

DIARY

Book 338

December 10 and 11, 1940

- A -

Alley, Rcw  
See War Conditions: China

Book Page

- B -

Brasil  
See Latin America

- C -

Canada  
See War Conditions: Foreign Funds Control

China  
See War Conditions

Correspondence

Mrs. Forbush's resume' on opinion of aid to Britain -  
12/10/40..... 338 126

- D -

Dakar  
See War Conditions: Gold (France)

- F -

Federal Bureau of Investigation

Klaus memorandum - 12/10/40.....	132
Financing, Government	
Conference of Treasury group - 12/10/40.....	3
a) One-year or five-year note to be decided	
b) Good press on "Treasury plan to draft wealth as aid in defense"	
c) Currie consulted.....	8
d) New York attitude reported by Ball.....	19
e) House consulted and advises five-year note with 7/8 coupon.....	25,243, 273,291
f) Devine recommends 3/4 five-year note.....	29
g) Announcement of closing of books: 3/4% Treasury notes, National Defense Series - 12/12/40: See Book 339, page 118	
h) Allotment figures - 12/14/40: Book 339, page 463	
i) Resume' of interviews sent by House - 12/12/40: Book 339, page 134	
j) Subscriptions by twenty-five largest commercial banks and five largest savings banks in New York district - 12/12/40: Book 339, page 140	
k) Chicago subscriptions: Book 339, page 144	
l) FDR informed "first public offering of fully taxable notes is success" - 12/12/40: Book 339, page 145 1) Press comment: Book 339, page 160	
m) Subscription (final) figures - 12/17/40: See Book 340, page 276	

- F - (Continued)

	Book	Page
France		
See War Conditions		

- G -

General Counsel, Office of		
Report on projects during November 1940.....	338	140
Gold		
See War Conditions		
Greece		
See War Conditions: Airplanes		

- I -

Italy		
See War Conditions: Foreign Funds Control; Italy		

- L -

Latin America		
Brazil:		
Dollar account carried by Italian Government with		
Bank of Brazil: American Embassy, Rio de Janeiro,		
memorandum - 12/10/40.....		138
Mexico:		
Hohechild transmits report - 12/11/40.....		400
Uruguay:		
Anglo-Uruguayan payments agreement transmitted by		
American Embassy, London - 12/11/40.....		293

- M -

Mexico		
See Latin America		

- P -

Phillips, Sir Frederick		
See War Conditions: Purchasing Mission		

- R -

Revenue Revision		
Tax-exempt Securities - passing of:		
See Financing, Government		

	Book	Page
Self, Sir Henry		
See War Conditions: Purchasing Mission		
Snow, Edgar		
Article on Hewl Alley (a foreigner who holds similar place in China to Colonel Lawrence's in Arabia) - 12/11/40.....	338	376

U. S. S. R.		
See War Conditions: Foreign Funds Control		
United Kingdom		
See War Conditions: Military Planning; United Kingdom		
Uruguay		
See Latin America		

War Conditions

Airplanes:

Needs and production (Slessor's memorandum, etc.) discussed by HMJr, Ballantyne, Wilson, Self, Monnet, Young, and Buckley - 12/11/40.....	250
a) HMJr begs for same sort of memorandum Beaverbrook sent in September	
1) See report: Book 332, page 438	
b) Curtiss P-40: HMJr begs for information on what this plane is accomplishing in combat with the Germans	
1) HMJr asks how many British Purchasing Mission own that are still awaiting shipment from anywhere in United States - Greece needs discussed.....	255
2) Major Smith reports on performance and compares with Spitfire.....	307
3) Beaverbrook reports - 12/12/40: See Book 332, page 113	
c) Observers: Beaverbrook OK's as many as United States wishes to send	

Greece:

Hull consulted by HMJr concerning plan to take 30 planes from British for Greeks - 12/11/40.....	24
a) Hull told Curtiss P-40's useless for Greeks since proper landing fields are not available; British to consult with General Metaxas as to what United States has that Greeks could use - 12/11/40.....	270
(See also Book 332, page 37 - 12/12/40)	
Beaverbrook "will send 30 new Defiants with FDR's card at once, if so desired" - 12/14/40:	
See Book 332, page 416	
a) Hull informed: Book 332, pages 417 and 419	
b) Greek Minister and HMJr confer: Book 332, page 418	
(See also Book 340, page 330)	
1) HMJr tells Hull of interview: See Book 340, pages 331 and 333	

	Book	Page
<b>War Conditions (Continued)</b>		
<b>Airplanes (Continued):</b>		
<b>Greece (Continued):</b>		
Welles tells HMJr of his confusion: Metaxas will accept Defiance planes as substitute for P-40 planes - 12/18/40: See Book 341, page 30		
Greek Legation memorandum explaining need of P-40's - 12/19/40: Book 341, page 229		
a) HMJr discusses with State Department: Book 341, page 233		
Twelve gladiators sent by British from Egypt, which may prove satisfactory: Young memorandum - 12/23/40: See Book 342, page 50		
<b>China:</b>		
Rewi Alley (a foreigner who holds similar place in China to Colonel Lawrence's in Arabia) described by Edgar Snow - 12/11/40.....	338	378
Exchange market resume' - 12/10-11/40.....		133, 309
<b>Foreign Funds Control:</b>		
General over-all control: Wiley memorandum discussed by 9:30 group and Klaus, Pehle, and Walter Stewart - 12/11/40.....		210
a) Intelligence aspects of work over-emphasized, Pehle states		
b) Extent of work and difficulties discussed by Gaston		
Canada's policy as to "control of movement of funds to foreign countries" - Canadian Legation, Washington, memorandum - 12/11/40.....		233
Italy: Transactions with Chase National Bank and National City Bank - 12/10/40.....		135, 136
<b>U. S. S. R.:</b>		
Transactions with Guaranty Trust Company - 12/10/40..		137
Transactions with Chase National Bank - 12/11/40.....		312
<b>France:</b>		
Germany using war indemnities to buy heavily into French industries: American Embassy, Vichy, report - 12/10/40.....		15, 16, 18
Gold at Dakar: 50 tons taken on by French cruiser reported - 12/11/40.....		305
<b>Gold:</b>		
France: Dakar: 50 tons taken on by French cruiser reported - 12/11/40.....		305
<b>Italy:</b>		
Dollar account carried by Government with Bank of Brazil: American Embassy, Rio de Janeiro, memorandum - 12/10/40..		138
<b>Military Planning:</b>		
Reports from London transmitted by Lothian - 12/10-11/40..		194, 197, 261
a) Coventry damage reported.....		202
German Army Yearbook - excerpts from: War Department bulletin - 12/11/40.....		372

	Book	Page
War Conditions (Continued)		
Purchasing Mission:		
Requirements as of December 1, 1940, discussed by Treasury, War, Navy, State, Commerce, and Defense Commission - 12/10/40.....	338	35
a) "Foreign exchange assets quickly available to United Kingdom for dollar expenditures" discussed		
b) "New airplane program and United States-type ordnance program of the British Purchasing Commission dated November 28, 1940": Marshall memorandum - 12/10/40.....		92
Draft of memorandum to FDR on proposal ready for British: (1) usual advance to the manufacturers of approximately one-third of total order (\$200 million) plus \$50 million for facilities which Army cannot certify as useful; (2) new munition plants to be financed by Reconstruction Finance Corporation - 12/10/40.....		94,102
Phillips, Pinesent, Ballantyne, Monnet, Self, etc., meet with Treasury group - 12/10/40.....		107
a) Phillips memorandum on "British Control of Financial Transactions with the Enemy" - 12/11/40.....		116
Conference; present: HMJr, Ballantyne, Wilson, Self, Monnet, Young, and Buckley - 12/11/40.....		250
Further vesting order (approximately January 4) discussed by Phillips and Cochran - 12/11/40.....		292
a) For discussion see Book 339, page 337		
United Kingdom:		
Recent Social Changes in England -- Summary: White memorandum - 12/11/40.....		276
Anglo-Uruguayan payments agreement transmitted by American Embassy, London - 12/11/40.....		293

✓  
1

December 10, 1940  
9:44 a.m.

H.M.Jr: Hello.

Henry L.  
Stimson: Hello, Henry. I wanted to know what you  
wanted of me this morning.

H.M.Jr: Well, what I wanted - I wanted a few minutes  
with you before I went into this big meeting.

S: Yes, I should value it highly.

H.M.Jr: So if it would be any easier for you so that  
you don't have to make two trips, if you could  
come at quarter of three .....

S: No, I'd rather come now.

H.M.Jr: What?

S: I'd rather come this morning.

H.M.Jr: You would.

S: Yeah.

H.M.Jr: Well .....

S: We'll have more time and can go into general  
things.

H.M.Jr: What time would you want it?

S: Well, it's set now for 10:30. I'll be over  
there.

H.M.Jr: Oh, you will.

S: Yes, but I just wondered whether you could  
advise me of anything about .....

H.M.Jr: Well, I want to - before we sit around with  
12 or 15 people - I'd like to tell you just  
what it is and how serious it is and then get  
your advice as to what we're really going to  
do.

- 2 -

S: Well, that's all I want to know. I didn't know whether it related to the afternoon or not. I just found this on my appointment list for 10:30 and I thought I'd just give you a ring and find out whether it was a dress rehearsal for the other thing.

H.M.Jr: That's what it is.

S: All right. I'll be over.

H.M.Jr: Thank you.

December 10, 1940  
10:00 a.m.

RE FINANCING

Present: Mr. Haas  
Mr. Gaston  
Mr. Foley  
Mr. Bell  
Mr. Young  
Mr. Sullivan  
Mr. White  
Mrs. Klotz

H.M.Jr: Dan, the only question which I want this group's advice on is one year or five years. To bring you fellows up to date on this thing, it is a matter of public relations rather than finance. Everybody went along yesterday in the Federal. I haven't read it yet, but Dan read it. He said there was a meeting before in order to do the devil justice. Eccles takes the position that the thing I did do last night was what he wanted to do.

Bell: He submitted a memorandum which set out that view for consideration.

H.M.Jr: But did he recommend?

Bell: No, he didn't recommend it because he went along with his Board, but he said he didn't want to pass up that meeting without letting you know that you should consider that point of view.

H.M.Jr: Well, you people saw the press today. We got a swell press.

White: I heard a radio comment last night.

Bell: Every paper had a headline. The Times was the worst headline.

H.M.Jr: Oh, don't you like that? (Treasury Plans Draft On Wealth As Aid In Defense.) Well anyway, the

- 2 -

position that these fellows take is, you see - they don't say it in so many words, but if I am sincere in what I say about only wanting one kind of debt, then we only want a one year note instead of a five. Is that right?

Bell: Well, they recommend very strongly that you make a one year obligation and get out of the way within the year these two kinds of debt.

H.M.Jr: Now, what did I say on the Hill? How much did I commit myself with Pat Harrison and those fellows?

Sullivan: Just to 500 million.

H.M.Jr: Did I say how long?

Foley: You said you were leaning toward a five year note.

H.M.Jr: From the standpoint of the public, Herbert?

Gaston: I think that laying aside this question of whether you want to clean up the two different kinds of debt, I should think a five year note would be preferable to just a one year obligation as a contribution to defense, it seems to me, and it doesn't amount to much. It eliminates the factor of contribution. It makes that rather hollow.

Bell: Well, so does the five, Herbert. The coupon is so low it doesn't fit in with what the Secretary has been talking about. It would mean more than three quarters per cent.

White: Well, except that I don't think the amounts involved are so important as the principal. I am inclined to agree with Herbert, although I don't know the - I am not on top of the ball at all. I don't know the merits between the one and the five except in general I think that unless there is some special reason, both for the reason that Herbert has given and because I think at this time a five year note seems better financial operations than a one year.

Gaston: Even if you eliminate it, there are two things involved. One is the character of the obligation

- 3 -

itself and the other is the bookkeeping on it. Now, if you got authority from Congress to lump these two together so you don't have to distinguish between one fund and another fund, these still are out as defense obligations and the proceeds are still for defense.

Bell: There is this point, too, that you have got these obligations issued under the four billion dollar limitation as a special fund for the retirement. We don't take the view that that is any different from the others. We have the sinking fund behind the others also, but I know there is the view that these are special obligations and better obligations than any of the others, especially secured.

White: I have a little feeling from the possibility of the public reaction that they will think there is something a little bit funny about a one year obligation. They will think this is only going to be good for a year. After that the policy may change, whereas I think if you will make it five years, it will be as though the statements are fully borne out. Unless there is some good technical reason against it, I should like to see a five year note.

Haas: One thing we have mentioned several times in the memorandum, I think it came from the staff, probably, rather than from the members of the Board, is this, that they felt that the short obligation would go in the bank and bank deposits would be increased. Therefore, they said, "But your hands are tied, you can't get any longer than a five year operation so --" but in order to meet that, the best way to meet that is to put out the shortest one you can, that is the one year note, and then you will correct the situation within a year. That is one technical argument for the one year note, the bank deposits.

Bell: In other words, you will refund it at the end of the year and sell the bonds to the investing public rather than the banks.

Haas: The other argument, Mr. Secretary, was what the Board members mentioned about the partition. If we get legislation next year, doesn't that remove that objection?

- 4 -

H.M.Jr: Yes, but I mean I am taking - I try to be honest with you fellows. I am willing to go along with no partition, see, but I am doing it with my tongue in my cheek, because I think the President likes it and I think that Congress kind of likes it, see?

White: The partition?

H.M.Jr: No, the special defense notes. I mean, I won't say - I am saying it to you so that you really know, but I mean as far as the public or any others, I think that the orthodox attitude is one that we shouldn't have any partition, only one kind of thing, but I think when we end up we are going to have a defense note.

White: Well, you can't handle the public rationally, and that is the strength of that position. You have to take the public as they are and take advantage of their psychological crudities just the same as we do in a lot of other things in our monetary finance. We don't handle many of the subjects rationally because the public thinks certain things are so, and this is one of the cases where, though you are completely right on the analytical and sound grounds, yet it is a psychological quip which I think the public - Treasury ought to take cognizance of.

Haas: On the public side, the argument as I see it, is that they say, "Why put out a one year?" It will raise questions. You have got to answer it. If your only answer is technical, you probably can't get it across. If you put out a five year, you can say you don't put out a longer one because you have no authority to put out a longer one. You are that far into your limit. Any layman can understand that.

White: More than that, Mr. Secretary, I think that a substantial case can be made.

H.M.Jr: What is that?

White: I think a substantial case can be made, as indicated before, not to issue long term bonds at such a time so that the five year note, it seems to me, even on technical grounds, is preferable to a long term bond next year.

- 5 -

H.M.Jr: We crossed that bridge.

White: This is being raised again, a one year note and the long term bond. I think the five year note is preferable to that now or next year if conditions remain approximately the same next year as they are now.

H.M.Jr: What does the sales manager of this program say, my field representative?

Sullivan: I think I should have stayed home this week. I understood this was coming Thursday. I had all these fellows ready to --

H.M.Jr: I didn't understand that.

(Telephone conversation with Lauchlin Currie follows:)

H.M.Jr: We crossed that bridge.

White: This is being raised again, a one year note and the long term bond. I think the five year note is preferable to that now or next year if conditions remain approximately the same next year as they are now.

H.M.Jr: What does the sales manager of this program say, my field representative?

Sullivan: I think I should have stayed home this week. I understood this was coming Thursday. I had all these fellows ready to --

H.M.Jr: I didn't understand that.

(Telephone conversation with Lauchlin Currie follows.)

December 10, 1940  
10:10 a.m.

H.M.Jr: Hello.

Operator: Mr. Currie.

H.M.Jr: Lauch.

Lauchlin Currie: Yes, Mr. Secretary.

H.M.Jr: Your curbstone opinion.

C: Yeah.

H.M.Jr: How many years would you make these notes?

C: (Laughs). Five I'd say curbstone - very curbstone.

H.M.Jr: Well, that's good enough because that's all I can do.

C: Yeah, that's what you said I remember and that struck me about right to get it out of the way because you're going to have a lot more stuff aren't you coming on next year.

H.M.Jr: Oh, yes. Well, you heard the Fed. crowd - I didn't know whether that made you change your opinion.

C: No, no.

H.M.Jr: Fine.

C: I thought the publicity this morning was very good.

H.M.Jr: I liked it. I got a kick out of it.

C: Yeah, press account was very good I thought.

H.M.Jr: Read the New York Times. They've got me drafting wealth.

C: Yes, I read that. (Laughs).

- 2 -

H.M.Jr: Well, it's true the New York Times is the head of the list.

C: Yeah. (Laughs). Well, they gave you a big spread on it.

H.M.Jr: Thanks, Lauch.

C: All right, Mr. Secretary. Good-bye.

- 6 -

H.M.Jr: Well, that is it. I thought he would say one.

White: No.

H.M.Jr: You thought this wasn't coming until Thursday?

Sullivan: That is what you said, Friday afternoon. That is why I wanted to go out and get this lined up as well as I could. Now the problem is how we can best utilize what little we have. I would like to have the Associated Press fellow go to Governor Lehman. I would like to have him go to Saltonstall, the Governor-Elect of Rhode Island, the State Treasurer of Rhode Island, and the Mayor-Elect of Providence. They would all come out with a very strong statement and send you telegrams which we can later give out. Governor-Elect Hurley of Connecticut will give you a fair statement.

H.M.Jr: Well, I am willing to take your word for it, but it certainly didn't ring any bell with me.

Sullivan: I thought that was what my trip was for, was to line up as many in advance as I could, so that they would come in and back you up.

H.M.Jr: Well, do you remember it?

Gaston: On what, John, the general abolition of exemptions or just stopping exemptions on Federals?

Sullivan: No, on all of them.

H.M.Jr: Well, will these fellows do it?

Sullivan: Yes.

H.M.Jr: Then all I have got to do, because I am just fighting time every minute, if you will go into Gaston's office and send for Chick Schwarz and work it out from here, I will leave it in the hands of you three, see.

White: Ought to be able to get them on the telephone.

H.M.Jr: Yes. If you will go into Gaston's office and get

- 7 -

Chick in there and do it in there. Okay?

White: It is a nice thing if you can get it.

H.M.Jr: Oh, it would be wonderful. Do you mind if I -  
I have got to make this other thing my decision  
now.

Sullivan: I vote for five.

H.M.Jr: That is what I wanted. Then you get on this other  
thing.

Sullivan: I didn't know that was what you wanted.

H.M.Jr: I know what I want.

Gaston: Five.

Foley: Five.

White: Five.

Haas: I think I would take five.

Bell: I will make it unanimous.

H.M.Jr: You?

Klotz: Sho' nuff. (Laughter)

H.M.Jr: All right, let's make it five. Does that help it?  
When do you want to come in on the rate?

Bell: About twelve o'clock. A quarter to twelve.

H.M.Jr: Tell McKay just as soon as Forrestal leaves-he is  
coming in at eleven thirty-to let you know.

I had one of the most exciting meetings I have ever  
had almost, since I have been in Washington, with  
Cordell Hull. I am just a conservative when it comes  
to helping Europe and getting this country ready. I  
have never had such an exciting morning in my life.  
I just - take my word, I haven't got time to tell you

- 8 -

everything, but he is the fountain head. I have been giving Knox and Stimson the credit for it. He is the fountain head where they have been getting their inspiration; so when I could get a word in, which was very difficult - he got onto Dies and the rest of it. I said, "Now, look, if you want to do things the way you say, we are most vulnerable on frozen funds." I just told him a little bit, and he says, "Have a meeting right away and let's do it." I said, "I can't do it right away." He said, "All right, ten o'clock tomorrow."

White: It will help solve our British problem. We will find out just what they have got.

H.M.Jr: But I mean, I can't - some of the things I can't tell you because yet - I mean, I am scared to. I am scared to tell you. It is the darndest thing I ever was up against. I don't know what has happened to the man.

White: Is it a change of mind he has had, or is it merely the first time he has been exposed to you.

H.M.Jr: I don't think he had it, because he couldn't have - I mean, it begins to get out. He can't talk to the people that he has been talking to and telling Knudsen and all the rest of them that they have just got to stop this thing and really get down to business and manufacture stuff. He talked to the president of American Manufacturers until he was hoarse, and you can't do that around this town - he has only been doing it for eight days, according to his own admission, so something happened eight days ago. By his own admission he said he had only been doing it eight days; but with Hull this way, and Stimson and Knox and Jones and Ickes --

White: How is he on the Far East?

H.M.Jr: Oh, he is red hot.

White: Well, we will get Dies after him.

H.M.Jr: He is red hot. All right?

- 9 -

Sullivan: Am I going to see you before we see LaGuardia?

H.M.Jr: Maybe.

Sullivan: I think we had better.

H.M.Jr: We will see. God knows. I have never been so tight on appointments in my life.

HSM

TELEGRAM SENT

GRAY

December 10, 1940

11 a. m.

AMERICAN LEGATION

STOCKHOLM (SWEDEN)

390.

FROM TREASURY.

The Secretary of the Treasury would appreciate receiving a cablegram to the charge of the Treasury reporting facts in regard to Oslo stock exchange situation which has been dealt with in press dispatches from Stockholm to New York Times. Mr. Morgenthau thinks Governor Rooth might assist Mr. Greene on this subject.

HULL  
(FL)

EA:FL:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy

DATE: December 10, 1940, 11 a.m.

NO.: 1111

FOR THE TREASURY FROM MATTHEWS.

Today at Clermont Ferrand Cariguel told me that it has been definitely established that part of the four hundred million francs being paid each day by the French Government to the German authorities is being used to buy heavily into industries in France. Enterprises in which the Germans have shown particular interest are mining, iron and steel and electric power plants.

Note: From another source I have heard that the Germans are also trying to purchase a 49% interest in Libraire Hachette, an important publishing house, school text books being a specialty of this firm; likewise, that the Germans are trying to buy a similar percentage in the Havas agency, an advertising concern which in the field of newspaper advertising enjoys a practical monopoly.

Cariguel himself cited the example of a privately owned steel concern in Lorraine which the Germans recently acquired for 85,000,000 francs, cash payment being made to carry out the transaction.

END SECTION ONE.

MURPHY.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 1111,  
DECEMBER 10, 11 a.m., FROM THE AMERICAN  
EMBASSY, VICHY.

Work is carried on by the Germans through Swiss bankers who have resided in France for several years and who are in close contact with several large owners of French securities, and the nature of these French holdings is well known to the Swiss bankers. Cariguel added that it was ironical that the Swiss employees who are left in charge of the Lloyds Bank and Westminster Bank in Paris are of particular help to the Germans. They are able to furnish the Germans with names of customers and lists of the stocks belonging to the customers. Permits are given to the Swiss intermediaries enabling them to travel unhindered throughout France. In this way they are in a position to buy at Lyon and other places in the unoccupied territory where the majority of these securities is located. The people who own these securities are counselled to sell on account of the disturbed economic conditions and the uncertainties regarding French industry's future.

(END SECTION TWO)

MURPHY

EA:MSG

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 1111,  
 DECEMBER 10, 1940, 11 a.m., FROM THE  
 AMERICAN EMBASSY, VICHY (PARIS)

Offers are made to those people who have a tendency to resist these arguments which are a little higher than the current quotation for the shares which they own on the Lyon Bourse. Some of the people are not cognizant of the fact that the Swiss banker is representing the Reich.

Cariguel told me that the Germans have been notified by the French finance authorities that they are aware of these actions. Such French authorities have indicated that while they do not object to paying the costs of an army of occupation, they do not desire to provide funds to be used in the acquisition of French industries. They have pointed out that ~~that~~ the payments must be decreased to the actual costs of maintaining the army for of occupation, /which they were primarily provided.

(END SECTION THREE)

MURPHY

EA:MSG

NOV 11 1940

TO THE DIRECTOR  
 EXECUTIVE SECRETARIAT  
 DEPARTMENT OF STATE

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 1111,  
DECEMBER 10, 1940, 11 a.m., FROM THE  
AMERICAN EMBASSY, VICHY.

There have not been any "reparations" payments made since the first of this month pending settlement of this matter. It was remarked by Cariguel (who seemed sad) that the French probably will be forced to resume the payments in the near future, however.

Cariguel went on to say that it had recently been decided by the French Government to issue a law requiring the registration of all foreign securities, as well as domestic securities, which are held in France. In this way opportunities for tax evasion would be lessened and yet the law would help the stockholders as far as safety is concerned. This law was not sanctioned by the Germans and it is presumed that their refusal to sanction it was due to their desire to keep their operations in bearer securities under cover.

The circulation of French banknotes continues at around 210 billion francs in spite of the heavy expenditures of the Government. Cariguel explained that bank deposits are slowly rising since customers are now not as apt to keep large sums of currency on their person to be used in case of an "emergency".

(END OF MESSAGE)

MURPHY

EA:MSG

December 10, 1940  
12:00 Noon

## RE FINANCING

Present: Mr. Hadley  
Mr. Haas  
Mr. Murphy  
Mrs. Klotz

H.M.Jr: Which one do you remember on the five year?

Hadley: Three quarters.

Bell: I can give you a little of the New York attitude.

H.M.Jr: Do that.

Bell: Rouse has seen a number of them this morning. He said generally speaking they are in favor of a five year 7/8ths, because this is a new and untried experiment and they feel also that there are probably going to be higher taxes. They are now getting into that field where they are going to be taxed so they are going to have to look at these taxable securities a little more than they have in the past. Chase and the City and Salmon Brothers and Guaranty all favor five year 7/8ths, or a four and a half three quarters, and four and a half years is an open date. Devine says that five year three quarters will go well. He is satisfied with it. However, he also thinks that a 7/8ths is nearer the market.

The Fed's choice is a one year, quarter, but they say --

H.M.Jr: Which Federal?

Bell: Federal Reserve Bank.

H.M.Jr: Of Washington?

- 2 -

Bell: New York. They think that the five year three quarters will go well and that it will sell on a basis of about 6/10ths, which means 24/32nds, three fourths of a point. They say that you might want to consider the four and a half because it is an open date and it meets part of this market attitude, that the three quarters is a little thin.

H.M.Jr: I think there is something wrong with somebody. There is a minimum of 24/32nds in this thing.

Bell: Well, it is a question of where you put it. Hadley puts it 57 to 60, and the New York Federal Reserve Bank does the same thing, whereas some of the others will put that a little higher.

H.M.Jr: Well, if it is higher, how much is it?

Bell: Well, it might go somewhere between 65 and 70, they say. They have taken the two and a half per cent bond that is fully tax exempt, so far as corporations are concerned, and that is selling on a basis of 56; and they claim you ought to add - was it, about 10 basic points to that, which makes it 66.

H.M.Jr: Which interpreted into --

Bell: Which, interpreted into thirty seconds, would be 10 or 11/32nds.

Hadley: No, about 8.

Murphy: Seventy is 8 and 65 is 16.

Bell: Sixteen thirty-seconds.

Murphy: And 70 would be 8/32nds.

Bell: So it is between the 8 and the 16.

H.M.Jr: What do you think?

Bell: But Federal and Devine and Bob Garner of Guaranty, while Guaranty is in favor of the 70 - Bob Garner

- 3 -

of the Guaranty, while he said that 7/8ths looked like it - what the market was figuring, he thought if you don't find that the three quarters would go well.

H.M.Jr: What does Mr. Bell think?

Bell: Well, I think the three quarters is all right. We might put it back to June, '45, four and a half years, because it is an open date more than anything else.

H.M.Jr: Has the other one got anything?

Bell: It has got a bond in it of half a billion dollars callable.

Haas: Looks funny.

H.M.Jr: It looks as though I was scared.

Murphy: The overlapping maturity, though, gives you a perfect out, because you don't want to place something --

Haas: Well, it is only 500, isn't it, that fixed maturity bond, 541 million?

Bell: Yes, 541 million is the maturity bond, so there is a billion dollars in that date.

H.M.Jr: How about if you go back three months?

Bell: That is a billion and a quarter callable bond.

H.M.Jr: Well, how about if you went back two?

Bell: In September there is a billion 242 million. June is an open date.

H.M.Jr: June is an open date?

Bell: Yes.

H.M.Jr: Well, how about March?

Bell: March has 718 million dollars in notes.

- 4 -

H.M.Jr: Fixed?

Bell: Yes.

H.M.Jr: Let me get this thing. Have you got something I can look at?

Bell: I think so.

H.M.Jr: Here, Murphy has it. Where is four and a half years from now?

Murphy: Four and a half years is there. You see, that maturity is March and June, if we put it out as far as that --

H.M.Jr: Well, this one, five years now would fall where?

Murphy: On top of this.

H.M.Jr: Where?

Murphy: Here is the 541 million bond maturity due on December 15, 1945, fixed. It would fall on top of that.

H.M.Jr: That is when, March?

Murphy: No, December.

H.M.Jr: You go back, don't you. No, I don't want to go back.

Murphy: You can't go ahead --

H.M.Jr: What is September?

Bell: September, '45? That is the '45 - '47 bonds which are callable, a billion two.

H.M.Jr: Why not go to September?

Bell: Well, that just makes a billion 70 on that date.

H.M.Jr: Well, it doesn't have to be. We don't have to have it that way. That makes sense, just deducting that 541 million.

- 5 -

- Haas: Of course, after all, a billion dollars isn't a big maturity. It just happens to be two things, and they both add up to a billion.
- Hadley: Three months doesn't make enough difference in your price. It would only make two or three thirty-seconds.
- Bell: I think I would rather have it December than to have it September.
- Hadley: I am perfectly satisfied with the three quarters. I think it will show up around three quarters of a point premium or better, and I think that the market is trying to get a high premium on this.
- H.M.Jr: You and me both, Georgie.
- Haas: On this situation, Mr. Secretary, we on paper have less to work on because you have this stuff so we can't go at it with the confidence that we usually do. But we set a figure that would go off at 65 with 16/32nds, but I wouldn't be surprised if it would do better than that, but you don't have the same degree of confidence because we don't know how to measure this tax feature.
- H.M.Jr: Don't make me a speech.
- Haas: In short, I am telling you that we have less confidence in our pricing this time than usual. That is my guess, and I would take the three quarters.
- H.M.Jr: Well, will you stake your reputation on it?
- Haas: Sure.
- H.M.Jr: Well, I have got to.
- Haas: That is why I say sure. (Laughter) No use giving you anything that I wouldn't back.
- H.M.Jr: Square me. What do you recommend?

- 6 -

Haas: I recommend the three quarters. We have been that way for several days, but we don't feel as comfortable as usual.

H.M.Jr: Well, you shouldn't feel comfortable. You want to get this national defense feeling, which is uncomfortable.

Haas: You know Goldsmith, Mr. Secretary, puts one.

Bell: Who?

Haas: Goldsmith.

Bell: Oh, he told me he was wrong. I climbed him about it yesterday, and he said he had to admit it was wrong.

H.M.Jr: How about you, Murphy?

Murphy: My first thought is the 4 and a half year three quarter. I think the five year three quarter will go well, but there is this margin which would make me a little hesitant, and I wouldn't like to raise the coupon, and I would a lot rather shorten it a little and make it either 4 and three quarters or 4 and a half. I would price a 4 and a half year on a 60 basis, which would give a premium of 21.

H.M.Jr: Have you talked to Burgess?

Bell: No, but I know Burgess is 7/8ths.

Murphy: Well, he has changed his job.

Bell: Bob talked to Burgess.

H.M.Jr: Sure, the higher the salary, the higher the coupon.

Bell: Well, he has got to have some coupon to pay for it. (Laughter)

Klotz: That is right.

Bell: The discount ought to be coming down because they have recapitalized and reduced salaries and reduced their force.

(Telephone conversation with Mr. Rouse follows)

December 10, 1940  
12:09 p.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Hello.

H.M.Jr: Rouse.

R: Good morning, sir.

H.M.Jr: How are you?

R: First rate, thanks. I hope you are.

H.M.Jr: I'm alive - that's something.

R: You had a good press.

H.M.Jr: Didn't I?

R: Yes, sir.

H.M.Jr: Delighted. Rouse, if you had the exclusive privilege of putting a coupon on this 5-year, what would you do?

R: On a 5-year.

H.M.Jr: Well, I'll put it another way. If you had to write the ticket on this note, how would you write it?

R: I'd write a one year, one quarter.

H.M.Jr: Well, I'm taking that privilege away from you.

R: Very well.

H.M.Jr: Hello.

R: Yes, sir.

H.M.Jr: Can you hear them laughing here?

- 2 -

R: (Laughs).

H.M.Jr: Now .....

R: No, I think they know where I stand on that.

H.M.Jr: All right. Well, that privilege is withdrawn.

R: That's withdrawn.

H.M.Jr: It's getting down to between three-quarters and seven-eighths.

R: Yeah. Well, this is the situation, Mr. Secretary. We interviewed the markets of the three biggest note holders among the banks, and the Guaranty, Discount Corporation, Solomon Brothers, and Devine and with the exception of Chris Devine personally, the advice we got from each of those people was that if you were going to five years, they thought the seven-eighths coupon would be advisable. In some cases they thought it might be a little rich and they all agreed that a  $4\frac{1}{2}$  year, three-quarter would meet the situation.

H.M.Jr: Yeah.

R: We here in figuring the thing calculate that a  $3\frac{3}{4}\%$  coupon for five years should be worth about 60 in the market and I think we're in accord with your people there.

H.M.Jr: That's right.

R: On the other hand that works out about  $3\frac{3}{4}$ 's premium.

H.M.Jr: Yeah.

R: On the other hand the open date on June making  $4\frac{1}{2}$  years works out to a range at the highest yield, 59, on the same basis of figuring which is a premium of 30/32nds which probably is not excessive. The range we've calculated was from 23/32nds to 30/32nds and it is a new - an innovation, it is difficult to calculate and determine how much weight tax exemption carries.

H.M.Jr: But when you get all washed up, would you feel fairly confident if I made it 3/4's.

R: Yes, sir, I am.

H.M.Jr: You're fairly confident.

R: Yes, sir. The general opinion was that it would sell at least at 70 and it would be subscribed and some of them ranged down to 65.

H.M.Jr: O. K.

R: Right, sir.

H.M.Jr: Thank you.

R: Not at all.

H.M.Jr: But when you get all washed up, would you feel fairly confident if I made it 3/4's.

R: Yes, sir, I am.

H.M.Jr: You're fairly confident.

R: Yes, sir. The general opinion was that it would sell at least at 70 and it would be subscribed and some of them ranged down to 65.

H.M.Jr: O. K.

R: Right, sir.

H.M.Jr: Thank you.

R: Not at all.

- 7 -

Bell: He is at 70.

Murphy: Seventy would mean 8/32nds premium.

Bell: Yes. That would be an 8/32nds premium but it would go.

Hadley: That is adding a higher rate than the full taxes.

Murphy: Well, there is this right, you know, too. Mr. Hadley and I don't see eye to eye on that.

Bell: Yes, there is the question of rights. What I mean, is that you have got this note issue in a special category, national defense, which is supposed to be met out of taxes. In other words, it is supposed to be paid out in cash at the end of five years. Heretofore, they have assumed that they would be refunded and there would be a right value and they are considering up there that there would be no right value to this, which I don't think is very practical because I think there will be a right value at the end.

Murphy: So do I. The reason for the difference between Hadley's statement and ours is that we have added five basic points for the supposed impairment in right value as a result of the idea that these securities are something special.

(Telephone conversation with Mr. Devine follows)

December 10, 1940  
12:13 p.m.

H.M.Jr: Hello.

Operator: Mr. Devine.

H.M.Jr: Hello.

C. J.  
Devine: Hello, Mr. Secretary. How are you?

H.M.Jr: Fine. How's your golf?

D: Pretty good.

H.M.Jr: Only pretty good.

D: That's all. It's never good because I never play well.

H.M.Jr: I see. What are you recommending today?

D: Well, I think a 3/4, 5-year is the thing unless you want to sell something shorter and you can sell anything shorter you like.

H.M.Jr: No, I'd like to be in that locality. You think the 3/4's is all right?

D: I think that 3/4's is plenty.

H.M.Jr: Will it go over with the bank?

D: It will - I'll underwrite it. I'd underwrite it at  $4\frac{1}{4}$  and figure I'm going to make 3/8's to 1/4.

H.M.Jr: You are.

D: As a matter of fact with some protection and time to work on it, I'd underwrite it at 3/8's.

H.M.Jr: I see.

D: Now, I don't think that for a 5-year note they should get anything worth any more than 1/2.

H.M.Jr: No.

- 2 -

D: It might even work up to 5/8's in premium, but a 7/8's - I just can't see a 7/8's not unless you want it to go 101 and 1/4.

H.M.Jr: No, that'd be unfortunate.

D: I think 3/4's is the top. I mean, if you wanted to be stingy, you could even shave that. By that I mean you could put a premium on them.

H.M.Jr: Yeah. There's no bad news in the offing that I know of. Mr. Hitler has made a speech.

D: Well, he made a speech, but I don't think anybody pays any attention to him any more.

H.M.Jr: Well .....

D: I'd like to - what I'd like to do is quit this business and get a job working for the Government.

H.M.Jr: Are you serious?

D: Yeah, I'd like it. I mean it - I'm serious.

H.M.Jr: How serious are you?

D: Well, pretty serious.

H.M.Jr: Well, when you're damn serious let me know.

D: All right, because it's not - there's no color to it any more. I mean, there's no excitement.

H.M.Jr: Well, when you mean business let me know.

D: All right, I'll do that. You'll probably hear from me - I'm not joking. I've had this bug now for a couple of months.

H.M.Jr: What's that?

D: I've had this bug in my head now for a couple of months.

H.M.Jr: Well, when you know what you want to do, give me a ring.

- 3 -

D: All right. I'll be glad to.

H.M.Jr: And I'm not - I mean, I'd like to sit down and talk it over.

D: Oh, I'd like to go to work for them and do something for the sake of old Democracy.

H.M.Jr: O. K.

D: Right, sir.

H.M.Jr: All right.

D: Good-bye.

- 8 -

Klotz: Is he the fellow that lost all that weight and that works on a farm all the time?

Bell: Yes.

H.M.Jr: We could do lots worse. He made every penny of his money himself.

Bell: He was a plunger. He subscribed for 20 million bonds and didn't have a cent in the bank. He would sell them before they issued it.

H.M.Jr: Well, is everybody set?

Bell: What is it?

H.M.Jr: You tell me.

Bell: Three quarters, five year.

H.M.Jr: Sold to the American people, not the American Tobacco Company. (Laughter) That is a good line.

Bell: One question.

H.M.Jr: Make a note of it.

Haas: They will have to buy it with your publicity on the slacker business.

H.M.Jr: George, I had that back in my head, too. (Laughter)

Bell: One question. Shall this be an immediate release or tomorrow morning? It can be done both ways.

H.M.Jr: Oh, I think tomorrow morning.

Bell: All right.

H.M.Jr: If you want me to sign anything, I am available around two o'clock.

Bell: Not before then?

H.M.Jr: Well, I can sign for you at one.

- 9 -

Bell: About five minutes or ten minutes to one?  
H.M.Jr: Yes.  
Bell: Do you mean have I got a luncheon date?  
H.M.Jr: Yes.  
Bell: Yes, but that doesn't make any difference. It is with the British.  
H.M.Jr: Is that so? Which end of the British?  
Bell: I don't know which end he is.  
H.M.Jr: Leave it with Kilby here at one o'clock.  
Bell: I want to go over it, and I may not have it until a quarter to one.  
H.M.Jr: I won't be ready before one.

December 10, 1940  
12:20 p.m.

H.M.Jr: Hello.

Henry L. Stimson: Henry.

H.M.Jr: Hello, Harry.

S: I'm very anxious not to have any possible slip-up with you and I've been going over this again with Marshall and with Palmer, who is more familiar with the details, and before you could possibly have committed yourself on something I want to say that while the statement that I quoted Marshall on which he made to me this morning as to all of the facilities being needed for our own force is - (pause) - is - as to the bulk of it is true, it may be - I find there is difficulty in about 50 millions.

