

December 3, 1940
3:00 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Stimson
Mr. Knox
Mr. Jones
Mr. Welles
Mr. Patterson
Mr. Forrestal
Mr. Knudsen
General Marshall
Mr. Palmer
Mr. McCloy
Mr. Bell
Mr. Viner
Mr. Young
Mr. Feis
Mrs. Klotz
Mr. White

H.M.Jr: Shall we wait a minute for Knudsen and Jones?

Stimson: That is a good plan. They have been working, I know.

H.M.Jr: Did you have them working?

Knox: Well, we had Knudsen working.

H.M.Jr: Well, do you think we ought to wait? Knudsen only left a few minutes ago.

Stimson: Well, from the first title I see on the first page, I think we should wait. It says, "New Airplane Program." Unless you begin at the bottom and read up --

H.M.Jr: Well, I want to tell my story, so I think if you don't mind a couple of minutes. He has left.

Stimson: He will be here?

H.M.Jr: It is pretty important.

Stimson: Yes.

H.M.Jr: You must have given him too good a lunch.

Knox: How did you know about it?

H.M.Jr: What do you think I have a secret service for?

Knox: That was supposed to be very secret.

H.M.Jr: The host told me.

Knox: Well, that is a good source.
(Mr. Jones entered the conference.)

Forrestal: Jesse, have you got that much money?

Jones: I haven't come to the money yet.

Stimson: This fellow is taking it down.

H.M.Jr: Do you object to that?

Stimson: No, but I thought he would be afraid of it.

H.M.Jr: If there is anybody who objects - Frank, do you object to having it reported?

Knox: Not a bit.

Jones: It cramps some of these boys' style to have a lady stenographer present.

H.M.Jr: Well, she is here for a very good purpose. She is very effective.

Knox: Well, I don't think we need Knudsen to talk about merchant ship construction. Do you want to talk about that now?

H.M.Jr: Frank, I have got a little story to tell, why the meeting, where I am at.

Knox: I see. All right.

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H.M.Jr: Because when it comes to ships, you argue for it.

Knox: All right, but I will argue for a different kind of a program than you have.

H.M.Jr: What do you think, Frank; should we start?

Knox: Who are you waiting for?

H.M.Jr: Knudsen.

Knox: Well, you can start on this merchant ship any time or the ordnance. The only thing he would be interested in is the planes.

H.M.Jr: Oh, it is the financing. This is a financing meeting.

Knox: Oh. Better wait for him, then.

H.M.Jr: When do you leave?

Knox: Tomorrow morning, unless something happens to upset the schedule.

(Mr. Knudsen entered the conference.)

H.M.Jr: Gentlemen, the reason I asked for this meeting was the fact, frankly, I need a little company. Those of you in Cabinet know that on Friday Mr. Stimson announced that he had come to an understanding as far as the Army was concerned, with Sir Walter Layton as to the ordnance. In his memorandum which he circulated, he pointed out that other departments were affected as far as the financing was concerned.

Saturday morning Sir Walter Layton walked in here and gave me this memorandum, a copy of which you all have. On receipt of that, I asked the President for a chance to see him and he saw me and Harry White and Phillip Young Sunday afternoon, and I needn't say what I am saying now, all of this is in the utmost confidence. I explained to him that here the English were wanting to buy a little over two billion dollars worth of materials and

See letter to
Price or
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is all

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publicly, Ambassador Lothian had put us on notice that they didn't have enough money. I showed the President a memorandum which I have here which Dr. White will explain, a copy of which I sent to Secretary Hull, which explains our estimate of their assets which Dr. White will explain, and which I explained to the President. After letting him see this, his reaction to it was that he wanted us - I am using "us" advisedly - this Administration, to go ahead and build the additional facilities necessary to manufacture for the English what they needed. He wanted the Government to place the orders and then sell this material to them as it was manufactured. I asked him to write out something for me and I point out that it is written on this thing, this British Purchasing Commission thing, and on this is written, "Secretary of War, Navy, Treasury, and Knudsen. Planes, munitions, use U. S. RFC funds for plant capital on U. S. orders. Ships two thirds class A, more speed; one third, class A, less tonnage." I said, "Well, that isn't very definite," and his answer was, "All of you use your imaginations."

Now, I am reporting it as well as I can. Now, I explained to him that here is this order, we have got to say yes or no, and the impression that I very definitely and clearly got was that he wants us to make this stuff and finance it and sell it to them on a unit basis as it is manufactured. Now, that is what I got out of him. We have gone over it together, White and Young and I, and that is the impression that we got.

Those of you who want to see this memorandum just the way it is, you can take a look at it.

Now, he has gone on his two weeks' trip. I have this request. I needn't explain to all of you what it would mean if we could tell the English they can't place any more orders. I am going to let White explain to you - as I say, all of this is in strictest confidence - what we see their position as, financially, and then I want - we are all working together and like to move together, but frankly I can't take this alone. I am willing to carry my share, whatever the responsibility is.

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Jones: It is a little over a billion a week, is it?

Knox: A billion a week!

Jones: Well, the President is gone two weeks. (Laughter)

S.M.Jr: Thanks for breaking the ice.

Knudsen: This A or B stuff, that is the ships?

H.M.Jr: Yes. You fellows talk in A and B.

Knox: Are you talking about planes or surface ships?

W.M.Jr: Those are the ships they want from the Maritime Commission. I understand one is a shaped ship, and the other has a square end.

Knox: Well, a class A ship is a real ship, and a class B ship is nothing but a box.

Knudsen: No, it is the other way around.

Knox: No, class A is the best.

Knudsen: Well, I think the President has got A as the cheap ship and B as the high class ship, because I got a ticket from him on the same thing.

W.M.Jr: Harry, give them, will you please, an answer to any questions? Dr. White, will you go ahead now and give these people a thumbnail sketch of what we see the gold - what we see of what the English say they have?

White: Right.

W.M.Jr: Talk up loud, will you? Talk very loud, will you?

White: According to the British Government, they will need by June 1st of the coming year, about 900 million dollars on outstanding commitments that will become due before June 1st. In addition to that, they will need, they estimate, one billion 400 million on proposed programs, some of which may have already been initiated, but most of which

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probably hasn't, because this data is about a month or so old. We think that particular estimate is a little high. That has nothing to do with this program. This would be - their estimate of their proposed needs before this two billion dollar expenditure was planned, or at least before the plans were completed.

In addition to --

Knudsen: Six hundred million?

Knox: Nine hundred million.

White: Nine hundred million and one billion 400. I am giving you round figures. It is not the exact amounts.

H.W.Jr: Harry, why don't you sit in the middle or stand up? Come up here and sit up here closer.

White: Well, I can stand for this brief presentation.

Jones: Is that all by June?

White: That is all by June 1, 1941. It is about seven months from now.

In addition to that, there is one other item, about 400 million dollars for their regular purchases, their net imports. That makes a total of two billion 700 million which they will need to pay out by June 1st. They have, or they will receive during that period, about 150 million sales to us, exports to the United States --

Knox: Million?

White: One hundred fifty million. Approximately 100 million on various receipts and interests, service account, and they estimate about 375 million on newly mined gold that they will acquire from their various empire sources, making a total of approximately 600 million dollars which they will receive. That leaves them with a deficit of \$2,100,000,000 by June 1st.

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They have, as present assets, according to their estimates, about 850 million dollars which is available. They have additional assets such as, for instance, 600 million dollars worth of gold which they claim they cannot use because that minimum is essential for carrying on empire monetary systems and for the prestige of the empire, et cetera, and they also have, in addition to that, some 300 million dollars in dollar balances which they claim are the minimum needs for their businessmen to continue to conduct business.

Now, I am not including that 900 million because they don't include it, so that leaves them with enough deficit, according to their figures, of one billion, 200 million, which they will not get and according to them do not have, and which they will have to raise somehow if they are to meet their contemplated expenditures by June 1st, 1940, without including this additional sum which is on a memorandum before you.

Forrestal: May I ask a question, Harry? What is the breakdown of those assets?

White: It is mostly United States securities.

Forrestal: Does it include properties they own here in this country?

White: It does not.

Forrestal: They have got a substantial amount of that. There is a half billion, I think, right now.

White: I am giving you their figures as they gave us the figures, not what our estimates are.

Jones: The 850 isn't money? I thought that was money.

White: No, it is available assets, assets which they regard as available, and furthermore, you raised an important question. Whether they are available depends on whether they will be able to sell at 650 million of the United States securities in

six months, because that price - that value was estimated at current market prices. Whether they would have those prices if they attempted to sell that many is a problem.

Forrestal: They could sell them in two months, Harry.

White: They could sell them in two months?

Forrestal: Sure.

H.M.Jr: Well, that is it, then. Now, are you ready to go to what our estimate is?

White: Yea. Now, that is their estimate. Now we will give you what we estimate.

Jones: Did I understand the 850 million was cash and 650 securities?

White: No, 650 is securities and the remainder is some gold and some cash.

Jones: I see.

White: A total of about that.

Jones: Including - after using the 600 million securities, they would still be a billion or two short?

White: After using your securities and the one or 200 million in cash, they would still be over a billion dollars short, and after using up all that they anticipate getting during the six months.

We estimate their assets by counting all that they were supposed to have had - some of our figures go back a couple of years. There are no figures better than that. On some of the data we have more recent figures and on some of the data we have very good figures. On some of the items I will have to indicate the margin of error of our estimates and on some there are qualifications as to what do we mean by the value.

The United Kingdom itself now has \$600,000,000

in gold. We believe that they could easily use 300 million of that and that 300 million would be enough for such purposes as they seem to indicate.

Knox: That gold is on deposit here?

White: No, there is no gold that they have on deposit here now, at the moment, but it is gold that - some of it they have in Canada and some of it they have in London, so that gives us 300 million. They have official dollar balances of --

Jones: And the dollar balances are what?

White: They have official dollar balances of 100 million dollars. Now, we assume that they might well need that to conduct their regular business that they are doing. They are making large transactions and they might want to keep \$100,000,000 there, so we are not estimating any of that as available - as among their available assets.

Their private assets, private dollar balances, rather, are 300 million. We believe that 200 million of that could be available, that they could get along with a hundred million.

There are some insurance funds there and others, and there could well be some difference of opinion on that, but we think that 200 million could be used from that fund.

Their dollar securities here, we estimate to be about 800 million dollars. They estimate them at about 150 million less than that, I think. I don't think they have included all their security investments. We estimate that the value of those securities should be 600 million dollars.

Now you (Forrestal) say that they could sell without depressing the price. There may be some difference of opinion there.

Then we have what you (Forrestal) referred to, direct investments in the United States. They own auto plants, companies that are not listed,

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et cetera. That estimate is one that has prevailed a couple of years. It never was very accurate. It may be much more than that; it may be something less than that. We have been going over their individual company assets, and we are examining each one to see how much of an interest they have and what the value is, et cetera, and it is much too early to say whether this figure is too low or too high. We will know in a few weeks.

Knox: What is that figure?

White: Eight hundred million dollars, and we estimate that the value of that is - depends upon whether you want to use liquidation value, how much they could sell it for, or whether you want to use it as a collateral value. As a collateral value for potential credit, we think 600 million is approximately what it would be worth.

Then we come to the next item, which is the most dubious. Investments outside of the United States. The United Kingdom, of course, has investments all over the empire and in the Far East, and a small amount in Europe, a good deal in Latin America. The most reliable authority estimated that at between 16 and 18 billion a couple of years ago. A good many of those securities obviously are worth very little or nothing at the present time. A good many of the others are worth a great deal if England wins and are not worth much if she loses. Some of them are worth considerable whether she wins or loses. We put that down as ten billion dollars in long run value if Germany does not win and we put the value down in collateral at four billion. Now, what the actual value of that, if they had to go out and sell it on the market, would be, I don't know. It would doubtless be less than that. A good many of those are sterling securities, and how much sterling securities can fetch on the market is a very dubious thing.

Forrestal: Can you sell them at all, Harry? Who is going to buy them?

White: I think if the price were low enough, you could sell them.

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Forrestal: I doubt that.

Waite: But that is an open question. Certainly the liquidation value would be so much less than their collateral value that I think that the thing should be regarded from the point of view of what it is worth as collateral rather than what it would be worth to have to throw it on the market and sell it now.

I have so far been only speaking of U. K. assets. I raise the question whether you want to include, in addition to that, among their assets, the assets of countries in the empire other than U. K. It is an open question. They do not feel that they can include any of those assets in their available assets. They say that Canada, Australia, and India are separate problems. They can't dispose of their funds. Whether one would wish to raise the question that if they are to borrow money, certainly their empire ought to make their assets available first, might be raised, but at any rate, I will quickly run over those assets.

\$800,000,000 in gold. \$500,000,000 balances. One billion dollars in investments in the United States, and about \$700,000,000 in investments outside of the United States. That is a total of three billion. Half of that might well be made available as collateral if the empire wished to cooperate to that extent.

The next category of assets, which likewise is difficult to estimate because there would be a considerable difference of opinion as to whether they would be included among their assets, certainly the British Government has not included them among their assets, are the assets of the Allies of Great Britain, Netherlands, Belgium, Greece. They have about 600 million in gold, a small amount in dollar balances, about - in official balances, about 350 in private dollar balances and about 700 million in long term investments, a total of a little over a billion and a half that might be worth 900 million dollars as collateral if they were willing to use them for that purpose. These would be funds which

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are available because they are funds which are in the United States. With the exception of the long term investments, it might be a little difficult to trace, even if the Government were willing to do so, because the different governments would be difficult to locate.

There is, in addition to that, one other item, and that is the French, Belgian and Dutch gold, which is in areas under control of the British Empire. For example, France has 600 million dollars in Canada, and then there are other funds which Holland has in London and in Canada. This is gold outside of the United States but within the British Empire. It does not include the French gold in Dakar or Martinique. There is about a billion dollars, and possibly 700 million of that could be used. Now, I can give you totals, but the totals aren't very meaningful because of the different qualifications with respect to each category. They have got roughly, probably, 18 billion dollars worth of assets if you provided a long enough term in which to liquidate them, that is, an indefinite term, four or five years or more, and if Germany does not win. But those assets, we believe, have a collateral value now, if they wanted to put them all up, of somewhere half of that, possibly nine billion.

Now, there may be a plus or minus, even in the collateral value of several billion dollars, but whichever way you look at it, they have substantial assets if they wanted to place it on collateral, certainly enough to meet their needs for this year, even of the larger program we used.

- H.M.Jr: Do you want to ask some questions? Anybody ask White questions.
- Bell: Harry, have you included the Canadian assets in the United States as part of the empire?
- White: Yes.
- Bell: Then you should include the Canadian requirements of the United States on the British side, shouldn't you?

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- White: That is true, but how much their requirements would be would depend on how they wanted to handle their purchases, but that might reduce it by several hundred million dollars.
- Forrestal: What is the value of the good assets, those that have got - you gave it once, Harry - their American securities. Take out the gold. Their American securities --
- White: There is gold, 600 million --
- Forrestal: No, let's leave out the gold.
- White: American securities, they say 650. We think it might be a little more than that.
- Forrestal: Call it 700. Now, the American equities.
- White: Well, they have never given us a figure on that. They don't think those are available and our best figure is somewhere around 6 or 800 million.
- Forrestal: They have got two, Viacose and --
- White: Oh, they have got some very excellent ones.
- Forrestal: Certainly. 800 million is a considerable figure for that, I would think. It would give you a billion four of what I would call liquid stuff, because you could capitalize and sell those equities in this market.
- White: Yes. It would be a little difficult to sell them within six months.
- Forrestal: No.
- White: Well, then that would be enough to cover their contemplated program which calls for a billion four. We think that is a little bit high, a little bit optimistic, so it may be that they won't need quite that much even according to their own figures by June 1st.
- Patterson: What is the use of talking about pledging the

collateral if they can't borrow?

White: Well, that is implicit, of course. The assumption is if they are going to buy anything like the program they have, and if they haven't got the money, that some means is going to be found to finance it. If that is out of the picture, then there is no use talking about --

Patterson: It is just a liquidation problem. Just selling and buying for cash.

White: That is right.

Fels: Harry, two things. First, I have my doubts as to Mr. Forrestal's estimates of their direct property holdings in the United States.

Forrestal: Well, I just quoted two, the Viscose and the soap company. There are 250 million there.

Fels: Well, I have my doubts, but that isn't the main --

H.M.Jr: Viscose and Lux soap, I take it, you mean, don't you?

Forrestal: It is the Lever Brothers.

White: A list of their interests is quite an imposing list, but I don't know --

Fels: That was - the point was, the biggest item in that whole list, this 16 million dollars that they are presumed to have of general foreign investment, I know that Kindersley's estimate, he threw up his hands before attempting any real evaluation and took nominal values all along the list.

White: That is why we only estimated it at ten and why the collateral value is only estimated at three.

Stimson: I would like to hear Dr. Fels make an uninterrupted statement, frankly.

Fels: Well, the biggest item is the 16 billion of investment outside of the United States. Now, I know the estimate - I know the technical methods employed

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in it. Its author completely despaired of having any evaluation method, and he merely took nominal capital value. I would like to ask whether any of those investments outside the British Empire today would prove to have any substantial liquidating value at all.

White: You offer very little to the English and see how reluctant they will be to part with them.

Fels: That still isn't answering.

White: What do you mean by market value, then?

Fels: Outside of their empire investments, empire and United States investments, can you name any investment in British possession that would have any substantial value at all today?

White: Well, I don't know what you mean by substantial, Herbert.

Forrestal: Yes, they have.

Fels: Which?

Forrestal: Shell.

Fels: Shell isn't - I doubt whether Shell is included in that list.

H.M.Jr: Herbert --

White: Let me call your attention --

H.M.Jr: Talk louder.

White: It was only ten, and that was only for a long run value in the event Germany doesn't win.

Fels: I don't believe there is any real difference. I was just sort of throwing out a guess that that 16 billion would come down virtually entirely to what was inside the empire, that British holdings outside the Empire or the United States today are very secondary in

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value and that 16 billion figure would shrivel tremendously for the purposes of any financial operation.

White: The figure we used is ten, not 16.

Fels: That figure would shrivel down to about three.

White: I doubt whether I should agree with that. We are now engaged on a very careful estimate of their Latin American holdings. It takes a long time because there are a lot of details and the information is not nearly as good as one would think. I daresay that the British would be able to give us a great deal more information than we have. If not right away, I am sure they could get it in due time, by virtue of their exchange controls and requiring of listing. The truth lies somewhere there.

The original estimate of Kindersley was about 15 billion, and we trimmed it down arbitrarily to 10 billion, and I still say there is a margin of error there of a few billion dollars, and we put on a very low collateral value, but if the opinion is held that they are not worth anything, I think you would be surprised if you offered very little to the British Government --

Fels: Outside that --

White: to see how reluctant --

Fels: You take the four billion in Latin America and include such items as 3 or 400 million dollars in Mexico?

White: We exclude that.

Fels: Four hundred millions in Brazil?

White: Which has some value.

Fels: Yes.

White: That is right.

Fels: But there is no real dispute.

H. M. Jr: Might I just say this for the benefit of everybody? We have kept this a secret because they have asked us to, but Sir Frederick Phillips gets here tomorrow. He is the permanent Undersecretary of the British Treasury. He is coming with all the latest information and he gets here Thursday or Friday to Washington, and just as soon as he gets here, I expect to go into session with him and we will put these things to him. I have worked with him for a number of years, and I have found him very earnest and very direct, but not a loquacious person. Those of you who know him will know. But at least, he gives you the facts. So we will know them, but whether we are high or low or - we have tried to make the best guess that we can without direct information.

White: With very little information, and we are proceeding as rapidly as we can to trim that down.

H. M. Jr: The point is, this is the best we have got until Phillips comes here, taking the British figures, and they are very much lower than we are. If you took their figures, I think it is about 500 million, isn't it?

White: About 800 million.

H. M. Jr: And if you take ours, it is up to a billion two or a billion four. In the Canadian thing, I think they still don't seem to realize they are at war, because they have got 650 million dollars worth of gold in Canada which they originally said they would simply give them a receipt for and now they are getting very questionable about Central Bank ethics and that sort of thing and they haven't declared war on France and all the rest of it, but I think if they really want this stuff they will simply give France a receipt for the gold and send it down to the United States and sell it to us. There is about 650 million dollars worth of French gold that they could tomorrow take if they wanted to.

- Jones: The British could take?
- H.M.Jr: Yes, just take it and give them a piece of paper, a receipt for it. It is in Canada. I have taken it for granted they were going to do that, because they have talked about it for the last two months.
- Jones: Would you be willing to buy stolen goods? (Laughter)
- H.M.Jr: They give them a receipt for it.
- Jones: I see.
- Knox: This is war.
- H.M.Jr: Now listen, Jesse, this meeting is to make it easy for me.
- I have been buying Mexican silver for a long time under pressure from the State Department, and I haven't asked any questions. I have been buying silver that Japan has been selling, and I haven't asked any questions.
- Stimson: This business of measures short of war is rather more extensive than war, isn't it?
- H.M.Jr: Yes. Well, gentlemen, here is the best that we can give you.
- Knudsen: That is outside this material in here (Layton's statement)?
- H.M.Jr: This two billion now comes on top of that, of the orders they already have, and you can see why I sent out the distress signal and wanted help.
- Jones: These 12,000 planes are in addition to the last 12,000 that were talked about?
- Knox: This is it.
- Knudsen: This is it.
- Jones: This is that 12,000 planes?

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Knudsen: Yes.

Stimson: This is the 12,000 planes you have been speaking about?

Knudsen: Yes. Well, it is not ours. It is the British 12,000.

Stimson: I know it is not ours. I recognize that, even I.

Knudsen: That means that there is two billion 700 million on top of one billion three, that the total bill is four billion dollars, which is what we are talking about.

H.M.Jr: That is right. Is that right, Philip, four billion dollars worth of orders?

Young: The total?

H.M.Jr: Total.

Young: Including this, yes. It about doubles their orders already placed. A little over four billion dollars.

Knudsen: You add two billion 7 against which you have a billion three and this here is two billion 7 and that makes four billion.

H.M.Jr: No, this is two billion and 62 million.

Knudsen: Yes. There is 700 million worth of plant expansion.

H.M.Jr: That is in here.

Knudsen: That is in the two billion?

H.M.Jr: Yes, that is in the two billion.

Bell: No.

Young: What was it?

H.M.Jr: The plant expansion. Isn't that in the two billion?

Young: No.

H.M.Jr: Mr. Knudsen is right, then, it isn't in there.

Young: That is right.

H.M.Jr: He says you (Knudsen) are right, as usual.

Knudsen: Not always.

Knox: As I get this, I am pretty dumb about it, but they have on our estimate about enough to take care of their current orders and nothing whatever to take care of the two billion 700 million.

Knudsen: They haven't got enough for current orders. The current orders are two billion seven.

Knox: No, no, two billion seven is this proposed, new.

Knudsen: No, no, that is another one.

H.M.Jr: What are their current orders? How much are the current orders?

Young: The total is about two billion, of which they have already paid down a little under a billion and have a little over a billion yet to pay.

Is that right, Harry?

White: That is up to - there are some payments beyond that. I just figured it up to June 1st.

Knox: To June 1st?

Young: Total orders are about two billion dollars, now, of which a little under one billion has been paid and a little over a billion is yet to be paid.

H.M.Jr: So there is two billion seven --

Knox: Then they have enough to pay with this one billion 300 million we calculate they have, and what they asked us to prepare for is a two billion 700 million dollar expenditure for which we see no existing funds to pay, is that right?

White: No. If we take their estimates, then they are going to be over a billion dollars shy when June 1st rolls around.

H.M.Jr: By our estimates?

Knox: On our estimates?

White: On our estimate, they should have enough to meet those payments.

Knox: That is the point.

H.M.Jr: That is a very important point, because that is why I have been willing to go along, because I can see enough money in sight to take care of the orders they have placed.

Knox: Yes, and then again we get around to what I said, that what we are asked to deal with in the future is the two billion 700 million now proposed to spend with no collateral in sight.

H.M.Jr: No cash.

Knudsen: Didn't you say they had commitments of two billion seven?

H.M.Jr: Harry?

Knudsen: Didn't you say they had commitments in this country up to June 1st of two billion seven?

White: Would you mind repeating that question?

Knudsen: Did you say they had commitments in this country up to June 1st of two billion seven?

White: Yes, but they had something to pay for that with.

Knudsen: You had 900 million - a billion four --

White: They had 900 million of commitments which are outstanding now which will have to be met by June, 1941.

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Knudsen: Then they have under proposed programs, one billion 400 million, which would have to be met by the same time and that does not include this program.

Stimson: Does not include it?

White: Does not include it, and that does not complete it, because they need 400 million for their regular purchases.

Knudsen: That is two billion seven.

White: And the only modification of that might be that their estimate of one billion 400 million on the proposed programs, we think it is optimistic. We don't think they will get going that fast on their program, but they may.

Knudsen: That brings it --

White: That brings it to the 2.7 and they have about 600 million incoming to pay during that period which leaves them --

H.M.Jr: Harry, do I understand that they have orders already placed for two billion seven?

White: No, they have orders placed - oh they have orders placed that have commitments beyond June that I don't know about. I don't know how far those extend.

Young: It is about two billion.

White: But they won't have to pay that full amount by June.

Young: That is right.

Knudsen: Two billion seven, one billion four, and so on.

