

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm, Sweden

DATE: December 12, 1940, 2 p.m.

NO.: 1100

Reference is made to telegram of December 10, 11 a.m., No. 390, transmitting a message from the Treasury.

It is impossible, Governor Rooth states, to know exactly what is going on in Oslo. However, he got the impression from persons with whom he has spoken that there was exaggeration of the Stockholm's TIDNINGEN despatch, if the same as published here. It is his opinion that there is not a general stock exchange strike, except that since the Nasjonal Samling dismissed 15 responsible officials of the City Government of Oslo, banks, insurance companies and private persons who had previously been purchasers of bonds have stopped buying them. There is probably also not much general buying on the exchange, Rooth said, because of the lack of faith in Norway's financial future due to the political antagonism to and the inefficiency of Quisling and his supporters. During the next few days Governor Rooth will try to get more accurate information and if he is able to obtain any, he said he would let us know so that the information can be transmitted to the Secretary of the Treasury.

Governor Rooth sends greetings to Secretary Morgenthau.

STERLING.

EA:LWW

Treasury Department

247

TELEGRAPH OFFICE

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1940 DEC 12 AM 8 22

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OTTAWA ONT DEC 11 1940 905P

HENRY MORGENTHAU JR
SECRETARY OF THE TREASURY

(Return from London)
AM ADVISED PARTY ARRANGING TO LEAVE BY AIR SATURDAY DECEMBER
FOURTEENTH

W L M K

738A

December 13, 1940

My dear Mr. Prime Minister:

Thank you for the information
contained in your telegram.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable
William L. Mackenzie-King,
Prime Minister of Canada,
Ottawa, Canada.

December 13, 1949

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December 12, 1940

Dear Leon:

Attached herewith is a copy of the report covering West Coast inspection trip which was made by Under Secretary of the Navy Forrestal, Captain S. M. Evans of the Advisory Commission, and representatives of the British Purchasing Commission. This report was compiled by a member of my staff which accompanied the group.

I pass it along for your confidential information.

Sincerely,

Henry

Honorable Leon Henderson,
Commissioner of Price Stabilization,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

Enc:

Report made by Buckley.
(In looseleaf folder)

FI:bj

By Messenger 11/16

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FY:bj

By Messenger

12/12

Memo to Mrs Klotz:-

The following have
been sent to Mr Leon
Henderson at S.E.C.
in accordance with
the Secretary's instructions:-

Books
I & II } Deliveries & New Orders June 9 - Dec 7, 1940
 } Unfilled Orders and Estimated Deliveries
 } Dec 7, 1940

(1 Copy of each)

A.E.M.

255

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

December 12th, 1940.

Dear Mr. Secretary,

I enclose herein for your personal and secret information 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
December 10th, 1940.

1. Naval A large British naval unit with two gun boats and three destroyers is operating off Herse Matruh.
2. An enemy raider attacked shipping off Nauru in the Pacific ocean on December 8th and then left at high speed. A British ship of 6,400 tons was set on fire.
3. Shipping Casualties. The s.s. "Hartford" has been towed into port.
4. A convoy of 28 ships from Canada has arrived safely in home waters after being scattered and delayed by a gale.
5. Royal Air Force. December 10th. One Blenheim bombed the oil refinery at Ammerich and another Bergen aerodrome with unobserved results. Three other aircraft attacked shipping. Two Hudsons have not returned.
6. Night of December 9th/10th

Forty one bombers were despatched to attack the following targets:

<u>Locality</u>	<u>Targets</u>	<u>No. of Aircraft</u>
Bremen	Airframe factory	28 medium
Antwerp	Oil installation	3 medium
Lorient	Naval base	14 heavy
Boulogne	Docks	2 heavy

7. Syria and Libya.
Night of December 8th/9th In support of military operations twenty nine heavy and medium bombers attacked Benina, where many enemy aircraft had been

- 2 -

previously observed. It is known that considerable damage was caused to hangars, grounded aircraft and buildings. Our bombers also attacked Sidi Barrani, Sollum, and Bardia and cooperated with our advancing tanks. Other Royal Air Force and Fleet Air Arm machines cooperated with naval units in a bombardment of two coastal bases.

8. December 9th. A Blenheim successfully attacked enemy landing grounds and Hurricanes machine gunned troops and M.T., causing heavy damage, and shot down two Italian fighters. All our aircraft returned.

9. German Air Force.

Night of December 8th/9th. Total casualties reported in the London area, 86 killed 94 injured. The effect on production is not serious at any "key points" except at one radio factory.

10. Night of December 9th/10th.

Only one enemy aircraft came over.

11. Aircraft casualties in operations over and from the British Isles.

Enemy: By day, 1 bomber destroyed

British: Two bombers missing.

Treasury Department
Division of Monetary Research 258

Date Dec. 12, 19 40.

To: Secretary Morgenthau

From: Mr. White

These memoranda were compiled over
night. They will be supplemented by
later data.

EXCHANGE CONTROL

Summary

TREASURY DEPARTMENT

261

INTER OFFICE COMMUNICATION

DATE December 12, 1940

TO Mr. White

FROM Mr. Coe

Subject: Treatment of American property interests by Germany, Japan, Canada and Italy

A. Germany

1. American owners of branch plants in Germany have not been permitted to control the management or personnel of these plants.
2. American owners of direct investments in Germany have not been permitted to collect dividends on their direct investments.
3. American owners of bonded investment have not been permitted to receive the full interest and amortisation on these investments, more than half of which have been in complete default. Probably more than \$700 million of clear loss has been taken by American bondholders.
4. American long-term investors have been discriminated against in favor of investors from countries politically related to Germany or from countries which had sufficient control over international transactions to be able to retaliate.
5. American private citizens who were awarded over \$600 million by the Mixed Claims Commission have not been permitted to collect on these claims from Germany.
6. American owners of short-term claims on Germany have been permitted to withdraw them only over a 10-year period and have suffered considerable losses on these claims.

Our total claims on Germany, short-term and long-term, excluding war debts, are about \$350 million.

The total claims of Germany on the United States are less than \$100 million. (Both of these totals exclude the areas now occupied by Germany.)

B. Japan

1. The Japanese in the exercise of their foreign exchange control and collateral regulations have caused considerable damage to American interests in the Far East.

(a) In Japan

- (1) American assets have been frozen. At the discretion of the Japanese Government, in most cases, American businessmen have been allowed to withdraw their earnings.

- (2) The Japanese Government, through its foreign trade controls, has eliminated all imports of American commodities except those vitally necessary to their war effort.
- (3) American enterprises in Japan are discriminated against and pressure is brought to curtail their activities.

(b) In Manchuria

- (1) The Japanese system of foreign exchange control and state monopolies has practically eliminated American enterprise from the field.
- (2) The foreign exchange control is administered to discourage imports from the United States and other non-Japanese controlled countries.

(c) In North China

- (1) As the Japanese tighten their hold upon North China similar regulations directed against Americans have become increasingly severe.

