to repeat what was said in violation of the rule of executive sessions. It was recalled by one of the members that the practice of keeping records of executive sessions was only a recent innovation. The opinion was expressed that if any record is kept this might eventually get into print to the embarrassment of our Government. Senator Barkley stated that it was really unimportant that the Senators have a record, while it was vitally important that the

- 2 -

Confidence of the two Secretaries be preserved on the delicate matters of international policy which they proposed to discuss. One of the members suggested that since Messrs. Hull and Morgenthau had been invited to an executive session, it was only fair to learn their feelings as to the matter of a record. Secretary Hull stated that he was pleased to be at the disposal of the Committee and would like to set everything before them which he could. He said that he had hurriedly put together a statement which he would read to them, but that he could not perhaps answer all questions which might be asked to him in the session. It was argued in the Committee that Mr. Hull and Mr. Morgenthau would perhaps be free to speak more frankly if no record was kept. A vote was called and Senator Denaher's resolution that minutes be kept was voted down by a large majority. Senator Wagner recalled that in his earlier meetings with these two Committees Secretary Morgenthau had promised to come before them for consultation on various circumstances. The Secretary had now requested a meeting of the joint committee in order that he might lay certain matters before them. Secretary Hull had also come to give the Committee an expression of the political factors involved. He then called upon Mr. Hull.

Secretary Hull stated that he would only give a general picture of developments in the Far East the past three years, but had available for the information or record of the Committee other memoranda giving the high points in Far Eastern developments from 1937 to date. This was the material on which the memorandum that he then proceeded to read to the Committee was based. There are attached copies of the Secretary's memoranda, as provided confidentially by his office.

Secretary Hull occasionally interposed certain remarks in explanation of points made in the written memorandum. He spoke at length, however, when one member of the Committee, Senator Francis, asked him if he thought the proposed operation of the Stabilization Fund would be considered an unfriendly act by Japan. The Secretary gave a forceful denunciation of those nations which have been proceeding ruthlessly to walk across the face of the world, without warning or justification, and breaking whatever laws they please. He insisted that a peace-loving nation has the right of self-defense. He thought that our proposed action toward China was an act of self-defense on our part. He said if to act in self-defense is an unfriendly act to such a power as Japan, then we are proposing to do something which is unfriendly. Secretary Hull stated that the powerful nations which are now being overrun have no more chance of placating their aggressors than a squirrel would have of appeasing a boa constrictor. In this connection the Secretary went on to explain the question of putting embargoes on exports to Japan. He said that he was frequently asked why we permitted certain shipments to Japan which help that country. He said this was a very delicate matter and that we had been maneuvering as carefully as possible without getting directly into trouble. If we contemplate stronger action, he advised that we have our Navy near by.

Senator Adams was anxious to know just what the proposition was which Secretary Morgenthau had to put before the Committee, this Senator feeling that he could better understand Mr. Hull's arguments if he knew just what was being proposed. Secretary Hull did not desire to encroach upon Secretary Morgenthau's territory. He added, however, that he had the documents in regard to the history of events since 1933 available to the Committee. The Committee decided that these should not be submitted to constitute a record. The Secretary offered to let anyone of the Committee read them in confidence.

- 3 -

Senator Danaher accepted this offer and the documents were handed to him. He read them through and handed them back to Secretary Hull after the meeting broke up.

Senator Adams remarked on two occasions, while questioning Mr. Hull and following the latter's remarks, that he felt the Administration had gone a long way toward antagonizing many countries and had violated statutes in so doing. He said he realized, however, that we had now gone so far in this direction that we are obliged to take certain steps in self-defense. It was on this ground that he was sympathetic with Mr. Hull's position on the present issue.

Secretary Morgenthau read to the group his attached statement. He prefaced this with the remark that Secretary Hull had pictured the Far Eastern political situation and the relation of the United States thereto. The Treasury Department was now only desiring to do its part as a wheel in the machine. Following the reading of his statement, the Secretary said he would be pleased to answer any questions. In reply to a question Secretary Morgenthau said that the \$20,000,000 of gold now pledged with the Treasury would be used to repurchase the Chinese yuan held by them under the 1937 agreement. Senator Glass asked if there was any legislation required for the proposal which the Secretary had announced. When the Secretary replied in the negative, Senator Glass asked "Then what are we here for?" Secretary Morgenthau repeated that he wanted to explain to the Committees what he proposed to do in the way of a new stabilization arrangement with China. The Senator moved that "we approve and adjourn." Some of the other Senators, particularly Mr. Danaher, desired further discussion. Senator Danaher said that the group had been called together for consultation and he hoped this would proceed. He said that while he might not be against the proposal, he had not yet had occasion to study it. He would like to have more information in regard to the status of the Stabilization Funds already operating in China, in regard to Chinese economic and financial conditions, etc. Either he or Senator Frazier remarked that if this proposal was carried out, the question might then have to be faced of giving financial aid of the same sort to Great Britain and other belligerents. It should be added that during the conversations Secretary Hull pointed out that technically we do not recognize a state of war between China and Japan.

Senator Danaher asked if we were continuing to buy gold from Japan. When the answer was in the affirmative Senator Townsend remarked that we seem to be inconsistent in extending this new aid to China and at the same time permitting Japan to sell gold on this market for dollars to aid in furthering her aggression. Secretary Morgenthau replied that it had been Treasury policy to buy gold from any source offered at \$35 per ounce less 1/4%. He said the one principle definitely recognized was that gold should be used in settling international balances. He would take gold from any source without looking behind the actual seller. In answer to further questions, he stated that the Treasury had been purchasing gold from Japan, but that recently such purchases were declining and that Japanese gold stock was getting low. He made the point that while the Chinese economic position has deteriorated, the financial position of Japan has also gone down.

The question was discussed as to whether a vote of approval should be given the proposal of the two Secretaries. Mr. Somers entered the conversation with the observation that the action which the Treasury Department contemplates was really necessary to supplement and strengthen the loan contemplated by the Export-Import Bank.

Secretary Morgenthau agreed that his operation would supplement the loan and strengthen it, since support of the Chinese national currency would strengthen the economy and improve the credit on which the Export-Import Bank loan was based. Senator Townsend remarked that it was contemplated that the Export-Import Bank loan should be repaid through metals. The Secretary gave the added information that it was contemplated that a Treasury representative be sent to China to observe the carrying out of the proposed Stabilization Fund operation.

During the meeting one member of the joint committee, Senator Adams, made the point that it was his understanding that the Stabilization Fund was set up for stabilizing the United States dollar and not for attempting to stabilize miscellaneous foreign currencies which might be fluctuating in all directions. The Secretary offered to have his General Counsel, Mr. Foley, give a legal interpretation of the laws under which we are operating. Many of the members of the Committee and particularly Congressman Somers explained why the proposed stabilization arrangement was within the terms of the Statute. Toward the end of the session Mr. Foley was asked to give this explanation. Mr. Foley stated that it was our interpretation that the Stabilization Fund is fully authorized by its enabling act to stabilize the value of the dollar in foreign exchange. That is, the dollar is not stabilized by itself, but in its relation to the currencies of other countries which might compete to our disadvantage in trade if their currencies drop sharply, or with which it is to our advantage to have a steady rate in order that our merchants may do business on an understanding of the value of the foreign exchange that is to be involved.

Senator Wagner stated that the stabilization arrangement with China was the only one which was now contemplated with a belligerent country.

It was the idea of Mr. Somers that there should not be an actual vote of approval of the contemplated Treasury proposal with respect to China, but rather a vote of confidence in the two Secretaries who had appeared before the joint session and explained the contemplated arrangement and the reasons therefor. He moved that the Committees give a vote of confidence to the two Secretaries and this was unanimously adopted.

It was agreed that Senator Wagner should give such information to the press as might properly be released.



(Statement made by Secretary of the Treasury Morgenthau before the joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures, on the forenoon of December 2, 1940, in the Senate Office Building.)

I asked Chairman Wagner and Chairman Somers on Friday to call this meeting today so that I might lay before the members of these two committees a matter affecting the operation of the Stabilization Fund.

On other occasions when I have appeared before these committees separately, particularly at the time when the extension of the stabilization powers was being considered in 1939, I discussed with you very fully and frankly all phases of the operation of the Fund and made available balance sheets and other data for your study.

The reason for my coming before you today is that we have under contemplation a type of transaction which differs in certain respects from any into which we have entered in the past and I should like to explain it. There is an added reason for my coming. I have repeatedly stated to you that I would not consent to the use of the Stabilization Fund to assist any foreign country in prosecuting a war without first consulting these committees. The transaction we are contemplating is one with China and for currency stabilization purposes, and I don't think it falls in that category; but if there should be a difference of opinion on that point I don't want to be accused of quibbling where my word is concerned.

For some time the Administration has been making a very careful study of the financial and economic situation in China with the possibility in mind of helping to strengthen the dollar-yuan exchange rate. Recent developments have made action in this field more urgent.

In July, 1937, the Treasury entered into a dollar-yuan stabilization operation with China pursuant to which we agreed to buy yuan up to a total of \$50,000,000 and China agreed to repurchase the yuan at the same rate and pledged an equivalent amount of gold with us as security. This arrangement has been extended every six months and under its present provisions will expire on December 31 of this year, with the usual option for renewal. The arrangement with China was discussed fully by me and other officials of the Treasury Department with your committees at the time you were considering the extension of the stabilization powers. Under the arrangement we now hold \$20,000,000 in yuan fully covered by pledged gold.

We now propose to extend this agreement for a further period. That fact in itself would not, I think, justify my coming before your committees. However, in view of the present circumstances we have under consideration modification of the provision which requires China to pledge an amount of gold equal to the dollars made available in exchange for yuan. In other words, if we enter into the agreement we are contemplating, we would purchase and hold an amount of yuan up to \$50,000,000, the repurchase of which will not be covered by pledged gold. This would be strictly a stabilization operation, fully within the powers granted to the Secretary of the Treasury, subject to the approval of the President, by the Gold Reserve Act as amended, and of course it is our purpose to safeguard the interests of the United States by the fullest supervision over the execution of it.

Statement made by Secretary of State Hull before the joint session of the Senate Committee on Banking and Currency and the House Committee on Coinage, Weights and Measures on the forenoon of December 2, 1940, in the Senate Office Building

Economic Factors

For three and one-half years the Chinese Government has maintained resistance against invading Japanese military forces. During that period most of China's normal transportation routes have been brought under Japanese control, and many of her important cities, especially on the coast, have been occupied by the Japanese. Effective Japanese control, however, does not extend beyond the points where the Japanese actually maintain military forces. The Chinese Government has maintained both in the unoccupied and occupied areas a freely convertible currency, and in both areas the Chinese national currency has remained the principal medium of commerce. In the occupied areas in north China the currency issued by the Japanese-sponsored regime has been inconvertible into foreign exchange and foreign trade has been carried on through the medium of Chinese national currency; in the interior of north China--except in the areas actually dominated by Japanese bayonets--purchases of Chinese raw materials have of necessity been made in Chinese national currency. Meanwhile, in contrast, in unoccupied China the national currency has not only served as an effective medium for carrying on the economic life of the area, including a substantial foreign commerce with the United States and other countries, for paying the Chinese armies and for purchasing supplies internally, but it has been a symbol of the authority of the National (Chungking) Government.

National China's well-established currency and the confidence in that currency of the Chinese people both in the occupied and unoccupied areas has been one of the principal bulwarks of the Chinese National Government.

It has now become apparent that the Chinese Government is in urgent need of assistance toward maintaining internal and external purchasing power of China's currency. For three and one-half years, under extremely difficult and abnormal conditions, that Government has maintained a freely convertible currency. During this period the exchange value of the currency has depreciated but has been kept under control. The movement of prices in China for a considerable period did not correspond to the degree of currency depreciation, but this year those prices have caught up with and they now have exceeded the degree of currency depreciation. At the present time, prices are advancing at such a rate as to indicate that assistance from without is imperative if prices are to be controlled. There has not been for some time any serious strain upon the exchange value of the Chinese currency, and the internal price situation appears to be a product principally of a psychology of misgiving. It is estimated that a substantial loan now of the type contemplated will be very helpful in this respect.

Continuance in circulation and maintenance of the purchasing power of the Chinese national currency in the Japanese-occupied areas in China are the main support of liberal trade conditions in those areas.

The technique developed by Japan for the mobilization of the trade of large areas in the Far East has become quite familiar through its use in Manchuria and north China. The first step is military occupation; the second step is the establishment of a Japanese-controlled regime; the third step is the creation of a new currency; the fourth step is the attempt to drive out the Chinese national currency, the pegging of a new currency to

the yen, coupled with the imposition of exchange and import and export controls which operate to permit a comparatively free flow of funds and merchandise between the occupied area concerned and Japan but which operate to restrict and impede the flow of funds and merchandise between the areas concerned and other foreign countries. In central China the Japanese have accomplished the first two of the foregoing steps but the continued circulation in that area of the Chinese national currency has thus far prevented the accomplishment of the last two steps. The experience of the Japanese in north China has taught them that it is not easy to establish a new currency that is not supported by reserves and effect an acceptance of such by a population which has confidence in the already-established currency. A collapse of the Chinese national currency at this time would create conditions which for many years to come would make normal foreign trade impossible and be a conclusive obstacle to peace and prosperity. Operations such as are contemplated in the extension of a credit from the Stabilization Fund are intended to ensure against such a collapse.

CONFIDENTIALPOLITICAL FACTORS

Since the summer of 1937 the Chinese Government has been resisting an attempt by the Japanese to conquer China militarily, politically and economically, and to reduce China to the status of a unit in Japan's "new order in Greater East Asia". The envisaged geographic scope of that "new order" has never been delimited and has steadily expanded. According to the statements of some of Japan's highest officials it embraces Manchuria, China, French Indochina and the Netherlands Indies. From the experience of Manchuria and north China and from current developments in central China, we know that the "new order" means politically subservience within the area to the will of Japan, and means economically employment of the resources of the area concerned to the enhancement of the military and economic strength of Japan.

In fighting in defense of their national existence, the Chinese have been fighting and continue to fight for certain principles and decencies of international life which the American people consider fundamental: the right of a people to govern themselves and to develop their resources for their own good; the right of nations to live

in

in peace secure against use of force, or the threat of force, from without.

That the conflict in Asia and the conflict in Europe are closely inter-related in their bearing and trends--and even in their broad issues--is no longer open to doubt.

This inter-relationship became abundantly clear with the public announcement on September 27 of the military alliance between Japan, Germany, and Italy. The United States therefore has two extremely important diplomatic fronts--one in Asia and one in Europe. In Asia the Chinese are opposing the forces of aggression, and in Europe the British are opposing the forces of aggression. The continued resistance of China is of great importance to the continued resistance of Great Britain, and the continued resistance of both is of great importance to the ultimate peace and security of the United States.

As I stated in my address before the National Press Club on October 26, this country, as an important means of strengthening our own defense and of preventing attack on any part of the Western Hemisphere, is affording all feasible facilities for the obtaining of supplies by

nations

-3-

nations which, while defending themselves against barbaric attack, are checking the spread of violence and are thus reducing the danger to us. We intend to continue doing this to the greatest practicable extent. Any contention, no matter from what source, that this country should not take such action is equivalent, in the present circumstances, to a denying of the inalienable right of self-defense. The American people have demonstrated their whole-hearted support of this policy.

The Chinese forces have with more than three years of extraordinary resistance brought the Japanese to a virtual stalemate in China, where large Japanese armies are virtually immobilized. Should Chinese resistance disappear, those Japanese forces would be freed to extend their military operations southward to French Indochina, the Netherlands Indies, British Malaya, et cetera.

Wherever the Japanese have occupied territory in China, American rights, especially in the economic field, have been seriously impaired; and there is every reason to believe that were Japan to gain control of China our rights and interests in that country and adjacent regions would suffer in a like manner and could exist only at Japan's sufferance.

Accordingly, in the conduct of foreign policy, this Government directed its efforts to the following objectives: (1) Peace and security for the United States with advocacy of peace and limitation of armament as universal international objectives; (2) support for law, order, justice, and morality and the principle of non-intervention; (3) restoration and cultivation of sound economic methods and relations; (4) development of the maximum measure of international cooperation; (5) promotion of the security, solidarity, and general welfare of the Western Hemisphere. These basic objectives of a good neighbor policy represented a sound and practical middle course between the extremes of internationalism and isolation. They have been consistently pursued throughout. The sweep of events has, of course, required the focusing of our attention at different periods upon different problems and different geographic areas.

Copy:ek

FOR THE PRESS

JULY 16, 1937

STATEMENT BY THE SECRETARY OF STATE

I have been receiving from many sources inquiries and suggestions arising out of disturbed situations in various parts of the world.

Unquestionably there are in a number of regions tensions and strains which on their face involve only countries that are near neighbors but which in ultimate analysis are of inevitable concern to the whole world. Any situation in which armed hostilities are in progress or are threatened is a situation wherein rights and interests of all nations either are or may be seriously affected. There can be no serious hostilities anywhere in the world which will not one way or another affect interests or rights or obligations of this country. I therefore feel warranted in making - in fact, I feel it a duty to make - a statement of this Government's position in regard to international problems and situations with respect to which this country feels deep concern.

This country constantly and consistently advocates maintenance of peace. We advocate national and international self-restraint. We advocate abstinence by all nations from use of force in pursuit of policy and from interference in the internal affairs of other nations. We advocate adjustment of problems in international relations by processes of peaceful negotiation and agreement. We advocate faithful observance of international agreements. Upholding the principle of the sanctity of treaties, we believe in modification of provisions of treaties, when need therefor arises, by orderly processes carried out in a spirit of mutual helpfulness and accommodation. We believe in respect by all nations for the rights of others and performance by all nations of established obligations. We stand for revitalizing and strengthening of international law. We advocate steps toward promotion of economic security and stability the world over. We advocate lowering or removing of excessive barriers in international trade. We seek effective equality of commercial opportunity and we urge upon all nations application of the principle of equality of treatment. We believe in limitation and reduction of armament. Realizing the necessity for maintaining armed forces adequate for national security, we are prepared to reduce or to increase our own armed forces in proportion to reductions or increases made by other countries. We avoid entering into alliances or entangling commitments but we believe in cooperative effort by peaceful and practicable means in support of the principles hereinbefore stated.

TREASURY DEPARTMENT

99

INTER OFFICE COMMUNICATION **CONFIDENTIAL**

DATE December 2, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

I send you herewith, pursuant to your request, a memorandum on the subject of foreign exchange control for submission to the Secretary of State. Your attention is invited to the fact that annexed thereto is a letter addressed to you under date of November 29, 1940, by Mr. Hoover which strongly supports your position.

In your conversation with Mr. Hull it might be opportune to remind him that in Telegram No. 1150 of November 15, 1940, Joseph Grew, Ambassador to Tokyo, expressed the hope that the withdrawal of Japanese credits from the United States would not be permitted until satisfactory arrangements had been made to liquidate American credits frozen in Japan.

According to Mr. White, American investments in Japan now total approximately 275 million dollars.

J. W. Wiley

CONFIDENTIAL

MEMORANDUM FOR THE SECRETARY OF STATE.

I communicated to the President in my memorandum of November 7, 1940, my conviction that the introduction of a regime of general foreign funds control was urgently desirable. In the light of recent developments I think that we should proceed to a decision without further delay. I am well aware that this decision is one of major policy. The Treasury, however, has not failed to weigh its alleged dangers against the advantages to be derived.

I review, herewith, some of the more important considerations which enter into this matter:

1. There are being constantly brought to our attention important foreign exchange transactions which undoubtedly affect our national defense program and our economic interests. The absence of a positive program of foreign exchange control imposes limitations on our ability to investigate or regulate these transactions in our national interest. For example, information from various sources, including Foreign Service despatches, are to the effect that the Axis powers and their satellites are building up large balances in South America. Between October 2, 1940, and the middle of November it has been estimated approximately that German bank funds in this country have dropped from \$13,100,000 to \$7,900,000, and Italian from \$24,500,000 to \$18,900,000. Recently large-scale transactions by the Axis in American currency have been frequently reported. Military Intelligence reports that Italians have converted their official funds into cash to be kept in diplomatic premises and also suggests that both the German and Japanese Governments are contemplating similar action. In view of the fact that Axis-owned assets in the United States are sources of constant dollar balances (in the form of interest, dividends, royalties, etc.), it is to be expected that this flow of American dollars from the United States may be progressive.

We have no way of ascertaining the extent to which the Axis Governments are shuffling American dollars in this country, or whether dollar withdrawals are not returning to this country in the guise of Latin American, Swedish or Swiss funds. It would seem, from information at hand, that the Axis Governments operate secret financial accounts in this country, identified by code symbols which cannot be traced.

A situation in which we are not masters in our own house is unenviable at a time like this. These operations by potentially hostile powers, if permitted to continue through the instrumentality of our

- 2 -

own financial institutions, might easily lead to developments which would impair public confidence in the Administration or subject it to severe criticism.

The Senate has authorized its Interstate Commerce Committee to investigate Axis-control of American defense materials. Senator Nye has demanded an investigation of British-owned assets in this country. The Dies Committee shows every indication of continuing to seek information on the use of funds for subversive purposes. The press has published accounts of sabotage and espionage, and there has been discussion of the Administration's attitude towards control of funds for subversive purposes (see for example *NEW REPUBLIC*, December 2, 1940, "Financing the Fifth Column" by Allan Barth).

These facts may make inaction by the Administration a serious matter. The executive departments may soon find increasing embarrassment in the assumption by congressional committees of functions which the Administration can and should perform.

A prime purpose of my recommendation is to meet this situation.

Our Government should be in possession of such data as --

1. The precise nature, location and amount of assets in the United States belonging to the Governments and nationals of the Axis powers and of those countries which are actually or potentially under the domination of the Axis.
2. The full circumstances and reasons for transfers of dollar funds from one foreign account to another, including the pattern of transactions here and abroad for distributing funds in this country and for realizing upon assets acquired abroad by looting or otherwise.
3. Identification of the individuals and institutions in this country who are acting, in whole or in part, for the account of foreign powers or their nationals.

So far, however, although we have hypotheses and statistical estimates, no department of the Government has been able even to collect accurate information with respect to the identity of Axis-controlled industries in the United States. We cannot say today which transactions are real and which simulated, nor determine what the ultimate purposes of such transactions may be. The Federal Bureau of Investigation* has

* *Vide* enclosure, copy of letter from Mr. J. Edgar Hoover, dated November 29, 1940.

informed us that although subversive activities undoubtedly financed by Axis powers exist in the United States, it has not been able to trace or discover the funds used for this purpose. By the nature of the case the Federal Bureau of Investigation is without the means to compel disclosure of essential foreign funds information.

Under the proposed program of foreign funds control the Government would not only have the advantages of such information as would be supplied by the reporting requirements but would be able to rely upon penal sanctions to compel compliance (see Executive Order No. 6650 of January 14, 1934; Act of October 6, 1917, section 5(b) as amended). Various important aspects of subversive activity are today not prohibited by law, but failure to report under the proposed regime of foreign exchange control would constitute a punishable violation of law.

2. Foreign exchange control is in almost universal application throughout the world. While it is contrary to the American policy of free, untrammelled trade and commerce, it is not entirely new as a peace-time regulation, for we had restrictions in the emergency of 1933 and 1934. The traditional American position, however, is so isolated in this regard and the exigencies of the world situation are so pressing that tradition alone should not prevent our adopting such a regime at this time. In the present state of international relations it may prove expedient, and even urgent, for this Government to protect the rights of American holders of claims against the Axis and Axis-dominated countries and the rights of American holders of property in those territories by applying off-sets or by using the threat of off-sets in any eventual negotiations. The introduction of general foreign funds control would, of course, give the American Government supervision over a vast total of foreign assets which should greatly fortify its position in any eventual negotiations on economic and monetary matters and enhance the authority of the United States in any final settlement. In such an hour that strength may prove of immeasurable service to all our great ideals and our traditions.

3. It is becoming increasingly evident that a census must be undertaken of the assets of the nationals of Britain and other friendly countries in aid of the Administration's announced program of all aid to Britain and China short of war. The recent resolution of Senator Nye has brought this necessity before Congress; press reports from Great Britain indicate that the British Government is equally interested. Moreover, such information would be essential to this Government in connection with any negotiations that may be carried on for financial aid to Britain. A system of flexible licensing control would permit us to implement our policy with regard to the British Empire, and with regard to the Far East in general, intelligently and deftly. This, too, is an urgent consideration.