H.M.Jr: I see.

S: I just wanted you to have that in mind and not to pledge yourself unequivocally on that until I see you again.

H.M.Jr: Thank you. I'll be good until I see you.

S: About 50 million might have to be paid by the British.

H.M.Jr: I see.

S: However, it was discussed with Layton before he went away I am told and he saw no difficulty in it.

H.M.Jr: Right. Well, I'll hold everything until 3:00 o'clock.

S: All right.

H.M.Jr: Thank you.

December 10, 1940  
3:00 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Jones  
Mr. Stimson  
Mr. Forrestal  
Mr. Ingersol  
Mr. Palmer  
- Mr. Welles  
- Mr. Feis  
Mr. Bell  
Mr. Stewart  
Mr. Cochran  
Mr. Patterson  
Mr. McCloy  
General Marshall  
Mr. White  
Mr. Knudsen  
Mrs. Klotz

White: Secretary Jones, a good many of those comments, (Referring to blackboard chart entitled, "Foreign Exchange Assets Quickly Available To U. K. For Dollar Expenditures."), are really quotations from the British. Each one of those items needs some explanation.

H.M.Jr: We thought we would put it on a blackboard and then we wouldn't be embarrassed if anybody asked for a copy of it. Is that all right? If anybody wants a copy, they can have the blackboard.

Bell: In the end we are going to erase it.

Jones: What do you mean by capital assistance?

- 2 -

- White: That is the amount which they are called upon to contribute toward the expansion of plants, et cetera, that is necessary.
- Jones: Seven hundred and nine million?
- White: That is on that program, yes. Six hundred ninety-nine on the so-called "X" Program and then there was 10 million on one of the other.
- H.V.Jr: We in the Treasury have been meeting twice with Sir Frederick Phillips, who is over here with this information. We met last night again. My attitude has been this, that if they would, as I put it, lay all of their cards on the table and let us know what all of their assets are and have complete trust in President Roosevelt and the American Congress, I felt sure that they would get fair treatment. In the secrecy I have in this room, I want to say that so far I don't feel that they have been treating us that way, and it has been very difficult to get all of this information; and I told them that I am not constitutionally fitted to try to pick here and pick there and get the last piece, and they have just got to get themselves in the mental frame of mind that, "Here is our all, now what are you going to do," and I am not sure that when we present these figures to you that we have a complete picture. I don't get the feeling that Phillips is going the whole way. I said I felt sure that if he did - I don't know how the rest of you feel - that the attitude would be, "Well, Morgenthau has gone too far," rather than, "Morgenthau hasn't gone far enough and why doesn't he get this, what about these Canadian securities, what about the South African gold mines, what about their securities and oil down in Trinidad?" Everybody will think of something that they have got that they haven't laid on the table, so we made a lot of headway when we started last night

- 3 -

with the December 7 orders that they wanted to place, plus what they have on hand. It amounted to a little over 5 billion dollars, and they claimed they had about 800 million dollars to pay for it. We raised them about two billion dollars before the night was over. I don't think it is the way they should treat us. When I say they, Mr. Hull let me see in the strictest confidence a memorandum from Mr. Churchill to the President, and certainly Mr. Churchill's memorandum is only the - the attitude is expressed the way I hoped that they would feel, so maybe in Phillips we have somebody that I don't think is speaking for the government; but in Mr. Churchill's memorandum, certainly no one could ask for a more frank statement, and if I don't get the cooperation from Mr. Phillips, then I will have to ask Mr. Hull to ask Mr. Churchill to send somebody over here who can speak for them; but with that introduction I would like Mr. Bell and Mr. White to review what we know. We are certainly telling everything that we have got as of today.

- Stimson: Is it possible that the reticence on his part may be caused by fear of leaks, so to speak, to their enemies?
- H.M.Jr: They didn't mention it. I am afraid it is just British Treasury. Maybe all Treasuries are like that, I don't know.
- Stimson: I mean the picture is a pretty somber one. I wonder whether that might not be it.
- Bell: I have a feeling, Mr. Secretary, that that attitude is going to change.
- H.M.Jr: Well, we certainly worked hard last night, and the other thing which we are also doing --

- 4 -

- Stimson: Is going to change or is not going to change?
- Bell: Is going to change. I think the other two members feel very strongly that they should lay their cards on the table.
- H.M.Jr: But they haven't yet.
- White: They did a little better this morning.
- H.M.Jr: Now, the other picture which we cannot report on is, I asked Mr. Welles whether he would have Mr. Clark, the second man in the Canadian Treasury, come down here, and he is here. After all, what we are trying to report to the President and you gentlemen is, one, the orders that England has in United States, Canada, South America, their net position, and the orders that Canada has with England and with United States; and to our amazement, we find that Mr. Clark, who everybody recognizes as a very able citizen, tells us up until three weeks ago he had no statistical section, absolutely has no idea of what the orders are which have been placed, and will use me as the club to get them, but he said if he knows 10% of the orders which are placed, he thinks he is lucky. Is that about right, Dan?
- Bell: That is about right.
- H.M.Jr: And he said up until three weeks ago the Canadian Treasury had no statistical or research section. He is in complete sympathy with what we want. We didn't have to argue with him, but he just hasn't got anything. But he is going to use me as the bad fellow and he says he is going to get it, but he has got to start from scratch; and they had their troubles with England, so I am trying to keep Clark and Phillips apart as much as I can, but it is perfectly amazing, the lack of information the Canadian Treasury has. By

- 5 -

comparison, we are good. At least, we know what we don't have.

Well, now, who is going to do this, Bell?

Bell: I think Harry should.

H.M.Jr: O.K., Harry, stand up. Talk loud.

White: Do you want to go over each item or do you want to merely answer questions?

H.M.Jr: Why don't you summarize the position and then answer any questions?

White: The total expenditures --

H.M.Jr: Talk louder.

White: The total expenditures which the U. K. and the sterling area are called upon to make in the next nine months are 3 billion 844 million dollars. That is their gross --

H.M.Jr: May I interrupt you? They choose September 1 as their battle year, so to speak. Their year ends September 1.

White: And that figure of 3 billion 844 million includes, as indicated, the remainder on orders already placed, the orders which are contemplated and the "X" Program which is contemplated. I just learned in coming here that Mr. Young has some additional information which he has just received in response to the Secretary's inquiry of additional orders which, I take it, were not mentioned in either of the meetings here and were not available until a few minutes ago, and he will have those details. He can give them either now or later.

H.M.Jr: Again may I interrupt. Last night I told them that

we all were sick and tired of just completing one program and the ink wasn't dry before they would come in with another one, and that this job that we had to do was very, very difficult and please tell us everything that they might want to buy so that we wouldn't have to do this - go through this agony any more than once, and think up everything. It would be much better to be on the high side than to be on the low side.

- White: What was the total of that, Phil, roughly?
- Young: The total of that, Harry, of these additional orders which they expect to place before September of '41, which for the most part are repeat orders for items already in production, planes, ordnance and munitions, totaled roughly around 3 billion dollars or a little over.
- White: That is 3 billion additional dollars which are not included in this table at all, which are to be placed before September 1, 1941.
- H.M.Jr: So you see, I am no sooner half way through it - thought I had learned my lesson - than they come through with another two.
- Forrestal: What is that other item, B, 2?
- White: That is payments to Canada and to Newfoundland as the same kind of a debt as their payments to the United States. They have to pay them in gold on any balance due.
- H.M.Jr: Mr. Knudsen asks the question, taking the 3 billion that Philip just throws out like that, what does it bring the total orders on hand plus the December 7 - how much would that make the total orders?
- White: It makes the deficit --

- 7 -

H.M.Jr: No, the orders, Mr. Knudsen wants to know.

Bell: It would be 3 billion added to 5 million 440.

Young: No, the total of 2745, Harry. The payments to be made on orders contemplated and already placed.

White: That is 5 billion 7, not counting this item of 709 million for capital assistance.

Young: It would probably be another 800 million of capital assistance to these repeat orders, on this extra 3 billion.

White: That will be a billion and a half capital assistance plus 5 billion seven.

Knudsen: How long a time will they spend that in, in this country?

Young: They hope to spend part of it before September, '41.

White: They hope to spend all of this that is down here before September, '41?

Knudsen: We only talk about the 2 billion 7.

Patterson: Doesn't it confuse to add in that 3 billion which is not on the paper and which we don't know anything about?

White: I merely mentioned it as having that in mind for the future expenditures. It is not on this table. We will just mention it and forget it for the moment.

H.M.Jr: I agree with that.

White: Now, to meet this 3 billion 844 million expenditure

- 8 -

which is due by September 1, they will have an increase, as indicated here, of one billion 166 million, which means that they have a deficit between now and September 1 of two billion 678 million; and of that two billion 678 million, 465 will go to Canada. The remainder is due to the United States. But, inasmuch as they maintain they must pay these funds in gold, they are added to that to get this total.

Forrestal: They haven't been paid in gold, have they, Harry?

White: Yes, they have, in part. They have an arrangement with the Canadian Government that the Canadian Government will accept, or has repatriated, about 130 million dollars of securities every six months. That, presumably, is the extent to which Canada has arranged assistance for the next six months, and they think for the ensuing six months, and that is included here. Canadian assistance to U.K. What this means, is that Canada has taken back some of her securities. Now, the question - 2.678 is the deficit up to September 1. There are payments due on these orders which will fall after September 1. They could not indicate that by quarters. Some may stretch as much as a year and a half. That amounts to 2.7 if there is included in that, as I take it there should be, this 709 million, which they expect to pay on capital expansion, so that they will have a deficit of 2.6 by September 1, and they will, have a gross deficit of 2.7. The reason it is gross deficit is because there would be some income after September 1, some current income. It will not be very great, but there will be some.

Patterson: Won't it be relatively the same as those figures up above?

White: Almost the same. They might estimate it at a little bit less than that. It may amount to as much as a billion dollars for the ensuing year,

but it is likely to be less.

Stimson: The basis of this - is this information brought by them or information derived from your research?

H.M.Jr: No, the information - they furnished us, their Financial Attache, British Embassy here, furnishes us with this monthly, and then Phillips brought over material and this is largely, I would say, material furnished to us by the British Treasury.

Stimson: This is the British statement?

H.M.Jr: Am I right?

White: Yes. These are practically all figures which - some of them we had estimates of, but we modified our estimates in the light of their own and this information is information which they have approved and agreed on. In fact, there is some doubt in our mind. Some of the estimates might be a little bit larger, but we played safe and took theirs. Now, that is all the information there is on this unless you want to turn from this to what are their assets which they anticipate meeting this deficit with, 2.6, during the next nine months. Do you want to turn to those assets now?

H.M.Jr: Does anybody want to ask any questions first?  
Dr. Feis?

Feis: No sir, it seems very clear to me.

H.M.Jr: Jones?

Feis: I doubt, Mr. Secretary, whether we ought to really include that 465, deficit of the sterling area with Canada. They can go into debt with Canada just as easy as they can go into debt with us.

White: We raised that question last night, and I think

that he first stated that they could not liquidate their Canadian securities any faster to Canada than the rate at which they have been so doing, which they claimed limited the extent of the assistance by Canada. The Secretary raised the point that supposing it were found possible to liquidate them at a more rapid rate, would they be willing to permit them to be used at once. They said yes. Now, they have, as we will see, according to their estimates, 465 million so that it would - that could be used - some of it could be used for that purpose. We will come to that when we specify their assets.

Jones: Now, that 5 billion 4, that will be their total deficit?

White: Well, it is their deficit up to September, 1941, plus additional payment which they will have to make on orders granted before September.

Patterson: Those are supposed to be deficits too, that second item, isn't it? That is not gross payments, balances?

White: No, that is a gross deficit. From this, there is only one item to be deducted, though there may be some items to be added on future orders. The items to be deducted will be their net receipts on current operations monthly after September 1.

H.M. Jr: Mr. Knudsen wants to ask you something.

Knudsen: How can you have a deficit of 5 billion and total commitments of 3 billion 8?

White: Well, this 3 billion 8 does not include the items which are due after September 1, 1941.

Knudsen: The orders are already placed?

White: Yes. You will notice under each item - for example,

- 11 -

let us take 1. This is sums to be paid by September 1, one billion dollars, but there are 206 million which will be due later than September 1. On this item there will be 608 million. On this item there will be a billion due. And then there is the capital item of 709 million.

H.M.Jr: Five billion 3, as I remember it, isn't it, Harry?

White: The orders?

H.M.Jr: Yes.

Knudsen: It must be.

White: It would be --

Pell: Five billion 5.

H.M.Jr: Five billion 5.

Bell: The order is already placed, and this program that Layton was talking about, that is, the order is placed and included in these payments. That will be 5 billion 5.

Knudsen: Then Phillips has added 3 billion more, that is 8?

H.M.Jr: That is right.

White: This is a statement of their foreign exchange assets which are quickly available to U. K. for dollar expenditures. (referring to blackboard chart.) There is some comment necessary on each one, and the comment is theirs, except where I indicate to the contrary. Gold held by U. K. is 460 million dollars. U. K. official balances, 124.

Jones: Those figures are not on the other map?

- 12 -

White: No. These are their assets. They have got a current deficit and this is what they can make part of it up with, dip into their assets. These two items together make 584 million. The statement that the British made several months ago to us, Mr. Phillips stated that these would not be available to meet requirements, because they regarded it as their minimum necessary to conduct business and for their monetary reserves. Yesterday, however, his statement was different. In the evening he stated that they were using these balances now. They had gone below the 600 million. And that they would continue to dip into them in the next two or three months. In fact, if cash was not forthcoming from other sources - he didn't indicate which sources - they would use this up to meet the requirements falling due on their current account.

Bell: And they would be exhausted within three months.

White: That is right. But he stated that they felt they shouldn't --

H.M.Jr: Did he say three months?

White: He wanted to put it a little closer, he wanted to say two months, but we thought it would be three.

Now, this item of U. K. private balances, I put it in green because they have not included it among their assets. They do not have figures on that and they are getting them. They say that these private balances consist of funds which they have authorized and funds in transit and are no higher than are needed to meet the requirements of their business and financial houses. Some are insurance company assets which are kept against liabilities, et cetera. Their figure, they estimated, is not as high as this. We happen to have accurate figures on what purports to be British balances.

- 13 -

We may find later that some that are reported as British balances may not belong to the British but may have been sent through England, and so we are going to compare our figures with theirs. But they feel that these balances are not available for liquidating payments because they are needed by business.

The next item, American Securities Held by U. K. in their terms are readily marketable. That is \$30 million, and they state they are liquidating them as rapidly as the market can reasonably absorb them.

There is another category of what they call other securities, dollar securities and optional dollar securities which they state are not easily marketable. They don't know how long it would take them to get rid of them at that price or whether they could get that price. Those are 140 million. They have - the next item is Direct and Other Investments. Now, there we do not know how much there is. They are getting - making inquiry on that and will attempt to supply us with some figures on that basis but they feel from preliminary investigation and from their knowledge that their figure will be substantially lower than this. This includes, I think, as we pointed out last time, their direct holdings of plants and real estate, trust funds.

The next item is U. K. Investments In Canada, and here is where we come, Herbert, to the idea you spoke of. They have Canadian securities of 427 million. They already are allowing for 260 million of that to be returned during the next 12 months. If these were utilized at once, that would leave them with a difference which they could apply either to their Canadian purchases or --

Pets:

My thought, Harry, was not in the realm of

statisticians. It was in the realm of policy and it was to the effect that if we can extend credit to them, why Canada should also be able to extend credit to them. I mean apart from what Canadian securities they have. I just expressed that by the side.

White: That view was presented to them several times in many connections. Their answer to that statement was that Canada is virtually an independent government and they are in no position to state what they could or could not do in Canada.

Now, there are two other items in Canada which they hope to get information on and which they have no information on, none at all now. One is their Canadian sterling securities and their direct investments in Canada. So I put question marks. Our estimates, which are only tentative, though we have gone into the matter rather deeply, places these three categories, investments in Canada, Canadian securities and sterling, at about 2 billion. I am sure they would think that is high, but they are going to let us know on the other two items.

H.V.Jr: Harry, where are direct investments in the United States?

White: That is the item of a billion which I had not put here because they were going to give us information as to what was available and they stated that in some cases the marketability is much in doubt. In other cases, to separate the particular concerns from the British parent company would reduce the value of the concern. In other cases, there are insurance companies against which there are dollar liabilities which they would have to take account of and so we have no figure that we might put there, but I am quite sure that it will be less than a billion.

- 15 -

Forrestal: Their estimate is much less than a billion, Harry.

White: Yes, much less than a billion.

The next item, Gold Reserves of the Allies. That is in Netherlands, Belgium, Poland, Czechoslovakia, et cetera. Those held in the British Empire are 520 million dollars. Their statement with respect to that is that up to date they have been able to arrange with some of those Allies and they mentioned Belgium for a short term loan from 60 to 90 days, a part of those assets. That is the sole statement they would make with respect to that portion.

Now, that held in United States, 568 million dollars, and there is nothing more that could be said on that. It doesn't apply to the other portion. Why we segregate them is merely that they might see fit to do certain things with this 520 million, but doesn't follow that we could do it with the amount that was left with us.

French Gold in Canada and U. K. They broke that up into two parts, because part of it had been deposited with the Bank of England and was therefore subject to U. K. policy. That is 280 million, although most of it was shipped to Canada to be held for the Bank of England. It can be controlled by the policy of U. K. Three hundred seventy million of the French gold was shipped direct to Canada and therefore they maintain it is subject to Canadian laws and Canadian policy. They wouldn't make any written statement about that, though they stated orally - Verle, you can check me on this - that they thought they might be able to make arrangements to borrow the French gold provided they felt that they could return it after the war, soon after the war.

- 16 -

That gives us a total of a billion 8 of assets according to their figures, plus some other items which are either of doubtful availability or on which the information is not yet complete. The whole table does not include the numerous other assets that we spoke of. For example, their investments in Latin America. Now, they went a little into that, if you care to go into it. Their investments in Latin America, British Empire investments in the rest of the world, gold and dollar assets held by their allies and by other - is 275 million, approximately, held by India, a little less than that held by South Africa, about 125 held by Canada, et cetera, but whether or not they could use those assets, they stated, depended upon the governments of the dominions affected.

- H.M.Jr: Well, gentlemen, there is the picture as best as we can get it as of today. The problem that we are immediately faced with is this order which was presented on, I think, December 7, at least the financial part of it, to me, and I believe that the War Department was going to report today what their attitude would be as to the placing of this order, irrespective of the financial aspect, as it would affect national defense, and I wondered if Mr. Stimson wanted to --
- Stimson: I would like to have General Marshall give the exact figures. I haven't had a chance to consult him since I saw you this morning.
- Marshall: Shall I read this, Mr. Secretary?
- H.M.Jr: Would you please?
- Marshall: "The following comments with respect to the new airplane program and United States type ordnance program of the British Purchasing Commission, are submitted.

"New Airplane Program. The 12,000 aircraft listed under this program would all be of value in the defense of the United States if the British resistance should collapse and would be sufficient to equip approximately 60 groups of our Air Corps, totaling approximately 200,000 men.

"United States Type Ordnance Program. The equipment included under items A and B --" I am referring to that paper -- "would provide ordnance equipment for an army of approximately 250,000 men, and the tanks and tank guns listed in item C would equip approximately three of our armored divisions, totaling approximately 50,000 men. This program would thus provide ordnance equipment for approximately 300,000 men in addition to the current War Department equipment program for two million men." I will reread that last sentence. "This program would thus provide ordnance equipment for approximately 300,000 men in addition to the current War Department equipment program for two million men. This total force of 2,300,000 men is required for the defense of the United States in the event that British resistance in the current war should collapse. It should be noted that in addition to this equipment, additional items of Quartermaster, Signal, Chemical, Medical, and Engineer equipment would be required to complete requisite equipment for an army of 10 divisions."

I might say the British have not gone into that detail. "This additional equipment would cost approximately 180 million. Accurate estimates of the number of men in our type organizations, who could be equipped under the British program, could not be made until the British program is submitted in complete form. To date there have been three different lists of equipment transmitted to representatives of the War Department as being

the British "B" program.

"Ammunition and Ammunition Components. Additional productive capacity must be created to meet the British "B" program requirements for this class -- that is ammunition and ammunition components -- for this class of materiel by April 1, 1942, if the productive capacity now being utilized or being created to meet our two million man program is not diverted to the British. The additional productive capacity to meet the British "B" program is less than the additional capacity which will be required to maintain a force of four million men on a combat status, which is the War Department's full objective."

Now, there is another paragraph, but before reading that I want to resume what I have already covered. The airplane program for 12,000 aircraft, the British "A" and "B" Program, and the "C" Program, so far as it pertains to that 10 Divisions of equipment, the tanks, the ammunition and ammunition component phase of the program, the British "B" Program, are all within our requirements of the War Department full program. In other words, if the British should collapse, we have use for it all.

Now, "Ordnance Equipment Other than Ammunition. The productive capacity required to meet by April 1, 1942, the British "B" Program for certain items, that is, small arms, for example, either now exists or is being created as a result of the War Department's present procurement program." I will reread that. "The productive capacity required to meet by April 1, 1942, the British "B" Program for certain items, that is, small arms, either now exists or is being created as a result of the War Department's present procurement program. The production of other items, that is, 37 mm. gun tubes in the British "B" Program, by the item specified, April 1, 1942, will require the creation of additional productive capacity over and above that now being created for

- 19 -

our two million man munitions program. Indications are that what few exceptions which they have not been able to determine yet, this additional productive capacity will not be required to meet the full War Department objective of a sufficient productive capacity to maintain four million men on a combat status.

"It now appears questionable that the new additional productive capacity required can be created by a sufficiently early date to complete the British "B" program requirements by the time specified in the program. In other words, with the exception of the productive capacity required to produce certain types of ordnance other than ammunition and ammunition components, in their "B" program, such as small arms, such as 27 mm. gun tubes, necessitates the creation of additional facilities which will not be required to meet the full War Department objective of four million." The other items are well within our program.

U.M.Jr: How much will those cost in money, the things that you don't need?

Marshall: They haven't been able to arrive at a figure of sufficient accuracy for me to state. That phase, the ammunition and ammunition components, the ordnance equipment and other ammunition, that came from the office of the Assistant Secretary, and they had just gotten the thing boiled down to that point, but there are so many time factors involved as to whether you need the productive capacity or whether you don't need the productive capacity that they hadn't yet come to a fixed conclusion in the matter.

U.M.Jr: You wouldn't want to make a guess?

Marshall: Possibly Judge Patterson can.

McCloy: Well, my guess comes from your officers. With

- 20 -

that reservation, they said that figure for immediate requirements, to be placed immediately for cash expenditures, of 57 millions, but they also pointed out that that required more money than that for orders, that you can't place your orders for physical capacity in the back. You have got to put some orders in there and probably around 30% of their program would have to be put up at once or at least at the same time as your physical capacity requirements.

- H.M.Jr: Well, do I understand that the Secretary of War and his associates - do I understand from this statement that they feel that from the standpoint of our own national defense, with the exception of a few of these items, that it would be useful to have this order placed here?
- Stimson: Well, I would like to ask this --
- Marshall: Yes.
- Stimson: I understand so.
- H.M.Jr: The answer is yes?
- McCloy: That is clear on the ammunition, isn't it?
- Marshall: That is clear on the ammunition.
- Stimson: No doubt about that.
- H.M.Jr: Let me ask another question. Knowing the - as much about their financial situation now as you - you know as much as I do. Do you feel that some way can be worked out that some of this, that which takes the longest to manufacture and that which possibly the United States Army might consider they need the most themselves, that some of that could be placed; or would you rather wait for the whole program, the whole question, to be settled?

- 21 -

Stimson: There has been such a change since this morning. So far as I can tell, it would be within the power of the British as they felt wise, to immediately provide for the amount of facilities that do not come within our own needs.

H.M. Jr: I don't think I have got you quite clear. I wonder if General Marshall doesn't want to listen to this?

Stimson: General?

Marshall: Yes, sir.

Stimson: We have had such limited opportunities for conferences. I want to be sure I am right. I got the impression in my talk with you this morning that - and also from the more detailed estimate which Mr. McCloy had gotten up during my absence, that the - speaking now of facilities, that the facilities which would be required by the British for their program as they have been enumerated, would enough of them be useful to United States so as to leave only a comparatively small unusable balance to be paid by them. That was estimated by Mr. McCloy in his estimate made from consultation with the Ordnance and the others, to be about 57 million, and I believe that was stated to Sir Walter Layton when he was here, and he said that he thought that was all right.

Now, has anything occurred since then to alter that impression?

Marshall: No, sir.

McCloy: That is confined, of course, to the "B" Program and only that 10 Divisions program. There are other requirements under this photostatic sheet here. That is the one we had at the last meeting. For example, there is that - under 1-B of that photostatic copy that we had at the last meeting,

ammunition, bombs, radio and special equipment for those planes, I have no knowledge as to where that is coming from or how it fits in.

Marshall: There is a question there - you mean whether we have usability for that?

McCloy: Yes, whether the capacity element is there. I don't know anything about that, and I assume that there is a hundred and 23 million, General, a hundred and 30 million for the Quartermaster and Signal Corps which isn't included at all in this sheet, something for which we would require no capacity whatever. Isn't that right?

Marshall: I think, in the rough, that is the case.

H.M.Jr: Let me put my question.--

Marshall: Undoubtedly that order is going to come to us before they get through.

McCloy: Yes.

H.M.Jr: Let me put my question this way. There are two things that I can see that you can say. "Well, we have got to consider this thing as a whole, and no more orders should be permitted to be placed until the Administration has a policy on the whole thing," or, "There are certain things here where facilities are needed that the Army is ready to go ahead with the help of the RFC and Mr. Jones;" I don't know which comes first, Mr. Jones and the RFC, and creating those facilities and England paying for those where the Army says that they have no immediate need.

Now, how do you feel about that? I mean, do you want to do this thing piecemeal or do you think the whole thing ought to be decided as a whole program? I mean, how does the Army feel?

- 23 -

- Stimson: Of course, the Army itself is not the policy making power.
- H.M.Jr: Well, the War Department --
- Stimson: Well, I mean it is hardly within the policy making power of the Army to compute, as a matter of policy, what chances we can take with the British, but you can see by the way that General Marshall has computed it that within our limited sphere, it would have to be --
- H.M.Jr: It would have to be done piecemeal, wouldn't it?
- McCloy: I am confident that we can't meet the "B" Program unless we start immediately. There is no question about that. We have got to begin putting bricks together right away.
- H.M.Jr: That is what you said a week ago.
- McCloy: That is right.
- H.M.Jr: And you also said that you would come in today and say which parts of this "B" Program had to be started at once.
- McCloy: I think we have got in rough, an estimate of those figures. There was a little complication this morning as to what our capacity was on these ordnance items, but I figure, and I figured the last two meetings, in order to get the "B" Program going with some hope of completing it, it would take 357 million dollars.
- Jones: For plants?
- McCloy: No, that is including the orders that are necessary to get the thing moving swell. For plants, I would certainly get a hundred million dollars for ammunition. Now, we have also, according to the

- 24 -

figures that I have got, required 57 million in addition for ordnance. Those figures are all subject to a little more checking, but not very much more.

H.M.Jr: Well, you have got to do them again for me. You have got them in your head, but I haven't. Do you want to state them again?

McCloy: I will state again what we need in the way of capacity and what we need in the way of orders. According to the information that I got from the ordnance people this last week, we need 57 million for ordnance items as distinguished from ammunition.

H.M.Jr: Now, are you talking orders or plant capacity?

McCloy: Plant facilities, first.

H.M.Jr: You didn't say that.

McCloy: I am sorry. "A", facilities, 57 million plus a hundred million for ammunition, a hundred and 57 million.

H.M.Jr: For facilities?

McCloy: For facilities.

H.M.Jr: New?

McCloy: That is right, new.

Stimson: The hundred million is justified for our own needs.

McCloy: That is right.

Stimson: And the 57 million is not.

H.M.Jr: All right.

McCloy: Now then, in order to make those orders mean something, you have got to give some orders for the items, the products, and our guess at that is that it would be around 200 million dollars. I may be wrong. I just assumed that because I understand 30% is what the usual advance payment is.

H.M.Jr: Let me just go this far. Of the facilities that would be necessary to be created, the Army feels that they can use a hundred million of them but 57 million of them would have to be --

McCloy: That is right.

H.M.Jr: Now you talk about orders to be placed, 200 million. Now, do you break that down? Has the Army a use for the whole 200 or only a part of them?

Stimson: No, you are mistaken. Those are British. The 200 millions are advance orders for goods.

H.M.Jr: I understand, but they are coming out - part of it will come out of that 57 million facilities.

Patterson: No.

McCloy: Well, it is the facilities that - those that we are going to create, whether they are ordnance or ammunition, have to have some orders to keep them going. In order to put the "B" Program through you have to place those orders, and I say about 30% of the entire 600 million ought to be placed right away.

H.M.Jr: You haven't made it clear to me. The ammunition which is going to flow out of the hundred million facilities, you say you can use all of it?

McCloy: We were talking about facilities. The ammunition

- 28 -

is going to go to the British.

H.M.Jr: No, General Marshall made the statement here that if England went under, that he could use --

McCloy: He was talking facilities.

H.M.Jr: No, no, he wasn't, not if I understand English. He is here. How about it, General?

Marshall: What I said was that of the materiel involved in the British 10 Division Program - staying with the ordnance and letting the planes go. Of the equipment, materiel, of ordnance, for arming approximately 250,000 men, which is that of the "A" and "B" sections of the British program, of the tanks and tank guns listed in item "C", which would equip approximately 50,000 men, or a total of 300,000 men, that that is well within our figure of our full objective and that we would have a use for that materiel in the event Great Britain collapsed.

H.M.Jr: Sure.

Stimson: We are trying to make a sharp division between the munitions themselves and the facilities required to create them. As I understand from the General's estimate, which has come to me just in this meeting, of the equipment, practically all of it we can use.

Marshall: Yes, sir. The trouble is, the complication is, in order to make the date specified by the British, we have to create facilities which later we would not require for our full War Department program.

Jones: From this 57 million?

Marshall: Yes, sir.

H.M.Jr: Let me put it a little bit different. If England

- 30 -

question, the products coming from these things, and as to that, our answer is yes.

H.V.Jr:

Yes, but then the question comes - I mean, we are talking about - we look at the whole picture or a very small part of it. Should we combine people here representing - I mean, State, War, Navy, Commerce, National Defense, and Treasury, should we take the responsibility and say, "Well, you can do this much of it and we will wait until the President comes back and then lay the rest of the program before him and see what he wants to do," or should we say, "We will hold up the whole thing until he comes back."

Do you want to say something for the State Department, Sumner?

Belles:

I think at this stage there is very little for me to say for the State Department, Henry. It is tremendously helpful to us and very useful to us to know exactly how this is being worked out, but I think at this stage until some general agreement has been reached by the financial agencies of the Government as to the policy that should be followed, there is very little that the State Department can say that would be helpful.

Stimson:

Henry, I think it is fair to say this, that the difficulty is the practical one of waiting for the President. If we have to wait, it busts the "B" Program.

H.M.Jr:

Well, somebody - I am willing to say, talking for myself, based on what the President gave me in writing, that after having listened to you gentlemen today, I am willing to assume one fifth of the responsibility. There are five departments here, and I am willing to take my share of the responsibility to go ahead with the 157 million part of the facilities provided

put 57 million dollars into this pot and the United States Government put up the other 200 --

McCloy: Three hundred.

H.M.Jr: Put up another hundred --

Stimson: For ammunition facilities?

H.M.Jr: Facilities, so that when we got through we had additional plants of 157 million. Now, the question I want to ask somebody connected with the War Department, that the production of these 157 million dollars worth of facilities, if England either couldn't pay for them or had no use for them, can somebody from the War Department go up and swear their life away before Congress and say, "We have a use for them"?

Stimson: No. If I understand the General's answer, he would risk his life on the 100 million, but he wouldn't risk his life on the 57 million.

Patterson: He is talking about supplies now?

H.M.Jr: I am talking about supplies now. I am talking about the production.

Marshall: The answer is yes, sir.

H.M.Jr: Now, let me just go over it so Mr. Stimson and I are together. We have got to build here some factories. Of these factories, a hundred million dollars is going to be supplied by some agency of the U. S. Government. The other 57 million are going to be supplied by the British, so when we get through, we have 157 million dollars of additional factories.

Stimson: All of it plants, not goods, not munitions, but just plants.

- H.M.Jr: That is right.
- Stimson: Then my answer stands. That is the way I understand it.
- Patterson: Then he went on with something more.
- H.M.Jr: Then I go on. Now, where I am going on, either these plants, combined plants - now, for my purpose, they are plants, there are no partitions - several orders for "X" hundred of millions of dollars, and for one reason or another, England can't take and I understand General Marshall says that if England is faced with a situation either because she is licked or she is broke, he is ready to take that capacity.
- Marshall: Within the time limits.
- McCloy: That is the point, the time limits.
- H.M.Jr: The production, the goods.
- Marshall: The complication of the whole plot is the time element.
- H.M.Jr: I understand. Are you and I together?
- Marshall: There may be one shadow of doubt in my mind as to your understanding. If Great Britain collapsed after we made this investment, we would then have 57 million dollars worth of plant for which we would not have a need for that production.
- H.M.Jr: But England has paid for it.
- Marshall: England has paid for it. Now, the paradoxical part of it is that the production from those plants we can use, but we would not --
- Jones: Fifty-seven million?

- Marshall: Fifty-seven, but we wouldn't want to continue to use it. We would have an over production of plants and we wouldn't want to carry our own plants on to further production.
- Patterson: However, the orders, Mr. Secretary, would of course have to be placed by the British for those units, supply units, cartridges, guns, so on. Is that clear?
- H.M.Jr: Yes and no, because what the President told me was, in this little note which he wrote which I showed you, that he wanted the United States Government or some agency of the United States Government to place the orders and then as the production flows from these plants, they would be sold on a per unit basis to England. Now, that is what he said. Now, maybe that is impossible.
- Patterson: The output of the 57 million and the 100 million too. The Army can't sell them. It obviously can't go into the munitions business for other countries.
- H.M.Jr: Well, the same thing could be accomplished if we permitted England to place these orders with the 157 million dollars worth of plants.
- Patterson: Yes. We can take them over in case - we can take the orders over, but, of course, we can't provide them with funds, I mean the Army can't.
- Stimson: We are talking of two different things. We are talking of the capacity to place orders which the President's proposition raised, and which, as we told you at the last meeting, we can not do until authorized by Congress.
- H.M.Jr: I understand.
- Stimson: But General Marshall answered the question as to whether we could use, which is a wholly different

that the AEC will provide the money for the hundred.

Marshall: May I say something, Mr. Secretary?

Stimson: I took the responsibility more than two weeks ago of telling Layton that we would go ahead with the "B" Program, subject to the reservations made in my letter. Now, that I think we can do. I made it clear to the British the time program was subject to all of these contingencies, and he was willing to do it. He accepted the letter.

E.M.Jr: Well, are you still willing, knowing the financial picture?

Stimson: You mean now, since these things have been brought up on the blackboard?

McCloy: If we get the money, we can go right ahead.

E.M.Jr: Well, I am sure that England can lay down 57 million dollars.

McCloy: It is 257 million dollars that has to be laid down by somebody, and I think it has to be Great Britain, because I don't see how we can lay it down.

E.M.Jr: How do you mean 250?

McCloy: I mean you have to get orders.

E.M.Jr: Now, wait a minute, 57 million facilities from England, a hundred million dollars from the AEC --

McCloy: For ammunition facilities and 200 million for orders on top of that.

E.M.Jr: Well, they are perfectly willing, if we let them, to order 200 million.

- 32 -

- Stimson: The manufacturers will say they have to have credit.
- McCloy: They have to have an earnest payment or they won't get the manufacturers working.
- H.M.Jr: That is 50 million. They want 25% down, don't they?
- McCloy: No, they want 30%. That is the figure that covers the products.
- H.M.Jr: Oh, a third, 200 million. Then they have got to put up 257 million --
- McCloy: That is right. We have to put up another hundred million.
- H.M.Jr: Somewhere from our Government, a hundred million.
- McCloy: And I talked to Mr. Jones about that, and he thought he might be able to do that.
- Stimson: That hundred million is good for us, for our use?
- H.M.Jr: Then it is up to the English, are they willing to put up 250 million, and we put up somewhere around a hundred million.
- McCloy: That is right. I don't know that figure, we are just throwing that figure out.
- H.M.Jr: Well, 250 plus or minus, right?
- McCloy: It is more nearly plus.
- White: That would just wipe out this, because without the billion dollar program, which presumably they will only have to pay 57 million, plus the down order, they have a billion six deficit. Without that billion, if you add that 157 million, they

will have a deficit by September 1, according to this estimate, which will approximately equal the total of this (referring to blackboard chart) so they will still have the assets of this column to draw from.

H.M.Jr: Say that again, Harry.

White: If they are not called upon to pay more on that special "X" program, than the 57 million dollar plant expansion, plus the 200 million dollar advance payment on order on that "B" program, they will have a deficit at the end of September which will approximately be the same as their total assets which are listed in this column.

H.M.Jr: In other words, they will use up the billion 8?

White: They will use it practically all up.

H.M.Jr: And still have the green?

White: And still have the green and still have to pay for such merchandise on the "B" Program and that they will be ready for delivery before September. How much that will be I don't know.

H.M.Jr: Well, Jesse, do you want to say a piece on the whole picture and then your own particular responsibility?

Stimson: You see, here is the situation. If we should go on with the British under these terms, letting them pay these advance payments, and they should bust next September, why, there would be in process arms and ammunition which would be extremely valuable to us, part of which have been paid for, one third down, we will say. The payment on the balance of two thirds we should have to get authority from Congress to pay for. But as the situation would

then exist, I, for one, am perfectly willing to take the chance on Congress if the British are beaten at that time being damn glad to authorize us to pay the other 600 million to get those goods. I believe that answers that.

H.V.Jr: That helps.

Stimson: Have I said anything that you would criticize, General Marshall, because if you do, say it out quickly.

Marshall: I wanted to put one more point forward. We have been talking about the usability of this material and this productive capacity by the War Department. That is one side of it. There is the other side of it, which is of more immediate importance to us and that is the time factor, because every week we delay in getting this started means a greater embarrassment for us next summer, because the British are counting on getting deliveries from us on materiel of ours that is already under manufacture for delivery next summer in order to get their 10 Division Program going. Every week we delay, delays that material just that much. They go ahead and organize their men, their first training nucleus in September. They have to have the materiel for that force. We have to give it to them and that means that we have to rob the development of our present one million 400,000 army by just that much, and it grows increasingly difficult with every week; so the time factor on the other side of the fence is of vital importance to the War Department right now. Each delay in this puts us in a jam next summer, with the British pressure to get material to us to give up material which has already been manufactured with money appropriated by Congress, and denying the modernization of this equipment, so time is an important factor.

H.M.Jr: At 4:30 I am supposed to see Mayor LaGuardia. I don't want to stop this meeting. Mayor LaGuardia, as Chairman of this committee, wouldn't he have a right to sit in this meeting?

Stimson: Chairman of what committee?

Patterson: Joint Canadian --

H.M.Jr: Yes. Would he or would he not, amongst ourselves, or had we better not.

Stimson: No.

H.M.Jr: O.K.

Now, do you (Jones) want to talk on the whole program and then on your segment of it?

Jones: I will be glad to. I think the sooner we get to the Congressional Committee, the better, on the whole program. The RFC is in a position to do the plant business on request of the War and Navy Department and Defense Council. We don't feel that we are authorized to build plants for the British. We can't have any dealings with the British about the orders they are going to place. Somebody has got to place the orders and they have got to place them with somebody. Who they are going to place them with is the point that comes to us. Who are they going to order the materials from when we build the plants. We will build the plants for request of the War Department.