Knox: That figures up to what total? Four billion?

H.M.Jr: Four billion shy.

Knudsen: Yes, four billion shy.

Knox: Including this thing?

McCloy: Shy of cash.

H.M.Jr: Cash, but not collateral. But it is not collateral.

White: Of course, after June each month they will be shy additional amounts, exclusive of this program.

Stimson: On the old program?

White: On the old program and on their ordinary expenditures, a little bit shy each month.

Knox: We are going to pay for the war from now on, are we?

H.M.Jr: Do you (Stimson) want to say something?

Stimson: No.

H.M.Jr: Well, what are we doing to do, are we going to let them place some more orders or not?

Knox: Got to. No choice about it.

H.M.Jr: That is the question.

Knudsen: Well, of course, the only thing we are dealing with now is the plant expenditures.

H.M.Jr: No, I think --

Knudsen: Are we going to sell for cash after we make the stuff?

H.M.Jr: I think what we ought to decide is the thing that I put up to the President, and which he said all right, to go ahead with it, and that is this order that Layton laid on the desk of two billion and 62 million and the question is, shall we let them place that order following the suggestion which the President made that we place the order and do the whole thing and then let them pay for each item as we deliver it.

Knudsen: Can we place the orders without money?

H.M.Jr: Well, some of us think that Mr. Jones can do it.

Jones: Do what?

Knudsen: Place the orders without having any money. This goes beyond what you have available, doesn't it?

Jones: Let me understand. Is it your thought that the RFC can place an order for these planes and guns and tanks and things like that?

H.M.Jr: We think so.

Jones: And build the plants and the whole thing?

H.M.Jr: Yes.

Jones: Well, I will have to get a little lower down in the chair.

H.M.Jr: I broke it to you gently this morning, and I thought you took it like a little man.

Jones: I didn't understand it. (Laughter) I am just now getting it. It is just now dawning on me.

H.M.Jr: I guess my English isn't very good, but I broke it to you, didn't I?

Jones: You broke it too much. You have been in the State Department too much.

Knudsen: Two billion seven.

Knox: When you get through, you will own the British Empire.

H.M.Jr: You don't want J. P. Morgan to make a piker out of you?

Jones: I guess that is what it takes.

Stimson: Henry, you asked me - you asked me if I had anything

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to say. This is the first time I have heard this, and it strikes me as a very serious thing for the Executive to go on and permit without the consent of Congress. Now, in the first place, we mustn't deceive the British. I don't think you can split this in two. You can't let them commit for purchases that they are doing on the face of our building the facilities for them. We can't begin building the facilities unless you are going to let them - with an implied commitment on their part, unless you are going to let them out the orders in. Now, I think you have got to face the whole thing at once before you do that.

H. H. Jr:

I agree.

Stimson:

And I think it is a very serious thing to make a start on it without - as I understand it - without having a pretty thorough showdown. Can we do anything except on a basis with them? Certainly not, can we? I mean, it is going to war. Can we take measures that are going to put us in a position where eventually we will be committed to going to war just to save our investment or to save the purpose for which we made the investment, unless you have the consent of the Congress? I mean, those are just the snapshot things that strike you in the face as you look at it.

H. H. Jr:

But you can't get an argument out of me about not going to Congress.

Jones:

Yes, you are handicapped.

H. H. Jr:

Yes. I mean, I can't argue against it.

Stimson:

I don't mean to - I am not arguing against you, I am just trying to get my own mind clearer.

H. H. Jr:

If this was easier, I wouldn't take all of your time to come here, but I can't take it alone. I have got nothing - I mean - did you see this, Sumner?

Jones:

I don't want to interrupt your speech.

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Stimson: I closed the speech with a question mark. It was a query.

Jones: It seems to me that your Priorities Commission or these men who are in charge of the production have got the job of telling us whether or not our industry can produce this additional material, superimposed upon present orders, and what our own War Department has got to place.

H.M.Jr: Well, I understood, Jesse, that that bridge had been crossed.

Stimson: In the face of this order?

H.M.Jr: Yes.

Jones: You can take care of it, can you?

Knudsen: Yes.

Jones: We can do this?

Knudsen: We can make it.

Jones: You can do it? Okay.

Stimson: You mean subject to the Priorities?

Knudsen: Yes, sir.

Stimson: I mean we can't do it in the face of the present program.

Knudsen: No, not until July 1st, 1942. We can give as much to Sir - that is the Priorities rule.

Jones: You can do this in addition to the thing that you have got to do for the War Department and the Navy Department?

Knudsen: That is right. The Navy Department and War Department --

Stimson: Not simultaneously.

Knudsen: The War Department and the Navy Department have

passed on this with the exception of the ships.

Jones: And they have looked forward for their own requirements?

Knudsen: Yes.

Stimson: We passed on the ten divisions. I was unaware that we had passed on the new airplanes.

Knudsen: You passed about half the new airplanes. Now you have got the rest of them up.

Jones: All right. Then the question is, it is going to require 600 million - 700 million for plant capacity.

H.M.Jr: Yes.

Jones: Correct?

H.M.Jr: Right.

Jones: And that, it is contemplated, the RFC would provide. Correct?

H.M.Jr: Right.

Jones: Will the War Department and the Navy, when you are appropriating money for plants, be in a position to furnish any part of this 700 million dollars?

Knox: No. It would be in the new bill, if you put it in.

Knudsen: Not until you get a new bill.

Stimson: Haven't got it under our present appropriations.

Jones: You haven't got it now?

Knox: No.

Stimson: No.

Jones: Okay. Then --

Knox: You understand the answer to that, Jesse, that we can put it in the next appropriation.

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Jones: I understand. But we are talking about up to now.

Stimson: In the next request.

Knox: Yes, request.

Jones: I agree with Secretary Stimson that all of this has got to go to Congress before we can actually do it. I don't think we can possibly give their - whatever his name is --

H.R.Jr: Layton or Purvis, whoever is here, Lothian.

Jones: I don't think we can say to them that we can do this job for them. I don't think we can do that until we go to Congress about it, but we have got a good deal of homework to do before we go up there. We have got to see what we can do, what we have got to ask for. We may have to ask for additional authority to do this, that is, borrowing authority.

Stimson: And also certificate authority.

Jones: Yes. Now, assuming that we cross that bridge to get the authority and the money to build the plants, then as to whether we have got the authority to buy all these planes or order all these planes, assuming that we have got that authority, we certainly would have to have the money before we could do it or the authorization to borrow the money, from Congress, so we have got to go to Congress, even though we were going to bundle it up and say, "Okay, we will do it." We have got to go up there and get the borrowing authority.

I would like to have some more figures from Mr. White, because there have been so many different ones dealt in that I don't remember them all.

H.R.Jr: I will give you a copy of the memorandum that I gave to the President and to Hull. Will you (White) give him exactly the same memo?

White: We have got some additional information since then

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and I will give him the latest with all the qualifications.

Jones: And then I would like to sit down with you so I can understand it.

H.M.Jr: You can have anything we have got.

Jones: Yes, I know that. I appreciate it, but I am just saying what I have got to do. I will have to sit down with Harry on that, and see what we can do and what we have got to ask authority to do. That is about the story, as I see it. I don't think it is possible for us to do more than just plow the ground and get ready to do this job. I am perfectly willing to help do it under the direction of the President.

Knudsen: Would Mr. Jones furnish the two billion dollars, besides?

Jones: How is that?

Knudsen: I was saying, Mr. Jones, that you wouldn't be liable for the whole two billion seven; you would only be liable for the plant money and sufficient working capital to start the purchases, because the British will pay for the pieces in cash.

Jones: Yes.

Knudsen: That is where I wanted to get this straight.

Jones: But we have got to find out where they are going to get the cash and Harry has got that. I realize that, and I also realize that we can start manufacturing it and if the order is cancelled for any untoward reason, we are through. We will just be stumped - we have got the plant. I see nothing impossible or impractical about it, but it is - it will take us a little time to digest it.

H.M.Jr: Well, I don't blame you. I have been living with this thing now for a long time, and I can see enough daylight to feel that I was all right up to the time that this order comes along, because I believe the

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liquid, what they have got and what these other countries have got, that with that I was perfectly safe, and that the American manufacturer would be paid up to this point, but from here on I don't feel that way any longer.

- Patterson: It would seem entirely plain that the Army and the Navy, on present setup, could not buy the stuff and sell it to the British. In the first place, we just haven't the appropriations to carry on such a program and couldn't get them, of course, without Congressional action and a full statement to Congress of what we needed the money for.
- Young: Do you have to have the money to place the order?
- McCloy: You have got to have a statement in your appropriation --
- Patterson: Or a contract authorization.
- Stimson: If we have to buy this, we certainly can't even sign the contract until we have the money in sight.
- Patterson: We have no slack at all.
- H.M.Jr: Well now, let me ask Jesse Jones this. It has been thrown into everybody's lap today except mine. What would you consider a reasonable time for you to absorb this, how many days, so we can meet again? How many days would you like to have without crowding?
- Jones: I would like to meet Monday or Tuesday. Maybe Tuesday.
- H.M.Jr: Tuesday at three o'clock?
- Jones: Suits me.
- H.M.Jr: Tuesday at three o'clock?
- Jones: Whatever time suits these other gentlemen.
- H.M.Jr: I mean for those that are here, and if you are going to be away, can these other people come?
- Stimson: Yes, these people can come.

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H.M.Jr: And Frank, if you are away?

Knox: Jim will be here.

Stimson: I expect to be back by Tuesday.

Jones: Let's make it Tuesday.

H.M.Jr: Tuesday at three o'clock, and by that time Sir Frederick Phillips will be here and we will get the latest information, which we will give you before Tuesday.

Jones: Okay.

H.M.Jr: Now, let me ask you this: Do you think, any of you, that we ought to let the President know that we had this meeting and we have this under consideration, or not bother him?

Jones: I wouldn't bother him.

H.M.Jr: What do you think, Sumner?

Welles: Why not let it go until after Tuesday's meeting.

H.M.Jr: Okay. Now, Sumner, do you think it is all right, for instance, to simply tell Layton that we have this under consideration? Are we running any undo risk that they may do something if they think we are stalling on this?

Welles: I don't think so. I don't see any reason for them to get that impression simply because we tell them we are taking it under advisement and are meeting again next week.

H.M.Jr: How would this be, if I tell them we don't want to answer it until I have a chance to see Phillips?

Welles: That is a good point.

H.M.Jr: We want to get the most recent information from Phillips.

Jones: Answering who, Henry?

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- H.M.Jr: Layton. You see, Layton went all through this. He got the approval as to the placing of the orders. As I understand it, everything has been okayed as to the placing of the orders with the exception of the ships. That is what I have been advised. I think I am right on it, am I not? They say that these orders can be placed without any time factor except the ships. Is that right?
- Knudsen: Well --
- Stimson: We haven't had - as far as I know, Mr. Knudsen may have --
- H.M.Jr: Well, Philip Young, I asked - well, you cleared that part too, didn't you?
- Stimson: The ten divisions, the thing you spoke of when you opened that, was what I cleared.
- H.M.Jr: How about under 2(b), U. S. type ordnance, 50 and 30 calibre?
- Stimson: That has been cleared indefinitely. It is subject to no time limit whatever.
- H.M.Jr: And tanks?
- Stimson: I think that was included in the same thing.
- Palmer: I don't know whether these tanks were in the B program or whether they are a separate group of tanks. Phil, you probably know better.
- Knox: Phil, am I right about this --
- Knudsen: Small tanks.
- Young: Yes, it is the original order for tanks, the order that is being negotiated now.
- Stimson: Are Items B and C the ones that we call on the A sheet of Layton's order?
- Young: B and C represent all the orders placed in the negotiation and for which they have received clearance to negotiate outside of the B program.

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- Stimson: But speaking roughly as we did, they were on the A sheet as distinguished from the B sheet which had the ten divisions?
- Young: Now, Mr. Secretary, there have been so many A sheets I am not sure as to which one you have in mind.
- Stimson: It is hard to tell from this. You see, it is put up in a little different way, there probably was some left over which was cleared before the A sheet existed. I think that is all right.
- McCloy: There is a very important time element in this thing on some crucial items.
- H.M.Jr: Do you mind waiting one minute until Colonel Knox and Phil Young finish talking?
- General Marshall, would you like to say something from the military standpoint?
- Jones: Say something sort of pleasant, General.
- Marshall: No, sir, I haven't any comment to make. It is the financial dilemma, as I see it, rather than - most of these matters. I can't tell what the full extent is, but most of these matters have been worked out in detail and are in process of negotiation and some have reached that degree of negotiation where it is almost ready to - it just needs cash. It is a financial dilemma rather than a military. We have worked out in relation to this ordnance - we have just finished a first estimate on availabilities and types and have gone back into another calculation in arranging that for delivery to the British Commission as to just what time elements are, which is a vital thing with them, as related to our situation.
- Then on the air program, that is a matter for Judge Patterson to go into more detail on than I can, and Mr. Knudsen, as to the financial arrangements whereby they go into the question of 12,000 planes there.
- H.M.Jr: Could I ask the General a question for my own

information? I realize what I am asking you goes necessarily into crystal gazing, but the best that you could give me. Supposing these orders are placed on some basis that we can work out, and let's suppose that England goes under. Would you have a use for this additional material which is placed here due to these English orders? I mean, would they be very useful to you or not? How useful would they be if England went under, got licked, and we were left alone in this world?

Marshall: I would consider them useful to us because they carry us beyond the two million man point in production of critical material. I don't know what point they would carry us. Somewhere to around about three million men, I think, something we would probably have to do anyway.

Stimson: If it is agreeable to Colonel Stinson, could I ask that General Marshall between now and Tuesday be sort of making a study along the lines that England goes under? These orders are placed. How useful would it be to the United States Army to have this additional capacity created?

Stimson: Certainly. I would be very glad to do it.

Stimson: would that be agreeable to you? Could he make that study and give such a report next Tuesday?

Stinson: Certainly.

Stimson: will you tell him that?

Stinson: Yes. What I am speaking of, using the words in such different meanings, the main question that we have considered was whether we could consent to the British coming into our market and ordering things that would delay us, and that, of course, as in the case of the ordnance, for instance, has wholly depended on whether they tried to fix a time for the delivery, which would interfere with us. Where no time was fixed, as in items 2(b) and (c), it made no difference with us and there was the improvement in the facilities which they constructed, which would be distinctly useful to us.

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- H.M.Jr: Well, what I would like to get, if you would consent, is if General Marshall next Tuesday could say how useful would this additional plane capacity, these additional orders, be if we should find ourselves in that unfortunate position of facing the world alone. I should think it would be useful to Mr. Jones in making up his mind.
- Marshall: I will do that, sir. I think the ordnance materiel goes a little over the three million man point, which we would have to do in that eventuality.
- McCloy: Haven't we already passed the 4 million man?
- Stimson: You mean over the 2 or the 3 million?
- Marshall: The three. You see, we have the critical material for two million already provided for. It is short of four million and something over three million.
- McCloy: There is one time factor in here that I think we should all bear in mind. I don't know how long it is going to take to work out all this thing and debate the whole program out. There are certain items, certain crucial items, orders must be placed immediately on them if we are going to meet the commitment we have made to Layton, because this is a time element. This is a commitment, but there are certain qualifications to it. There are certain things like 105 millimeter guns and 37 millimeter guns that we are going to have the orders immediately placed to start the plant capacities, new plants.
- Stimson: That is true.
- H.M.Jr: Can you separate it?
- McCloy: I should think it is possible to separate those. I suppose a staff study should be made whereby we would know in a fairly short time what those items were.
- H.M.Jr: Could you know by Tuesday?

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- McCloy: General, could we do it by Tuesday?
- Marshall: Yes.
- McCloy: The orders ought to go down for those right away. Otherwise, it affects the entire program.
- Jones: We might have some things on which we could proceed if the order isn't too big.
- McCloy: And handle these from the plant capacity aspect. We can get that, I think.
- Stimson: What I would like to ask, because this has never come to me for commitment as to time that I have any recollection of, that is that item 1(a) as to 12,000 aircraft by June, 1942.
- Knudsen: You never promised them by June, 1942.
- Stimson: That accords with my recollection.
- Patterson: Those are the planes the President mentioned in his Boston speech, aren't they? It was always left at large as to deliveries.
- Knudsen: You always left it at large as to deliveries with the understanding we will put them on the tail end of our '41 program wherever we had a hole like in Lockheed and Curtiss. We will put the planes in there. We have made no commitments to make these planes by '42. We can't do it, anyway.
- Stimson: Now with that explanation I can understand what has been said before as to that having been cleared. When I was speaking of clearance, I meant clearance as to date. That is what I have been consulted on.
- Knudsen: But in your letters to Sir Walter Layton you specified the dates for the ordnance, didn't you?
- Stimson: For the ordnance, yes, for 2(a) of the ordnance and that only, not 2(b) and (c).
- Jones: Do I understand there are three thousand of the

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planes that have already been ordered?

Knudsen: Yes. The orders were placed for three thousand.

Jones: Of the twelve?

Knudsen: Of the twelve. And I talked to him here the other day about it, and they were a little hesitant about placing orders. I impressed him with the fact that he would have to speed up and get the orders out there. I imagine that the finances have something to do with that.

H.M.Jr: One other thing, while we are here. I am just here as - asking a question. I saw on the ticker a statement out of London today that they placed an order for 65 ships. Where do we stand, Frank, on those ships.

Knox: The whole thing is up in the air. There has been nothing done permanently. They have made a survey of where they could have some ships made in yards that are not now being used for ship construction. It means an invasion of the whole ship building labor field, more especially it means an invasion of the supervisory people for ship building yards and there is about 150 ships lying idle in our ports, doing nobody any good.

H.M.Jr: What are they doing about it?

Knox: Not a thing. Wait a minute, I will take that back. A bill has been drafted and it is about to be introduced which would give the President discretion to take those ships and give these people a receipt for them or something of that sort and use them for whatever purpose he desires.

H.M.Jr: You haven't got that authority now?

Knox: Haven't got it now, but it has been introduced.

Jones: Foreign ships?

Knox: Foreign ships, a lot of Danish ships, a lot of good ones. And there are a lot of French ships and

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Norwegian ships and a whole flock of them. There are some other little Scandinavian countries who have ships here. And then the Germans have got a whole flock of ships down in South America, more than a hundred, and I think with our relationships down there we might find some way of getting them back in service. It is perfectly idle to talk about building new ships when they won't get a ship for 18 months. The crisis will be over before they get the ships. Now, there are at least 40 of these old ships from the last war lying tied up at our wharves. They aren't much good, but they are just as good as these ships they propose to build.

- Jones: Good enough to sink, are they?
- Knox: Good enough to sink and they go just as fast. They are proposing to build a ten knot ship and any submarine can overtake it.
- White: Mr. Secretary, I am certain that you know that the Danes now say they will be glad to sell them to this government.
- Knox: Sure, and I know the British have got to agree to let us do it, because they claim they are going to take it as soon as they go outside of the harbor. That is their present situation.
- H.M.Jr: Well, have you (Knudsen) got any afterthoughts?
- Knudsen: No.
- H.M.Jr: Frank?
- Knox: Well, I think this ship business has to be taken out of the system. I don't think there is any excuse for putting \$87,000,000 worth of new ships in there. They won't get them until the thing is all over.
- Knudsen: They never asked anybody whether they could place them or not.
- H.M.Jr: Jesse?

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Jones: Nothing more now.

H.M.Jr: Harry?

Stimson: Nothing.

H.M.Jr: Sumner?

Wells: Nothing.

Bell: Mr. Secretary, I wonder if Admiral Land shouldn't be here Tuesday, because he told me Sunday evening that he had had several discussions with the President about these ships, and that they were repairing those ships laid up in the York River and putting them into commission just as fast as they could, and he is also discussing the question of buying some of these foreign ships.

Knox: I think that is a good idea.

H.M.Jr: The reason I weighed having him or not, I was trying to keep the meeting as small as possible because what we are talking about is dynamite and I am going to look to Frank Knox to take care of the ship thing.

Knox: Well, I am in touch with Land and I have had several sessions with him and I know just what he is doing.

H.M.Jr: If anything got out, it would be just dynamite. I think you are perfectly right, but I am going to look to Frank Knox to do the ship thing.

Knox: I will have Jim talk with Land. In the meantime, he can bring all the dope.

Forrestal: I talked with him this morning.

Knox: Did you?

Forrestal: Yes.

H.M.Jr: General Marshall, did Sir Walter Layton show you the graphs on the munition production in England? Have you seen those?

Marshall: I don't think I have.

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H.M.Jr: Well, I think he said he showed them to you (Stimson), didn't he?

Stimson: No.

H.M.Jr: Well, I think if between now and Tuesday you might like to see them - because this gives their very confidential figures on their weekly production, broken down by items, and it might help you.

Marshall: Have you got them over there, Judge Patterson?

Patterson: I haven't seen them, no.

H.M.Jr: He told me - I understood he had shown them to Mr. Stimson and Mr. Knox.

Marshall: Maybe General Wesson has it. I would be very glad to get it.

Stimson: I don't think I have seen them. I have no recollection of it.

H.M.Jr: He brought them in here Saturday. They are not very useful to me, but in connection with this study, I should think they would be very useful.

Palmer: I have seen them.

H.M.Jr: You have seen them?

Palmer: Yes.

Mr. Secretary, we went over them just very briefly at the end of a meeting something like this.

H.M.Jr: Well, General Marshall, when you are through, would you let Mr. Knudsen have them?

Marshall: Yes, sir.

H.M.Jr: Well, Mr. Stimson, give them to General Marshall. He needs them for his study. They are not much use to me.

All right, thank you all.

December 3, 1940
4:40 p.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner
Eccles: Hello, Henry.

H.M.Jr: Yes, Marriner.

E: How are you?

H.M.Jr: I'm alive.

E: Did you get a good rest?

H.M.Jr: Yeah, and forgot it already.

E: Yeah, well, you don't have to be here long to forget it.

H.M.Jr: No.

E: What I called you about, we've been working a little on this - the matters involved in this financing tomorrow and we had a meeting yesterday and made up a memorandum, and I thought it might help to send it over this afternoon and let the boys look over it in anticipation of our meeting tomorrow. There is always so darn much to discuss at a meeting. If they had a chance to go over this before I think it might save a little time.

H.M.Jr: That would be fine. Would you send it to Bell?

E: Yeah - you want me to send it directly to Bell.

H.M.Jr: If you would.

E: Well, I'll be glad to do it. O. K. I just wanted to tell you and see if it was all right.

H.M.Jr: Well, I'd be delighted if you'd send it to Dan.

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- E: Yeah. Well, all right then.
- H.M.Jr: As I've got an open mind - in fact I haven't been able to think about it.
- E: Well, it's a little different type of problem than we've had before. The problems involved in the past have been quite different than the ones involved now and of course it's starting on a new sort of a program and I think there are things we ought to consider.
- H.M.Jr: I agree with you and I don't expect to settle anything tomorrow.
- E: No. Well, I knew that and this memorandum is only preliminary. This isn't any cut-and-dried position, it's merely the benefit of our discussion and the matter that we took into account, and we thought that we would give your crowd the benefit of our consideration.
- H.M.Jr: Well, I appreciate it very much and if you'll send it over to Bell and he'll get it and then he'll read it and he can feed it to me.
- E: Yeah. O. K. then.
- H.M.Jr: And I'm looking forward to seeing you tomorrow, but I want to let you know that I consider tomorrow a preliminary trial run, you see, and I didn't expect to decide anything tomorrow.
- E: Yes, well, I suppose if you're going to do anything on the 15th you'll have to announce it within about a week, but of course a week is plenty of time.
- H.M.Jr: That's right.
- E: You'll possibly meet again before you make a final decision.
- H.M.Jr: Well, I thought we would this time because I think it's more difficult - we'd meet tomorrow, exchange ideas, go home and then meet again. See.

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E: Yes.

H.M.Jr: What do you think of that?

E: Well, I think that's all right because there are a lot of considerations and at just one meeting of an hour, it's pretty difficult to have to come to decisions, I know it is for me.

H.M.Jr: It is for me.

E: So I thought.....

H.M.Jr: Well, don't feel that you're under any pressure tomorrow. We'll talk it over freely, I can go home and think it over and you can and then we can have another meeting.

E: Well, that will be fine then.

H.M.Jr: Thank you for calling.

E: All right.

H.M.Jr: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 3, 1940.

TO Secretary Morgenthau
FROM Dr. Jacob Viner

Joseph P. Cotton, Jr. memorandum of June 26, 1940.

Appendix E of this memorandum alone bears on the problem of German treatment of American creditor claims and of American assets in Germany. It is very general in its terms and not at all adequate for present purposes. What is needed is:

- (a) An inventory of outstanding American private claims against German public and private debtors;
- (b) A record of the treatment, statutory and administrative, by the German Government of American creditors claims and an attempt to estimate, year by year, the amount of realized loss where Americans have succeeded in obtaining a liquidation of such claims;
- (c) The present status with respect to control and transferability of income or principle of American enterprises in Germany.

A list of American owned assets in Germany should be compiled and the American owners should be invited to give a detailed account of their experience. The State Department presumably receives and files complaints received by Americans of their treatment by Germany. It is not evident from Mr. Cotton's memorandum that he obtained from the State Department the information they have or that he even consulted them.