4. I am well aware that the introduction of a regime of foreign funds control would give rise to repercussions at home and abroad. With regard to the domestic aspect I think that in the long run undesirable repercussions are more to be feared if we do not adopt such a regime than if we do. In Great Britain the repercussions would be favorable. It would give moral encouragement to the British as well as

- 4 -

materially aid them in permitting a marshalling of British-owned assets in this country. The worst repercussions will, of course, come from the Axis powers. However, exchange control, in peace-time, was initiated by the Axis powers themselves. Before the outbreak of the present war the German Government had already assumed absolute control over all American-owned assets in the Reich and by drastic laws simultaneously had assumed control as well of all German-owned assets in the United States. Before the outbreak of the war the German Government had even effectively nationalized the administration of American industrial establishments in the Reich. The German Government thus controls all American-owned marks and all German-owned dollars, while we control neither. Moreover, German exchange control has not only succeeded in "freezing" but has also resulted in serious and — unless we succor them by the inauguration of controls here — permanent loss to American investors. The same general situation exists in respect to Italy and Japan, while the situation with regard to the Soviet Union requires no discussion.

Should, therefore, the American Government decide on a general extension of foreign funds control, Germany and Italy should not be in a good position effectively to protest. Retaliation, too, would be difficult. Since trade with those countries has been practically extinguished, our commerce would not suffer. Nearly every repressive measure against American interests in the totalitarian states has long since been exhausted. Every realist must know that in those countries our assets are endowed only with the value which Nazi-Fascist self-interest may make opportune. In this connection, the true value of Axis interests in the United States may turn out to be surprisingly greater than we have hitherto supposed. A preliminary study of specific cases suggests the likelihood that the total of German-controlled Assets in the United States alone may have a fair ospital value in excess of \$800 millions. This would provide an added assurance against economic reprisals. Political repercussions could hardly be more serious than the hostile manifestations of the past and Germany and Italy would certainly not make foreign funds control a casus belli at this time, since it would profit them nothing and perhaps lose them much.

The application of foreign exchange control should not per se be an act of provocation towards Japan. Because of its continued interest in trade with the United States, Japan would be, presumably, more interested in negotiating for special licenses under the proposed elastic system than in precipitating a rupture from which no profit could be derived. The same considerations apply with even greater force to the Soviet Union.

5. The Treasury has given careful thought to the administrative feasibility of a regime of general foreign exchange control. I wish to state that the Treasury is fully prepared to put into operation, on short notice, a complete regime of effective control, so decentralized as to operate without impediment to the normal and legitimate transactions of domestic industry and foreign commerce. The proposed regime would, in its operations, be equitable to all legitimate interests, both domestic and foreign. It would be entirely elastic. With certain large areas of

- 5 -

the world a system of blanket licenses, subject only to reasonable reporting requirements, could be employed.

The adoption of general foreign funds control would involve a decision of gravity; but a decision not to introduce such a regime appears to me to be even more grave. A negative decision would permit the Axis powers to continue freely to employ American dollars for purposes of economic warfare, political manipulations and subversive activities.

C O P YTRUE COPY
*by*John Edgar Hoover
DirectorFEDERAL BUREAU OF INVESTIGATION
UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

November 29, 1940.

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGERThe Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

With regard to the investigation currently being conducted by the Federal Bureau of Investigation in connection with transactions in the United States involving foreign funds, I wish to advise that a very large amount of investigative activity is presently being expended in an effort to determine definitely whether the funds of certain foreign countries in the United States are being used in connection with hostile activities directed against the national defense of this country. The most expeditious investigative attention possible under the circumstances presently is being given with regard to the matter of investigating the possibility that German, Italian, French, Japanese and Russian funds are being used for activities detrimental to the national defense of the United States with regard to espionage, sabotage, propaganda activities or otherwise. An increasingly large number of Agents is being exclusively assigned to this type of investigation and the volume of investigative activity necessary in connection therewith is constantly increasing at a very rapid rate.

As an illustration of the amount of investigative activity being expended in this connection, I wish to point out that in the City of New York alone there are believed to be at least three thousand, seven hundred foreign accounts, which should be very carefully and minutely scrutinized as to daily activity relative to the possibility that funds from these accounts are being utilized in connection with subversive activities within the United States. The above number does not, of course, take into account at all the large amount of investigative activity entailed in connection with investigating additional accounts into which funds from the above-mentioned sources may be traced. Of course, it will be

- 2 -

realized that the circumstances referred to above require the detailing of a large amount of investigative personnel to this type of activity, which personnel would otherwise be engaged in conducting other highly important investigations in connection with the national defense. The matter of checking with regard to French funds in the United States was referred to above. However, I should, of course, point out that investigative activity necessary in this connection is negligible when compared with the amount of activity necessary in connection with the funds of such countries as Germany, Russia, Italy and Japan, due, in large measure, probably, to the fact that a rigid system of control is being exercised in the United States of French funds. Inasmuch as no system of control is being utilized with regard to German, Italian, Russian and Japanese funds, there is a much larger number of constantly active accounts, some of which are particularly significant and important, and it has not been possible to definitely determine the use to which a large amount of these funds is being put.

It has not been possible, to date, to cover every German, Italian, Russian and Japanese account due to the tremendously large amount of personnel which this would require. Efforts are being made to closely monitor a total of one hundred and seven German, Italian, Japanese and Russian accounts in one city alone, these being distributed among twenty-four large and important banking institutions.

As an illustration of the necessity for constant investigative activity relative to accounts of this kind, it will be recalled that recently information was obtained indicating that representatives of the Italian Government were taking funds in excess of four million dollars to two Latin-American countries within the Western Hemisphere, following cash withdrawals totaling the above amount from banks in the United States. Specific information is not possessed as to the exact purpose for these transfers, although it is, of course, highly significant that such large transfers of cash

- 3 -

should be handled by messengers rather than through banking facilities.

Upon recent occasions, bills traced by serial numbers from the account of the German Consulate in New York City are known to have been received by firms and organizations suspected of being engaged in propaganda activities, these being recipient of constant investigative attention by the Federal Bureau of Investigation at the present time. The German Library of Information, a well-known German propaganda agency in New York City, is known to have received a quantity of funds withdrawn from the account of the German Consulate. Upon at least one occasion, funds from a foreign bank account within the United States have been traced to an individual definitely known to be in constant association with a group of foreign espionage agents.

The above is being furnished for your information, as I particularly wanted you to know of the activities being conducted by the Federal Bureau of Investigation in connection with foreign funds within the United States, and you may be assured that additional information of interest will be furnished to you in this connection.

Sincerely yours,

(signed) J. EDGAR HOOVER

TREASURY DEPARTMENT

108

INTER OFFICE COMMUNICATION

DATE December 2, 1940

MMS
 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 Credited</u>	<u>Account Credited</u>	<u>Received From</u>
Nov. 30	\$ 50,000	Banco di Roma, Rome	Credito Italiano, N.Y.
	68,000	Administration Pontifi- cial par la Opere Reli- gione, Vatican City	Banco di Roma, Rome
	100,000	Credito Italiano, N.Y.	Banca de Napoli Trust Co., N.Y.

H.M.S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
November 25	38,492	1,138,138	56,000	46,068
26	12,768	408,477	41,000	31,931
27	5,725	172,248	4,000	1,528
28	5,000	338,550	N11	N11
29	2,516	130,733	7,000	4,534
30	1,800	106,581	42,000	29,878
	<u>66,301</u>	<u>2,294,727</u>	<u>150,000</u>	<u>113,939</u>
Sales from February 22 to November 23	<u>2,120,023</u>	<u>74,226,250</u>	<u>5,456,500</u>	<u>4,228,252</u>
TOTAL FEBRUARY 22 TO NOVEMBER 30	2,186,324	76,520,977	5,606,500	4,342,191

Mr. Pinsent reported sales of non-vested securities for the week ended November 23 totaled \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 2, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

FBI reports:

November 25. A biographical report on Wyndham Mortimer of the CIO Automobile Workers Union, now organizing the aviation industry, charges that he is high in the councils of the Communist Party. It is indicated that at a secret meeting of Communist leaders in connection with the Eleventh National Convention of the Communist Party in New York City May 30, 1940, D. Z. Manuilsky, representing the Comintern, stated that when the Communists would have to operate underground instructions from Moscow were that all "legal" work should be done through agencies not known to be under Communist influence.

November 25. The FBI is communicating with Mrs. Niedfelt, who, in an affidavit filed in a divorce suit against her husband in Nebraska November 23, 1940, charged her husband was working with agents of the German government in espionage and sabotage.

MC

December 2, 1940
9:30 a.m.

H.M.Jr: Hello.

William Knudsen: Yes.

H.M.Jr: Henry.

K: Hello, Henry.

H.M.Jr: How are you?

K: Pretty good. How are you?

H.M.Jr: Bill, are you alone?

K: What's that?

H.M.Jr: Can I talk to you? Are you so that you can talk?

K: Oh, just a second. Just a second. (Pause.) Go ahead.

H.M.Jr: Saturday morning Sir Walter Layton came in to see me and laid on my desk orders that they want to place amounting to a little over \$2 billion.

K: Yes.

H.M.Jr: I took it yesterday to see the President and he told me he wanted us to go ahead. Now, I didn't have very much time with him but he simply said, I want them to go ahead, increase American production and take care of the orders. Now, I'm asking - I'm trying to arrange for you, Stimson and Knox and Jones to get together with me tomorrow afternoon, because I want to lay before you just what the English assets are.

K: Yes.

H.M.Jr: And I want to share the responsibility with all of you because it is too big for me to take alone.

K: (Laughs). All right.

- 2 -

H.V.Jr: See?

K: All right.

H.V.Jr: I mean - I'm going to ask you - either we all sink or swim together but I can't take this alone, see, and Stimson said he could come at 3:00 tomorrow.

K: 3:00?

H.V.Jr: Would that be all right with you?

K: Sure.

H.V.Jr: O. K., and there is no use sending stuff out in advance I don't think.

K: What do you mean sending stuff out in advance?

H.V.Jr: Well, I mean

K: Well, it's the A and B schedule isn't it?

H.V.Jr: Well, I don't think anybody has seen this before, I don't know. It's stuff for airplanes, stuff for bombs, this U.S. Ordnance program, tanks and ships.

K: Uh-huh. Well, what's he done about his A and B program?

H.V.Jr: A. and B?

K: Yeah, you know the thing we were fussing around with so long. He turned that over to Secretary Stimson. Do you remember that?

H.V.Jr: Well, this is the program that Stimson said O. K. on.

K: Oh, this is it.

H.V.Jr: Well, this is only part of it.

K: This is part of it.

H.V.Jr: Well, the A amounts to \$600 million and the B, \$75. He's got it divided A, B, C here.

K: Oh. Now the A is 600

- 3 -

H.M.Jr: The A is 600, B is 75 and C, which is tanks and tank guns, is 100.

K: I see.

H.M.Jr: Then he's got in here

K: That's 775 million.

H.M.Jr: That's right. Then he's got 125 for armaments, bombs, radios, et cetera; 1 billion and 75 for aircraft; and 87 for merchant ships - total \$2 billion and 62. That's the program.

K: Well, he must include his 12,000 airplanes and his A and B program.

H.M.Jr: That's right.

K: So all we need to talk about is what is beyond that, huh?

H.M.Jr: Well, no, about this because how are we going to finance it. See?

K: Uh-huh. All right.

H.M.Jr: And Stimson's position is that it's O.K. to order it but he won't take - he hasn't taken any financial responsibility.

K: Well, I saw his letter to Sir Walter Layton.

H.M.Jr: Yeah.

K: Yeah. All right.

H.M.Jr: 3:00 tomorrow?

K: .Yeah.

H.M.Jr: Thanks.

December 2, 1940
9:36 a.m.

H.M.Jr: Good morning.

Jesse
Jones: Good morning.

H.M.Jr: Hello, Jesse.

J: Yeah.

H.M.Jr: Jesse, I've got two things that I want to see
you about.

J: O. K.

H.M.Jr: One, tomorrow afternoon at 3:00 o'clock I've
asked so far Stimson and Knox and Knudsen and
you and somebody from the State Department to
go into this latest program that the English
want - the 2 billion and 62.

J: Yeah.

H.M.Jr: And I want to give you fellows a confidential
report on what their assets are and then where
do we go from here.

J: I'll be there.

H.M.Jr: But I'd like to share the responsibility.

J: O. K.

H.M.Jr: Now, that's No. 1. No. 2, I'm ready to talk
Argentine with you tomorrow morning if you want
to.

J: I'll be ready.

H.M.Jr: What time suits you in the morning?

J: I think the most convenient time for you will
be agreeable to me.

H.M.Jr: Well, 10:00 or 11:00. Which suits you better?

- 2 -

J: Well, I'd rather make it 11:00 than 10:00, or 10:30. I don't get through my mail quite by 10:00.

H.M.Jr: 10:30?

J: That will be fine.

H.M.Jr: Now, do you want the Argentinians here, or do you want anybody else here afterwards? Do you want Sumner Welles here - or just you and me?

J: Suppose you and I talk, Henry, and then we'll make our plans.

H.M.Jr: 10:30 you and I.

J: Yeah.

H.M.Jr: And then again at 3:00.

J: Yes, and then that's 3:00 - that's tomorrow afternoon. Both dates tomorrow.

H.M.Jr: Both tomorrow if you can stand that much.

J: O. K., I can.

H.M.Jr: All right.

J: Good-bye.

December 2, 1940
9:39 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox - a Captain Deyo - D-e-y-o.

H.M.Jr: All right. Hello.

Captain Deyo: Hello.

H.M.Jr: Captain Dayo?

D: Yes, sir.

H.M.Jr: Good morning.

D: Good morning, sir.

H.M.Jr: Captain, tomorrow afternoon at 3:00 o'clock in my office, I'm having a confidential meeting with Mr. Stimson, Jones, Knudsen and I want Colonel Knox. The subject is the most recent order that the English want to place here.

D: I see.

H.M.Jr: And it's largely a financial question.

D: Yes, sir - largely financial.

H.M.Jr: Yes, but also of policy.

D: Yes.

H.M.Jr: Now, Mr. Stimson is bringing with him his Assistant Secretary and Chief-of-Staff, so Mr. Knox is free to bring whomever he wishes.

D: All right, sir. Would it be more appropriate to bring the financial man?

H.M.Jr: No, it's - I mean, if Mr. Forrestal is in town, I'd like very much to have him.

D: All right, sir, I'll tell him that.

H.M.Jr: Yeah, I think if he's here he ought to come.

- 2 -

D: Yes, he is here now. He's back.

H.M.Jr: Good.

D: All right, sir. Thank you.

H.M.Jr: Well, if I don't hear again, I'll expect him here at 3:00.

D: Oh, yes, he'll be there all right, Mr. Secretary.

H.M.Jr: Thank you.

D: Yes, sir.

December 2, 1940
4:49 p.m.

H.M.Jr: Hello.

Sumner Welles: Hello, Henry.

H.M.Jr: Ambassador Lothian is here with me.

W: I see. Well, can I interrupt you for a moment?

H.M.Jr: Please.

W: I want to congratulate you first of all on this morning. I hear it went off magnificently.

H.M.Jr: Well, Mr. Hull was magnificent. He really was grand.

W: Well, that's fine, but I just wanted to tell you I was awfully pleased with the outcome.

H.M.Jr: Yeah, it went off beautifully.

W: Two other questions. In the first place Mr. Hull told me that you were having a meeting sometime this week on this

H.M.Jr: 3:00 o'clock tomorrow.

W: It's tomorrow is it?

H.M.Jr: At 3:00.

W: About how long will it take, can you tell me?

H.M.Jr: I think it would take a full hour.

W: Not more?

H.M.Jr: No, no.

W: Then I'll arrange to cancel appointments because I'm these days jammed, but I wanted to be there.

H.M.Jr: It will take a full hour.

- 2 -

W: Had I better take somebody with me? Feis - is that all right.

H.M.Jr: Ah - yes.

W: Well, all right. Now the third thing is Argentina.

H.M.Jr: Yes.

W: Do you feel satisfied about going ahead now in view of this morning's result?

H.M.Jr: Well, Jesse and I start on that at 10:30 tomorrow morning. He wanted to see me alone.

W: Oh, Jesse. I see.

H.M.Jr: Jesse is coming here at 10:30 tomorrow morning.

W: All right. Well, after that will you let me know the result?

H.M.Jr: Yes. He said he'd like to talk to me first.

W: Yes. All right, Henry.

H.M.Jr: I mean, that's when I was starting it, and then from then on I'll keep after it until we clean it up.

W: That's grand.

H.M.Jr: But we're starting - Jesse and I - at 10:30 tomorrow.

W: All right. That's fine.

H.M.Jr: Now what else?

W: That's all. I'll see you tomorrow at 3:00.

H.M.Jr: But this thing went off all right and having Mr. Hull up there helped a lot.

W: Well, that's fine. I'm awfully pleased about it. Good-bye and thanks.

H.M.Jr: All right.

December 2, 1940
5:21 p.m.

H.M.Jr: Hello.

Robert
Doughton: Hello, Henry. How are you getting along?

H.M.Jr: Oh, wonderful. How are things by you?

D: Well, I'm not complaining or bragging either one.

H.M.Jr: I see.

D: Never do much of either.

H.M.Jr: I see.

D: I thought maybe from what you said the other night that you'd got an idea that I was stirring up this tax question and was rather premature on it.

H.M.Jr: Oh, I was doing a little kidding.

D: How?

H.M.Jr: I was teasing you a little bit.

D: Well, I thought perhaps so but I wanted you to understand it exactly, if you didn't. I said to the President, when I was down here some two weeks ago and he was courteous enough and kind enough to talk to me awhile about things in general, that if we were going to have a tax bill at all, if that was his purpose - to call on us for a tax bill, that I thought that a conference sometime pretty soon in which you, and the Senators and one or two from our Committee with him would participate - why it might be helpful.

H.M.Jr: Yeah.

D: And he just jumped right at it like a trout at a grasshopper and went right to work for making the - he seemed to be pleased with it and told Colonel Watson to contact Senator Harriman, who was out of the city, and see if he could meet

- 2 -

with us last Friday night, and he'd let me know at once, and that afternoon he called me and told me the plans were arranged - the meeting was arranged.

H.M.Jr: Well, I was just doing a little teasing, Bob.

D: I'm not anyways anxious to get into any headache or stomach ache either over excess profits. You know what agony - how we went through a Garden of Gethsemane on that.

H.M.Jr: Yeah, now listen, old pal, don't you go sensitive on me.

D: How's that?

H.M.Jr: Don't you get sensitive on me.

D: Sensitive.

H.M.Jr: Yeah, I mean, I want to feel that you could tease me and I can tease you.

D: Well, no, I wasn't being sensitive about it but I just thought maybe you'd think I was pushing it a little prematurely.

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

D: Well, sometime, while I'm - will you have a little time tomorrow?

H.M.Jr: Well, tomorrow is a bad day but Wednesday is better.

D: Well, if I'm here Wednesday. Nothing urgent at all. I just wanted to kind of talk over the general situation. That can wait all right until I come back.

H.M.Jr: Well, I tell you, I've got a hell of a day tomorrow, but if Bob Doughton wants to see me, I'll drop everything.

D: It's not that important - when you don't have a heavy day

H.M.Jr: I'll always drop anything for you.

- 3 -

D: No, no, it's not that important. I just wanted to discuss the matter generally with you and I can do it when I come back.

H.M.Jr: O. K.

D: But if I stay over Wednesday, I'll call you up Wednesday morning.

H.M.Jr: You do that and I'm at your service.

D: Well, thank you. You're always kind and courteous and fair and square in every way.

H.M.Jr: Well, that's both ways.

D: Well, thank you very much. Good-bye.

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	: Oct. : 6-12	: Oct. : 13-19	: Oct. : 20-26	: Oct. 27: -Nov. 2:	: Nov. : 3-9	: Nov. : 10-16	: Nov. : 17-23	: Nov. : 24-30	Total
British	67	52	37	69	41	49	16	53	384
Army	6	9	11	11	3	-	3	3	46
Navy	-	-	-	-	-	-	-	-	-
Total	73	61	48	80	44	49	19	56 [✓]	430

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

December 2, 1940.

December 2, 1940

CONFIDENTIAL

Dear Mr. Knake:

Please let me acknowledge, on behalf of the Secretary, the receipt of your letter dated November 28, 1940, enclosing your compilation for the week ended November 20, 1940, showing dollar disbursements out of the British Empire and French accounts at the Federal and the means by which these expenditures were financed.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

L. V. Knake, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMG:lap-12/2/40

FEDERAL RESERVE BANK
OF NEW YORK

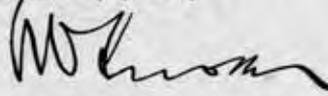
November 28, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended November 20, 1940, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosures

TO THE SECRETARY OF THE TREASURY
WASHINGTON, D. C.
NOV 30 1940
RECEIVED

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)Week Ended **November 20, 1940.** Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				Net Incr. (+) or Decr. (-) in Balance	DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Proceeds of Securities (incl. Est.) (b)	Other Credits (incl. adj'ts)	Total Debits		Gov't Expenditures (c)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits		
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	-	- 8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.8	82.6	86.8(e)	+ 35.3	88.6	51.8	105.4	76.2	35.0	41.2	-	- 12.4
Nov. 2 - 29	121.7	8.9	130.6	105.6	57.8	25.0	83.0	- 85.9	78.6			82.2	55.1	27.8		+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 23.5	86.8	28.1	58.7	102.2	93.9	15.3		+ 27.4
1940																
Jan. 4 - 31	54.9	16.8	38.0	43.4	30.6	17.8	5.0(f)	- 11.4	61.5	31.5	30.0	58.9	50.1	5.8		- 5.6
Feb. 1 - 28	124.2	15.4	108.8	105.3	86.7	17.9	32.7	- 15.9	72.7	32.8	39.9	71.5	54.8	18.7		- 1.2
Feb. 29 - Apr. 3	115.8	14.5	101.0	94.0	60.9	21.5	11.6(g)	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6		+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	26.4	46.8	13.4	26.2(h)	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0		- 6.1
May 2 - 29	100.9	23.6	77.3	125.2	93.2	7.1	22.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2		+ 41.0
May 30 - July 3	283.2	143.3	139.9	312.3	301.3	5.1	12.9	+ 36.1	256.7(i)	127.3(i)	29.4	345.1(i)	339.6	9.5(i)		+185.4
July 5 - 31	249.7	158.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2		- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.5	257.7	1.0	26.4(j)	+ 33.2	8.2	0.5	8.4	10.2	10.4	0.5		+ 2.0
First year of war	1292.2	605.6	1,187.6	1,328.2	1,356.1	211.2	250.9	+ 35.0	865.3	416.6	442.7	1,285.3	900.2	195.1		+279.0
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4(k)	- 7.9	8.6	2.4	4.2	1.3	-	1.3		- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	180.5	6.0	22.0(l)	+ 1.8	0.5	0.3	0.2	0.5	-	0.5		-
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED																
Nov. 6	55.4	47.7	7.7	61.2	47.2	6.0	8.0	+ 5.8	0.4	0.1	0.3	0.2	-	0.2		- 0.2
13	74.6	62.8	11.8	76.5	62.2	4.0	10.3	+ 1.9	-	-	-	0.1	-	0.1		+ 0.1
20	52.4	31.6	20.8	64.5	50.6	6.0	7.9	+12.1	0.4	-	0.4	0.2	-	0.2		- 0.2

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.5 million
England (through June 15) 27.6 million
England (since June 19) 60.4 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account
Week ended November 20 \$20.3 million
Cumulation from July 8 87.3 million

(See footnotes on reverse side)

- 16
- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
 - (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
 - (c) Includes payments for account of French Air Commission and French Purchasing Commission.
 - (d) Includes adjustment for (b) above.
 - (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
 - (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
 - (g) About \$8 million transferred from accounts of British authorized banks with New York banks.
 - (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
 - (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
 - (j) About \$2 million transferred from accounts of British authorized banks with New York banks.
 - (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
 - (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
 - (m) About \$2.2 million received from Federal Reserve Bank of Boston for use of Commonwealth Bank of Australia.