Stimson: The only people they can place orders with is with the manufacturers. We can't place orders with manufacturers for them. We haven't any more right than you have.

Patterson: We haven't any money, either, from Congress.

Jones: I realize that.

- Knudsen: Of course, it is interesting. The simple thing is for you to ask Congress for the authorization for the "B" Program.
- Stimson: We feel, judging from the two months that have just passed since this thing was first brought, that the British who are the only people who can make these orders are not going to make them in time to secure the completion of them at the time which we have been talking about. The only way that, practically, we think it can be done would be for us to give the orders, but we can't give the orders legally.
- Jones: Can you give any part of them?
- Stimson: No.
- Knudsen: They have spent their funds.
- Forrestal: Why couldn't the British give the orders, Mr. Secretary?
- Stimson: I didn't say they couldn't, I said they wouldn't.
- Forrestal: Oh. Really?
- McCloy: Well, they haven't as yet.
- Stimson: They spent two months on it.
- H.M.Jr: Let me put up this thing for somebody to knock down. Why - I mean, provided that everybody wanted to do it, why couldn't - how much does this "B" Program cost?
- Stimson: Six hundred million.
- H.M.Jr: For the orders?
- Stimson: Yes, roughly.

- 37 -

- McCloy: You are only talking about products, now, aren't you? Six hundred million for products?
- H.M.Jr: I am talking about products.
- Stimson: That is exclusive of plants.
- McCloy: Seven hundred thirty-two, including Quartermaster.
- H.M.Jr: Do you call it the "B" Program?
- McCloy: Yes. The British themselves do not include other than ordnance items in that program. They are going to have to have other than ordnance items.
- H.M.Jr: Seven hundred thirty-two. Well, supposing I say in order to meet this date line, the pattern worked out in connection with the Continental engine where the factory was financed by the RFC on certification from the War Department of the facilities, that they were necessary, with this exception, that instead of - that what it amounts to, one third of these facilities are going to be paid for by the British because the War Department doesn't think it wise to certify for the whole of them, and then the orders for the product to be placed with the specific manufacturers by the British. I don't see why this is so different from the Continental Motors.
- McCloy: Let's take the ordnance items as distinguished from ammunition for a moment. They can start putting their orders in right now. If they have a hundred million dollars, let them start their orders out. For the ammunition, I understood, Mr. Jones, the other day when we had a talk, you were ready to put up the money to the Defense Plant Corporation to build the capacity necessary for the ammunition and you are ready to take a chance on those plants getting orders. You thought that

plants and - ammunition plants in this day and age were a good risk. You didn't insist upon having an order go in at the time you put your money up for the plant.

Jones: That is the responsibility of the War Department.

H.M.Jr: Mayor LaGuardia will be back Monday, Tuesday, or Wednesday.

Klotz: I told him that you (Jones) wanted to speak with him.

Jones: Is he at the office now?

Klotz: Not in your office, in his own office, some office here.

Jones: Does he want to talk to me?

Klotz: No, unless you want to talk to him.

Jones: I will be glad to talk to him when he gets back to New York, or I will be glad to see him Monday or Tuesday, at his choice.

H.M.Jr: Are you familiar with that contract?

McCloy: Continental plan? I have seen a copy just recently.

H.M.Jr: Couldn't that formula be used in this case?

McCloy: Perhaps it can be used in some situations. I don't think it is necessary to use that title. I think the only thing we need to do is to get Mr. Jones, on proper certification of the War Department, to give the money to the War Department, to the Defense Plant Corporation, to build these loading plants, the ammunition facilities. That is all we need to worry about, ammunition facilities.

H.M.Jr: Will they be in the hands of private companies?

McCloy: The Defense Plant Corporation will no doubt hire DuPont or somebody to build that plant for them.

Stimson: Mind you, Mr. McCloy is sneaking about plants.

H.M.Jr: I am willing.

McCloy: Now then, in addition to that, orders have to be placed for the ordnance items right away. There is some capacity now that has to be used, but we have got to go ahead on that. These five millimeter guns, it takes a long time to get them. If they start putting in orders now, they can begin to make some of them. In addition, they have got to build 57 million dollars worth of plant facilities for other items.

Knudsen: Would you have to make a down payment on the guns?

McCloy: Yes.

Knudsen: Why can't the contractor borrow some money from Mr. Jones?

McCloy: The contractor --

Knudsen: If he would, he could, couldn't he?

Patterson: He would owe it then. He wants money down.

McCloy: We are having a great deal of difficulty getting them to borrow money from Mr. Jones.

Jones: I doubt if they would want to become responsible for the money, and I doubt if we would have the right to make the loan for British requirements.

I think the program is so big and so important that you ought to outline it; and if we can get an agreement among ourselves, each join in the responsibility as to what we are trying to do, then the sooner you get to Congress the better. I would first put it up to the President for his O.K., which you can do by wire; and if he says O.K., we can start building the plants and all that sort of business; but you have got to go to Congress about all this likelihood of their wanting to get ammunition or - on credit or something of that kind. Now, whether you can do that - we might do enough with present authority to get us past January 1. Then it has got to be right in the lap of Congress, I think.

Stimson: How can we go ahead? Isn't it Mr. Phillips' finger that starts the machinery going? I mean, the British have got to make the orders.

H.M.Jr: Well, that --

Stimson: But we can't go ahead on orders for the British without a definite commitment on their part that they will make the orders. I mean --

H.M.Jr: If it was left just to me --

Stimson: I make the exception, except on the facilities for the ammunition, that is a different thing, but for the goods themselves, I don't see how anybody can take the place of the British. It is their responsibility.

Patterson: Even on the facilities they have got to take the initiative. No contractor is going to come in to Mr. Jones without orders from anybody and say, "Build me a plant." They won't do it.

Stimson: Bob, I was thinking of the single exception of the powder facilities. We would take the chance of that.

- 41 -

McCloy: We would build our own powder plant.

Knudsen: There is only 57 million dollars involved. You have got the money and that is that.

Patterson: Anything we can do to get it moving.

Stimson: It is in your (Secretary's) hands and Phillips'.

H.M.Jr: I will explain it to you as soon as Knudsen is through.

Knudsen: Mr. Stimson, if I remember correctly in your schedules that you sent over, the maximum delay on the United States at that time was between three or four months. That has since been increased by two months, because it is two months since we started; so that instead of having three months' delay, you are going to have four to six months.

Stimson: Exactly, already.

Knudsen: That is what you were talking about.

Marshall: That is my concern about this.

Stimson: Who represents the body that - Layton was, when he was talking with me.

H.M.Jr: The British Purchasing Mission, and I don't - who is the acting head of it, Philip?

Young: Weir is taking most of the responsibility while Purvis is away.

H.M.Jr: Weir.

Stimson: Well, isn't Phillips--

H.M.Jr: No, he has nothing to do with it.

This is the way I see the thing, gentlemen. We can do one of two things. We can either say tonight that everybody feels perfectly comfortable about going ahead with this thing, this part of this program, we feel we have the authority and everything is all right - now, I use the word "comfortable" - or we can take the position that with this information which we have here that oughtn't to go any further until Congress is given the same information. Now, if Congress is given the same information it looks to me as though the program would be something like this, and I haven't had a chance to talk with anybody in the room. I have just been thinking as I sat here. We would go ahead and these orders would be placed and the English will put down the money just the way we have been talking and continue to pay for it as long as either they continue to fight and win or as long as the money lasts, but to protect the American manufacturer we ought to get the authority from Congress that when either the English run out of money or they lose, the War Department would be authorized by Congress to pick up these orders and to pay for them, or if the English run out of money, that the War Department would be authorized to pay for these and give them the orders. Either on the basis that we pick them up and use them ourselves, or that when the English have satisfied Congress and Mr. Roosevelt and his associates that we will pay for these orders and give the stuff to England.

Jones: I wouldn't climb that hill yet. I would do it all except to give it to them.

H.M.Jr: Well, how are you going to cross it, Jesse, that they are going to place an additional several billion dollars worth of orders, and we know they haven't got the money to pay for it?

Jones: All right, then I would ask Congress - lay the matter before--

- Knudsen: Until we get that straightened out. That will keep them busy for a while.
- H.M.Jr: Yes, but you and I know that they haven't got the money. They have got enough money to pay for the orders they have already placed, haven't they?
- Knudsen: Yes. They have got 357 million they can spend here.
- H.M.Jr: They have got enough for that and also for the 257.
- Knudsen: And you will have to underwrite the balance.
- H.M.Jr: I won't underwrite it.
- Knudsen: The War Department.
- H.M.Jr: No, I mean Congress has to underwrite it. That is what I am trying to say. I have no authority. I mean Congress has to underwrite it, so that these things that they are doing to the American manufacturer, we have got to say it is all right because Congress says if the British can't pay for them or loses the war, Congress will authorize the War Department to take them and either give them to England or to take them for ourselves.
- Jones: Well, to take them. Cut out that giving business. Authorize Congress to take that material. Climb that next hill when you get to it.
- H.M.Jr: Well, I figure while we were going we might as well make it, but that is all right, I am amenable to listen.
- Stimson: May I say a word a minute?
- H.M.Jr: Please.
- Stimson: You see, the situation so far as we are concerned

has entirely changed since I began these negotiations with Sir Walter Layton. When I negotiated with him I negotiated without any suggestion having yet been raised that they couldn't pay.

H.M., Jr: Well, you have got to thank Brother Lothian for that.

Stimson: All right. I was dealing with a solvent man on the other side and now a situation comes up where you bring in this question of the solvency of the British Government to pay, and I say that I, as representative of the War Department, and the War Department itself has no authority under the law to cross the bridge and I don't see that anybody has, even you, except Congress.

H.M. Jr: Well, I haven't claimed it at any time.

Stimson: I know you haven't, but that is why I feel we are approaching the time when we have got to go to Congress.

Jones: I think we certainly are.

H.M. Jr: You mean before they even place the so-called "B" program?

Stimson: Yes, sure.

Jones: Well now, let's--

McCloy: No, no.

Stimson: I mean yes, I mean yes.

McCloy: Then the "B" program is out the window.

Stimson: This - the "B" program has this element that has come into it, in this room here. That is that the British don't seem to be able to pay for the down payments.

H.M.Jr: No, I think they can.

Forrestal: Why don't they place the orders, then, Henry, that is what I can't get through my head.

H.M.Jr: I will tell you why they don't place the order. Because in the letter that Mr. Stimson wrote to Mr. Layton, he says as far as the financial part is concerned, he washes his hands of it. Then Layton--

McCloy: No, he didn't. Pardon me. He said so far as the financing of the capital expenditures is concerned, he couldn't say anything about that. He had to refer that to the Treasury.

H.M.Jr: Well--

McCloy: But they could begin placing orders. They could place orders to a substantial extent today if they wanted to.

H.M.Jr: Well, now, wait a minute. Mr. Stimson has said here, if I understand him correctly, and in his memorandum which I haven't got, but which we can get very easily, or at least he left the impression that the other departments were concerned, and I thought he very carefully - and he has told me so - that as far as the financing of the matter was concerned that he very carefully steered away from that.

Stimson: The only thing that I considered that we had to do with was to answer the question which you have been putting to us in this room, namely, if that program should be proceeded with and if the British should break down, would the results be necessary or useful to the defense of the United States, and that we have answered.

H.M.Jr: Yes.

Stimson: But when two months pass and the solvent party

with whom we have negotiated holds back from making the initial payment that he alone can make and when, instead of that, he sends some one here to show that he is going to face a deficit next September before the thing is over, the situation rapidly approaches a different situation.

H.M.Jr:

But we would have had ample time to consider this if Lothian hadn't thrown his announcement - placed a date on the day when he said that England was reaching the end of its financial resources. Now, nobody asked him. Mr. Roosevelt very carefully refused to discuss that with anybody. I had a very explicit understanding with him that we were not to raise the question yet. We would have had ample time. Phillips could have come over here quietly and nobody would have been particularly excited about his coming, and we could have discussed this thing over a period of weeks, but whatever the day was, around December 1 or something like that, Lothian has to say that on that particular date England says that they don't have any more money.

Stimson:

Now, I am not trying to throw any monkey wrenches in, but I am trying to show to you that the first person that has to start this chain of events, and to do it at once, is the buyer.

H.M.Jr:

Well, as far as I know they are ready to place this order.

Patterson:

They aren't as hard up and strapped right today that they can't put the money down to start the wheel going.

H.M.Jr:

I don't know that they wouldn't be able to, but frankly I have been stalling them off and told them so until we had a chance to examine the whole picture. I have made no bones about it. I am responsible for stalling them. I think I should have stalled them.

Patterson:

Isn't it clear that when they brought up the

program there was no question of their solvency? All they wanted was leave of the Defense Commission and the Army to buy some stuff.

McCloy: And get it at a certain time.

Patterson: Buy some stuff as soon as possible. That required no legislation that I know of from Congress of any kind. It supposed an ability to pay. And then the thing comes in--

Stimson: Which everybody assumed.

Patterson: Then the thing comes in, "Well, we can't pay." That doesn't mean they can't pay for the first installments and start the orders going, but it means that ultimately, next spring or something, they are going to be hard up and can't pay. That, of course, does require some action by Congress.

H.M.Jr: Well, now, Mr. Jones wants to say something.

Jones: I would like to offer a suggestion for consideration and try to make it simple. Let's see if we can agree and join in this recommendation, that if the British are prepared to lay down 57 million dollars for plants--

Stimson: And 200 million--

Jones: And 200 million for the down payment on 800 million dollars worth of orders, the RFC, on proper request, will furnish a hundred million dollars for the plants and that would get us started. We could do that. We could recommend that to the President. We could go forward on that and then you have got some time to go to Congress for the balance. What is wrong with that?

H.M.Jr: Nothing.

Jones: Can we agree on that?

- 48 -

- H.M.Jr: If the War Department will say now that they will give you the proper certificate.
- McCloy: Oh, yes, there is no question about that, General, is there, a hundred million dollars?
- Marshall: No.
- Jones: Then it seems to me that we can go from there and cross the rest of the creek when we get to it, after January, or when the President gets back. When you know more about these figures, when you know whether the bottom of the barrel has been reached, I think the British are going to have security that they can put up against which we can lend money rather than give it to them to pay for war supplies.
- H.M.Jr: I am willing to do two things. I am willing to draft a cable that it is the unanimous recommendation of the people here that we do this, and I am also perfectly willing to ask the English are they willing to give me a 24- or 48-hour answer, yes or no, pending our exploring the whole picture first. Is that right?
- Ruudsen: 257 million dollars.
- Jones: Going to lay the money down on the barrel head.
- H.M.Jr: I understand. Now, just so we get this thing, because General Marshall says there are three different programs. One said 600, one said 732. Which one is it?
- McCloy: I just know there are no quartermaster, Signal Corps, Chemical, Medical or other items in that list.
- H.M.Jr: Could the Army give me this, so that there is no misunderstanding, Mr. Stimson? Look, can the Army give me what they consider this so-called "B" program is? Is it 600 million or is it 732?

What do you want me to put up to them?

Stimson: I should put it so that we didn't necessarily commit ourselves to that amount, because we don't know, but I should put it that - ask them to put down the money necessary for certain things, or assume now their commitment for certain things, one being the plant necessary for certain things which we think will amount to at least 50 million dollars, the other being the down payments of goods.

H.M.Jr: How about the orders?

Stimson: That is what I am saying, that is the orders.

H.M.Jr: Well, that is an order for six hundred million and a down payment for a third of it.

Jones: Thirty percent. Two hundred million.

Stimson: After all, it is their order, not ours.

H.M.Jr: I know.

Stimson: And they have got to say what the amount of that order will be, because they have got to negotiate it and we - I should say to pay the down payments on the orders for which - to make the orders, be ready to pay the down payments necessary on those orders which we compute to be not less than 200 million and so on, but I wouldn't commit myself to that as the final sum because we can't. It is their--

Jones: You mean you can't do it. They can, they can lay the money down.

Stimson: I say because we can't.

Jones: They can place the orders and pay 200 million dollars down.

Patterson: Isn't it clear that the stuff they need badly in

the armament line, they should be prepared to pay the capital expenditures necessary except on ammunition and one third of their orders for the supplies in cash? Now, if they want to make their "B" program small, they can do it, or if they want to expand it, they can do it, but those are the governing lines.

Jones: Which is the "B" program?

Patterson: Whatever they feel is most urgent. I don't know whether it is 300 million or not.

Jones: I ought to be big enough that they mean business if we do what we want to do.

White: Mr. Secretary, is it clear that you are acquiescing in a plan which will add to the depletion of their resources and leave a large deficit which they haven't explained, even though they haven't explained it?

H. S. Jr: Sure. How is the Navy on this?

Forrestal: I think the statement of this - this loose statement is what you ought to do.

H. S. Jr: It is all right with me. Can I say to the President that it is the unanimous opinion here?

Welles: Henry, I think I ought to make the same reservation that I did before. I think the State Department is vitally interested in the national policy that we adopt toward Great Britain on account of the international relations which come under our jurisdiction, but with regard to this particular question, I don't think the State Department can assume responsibility.

H. S. Jr: But you don't raise any objection?

Welles: Personally, I am entirely in accord with such an arrangement.

H.M.Jr: Well, I will get off a telegram tonight and I will get the English, both Phillips and the Purchasing Mission here tonight, right away.

Jones: You will get them before you send the cable?

H.M.Jr: Sure.

Jones: Why don't you submit it to them before you bother the President? If they are not going to do it, there is no use to bother the President.

H.M.Jr: Keep him kind of as the good partner in reserve and I am the bad partner.

Jones: I didn't get you.

H.M.Jr: Say to them, "Of course, the President hasn't approved this yet, but we would like to get a firm offer from you."

Jones: Well, I think--

Stimson: I don't think you have to go into that. All that we are asking for is the necessary translation of what they have already agreed to when they said that - when they accepted my letter.

H.M.Jr: Well, of course I think as far as the President is concerned from my conversations with him, I don't even think I have to ask his approval for this.

Jones: No, but I think you should.

Knuåsen: If you get it from the British--

H.M.Jr: But you think I ought to put it up to the President?

Jones: I certainly do.

H.M.Jr: Because he hasn't got any of this. I can't give

this financial picture and all that.

Jones: No, I appreciate that, but you can give him enough for him to--

H.M.Jr: Don't you think I would be saving time if I put it up to them and say if the British will place such and such an order in view of this thing we recommend, and mention the people here, that we will go ahead with this, and I would like to have their approval.

Welles: Why don't you do both at the same time, Henry?

H.M.Jr: That is what I wanted to do.

Jones: You mean put it up to the President first?

H.M.Jr: Simultaneously.

Forrestal: Always keep that up your sleeve for another card.

Knudsen: Supposing he turns you down?

H.M.Jr: Then the fat is in the fire.

Jones: I don't think they are going to put the 257 down on the barrel head.

H.M.Jr: I think they are.

Jones: I hope you are right. I think it is important enough that the President ought to know about it.

Knudsen: Yes, I think so.

H.M.Jr: Well, I have got it in the old bean, and I will put it up to him right now.

White: Mr. Secretary, Mr. Bell is raising what seems to me a very pertinent question. It is not clear in our minds why they have to pay a down payment on

the orders so long before the plants are built inasmuch as these private individuals are not going to pay for the plants anyway.

- Knudsen: Because we haven't got the money to put for the orders.
- White: Then they have to put up the money even before the plants are built for the product.
- Stimson: In the large bulk of the advance which is involved in here, there are no plants to be constructed.
- White: This 200 is also for products of plants other than those that are going to be built?
- Stimson: The great bulk of it is in existing plants.
- H.M.Jr: This is following the same pattern they have followed right along.
- Stimson: In fact, practically the only plants are--
- Forrestal: It is a very curious pattern, it seems to me. What they are doing is trading with you.
- H.M.Jr: Who is?
- Forrestal: The British.
- H.M.Jr: How do you mean?
- Forrestal: The whole transaction is in sort of a trading process, and it seems to me they aren't putting the things on the table that ought to be put on the table.
- H.M.Jr: Such as what?
- Forrestal: Immediacy, urgency, to get the thing rolling and look at it afterward.
- H.M.Jr: I don't know. I am partly responsible. I don't

know what they would have done if I hadn't said, "Wait a minute, we have got to take a look at this."

Forrestal: That is what I mean, by putting you in a position--

H.M. Jr: Lothian having made the statement, knowing Phillips was coming, knowing anyway 90 percent of this which is on the blackboard, I felt that I couldn't, for instance, when my friend here - Knudsen, for instance, says to me about once a week, "How about the money?" I can't continue to whistle in the dark, so knowing this and all the rest of it, I mean they put me on the spot because you (Knudsen) looked to me, didn't you?

Knudsen: Yes.

Forrestal: I think they have put you on the spot.

H.M. Jr: I know that and I am not sure they didn't do it on purpose.

McCloy: There is another element in this thing which I think the President touched on when he gave you that instruction. He suggested that the Ordnance, of our people, order this. I think that has the germ of a very good idea, because there is a great deal of confusion now going around the country due to the fact that the British Purchasing Mission are negotiating with the same people that we are; and, if we could only route it all through one source, we would have a much more business-like place. Have all these orders and besides that, General Marshall--

Knudsen: We can do that.

McCloy: General Marshall has agreed to this "B" program on the basis of our minimum training requirements. That may mean some exchange of our - some of our material for - or sale of some of our material to the British. We now have a very confused

statutory situation. We have got statutes running back to after the Civil War times that pick up this item of equipment and that item of equipment and permit the Secretary of War in some cases, the President in others, to dispose of this, that and the other item so that when you get through you have to finesse a good way around many of the statutes and there is a tremendous amount of paper work involved in it, before you can really transfer one item out of the Army. Sometimes you end up, as we did in a recent deal, almost as if--

Stimson: Twenty airplanes and it took a file about that thick (indicating).

McCloy: With legal opinions all over it, and you will find you are transferring one tank and one rear wheel. I would think that the only way to do this is to have some enabling legislation put in one statute which would enable the Secretary of War and the Secretary of the Navy to transfer this equipment for the approval of the President or exchange it, dispose of it, and in any way that is consistent with the National Defense. I think that unless we do that--

H.M.Jr: Well, that is something else again.

McCloy: Well, it involves the "B" program.

H.M.Jr: Well, you can't go to Congress and ask for this unless you are going to tell the whole story.

McCloy: Well, today or yesterday we transferred 20 bombers to the British.

H.M.Jr: Think of all the work you give to unemployed lawyers. (Laughter)

McCloy: That is just the trouble.

Stimson: It is all the time the lawyers take.

- H.M.Jr: But you can't get enabling legislation unless they are going to ask you why.
- Stimson: I think that is the trouble.
- McCloy: The country approves the disposition of these 20 bombers. We certainly explained it on that basis and if the Ordnance Department is to use this - to do this work, and it is a good argument, I think it can be made further. It is almost impossible to tell just which tank is going to get into which army, so that our men should really be inspecting all this material which comes out.
- H.M.Jr: I know it is a terrific nuisance.
- Stimson: We are ready to go ahead, but I foresee a very preponderant chance of failure if the legislation situation stays as it is today in regard to the division of responsibilities between us and the British and the carrying of it out. We can't possibly do what the President had in his mind.
- H.M.Jr: But you don't want me to raise that tonight, do you?
- Stimson: No.
- McCloy: You might raise it with the President.
- H.M.Jr: Well, that is up to Mr. Stimson. It is his headache.
- Stimson: Well, I have gone a long way. This is a joint affair.
- H.M.Jr: Well, we can give you a couple of lawyers to help, too.
- Stimson: Well, I have got them. I am perfectly satisfied with them.
- H.M.Jr: Sometimes I think our lawyers are doing too much.

- 58 -

- Stimson: No, the thing is, I think we are in a position now where you can send such a telegram, Henry, but I think we have got to foresee that very soon afterward the situation will probably come to where we have got to go to Congress and lay the whole thing before them.
- H.M.Jr: I don't think there is any question about it.
- Stimson: And that is what I don't want to be in the position - or don't want you to be in the position where Congress would say that we should have come sooner. I don't think they will, so far.
- Jones: They will if you don't bring this whole situation to their attention pretty soon.
- H.M.Jr: Very soon.
- Jones: The papers are full of it.
- H.M.Jr: I think the very latest is the first week in January; and, if the English turn us down on this proposal, we will have to go right away.
- Stimson: If they turn us down on the proposition of the telegram that you propose to send, I say drop it until we have got Congressional authority.
- H.M.Jr: I am willing.
- Stimson: I won't have the War Department going into any further stretching.
- H.M.Jr: Well, anybody else?

Read by [unclear] [unclear] 92  
[unclear] [unclear]

December 10, 1940.

MEMORANDUM FOR THE SECRETARY OF WAR:

Subject: New Airplane Program and United States-type Ordnance Program of the British Purchasing Commission dated November 28, 1940.

The following comments with respect to the New Airplane Program and United States-type Ordnance Program of the British Purchasing Commission, copy of which is attached hereto, are submitted:

I. New Airplane Program.

The 12,000 aircraft listed under this program would all be of value in the defense of the United States, if the British resistance should collapse, and would be sufficient to equip approximately 60 groups of our Air Corps, totalling approximately 200,000 men.

II. United States-type Ordnance Program.

The equipment included under items a and b would provide ordnance equipment for an army of approximately 250,000 men, and the tanks and tank guns listed in item a would equip approximately three of our Armored Divisions totalling approximately 50,000 men. This program would thus provide ordnance equipment for approximately 300,000 men in addition to the current War Department equipment program for 2,000,000 men. This total force of 2,300,000 men is well within the force that would ultimately be required for the defense of the United States in the event that British resistance in the current war should collapse. It should be noted that in addition to this equipment, additional items of Quartermaster, Signal, Chemical, Medical and Engineer equipment would be required to complete the requisite equipment for an Army of 10 divisions. This additional equipment would cost approximately \$130,000,000.

Accurate estimates of the number of men in our type organizations, who could be equipped under the British Program, cannot be made until the British Program is submitted in complete form. To date there have been three different lists of equipment transmitted to representatives of the War Department as being the British "B" Program.

(Data supplied by Office of the Assistant Secretary of War)

Ammunition and Ammunition Components.

Additional productive capacity must be created to meet the British "B" Program requirements for this class of material by April 1, 1942, if the productive capacity now being utilized or being created to meet our 2,000,000 man Program is not diverted to the British. The additional productive capacity to meet the British "B" Program is less than the additional capacity which will be required to maintain a force of 4,000,000 men on a combat status, which is the War Department's full objective.

Ordnance Equipment other than Ammunition.

The productive capacity required to meet by April 1, 1942, the British "B" Program for certain items, i.e., small arms, either now exists or is being created as a result of the War Department's present procurement program. The production of other items, i.e., 37mm. Gun Tubes, in the British "B" Program, by the time specified, will require the creation of additional productive capacity over and above that now being created for our 2,000,000 man Munitions Program. Indications are that, with a few exceptions, this additional productive capacity will not be required to meet the full War Department objective of a sufficient productive capacity to maintain 4,000,000 men on a combat status.

It now appears questionable that the new additional productive capacity required can be created by a sufficiently early date to complete the British "B" Program requirements by the time specified in this Program.

CHIEF OF STAFF.

We have just concluded a second meeting which was attended by Secretary Stimson, Assistant Secretary Patterson, General Marshall, Acting Secretary of the Navy Forrestal, Admiral Ingersoll, Secretary Jones, Under Secretary Welles, Commissioner Knudsen and representatives of the Treasury.

At this meeting the Treasury presented the most up to date figures that we have received as to the financial status of the British Treasury. This shows that with the orders they would like to place now <sup>plus the orders already placed</sup> their total orders

will amount to over \$5,000,000,000. The British Treasury claims that their readily available cash and other assets <sup>readily available</sup> amount to about a billion eight. They have <sup>also</sup> ~~still~~ other assets <sup>about</sup> of which we have not yet received full information,

(but we think it evident that in any event the British Treasury is facing a deficit within the coming year)

The War Department has made the statement that in case the English should stop fighting or run out of cash, our Army can make good use of substantially all of the output of the so-called "B" <sup>ordnance</sup> program of the English, which amounts to at least \$600,000,000.

- 2 -

We have proposed tonight to the English, subject to your approval, that they pay down in cash \$200,000,000, which is approximately one-third of the total order, and about \$50,000,000 for the facilities which the Army feels it cannot certify to as useful. The RFC is prepared to advance \$100,000,000 for new ammunition plants on the request of the ~~Federal Loan Administrator~~, ~~with your approval~~, and the certification of the War Department and the Defense Commission. If the English will accept this proposal, all of us feel that this will tide them over until Congress meets in January, at which time it is the unanimous feeling of this group that we should present the entire matter ~~of Great Britain and Canada~~ to Congress, including the financial status <sup>of Great Britain</sup> which, in the light of their projected commitments, seems inadequate.

We have just concluded a second meeting which was attended by Secretary Stimson, Assistant Secretary Patterson, General Marshall, Acting Secretary of the Navy Forrestal, Admiral Ingersoll, Secretary Jones, Under Secretary Welles, Commissioner Knudsen and representatives of the Treasury.

At this meeting the Treasury presented the most up to date figures that we have received as to the financial status of the British ~~Treasury~~. This shows that with <sup>plus the orders already placed</sup> the orders they would like to place now <sup>at</sup> their total orders will amount to over \$5,000,000,000. The British Treasury claims that their ~~ready available~~ cash and other assets amount to about a billion eight. They <sup>also had</sup> ~~have~~ still other <sup>about</sup> assets of which we have not yet received full information, but we think it evident that in any event the British Treasury is facing a deficit within the coming year. The War Department ~~has made the statement~~ <sup>still</sup> that in case the English should stop fighting or run out of cash, our Army can make good use of substantially all of the output of the so-called "B" <sup>advance</sup> program of the English, which amounts to at least \$600,000,000.

*make the usual  
advance to the  
mfg of 97*

We have proposed tonight to the English, subject to your approval, that they ~~pay down in cash~~ <sup>take mfg</sup> \$200,000,000, which is approximately one-third of the total order, and about \$50,000,000 for the facilities which the Army feels it cannot certify to as useful. <sup>of the balance of</sup> The RFC is prepared to advance \$100,000,000 for new ammunition plants <sup>on the re-</sup> <sup>def-</sup> request of the Federal Loan Administrator, with your approval, and the certification of the War Department and the Defense Commission. If the English will accept this proposal, all of us feel that this will tide them over until Congress meets in January, at which time it is the unanimous feeling of this group that we should present the entire matter of ~~Great Britain and Canada~~ <sup>of Great Britain</sup> to Congress, including the financial status which, in the light of their projected commitments, seems inadequate.

*and their claimed assets*

We have just concluded a second meeting which was attended by Secretary Stimson, Assistant Secretary Patterson, General Marshall, Acting Secretary of the Navy Forrestal, Admiral Ingersoll, Secretary Jones, Under Secretary Welles, Commissioner Knudsen and representatives of the Treasury.

At this meeting the Treasury presented the most up to date figures that we have received as to the financial status of the British Treasury. This shows that with the orders they would like to place now their total orders will amount to over \$5,000,000,000. The British Treasury claims that their readily available cash and other assets amount to about a billion eight. They have still other assets of which we have not yet received full information, but we think it evident that in any event the British Treasury is facing a deficit within the coming year. The War Department has made the statement that in case the English should stop fighting or run out of cash, our Army can make good use of substantially all of the output of the so-called "B" program of the English, which amounts to at least \$600,000,000.

We have proposed tonight to the English, subject to your approval, that they pay down in cash \$200,000,000, which is approximately one-third of the total order, and about \$50,000,000 for the facilities which the Army feels it cannot certify to as useful. The RFC is prepared to advance <sup>the balance</sup> \$100,000,000 for new ammunition plants <sup>upon</sup> ~~on the request of the Federal Loan Administrator, with your approval, and~~ the certification of the War Department and the Defense Commission. If the English will accept this proposal, all of us feel that this will tide them over until Congress meets in January, at which time it is the unanimous feeling of this group that we should present the entire matter of Great Britain and Canada to Congress, including the financial status which, in the light of their projected commitments, seems inadequate.

We have just concluded a second meeting which was attended by Secretary Stimson, Assistant Secretary Patterson, General Marshall, Acting Secretary of the Navy Forrestal, Admiral Ingersoll, Secretary Jones, Under Secretary Welles, Commissioner Knudsen and representatives of the Treasury.

At this meeting the Treasury presented the most up to date figures that we have received as to the financial status of the British ~~Treasury~~. This shows that with the orders they would like to place now their total orders will amount to over \$5,000,000,000. The British ~~Treasury~~ claims ~~that their~~ readily available cash and other assets amount <sup>to</sup> about a billion eight. They ~~have still~~ <sup>also</sup> other ~~assets~~ <sup>assets</sup> of which we have not yet received full information. ~~but we think it unlikely that in any event the British Treasury is facing a deficit within the coming year.~~ The War Department ~~(has made the statement)~~ <sup>Steady</sup> that in case the English should stop fighting or run out of cash, our Army can make good use of substantially all of the output of the so-called "B" program of the English, which amounts to at least \$600,000,000.

*t to*

We have proposed tonight to the English, subject to your approval, that they pay down in cash \$200,000,000, which is approximately one-third of the total order, and about \$50,000,000 for the facilities which the Army feels it cannot certify to as useful. The RFC is prepared to advance \$100,000,000 for new ammunition plants, <sup>on the</sup> request of the Federal Loan Administrator, with your approval, and the certification of the War Department and the Defense Commission. If the English will accept this proposal, all of us feel that this will tide them over until Congress meets in January, at which time it is the unanimous feeling of this group that we should present the entire matter ~~of Great Britain and Canada~~ to Congress, including the <sup>financial</sup> status which, in the light of their projected commitments, seems inadequate.

*and their claimed assets,*

*of Santa Barbara for an*

December 10, 1940

Dear Sir:

Will you please transmit for me by a secret system the following message to the President:

QUOTE - We have just concluded a second meeting which was attended by Secretary Stimson, Assistant Secretary Patterson, General Marshall, Acting Secretary of the Navy Forrestal, Admiral Ingersoll, Secretary Jones, Under Secretary Welles, Commissioner Knudsen, and representatives of the Treasury.

At this meeting the Treasury presented the most up to date figures that we have received as to the financial status of the British. This shows that with the orders they would like to place now, plus the orders already placed, their total orders will amount to over \$5,000,000,000. The British Treasury claims that their cash and other assets readily available amount to about a billion eight. They also have other assets about which we have not yet received full information. The War Department states that in case the English should stop fighting or run out of cash, our Army can make good use of substantially all of the output of the so-called "B" ordnance program of the English, which amounts to at least \$600,000,000.

We have proposed tonight to the English, subject to your approval, that they make the usual advance payment to the manufacturers of \$200,000,000, which is approximately one-third of the total order. The new facilities will cost approximately \$150,000,000. Of this amount, the Army feels it cannot certify to as useful one-third of the facilities amounting to \$50,000,000, which the British will, therefore, have to advance. The RFC is prepared to advance

- 2 -

the balance of \$100,000,000 for new ammunition plants upon the certification of the War Department and the Defense Commission. If the English will accept this proposal, all of us feel that this will tide them over until Congress meets in January, at which time it is the unanimous feeling of this group that we should present the entire matter to Congress, including the financial status of Great Britain which, in the light of their projected commitments and their claimed assets, seems inadequate. - ~~UNQUOTE~~ *May I hear from you at an early date. - Unquote*

Yours sincerely,

The Communications Duty Officer,  
Navy Department,  
Washington, D.C.

December 10, 1940  
5:57 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello.

Jesse Jones: Hello. Are you worn down?

H.M.Jr: Just about.

J: (Laughs). Well, I thought in your message if you want to just leave out that approval of the Federal Loan Administrator and the President but leave in the others because he knows we've got to do that anyway, don't you see.

H.M.Jr: You mean leave out .....

J: Where it says that we prepared - the RFC prepared upon the recommendation of the .....

H.M.Jr: Just say the RFC are prepared to do so and so.

J: Upon the certification of the War Department .....

H.M.Jr: And leave out the Federal Administrator and leave it out with your approval, or leave that in.

J: No, you can leave that out and the President out because he knows he's got to do it. We can't build a plant without his approval.

H.M.Jr: Well, then, leave out Federal Administrator, and leave out where we say with his approval.

J: Yeah.

H.M.Jr: But leave in certification of the War Department and Defense Commission.

J: That's correct.

- 2 -

H.M.Jr: Got that?

J: That's right.

H.M.Jr: Right. You perfectly happy about this?

J: Huh?

H.M.Jr: Are you perfectly happy the way .....

J: Oh, yes. I think it's a good program.

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

J: I'll be interested to know what you get from the British.

H.M.Jr: O. K. (Laughs). I'll let you. I'll let you.

J: Huh?

H.M.Jr: Thank you.

J: O. K.

## New War Loan Program

Mr. Harvey D. Gibson, President,  
Manufacturers Trust Company,  
New York, New York.  
(telegram)

*7/21/40*  
*Reply 7/21/40*

Believes new war loan program most constructive; has 600,000 customers, most of them of limited means; proposes to give complete support to program, and will approach each one of this group of customers through c/o offices with request that they subscribe, and will widely advertise loan to effect that subscriptions will be accepted at all their offices; pledges whole-hearted cooperation.

Mr. H. F. Watson,  
Greenville, South Carolina.  
(telegram)

Congratulations on general attitude and statement on tax exempt funds.

Mr. J. Howard McGrath,  
Providence, Rhode Island.  
(Governor-elect)  
(telegram)

Whole-heartedly supports new loan program as citizen and Governor-elect; defense program must be supported by man power and tax revenue power; sacrifices must be made by draftees, mothers, wives, children; certainly those whose incomes are from investment in Government bonds, actuated by patriotic motives should be proud to assume share of burden; Rhode Island has large wealthy population and no state income tax; appreciation of this fact should prompt that state's citizens to purchase bonds.

December 10, 1940.  
6:20 p.m.

### BRITISH PURCHASING PROGRAM

Present: Mr. Bell  
Mr. White  
Mr. Cochran  
Mr. Young  
Mr. Phillips  
Mr. Pinsent  
Sir Henry Self  
Mr. Playfair  
Mr. Ballantyne  
Mr. Monnet  
Mrs. Klotz

R.M. Jr:

For your information this afternoon, I think I told some of you that I met with representatives of the State Department, War, Navy, Commerce, and the Defense Commission, and I presented to them in strictest confidence the latest information which I had on British finances, and then I put up to them this question of what we call, for lack of a better name, the "B" program, which is, I believe, largely ordnance. Now, subject to the approval of the President, this is the suggestion that we have to make to your Government: that it is agreeable to the United States Government, subject to the approval of the President, that you go ahead with this roughly six hundred million dollar program which, incidentally, the Army says that they have had three different versions. They don't know yet which is the right one. The Army and the R.F.C. are prepared to finance two thirds of the facilities. We understand the total amounts to one hundred 57 million

- 2 -

dollars. They are prepared to finance two-thirds, or a hundred. They would finance all of the facilities, but the Army is not prepared to certify to 50 million of it, so they would ask the British Government to put up 50. They will put up a hundred. They would put it all up, as I say, but the General Staff isn't prepared to certify that they need all of it. And the the usual deposit of one-third, which is - would amount to approximately another two hundred million dollars. On that basis, again I say, subject to the approval of the President, which I either will or won't have within 24 hours, we are ready to have you place this order. Now, as to the whole question, so that you know, there was unanimous opinion of everybody here that just as soon as the President thought it advisable, we think this whole question of what England and Canada need should be laid before Congress, and we simply regard this as a stop-gap because, as I understand it, there are certain time factors. If you don't get these orders in, we can't get them when you want them. It has no particular bearing on the whole program. I mean, this doesn't - I don't want you to feel that this is the method, necessarily, we would pursue from now on, because we know what you have and what you haven't got, but it does make it possible for you to place this order, get the factories under way, get them built, and gives Mr. Roosevelt a chance to make up his mind in what form he wants to present the needs of Great Britain to Congress. Would you say that would sum it up.