2. American investments in Japan have a nominal value of a quarter of a billion dollars. Since these are frozen their actual value is doubtful. While smaller, the Japanese investment of \$150 million in the United States is crucially important to Japan as it represents about half of Japan's foreign exchange reserves.

(There is appended a longer discussion of the injurious effects of the Japanese exchange control.)

C. Italy

Italian exchange control has been more lenient on American industrialists and investors than that of Germany.

1. The Italians have serviced the greater part of their U.S. dollar bonds.
2. Short-term assets have been withdrawable with little difficulty. However, the total of these assets has been small.
3. Regular remittances of dividends and profits to the United States has been ~~possible~~ since 1935, but there have been a number of special exemptions.

(Total American holdings in Italy are under \$140 million. Italian holdings in this country are \$90 million.)

D. Canada

Canadian exchange control is much less harsh with respect to the United States than the controls of the Axis powers. But the following restrictions may be noticed:

1. Balances held prior to the war cannot be withdrawn by Americans at the official rate.
2. Withdrawal of profits required 30 days' notice before a permit is issued.
3. Imports from the United States in excess of \$25 require a permit. Certain categories of goods are prohibited and others restricted.
4. Proceeds from the sale of securities held prior to the war may not be withdrawn at the official rate.
5. Insurance companies must declare their holdings of foreign exchange.
6. American companies must make a monthly report of operations and submit to periodic examinations.

In this connection, it is only fair to list the activities which can be engaged in by American property owners in Canada and which would not be permitted under the Axis type of exchange control. Americans can withdraw interest and dividends on Canadian investments. Branch plants can conduct business freely with parent company in the United States. American investors can withdraw new funds in foreign exchange. American residents in Canada can hold and dispose of foreign currency and securities. Returning Americans may withdraw foreign exchange which they brought in, and goods up to \$100. Americans may sell foreign or domestic securities to the United States. American balances may be used freely within Canada. Commitments by insurance companies to pay in foreign exchange are being honored as respects Americans. United States life insurance companies are permitted to do business as usual.

(There is appended a longer report on the organization of the Canadian exchange control system.)

Germany

Division of Monetary
Research

To Mr. White

December 11, 1940

From Mr. Gass

Subject: German Exchange Control and American Interests.

Summary

1. The Germans have for many years exercised an exchange control vis-a-vis the United States which has cost this country and its nationals hundreds of millions of dollars. They are now using this control to damage this nation not only in its external relations but also in its internal affairs. Hitherto, the major damage has been affected through German control exercised over American-owned assets in Germany and other areas: more recently the use of the foreign exchange control over German-owned dollar assets in the United States has been the source of injury. Specifically the effects of the German Exchange Control as it has been exercised with respect to the United States are as follows:

2. The greatest losses inflicted on American property interests by Germany have been borne by those Americans who, during the 1920's, invested liberally in the reconstruction of German industry, both through the purchase of long-term German dollar bonds and through the establishment of modern branch plants in Germany.

3. Under the Nazi Regime, United States holdings of German dollar bonds have been reduced from a face value of approximately \$1,100 million to a face value of approximately \$75 million. Considerably more than half of this reduction, probably over \$700 million, represents a clear loss by the American bondholders.

4. When the National Socialists came into power in Germany, American branch plants in that country had an estimated value of over \$260 million. There has been very little repatriation of this investment, but it has gradually become almost valueless for practical purposes. Since the middle of 1933, transfer of dividends has been permitted only intermittently and only to a few favored concerns. The American parent company, in most cases, receives no dividends, has no control over management and personnel, and is not permitted to receive information concerning the details of operations. Ownership has been reduced to the whitest legal fiction.

5. At the end of 1930, Americans held about \$925 million of short-term claims on Germany. Today the value of our outstanding short-term claims is less than \$50 million. This reduction was not achieved without considerable losses to the American creditors, though the short-term creditors fared much better than the owners of German dollar bonds or the owners of direct investments in Germany.

6. About \$1,275 million is the German Government's indebtedness to the Government of the United States. Over \$600 million of this represents awards of the Mixed Claims Commission to American private citizens. These totals are exclusive of the debts to the United States Government of other countries which Germany has occupied and annexed to the Reich.

7. The National Socialist Government has discriminated against American long-term investors ever since 1933. Several other countries, who either had close political ties with Germany or were in a position to retaliate by taking over German assets or by eliminating an excess of imports from Germany, were able to get specially favorable settlements. The United States was unable to secure equal treatment for American creditors. None of the former American loans has been serviced in full and more than half have been in complete default. Yet virtually all Dutch and Swiss loans, and the English Dawes and Young loans, were serviced in full up to the outbreak of war.

8. Since 1933, when the Nazi Government defaulted on transfers of bond interest and amortization, ostensibly because dollars were scarce, Germany has repurchased approximately a billion dollars face value of United States-held German dollar bonds, at a cost of between \$200 and \$250 million. Dollars, of which there was a scarcity when it was a question of meeting legitimate obligations, apparently became plentiful when there was an opportunity to repurchase these same obligations at the low prices which were the direct result of German Government policy.

9. Since September, 1940, the Nazi Government, with avowed political ends, has accelerated the repatriation program by repurchases of a face amount of approximately \$75 million of United States-held German dollar bonds. The purpose of these repurchases, as avowed by German agents, is to strengthen the position of Germany at the Peace Conference by enabling her to make a cheap gesture of agreeing to service all her international obligations in full. German control over United States property, in all the areas today under her jurisdiction, is also regarded as an instrument of an eventual all-round settlement with the United States. The withdrawal of all German liquid assets from this country, or their concealment in the accounts of other countries, serves the same purpose.

10. In recent months, German officials in the United States have carried on a large part of their financial transactions in cash, presumably to prevent the detection of improper disbursements or to build up secret reserves in case German balances are blocked. In this way, the unreciprocated freedom which we afford to the use of German dollar balances enables the German Government to finance activities directed against our national interests, without serious danger of detection.

11. The Germans are in a position to utilize every loophole and every licensed area in our own foreign funds control insofar as our foreign funds control can be persuaded to release French or other funds to Latin America, to Switzerland, to Sweden and other countries. The Germans are given the opportunity through intermediaries in the case of Latin America and through economic and political coercion in the case of countries adjacent to Germany to acquire the dollars which we free.

12. German-controlled direct investments in the United States constitute a formidable source of direct influence by the German Government over certain American industries. In addition, the widespread influence of German-controlled

capital, and certain German individuals, in some domestically controlled industries makes possible the exertion of German influence in quarters not superficially apparent. Germany also controls many industrial processes in the United States, some of which are vital to National Defense, through patent holdings and licenses.

19. German investments and the activities of German nationals in the United States are strictly controlled by the Nazi Government. As long as the United States Government fails to establish its own system of control over German assets, it permits the Nazi Government a free hand here. The alternatives are not freedom versus control but German control versus American control.

German foreign exchange control.