RECEIVED
 TREASURY DEPARTMENT
 NOV 30 AM 8 51
 CLERK OF THE
 TECHNICAL ASSISTANT
 TO THE SECRETARY

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Nov. 20, 1940. Strictly Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS			CREDITS						DEBITS			CREDITS			Net Incr. (+) or Decr. (-) in Balance
	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales		
Official British A/C		Other Debits	For Own A/C			For French A/C	Official British A/C				Other Debits					
1939																
Aug. 31 - Sept. 27	17.8	0.6	16.9	21.6	15.1	0.8	-	5.9	+ 4.5	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	32.8	15.3	3.0	-	6.5	- 7.2	2.6	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.6	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 69.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 26	16.7	-	16.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	-	6.8	5.0	3.4	1.6	- 1.6
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	0.9	30.3	36.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	-	8.7	8.0	5.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED																
Nov. 5	10.2	-	10.2	22.0	15.5	-	6.4	0.1	+11.8	0.8	-	0.8	0.1	-	0.1	- 0.7
13	4.6	-	4.6	3.5	3.5	-	-	-	- 1.1	0.1	0.1	-	2.6	2.1	0.5	+ 2.5
20	12.2	-	12.2	33.3	29.7	-	0.7	2.9	+21.1	1.1	0.4	0.7	0.7	-	0.7	- 0.4

Weekly Average of Total Debits Since Outbreak of War (Canada alone)
Through November 20 \$ 6.6 million

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended November 30, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	104,206 Bbls.	---	96,100 Bbls.	---
Crude -				
Blended or California High Octane Crude*	86,000 Bbls.	---	---	---
All Other Crude	184,696 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	212,440 Bbls.	---	---	---
All Other Gasoline	35,333 Bbls.	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil ***	16,627 Bbls.	---	---	---
All Other Lubricating Oil	98,820	---	2,000 Bbls.	37,416 Bbls.
Tetraethyl Lead ***	---	---	---	---
*Boosters, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	1,489 Tons	---	---	6,082 Tons
All Other Scrap	3,298 Tons	---	---	8,012 Tons

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

December 2, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

** As defined in the President's regulations of July 26, 1940.

EXPORT-IMPORT BANK OF WASHINGTON

WASHINGTON

Warren Lee Pierson
PresidentCable Address
"Eximbank"

December 2, 1940

My dear Mr. Morgenthau:

The Credit Martiniquais, Fort-de-France, Martinique, made a general inquiry of this Bank regarding the possibility of obtaining an exchange credit to permit the purchase in this country and exportation to Martinique of urgently needed products.

In response to our request for pertinent information the Credit Martiniquais wrote to us, under date of November 23, as per copy enclosed.

It will be appreciated if the Department will indicate the nature of the comments, if any, which it will be appropriate for this Bank to make regarding the sections of the Credit's letter marked in margin with red pencil.

Sincerely yours,

/s/ Warren Lee Pierson

President

Enclosure.

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury

inc

CREDIT MARTINIQUEAIS

Fort-de-France

(Martinique)

Fort-de-France, 1e November 23d, 1940

PAR AVIONExport Import Bank of Washington
Washington

Gentlemen,

Your letter dated October 26th has been received.

We fully appreciate the kindness you have shown in your reply and are pleased to furnish you the information you require.

REGULATIONS COVERING IMPORTS.- Imports of foreign goods are prohibited unless a license is obtained from the authorities. A commission has been appointed to examine the applications made by merchants. The object searched is to limit imports. Preference applications is given in the following order:

- 1 Foodstuffs
- 2 Clothing
- 3 Supplies for industry, fertilizers and petroleum products

Import of luxury goods is avoided. Automobiles, sundry items etc. are authorized for normal necessities.

The commission who operates in Martinique sits weekly.

EXCHANGE LICENSES.- An import license entitles the beneficiary to obtain exchange from an authorized dealer in foreign exchange. Exchange is also supplied by the Exchange Control Board for traveling expenses, insurance premium, old debts etc.,

Exchange is supplied to Martinique by the French Government and due to the fact that all french assets are now frozen in the United States, the above regulations cannot work satisfactorily for transactions in U S A dollars. So far, the licenses are valid when the Treasurer of the United States give the necessary licenses to transfer funds from the accounts of the French Government to the credit of the account of Banque de la Martinique (Bank of issue) with the French American Banking Corporation; incidentally private French West Indian banks like ours would like to obtain a general license No. 14 granted to banks in Netherland West Indies.

We would appreciate your opinion on this subject as we would like to receive the same treatment by the United States as this accorded to our competitors.

lap

TRADE WITH THE UNITED STATES.- As you are probably aware, in peace time, our island used to export all its products to France, where they enjoyed a fine protection, this explains why our products to U. S. were nil.

Regarding our imports, 1/5 of the transactions were made with the U. S. The main products purchased on your market consisted of:

Flour
Beef
Potatoes
Machinery
Automobiles and automobile parts
Tyres
Lumber
Shook and Staves
Fertilizers

Other products were imported from Latin America and were paid in dollars. Our purchases were made of:

Foodstuff
Cattle
Petroleum products etc.

Now, we can hardly import from France and Europe and we must turn our eyes to your country.

We attach herewith a statement showing:

- 1 Normal quantity imported of required goods
- 2 Minimum required in our opinion
- 3 Approximate value of goods

ESTIMATE OF OUR EXPORTS.- The principal products of Martinique now are:

Sugar	60 000 tons
Rum	18 millions liters at 55°
Bananas	
Canned Pine Apples	

We assume it will be possible to sell small quantities of bananas in New York, presumably 150 000 stems in the 1st year and the export in two or three years could reach 20 000 tons. As you are probably aware, the fruit grown here does not fit the Americans' taste. But as we may organize ourselves to produce "Gros Michel" there is every likelihood that we will be able to take a share of the American market.

The consumption of rum is very limited in America. It will be possible to sell high grade rum in small quantities. Possibly Mexico may be a good customer for ordinary brand. Alcohol may be produced in large quantities.

Production of other products may be forecasted.

General.- Export of all products is prohibited unless a special license is authorized by local authorities.

For the present time, and as we have resumed our exports to France, we assume that provided the Treasurer of the United States agrees to authorize transfers to the credit of Martinican Banks from frozen assets owned by the French Government and being part payment of our exports, we may not need your immediate cooperation.

The amount required for normal needs should not exceed \$: 400 000 per month. We see no reason why the Treasurer of the United States could not grant a license for this amount which does not exceed the minimum requirements of Martinique. It is obvious that we will not reexport articles badly needed here; if this was apprehended can you help us in this particular point.

If an arrangement of this sort could be reached, we will have more time to study the situation of the American market and to produce plants of an easy sale in U. S. A.

Assuring you of our best cooperation, we are

Yours truly,

CREDIT MARTINICAIS

S/ ?
Le Directeur

NB.- Statement announced above
will follow by ordinary mail.

eh:copy



TREASURY DEPARTMENT

WASHINGTON

December 2, 1940.

Memorandum for the Secretary:

Subject: Notes on West Indies trip

1. In accordance with your orders Admiral Waesche has been advised of your desire to have an additional harborcraft assigned to San Juan to alternate with the present AB boat there, which is on 24-hour duty status and can not take time off for necessary engine overhaul.

2. You asked to be reminded to check as to why Customs operated their own boat in San Juan instead of turning this boat over to the Coast Guard, which would furnish transportation for Customs officers in accordance with your orders of some time ago.

3. The following information was given to you by Lieutenant Commander Johnson, USN, at St. Thomas:

The SS America on her first trip into St. Thomas could not get the engines started on her two large motor boats. On her second trip she had borrowed boats and could not get the engine on one of these started. On her third trip into St. Thomas she could not get the hoist to operate for one boat and was thereby delayed in sailing. On the last trip the forward fall of a boat being lowered became unhooked and the crew and boat gear were dropped about fifty feet into the water leaving the boat suspended by the after fall.

4. In connection with the establishment of a seaplane base in St. Thomas, the following information was obtained from local Navy and Marine Corps Officers (see attached chart):

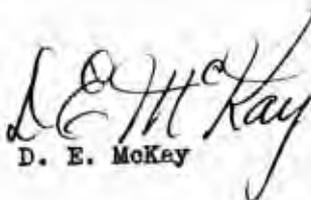
1. The present plans call for establishment of a seaplane base on part of the Marine reservation on Lindbergh Bay with a ramp at point "A".

Memorandum for the Secretary -2- December 2, 1940.

Lindbergh Bay, according to information received, is not large enough for seaplane operations. In taking off planes would be forced to taxi out to the open water at point "C" which would be unfavorable due to rough water.

2. Local officers recommend acquisition of land east of and adjoining the present Submarine Base for establishment of the Seaplane Base. The planes would then land and take off in the sheltered area "D" of West Gregerie Channel.

3. The subject of underground hangers and facilities for the Marine land-plane base was brought up by you and the local officers pointed out that a site in the side of the hill at "E" was very favorable from the viewpoint of operations as well as feasibility of construction.


D. E. McKay

135

BRITISH EMBASSY,
WASHINGTON, D. C.

December 2nd, 1940.

Personal and Secret

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from London
on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Sturges

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London dated
November 30th, 1940.

1. "Javelin" has arrived in harbour, she was torpedoed shortly after fire opened. "Jackal" chased one and remainder of flotilla chased two destroyers until touch was lost in the dark.
2. During afternoon three enemy bombers shot down by fighter squadron protecting "Javelin".
3. Several Italian destroyers bombarded Corfu on November 28th, fled on the arrival of three British bombers.
4. Our bombers on November 28th attacked A/A vessel at Assab. Six near misses which probably caused damage. British cruiser bombarded factory near Mogadishu November 29th, considerable damage and fires caused. Her A/C bombed and near missed a D/F station. "Beaufort" A/C torpedoed and sank a ship of about 8,000 tons in convoy off Vlieland p.m. November 29th. "Rangirema" attacked by raider on November 26th is believed sunk.

One convoy two hundred miles west of Bloody Foreland and one in the Thames approaches bombed November 29th without suffering any damage.
5. Convoys. Three convoys totalling ninety-seven ships have arrived in home waters and an outward-bound convoy of forty-two ships has cleared North-Western approaches.
6. Italy. Six Wellingtons from Malta delivered a heavy and successful attack on Port and railway station at Brindisi. All returned safely.

-8-

7. Night of November 29th/30th. A total of 45 aircraft were despatched to attack the following objectives;

<u>Locality</u>	<u>Targets</u>	<u>Number of Aircraft</u>
Cologne	Hohenzollen Bridge Inland Port	14 Heavy Bombers.
Bremen	Naval shipyards	9 medium 4 heavy
Lorient	Naval Dockyard	5 medium
Channel Ports		3 medium 6 heavy
Aerodromes		6 medium

8. In addition, two heavy bombers were detailed to lay mines and one to drop leaflets in Paris area. From the above operations one medium bomber is missing.

9. German Air Force

Casualties at Liverpool reported about 150 killed, 59 seriously and 247 slightly wounded.

10. Daylight of November 29th.

Enemy activity was slight: confined to Thames estuary and south and south-west coasts.

11. Night of November 29th/30th.

Enemy activity was again heavy and was directed chiefly against southern London suburbs. The centre and north were not attacked. About 300 bombers were engaged including 120 over London. In addition, 25 aircraft were mine laying. Our night fighters made 22 sorties. There was very little major damage from bombing, although a serious fire occurred at one gas works and three suburban stations on the Southern Railway were set on fire.

12. Aircraft casualties in the above operations.

Home/

Regraded Unclassified

-3-

(Home front)

Enemy

By day: 4 Bombers destroyed.

1 Fighter destroyed.

Total 5.

Our losses. 2 aircraft with one pilot safe. One
bomber missing.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

2nd December, 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,

L. Moran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated 29th November,
1940.

1. NAVAL.

Destroyer patrols encountered German destroyers off Lands End early this morning. After a short engagement the enemy retired on first followed by our ships. H.M.S. Javelin hit by two torpedoes but floating on even keel. One enemy destroyer believed damaged.

2. Further reports.

Naval action in Western Mediterranean.

3. Aircraft report critical damage to enemy ships by gun fire. One cruiser, probably eight inch severely damaged, stopped and on fire. One destroyer stopped down by stern and listing considerably. One destroyer stopped with a slight list. Our naval aircraft claim one hit on Littorio class Battleship, one almost certainly an 8-inch cruiser. These results by torpedo bombers. Our dive bombers obtained two very near misses on six inch cruisers. We lost two aircraft. H.M.S. Berwick twice hit, one Turret out of action, one officer, seven ratings killed, nine ratings wounded. Ship in full service. Two enemy aircraft shot down.

4. Enemy last reported by our aircraft steaming north off east coast of Sardinia.

5. Night of 28th/29th. A total of 62 aircraft were despatched to attack the following objectives:

/locality

-2-

<u>Locality.</u>	<u>Targets.</u>	<u>Number of Aircraft.</u>
Dusseldorf.	Gasworks, communications and naval armaments.	14 medium. 4 heavy.
Mannheim.	Same targets.	26 heavy.
Stettin.	Same targets.	13 heavy.
Ghent.	Oil targets.	5 medium.
Channel ports.		14 medium. 6 heavy.

6. Believed that Stettin attack, where weather conditions admitted of good observation, very successful. Several fires and large explosions.

7. In addition four aircraft successfully laid mines.

8. One aircraft is missing, two others came down in the sea, crews safe and one crashed, crew baled out presumed safe.

9. German Air Force.

Night of 27th/28th. Casualties reported London area, 15 killed, 62 injured. Fires started in two oil tanks at naval fuel depot at Plymouth were still burning at 7.30 a.m. this morning.

10. Night of 28th/29th. Enemy activity heavy; about 350 bombers and 50 mine layers being engaged and especially directed against Lancashire.

11. Aircraft casualties in above operations (home front)

Enemy by day - By our Fighters

	<u>Bombers</u>	<u>Fighters</u>	<u>Totals</u>
Destroyed	-	5	5
Probable	-	2	2
Damaged	-	-	-

5-

Our losses: 8 fighters, with one pilot safe.
Two bombers missing.

12. Malta.

During the night of 27th/28th, and day of November 28th, enemy aircraft made seven ineffective attacks against Malta including one upon an incoming convoy. Three Italian fighters were shot down and one bomber probably destroyed without loss.

13. Greece.

Military - No further reports.

14. November 27th, our fighters shot down one Italian fighter and probably destroyed another over Yannina.

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL AND
SECRET.

2nd December, 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,

L. Moran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated 1st
December, 1940.

His Majesty's Ship "Cilicia" escorting
convoy 200 miles off Blacksea Bay was near missed by
bombs from aircraft a.m. Two casualties. His
Majesty's convoy ship "Saguenay" escorting convoy was
torpedoed north west approaches early on the 1st.
She is proceeding to the United Kingdom.

2. Cruiser on trial in the Channel p.m./30th,
attacked by 2 enemy aircraft. Our fighters shot
down 1 no damage or casualties to cruiser.

3. Force of motor torpedo boats carried out sweeps
off Belgian and Dutch coasts night of November 30/December
1st at 0100/1 German Santos 5993 tons reported being
torpedoed of Scheldt. Three engined German flying
boat 30 miles south west of Hissen Head was attacked
by our aircraft and had 2 engines damaged when last
seen.

4. Night of November 30th/December 1st.

No operations carried out owing to adverse
weather.

5. German Air Force.

Birmingham.

Reported repairs progressing satisfactorily
with improvement in public utility services. Rest of
centres almost cleared.

6. Liverpool.

115 bodies have so far been recovered from a
large public shelter at Liverpool which received a

/direct

- 2 -

direct hit on the night of November 28th/29th.

7. Night of November 29th/30th.

Total casualties reported in London area
89 killed 308 wounded.

8. November 30th.

Four sweeps by enemy fighters some carrying bombs took place over Kent; in one instance a few penetrated to central London where minor bombing occurred in Westminster and Chelsea districts. Another minor attack was made over south west England. Some shipping and coastal reconnaissances were flown and considerable activity was reported in Dover Straits and Channel.

9. Night of November 30th/December 1st.

Enemy operations were almost entirely confined to a heavy attack on Southampton by about 120 bombers. About a dozen machines were also laying mines. The whole country was clear of enemy aircraft by early morning.

10. The attack upon Southampton started at 6.15 p.m. with incendiary bombs followed by high explosive and lasted until 2 a.m. Fires soon started and became serious and extensive in the centre. Public utility services were seriously interrupted and grave difficulties in fire fighting were caused by temporary water shortage. The telephone exchange was hit and put out of action. Fires of varying intensity were caused at Firelli cable works, the ordnance survey office, a naval store, the power station, two hospitals, the harbour

/board

- 3 -

board offices and in 3 ships in the docks.

11. Enemy losses:

Destroyed 4 Probable 2.

In addition a M.E. 110 landed intact at
Swanage Brook aerodrome.

12. Our losses:

2 aircraft, 2 pilots safe.

13. Ethiopia.

On November 29th, eleven of our bombers
attacked a military camp south of Lake Tana. Buildings
were hit and fires started.

No. 259

SITUATION REPORTM.I.D., W.D.
December 2, 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.

Daylight operations by the Germans on November 30 and December 1 were relatively light and were confined to southeastern England. On the nights of the 30th-1st and 1st-2nd Southampton was heavily attacked. The damage inflicted seems to have included interruption of the rail lines to London.

The R.A.F. did not operate offensively on the night of November 30-December 1, because of bad weather. Last night Lorient, Brest and Wilhelmshaven were attacked.

II. Greek Theater of War.

The Greek High Command announced the capture of Pogradec on November 30, 1940. The Italians refuse to admit its loss. The Greek offensive effort is continuing, which would seem to indicate that no limited objectives have been established. Air activity was on a minor scale.

III. Mediterranean and African Theaters of War.

Fighting around Gallabat has been renewed. The Italians report a success at Iregri, Kenya, west of Lake Rudolf. No important air activity reported.

148

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE December 2, 1940

TO Secretary Morgenthau
FROM Mr. Haas 

Employment under the Work Projects Administration increased to 1,806,000 persons for the week ended November 20, 1940, a rise of 21,000 over the previous week's figure.

Attachments

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

Week ending	Number of Workers (In thousands)
1940	
May 1	2,059
May 8	2,009
May 15	1,970
May 22	1,945
May 29	1,926
June 5	1,858
June 12	1,785
June 19	1,714
June 26	1,665
July 3	1,608
July 10	1,620
July 17	1,659
July 24	1,690
July 31	1,701
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779

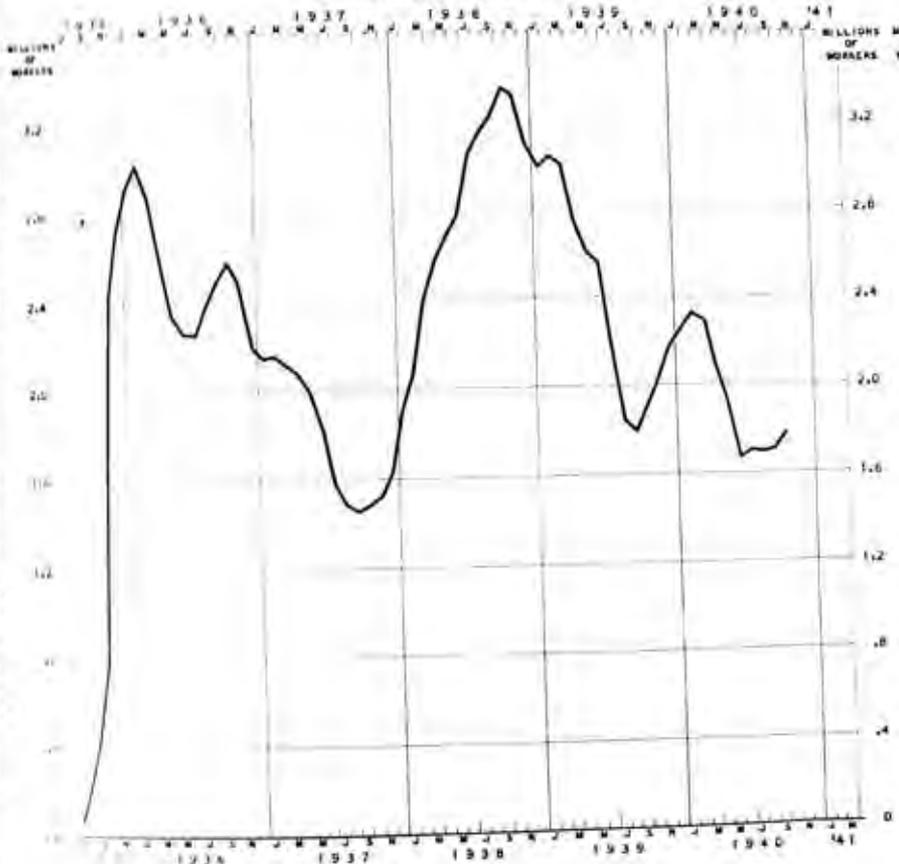
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

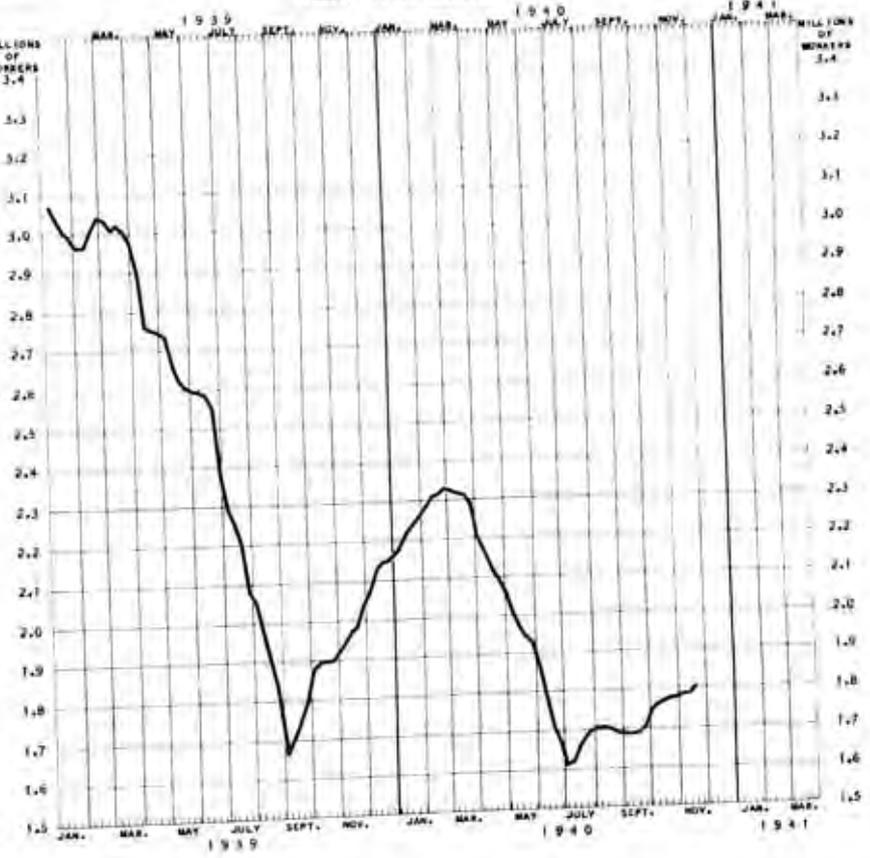
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION Number of Workers Employed United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

Z - 221 - 42

1941 - Bureau of the Treasury
1935 - Bureau of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 2, 1940.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£83,000
Purchased from commercial concerns	£ 9,000

The Federal Reserve Bank of New York sold £20,000 in registered sterling to a non-reporting bank.

Open market sterling was quoted at 4.03-3/4 until late in the day. It closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£1,000

Closing quotations for the other currencies were as follows:

Canadian dollar	13% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-9/16% discount

According to quotations received daily from Shanghai by New York banks, the Shanghai Yuan displayed some weakness in terms of the U.S. dollar during the month of November. From 6-1/8¢ on November 1, it moved off gradually to close at 5-25/32¢ on November 30. A quotation of 5-13/16¢ was received from Shanghai this morning.

We sold \$10,000,000 in gold to the Java Bank, to be added to its earmarked account.

There were no new gold engagements reported to us today.

- 2 -

No gold or silver prices were received from Bombay by the New York banks.

In London, a price of 22-13/16d was fixed for both spot and forward silver, 1/16d lower in each case. The dollar equivalent of this price is 41.42¢.

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

We made eight purchases of silver totaling 785,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 585,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 200,000 ounces of silver from the Bank of Canada under our regular monthly agreement.



CONFIDENTIAL

December 2, 1940
9:40 a.m.

H.M.Jr: Hello.

Mr. Hull's Secretary: He's coming right on, sir. (Pause).

Cordell Hull: Hello, Henry.

H.M.Jr: Cordell, good morning.

H: How are you?

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

H: Yeah.

H.M.Jr: At 3:00 o'clock tomorrow Mr. Stimson, Knox, Knudsen and Jones are coming to my office to discuss this whole question of where do we go from here with the British on their purchasing. They want to place another \$2 billion order.

H: Yeah.

H.M.Jr: And it is so important that I'd like somebody whom you have confidence in to sit in so that they can tell you about it.

H: That's at 3:00 o'clock tomorrow.

H.M.Jr: Yes.

H: All right, I'll stir up somebody.