Bell: Yes

H.M.Jr: But I want to emphasize the fact that this doesn't - the approval of this plan doesn't mean that this is where we continue - expect to go on. We know you can't go on this way. We can read figures. And also I am familiar with the whole situation, because Mr. Hull let me

- 3 -

read Mr. Churchill's letter to the President, which I have here, so I am familiar with the whole picture. Now, if I haven't made it clear, would somebody want to ask me some questions?

Phillips: Did you refer to this third part about ships, sir?

H.M.Jr: No. This was - we haven't got a clearance on the ship thing, you see. This is simply what they call the ordnance. I haven't been able to get a clearance on the ship thing. I know it is blocked, but I don't know why. Well, I do know why. But you people in the Purchasing Mission don't feel that you have had approval on your ship affair, do you?

Bailantyne: We have had a formal approval, Mr. Secretary, that went through in the usual way for the 80 ships, but I have since learned from Philip that there may be some - that approval may be withdrawn or may have to be reconsidered, and I have instructed them not to go ahead.

H.M.Jr: Well, I told somebody connected with the British Purchasing Commission that Colonel Knox was opposed to it.

Bailantyne: Yes. Well, we have stopped it, sir. We have had the matter held up.

Young: I think that is correct, Mr. Secretary. They filed a regular form of clearance which was passed by the Navy as well as by Maritime, and after there were subsequent conversations with Colonel Knox, I asked Childs to let me know before they signed any contracts.

H.M.Jr: Well--

Young: The clearance was merely to carry on negotiations.

H.M.Jr: Well, it wasn't part of the discussion. I make myself clear that we are not - I look at this

- 4 -

simply as a stop-gap. We are not freezing the proposal that this is the only way we will go ahead. This is simply something - if the President was here, we would maybe do it some other way, but it is very, very difficult to put this in a cable, but this does - and the Army feels that it is terribly important that if they are going to meet your time schedule, this thing be placed at once. I mean, the Army is pushing for this.

Monnet: Mr. Secretary, may I ask one question? You mentioned a hundred and 50 million as capital investment necessary for this ordnance under the "B" program. As I understand it, there were three hundred million mentioned.

H.S.Jr: I am just - here is - what would you call it? The whole top of the Army was here, Secretary, Assistant Secretary, Chief of Staff, their lawyers, and they used as their figures a hundred million and fifty-seven.

Monnet: The two hundred that we have put in this as capital investment necessary for creating the capacity for the 10 Divisions necessary was provided to us, it is my understanding, by the Army, who gave figures of two hundred million for capital investment and six hundred million for the cost of the weapons.

H.S.Jr: Well, Mr. Monnet, today they talked in terms of a hundred million and 57 million, and they said that the 57 million figure was plus or minus, they didn't know.

Monnet: Of course - well, they are new figures, according to those we have had.

H.S.Jr: And they also said that they had had three different proposals from you, and they don't know which one is the right one.

- 5 -

- Monnet: We will go into this question.
- H.M.Jr: Are you going to get a cable off tonight?
- Monnet: We will have to.
- Phillips: We must, I think.
- H.M.Jr: I think so. I am getting one off to the President.
- Monnet: Because I looked at the figures this morning, and the figures that came from the Army showed two hundred million.
- Young: Well, they may have revised their estimate on that.
- H.M.Jr: Well, let me explain to you how they arrive at the 57. They didn't arrive at it by whittling down the 200. The 57 goes to those particular kind of facilities which the Army says that they don't need, see. They won't certify it. They will certify as to the orders, but not as to the additional plant facilities.
- Monnet: I see that, but that would reduce, then, the facilities which they would assist to 100.
- H.M.Jr: It has gotten so big since you and I did business two years ago - I used to be able to carry things in my mind two years ago. I can't any more.
- Monnet: I think what we might - we should bring this out with the Army.
- H.M.Jr: I would, and then go back at them tomorrow; but, if I might suggest to save time, I would get something off tonight, then go back at the Army tomorrow.
- White: It is clear that this two hundred million dollars,

- 6 -

the Secretary speaks of as a down payment to the manufacturers, is the usual thing?

H.M. Jr:

The two hundred million is a down payment on your orders, the product.

Monnet:

It is the down payment necessary for the creation of the capacity of production.

White:

No. It is an advance payment on the six hundred million dollar orders which presumably you will give, and they usually demand a third, I understand.

Monnet:

That is their interpretation?

White:

That is the private manufacturers' demand for advance payment.

Monnet:

I think the best thing is for us to clear that with the Army.

H.M. Jr:

They have got a man by the name of McCloy. He seems to be the man. The hundred and fifty odd million dollars is facilities, and then they say you will need at least six hundred million dollars worth of product, and they are ready to have you place that order, and when you have placed the order, they say the American manufacturer will want an advance payment of one-third. They think that that order, before you get through, will be over seven hundred million, because they say there are a lot of signal corps things which are not included.

Young:

The British estimate of that is even higher. They gave it to us this afternoon. There is just one other point, Mr. Secretary. In order to distinguish this from the former continental plan which we used, to clarify it in their minds, which is that the 50 million which they pay down for capital expenditure for creation of

- 7 -

plant capacity is their share of the capital expenditure and their proportionate share of the ordnance items. Of the hundred that the R. F. C. puts in, they do not pay.

- H.M.Jr: Explain it to them all over, will you please?
- Young: I was just hoping my interpretation of it was correct.
- H.M.Jr: I don't know. I wouldn't go into any more refinement because you are raising something that you didn't raise when the Army was here.
- Young: Well, it seemed obvious from their statement, I thought.
- H.M.Jr: Well, it might be, and it might not. I would just - as I say, I am suggesting they get off a cable giving the British Government this rough idea. I am getting off a cable to the President. I am not going down to the last minute thing because he can't understand what it is all about. He has got to take the principle.
- Monnet: We can clear this with the Army tonight in detail.
- Self: May I ask something, Mr. Secretary?
- H.M.Jr: Please.
- Self: Is there any decision about the capital expenditure on the air program, the 12 thousand aircraft?
- H.M.Jr: I don't know anything about it. This is the only thing that--
- Bell: This was the immediate problem.
- H.M.Jr: I have given you everything that happened here in three hours, boiled down, as it affects you. No one said anything about anything else. I mean,

nobody brought up anything else. But I repeat again that this doesn't mean that the picture is frozen one way or the other. It is just to get over this hurdle.

115

BRITISH EMBASSY,  
WASHINGTON, D. C.

10 December

Dear Cochran

I hope you will find the  
enclosed papers suitable for the  
purpose of showing to the Secretary,  
but if you have any point on them  
I am at your service if you  
telephone me.

Yours sincerely  
F Phillips

[Received From Sir Frederick Phillips, Under Secretary of the British Treasury, through British Embassy messenger, at 6:15 p.m., December 11, 1940, by Mr. Cochran in the Treasury, under cover of a personal note]

**BRITISH CONTROL OF FINANCIAL TRANSACTIONS WITH THE  
ENEMY**

---

(a) Control in the United Kingdom of financial transactions with the enemy rests on:-

1. The Trading with the Enemy Act of 1939 under which:

- (a) It is forbidden to have any financial dealings with the enemy. (Penalty up to seven years imprisonment).
- (b) The enemy is defined as any State at war with the U.K., any individual resident in enemy territory, any body of persons carrying on business in any place (if it is controlled by an enemy under the Act), or any body of persons constituted or incorporated in, or under the laws, of a State at war with the U.K.
- (c) The Board of Trade may by order "specify" any person in any place, who then becomes an enemy under the Act. Names so specified are published in a list commonly known as "the Statutory List".
- (d) The Board of Trade may by Order authorize Inspectors to examine the books of a person or firm in the U.K., and may then, if necessary, appoint a Supervisor for such business.
- (e) The property of "enemies" in the U.K. may be vested in the Custodian of Enemy Property.

2. The Defence Finance Regulations (issued by the Treasury) -

- (a) give the Treasury power to prevent the payment or transfer of funds belonging to a State or resident of such a State if the Treasury are satisfied that such State is exposed to pressure from another State and in consequence action is being taken to the detriment of the economic position of the U.K. This power has been made use of in the case of Roumania, the Baltic States and Syria.
- (b) control the payment of funds into any foreign account. These powers are used for exchange control purposes, and are not designed for the purpose of preventing financial transactions by persons resident in the United Kingdom with the enemy; in such cases the remedy would lie in a criminal charge being brought against the person concerned, while financial transactions through the U.K. with the enemy by persons outside the jurisdiction are effectively controlled by the other powers detailed above.

3. Put shortly, therefore, a suspect neutral outside the country is simply labelled as an enemy and treated as such. As regards a suspect neutral inside the country, there is a statutory right to inspect books and records and appoint an official Supervisor of his business, apart from the ordinary right to bring a criminal charge against him.

EXTENSION OF THE FREEZING ORDER

(b) His Majesty's Government through the medium of the British Ambassador approached the President of the United States on the 20th May, 1940 with the suggestion that it would be most helpful if the United States Government could make, inter alia, arrangements to block all German balances in the United States. It was urged that such action would greatly diminish Germany's capacity for aggression. In a subsequent message on the 18th June, it was suggested that a similar measure should be taken as regards Italian assets. The Under-Secretary of State replied on the 20th of June that the consensus of opinion, after most careful consideration of the possible advantages and disadvantages, had not favoured such action. Nevertheless the great importance which His Majesty's Government attached to such action led them to raise the matter again in an Aide-Memoire submitted by the Ambassador on the 3rd July to the State Department.

As I understood from the Secretary of the Treasury that the possibility of freezing all foreign assets in the United States, subject to the condition that the movement of assets would be freely allowed to friendly countries might come under consideration I have ascertained that His Majesty's Government would in fact warmly welcome such a proposal with the proviso that general licenses should be issued allowing the free disposal of assets held by residents in the British Empire. They would be interested to know if similar treatment would be granted to the assets of friendly countries, e.g. China and Greece.

I believe that the considerations in the mind of His Majesty's Government are that, in addition to the fact that the dollar resources of the enemy are their last big international reserve, repeated experience has shown that it is not sufficient to deal with the funds which they hold openly in any country, but that the greater part of their resources have undoubtedly been transferred into the names of neutral cloaks. In these circumstances and in the absence of special legislation such as enables His Majesty's Government to deal with neutral firms or persons acting in the financial interest of the enemy, the only effective method would be to block all foreign assets, subject to the issue of licenses in desirable cases.

FP.

December 11th, 1940.

MEMORANDUM

December 10, 1940.

TO: The Secretary  
FROM: Mr. Sullivan

Herewith are two memoranda from Mr. Blough commenting upon the two articles in the Financial Section of the New York Times for December 1st, and the article in Barron's on November 25th.

JWS

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE December 5, 1940

TO Mr. Sullivan  
 FROM Mr. Blough

Two tax items of interest were contained in the Financial Section of the New York Times for December 1, 1940. These were

1. "Tax Rise Wipes out Gains by Utilities"  
by Thomas P. Swift
2. "Chemical Trade Feels Tax Burden"  
by Kenneth L. Austin

Both of these articles state or infer that, for 1940, taxes have risen disproportionately to income. Both articles are misleading in several respects. The main points which should be noted are the following:

1. "Tax Rise Wipes out Gains by Utilities"  
by Thomas P. Swift

A. Relation of increased tax payments to increased income in 1940

The author of the article states that virtually every dollar of gross revenues which the electric light and power companies have earned this year from increased sales of industrial power arising from the mounting demand for war materials has been lost to them through increased taxes. The source of data supporting this statement is not revealed.

Estimates of earnings of public utility companies published by Standard Statistics and covering over 75 percent of the electric light and power industry, indicate that gross revenues in 1940 will be \$2,264.0 million as against \$2,169.5 million in 1939, or an increase of \$94.5 million. Increased tax payments were less than two-fifths of increased revenues, the balance of the increase in gross revenue being accounted for by increases in operating expenses, depreciation and profit. The Standard Statistics report does not include excess profits taxes, but states that the excess profits tax "is not expected to have any material effect on earnings of the electric light and power industry."

The foregoing data on taxes include not only Federal income taxes, but all other Federal taxes payable by electric companies, including the excise tax of 3.3 percent on sales of electrical energy, and state and local taxes. The article indicates that an important part of the tax on public utilities is directly attributable to the increase in the Federal income tax from 18 percent to 24.31 percent <sup>1</sup> and the manufacturers' excise tax of 3.3 percent on sales of electrical energy.

It should be noted that excise taxes may be included as a cost item and recaptured through price adjustments. This is particularly so in the case of regulated industries such as public utilities in which taxes are considered in the determination of rates. It is probable, therefore, that not only has the manufacturers' excise tax on sales of electrical energy been included in the cost of electricity to the consumer, but that reserves for other taxes, including income taxes and property taxes, were taken into consideration by public service commissions when setting rates which would allow a fair rate of return. The amounts of tax payable by the public utility companies in the first instance are, therefore, no indication of the amounts of tax actually borne by them.

#### B. Relation of Federal taxes to state and local taxes

The statistics in the article appear to have been derived in large part from the Edison Electric Institute Statistical Bulletin of March, 1940. This bulletin, however, does not contain information on the relation of Federal taxes to total taxes paid by public utilities. From telephonic conversation with members of the statistical staff of the Edison Electric Institute and reference to Standard Statistics and other sources of information, it has not been possible to obtain a breakdown of taxes between Federal and state and local. The statement made by Mr. Swift to the effect that Federal taxes increased from two-fifths of the total taxes paid by public utilities in 1939 to one-half of the total paid in 1940 would seem to be the writer's estimate.

#### C. Noncomparability of data

The article does not contain the cautioning note in the main source of the author's information, the Statistical Bulletin of the Edison Electric Institute (March, 1940) to the effect that the figures for the various years are not comparable because of "purchases from and sales to municipal or governmental authorities and because of mergers and consolidations or of divorcements of properties involving utility services other than electric."

<sup>1</sup>/ The present rate of income tax, including the defense tax, is inaccurately stated by the author as 24.31 percent. The correct rate should be 24 percent.

- 3 -

2. "Chemical Trade Feels Tax Burden"  
by Kenneth L. Austin

The headlines and the implications of the article are to the effect that increased taxes are responsible for a disappointing showing of earnings in the chemical industry for 1940. As proof of this, the author has compared the increase in income in the chemical industry with the increase in income in such industries as steel, railroad equipment, metal works, aviation and automobiles. The author himself, however, indicates that earnings of the chemical industry "have been mounting steadily since the depth of the depression in the early Twenties, and have surpassed the levels which prevailed in 1929 and previous years." It has not been possible to check the author's statistics; however, it is not surprising that industries such as steel, which were hard hit by the depression, show a relatively greater increase in profits this year than an industry such as chemicals, the profits of which were steadily increasing all through the depression period.

The headline indicates that increased taxes have resulted in lower profits for the chemical industry. A more careful reading of the article itself, however, shows that reduced profits are due not only to increased taxes but also to high rates of depreciation, outlays for expansion, and mounting appropriations for development and research.

The profits of the chemical industry in comparison with other industries mentioned in the article for the years 1936-1939 are shown in Table 1. A comparison of 1939 and 1940 profits for selected chemical, steel, aircraft and automobile companies is given in Table 2.

RB

Table 1

Net income of corporations in the chemical and other selected industrial groups, 1936 - 1939

Industrial group	: Number : : of : : companies:	Net income <sup>1/</sup> (in millions of dollars)			
		1936	1937	1938	1939
Chemicals	24	194.5	204.6	116.6	188.8
Steel and Iron	27	51.4	80.4	- 2.3	44.9
Metal fabrication	14	14.4	10.2	- 1.7	8.9
Aircraft	6	2.3	3.6	5.9	7.3
Automobiles and trucks	12	311.9	251.9	104.7	216.8

<sup>1/</sup> After all charges and taxes.

Source: Standard Earnings Bulletin, September 1940.

Table 2

Comparison of 1939 with estimated 1940 earnings <sup>1/</sup> per common share of stock for selected companies in the chemical, steel, aircraft, and automobile industries

Company	Earnings per common share <sup>1/</sup>		Percent increase estimated 1940 earnings over 1939
	1939	1940 (Est.)	
<u>Chemicals</u>			
Air Reduction Corp.	\$ 1.98	\$ 2.50	+ 26.3%
Allied Chemical	9.50	10.05	+ 5.8
Dow Chemical	6.65	6.40	- 3.8
DuPont	7.65	7.75	+ 1.3
Monsanto	4.01	3.50	- 12.7
United Carbon	3.82	4.30	+ 12.6
Union Carbide and Carbon	3.86	4.50	+ 16.6
<u>Steel</u>			
American Rolling Mill	\$ .69	\$ 1.35	+ 88.4%
Bethlehem Steel	5.75	13.50	+134.8
Crucible Steel	2.54	10.75	+323.2
Inland Steel	6.73	8.75	+ 30.0
National Steel	5.71	6.75	+ 18.2
U. S. Steel	1.83	9.85	+438.3
Youngstown Sheet & Tube	2.50	4.75	+ 90.0
<u>Aircraft</u>			
Curtiss-Wright	\$ .39	\$ 1.35	+246.2%
Douglas Aircraft	4.81	15.00	+211.8
Lockheed Aircraft	4.04	3.15	- 22.0
Glenn L. Martin Co.	3.75	4.25	+ 13.3
North American Aviation	2.06	1.25	- 39.3
United Aircraft	3.53	5.25	+ 48.7
<u>Automobiles</u>			
Chrysler Corp.	\$ 8.48	\$10.40	+ 22.6%
General Motors	4.06	4.00	- 1.5
Packard Motors	.04	.10	+150.0
Studebaker Corp.	1.31	1.10	- 16.0

<sup>1/</sup> After all charges and taxes.

Source: Standard Earnings Bulletin, December 1940.

A. The first tax saving possibility available is to change a corporation to the sole proprietorship or the partnership form of business organization. The desirability of such a change can be determined only by an actual comparison of the total tax liability under the corporate form and the changed form of business organization. Among the factors to be considered before taking such action are:

1. The number of stockholders.
2. Their individual incomes from all sources.
3. The estimated total tax liability of a corporation.
4. The effect of the distribution of undistributed profits upon stockholders' income tax liability.
5. The income which would be available to the shareholders under the changed form of organization after all taxes.
6. The taxable gain to shareholders upon liquidation of corporate assets.
7. The imminence of still higher corporate taxes in years to come. This is especially significant in the case of the small closely-held corporations.

B. An additional device for minimizing the excess profits tax is the creation of an additional corporation especially where new contracts or special work is contemplated. A split-up of the old corporation into several new companies will not operate to reduce the total tax.

C. Where possible, an acceleration of income items into the earliest years and a delay of deductible expenditures into the income of later years is likely to reduce tax liability. An illustration of proper timing follows:

Suppose in a loss year business equipment with a value less than depreciated cost was disposed of and replaced. A loss resulting from the sale of such assets is deductible in full but if the taxpayer makes such a sale in a loss year he derives no benefit thereby because of the lack of offsetting taxable income. If the taxpayer were to trade in the old equipment in part payment for the new, no recognizable loss would result; however, the undepreciated cost of the old property can be added to the cash paid in for the new and this total amount would then form the basis for future depreciation deductions. The taxpayer would then be furnished with deductions when it would do him the most good.

- 2 -

D. It may be desirable for some corporations to discontinue any pending refund claims affecting the tax years beginning in 1936. A successful prosecution of such claims might reduce base period net income and consequently increase excess profits net income with the result that the additional taxes over a period of years might considerably exceed the refund obtained. Where such refund claims are based upon deductions for losses arising out of fires, storms, theft or other casualties or long-term capital losses or the abandonment or demolition of property, such claims need not be discontinued. The reason is that such deductions will not reduce the average earnings for the base period.

A refund claim based upon a depreciation deduction may not only reduce base period earnings but it may affect invested capital as well. The granting of such a claim would reduce the accumulated earnings and profits of a corporation at the beginning of the first excess profits tax year and thus increase tax liability.

E. A re-examination of the tax returns in the base years may reduce a company's tax costs after it takes appropriate action. Since most companies are normally careless about deductions in loss years, a correction in one of the base years may make a substantial difference in the average earnings credit and current excess profits tax. Where a company had one loss year in the base period, it may be that some deductions were taken in the profit years which properly belonged in the loss year. Where there were two loss years it may be possible that the smaller loss can be decreased and the larger one increased by a reassignment of deductions.

F. Corporations should take advantage of the special relief provision relating to certain types of unusual and nonrecurring income. By spreading receipt of the payment of a judgment, claim or award and the receipt of dividends on stock of foreign corporations other than personal holding companies, it is possible to increase the base period credit as well as to reduce the current year's excess profits income.

## MEMORANDUM FOR THE SECRETARY

December 10, 1940.

Just for your information, the morning mail, Monday, December 9th, contained 13 letters in favor of help to Great Britain, and 79 opposed. There were the usual number of abusive post cards, anonymous and signed, "An American", etc. Many of these letters are intelligently written by responsible citizens who used their business letterhead, and wrote at some length regarding the international situation.

The following are some brief abstracts which came from this one mail delivery:

FOR AID TO BRITAIN

Miss Eleanor E. Hoodley, Cresskill, New Jersey. Future of U. S. looks black if England loses. Suggests Secretary use all his power toward extending credits England asks.

W. E. Stewart, Stewart Oil Company, Tyler, Texas. Suggests we negotiate with Great Britain for the purchase of British Guiana which is rich in Bauxite, (aluminum and manganese), and some other Western Hemisphere possessions for the amount of indebtedness they owe the U. S. We need to help Great Britain more and faster.

Bessie Watson Haley, Los Angeles, California. Appreciates fine manner and statesmanship shown in administration of affairs of our Treasury by Secretary. Great Britain is a "good risk", fighting for our ideals. Why bury gold at Fort Knox that could help this great people?

Rev. John G. Rogers, The Methodist Church, Bangor, Maine. Records personal appreciation of what is being done and what he hopes will be done to speed financial and other aid to Great Britain. Time for action is NOW. That sentiment is expressed by himself and 2,000 people.

Mrs. Marion R. Soldati, So. Norwood, Ohio. If England and China need money, give it to them. "Why do too little too late".

H. D. March, DDS, Chico, California. Favors support of England even to war.

Memorandum for the Secretary.

December 10, 1940.

Henry Lorch, Tenafly, New Jersey. Question of aid to Britain and her allies causing writer much concern; feels strongly that their need is so great that our help must be considerably increased. They need more overage destroyers, freight-carrying ships; naval participation in convoy work, more planes, guns and munitions of all kinds. Let us repeal legislation that impedes our free and spontaneous aid.

A. L. Sutherland, Great Falls, Montana. British Government could issue 5 or 10 billion West Indies Sovereign Bonds, 10 year maturities, which Wall Street financiers could underwrite, and American bankers subscribe money, or if worst should happen, U. S. could hold West Indies under British-allowed receiver; sell her immediately 100 more old destroyers.

Earle G. Rogers, Wichenburg, Arizona. Suggests U. S. arrange loan to England, secured by the possessions upon which we have established bases, our Government to occupy and govern until loan was repaid.

#### AGAINST AID TO BRITAIN

J. E. Thiesmen, Dayton, Ohio. "You in Washington should go a little slow" in loaning money to Great Britain until debt is paid.

Adrian Van Keulen, Grand Rapids, Michigan. Thinks England has unmitigated nerve to want to borrow more money. Can't understand where Mr. Jones or Secretary gets the idea England is good war risk.

Frank V. Patterson, Yakima, Washington. Is alarmed over Secretary's statement considering British Empire to be a "good risk" for our money. Does not blame Secretary, but because he holds esteemed position in American Government, thinks Secretary's words and actions carry weight. Writer and his friends want positive and concrete assurance that U. S. will not enter war.

Willette C. Szanton, Portland, Maine. Keep Johnson Act in force; that is the sentiment of people of Maine. America does not want war. "There must be no gambling -- no risks, good or bad -- with the money of the American people or the lives of American men".

Russell Thompson, Miami Beach, Florida. Can only see financial ruin if Secretary believes that "an institution that has defaulted in its payment of principal and interest for more than 8 years, and now entirely ignores its obligation, is a good risk for the American Government".

Memorandum for the Secretary.

December 10, 1940.

Dean Tuttle, New York City. Says figures show England does not need aid before November, 1941; England proved poor risk 23 years ago and is "poorer risk at present". United States must not lose boys who will follow to protect loans.

Rev. Francis P. Donohoe, Monroe, La. Rank and file of American people are opposed to any aid to England -- "do not owe the British anything .. except a kick".

Ralph Myers, El Dorado, Arkansas. Opposes aid to Britain until Britain pays old war debt. Is sympathetic with Britain's cause, but believes she uses U. S., always has, and that U. S. should be cold blooded.

Joe Burleigh, Chicago, Illinois. "Did Britain pay us last time? Do you think she will this time? Why does the East want war? Who pays your salary, Uncle Sam or John Bull?"

Irving Amdur, Long Island City, N. Y. Opposed strongly to loan to Britain. Believes that loan to Britain would inevitably lead U. S. into actual combat.

Walter Scott Neff, American Peace Mobilization - Frederick Myers, National Maritime Union - Douglas McMahon, Transport Workers - Jean Horis, Youth Congress - Hope Stevens, National Negro Congress - Bernard Harkavy, Jewish Peoples Committee, New York City, send a telegram which condemns extension loans, as credits to Britain will bring nation to brink of war. Demand open hearing and full Congressional debate.

Ethel Davis, New York City. Opposes any change in Johnson or Neutrality Acts. Believes loan to Britain would be "just one more step in the direction of war".

Ernest Frey, Pittsburgh, Pa. Amazed at Mr. Morgenthau's quoted opinion that Britain is a good financial risk. Hopes Britain wins, but begs Mr. Morgenthau to recover his senses.

H. C. Shaw, Cambridge, Mass. "We The People" urgently protest any involvement of the U. S. in foreign wars. Expects officials we put in office to heed our demands.

W. B. Klopfenstein, Grabill, Indiana. Cannot subscribe to Mr. Morgenthau's views that England is a good risk, due to the non-payment of past debts. Has no objection to making further loans to Great Britain, but with the understanding that they must be repaid. Suggests also that due consideration be given to our defense program so that it will not be hampered or impaired in any way on account of this loan to England.

Memorandum for the Secretary.

December 10, 1940.

Ralph Loiskner, Dubuque, Iowa. Finds it difficult to imagine why additional credits to Great Britain could be considered "a good risk". Advocates that no such loans should be made without her pledge of the investments that she holds in this country as collateral.

Raymond W. Clark, Glencoe, Ill. Expresses his sincere appreciation for Mr. Morgenthau's very fine public service. But, is, for one, absolutely opposed to any change in the Johnson Act prohibiting loans to debtor nations. Deems British influence and propaganda entirely selfish and without regard to consequences to our country.

George W. Meertz, New London, Wisconsin. "Anyone who says England is a good credit risk, after what they did to us for the last 20 years, should have his head examined."

Charles Augustus Petring, Brooklyn, New York. Suggests that Britain quit claim all right, title, and interest to and in Canada to the U. S. in appreciation of our aid.

Gerald Blazek, Milwaukee, Wisconsin. "Britain is a hell of a risk!"

Mrs. J. Haunhorst, Cincinnati, Ohio. "You American-British are a pain in the neck to we real Americans". Protests aid to Britain and suggests that International Bankers and Mr. Morgenthau loan it personally.

I. L. DuVall, Lena, Wisconsin. The American people feel that they are carrying a heavy burden as it is now, without adding the loan to England. England is beaten so there is no use to throw the taxpayers' money away as they will never repay it.

Dr. Clarence S. Youngstrom, Madison, Wisconsin. Disapproves any extension of credits to England. Feels that when Britain's investments are used up in the U. S., it is then time to consider credits and then only if England has a chance of winning the war. Does not think her a good risk.

Walter T. Daenitz, New York City. Should not defense of our Government take precedence over needs of contending nations? Should our taxpayers be required to increase tax burdens to extend credits to defaulting nations?

Arnold F. Keller, Utica, New York. This is not time to unleash spirit of revenge and to implement it by misguided sentimentalism; why not follow England's own historic course of absolute realism? Does not suggestion of loaning money to a base and unconscionable defaulter border close to misappropriation of people's funds?

- 5 -

Memorandum for the Secretary.

December 10, 1940.

Zether Stealey, Clarksburg, West Virginia. Let British pay for their own war. Sick of British domination. Settled once in '78, must we settle it again?

Irving Brown, New York City. Willing to bring poor people of England, Ireland and Scotland to America and Canada, but wouldn't give one dime to House of Lords. If you have to throw money away, throw it away to poor people of America, not to International Bankers. War veteran.

L. L. Bernard, St. Louis, Missouri. If the Secretary's real opinion is that Great Britain is a good loan risk, we have a poor Secretary of the Treasury. Advise the Secretary to take a written lien on Great Britain's Western Hemisphere possessions if anything is loaned them.

P. R. Zahlmann, New Haven, Connecticut. The Secretary has his nerves to give away more of the taxpayers' money to England. We are Americans and not British. If the Secretary wishes to help them, go there himself.

I. A. Potter, New York City. The same old propoganda from the British. Let her use her securities first. After the war, which Britain will win with our assistance, Britain will wage a terrific commercial war with the United States.

Richard T. Sheahan, Brooklyn, New York. Why should the Secretary care if the "man with the hoe" sweats and goes hungry in order to give some billions to England.

Michael N. Miller, Jr., Pittsburgh, Pa. England is not and has never been a good war risk for U. S. Strongly protests loans or credits to Britain or other belligerents. "I don't want my country to suffer economic destruction which would be self-inflicted because voluntary and unnecessary".

Mrs. M. Goss, St. Louis, Missouri. Repeats President's statement that U.S. go to war only if attacked and states that we must not aid England any further because it will be war. Wants to know why President went South when Sir Phillips was coming to U.S.

Charles W. Spiess, St. Louis, Missouri. Does not favor aid to England because it means putting us into the war. "England double-crossed us in the World War and will do so again". Says people in that section of U. S. are not in sympathy with our foreign policies or the way in which they are handled by Washington. Quotes letter from Post Dispatch stating that England can still pay.

- 6 -

Memorandum for the Secretary.

December 10, 1940.

Miss Anita Hauck, Scarsdale, New York. "Stand firmly against giving credits to Great Britain!" "Keep the Johnson Act intact."

Miss Bertha Solis-Cohen, Phoenix, Arizona. Suggests British gold and securities in the U.S. and Canada be used as payments, or part payments, of the World War debt. Would place her in a position where her credit would be good and borrowing would be legal. Might create warmer feeling toward Britain.

*J. F. Forbush*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 10, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

## FBI reports:

November 19. Agent's report concerning German funds in New York City shows transactions in the purchase of Siemens and Halske bonds from International General Electric totaling over \$5,000,000 and providing commissions to refugees in this country (Jakob Goldschmidt, former Berlin banker, and other associates in A.E.B. American Corporation, operating here and in Mexico City) as well as to Wolfgang von Gibara and Hermann Kollmar, who have been associated with Arnold Bernstein, former head of the Bernstein Lines now a ship broker at 17 Battery Place. There appear to be indications that Kollmar at least is tied up with the German espionage service.

November 20. Agent's report concerning Italian funds shows, among other things, a working arrangement with the New York State Banking Department to examine transactions in Italian banks in the course of routine examinations by New York State Bank Department representatives.

December 6. Japanese business houses in Seattle are said to be secretly endeavoring to borrow money from Seattle banks.

December 6. Harry Bridges and the Communist Party are said to be endeavoring to overthrow the A.F. of L. International Longshoremen's Association's hold among the Brooklyn longshoremen and a strike may be expected.

December 9. The German Consulate withdrew \$9,000 in \$50 bills from the Marine Midland Trust Company, Whitehall Branch.

SAC

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 10, 1940

TO: Secretary Morgenthau  
 FROM: Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£143,000
Purchased from commercial concerns	£ 95,000

Of the sterling sold, £40,000 was bought by the Post Office. The remaining £103,000 were used to pay for the importation of tin and various other commodities.

In the open market, sterling was unchanged at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£3,000
Purchased from commercial concerns	£7,000

The Canadian dollar, which displayed some weakness yesterday afternoon after having remained steady at about 13% discount for more than a month, continued to lose ground today. From an opening of 13-3/16%, the discount widened to close at 14-1/8%. It was reported that a Cleveland bank's attempt to sell 100,000 Canadian dollars in the New York market was mainly responsible for the decline in the rate.

The Cuban peso discount, which has been quoted in the neighborhood of 8-1/2% discount since the beginning of December, widened sharply to close at 9-5/8%. Today's movement probably reflected the resignation of Dr. Fraga, Cuban Ambassador to the United States, announcement of which was coupled in Havana with disclosure that the Cuban government had ordered home for instructions part of Cuba's special economic mission here.

The other currencies closed as follows:

Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2063

A yuan rate of 5-15/16¢ was received from Shanghai this morning, 1/32¢ below yesterday's level.

We sold \$1,200,000 in gold to the Bank of the Uruguayan Republic, to be added to its earmarked account.

No new gold engagements were reported to us today.

The report of December 4 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$9,811,000, an increase of \$68,000 in the short position. Net changes were as follows:

Country	Short Position November 27	Short Position December 4	Change in Short Position*
England**	\$ 111,000 (Long)	\$ 59,000 (Long)	+\$ 52,000
Europe	3,870,000	3,950,000	+ 80,000
Canada	88,000 (Long)	11,000 (Long)	+ 77,000
Latin America	317,000	362,000	+ 45,000
Japan	4,460,000	4,296,000	- 164,000
Other Asia	1,376,000	1,347,000	- 29,000
All others	81,000 (Long)	74,000 (Long)	+ 7,000
	<u>\$9,743,000</u>	<u>\$9,811,000</u>	<u>+\$ 68,000</u>

\*Decrease in short position, or increase in long position, indicated by minus (-).  
Increase in short position, or decrease in long position, indicated by plus (+).

Combined position in registered and open market sterling.

There were no gold or silver prices received from Bombay today.

Spot silver in London was fixed at 23-1/16d, up 3/16d. The forward quotation was 23d, also up 3/16d. The dollar equivalents were 41.88¢ and 41.76¢ respectively.

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 five purchases of silver totaling 350,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

*[Handwritten Signature]*

**CONFIDENTIAL**

TREASURY DEPARTMENT

135

INTER OFFICE COMMUNICATION

DATE December 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Credito Italiano, New York, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 10	\$ 264,000	Check to order of Bizzera Co., Inc., N.Y., deposited with Chase National Bank, N.Y.

*J.M.P.*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

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

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 9	\$ 214,000	Banco di Napoli Trust Co., N.Y.	Chase National Bank, N.Y., for account of Credito Italiano, N.Y., for account of Credito Italiano, Rome, by order of Italian Institute of Exchange

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 7	\$ 25,000	Credito Italiano, N.Y.	Guaranty Trust Co., N.Y., for account of Credito Italiano, N.Y.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 10, 1940

*MHC*

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
December 7	\$ 5,040	Chase National Bank, N.Y., by order of Ceska Prunysloza Banka, Prague, by order of Narodni Banka for account of Czechy a Moravu V Praze, Prague
December 9	174,600	Guaranty Trust Co., N.Y., by order of Skandinaviska Banken, Stockholm

*[Handwritten signature]*

DEPARTMENT OF STATE  
ASSISTANT SECRETARY

A-B

December 10, 1940

STRICTLY CONFIDENTIAL

Mr. Merle Cochrane -- Treasury Department

In compliance with our telephone conversation of this morning, I am attaching hereto for your confidential information a copy of a confidential despatch dated November 29, 1940, from Rio de Janeiro, Brazil, concerning the "Dollar Account of The Italian Government With The Bank of Brazil."

Attachment:

Despatch No. 3939,  
November 29, 1940,  
from Rio de Janeiro.

dm

(Initialed F.B.L.)

Rio de Janeiro, Brazil, November 29, 1940

No. 3939

Subject: Dollar Account Of The Italian Government With The Bank  
Of Brazil.( C O N F I D E N T I A L )

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to the Embassy's telegram No. 608 of November 26, 6 p.m., regarding the dollar account of the Italian Government with the Bank of Brazil, and to report that, on November 27, the Bank of Brazil received an additional deposit of \$1,500,000.

Italian transfers to the Bank of Brazil during the week of November 25, totaled \$5,031,398. This sum, together with the \$5,071,582.15, which the Italians had previously transferred to the Bank of Brazil, increases to \$10,102,980.15 the dollar account of the Italian Government with the Bank of Brazil at present. This amount does not include the \$2,450,000 (U.S. currency) brought to Brazil by two Italians last week (please see the Department's telegram No. 381 of November 7, 8 p.m.).

The Embassy is informed that the transfers have been made by the Exchange Department of the Italian Government through correspondents of the Bank of Brazil in New York. In practice, the Exchange Department of the Italian Government telegraphs to the Bank of Brazil that it has instructed a bank in New York City to credit the account of the Bank of Brazil with X amount of dollars. The Bank of Brazil then establishes a corresponding dollar credit here in the name of the Italian Ambassador to Brazil. The Embassy has no way of ascertaining the origin of the dollar credits, however, it is believed that the transfers have been made from dollar deposits of the Italian Exchange Department of the Italian Government with banks in New York City.

The Italian Ambassador to Brazil has not been drawing on the account with the Bank of Brazil.

Respectfully yours,

William C. Burdett,  
Chargé d'Affaires ad interim.551.6  
WJD:3  
Copy:alo

TREASURY DEPARTMENT

140

INTER OFFICE COMMUNICATION

DATE DEC 10 1940

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of November, 1940.

Attachment

*S-1476*

SUMMARY REPORT ON STUDIES OR PROJECTS IN  
THE OFFICE OF THE GENERAL COUNSEL -  
NOVEMBER, 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Stock Dividend Problem. T.D. 5020, approved November 15, amends current regulations so that the Department will avoid giving expression in the regulations to the stock dividend views of the Supreme Court announced in the Eisner v. Macomber decision. It is intended by virtue of this revision that the government should be made free, insofar as possible and without embarrassment by reason of existing regulations, to seek in the courts a reexamination of the whole of the stock dividend problem.
2. Contributions to State Unemployment Funds. T.D. 5022 was approved November 20 amending Regulations 90 so as to give expression to the principles set forth in section 701 of the Second Revenue Act of 1940 enlarging the period of time within which contributions to state unemployment funds might be made so as to form the basis of a credit against federal unemployment taxes for the years 1936, 1937, 1938, and 1939.
3. Income Tax Exemption of Replacement Reserve Funds Under Amendment to Merchant Marine Act. On November 26, a Treasury Decision was approved on behalf of the Treasury and forwarded for the approval of the United States Maritime Commission, giving expression to tentative rules with respect to the establishment of replacement reserve funds and the resulting exemption from income taxes

authorized by the recent amendment to the Merchant Marine Act. Final regulations on the subject-matter are now being developed.

4. Taxation of Proceeds of Life Insurance Contract. On November 16, there was submitted a final draft of a Treasury Decision amending Regulations 80 with respect to estate taxes so as to render taxable the proceeds of a life insurance contract by reference to the payment of premiums by the decedent rather than by reference to his retention of incidents of ownership. The statute purports to tax the proceeds of insurance "taken out" by the decedent on his own life.
5. Computation of Corporate Earnings and Profits. On November 26 there was submitted a final draft of Treasury Decision relating to the provisions of section 501 of the Second Revenue Act of 1940, an enactment in which Congress developed prospective and retroactive rules for the computation of the earnings and profits of a corporation.
6. Regulations Relating to Excess Profits Tax and Consolidated Returns. There is being rushed to completion as rapidly as possible a preliminary draft of regulations relating to the excess profits tax imposed by the Second Revenue Act of 1940; also a preliminary draft of consolidated returns regulations under the consolidated return provisions of the Excess Profits Tax Act of 1940.
7. Extension of Social Security Act Coverage. There is pending before Congress (S. 4269) a bill introduced by Senator Wagner which

- 3 -

would extend the coverage of the Social Security Act in several respects. It would extend old-age insurance protection to approximately ten million additional persons, including all employees of state and local governments, agricultural and domestic workers, non-civil service employees of the Federal Government, and employees of non-profit, religious, charitable, and educational institutions. It would extend coverage for unemployment compensation to about five million additional employees, including employees working for an employer having fewer than eight employees, non-civil service employees of the Federal Government, and employees of non-profit, religious, charitable, and educational institutions. At the request of the Chairman of the Senate Committee on Finance, there is being prepared a Treasury report on the content of the proposed enactment.