Foreign exchange control was first adopted in Germany on July 16, 1931, as a result of the severe financial crisis of that year. From that date on, the economic life of Germany and the position of the foreign creditor has been subject to increasingly rigorous government control. Long before the outbreak of war, the German Government had assumed complete control over international transactions of all kinds: without the permission of the proper authorities, no transfers abroad of payments for imports, for foreign debt service, for profits, rents, or royalties, or capital withdrawal might be made. The regulations governing such permission were complex, the use which might be made of any Reichsmarks belonging to, or accruing to, foreigners being dependent upon the specific origin of these Reichsmark balances.

Permission to transfer Reichsmark funds or claims into foreign currency is granted or withheld according to the economic, political and strategic policies of the German Government. For example, substantial sums of foreign exchange have been paid to certain countries with whom Germany either was in a poor bargaining position, or found it desirable to maintain very good relations. In the case of the United States, almost the only transfers permitted were payments for current importations into Germany from the United States, and even here a large proportion of our total exports to Germany could only be made by accepting various forms of blocked balances.

German restrictions on international capital transactions.

The system of regulations which the German Government set up to control capital movements was rapidly expanded after 1933 to cover every conceivable transaction and plug every leak whereby capital might escape the country. The German authorities are armed with unlimited authority and the regulations have been adopted with great vigor to take account of new developments in Germany's economic position. Additions, subtractions, and exceptions to the rules are frequent, and a complete description of the regime at any time would be out of date before it could be compiled. The following description is intended only to illustrate the scope and method of the German regulations; any specific rules or examples mentioned may have been superseded.

After June 1933, the German Government required that interest, dividends, capital payments, and rents resulting from foreign investments in Germany must be paid in Reichsmarks into the Conversion Office for German Foreign Debt to the credit of the foreign creditor. Standstill agreement debts and income from capital acquired after 1931 with free foreign exchange were exempted from this requirement. The Conversion Office issued to foreign creditors non-interest bearing Reichsmark certificates or interest-bearing bonds in the currency of the original claim. Alternatively, the amounts paid into the Conversion Office could be transferred to blocked accounts in the foreign exchange banks, where they could be drawn on for certain limited purposes. Capital repayments could be made only into special blocked accounts which could be expended for certain specified limited purposes.

As a result of the severe restrictions on transfer payments, a large number of blocked mark accounts were opened in the German banks authorized to accept such accounts. German debtors in most cases were permitted to discharge their obligations to foreigners by payments into these accounts, many of which are still held, while others have been used chiefly for investment in certain securities and real estate in Germany or for payment for German exports. Blocked marks could also be sold to other foreigners, but the uses of such acquired marks were even more restricted than the uses of the original accounts, and consequently they could be sold only at a heavy discount.

In addition to the rigorous regulation of financial transactions, the German Government also has imposed direct restrictions since the outbreak of war on the export of commodities from Germany. These restrictions are a further obstacle to the liquidation of American assets in Germany.

Discrimination against U.S. holders of German dollar bonds.

Since 1933 the National Socialist Government has discriminated against American long-term creditors. Up until June of that year Germany had met in full the interest and amortization charges on her foreign bonds. But on July 1, 1933, Germany promulgated a law relieving German debtors of the obligation to pay in foreign currencies and requiring them to pay their foreign obligations in reichsmarks into the conversion office. Since that time, none of the former German dollar bonds have been fully serviced in this country and more than half have been in complete default.

Yet the Dutch and Swiss creditors were able to collect virtually the whole of the interest due them; they were able to reach such an agreement because of Germany's favorable balance of trade with Holland and Switzerland. This was clearly a discrimination against the American creditors. And in 1934 the British Government was able to obtain full service on British holdings of the Dawes and Young loans; they were able to reach such an agreement by reason of a law empowering the British Government to take retaliatory action against German trade. The United States, however, had a strong favorable balance of trade with Germany and consequently was not able to bring effective pressure on the German Government with respect to these loans. The Germans have been servicing about 75 percent of the payments due on the American holdings of these loans. This procedure also clearly discriminated against the American creditors.

Furthermore, although the Nazi Government defaulted on transfers of bond interest and amortization, ostensibly because dollars were scarce, Germany has repurchased approximately one billion dollars face value of United States-held German dollar bonds at a cost of between \$200 and \$250 million.

This repatriation of German dollar bonds was stimulated by special measures undertaken by the German Government. After 1933 default by German debtors and official restrictions on service transfers abroad caused the price of German bonds held abroad to fall severely. On the German market prices remained relatively high. The German Government took advantage of this differential to institute a system of "supplementary exports". By this method German exporters could buy dollar bonds with part of the proceeds of their exports, and then could register them for sale at the higher prices prevailing in Germany. Thus dollars which were scarce when it was a question of meeting legitimate obligations were plentiful when it was a question of making American bondholders indirectly pay for German exports.

Since 1940, however, ^{the} Nazi Government has accelerated the repatriation program for avowed political ends. It has repurchased a face amount of approximately \$75 million of United States-held German dollar bonds at a cost of about \$20 million. Two German agents alone, acting privately for the German Government have received \$15 million since October 10 for the express purpose of making these repurchases. The purpose of these repurchases, as avowed by these German agents, is to strengthen the position of Germany at the Peace Conference by enabling her to make a gesture of agreeing to service all her international obligations in full. Here again dollars which were scarce when it was a question of meeting legitimate obligations became plentiful when it was a question of realizing German political ends.

Injury to American-owned direct investments in Germany.

The value of American direct investments in Germany has been estimated by the Department of Commerce at about \$264 million as of the end of 1933. At present the book value of these investments is about \$225 million. However, this figure of \$225 million is doubly fictitious. On the one hand, these investments are at the moment practically valueless to their nominal American owners because they yield no transferable interest or dividends. On the other hand, the book value of American direct investments under German control has now been more than doubled by the extension of German control over the larger part of Continental Europe.

Already American capital and managing personnel are being eliminated from enterprises in all the occupied area—from France to Rumania.

Recent experience in Rumania still comes fresh to the mind. In that country, as soon as the Germans acquired complete economic control, with the advent of General Antonescu to power, American-owned subsidiaries began to pass into German hands. For instance, the director-general of the American-owned Societa Anonima Romana de Telefona, a \$50 million subsidiary of the International Telephone and Telegraph Company, was persuaded to agree to a demand of the Iron Guard for a reorganization of the Telefona's directorship. The Iron Guard thereupon named a special commissar to supervise the telephone

company's activities. On October 11, 1940, the commissar took over control of the company, and it was announced that Iron Guard understudies would be selected to take over all the most important executive posts. Also, on December 4, 1940, a decree announced the expropriation of all the crude oil and gasoline lines, together with pumping stations and tank farms, of the Romano-Americans, a company owned by the Standard Oil Company of New Jersey. Payment for the expropriated property will be made in bonds to be amortized in 25 years and carrying interest at 3 percent. Similarly the International Business Machine subsidiary in Rumania was confronted with the alternative either to accept a commissar or to replace American managers by Germans, and to relinquish part of their shareholdings to German interests.