I would suggest also that a similar survey be made for American claims with respect to Italy and the countries invaded by Germany. I would suggest also that the General Counsel's office of the Treasury be asked to prepare a memorandum on the history and present status in law and equity of offsetting of public and private claims against debts.

Jr

December 3, 1940.

Secretary Morgenthau

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JK

JV:Jba 12/3/40

(Forwarded by Mr. Pincent of the British Embassy to Mr. Cochrane in the Treasury at 4 p.m., December 3, 1940.)

Confidential

Memorandum by Mr. E. L. Hell-Patch.

CHINESE STABILISATION FUNDS

The first Fund was set up in April 1939 and was for £10,000,000, half contributed by the Hongkong and Chartered Banks (under Treasury guarantee) and half by the Chinese banks. The operations of the Fund are conducted by a Committee of Management presided over by Mr. Rogers who was nominated by the Chinese Government and approved by the Treasury.

This Fund has twice or three times been almost exhausted. The last run on the fund was during the final battle on the French front when sterling assets ran so low that the Fund temporarily had to suspend operations. The technical difficulties of this period were mainly caused by the violent fluctuations of the free market rate in New York.

At this time (about May, 1940) the setting up of a second Fund was first considered. It was made clear to the Chinese that His Majesty's Government could make no contribution but that no obstacle would be placed in the way of the British banks if they wished to contribute. The proposal first made was that the British banks should contribute £1,000,000 and the Chinese Banks £2,000,000 to the new Fund. The suggestion was then made that the Fund should be partly in sterling and partly in U. S. dollars in order more easily to operate in the worst conditions then prevailing. The Chartered Bank (whose share was to be £400,000) eventually declined to participate on the ground that the operation was not one which could properly be undertaken by a commercial bank, and their share was taken up by the Bank of China in addition to their own participation. Writing from memory (I have no documents with me to check the figures) the final contributions were as follows:

| | £ | U.S. \$ |
|--|-----------|-----------|
| Hongkong Bank | 500,000 | |
| Chinese Banks (including £400,000 from Bank of China in default of contribution by Chartered Bank) | 1,400,000 | 2,250,000 |

- 2 -

A new agreement (June 1) was drawn up to cover the operations of the second Fund and this Agreement was approved by the Treasury. The main provisions were that the Committee of Management of the second Fund would act in the closest harmony with the first Fund (in fact its members were all members of the Committee of Management of the first Fund), and that Mr. Rogers would have the same powers in the Committee of the second as of the first Fund (disclosure to the Treasury of operations, etc.). The agreement provided that after the exhaustion of the foreign currency assets of the first Fund, the second Fund should begin to operate. Any sales of Chinese dollars thereafter were to be 50/50 for joint account of the two Funds. If the second Fund reconstituted its foreign currency assets, sales of Chinese dollars were thereafter to be for the account of the first Fund.

In fact, while the negotiations for the constitution of the second Fund were proceeding, the tide turned and the first Fund regained over £2 million of its sterling assets. The second Fund therefore has never actually been in operation. If the United States should, however, decide to make any contribution towards the stabilisation of the Chinese currency, their contribution would have to be co-ordinated with the two existing Funds.

(Initialed) E.L.H.P.
9th August 1940.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 4 p.m., December 3, 1940.)

Telegram from the Foreign Office to the
British Embassy in Washington, dated
21st November 1940.

In a recent series of telegrams repeated to you Sir Archibald Clerk Kerr has transmitted an appeal by Chiang Kai-shek for closer Anglo-Chinese-American co-operation and help in his country's resistance to Japanese aggression. In a preliminary reply he has been told that his request is being sympathetically considered, and that we are ready to discuss with him and with United States Government the whole problem of our mutual interests.

2. We understand a similar appeal has now been addressed to the United States Ambassador in China. When United States Government has had time to consider the proposals made by Chiang Kai-shek, we shall wish to discuss them with them. Particulars of our provisional reactions are as follows.

3. We assume that we cannot expect that United States will take a definite commitment at this stage and that a full-blown alliance is ruled out. An Anglo-Chinese alliance would not serve the same purpose and its effect on Japan would be out of proportion to its utility. It may be possible to make some declaration on the lines suggested by Chiang Kai-shek either by parallel or joint action, but as the declaration proposed, except in regard to giving utmost help to China, covers ground already covered by various statements made by United States Government and ourselves, we think it better to work out in the first place such concrete help to China as may be feasible.

4. So far as we are concerned we have to consider the matter in the light of our own war effort and risk of provoking of Japan unnecessarily or prematurely into war. We think that our help should be as extensive as may be compatible with these two considerations, which however make it necessary to proceed carefully and by stages.

5. Loans as large as those mentioned by Chiang Kai-shek are out of the question. The Treasury's view is that since China is long of sterling at present, to give her more sterling unconditionally would result in increased sales of sterling on Shanghai market and a fall in sterling/United States dollar rate there, which would result in increased evasion of our control in case of Shanghai to the detriment of our exchange position. This would also react on Chinese dollar.

6. The Treasury therefore contemplates making in agreement with the Chinese Government, arrangements under which sterling held by Chinese residents will be available only for expenditure in sterling area. If this can be

(Hended by Mr. Pincet of the British Embassy to Mr. Cochran in the Treasury at 4 p.m., December 3, 1940.)

Telegram from the Foreign Office to the
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done, financial assistance could be given to China without weakening our exchange position. Subject to this condition, the idea we have in mind is to make a further advance to stabilize the fund, not exceeding £5,000,000 and to agree to export credits for Chinese requirements in sterling area within a maximum (according to the extent to which they can be met) of £5,000,000.

7. It had been suggested by Chinese Ambassador that T. V. Soong should visit London to discuss the consequences of currency stabilization semi-officially and also (as Chairman of the Chinese National Resources Commission) the needs of China for commodities available in sterling area. We are now informed by Chinese Ambassador that Chinese Government wish T. V. Soong to remain in United States for the moment. But a visit by T. V. Soong would, we think, be very valuable and we propose discussion of this point further with Chinese if Sir A. Clark Kerr concurs.

8. If financial assistance is granted to China, we may be prepared to consider sending an economic mission or appointment of individual technical experts but do not think this should precede concrete help.

9. We are [? "not" omitted] likely to be able to furnish any Chinese requirements in armaments but we are examining this point, and we do not consider it desirable to despatch a full military mission at this time. We are however, preparing plans for one in the event of hostilities and are proposing as an immediate step to replace our present military attache in China by a more senior officer and to expand his staff.

10. With a view to detailed discussion with United States Government as soon as they are ready, you should inform State Department of our general views as outlined above. Dominions are being consulted and until their views are known the above represents only our tentative opinion and you should make this clear. Financial Adviser should take an opportunity to explain the position to the Secretary of the Treasury as regards financial assistance and particularly the condition which we attach.

CONFIDENTIAL

TENTATIVE LESSONS BULLETIN
 No. 73
 G-2/2657-236

MILITARY INTELLIGENCE DIVISION
 WAR DEPARTMENT
 Washington, December 3, 1940.

NOTICE

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

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

THE GERMAN 210-MM. HOWITZER, MODEL 18,
 AND ITS PRIME MOVER

SOURCE

This bulletin is based upon the reports of two American official observers who inspected the 210-mm. howitzer separately on trips to the German Field Artillery School at Jüterbog during September and October, 1940.

CONTENTS

1. THE HOWITZER
 - a. Characteristics
 - b. Performance
2. THE PRIME MOVER
 - a. Characteristics
 - b. Performance

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CONFIDENTIAL1. THE HOWITZERa. Characteristics

| | |
|--------------------------------|---------------------|
| Designation | Model 18 |
| Caliber | 210 mm. |
| Length | 25 to 30 calibers |
| Weight: Tube | 11 tons |
| Carriage | 12 tons |
| Total | 23 tons |
| Weight of projectile | 120 kilograms |
| Weight of normal powder charge | 13 kilograms |
| Range | 16,700 meters |
| Angle of elevation | 0° to + 72° |
| Angle of traverse | 360° |
| Rate of fire: Normal | 1 round per minute |
| For short burst | 2 rounds per minute |
| Number of crew | 11 men |

Under the carriage of the howitzer, when it is in the firing position, there is a large plate or base—an iron disc nine feet in diameter—held firmly in place by three 30-foot steel rods with turnbuckles. The first rod extends in the direction of the line of fire, the other two to the sides. Each rod leads to a "dead man" anchored by means of six steel stakes, and the turnbuckles are set up until the strain is divided equally among the anchors.

The plate rests on the ground, and the howitzer moves on a pivot resting upon it. About six inches inside the rim of the plate there is a three-inch track ring upon which run two wheels. These wheels, three inches wide and six inches in diameter, probably relieve the control pivot of some of the strain. Apparently the howitzer is nicely balanced, for four men can move it in azimuth.

The recoil mechanism consists of two parts. The howitzer is on an auxiliary slide, and the auxiliary slide is on the usual type of slide. This double mechanism permits a considerable reduction in weight and thus assists in making the howitzer, in effect, a mobile field gun.

The breach mechanism is of the standard German type with percussion firing by lanyard.

For purposes of transportation, the howitzer is broken down into two parts—the tube and the carriage—and each part is loaded onto a prime mover.

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CONFIDENTIALb. Performance

The Germans are very proud of this howitzer, which is their latest, and the commandant of the German Field Artillery School considers it the best general utility weapon they have ever produced. It is in use for the first time during the current war. The American observers believe it an excellent weapon.

According to the commandant, the howitzer is most successfully used for counter battery, and, when special ammunition is supplied, for effect against bunkers. The Infantry finds particularly valuable the fire which it can deliver with ricochet effect, and it can even be used for antiaircraft barrage fire.

Officers stated that a trained gun crew could set the gun up in about 40 minutes, and that even under the most unfavorable conditions it could go into position in a little less than an hour.

A demonstration indicated that about 18 minutes elapsed from march order to the time the gun was ready to move.

2. THE PRIME MOVERa. Characteristics

| | |
|----------------|---|
| Type | Half-Track cross-country carrier |
| Weight | 15,500 kilograms |
| Motor | 240 horse power |
| Speed | 20 kilometers per hour (on good roads) |
| Fuel capacity | 50 gallons (estimated) |
| Turning radius | 15 yards |

The mover which was demonstrated has only two seats—the driver's and one immediately behind it. The remainder of the body is reserved for cargo.

Apparently the vehicle is powered by a gasoline engine. The fuel tank is located beneath the seats.

On the instrument panel there is a tachometer with a white disc calibrated up to 3200. The part of the disc between 2700 and 3200 is painted red to indicate dangerous operation.

b. Performance

According to one of the observers:

"I rode on the gun prime mover as it negotiated ditches,

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inclines, a winding road through the woods, and sandy by uneven terrain representing shell-torn ground. It was very mobile, and the driver shifted from one speed to another quietly, easily and smoothly.

"The bulk of the vehicle's weight was carried by the tracks at all times, and its performance closely approached that of a full-track vehicle. In fact, there were times in climbing obstacles when the front wheels left the ground. At such time the mover operated as a full-track vehicle inasmuch as it was steered entirely by the track.

"A number of vehicles moving over a well worn path cleared without difficulty an obstacle consisting of a roof-shaped bank whose ridge was about 15 feet high and whose slope was about 30 degrees on each side. One vehicle which attempted to break a new path, however, failed to negotiate the obstacle when its tracks began to spin in the sand."

* * * * *

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Paraphrase of Code Radiogram
Received at the War Department
at 2:37 P.M., December 3, 1940.

London, filed 18:00, December 3, 1940.

1. Because of bad weather conditions there were no operations carried out by the Bomber Command on Sunday, December 1st. The Coastal Command dispatched four routine patrols and three offensive and 13 defensive missions. The former included attacks on Brest and Lorient, France, Helsing, Denmark, and Kristiansund, Norway.

2. Daylight operations by the German Air Force on December 2nd consisted almost entirely of small fighter formations over East Sussex and Kent and reconnaissance flights over the English Channel, the Thames Estuary, and the Dover Straits. About 230 sorties were plotted. That night attacks were on a lighter scale than the preceding night; and again they were directed principally against Southampton, lasting from 6:00 P.M. to 2:00 A.M. Two small formations flew over London and single raiding planes were plotted over Coventry, Derby, Leicester and Liverpool. There was also some mine laying in the Bristol Channel.

3. Reports of damages from these attacks are not available.

4. The British lost no planes; while German losses were eight confirmed, two probable and six damaged.

5. Reports of air and naval air operations in all theaters are very refreshing and give indication that the British

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have adopted a vigorous policy of the offensive.

6. In Birmingham reports indicate that the restoration of public utilities and the repair of bombing damages are progressing satisfactorily.

7. More complete reports of the damages to Southampton from the heavy bombardment during the night of November 30-December 1st, are now available: The telephone exchange is entirely out of operation. There has been serious interruption in public utilities. The shortage of water complicates the fighting of the extensive and serious fires in the center of the city. There were serious fires in an Ordnance Survey office, a power station, a cable works, a naval storehouse, three ships in dry docks, two hospitals and a harbor office.

END

Distribution:

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

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Paraphrase of Code Cablegram
Received at the War Department
at 13:24, December 3, 1940

London, filed 17:50, December 3, 1940.

1. The operations of the Bomber Command during daylight hours of Monday, December 2nd, and the preceding and following nights were curtailed by adverse weather conditions, but railroad communications in Holland, dockyards in Northern Germany and occupied ports in France were attacked by small formations that were able to get through. The Coastal Command operated routine patrols and convoy escorts and successfully attacked enemy shipping.

2. Daylight operations of the German Air Force on December 2nd consisted of about 175 planes in small formations over a wide area. The Canterbury area was attacked by the largest formation of about 45 aircraft and Norwich was attacked at dusk by a smaller group. The preceding night the principal effort, consisting of about 118 planes, was an attack on Bristol and vicinity that lasted from 6:00 to 11:00 p.m. Small flights of two or three planes also attacked Portland, Shrewsbury and Liverpool. The British plotted 200 German planes during the day of December 1st and 160 that night.

3. Two British airdromes are temporarily unserviceable. There are no other official reports of damages.

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4. German plane losses were two confirmed, three probable and one damaged. There is no official data on British losses.

5. In the Middle East British aircraft were active in delivering attacks on the Italian lines of retreat in Albania. A heavy attack against Valona, Albania, was reported successful.

6. The British have unverified reports of the type of German preparations on the frontier of Yugoslavia that usually precede an invasion; and also of the movement of equipment to the vicinity of the Brenner Pass and that there are German troops in the Tyrol in a considerable concentration.

7. It is the consensus of British opinion that the German air effort is being concentrated upon the crippling of British munitions production and that her naval effort and long range bombers are being concentrated on attacks to interrupt the sea lines of communication with the Americas. This attack on sea-borne commerce is showing a greater degree of success than in former months.

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153-A

Paraphrase of Code Radiogram
Received at the War Department
at 1:40 P.M., December 5, 1940.

Rome, filed 17:10, December 5, 1940.

1. Badoglio has resigned as Chief of Staff, according to reports received from several trustworthy sources. The reason is that he is dissatisfied with the campaign in Greece, which was begun and carried on contrary to his wishes. Further information is that Mussolini would like to accept the marshal's resignation but the King is still withholding consent.

2. General Ugo Cavallero is being suggested as a possible successor if Badoglio goes. He was Undersecretary of State for War in 1925. He subsequently became manager of the Ansaldo Company. In 1935 he commanded the troops in East Africa, from which post he was relieved in 1939 on the Duke of Aosta's recommendation. Cavallero is not so much a military man as a politician. Other suggestions are Army General Pietro Gazzera, who in 1929 was Minister of War and who was lately in command of East African troops; also Army General Pietro Pinter, who was commander on the French front of the Italian First Army.

PAINE

Distribution:

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

CONFIDENTIAL

TREASURY DEPARTMENT

154

INTER OFFICE COMMUNICATION

DATE December 4, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

Paragraph 5 of our proposed memorandum to the Secretary of State goes very far in promising effective, equitable administration of a general regime of foreign funds control.

We are quite confident that this promise can be fulfilled, provided we can start intensive preparatory work without delay. This involves identification of foreign assets, which is a really big job, the choice and earmarking of personnel, the working out of a system of effective supervision, and numerous other details, so that everything can be ready at the "zero hour".

Do you feel like giving us the "green light" on thorough, intensive and, of course, secret preparation?

Professor Viner's memorandum is an extremely able condensation of the memorandum we prepared. The difference between them is the difference between a telegram and a letter. From my experience with the State Department, I think that Professor Viner's condensation would not receive the serious study and consideration which the more elaborated version might obtain. I suggest this without pride of authorship!

Jaw
in

PARAPHRASE

A confidential telegram of December 4, 1940, from the American Ambassador at Tokyo reads substantially as follows:

On December 3 Mr. Kenkichi Yoshizawa called as an old friend on the American Ambassador to inform the Ambassador of the mission which Mr. Yoshizawa is about to take to assist in negotiations with the Government at Batavia where he expects to arrive about December 22. During the rather casual conversation which ensued between Mr. Yoshizawa and the Ambassador there emerged points to the following effect:

(a) Mr. Yoshizawa said that although his negotiations would be principally economic in nature there is a political tinge to economic matters in general;

(b) All international relations must have mutual benefit as their basis and Mr. Yoshizawa rather went out of his way to say that the negotiations which he would carry on would be "amicable" in character;

(c) At the present time the amount of oil going to Japan is not sufficient for Japan's needs, especially as it is the opinion of Yoshizawa that the Japanese Empire has a capacity to consume about eight million tons each year;

(d) The trade between Japan and the Netherlands East

Indies

-2-

Indies is insufficient and is capable of being developed greatly. There are vast sources of raw materials in the Netherlands East Indies and with the cooperation of Japan these can be exploited;

(e) Yoshizawa is of the opinion that no other negotiators will be sent by Japan if he does not succeed in his negotiations.

The American Ambassador has been informed by the Netherlands Minister in Tokyo that exploitation by Japanese of sources of raw materials in the Netherlands East Indies is not considered as consistent with the political and economic independence of the Islands which those Islands are determined to maintain.

RECEIVED
OFFICE OF THE
ATTORNEY GENERAL
WASHINGTON, D. C.
JAN 10 1942

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1940.

to Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in the account of the Deutsche Golddiskontbank, Berlin, maintained with the Chase National Bank.

| <u>Date</u> | <u>Amount Debited</u> | <u>Paid To</u> |
|-------------|-----------------------|--|
| December 3 | \$ 47,188.75 | Irving Trust Co., N.Y., for account of Carl Marks |
| | 14,805 | Irving Trust Co., N.Y., for account of Vongibara |



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

Principal changes in the State Bank of Russia's dollar account during the period November 28 to December 4, inclusive, were as follows:

| <u>Date</u> | <u>Amount Credited</u> | <u>Received From</u> | <u>Amount Debited</u> | <u>Paid To</u> |
|-------------|------------------------|---|-----------------------|--|
| Nov. 28 | \$150,000 | Chase National Bank, N.Y., by order of Reichsbank, Berlin | \$500,000 | Guaranty Trust Co. N.Y. for account of State Bank of U.S.S.R., Moscow |
| | 75,000 | Amorg Trading Corp. | 400,000 | Bank of Manhattan Co., N.Y., for account of State Bank of U.S.S.R., Moscow |
| Nov. 29 | 100,000 | Commercial Letters of Credit | 70,000 | Commercial Letters of Credit |
| | 145,000 | Chase National Bank, N.Y., by order of Skandinaviska Banka, Stockholm | 600,000 | Amorg Trading Corp. |
| | 94,000 | Swiss Bank Corp., N.Y., by order of Societe de Banque Suisse, Zurich | | |
| Nov. 30 | 120,880.46 | Chase National Bank, N.Y., by order of Skandinaviska Banka, Stockholm | 279,000 | Commercial Letters of Credit |

| <u>Date</u> | <u>Account Credited</u> | <u>Received From</u> | <u>Amount Debited</u> | <u>Paid To</u> |
|-------------|-------------------------|---|-----------------------|---------------------------------|
| Dec. 2 | \$205,535 | Swiss Bank Corp., N.Y., by order of Swiss Bank Corp., Zurich | \$ 88,147.23 | Commercial Letters of Credit |
| | 53,000 | Antorg Trading Corp. | | |
| | 91,000 | Irving Trust Co., N.Y. | | |
| Dec. 4 | 440,793.32 | Commercial Letters of Credit | 500,000 | Antorg Trading Corp. |
| | 295,000 | Chase National Bank, N.Y., by order of Union Bank of Swit- zerland, Zurich | | |
| | 55,432.06 | Sight draft on Central Hanover Bank & Trust Co., N.Y. | | |

On December 4 the balances of the State Bank and the Antorg Trading Corporation were as follows:

| | <u>State Bank of the U.S.S.R.</u> | <u>Antorg Trading Corporation</u> |
|---------------------------------------|-----------------------------------|-----------------------------------|
| Cash Balance | \$ 11,777,600 | \$ 941,000 |
| Cash commercial Letters of Credit | 13,630,200 | 2,363,300 |
| Time deposits | <u>10,300</u> | <u>-0-</u> |
| Total | \$ 25,412,100 | \$ 3,304,300 |
| Changes in total since November 27 | - \$ 1,543,300 | - \$ 587,100 |

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

| | |
|------------------------------------|---------|
| Sold to commercial concerns | £51,000 |
| Purchased from commercial concerns | £47,000 |

The Federal Reserve Bank of New York sold £10,000 in registered sterling to a non-reporting bank.

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

| | |
|------------------------------------|--------|
| Sold to commercial concerns | £2,000 |
| Purchased from commercial concerns | £6,000 |

The other currencies experienced little movement and closing quotations were as follows:

| | |
|--------------------------|------------------|
| Canadian dollar | 13-1/8% discount |
| Swiss franc | .2321 |
| Swedish krona | .2385-1/2 |
| Reichsmark | .4005 |
| Lira | .0505 |
| Argentine peso (free) | .2355 |
| Brazilian milreis (free) | .0505 |
| Mexican peso | .2070 |
| Cuban peso | 8-1/2% discount |

There was a further improvement in the yuan rate received from Shanghai. This morning's quotation was 5-31/32¢, a gain of 1/16¢ over yesterday's rate.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

For the third consecutive day, no gold or silver prices were received from India. According to a news item appearing on the Dow-Jones ticker this morning, there was no trading in the Bombay cotton and bullion markets owing to political reasons.

In London, a price of 22-15/16d was fixed for both spot and forward silver, representing a gain of 1/8d and 1/16d respectively. The dollar equivalent of this price is 41.65¢.

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

We made three purchases of silver totaling 450,000 ounces under the Silver Purchase Act. Of this amount 250,000 ounces represented a sale from inventory, and the remaining 200,000 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in cursive script, appearing to read "B.M.S.", is centered on the page.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CLASSIFICATION

DATE December 4, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

RE REPORT

December 25. Miss Whitehead, a German national and the widow of the late "Colonel" Whitehead of the Coca Cola Bottling Company who left an estate worth so far around \$5,000,000, is strongly pro-Nazi, close to Goering, and it has been indicated that as soon as her husband's estate is settled she will receive the bulk of it for the purposes of the Nazi government.

December 29. We are being supplied with agents' reports concerning the principal consulate General account at Chase National Bank, Rockefeller Branch. White accounts are being monitored; deposits and cancelled checks are being reviewed.

December 3. Fassbender, whom the Dies' Committee publicized as a Gestapo spy, is said to be wanted in both Germany and France on serious charges and it is noted that it is ridiculous to assume that Fassbender could have been a better espionage agent, not having the requirements; the stories told by him to the Dies' Committee are said to be motivated by a purpose to save himself from deportation proceedings.

December 3. An intercepted communication from Admiral Robert, Governor of Martinique, to a superior Leluc at Vichy dated July 29, 1940, but apparently written during or after September 1940, stresses difficulties in keeping 1290 U.S. reservists from the various units of the French fleet in the West Indies and seeing the ships in condition; the oil supply is running low although a vessel referred to as his "American Observer" got 2,000 tons delivered; in order to maintain discipline and order he suggests that Benech, formerly U.S. attaché in Washington, be sent to Martinique as Chief of Staff; he asks for instructions against the day when the Americans should attempt to control the island, or seize the Islands; he says it will be impossible for him to carry out the operations of overhauling and repairing the ships at Martinique which will soon be necessary.

December 3. An Italian tanker, the FRANKO MARTELLI, is at Pernambuco, Brazil, loaded with fuel oil and ready to leave.

HC

COPY

Rio de Janeiro, Brazil, December 4, 1940

No. 3954

Subject: Inquiry Of A German Bank Regarding The Sale Of Gold Bullion To
The Bank of Brazil.

(STRICTLY CONFIDENTIAL)

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to refer to the Embassy's telegram No. 591 of November 14, 8 p.m., reporting that the Bank of Brazil had received an inquiry from the Banco Allemao Transatlantico regarding the importation and sale of gold bullion to the Bank of Brazil.

The questions and the replies of the Bank of Brazil are listed below.

1. Will the Bank of Brazil purchase gold arriving in Brazil from abroad, against payment of U.S. dollars?

- Reply: We will only purchase gold produced in the country.

Of it originates abroad, we will purchase it for exchange for the exportation of merchandise.

- a) - the rates will be the usual ones for export (30 per cent - 70 per cent), the gold being calculated at the international price less the gold-point.