8. Deferment of Collection of Income Taxes From Persons in the Military Service. There was submitted on November 22 a communication to the Secretary of the Interior explaining Treasury interpretation of section 513 of the Soldiers' and Sailors' Civil Relief Act of 1940, relating to the deferment of collection of income taxes from any person in the military service of the United States if the ability of such person to pay such taxes is materially impaired by such service. Section 509 of the Act requires the Secretary of the Interior to issue through appropriate military and

- 4 -

naval channels a notice to persons in the military service explaining certain provisions of the Act, including section 513.

9. Proposed Administrative Code. There has been submitted for the consideration of Assistant Secretary Sullivan a memorandum setting forth a brief history of the development of the proposed Administrative Code. It is observed that the Code would be ready for printing in January 1941.

10. Election of Executor Respecting Property Included in Gross Estate. Section 302(j) of the Revenue Act of 1926, as amended, provides that, at the election of the executor, property included in the gross estate as of the date of the death may be valued as of a date one year subsequent to the date of the death. In cooperation with representatives of the Department of Justice, consideration has been given to the extent to which this provision is applicable with respect to interest on a bond accruing throughout the one-year period, live stock increases during the year, and similar items. This consideration is given incidental to valuation cases pending in the Supreme Court.

The handling of the above matters was supervised by G. E. Adams, Head, Legislation and Regulations Division.

The following work was done under the supervision of Assistant General Counsel Cairns:

11. Purchase of Strategic and Critical Materials by United States

- 5 -

Directly from British Government. An opinion was prepared by Miss Goode and Messrs. Zarky, Meeker, and Kaufman and was signed on November 15, 1940. The opinion concludes that the proposal contemplating exchange of letters without formal contract and payment of 75% of purchase price against shipping documents under either C.I.F. or F.O.B. transaction is legal. There is discussed the applicability of statutes re Government contracts in general: Rev. Stat., secs. 3709, 3741, 3743, 3648; also the Government Losses in Shipment Act.

12. Procedure to be followed in connection with Relief Granted by Congress to Treasurer and Disbursing Officer on Account of Payment of Checks Bearing Forged Signatures. The opinion on this question was prepared by Mr. Wolf and was signed on November 20, 1940. It concludes that since relief acts involved in the inquiry do not make appropriations and thus confer no authority on the Treasurer to charge Warranted Balance, the Treasurer should comply with the request of the General Accounting Office to reverse entries made in the account of Disbursing Officer Farrell, those entries having resulted from an unauthorized charge in the Warranted Balance. In future, appropriations of funds to cover legitimized forged checks should be obtained in connection with private relief legislation.

13. Federal Control of the Growth of Opium in the United States.

This study was prepared by Messrs. Plumb, Feidler, and Gilmore.

The problem considered was two-fold: (1) The need of a program to insure to the United States a dependable source of the raw material for the manufacture of essential narcotic drugs, and (2) the need for increased control over the source of raw material which could be used for illicit drug traffic. The study concludes: (1) The Federal Government can effectively control the cultivation of opium poppies by private persons in the United States under the treaty power. (2) The Federal Government may, under various alternative constitutional powers, control or prohibit growth of opium poppies, although the degree of such control is necessarily limited, as compared with the treaty power. (3) The Federal Government may lawfully license private growers to grow and sell opium poppies to licensed buyers; or it may itself lawfully engage directly in growing opium poppies to meet the medical, scientific, and national defense needs of the Nation, with controls to prevent others from engaging in growing.

14. Currency Conversion: Everett Smith of the Customs legal staff has made a study of the proper conversion rate of the F.R.B. yuan, a north China currency issued and supported by the Japanese provisional regime. A memorandum on the subject expressed the view that neither of the two rates certified by the Federal Reserve Bank of New York is within the contemplation of section 522(c) of the Tariff Act of 1930 (U.S.C. title 31, sec. 372(c)). Mr. Smith joined Mr. Cairns in a conference at the Federal Reserve Bank of New York

- 7 -

with Mr. Trimble and Mr. Lang of that Bank concerning the matter and presented the views set forth in the memorandum. There were also further discussions of the proper rate of conversions for certain South American currencies. No definitive commitments were made by either the Bank or the Treasury representatives.

15. Extension of National Defense Preference Rating System to Certain Coast Guard Contracts. Through efforts of the Commandant, United States Coast Guard, and the cooperation of the Chief of Naval Operations, United States Navy, the Administrator of Priorities of the National Defense Commission has agreed to an arrangement whereby the preference rating system will be extended to contracts of the Coast Guard important in matters of national defense, such as for the construction, repair and alteration of cutters and the installation of guns and secret equipment thereon. The plan contemplates that the Navy member of the Army-Navy Munitions Control Board will look after the interests of the Coast Guard in the submission of preference rating recommendations from time to time to the Administrator of Priorities, such Navy member to be furnished information as to the necessity therefor by Coast Guard Headquarters through a Coast Guard liaison officer. Mr. K. S. Harrison, Coast Guard Legal Section, and Admiral Harvey F. Johnson, Engineer-in-Chief, United States Coast Guard, were engaged in working out the plan.

- 8 -

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

16. Bill to Relieve the Hospitals From Double Taxation Under Harrison Narcotic Act (for description see original report, item 9). This bill, prepared by Miss McDuff, together with subsequent material submitted in support of particular phases of the bill, is still receiving consideration by the Bureau of the Budget.
17. Fidelity Bond Bill (Formerly Identified as "Bond Survey") (for description see original report, Item 10). Due to the interest of about ten other agencies in this bill, the Bureau of the Budget has not yet been able to give it the usual clearance.
18. Compilation of Money Statutes (for description see original report, item 11). No recent progress has been made on this project by Miss McDuff due to other assignments.
19. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel (for description see original report, Item 13). This lengthy project was undertaken at the request of Mr. McReynolds during the time he was serving solely as Administrative Assistant to the President. Since at the present time Mr. McReynolds is largely concerned with his duties as Secretary to the Advisory Commission of the Council of National Defense and is not available for consultation, work on this project has been temporarily suspended by the Legislative Section.

- 9 -

20. Codification of Anti-counterfeiting and Related Laws (for description see original report, Item 7). Work on this project has been temporarily discontinued, as Mr. Koken, who was working on the matter, has been temporarily detailed to another division.

21. Federal Depository System (for description see original report, Item 6). Mr. Reeves is continuing his work on this bill. It is anticipated that the bill will be transmitted to the Congress before, or shortly after, the beginning of its next session.

22. Acting Administrators Bill (for description see June report, Item 33). Miss McDuff is continuing her study of the necessity and feasibility of general legislation to provide for acting bureau or division chiefs in the absence of a chief.

#### NEW STUDIES

23. Law Committee of Defense Communications Board. Mr. Spingarn has been designated as the Treasury representative on the Law Committee of the Defense Communications Board created by the President's Executive Order of September 24, 1940. Mr. Gaston is the Treasury representative on this Board. Mr. Spingarn has worked with the Law Committee in the preparation of several alternative drafts of Presidential orders for consideration by the Board which would provide for governmental control over communication facilities in time of war or national emergency preceding war, to the

- 10 -

extent permissible under existing law. He is also working with the Committee on drafts of legislation to authorize complete control by the Government of radio and wire communication facilities in time of war or impending war. Existing law provides for complete control over radio under such circumstances, but does not cover wire facilities adequately.

The following matters were worked on under the direction of

Mr. Bernstein:

24. Foreign Funds Control. This office participated in several conferences with regard to the possible extension of the freezing control, including a conference at the Department of State. This office also assisted in the preparation of a letter to the President recommending the extension of the freezing control to all other foreign countries. An extensive amount of work has been and is being done in considering problems which might arise in connection with the possible extension of freezing control to other areas.

Steps were taken to insure that the liquidation of the assets of the various blocked countries at the New York World's Fair would conform with the provisions of Executive Order No. 8389. An investigation was made of the situation, and a general authorization was given to the Federal Reserve Bank of New York setting forth the procedure to be followed in issuing licenses concerning the liquidation of the assets.

- 11 -

Consideration has been given to the problem of the applicability of the Order to patents, copyrights and trademarks, and to the sending of patent and comparable information abroad. In this connection a conference was held with various representatives of the du Pont Company, which had raised certain of the foregoing questions.

A conference was held with a representative of certain mutual savings banks concerning the applicability of the Order to certain mortgage and real estate transactions engaged in by such banks.

The entire staff of the Monetary and Exchange Section worked on the foregoing matters.

25. Regulations Relative to Withheld Government Checks. In cooperation with Mr. O'Connell's office this office reviewed regulations to be issued under the recent Act providing a procedure to be followed in the case of withheld government checks. The regulations apply not only to checks withheld under Executive Order No. 8389, but also to checks withheld from delivery in certain other countries pursuant to a determination of the Secretary of the Treasury. Mr. Bernstein and Mr. Friedman worked on this case.
26. Belgian Decree. We have discussed with representatives of the Belgian Embassy a recent decree issued by the Belgian Government in London amending an earlier decree so as to restrict further the authority of corporate directors who are in the invaded territory and

- 12 -

so as to extend the authority of directors who are outside of the invaded territory. We are giving further consideration to this decree. The Federal Reserve Bank of New York is also giving the matter consideration. Messrs. Bernstein and Friedman worked on this matter.

27. Statement of Account to the Netherlands. We have discussed with Mr. Molekamp of the Netherlands Legation and Mr. Cumming of the State Department the problem of American banks sending to clients in the Netherlands statements of account. The Dutch will give further consideration to the matter, particularly with reference to the authority under their decrees to prevent such information from being sent to the Netherlands. Mr. Bernstein worked on this.

28. Philippine Gold. We discussed with the Post Office Department the request of a steamship company that the Post Office Department forbid the shipment of gold to this country from the Philippines through the mails or parcel post in amounts exceeding \$50 in value. It was pointed out to the Post Office Department that several years ago when the same question had been raised with this Department by Post Office, this Department took the position that the question was not one which concerns the Treasury Department but was one for decision by the Post Office. It was indicated to Post Office that the position of the Department with respect to the matter is unchanged.

- 13 -

29. Australian Account. In cooperation with the Department of State and the Federal Reserve Bank of New York this office assisted in preparing various documents relating to the opening of certain accounts with the Federal Reserve Bank of New York in the name of the Australian Government.

Messrs. Bernstein and Friedman handled the last two mentioned cases.

30. Chinese Currency Arrangement. This office assisted in the preparation of a statement to be made by the Secretary before the Congressional committees regarding the Chinese currency arrangement, and also participated in conferences in the Secretary's office and at his home on this matter. Mr. Bernstein worked on this.

31. Argentine Currency Arrangement. This office participated in work done in connection with the proposed currency arrangement with Argentina. There was also prepared a memorandum as to the legality of the proposed transaction.

32. San Salvador Gold. This office participated in consideration of the transaction whereby certain gold now pledged to the Federal Reserve Bank of New York will be pledged with the B.I.S. to secure a loan from the B.I.S. to San Salvador. Appropriate licenses were issued authorizing this transaction, after discussion of the matter with the Department of State.

Mr. Bernstein worked on the two last-mentioned matters.

- 14 -

33. Logan-Walter Bill. This office assisted in the preparation of a statement of reasons why the Treasury Department should be exempted from the provisions of the Logan-Walter Bill. Mr. Bernstein and Miss Hodel worked on this.
34. Foreign Exchange Provision in Trade Agreements. A representative of this office participated in discussions regarding the foreign exchange provision inserted in certain trade agreements. Mr. Bernstein handled this.
35. Gus Farber v. United States. This office assisted the Solicitor General's office in the preparation of a brief in opposition to a petition for certiorari in this case, which involves a question of the validity and effect of certain of the gold Acts, orders and regulations. Messrs. Bernstein and Friedman worked on this.
36. E. Frieman & Company Case. This office participated in numerous conferences with representatives of the above-named company and with the Department of Justice regarding this case, which involves a violation of certain of the gold orders and regulations. As a result of these conferences, the above company has submitted to the Department of Justice an offer in compromise of its civil liability for violation of such orders and regulations. Messrs. Sutton and Friedman worked on this.

I think English should cancel 155  
order for Douglas Bomber with Boeing  
option West Coast production

Memorandum

December 10, 1940

To: Mr. Young

From: Mr. Buckley

## Re: West Coast Inspection Trip

During the week beginning November 25, 1940, we visited the West coast plants of the following airplane manufacturers:

Monday	- Boeing	- Seattle
Tuesday	- Lockheed and North American	- Los Angeles
Wednesday	- Douglas	- Los Angeles
Thursday	- Consolidated and Ryan	- San Diego
Friday	- Vultee and Northrop	- Los Angeles

Included in the party were James V. Forrestal, Undersecretary of the Navy, Captain S. M. Kraus, Advisory Commission to the Council of National Defense, and Messrs. Fairey, Gray and Mansell, of the British Purchasing Commission. Messrs. Siegrist, Wessell and Addams of the British Purchasing Commission joined the party at Los Angeles, as did Col. Joseph L. Stromme of the United States Air Corps.

From the discussions at these various plants, several general points emerged which merit immediate consideration since most of them affect production. Accordingly, I shall outline these points before giving any detailed description of the visits to individual plants:

1. There is probably substantial additional airframe production which can be secured from present facilities by going to three-shift operation seven days per week, for
  - a. None of the plants is now on full three-shift operation and some are operating only two shifts.
  - b. None of the plants is now on full seven-day operation and most work only five days.
2. Even without going to three-shift, seven-day operation, there is probably some additional airframe production available between now and June 30, 1942, for
  - a. Boeing estimates that they can produce at least 275 additional DB-7B bombers.

- 2 -

- b. Lockheed estimates that they can produce about 1,300 additional Model 37 bombers.
  - c. Vultee estimates that it can produce an undetermined but substantial number of fighters at its Downey plant and of dive-bombers at its Nashville plant.
3. This additional airframe capacity cannot be used unless there is an early increase in the rate of production of engines and of other items which the airframe manufacturers buy from outside suppliers.

There was general agreement throughout our discussions that the immediate answer to this problem is to place the entire industry on a twenty-four hour basis seven days a week. To do this will require centralized direction. The entire aircraft production problem must be tied together in one person or committee having the requisite authority to carry out the policies necessary to achieve maximum effort and results.

4. There is a serious bottleneck in the procurement of aluminum which must have immediate attention if serious production delays are to be avoided.

A delivery list supplied by the Douglas Aircraft Company showed the following delivery promises on various aluminum items as of November 15, 1940:

10 to 20 weeks on castings
18 weeks on bars
18 weeks on wire
20 weeks on forgings
20 to 28 weeks on sheets
24 weeks on extrusions
28 weeks on tubing

In our conferences it was brought out that the Defense Commission is satisfied that there is no shortage of aluminum poundage for the domestic production program. While this may be true, it is apparent that their analysis has not extended to the capacity for the supply of the various forms in which aluminum is used in the aircraft industry. While Boeing, Douglas, and other aircraft manufacturers can supply us with lists of items on which they need priority in order to maintain indicated deliveries, it is difficult to see how the Priorities Board can consider any such requests intelligently unless they have a picture of the requirements of the entire industry correlated with delivery dates for finished products.

- 3 -

Our conversations in the various plants indicated that the aluminum problem is most critical and immediate action was suggested along the following lines:

- a. Reduce as quickly and as drastically as possible the production and fabrication of aluminum for non-defense purposes.
  - b. Procure from each aircraft manufacturer a complete list by item of aluminum deliveries required monthly for the next year to meet indicated airplane deliveries and arrange to have this list corrected and extended at monthly intervals.
  - c. On the basis of the information obtained from individual manufacturers, arrange with the Priorities Board for the establishment of such priorities as will give the necessary deliveries.
  - d. If necessary in order to meet the required deliveries arrangements should be made for aluminum producers to go at once to 24-hour, 7-day operation.
5. Maximum production will be difficult if not impossible to achieve unless immediate attention be given to standardizing labor policies in the industry.

As it stands now, the agreements and practices of the various companies represent a serious obstacle to achieving 24-hour, 7-day operation, for

- a. In several plants work on Saturday must be paid for at the rate of time-and-a-half and work on Sunday at double time, even though this work is within the 40-hour work week.
- b. Bonus payments for work on the second and third shifts vary markedly as between companies, for
  1. Boeing pays its third-shift employees five cents per hour bonus with eight hours pay for six and three-fourths hours work.
  2. Lockheed pays its third-shift employees six cents per hour bonus with eight hours pay for six and one-half hours work.

159

## 4 More Plane Plants Face Wage Bid

With the Vultee strike settled, United Automobile Workers of America, a C. I. O. affiliate, yesterday laid plans to open contract negotiations, calling for similar wage increases, with at least four more Southland airplane plants.

Ryan Aeronautical Company, San Diego, employing 1000 workers, is next on the union's list for attention, it was stated.

Then will follow negotiations with North American Aviation, Inc., Los Angeles Municipal Airport, employing 7000; the Menasco Manufacturing Company, Inglewood, 1000, and the Harvill Aircraft Die Casting Corporation, Los Angeles, 800.

### PANLEY TO OPEN

Ryan employees already have voted the U. A. W. aircraft division as their official bargaining agent. Contract negotiations will open next week, officials said.

A petition by the U. A. W. for a hearing and setting of an election date at North American now is pending before the National Labor Relations Board. Decision is expected shortly.

The NLRB previously denied a similar petition, but union leaders said yesterday they were prepared now to convince the board that employees in that plant favored the C. I. O. affiliate.

Wage increases under terms of the Vultee settlement, basically 12½ cents an hour, had not been met yesterday by other aircraft industries in this area, C. I. O. leaders declared.

(Other news about Vultee strike on Page 3.)

- 4 -

3. Douglas pays its third-shift employees five cents per hour bonus with eight hours pay for seven hours work.

These non-standard practices in plants located in the same area and with employees doing practically identical work are a source of discontent among workers, leading to high turnover of employees and eventually to strikes. That the recent strike at Vultee was but the forerunner of serious labor difficulties in the industry was generally the opinion of the manufacturers with whom we talked. The attached clipping from a Los Angeles newspaper bears out this point. To counteract this threat to maximum production immediate constructive action is necessary. It was suggested that we might well have Mr. Hillman of the Defense Commission proceed on several lines such as the following:

- a. Standardization of the practices of all aircraft companies so as to permit 7-day operation without penalty for work within the 40-hour limit.
- b. Establishment of a procedure to prohibit one manufacturer from robbing another manufacturer of skilled employees.
- c. Establishment of incentive compensation plans so as to increase the productivity of labor.

As it stands today, almost all aircraft work on the West Coast is done on a straight hourly basis and there is very general agreement that workers are not producing the maximum possible per hour of labor. Several of the manufacturers expressed an interest in the British premium-bonus plan, and it seems very clear that production could be increased substantially with the development of some standard system for the entire industry.

- d. Enactment of legislation either for the aircraft industry specifically or for all defense industries providing for compulsory arbitration of labor disputes and the elimination of strikes. The strike at Vultee lost about eight working days, which will have a serious effect on their production program. Even worse will be the effect of strikes at the larger producers, or of strikes in the plants of sub-contractors who manufacture products used by many manufacturers. A serious strike in the aluminum industry today could tie up almost the entire aircraft industry.

- 5 -

6. The work on standardization of design as between United States and British planes has still not produced a single identical airplane.

While it is true that the tactical use of certain airplanes differs as between the two forces, making complete standardization impossible, there obviously must be some planes intended for the same tactical use. In these cases it would seem that standardization could be achieved if the necessary pressure were exerted on both sides of the conference table. Particularly surprising was the fact that the advanced trainer which is being made by North American Aviation for both the United States and the British is not standardized as between the two forces, even though it is a plane which is used only for training.

It is recognized, of course, that standardization cannot be effective for production within the next six to eight months, but the planes which will go into production at that time should certainly have immediate consideration from the standpoint of standardization. It would seem in these cases that better results might be achieved if agreement were reached on the intended tactical use of an airplane, after which standardization in detail could be required in a plane intended for the same tactical use by both forces.

7. The problem of housing was discussed with each manufacturer, but in no case is it a paramount issue except in San Diego where the problem is being met by the Navy.

The management at Lockheed felt that it would be desirable to have some low-rent Federal Housing projects in their area, not because there is any indicated lack of housing, but because private real estate operators in the Los Angeles area are maintaining rentals at quite a high level, which is a source of labor discontent and demand for high wages.

8. None of the plants visited felt that their production was being seriously hindered by lack of trained men.

All the large plants are cooperating with local public and private schools on a broad training program. The problem of securing federal aid is apparently working out satisfactorily through the state officials. Lockheed seems to be in the best position with a complete and well-rounded training program which has been developed over a four to five year period. Some shortages will undoubtedly arise if the industry moves to 24-hour, 7-day operation, but this should be overcome with the existing training programs.

The smaller plants without training programs of their own are likely to be at a disadvantage if any procedure is established to prevent the transfer of workers from one plant to another. I gathered from informal comments that some of the smaller plants have followed a policy of getting employees from the larger plants by offering them a greater number of hours work per week. If these plants had to develop their own skilled workmen, they might need assistance for a short time in setting up a training program.

9. The statements of Secretary of War Stimson and of the Priorities Board with reference to production of commercial aircraft seemed to cause general dissatisfaction. The Douglas Aircraft Company felt that it had been condemned without having an opportunity to defend itself. From my conversations with representatives of Douglas, Boeing, and Lockheed, I got the following impressions:

- a. Most manufacturers producing commercial aircraft have made provision in their plants for this production in addition to their full military program. This means that reduction of effort on the commercial ships will probably not increase military production for many months, if at all.
- b. In some plants, slowing down of the commercial program will eventually decrease military production, since men are being trained on the commercial planes who would later be transferred to military production.
- c. Reduction in commercial planes production and the resulting reduction of commercial planes available in this country may have the effect of retarding the defense program as a whole, for
  1. Many critical items are shipped now by air express and any freezing of the capacity of this transportation facility is likely to affect production and create delays.
  2. Increasing demand for air transportation by travelers working on the national defense program is taxing commercial lines to capacity now and may well impede the progress of the defense program if capacity is frozen at present levels.
- d. The freezing of production of commercial planes at a low figure and the resulting practical impossibility of making any sales for foreign account will have the effect of taking our manufacturers out of the foreign market at a time when they would have an opportunity to enter many markets which formerly were supplied by manufacturers

- 7 -

in other countries. From the standpoint of maintaining production in these new facilities after our present extraordinary military demand has been satisfied, this is certainly not a desirable policy.

- e. Freezing production of commercial aircraft is likely to retard development of new types and place our manufacturers and airlines at a disadvantage in world competition after the war.

The above general points were developed from discussions at the various plants and from the related conversations with the other members of the party. A more detailed description of the conferences at each plant follows.



BOEING

Boeing Aircraft Company

We met with Mr. C. L. Egtvedt, Chairman of the Board, and Mr. P. G. Johnson, President, at 10:00 A.M. on November 25.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
B-17C Flying Fortress	1
B-17D Flying Fortress	42
B-17E Flying Fortress	512
XB-29 Bomber	2
U. S. Navy	
XPBB-1 Patrol Bomber	1
British Empire	
DB-7B Bomber	240
U. S. Commercial	
A-314 Clipper	<u>6</u>
Total	804

Our principal discussion was on the production of the DB-7B bomber for the British. This is being manufactured by Boeing under license from Douglas. They are not likely to meet their scheduled deliveries which begin in May 1941, because they do not have as yet all the tool drawings and working drawings which are to be supplied by Douglas. Without this information they cannot begin complete production activity on this ship. In order to settle this problem at once, Mr. Egtvedt agreed to meet with us at the Douglas plant on Wednesday. At that conference we discovered that Douglas would complete the shipment of the drawings very shortly, and that there would be no great hold-up from this source. It was apparent, however, that there would be a hold-up because of the difficulty of getting various aluminum parts for these planes. The best deliveries that are being quoted now by the Aluminum Company are 25 weeks on some of the items required, which will certainly have to be improved tremendously if the first of these airplanes is to come out in May 1941. Boeing is now engaged in preparing a complete list of its aluminum requirements according to deliveries required to meet its production schedule, which will be forwarded to us and to Undersecretary Forrestal for consideration and presentation to the Priorities Board.

- 2 -

Boeing Aircraft Company

In addition to their present order for 240 DB-7B's, the British have an option for an additional 140 to be delivered in January, February, and March 1942. A problem has arisen in connection with the price to be paid for these planes since Boeing is asking the same price as was charged for the first 240 in spite of the fact that this price was to include amortization of tools. The British have objected and the issue was discussed at the conference. The following reasons for asking the same price were advanced by the representatives of Boeing:

1. Labor costs are said to have increased on this plane more than the amortization of tools included in the original price which cannot be recovered through the operation of an escalator clause because this clause in their contract is based on a durable goods index which moves very slowly, whereas labor costs in the Seattle area have increased very rapidly.
2. The company financed \$2,750,000 in new facilities on which they must have a return and expect to get part of it from the exercise of the option for the 140 DB-7B's.

Although there is undoubtedly a basis for the position taken by Boeing as to the price for these additional airplanes, it was pointed out to them that the price resulting from the operation of these variables would be the same as the price on the original order only by a most amazing series of coincidences, and that the reaction of the British might well have been much different if a new price had been developed through negotiation giving consideration to these factors rather than simply set at the old price without initial negotiation. After exploring these various points the problem was left without any attempt at final determination with the understanding that it was essentially a problem between Boeing and the British Purchasing Commission.

After going through the plant, which seems to be well adapted to the production of large airplanes in which this company is well experienced, the British indicated that they were considering seriously the possibility of cancelling their present order for DB-7B's and not exercising the option at all, so that the capacity of this plant could be released for work on heavy bombers. No mention of this was made to the management, but we did discuss with them the effect on B-17E production if the option were not exercised. The B-17E is scheduled for a maximum production of 40 per month beginning in August 1941. Mr. Johnson of Boeing thinks that this could be increased to 50, but does not think that release of the DB-7B capacity will work to increase the production of

Boeing Aircraft Company

the B-17E's. This position does not seem logical, since the DB-7B's take up space in the plant which could be used for a great many sub-assemblies for the B-17E's. Also, as it stands today, they are operating only five days per week, and their second and third shifts are only partial shifts. Even if production of the DB-7B's were continued, there seems no question but that the production of B-17E's could be substantially increased by working three full shifts seven days per week with a further increase if the DB-7B production were taken out of this plant. Accordingly, the British will give us immediate word as to their decision on DB-7B's, at which time consideration must be given to the additional B-17E capacity which will be available for an additional British order.

The labor problem in this plant is likely to present difficulties, particularly if operations be extended to a seven-day week. Under the company's present contract with the union they must pay time-and-a-half for work on Saturday and Sunday, even though it is part of an employee's 40-hour work week. In addition, they pay a five-cent bonus for work on the second shift, and the same bonus for work on the third shift with 8 hours' pay for 6-3/4 hours' work. The management in its discussions with us did not leave the impression that they had a very pleasant working arrangement with their labor organization. They seemed to be rather resigned to operating the plant on the hour and shift arrangements that the union wants, whether those arrangements are the most efficient from the standpoint of national defense or not. They felt that seven-day operation was virtually out of the question because of the union attitude and their feeling was that it would be impossible to make any change in the requirement that time-and-a-half must be paid for all work on Saturday and Sunday. Undersecretary Forrestal suggested that this problem be discussed with Mr. Hillman in detail as soon as possible after our return.

We went through the plant but did not have an opportunity to discuss the production problems with their production men. There is no piece-work or group-bonus plan, all labor being on a straight hourly rate. My impression from walking through the plant was that the morale of the workers is not high, and that they are not putting forth their best efforts. The management said that they felt they were getting a fair day's work, but agreed that they were not getting the optimum output per labor-hour by any means.

CONSOLIDATED

Consolidated Aircraft Corp.

We met with Messrs. Laddon and Mayer at 9:30 A.M. on November 28.

As of November 23, 1940 this company had the following unfilled orders:

U. S. Army	
B-24 Bomber	7
B-24A and B Bomber	38
B-24D Bomber	408
XB-32 Bomber	2
U. S. Navy	
PB2Y-2 Patrol Bomber	6
PBY-5 Patrol Bomber	195
PBY-5A Amphibian	134
PB2Y-3 Patrol Bomber	200
British Empire	
28-5ME Navy Bomber	153
28-5AME Amphibian	14
LB-30 Heavy Bomber	165
PBY-5 Patrol Bomber	7
Other Foreign	
28-5AN Navy Bomber - Holland	<u>36</u>
Grand total	1,365

We discussed in considerable detail the progress which had been made in standardizing the British LB30 and the Army B24D. Although some progress has been made in a substantial number of minor items, the major differences still remain. These are the problem of turret location and armament. This plane has three turrets and the British, in view of combat experience, have pretty definite ideas as to their type and location. The U. S. Army seems to have equally definite ideas as to location but is not standardized even in its own mind as to type. Currently each of the three turrets in the Army B24D has a different type of mechanism, one is electric; one is electro-hydraulic; and one is hydraulic. From the standpoint of armament the British opinion, based on combat experience, is that plenty of fire-power is essential. They want 4-30 caliber guns in the tail. The Army, however, wants 2-50 caliber guns there.

It was emphasized in the discussion that minor standardization points are more likely to impede rather than assist production since the usual procedure is for each service to load on its planes the minor items which the other service wants resulting in the addition of considerable work with no particular advantage productionwise. The only real advantage to production will come when the United States and Britain agree on the tactical use of a particular bomber and, on the basis of this agreement, develop a ship which will be identical in every respect for each service.

Consolidated Aircraft Corp.

In all our discussions of plane armament, both in this plant and others, it has been emphasized that the U. S. planes do not provide sufficient ammunition to really safeguard the ship. Apparently, we do not have a belt feed for a .50 caliber flexible gun. We use a canister feed which gives from 33 to 60 rounds without reloading, according to type. With rate of fire of about 1,000 rounds per minute, this ammunition is gone as soon as you press the trigger. The British feel very definitely that they cannot put planes in the air with any expectation that they can defend themselves unless each gun is set up to fire six or seven hundred rounds as a minimum without reloading.

We then discussed the B24s and B24As which are being diverted to the British with particular reference to the automatic pilot, bomb-sights and bomb-rack adapter. The first six will have only the automatic pilot installation and all should be available to the British by January 10. Beginning with the seventh, both Sperry bombsight and the automatic pilot will be installed and in addition Consolidated hopes to have ready an adapter so that the American bomb rack can be used for British bombs.

We then discussed the seven PEY5s which are being diverted. The Sperry pilot installation is being made by Consolidated and this should not hold up delivery to any great extent. The British are anxious to have adapters in the bombers so that they can use British bombs. Consolidated had a rough sketch of such an adapter but insisted that production would be seriously delayed if they had to make it. While we were in San Diego Consolidated arranged with Rohr, a local job-shop, to work on this adapter and the British authorized them to go ahead and make it so that the planes would be equipped for bombing with British bombs when they are delivered. The British are also anxious to use twin guns in place of the single fixed guns which are provided in the ships as delivered to the Navy. Consolidated expects to be able to work out an adapter for this purpose. The British are also anxious to have Consolidated install the bombsight but this they refused to do unless agreement is reached on delayed delivery.

In reply to a question as to their aluminum situation, representatives of Consolidated told us that it was "terrible" with about 400,000 pounds behind on material needed for the LB30s and B24Ds. This delay is mostly in delivery of sheets of thirty to seventy gauge.

DOUGLAS

Douglas Aircraft Co., Inc.

We met with Mr. Donald Douglas, President, and others at 9:30 A.M. on November 27. Present also was Mr. Claire Egtvedt, Chairman of the Board of Boeing Aircraft Company.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
XB-19 Bomber	1
A-20, A-20A Attack Bomber	207
A-20B Attack Bomber	999
C-47 Cargo	549
C-53 Observation	775
A-24 Scout Bomber	78
U. S. Navy	
SBD-1, SBD-2 Scout Bomber	94
SBD-3 Scout Bomber	174
R4D-1 Cargo	30
British Empire	
DB-7 Bomber	1
DB-7A Bomber	89
DB-7B (A-20, A-20A) Bomber	541
Other Foreign	
SA-5 (A-17A) Attack - Norway	21
U. S. Commercial	
DC-3 Transport	119
DC-4 Transport	61
Grand Total	3,739

We first discussed the production of the DB7Bs both in the Douglas plant and also in the Boeing plant. It was agreed by the Boeing representative that the problem of the tool drawings and production drawings which they are awaiting from Douglas has now just about been solved. They were only 160 production drawings short on a total of 4,000 and it is anticipated that these 160 would be made up very shortly. The real problem with respect to meeting scheduled deliveries on these DB7Bs as well as on other planes is the procurement of the necessary material, particularly aluminum. Everyone seemed agreed that there ought to be a new facility for the production of aluminum on the West Coast. Information was given to us on the delivery promises on various types of aluminum which indicated that the DB7B schedule cannot possibly be met unless these aluminum deliveries are expedited. Boeing will be given some help

- 2 -

Douglas Aircraft Co., Inc.

from Douglas in procuring aluminum parts but even with this there is a real possibility of considerable delay. In the course of our discussion on the aluminum situation it was agreed that steps should be taken at once along the following lines:

1. Eliminate or reduce as drastically as possible the production of aluminum for nondefense uses.
2. Arrange to secure and keep current a picture of the aluminum deliveries required by type of product in order for the airplane program to be completed on schedule.
3. On the basis of this program, have priorities established so that each plant will be assured of the required deliveries.

There was then a discussion of standardization as between the British DE7B bomber and the Army A20B bomber. Air Commodore Mansell reported that this problem had been taken up by the Standardization Committee but that they were still two different airplanes and would inevitably continue to be so until agreement was reached on an identical tactical use for the ship after which it would then be reasonable to expect to arrive at identical design. Representatives of Douglas indicated there was usually little production advantage from the work of the Standardization Committee when it stopped short of production of an identical airplane. This is particularly true here in the Douglas plant as between these two ships for they are made in separate plants and half-way standardization which simply adds new features to each airplane delays rather than expedites production. With reference to standardization it was pointed out that the O53 and the A20B, both being manufactured for the Army, are essentially the same except for some equipment differences. The one difference between them which, if eliminated, would help production is the bombsight. The Army now uses a different one on each plane. The SBD scout bombers being manufactured for the Navy are identical to the Army A24 so there is no standardization problem here.

From the labor standpoint this is an open shop with no contracts or no exclusive bargaining agency. They work three shifts, five days a week, with no extra pay for Saturday or Sunday work if it is being done within a 40-hour work week. They pay six cents an hour bonus for work on the second and third shifts and in addition give eight hours pay for seven hours work on the third shift. The size of the various shifts is roughly 100 - 50 - 25.

Douglas Aircraft Co., Inc.

They are not concerned about their educational problem which they have been working out together with the Santa Monica school system and which they feel is entirely satisfactory.

They do not feel that they will have any housing problem since private building seems to be keeping abreast of the requirements in their areas. They expect to have 14,000 employees at Santa Monica, 4,000 at El Segundo and 18,000 at the new plant at Long Beach.

From the standpoint of commercial production, Mr. Douglas was quite disturbed at the statements released by the Secretary of War and rulings being handed down by the Priorities Board. He feels that their military production today is not limited either by space or by manpower so that there is no advantage whatsoever to the military program in cutting down the commercial production. In fact he feels very definitely that the maintenance of commercial production has been of substantial aid in his plant in training workers for military production. In addition, he feels that this is an exceptionally favorable time for American commercial airplanes to open up new foreign markets but feels that this possibility as well as the normal expansion of our domestic airlines will be seriously affected by the policy being established. He felt that the possibility had been worked out without giving the manufacturers of commercial airplanes an adequate opportunity to present their case. I suggested that if he came to Washington we should be glad to arrange for him to discuss this problem with the proper officials.

In our discussion of the limitation of commercial production, it was brought out very often that deliveries on critical items needed in military production are made by air express in order to maintain military production at as high a level as possible. It would seem that careful attention ought to be given to the transportation problems of the West Coast airplane plants since they are so far removed from most of their suppliers that even minor transportation difficulties often cause serious production disturbances. As the rate of production on the West Coast plants steps up with the new units which are soon to come into production the importance of this transportation problem will increase by leaps and bounds. Points that might bear investigation include the following:

1. Air express facilities.
2. Establishment of regular air freight service either by private air lines or by the United States Army (the Army is buying 549 cargo ships from Douglas, delivery beginning in May 1941).
3. Reexamination of a movement now on foot to prohibit pool-car shipments.
4. Reexamination of movements said to be on foot to block consolidation of motor truck lines to form large systems.

Douglas Aircraft Co., Inc.

In this connection I have recently been advised that North American Aviation is now shipping Pratt & Whitney engines for Harvard trainers to the West Coast by truck and getting delivery four days quicker than shipment by rail.

Our trip through this plant was very thorough and very interesting. Douglas was the only company which we visited which seemed to be working toward real mass production methods. They are the only company we have seen which constructs the fuselage of planes in two halves as if the plane had been cut vertically through the middle. These are set up on movable dollies and permit twice as many men to work on the same plane assembly as is possible under the method used in most of the other plants. In addition, throughout the plant there was evidence that operations are being broken down into small units so that the man-hours per day per airplane in construction can be expanded as much as possible. This same approach is being taken to some extent at Lockheed but has not been carried forward as far there.

LOCKHEED

Lockheed Aircraft Corporation

We met with Mr. Robert Gross, President, at 9:30 A.M. on November 26.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
YP-38 Pursuit	12
P-38 Pursuit interceptor	673
XP-49 Pursuit	1
XP-58 Pursuit fighter	1
U. S. Navy	
18 Transport	1
British Empire	
414 Bomber	802
322 Interceptor	667
37 Bomber	675
Commercial transport	27
South America	
Commercial transport	8
Other Foreign	
Commercial transport Dutch E. Ind.	28
U. S. Commercial	
Commercial transport	174
	<hr/>
Total	3,069

We discussed in considerable detail the differences between the U. S. Army P-38 and the British Model 322, an outline of which is attached as Exhibit I. The P-38 takes the Allison F engine, while the 322 takes the Allison C engine. The British intend to switch to the F engine when the plane is well into production, but will use the C until that time. Accordingly, it was agreed that the remaining differences would be referred to the Standardization Committee for immediate consideration to the end that the planes be made identical at the time the British adopt the F engine. One point which must be checked is the company's understanding that they must deliver 31 P-38's to the U. S. before they can deliver any 322's to the British. Obviously this cannot work out if the Army insists on having planes with F engines, for there will be a good many ready to deliver with C engines for the British long before the F engines are available in quantity.

*Wasp Jr. and Wright 975 for British  
get further source of fuel for these planes*

Lockheed Aircraft Corporation

There was then a discussion of the Model 37 bomber which is due to come out beginning in March 1941. The early deliveries of this plane are seriously threatened by delay in securing engines from Pratt and Whitney. The latest word is that no engines will be available in quantity until April 1941. This may set the program back at a time when the British will have great need for this type of airplane. It takes two Pratt and Whitney 2800 motors. In this connection the suggestion was made that Pratt and Whitney, in view of the emergency need for these engines, should go to 24-hour operations seven days a week as soon as possible. It is particularly desirable that every effort be made to get early deliveries on this airplane, as long-range gas tanks are being developed for it, and it will be possible to fly the planes to England as quickly as they are finished.