Short-term investments and the standstill agreements.

During the late 1920's American short-term capital flowed in large volume to Europe, principally to Germany. In 1930, American short-term claims on Germany totalled about \$925 million.

The severe financial crisis of the summer of 1931 convinced Germany's foreign commercial creditors that any attempt at general liquidation of their commercial credits to Germany would lead to a collapse of German industry. A Standstill Agreement was reached between a committee of the foreign bankers and a committee representing the Reichsbank and the German bankers. The foreign bankers agreed to maintain the existing volume of short-term credits which had already been extended to German firms. In return the German banks provided certain guarantees of the regular payment of interest and agreed to certain provisions which permitted the gradual reduction of the outstanding credits. The Agreement has been renewed each year since 1931.

About \$486 million of American bank loans were covered by the first Standstill Agreement. No estimates are at hand for the volume at that time of short-term credits not covered by the agreement, but they probably were several hundred millions.

The amount (in marks) due the American bankers under the Agreement has been steadily reduced since 1931. This reduction has been the result of three factors:

1. Cancellation of unused credit lines.
2. Repayments through the sale of Travel marks.
3. Devaluation of the dollar.

By March 1939 the amount outstanding was only \$65 million. In September 1939 the agreement was cancelled, but on December 9, 1939, some of the American banks reached a new agreement covering about \$46 million of credits. For the past three years, credits not covered by the Standstill Agreement have been a small and shrinking fraction of all American short-term credits to Germany. At the end of 1938, the Agreement covered \$71 million out of a total of about \$90 million. Our latest Treasury figures show a total of only about \$45 million in U.S. short-term claims on Germany.

Intergovernmental debt.

The amounts owed the United States Government by the German Government represent the cost of the American Army of Occupation and the awards of the Mixed Claims Commission. On June 30, 1940, the total value of these debts, including principle and accumulated interest, was \$1,264 million.

The last payments, of about \$1,250 thousand, on these debts were received in 1934. This brought the total paid to about \$34 million. Since 1934 Germany has been in complete default.

To these debts of the German Government must now be added the debts owed to the Government of the United States by the countries which Germany has occupied.

Use of German Dollar Resources for Improper Activities in the United States

A common technique currently being used by Germany to finance improper activities in the United States is the accumulation of large cash balances which can be disbursed for various subversive purposes without leaving traces behind.

According to reports from the Federal Bureau of Investigation, bills traced recently by serial numbers from the account of the German consulate in New York City are known to have been received by firms and organizations suspected of being engaged in propaganda activities.

That this device of using cash accounts for undercover purposes is commonly being resorted to is attested by the following examples:

- (1) On December 4, 1940, the German Embassy withdrew \$200,000 in cash from its account. All of this was in bills of \$1,000 denomination or smaller.
- (2) In the last few months, the German Consulate General in New York secured over \$1,000,000 in cash. On October 14, it withdrew \$400,000 in cash; on November 19, \$30,000; on November 25, \$20,000; on December 2, \$650,000.
- (3) Frits Wiedemann, when he assumed the Consulate Generalship in San Francisco, opened an account with a local bank by depositing, reportedly, \$5 million.

Between October 2, 1940, and the middle of November, it has been estimated that German bank funds in this country have dropped from approximately \$13,200,000 to \$7,700,000. The freedom of action which these transactions represent is hardly reciprocated by Germany so far as American funds in Nazi-held territory are concerned.

German attempts to circumvent our foreign funds control.

The Germans have set up various devices whereby they attempt to circumvent the foreign funds control which we have established with regard to the occupied countries. In recent months, they have effected important trade and remittance transactions, in which nationals of the countries subject to licensing have an interest, through intermediaries in Latin America, Siberia, Switzerland, Portugal and Spain. For example, the Zurich branch of an Alsatian bank has cabled a New York bank stating that they can effect payments even of considerable amounts against dollars in New York, both in unoccupied and in the occupied French territory. This ties up with the announcement of the German Consul-General in San Francisco that remittances could be made to France and other countries whose funds have been blocked by transfers through this New York bank. Again, a New York firm has been cooperating with a French firm in the occupied zone in evading our foreign funds control by facilitating payments for perfumes in Mexico and Switzerland.

In another case, an axis controlled bank in the Argentine advertises that it has established a regular payments service for France. Although there is nothing irregular in transfers from this bank to France, yet the purpose of these transfers is clear. One can effectively evade the controls by remitting funds to agents in the Argentine who, in their turn, remit these funds to France.

German influence in American industry.

The direct investments of Germany in the United States, plus the direct investments in the United States of those countries over which Germany has control, make Nazi influence in some United States industries of considerable importance. The General Aniline and Film Corporation of New York is a good example of a German-controlled firm which has an important place in one of the large industries of this country, viz., the chemical industry.

The extent of German influence on industries in this country is greater, however, than indicated merely by the amount of German-controlled direct investments here. For example, General Aniline and Film Corporation (which is indirectly owned by I. G. Farben, the German dye trust) has considerable investments in Standard Oil of New Jersey, in Sterling Products, Inc., and in E. I. du Pont de Nemours and Co. Furthermore, many of the officers and directors of General Aniline and Film are officers and directors of large domestically-controlled corporations. Edsel Ford, e.g., holds the position of director in General Aniline and Film as well as the position of officer and director in several other well-known domestic firms. The presence of such interlocking directorates can hardly fail to enhance the magnitude of German influence in American industries.

In still another way, the presence of Nazi control in United States industry manifests itself. In 1937, Germany held 37 percent of all foreign held United States patents. Not only is this patent control important, but it is important in some cases with respect to industrial processes vital to national defense, among which cases the following may be mentioned:

- (1) Patent control of Bausch and Lomb Optical Company has recently kept essential instruments from Army and Navy use;
- (2) Magnesium, an essential metal, is produced in this country partly under patents held by a partially German-owned corporation;
- (3) Tungsten carbide, a material listed by the Army and Navy Munitions Board as "strategic", is produced by General Electric, with Krupp having the right, under contract, to limit the number of new licenses of tungsten carbide patents.

The "freedom" of Nazi assets in this country.

A special circumstance which should be taken account of in the formulation of our policy with respect to regulating or not regulating the use of German funds in this country, is the peculiar relationship which exists between the Nazi Government and its subjects. Unlike the situation in most democratic countries, the control over foreign assets held by German subjects is, in effect, held by the German Government. The idea of free and individual property ownership has been eliminated in Nazidom. The State has assumed full jurisdiction and control over all funds and properties of its subjects, whether the situs of these is at home or abroad. The private, individual ownership of German investments and funds in the United States is convenient to the German Government as a legal fiction, but the reality of the situation is that they are the property of the Reich.

Hence, the absence of American control over the funds of German subjects is tantamount to giving the German Government a free hand in whatever financial control it can obtain over industries in this country. It is impossible unilaterally to maintain "free" rights where a bilateral relationship exists and where the other party exercises control. The institution of control measures by the United States over German funds in this country, therefore, would not destroy a "freedom" which does not exist, but would rather vest in this Government a control now exercised by a foreign government.