2. May gold received from abroad by a bank or local firm be re-exported to another country after being in safe-keeping for a certain time in a bank or some other locality for account of the remitting party?

- Reply: Yes, imported gold may be kept, but never exported by the importer. It must be sold under the above conditions, that is, for export.

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The Director of Exchange of the Bank of Brazil informs the Embassy that the German bank has not followed up this matter.

Respectfully yours,

William C. Burdett,
Chargé d'Affaires ad interim.

851.6

WJD:KF

elp

December 4, 1940
9:30 a.m.

RE ARGENTINE LOAN

Present: Mr. Grady
Mr. Collado
Mr. Jones ✓
Mr. Pierson
Mr. Clayton
Mr. White
Mr. Bernstein
Mr. Cochran
Mr. Gaston
Mr. Foley
Mr. Bell
Mr. Welles ✓

H.M.Jr: I told Jesse I thought this was a good atmosphere to discuss a loan.

Jones: Warm and friendly.

H.M.Jr: Now, what the President said the other night was that you were the generous fellow.

Jones: I want to get that published.

H.M.Jr: Did you hear about that? He made this speech Friday night over his own dinner table where he said what a generous guy you were and how tough I was.

Jones: Good.

H.M.Jr: Well, who can narrate where we are with the Argentinians as of today?

Pierson: We are waiting for you, Mr. Secretary.

Welles: We are waiting to hear.

H.M.Jr: Well, in discussing this thing originally, Mr. Jones

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wrote me a letter that we would go forward simultaneously. How far have we gone, Jesse?

Jones: Well, we are still in the talk stage. We have had a number of meetings with members of your staff, as they have probably reported to you. I think we have all more or less reached the conclusion, the opinion, that Argentina will need a minimum of a hundred million dollars to go through next year. I think that will be confirmed by - and I believe it is our thought that if they will tighten up their belt a little bit, they can go through next year for about a hundred million dollars from this country.

I guess that is about all there is to it. We have been wrestling with the bank. Clayton and Pierson think that - I wanted our 50, if we did it on that basis, to include 20 that we have heretofore offered and which has not been used. They think that will be trimming it a little bit close and the bank should provide 5 million a month for the year, making a total of 60 million dollars, including the 20 heretofore authorized.

H.M.Jr: Five million a month, you mean sort of ration it out?

Jones: We think we ought to give it to them by the month. Now, that is to meet their purchases in this country.

H.M.Jr: Well now, Dan, you people have a plan on this, as to how we thought we would do it. Do you want to outline it?

Bell: Well, if we do the \$50,000,000 from the Stabilization Fund, we thought we might do it on a somewhat similar basis to what Mr. Jones has outlined, 5 or 6 or 7 million dollars a month. Of course, our authority runs only until June 30, so that we might have to buy a larger amount in June if our authority is not extended.

White: But it would be available to them.

Bell: It would be available to them in the amount that

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we specified. Of course, our operation would be the purchase of the Argentine currency and put it on deposit down there and they would use from it whatever they needed. We also thought that - well, there isn't any use going into the security. We wouldn't have any security other than guarantee of the government and possibly an understanding that they would keep on deposit in the New York Federal Reserve Bank unencumbered gold slightly in excess of whatever we advanced to them, not pledged at all but just unencumbered, so that it would be there in case we demanded repayment.

H.W.Jr:

Is that all the thing?

Bell:

That is about the size of it.

White:

That is all except --

H.W.Jr:

Harry, what else is there?

White:

The only other addition is that if their exports should prove better than they contemplate, that any reduction in their exchange needs would be absorbed by the Stabilization Fund first.

H.W.Jr:

Their stabilization?

White:

No, I mean that they would use less of the Stabilization Fund, rather than less of the Export-Import Bank Funds, that that would be a fixed amount as far as, I take it, you are concerned, but as far as the Stabilization Fund is concerned, we are putting rather a ceiling for the coming year.

Jones:

We would like to be partners with you. We would like to go fifty-fifty.

H.W.Jr:

You mentioned the fact - did you mention the fact that we felt they ought to keep at least 50 million dollars in the Federal Reserve in New York?

Bell:

Yes. That is what I referred to as the unencumbered gold.

H.H.Jr: They now have seventy.

Jones: Now what?

H.H.Jr: Have seventy.

Jones: Our loans will necessarily be time loans. Five or six years, is it not? So we will have to make our loans on a time basis.

Now, have we decided that some legislation is necessary for them to borrow?

Pierant: They may need Congress to approve the guaranty. That is the only --

Jones: That is all?

Pierant: Yes.

H.H.Jr: Well, the other thing that these men wrote - I might as well read this.

"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."

Cochran: Somers thought we shouldn't include that, Mr. Secretary.

White: That is an alternative.

H.H.Jr: Let's put all the things in so that Mr. Welles and Mr. Jones will not be in a position where they could say, "Well, why didn't you mention it?" We will put everything in for trading purposes.

"The Argentine Government would agree that during 1941 imports not to exceed the rate of \$200,000,000 would be permitted from countries requiring gold dollars or foreign exchange payments."

White: That is another alternative.

H.H.Jr: All right.

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"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."

That is about all the things you fellows can think of?

White: That is all. They have agreed to trim down their imports, or I take it they will agree --

Jones: What?

White: They will agree by the time you are through discussing them to trim down their imports to that figure.

Jones: Confine them to essentials and eliminate luxuries and non-essentials as far as possible.

H.M.Jr: These things, I take it, are like "Non-discriminatory treatment to Export-Import, determined by the State Department; consumption of a trade agreement negotiation by the State Department; acquisition for use of military and naval air bases, determined by the President; cooperation with United States --"

Bell: That is out. It has no connection with this.

H.M.Jr: All right. "Cooperation with United States in their control of foreign funds." Well, that would be - and "Cooperation with the United States with respect to foreign policy and handling of subversive activities." Is that in?

Welles: That ought to be out.

Bell: We threw those in, Mr. Secretary, to let the State Department decide as to whether this wasn't a good time to bring those forward and get some agreement on them. They don't have to be tied into the loan. If you want some sort of military bases down there, I should think it would be a good time to discuss it if you could get them. It would be a sizable dollar exchange item.

Welles: Well, from the standpoint of policy, that ought to

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be left out of any discussion of this kind. The matter has been under discussion with them for six months already.

Bell: I see.

H.M.Jr: Well, from our standpoint, what it sums up to, then - you men check me - use that for trading purposes we would like them to agree not to go below their \$300,000,000 gold reserve without consulting us. We would like them not to - to keep at least \$50,000,000 on earmark in New York with the Federal Reserve. And what other things?

White: Well, the third we can merely mention, but we would give up most easily, that of their amount of imports. The second we would give up next, and the first I don't think we would be inclined to give up; namely, that they would have to keep on reserve that amount somewhat in excess of their holdings of pesos.

Welles: They volunteered that, didn't they, Dr. White?

White: They didn't volunteer. They said they didn't think they would have any objections. As long as we don't demand that it be pledged. Now, just how that can be worked out, whether it will be merely their statement of policy or to what extent incorporating that in an agreement would constitute a pledge I don't know. That is something that would have to be worked out, but they would be very adamant about not demanding a pledge of that gold.

Pierson: Dr. White, what is the use of putting them in that position if what you get doesn't do you any good?

White: If they state as a matter of policy that they are going to keep gold in the Federal Reserve Bank to a small amount in excess of our holdings, then that is a very good guarantee, because they can't reduce that without the Treasury's approval. As a matter of routine, whenever earmarked gold is reduced, the Treasury approval has to be required, so that gives us a check. We know how much gold

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they have got down there and we follow it pretty closely to know what they are using it for, and if they attempt to take action or any action at all that looks as though it is substantially reducing our guarantee or looks as though they are doing something we don't think they should in the light of the general circumstances, then we can stop it.

Now, what we can do with that gold after we stop it I will have to ask the lawyers.

H.M.Jr: Herbert, do you want to say something?

Gaston: I don't think so. I went over this proposal here and it looks pretty sound to me.

H.M.Jr: Ed, are we on sound legal grounds?

Foley: I think so. We have to actually buy the pesos before the expiration of the Stabilization Fund on the 30th of June of next year. But there are a couple of ways that payment for the - actual payment for the pesos could be made after the 30th of June and I think if we are careful to set it up in one of those ways, we will still be within the law.

H.M.Jr: Sumner, is it feasible - I mean, will they stand for it to have sort of a comptroller who would represent Export-Import and the Treasury, I mean, so he is there on the throttle when they turn the juice on and off? I take it that is just what you (Jones) have in mind, isn't it?

Jones: I hadn't thought that, Henry, on Argentina. My thought is that we ought to deal pretty well on a man to man basis with Argentina and expect them to carry their part of the load and to keep faith with us, and I thought it would also - of course, you can determine that - but I don't feel it is in the spirit of what we are all trying to do, the President and everybody else, to tie them up too tight on what we are doing. I think we have got to - of course, the money that we lend will be spent in this country and I assume that will - my thought is that whatever amount of money we make

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available to them, we ought to do it on a pretty broad man to man basis with not too many strings.

H.M.Jr: Well, all right, but I think on this Stabilization operation it works two ways. After all, we are trying to stabilize the dollar in relation to their currency, and we will have to sit in with them.

Jones: It occurred to me as Dr. White indicated there, if they have got sort of an announced policy rather than a binding agreement that might - but that would be for you to work out with them.

H.M.Jr: Well, I want to say that we will have to work with them in the foreign exchange because it is split seconds and we will have to have some sort of an arrangement where we are in constant touch with them and very much in this room, some of the dealings that we have had in foreign funds with the French and the Argentinians, I am not convinced that you can just give them a blank check. I mean, some of this thing about this meat to France and just when it went and when it didn't go and what their relationship with the French is. We have asked them for more explanation. I don't know whether you (Welles) know how much trouble we have had in getting this explanation. Espil takes the attitude that if we ask anything of him, the question of his national honor is at stake, which may be perfectly true, but his answers so far haven't been entirely satisfactory.

White: Mr. Secretary, I wonder whether there isn't a compromise and that is that so far as the Stabilization Fund operations are concerned, it will indicate that it was part of our policy to have something comparable to an observer or that we would like them to supply us with information which would enable us to know how to operate from week to week, month to month, and since it is a continuing operation, the fact that they will have to depend upon our good will for continual acquisitions of exchange, I think, would insure their complete cooperation.

H.M.Jr: Well, outwardly I will try to appear as generous as

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Mr. Jones, but I just want to let you know that actually I expect to have somebody in the Treasury watch it every minute. I am not convinced that --

Welles: Henry, I think the approach suggested by Jesse is a sound one in this case. I think that the contact you need will be with the Central Bank, won't it? I don't think you have the slightest reason to worry. You will have somebody here, as you say, possibly, on the job, and I think you will get all the information necessary from the bank.

White: I think Mr. Prebisch has given every indication that he is only too eager to cooperate so far as information is concerned.

Welles: I know the three men concerned personally, and I think you can be assured that their contact will be all you want.

White: And we can put the request for that kind of information that would be necessary to keep the kind of control that you want on a technical basis, that I don't think would in any way have any invidious suggestion.

Welles: That wouldn't hurt anybody's feelings.

Gaston: After all, exchange operations are a mutual operation, theoretically, in relation to the two currencies.

H.M.Jr: Well now, we are ready to meet with these people right away. Now, you have got your negotiations, Jones. Do you want to --

Jones: I wonder if it wouldn't be better, as I am just asking because I am relying more on Mr. Pierson and Mr. Clayton - they have been going into this matter - I wonder if it wouldn't be better for our deals to be separate. The bank is going to make its loans, and they will be time loans, and they are going to want longer time than we are willing to give, and it would seem to me that your fund you have got to handle in your own way, the Stabilization Fund, and you have got to have

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your own agreements, so it would look to me like it might be better if we went ahead and made our own negotiations independently and you - but they could synchronize as much as desirable. They are here, and as soon as we can give them an answer, I think the better, probably.

- H.M.Jr: That is all right, and then I take it that neither one would announce until we both have reached a conclusion.
- Jones: I think that is correct.
- H.M.Jr: I mean that whatever the announcement is, it ought to be a joint announcement, don't you think so, Sumner?
- Welles: Yes.
- H.M.Jr: Well, that is all right with me, and so if you start in --
- Jones: How does that strike you?
- Clayton: I think it is all right.
- Pierson: It is agreeable with us.
- H.M.Jr: We will get hold of them on the odd days. You have them in the morning and we will have them in the afternoon. Between us we will wear them down.
(Laughter)
- Bell: You wear them out and we will take them over.
- Jones: We will wear them down.
- White: That is desirable from another point of view, too, to indicate when you come before Congress the separate nature of the Stabilization operation.
- Jones: Then as a procedure, suppose we get in touch with them, Mr. Pierson and Mr. Clayton, and begin to talk about these terms, and you get them as fast as you can and let's let them go home.
- H.M.Jr: Suits me.

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Jones: All right. Is that all?

H.M.Jr: I haven't anything else.

Jones: Any other speeches around here? (Laughter)

Welles: Do you want to hold the floor, Jesse?

Jones: Hold the floor? I will be glad to hear from you. (Laughter)

As a matter of record, we could congratulate the Secretary of State and the Secretary of the Treasury on their meeting with the Joint Committees on Monday morning.

Welles: I will second that motion.

Jones: Without objection, then, that is carried. (Laughter)

H.M.Jr: Now, what I want to know is this: I expect Eccles to sit in at my meeting. Are you going to have him in yours (facetiously)?

Jones: Of course, you will probably monopolize him.

H.M.Jr: Well, I can spare him. I will lend him to you. He has recommended a 2½ billion dollar gold loan and he has recommended doing away with the Stabilization Fund.

Jones: Oh, he did?

H.M.Jr: Yes.

Pierson: Is that where he is going to get the money?

Jones: Is he recommending abolishing the RFC?

H.M.Jr: Well, it hasn't all come out yet.

Jones: I think he might do so.

H.M.Jr: But he has told me how to handle the baby bonds, so I thought we had better have him sit in, but I don't want to fight with you over him.

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Jones: No, you just have him all to yourself. (Laughter)

Welles: There is one point, Henry, I would like to bring up and ask Dr. Grady. What are the prospects for the trade agreement negotiations?

Grady: Well, progress is being made and discussions are going on. Work is being done in this stage in the Trade Agreements Committee. The discussion with Mr. Prebisch and the others - I think they have only been with Prebisch - have been quite general, but it is hoped that by the time he goes back there can be an agreement in principle on the main points and the general provisions, so that if his people in Argentina agree and we get an agreement here to go ahead on the general outline, then we could proceed with an announcement and it would take about two months to get the agreement through.

Welles: There is one point that I want to make in that connection. Mr. Collado has just reminded me. The memorandum they gave this government was pretty broad and far reaching, and they are anxious to avoid the implication particularly down there that this is just another loan operation. They would like, and I think it is entirely legitimate, to give the impression that this is the beginning of a new, broadening economic cooperation between the two countries, more trade both ways, and if there is any chance of being able to make that announcement of negotiations at the same time that the loan announcement comes out, I think it would be particularly helpful, don't you?

Jones: I would think so.

H.M. Jr: As it --

Welles: It would be so much the better.

Grady: Well, all the work was done a year ago. There is no reason why there should be any great delay about it except the required time. Under our practice we require about six weeks' time for domestic interests to prepare their cases for

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hearing before the Committee For Reciprocity Information. So from the time the announcement is made it will be about six weeks until the hearings are over. Then it takes a couple of weeks to digest what has been presented to the committee.

Welles: But, Henry, I just sent the preliminary announcement.

Grady: Yes.

Welles: Wouldn't that be possible?

Grady: Well, that can be whenever there is agreement here with the Secretary and others. We can go ahead with the announcement. And they are agreeable down there to make a public announcement there and here at the same time.

Welles: Yes.

Jones: Now, as a schedule on how we will proceed, our boys will get in touch with the Argentinians. Can you do it today?

Pierson: Yes, sir.

Clayton: Yes, sir.

Jones: How do you want to do it? Do you want to see them today?

H.M.Jr: No, I don't want to interfere with your program. I will ask them to come at eleven tomorrow morning to give you a head start. How is that?

Jones: I just wanted to know the schedule.

H.M.Jr: If it is agreeable to you, Sumner, I would like someone from the State Department to sit in and then you can be kept up to the minute.

Welles: Thanks. I will appreciate it. I think it would be Mr. Collado.

H.M.Jr: If he will be here at eleven tomorrow.

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Welles: Right.

H.M.Jr: Then whenever I see them, you will have somebody here and then you will know just what we are or are not doing and then please, if you don't think the thing is going right, give me a telephone call, will you?

Welles: I will do that.

H.M.Jr: Give me a telephone call after Collado has told you. If you are not satisfied, give me a ring.

Welles: I will.

Jones: And we sort of operate on the basis that each of us, what we do, depends on what you do and so forth and so on.

Bell: Well, we will keep together on negotiations. I think that Warren and us can keep together on our negotiations and sort of go along together. We don't have to see them together, but we will know what each other is doing.

H.M.Jr: Who would you like us to tell, Warren or you?

Jones: Well, either one.

H.M.Jr: Well, Bell will call - would you like him to call you?

Jones: He can tell Warren.

H.M.Jr: You keep us posted how you get along, and Collado can sit in at my meeting and then State will know. Would you (Bell) arrange this meeting for eleven tomorrow?

All right, Mr. South America.

Welles: Are you sure that it will be convenient to Marriner?
(Laughter)

November 27, 1940

Secretary Morgenthau

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 purchase 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:

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(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.

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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 much 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 of 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.

December 4, 1940
10:25 a.m.

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: Good morning. Marriner, I just read twice the story in the Tribune attributed to you and you could just knock me over with a feather.

E: Well, the unfortunate thing about the story, it isn't a true story at all and I'm perfectly sure that there was nothing that I said there that you would have any objection to. What I said, of course, was entirely off the record and somebody has just gone out and made a story out of it and it's just purely made out of whole cloth.

H.M.Jr: But, Marriner, with this very ticklish situation - I mean, I just go up on the Hill at the President's direction to get authority to use the Stabilization Fund and then this article says that you say it should be done away with.

E: I made - there is no such a statement in my speech at all. Absolutely none. Now the only thing I can do is release this speech which of course I didn't desire to do, but the only thing I can do now is to simply give out the whole story, and there is nothing in the speech. They have merely picked out the statement with reference to the British and the gold end of it which was purely an incidental part of it and it was only brought in in connection with its influence on excess reserves. I was talking almost primarily from the standpoint of the banking and the monetary picture.

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- H.M.Jr: Well, I don't know what's in the speech - I mean, I haven't seen it
- E: Well, I'll send - I'll be glad to let you have a copy of it. I have the only copy there is - I mean, I didn't put any copies out, you see, because
- H.M.Jr: But, Marriner, I think you can use your imagination a little bit and see how ticklish - just let's keep out of this thing this credit to England is concerned - and the President directs War, State, Navy, National Defense, Jones and myself to get together to talk about it, which we did yesterday in the strictest confidence, then this thing comes out and they claim that you recommend a loan of \$2½ worth of gold.
- E: Which is entirely untrue. I recommended no loan whatever.
- H.M.Jr: Well, I've got to have a heart-to-heart talk with you because I can't do, as a part of a team
- E: Well, why don't
- H.M.Jr: as part of the team, and then to have you causing the newspapers - running interference entirely on your own.
- E: Well, I know, but what you're saying - you're assuming that the newspaper is making a correct report of what I said.
- H.M.Jr: No, what I'm trying to say is, I've got to get together with you - find out what you did say and then find out what you can do to correct it.
- E: That's right. Yes. Well, now, why don't you - we set this afternoon to do that?
- H.M.Jr: (Pause). All right. Are you ready at 3 o'clock?
- E: Yes.

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- H.M.Jr: Because I think that before the sun sets - I think it is up to you to do something.
- E: Well, I want to release the statement.
- H.M.Jr: Uh-huh.
- E: But I'd like to discuss the matter with you.
- H.M.Jr: Well, I am free at 3 o'clock. Now, are you going to bring anybody with you?
- E: Not necessarily.
- H.M.Jr: All right.
- E: Do you want anybody there?
- H.M.Jr: Yes, I'd like to have Herbert Gaston present if that is agreeable to you.
- E: Well, then maybe I'd better bring Elliot over with me then.
- H.M.Jr: Yes, and also I'd like Bell.
- E: Well, that's fine, and I'll bring Elliot over with me and I'll bring several copies of the speech. I'll get it mimeographed up. I have no copies made except my own here. I'll bring that as well. The copy that I have is deleted and interlined and so forth.
- H.M.Jr: I believe last week that Bell reported to me that you called and couldn't we work closer together and have these luncheons together and I said by all means. I'd be delighted to, and that still is my attitude.
- E: Well, I think of course that's what we should do because anything - for instance we haven't - I don't think we've been together to discuss anything for over six months and all of these various things go on and all we get is what we read in the newspaper occasionally.
- H.M.Jr: I don't know how many weeks or months you were away.

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- E: Well, I was away six weeks and that's the only time I've been out of town at all for a year.
- H.M.Jr: Well, let's wait until I get a chance to read what you did say. I don't know whether you made any off-the-record remarks besides.
- E: I made absolutely none because I wrote this out so that I wouldn't make any off-the-record remarks and the statement was - anybody who was there could vouch for the fact that nothing was said except what is in this speech.
- H.M.Jr: Did your Board pass on the speech?
- E: Oh, no. No, hell, the Board don't pass on speeches.
- H.M.Jr: They don't. Do they see them before you give them?
- E: No, the Board has never seen this speech.....
- H.M.Jr: I see.
- E: any more than we see other members of the Board. Davis is making a speech tomorrow, Szymczak made one last week. I never saw either speech until I read it in the paper. I say in the beginning of the speech here that - let's see - I can speak only for myself, not for my associates on the Board or in the Reserve System, nor for anyone in the Government. That is right at the first sentence in the speech that I made so that
- H.M.Jr: But you can't disassociate yourself like that.
- E: Well, not entirely. That's correct and I realize that and what I said here
- H.M.Jr: You know that from past experience. You've got up and said I'm talking as Harriner Eccles and then go on, but they always accredit you as Chairman of the Federal Reserve.
- E: Well, there isn't a single thing in this speech I'm sure that you'd disagree with and so far

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as what this paper says, and I just saw it now, I was just looking at it, and this reference to the Treasury is just perfectly - must be malice aforethought because there isn't a single thing in there that would cause anyone to make such a statement with reference to it.

H.M.Jr: Well, then I'll wait until I get an opportunity to read it and you'll be over with - what's his name - at 3 o'clock. Right.

E: Yes. Do you want to discuss that open market this morning or do you want to wait until we've discussed this?

H.M.Jr: Oh, let's go ahead with the open market.

E: Well, that's what - 11 o'clock. I was planning on that.

H.M.Jr: Yeah, let's go ahead with the open market.

E: And we'll do nothing further about this until I come over there at 3 o'clock.

H.M.Jr: Nobody is going to anything here anyway except myself and I don't expect to do anything about it until 3 o'clock.

E: Yes, well, all right. Do nothing about it until 3 o'clock and I'll say nothing about it. I think it is best that neither of us say anything about it until we've had a chance to sit down together and you get the facts.

H.M.Jr: O. K.

E: O. K., then. Good-bye.

December 4, 1940
10:38 a.m.

George
Harrison: Hello, Henry.

H.M.Jr: George, I hear you've got a cold.

H: Well, I'm awfully sorry not to be there but they've had me laid up in bed for a couple of days with the grippe.

H.M.Jr: Oh, for heaven sake.

H: I feel much better today but they wouldn't let me go down to Washington.

H.M.Jr: I see.

H: So I just wanted to explain my absence to you.

H.M.Jr: Well, I'm sorry.

H: I think you won't have any trouble anyway although there is some question whether Marriner may not present a different recommendation.

H.M.Jr: George, was anybody from your bank - heard Marriner when he made this talk?

H: Was anybody what?

H.M.Jr: Present.

H: I think Sproul - no, not Sproul, but Williams and Rouse were both there.

H.M.Jr: Williams and who?

H: Rouse.

H.M.Jr: Rouse. Have you seen today's Tribune story?

H: I did indeed.

H.M.Jr: Well, Marriner claims he never said any of that stuff.

H: Well, it sounds very much like what he's been talking about.

- H.M.Jr: Well, I mean, do you know - where is Rouse?
- H: He's down there with you. He'll be there this morning so you'll see him afterwards. But Rouse and Williams came and told me the story of the speech and it sounds awfully much like it to me.
- H.M.Jr: I see.
- H: Just between you and me I went on record as strongly as I could against his making any speech. I begged him not to do it and I think some others did, but he was set on it. I did not see the speech in advance and as far as I, know, I don't know who he did show it to.
- H.M.Jr: He tells me he showed it to nobody.
- H: I think that is probably true. I think he had too many of his own shop there working with him, and I don't think he showed it to anybody. But I was talking to one member of the Board and I said I thought it a great pity because I didn't know what he would say but he would probably tread on somebody's toes.
- H.M.Jr: Yeah.
- H: And this member of the Board said well, don't you worry, he's going to clear with the Treasury, and then Danny Bell told Rouse the afternoon of the speech that he was shocked to find out even that there was going to be a speech.
- H.M.Jr: Yeah.
- H: Well, I think it is too bad because we've started out with an effort to get a co-ordinated program here and I told him that he made a speech on his own and was going to make it difficult for the Advisory Council and the Reserve Banks and the Board and perhaps the Treasury to get together.
- H.M.Jr: That's right.
- H: Because he sets up prejudices at once.