There was then a discussion of the Model 414 (Hudson) bomber, of which the British are currently receiving substantial quantities. At present there are 25 to 30 of these planes awaiting engines. They will take either Wright 1820's or Pratt and Whitney 1830's. They expect to run into an even more serious engine deficit later. This has been caused by the trade of 1820 engines to the U. S. Army in return for which the British received flying fortresses and Consolidated B-24 bombers. The British are to review their entire engine program and see if engines cannot be made available to cover this deficit. Mr. Gross of Lockheed emphasized that this point should be settled at once so that the necessary delivery adjustments can be made on other items required to complete the planes. He also said that the performance of the ship is better with 1820 engines than with 1830's, and thought that it would be still better with Allison F's, the installation of which he agreed to check and advise the British. In a discussion of potential capacity Mr. Gross said that they could make from 500 to 700 more of these planes by March 31, 1942 without affecting U. S. contracts provided the necessary engines were available.

There was then a rather general discussion of the productive capacity of Lockheed over the next 18 months. Mr. Gross feels confident that they can make a total of around 5,200 airplanes by June 30, 1942 in contrast to the 3,089 which they had on order at November 23, 1940. When their buildings now under construction are completed they will have about 3,000,000 square feet of space with a labor force of between 25,000 and 30,000. They would like to stay in the manufacture of ships up to 25,000 or 30,000 pounds, and indicated that they would be interested in using their excess capacity to make a pursuit ship such as the new British Tynphoon.

Throughout our discussions of plant capacity it was emphasized again and again that there was substantial leeway in airframe production which was being lost because of the scarcity of engines. Mr. Gross suggested that serious consideration be given to having small engine manufacturers such as Kinner and Konaaco produce under license the small engines needed by the large manufacturers (Wasp Jr. and Wright 975), leaving the entire capacity of the large manufacturers

available for the production of the large engines so badly needed for fighters and bombers.

The educational program of this company has been in existence about five years and they are completely set up to take care of all their requirements. They work with the local schools, both public and private, and also with the University of Southern California. Mr. Gross feels that they can take on any job no matter how large and guarantee to overcome the labor problem involved. They have a complete procedure for training already set up together with regular methods for training and testing including scientific aptitude tests and intelligence tests, which have been worked out with the staff of the university. They have prepared a syllabus of this entire program and furnished it to Mr. Forrestal for his use. They would be delighted to have any interested Government agency send a representative to go into their procedure in detail and said that representatives from the Wright plant at Patterson have already been out to confer with them and have installed some of their procedures.

The housing problem is not serious so far as availability of dwelling units is concerned. There is, however, a problem with respect to rentals. Apparently the Los Angeles municipal officials are opposing Government housing projects with the result that high rentals prevail based upon the costs and policies of private real estate enterprises. Mr. Gross feels that it would be very helpful to have some additional Government low-cost rental projects there, and agreed to forward data on this point if he could accumulate it.

The labor problem appears to be better handled in this plant than in any other we saw on the Coast. They have an open shop but have recognized an A. F. of L. affiliate as the sole bargaining agency. They have a contract with this union which expires in August 1941. They have three-shift operations but the second shift has only a fair amount of men, and the third shift has only a handful. Of the total labor force, the distribution between shifts is about 100-80-20. There is no bonus for Saturday and Sunday work unless it is work in addition to the regular 40-hour week. I have a copy of their labor contract in my files.

The most striking thing about this plant is the energy and enthusiasm of the employees. While they are paid almost entirely on a straight hourly wage, the energy and enthusiasm in evidence all over the plant made one feel that they were working at piece rates. This attitude seems to be a reflection of the attitude of the top executives, all of whom seem to be bristful of enthusiasm for their jobs and for the corporation. They were probably the first aircraft company to give serious thought to the personnel problems of large-scale operation and have approached it intelligently and with imagination. These efforts appear now to be bearing fruit in their production figures.

Tangible evidence of the spirit of the workers in this plant is given by their desire to make one additional bomber on their own time to give to the British people as a Christmas present. I found upon

investigation that this suggestion, which has now reached the point of a tangible offer, was inspired and carried out by a young chap in the shop who earns a very small salary, and that the entire development of the idea was a spontaneous gesture on the part of the workers without aid from the management. I agreed to forward Mr. Gross a letter outlining the most feasible legal basis upon which this plane could be given to the British and to see if a way could not be worked out so that the young man who first suggested the gift could come to Washington and make the presentation to Lord Lothian.

Differences between Models P-38E for the U.S. Army Air Corps, and Model 322 for the British Air Ministry

Major Differences which Affect Basic Airplane and the Production Line

Column A

1. Engines

P-38E has Allison P-2 (R.H. & L.H. rotating)

322 has Allison C-15 (R.H. rotation only)

These engines are quite different in their layout requiring a different installation for each). The opposite hand rotation affects the propellers, starters, for the 322 airplanes).

2. Superchargers

P-38E has G.V. Turbo Supercharger

322 has no turbo superchargers due to unexportability

3. Parts Affected by Superchargers

Outer Wing Panels

P-38E (only) has ducts built into panel for use as intercooler for turbo supercharged air.

Forward Booms

Considerably modified

Exhaust System

Entirely different

4. Lighting Equipment

P-38E has: 1 Landing Light  
No Flares  
1 Navigation Light

322 has: 2 Landing Lights  
2 Flares  
1 Set Formation Lights  
1 Set Identification Lights  
1 Set Automatic Recognition Lights.

5. Armament

P-38E will have 4-.50 cal. guns (Colt)  
(Details of the 20 mm. cannon for the 322 are not yet established. It may be interchangeable with the American Cannon.)

Minor Differences which Affect "Provisions" Only, Installation by Buyer or Final Assy.

Column B

1. Radio Equipment

P-38E has American type radio

322 has British type radio

The radio equipment is entirely different.

2. Oxygen Equipment

P-38E has 1 large cylinder of low pressure

322 has two high pressure oxygen cylinders with shatter protection added.

(The oxygen regulators, bottle stowage are different in each airplane).

3. Instruments

P-38E will have mostly alternating current remote reading new type instruments.

322 will have American type instruments but of older design, not electric.

The instrument panels, instrument connections will also be different.

4. Pilots Seat

P-38E seat can take either back type or seat type chute - has B-11 safety belt.

322 has Sutton Harness and seat type chute, has deep bucket type seat.

5. Gunsight

322 (only) is to be provided with ring-and-bead sight, in addition to reflector.

Miscellaneous Minor Differences which do not Affect Tooling

Column C

1. Camouflage Pattern

P-38E has green upper  
gray lower

322 has: green & brown (mixed) on upper surfaces: Sky blue lower.

2. Hand Fire Extinguishers

322 (only) provides a small hand (liquid type) fire extinguisher in the flight station.

181

EXHIBIT 1

NORTH AMERICAN

North American Aviation, Inc.

We met with Mr. J. L. Atwood, Vice-president, at 5.00 P.M. on November 26.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
XB-28	1
XB-28A	1
B-25 Bomber	1,047
AT-6 & AT-6A Trainer	2,241
U. S. Navy	
SNJ-2 Trainer	25
SNJ-3 Trainer	270
British Empire	
NA-73 Pursuit	620
Harvard II Trainer	1,068
South America	
NA-44 Dive bomber	22
Other Foreign	
NA-50A Fighter - Siam	6
Grand Total	5,301

We discussed the possibility of getting additional production from the plant at Inglewood but Mr. Atwood was pretty definitely of the idea that there was very little additional production which could be built up there. This did not seem particularly reasonable, however, for at the present time there are operating two shifts of 48 hours per week. Although there is obviously substantial time when the plant is standing idle, Mr. Atwood seemed neither enthusiastic nor hopeful about the possibility of going to three shifts. As I understand it, all their estimates of future production possibilities have been premised on two shift operation.

At the present time their entire production is concentrated at Inglewood. They are building a plant in Dallas to which all production of trainers for the Army and Navy will be transferred. This plant will begin to produce in April, 1941, and will reach a maximum of 260 trainers per month about November, 1941, at which time it will have about 10,000 employees.

North American Aviation, Inc.

They are anxious to finish their production of trainers for pursuit ships for the British by the end of 1941 since by that time their production of Army bombers will have expanded to a point where it will require almost the entire Inglewood plant. They estimate that after December 31, 1941 their capacity at Inglewood, other than for Army bombers, will be either 50 trainers or 25 pursuit ships per month. This work may change considerably if they are given a new bomber factory at Kansas City, as has been discussed with the Defense Commission, in which case they hope to concentrate on the production of pursuit airplanes in Inglewood.

They expect to have 14,000 employees at Inglewood within eight months.

From the above it is obvious that if the British are to secure additional quantities of Harvard trainers they will have to be made either by some other manufacturer under license from North American, or in a new facility to be created by and for North American. Mr. Atwood indicated that they were not very enthusiastic about licensing anyone else to produce these planes but would consider producing if new capacity could be created for North American. The new plant at Dallas which will be used for Army trainers will cost \$7,500,000.00 with an optimum production possibility of 300 per month. They would desire to locate any new facility to produce trainers for the British in the same location so that the investment required would be proportional to that required for the plant which is now being set up. Mr. Atwood estimates that such a new plant could be set up and begin production in six to eight months from the time the order was placed.

The training program for developing new employees and supervisory personnel is apparently causing them some trouble in Inglewood although they do not appear to view it with great concern. Undoubtedly, however, one of the factors which makes them unwilling to consider seriously the possibility of three shift operation is the extra burden which it would put on them to develop additional supervisors and additional trained workers. In our conversations with some of the other manufacturers who have well established training programs, we got the impression that North American had "lifted" quite a few employees by the offer of 48 hours work per week. This work is possible for a plant that is working only two shifts where another manufacturer on three shifts may work his men only 40 or 44 hours a week. In Dallas there is of course no possibility for North American to draw on reservoirs established by other manufacturers and accordingly they are setting up their own training school and have prepared a syllabus, a copy of which was to be furnished to Secretary Forrestal. They seem confident that they will lick their problem at Dallas.

- 3 -

North American Aviation, Inc.

Newspaper reports on the West coast indicate that this company is likely to face demands from the unions in the very near future following on the heels of the difficulty at Vultee. They now have no exclusive bargaining agency in the plant nor is there any labor contract. The men are paid a straight hourly rate with no incentive plan whatsoever. Mr. Atwood did not evidence any great interest in Mr. Fairey's description of the English premium-bonus system.

The aluminum situation is causing this company considerable concern. They cannot get deliveries on various rods, sheets, bars, extrusions, etc. and feel that expansion of aluminum capacity on the Pacific coast or in some area close to the coast is absolutely necessary. Major Stromme of the U. S. Army Air Corps who was with us said that the Aluminum Company was not granting licenses for heat-treating on the West coast. Captain Kraus disagreed very emphatically with this position and both he and Secretary Forrestal indicated their willingness to follow through any definite proposal for the establishment of additional facilities on the West coast which was being blocked by the Aluminum Company.

We had a brief discussion of standardization possibilities. This applies, of course, only to the Harvard trainer since this is the only plane which is made for both the British and the United States. We were surprised to discover that even this ship has not been standardized. The British trainer has wing guns, the United States trainer none. There are other differences representing about 15% of the total plane. There was general agreement that this was certainly one ship designed for essentially the same use and it was felt the standardization committee should arrange at once to have the planes taken by both Governments identical.

Our walk through the plant was rather hurried since it was quite late in the day and everyone was pretty anxious to get on. Our impression was that production was definitely under control and the plant organized for efficient operation. The one thing that bothers me, however, is the complacency with which Mr. Atwood views their present production as a peak. They seem to have quite a lot of space about and with complete utilization of space and extension of operations to three shifts, seven days a week, I should think there could be a considerable increase in production with the present facilities.

NORTHROP

Northrop Aircraft, Inc.

We met with Mr. John K. Northrop, President of Northrop Aircraft, Inc. about noon on November 29.

As of November 23, 1940, this company had the following unfilled orders:

British Empire	
V-72 Vultee dive bomber	200
Other Foreign	
N-3PB Bomber - Norway	<u>24</u>
Grand total	224

We discussed first the situation with respect to meeting indicated deliveries on the Vultee dive bomber which they are manufacturing for the British under license. Although they still don't know how much of the jig and tool work for Northrop's dive bomber contract will be done by Northrop and how much by Vultee, the problem is not serious and Northrop expects to produce the first airplane in accordance with the contract schedule and to reach a higher production rate than now indicated by the schedule. The peak of 35 per month which they have estimated is apparently a very conservative estimate of peak production.

Vultee and Northrop are pooling their material orders for the production of the dive bomber and are attempting to place them so as to spread the orders over as many suppliers as is consistent with efficiency.

Although delivery promises which they are getting today on aluminum parts are very bad, they have a reserve of these requirements that will cover the first fifty airplanes and accordingly it is not anticipated that delay in aluminum deliveries will delay production of the airplanes according to schedule.

Northrop is at present working two shifts, each on a fifty-hour week (five ten-hour days per man). No regular work is scheduled for Saturdays or Sundays but they do not have any labor union or contractual relations with their labor that would demand payment of time-and-a-half for Saturday or Sunday work. All wages are at present on a straight time basis and no piece-work or premium bonus arrangements are used.

Northrop expressed considerable interest in the use of the premium-bonus system employed in England and, based on a brief description given by Messrs. Fairley and Sigrist, they undertook to study the

Northrop Aircraft, Inc.

possible application of this system to their plant. At Mr. Fairey's request, they also undertook to make a study immediately of the possibility of speeding up and increasing the ultimate production capacity of their plant.

Northrop is developing an experimental pursuit ship and an experimental bomber and are anxious to bring one or the other of these ships into production at the conclusion of the dive bomber contract. They are expanding their plant rapidly and it seems to be organized on an efficient basis. Their present contract with Norway for the production of twenty-four bombers will be completed on or ahead of schedule and it seems possible from our discussion and examination of the plant that even if they do have a ship of their own which will come into production early in 1942 they will still be able to produce additional model 72 dive bombers either for the British or for some other Government.

RYAN

Ryan Aeronautical Corp.

While in San Diego on November 28 I took the opportunity to drop in to see Mr. Ryan, President of the Ryan Aeronautical Corp. None of the other members of the party except Commander Gingrich, Aide to Secretary Forrestal, was able to come with me and I talked to Mr. Ryan for only fifteen to twenty minutes.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
PT-21 Trainer	673
U. S. Navy	
NB-1 Trainer	100
Other Foreign	
PT-20 Trainer - Dutch E. Ind.	<u>56</u>
Grand total	829

This plant because of its size is equipped to make only primary trainers so far as complete airplanes are concerned. It does have capacity for making aluminum parts for other aircraft manufacturers and may be a partial solution to the aluminum difficulties which the West coast manufacturers are having.

They have no labor difficulties at the moment and are operating three shifts of 48 hours each. The relative size of the shifts is 100 - 60 - 10 indicating that production of these facilities could probably be stepped up substantially by increasing the size of the second and third shifts. Their primary trainer production uses Kinner and Menasco engines and, accordingly, they have no engine difficulties. They cannot, however, make an advanced trainer such as is required by the British without considerable change in their operating technique and possibly in their buildings.

VULTEE

Vultee Aircraft, Inc.

We met with Mr. Richard W. Millar at 9:30 A.M. on November 29.

As of November 23, 1940, this company had the following unfilled orders:

U. S. Army	
BT-13 Basic trainer	2,632
O-49 Observation - Stinson	141
British Empire	
72 Dive Bomber	400
P-48C Pursuit	144
Other Foreign	
V-12 Attack bomber - China	2
U. S. Commercial	
105 - Stinson	3
SR-10 - Stinson	<u>10</u>
Grand total	3,332

Naturally the first topic of conversation here was the strike which had been settled just a few days before our visit. Mr. Millar said that the labor leaders who had talked with them both before and during the strike emphasized that the strike was not against Vultee per se but was the opening blow in a labor offensive against the entire West Coast aviation industry. This same view as indicated previously has been reported in newspaper accounts of the strike and is also borne out by our conversations with the managements of other plants. The strike cost the company about eight days of actual working time and will have the effect of delaying scheduled deliveries by that time or longer.

The plant operates on three shifts with a relative strength of 100 - 100 - 25. A premium of five cents is paid for work on the second and third shifts and in addition the third shift receives eight hours pay for 6 1/2 hours work. No overtime is paid for work on Saturday and Sunday unless it be above the forty hour work week.

We discussed first the P-48-C's which was the order that the British had taken over for Canada from the Swedes. The British have made several changes, all of which have been worked out satisfactorily with Vultee with the exception of the self-sealing material to be used in the gas tanks. Vultee would like to use a material which they have developed themselves since they have substantial quantities available for early delivery whereas to purchase similar material made by the large rubber companies will delay delivery. The BPO is perfectly willing to take Vultee's material if it meets Army tests and agreement

Vultee Aircraft, Inc.

was reached at our meeting which was attended by Major Stromma of the Air Corps to arrange for such tests to be made at once. Vultee expects to have capacity at Downey to make additional P-48-C's at the end of this order, and is anxious that the British Purchasing Commission consider at once whether they want more of these airplanes. This plane has 2- .50 caliber guns in the fuselage and 2- .30's in each wing. It has a top speed of 344 m.p.h. and takes the Pratt and Whitney R-1830 motor. If the British did not want more of this model it might be continued in production for China or Turkey or some of the other foreign countries provided engines were available.

We then discussed the dive bombers which they are building for the British and it seems reasonable to expect that the scheduled deliveries will be met or even exceeded. The only open question remaining in connection with these ships was whether they should have a single or twin tail. This was originally a French contract and the ship had been set up with a twin tail because of the particular requirements of the French. After discussion at the plant, Mr. Fairey and other members of the British Commission including Air Commodore Mansell agreed that it would have a single tail, so with this problem out of the way there is nothing further to interfere with production. The Vultee management feel that they will have quite a little additional capacity for this production at their Nashville plant and it was agreed that the disposition of this capacity should be investigated and decided upon.

The company has no difficulty with aluminum deliveries at present because they anticipated the difficulties which have arisen and have old orders which will take care of their requirements. They believe that their training and educational problems are under control and will not affect production.

BRITISH EMBASSY,  
WASHINGTON, D.C.

PERSONAL AND  
SECRET.

10th December, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Harold Butler*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated 8th  
December, 1940.

Naval.

1. Two destroyers considerably damaged by the weather and one destroyer in collision due to weather; one submarine ashore.

2. Royal Air Force, December 7th.

Two medium bombers sent to Brest and Wilhelmshaven respectively. Both returned safely but results indefinite.

Night of 7th/8th.

A total of 90 aircraft sent to attack the following objectives:

<u>Locality</u>	<u>Targets</u>	<u>Number of Aircraft</u>
Dusseldorf	Gasworks, blast furnaces, martialling yards and armament factory.	8 medium and 40 heavy.
Brittany area	Enemy aerodromes	12 medium.
Bologne and Ostend	Dock, Barges, shipping	9 heavy.
Lorient and Brest	Naval bases	21 medium.

The attack on blast furnaces at Dusseldorf appears to have been particularly successful. All our aircraft have returned except three heavy bombers who have not reported to their base, and two others which came down in the sea. Further reports awaited.

3. In addition, 4 heavy bombers despatched to lay mines.

4. Kerry.

On December 8 three machines of the South African

/Air

- 2 -

Air Force dive bombed Mega and Moyale. At the former place, the fort and three large buildings hit and at the latter a camp was straddled by bombs. One aircraft missing.

5. German Air Force.

Night of the 6th/7th. Casualties at Bristol now reported as 76 killed and 76 seriously injured.

General failure of electricity throughout the city, and in two districts there is a shortage of gas. Water supplies are not badly affected.

6. December 7th. About 100 enemy aircraft operated over or near our coasts, but activity over land negligible and limited to patrols and reconnaissances.

One bomber shot down.

Night of December 7th/8th. No enemy activity.

7. Aircraft casualties in operations over British Isles.

Enemy (by day).

By our fighters: Destroyed one bomber, probable one bomber, damaged nil.

British. One aircraft (pilot safe). 2 bombers missing.

8. Home Security.

Coventry. Supplies of electricity and water now satisfactory, and gas supply available to several more factories.

9. Southampton. Water and electricity supplies now almost normal, although a part of the town still without gas.

197

BRITISH EMBASSY,  
WASHINGTON, D.C.

10th December, 1940

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Harold Butler*

The Honourable

Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D. C.



-2-

fighters probably destroyed seven more and damaged others. All our aircraft returned safely but three Swordfish damaged.

5. German Air Force.

Daylight of 5th December. About two hundred and seventy aircraft crossed the coast and were intercepted by our fighters with successful results. Only slight bombing in Kent occurred.

6. Night of 5th/6th. It is estimated that a total of one hundred and fifteen aircraft were employed nearly all of which operated against Portsmouth-Gosport, where a heavy attack was delivered early in the night. A serious fire was caused in a timber yard and several houses were demolished, but all fires were reported put out by midnight. Casualties so far reported, 30 killed, 70 seriously injured.

7. Aircraft casualties in the above operations (home operations, home front):

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
By day, by our fighters:			
Fighters	12	3	2
Bombers by A.A.	1		
Unspecified	<u>1</u>	<u>    </u>	<u>    </u>
Totals	14	3	2

Our losses: Two aircraft (one pilot safe).

8. Home Security. General. Coventry.

Repairs to public utilities services are proceeding satisfactorily and general situation continues to improve.

Water/

-3-

Water Supply. London. In some districts south of the river pressure is still low. North of the river position is practically normal.

9. Birmingham. No serious interference with supply, situation almost normal.

10. Southampton. Many broken mains have caused considerable shortage. Situation being rapidly restored and reservoir levels rising.

11. Bristol. Situation fairly satisfactory.

12. Dodecanese. Secret reports confirm previous information that shortage of aviation fuel and lubricating oil in Dodecanese is becoming increasingly serious.

No offensive air activity has been carried out from these islands since November 24th and only reconnaissance flights have been undertaken.

No. 266

SITUATION REPORTM. I. D., W. D.  
December 10, 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.

Due to bad weather over the continent no successful offensive operations were conducted by either side.

II. Greek Theater of War.

The Greek High Command has announced further advances. The Italians claim enemy attacks were repulsed in the north (Pogradec) section and that numerous successful counter-attacks were launched. They report an orderly withdrawal from Argirocastro to an unannounced line to the north, which is assumed to be Klisura-Tepeleni. It would appear that Italian resistance is stiffening in the north and central sectors, and that the Greeks are making their farthest advance north of Porto Edda, along the coastal road to Valona. Air activity was on a small scale.

III. African and Mediterranean Theaters of War

1. In the Sidi-Barrani area a carefully planned British raid with strong aerial support on a large scale seems to have met with considerable success. The capture of at least 500 Italian or native troops is reported. This sector, which runs south from Sidi-Barrani, was formerly the British second line of defense. It may be that the purpose of this action was to try out the strength or morale of Graziani's army, as the result of Italy's reverses in Greece and Albania, which have led to so many shifts in the high command. Some patrol activity is reported in the Gallabat area.

2. The R.A.F. made light bombing raids on Italian air-dromes in Libya.

RESTRICTED

CONFIDENTIAL

202

Paraphrase of Code Radiogram  
Received at the War Department  
at 8:01 A.M., December 10, 1940

London, filed December 10, 1940

1. Complying with your instructions to visit British cities attacked by German aircraft, General Sesslen is leaving at once for such inspection.

2. Germany was not mentioned in the directive, but the following is the summary of a visit of inspection to this city made by me on December 11. The German aerial attack on November 14-16 was the first attempt made by the Germans to cripple industry and by far the most furious. It is the peculiarity of this attack that it was concentrated on the social machinery of the city rather than on the industrial establishments around its perimeter. This resulted in a rather complete destruction of the utilities and the downtown district of this city of about 500,000 without corresponding damage to factories and the residential districts and even in the downtown district one large church out of three, the municipal building and several other buildings remained intact. Based upon observation and conversation with inhabitants, the fires that followed did at least as much damage as the high explosive bombs and caused even steel frame buildings to collapse. The large number of fires and the shortage of water caused the fires to get out of hand.

3. The reports of local inhabitants that dive bombers were used are contradicted by qualified observers who state that about 500 German aircraft bombed the city from a high level, generally about 15,000 feet. I inspected a considerable number

CONFIDENTIAL

of unexploded bombs, all of which weighed more than 100 pounds. I also saw 11 unexploded mines. These consisted of thin walled cylinders about nine feet long and two feet in diameter. Four feet of the mine carried the parachute and the other five were filled with high explosive.

4. The I. E. Alvin Automobile Motor Factory was burned out but the plant of the Alvin Aero Motor Company on the other side of the railroad track remained in full operation.

5. Bodies are still being recovered but the total mortality is unknown. It is estimated that the number of dead will reach 500.

6. The first effect of the attack on the population was a sense of bewilderment; but this has now turned into pride in the fine performance of the people, an increased determination to see the war through, all combined with bitter hatred of the Nazis. Very few people fled the city. The commanding officer of the army units now engaged in salvage work stated that his men will give no quarter during the rest of the war.

7. It is my general impression that the damages inflicted by this attack are incommensurate with the German aerial effort exerted; and that they are certainly less than pre-war claims for such an attack. However, fire caused much more damage than was expected.

8. Emergency measures adopted were a great success. Mobile canteens arrived and fed all the people. The government

rushed in emergency self-contained power plants which furnished electricity for the factories whose current was cut. Spare tools and other similar items were rushed in. The brick blast walls that had been built in about key machine tools were a great success. These walls protected the tools against anything except a direct hit and took the shock of the blast.

9. It is impossible to obtain accurate figures of the extent of the reduction in production due to this attack or other similar catastrophes; this due to the fact that the nature of British industrial processes, such as the policy of subcontracting, dispersal of factories, and other measures, are extremely complex. The Chief Intelligence Officer of the Ministry of Home Security, after a week of computation, told me last Saturday that it was his opinion that the total reduction in industrial output in the Coventry area would not exceed 25% and more probably would be between 10 and 15%. In the order of importance the factors affecting loss of production are: (a) Disruption of utilities, especially water, gas and power; (b) net losses; (c) the displacement of workmen; and (d) the actual damages done.

10. In speaking of the larger question of production of aircraft Lord Beaverbrook, Minister of Aircraft Production, stated confidentially that it is his rough estimate that all enemy aerial attacks up to this time have reduced the increasing rate of aircraft production plan by about 20%. When he called today he said that in spite of this set-back the reports received indicate that the aircraft actually produced during November were

higher than during October and for the first week in December were higher than for the last week in November.

11. Major McChrystal made an inspection of Manchester over the week end. He stated that there has been no damage there. The whole area surrounding the city is protecting itself from aerial attack by smoke clouds rising night and day, made by burning large amounts of fuel oil in the furnaces.

LEE

Distribution:

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff - 2  
War Plans Division  
Office of Naval Intelligence  
Air Corps - 2  
G-5

→  
CONFIDENTIAL

## CONFIDENTIAL

Paraphrase of Code Cablegram  
Received at the War Department  
at 11:28 A.M. December 10, 1940.

London, filed 17:04, December 10, 1940.

1. On Monday, December 9th, the Bomber Command attacked a Dutch airdrome and an enemy convoy. The preceding night the main attack against submarine bases in France was successful; and 16 French airdromes and the City of Dusseldorf were also bombed. The Coastal Command attacked enemy ports and airdromes, escorted convoys and laid mines.

2. Daylight activity of the German Air Force on December 9th was limited to a few reconnaissance flights over the coast. Only one plane was over Britain during that night.

3. One German plane was destroyed.

4. British bombers gave strong support to the British land operations in Egypt.

5. British intelligence reports indicate that a number of Germans have recently arrived in the Canary Islands. These are believed to be in part fifth columnists prepared to seize the islands or keep another nation from seizing them, and in part replacements for the crews of two vessels used to supply raiders.

6. Our consul in Southampton reports that his inspection shows that the damages to new docks, facilities, industrial plants, etc., were less than first reported. General Scanlon is visiting the city today.

CONFIDENTIAL

**CONFIDENTIAL**

7. The important steps taken during the last few days by Mr. Levin, Minister for Labor, should be noted. The age limit for certain skilled reserved occupations has been raised and the Government now has the authority to compel labor to serve wherever it is needed, either in industry or the armed services. It is a great advantage to be able to mobilize labor in the same manner as soldiers—they must work or fight wherever needed.

LHR

**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  
A.C. of S., G-3  
A. C. of S., G-1  
Air Corps.

**CONFIDENTIAL**

+

December 11, 1940  
9:20 a.m.

H.M.Jr: ..... what Knudsen had in mind I'm perfectly frank to say, he was talking Greek to me, and inasmuch as he said that you were working on it maybe you know Greek. It's something .....

Philip Young: I'm learning Greek rapidly these days.

H.M.Jr: Yeah. He says it's something to do with the \$50 millions which he claims that the English still owe the airplane manufacturers for plant expansion, and he says how are they going to collect it. He said you are working on the figures for him and he expects to furnish me with a memorandum. Does this make sense?

Y: Not a great deal. It makes a little sense.

H.M.Jr: Well, anyway there's nothing to do about it, he said, until I get the memorandum from him but he wants me to keep in mind that the English owe the American airplane - not the engine - airplane manufacturers \$50 millions, and he said he's getting the figures from you. Now, I don't understand .....

Y: Well, the only thing I'm doing for him is checking on capital assistance paid to aircraft manufacturers by the English.

H.M.Jr: Well, when it comes through, as long as he's made such a point of it, you'd better speak to me about it.

Y: Yeah. Right.

H.M.Jr: All right, and you've been a very patient young fellow so I'm going to reward you. I'll see you at 3:00 o'clock - you and your partner back there.

Y: 3:00 o'clock.

H.M.Jr: Yeah.

- 2 -

Y: We have a lot of items.

H.M.Jr: Well, I'm giving you a half an hour.

Y: Fine. Thank you a lot.

H.M.Jr: You and your partner.

Y: Thank you.

December 11, 1940  
9:30 a.m.

## GROUP MEETING

Present: Mr. Gaston  
Mr. Graves  
Mr. Schwarz  
Mr. Wiley  
Mr. Klaus  
Mr. Pehle  
Mr. Bell  
Mr. Foley  
Mr. Stewart  
Mr. Bernstein  
Mr. White  
Mr. Cochran  
Mrs. Klotz

H.M.Jr: What kind of reception did we get on our vote?

Bell: Well, we don't know yet.

H.M.Jr: Do you see, Sam, all the trouble you make? Fifteen people. Trouble maker! (Laughter) I have been gradually sort of getting into this question of freezing more and more as I get odd moments; and, yesterday, I had Mr. Stewart for lunch, who has been advising me for several years, and I always take his advice except before election. He doesn't take mine. He correctly - shall I use the word "frightened" me on this thing. Is that too strong?

Stewart: No, I guess not.

H.M.Jr: The first suggestion which he made was that Harold Graves take a look at this, purely as an organization matter, and I want to say this, that

whatever we do on the setup, it is absolutely Pehle's responsibility. He has done an excellent job, and I have looked to him, and the particular paragraph that Mr. Stewart objected to was where they said that we could carry this thing out successfully.

Wiley: That is paragraph 5, sir.

H.M.Jr: Well, he says that that just isn't so. Is that too strong?

Stewart: I think I said that you couldn't carry it out with the existing organization, and that if you accomplished the purposes that were set forth there, you would need something of the kind of organization that was outlined in the other memorandum. It says here, "in a short time could set up an effective control." I didn't think that was true.

H.M.Jr: Now, I want to say this. I didn't realize until yesterday that Pehle had not seen this proposed setup.

Wiley: I have discussed the matter in great detail with Mr. Pehle right from the beginning. I thought he was familiar with every aspect of it.

H.M.Jr: Well, he can talk for himself.

Pehle: Well, I think the memorandum obviously - I have heard something about some proposals that were talked about too - relating to the intelligence phases of the work. I also saw one draft of the memorandum that is proposed to be sent to the Secretary of State, and I agree with the memorandum. I think that the proposals, as outlined in the memorandum, which I read yesterday, over-sensationalize and over-emphasize the intelligence aspects of the work.

H.M.Jr: You mean "over-Klaus-ize." (Laughter)

- Pehle: On the general problem, I think that we talked the matter over with the various people yesterday or some of the various people that are interested, and I think that we are in general agreement on the proposition that freezing control at the present time is a desirable thing to do, and that the intelligence phases of the problem, which constitute one of the phases--
- H.M.Jr: Ed, I can't see your face. Would you sit where I can see you or hear you? Come up here, Ed, will you? I can't either see or hear you or feel you. (Laughter) I'll leave out the other sense "smell." (Laughter) Go ahead. I'm sorry. I don't want to get too serious about this.
- Pehle: I think we are in agreement that it is a desirable thing to do, and I don't think there is any radical disagreement on tactics. There may be some question as to timing, but the main point is that we all feel that it is a desirable thing to do right now, at the present time.
- H.M.Jr: When you say, "All," who are you talking for?
- Cochran: He is not talking for me.
- Pehle: We had a meeting in Mr. Gaston's office yesterday, and Mr. Wiley and Mr. Klaus and Mr. Bernstein and Mr. Graves and myself were there in addition to Mr. Gaston, of course.
- H.M.Jr: But not Mr. Cochran and not Mr. Bell and not Mr. Stewart.
- Stewart: We were in another meeting, Mr. Secretary, and couldn't get to it.
- Pehle: ....and Mr. White and Mr. Foley.
- White: you could include my name in the general agreement.

I would have agreed if I had been there.

W.C. Jr: Without listening to the argument?

White: Yes.

W.C. Jr: All right. Well, Herbert, you had this meeting. Do you want to make a report?

Gaston: Well, there was a general agreement of those that were there, the names that Mr. Pehle has mentioned, that freezing controls were desirable, and that we could put into effect freezing controls that were administratively feasible. Now, the extent of the work and the difficulties will depend upon how deep you go, how much territory you want to exercise a certain jurisdiction over. There was some disagreement as to the suggestions of Mr. Klaus and Mr. Wiley in regard to immediately putting men into certain corporations, but the feeling of Mr. Pehle and Mr. Bernstein is that we ought to proceed, as I gathered - was pretty much that we ought to proceed pretty much on the pattern of the controls we have now, and then discover by operation how far we wanted to go, but that we could put in very effective and desirable controls without a very great change from the mechanism we are using in the other countries, and that it would be very well worth doing. I think all of us agreed that before we actually do that, we want to give some more study to just the mechanics that we are going to use and what variations of the present pattern we ought to adopt.

White: Mr. Secretary, I would like to see the two questions segregated because I think they each are important in their own right, and I think there may be some confusion as to the agreement on both. The one question to which I directed my remarks, and one question which I feel a definite - have made my mind up definitely on is that of an extension of control. That is

quite independent of Mr. Wiley's and Mr. Klaus' proposal of adding to that, investigations of corporations, which I think, as I talked it over with them, has some merit if approached in a certain way, which might be the way they have in mind, gradually and slowly, but I think that is a secondary problem to our major problem and the one which I would like to see a decision made on separately from the other because the other can be imposed or not after the first, and with respect to the question of extension of control along the pattern which we are present have, I won't go into the desirability because I think there is disagreement among most of the members, but I will direct myself against what I think is Mr. Stewart's opinion, that it would be extremely difficult to administer effectively. On that point, I think that the experience that we have had bears out the belief that we can extend it, and when it is said successfully, obviously it doesn't mean with a hundred percent efficiency. It means with the same degree of efficiency which this committee has been moving toward. It will involve some additional expenditures, not only by virtue of the fact that you are increasing the number of transactions, but in addition to that, that there are certain types of controls which we have been talking about, and which we are on the verge of coming to a final decision on which would be necessitated by the larger plan, which would involve possibly a hundred thousand dollars a year additional expense, may be a little more or a little bit less, but I think it is exclusively a matter of expense within that range as to whether or not you want to get a much smoother working operation and if you have that plus the additional expense of the merely increased area of operations, I think you can work with a considerable degree of efficiency toward the objectives which we have and that is quite separate, as I say, from their plan, and I don't see anything in our experience, and I would like to have it pointed

out if there is, which justifies the view that Mr. Pehle cannot handle the whole situation provided he is given ample funds and provided that some allowance is made for the laxity which inevitably takes place during the first few weeks of expansion, first month or two, so that if that is the cogent reason against the administration, I think it can be met.

Stewart:

Mr. Secretary, I am not either for or against freezing. I am simply for having the Secretary see what is involved in the procedure and the purpose here, as I understand it, in the memorandum to the Secretary of State, as to control subversive activity because there is a letter attached from J. Edgar Hoover, and it said in a separate memorandum what may be in much more detail and more startlingly put than need be, but I think that some form will be required if you are really going to have effective control over subversive activity. The question of whether or not one takes the present arrangements and has an order to cover additional countries and has people to report, that is quite different then. It is to expand your activity along the lines you are now acting. But I think now is the time for a complete report in which is revealed to you exactly what is intended. It either is now the time to tell the Secretary of State and others that you can not control subversive activity without having this information; and, if you do have it, you can have a very large control over it, or it is something else, and I don't believe the present information that we get can be set up in such a way that you can tell others that this is the sort of thing which will give you the control of subversive activity.

W.S. Jr:

Well, here is the information which I would like to have from somebody within 24 hours, which I have been unable to get. Now, I get a memorandum about a five million dollar transaction which wasn't

clear, Sam, the way you wrote it. I mean it was too much condensed as to who - just what device they were using to buy these General Electric bonds, wasn't it?

Klaus: Yes. Well, it is a 50 or 60 page memorandum.

H.M.Jr: Well, anyway, by the time you boiled it down, I didn't know how you did it, but the point I am getting at is, I would like to have a list, and I suppose it would come from Pehle, of where we actually know - and I would like to have it ready tomorrow morning - of cases of money that the Germans are using in a way that we don't want them to use it if we had control. The same for the Italians, you see. I mean, how many cases do we know or suspect of the use of funds in this country for ways that we think are injurious to the processes of democracy. Now, how many cases do we know of money either leaving or coming into the country, that if we had control we wouldn't let them do it. You see. Now, there must be - now, if you either know or suspect, I want it. Then the other thing which I have been unable to get is a document showing how do the Germans treat American investments in Germany and Italy.

White: We have that.

H.M.Jr: Well, if you have it, it is kept as a secret. In other words, I would like - an American business man doing business in either Germany or Italy, how is his investment treated? What methods does he have to go through to get his money out? Can he get his money out? What has happened to the management of the factories? Do you see?

White: We have it about Germany. You added Italy.

H.M.Jr: Well, who is going to give it to me? That isn't Pehle.

White: No. We should be responsible for that, I think.

H.M. Jr: Well, can you do it in 24 hours?

White: We can do something in 24 hours, pretty comprehensive on Germany. On Italy, I am not so sure.

H.M. Jr: Well, what they have. Let's see. I mean some - if we are going to do it, I want to say, we'll look at the way they are treating our people. What excuse have we got? What representation has the State Department made about General Electric and General Motors and all the rest of it? What have they done about it, and all of these big factories that have investments in Germany? I know, for instance, that Mr. Evans was the manager of all the General Motors factories in Germany. He can't even get into his own factories. He doesn't even know what they are making. They won't tell him what they are making, whether they are making automobiles or airplanes. He doesn't even know. I mean - but if Germany has the Anasco factory at Binghamton, New York, they can make whatever they want and there are no ties on it. So it isn't a question of our being the aggressor. I would like to have another - I told Wiley when I got around to thing we would keep working on it. I would like another preliminary run after our nine-thirty meeting on this tomorrow, you see. At ten o'clock we will have another look at this. But those are the things that I want to know, what is happening, as I say, to the Americans. Then the other thing that I would like from somebody: How much money through postal savings goes to Germany and Italy every month?

White: We can get that.