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Japan

Japanese Exchange Control and American Interests

1. The Japanese in the exercise of their foreign exchange control and collateral regulations have caused great damage to American interests in the Far East.

- a. In Japan

The Japanese imposed exchange control on May 1, 1933. This brought the remittance of sums from Japan to United States from American investments in Japan under Japanese control with resulting damage to American interests in several instances. As early as November, 1934, for example, it was reported by Mr. Grew that the General Motors Company subsidiary in Japan was not permitted to export funds resulting from the sale of some of its shares.

Since 1937 the Japanese control has become increasingly stringent to the extent that American funds in Japan are now completely frozen. At present, only transactions amounting to less than 100 yen a year (\$23.00) are exempt from the control.

The Japanese Government is now organizing a complete control of all imports and exports. Even under the partial controls in existence before, the Japanese were able arbitrarily to discriminate against American exporters to Japan. The Japanese have eliminated all imports from the United States except those vitally necessary for their war effort.

American enterprises in Japan are being forced out of business. After long years of profitable existence, the American-owned Japan Advertiser has been recently forced to discontinue.

- b. In Manchuria

The Japanese-instituted system of foreign exchange control in Manchuria has discriminated effectively against American business. The ostensible purpose of the exchange control was plainly stated as being "to curtail unnecessary imports from countries other than Japan".

The puppet "Manchukuoan" foreign exchange control is linked with the Japanese control and in practice serves only Japanese purposes. Under this regime, all transactions in currencies, other than the yen, including transactions in United States dollars, are subject to rigorous administrative

control. Since all other currencies than the yen are regarded as foreign exchange and the purpose of the control is to restrict the use of foreign exchange, it is obvious that constant discrimination against Americans and in favor of Japanese exists.

Implementing the foreign exchange control are a wide variety of puppet state monopolies dominated by Japanese and excluding Americans from fertile fields of industry. American concerns have been forced to abandon industry after industry to the Japanese. For example, the Manchukuoan petroleum monopoly was organized to become the sole importer into Manchuria of practically all petroleum products. American companies were forced to discontinue their Manchurian business at great loss.

The Kwantung Army enforces discrimination by the Manchukuoan Government against the purchase of American motor trucks in favor of Japanese-assembled products.

The "Manchukuoan" Government's law of October, 1937 resulted in the withdrawal of practically all American motion picture companies from the Manchurian market.

c. North China

The Japanese puppet government in North China has similarly promulgated a foreign exchange control which is increasingly injurious to American business. The puppet Federal Reserve Bank of North China has been placed in charge of all foreign exchange transactions. Since the value of the North China yuan is officially fixed on a parity with the yen, while its actual foreign exchange value in terms of other currencies is much lower, a premium is placed on imports from Japan as against the United States.

The Japanese are instituting a system of trade monopolies in North China which already has caused considerable damage to American interests in this area.

The Japanese military and naval authorities in North China engage in practices which discriminate against Americans. Large-scale smuggling by Japanese is permitted. Through various tariff practices commodities imported from Japan are allowed to enter the occupied Chinese ports without the payment of customs or port fees.

2. Under present circumstances American assets under the control of Japan have whatever value the Japanese wish to set upon them. Americans having investments in Japan have no protection against the arbitrary actions of the Japanese Government. Freezing of Japanese assets in the United States is essential to provide the necessary protection due to American property.

Americans have a quarter of a billion dollars invested in Japan of which over one-third is represented in short-term funds which have been frozen by the Japanese. On the other side of the ledger, the Japanese have about \$100 million in short-term funds and about \$50 million in direct investments in the United States.

From the viewpoint of relative importance, however, the Japanese funds in this country represent almost half of Japan's known foreign exchange reserves whereas, American funds in Japan represent only a negligible portion of our foreign exchange reserves.

3. For effective defense, control of Japanese resources in the United States is necessary.
 - a. Exchange control is the most flexible and powerful method of controlling international economic transactions. At the present time, the outstanding fact about the economic relations between Japan and the United States is that the Japanese are supplying their war economy with materials and machines from the U. S. Their war economy, with exchange control as a component part, has already caused enormous damage to the economic interests of the U. S. in the Far East. Exchange control would enable the U. S. to place into operation any desired curb on the supply of materials across the Pacific. This curb might be merely a gradual slowing down. It might be drastic on some articles and less on others. Whatever the policy was, it could be quickly enforced. The exchange control could be used as a supplement to diplomatic negotiations and bargaining.

Not only because Japanese policy has already caused great damage to the United States, but also because the dominant orientation of Japanese foreign policy seems to be against the United States, we should out of elementary self-interest take steps to prevent the strengthening and enlargement of Japanese war interests.

- b. It is essential to know the dollar resources available to Japan. In the past, because of mis-statements by Japanese banks in New York, it has appeared that Japan was likely to exhaust her foreign exchange reserves. This false picture has encouraged the viewpoint that no action by the United States was necessary since Japan would automatically be forced to curtail her war effort due to lack of foreign exchange.

- c. Ambassador Grew has recommended that Japanese funds in the United States be blocked to assist him in securing the liquidation of frozen American funds in Japan. This he regards as particularly urgent at the present time as he has caught signs that indicate the Japanese will soon withdraw all available funds out of the United States.
4. It is essential for national security that control be maintained over Japanese expenditures in the United States.
- a. The Japanese officials in the United States maintain a close supervision over all of their nationals in the United States, the recent registration of all Japanese residents with the Japanese consuls being a good instance. The Japanese foreign exchange control has required registration of all Japanese foreign assets and these are, therefore, also at the disposal of the Japanese state. It is obvious that all Japanese assets, concerns and nationals in the United States must operate for Japanese state ends. The existence of such a foreign control reaching across American borders and exercising its influence on people and concerns resident in the United States is a direct threat to the security of the American nation. In self-defense it is vitally necessary that such foreign control be neutralized by the imposition of an American control reclaiming the sovereign rights of the United States over all within our boundaries.
- b. The Japanese are maintaining an extensive espionage network in the United States. For proof, it is merely necessary to recall the two recent cases of the apprehension of two Japanese-paid agents, Lieutenant-Commander Farnsworth and the Philippine Scouts officer recently convicted.

The Japanese have recently started a new school for espionage agents to be sent to the Philippines. Unquestionably, the United States has many graduates of some of the older Japanese spy schools.

The F.B.I. reported that an agreement for cooperation and interchange of information has already been reached between the German and Japanese espionage organizations in the United States.

The Japanese notoriously attempt to influence public opinion in the United States by paying large sums for nominal services to influential people (General O'Ryan being a case in point).

While control over Japanese funds would not stop Japanese espionage and attempts at bribery, both of these Japanese practices would undoubtedly be severely crippled.