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H.M.Jr: That's right.

H: I've been very bitter about it frankly, and I told him so, but he was set on doing it.

H.M.Jr: O. K., George. Take care of yourself.

H: Well, I'll be all right. Now, Henry, you're all set - I'll send you a letter concerning it - but you're all set for the 19th.

H.M.Jr: That's right.

H: And I'm very happy about it.

H.M.Jr: I'm looking forward to it. You let me know the time and the place.

H: I'll let you know. It's 8 o'clock on Thursday night, the 19th, and we will just have a black tie.

H.M.Jr: Nothing else?

H: That's all, thank you.

H.M.Jr: No vest, no coat?

H: No, we'll see if we can't get those away from you up there.

H.M.Jr: That's all right.

H: (Laughs).

H.M.Jr: I'd like to make one suggestion of one person I'd like to have invited.

H: Who's that?

H.M.Jr: My father.

H: I've done that.

H.M.Jr: Oh, good.

H: That was the first letter I signed.

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H.M.Jr: Wonderful.

H: I wrote him a special letter.

H.M.Jr: Wonderful.

H: I wanted him there and I thought you would like it.

H.M.Jr: That's very nice. Well, I'm looking forward to it.

H: And I don't know how many we'll have. It will be - I had hoped I could keep it small - I mean, very small, but I can't do that and I think it will give you a chance - I mean, a lot of these people up here you've never met maybe and they are anxious, of course, to know you and while we won't have any really formal speeches I think they'll expect you to say something.

H.M.Jr: Well, I can get up and talk about gold and silver, the Stabilization Fund, and taxes and so forth and so on.

H: And financing. I think if you could say something about that because that's a thing they are terribly interested in - whether there's a conflict between, well, Jesse and the Banks for instance, or the Administration and the Banks.

H.M.Jr: Well, that I don't know, but I'll think up a little something.

H: All right.

H.M.Jr: I'll have a little something.

H: But I'm awfully pleased you're coming.

H.M.Jr: Right-o. Thank you so much.

H: Fine. Good-bye.

See also spec rept
to Cong given to 190
May 12/19 by Eccles
Harrison + Edw E
Brown, Pres of 1st Natl
Bk of Chgo

RE OPEN MARKET

December 4, 1940
11:00 a.m.

Present: Mr. Bell
Mr. Haas
Mr. Hadley
Mr. Eccles
Mr. Ransom
Mr. Goldenweiser
Mr. Piser
Mr. Szymczak
Mr. Sinclair
Mr. Rouse

Eccles: George Harrison was ill and has got a bad cold so he was unable to come down.

Ransom: I can account for the other two members of the committee. Mr. Davis is busy on some defense problem and Mr. Draper is tied up on some matter that he was working on. I guess some people came in unexpectedly, so I find myself as the alternate.

H.M.Jr: Good.

Ransom: And we are here.

H.M.Jr: I haven't had a chance to read the memorandum that the Federal Reserve sent over last night, and I would be very glad if it could be read out loud now.

Eccles: All right. Who wants to read it?

Ransom: Have you got a copy?

Piser: I have got a copy.

Eccles: Have you got some copies you can pass around?

Piser: I have a few extra copies.

Eccles: Give the Secretary one and Mr. Haas one.

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Rouse, do you want to read that?

Rouse:

This is stated to be a preliminary memorandum on Treasury financing reflecting a discussion by members of the Board of Governors and Mr. Sinclair of the Federal Reserve Bank of Philadelphia.

"The Treasury's cash balance is now under a billion dollars, and net expenditures over the next three months will be substantial. These facts clearly indicate the need for some nearby financing. The character of the financing should be considered from the standpoint of its bearing upon the national economy and, immediately, in relation to its effect upon the defense program. Financing the defense program as it relates to the national economy raises many problems which cannot be discussed within the limits of this memorandum but which we shall be glad to discuss at an appropriate time. In general the monetary and fiscal aspects of the program are concerned with the question of avoiding, on the one hand, undue or premature restriction of our total economic effort before a satisfactory level of national income and employment is reached, while avoiding, on the other hand, the danger of inflation. The further problem, while the defense program is under way, of avoiding serious bottlenecks in production and distribution, which might have effects very similar to those of a general inflation, must probably be approached mainly by measures other than monetary or fiscal.

"Aside from these bottlenecks there is still much unemployed labor and industrial capacity and many raw products in abundant supply, and as long as this situation continues the resources for national defense should not be

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obtained at the expense of peacetime activities and consumption. We have reached a level of output, however, well beyond anything previously attained even in the late twenties, and next year the level will almost surely be substantially higher. There are estimates that the national income, this year about \$74 billion, will rise next year to about \$80 billion and that by 1942 or 1943 it will reach \$90 billion in terms of the present price level. Obviously in the face of such a prospect, especially when the expansion is occurring in response to the stimulus of large defense expenditures and British war purchases, the possibility of an inflation, whereby the expansion would go into prices rather than into output, must be an over-present concern of the monetary and fiscal authorities.

"On the monetary and fiscal side, we have to reckon with the fact that the volume of demand deposits and currency is larger than ever before, that excess reserves are huge and are increasing, that the Government debt is already large, that Government securities have become the chief asset of the banks, and that purchases of securities by the banks create additional deposits. As to taxation, the new tax measures of 1940 have substantially increased the revenue in prospect for the coming year, and what is even more important, in considering the problem of financing the entire defense program over the next several years, have given us a tax structure which will yield substantial further increases in revenue as the national income rises.

"The financing program best suited to these circumstances would appear to be one combining borrowing and taxation in such a manner that

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borrowing will lessen and tax revenue increase as the national income rises and the danger of inflation draws nearer. As regards borrowing, which is the immediate problem, it appears that under present circumstances - and this will become increasingly important as the defense program proceeds - the Treasury should confine its borrowing as much as possible to non-bank investors and thus prevent the further piling up of deposits by the banks. Pending other steps that may be taken to this end, a long bond should be issued at this time in an effort to interest as many non-bank investors as possible and to discourage the further purchase of Government securities by banks. Another advantage of a long-term issue would be that it would help to supply the present demand for such securities and tend to prevent further increases in market prices.

"Other means of increasing sales to the savings groups might be considered as part of a longer-term program. First, sales of the present type of savings bond might be increased by a more intensified campaign and by again allowing trust accounts to purchase these issues. Second, the Treasury might issue a new type of savings bond which would pay a semi-annual coupon and be redeemable at the Treasury prior to maturity at a discount. Third, the Treasury might issue a registered non-negotiable bond which would be salable only to the savings groups of the country and could be made either irredeemable prior to maturity, redeemable at a discount on perhaps three months' notice, or convertible into some selected outstanding issue. The fundamental problem to be met, however, is to find means of reducing the volume of unused reserves in the hands of banks available and pressing for investment.

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"More specifically, it is recommended that the Treasury should refund both the maturing notes and bonds in December and should raise about \$500,000,000 to \$750,000,000 of cash. It seems likely that holders of the notes and bonds should be given the option of refunding into either an intermediate or a long-term bond and that cash should be raised through a long-term bond."

H.M.Jr: Wait one moment.

Szymczak: Well, you are really speaking of three kinds.

Rouse: There is a confusion there, Mr. Secretary.

Bell: He put in the word "different." In other words, what they are trying to speak of is three bonds.

H.M.Jr: That isn't clear here.

Szymczak: No, it isn't.

Rouse: It isn't clear and I interpolated that word.

"It seems likely that holders of the notes and bonds should be given the option of refunding into either an intermediate or a long-term bond and that cash should be raised through a 'different' long-term bond."

H.M.Jr: I see.

Bell: In other words, the long-term bond for cash shouldn't be used for refunding purposes.

Rouse: That is what I am trying to convey.

"Other alternatives would be to refund in December and raise cash by a long-term bond in January or to refund in December and raise

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cash through national defense bills.

"It would probably be advisable to do the refunding in December, because this procedure would clear the decks for future financing and is expected in the market. It is also recommended that the Treasury should raise \$500,000,000 to \$750,000,000 of cash in December. The Treasury's cash balance, which is now \$900,000,000, would be down to about \$600,000,000 by the end of December and would be entirely eliminated by the end of February if no cash is raised in the interim. The raising of cash might be deferred until January, but it is probably desirable to complete the entire financing at one time. It appears that the raising of cash up to about \$750,000,000 would still leave a margin of safety within the statutory debt limitation.

"Present market conditions are such that the Treasury could without difficulty issue long-term bonds. During the past month long-term bonds have advanced in price by more than two points. Reporting member banks have added \$100,000,000 to their Government bond holdings since October 9, and insurance companies have also been substantial purchasers. There has been a relatively small supply of securities in the market except from the System Account. The present situation tends to induce banks to purchase bonds of longer maturities in order to obtain income necessary to meet expenses and dividends. Under present conditions, therefore, it appears quite certain that intermediate and long-term bonds would be readily absorbed in the market. Their issuance would also serve to restrain a further sharp rise in prices over the next few months.

"Such an operation can be carried out successfully, provided the offering restricts the

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allotment of long bonds to an amount that the market can comfortably digest. The demand for bonds during recent weeks has been largely centered in the intermediate issues, and the rise in price of the four longest bonds may be weighed more by the absence of offerings than size of the demand. This does not imply that there is not a substantial backlog of demand for long bonds, because there is, but there is reason to doubt that the market would readily absorb a long bond in an amount much in excess of \$1,000,000,000. It might be advisable, therefore, to limit the long-term bond to a cash offering, in order to avoid the possibility that due to the large premium on the long-term bond the bulk of the exchanges would be for this issue, creating an outstanding amount between \$1,500,000,000 and \$2,000,000,000. Limiting the long-term bond to a cash offering would also avoid arbitrage transactions and wide fluctuations in the rights between the time of closing the books on cash subscriptions and the time of closing on exchanges. It is recognized that a long-term bond would not be distributed exclusively to non-bank investors, since a number of banks would purchase the issue for the underwriting profit, and others would hold the issue as a permanent investment. A long-term bond, however, would fit into the category of an investment suitable for non-bank investors and would represent a mile-post in the market by which further long-term financing could be more readily gauged.

"In view of the size of the financing it would probably be desirable to give holders of the maturing bonds and notes an option. The option should be between a long bond and an intermediate bond rather than a note, since most investors have a decided preference for intermediate bonds rather than for notes at

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current low yields. The maturing bonds have been outstanding for about 10 years, and a large proportion are in the hands of insurance companies and savings banks. Under these conditions there might be some advantage in permitting the exchange of the bonds for the new long-term bond issued for the 'different' long-term bond --" I think you might put that "different" in quotation marks.

"...issued for cash, at the same time protecting the market by requiring that the new bonds would be issued for exchange only on the basis of a registered bond which would be delivered after three to six months. Consideration might be given also to raising the limit on preferred allotments on cash subscriptions to \$10,000 or \$25,000. Such a step would tend to encourage individual subscriptions and to reduce allotments to banks."

- H.M.Jr: You have got another sheet there, haven't you?
- Eccles: Oh, yes. Well, this is more or less the view or the recommendation - the preliminary recommendation. This is merely bringing out a point that this memorandum doesn't bring out.
- Symczak: The other side of that picture.
- Eccles: It was felt that for the purpose of discussion this aspect of the problem should be at least mentioned. Want to read that, too, Rouse?
- Rouse: "The discussion in the memorandum indicates quite clearly that the defense program should be financed from the savings of the country rather than from a further expansion of bank credit and that an influence in this direction would be the issuance of long-term bonds. While the general program should probably be of this nature, there are certain considerations

that might make it desirable to follow for the immediate future an interim program of short-term securities. In view of the large volume of excess reserves and bank deposits and the possibility of inflationary tendencies developing at some time in the future, it seems likely that steps will be considered for reducing excess reserves to a more reasonable level. In addition to the uncertainties that will be produced in the market by such discussions, there will be other uncertainties regarding comprehensive banking legislation, tax legislation, and the proposal for making future issues of public securities fully taxable. Until these questions are settled the market cannot be expected to measure long-term interest rates with fairness.

"With the removal of the influence of large surplus banking funds on the market, long-term rates, which are now at record low levels, might increase somewhat to a point that would more nearly reflect the level necessary for attracting the savings of the country. If a long-term bond should be issued at the present time it would be vulnerable to an increase in rates. If this condition is anticipated it may be more in the public interest to protect investors from impairment in market value by deferring the issuance of long-term bonds until after such an adjustment has occurred.

"Under this program short-term securities would be floated at the present time and would later be refunded into long-term bonds. If this program should be adopted the Treasury might find it desirable to issue a statement outlining its reasons for this procedure."

W.L.Jr:

I just want to say this, I want to go on record on it at this time, that at a very

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early date I expect to call a meeting of the committee which the President appointed some time ago of all the agencies that are interested in banking so that we can discuss any proposed banking legislation, so that one agency won't be going out and advocating - well, the case of the reduction of federal reserves, where it might affect all of us, and try to approach any banking legislation as an administration team rather than as separate agencies. We will just have to do that. We can't have one agency recommending something which might be detrimental to some other agencies, and at just as early a date as possible I am going to get together. I mean, we like to sell a very long-term bond and Federal Reserve might come out the next day with an announcement that they wanted to remove excess reserves or part of them or two-thirds of them and it would have a very important effect on the bond market.

In the not too distant future, I am going to get this committee together, which is a standing committee which the President appointed, and of which I am chairman.

Ransom:

Mr. Secretary, might I say in that connection I think in re-reading this very preliminary draft of this memorandum, it occurs to me that it might also be very helpful if sometime when we are over the hump of an immediate financing program, if the members of the Open Market Committee could meet with you gentlemen and the members of your staff and could sit around and discuss all the broader aspects of the problem which developed here. I think those sort of discussions would be very helpful.

H.M.Jr:

All you have to do is to suggest it and we are there.

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Ransom: Fine.

H.M.Jr: We have just --

Eccles: Well, we have got --

H.M.Jr: Just suggest it.

Eccles: The full committee will be in - they have got to meet once more this year. The law provides four meetings and they have had three, so they want to meet on the 17th, I guess it is, so we can arrange to have Dan and such members of the staff as you want.

H.M.Jr: Fine.

Eccles: Just to sit down and have an afternoon together.

H.M.Jr: We would be delighted.

Bell: Be glad to.

Ransom: Just in the re-reading of this memorandum, there is one thing that disturbs my own thing. I don't like the record to be made without at least saying that I have some reservations, which is the opening sentence of the second paragraph on the first page, the implication that we are in a peacetime era here and that peacetime activities and consumption can go ahead at a more nearly normal level than I personally think is the case. I just don't like a record of this kind to be made where I have got such a very fundamental reservation and these things always are the product of a good many people's thought and they have to be redrafted and remade. Fortunately, this is headed "preliminary," but when we do finally thrash it out

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among ourselves, I just want to say that I hope I can get that in, what is to me a more nearly correct focus than it seems to be right here.

H.M.Jr:

Well, what we did this time, we have asked for a meeting a week in advance of what we do normally, just so we could have ample time to study this thing and - we haven't done this in a long time. We used to have several meetings before financing, but Mr. Bell and I advisedly did this one in advance just so that we could get the benefit of whatever the Federal Reserve had been working on.

Eccles:

Well, we did somewhat the same thing. A week ago, last week, I asked Mr. Piser and some of our people to give it some consideration, to all of the aspects, and put it in memorandum form, and I also talked to George Harrison and asked him if he would have Williams and Rouse and his people do the same thing, and then they got together while they were here Monday, so that this memorandum is a result of that previous consideration.

H.M.Jr:

In looking at this thing, I just want to say this. I brought it up at Cabinet last Friday and the President said - I don't know how he worded it - something about having a hunch. He would like us to consider not using up all of the borrowing authority at this time. It isn't an order, but just for consideration, I mean not to use up the last dollar, so I am just passing it on, and he said he thought it might be a mistake.

And the other thing, we used it all up - if we did, I mean it would leave us nothing for our United States savings bonds, which

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would certainly - it would come under the heading of drawing on the savings of the people rather than the banks. I don't think banks can subscribe any more.

Bell: No.

H.M.Jr: So I just want to, in considering financing - we might have both the President's question he raised in mind, plus the fact that we - if we didn't get any increase in the debt right away we might find ourselves up to the point where we couldn't sell any United States savings bonds.

Bell: Something like that was in two or three papers, that the Administration was thinking of issuing defense notes, and I think that was partly responsible for the long-term bonds going up, wasn't it, Bob?

Rouse: Yes, it had an effect yesterday.

Eccles: The bills - of course it could be switched to the Defense, that is what you are doing now. How much unused have you got?

Bell: Of the bills?

Eccles: Yes, that you could switch.

Bell: Today would make it 700 million. We have got about 700 million more we could switch out of the billion three that is out. Of course, we could go on and issue for cash and extend it as far as up to the four billion.

Eccles: But what I was thinking of was the capacity you have got within your debt limit of 45 billion if you call now, I mean if you

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pay off as fast as they mature over the next seven weeks, to 700 million. You have got this 700 million plus what you have got now?

Bell: We will have on December 15 about 899 million dollars of borrowing authority under the general limitation.

Eccles: 890?

Bell: Yes, somewhere between 850 and 900 million.

Eccles: Well, call it 850. That gives you a billion and 50 million of unused.

W.H.Jr: You mean if we switch --

Eccles: A billion five hundred, that is right. You can do that. I was thinking of the President's statement of how far you could go and still leave you some leeway. You would have a billion and a half - a billion 550 million if you went up to 750. That would still leave you the 750 million leeway for baby bonds.

W.H.Jr: That is right. I think I told you (Bell) last night, and I told some of the others, I haven't had a chance to really put my mind on this, but this was running through my head, in view of this memorandum I got from Haas last night, which I read. Supposing you read this, George, and then I will give them what is running through my head, just through the recommendation. Have you got your one, two, three recommendations?

Haas: All right.

W.H.Jr: Read just the recommendations. That will be enough, won't it?

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Haas:

I think that will work all right.

"Recommendations.

"(1) In view of the current strength of the market for Government securities, it is recommended that both the 1-1/2 percent Treasury notes maturing March 15, 1940, and the 3-3/8 percent Treasury bonds called for redemption on the same date, aggregating \$1,222 millions, be refunded at this time, and that new cash to the amount of about \$700 millions be raised.

"(2) It is recommended that for new money the Treasury offer a 2-1/4 percent bond for as long a term as possible. On the basis of closing prices on December 3, it would appear that a 25-30 year obligation would be suitable. Inasmuch as such an issue reaches into new territory, it is suggested that its pricing be carefully checked with the market."

That is something we don't know much about, because it is off the paper, but it could be worked out.

"(3) For refunding purposes, it is recommended, as our first choice, that holders of the maturing securities be offered a 12-14 year, 1-3/4 percent bond. Our second choice would be to offer the holders of these securities their choice of a 12-15 year --"

That is, on the refunding --

"...1-3/4 percent bond, or a 17-19 year, 2 percent bond. It is further recommended that the holders of the maturing 3-3/8 percent bonds (but not the holders of the maturing 1-1/2 percent notes) be permitted to exchange

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an unlimited amount of their holdings into the long 2-1/4 percent bonds, provided they accept delivery in registered bonds, which they agree to hold for a specified period."

Here is another part of the recommendation.

"(4) It is also recommended that with respect to the cash portion of the financing the maximum amount of preferential allotments to subscribers willing to accept delayed delivery in registered bonds be increased to at least \$10,000, and, if it should appear to be technically feasible, even as high as \$25,000. In the event that this maximum should be set above \$10,000, it is suggested that consideration should be given to extending the period for which delivery is delayed to considerably more than ninety days. The period selected, however, should be one that would not interfere with future Treasury financing operations."

The balance of the memorandum are the reasons.

Eccles: George, there is one question with reference to the refunding of the bond, 3-3/8, you give no option. You permit those bonds to - as I understand it - to be converted into a registered bond.

Haas: No.

Eccles: Do you give an option, too?

Sinclair: Give them an option of the shorter bond or --

Haas: If they are going to take the 2-1/4, they have got to register for delayed delivery.

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- Eccles: Well, it is more or less along that channel.
- Sinclair: This is not much different.
- Rouse: We are substantially in agreement, I should think.
- Sinclair: Yes, I should think so.
- Eccles: Pretty well in agreement.
- H.M.Jr: All right. I am not in agreement. I will put this up as a straw man and you can knock it down. The way I feel, there is no argument about that we ought to try our best to tap the resources, other than the banks. I am in complete agreement on that. What would you gentlemen think if we did both refunding with a long bond, or if you wish, a long bond and an intermediate bond, but bonds, and then raise whatever cash we decided on, 500 to 750 with a five-year defense note.
- Symczak: Taxable?
- H.M.Jr: Taxable, and get into that, because one of the reasons that is moving beyond this thing, if I don't, I think that they may question me when I go up for the debt limit, why haven't I used it.
- Eccles: That is right.
- H.M.Jr: See?
- Eccles: Well, they may do this. They would say, "You advocate issuing tax-free securities. Now that you have authority to issue them, you don't do it."
- H.M.Jr: Exactly. I am afraid of it.

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- Sinclair: Except, as I understand, Mr. Secretary, I don't know whether you are on record or you have indicated, as I recall it, that you thought this method of issuing defense notes against allocated taxes was unsound. If you use that extensively --
- H.M.Jr: I haven't said that.
- Sinclair: Just in one of our own meetings here, didn't we discuss it? I just wondered if you feel that way, whether your extensive use of that at this stage of the game might not embarrass you in any testimony you might give at a later period.
- H.M.Jr: No. I mean, what I said before the committee was when we gave this thing - they were arguing with me back and forth about earmarking of revenues and earmarking of debt limit also. I said, "I am sure nobody in the committee likes this, but under the circumstances, the best that we can get --" I mean, I said that before the Senate Finance Committee.
- Sinclair: Yes, I remember that part.
- H.M.Jr: On the other hand, at this meeting that we had at the White House, I find that - I would say a tendency on the part of the President and of the Senate and Congress, and they seemed to kind of like it. They seemed to kind of like it. Now, I have got it. Congress has given it to me. I go up before these people and say, "Well, I need an increase." "Well, why don't you use the authority you have got?" They also can throw back in my teeth that I said that future issues should be taxable and they could say, "Here, you can do this, and you issue a long-term high-coupon bond"

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tax free. The two things don't add up." And then the other thing is the possible criticism where I can sell a five year taxable at a very low rate. "Why don't you do that and get the money as cheap as possible?"

Then another argument, if I did that, that plus whatever the refunding on the bond would be, the average would strike - oh, I suppose something around maybe two percent. I mean, I would get maybe - on the two billion dollar issue, I might get a two percent rate on the whole two billion.

Sinclair: Well, somewhere in this plan of financing through what we call tax anticipation notes, whatever it may be, if it is extended, don't you somewhere along the line have to express your point of view one way or the other, whether as Secretary of the Treasury you would or would not favor it as a sound proposition?

H.M.Jr: Yes, and that discussion is going on here now and I haven't made up my mind and I tried to push it over at the White House to get some kind of an expression of opinion, and they wouldn't, and neither of the two Senators nor the two Congressmen would commit themselves. I mean, they wouldn't commit themselves on increasing the debt. They wouldn't commit themselves on whether they would have a debt with no petitions of any kind, just so much limit, leaving it to the Treasury to borrow whatever kind of money it needed at the time. I couldn't get any commitments. So I don't want to go out on the end of a limb until I know I can meet with some success.

Sinclair: That is why I feel that if you do this now - and you did put yourself on the end of a limb

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and maybe almost commit yourself to the extension of that plan which you may or may not feel is unwise at a later period of time. That is just my personal point of view in approach to your suggestion, and during this interim period I would therefore recommend strongly against it.

Eccles: Of course, you have used the defense authority for the issuance of bills, but not for the issuance of notes, have you?

H.M.Jr: That is right.

Sinclair: No, that is right.

Eccles: Of course, the Congress - the representatives and possibly the President, for that matter - haven't considered all of the aspects of this problem as you and we have to consider them, and it sounds like nice housekeeping or book-keeping to say we are going to earmark this and that and so on, but they haven't taken into account the other side of the story and the difficulties, and it seems to me that we all should put forth a real effort to convince Congress when this issue comes up that that is not the best thing to do in the public interest, it isn't the sound thing to do, and they ought to leave some discretion in the matter to deal with the problems as they have to be confronted.

H.M.Jr: Well, the way the talk ran the other day - I am just saying the way the talk ran the other day, they liked the idea of issuing a special defense obligation and of having special taxes to retire 10% a year of these obligations. Now, that was sort of the way the thing was running.

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- Sinclair: That was in the paper Monday.
- H.M.Jr: And I took Daniel Bell's view, just to take the other, to have no partitions at all. I was arguing that way just to bring it out, but I didn't get anywhere.
- H.M.Jr: You can separate the budget, for that matter, and put your capital defense expenditures, capitalize them, which is the sort of thing the President has always talked about.
- H.M.Jr: He is doing it now. He has got an "A" and "B" budget on his defense.
- Eccles: You could do that without putting a partition on financing. That is a question of book-keeping.
- H.M.Jr: No one is kidding me, Marriner, on this thing. I am not kidding myself. If I could write the ticket, I would just like to have it say, "Well, the debt is 'X' billion, no partitions of any kind. Go ahead and borrow the money as well as you can, considering the whole domestic economy, what is good for the 130,000,000 people. Do it the best way possible." But I don't know whether we can or cannot.
- Sinclair: What I am afraid of when that question is finally determined as a question of policy is that you, by issuing five or six hundred million under that plan might more or less commit yourself to the endorsement of that policy, whereas you may feel, at the time the question comes up, entirely different about it. I may be wrong in that approach, but that would be my first reaction to your suggestion.