H.M. Jr: Well, I want to know how much money is going to Germany and Italy through postal savings or any other known - do we know--

Klaus: The remittances--

H.M. Jr: Do we know--

White: We know how much postal savings, I think.

H.M. Jr: Do you know how many remittances through the banks, how much money is going to Germany? Well, we ought to.

White: That I don't--

H.M. Jr: Well, we ought to.

Gaston: There is another thing. That is the accumulation in the United States of funds by Germany through the sale of these various things: marks and the food packages and so on, which resulted in assumed payments, present or future payments, in Germany and the accumulation of German balances in the United States.

H.M. Jr: Well, we ought to have that down. Now, I made the statement to Mr. Hull that we thought there were five hundred million dollars of investments in this country.

Wiley: Controlled by Germany?

H.M. Jr: Controlled by Germany. Somebody told me.

Klaus: That is right.

Wiley: Yes.

H.M. Jr: Well, I would like a figure on that, you see. This thing hasn't been prepared. It is all right - I am not criticising Mr. Wiley and Mr. Klaus. They have done their part of it, which is their responsibility, but when it comes to being an advocate for this thing, the ground work has not been done for me.

Gaston: Wouldn't you like to have a memorandum outlining

the plan of organization from the funds control as to how this thing would - how it would be administered, how we would start in on it.

H.M. Jr: Before that, Herbert, if you don't mind, that comes last. What I would like to have is an inventory of this situation so that - how can a German do business in this country and to the best of our knowledge what is he doing? Second, how can an American conduct his business in Germany, to the best of our knowledge, you see? Then, what are the transactions that we know that are going on financially which, if we had control, we would want to stop?

Gaston: This is more than just a subversive activities thing, unless you give that word a very, very broad meaning indeed. It is a question of economic and monetary defense involved here, and I think we ought to put it on that basis.

White: I agree with Mr. Gaston completely. I think the injection of the objective of finding out and attempting to eliminate subversive activities has distorted the main strength of this objective. If it cannot stand on its own legs on economic defense grounds, the other is--

H.M. Jr: Well, I think that that to Wiley and Klaus is credit because they have done a good from their standpoint.

White: That is right, but I would like to see the problem separated because I don't think there is anything gained by combining the two because whether or not you will utilize your control in an attempt to eliminate subversive activities as a secondary problem and involves a lot of - an extension of activities which is not implied in the first category.

H.M. Jr: But Walter Stewart says let's be honest about

this with each other. I am not being personal. Let's see where this is going to lead us, and he says he thinks that the Wiley-Klaus memorandum is a very honest memorandum because it most likely will lead us there, and he says I will become a part of one of the worst "witch hunts" that we ever had in this country.

White:

Well, it doesn't have to lead us there unless you want to be lead there, Mr. Secretary. You can stop with our controls the same as we have stopped and, in other words, you only take up the subversive activities if, in your judgment, after an examination of all the "pros" and "cons" you think it is desirable to do so. It is true, it is impossible to follow their plan without exchange controls, but I think it is equally true, Mr. Secretary, that it is possible to stop with the controls as we have them without pursuing the attempts to find out subversive activities and I think the strongest case, at least in my mind, that can be made for the extension of controls rests exclusively on problems of larger policy of economic defense, et cetera, and does not involve subversive activities, which is an additional problem, if you want to go in that direction, but I don't think it is fair to imply that if any such implication has been made, that those of us who are in favor of extension of controls do so because it makes possible the kind of program which Mr. Klaus has. It would be an additional advantage.

W.K.Jr:

But the Wiley-Klaus memorandum is the only one I have got on it.

White:

Well, because we settled the other problem a month ago, Mr. Secretary. I mean I thought we had settled the grounds of extending control before they came on the picture. I don't know whether I am mistaken on that, but I thought--

Gaston:

What they have said is that this is a suggestion

- 12 -

of the fund control which was advanced here, and it would aid very greatly to the facilities for tracing the subversive activities, and I think that is true, no matter to what degree you go into it. Even the most modest form of control will give you a great deal of information useful in detecting of subversive activities, but naturally, because of their interest in that, they have been led to develop a memorandum on that particular phase of it, how you can increase the information for the detection of subversive activities, but I don't think that is essential to the scheme, but you will get a great deal of value as soon as you put the controls on in any form.

H.M.Jr: Walter, in addition to the things that I have listed, which have nothing to do - what else do you think I ought to have from the standpoint of the economic and financial thing? What else would you add?

Stewart: I think that series of cases ought to give you what you need, what actual cases you can get, the holdings over here, the treatment of the people over there.

H.M.Jr: Can you think of anything else?

Wiley: Mr. Secretary, I think it is most important that the foreign holdings in this country be identified. That would be an accurate census of German concerns, banks, industries. That requires an awful lot of work and a good many people.

H.M.Jr: Well, I think if that is important, I think the other thing which ought to be pointed out as far as we know, to what extent Germany is using this Swiss bank. I think that that ought to be put down.

White: Well, that would be part, I take it, of the census which would automatically be made available.

- 13 -

- W.C.Jr: Granted, but I mean for doing this thing. I think we ought to put down everything that we know that Germany is doing in the way of clearance through this Credit Suisse.
- Wells: Swiss bank. I don't know whether you can get that or not. Can you?
- W.C.Jr: Well, we know quite a lot.
- White: Well, we can give a little information and justification to push it further, because otherwise it wouldn't be accurately presented.
- W.C.Jr: Harry, on this thing, isn't there somebody else in your shop that can do this in 24 hours besides yourself?
- White: Oh, I couldn't possibly do it.
- W.C.Jr: I mean you have got more than you can carry now. Isn't there somebody else that you have got?
- White: If there isn't, there is something wrong with my shop.
- W.C.Jr: Is there?
- White: Yes.
- W.C.Jr: Who is it?
- White: I would turn the general task over to Coe and he would need the help of several people.
- W.C.Jr: I am just putting my mind to this. How about the Swedes? Are the Swedes acting as a channel?
- Wiley: Yes.
- W.C.Jr: All right. And then what do we know about what the Japanese are doing?

White: Well, we have discovered that the Japanese have been understating their foreign balances. We know that they seem to be operating through - in cooperation with the Giannini Bank. Beyond that we haven't pushed the matter.

W.H. Jr: Well, you can have a surmise, and then we have thought on a volunteer basis we would give this information. Well, we found that on a volunteer basis we didn't get this information on the Japanese, you see. So we don't know how much more we are not getting, but it is purely on a volunteer basis. And I would put in that we don't really know what the English have.

White: No, we don't, and this would be very helpful - they don't know either, Mr. Secretary.

W.H. Jr: Well, I say I am thinking of the things.

Bell: But that would come out of just an extension of the present exchange control, and we would have a census without going into this second phase, necessarily.

White: Quite.

Wlaus: You are assuming that the British would be friendly and that is why.

W.H. Jr: Dan, we could do the thing in two steps.

Bell: Well, I agree with Harry that there are two problems here, and I think, if you wanted to extend your present exchange control, you can, and ask for a census, just like we have in the other countries, and I think you get a certain amount of valuable information. You probably don't get it all, and you probably don't have a one hundred percent exchange control, but it is pretty effective. The second phase, going into industry and banks, I think you ought to think about it.

- H.H.Jr: Well, I do, but how about this first phase?
- Bell: That we have already recommended to the State Department.
- H.H.Jr: I know. That doesn't--
- Bell: I was in favor of it in the summer, but I don't know whether now it is too late or not. These boys know more about it than I do, but I should think it might be too late.
- White: I think it is inevitable, Mr. Secretary.
- H.H.Jr: Can you (White) think of anything else we ought to have? Mind you, I don't expect you to give a finished report, but I want somebody working on this.
- Cochran: I think, Mr. Secretary, someone ought to point out the difference in administering this for countries such as Latin America and the Far East, and so on, as apart from these countries which have been occupied. I mean, so far the British blockade has involved most of our problems where we are passing on applications affecting trade, but in this new setup with Japan and Russia and so on, it would be fixing a policy as to what goods you were permitted to move. I think on that we would have to have Commerce in and State Department. It would make a much more complicated problem than Pehle is facing now.
- White: Well, I think that complicates it a little unnecessarily, Mr. Secretary. What we would have to have - I take it that the Treasury is merely the administrative group that - it is true that policy would have to be determined by other departments or in cooperation, and it is likewise true that the determination of their policy is a difficult thing, certainly not an easy thing, but once that policy is determined, the administration is, I think, much less difficult than one would gather.

H.M.Jr: No, but it is perfectly proper, and I want all of the difficulties pointed out because - I mean, that is the way I work. I don't want to find out the difficulties after I am in it, and my whole purpose is to point out: What are we getting ourselves into? Once we are in it, I have got to carry the load.

White: Certainly, the difficulties should be pointed out, and we should also have an opportunity to evaluate those difficulties because these questions of the difficulties and whatnot are a question of judgment and so on.

H.M.Jr: And Merle, what you might do for me this morning is: please ask Sir Frederick Phillips if he could give me a memorandum by tomorrow morning - I have already asked him about it - how he would feel about our putting on complete controls, and if he could write the ticket, what would he like us to do.

Cochran: All right, sir.

H.M.Jr: I mean, if it was purely from his standpoint of what is good for his Government, what would he like us to do. I would like that tomorrow. You might ask Clark to do the same.

Cochran: All right. That is the Canadian?

H.M.Jr: Yes. And while I am talking about Canada, I want to know what happens to American industry in Canada. Somebody--

White: We have that information. They have only gone a short way on control over exchange.

H.M.Jr: Well, whatever they have. What have they done, you see--

Bell: I take it, it is very loose in Clark's statement.

White: Very loose. They are beginning to tighten up.

- H.M. Jr: Well, let's have it.
- Gaston: I still think that somebody ought to get to work on a general summary which is very short, an outline of what we might do in this field, so that we can judge what it involves.
- Bell: Well, Pehle has done some work on that, haven't you, John, at least he has been thinking about it and has been trying to find people to bring in here, and he has already brought in some to get experience before we tackle it. He hasn't brought in enough, of course.
- Gaston: We ought to get on paper what we are contemplating or what we might reasonably contemplate.
- H.M. Jr: That is what I am trying to do. Wiley?
- Wiley: I want to refer to--
- Gaston: You said that was a later step. I don't think it is a later step. I think it is something we want to look at right now.
- Wiley: I want to refer to what Dr. White said about the extension of freezing. So far, we have frozen invaded countries where there has been a certain amount of goodwill, and we are protecting their assets, and an extension of freezing, we go right into something quite new and different. I don't think it can be looked upon as a continuation or an expansion of the same thing.
- H.M. Jr: Granted. You are right.
- Now, Harold, have you had a chance to look at this setup?
- Graves: I examined Mr. Wiley's memorandum.
- H.M. Jr: What is your criticism on it?
- Graves: Well, I think that - should it be decided that it

was advisable to go into this subversive activities as an adjunct to this whole program, I think that their proposition is administratively feasible.

W. J. Jr: You do?

Graves: I do.

W. J. Jr: Well, I am glad to get that. Now, what I want you to do, I want you do stay on this thing. I want you today to go down into Pehle's shop and take an inventory of it and see how much expansion can they take and how well is it being run. Have you done a job on him?

Graves: No.

W. J. Jr: Well, you had better. (Laughter) You had better do a job on him. Just go through him like nobody's business and how good is he, you see, and how ready is he for expansion, and so forth and so on. That other little job you took, it was only a matter of five or six men, wasn't it?

Graves: Two men. You mean I used on that?

W. J. Jr: No, the one I asked you to do after I came back - Schwarz.

Graves: Oh, no, I haven't done that yet. I have simply gotten some preliminary information from Mr. Schwarz.

W. J. Jr: Well, push that through, but this thing here also, will you?

Graves: Very good.

W. J. Jr: Meet Mr. Graves, Mr. Pehle.

Pehle: Mr. Secretary, on the thing that Mr. Cochran is going to do with regard to sounding out Sir Frederick, I assume that that implies that we

can so administer the control that it will interfere in no way with the British Government or its citizens in England and in Canada unless we want to do so.

H.M. Jr: Well, that is too broad a statement. All I want him to say to this - he will report the message the way he always does. I have already said it to him. I would like him, Sir Frederick, to say if he could write the ticket for the United States Treasury, how would he do it. Now, he is going to do it so it will be O.K. for their citizens, but I can't guarantee to him that we are--

White: That is why he will probably not be in favor of it because he knows that once you put exchange controls on England that you can't guarantee further restrictions which might later be imposed.

H.M. Jr: Well, let's see what he says, and give them a chance to write a ticket.

Wiley: Mr. Secretary, I went over those memoranda again this morning, and I must say I don't see anything sensational. I really don't. The whole thing is - if the question of freezing is sensational, and we are living in a very sensational moment now, but this proposition to seek for at the source instead of "closing the barn door after the horse has been stolen," I think it is better to do it first. I don't see where anybody's rights are infringed or there is anything particularly spectacular.

H.M. Jr: Well, this having a representative in every factory and all that--

Wiley: Not every one, sir, just selected ones of particular interest.

H.M. Jr: You wouldn't call that just - how should I say - an ordinary daily occasion, daily matter.

Miss: Well, reports wouldn't be a daily occasion. They would have to file reports regularly anyhow; and, as we see it, the problem is only one of timing. Whether you wait 30 days until we write you what they think, you ought to know; or whether you are there when they have still got the bare bones and the bash and the black books and the evidence, they don't want you to see.

Miss: If you have freezing, you would want immediately and at once to put somebody in the Yokohama Specie Bank probably. If you want to do that, why not the German Lys Trust, too?

Mr. Jr: Well, of course if you would recommend that Mr. Edward Flynn would select the people, I would be more inclined to go along with you. Please put down laughter. (Laughter) I think that is marvelous, because that is what you have got to do in Germany. You have got to be a Party member, and that is one of the real plums. One of the Party members sits on the Board and says, "I don't think you could clear this dividend, but if I could buy some of your stock at maybe 10 cents on a dollar, maybe I could arrange to let the thing go through." I think that is the way they do it.

Miss: That and worse.

Miss: As for a witch hunt, there are, of course, witches to hunt.

Mr. Jr: True. Are you men familiar with the Alien Property Custodian thing. It was in force during the last war.

Miss: We have a man working on that now. One of the points he makes is that I think the Comptroller General wrote a report to that effect, that the delay in institution of the Alien Property system

resulted in the loss of lots of securities, cash, and so on. If the plan had been put into effect earlier, that would not have been lost.

W. J. Jr: Well, Wiley, don't misunderstand me. You have been with me the shortest time of anybody here. This is just my method of diagnosis. I don't know where we will end up, but it is a real service when Mr. Stewart comes down and points the dangers out to me and where we are heading.

Wiley: I think Professor Stewart is entirely right in suggesting that there will be repercussions. There will be repercussions, no matter what we do or if we don't do anything there might be even more repercussions.

Wiley: Does Mr. Stewart recollect his own objections when we first put the control on?

W. J. Jr: Just a minute, Harry. I am in no shape to go to Mr. Hull yet, because I haven't mastered this thing myself.

W. J. Jr: We haven't gone into the diplomatic or foreign relations phase of it at all. They have undoubtedly got a lot of material on that over in the State Department.

H. M. Jr: Well, between Wiley and Cochran, between them they certainly have access to the State Department on this thing. They can go to Mr. Hull's office and ask for it, and I am sure that they could get it. I mean, all you have got to do is to go to Mr. Hull's office and say that you want this information for Mr. Morgenthau, and they will give it to you.

Cochran: I think your State Department people are paired on this, Wiley and myself here.

W. J. Jr: What did he say?

H. M. Jr: Paired.

Well, seeing how you feel about it, I think you would be an ideal fellow to go over and get the stuff, Merle.

Cochran: All right.

H.M.Jr: I will let you and Wiley talk it over between you, but I think that we ought to - somebody ought to go through their files as to what is happening to American business in Germany.

Cochran: Feis' office has that.

H.M.Jr: Has he?

Wiley: I don't think you will get anything very quickly. They have got a tremendous series of memoranda, some of which I myself, going back over a period of seven years, wrote, and I don't think they have got any collective material.

Gaston: Well, Berle has been preparing a case, as I understood him. He has been preparing a case against the freezing and probably has gathered all those objections together.

H.M.Jr: Well, we are just getting into this thing. We will take another look at it at ten o'clock tomorrow, and I will keep looking at it until we get all the facts; and, Harold, you get in on the organization end and make sure that I don't get in something beyond my depths at which we can function. That is your responsibility to make sure that - as we go along with this, whatever we propose we can carry out, and I am going to pin that on you.

Graves: All right, sir.

H.M.Jr: So I think for a first meeting it is all right.

Stewart: I am satisfied.

- 23 -

H.M.Jr: I would like to see you (Stewart) later. How about eleven thirty? O.K.?

Stewart: Yes.

H.M.Jr: All right. I will see you all at ten tomorrow.

CANADIAN LEGATION  
WASHINGTON

December 11th, 1940.

Personal.

My dear Cochran:

I have hastily sketched off a memorandum on the subject about which you spoke to me this morning. I am not at all sure that it is of the type you had in mind, as I am not wholly clear in regard to how far you may plan to go. However, it may be of some slight assistance, and perhaps we can add to it later, if necessary.

As I see the memorandum in type, it is apparent to me that my ideas so hastily dictated are not developed at all in the order of their importance. I wish now to call special attention to point No. (4) of my general comments and to suggest that if anything fairly comprehensive is in mind it would probably be of great importance to have the conference suggested therein before definitive decisions are reached. The transactions across our common border have, I think, no real parallel anywhere else in the world, and it would be easy by too drastic control or too centralized control to create a chaotic and otherwise unfortunate situation. I am quite confident also that a visit to Ottawa by yourself, for instance, could be arranged in such a way that any information desired could be obtained in such a way as to ensure complete secrecy.

The more I think of the matter also the more I am convinced that a few partial steps in the direction of control will be largely futile and probably will lead inevitably to more far-reaching control. These points are clearer to me now than when I started to dictate the memo.

Yours very truly,

H. Merle Cochran, Esq.,  
Technical Assistant to the Secretary,  
Treasury Department,  
Washington, D. C.

December 11th, 1940.

CONTROL OF MOVEMENT OF FUNDS  
TO FOREIGN COUNTRIES

CANADA'S POLICY

Canada's control over the movements of funds to other countries is based on two authorities, the Foreign Exchange Control Order and the Trading with the Enemy Regulations.

(a) Foreign Exchange Control Order

This was passed on September 15, 1939, within a week after Canada's declaration of war, because it was realized that Canada would have during this war a problem of conserving "hard currency" exchange which could only be dealt with by control of all transactions in foreign exchange. The purpose was primarily two-fold; first, to see that we obtained for vital national needs all the exchange that we should obtain as a result of current account transactions; and, secondly, that we should guard against the danger of a huge outward movement of capital from Canada. The outward movement of capital funds might arise from two sources. Canadians themselves, influenced by the probable effect on the Canadian economy of an enormously expensive war with the heavy taxation and risks of inflation to which it was bound to  
give/

give rise, might be tempted to invest part of their funds in neutral countries as a personal hedge against the risks of war or for the purpose of obtaining more attractive speculative rewards. Again, foreign investors who have very heavy investments in Canada might in panicky fear have attempted to dump huge amounts of securities on the narrow Canadian market; this would not have been in the interest of Canada or in the long-run interest of the foreign investors themselves.

The Foreign Exchange Control Board was set up to scrutinize all dealings in foreign exchange and foreign trade by Canadian residents and generally to administer the system of control. Up to June last(1), the general policy followed by the Board, has been simple in essence, though necessarily complex in its application. It involved no restriction of import of export trade, of tourist trade, of the payment of interest or dividends or other current business transactions as distinguished from those on capital account. On the other hand, the Board refused to provide exchange for the export of capital from Canada except within

certain/

(1) It later became necessary to restrict pleasure travel abroad by Canadians and quite recently a War Exchange Conservation Act has been passed by Parliament to conserve exchange by the restriction of certain non-essential imports from hard currency countries.

certain narrowly prescribed limits, and with certain exceptions for capital invested in Canada after the establishment of exchange control.

The Board has attempted to avoid placing direct restrictions on the Canadian assets of persons living outside Canada and has not, for example, blocked the bank accounts of non-residents but has permitted non-residents to transfer them from one to another. It has been necessary, however, to place restrictions upon transactions between residents of Canada on the one hand and non-residents on the other hand, and this has restricted the sale of Canadian (as well as foreign) securities to Canadians by non-residents.

In general, the Board has tried at all times to accord fair and honest treatment to residents of friendly countries. While the paramount consideration has been the effective prosecution of Canada's war effort and while this has inevitably meant the adoption of certain policies which adversely affect the immediate interests of non-residents, the Board has scrupulously avoided that type of measure which could be characterized in any sense as "taking it out of the foreigner". In other words, the desire has been to so administer the control system that after the war, all who have a stake in Canada, whether they be residents or non-residents, would be able to say that the burden of war was fairly apportioned/

apportioned and that only fair and honest methods were taken by Canada to protect her vital national interest in a supreme emergency.

One further general point. In working out the methods of control of current account transactions, the Board exercised to the limit its administrative discretion and its practical ingenuity to assure that there was as little interference as possible with the carrying out of the huge and complicated volume of business transactions that take place across her southern border because of the extremely close inter-relationships between Canada and the United States. An example of this is to be found in the so-called B.D. accounts (foreign currency bank accounts) which business firms are allowed to operate under permit from the Board for the purpose of making deposits and disbursements in the ordinary course of business - thus avoiding the necessity of making a declaration to the Board at the time of receipt of each item of foreign exchange (although, of course, monthly reports and periodic settlements are required). Other examples are to be found in the arrangements which have been made in order to facilitate the smooth carrying on of the normal operations of insurance companies and banks.

(b) Trading/

(b) Trading with the Enemy Regulations

The purpose and general nature of the control set up under these Regulations are obvious and do not need to be expanded upon.

Suffice it to say that that control or rather prohibition is absolute when an enemy interest can be identified, and the Custodian of Enemy Property has power to define what is an enemy interest. In this connection, an Order-in-Council has been passed proscribing transactions with residents of France, both Occupied and Unoccupied. In general it is perhaps safe to say that practically all of continental Europe is proscribed because under present conditions it is difficult to make certain that no enemy interest exists in a particular transaction. In such matters there is close co-operation between the Custodian of Enemy Property and the Foreign Exchange Control Board.

GENERAL COMMENTS

1. Control by the United States of the flow of funds to other countries should in general be beneficial to Canada, as its apparent aim would be to conserve this country's financial resources for the Defence program and presumably for the production of armaments and war supplies vital to the cause in which Canada has  
such/

*Aggravating  
and to  
to can  
avoided!*

such an important stake.

2. Canada has tried to conduct its affairs, even under the extraordinary pressures of the present war, in such a way as to continue to be worthy of the confidence of foreign investors. Since the outbreak of war, there has continued to be a small flow of capital funds into Canada, and it had been hoped that Canada would continue to derive some small assistance from this source towards the solution of her foreign exchange problem under war conditions. Naturally, Canadians would hope that, if the United States finds it desirable to control the movement of funds abroad, it would be found possible to work out a system of administration and policy which would involve the minimum of restriction to the flow of capital funds to Canada, consistent with the objectives which the United States authorities may have in mind and conditional upon receiving from Canada any co-operation which may be considered necessary to safeguard and promote the attainment of those objectives.

3. Canada has an interest in seeing that it derives as much foreign exchange as possible from the earnings of United States subsidiaries of Canadian parent corporations or of branch plants of such corporations located in the United States. Recently this situation has been under examination with a view to exploring whether we

were/

were securing from this source as many United States dollars as were justifiable, - consistent, of course, with prudent business management of the concerns affected and also with the requirements of United States fiscal policy. This is a point to which we would like consideration to be given in connection with the adoption by the United States of any control program.

(It may be noted in this connection that the policy followed up to date by the Foreign Exchange Control Board has been to allow the payment by Canadian subsidiaries of U. S. parent companies of all net earnings in the form of dividends or transfer of profits. This has resulted in an increase in the drain on Canada's limited supply of U. S. dollars, as generally speaking all such companies are now transferring all their net profits, whereas before the war it was the practice to allow a substantial portion of such profits to accumulate in Canada.)

4. If any comprehensive system of exchange control should be instituted, it should be recognized that the magnitude and complexity of the transactions that take place back and forth across the U.S.-Canada border and the close business and financial interrelationships between the two countries will give rise to problems of administrative control and to dangers of undue interference with or inconvenience to legitimate and desirable business to a degree and of a variety which are probably not present in/  
in/

in the exchange control relationships of any other two countries. When Canada instituted exchange control, we had foreseen (perhaps not adequately) some of the difficulties with which we would be confronted, and it was only the overriding consideration of what we believed to be imperative necessity which led us to face the difficulties and risks involved. As already indicated, we have in practice stretched administrative discretion and used practical ingenuity to the utmost limit in order to minimize inconveniences and difficulties of legitimate business and to maintain, as freely as possible, the normal and friendly intercourse of our two peoples.

Our experience may be of some assistance in case a control program should be considered. We shall only be too willing to place all that experience at your disposal and to facilitate confidential discussions with officials of our Foreign Exchange Control Board in regard to the problems which have arisen in practice and the administrative techniques which have been devised.

5. Canada is relying to an important extent on expenditures of United States tourists into Canada as a source of supply for obtaining U. S. dollars with which to purchase vitally needed war supplies in the United States. During the calendar year 1940, receipts from this source have been very disappointing, the favourable factors upon/

upon which we had counted for an expansion of this trade having been far more than offset by a number of adverse factors, including apparently widespread misunderstanding (perhaps fostered by unfriendly sources) as to possible restrictions the tourist might experience in wartime Canada and as to the U. S. passport regulations. We were hoping that increased expenditure on advertising and intensified efforts to make the tourist's stay in Canada a pleasant one would result in a substantial expansion of this trade during 1941 and consequently in an increased supply of U. S. dollars available to Canada.

It would be our hope that any control system established would not be of such a character or administered in such a way as to disappoint our expectations in this regard.

TO THE VISA  
LEGATION CONSUL  
GENERAL DE TRÉ  
MONTREAL

DEC 11 6 23 AM '41

RECEIVED  
TRAVEL DEPARTMENT

December 11, 1940  
10:16 a.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello.

Robert Rouse: Good morning, sir.

H.M.Jr: How are you?

R: I'm fine. I got a good night's rest. I hope you did.

H.M.Jr: Oh, yes. I see the New York Trib says I'm a little scotch but they think it'll go.

R: Well, that was the - the first man I saw this morning was Dudley Mills and he made the same point. He said, I think it's a little thin, and I said, well, what's it worth. And he said, well, I think about par 16 - may work a little higher.

H.M.Jr: Yeah.

R: And I said, what's thin with that. But that was the general comment that we've gotten so far. No question about it going, but thinking you were a little scotch.

H.M.Jr: Well, that's all right.

R: And which seems all right to me. Going back some years when I was at the Guaranty I recall a note issue when there weren't any excess reserves to speak of. If a note issue came out with  $3/8$ 's to  $1/2$  it was very liberal.

H.M.Jr: Pretty hard to beat a Jewish Scotchman.

R: (Laughs). You're wonderful.

H.M.Jr: (Laughs).

- 2 -

R: Well, I think the thing is going to go very well. I don't see any question about it at all.

H.M.Jr: Yeah. Well, give me a ring in about an hour.

R: Yes, I shall.

H.M.Jr: O. K.

R: Thank you.

December 11, 1940  
10:34 a.m.

H.M.Jr: Hello.

Operator: Major Smith.

H.M.Jr: Hello.

Major W. B. Smith: Yes, Mr. Secretary.

H.M.Jr: Good morning.

S: Good morning, sir.

H.M.Jr: Major, I have been trying through the English unsuccessfully to get a report on performance of the Curtiss P-40 in England. Would you see if you could do any better than I have?

S: Of the Curtiss P-40.

H.M.Jr: Yeah.

S: Yes, sir. I think we have some information on that.

H.M.Jr: I mean, what they've done under battle conditions.

S: Yes, sir.

H.M.Jr: They've had them over there now since September.

S: Yes, sir. I'll get it for you and I'll call McKay and give it to him right away.

H.M.Jr: Thank you. Thank you.

December 11, 1940  
12:05 p.m.

246

H.M.Jr: Dan.

Daniel  
Bell: Yes.

H.M.Jr: Now Walter Stewart talked to me about Butterworth - he has a suggestion. Has he talked to you?

B: Yes, sir. He just left.

H.M.Jr: Oh. Would you mind taking that little chore off my shoulders?

B: No, not at all.

H.M.Jr: Because I'm - the reason I'm asking, if I saw Butterworth, I'm afraid I'd tell him the truth and I'd like to not have to.

B: O. K. I'll take care of it.

H.M.Jr: But you know the background.

B: Yeah.

H.M.Jr: I didn't ask him to come over you know.

B: I know you didn't. You didn't ask him to come off his vacation either.

H.M.Jr: No. And now he wants to, I suppose, show the State Department what a big guy he is. As far as I'm concerned he can go back to New Orleans or any other place.

B: Yeah. Well, I'll try and work it out.

H.M.Jr: Thank you.

B: O. K.

December 11, 1940  
3:10 p.m.

H.M.Jr: Hello.

Henry L.  
Stimson: Hello, Henry.

H.M.Jr: How are you?

S: I called you up this morning to find out how you were getting on and to offer you my help if you wanted me to go over that thing with you but I guess it's too late now.

H.M.Jr: What is that, Harry?

S: Why the telegram that you were drawing yesterday.

H.M.Jr: Well, that left last night.

S: Well, never mind.

H.M.Jr: I ought to have an answer, I should think, today and I had the English in and they promised to get a cable off last night. The minute I hear I'll give you a ring.

S: All right. (Laughs). Well, I'm not hurrying to meet the devil half way but I thought you looked rather tired.

H.M.Jr: I was.

S: I was trying to see if possibly there was anything that I could do to help you.

H.M.Jr: Thank you so much.

S: All right.

H.M.Jr: Thank you.

S: Good-bye.

December 11, 1940  
3:31 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull has Arthur Sulzberger with him.

H.M.Jr: Well, ask them if - I want to ask him something. I just want him to say yes, or no.

Operator: All right.

3:32 p.m.

Cordell Hull: All right, Henry.

H.M.Jr: I wouldn't bother you but I've got the British Purchasing Mission outside and I wanted to know from you how - you can just tell me yes or no - how important you think it is that we try to get the British to give up 30 of their pursuit ships to the Greeks.

H: Well, I tell you - of course you know more about the situation. I think it's all important for us to get 30 for them - squeeze out 30 ourselves.

H.M.Jr: Well, we'd have to take it away from the English.

H: Well, of course, that's like taking it away from the Greeks. The British, as I told you, had to divide up their little quota in Africa and Egypt in order to go over there and fight for Greece and now we tell the British to divide up here in order to - it's an awful situation for us to be in - I really think .....

H.M.Jr: Well, your people, you see, Sumner Welles and Berle have been talking with Philip Young in my office. Now if you said to me, Henry, you considered this terribly important, I'll put the heat on. You see?

H: Yes. Well, I would make the first drive on ourselves.

- 2 -

H.M.Jr: Well, I can't get any - in the last two weeks - this is for you - the United States Army got exactly 12 fighting ships. That's all they got.

H: Yes, I see.

H.M.Jr: Now, the British got 120 - 10 to 1.

H: Yes. Well, of course, I think it's something that we can't do anything - possibly it's something to take up with the British and say it ought by all means to be done. Of course it might determine the final outcome of that fight there.

H.M.Jr: Well, this is what I had in mind if you thought well of it.

H: Yeah.

H.M.Jr: I believe - I may be wrong - that they have got quite a few of these ships waiting in New York and Halifax which they've been unable to ship. Now, what the Greeks want is only three or four days output. If I'm correct that the English - and I want to find out - have let's say 40 or 50 ships lying at the harbor waiting, I was thinking of possibly saying, well, you haven't been able to ship them so let the Greeks have them if they have the ships to send them in.

H: Yes, and I'd put it on this, that it's all important for the British and everybody for the Greeks to hold that situation.

H.M.Jr: Well, I'll do the best I can without my getting too high pressure, but I'll let you know.

H: Yes. Well, get it high enough.

H.M.Jr: All right. That's all I wanted to know. Thank you.

H: Yes, good-bye.

December 11, 1940  
3:30 p.m.

BRITISH PURCHASING PROGRAM

Present: Mr. Ballentyne  
Mr. Wilson  
Mr. Self  
Mr. Monnet  
Mr. Young  
Mr. Buckley  
Mrs. Klotz

H.M.Jr: I am glad that you (Wilson) are here, because I have got two complaints. Sit down. I want a little service. I didn't know that you were going to be here.

Back around September 27, Lord Beaverbrook sent me this very confidential message on planes. Did you ever see that thing?

Wilson: Oh yes. Well --

H.M.Jr: It is this thing.

Wilson: Oh yes, yes, I got that.

H.M.Jr: Well, I was supposed to get the same thing on either the fifth or sixth of November.

Wilson: I didn't know that.

H.M.Jr: Yes. I told friend Purvis that. I never got it.

Wilson: It is in process now. I was talking to London day before yesterday.

- 2 -

- H.M.Jr: Now, Schlessler comes through on December 7 and gives me some figures on pilots, nothing on planes.
- Wilson: He gives you aircraft, as I understand it, but he doesn't give production. The production figures are being given to Arthur Purvis now.
- H.M.Jr: And I referred this to T. V. Soong. Being a Chinaman, I thought he might be able to unscramble it, but he gave up.
- Wilson: Well, to tell you the truth, I have a copy of that in my desk. I found it there this morning.
- H.M.Jr: If you could put that and the other one together and make it add up to 4 --
- Wilson: I will do that.
- H.M.Jr: But what I want is, I want a continuation of this.
- Wilson: I know exactly what you want.
- H.M.Jr: Schlessler comes along with that which has practically no rhyme or reason. I have worked on it and --
- Wilson: Well, please don't you work on it.
- H.M.Jr: Well, I have. I have spent hours on it.
- Wilson: Oh, that is too bad.
- H.M.Jr: And I got a December 3rd report and a December 7th, what you have May 10 and then September 27, and the whole thing --
- Wilson: Well, I have on my desk now - of course, I have the original. This I have on my desk, but I haven't been able to figure it out yet. I have only been here a couple of hours.

- 3 -

- H.V.Jr: Well, it will take a couple of days. If I could get something comparable to what came from --
- Wilson: I know. You want a continuation of the September one so you can put one alongside the other and say, "Here are you going, up or down or just holding your own?"
- H.V.Jr: That is right.
- Wilson: I know what you want.
- H.V.Jr: You press a button and how many depositors do you have, and they tell you, "Well, we had so many at Christmas," this or that or another thing, and you get something entirely different. You want to know how many deposits you have increased, how many died.
- Wilson: And in addition to what is on that memorandum of Schlessers, Beaverbrook is giving Arthur Purvis some figures up to the end of November and Purvis is bringing them over at the end of the week.
- H.V.Jr: But what I got from Beaverbrook originally was swell, see.
- I have got one more complaint.
- Wilson: Go ahead. I have got another piece of paper.
- H.V.Jr: But this is justified. And look, you remember how useful that was.
- Wilson: Yes.
- H.V.Jr: You remember how useful that was at the time and I need it again now. I have got to keep fighting this blue for here in Washington, that Britain is licked. I am in dead earnest. I was being funny before. I am not being funny now, and I need that stuff desperately.

- 4 -

Now, the other thing I need is, I have asked for it three times. My God, can't somebody connected with the English Government or the Canadian Government tell me since last September what has the Curtiss P-40 done in combat with the Germans?

Wilson: That is coming over. The Minister was on the telephone this morning. He says, "I am sending you a cablegram regarding performance of the Curtiss P-40," so we will have it some time today.

H.M.Jr: We will open a bottle of Champagne when you get it.

H.M.Jr: No sir, you will get it.

H.M.Jr: You don't want the Champagne? (Laughter) That is very valuable, isn't it, Mr. Monnet, especially if it is good Champagne.

Wilson: But seriously, he said he was sending that cablegram.

H.M.Jr: That much on you. I mean I didn't call you in for this. Did Colonel Knox ever get his pom pom gun?

Ballantyne: Yes.

H.M.Jr: Is it here?

Ballantyne: I don't know whether it is here. It arrived last week and we made arrangements for its shipment down. It was so big that it couldn't be brought down by rail and there was a tender in Halifax that went up with the destroyers and --

H.M.Jr: Well, when it comes, you see if you would have some system over there and let me know so I could write Colonel Knox a little letter and say, "Through the courtesy of the British Purchasing Commission I am pleased to inform you that the

- 5 -

pom pom gun was delivered as of such and such a date."

Wilson: Are you going to do that?

Young: I wrote him a couple of notes on that while you were away, keeping him informed.

H.M.Jr: I know. Now, what else? I want to get it all off my chest.

Wilson: We sent over an inquiry at the suggestion of somebody, would it be all right to send over Army and Navy observers to watch the performance of any of these planes. Beaverbrook says you can send over half of the Army. He would be glad to see them.

H.M.Jr: Now, this plane with its 2,000 horse engine in it.

Wilson: The Sabre? The Sabre engine is on the way over and the Typhoon is on the way over as soon as they can get one.

Self: In February. They would like to improve on it.

H.M.Jr: But the engine is coming?

Wilson: The drawings are here and the engine is on its way.

H.M.Jr: When the engine comes, would somebody let me know and when the plane comes would somebody let me know.

Wilson: Yes. We will. That will be your job and my job, Self.

H.M.Jr: I am saving the good stuff until the end, see.

Wilson: Well, go ahead.

H.M.Jr: Now, I would like to know as of - well, we will say as of today - the 11th is a lucky day - how

- 6 -

many Curtiss P-40's there are which you have taken title to in North America. I will tell you why.

Wilson: How many have we had delivery of?

H.M.Jr: No, how many there are which have not yet left and which are waiting for shipment.

Wilson: Oh, I see.

H.M.Jr: I don't know whether you have shipped them via New York or via Halifax, but it makes a difference where they are, as far as I am concerned.

Wilson: How many are on this continent?

H.M.Jr: Yes. How many are in Halifax, how many are between the factory --

Wilson: In North America?

H.M.Jr: Yes.

Wilson: Are awaiting shipment?

H.M.Jr: If you are going to take it today, what cleared the factory as of tonight, let's say, how many are between Buffalo and Halifax or Buffalo and Montreal awaiting shipment.

Wilson: We can get that very easily.

Self: I can tell you offhand, sir, that - I think it is 64 are waiting on the dock in New York now.

H.M.Jr: All right.

Self: That is just a typical sort of figure.

H.M.Jr: That is good enough for what I want. How is my guessing, Phil?

- 7 -

Young: Pretty accurate.

H.M.Jr: Now, I think that you people will make friends if there are ships which can go to Greece, that you would release 30 of those which are on the docks in New York. I understand they say, "Well, that isn't what the Greeks want." Well, never mind, it is the only thing that we have got. It represents 4 days' production, 4 to 5 days' production at the most. They are there. If the Greeks have the ships and can take them out of New York, my reply to you is, do it and make a big gesture of it.

Wilson: Regardless of whether they can be used when they get over there or not, just as a gesture? I mean, I don't argue the principle, I just say --

H.M.Jr: No, that would be stupid.

Wilson: Well, it mightn't be stupid, but it might not be the best way to do it.

Self: Would it be --

Wilson: If - no, you go ahead.

Self: Would it be an acceptable alternative to say that in consideration of the release of 30 P-40's, that we are sending 30 Hurricanes immediately to Greece?

Wilson: Something that they can use.

Self: The Hurricane can operate out of cow pastures. The P-40 can't.

H.V.Jr: I would say unhesitatingly yes. Let's say what, that you people are going to release 30 Hurricanes to Greece?

Wilson: Yes, and we have them over in England now, we assume. We must have.

H.M.Jr: That you will take care of those 30.