5. The Japanese have engaged in secret financial transactions in the United States.

For a period of over two years (July 27, 1938 to September 4, 1940), the New York office of the semi-official Yokohama Specie Bank concealed accounts held for the Bank of Japan, the Japanese Government, and the puppet Federal Reserve Bank of North China. At its highest point on April 10, 1940, the secret account held for Japan amounted to \$111,000,000 while \$3,000,000 was held for puppet North China.

For the last two years, the Yokohama Specie Bank of New York bought and sold American securities and these transactions were not reported.

These facts were discovered by the New York Federal Reserve Bank almost by pure chance. A thorough investigation lasting several months proved necessary to secure the complete story. It is entirely possible that the Japanese have other hidden accounts in the United States which only a complete census of Japanese funds would reveal.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 12, 1940.

TO Mr. White

FROM Mr. Kamarck

Subject: Cooperation of the Bank of America with the Japanese.

1. Available information indicates that the Bank of America has become the financial agent through which the Japanese are paying their diplomatic, consular and ~~presently~~ espionage activities in Europe, Africa, and Western Asia. We have data on a long list of transfers of Japanese funds by the Bank of America to Japanese representatives throughout most of the world.

On November 8, 1940, for example, the following series of transfers took place:

- \$1,000 to the Japanese Legation, Berne
- \$4,000 to the Japanese Embassy, Moscow
- \$3,000 to the Japanese Legation, Panama
- \$18,000 to the Spanish Legation, Madrid, Account "A"
- \$3,000 to the Spanish Legation, Madrid, Account "B".

On November 12th, money was sent to the following places:

- \$800 to Japanese Legation, Berne
- \$5,000 to Isak Adato, Geneva
- \$1,800 to Japanese Legation, Lisbon.

2. The Bank of America now takes care of most of the Japanese business in San Francisco.

Over a year ago, the accounts of private Japanese firms were transferred to the Bank of America from the Bank of California. The latter bank prior to this time had had close and profitable banking relationships with Japanese concerns for over half a century. The Bank of America is now understood to be extending liberal credit facilities to the Japanese.

In November, 1940, the semi-official Yokohama Specie Bank of San Francisco transferred all of its business from the Bank of California to the Bank of America. This completed the centralizing of the most important Japanese accounts in the Bank of America.

Canada

TREASURY DEPARTMENT

233

INTER OFFICE COMMUNICATION

DATE December 12, 1940

TO Mr. White
FROM Miss Kistler and Mr. Adler
Subject: Canadian Foreign Exchange Control

The Foreign Exchange Control Board for Canada was established on September 15, 1939. The Bank of Canada was appointed technical advisor to the Board and authorized to act as its agent or banker. The Board was given the necessary powers to regulate all foreign exchange transactions between residents of Canada and the outside world and take over the resources of the Exchange Fund created in 1935.

1. Objectives of Foreign Exchange Control

- a. To insure that the foreign exchange accruing from exports will be available to the Board to purchase essential imports and meet other Canadian commitments abroad.
- b. To prevent the flight of capital in order to conserve Canadian foreign exchange resources and to prevent disorganization of security markets.
- c. To stabilize the rates of exchange between the Canadian dollar and the major foreign currencies.
- d. To insure that commercial and financial transactions with the British Empire take place in Empire currencies.

The basic principle underlying the orders and regulations of the Canadian Foreign Exchange Board is that no transactions between Canada and non-residents of Canada involving foreign exchange or financial dealings shall be effected without coming under the supervision of the Foreign Exchange Control Board. All foreign exchange received by residents of Canada is required to be sold to, and all purchases of foreign exchange are required to be made from, an authorized dealer. The emergencies of the Board are directed toward obtaining and conserving as large an amount of United States dollars as possible because the United States is the one country with which Canada has a large debit in its balance of international payments.

2. General Regulations

- a. Residents of Canada may not buy or sell foreign exchange except through the Board or its agents and at uniform rates prescribed by the Board. Permits are required both for exports and for imports. All imports or exports of goods and services must be at a fair price.

- b. Residents may not dispose of foreign assets to non-residents except for payment in foreign exchange, nor transfer Canadian dollars to non-residents except with the Board's permission.
- c. Residents were required to declare their holdings of securities and foreign exchange as of September 15, 1939.
- d. Residents were required to sell all foreign exchange in their possession as of April 30 by June 1 under the Foreign Exchange Acquisition Order of April 30, 1940.
- e. The Board designates to the Authorized Dealers the buying and selling rates for foreign exchange. Since the inception of control, they have been as follows:

U. S. dollars, buying rate	10% premium
U. S. dollars, selling rate	11% premium
Pounds sterling, buying rate	4.43
Pounds sterling, selling rate	4.47

3. Mechanics of Operation

- a. Licensing agents. Every customs office and post office was made a licensing agency. No imports can be cleared and delivered to the importers without a Foreign Exchange Control Board permit. Likewise, no exports can be cleared from Canada without a Foreign Exchange Control permit. Unless exports are made under a general export license or a special export-import license, the permit must be signed by the Collector of Customs and Excise at the Customs Frontier Port of Exit before the cargo is cleared. If the export is made under a general license, the permit must be submitted within six days of clearance. If the export is made under a special export-import license no permit is submitted to the Collector of Customs and Excise, but the operator is required to make a monthly return to the Foreign Exchange Control Board and Board examiners have the authority to examine his books and records in order to verify his reports. The use of the Customs Division and Post Office was a natural and obvious step in any system of control over goods entering or leaving Canada.
- b. Authorized Dealers. Every chartered bank in Canada was made an authorized dealer by the Board; the Bank of Canada serves as a technical advisor. The fact that there are only ten chartered banks and that Canada has a branch banking system, facilitated the establishment of the system of authorized dealers for the collection and payment of foreign exchange.

4. Exemptions from License Requirements

- a. Exports. No export license or permit is required in the following cases.

- (1) For export of goods having a value not exceeding \$25 where payment is received in foreign currencies.
 - (2) For goods passing through Canada "in transit for export" without entry at Customs.
 - (3) Goods taken out by a non-resident tourist, not exceeding \$100 in value per person.
 - (4) Personal effects taken out by travellers.
- b. Imports. No licenses for the import of goods are required in the following cases:
- (1) For the import of goods having the value not exceeding \$25 where payment is made in foreign currency.
 - (2) For goods passing through Canada "in transit for export" without entry at Customs.
 - (3) Goods to a total value not exceeding \$100 imported by any person in any calendar month.
 - (4) Personal effects belonging to and necessary for any person entering Canada.
- c. Insurance
1. No permit is required for any payment in Canadian dollars to, or to the order of, a non-resident by any life insurance company authorized to do business in any part of Canada, where such payment is made by the company in pursuance of an insurance policy, annuity, or other contract of a similar nature. This provision extends to any insurance policy, annuity, or other similar contract entered into prior to September 16, 1939.
 2. No interference is made with the maintenance of payments in foreign exchange by insurance companies when the obligation of the company is to make payment in foreign exchange. Life insurance companies authorized to do business in any part of Canada and in any country outside Canada are authorized to continue the conduct of their business in accordance with their normal procedure.