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- H.M.Jr: Well, the other argument is that by not doing it you are going contrary to the will of Congress.
- Szymczak: Couldn't you stay with the bills?
- Eccles: Not to the extent that you - you haven't used the existing authority and Congress certainly couldn't object to you using up to your 45 billion and then using the - of course, you are using the defense to the extent that you are transferring bills into defense.
- Szymczak: In other words, if you stayed with the bills until later and then you would have a chance.
- H.M.Jr: Again arguing along the same lines, let's say you put the whole two billion into long-term bonds and then something happens to the bond market.
- Szymczak: Yes.
- Eccles: Well, of course the suggestion brought here and the one that George read, of course, doesn't contemplate putting the whole thing in the long bonds.
- Bell: About half of it.
- Eccles: Yes, more than half, about a billion dollars, and a billion dollars in the intermediate, 1-3/4's.
- Haas: I would be very much afraid of that.
- Eccles: Well, I wouldn't want to in the very long bonds, because a lot of the banks already hold some of these notes and bonds and they

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would take the intermediate bonds. Nobody objected to the banks replacing what they have got. It is a question of getting new money for them, isn't it?

Bell:

Yes.

H.M.Jr:

Well, let me just - as I say, I am going to continue arguing to clear my own mind. If you got out these five-year notes, certainly to see the banks put their money in that kind of stuff and then let the people who have savings put their money in the long-term stuff, and also throwing around - certain restrictions around it that they would have to keep it six months or a year, which would keep it off the market. I mean, I am not - mind you, I told Eccles, I am not going to settle anything today, but I am just - everybody seems to be thinking another way and I would just like to go this way.

Ransom:

Mr. Secretary, have you considered what would be the maximum amount that you could put in these defense notes, of this total financing that is contemplated now?

H.M.Jr:

You mean this December financing?

Ransom:

All of it, the refunding and the new money and everything else, what is the maximum that could be put into the defense note group.

H.M.Jr:

I wouldn't know.

Eccles:

You can put it all in, as far as your authority is concerned.

Ransom:

I mean with any reasonable degree of safety. You have got to consider that, too.

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Bell: Well, I question - you could put them in notes. I question whether you could put them in defense notes, refunding.

H.M.Jr: Well, going into a new kind of a certificate which is taxable and everything else, certainly - if it was a two billion dollar financing, I wouldn't want to put more than a third of it.

Ransom: If you would want to put --

Szymczak: Only the new money.

H.M.Jr: Well, I don't say only the new money. You could take one of these maturing notes and let that maturing note refunding --

Bell: Reopen an old issue.

H.M.Jr: No, I mean you could say - what is this December --

Eccles: Take the note and give a note.

H.M.Jr: And give a note, yes.

Eccles: I see what you mean.

H.M.Jr: Give them a note for a note.

Eccles: That would tend - if you did that, personally I would favor that very much more than getting new money from that source, because those that hold notes would be the ones most likely to be willing to switch into notes.

H.M.Jr: Give them a note for a note.

Eccles: That is right.

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- Ransom: What is the amount of that?
- Szymczak: That is 6.77, isn't it?
- Bell: Yes. 6.56.
- Maas: I left the note out, Mr. Secretary, intentionally, but this is a different problem you presented. I ducked it and you want to meet it.
- H.M.Jr: George, as I say, I am influenced by what I heard Friday night. I tried out a trial balloon to see how they felt about doing away with all these defense notes, doing away with all the earmarking of taxes, and frankly, I got nowhere.
- Sinclair: My own point of view on that, for what it may be worth, it seems to me --
- H.M.Jr: You can count on me, Dan.
- Bell: That is good.
- Sinclair: I wouldn't do it that way. I would say I don't think it is an unsound method. In these days the Secretary of the Treasury has to be free to - and a sound position over a long period of time for the Secretary of the Treasury to take is just that position. That is just my point of view, Mr. Secretary.
- H.M.Jr: I can't say that. In view of my testimony before the committee - I didn't condemn it at the time.
- Sinclair: But you were faced with a practical situation which everybody recognizes, the markets recognize.

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- H.M.Jr: But I have got to go back before that committee again.
- Eccles: You could condemn it now, though.
- H.M.Jr: Harrison could say, "Well, if you felt that way now, why didn't you tell us that at the time. You didn't say that when you appeared before us."
- Bell: It seems to me, Mr. Secretary, that there is quite a change in the situation. When we were before the committee there was only three billion six hundred million dollars of national defense program and we asked enough to cover that for the year, and while you said that you did not like this program, yet it was the best you could work out and it was agreed to by everybody and you accepted it.
- However, the situation is now drastically changed because you have got a 20 billion dollar defense program and the factors in the situation are so important that it makes it necessary for you to have this flexibility and do other types of financing than was contemplated at that time. It is more important, it seems to me, from the standpoint of the country to do some other type of financing now than what you had in mind then.
- Eccles: Isn't this true, too, that this is largely Pat Harrison's idea and that it was political reasons in part - he didn't want to get a blanket authority to increase the debt and this was one way of meeting the thing until the end of the year.
- H.M.Jr: The way of getting around Byrd's objections, that is about what it amounts to.

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Sinclair: It seems to me the Federal Reserve System, and I am pretty sure the bank system generally, would support you to a man, generally so, on your fundamental position on that, which I think is a very important one, looking ahead.

H.M.Jr: Well, could we just for a minute drop it? That doesn't mean we can't come back. Let me just go to another thing.

Supposing we got out a long bond either for refunding or for cash, you see, either one. Let's say for cash for a minute. Let's say it is a 2½% bond for cash. Following this paper, we want to tap the savings, see. Let's say it is for cash. Do you people believe we could sell 500 million of this if we limit it to the subscription - nobody could subscribe to more than, say, \$25,000 and had to keep it a year? Do you think that 500 million dollars would flow into that kind of a security?

Eccles: I would be a little afraid of it. Moving in all at once to that extent, I don't think it would, because of the lack of funds, but there is the problem of getting enough people and institutions educated to it.

H.M.Jr: How would you do it, Marriner? Say you don't want to go beyond 30 years.

Bell: I don't think you can afford to take that chance.

Eccles: I tell you what you could do on it. You could permit anything up to 500 million, you would accept those subscriptions first on the basis of the registration of the twenty-five, and then you could allocate anything over that

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wasn't covered.

- Bell: Well, that would be the effect of it. The way you would handle it in your announcement, you would say the people who subscribed to not to exceed \$5,000 and willing to take a registered security and delayed delivery, you would give them preferred allotments. That doesn't mean you would give them 100% allotment. You might give them 50% allotment or whatever you wanted to do.
- Eccles: But you could give them 100% allotment.
- Bell: But you don't commit yourself.
- Eccles: But that is why I say in that kind of a scheme you would be perfectly safe.
- H.M.Jr: Supposing you said 100% allotment and it ran over 500 million, wouldn't it be embarrassing? On the other hand, you could say that the allotment over and above whatever the 25,000 group takes, that we would not take more than 500 million unless - well, you wouldn't get - you wouldn't in any event get more than 500 million, would you?
- Bell: I don't think you would get that much on a 25,000, but you might. You might if you said that was all you were going to do.
- H.M.Jr: Make them keep it a year?
- Eccles: I think three months is just ridiculous.
- Sinclair: I am afraid to go as far as that.
- Eccles: Why, John? They are buying two-year notes at no interest rate today.

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- Sinclair: Let me get this clear. You say that - is it a prior allotment of 25,000 if they keep it a year?
- Eccles: That is right.
- Sinclair: Or is this a mandate with respect to the entire issue?
- H.M.Jr: No, no.
- Sinclair: Oh, this is all right.
- H.M.Jr: A preference allotment.
- Sinclair: Oh, that is all right.
- H.M.Jr: A preferential allotment, providing they went a year.
- Sinclair: Your trust estates would go for that, I am pretty sure. I think that is all right. I know in Philadelphia there would be a lot of trust estates who would be just looking for that sort of thing.
- Szymczak: Do you think it would go up to 500 million?
- Sinclair: Not on that loan, but your ordinary allotments would cover your difference on that.
- Eccles: That would be your new money. Then you are thinking of the refunding on the bond. We would give an intermediate bond, and on the note, a possibility of a defense note, or if you don't give a defense note, then you would give - you would possibly give that much more in intermediate bonds.
- H.M.Jr: Or, seeing we are trying so many new things, the note for the note, new money for a 2 $\frac{1}{2}$ %

bond, and then in January refund this 3-3/8ths.

Sinclair: And not refund that now?

H.H.Jr: I am just raising that, not refund it, just wait. It has got a long coupon - a high rate coupon that makes it difficult to handle, and wait until January and then we would know better and know how the thing went. You know, when I announced it I said I could do any one of three things, and so my hands are not tied.

Sinclair: You may find that January will be an uncertain time, with Congress active again and all such questions discussed. It would be a difficult time to discuss that.

Szymczak: I think you could do it, but it would be better to do it now.

Eccles: I think the only advantage of waiting until January would be if you don't use the defense notes at all now and defer some of the financing until it is a little more clear whether or not they are going to give you this blanket authority. That would be the advantage of delaying part of it now.

Hell: I would like to see the holders of 2-3/8ths given the opportunity to go into the long bonds. They are a high coupon and pretty scattered. We know the insurance investors have 102 million dollars of them and the Mutual Savings Banks have them, and it would be to our advantage to have them take those long bonds even if we had to put on the restriction that they would have to take delayed delivery for a period, and I wouldn't put the \$25,000 maximum on those.

Eccles: They wouldn't object?

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- Bell: If they are firm investors, they wouldn't object.
- Eccles: What you would do, Dan, on this refunding of the 3-3/8ths bonds would give an option to take the long bond or the intermediate bond, but the option to take the long bond would be dependent on holding the bond for a year, which would clearly keep the banks out and would not be a deterrent to the insurance companies or the savings banks?
- Bell: And there would not be this taking by the banks for the purpose of selling for a higher premium.
- H.M.Jr: How would you do that again on the 3-3/8ths?
- Bell: Give the 3-3/8ths holder an option to go into the long bond, even though they had 15 million of them, but they have got to agree to take delayed delivery for whatever period we specify. If it is a year, it is a year. That keeps them off the market for a year and keeps the banks out, at least from exchanging and immediately selling them.
- Eccles: The banks hold a lot of them and then take the intermediate bonds, almost invariably.
- H.M.Jr: You don't think it would be risky on the conversion to make them keep it a year?
- Eccles: No, because that is only an option. If they don't want to take the conversion, they would certainly take the intermediate bonds.
- H.M.Jr: Oh, I didn't get that.
- Szymczak: An option to.

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- Eccles: That is right. Because they are held pretty well. They are divided now pretty well between the long-term investors and the banks. Now, the banks, we don't want them to take the long ones, therefore you give them the intermediates. You don't want the real investor to take the intermediates, therefore you give him the long one. Therefore, you gave him the option which would meet both types of holders of those securities.
- H.M.Jr: The long bond would be extra sweet and the intermediate one would be very close.
- Eccles: That is right, but the long bond they would have to hold for a year, so they wouldn't take it for a free ride, as Dan says.
- Bell: If you had 800 million for cash, you might get as much as 200 million dollars of the 545, wouldn't you think, Bob?
- H.M.Jr: Another thing, I don't like to have an intermediate bond and a long bond in the same offering. You might give this 3-3/8ths the option between going into a long one and holding it for a year or taking a defense note.
- Eccles: Yes.
- H.M.Jr: What in?
- Eccles: The banks would take the defense note there, of course.
- Bell: If you were going to have a three-way issue, Mr. Secretary, I don't see why you don't give your holders of the maturing securities the option to go either into the note or the intermediate bond and then with the

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restricted option to go into the long bonds.

H.M.Jr: Do you mean you would give the note - option to go into either a note or the intermediate or the long?

Bell: No, I would give the holders of the maturing note an option to go into a note or an intermediate bond. I would give the holders of the 3-3/8ths bonds an option of going into the note, the intermediate note, and a restricted option for going into the long bond, by taking a delayed delivery.

Eccles: Well, Dan, if you were going to do that, why don't you give the same option to all three of them, I mean simplify it so that on the refunding you can give them the option to go into the defense notes. If you were going to go into the defense notes, I would make it simple. Give the holders of both of them the option to go into either the defense note, the intermediate bond or the long bond on the registered basis.

H.M.Jr: I don't like that. But on the cash, just a long bond, and the fellow has to hold it a year?

Eccles: If he gets his full allotment.

H.M.Jr: And if he doesn't?

Eccles: If he subscribes and doesn't agree to hold it, his subscription may not be filled.

H.M.Jr: But if he gets a 10% allotment, he has agreed to sell it?

Eccles: That is right. You may get nothing and it

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may be you will get enough to hold it for a year to take the subscription. If you don't get enough, you are not stuck, because there would be enough others that would take it for the free ride.

Rouse: In respect to that, I think you are then facing a blocked issue for a year. You are in effect having a maturity of a very long bond which might be a considerable amount, and it is entirely conceivable that within 12 months you might have a change in your market picture. If there were a change in the interim, you would have a maturity and they are faced with what are they going to do. It could give us a bad market situation.

H.M.Jr: That would be true of anything that is blocked.

Eccles: Yes.

Rouse: Anything for 12 months.

Eccles: You could decide at the end of that time whether to do that. In other words, depending on the market situation, if in 30 days before that expired - you don't need to offer it to them now. You can offer it to them then, based on whether or not you wanted to offer a chance to exchange.

Rouse: I think that amount might represent a problem that I would be somewhat afraid of. While I am speaking, I agree with the expression of John Sinclair with respect to the note and the defense financing, the financing of the national defense authorization. If it can be avoided, I would feel just about as he stated the case.

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- Toll: We had discussed, Mr. Secretary, the question of putting into our new issue a right of the holder to convert into any other bond which is subsequently issued to the higher coupon, but we sort of threw it out the window because if it becomes a taxable security you will have that trouble.
- W.M.Jr: No. One thing I would like to do, throw it out for suggestion, if we got out an intermediate bond and a long bond, no matter who got it or whatever basis they got it on, I would like to have it registered to sort of begin to follow where they are going.
- Eccles: You mean the long bond?
- W.M.Jr: And the intermediate.
- Eccles: The whole issue?
- W.M.Jr: Yes. Just a registered bond so we know - we are all talking here about we don't want to see it go to the banks. Let's find out where it does go.
- Toll: I see.
- W.M.Jr: Let's find out where it does go.
- Sinclair: The Reserve banks can tell you that at the outset. They can't tell you what subsequently happens.
- Toll: They get the names of the subscribers.
- W.M.Jr: Well, what happens to it in the second and third hands?
- Sinclair: That is difficult. You can trace through your banks fairly well, but not completely.

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- Reeles: Of course, a registered bond that way that prevents them from selling it. They won't subscribe.
- W.C.Jr: No, I mean they can sell. Let them sell, but just - why, in common stock or preferred stock you have a transfer agent and it has to be in somebody's name.
- Andair: What would your reaction be on that?
- House: It would have a definite effect on the market value in reducing it and would also restrict the potential buyers of the issue who just don't keep registered securities.
- W.C.Jr: Why? Why should a man not want to have a registered security?
- House: Well, it is a clear-cut expression of the market.
- W.C.Jr: Supposing from now on all Government bonds were registered.
- House: It would have a slight effect.
- W.C.Jr: The first subscriber is relatively unimportant, but where are the second and third ones? Let's put the statisticians to work and find out what happens to them. I think it is terribly important to know who is the ultimate owner of these things.
- Reeles: Of course, it doesn't make, from the bank's standpoint - as long as they are under pressure with the huge reserves they have got, they won't necessarily need to take new offerings. What they do is go in and buy existing offerings, bid them up, and savings and insurance companies would take the new

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offerings. You don't stop the banks from increasing their security holdings by any type of an issue, particularly. You might stop them from subscribing in the first instance.

H.M.Jr: But if we did this, at least we would be making a start of finding out on an accurate basis who holds the Government bond, who are the owners, and I don't see why anybody should be ashamed to own a Government bond and to have his name registered.

Eccles: Well, I don't --

Sinclair: I would like to know the view of some of the market experts, know what the reasons are, if necessary, because they would be multifarious, probably, and what the effect would be on a market value. There would be an adjustment there.

H.M.Jr: Well, it is a little bit more difficult, but I think the Government is entitled to know who owns these bonds. We may want to circularize them later when we get into a Liberty bond thing. If these are the bondholders, we would like to know who holds them to write them a letter to get them to subscribe to some more.

Eccles: You have got a good list on your baby bonds.

H.M.Jr: A swell list. How many names have we got there?

Bell: They sent about nine million pieces of mail, I think.

Sinclair: My family gets five every time they send out one.

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H.M.Jr: There must be five different holders in the family, aren't there?

Sinclair: Not any, yet.

H.M.Jr: There are not?

Sinclair: And we still get five each time.

H.M.Jr: They haven't broken down their resistance?

Sinclair: Not yet.

H.M.Jr: The same person in the family?

Sinclair: No, different people in the family.

H.M.Jr: There isn't a duplication of names?

Sinclair: Five different names, where one for the family would be sufficient.

H.M.Jr: That we can't tell. But if you told me that you personally received five circulars, I would be worried.

Sinclair: No, to five different members at the same address.

H.M.Jr: That is all right. We have got you on our list. We are trying to wear you down.

Sinclair: You probably will.

H.M.Jr: No, we overcame sending five circulars to the same person, but five circulars to the same family, that we can't do.

Eccles: The only objection I have got to baby bonds, they are too sweet. They are better than

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insurance. Anybody that takes insurance for an annuity, instead of a baby bond, it seems to me they don't know how to figure.

Szymczak: Would your bond on your plan still have a coupon or be paid by check?

Bell: If they were registered for a year, they could very well give them a check for the first two interest payments and all subsequent coupons would be attached. I think we have got to consider both of those questions very carefully. One will be mechanical and the other will be on the market and it will drive a lot of people out, I think, and it would certainly keep our banks from being the distributors. They wouldn't want to buy registered securities and then redistribute them, would they, Bob?

Rouse: Well --

H.M.Jr: That would be good, wouldn't it?

Bell: No, I think you may want them some day to --

H.M.Jr: No, but what I would like to know, Mr. Eccles, we have had this discussion. As far as I can see, nothing is settled. If you people had the time to write me another memorandum in view of this discussion, it would be very helpful to me to see whether you have changed your mind any at all.

Eccles: Well, these alternative proposals and possibly the arguments pro and con, we will write up?

H.M.Jr: That is right.

Eccles: If we knew this, however, it seems to me it might be helpful. If you feel, in view of

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what the President said and the attitude of these people representing Congress, that you must issue --

H.M.Jr: No.

Eccles:a defense note, then that is a promise.

H.M.Jr: No, there is no "must."

Eccles: Then that, I am rather sure, would be a secondary - we would approach the program - I think we would want first to approach it without that and then approach it with that, only as an alternative program.

H.M.Jr: There is no "must."

Sinclair: Independent advice from what the Secretary has asked us for.

H.M.Jr: That is right.

Eccles: I think we can go right ahead. There is no reason that can't be done immediately. You have got no reason not to stay down here, have you, Rouse?

Rouse: I can arrange it.

Eccles: This is more important than anything you have got up there, isn't it?

Bell: When would you have another meeting?

H.M.Jr: Well, we have got this --

Bell: Monday, I should think.

Eccles: Isn't it soon enough?

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H.M.Jr: Oh, Monday?

Bell: I should like to date these around the 20th, and I should think next week will be all right for announcing it.

Sinclair: That would give the banks a little more time. You will have a good deal of printing and circularizing.

Bell: I want to have time to get securities out in the hands of the banks, too.

H.M.Jr: I could meet with you gentlemen at 3:00 o'clock Monday.

Bell: That is all right.

H.M.Jr: How is that?

Eccles: How is that?

Szymczak: That is all right.

H.M.Jr: Is that all right?

Szymczak: Yes.

Eccles: Is that all right with you, Ronald?

Ransom: Yes.

H.M.Jr: All right. 3:00 o'clock Monday. Is that all right with you, John?

Sinclair: Entirely satisfactory.

Eccles: Now, in the meantime - what is today? About Friday it may be well to get this memorandum over to you, so you will have it over the week-end. How is that?

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H.M.Jr: Very good.

Eccles: Can we do that all right, Bob?

Rouse: Friday or Saturday morning. We might have another meeting on Friday afternoon and do some rewriting that night. I think we can do it by Saturday morning.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 3, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: December Financing

I. Recommendations

(1) In view of the current strength of the market for Government securities, it is recommended that both the 1-1/2 percent Treasury notes maturing March 15, 1941 and the 3-3/8 percent Treasury bonds called for redemption on the same date, aggregating \$1,222 millions, be refunded at this time, and that new cash to the amount of about \$700 millions be raised.

(2) It is recommended that for new money the Treasury offer a 2-1/4 percent bond for as long a term as possible. On the basis of closing prices on December 3, it would appear that a 25-30 year obligation would be suitable. Inasmuch as such an issue reaches into new territory, it is suggested that its pricing be carefully checked with the market.

(3) For refunding purposes, it is recommended, as our first choice, that holders of the maturing securities be offered a 12-14 year, 1-3/4 percent bond. Our second choice would be to offer the holders of these securities their choice of a 12-15 year, 1-3/4 percent bond, or a 17-19 year, 2 percent bond. It is further recommended that the holders of the maturing 3-3/8 percent bonds (but not the holders of the maturing 1-1/2 percent notes) be permitted to exchange an unlimited amount of their holdings into the long 2-1/4 percent bonds, provided they accept delivery in registered bonds, which they agree to hold for a specified period.

Estimated yield bases and probable premiums on the issues suggested above are shown in the following table:

Prepared by: Mr. Tickton
Mr. Turner
Mr. Conrad
Mr. Haas

Secretary Morgenthau - 2

Estimated Yield Bases and Probable
Premiums on Suggested Bond Issues

(Based on closing bid prices December 3, 1940)

| Description | Coupon | Estimated yield bases | Probable premiums |
|--------------------------------|--------|-----------------------------|----------------------|
| 12-14 years - Dec. 15, 1952-54 | 1-3/4 | 1.61 | 1-16/32 |
| 12-15 years - Dec. 15, 1952-55 | 1-3/4 | 1.63 | 1-10/32 |
| 17-19 years - Dec. 15, 1957-59 | 2 | 1.90 | 1-15/32 |
| 25-30 years - Dec. 15, 1965-70 | 2-1/4 | 2.16 | 1-24/32 |

(4) It is also recommended that with respect to the cash portion of the financing the maximum amount of preferential allotments to subscribers willing to accept delayed delivery in registered bonds be increased to at least \$10,000, and, if it should appear to be technically feasible, even as high as \$25,000. In the event that this maximum should be set above \$10,000, it is suggested that consideration should be given to extending the period for which delivery is delayed to considerably more than ninety days. The period selected, however, should be one that would not interfere with future Treasury financing operations.

II. Principal Reasons Underlying
the Foregoing Recommendations

The principal reasons underlying the foregoing recommendations revolve around the desire to attract "real savings" to new money issues of Treasury securities and the desire to avoid the pricing difficulties arising through the simultaneous offering of more than one security for exchange.

The current expansion of business activity in connection with the national defense program raises the question of the inflationary potentialities of the present large volume of bank

Secretary Morgenthau - 3

deposits and of excess reserves. Under the circumstances, it appears well to increase the degree to which Treasury financing operations tap "real savings", and so decrease the extent to which they result in an expansion of bank credit. This may be accomplished in part, as was indicated in a previous memorandum,* by the offer of long-term rather than short-term securities. A long-term bond, it is quite probable, would appeal less to banks and more to "real savers" than a short-term or an intermediate-term obligation.

The pricing difficulties that would be involved in a two- or a three-way offering for exchange are a real problem in the present instance. A 25-30 year bond reaches out into new territory for Treasury issues, and it would be extremely difficult to arrange the relative prices of two or three issues in such a manner as would prevent the holders of maturing securities from taking one of these issues to the exclusion of the others.

A very slight error in the estimated yield basis of the long issue might have no effect on the success of a cash operation, but might cause the shorter issues, the yield bases of which are relatively more certain, to be considerably more attractive for exchange. If the long-term bond were priced very attractively, however, the operation might result in a bad secondary distribution. The holders of the securities to be refunded -- a considerable portion of whom are banks -- have a presumptive preference for a short-term obligation for permanent holding; but they might exchange into a long 2-1/4 were this issue priced more liberally than shorter issues.

The foregoing arrangement, it should be noted, does not prevent the holders of maturing issues from purchasing the long 2-1/4's on an equal footing with other subscribers. It does, however, prevent those investors who have been speculating in rights from obtaining for immediate disposal a preferential allotment of long-term securities.