Wilson: Yes.

Self: If we can try to get something along those lines.... If we can cable England to try to get something achieved on those lines immediately?

Wilson: In other words, if it is a gesture, isn't that the best way to make the gesture?

H.M.Jr: Well, in these times I don't want to be a party to sending 30 Curtiss P-40's - I don't know, how good a runway do they need to take off?

Self: Well, they have got a very heavy pressure and it needs hard concrete runways.

H.M.Jr: Let's say if the Greeks haven't got them and you are just going to send them and store them there --

Wilson: That would be no good.

Self: Of course, there is a great advantage, that the Greeks know the Hurricane. They have got Hurricanes out there operating now. They have got spares. These P-40's have got no spares at all. In fact, they are having to break down aircraft at the moment to keep going.

H.M.Jr: If you could say --

Wilson: If the United States gives us - we don't say where they come from - announces that they give us 30 --

H.M.Jr: Now listen --

Wilson: No, I am not trading. I am just repeating it. You give us 30 of these Curtiss in consideration of Britain's sending 30 usable planes to Greece,

- 9 -

30 of the type they are using there now.

H.M.Jr: All right.

Wilson: That is what you are thinking of, is it?

H.M.Jr: No, I am not. I will tell you why. I just added up, in the last two weeks England got a hundred and twenty fighting planes. I will just read them off so you can check me. I will tell you why I can't say this, why I can't do this. I will tell you in a minute. I would enjoy this if it wasn't that there is so much at stake. I would get a kick out of it if it wasn't that this whole thing is so desperate. I just want to check. Put down five, Philip. This is - well, this is Consolidated. You people got - this is November 24 to December 3. You got 5 Consolidated, 80 from Curtiss, 21 from Douglas, 21 bombers from Lockheed - I am not counting the 3 - commercial transports. I will leave that out. Twenty-one bombers from Lockheed. That should total a hundred and twenty.

Young: A hundred and twenty-seven.

H.M.Jr: A hundred and twenty-seven, and within the walls of this room, the United States Army got 12. Now, I can not - I just can't go to General Marshall because he is foaming at the mouth now.

Wilson: Well, you understand I wasn't suggesting that.

H.M.Jr: No, but I am saying he is foaming at the mouth now. He knows these figures too. I can't go to him. I just can't do it.

Wilson: You understand, Mr. Secretary, I wasn't suggesting that you try to get these 30 from the Army because I understand that bridge has been crossed.

H.M.Jr: I can't go to General Marshall and ask him for another thing. You people are getting 10 to 1 of our production.

- 10 -

- Wilson: What it gets down to is that we have got to say to London, "Mr. Morgenthau wants 30 of these Curtiss P-40's," and if the operational people who understand it say - "We say it would be foolish, stupid, to use your word, to send these to Greece," but instead they will send over 30 Hurricanes or Spitfires or whatever type Britain is presently sending to Greece.
- H.M.Jr: Well, in this case for the first time, don't use the name Morgenthau, use the name Roosevelt.
- Wilson: Well, it is your name we usually use, but we will use any name you say.
- H.M.Jr: This time use Roosevelt. This is Roosevelt. This is not me. But I am trying to make good on what the State Department announced publicly that the President had promised the King of Greece. Now, I smelled that these Curtiss P-40's were on the docks.
- Wilson: You were right.
- H.M.Jr: But to take 30 and let them rust somewhere would be just - well, too stupid to be true, but I will leave it to you to think up something that you can use.
- Wilson: All right.
- Self: You know there are 10 squadrons in Greece at the moment, sir, 10 British squadrons.
- H.M.Jr: Yes, look over our warships and see something that you can use.
- Buckley: Well, they could get those 30 back next summer out of this allocation.
- H.M.Jr: No, but there is something else.
- Wilson: Sir Henry and I will concoct a message and read

it to you (Young).

H.M.Jr: They don't have to be planes. They don't have to be planes. Didn't I hear you wanted some boats or something.

Wilson: Yes.

H.M.Jr: That is what I am coming to now. They don't have to be planes. Think up something else.

Wilson: We will get up a message. ,

H.M.Jr: I don't know what you need the worst, whether you are short of any aircraft or machine guns or a little ammunition, a little powder, a little something here, but don't ask for planes. That was what I was coming to, you see. What is the thing which you would like to take up next on that December 7 list, what is the thing that you think you want to clear next? I haven't heard from the President yet, and you (Monnet ) I take it haven't heard from your government yet. What is the next important thing we should try to push? That is why I really wanted to see you.

Monnet: You are speaking of --

H.M.Jr: Anything. What is the thing next?

Wilson: In other words, assuming that you can't get all --

H.M.Jr: Well, let's take --

Wilson: Or I mean that you can't get some of all, what is your selection, what number 1, 2, and 3?

H.M.Jr: That is right.

Wilson: Well, of course, I guess --

H.M.Jr: That is what I really wanted to see you all about,

- 12 -

but seeing you I got off this accumulation of stuff, these little odds and ends.

Monnet: I think it is quite a question.

H.M.Jr: Well, think about it, you see. While we are waiting, what would - I would like an order, 1, 2, 3, what are the things - are they these 60 boats? Are they these planes, the balance of the planes that you want to place, or is it something else? Do you see what I mean?

Wilson: Sure.

Monnet: After the 10 Divisions?

H.M.Jr: Yes.

Wilson: Including the 10 Divisions. You put them all in the - in other words, you throw them all on the table and say, "What is the thing that is most urgent. If you can't get them all, now, what can we discard and concentrate on?"

H.M.Jr: On December 7 Layton laid a piece of paper on my desk which totaled a little over two billion dollars.

Wilson: I saw it.

H.M.Jr: Well, now, we have taken - what is it, 600 million of that, haven't we?

Monnet: About that.

Ballantyne: Yes.

H.M.Jr: Now, on that list I want priorities, 1, 2, 3.

Monnet: Including the 10 Divisions or outside?

H.M.Jr: Isn't the 10 Divisions finished? We have disposed of it if your government and the President agree. What comes next? Do you understand?

- Monnet: I do understand fully, but I wanted to tell you frankly what difficulty there is in my mind in this connection, and it is this, that a priority of this sort we have got to apply to London for.
- H.M.Jr: Yes, I expect it.
- Monnet: If we say to you, "Now, what is the priority?" it would be planes and ships. That is the question which we shall have to pass upon. They are the only two other items, planes and ships. I am absolutely certain that London will come back and say - "But planes takes precedence on the 10 Divisions," they will say.
- H.M.Jr: Well, we have crossed that bridge because Mr. Stimson, for reasons of his own, wanted to push that ordnance order.
- Wilson: He figures that as number one.
- H.M.Jr: Well, he did. We put that to you yesterday, last night. Mr. Stimson said that is what he wanted first, so London can't go back on that. He, Mr. Stimson, said he wanted that first.
- Wilson: In other words, London has no choice with respect to that.
- H.M.Jr: Let's say after that, what is the priority?
- Wilson: Yes, sure.
- H.M.Jr: But I don't want to go through what I did again yesterday, not for another week.
- Monnet: We have got to put that question to London.
- H.M.Jr: That is what I want, but I want to see you get it over to your government.
- Wilson: Well, we will put that up to them.

- 14 -

H.M.Jr: Will you?

Wilson: Oh yes, sure.

H.M.Jr: On the December 7 list, after the thing that we have talked yesterday, what would you people say, 1, 2, 3?

Wilson: We can put it up to them tonight.

Monnet: There is only one, two, it is only ships and planes.

H.M.Jr: Is that all? Well then, ships and planes.

Self: My problem, Mr. Secretary, is this, that if you say planes, plane program, can we assume that on the current program for 12,000 planes that Mr. Knudsen's arrangements will proceed without further difficulty or reference back on all the P and R's which are in with Mr. Philip Young now.

H.M.Jr: P and R's, what is that?

Young: Some of the things you don't know about.

Self: The program for 12,000 planes --

Young: Clearance forms.

Self: The program for 12,000 planes that was referred to by the President in his speech on October 30 to Mr. Knudsen and two colleagues on the Defense Commission and following that reference, and by arrangement of Mr. Knudsen, formal orders were put in for that program. Of the 12,000, roughly something like two thirds can be cleared, it would seem, by United States of existing capacity or capacity already being created, and there should be no difficulty in clearing up the situation. There remains a balance which involves new plants, which I assume comes out of the category you are talking about. I wonder whether we could assume about the part where we already have existing

- 15 -

facilities or they are being created , there is no question about that anyhow.

H.M.Jr: Leaving the question of paying out, my understanding from what Knudsen has said here several times, that 12,000 plane program has been cleared. It has been cleared. Now, it is just a question of the money.

Self: I see. That is a question of priority of money, then.

H.M.Jr: It is a question of money. But he has said here that that thing has been cleared. They said so publicly.

Young: He has definitely approved it in principle, subject to certain shifting around between types, which doesn't amount to anything. However, he doesn't --

H.M.Jr: That is cleared. But if I may say, if it is a question - how many of that 12,000 have been placed?

Self: We have got negotiations with the firms proceeding for about 2,500 and the others have not been released by the allocation committees for formal negotiation.

H.M.Jr: For 2,500? You haven't signed?

Monnet: Nothing has been --

H.M.Jr: Why don't you push on those 2,500?

Young: I think Knudsen has some reservations in his mind on the paying end.

H.M.Jr: Well, I am saying why don't you go ahead and push.

Self: Well, the difficulty is not my creation, but we have sent letters to the firms and said we wanted to sign up and the firms came back and said,

"We haven't got the capacity to take this until the allocation is approved," and they have come back to the Administration to get their position cleared.

H.M.Jr: Before they can get up to a point, Phil - we had this thing last night, that everybody has cleared it, and then it gets down to a policy, do we want to let them place it on account of the money or not? Why can't we get the 2,500 up to that point?

Young: Well, we can get all 12,000 up to that point, as far as that goes.

H.M.Jr: Well, 2,500 would be a nice start. That is all you people are ready on, aren't you, right now?

Self: Well, I was ready, for my part, to sign up contracts immediately for 673 million dollars as soon as I can get the four more clearances. I thought we could do that without any question of plant capacity. I would have signed up immediately.

Young: Is that for the three thousand?

Self: That was - I won't go into detail - several headings. Different groups. So far as our problem, more than half the total amount could have been cleared right away.

H.M.Jr: Without any additional plant capacity?

Self: Without any additional plant than what is already being created.

H.M.Jr: Well --

Self: Then Mr. Knudsen, if I might trouble you with the details of it, he says you put in 450 million dollars for capital assistance. That amount of money is not necessary for the 12,000 scheme, I agree, but the 12,000 scheme is divorced from delivery dates; but there comes Schlessler in November with an additional

- 17 -

heavy bomber capacity which should be started immediately for 250 heavy bombers a month, which would be necessary if the 12,000 program is to be achieved by June, 1942.

- H.M.Jr: We are getting way beyond my department, because Philip Young hasn't had time to bring me up to date. Look, make - could you do this, in order to just save time, and I will try to find time to assimilate this. Ask England just this question. At this stage, which do they want you to push first, the ships or the planes. Just ask them that question, you see, and then in the meantime while you are trying to get that answer --
- Monnet: I think - we can't give a formal answer to that, but I know what the answer is going to be. It is going to be planes.
- H.M.Jr: Well, let's get it anyway. I am not sure that you are right. You most likely are. You most likely are, but ask them that question and then, Phil, I think if this thing breaks down into, I gather, 2,500 planes and then what is the next - how much do 2,500 planes cost?
- Wilson: A hundred thousand a plane. Two hundred fifty million.
- H.M.Jr: What is the next step?
- Self: Then about another hundred and fifty million on top of that.
- H.M.Jr: Two fifty, three fifty, and then six hundred. If we could get that - if you people could get it in the three steps to Knudsen, so we can say depending upon the money we will go 1, 2, or 3 steps, how many we go, but have Knudsen ready if the Administration feels --
- Wilson: Well, he is ready, isn't he, Knudsen?
- Self: Oh yes, that will be cleared automatically.

- 18 -

- H.M.Jr: Well, but I don't want Knudsen coming in and getting into a whole argument.
- Self: But that approach to the problem, if I may suggest, I should let the committees function as they are now and the results will come out automatically and we shall probably be negotiating the 250 million dollar contracts next week. They are being worked on now, ready to sign. The next 350 will come out automatically before Christmas, and then the 600 million will have to come out of the hot spots.
- H.M.Jr: Then it will be a question of whether you will be able to get permission to let 250 million more for aircraft between now and Christmas, and the ships cost how much?
- Monnet: In total, a hundred million dollar commitment and roughly 40 million dollars or so of capital investment.
- F.M.Jr: I see.
- Monnet: It is a small thing.
- H.M.Jr: But you see, your trouble is the Navy, and while you are arguing about it, you would save a lot of time if you could hold of either Colonel Knox or Forrestal and see whether you can't get the clearance over there. The Navy frankly doesn't want these placed.
- Self: All right.
- H.M.Jr: Now, what they say, so you will have the whole picture and it will give you a lead, what they say - and you (Young) ought to check this with Foley because I don't know whether they are right - that they have not got the authority to seize these neutral ships in our ports. They need legislation. I thought they had the authority. They say they haven't. Well, you ought to run it down, with

- 19 -

the help of our people. If they have the authority, their proposal is they will seize these ships and then turn over an equivalent amount of United States ships to you people.

Monnet: All right.

H.M.Jr: Is that news?

Monnet: It is news to me.

H.M.Jr: Well, there is your proposal, but if I said to you today, "All right on the money, with the 250 million," you are not ready to say the types and the names of the planes.

Wilson: Oh yes.

Self: Oh yes.

H.M.Jr: Do you (Young) agree? Are they ready?

Young: Yes, I think so on that first batch. I think that is pretty well decided as to exact types and so on.

H.M.Jr: I don't mean pretty well, Phil; is it decided? Is all the paper work done?

Young: Yes, it has all been cleared through on the forms unless there has been some change.

Self: We have in fact written letters to the firms saying, "These orders are approved by the United States Administration. We wish to sign contracts for them for the following deliveries and the following prices have been-" we haven't formal clearance from our side from Washington. As soon as they come back and say they have it, we will sign.

H.M.Jr: Could I pick that up some way or other --

Young: I wouldn't --

- 20 -

- H.M.Jr: And get Mr. Knudsen to say to me, "Mr. Morgenthau, subject to the approval of this Inter-Departmental Committee of five Cabinet members, I am ready to let this order, but I want this five man Cabinet to say O.K. financially.
- Young: We will pick it up.
- Wilson: Can we help on that?
- Self: I suggest that Mr. Young and I can talk it over.
- H.M.Jr: That gives it, you see, There is 250 in planes, a hundred million on the ships, on which you fellows have to do some missionary work with the Navy Department, find out where everything stands on this legislation, then ask your government if they could only have one of these two things during December, which would they rather have.
- Monnet: That is clear.
- H.M.Jr: Make sense?
- Wilson: As a banker I understand it clearly.
- H.M.Jr: All right. You see what I am trying to do?
- Wilson: Oh sure.
- H.M.Jr: I want to try to keep this thing rolling. Now, maybe they will feel there is enough for both, I don't know, but let's keep pushing. I am asking to be pushed.

December 11, 1940  
4:19 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull will call you back in a little while.

H.M.Jr: Well, I'll have to - (pause). Let me talk to somebody in his office.

Operator: All right. Mr. Stone.

H.M.Jr: Hello.

John F. Stone: Yes, Mr. Secretary.

H.M.Jr: Stone, to save Mr. Hull's time and mine - have you got a pencil?

S: Right, sir.

H.M.Jr: I want to get this information to him, confidentially.

S: Right.

H.M.Jr: British Purchasing Mission tells me this: that they are informed by their military authorities that the Curtiss P-40 planes will be of no use to the Greeks because they don't have the proper landing fields.

S: Right.

H.M.Jr: The English have now over 400 fighting planes assisting the Greeks with additional reserves. They say that the Greeks are not capable of flying and fighting a modern plane. I suggested to them that the English Commanding General in Greece get in touch with General Metaxas and ask him what does he think that we have in the United States that they could use to the greatest advantage. You see?

S: What we have - right.

H.M.Jr: Yes. You see?

- 2 -

- S: And for them - actually for the two of them to meet to agree what we could best supply them of most use to them.
- H.M.Jr: That's right, and to advise us through their diplomatic officer here and to have the Greek diplomatic officer advise us when those two get together.
- S: ..... tell us through the Greek man here. That's right, sir. I'll get that before him in - and then also that you are accordingly standing by on what you and he spoke about just a little while ago.
- H.M.Jr: That's right because both Mr. Welles and Berle are putting pressure on this 30 Curtiss P-40 and the English say it just isn't practical. You see?
- S: Right, sir. I understand perfectly, Mr. Secretary.
- H.M.Jr: And rather - they say on the other thing - rather than to give up any of these Curtiss P-40's they would be willing to give up some of their own planes and send them down. But they say that at present as far as they know the air force that England has in Greece is perfectly adequate. You see?
- S: Right, sir. That they, therefore, think that there is no need of sending anything else down because .....
- H.M.Jr: They don't think so.
- S: Because of their own 400 plus ....
- H.M.Jr: Plus reserves. So my suggestion is for the English commanding officer plus General Metaxas to get together and advise us through - what's it, a Minister or Ambassador - I don't know ....
- S: He's a Minister, yes, sir.
- H.M.Jr: The Greek Minister to advise us and I figure if it came through the Greek Minister certainly we'd get the low-down.

- 3 -

S: Right, sir. And the British agreed to go along those lines?

H.M.Jr: Well, they're going to send a cable tonight to London and advise London to so instruct the English General in Greece.

S: Fine. Thank you, Mr. Secretary.

H.M.Jr: Now, one other thing: I think if somebody in the State Department could send for the Greek Minister and tell him of this conversation then he could send it over and he could check and we could make sure .....

S: We could see whether the British were playing along with us.

H.M.Jr: Exactly. But I'd like that .....

S: I'll get that before the Secretary before anything is done on that suggestion.

H.M.Jr: And tell him that until I hear from him I figure that I've done all that I can.

S: I understand and that you'll wait to hear from either him or from the Minister.

H.M.Jr: Or from the Greeks.

S: Right, Mr. Secretary. Thank you, sir.

H.M.Jr: Thank you.

December 11, 1940  
5:00 p.m.

H.M.Jr: Bob.

Robert Rouse: Yes.

H.M.Jr: I think everything went very well.

R: Well, so do I. We were just checking up with December, 1938 and we find that our subscriptions in this district already are over the total for New York in December '38 on a note subscription.

H.M.Jr: Is that right?

R: We're up to a billion 721 and there's one on the way over of another 100 million, making 1,821,000,000. The total subscriptions in December '38 they tell me were 1,690,000,000.

H.M.Jr: Well, do you mind sending me a telegram on that so I can have it in the morning?

R: All right.

H.M.Jr: Just write out a telegram - you know we have our own wires and just send me a telegram on that so, I mean - or I tell you, dictate it to Hadley.

R: All right. I'll do that.

H.M.Jr: I'll just have you switched to Hadley and give it to him and then he can write it out and give it to me in the morning.

R: And during the afternoon I understand that the out of town people began to hear of a little better word of it and there was a tendency to increase subscriptions to the limit more than there had been prior to that.

H.M.Jr: Well, I'd like to have what you've told me. Tell it to Hadley and he can write it out.

R: Well that's fine. I'll do it.

- 2 -

H.M.Jr:       Just one minute.  
Operator:      Operator.  
H.M.Jr:       Give Mr. Rouse to Mr. Hadley please.  
Operator:      Right.  
H.M.Jr:       Good-night.  
R:             Good-night, sir.

December 11, 1940  
5:05 p.m.

H.M.Jr: Hello.

Claude  
Wickard: Hello.

H.M.Jr: Secretary Morgenthau.

W: I tried to reach you this morning but I guess you were busy. I wanted to tell you that our people have conferred with the Grange, the Farmers Union and the Farm Bureau officials and all three of those organizations are willing to go along on the taxing of Government securities as far as it will affect Farm Credit, and we are going along too.

H.M.Jr: Swell.

W: So I guess you have all the approval that you can get from us and from the farm organizations so far as I know.

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

W: All right.

H.M.Jr: Thank you so much.

W: You bet.

H.M.Jr: Good-bye.

# TREASURY DEPARTMENT

276

## INTER OFFICE COMMUNICATION

DATE December 11, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Recent Social Changes in England -- Summary

### A. Conclusion

There were no decisive changes in the English institutional pattern in the period before the War. Since the War the following changes which some people believe to constitute, in effect, a social revolution have occurred:

1. The Labor Party and Trade Unions have acquired a prominent place in the Government and in the regulation of labor conditions.

2. Government regulation of economic life has been enormously increased, both extensively and intensively.

3. Important social reforms have been introduced:

(a) The minimum wage for agricultural workers has been raised 40 percent.

(b) Unemployment insurance has been extended to cover white-collar workers earning up to \$1680 (\$4 = £ 1) per annum.

(c) The rationing and price control mechanisms have been employed in the direction of bringing about a greater equality in living standards. Prices of certain essentials have been fixed, the diet of the masses has been improved, free milk is given to marginal workers, and the import -- and even the production -- of many luxuries have been curtailed or prohibited.

4. Many significant social changes have taken place. Crisis exigencies have necessitated a greater social equality in the provision of shelter from and relief against bombing, a democratization of the military machine, and a relaxing of the social rigidity which was perhaps the outstanding weakness of the English democratic system, as compared with ours.

Because most of these changes were induced under the immediate and urgent pressure of war needs and not because of

any new ideological trend, and because the essential continuity of the English democratic system has been preserved, it is too early to say whether the social ferment and changes that have occurred and are occurring constitute as yet a social revolution.

#### B. Before the War

1. The social pattern. No really significant social changes occurred in England in the decade before the war. However, in the period from 1900 to 1930 most of the social reforms which the New Deal has been introducing in the United States had already been instituted. These reforms, while making no fundamental change in the pattern of society, undoubtedly contributed to greater economic security for the masses and to a diminution of inequalities.

2. The economic pattern. Since 1900 there has been a steadily growing governmental participation in and regulation of economic life. But this was a reflection of the increasing complexity of the economic changes and not of a desire to bring about any basic change in the economic structure, and it left the main sectors of industry under the driving force of private enterprise.

3. The political pattern. The last decade has witnessed no decisive change in English political life. The Labor Party had already become the second major party in the 20s.; while it is doctrinally socialist it is essentially democratic, and has fulfilled the function of being "His Majesty's Loyal Opposition" in fact as well as in name.

#### C. Since the War

Do the fifteen months in which England has been at war give any clear picture of change on a large scale and of the direction of change in the future?

1. The English Government's participation in and control over economic life has been enormously extended in all directions, and the Battle for Britain has carried this development much further. The Government has imposed exchange control, mobilized foreign assets, established control of foreign trade, extensively regulates production and distribution, and has the power to mobilize labor and capital.

2. The War has already affected the social fabric of England.

(a) In the organization of provision against bombing it is essential to provide for the population as a whole irrespective of economic or social status.

(b) The mobilization of the economy for war entails control over production and consumption with inevitable social repercussions in the direction of a levelling of living standards.

(c) Important social reforms have been introduced.

(d) The gravity of the emergency in June made it necessary to improvise elastic and more democratic measures of military defense.

3. The War has already affected the political fabric of England.

(a) The English experience has vindicated the claim that democracies can be both flexible and adaptable. England has succeeded in maintaining its democratic forms.

(b) The political climate of England has already altered. The Labor Party and the Trade Unions play an increasingly prominent part in the war effort, and the majority of the population now expect the Government to make provision for certain essential needs. In addition Colonial reforms are already taking place.

(c) However, the English people have not veered violently either to the left or to the right.

"4. Increasing Government intervention and the blurring of social distinctions are inevitable in war. In certain instances they have helped to initiate desirable social improvements. Whether these changes will be permanent partly depends on the duration of the war, though already there is hope and expectation of further democratization and reform. The longer the war lasts, the greater the possibility of profound economic and social changes.

5. Assistance from the United States will help facilitate the orderly transition from war to peace, and to that extent contribute to the maintenance of English political and economic continuity.

TREASURY DEPARTMENT

279

INTER OFFICE COMMUNICATION

DATE December 11, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Recent Social Changes in England ✓

A. Before the War.

1. The Social Pattern

An examination of social changes in England in the decade before the outbreak of war on September 1939 reveals no significant modification of the previously existing pattern of social relationships. England had already in the previous quarter of a century instituted most of the social reforms which the New Deal was introducing in the United States.

The range and extent of these reforms are partly brought out by the fiscal changes they involved. Whereas in 1900 only £35 millions were spent on all public social service expenditure -- including education, health, housing, unemployment, insurance and relief, pensions, etc. -- in 1920, the amount spent was £201 millions, and in 1934 it was £401 millions. The following table shows the percentage increase in total and per capita expenditures since 1900.

Proportionate Increases in U. K. Social Service Expenditures Since 1900

(1900 = 100)

<u>Year</u>	<u>Total Expenditure</u>	<u>Per Capita Expenditure</u>
1900	100	100
1910	174	158
1920	566	491
1930	1,068	888
1931	1,136	940
1934	1,130	922

In addition, in the period since the first Great War taxation has become more steeply progressive. Whereas in 1913 £172 millions were collected in taxes on the well-to-do, in 1925 the amount so collected was £663 millions and in 1935 it was £686 millions or almost exactly four times more than in 1913.

✓ (Prepared by Mr. Adler)

Large-scale social reforms have the effect of levelling up the standard of living by providing the lower income groups with services and benefits which would otherwise not be available to them, and to that extent diminish or mitigate economic and social inequalities. The tendency towards decreasing inequality in England appears to be corroborated by the change in the distribution of the national income occurring between 1913 and 1935. In 1935 the percentage of the national income going to profits and rent was only 34.5 percent as compared with 44.9 percent in 1911, while that going to wages and salaries was 65.5 percent as compared with 55.1 percent in 1911.

While these data indicate both a vast increase in the social services available to the lower income groups and therefore in their welfare and economic security and an apparent decrease in the inequality of distribution of income, on the other side of the balance the following facts must be taken into account:

(a) Many of the social services were on a largely contributory basis, and too, the expansion of the social services coincided with a heavy increase in indirect taxation. The yield of national and local taxes falling on the working class rose from £90 millions in 1913 to £338 millions in 1935, and their share of the total tax burden was approximately a third at both dates. All in all there does not appear to have been a net redistribution of income by taxation of more than about £100 millions in favor of the lower income groups. However, while before the first World War, the working class contributed more than the cost of the services of which they were the immediate beneficiaries, in 1935 they not only gained from the small redistribution of income in their favor but also from the fact that the whole cost of general administration was being covered by the yields of direct taxation on the well-to-do.

Therefore it is safe to conclude that the changes in the tax system had undoubtedly brought about an improvement in the relative position of the working class.

(b) The share of wages in the national income was about 40 percent both in 1911 and in 1935. The increase in the share of wages and salaries occurring between these two dates was almost entirely due to the increase in the share of salaries, and the higher bracket salaries at that. The inequality in the distribution of the income had not significantly changed. At both dates 1/10 of the population got over 40 percent of the total income, and even at the latter date 90 percent of the income-earning population were getting under £250 per annum.

The conclusion is inescapable that while the government was providing the people with an increasing and extensive number of social services which on the whole contributed to the maintenance of social stability, the pattern of society in England had undergone no fundamental changes, and that the decade preceding the second World War showed no reversal of this trend.

## 2. The Economic Pattern

It has been claimed that the fact that the expansion of social services in the last thirty or forty years had been accompanied by a steadily growing governmental participation in economic life meant that there was a definite movement away from capitalist democracy and towards socialism. This thesis is untenable. It is true that many municipalities own and operate public utilities, that the government runs the Central Electricity Board, that it has given subsidies to agriculture and shipbuilding, that it has introduced marketing and rationalization schemes in certain industries. But it had not gone so far in this direction as many other countries. Almost all governments the world over had found themselves compelled by the world crisis to intervene in the processes of economic life. Governmental intervention in agriculture had not gone as far as in the United States. Subsidies to industry were being allocated by most governments, and as for municipal ownership of public utilities, this was a practice widely prevalent on the continent of Europe. Even the railroads, owned and operated by many European governments, were privately owned and operated in England.

The increasing governmental participation in the economic process in England as elsewhere was a reflection of the increasing complexity of economic life, and not of a desire to bring about any basic changes in the economic structure. Whether this participation of itself brought about a basic change irrespective of the wishes and intentions of the government is a question on which there are divergent opinions in England as there are here in the United States. For the period before the war, at any rate, the view that government participation does not involve an inevitable trend towards socialism appears much the more plausible both for this country and for the United Kingdom, because in both countries the main sectors of industry -- and agriculture -- were operating under the driving force of private enterprise and initiative. Government participation in economic life did not for the preponderatingly large part of its activities consist of either ownership or control, but of regulatory action and aid.

### 3. The Political Pattern

The pattern of English political life again reveals no really decisive changes for the pre-war period. The party structure in the last thirty years has witnessed one major change -- the replacement of the Liberal by the Labor Party as the dominant second party. The Labor Party is doctrinally socialist. But it is irreconcilably attached to democratic processes, abhors all violent and sudden changes, except perhaps for a small core of extremists who are not among its most influential members, and its philosophy and methods correspond much more to those of the New Deal than to those of radical, authoritarian, and extremist socialism. It has held office twice, in 1924 and in 1929-31, and on neither occasion did it make any abrupt change in the continuity of English political and economic life.

It is a paradox of the English political set-up that a number of spectacular political reforms were introduced not by the Labor Party but by Coalition and Conservative governments. The vote to women over 30 was first granted by the Coalition Government in 1918 and was extended to women over 21 by the Conservative Government in 1927. The same Conservative Government introduced a widow's pension scheme. Large-scale subsidization of housing for the low income groups has been a feature of the policy of all governments since 1918.

The Labor Party is intimately connected with the trade union movement. In fact, the trade unions political tie-up with the Labor Party is much closer and more lasting than the political alliances the trade unions in this country have entered into. In England the trade unions are for all practical purposes a part, if not the solid core, of the Labor Party. Nevertheless, since the general strike of 1926 the Labor Party has not used the trade unions as an industrial weapon for political purposes nor have the Trade Unions used their industrial bargaining power as a political weapon. It is the general impression -- and it is another paradoxical feature of the English political set-up -- that the Trade Unions constitute the conservative -- steady element in the Labor Party and that they temper the radicalism of the left-wingers.

The cleavage between the two major parties -- the Conservative and Labor parties -- is undoubtedly great. The Conservative Party is the party of the upper class and of a substantial portion of the middle class. The small and dwindling Liberal Party has a largely middle class base, while the Labor Party recruits its votes from labor and the lower middle class. However, the lines of party voting are

not fixed and rigid. Part of the middle class vote fluctuates, and even the working class vote is not solidly and invariably for the Labor Party. When it is remembered that 85 percent of gainfully occupied people in England are wage earners, and that a Conservative Government or Coalition Government in which the Conservatives were the dominant party has held office for all but two of the twenty-one years between the first and second Wars, it becomes clear that the attachment of the working class to the Labor Party is neither unquestioning nor uncritical. Moreover, the cleavage between the two parties is not such as to make for the kind of uncompromising conflicts which rend a society apart. It is deep, but it is not insuperable. The Labor Party until it joined the Government was "His Majesty's Loyal Opposition" in fact as well as in name. And its participation -- wholeheartedly supported by the Trade Union movement -- in the war effort after Chamberlain's resignation has been 100 percent, which is a further indication that the gulf between the two parties is not too great to preclude national unity and cooperation for national ends.

#### B. Since the War

War subjects the existing fabric of institutions to the most violent stresses and strains. The magnitude of the effort involved, the sacrifices invoked from all sections of the population, the readjustments necessary for the conduct of the war, the dislocations attendant upon the conclusion -- successful or unsuccessful -- of the war, all combine to make war the most potent creator of instability -- economic, political and social. It is not surprising, therefore, that war is an accelerator of social change.

Do the fifteen months in which England has been at war give any clear picture of change on a large scale and of the direction of change in the future?

1. The English Government's participation in and control over economic life has been enormously extended. It has instituted thoroughgoing exchange control, mobilized its foreign assets, established far-reaching control of foreign trade, and instituted a system of priorities by which it can regulate almost all industrial and agricultural production. It has taken over the railroads for the duration. It has introduced extensive rationing, and control over prices and the distributive mechanism. It has obtained the power to commandeer labor and to set the terms at which labor and capital shall be remunerated; it has increased old taxes and created new ones which drain off an unprecedentedly large portion of the income of individuals and corporations; it has the power to tax excess profits up to 100 percent.

The very nature of the war, rather than any particular political or economic philosophy has compelled it to take these measures which all the major parties endorse. Since the Government is waging war, and since the war demands the subordination of all economic activity to its successful prosecution, it is inevitable that the Government increasingly regulates this economic activity. It was to have been expected that the process of increasing Government participation and regulation coincided with the intensification of the war since the invasion of Norway and the Low Countries.

The Battle for Britain has carried this development much further. It has become necessary to extend provision against air-raids by evacuation of people and the building of shelters, to create machinery for relief of air-raid victims, to insure property against loss and destruction by bombing, and to strengthen the war effort all along the line. These measures could not be comprehensively undertaken by private enterprise. They had to be supervised and executed by the Government itself. Many of them, though exceedingly complicated and having unforeseen ramifications, had to be improvised ad hoc.

As long as the War lasts the degree of government control and participation will become greater rather than less, as victory will be unattainable without a higher integration and coordination of all phases of economic activity by the Government, and even at the conclusion of war the relaxation of controls will even in the best possible circumstances have to be very gradual.

2. The impact of the war has already affected the social fabric of England.

(a) In the organization of provisions against bombing, it is essential to attempt to provide for the population as a whole irrespective of income level or social status. While such provision is as yet by no means complete, the tendency in the direction of equal provision for all in this respect is difficult to resist. Thus, faced with the problem of evacuation, the Government has provided for the settlement of all children whose parents are not in a position to handle the problem by themselves. The Government not only has to organize evacuation, it has to finance part of the cost. Similarly with respect to shelters and rehousing and relief of people who have been bombed out, where obviously individual effort can cope with only a fraction of the problem. In the coming winter the Government will have to undertake measures to safeguard the health and morale of the industrial population and to prevent epidemics under essentially inadequate and unhealthy shelter conditions, and to make arrangements for transport to work and for feeding and sleeping accommodations on the job.

- 7 -

(b) The mobilization of the economy for war entails control over production and consumption in order:

(i) to curtail the production -- save for export -- of luxuries and non-essentials insofar as they interfere with the war effort.

(ii) to curtail the consumption of luxuries and non-essentials of all imports which are not vital for the prosecution of the war.

(iii) to curtail the consumption even of essentials to the minimum compatible with the maintenance of the population on an adequate living standard, and with the maintenance of morale. This is achieved by drastic control of foreign trade and by rationing and price control. Insofar as these aims are attained, there is a definite levelling down of living standards.

(c) Important social reforms have been introduced, including the extension of unemployment insurance to white-collar workers earning up to \$1680 per annum, more adequate compensation to the wounded and injured, and measures to give an adequate minimum diet to the majority of the population.

(d) The gravity of the emergency in June made it necessary to improvise defense measures of an elastic character such as the establishment of the Home Guard or the Local Defense Volunteers, where the routinized traditions of the Army had to be abandoned. If the Local Defense Volunteers continue on the same basis as they started on, it might be a severe blow to the aristocratic composition of the Army leadership.

3. The War has already affected the political fabric of England.

(a) The English experience has vindicated the claim that democracies can be both flexible and adaptable. It is true that in the first eight months of war England was tardy and slow to realize the gravity of its situation. But since Churchill became Prime Minister the response on almost every level, political, social, economic, and military, has been magnificent. Democratic forms have been maintained -- witness the recent debate on peace in the House of Commons, witness even the toleration of minority parties -- without the loss of speed in the execution of vital measures. Parliament is active legislatively and plays a positive role as the watchdog of the people's interests and the constructive critic of the executive. Freedom of the press, freedom of speech, and freedom of assembly have all been preserved subject to certain minimal and unavoidable restrictions, such as censorship of the press to prevent the publication of vital military information, and censorship of correspondence with abroad to prevent the imparting of such information, violation of exchange control, etc.

The English experience has also vindicated the thesis that democracies are not less capable than dictatorships in providing dynamic and inspiring leadership.

(b) In spite of the maintenance of the continuity of the democratic tradition, the political climate of England has already altered.

(i) The Labor Party and Trade Unions are playing an increasingly prominent part in the war effort. The Labor Party has three representatives in the inner War Cabinet, and two other cabinet members besides, while the Trade Unions are represented on all the major Government committees in which labor interests are involved. The growing influence of the Labor Party is not likely to be relinquished at the peace, if anything the reverse is true.

(ii) The majority of the population now expect the Government to make provision for certain essential needs. It is not impossible that this expectation will persist even under the changed conditions of peace.

(iii) The British Colonial Office has initiated noteworthy social improvements in the Colonial Empire proper.

(c) With all these changes, the English people have not veered violently either to the left or to the right. Neither the Fascists nor the Communists have been able to make headway. Fascism is too closely identified with Hitler to be in a position to make any gains, and while the Communists have tried to exploit dissatisfaction with shelter precautions for their own partisan purposes, the Labor Party and Trade Unions are so powerful as to retain the undivided loyalties of the overwhelming majority of the working classes. There is no danger at present of an imminent totalitarian revolution in England, and only defeat in the War would make such a contingency at all likely.

4. Increasing Government intervention and the blurring of the lines of demarcation between the different classes, whether they are desirable phenomena or not, cannot be avoided in the face of the crisis with which England has been confronted.

The War has already witnessed a considerable improvement in the relative position of the agricultural worker -- previously the most pauperized section of the employed population -- by

the fixing of a minimum wage for agriculture. Provision has been made for free milk grants to marginal workers. There has been a start with the long overdue reform of the educational system (in which high school education is neither free nor compulsory). A better distributive organization has been set up, and an approach has been made to a better and more reasonable diet for the majority of the population. The evacuation should lead to an improvement in the health standards of city children whose previous contact with the countryside was all too brief, if any, while the new national physical culture movement should contribute to the permanent raising of the level of health. Finally the breakdown of social stratification, apart from its repercussions in the creation of a mere meaningful national unity, should expand the spheres from which talent is drawn; even the Foreign Office, previously the exclusive preserve of the wealthy, is being thrown open to admit entry from all sectors of the population. Mr. Herbert Morrison was speaking for many Englishmen when he recently said: "We may be beginning to shape upon the anvil of war our particular British form of cooperative society -- a free partnership of freely active groups, in which there is not room for mutual attempts at exploitation or for sharply different levels of social and economic opportunity."

Whether these effects will be permanent or not it is still too early to say; however, the longer the War continues and the greater the strain entailed in winning the War, the more painful will be the succeeding readjustments and the less easy it will be to return to the status quo ante.

(a) The longer the War, the greater the dislocations in the world as a whole, including the British Empire, and the more difficult will be the reestablishment of the old channels of international trade, on the maintenance of which England is so dependent. The political and economic unsettlement consequent upon the War may have other and vaster repercussions which may be an even more serious threat to Britain's world trade position.

(b) The longer the War, the greater the probability of inflation in England. Inflation, as the experience of Germany and other central European countries in the years after 1918 shows, tends to decimate the middle class by undermining its economic security and transforming it from perhaps the most to the least stable section of society.

(c) The longer the War, the greater the economic burden and drain on England, the harder the transition from a war economy to a peace economy, and the greater the need for maintaining many of the war-time controls.

(d) The longer the War, the greater the danger of social unrest.

5. Assistance from the United States will diminish the actual burden borne by England, and will to that extent facilitate the orderly transition from war to peace. Nevertheless, in proportion as the British sell us part of their foreign assets, their role in world trade and their income from abroad will decrease somewhat.