5. Offences and Penalties

It is an offence under the Foreign Exchange Control Order to make a false statement in any application; to deceive or mislead the Board or an authorised dealer or a Collector of Customs and Excise or any other person concerned in the administration of the provisions of the Order; to fail to comply with the conditions of any license or permit or to violate any provision of the Order or any Regulation of the Board.

Everyone guilty of an offence is liable to a fine up to \$2,000 or to imprisonment up to one year or to both fine and imprisonment, and in addition, if any person, contrary to the provisions of the Order, imports or attempts to import into Canada any goods or other property or buys or attempts to buy any foreign exchange, such goods and foreign exchange are liable to forfeiture.

6. Personnel and Organization

Organization arrangements for foreign exchange control had been carefully worked out in Canada in advance. This enabled exchange control to be established on the morning of September 16 with a minimum of inconvenience and dislocation to business.

As soon as exchange control was established, the Board called together a group of experienced men from banks, financial institutions, chartered accountant firms, investment dealers, trust companies, insurance companies and various government departments. Men with wide professional and industrial experience took charge of the section of the Board for which they were best qualified.

The Foreign Exchange Control Board consists of the following members:

Chairman, Graham Towers, Governor of the Bank of Canada
Dr. W. C. Clark, Deputy Minister of Finance
H. Fortier, Chief Inspector Post Office Department
N. A. Robertson, First Secretary, Department of External Affairs
H. D. Scully, Commissioner of Customs
L. D. Wilgress, Director of Commercial Intelligence

There are three branch offices, at Vancouver, Toronto and Montreal, employing forty people.

The bulk of Canadian foreign exchange transactions originate in Montreal and Toronto but most of the control work is done in Ottawa.

The Board is composed of the following sections:

- (a) The Canadian Payment Section deals with exports sold for payment in Canadian dollars, issuing special permits for this purpose. Three thousand such permits have been issued. This section employs ten people.

- (b) The Central File Section employs twenty-two people.
- (c) The Commercial Section is concerned with the transactions of companies which operate under special export-import licenses and report on a monthly or periodic basis instead of using forms for each individual transaction. This system is employed for companies having a large volume of transactions and was adopted in order to relieve them of the burden of the routine which would have been necessary if individual forms for each transaction had been required. Up to the end of June 1940 a total of 4,500 such organizations had been granted permits of this kind. The work of this section is divided into five groups as follows:
- (1) Examiners - dealing with foreign currency bank accounts
 - (2) Investigation of records of the special permit holders
 - (3) Grain trade
 - (4) Approvals of interest and dividends paid by such companies, especially as they affect non-residents
 - (5) General

The Commercial Section also has supervision over the Montreal and Toronto branches of the Board. The number of persons employed is 108.

The problem of controlling and supervising the foreign trade and foreign exchange activities of the larger corporations and companies engaging in numerous international transactions might at first sight have appeared exceedingly cumbersome, if not untractable. But the device of special licenses and periodic examination by the Commercial Section which was substituted for scrutiny of individual transactions has apparently provided a satisfactory solution of the problem and contributed to the efficient functioning of the exchange control system.

- (d) The Traffic Section maintains liaison with various government departments such as the Post Office Department, the Department of National Revenue, Board of Transport Commissioners, National Harbors Board and the Custodian of Enemy Property. It employs 12 persons.
- (e) The Enforcement Section cooperates with other government agencies in enforcing foreign exchange control for which it has the prime responsibility. It has a staff of 17.

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- (f) The Foreign Exchange Section maintains contacts with the authorized dealers and settles foreign exchange policy. It has a staff of 47.
- (g) The General Section has a staff of 23 people.
- (h) The Insurance Section has a staff of 5 persons.
- (i) The Intelligence Section handles problems of public relations. There are 4 people employed.
- (j) The Matching Section (Examining Section) examines, matches and disposes of copies of forms. The device of matching the "Declaration of Goods Exported" Form provides an excellent means for assuring that the Board will receive the foreign exchange accruing from exports. While the "Application for License to Import" Form is also matched with the "Application for Foreign Exchange" Form, the matching process here is not so important, as the Board retains more foreign exchange if an application for license to import is not followed through with an application for foreign exchange. It also records information supplied by residents on their holdings of foreign exchange and securities. It has a staff of 115.
- (k) The Mail Section employs 14 people.
- (l) The Office Organisation Section employs 2 people.
- (m) The Securities Section supervises all transactions in foreign securities on the part of residents. It employs 11 people.
- (n) The Secretary Section employs 20 people.
- (o) The Statistical Section analyzes and classifies the forms involving foreign exchange transactions and representing transfers of Canadian dollars to the accounts of non-residents.
- (p) The Translation Section employs 5 people.
- (q) The Temporary Section deals with the Foreign Exchange Acquisition Order of May 4, 1940. A staff of 24 people is employed.

All in all the Canadian Foreign Exchange Control Board employs a total of 509 people. The 509 people were recruited as follows:

On loan from Bank of Canada	20
" " " Civil Service	6
" " " outside firms	33
Temporary employees	450

Expenses of the Foreign Exchange Board for a normal year, after eliminating special organizational expenses or items of a non-recurring nature, are expected to total about \$1.1 million. This amount will be accounted for as follows:

(In thousands)

Salaries	\$758
(average salary is about \$1,000 per annum)	
Stationery and printing	150
Rentals	53
Telegrams and telephone	52
Traveling expenses	50
Sanitaria	37

7. The Board and Canadian-American Economic Relations

Canadian international transactions total \$4 billion to \$5 billion per year of which almost half is accounted for by foreign trade. Two countries — the United Kingdom and the United States — dominate the international transactions of Canada. More than half of all Canada's international transactions are conducted with the United States and almost one-third with the United Kingdom. Therefore, the problem of foreign exchange control largely resolves itself into the supervision and control of transactions with these two countries. In the case of England the problem is further simplified through the intimate cooperation of the Canadian Foreign Exchange Control Board with the British Exchange Control and the exchange controls of sterling area countries. As Canada's balance of payments is favorable with England and the sterling area, and unfavorable with the United States, and as sterling is not now freely convertible into U. S. dollars, the main task of the Board is to conserve Canadian holdings of U. S. dollars.

The board is motivated by two decisive factors:

- a. The desire to lose as small, and to acquire as large, an amount of U. S. dollars as possible.
 - (1) There has been a trend in the direction of tightening up regulations to prevent loss of foreign exchange on service and trade items.
 - (1) Traveling by Canadians in the United States has been drastically restricted and exchange for travel is now granted in limited amounts only for business, educational, official, medical, and scientific purposes.