We have not recommended the reopening at a premium of any outstanding issue of Treasury securities because it is felt that a reduction in the coupon rates on new issues at the

* "Recent Developments in the High-grade Security Markets. Analysis of Allotments of Cash Subscriptions to Government Securities", November 27, 1940.

Secretary Morgenthau - 4

present time would have a desirable psychological effect. Moreover, in some quarters of the market there are very definite objections to the purchase of securities at high premiums.

It should be noted in connection with the refunding portion of the financing that the "coupon carry" (i.e., interest accrual at the coupon rate) on the $3\frac{3}{8}$ percent bond between December 15 and March 15 amounts to $27/32$, and that the coupon carry on the $1\frac{1}{2}$ percent notes for the same period amounts to $12/32$. A holder can obtain these respective amounts by retaining the securities in question until March 15. It is apparent, therefore, that the "real margins of safety" are less than the premiums shown in the table above by these amounts.

STRICTLY CONFIDENTIAL

December 7, 1940

Preliminary memorandum on Treasury financing
based on a discussion by members of the Board
of Governors and Mr. Sinclair, President of
the Federal Reserve Bank of Philadelphia

The Treasury's cash balance is now under a billion dollars, and net expenditures over the next three months will be substantial. These facts clearly indicate the need for some nearby financing. The character of the financing should be considered from the standpoint of its bearing upon the national economy and, immediately, in relation to its effect upon the defense program. Financing the defense program as it relates to the national economy raises many problems which cannot be discussed within the limits of this memorandum but which we shall be glad to discuss at an appropriate time. In general the monetary and fiscal aspects of the program are concerned with the question of avoiding, on the one hand, undue or premature restriction of our total economic effort before a satisfactory level of national income and employment is reached, while avoiding, on the other hand, the danger of inflation. The further problem, while the defense program is under way, of avoiding serious bottlenecks in production and distribution, which might have effects very similar to those of a general inflation, must probably be approached mainly by measures other than monetary or fiscal.

Aside from these bottlenecks there is still much unemployed labor and industrial capacity and many raw products in abundant supply, and as long as this situation continues the resources for national defense should not be obtained at the expense of peacetime activities and consumption. We have reached a level of output, however, well beyond anything previously attained even in the late twenties, and next year the level will almost surely be substantially higher. There are estimates that the national income, this year about \$74 billion, will rise next year to about \$80 billion and that by 1942 or 1943 it will reach \$90 billion in terms of the present price level. Obviously in the face of such a prospect, especially when the expansion is occurring in response to the stimulus of large defense expenditures and British war purchases, the possibility of an inflation, whereby the expansion would go into prices rather than into output, must be an ever-present concern of the monetary and fiscal authorities.

On the monetary and fiscal side, we have to reckon with the fact that the volume of demand deposits and currency is larger than ever before, that excess reserves are huge and are increasing, that the Government debt is already large, that Government securities have become the chief asset of the banks, and that purchases of securities by the banks create additional deposits. As to taxation, the new tax measures of 1940 have substantially increased the revenue in prospect for the coming year, and what is even more important, in considering the problem of financing the entire defense program over the next several years, have given us a tax structure which will yield substantial further increases in revenue as the national income rises.

December 3, 1940

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The financing program best suited to these circumstances would appear to be one combining borrowing and taxation in such a manner that borrowing will lessen and tax revenue increase as the national income rises and the danger of inflation draws nearer. As regards borrowing, which is the immediate problem, it appears that under present circumstances--and this will become increasingly important as the defense program proceeds--the Treasury should confine its borrowing as much as possible to non-bank investors and thus prevent the further piling up of deposits by the banks. Pending other steps that may be taken to this end, a long bond should be issued at this time in an effort to interest as many non-bank investors as possible and to discourage the further purchase of Government securities by banks. Another advantage of a long-term issue would be that it would help to supply the present demand for such securities and tend to prevent further increases in market prices.

Other means of increasing sales to the savings groups might be considered as part of a longer-term program. First, sales of the present type of savings bond might be increased by a more intensified campaign and by again allowing trust accounts to purchase these issues. Second, the Treasury might issue a new type of savings bond which would pay a semi-annual coupon and be redeemable at the Treasury prior to maturity at a discount. Third, the Treasury might issue a registered non-negotiable bond which would be salable only to the savings groups of the country and could be made either irredeemable prior to maturity, redeemable at a discount on perhaps three months' notice, or convertible into some selected outstanding issue. The fundamental problem to be met, however, is to find means of reducing the volume of unused reserves in the hands of banks available and pressing for investment.

More specifically, it is recommended that the Treasury should refund both the maturing notes and bonds in December and should raise about \$500,000,000 to \$750,000,000 of cash. It seems likely that holders of the notes and bonds should be given the option of refunding into either an intermediate or a long-term bond and that cash should be raised through a long-term bond. Other alternatives would be to refund in December and raise cash by a long-term bond in January or to refund in December and raise cash through national defense bills.

It would probably be advisable to do the refunding in December, because this procedure would clear the decks for future financing and is expected in the market. It is also recommended that the Treasury should raise \$500,000,000 to \$750,000,000 of cash in December. The Treasury's cash balance, which is now \$900,000,000, would be down to about \$600,000,000 by the end of December and would be entirely eliminated by the end of February if no cash is raised in the interim. The raising of cash might be deferred until January, but it is probably desirable to complete the entire financing at one time. It appears that the raising of cash up to about \$750,000,000 would still leave a margin of safety within the statutory debt limitation.

STRICTLY CONFIDENTIAL

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December 3, 1940

Present market conditions are such that the Treasury could without difficulty issue long-term bonds. During the past month long-term bonds have advanced in price by more than two points. Reporting member banks have added \$100,000,000 to their Government bond holdings since October 9, and insurance companies have also been substantial purchasers. There has been a relatively small supply of securities in the market except from the System Account. The present situation tends to induce banks to purchase bonds of longer maturities in order to obtain income necessary to meet expenses and dividends. Under present conditions, therefore, it appears quite certain that intermediate and long-term bonds would be readily absorbed in the market. Their issuance would also serve to restrain a further sharp rise in prices over the next few months.

Such an operation can be carried out successfully, provided the offering restricts the allotment of long bonds to an amount that the market can comfortably digest. The demand for ~~long~~ bonds during recent weeks has been largely centered in the intermediate issues, and the rise in price of the four longest bonds may be weighed more by the absence of offerings than size of the demand. This does not imply that there is not a substantial backlog of demand for long bonds, because there is, but there is reason to doubt that the market would readily absorb a long bond in an amount, in excess of \$1,000,000,000. It might be advisable, therefore, to limit the long-term bond to a cash offering, in order to avoid the possibility that due to the large premium on the long-term bond the bulk of the exchanges would be for this issue, creating an outstanding amount between \$1,500,000,000 and \$2,000,000,000. Limiting the long-term bond to a cash offering would also avoid arbitrage transactions and wide fluctuations in the rights between the time of closing the books on cash subscriptions and the time of closing on exchanges. It is recognized that a long-term bond would not be distributed exclusively to non-bank investors, since a number of banks would purchase the issue for the underwriting profit, and others would hold the issue as a permanent investment. A long-term bond, however, would fit into the category of an investment suitable for non-bank investors and would represent a mile-post in the market by which further long-term financing could be more readily gauged.

In view of the size of the financing it would probably be desirable to give holders of the maturing bonds and notes an option. The option should be between a long bond and an intermediate bond rather than a note, since most investors have a decided preference for intermediate bonds rather than for notes at current low yields. The maturing bonds have been outstanding for about 10 years, and a large proportion are in the hands of insurance companies and savings banks. Under these conditions there might be some advantage in permitting the exchange of the bonds for the new long-term bond, issued for cash, at the same time protecting the market by requiring that the new bonds would be issued for exchange only on the basis of a registered bond which would be delivered after three to six months. Consideration might be given also to raising the limit on preferred allotments on cash subscriptions to \$10,000 or \$25,000. Such a step would tend to encourage individual subscriptions and to reduce allotments to banks.

received for the "Short" Long Term Bond

STRICTLY CONFIDENTIAL

December 3, 1940

The discussion in the memorandum indicates quite clearly that the defense program should be financed from the savings of the country rather than from a further expansion of bank credit and that an influence in this direction would be the issuance of long-term bonds. While the general program should probably be of this nature, there are certain considerations that might make it desirable to follow for the immediate future an interim program of short-term securities. In view of the large volume of excess reserves and bank deposits and the possibility of inflationary tendencies developing at some time in the future, it seems likely that steps will be considered for reducing excess reserves to a more reasonable level. In addition to the uncertainties that will be produced in the market by such discussions, there will be other uncertainties regarding comprehensive banking legislation, tax legislation, and the proposal for making future issues of public securities fully taxable. Until these questions are settled the market cannot be expected to measure long-term interest rates with fairness.

With the removal of the influence of large surplus banking funds on the market, long-term rates, which are now at record low levels, might increase somewhat to a point that would more nearly reflect the level necessary for attracting the savings of the country. If a long-term bond should be issued at the present time it would be vulnerable to an increase in rates. If this condition is anticipated it may be more in the public interest to protect investors from impairment in market value by deferring the issuance of long-term bonds until after such an adjustment has occurred.

Under this program short-term securities would be floated at the present time and would later be refunded into long-term bonds. If this program should be adopted the Treasury might find it desirable to issue a statement outlining its reasons for this procedure.

*Eccles speech is filed 11/27/40,
date of delivery*

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December 4, 1940.

W.S.
MEMORANDUM

TO: Mrs. Klotz
FROM: Mr. Gaston

The Secretary talked to Dan Bell, Harry White, Mrs. Klotz and myself this morning about the story of Eccles speech last Thursday evening before the National Industrial Conference Board with which the Herald Tribune had led the paper under a five column head. This story said that Eccles had urged a 2½ billion dollars loan to Britain against gold and had discussed the budget, taxes, savings bonds, silver purchase, silver certificates and Thomas currency. All agreed that something should be done about it and the Secretary finally called up Eccles in our presence, made an appointment to see him at 3:00 o'clock, at which time he would bring Elliot Thurston and the Secretary would have Dan Bell and myself present. It was agreed that nothing would be given to the press in the meantime.

The Secretary called Dan Bell and me in at 2:55 P.M. and showed us a dispatch on the Dow Jones ticker of three or four hundred words in which a "spokesman of the Federal Reserve Board" had issued a statement saying that the stories in the morning papers were a garbled account of Eccles speech.

When Eccles arrived at three o'clock he had with him Goldenweiser as well as Thurston. He also brought mimeographed copies of what he said was the full text of the New York speech. The text showed that the Herald Tribune account was inaccurate as to the suggestion of a loan to Great Britain, since Eccles had merely proposed that instead of buying British gold outright we should avoid increasing excess reserves by lending against the gold and he did not specify any amounts. The Secretary pointed out, however, that in the admitted text of his speech Eccles discussed Treasury policies at length and in advocating repeal of the Silver Purchase Act, the cancellation of the Thomas currency provisions, he was putting himself in direct opposition to measures which the President had instructed Secretary Morgenthau to support. Eccles complained that there was no clear division of responsibility between the Treasury and the Federal Reserve Board. He said he was going to ask Congress to straighten the matter out. The Secretary said we couldn't have two different ministers of finance in our Government, that there must be some understanding and coordination about public statements. Eccles professed willingness to coordinate and said he would submit future speeches and public statements to the Secretary for criticism. The Secretary said he would give Eccles the same opportunity as to any speeches he might make.

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I pointed out to Eccles that considering matters in which the Treasury also had a direct interest was one thing and considering them in public was another. I said we were forced to consider a good many things which overlapped the jurisdiction of the Federal Reserve Board but we didn't go out and talk about them. I also said that complete division and separation of authority was an impossible ideal, that we had constantly many things to consider jointly with other departments of the Government and that any attempt to isolate the functions of different departments and agencies would paralyze Government, but that didn't warrant departments putting out conflicting views on the same matter.

Thurston had nothing to say throughout the whole interview in defense of Eccles but Goldenweiser, toward the close, asked the Secretary if he didn't think Eccles' speech was worth something "as a trial balloon." The Secretary turned to Goldenweiser and said very forcibly "So far as I am concerned, I don't put out trial balloons to stir up opposition to policies of the President."

We all approved the suggestion by Eccles and Thurston that they give out to the newspapers the complete text of the New York speech with a very brief introduction stating that the speech was off the record but that it was being given out because of garbled accounts.

All finally agreed that cooperation was a good thing.

After the others had left the Secretary reported that Thurston had said to him, outside of Eccles' hearing, as they were leaving that he agreed with the Secretary's statement that there could not be two ministers of finance at one time.

December 4, 1940
4:25 p.m.

H.M.Jr: Hello.

Operator: Mr. Jones.

H.M.Jr: Hello.

Jesse
Jones: Hello.

H.M.Jr: Well, Jesse, you sure did yourself proud.

J: (Laughs).

H.M.Jr: What a man.

J: Gosh, I didn't know what I was doing.

H.M.Jr: (Laughs). Boy, Jones says England is good risk.

J: That's what I said. (Laughs).

H.M.Jr: Wait until you hear from old Hiram Johnson.

J: (Laughs). One of the boys at the press conference asked me something about it - what I thought about it and I hesitated a minute or two and I didn't see any reason why I shouldn't shoot from the hip. I just said I think it's a good risk.

H.M.Jr: Well, you sure hit the bull's-eye. Boy!

J: Well, I didn't amplify it. That's all I said.

H.M.Jr: Well, I'm delighted.

J: Well, I don't see how it does any harm.

H.M.Jr: No, I think it's all to the good.

J: Yeah. Well, I had the opportunity so I - didn't have long to think about it.

H.M.Jr: (Laughs). I've been spending the afternoon with your pal Marriner Eccles.

J: Oh, you have!

H.M.Jr: Yeah.

J: Gosh, I sympathize with you.

H.M.Jr: He's giving out his full speech now.

J: He's giving it out.

H.M.Jr: Yeah.

J: Well now I called you - I'll be out of town tomorrow and I asked my man Mulligan, figure man, Treasurer of the RFC, to go over these figures with Harry White and I talked to Harry about it and I'll be back Friday morning and I'll be available.

H.M.Jr: Good.

J: Had a meeting this afternoon with General Weston and a couple of his men. They came over at their request to inquire just how and what we could do and so forth.

H.M.Jr: Good.

J: Had a very satisfactory meeting with them.

H.M.Jr: Well, that's moving then.

J: Huh?

H.M.Jr: That's moving.

J: Yeah, so I'll see you Friday and I told General Weston that they needn't worry about the RFC that we'd be there - I told them what authority we had and that we had money enough for the things that he was interested in - that is, the construction of the plants.

H.M.Jr: I think that's very encouraging.

J: So that I'll see you Friday.

H.M.Jr: Atta boy.

J: O. K.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 4, 1940.

TO Miss Chauncey
FROM Mr. Bryan

2,446,963 individual and joint owners and 52,074 corporations, partnerships, trustees, associations, guardians, etc., bought more than 15,000,000 Savings Bonds in 8,012,252 separate purchases, prior to September 30, 1940.

In accord with amended regulations, no bonds have been sold to other than individuals since April 1, 1940.



STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 16, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Walton V. Butterworth
3914 Prytanis Street
New Orleans Louisiana

Phillips arrives New York today and Washington Friday Stop
You are free to proceed with your own holiday plans Stop Whenever
you return to Washington Secretary would like to see you

Merle Cochran

ENC:enck:12.4.40

(init:) A. G. G.

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TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

Stabilization Fund

(The appropriation from which payable must be stated on above line)

December 4, 1940

U. S. GOVERNMENT PRINTING OFFICE

1-14117

TREASURY DEPARTMENT

Telegraph Office

1940 Dec. 4, A.M. 8:24

7W

WP21 M 38 NT

New Orleans La Dec 3 1940

Merle Cochran

Special Assistant to Secretary

Have been standing by in view of Phillips arrival Stop
Has he come Stop Would appreciate your asking the Secretary
when shall I be required in Washington as it would help in
clarifying my own plans. Best regards.

Walton Butterworth

812A

C O P Y
dm

NATIONAL DEFENSE ADVISORY COMMISSION

NOT TO BE RELEASED BEFORE
10:00 p.m., December 4, 1940

PR 288

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Address by W. L. Batt,
Deputy Commissioner, Industrial Materials Division,
National Defense Advisory Commission, delivered before
the annual dinner of the American Society of Mechanical
Engineers in New York City, at 10:00 p.m., E.S.T.,
December 4, 1940

Some men I know --- and you know them too --- insist on evaluating any given situation entirely in terms of historical precedent. Present conditions and future possibilities are judged by them on the basis of the past --- by looking backward into time and experience. They are satisfied to rest their judgment in a conscious or subconscious conviction that somewhere in recorded history, there will be found a valid precedent for today, and that therefore the chapter of history that follows that precedent will tell the story of tomorrow. Such men look only backward.

Other men completely reject the value of precedent, assume that there is no historical parallel for the conditions of today, and allow their imagination to paint vivid pictures of a future bearing no resemblance to the past or the present. Such men look only forward.

Still others, of course, look neither backward nor forward. They neither bolster their judgment with precedent, nor unleash their imagination for a picture of the future. They simply stand pat --- blindfolded and helpless.

For my part, I would ignore that third group, and combine the viewpoints of the other two. I would recognize some value in historical precedent as a guide book on cause and effect, as a possible key to the puzzle of the future. But I would not be bound by such precedent to interpreting the future only in terms of the past.

What I am trying to say was once much better said in Paul's first letter to the Corinthians --- Chapter 13, Verse 12:

"For now we see through a glass, darkly; but then face to face; now I know in part; but then shall I know even as also I am known."

The ninth verse of the same chapter reads:

"For we know in part, and we prophesy in part."

I should like to take part of the time I have with you tonight to peer through a glass, darkly; to try to make out from the murky, shifting lines of the future some hint of what shape they may take when we meet them "face to face."

I do not know how successful we shall be. I only know that this is our duty --- that we are challenged by humanity, civilization and decency --- and by our own self-interest, to try to see through the glass that we may act as wisely as possible.

And why is this such an important duty? What aspect of today makes it so imperative that we forget the pleasures of living this moment and strain our eyes and minds in the difficult task of making out the future? Why because there is a war going on all over the world --- a war that threatens to destroy all the progress of the human race for hundreds of years without wiping out any of its mistakes. Because civilization is rocking on its foundation. Because the highest political ideals that man has evolved are in imminent danger of extinction. Because our progress and our civilization and our political ideals are in the balance.

Here we are on the very edge of a world in flames. Our neighbor's house is burning, and unless he can put out the fire with what help we give, it soon will spread to our own dwelling place.

In recognition of this danger, we have set out upon the most gigantic program of armament ever undertaken by any country in history --- a program that will roughly double an already great Navy, quintuple our Army and multiply a projected air program at least five times. And yet, I have a definite impression that the people of this country do not understand either the size or the pressing urgency of this undertaking. Too many of us are still thinking in terms of "business as usual." Too many leaders of enterprise are still thinking of their individual competitive positions instead of gearing their respective capacities to the united effort of a whole industry. Too many labor leaders are still engrossed with personal or organizational rivalries. Too many tax payers are complacently viewing the cost of this program as something that somehow will be met without any personal inconvenience or contribution.

I find in meeting people throughout the country that they are curious but uninformed about the fundamentals of our national defense program. I am told, for instance, that on the "Information Please" radio program a week or so ago, that group of amazingly well-informed men did not know the specific jobs of Defense Commissioner William S. Knudsen, E. R. Stettinius, Jr., and Leon Henderson. How many of you here tonight do?

I do not know where the fault lies, or what is the explanation. Perhaps we have undergone a national psychological let-down from the tense excitement of last May and June. Perhaps we are too cock-sure of our ability to do bigger and better things than anybody else in the world.

But we are attempting to do more in two years than Germany did in six --- Nazi Germany, whose entire national existence was geared to this one job of armament. We are attempting to do more than the British Empire has been able to do in four years, some fifteen months of it under war conditions.

We must grasp the enormity of these facts and what they mean. We must somehow jar ourselves out of an attitude which if not complacent, is in my opinion at least too easy-going.

So before we begin probing into the future we must first understand clearly the scope and something of the pattern of what we are trying to do right now. We must get it through our heads, by constant repetition if necessary, that modern war is a life and death struggle between the total economic strength of the opponents. That applies not only to war but to defense against war. For you must remember that preparation for the fighting going on today, began a long time ago, and that the wiping out of a great city like Southampton is only a final phase of that effort. War in the military sense is only the final chapter in the story of a conflict that started years before with the gathering of raw materials, the building of tools, and the planning of production lines. We hope that the names of those of us engaged in today's defense job will never be read in a final, military chapter of this struggle. But we do know that unless we do this job well, our names may play a prominent part --- in a tragic ending.

We are now engaged in the struggle to gather raw materials, build the tools and plan the production lines. Let me say again that this does not mean we must eventually get into war. As a matter of fact, the better we do this job, the faster we build our

guns and tanks and bombers, the less chance there is of our ever having to use them.

I mentioned just a moment ago the gathering of raw materials. Now that may not sound so difficult. Not for a nation that is the greatest producer and processor of raw materials in the world. Not for a nation that comes closer to self-sufficiency than any other political unit on the face of the globe. But the United States is not only the greatest producer and processor of raw materials --- it also is the greatest user of raw materials. It is the most highly industrialized nation on earth, and its degree of self-sufficiency is only relative. We still must import substantial quantities of fifteen industrial minerals, not to mention the non-mineral raw materials we do not have, some of which, such as rubber, are vital to armament production. The Army and Navy Munitions Board lists fourteen materials as strategic --- that is, materials which are not produced domestically at all, or not in sufficient quantities to support a major defense effort. There are seventeen more "critical" materials, which we would have some difficulty in obtaining in adequate quantities.

Now you have been hearing a good deal lately about steel capacity. But all the capacity in the world for fabricating and processing steel would do us no good whatever without chromium and manganese, without nickel and tungsten. We are confident that our great automotive industry will be able to turn out more and better vehicles of transport for a motorized army than anybody else in the world. But those vehicles are no good unless they have rubber tires on which to roll. Each of these commodities I have just

mentioned --- chromium, manganese, nickel, tungsten and rubber --- are strategic materials. Unless they are available in the required amounts we might as well go back to flintlocks and horses.

Let me repeat some figures that I already have used on two occasions and probably will use again. The United States normally consumes about 60% of all the rubber produced in the world, about 40% of the world's production of tin, about 45% of the world's chromium, 56% of silk, 40% of nickel, 26% of manganese and 33% of antimony. All these are strategic materials. The great bulk of what we use of these commodities must be imported, usually from distant sources over routes that are already closed or threatened with disruption. When you add on top of that normal consumption the abnormal demands of an unprecedented armament program, and the incalculable but heavy demands of Great Britain, it is plain that we have a staggering task to perform at the very outset of the program --- to assure sufficient supplies of the raw materials we are going to need.

Remember that we got away to a slow start and that there are many obstacles --- problems of production, finance, shipping. It is impossible to know if there is a deadline for completion of the job, and if so when it will be. This is the task that has been turned over to the Industrial Materials Division of the National Defense Advisory Commission, in which I serve as Deputy Commissioner under E. R. Stettinius, Jr., a man whose job the experts of "Information Please" could not name, but who has one of the greatest responsibilities in the United States today.

There are several avenues of approach to the problem and we must use all of them, must overcome the inhibitions imposed by years

of experience with normal business practices under peace-time conditions. Domestic production, if any, must be expanded; new sources close to home must be searched out and exploited; stock piles must be purchased and placed in reserve; substitutes must be discovered and used where practicable; salvage and reclamation schemes must be formulated and tucked away in a bottom drawer for use "if, as, and when." Given time, we can be prepared in this vital sphere of defense, but we never know if we are to be granted the time. It is a big job, and many of us have not yet realized it.

I have neither the time nor the knowledge to go into the details of the toolmaking and production planning that also must take place before we have weapons in great quantities, although I should point out that if anyone complains that this program is lagging, he should look behind the scenes a little. There, in quarries and mines and on plantations throughout the world, on drawing boards and in tool shops, is where our national defense program is now making progress. We have passed the phase of letting contracts. We are, as Bill Knudsen says, "tooling up". Unfortunately, that does not attract headlines. It would be more than unfortunate if the country were to draw the conclusion that we are standing still.

We have a gigantic national job to do. It is, of necessity, barely getting started. Its urgency cannot be exaggerated. There will be many and painful delays. Only by the unswerving determination of a united people can it be done. So much for the present picture.

But what about the end result of this colossal world revolution and our preparation to defend ourselves against it? What about the future? We must face the perfectly plain, inescapable and inevitable fact that when this war is over, no matter who wins, the world will not resemble the world of 1939.

I need not elaborate on the differences if the Nazis and their satellites come out on top. But what if Britain wins? Will it be the same old story of the World War all over again, with the same old British Empire under the same leadership restored to a position of world dominance? We need only look to recent developments for a clear-enough indication that the answer to that question is "no." I want to go on record right here with the assertion that capitalistic imperialism and individual control of great financial and economic power is as dead in England today as the feudal system. The social and financial aristocracy that has directed the affairs of the British Empire for so long has seen its day.