H.M.Jr: Well, somebody - could you maybe tell me who it would be later?

H: Yes.

H.M.Jr: And, Cordell, I wonder if you couldn't work out some way - for instance, on this Chinese thing, I had Soong at the house last night trying to get confessions from him before I went up there.

H: Yes.

- 2 -

- H.M.Jr: And he would talk about a cable from Ambassador Johnson - had I seen that - no. Well, had I seen about what the Chinese Ambassador in Berlin had been told by Ribbentrop? No, I hadn't seen that. When I'm in a thing like this - sometimes ignorance is bliss, but I would appreciate it if some way was worked out that where I've got to decide on lending \$50 million - where I could have the background.
- H: Yes.
- H.M.Jr: Don't you think that would be fair to me?
- H: Oh, yes, of course. Anything at all that
- H.M.Jr: I mean, I'm just going to be particularly interested to hear what you've got to say because it'll all be news to me.
- H: Yes. Well, now, you want - I will expect to give the general points to show the underlying conditions and so on and you'll deal with the technical side.
- H.M.Jr: That's right. But I meant in the future if I could have someone working with me - where I get the heat put on me like this
- H: Of course that ought to all be done.
- H.M.Jr: whether it's the Argentine - I mean, there is background that you have through your diplomatic offices and I am completely in the dark.
- H: Now your idea, of course, this morning would be for you to make your statement and then I'd come along and answer any questions about the general conditions
- H.M.Jr: Well, I thought the other way around, if you would give them the picture from the standpoint of foreign policy.
- H: Well, I'll be glad to do that the best I can.
- H.M.Jr: And then when the question as to - any technical questions - I'll take all responsibility on the Stabilization Fund.

- 3 -

H: All right, Henry. I'll get my papers together right now with a view to it.

H.M.Jr: But would you tell somebody somehow that in the future that where we're in something like this that I could get it and don't have to get it second-hand?

H: Of course.

H.M.Jr: Right.

H: Yeah.

H.M.Jr: Thank you.

December 2, 1940
12:45 p.m.

H.M.Jr: Hello.

Mr. Johnson: Yes, sir.

H.M.Jr: Mr. Johnson, would you give Senator Barkley a message for me - this is Henry Morgenthau, Jr.

J: All right, sir. I'll be glad to.

H.M.Jr: Just tell him that I appreciate very much the support he gave me today in the Committee.

J: All right, sir.

H.M.Jr: And I wanted to call him up and tell him how I appreciated it.

J: All right. I'll certainly be glad to tell him.

H.M.Jr: And tell him I hope to see him when he gets back.

J: All right, sir.

H.M.Jr: Thank you.

J: Good-bye.

December 2, 1940
4:00 p.m.

H.M.Jr: Hello.

Operator: Senator Wagner.

H.M.Jr: Hello. Bob, you were swell.

W: Well, I just wanted to find out whether everything was satisfactory.

H.M.Jr: Oh, wonderful, and I thought - Cordell just took my breath away.

W: Yes, yes.

H.M.Jr: He went right down the line.

W: Yeah.

H.M.Jr: No, I thought the thing went beautifully and I'm ever so much obliged to you.

W: Well all right. I just wanted to make sure about that.

H.M.Jr: Are you 100% sure now?

W: Yes, I am.

H.M.Jr: O. K. I'm tickled to death I came up.

W: Yeah, I am too.

H.M.Jr: None of those so-and-sos - Taft or any of them can say, well

W: Oh, no.

H.M.Jr: They can't say anything.

W: No. It was the wise thing to do.

H.M.Jr: Right.

W: Yeah. All right.

H.M.Jr: Ever so much obliged.

W: All right. Good-bye.

December 2, 1940
5:19 p.m.

H.M.Jr: Hello.

Operator: Mr. Heller.

H.M.Jr: Hello.

Edward Heller: Hello, Henry.

H.M.Jr: Hello, Edward.

H: How are you, sir?

H.M.Jr: Oh, I'm fine.

H: I want to apologize to you that I was such a very bad political prognosticator.

H.M.Jr: Oh, that's all right - you and a lot of other people.

H: I didn't know that California was going to be so good.

H.M.Jr: Well, California, here I come.

H: (Laughs). Henry, this is why I'm calling you. I'm phoning you with a request that my friend, Bill Malone, who is our Democratic State Chairman - Bill had some conversation with the Giannini's before the election and they were extremely helpful to us just before the election.

H.M.Jr: Yeah.

H: Bill was led to believe by Jesse Jones that something might be done for them and I'm phoning you at his request to tell you that.

H.M.Jr: Wonderful.

H: Well

H.M.Jr: (Laughs). You've done your Boy Scout deed. Now, go home and have a nice drink and tell your wife that you've done a Boy Scout deed.

- 2 -

H: I've done my Boy Scout deed.
H.M.Jr: Yeah.
H: All right.
H.M.Jr: (Laughs). Hope to see you soon.
H: O. K.
H.M.Jr: (Laughs). All right.
H: Thank you.
H.M.Jr: Good-bye.
H: Good-bye.

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 2, 1940

MEMORANDUM FOR: The Honorable Henry Morgenthau, Jr.
FROM: Nelson A. Rockefeller

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

December 2, 1940

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

WEEKLY PROGRESS REPORT

ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

COMMERCIALRaw Materials

Beef: Argentine Ambassador has asked assistance of Coord. office in clarifying regulations concerning the placing of orders by Army and Navy for Argentine corned beef. The office is taking up problem, which concerns interpretation of 1933 law, with interested departments.

Coffee: The agreement was signed Thursday by U.S. and the 14 coffee-producing countries.

Copper: President received information Friday concerning proposal that his funds absorb 2 $\frac{1}{2}$ % of excise tax.

Cork: Representative of Klein-Saks indicates to Coord. that from 5,000 to 20,000 tons are available annually in Brazil. Fluctuation in this figure is due to lack of railway facilities. It is stated that the Brazilian government would give priority to cork purchased for U.S. defense purposes. This office has received samples of raw and processed cork which will be examined by Bureau of Standards.

Cotton Linters: Final report of Dr. Weidlein (Defense) indicates that some 95,000 bales of Brazilian linters will be purchased during year ending July 31, 1941.

Hides: Brand (Defense) feels that increased imports from Argentina, Brazil, and Uruguay will probably continue...Leather and Rubber (Commerce) has compiled statistics on hide and skin exports from L.A. countries for five-year period.

Industrial Diamonds: Purchase of L.A. industrial diamonds awaits decision of Procurement regarding selection of experts to pass on stones.

Manganese: Allen (Defense) and Wright (Mines) assembling data on most economical L.A. deposits. While the Minas Geraes (Brazil) and Chilean deposits appear feasible choices, Cuba's low-grade deposits,

Page 2
December 2, 1940

which would require extensive development, seem a less favorable selection.

Manila Hemp: United Fruit representative asks State, Agriculture, Defense, and Coord. for 10-year guarantee against loss from increasing Panama acreage. This office has agreed to pursue matter which depends to a large extent on whether the Navy will recommend a guarantee plan. Sentiment of the above mentioned groups and the preference of the Navy for short contracts indicate that more than a 5-year guarantee would be unlikely.

Nitrates: Recommendation by Defense for purchase of 300,000 tons concludes Chilean nitrate matter until construction of new powder plants on west coast.

Rubber: Spot check of wild rubber being carried out by State...Leather and Rubber (Commerce) has reported to Materials (Defense) on re-exports of crude rubber to L.A. countries to aid Defense in formulating policy regarding licensing of exports.

Other Materials:

Coal: Metals and Minerals (Commerce) has prepared analysis of U.S. exports of coal to S.A. from 1914 to 1938 for Maritime Commission.

Cocoa: Interest in Inter-Am. Maritime Conference is delaying progress on cocoa agreement.

Cotton: Textile (Commerce) has furnished Defense with information on availability of Sea Island cotton in the West Indies.

Dairy Products: Meeting of Dairy Industries Supply Assn. Committee on Pan-Am. relations has been postponed until Friday, Dec. 8.

Essential Oils: Representative of the Toilet Goods Assn., Inc. of New York informs Agriculture that necessary supplies of products used in their industry, normally coming from Southern France, have been cut off, and they are looking to this hemisphere for their production. About 170,000 people are annually employed in producing these products.

Pharmaceutical and Medicinal Products: Chemical (Commerce) has prepared detailed compilation of German exports to L.A.

Vanilla: Since there is a bottleneck in obtaining seed pieces for expansion of industry in Puerto Rico, and Mexico has placed an embargo on shipping such pieces, P.R. Experiment Station is seeking them in Guaculoape. They hope to obtain sufficient cuttings to produce at least 80 tons of beans 3 years from now, which would be increasing Puerto Rico's share of U.S. consumption to about 20%.

Economic Development by Countries

Argentina: Recommendation of Interdep. Group with regard to requests by Argentine Mission has been submitted to Secretary Morgenthau for consideration.

1776

Page 3
December 2, 1940

Chile: The prospective \$5,000,000 loan to the Central Bank of Chile and the \$5,000,000 of exchange expected from the proposed purchase of a 300,000 ton stockpile of nitrates should give Chile about \$10,000,000 in exchange. (The recent Fomento credits of \$12,000,000 will be used in part for additional purchases from U.S.) It is felt that the possible copper purchases would meet any additional needs of Chile....Mr. Schnake, Minister of Fomento, returns to Chile today.

Cuba: Substantial agreement has been reached in the Cuban negotiations and an announcement may be expected shortly.

Paraguay: State has received memo on proposed Paraguayan projects.

Venezuela: At request of Venezuelan Government, Agriculture will send group of soil experts headed by Chief of Soil Conservation Surveys to Venezuela to advise on soil conservation matters.

General

Inter-American Development Commission: Two members of the Commission, J. Rafael Creamuno, vice chairman, and George W. Magalhães, will organize 5-man groups in L.A. countries to carry out program of Commission. The first groups which will be selected from industry, finance, agriculture, and the professions will be established in Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. The enterprises of the Commission deal with: (a) exploration and exploitation of mineral resources; (b) cultivating and marketing of cultural and forest products; (c) establishment and development of industrial plants.

British Mission: Discussions with mission continue.

Pan American Highway: In past week several persons have discussed with Coord. office possibilities of furthering Pan Am. Highway construction; one suggestion embodying enlistment of private capital.

Export Insurance: Coord. office has prepared memo on export insurance for Ex-Im.

Inter-American Bank: Meeting may be arranged with heads and operating heads of foreign departments of N.Y. banks to acquaint them with reasons for Inter-Am. Bank.

Tariff Statistics: Commission has made available to Defense statistics on world production, world exports, and U.S. imports of selected strategic and critical materials. These statistics are designed to present importance of L.A. countries as sources.

Page 4
December 2, 1940

COMMUNICATIONS

Movies: Mr. Whitney (Coord.) is in Hollywood in connection with the moving picture program.

Radio: Mr. Francisco, who is now planning to leave on Dec. 13 for L.A., has discussed problem of effective short-wave broadcasting with representatives of State, Navy, Federal Communications, and Education, as well as short-wave broadcasters.

Sports: Coord. office will sponsor the visit of the Chilean Ski Team in this country in February at the invitation of the National Ski Assn. The team will participate in competitions in New England, Sun Valley, and the Pacific coast. Funds for the team's transportation to and from U.S. will be raised by popular subscription in Chile.

Transportation: Mr. Stimson's request that aircraft production for Army and Navy be given priority over expansion of commercial airlines may hinder U.S. airlines from establishing themselves more firmly in L.A. during the war....Coord. has agreed to grant Inter-Am. Escadrille \$18,000 to finance a flight to L.A. for survey of civilian aviation in L.A. and for establishing national groups to carry on cooperative inter-Am. program related to civilian aviation.

CULTURAL

General: Coord. office compiling master list of L.A. libraries, schools, universities, museums, professional, cultural, and scientific societies, etc., to be used in sending books, pamphlets, and other materials to L.A.

Education: Coord. office has approved project to expand L.A. Institute of University of Texas and will make available \$37,500 for this purpose on condition University provides at least some amount of money for continuation of expanded program in subsequent years.

Publications: Active negotiations, working toward substantial reduction of postal book rates to L.A., are in progress between Post Office Dept. and Coord. office....Coord. office will probably aid in financing distribution of free copies of the "Hispanic American Historical Review" to leading literary figures in L.A.

ADMINISTRATION

Robert Newland, loaned by Commerce, will serve as administrative officer of branch office in N.Y. in charge of office management.

Weekly Progress Report No. 11

HSM

GRAY

Saigon via N. R.

Dated December 2, 1940

Rec'd 6:19 a. m.

Secretary of State,

Washington.,

24, December 2, 11 a. m.

Referring to Department's telegram No. 10, November 29, 6 p. m., to Hanoi. Please inform Rubber Reserve Company that Government General accepts offer for 8,000 tons of rubber at prices and under conditions outlined in the Department's telegram under reference provided that buyer arrange for shipping space. Contract signed today with foregoing proviso.

FLOOD

FEG

COPY

EB

TO THE SECRETARY
 DEPARTMENT OF STATE
 WASHINGTON, D. C.

940 DEC 2 11 5 23

RECEIVED
 DEPARTMENT OF STATE

Prepared as of
1/2 + indexed
as of that date

Lindeteves, Inc., Commodity Statements

As of November 23, 1940

STRICTLY CONFIDENTIAL

Orders Placed in the United States.....Schedule I

Deliveries on Orders Placed in the United States.....Schedule II

Current Status of Orders Placed in the United States....Schedule III

Office of the Secretary of the Treasury, Division of Research and Statistics
Prepared December 2, 1940

Source: Lindeteves, Inc.

Note: Cumulative data begin October 19, 1940 and for orders include unfilled orders
as of that date.

Schedule I

Orders Placed in the United States by Lindsteves, Inc.
Classified by Commodity Group

As of November 23, 1940

(In thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Total unfilled orders as of Oct. 19, 1940	Orders placed Oct. 19 to Nov. 2	Orders placed week ended								Total orders to date		
			Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28		Jan. 4	
1. Airframes.....													
2. Airplane engines.....													
3. Airplane accessories.....	96.0	.9	43.5	.8	.1								141.3
4. Total aircraft products.....	96.0	.9	43.5	.8	.1								141.3
5. Machine tools.....	223.1	14.9	29.5	6.1	7.7								281.3
6. Chemical warfare materials....													
7. Explosives & propellants.....													
8. Ammunition.....			12.8										12.8
9. Ordnance equipment.....													
10. Tanks & tank equipment.....													
11. Motor vehicles.....	155.4	66.4	8.7		29.2								299.7
12. Iron & steel.....	675.3	142.3	55.7	81.3	79.3								1,033.9
13. Non-ferrous metals.....	142.2	5.2	7.6	4.6	1.7								161.3
14. Textiles & clothing.....	5.7	1.5											7.2
15. Foodstuffs & tobacco.....													
16. Petroleum products.....													
17. Animals.....													
18. Ships.....	624.4				1.3								625.7
19. Communications equipment.....	20.6		49.1										69.7
20. Timber.....													
21. All other.....	392.2	83.9	75.5	30.0	25.5								607.1
22. Total non-aircraft products...	2,238.9	314.2	238.9	122.0	144.7								3,056.7
23. Total commodities.....	2,334.9	315.1	282.4	122.8	144.8								3,200.0
24. Capital.....													
25. Grand total.....	2,334.9	315.1	282.4	122.8	144.8								3,200.0

Prepared December 2, 1940.

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

Source: Lindsteves, Inc.

Note: Cumulative data begin October 19, 1940 and include unfilled orders as of that date.

Schedule II

Deliveries on Orders Placed in the United States by Lindeteves, Inc.
Classified by Commodity Group

As of November 23, 1940

(In thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Week ended											Total to date	
	Oct. 26	Nov. 2	Nov. 9	Nov. 16	Nov. 23	Nov. 30	Dec. 7	Dec. 14	Dec. 21	Dec. 28	Jan. 4		
1. Airframes.....													
2. Airplane engines.....													
3. Airplane accessories.....	8.8	3.0	1.3	2.1	1.3								16.5
4. Total aircraft products.....	8.8	3.0	1.3	2.1	1.3								16.5
5. Machine tools.....	.7	.6	31.4	1.3	15.2								49.2
6. Chemical warfare materials....													
7. Explosives & propellants.....													
8. Ammunition.....													
9. Ordnance equipment.....													
10. Tanks & tank equipment.....													4.5
11. Motor vehicles.....	1.5	1.1	.6	.3	1.0								265.5
12. Iron & steel.....	74.5	51.0	32.4	71.4	36.2								15.8
13. Non-ferrous metals.....	1.2	3.8	4.2	4.0	2.6								
14. Textiles & clothing.....													
15. Foodstuffs & tobacco.....													
16. Petroleum products.....													
17. Animals.....													
18. Ships.....	*												
19. Communications equipment.....	1.1		5.2	10.4	19.7								36.4
20. Fisher.....													
21. All other.....	20.2	40.3	68.1	51.4	12.6								192.6
22. Total non-aircraft products...	99.2	96.8	141.9	138.8	87.3								564.0
23. Total commodities.....	108.0	99.8	143.2	140.9	88.6								580.5
24. Capital.....													
25. Grand total.....	108.0	99.8	143.2	140.9	88.6								580.5

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

Prepared December 2, 1940.

Source: Lindeteves, Inc.

* Less than \$50.

Note: Cumulative data begin October 19, 1940.

Schedule III
Current Status of Orders Placed in the United States
by Lindstevens, Inc.

Week ended November 23, 1940
Classified by Commodity Group
(in thousands of dollars)

STRICTLY CONFIDENTIAL

Commodity group	Unfilled orders beginning of week	Orders during week	Deliveries during week	Unfilled orders end of week	Total orders to date	Total deliveries to date
1. Airframes.....						
2. Airplane engines.....						
3. Airplane accessories.....	126.0	.1	1.3	124.8	141.3	16.5
4. Total aircraft products.....	126.0	.1	1.3	124.8	141.3	16.5
5. Machine tools.....	239.6	7.7	15.2	232.1	281.3	49.2
6. Chemical warfare materials.....						
7. Explosives & propellants.....						
8. Ammunition.....	12.8			12.8	12.8	
9. Ordnance equipment.....						
10. Tanks & tank equipment.....						
11. Motor vehicles.....	227.0	29.2	1.0	255.2	259.7	4.5
12. Iron & steel.....	725.3	79.3	36.2	768.4	1,033.9	265.5
13. Non-ferrous metals.....	146.4	1.7	2.6	145.5	161.3	15.8
14. Textiles & clothing.....	7.2			7.2	7.2	
15. Foodstuffs & tobacco.....						
16. Petroleum products.....						
17. Animals.....						
18. Ships.....	624.4	1.3		625.7	625.7	*
19. Communications equipment.....	53.0		19.7	33.3	69.7	36.4
20. Fiber.....						
21. All other.....	401.6	25.5	12.6	414.5	607.1	192.6
22. Total non-aircraft products.....	2,437.3	144.7	67.3	2,494.7	3,056.7	564.0
23. Total commodities.....	2,563.3	144.8	68.6	2,619.5	3,200.0	580.5
24. Capital.....						
25. Grand total.....	2,563.3	144.8	68.6	2,619.5	3,200.0	580.5

Prepared December 2, 1940.

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

Source: Lindstevens, Inc.

*Less than \$50.

Note: Cumulative data begin October 19, 1940 and for orders include unfilled orders as of that date.

TREASURY DEPARTMENT

171

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 2, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending November 30, 1940

Summary

(1) Business activity, on a seasonally-adjusted basis, continues to rise. Some distortions in the usual weekly indexes, however, have been caused by holiday influences. The 7-point rise in the New York Times index of business activity during the week ended November 23 cannot therefore be regarded as measuring accurately the extent of recent business gains.

(2) The commodity price rise has tapered off recently. Most futures prices have sagged during the past two weeks, although some commodities, such as zinc, have continued to rise. A somewhat stronger tone appeared in the various futures markets at the end of last week.

(3) Incoming orders in the steel industry continue to exceed production, despite record tonnage output. Steel scrap prices are again rising, having increased gradually over the past three weeks, following a four-week period in which they had held unchanged.

(4) Factory employment in October reached a new high since 1937, while non-agricultural employment has risen by 2,000,000 persons since April, reaching the highest level since 1929. National income payments rose in October to an annual rate of 75.7 billion dollars.

(5) Exports rebounded in October, largely as a result of gains in shipments of aircraft, machinery, and other war materials. Agricultural exports showed a seasonal rise, but still remained at very low levels.

- - - - -

Secretary Morgenthau - 2

Business activity still rising

Business activity, after allowing for seasonal factors, continues to rise, although not at the sensational rate indicated by the spurt in the New York Times index of business activity during the week ended November 23. (See Chart 1.) The movement of the index during that week was apparently distorted to some extent by undue allowance for the Thanksgiving holiday. It should be pointed out that in 16 states, including the important Pennsylvania and New England industrial areas, the holiday was not observed until the following week. Furthermore, the rise came on top of a rather sharp decline in the previous week, which appears to have been due in part to accidental factors.

Nevertheless, ample basis exists for the belief that the sharp upturn in the weekly business index cannot be attributed solely to statistical maladjustments. Thus reference to Chart 1, lower section, will disclose that during the week ended November 23 freight car loadings showed nothing like the sweeping declines which occurred in the corresponding week of 1939. In view of the normal seasonal down trend in freight car loadings, and the observance of the Thanksgiving holiday in 32 states, the decline of only 12,000 cars or 2 per cent in freight loadings during the week is a surprisingly strong showing. On the other hand, electric power production, the most heavily weighted component of the Times index, shows a somewhat greater decline than during Thanksgiving week a year ago. (See Chart 1.)

Another evidence of a continuing upswing in industrial activity may be seen in the curve of automobile production. Contrary to earlier trade expectations, the post-holiday week found automobile production rising to a new high since May 1937, rather than dropping below the levels of the middle of the month.

Barron's index of business activity for the week ended November 23 moved ahead at a slower pace than the Times index, but nevertheless made a very good gain to reach a new high for the year. As a result the index stood at 122.9 as compared with 120.5 in the previous week.

Secretary Morgenthau - 3

In view of the unusually large gain scored by the Times index in the week ended November 23, partly at least due to too great an allowance for the holiday, a reaction seems inevitable for the ensuing week. Moderate declines are indicated for the adjusted indexes of automobile and steel ingot production, but declines in most other components are likely to be sharp.

Steel output still below orders

Although the steel industry continues to produce at a record volume, new orders continue to exceed production. Thus, new orders received by the U. S. Steel Corporation during the week ended November 21 (which included the Thanksgiving holiday) although 18 per cent below the previous week, were still 16 per cent above capacity. In contrast, the Corporation was producing steel during the weeks mentioned at around 99 per cent of capacity.

The industry as a whole maintained an unchanged level of production at 96.6 per cent of capacity during the past week, according to the American Iron and Steel Institute, and operations in the current week are scheduled fractionally higher at 96.9 per cent. Reference to Chart 2, based on Iron Age data, will disclose that a gain last week in the important Pittsburgh district and slight gains elsewhere tended to offset losses in certain other centers. Such losses as occurred probably were due to the necessity of shutting down some open hearths for repairs. The flattening out of production in the Philadelphia district (see chart) may possibly indicate that the capacity of that district has been over-estimated.

Trade comment indicates that orders for construction and for the railroads are increasing, while the automobile industry is using a large amount of steel as a result of its recent heavy volume of production. In connection with demand for steel for construction purposes, it is interesting to note that October orders for fabricated structural steel amounting to 233,000 tons were at the highest level since April 1931, and exceeded shipments of structural steel in that month by nearly 100,000 tons.

The railroads are reported to have ordered about 650,000 tons of rails this fall, and trade sources indicate that 300,000 tons more may be ordered before the end of the year. This volume of orders compares with around 300,000 tons ordered in the last four months of 1939. About 7,500 more freight cars were on order at the beginning of November

Secretary Morgenthau - 4

than a month earlier, although the total on order was still moderately below year-earlier levels. Despite the purchases of new equipment that have been made thus far, a recent report of the car service division of the Association of American Railroads gave evidence of a tight situation in the supply of large box cars, particularly in the west and southwest.

In connection with price trends in the steel industry, the Iron Age reports that more companies are showing a tendency to insert "escalator" clauses in contracts to protect themselves against possible rising costs next year in such items as wages and steel scrap prices. Steel scrap has again begun to rise, the Iron Age composite price having gained 33 cents a ton over the past three weeks, following four weeks of unchanged prices.

New orders index lower

In addition to the decline in new orders for steel previously mentioned, orders for textiles and for products other than steel and textiles also showed declines during the week ended November 23. (See Chart 3.) Much of this decline, however, was probably due to the Thanksgiving holiday. Furthermore, despite holiday influences, the combined index still stood at a relatively high level.

Employment and income payments rise

The rising trend of business activity has brought about a steady rise in employment and consumer incomes, which in turn provides the basis for an increasing demand for civilian goods during the months ahead. The BLS index of factory employment in October reached a new high since 1937, at 109.9. This compares with the year's low of 99.0 in May. Estimated total non-agricultural employment rose to 36,952,000 persons in October from a low of 34,932,000 last April. The published figures perhaps understate the actual rise in employment (and payrolls), owing to difficulties in getting adequate coverage of employees in plants recently established.

The broad total of national income payments is rising gradually. Total payments in October were at an annual rate of \$75.7 billions, as compared with \$75.2 billions in September and a low for the year of \$72.4 billions in April.

Secretary Morgenthau - 5

Retail trade improving

The rise in incomes, combined with other factors, brought a strong increase in retail trade during August. (See Chart 4.) Although during the following two months department store sales and sales by stores in rural areas showed a decided falling off, this has doubtless been a temporary setback. Recently, in fact, department store sales have shown indications of a renewed upturn. Sales in the week ended November 16 showed a gain of 12.8 per cent over last year, and in the week ended November 23 a gain of 8.5 per cent. These compare with only 4.1 per cent gain during the four weeks of October.

The cause of the decline in retail sales in September and October despite rising incomes is not entirely clear. The falling off in rural sales has not been due to lower incomes. Total farm income in October (including Government payments) rose to \$1,125 millions, which compares with \$1,042 millions in October 1939. (See Chart 5.) Rural sales of general merchandise in October (lower section of chart), were slightly below last year.

The September-October decline in retail sales was associated with the intensified bombing of England, the draft, and pre-election uncertainties. It is perhaps not to be expected that the increased employment and payrolls resulting from the defense program should immediately be reflected in retail sales. The previously-unemployed workers brought into factories this fall will doubtless, for a time, use their surplus earnings to pay off debts. Factory payrolls, furthermore, are only a part of the broad total of consumer incomes which affect the volume of retail buying, and which will expand steadily as the effects of the defense program spread to other sections of our economy.

Commodity price rise slackens

Prices of basic commodities, both industrial materials and food products, showed a tendency to level out during the past week. (See Chart 6.) While prices of some commodities (lower section of chart) reached substantially higher levels -- notably shellac, burlap, and coffee -- these were due to special situations. Only five increases were reported during the week in the spot prices of 28 basic commodities, while 12 prices declined.

Secretary Morgenthau - 6

The rise of 6.0 percentage points in burlap prices was due to (1) the sinking of a British cargo vessel in the Indian Ocean by enemy action, which has aroused some apprehension over future supplies among burlap consumers, and (2) the purchase of 60,000,000 sandbags by the Indian Government to strengthen the market, following weakness due to a record jute crop. The rise of 3.5 points in shellac prices followed an upturn in the Calcutta market, due to a growing scarcity of the qualities of shellac used in the United States following a small shellac crop last fall. The scarcity will continue until after the new crop is harvested some time next spring.

A rise of 3.7 percentage points in coffee prices (the BLS quotation is for Brazilian coffee) has been due to action of Colombia in setting minimum prices on exported coffee, and reports indicating that Brazil would follow. These minimum prices are reportedly associated with the quota agreement signed last week in Washington, which is expected to result in higher coffee prices.

A substantial decline in tallow prices appears to have been a reaction from an overbought situation that developed on the recent extensive rise. Rosin prices are also sharply lower, owing to a noticeable falling off in demand since mid-November, and to the expectation of Government loans on naval stores substantially below recent market levels.

Futures prices for most commodities have been sagging over the past two weeks, although a stronger tone was evident at the end of last week. Zinc futures, however, have risen sharply against the trends in other metal markets, despite an increasing rate of production.

Aircraft and machinery feature export rise

The stimulus which various war materials industries have been receiving from export trade is again revealed in the October export figures, which showed an increase in exports of domestic merchandise of \$48,000,000 or 17 per cent. This gain, which was of slightly greater than the usual seasonal proportions, carried the total for the month up to \$336,000,000.

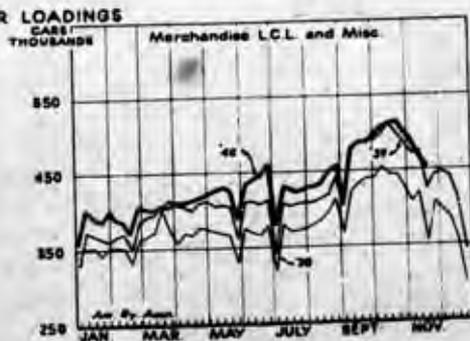
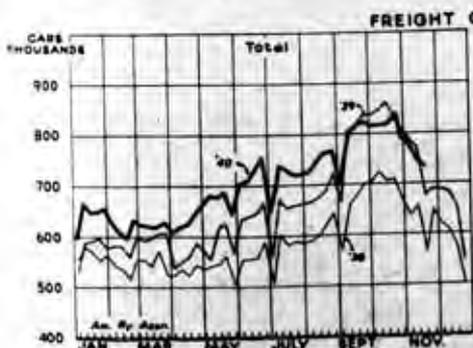
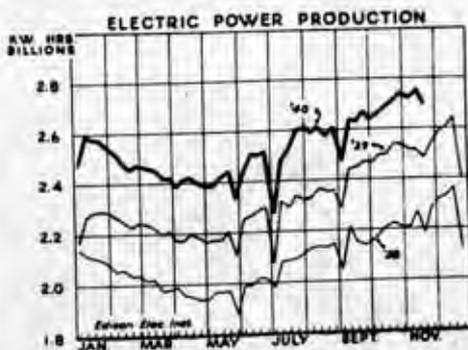
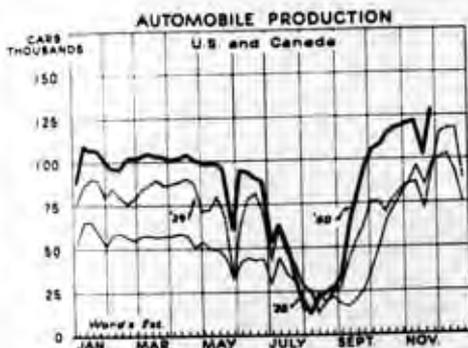
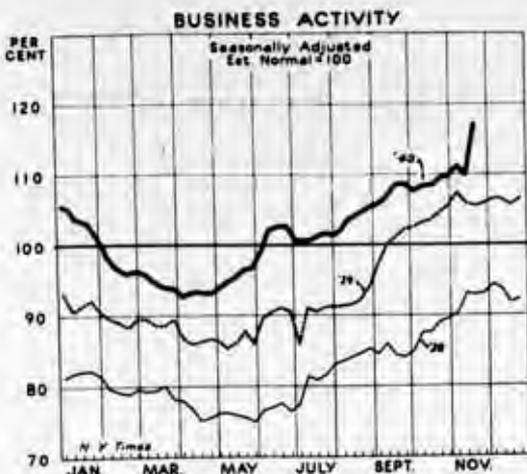
Secretary Morgenthau - 7

Reference to Chart 7 will disclose that the largest gains in dollar value were made by aircraft and machinery, although automobiles, cotton, petroleum products and copper also showed good increases. Following a sharp decline in September, aircraft shipments rose \$8,000,000 to \$31,000,000, the second highest figure on record.

Machinery exports of all kinds also showed an \$8,000,000 rise with about one-half the gain being accounted for by metal working machinery. Iron and steel exports (exclusive of scrap) declined about 6 per cent from September's near-record figure, but still represented around 20 per cent of the month's total steel output.

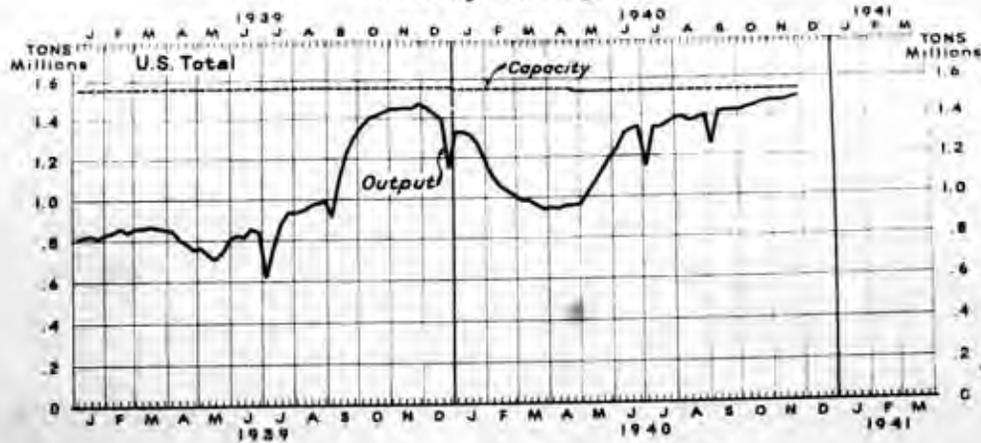
Although agricultural exports rose in October in response to the usual seasonal influences, they continued to account for an unusually small proportion of our total export trade. Thus, despite a rise of 51 per cent over the previous month's unusually low figures, agricultural exports in October still aggregated only \$33,000,000 or 10 per cent of total exports, as compared with 30 per cent in the corresponding month a year ago.

SELECTED BUSINESS INDICES

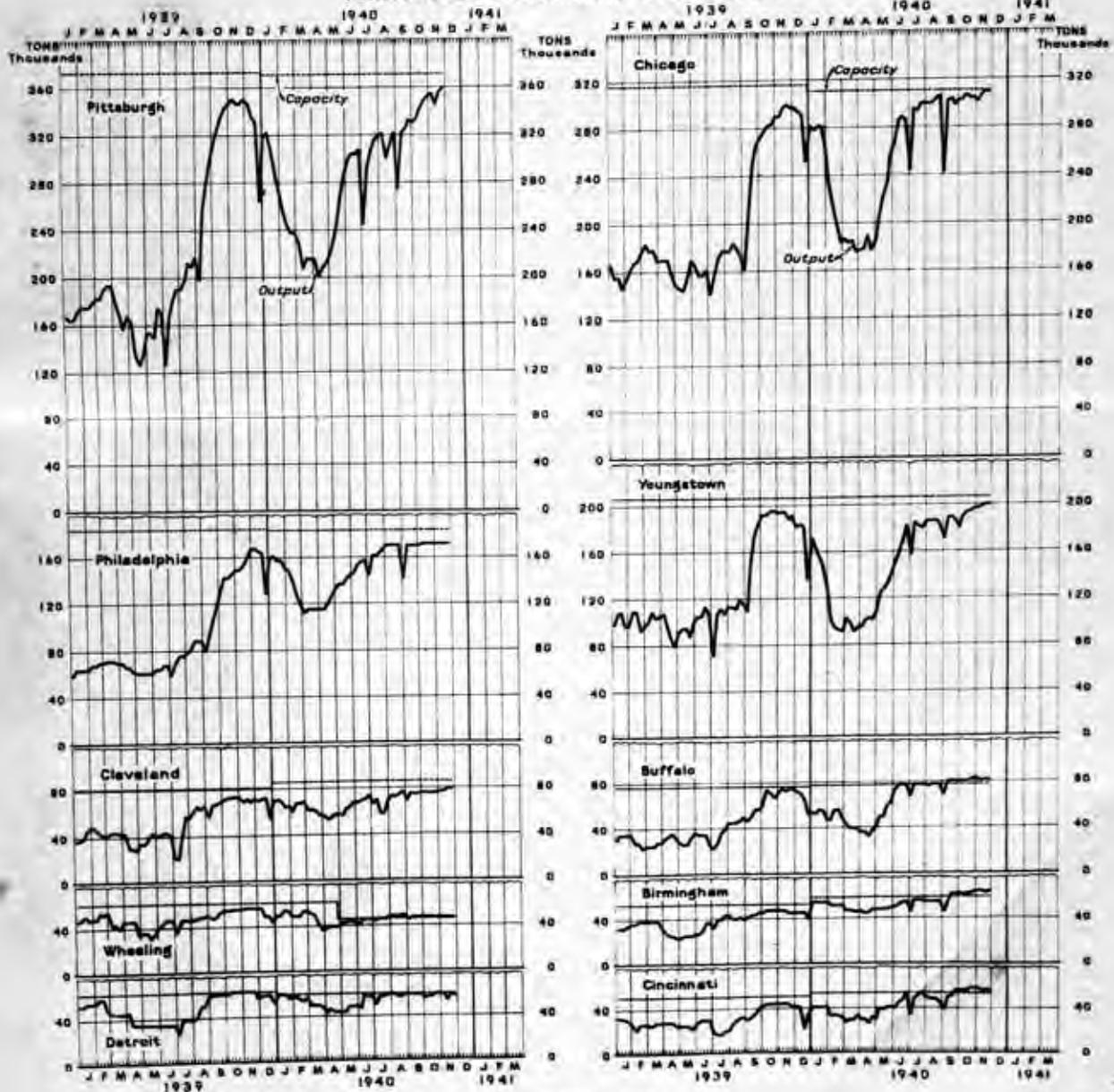


STEEL OUTPUT AND RATED CAPACITY

Weekly Tonnage

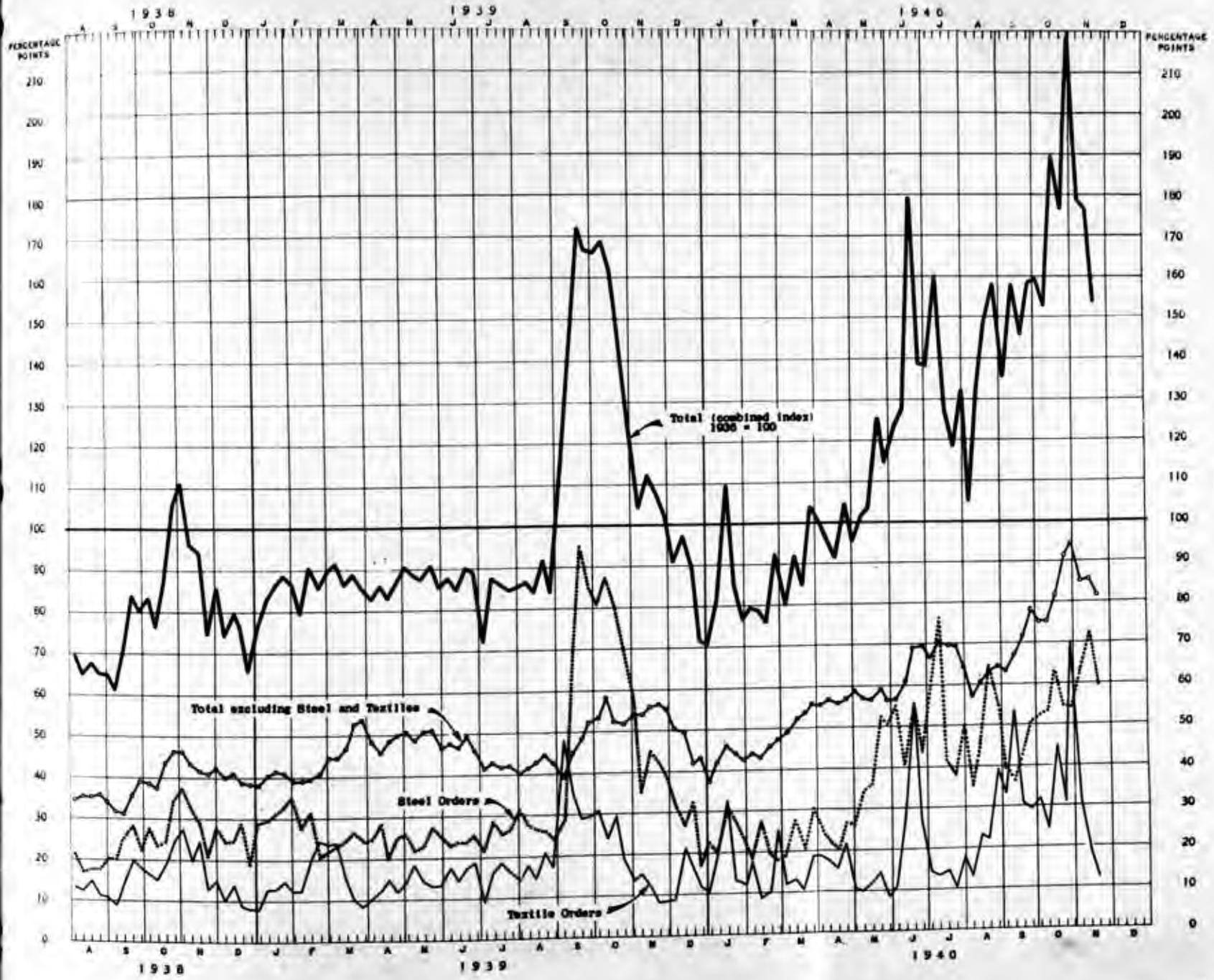


PRINCIPAL PRODUCING DISTRICTS

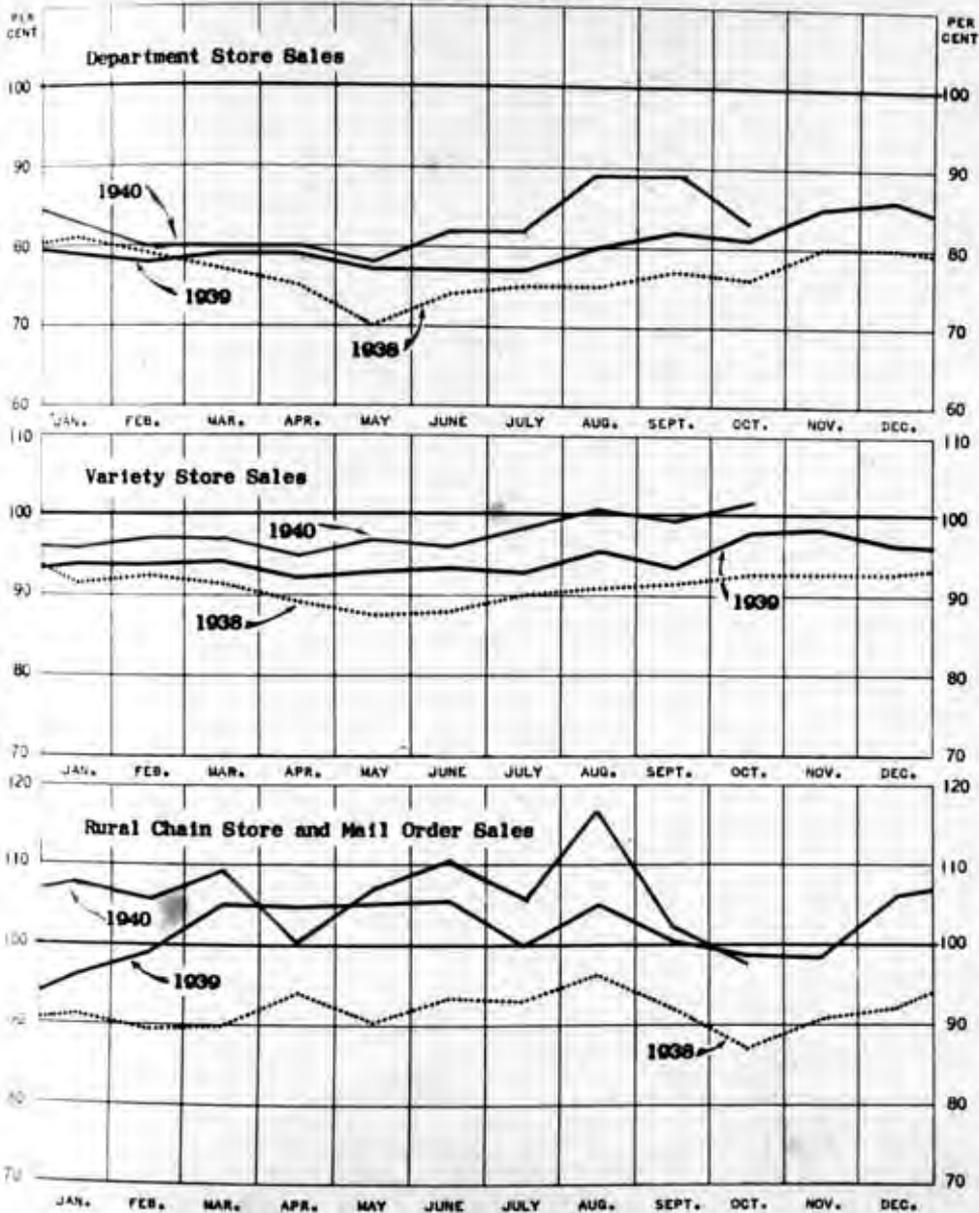


*Based on Iron Age data

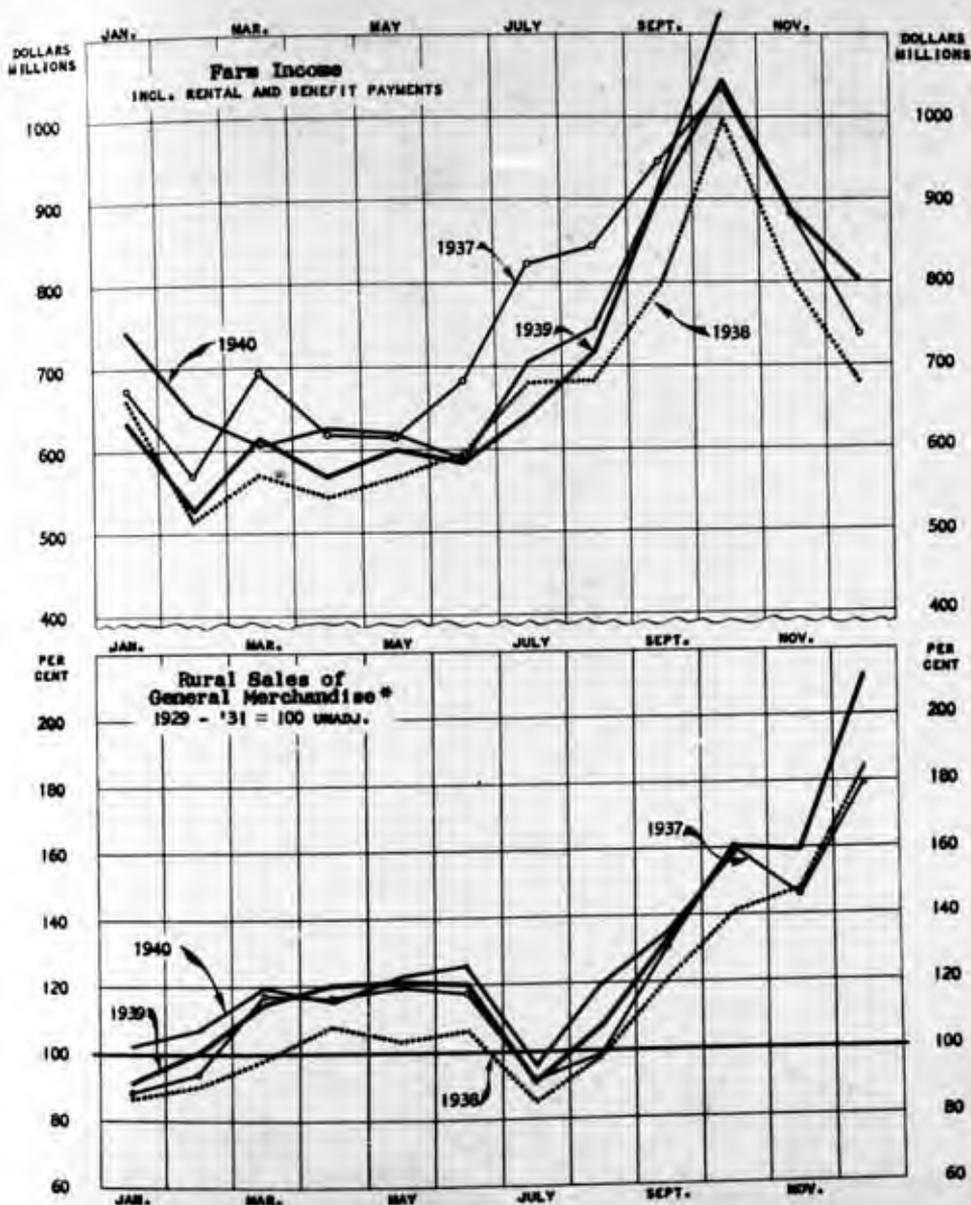
INDICES OF NEW ORDERS
 Combined Index of New Orders and Selected Components



RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted

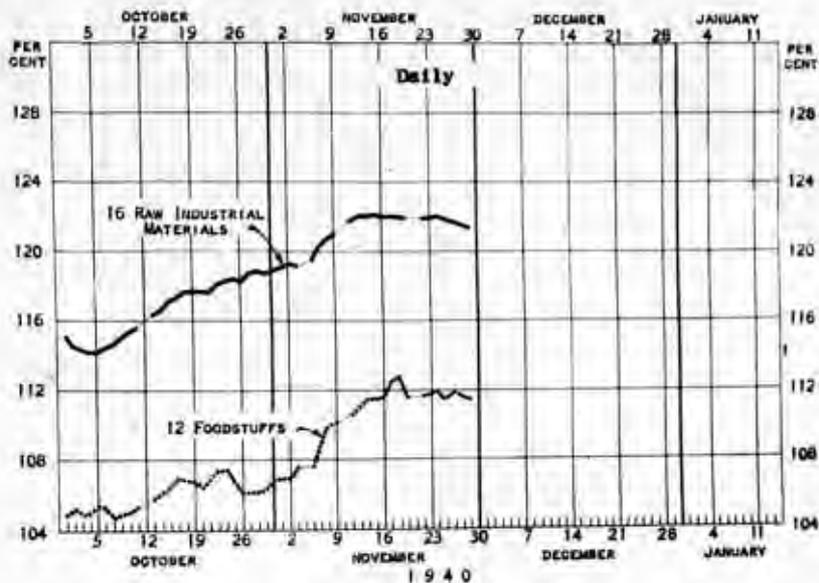
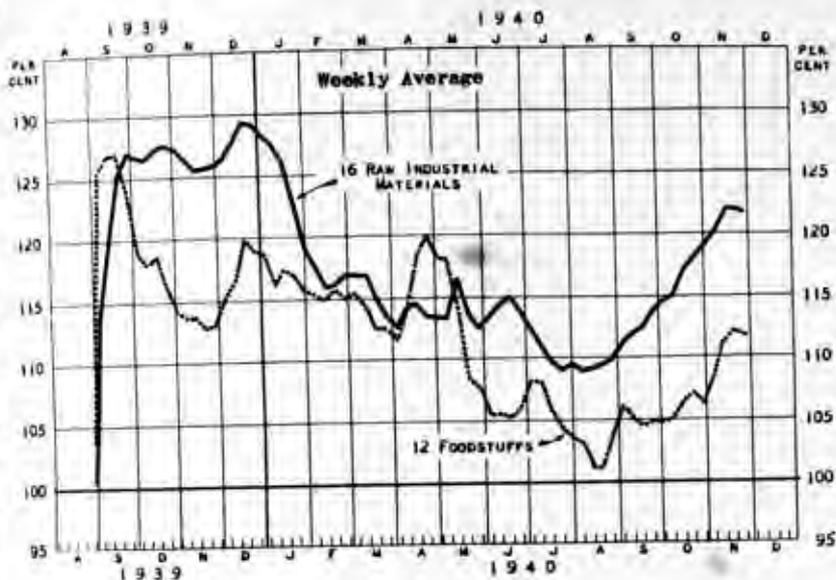


FARM INCOME AND RURAL SALES OF GENERAL MERCHANDISE 182

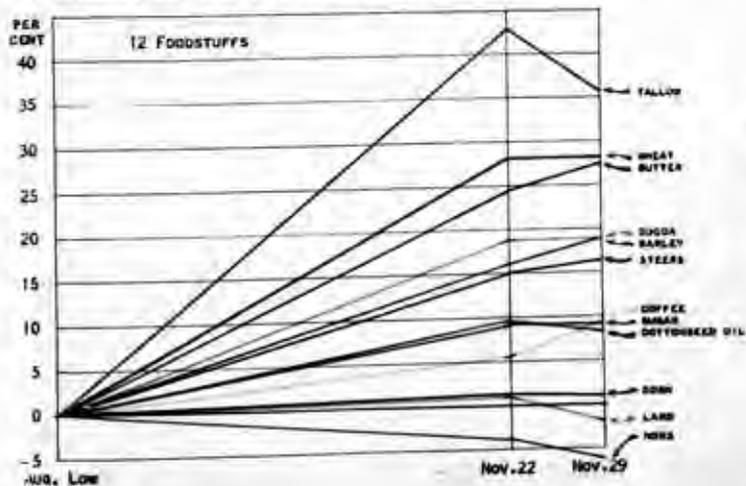
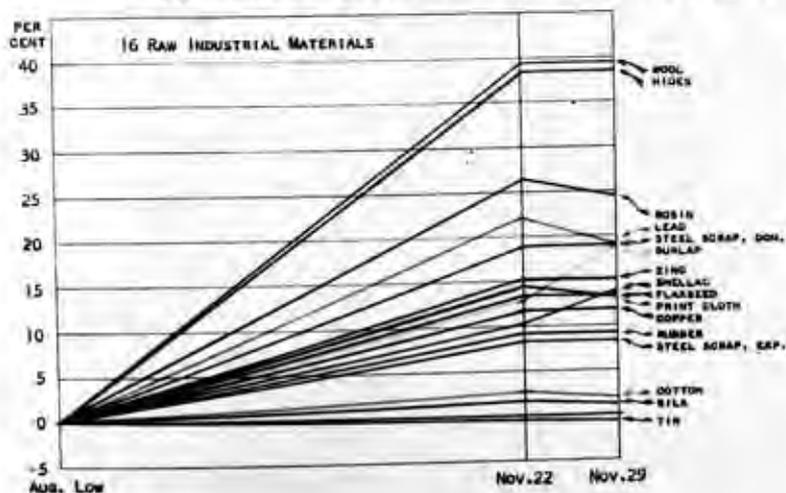


* DEPT. OF COMMERCE INDEX OF DOLLAR SALES OF GENERAL MERCHANDISE IN SMALL TOWNS AND RURAL AREAS

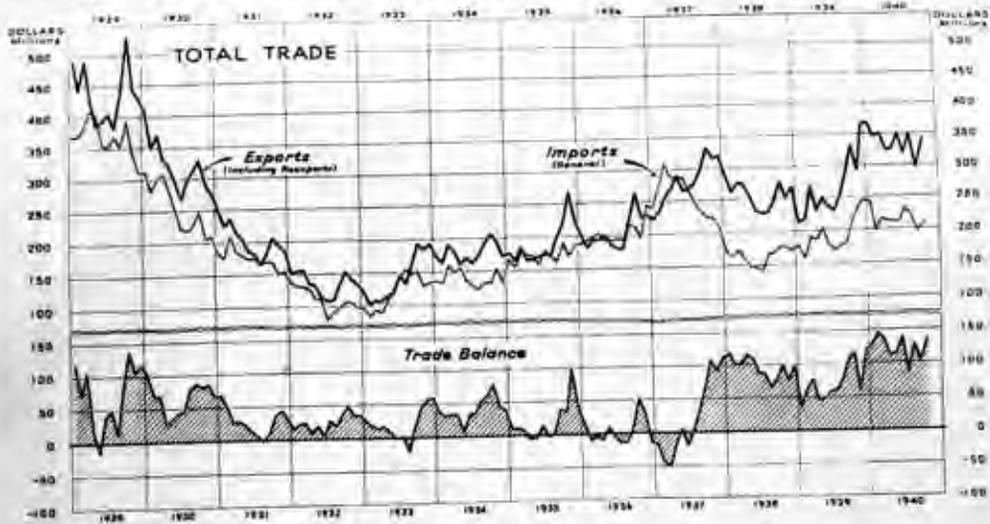
MOVEMENT OF BASIC COMMODITY PRICES
August 1939 = 100



Percentage Change for Individual Commodities, August Low to November 22, and to November 29, 1940



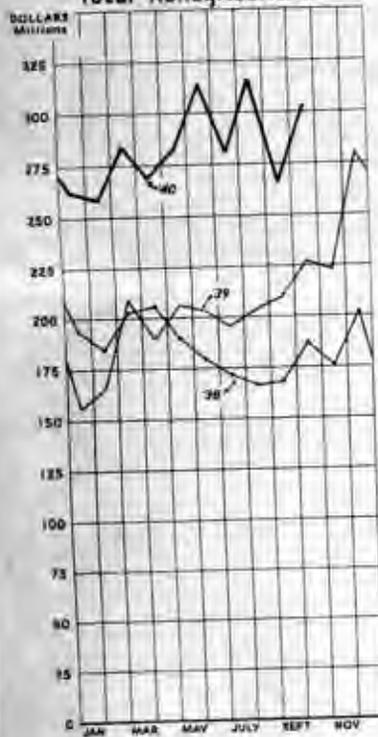
U.S. TOTAL TRADE AND EXPORTS, BY COMMODITIES



EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities

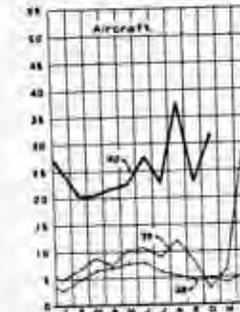
Total Nonagricultural



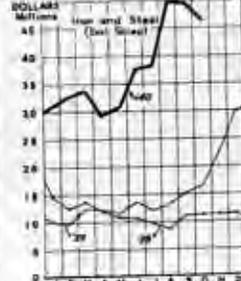
Machinery



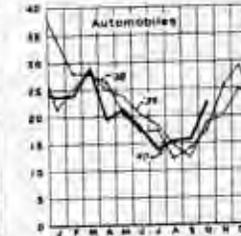
Aircraft



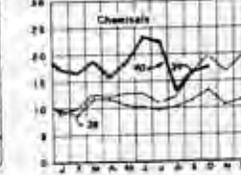
Iron and Steel (Total Group)



Automobiles



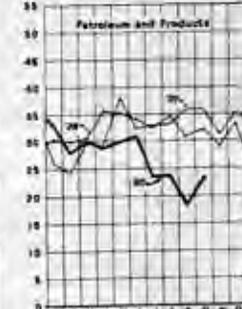
Chemicals



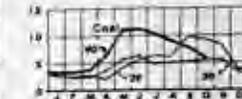
Iron and Steel Scrap



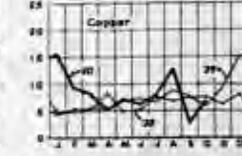
Petroleum and Products



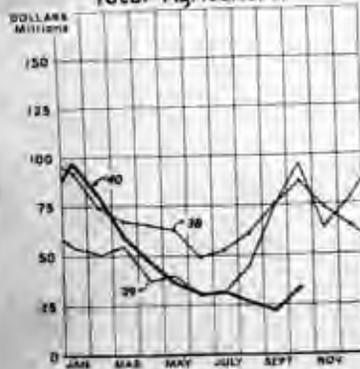
Coin



Copper

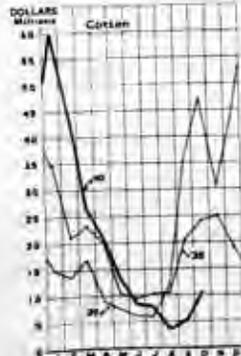


Total Agricultural

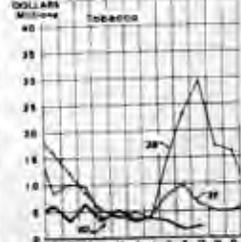


Selected Agricultural Commodities

Cotton



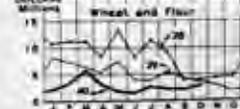
Tobacco



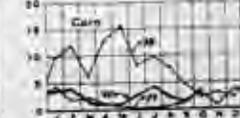
Meats and Lard



Wheat and Flour



Corn



Fruits Dried and Canned



Pages 185-187 (dated Dec. 3 and 4)
placed in Book 335, pages 48-A,
60-A, and 161-A.

See meeting
to discuss
this held on
12/9/40 at
10:45 am,
and 12/10/40

BRITISH FINANCIAL REQUIREMENTS
IN THE UNITED STATES,
DECEMBER 1, 1940

COPY NO. 1

STRICTLY CONFIDENTIAL

STRICTLY CONFIDENTIAL**BRITISH FINANCIAL REQUIREMENTS
IN THE UNITED STATES, DECEMBER 1, 1940.**

These tables provide information relative to the financial requirements of the sterling area for gold and U. S. Dollars. They do not cover the requirements of those parts of the British Empire outside of the sterling area (i.e. Canada, Newfoundland and Hong Kong).

There are four tables: Tables I and II refer only to the needs of the British Purchasing Missions; while Tables III and IV refer to total requirements.

Table I presents a summary of estimated future payments in the United States by British Purchasing Missions as of Dec. 1, 1940. The table covers balances due on existing commitments and estimated commitments involved in additional orders now under discussion, including those at present being negotiated and those in the "X" Program. It does not include the larger airplane, shipbuilding, and other programs that will be forthcoming and will be submitted at a later date.

Table II presents detailed information with respect to the data in Table I, classified by commodity group. The 10-Division Army Plan is classified by itself because of the difficulty of breaking it down into commodity groups; the value shown is based on a War Department estimate. The table also shows the estimated distribution of payments up to August 31, 1941 and subsequently, except for capital on orders to be placed which is not distributed because of the lack of available information. The distribution of the payments for the 10-Division Army Plan is arbitrary, the amounts prior to Aug. 31, 1941 being on account of estimated advances.

Table III shows the total requirements of the sterling area for U. S. dollar payments (excluding any such payments to Canada) between Sept. 1, 1940 and August 31, 1941 (the second year of the war). This table summarizes the needs of the British Purchasing Missions during this period together with the sundry debit and credit items entering into the normal balance of payments.

Table IV summarizes the general position of the sterling area for the second war year. This table cites the net requirements of the sterling area in both U. S. dollars and Canadian dollars taking into account the assistance which the Canadian Government have already given and may yet give in meeting the latter requirement (the balance having to be met in gold). The estimated amount of South African newly-mined gold is also taken into account. The resultant final balance is an estimate of the net amount required by the sterling area in gold and dollars over this period. This represents only the current items of the final balance of payments, and does not take into account any of the existing capital assets which may be liquidated in order to meet the dollar expenditure of the sterling area.

British Embassy, Washington
December 7, 1940

TABLE I

Forecast of Future Payments in the United States
to be made by British Purchasing Missions ^{1/}
Summary Statement
November 30, 1940

(In millions of U. S. dollars)

	Balances Due on Orders Already Placed as of Nov. 30, 1940	Additional Orders to be Placed Now under Negotiation	Additional Orders to be Placed under "X" Program ^{2/}	Sum of Balances Due on Orders Already Placed and Estimated Additional Orders
Commodities				
Aircraft	787	270	1,075	2,132
Non-aircraft	497	955	987	2,439
Total commodities	1,284	1,225	2,062	4,571
Capital	17	10	699	726
Grand total	1,301	1,235	2,761	5,297

British Purchasing Commission,
Statistical Division, New York.
December 7, 1940

^{1/} British Purchasing Commission, British Air Commission,
British Iron and Steel Corp. Ltd., and British Ministry of Shipping.

^{2/} This program is the subject of the financial statement of Nov. 28, 1940, entitled "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 Further Production Facilities required to supplement Existing Capacity."

TABLE II
Forecast of Future Payments to the United States
to be made by British Purchasing Commission /
Detailed Statement
November 30, 1940
(In millions of U. S. dollars)

Commodity Group	Orders Already Planned									Additional Orders to be Planned Now Under Negotiation			Additional Orders to be Planned under "P" Program 1/				Due of Balances Due and Esti- mated Additional Orders			
	Orders Planned Through Nov. 30 1940	Payments Made Through Nov. 30 1940	Balances Due Dec. 1 1940	Estimated Payments					Total Value	Estimated Payments			Total Value	Estimated Payments			Total	Estimated Payments Under		
				Dec. '40	Jan. '41	Feb. '41	Mar. '41	Apr. - Aug. '41		After August 1941	Dec. '40 Mar. '41	Apr. - Aug. '41		After August 1941	Dec. '40- Aug. '41	After August 1941				
																		Aug. '41	1941	
1. Airframes	782.6	302.3	480.3	34.7	37.2	33.3	30.8	208.9	135.4	172.0	48.0	51.0	71.0	685.0	227.0	114.0	254.0	1326.3	775.9	560.4
2. Airplane Engines	475.8	194.6	281.2	24.5	32.3	28.7	29.0	145.7	20.2	69.0	20.0	21.0	29.0	296.0	87.0	46.0	143.0	626.2	434.0	199.2
3. Airplane Accessories	58.2	32.7	25.5	7.0	7.7	2.4	2.5	12.8	2.1	20.0	8.0	9.0	13.0	114.0	36.0	19.0	39.0	149.5	95.4	74.2
4. Total Aircraft Products	1316.6	529.6	787.0	66.2	77.1	64.4	62.3	367.4	157.7	270.0	76.0	81.0	113.0	1075.0	340.0	179.0	556.0	2122.0	1305.3	826.7
5. Machine Tools	139.5	85.4	54.1	16.9	11.2	7.5	4.9	13.7	.2	40.0	10.0	15.0	15.0	-	-	-	-	94.2	76.8	15.3
6. Chemical Warfare Materials	.3	.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7. Explosives & Propellants	40.1	16.5	23.6	1.9	1.8	1.8	1.6	8.3	8.2	20.0	8.0	7.0	5.0	-	-	-	-	43.4	30.4	13.3
8. Ammunition	135.0	32.6	82.4	8.7	6.4	6.2	6.7	33.4	21.1	79.0	25.0	28.0	28.0	107.8	23.0	25.0	39.0	268.4	142.3	106.1
9. Ordnance Equipment	138.7	66.9	69.8	7.5	6.2	5.2	3.7	23.4	23.9	270.0	49.0	58.0	143.0	69.0	26.0	8.0	41.0	408.8	180.9	227.9
10. Tanks	127.4	25.7	102.7	6.0	5.2	7.7	7.1	28.1	47.6	-	-	-	-	100.0	46.0	35.0	25.0	201.7	129.1	72.6
11. Motor Vehicles	42.7	25.0	17.7	4.6	5.9	3.9	.3	-	-	-	-	-	-	-	-	-	-	630.0	270.0	360.0
12. Iron & Steel	243.4	143.4	100.0	30.0	30.0	20.0	10.0	10.0	-	530.0	30.0	140.0	360.0	-	-	-	-	13.3	12.3	1.0
13. Non-ferrous Metals	53.7	38.2	15.2	3.9	3.3	2.0	1.7	1.6	3.0	-	-	-	-	-	-	-	-	.6	.6	-
14. Textiles & Clothing	1.9	1.3	.6	.3	.2	.2	-	-	-	-	-	-	-	-	-	-	-	.2	.2	-
15. Footstuffs & Tobacco	4.6	4.4	.2	.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16. Petroleum Products	.5	.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17. Alkalis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18. Ships	55.9	35.0	20.0	12.2	1.0	1.3	.5	2.3	.5	10.0	10.0	-	-	87.0	23.0	24.0	40.0	117.0	76.3	40.3
19. Communications Equipment	11.8	4.3	9.5	1.1	.8	.8	.7	3.3	3.0	6.0	2.0	2.0	2.0	24.0	8.0	4.0	12.0	39.3	22.3	17.0
20. Fishes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.5	1.3	.3
21. All Other	26.3	24.9	1.4	.3	.1	.2	.3	.5	.3	-	-	-	-	100.0	180.0	98.0	370.0	602.0	230.0	370.0
22. Equipment for 10 Division Army Plan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
23. Total Non-aircraft Products	1022.0	525.2	496.7	93.5	75.0	58.8	37.4	124.0	107.9	955.0	134.0	250.0	571.0	987.0	294.0	146.0	547.0	2428.7	1212.8	1225.9
24. Total Commitments	2338.6	1054.9	1283.7	155.8	147.1	123.2	100.5	491.4	265.6	1325.0	210.0	331.0	684.0	2062.0	634.0	325.0	1103.0	4570.7	2518.1	2052.6
25. Capital	147.7	130.1	17.3	10.0	3.4	.7	.2	2.6	.4	10.0	xxx	xxx	xxx	499.0	xxx	xxx	xxx	526.3	xxx	xxx
26. Capital for 10 Division Army Plan	-	-	-	-	-	-	-	-	-	-	xxx	xxx	xxx	200.0	xxx	xxx	xxx	200.0	xxx	xxx
27. Grand Total	2486.3	1185.0	1301.0	165.8	150.5	123.9	100.5	494.0	266.0	1235.0	xxx	xxx	xxx	2761.0	xxx	xxx	xxx	5297.0	xxx	xxx

Note 1: British Purchasing Commission, British Air Commission, British Iron and Steel Corporation Limited, and British Ministry of Shipping.

Note 2: This program is the subject of the financial statement of November 28, 1940, entitled "Statement of the Estimated Value of Additional Orders to be Planned under the Air, Munitions and Shipbuilding Programs recently under discussion with the Administration together with an estimate of the further production facilities required to supplement existing capacity."

TABLE III

Estimated Balance of Payments of Sterling Area with the United States
and in U. S. Dollars to Countries other than Canada and Newfoundland 1/
September 1, 1940 - August 31, 1941

(In millions of U. S. dollars)

I. Visible U. K. imports from and exports to United States			
A. Gross payments on United Kingdom purchases (visible imports)			
1. Payments by British Purchasing Missions 2/			
a. Actual Sept. 1, 1940 - Nov. 30, 1940			
	(1) Commodities.....	517	
	(2) Capital.....	72	
	(3) Total actual payments Sept. 1, 1940 - Nov. 30, 1940.....		588
b. Estimated Dec. 1, 1940 - Aug. 31, 1941			
	(1) Commodities 3/.....	2,518	
	(2) Capital (on orders already placed) 4/.....	17	
	(3) Total estimated payments Dec. 1, 1940 - Aug. 31, 1941.....	2,535	
c. Total payments by British Purchasing Missions.....			
			3,123
2. Other payments			
	a. Manufactures.....	86	
	b. Petroleum.....	54	
	c. Food.....	54	
	d. Other raw materials.....	97	
	e. Total other payments.....		281
3. Total payments on United Kingdom purchases.....			
			3,404
B. Less gross receipts from United Kingdom visible exports.....			
			164
C. Net balance of visible imports into United Kingdom from United States.....			
			3,240
II. Less net balance of invisible exports of United Kingdom to United States.....			
			16
III. United Kingdom adverse balance of payments with United States.....			
			3,224
IV. Less net receipts from sterling area (excluding U. K.) exports to United States			
A. Gross receipts from exports			
	1. Australian gold.....	74	
	2. Merchandise.....	560	
	3. Total gross receipts from exports.....		634
B. Deduct gross payments on imports			
	1. Visible imports.....	334	
	2. Net balance of invisible imports.....	4	
	3. Total gross payments on imports.....	338	
C. Net receipts from sterling area (excluding U. K.) exports to United States.....			
			296
V. Adverse balance of sterling area (including U. K.) with the United States.....			
			2,928
VI. Add expenditures in U. S. dollars and gold by sterling area in countries other than the U. S. (excluding payments to Canada and Newfoundland 1/)			
			248
VII. Net outgo in U. S. dollars and gold by sterling area (excluding payments to Canada and Newfoundland 1/)			
			3,176

British Embassy, Washington.
December 7, 1940

- 1/ See Table IV, for Canada and Newfoundland.
2/ British Purchasing Commission, British Air Commission, British Iron and Steel Corp. Ltd.,
and British Ministry of Shipping.
3/ See Table II, item 23.
4/ See Table II, item 24. No allowance is made for capital on additional
British Purchasing Mission orders not yet placed.