The British working men --- the wage earners of the lower and middle classes --- are the ones who have borne the brunt of this war's terror and in whose hands now rests the fate of the empire. It is they, not the old leaders, who cry out: "This war will bloody well be fought to a finish." Britain may go down, but no compromise settlement will be engineered behind their backs. Their spirit is the soul of England today --- our guarantee that if we send help, it will be put to the use for which it was intended. And they are in the saddle. When the fighting is over and Britain

has won, they will remain in the saddle. Whatever the precise form of England's government, I should think that you can put it down as a fact that one of her leaders will continue to be Ernest Bevin, now Minister of Labor, a trade union leader with a record and personality and capacity for governing that has earned him the respect of all England, including his former political opponents. Do not forget that two out of seven members of the War Cabinet --- Bevin and Herbert Morrison, who started as an errand boy and became one of the ablest administrators in Britain --- belong to the Labor Party. They are taking on more and more influence and responsibility, not by back-stage maneuvering, but because this war is being fought by the middle and working classes. And these men, as representatives of those classes, are taking on an ever-increasing share of the burden of government. London might well have been lost during the worst days of the early air raids if the transport workers had not been willing to carry on; but they did carry on, not only because they were brave men and devoted to their country's fight for life, but also because they were satisfied that they were represented in the government and would have something to say about things when the war is over. According to Bevin, the war must be followed by "economic reconstruction of the whole foundation of society.....The task of rebuilding the world has to be done by the working class."

There, then, is a phenomenon of great importance: if Britain is victorious it will be because of a new kind of leadership --- a leadership of the working people --- of the people who stand the brunt of the struggle --- out of whose burning sacrifices has grown this epic soul. British Labor has been a hundred years

trying by one means and another to reach this leadership --- now it has it.

Yes, you say, but Britain is at war and war breeds fundamental changes, while we are not at war; we are only building up our country's defenses. Stated simply, that is true. But if we are to build our defenses high enough and fast enough to be as safe as we can in a dangerous world, we must do some things that will affect our economy almost as much as active participation --- perhaps more than Britain's early war effort affected her economy. For as recently as the middle of June last, the conservative and sedate London Economist had this to say: "British industry, by and large, has until recent weeks been making the maximum effort compatible with no disturbance to its continuation now or to its profit-making capacity hereafter."

And let us remember one other thing: that the most violent disturbance to our own national economy during the World War, took place not while we were participants, but before. It was during 1915 and 1916, when our export trade was twisted and distorted, and our eventual Allies were placing huge munitions orders in our industrial plants, that we whirled down the road to inflation, that commodity prices increased by 100% and more, and that wages and the cost of living doubled. It was then that we began to change from a debtor to a creditor nation, shipping out of this country in the twenty-five years following 1914 thirty-two billion dollars more in goods than we brought in.

profound effects on our nation and its relationships to a world whose make-up we cannot even clearly imagine? I think so.

Once again our export picture has undergone a complete change as a result of the war to date. Our normal peace-time sales abroad of agricultural and consumer goods has been almost entirely replaced by war material. Cotton and tobacco and typewriters and apples are not being sold abroad now, but in their place, airplanes, machine tools and army trucks --- and materials like iron and steel and copper needed by British war industries.

While this is going on, our own defense program is tending to make us more than ever self-sufficient, reducing our dependence upon purchases abroad. When this emergency is over and we are trying to convert our defense factories into producers of consumer goods for sale abroad, we shall find that we require fewer products and materials from abroad than ever before. And you know that foreign trade must work both ways. We cannot sell to other countries unless we, in turn, buy from them. Specifically, the more manganese we produce domestically, the less we buy from foreign producers, and the fewer dollars they have with which to buy our cotton and apples and electrical appliances. Out of sheer necessity we acquired a chemical industry during the World War, and we are likely to acquire new industries and new sources of materials out of this emergency. Once it is over, will we repeat the old formula of subsidies of one kind or another to maintain war-stimulated domestic production? Will we put up another Smoot-Hawley Tariff to close our markets to foreign goods, and thereby close foreign markets to our goods?

This is only one of an array of vital problems that this war and our national defense program are creating for us. Industrial problems: what to do with the excess manufacturing capacity we are creating. Labor problems: where to find jobs for the men we are training for the production of war-time products. Political problems: who is to own and operate the plants that the government is building or paying for in one form or another. Financial problems: what to do about the federal debt incurred by necessarily huge spending for defense. Monetary problems: what about the gold base when we own most of the gold in the world. All these and many more will present staggering difficulties. Am I, then, a pessimist about the future? Only to the extent that I am convinced we have our work cut out for us; that there are dark days ahead unless we look realistically at what is happening around us.

Well, what can we do about it? We have said that whether we like it or not, whether we send more help to Britain or none at all, whether we become an active participant or remain on the sidelines, this war has and is and will have a tremendous impact upon our national life. No matter who wins, the world will be fundamentally changed, and we shall have to deal with new and startlingly different sets of circumstances. The twin facts that a world war is in progress and that we are engaged in a defense program that cannot help but have tremendous repercussions throughout our national economy, means that we must constantly keep an eye to the future effect of what is going on today --- both in the immediate future and the long-range future.

We must examine our every move for its short-term effect on

the economy. Shall we permit marginal demands to upset our price structure by simply sitting back and letting the supply-demand situation adjust itself? Specifically, should we permit the price of copper to go up two cents a pound because we are going to need a little more copper than we can produce domestically at the going price --- an increase that would cost the nation's consumers \$40,000,000 a year and threaten to touch off a price spiral that might lead to general inflation? Or should we take some action such as importing a small pool of copper sufficient to care for the marginal demand, and thus keep copper prices where they are? Or take the problem of steel capacity. Yesterday's paper carried a story in an inconspicuous corner of the financial page that steel mills will boost operating schedules to 96.9 per cent of capacity this week. "This week", continues the story, "will see the greatest amount of steel ever produced in a similar period".

We have been charting this upward movement in the steel industry's operating rate for many months in Washington. We have also been finding out from the Army and Navy what the defense demand will amount to. Probable British needs have been estimated next. Finally we have added in the probable non-defense demand, which will naturally increase as the effect of defense spending is felt. Stacking this total figure up against present steel capacity, we have about come to the conclusion that added capacity is the only alternative to rationing.

I am convinced that the steel industry must enlarge its capacity, and I see indications that the industry realizes it too.

But the mere adding of new capacity will solve only our imme-

diate problem. We must look ahead to the day when steel operations will be severely curtailed, and we must set up machinery now for systematically retiring our old and uneconomic capacity when that day comes.

These are examples of the type of problem that presents itself from day to day as we go along with the program. Such problems alone are enough to tax the men who are engaged in the immediate and urgent task of arming the nation. But there are others — more complex and long-range — for which these men have no time.

Therefore it seems to me essential that we immediately create a small group of the ablest men in the country who would be charged with studying these long-range problems and working out solutions in advance. They ought to be set off in a corner by themselves, instructed to forget all about the immediate problems of procuring war material, except as it affects the future national economy. They should set to work now on the preparation of an industrial demobilization plan. Nations have spent decades preparing plans for the conversion of a peace-time economy to a war-time economy. So far as I know, nobody has seriously undertaken the preparation of plans for the opposite process — converting a war-time economy back to a peace-time economy. That might involve the discovery and development of new processes and new products for civilian consumption that could be manufactured on the same machines that now are turning out or preparing to turn out products that are useless in times of peace; plans for the absorption of our newly trained

labor in peaceful pursuits; the fundamental policies of a foreign trade policy in a world that will be vastly different from that with which we have ever dealt before.

This group would need inventors and research scientists, trade experts and fiscal experts, men of practical knowledge and great vision. They should devote their entire time to the formulation of the best plans that could be evolved for the utilization of our entire resources for the improvement of our standard of living, for the protection of our national economy from the repercussion not of war but of peace, for the conversion of the processes of economic waste to the processes of economic usefulness.

It is, as I said earlier, immensely important that we try to see through the glass, darkly, to make out at least the type and possible shape of the problems we shall meet face to face in the future. And when we discover that these problems will be many and varied and of tremendous significance to our future well being, then we must meet the next challenge of duty, which is to undertake immediately the formulation of plans for their solution. This was entirely ignored during the World War, and we have not yet rid ourselves of some of the problems that might have been solved before the war was over, if we had had the foresight to do it. In the meantime, a new war has come along that will create changes of far greater importance. The men who are devoting their time and efforts to the solution of our armament problem have no time for worrying about the disarmament problem. If we wait until the end

of the war, it will be too late.

There is, in Washington and elsewhere, a general recognition of the importance of planning for post-war adjustments. But as far as I am aware, there is no coordinated thinking along these lines, no organized group with a specific directive. I think that there should be, and I hope to see it accomplished in the near future, for there is no time to waste. If I have seemed pessimistic in some of the things I have said, let me now prove that I am really an optimist. I sincerely believe that if we tackle this problem of post-war demobilization of industry and man-power with all the energy we are now devoting to the opposite process, we can build an economy and a standard of living the like of which the world has never dreamed of. We can, in that process, lay the groundwork for an industrial system that will have as its only limits the limits of available manpower for production. This system would be based on a price structure designed to reach a vast reservoir of potential consumers that have in the past only been able to afford the basic necessities of life.

We would, then, not only be making plans for the demobilization of a war-time economy, but also planning for the mobilization of all our resources --- human and material --- for better living in a world at peace.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: December 4, 1940, 9 a.m.

NO.: 86

FOR TREASURY.

Stefan Michalski, the Director of the Polish Central Bank, wrote to the Governor General on the twenty-first of October asking that there be returned to him the Polish gold here. He has given me a copy of his communication to the Governor General, not having received a reply to it. He expressed the fear that he and his son will be compelled by the authorities to leave here. He expressed the wish that the State Department be informed that he had done his very best to save the gold belonging to his country.

WASSON.

EA:LNW

HSM

PLAIN

London

Dated December 4, 1940

Rec'd 12:07 p. m.

Secretary of State,
Washington.

3945, Fourth.

FOR TREASURY.

Signs are now evident on all sides that the well-informed are becoming increasingly anxious about the inflationary dangers in the present British financial position. Keynes' speech, reported in telegram No. 3201 of September 25, and Stamp's warning quoted in telegram No. 3230 of September 26 that "inflation is just round the corner" are in the back of all minds when new indications of the trend become available. Foremost among the portents are: (1) the mounting Government expenditure brought home in the Exchequer returns published today, (2) the growing wages problem and the fact that Greenwood in his recent Commons speech gave no hint of Government plans to deal with it, and (3) the railways new warning that further rates increases will soon be claimed. Other straws in the wind are a further rise in the cost of living and wholesale prices. The Exchequer
returns

hsm -2- No. 3945, December 4, from London.

returns for the five weeks ended November 30 reveal a jump in expenditure to a new high level. Of the total FFR this period amounting to £423.7 million, as much as £403.8 million was for supply services. The weekly average for supply expenditure in November was £80.8 million as compared with £68.4 million in October and £65.5 million in September, while total expenditure rose to a weekly average of £84.7 million as compared with £78.5 million in October and £68.3 million in September, and the deficit to £60.4 million from £53 million in September and October. Savings in November averaged £25.3 million weekly as compared with £72 million in October and

£14 million in September, while the floating debt rose by £36.7 million weekly in November. The £304 million deficit for the five weeks was financed by net savings (including "on-tap" war bonds) of £126.3 million and by a floating debt increase of £178.3 million, £98.7 million representing an increase in Treasury bills (all but £5 million in the tap issue), £18.5 million ways and means advances, and £70 million net in deposit receipts. The return reveals that £95 million were borrowed by deposit receipts and £25 million repaid presumably for investment in 2½ percent "on tap" war bonds. With expenditure mounting to levels over £80 million per week,

over

hsm -3- No. 3945, December 4, from London

over 42 percent of which was met by floating debt increases and less than 30 percent from savings, it is obvious that even the successful achievement of the goal of £475 million of small savings in the first year of the campaign could not fail to evoke a warning that much more must be saved in the second year. In a speech in Glasgow on November 25 the Chancellor of the Exchequer said that good as the first year's results were, much more must be achieved and that this is "well within our capacity if all play their part". Crookshank, Parliamentary Secretary of the Treasury, also in a savings campaign speech, noted that "we are still in the sphere of voluntary action"--a phrase which might have allayed anxiety as to the Government's realization of the seriousness of the situation if it had come from his chief. Meanwhile engineering and shipbuilding workers are asking for reconsideration of their rejected wage increase claims by a special tribunal and railway workers are considering new wage demands. Numerous editorials from all types of publications could be quoted and reply criticizing the Government for its failure to formulate a wage policy, particularly those reflecting disappointment at Greenwood's failure to give any hint in his review of the economic position in his Commons speech on November 27 of a Government policy on wages and prices. THE ECONOMIST, for

example

hsm -4- No. 3945, December 4, from London

example, asserts that "this Government like the last believes in not crossing bridges until it gets to them, and finds them blown up".

JOHNSON

CW

RECEIVED
TELETYPE UNIT

95 2 193 A 330 CMB

1945 DEC 4 10 03T
YR 1945

To: H. Cochran

From: Mr. Dietrich

The table listed below gives the yearly advances, except where otherwise indicated, to certain members of the State Department staff in the cities indicated in connection with financial reporting work for the Treasury Department.

| <u>Date of Letter</u> | <u>Date Effective</u> | <u>W.W. Butterworth, Jr. London</u> | <u>H. Merle Cochran Paris</u> | <u>H. Freeman Mathews Paris</u> | <u>Joseph Flack Berlin</u> | <u>Donald Heath Berlin</u> |
|-----------------------|-----------------------|---|-----------------------------------|-------------------------------------|--------------------------------|--------------------------------|
| ? | July 1, 1934 | \$ 500 | \$ 500 | | \$ 500 | |
| July 25, 1935 | July 1, 1935 | \$1,000 | \$1,000 | | \$1,000 | |
| Feb. 2, 1937 | July 1, 1936 | | \$3,000 | | | |
| Mar. 4, 1937 | July 1, 1936 (A) | \$1,000 | | | | |
| June 17, 1937 | July 1, 1937 | | \$3,000 | | | |
| Oct. 11, 1937 | July 1, 1937 (B) | \$ 750 | | | | |
| Feb. 2, 1938 | Jan. 1, 1938 (C) | \$ 750 | | | | |
| June 10, 1938 | July 1, 1938 | \$3,000 | \$3,000 | | | |
| Mar. 16, 1939 | Jan. 1, 1939 | | | | | (D) \$ 500 |
| June 13, 1939 | July 1, 1939 | \$3,000 | (E) \$3,000 | | | \$1,000 |
| Sept. 26, 1939 | Sept. 1, 1939 | | | (F) \$ 500 | | |
| July 8, 1940 | July 1, 1940 | \$3,000 | | \$1,200 | | \$1,200 |

(A) Calendar Year 1937

(B) For 6 months ending Dec. 31, 1937

(C) For 6 months ending June 30, 1938

(D) For 6 months ending June 30, 1939

(E) Cancelled as of Sept. 30, 1939

(F) For 10 months ending June 30, 1940

The authorizations effective July 1, 1940, are now and will be in force for the fiscal year 1941 which ends June 30, 1941. All payments are authorized to be made on a quarterly basis.

270

OFFICE OF
THE SECRETARY OF THE TREASURY

December 4, 1940

To: Mr. Lochhead
From: Mrs. Klotz

I would appreciate it if
you would transmit this letter to
Mr. K. P. Chen.

Best regards.

(Signed) H. S. Klotz

1271

December 4, 1940.

Dear Mr. Chen:

Your letter of November 8th, together with the snapshots taken during your recent trip from Kunning to Lashio, has reached my office, and I was very glad to hear from you. I shall look forward to the color films of which you speak, and also shall be interested to hear about the trip that you were planning to take when you wrote me.

Thank you very much for your expression of pleasure in the re-election of the President. It is good to know that you and your fellow countrymen have such confidence in the present Administration.

With kind regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Kwang Fu Chen,
Foe Shing Trading Corporation,
Horse Shoe Bend,
Lashio, Burma,
China. DMF/Gbs

December 4, 1940.

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Foo Shing Trading Corporation,
Horse Shoe Bend,
Lashio, Burma,
China. CW/Chs

KWANG PU CHEN

Foo Shing Trading Corporation,
Horse Shoe Road,
Lashio, Burma,
November 8th, 1940.

The Honorable Henry Morgenthau, Jr.,
Secretary of The Treasury,
Washington, D. C.,
U. S. A.

Dear Mr. Morgenthau,

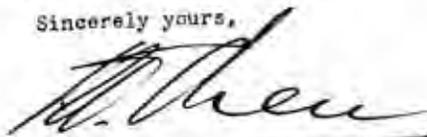
I am enclosing a set of snapshots taken during my trip from Kunming to Lashio over the Yunnan-Burma Highway. I trust they will give you some idea of the general condition of the road and transport, activities of the anti-malaria institutions, scenic spots along the highway and other related features of interest. They may serve as a preview of the color films which I am going to send to Washington as soon as they are ready.

I am leaving for Bhamo to-morrow. From there I shall sail down the Irrawaddy river, and by train to Rangoon. I am planning to return to Lashio after week's stay in Rangoon.

I was extremely happy to hear over the radio last night of the re-election of President Roosevelt, and I know that the good news is being received with joy by the whole Chinese nation. I have cabled The President and your good self to-day conveying my congratulations and expressing my belief that this vote of confidence by the American people brings renewed hope for the realization of democratic ideas and world justice.

With my best personal regards,

Sincerely yours,



Kwang Pu Chen







14. THE MEN AT THE ALL-SPINNETS AT ORANGE.



15. THE MEN AT THE ALL-SPINNETS AT ORANGE.









TOP LEFT: ... BOTTOM LEFT: ...



GROUP OF MOSQUITO FIGHTERS AND STAFF
THE MALARIA LABORATORY OF ROCKEFELLER FOUND
AND STAFF.

CONFIDENTIAL

201

Paraphrase of Code Cablegram
Received at the War Department
at 8:07 P.M. December 4, 1940.

Bucharest, filed December 4, 1940.

1. Additional units of the German Army are commencing to reach Rumania. I have been told by Minister Heubacher (the special German Minister for Economics in southeast Europe. G-2) that 23,000 was the number of German mission troops originally agreed upon between Rumania and Germany.

RATAY

Distribution:

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

H-2/2657-220

RESTRICTED

No. 261

SITUATION REPORTM.I.D., W.D.
December 4, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

German raids by daylight on the 3rd were light, probably by single planes and were directed against rail lines. Last night a fairly heavy attack was made against Birmingham, with secondary attacks on London, Southampton, Gloucester and Oxford. German air activity is continuing over the Atlantic to the north and north-west of Ireland.

Last night the R.A.F. apparently operated on a very reduced scale. The German communique calls the British raids "insignificant".

II. Greek Theater of War.

The Greek offensive made limited progress. Scheme of strategic maneuver is not yet apparent. Italian Air Force reaction continues strong.

III. Mediterranean and African Theaters of War.

No ground operations reported. The Italians claim a successful air attack on two cruisers in Suda Bay, Crete.

RESTRICTED

CONFIDENTIAL

TENTATIVE LESSONS BULLETIN

No. 71

G-2/2657-235

MILITARY INTELLIGENCE DIVISION

WAR DEPARTMENT

Washington, December 4, 1940.

NOTICE

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

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

MISCELLANEOUS OBSERVATIONS
ON THE GERMAN ARMYSOURCES

The sources of these observations are listed in accompanying footnotes.

CONTENTS

1. PARACHUTE TROOPS
2. OBSERVATION BALLOONS
3. ORGANIZATION AND EQUIPMENT
FOR MOTOR MAINTENANCE
4. HIGH EXPLOSIVE vs. SOLID SHOT

CONFIDENTIAL

CONFIDENTIAL

1. PARACHUTE TROOPS 1.

"Parachute troops drop from airplanes at very low altitudes—generally from 300 feet—in order to secure accuracy. A plane carries as many as 30 parachutists. Since twelve can be dropped in ten seconds, men arrive in groups and at once collect their arms and equipment from containers which are dropped separately. Parachutists then split into active units of six or eight in order to carry out the work assigned to them.

"So far as is known, parachutists do not, like air-borne troops, carry bicycles. They try to secure bicycles or cars locally.

"The parachutist is most vulnerable just when he alights—that is, before he has had time to release his parachute and harness, re-adjust the belt outside his overalls, open the container, and get hold of his real weapons. For a space of about 30 seconds he is not a very formidable enemy, for he is unlikely to have weapons, except two or three hand grenades and an automatic pistol with limited range. As soon as the men have opened the containers and retrieved their weapons, however, they become very formidable opponents.

"The first duty of those who observe a parachute descent is to warn the police or military authorities and to observe the actions of the enemy. Where resistance can be offered, however, it will be most effective in the brief interval after men have alighted, and every effort should be made to keep them from reaching their containers. This can be done by fire directed either at the parachutists or at the containers themselves.

"The containers are very vulnerable to small arms fire, either from rifles or light machine guns. Packed, as they are, with loaded weapons, hand grenades, ammunition, and possibly explosives, they can be done a great deal of damage by bursts of fire from rifles or light machine guns.

"If parachutists have been killed, or if containers are found unopened, the weapons in them may be of much use to the defenders, especially in view of the possibility that the parachutists are the forerunners of air-borne troops. A knowledge of weapons which may be seized is therefore essential."

1. This section is quoted from a publication of the British War Office, first issued in June, 1940. For more complete information as to the organization, equipment, and tactics of parachute troops, see the following bulletins and sections of this series: TL 1-4; TL 2-4; TL 5-1; TL 8-1, 2; TL 15-3; TL 26-2, 3.

CONFIDENTIAL2. OBSERVATION BALLOONS 2.

"One interesting feature of the balloon is the method of maintaining the pressure of hydrogen which fills the envelopes. The lacing along the longitudinal axis of the balloon is of rubber cord resembling the shock absorber cord formerly used in airplane landing gears. This cord stretches or contracts with the change in volume and thus maintains a more or less even pressure.

"A lecturer who explained the balloon stated that, when an incendiary bullet pierced the envelope, the out-rushing gas extinguished any flame which might result. Not one observation balloon of the German Army, he said, had been destroyed by gun fire in this war.

"The motorized balloon differs from the captive balloon only in its basket and in the fact that it replaces the vertical stabilizer sack with the rudder and elevator combination. The same envelope is used. The stabilizer sack is unlaced from the main body, and the rudder elevator combination is laced on its place. The motor employed for the motorized balloon is a 150 horse-power, air cooled, seven cylinder type."

3. ORGANIZATION AND EQUIPMENT FOR MOTOR MAINTENANCE 3.

"A German officer stated . . . that the normal German infantry division has a maintenance company; the motorized division has a maintenance battalion; the motorized regiment has a maintenance company; and the battalion has a maintenance platoon.

"If the majority of vehicles in a combat unit are track vehicles, its maintenance vehicles are also track vehicles. Similarly, wheeled maintenance vehicles are used with wheeled vehicles. In sum, the maintenance vehicles of a unit are of the same type and have the same cross-country mobility as the vehicles they serve. By way of exception, however, corps and army maintenance units are composed of wheeled vehicles, regardless of the predominating type of other vehicles, since they are not required to leave the roads as are maintenance units in lower echelons."

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2. From the report of an American official observer after a visit to a German Field Artillery School in October, 1940.
 3. This quotation is from the report made by an American official observer after a trip to the German Army Motorization School at Tunsdorf in October, 1940.

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"A German captain of Panzer troops made this statement:

" 'I was very seriously wounded in Poland. I should not have been wounded except that the enemy used high explosive against my tank, for a solid projectile would not have touched me. I think high explosive shell should be used against tanks in most instances.'

"He also said that the Poles used both high explosive and solid projectiles.

"A colonel of artillery said:

" 'The best projectile to use against tanks is high explosive shell with a special nose and a delay fuse. There are some tanks, however, that require a solid projectile.'

"Both a colonel of the General Staff and a colonel of Panzer troops stated that in their opinion the high explosive shell was preferable for use against tanks."

4. From the report of an American official observer, October 1940.

In this connection the following quotation from TENTATIVE LESSONS BULLETIN No. 32, Section II D, August 26, 1940, should be recalled:

"Considerable study has been given to the relative merits of high explosive and solid armor-piercing ammunition in antitank defense. The British at one time recommended the use of high explosive or incendiary armor-piercing shell in all weapons of more than .55 caliber, with fire directed at the bodies of light tanks and at the suspensions of heavy tanks. When this recommendation was made, the German 20-mm. gun and the French 25-mm. gun were the smallest caliber antitank weapons using explosive shell. It was reported that a French commander, after using both solid ammunition and high explosive shell for antitank fire, stated a preference for the latter.

"This view is at variance with a later report on the subject, which is as follows:

" 'The best obtainable French opinion strongly favors solid projectiles for all calibers of antitank weapons up to and including 75 mm. Experience has shown that the solid projectile, upon piercing the walls of a tank, breaks off fragments which are as effective as those from explosive projectiles. After numerous

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4. (Footnote continued)

tests, explosive projectiles are considered impractical because of the difficulty of setting the time fuses so as to ensure explosion inside the tank. Many projectiles explode on impact without penetrating.'

"An official British report of recent date states that the following French guns fired solid armor-piercing shot: The 75-mm. antitank-field gun; 47-mm. Model 1937 and Model 1939; 37-mm. Model 1934 (solid shot with ballistic cap); 25-mm. Hotchkiss Model 1935 (solid shot with and without tracer; latter found more effective)."

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