STRICTLY CONFIDENTIAL

TABLE IV

Summary of the General Position
September 1, 1940 - August 31, 1941

(In millions of U.S. dollars)

I.	The net expenditure of gold and U.S. dollars by the sterling area during the second war year, excluding any gold or dollars paid to Canada, as shown at the foot of Table III, is estimated at		3,176
II.	The adverse balance of the sterling area with Canada and Newfoundland must also be dealt with; for the second war year this is estimated at ...	880	
	Under our existing arrangements the Canadian Government are helping us during the first six months of the second war year to the extent of	<u>150</u>	
	Leaving a balance of	750	
	If repatriation of Canadian securities in the last six months was no more than the first six months, viz. <u>150</u>		
	This would leave to be met in gold or U.S. dollars an amount of		<u>620</u>
III.	On this last assumption, therefore, the amount which will have to be furnished in gold or dollars during the second year of war is estimated at ...		3,796
IV.	Against this may be set the mining output of South Africa during this period, which will be a current addition to the monetary resources of the United Kingdom. It is estimated at		<u>480</u>
V.	The balance remaining is		<u><u>3,316</u></u>

British Embassy, Washington.
December 7, 1940

ARGENTINA

Memorandum submitted by
Argentine delegation

Summary of Attached Statement

The appended memorandum submitted by the Argentine Government to Mr. Bell on November 17 makes the following points:

1. A foreign exchange deficit is anticipated in 1941 of as much as \$160 million.
2. Serious internal difficulties, both sociologic and ideologic would arise from such a situation.
3. The difficult situation may be expected to continue for some time. If the war ends with a British victory, Great Britain, doubtless financially exhausted by that time, would probably continue the barter system. If the Germans win, undoubtedly the barter system will be greatly extended.
4. Argentina believes that gold must continue as the basis of international exchange, that the barter regime must be gradually discarded, that multilateral trade is the only satisfactory form of international commerce, and that Argentina must continue to fulfill its external and internal financial commitments, and must continue to receive productive foreign investments.
5. To accomplish these ends positive action is necessary. Only the United States can take such action.
6. The Treasury Stabilization Fund could play a primary role in a program of consolidating the use of gold throughout the Western Hemisphere.
7. Meanwhile there is the immediate problem of the deficit in the Argentine balance of payments, which must be met as a part of the broad program of cooperation. They suggest:

- (a) Stabilization operations designed to facilitate the inflow of capital
- (b) Long-term low-interest gold loans
- (c) Developmental loans which will create their own capacity to repay
- (d) Triangular operations with Great Britain
- (e) Purchases of surpluses by the United States.

Division of Monetary Research

*Embajada
de la
República Argentina*

CONFIDENTIAL MEMORANDUM

1. The economic situation of Argentina is very serious. It is estimated that next year's exports, from which the life of the country fundamentally depends, will only reach 60% of normal figures. A part of those exports will continue to be paid in blocked exchange. There is a growing deficit in the balance of payments in free currencies. If no measures are taken to correct it, the deficit may amount to 160 million dollars in 1941, that is, nearly half of our remaining gold reserves after deduction of the specie being exported at present to continue the fulfillment of the debt services and meet the adverse trade balance of the current year.
 2. If so far totalitarian ideologies have only caught on in small groups of opinion without national significance in our country, there is little doubt that the social and economic ills resulting from such a situation would give them considerable impulsion. This fact must therefore be duly borne in mind. Our Government is prepared to meet these difficulties with a plan of internal economic recovery. But this plan cannot by itself, solve and eliminate wholly these grave latent dangers.
 3. Some of these complications are not new in Argentina; they already existed but they have grown considerably worse. Our exports have remained stationary since before the world crisis, and during the last few years an increasing portion of our foreign trade has been carried out under the oppressive barter
- ////

system. The continuation of the war will involve us more and more in this system and the cessation of hostilities will in no way solve the problem. If the war ends with a British victory it cannot be conceived that Great Britain, doubtless financially exhausted by that time, would swiftly abandon the barter system which she will have learned to operate with great skill. If, on the other hand, the war ends with a German victory it is not difficult to imagine what form trade with the Reich will presumably assume since we will not be able to elude the necessity of selling our export surpluses accepting payment in blocked marks with the incalculable implications that this would surely entail.

4. It is not merely a temporary or circumstantial problem which we set forth in this Memorandum. The question is far deeper and it affects the whole economic, social and political structure not only of Argentina but also of the other American countries which are in a similar position. We are faced with the possibility of seeing the disappearance of the fundamental principles in which we have always believed, principles which could only be saved by the decisive action of the United States in promoting a vigorous continental cooperation. We believe that gold must continue to be the basis of the international monetary system and we do not desire to be increasingly tied to the barter regime as a consequence of further losses of our gold reserves. We believe that the fulfillment of the internal and external financial commitments is essential for the economic development of our country and we are willing to continue in this respect our traditional policy. We agree that multilateral trade is the only satisfactory form of international commerce and

////

would like to emerge as soon as possible from the bilateral system or to lessen at least its more pernicious consequences. We might point out that circumstances have forced this system upon us in recent years and that we have therefore no responsibility in its promotion. And finally we believe that in order to raise the standard of living in our country we must not only continue but strengthen our policy in favour of investment of productive foreign capital, insuring stability of conditions, free transfer and equality of treatment with national capital.

5. All this requires bold and positive action. The passive attitude of pointing out the evils is not enough. A definite policy of economic cooperation is necessary. Circumstances have never been more favourable for such a policy nor has it ever been more necessary: the international situation, the common adherence to the principles of the good neighbour and the enormous continental prestige of President Roosevelt.

6. Neither Argentina nor any other American country can escape the disastrous consequences of barter trade, unless a continental monetary system based on the dollar is solidly organized, assuring the free movement and use of gold. We must avoid falling into the practices of barter in our effort to get out of the consequences of rival systems of barter. We must not evolve any system that may deprive a country of the possibility of selling its exportable surpluses in the market which it may find most advantageous. This does not mean of course that arrangements between producing countries for the selling of individual products may not be desirable. The Exchange Stabilization Fund could play a primary role in the organization of this conti

////

mental exchange system which, apart from its direct advantages would allow the United States to consolidate the essential functions of gold throughout the continent irrespective of the attitude that Europe may adopt in this fundamental question after the war.

7. A long term plan of continental economic cooperation - within the aims of the Government of the United States as enumerated more than once by the Secretary of State The Honorable Mr. Cordell Hull - has necessarily to be based on a previous settlement of the exchange and monetary problems and in the development of trade within the continent. In so far as we are concerned, we are convinced that in the course of a few years we could develop a flow of new exports to the United States of non-competitive mineral or manufactured products, provided certain permanent facilities, such as the binding of custom duties were assured to us. Thus some of the present acute problems which are now of difficult or impossible solution would pass to a secondary level. This is essential.

Loans are a mere momentary expedient. Only the increase of trade and investments creates solid ties.

8. Meantime we have before us the immediate and pressing problem of the deficit in our balance of payments. Import restrictions cannot be applied too drastically or carried too far without serious injury to our economic activities and without unfavourable repercussions abroad. Therefore in order to mitigate or altogether avoid these consequences we propose a discussion of the following possibilities or alternatives, within the scope of the Agenda prepared by the Treasury:

a) Measures of monetary cooperation and control of foreign funds. Argentina offers a vast field for the productive

investment of permanent capital of the United States. But capital is not invested in the desirable quantities on account of possible transfer hindrances and instability of the rate of exchange. If we could eliminate these risks, the flow of capital could increase considerably. There is in effect a vicious circle: capital does not flow in because of the exchange uncertainty and there is uncertainty of exchange because capital does not flow in. If the Exchange Stabilization Fund would cooperate with our Banco Central to afford this assurance, the problem could be solved. The arrangement could work as follows: the Exchange Stabilization Fund would buy pesos in the necessary amounts to cover any dollar deficit arising between the amount of new capital and the volume of the regular remittances of existing capital. The Banco Central, in its turn, would guaranty the remittance of those services at a stable rate of exchange; should the amount of new capital investments be greater than the amount of the services to be made, the Banco Central would repurchase the pesos from the Exchange Stabilization Fund and would form an adequate dollar reserve. This arrangement could only refer to permanent investments so as to avoid the inflow of great masses of floating funds. An arrangement of this nature might assume considerable importance and may clear the way for the general solution of the long term problem.

b) Long term gold loans at a low rate of interest. We would be prepared to mobilize or set aside an important part of our metallic reserves to cover the service of the gold lent to us, during a sufficiently long period of time as to tide us over the difficulties of the probable duration of the emergency. Long term and low interest are essential in order not to overburden

////

the service of our foreign debt. Naturally if these loans were granted to an extent large enough to convert our United States debt, our situation would improve appreciably.

c) Export and Import Bank loans at reasonable terms and at low interest rates. In the amortization of these loans the exchange resulting from the export of our new products or from the increase in the exports of non-competitive products, could be used, without prejudice to the use of other sources of exchange.

d) Triangular operations with Great Britain. The frozen sterling resulting from our present exports to Great Britain or from the purchase of surpluses which Great Britain might effect in Argentina - in accordance with and subject to a plan which may be evolved - would be used in the purchase of Argentine securities in British hands, especially railway securities. If on this basis the United States would grant us loans, we could thereby improve our exchange situation and at the same time extend the program of repatriation of securities on much more favourable terms inasmuch as we would pay Great Britain in dollars and

e) Purchases of surpluses by the United States.

W. These suggestions are in no way exclusive of any other which may be found to be mutually satisfactory. But it would at all events be advisable not to lose sight of the long term problem. Temporary solutions should rather constitute the initial stage of a program of this nature. It is our duty to express in all frankness that the immediate solutions must be based on the faith in the fulfillment of our commitments and on the confidence in the economic future of Argentina. We feel we deserve that faith. We have made in the past and shall make in the present every necessary sacrifice to continue to deserve the faith

placed in us. As regards our economic future only a plan of continental cooperation, boldly launched by the United States, can save the Nations of this Continent from a precarious autarchy or from the subordination of their foreign trade to systems of barter of dangerous and far reaching implications.

Washington, November 16th. 1940

Rec'd in Treasury
Sunday Nov. 17th (12:22 pm)
and delivered to Secy's
office 8:15 am Nov 18th
DWB

White's memo -Argentine
Situation - Summarized

TREASURY DEPARTMENT

205

INTER-OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: The Argentine Situation - Summarized.

1. Argentina will be short of dollar exchange to the extent of \$80 million to \$100 million in 1941, under the following assumptions:
 - (a) That Argentina will be able to cut her imports from the current rate of about \$400 million annually to \$320 million. (Details of this estimate are in an appended memorandum.)
 - (b) That Argentina will obtain no gold or free foreign exchange from her exports to England.
 - (c) That service payments (\$40 million to the United States, \$50 million to England and \$10 million to Switzerland) will continue to be made as formerly.
 - (d) That exports to the United States will be increased by 20 to 30 percent.
 - (e) That the \$20 million loan from the Export-Import Bank will be available to pay for imports in 1941.
 - (f) This estimate does not include any new armament program.
 - (g) It does not provide for any expenditures by the United States on naval bases in the Argentine area.

2. What are Argentina's dollar exchange assets?
 - (a) Argentina had \$390 million in gold and \$14 million in free foreign currencies as of November 15, 1940. She must have \$100 million to fulfil statutory reserve requirements. Her holdings of foreign securities are negligible.

- (b) After the year-end settlements, Argentina will have blocked sterling balances to her credit of about 2.5 million pounds. By the end of 1941 the British expect Argentina's blocked sterling balances to total 9 million pounds. They are willing to have Argentina repatriate securities to reduce this balance. The Argentines hope British exports will be large enough during 1941 to prevent a sterling balance. The British would presumably be unwilling to allow the conversion into dollars of any portion of this balance unless, in return, they could obtain dollar credits in some fashion.

3. Budgetary Situation

The budgetary situation is much like ours. There will be a deficit on ordinary budgetary account in 1941 of 220 million pesos with expenditures of 1,090 million pesos plus an additional deficit of 220 million pesos on account of special public works expenditures.

4. Foreign Debt

The total debt of the Argentine National Government was \$1,428 million at the end of 1939, of which \$367 million was external debt. The debt of the provincial and municipal governments totals \$697 million, *additional*.

None of the national debt is in default. Only two municipal dollar issues and one provincial dollar issue are in default.

5. Foreign Investments in Argentina

Foreign investments in Argentina run \$2 billion to \$2.5 billion, of which the British have 65 percent and Americans 25 percent.

6. Possibilities for Developing Argentine Industries With Foreign Capital

- (a) Argentina used to receive about 150 million pesos annually of private capital for investment in the Argentine. This has disappeared since the existence of serious exchange difficulties. Argentina has recently received

a small amount of refugee capital, some fleeing Europe and some fleeing the United States in fear of blocking. Prospects for renewed private investment are remote unless exchange difficulties can be solved and even then the amount of private investment may not be large--possibly 10 to 25 million dollars during 1941.

- (b) The projected industrial development program, if financed by loans from the United States, would result in heavy imports of industrial equipment during the development period. This would be in addition to the dollar exchange requirements specified above. If not all such loans were required to be spent in United States they would help Argentina's exchange situation.

7. How long will the deficit in dollar exchange continue?

We believe that the deficit in dollar exchange for 1942 and possibly for subsequent years may be as large or larger than that estimated for 1941.

Argentina will probably continue to have the sterling proceeds of her exports to Britain blocked whether the war continues or not. The occurrence of peace will tend to reduce dollar requirements only in so far as Argentina is able to obtain from European countries some of the commodities which, in the interim, she has been importing from the United States.

8. Tentative conclusions reached by the Jones Committee

The Jones Committee has tentatively recommended that \$100 million be extended to Argentina. Of this \$50 million would be supplied by the Export-Import Bank.

The remaining \$50 million to be supplied by United States Stabilization Fund operations if the Secretary of the Treasury were to approve.

There was much talk of facilitating repatriation of Argentine sterling securities, but no definite plans were agreed upon.

Nothing was stated definitely as to Argentina's part of the bargain, but the following were mentioned: a trade agreement, non-discriminatory treatment of American exports, possible military cooperation as to bases, cooperation as to foreign policy and to subversive activities.

THE ARGENTINE SITUATION

11-22-40

1. Dollar requirements in 1941

Argentina will be short in her trade with free exchange countries on trade and service account to the extent of \$80 million to \$100 million of dollar exchange.

(a) Trade with free exchange areas.

The following table is based on the best estimates which can now be made as to Argentine exports for 1941 and upon the Argentine estimate of the extent to which they can cut their imports. They have submitted figures showing that if necessary they can cut their imports to \$300 million for 1941 as compared with \$400 million at current levels:

	<u>Exports to</u>	<u>Imports from</u>	<u>Deficit in Balance</u>
	(In millions of dollars)		
United States	\$90+	\$120	\$30
Canada	<u>5</u>	<u>5</u>	<u>-</u>
Total	\$95	\$125	\$30
Other American Republics	\$35	\$ 45	\$10

The total excess of imports requiring dollar exchange is estimated to be about \$40 million for 1941. This estimate is, it must be emphasized, based upon the assumption that Argentine imports will keep to the minimum level of \$300 million and that exports to the United States will increase about 10 percent above the current level. The Argentine statement that they are considering cutting their imports from the 1940 level by about 25 percent in value amounts to a cut in volume of imports by perhaps 35 percent.

Should Argentina obtain a smaller amount of imports from Great Britain than she anticipates, she might have to increase her imports of similar articles from the United States and other places. If this should prove possible, the deficit in dollar exchange would be higher than the \$40 million estimated above.

(b) Invisible items to free exchange areas.

According to Argentine estimates (which agree with ours), payments on invisible items to the United States in 1941 will amount to \$40 million.

These are split into approximately \$20 million for interest on the public debt and \$20 million for return on private investments and other financial services.

The Argentine balance on invisible items with other free exchange countries is not known, but this would not be an item of much magnitude.

Total dollar exchange actually required.

Argentina will require, as stated above, \$40 million for payments on invisible items, plus \$40 million to meet the deficit on trade account, giving a minimum dollar requirement during 1941 of approximately \$80 million.

(c) Trade with non-free exchange areas.

Although Argentina's balance of payments with non-free exchange areas does not bear directly on the question of her current dollar exchange needs, they are of interest in connection with the broader problem and therefore are given below:

Our estimates of the trade situation with non-free exchange areas is shown in the following table:

Argentine Exports and Imports for 1941

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
	(Millions of dollars)		
United Kingdom	\$160	\$90	+\$70
Other European and Asiatic Countries	20	30	- 10

(d) Total exchange position with non-free exchange areas.

With maintenance of payments on invisible items to Great Britain and Switzerland amounting to the equivalent of \$60 million annually, Argentina will have, under fairly severe curtailment of imports, a sterling surplus with Great Britain on trade account of \$70 million and a deficit on trade account with other countries of the equivalent of \$10 million. Therefore, in the non-free exchange area as a whole Argentina may be expected in 1941 to balance her international payments.

Treasury Department
Division of Monetary Research

Argentine Estimate of Dollar Requirements

This figure of \$80 million is substantially lower than the Argentine estimate of \$160 million. The discrepancy between the Argentine and our estimate arises from the fact that the Argentine estimate is based upon an assumption of exports to the United States at the level of approximately \$60 million, whereas Argentine exports to the United States are currently running at \$80 million, and we estimate them at \$90 million for 1941. Furthermore, the Argentine figure is based on an estimate of imports from the U. S. of \$175 million, whereas their proposed cuts reduce them to \$120 million.

Argentina's exports to the dollar exchange areas have been increased over the level of 1940 for the following reasons:

1. The United States defense program is likely to increase the national income in the United States and result in larger all-around imports.
2. It is also leading to systematic efforts to increase imports of strategic and other scarce commodities from the Western Hemisphere.
3. Argentina herself is paying more attention to the United States market and may be expected to develop some new trade here.

Conclusion on essential dollar requirements of Argentina for 1941.

The conclusion reached in the above estimates is that Argentina's need for dollar exchange will be \$80 million during 1941. Trade and service payments to the non-free exchange areas will approximately balance and even if they do not balance, there will be no need for dollar exchange on account of these transactions.

Because it is difficult to estimate accurately Argentina's exports and imports with dollar exchange areas, it is best to think of Argentina's dollar requirements for 1941 as being in the neighborhood of \$80 million to \$100 million. Of course if the Argentine estimate of the amount to which they can restrict imports is shown to have been excessively optimistic, the shortage of dollar exchange may be much higher than \$80 million to \$100 million.

Treasury Department,
Division of Monetary Research.

2. What are Argentina's dollar exchange assets?

Argentina has an ample gold supply -- \$400 million -- to meet a drain of dollar exchange of the size estimated above for one year and probably for two years. Legal currency and deposit reserves amount to approximately \$100 million but if the gold drain approached within \$100 million of this figure, the ensuing loss of confidence would probably cause the Argentine Government to take drastic measures to restrict the flow of gold.

(a) Gold and foreign exchange

According to the Argentine Government's estimate, their gold and foreign exchange assets on November 15, 1940, were as follows:

	<u>Paper pesos</u>	<u>Dollars</u>
	(In millions)	
Gold at home.....	1,096	326
Gold abroad.....	202	60
Gold in transit.....	16	4
Free foreign currencies.....	47	14
Blocked sterling.....	83	25
Blocked francs.....	21	6
Blocked marks.....	<u>5</u>	<u>1</u>
	1,470	436
Of which:		
In the balance sheet of the Central Bank.....	1,353	403
Not included in the balance sheet of the Central Bank.....	117	33

* Book value of gold at home has been converted into dollars at the official buying rate of exchange.

The blocked foreign exchange is currently of no use in meeting their dollar exchange problems and the total blocked foreign exchange (\$32 million) is being rapidly reduced in the year and settlements so that there is apparently little need on the basis of the current situation to attempt to work out ways of converting this blocked exchange into free exchange. The British-Argentine agreement will furthermore make it possible for the Argentines to use the blocked sterling, if any, which they will accumulate in repatriation of their own securities.

Subtracting blocked foreign exchange from the total, Argentina possesses approximately \$404 million in gold and free foreign currencies, of which \$390 million is in gold. Argentina must keep \$100 million to fulfill statutory reserve requirements.

(b) Argentine holdings of foreign securities.

No information is available on Argentine holdings of foreign securities, particularly dollar securities, but the statement of Mr. Prebisch is that these are negligible.

Treasury Department, Division of Monetary Research.

- 5 -

(c) Repatriation of Argentine securities

If Argentina succeeds in the coming year, because of arrangements with the British or other countries, in repatriating any large volume of its foreign securities, and in obtaining from the United States a loan based in part upon these repatriated securities, the interest and amortization will create an additional need for dollar exchange. Of course, the loan itself will take care in part or in whole of the expected deficit in dollar exchange.

(d) The blocked sterling problem

The British anticipate that by the end of 1941, the blocked sterling balance to the credit of Argentina will be £9 million pounds. They are willing to have Argentina repatriate securities to this amount. However, they would presumably be unwilling to allow conversion into dollars of any portion of this balance unless in return they could obtain dollar credits in some fashion. Argentina hopes that British exports will be large enough during 1941 to prevent a sterling balance.

Great Britain would perhaps be willing to increase her purchases from Argentina if suitable financial arrangements could be made. If the United States were willing to increase credits to Argentina on the basis of securities repatriated from the British Argentina would be able to take more securities and would be enabled to increase her sales to the British. The British on their part would like to see some portion of an American loan used by Argentina for the purchase of more British goods.

3. Budgetary situation

Excluding the projected new investment program and the projected developmental program, the budgetary picture of Argentina is practically the same in 1941 as in 1940. Though the 1940 budget contained a deficit, it was small enough to create no financial difficulties.

The budgetary situation as given to us by the Argentines is shown in the table below:

	Years	
	1940	1941
	(In millions of paper pesos)	
Budget to be covered by revenues		870
Revenues.....	935	
Expenditures.....	1,085	1,090
Deficit.....	150	220
Budget to be covered by sale of bonds		220
Income.....	181	220
Expenses.....	223	-
Deficit	42	

Treasury Department,
Division of Monetary Research.

Net Deficit 440

It envisages a deficit on ordinary account for the year 1941 or approximately 220 million pesos or \$70 million. This deficit compares with one of 190 million pesos for 1940. This estimate does not include any of their projected armament program totaling \$330 million for ten years. This has just gone to the Congress. It also makes no account of possible loss (\$15 - \$20 million) in customs revenue through curtailment of imports.

4. Foreign Debt

None of the national debt is in default. Of the provincial debt only one dollar issue is in default. Of the municipal debt only two dollar issues are in default. Of the sterling debt, only one provincial issue is in default.

The foreign debt is composed as follows:

	Dollar Debt	\$193 million
National Debt		65 "
Provincial Debt		5 "
Municipal Debt		
	Sterling Debt	
National Debt		44 "
Provincial Debt		18 "
Municipal Debt		2 "
	Other	
National debt in Swiss francs		132 "
National debt in pesetas		80 "

5. Foreign Investments in Argentina

The total amount of foreign investments in Argentina runs \$2 billion to \$2.5 billion, of which the British hold approximately 65 percent and the Americans 25 percent.

The British hold \$240 million of government securities, \$1,060 million of railways, \$120 million of other utilities, and \$140 million miscellaneous.

American direct investments run \$400 million and holdings of government securities (national and local) \$230 million.

Remission of earnings has not been curtailed since 1933.

Treasury Department
Division of Monetary Research.

6. Possibilities for development of Argentine industries with foreign capital

a. Development Program

The Argentine delegation has promised a statement on their developmental program. Preliminary information indicates that salient objectives will be construction of oil pipe lines, re-organization of railways which are badly in need of physical improvement, electrification, development of water power, the development of industries to produce goods for Western Hemisphere exports; the development of industries to produce goods for home consumption which are now imported. Their very preliminary and tentative estimates of the amount of capital which they would need and could use over the next three years is between \$150 to \$200 million for long-term developments, a substantial portion of which, possibly from one-third to one-half, would be used for imports from the United States.

In the first phase of any such developmental program there is need for increased imports, particularly of machinery and raw materials. It is the consensus on the American side that such a developmental program could not result in a net decrease in customary imports in any period shorter than five years. (During the five-year period there would, of course, be an increase of imports on account of the developmental program.)

b. What are the chances of capital flowing to the Argentine during the next few years?

In normal years Argentina used to receive approximately 150 million pesos for investment in the Argentine. But this amount has been virtually wiped out as a consequence of the serious exchange difficulties of the past few years. This last year, however, she received probably from \$15 to \$25 million gross of refugee capital, some of it fleeing Europe and some of it fleeing the United States in fear of blocking.

So long as Argentina's exchange picture looks as bad as it will in the next few years -- unless assistance is granted, there is little possibility that private capital will seek investment in Argentina.

If, however, arrangements are made giving to the prospective investor a reasonable assurance of exchange stability and freedom from exchange restrictions, it is not unlikely that during the next few years from \$25 to \$100 million of private capital may flow to the Argentine. The cooperation of the United States Foreign Funds Control could affect that amount to some extent.

Treasury Department,
Division of Monetary Research.

7. How long will the deficit in dollar exchange continue?

The outlook for 1941 is that even with severely curtailed imports, Argentina will have a deficit of \$80 to \$100 million in dollar exchange. In the absence of credits or stabilization operations, this will mean a loss of gold of \$7 to \$9 million monthly. The outlook for subsequent years is equally bad in the event that war is continued, and can only be remedied in the event of peace by Argentina's purchasing from Europe the goods which she now takes from the United States.

It is believed that the Argentine deficit on dollar exchange for 1942 and possibly for subsequent years will be as great or larger than that estimated for 1941. The reasons for this are the following:

- a. In the event the war continues, Argentina will continue to have the sterling proceeds of her exports to Great Britain blocked as a result of her clearing agreement with England and she will continue to find it necessary to import goods from the United States rather than from England. In fact as war goes on Argentina will be able to import less from the United Kingdom.
- b. In the event that peace occurs with either a German or British victory, it is not likely that the sterling proceeds of Argentine exports to European continent will be unblocked to any considerable extent. Her requirements for dollar exchange will only be lessened insofar as she is able to obtain from European countries commodities which in the interim she has found it necessary to import from the United States.

With return of peace Argentina's dollar requirements could only be met if Argentina drastically curtailed imports from the United States and if the continent of Europe is in a position to supply these imports.

The estimates of dollar deficit running at the level of \$80 million are based on a great reduction in Argentina's imports. This reduction could be maintained for a year or two, but since it includes sharp cuts in imports like cars and agricultural implements it could not be maintained over a longer period without impairing Argentina's economy and ability to export.

Treasury Department,
Division of Monetary Research.

8. Possible Methods of Assistance

If it is decided to provide economic assistance to Argentina, the following methods are open:

1. Increased private purchases from the Argentine

The only possibility of promoting increased purchases during the next couple of years from the Argentine is through a trade agreement. The Trade Agreements Committee is studying the possibility of tariff concessions, some of which are important. There is a possibility of some concessions being made on canned meats and flaxseed. The magnitude of any probable increase in trade is less than \$10 million a year.

2. Purchases by the U. S. Government of Argentine surpluses.

A few of the Argentine surplus commodities may be saleable to the U. S. Government for stockpiles or defense needs. But aside from wool of which a surplus of \$20 million is now available and where the trade prospects are good, and linseed with a surplus of \$30 million and where the prospects are bad, the total value of the products that the United States might acquire would scarcely amount to more than \$10 million to \$20 million.

3. Loans from the Export-Import Bank

Two types of loans from the Export-Import Bank can be made. One for the purpose of promoting long-term productive projects, and the other to enable the Argentine to import numerous categories of merchandise during the emergency period that she might otherwise be forced to do without.

The proceeds of a developmental loan would be spent largely in the Western Hemisphere and would be used for projects mutually agreed upon. Such a loan would be designed to make the Argentine economy less dependent on that of Europe. It would, however, make only a partial contribution to their dollar exchange deficit, because most of the funds would be spent on imports from the United States additional to those which they are now taking.

The second type of loan would be one made for the purpose of permitting the Argentine to have a higher level of imports than would otherwise be possible during the emergency period without subjecting her to serious drains of gold. Though the character of this loan bears some similarities with the Stabilization operations described below, there is at least one significant difference which appears to justify making a distinction between the two types of loans. A loan from the Export-Import Bank could bear a greater risk than the operations described below and would therefore bear a higher rate of interest. Presumably it would be made without the guarantees provided for with the stabilization operations described below.

Treasury Department
Division of Monetary Research

4. Stabilization Operations

The United States Stabilization Fund may be able to provide funds adequate to stabilize the exchanges for a considerable period. This could be done by purchasing pesos up to a maximum gold amount under agreed upon terms and conditions. Pesos so acquired could be left on deposit in Argentina for investment in Argentine industries. The risk of possible exchange loss would be borne by the Argentine Government and some assurance of compensation for such a loss might be required in one or all of the following ways. It is important to note that there remains a question of the legality of undertaking operations extending beyond the period of the existence of the Stabilization Fund. This point is being considered by the Legal Division of the Treasury at this time.

- (a) Guarantee of repurchase at our purchase price by Central Bank of Argentina and additional guarantees from the Argentine Government, perhaps in the latter case in the form of special bonds.
- (b) Pledging and earmarking in New York of that portion of the gold in excess of legal minimum requirements plus such gold as would be expected to be used to support the peso. This type of collateral is the least satisfactory from Argentina's point-of-view and would be one that they would probably be reluctant to give inasmuch as they could not count gold pledged as part of their reserves. In effect, the pledging of gold would have only slight advantages over the actual sale and use of gold and use of gold by Argentina without involving any apparent extension of credit by the U.S.

A more satisfactory alternative from Argentina's point-of-view and one that would probably have little risk from our point of view, would be for the Argentine Government to agree to use her gold holdings only as a means of repurchasing the pesos which the American Stabilization Fund would acquire. Such repurchasing would be made at such time as the U.S. would request. In that way, Argentina could include the gold in her reserves. If thought desirable she could even keep an amount of gold on earmark in New York adequate to cover our peso holdings, but that would not be pledged except insofar as their agreement to repurchase the pesos, if necessary, with their gold would constitute a pledge.

- (c) The U.S. could accept sterling in exchange for pesos and the Argentine Government might be required to underwrite any risk of loss on such sterling undertakings.
- (d) Argentine securities might be accepted as collateral against possible exchange loss.

Treasury Department

White's memo -Treasury
proposals (11-27-40)

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 27, 1940

TO Secretary Morgenthau
FROM Mr. White
Subject: Proposal for Treasury participation in economic assistance to the Argentine Government

I would like to submit for consideration the following plan for promoting stability in the dollar-Argentine peso exchange rate.

1. United States Treasury to agree to purchase during 1941 -- with funds in the Stabilization Fund -- Argentine pesos up to \$50 million, the pesos to be left on deposit in the Central Bank of Argentina. The Central Bank of Argentina would agree to pay interest on those deposits at the rate of 1/2 percent above the Federal Reserve Bank of New York rediscount rate.

The proceeds of (a) any inflows of capital into Argentina, (b) of purchases by the U. S. Government of defense stocks from Argentina, and (c) of any arrangements made with respect to military bases involving dollar expenditures in Argentina -- are all to be used as soon as available to repurchase pesos held by the Stabilization Fund.

2. The purchases of Argentine pesos to be made on the following conditions to be agreed upon by the Argentine Government:

- (a) The Government of Argentina and Central Bank of Argentina agree to repurchase the Argentine pesos held by Stabilization Fund (with dollars or gold) at the same price and in such amounts and at such times as the Treasury shall request. The requirement that 30 days' notice of a request to repurchase may be given might be included in the arrangement.
- (b) They shall further agree to use its gold reserve to repurchase the pesos if necessary.
- (c) One or all of the following three conditions may be imposed to safeguard the repurchase of pesos held by the Stabilization Fund as follows:

(1) The Argentines could be informally requested not to reduce their present holdings of gold on earmark with the Federal Reserve Bank during 1941 to less than \$50 million. (They now have about \$70 million on earmark.)

(2) The Argentine Government and Central Bank would agree not to dispose of gold holdings below \$300 million so long as our Stabilization Fund held pesos except with the consent of the United States Treasury.

(3) The Argentine Government would agree that during 1941 imports not to exceed a rate of \$200 million a year would be permitted from countries requiring gold dollars or foreign exchange payments.

(d) The Argentine peso official rate could be pegged to the dollar. This is not an important economic advantage but it would please the U. S. public.

3. The legal powers for such an undertaking by the U. S. Stabilization Fund exist. A memorandum from Mr. Foley to that effect is appended.

4. I can find no public statement made by you which is inconsistent with such an undertaking. A copy of numerous statements you have made bearing on the use of the fund is appended.

5. The risk of loss to the Stabilization Fund from such an operation would be very small. Argentina has 5 times as much gold available for the repurchase of pesos as would be required under the proposal. Both the Central Bank of Argentina and the Argentine Government would guarantee the repurchase. The credit record of the Argentine Government is excellent. The Central Bank is sound and well conducted. The only risk which the Stabilization Fund would take in such an operation is that both the Argentine Government and the Central Bank would deliberately refuse to live up to its agreement despite the fact that their gold assets were adequate. Even in that event, adequate protection could be obtained by requiring them to keep on earmark gold in the Federal Reserve Bank of New York in excess of our peso holdings. Such gold would not be pledged but since a license is required for withdrawal, the Treasury could, in effect, protect its interest.

6. The United States would acquire an instrument with which to insure current and constant cooperation between policies of both Governments with respect to foreign policy, subversive activities, trade discrimination, etc. The basis for close cooperation between the Treasuries would be established and could provide opportunities for collaboration in many ways, some of them unforeseen -- as was the case with members of the Tripartite Accord.

7. The Argentine Government for its part would much prefer stabilization operations to a loan because (a) the interest cost would be substantially less, and (b) they could regard our purchase of pesos not as a loan but as a stabilization operation. Their financial prestige would not be diminished by stabilization operations whereas a loan makes their financial status appear weaker.

8. When on next June 30 the question of the existence of the Stabilization Fund is raised, we would be in a much stronger position to defend its reextension if we could point to the stabilization arrangements with Argentina as a sample of the kind of work the Stabilization Fund was doing and could do.

9. It is assumed that in return for any economic assistance given by the United States that some quid pro quo would be obtained such as one or more of the following:

(a) Non-discriminatory treatment to American exporters as determined by State Department negotiations.

(b) Consummation of a trade agreement negotiated by the State Department.

(c) Acquisition or use of military, naval air bases as determined by the President.

(d) Cooperation with us in their control of foreign funds.

(e) Cooperation with the U. S. with respect to foreign policy and handling of subversive activities.

Opinion of General
Counsel - (11-27-40)

TREASURY DEPARTMENT

223

INTER OFFICE COMMUNICATION

DATE November 27, 1940.

TO Secretary Morgenthau
FROM Mr. Foley

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

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

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

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

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

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

(2) Alternatively, the Secretary of the Treasury could acquire the pesos from Argentina before the expiration of the Stabilization Fund and make payment for such pesos over a period of a year extending beyond June 30, 1941. In cases in which officers of the Government have sought, after the expiration date of an appropriation, to use funds covered by such appropriation for the purpose of paying for purchases properly made during the life of the appropriation or otherwise to liquidate contracts made during the life of such appropriation, the Attorney General and the Comptroller of the Treasury have held that the appropriation in question may be used. (1877) 15 Op. Atty. Gen. 357; (1920) 32 Op. Atty. Gen. 359; (1901) 8 Comp. Dec. 345. Attorney General Charles Devens, in the opinion in 15 Op. Atty. Gen. 357, held that for two years after the expiration of an appropriation, the unexpended and unobligated portion of the appropriation could be used to meet commitments properly made during the existence of the appropriation.

F.W.F.H.

Secretary's testimony
re use of Stabil. Fund

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, 42-43

MR. ANDRESEN. 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 use 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. ANDRESEN. 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. ANDRESEN. 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. KNOKE. That money is not being used by the Treasury for that purpose.

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?

Division of Monetary
Research

- 3 -

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

MR. ANDRESEN. Now let us turn just for a few questions with reference to the gold matter which is up before the committee.

SECRETARY MORGENTHAU. May I —

MR. ANDRESEN. Yes.

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

MR. ANDRESEN. I am glad to have it.

SECRETARY MORGENTHAU. In connection with the so-called French planes, 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 manufacturers 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 which countries have attempted to circumvent the Johnson Act and I have refused to let them do it.

Extension of Stabilization Fund and Powers, Etc.
Hearing Before the Committee on Coinage, Weights and Measures
House of Representatives — March 3, 1939, pages 58, 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
Hearing 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.

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 wake 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

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 promise 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 1937, 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, 1939

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 Morgenthau, dated October 24, to Honorable Arthur H. Vandenberg (Replying to Senator Vandenberg's letter of October 17, 1939.)

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 questions:

"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.

235-

Conferences on
Argentine requests



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

November 23, 1940

MEMORANDUM TO THE FILES:

Subject: Conferences on Argentine Financial Requirements

November 14, 1940 - Treasury

The Argentine representatives, consisting of the Ambassador, Dr. Prebisch, Mr. Grumbach, and Mr. Verrier met in my office at three o'clock. Those present representing the Government, besides myself, were Assistant Secretary Gaston, Mr. Cochran, and Dr. White of the Treasury Department; Mr. Collado of the State Department; and Mr. Ravendall of the American Embassy in Argentina.

This was merely a meeting for the purpose of getting acquainted with the representatives of Argentina. I told these representatives that we were glad to welcome them to the United States and that we would do everything within our power to facilitate their visit. I expressed regret that the Secretary of the Treasury was not present to greet them but that he had felt it essential that he get a vacation at this time, and in his absence I wanted to assure them that the Treasury was at their service and that they should feel free to come in and discuss their problems with us at any time. I asked Dr. Prebisch if he would be good enough to submit to the Treasury a memorandum giving in some detail the problem which Argentina faces and suggestions for help from this Government. I stated that after this memorandum had been received, it was probable that Dr. White and his experts would want to confer with Dr. Prebisch and his experts. I also stated that if Dr. Prebisch wanted to give the group present a general picture of the situation in Argentina, we would be glad to hear from him.

Dr. Prebisch said that he would be glad to go over it in a general way. He stated that Argentina was faced in 1941 with a trade deficit of approximately \$150,000,000; that it had lost its foreign trade with Europe and it had been necessary to curtail imports from other directions very drastically. In order for his country to carry through in 1941, it would be necessary to either find new funds to finance the trade deficit or further curtail imports. He said that Argentina had approximately \$400,000,000 of gold but he felt that it was now getting to the point where no more gold could be used in meeting a trade deficit. He said he would be glad to submit the memorandum and hoped to have it in our hands by the end of the week, after which we would have a further discussion on the matter.

November 18, 1940 - Commerce

Under Secretary Welles called a meeting of the interdepartmental representatives for eleven o'clock today in the office of the Secretary of Commerce. Besides Secretary of Commerce Jones and Under Secretary Welles, there were present Under Secretary Taylor, Mr. Clayton, Mr. Baxter, Mr. Warren Pierson, Assistant Secretary Grady, Dr. Feis, Mr. Collado, Mr. Ravendall, Mr. Revinsky, Dr. White and myself.

Under Secretary Welles read the memorandum submitted by the Argentine representatives in response to my request. He commented that it was his belief that the memorandum formed the basis of a general discussion of the Argentine situation.

Secretary Jones said that he thought that we might form a sub-committee, headed by Under Secretary Taylor, to go into the memorandum for the purpose of submitting a report on the whole financial situation and just how it could be met. Mr. Jones said that he would appoint Mr. Taylor and Mr. Clayton and Mr. Pierson to represent the lending agencies and the Export Import Bank. Mr. Welles appointed Mr. Grady, Dr. Feis, and Mr. Collado to represent the State Department. I said that Mr. White and I would represent the Treasury. There seemed to be a general feeling at this meeting that while Argentina's past record on debt was excellent, the situation now confronting that country made it quite apparent that any loans which we make are quite risky. Strictly from a business point of view, it probably should not be made, but from the standpoint of the political situation and our good neighbor policy, it was felt that something should be done for Argentina and whatever is done, should be of a substantial character.

November 20, 1940 - Commerce

Under Secretary Taylor called a meeting of his subcommittee for four o'clock today to consider the kind of a report which should be presented to the full committee. Dr. White had informally contacted the representatives of Argentina and secured a great deal of detailed information regarding that country and had prepared a memorandum which we thought might serve as a basis for a report to the full committee. However, Mr. Taylor thought that the report could take a simpler form and he said he would undertake to draft one along the lines he had in mind. In White's report it was stated that Argentina would need approximately \$80,000,000 of additional foreign exchange in 1941, this having been reduced from \$160,000,000 as a result of the agreement on the part of the representatives of Argentina that their imports could be reduced by approximately \$100,000,000. Certain of the representatives of the subcommittee felt that the \$80,000,000 was too low and that the figure should be nearer \$100,000,000. For the purpose of the report Mr. Taylor said that \$100,000,000 should be used and for the sake of argument he was willing to split that amount in half and say that the Stabilisation Fund should take care of one-half of it and the Export Import Bank should provide the other half and whatever amount was needed for plant facilities. We made the point that

this was not a logical separation as the whole \$100,000,000 was of the same general character and could not be split into parts. It was merely a current problem which had to be met and one-half of it did not represent the current and the other half did not represent a long-term problem, but anyway, for the sake of this report it was agreed that we might split it in this fashion. I also made the point that we could not commit the Treasury to any program involving the Stabilization Fund. Strictly speaking, the whole matter is not a stabilization matter but strictly a trade deficit, but in view of what happened in the past on Latin America, particularly Argentina, I would have to wait until the Secretary returned to get an expression of policy from him.

There was some talk about security for these loans. It was understood that the Argentine representatives do not want to pledge their gold. They think that this would be bad psychology and from a legal standpoint they would have to eliminate it from their bank statement. I suggested that we might take what in effect is a moral pledge and, if the Secretary is willing, we could agree to purchase over a period of several months, not to go beyond June 30, 1941 unless the authority to operate the Fund is extended by legislation beyond this date, Argentine pesos of a maximum amount up to \$50,000,000 with a guarantee of both the Government and the Central Bank and with the understanding that the Bank or Government will keep in New York under earmark an amount of unencumbered gold slightly in excess of the loan. It was thought that this might be arranged and Dr. White indicated that he had mentioned some such arrangement to the Argentine representatives and they did not seem to object.

Mr. Taylor thought that the Export Import Bank loan might be used to some extent to permit Argentina to repatriate its securities owned in Great Britain and as these securities are acquired, they might be pledged as security for the Bank loan. I do not believe that the committee as a whole was much in favor of loaning funds to help Argentina acquire its securities from Great Britain.

November 22, 1940 - Commerce

Secretary Jones called a meeting of the full committee to consider the report by Mr. Taylor. Others present were Assistant Secretary Grady, Dr. Feis, Mr. Collado, Mr. Ravendall of the State Department; Mr. Pierson, Mr. Clayton, Mr. Baxter from the lending agencies and the Bank; Mr. Rockefeller and one other gentleman from the Coordinator's office; and Dr. White and myself.

Mr. Taylor had prepared the report but never submitted it to the subcommittee. It was read by Mr. Taylor at this full committee. After the report had been read, Secretary Jones asked if there were any comments. I made the statement that this report was prepared by

Mr. Taylor and that the members of the subcommittee had not had an opportunity of reading and commenting on it. I thought the Treasury would like to have that opportunity. There was one thing which I wanted to make clear - that the Treasury representatives have not in any way committed the Stabilization Fund; that I wanted to discuss the whole matter with the Secretary upon his return, which I understood would be Wednesday, November 27th; and that I did not think any of the report should be discussed with representatives of Argentina until it had been discussed with the Secretary to see whether or not he is willing to allow the Stabilization Fund to play a part in this program. I again stated that strictly speaking, it was not a stabilization loan but that possibly the Secretary might like to go along with the program being formulated. I also stated again that we might enter into an arrangement with Argentina under which the Stabilization Fund would purchase over the next several months up to June 30, 1941, not to exceed a maximum amount of \$50,000,000, Argentine pesos with the guarantee of the Central Bank and the Argentine Government to repurchase those pesos at a given rate, with the understanding that the Government or Bank would keep under earmark with the Federal Reserve Bank of New York an amount of unencumbered gold slightly in excess of the pesos so purchased. I also said that in other transactions of this character, although gold has been pledged directly to secure the transactions, the rate of interest involved has been one-half of one per cent above the discount rate of the Federal Reserve Bank of New York which had made the transaction cost the debtor government $1\frac{1}{2}$ per cent per annum.

The question again came up about repatriation of the Argentine securities owned by Great Britain and the pledging of those securities so repatriated with the Export Import Bank for its loan. Mr. Pierson said that he did not think we ought to get into that and undertake to acquire first mortgages on Argentine railroads; that it would be much simpler from their standpoint if they met the loan to the Central Bank and took the guarantee of the Government. After all, the securities on a Government owned railroad in Argentina could not be much better than the guarantee of the Central Government.

Secretary Jones said that he felt that nothing should be done other than study should continue as in the past until the Secretary's return on Wednesday, at which time he hoped I would go over the matter with the Secretary with a view to getting a group together and mapping out a program of procedure from this point on. I agreed to bring it to the attention of the Secretary on Wednesday.

sub

240

Status of Chilean Negotiations - White's memo

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 29, 1940

TO Mr. Bell
 FROM Mr. White
 Subject: Present status of Chilean negotiations

*Ask for -
 connection with
 Argentina
 matter
 HCB*

1. The Export-Import Bank has allocated \$12 million to Chile for use in developmental projects. To date, arrangements have been made for utilization of only \$2 million of this amount.

In addition, Chile hopes that American concerns will supply equipment and materials for these projects on credit to the extent of \$5 million. That probably accounts for the press statement of the formation of a Chilean organization in New York to handle a \$17 million loan from the Export-Import Bank.

2. The Export-Import Bank has decided to allocate but has not yet announced the allocation of \$5 million to Chile for current exchange difficulties.

The State Department has received a report that exchange arrears due American exporters amount to \$8.5 million, including goods for which exchange permits have been granted but for which there is no exchange.

3. The Materials Section of the Defense Commission has recommended the acquisition of 300 thousand tons of Chilean nitrates as a stock-pile. The purchase will be made through R.F.C. subsidiaries and will amount to \$7 million or \$8 million, of which Chile will get about \$5 million.

4. In addition, the Materials Section of Defense has under consideration the gradual purchase of 100 thousand tons of copper (during 1941). The copper is not to go into a stock-pile, but is to be fed out on Government contracts. If this is definitely decided upon, probably 75 thousand tons of this amount will be purchased from Chile. At present prices the purchase of 75 thousand tons of refined Chilean copper would total about \$19 million. The dollar exchange made available to Chile will amount to something less than 50 percent of the total expenditure on Chilean copper, or about \$7 million to \$8 million. It was originally decided not to inform the Chileans of this purchase, but this angle has now been dropped.

HM Jr's formal statement
before joint session

243

HM Jr's formal statement before
joint session of Senate Banking and
Currency Committee and the House
Coinage, Weights and Measures
Committee on Monday, December 2,
1940.

China

294

I asked Chairman Wagner and Chairman Somers on Friday to call this meeting today so that I might lay before the members of these two committees a matter affecting the operation of the Stabilization Fund.

On other occasions when I have appeared before these committees separately, particularly at the time when the extension of the stabilization powers was being considered in 1939, I discussed with you very fully and frankly -- as I think you will agree -- all phases of the operation of the Fund and made available balance sheets and other data for your study.

The reason for my coming before you today is that we have under contemplation a type of transaction which differs in certain respects from any into which we have entered in the past and I should like to explain it. There is an added reason for my coming. I have repeatedly stated to you that I would not consent to the use of the Stabilization Fund to assist any foreign country in prosecuting a war without first consulting these committees. The transaction we are contemplating is one with China and for currency stabilization purposes, and I don't think it falls in that category; but if there should be a difference of opinion on that point I don't want to be accused of quibbling where my word is concerned.

For some time the Administration has been making a very careful study of the financial and economic situation in China with the possibility in mind of helping to strengthen the dollar-yuan exchange rate. Recent developments have made action in this field more urgent.

- 2 -

In July, 1937, the Treasury entered into a dollar-yuan stabilization operation with China pursuant to which we agreed to buy yuan up to a total of \$50,000,000 and China agreed to repurchase the yuan at the same rate and pledged an equivalent amount of gold with us as security. This arrangement has been extended every six months and under its present provisions will expire on December 31 of this year, with the usual option for renewal. The arrangement with China was discussed fully by me and other officials of the Treasury Department with your committee at the time you were considering the extension of the stabilization powers. Under the arrangement we now hold \$20,000,000 in yuan fully covered by pledged gold.

We now propose to extend this agreement for a further period. That fact in itself would not, I think, justify my coming before your committee. However, in view of the present circumstances we have under consideration modification of the provision which requires China to pledge an amount of gold equal to the dollars made available in exchange for yuan. In other words, if we enter into the agreement we are contemplating, we would purchase and hold an amount of yuan up to \$50,000,000, the repurchase of which will not be ~~fully~~ covered by pledged gold.

This would be strictly a stabilization operation, fully within the powers granted to the Secretary of the Treasury, subject to the approval of the President, by the Gold Reserve Act as amended, and of course it is our purpose to safeguard the interests of the United States by the fullest supervision over the execution of it.

Statement on Argentina
prepared but not used

247

HM Jr took this prepared statement with him when he appeared before the joint session of the Senate Banking and Currency Committee and House Coinage, Weights and Measures Com. on December 2, 1940, but he did not use it.

Argentina

I want to take advantage of this meeting to mention another matter which concerns the Stabilization Fund.

As you doubtless know, there is in this country a special commission from the Argentine seeking assistance from the United States of a monetary and financial character. We have before us for consideration a proposal to undertake Stabilization Fund operations between the dollar and the Argentine peso. The operations under discussion would be comparable to the proposed dollar-yuan arrangement which we have just been discussing. Argentina is faced with an acute exchange situation due to the loss of some of its important markets in Europe. The operation under consideration will, if undertaken, strengthen Argentina's dollar exchange position and assist in solving problems of common interest to that country and the United States.