- (1) Restrictions on the imports of goods not urgently needed for Canada's war effort have recently been imposed. The import of certain categories of goods from the United States has been entirely prohibited and of others restricted; these restrictions and prohibitions are in addition to the 10 percent War Tax on imports.
 - (2) Positive encouragement is given to U. S. tourist expenditures in Canada, and to the investment of U. S. dollars in new Canadian enterprises. New capital invested in Canada can be withdrawn at a later date in foreign exchange.
- b. The desire to preserve amicable political and economic relations with the United States.
- (1) A reciprocal agreement between Canada and the United States was reached on June 18, 1940 providing for reciprocal exemption from certain aspects of the exchange control regulations for American residents in Canada and for Canadian residents in the United States. American citizens resident in Canada are exempted from the Foreign Exchange Control Order of September 15, 1939, from the Foreign Exchange Acquisition Order of April 30, 1940, and from any future orders respecting the acquisition and disposition of foreign currency and foreign securities held by such individual Americans. This exemption does not apply to corporations nor to foreign exchange received in connection with exports from or imports into Canada of other than exempted property.
 - (2) In the case of transactions between parent and subsidiary companies, a special license only is required and individual transactions are not subject to scrutiny, but there is periodic examination of company books. Most of the companies involved are American companies with affiliates in Canada and Canadian companies with affiliates in the United States. However, the Board does not approve applications for foreign exchange which would reduce the "capital employed" in Canadian subsidiaries.
 - (3) While applications for licenses for foreign exchange to pay interest and dividends to non-resident investors must be made thirty days in advance, no obstruction is placed in the way of payment of interest and dividends to American investors. Furthermore, the Board sells foreign exchange for payment of services such as insurance premiums, agents' commissions, salaries, freights, dues, patent rights, traveling expenses, etc. A large part of these payments of foreign exchange on service items goes to the United States.

- (4) Foreign holders of Canadian balances are allowed to use them freely within Canada itself. (This in sharp contrast with the United States Foreign Fund Control.)

The desire to accommodate American interests and to preserve U. S. dollar exchange cannot always be easily reconciled and the difficulties in the way might even increase with the extension of Canada's war effort.

2. Comments

a. The imposition of exchange control in Canada raised many problems.

- (1) Exports constitute from 15 percent to 20 percent of the national income.
- (2) The value of the items on service account in the balance of international payments is relatively high.
- (3) The intimacy of economic relations with the United States both on trade, service, and capital account and the extent of the common land frontiers with the United States make administration and enforcement complex.
- (4) The former triangle of economic relationships between the United States, Canada, and the United Kingdom has been broken. Canada consequently has to make new provisions both to meet its mounting unfavorable balance of international payments with the United States and to utilize its accumulation of sterling balances.
- (5) Canadian exchange control started from a scratch as far as trained personnel and administrative precedent and experience in Canada in related sphere were concerned.

b. The Foreign Exchange Control Board has tackled these problems with a reasonable degree of success and without imposing undue strain and restrictions on the functioning of the Canadian economy.

- (1) The mechanism of foreign trade has not been disturbed by the functioning of the exchange control system. The exporter sells his foreign exchange to the Authorized Dealer, who happens to be the bank with which he had always conducted his business.
- (2) Payments of interest and dividends to foreigners can be made on application for a license thirty days in advance.
- (3) Insurance companies are allowed to carry on their foreign operations without disturbance. Life insurance companies are expected to report their net foreign exchange position on a quarterly basis.

- (4) Economic intercourse with the United States was allowed to continue unhampered except for
 - (i) Restrictions on certain categories of non-essential imports.
 - (ii) Prohibition of Canadian pleasure expenditure in the U.S.
- (5) Dealings are freely permitted between Canadian companies and their foreign affiliates.
- (6) The Board is a useful instrument to **facilitate** the repatriation of British-held Canadian securities. The repatriation of these securities is the means by which Canada's favorable balance with the U. K. is being liquidated. The Board supervised and carried through the orderly repatriation of \$200 million of British-held Canadian securities in the first year of War.
- (7) The imposition and enforcement of exchange control raised no difficult administrative and personnel problems. The preparation for the introduction of the exchange control system were carried through expeditiously and secretly and the system went into effect without unfavorable repercussions on the Canadian economy. Trained and competent personnel was recruited from the Civil Service, banks and industry, so that experienced men were in key positions from the very beginning. The use of existing facilities and institutions contributed to the efficiency of the control system. Simplification and standardization of routine reduced the administrative complexities and the volume of work. The Board has been able to adequately cope with the **different** tasks and problems arising from a variety of the transactions and of the types of corporations and individuals it had to deal with. The administering exchange control in Canada has been negligible and runs at the rate of about \$1.1 million per annum.

Italy

TREASURY DEPARTMENT

234

INTER OFFICE COMMUNICATION

DATE December 12, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Italian treatment of American property interests.

American owners of enterprises and investments in Italy have been treated moderately well in comparison with the treatment accorded them in Germany.

1. The Italians have serviced by far the greater part of their United States-held dollar bonds.
2. There has been relatively little difficulty in withdrawing short-term American assets in Italy though Americans have never held any considerable short-term funds in that country in recent years for fear of blocking.
3. Regular remittance of dividends from the operations of American branch plants in Italy has not been permitted since 1935. On the other hand the Italian Exchange Control has granted a considerable number of exemptions and special permissions.

Total American holdings in Italy are under \$140 million. Short-term American assets in Italy are now only about \$3,300,000. American holdings of Italian dollar bonds are now less than \$70 million; the low quotations on these securities indicate that Americans have been accepting losses in order to repatriate their funds. American direct investments in Italy are less than \$70 million.

Total Italian holdings in this country are about \$90 million. These holdings in the United States include about \$19 million in short-term funds, about \$37 million in security holdings, and about \$34 million in direct investments.

In recent months the Italians have even outdone the Germans in turning their assets in this country into United States Government bonds, cash and accounts held in the names of Latin American countries. Obviously, the Italians desired to conceal the exact nature of the transactions in which they were engaging and feared that their assets in this country would be subjected to licensing control.

Remittance
Data

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 12, 1940

TO Mr. H. D. White
FROM G. A. Eddy
Subject: Personal Remittances to Germany, Italy and Japan.

Little information is now available on 1940 remittances to the Axis powers.

The Department of Commerce estimate for 1939 were:

Japan \$6 million (\$4 personal, \$2 institutional)
Italy 20 million (of which \$13.5 was through Italo-U.S. banks,
which report once yearly.)
Germany 7.5 - 10 million

Reports on only two sources of remittances are available before the end of the year. A table is attached showing Postal Money Orders to the three countries during the first eleven months of 1940. Nothing specially significant seems to be indicated.

The American Express remittances of marks and lire are also shown in a table attached. Some increase in the rate of sending marks in recent months is explained as due to remittances through New York to Chinese and Japanese students in Berlin, who formerly obtained their funds through Amsterdam.

Attachments

Postal Money Orders - 1940

	<u>Germany</u>	<u>Italy</u>	<u>Japan</u>
January/March	\$14,272	\$253,940	\$123,500
April/June	5,885	183,736	106,200
July/September	3,604	90,000	99,700
October)	1,100		
November)	<u>3,000</u>	<u>105,000</u>	<u>73,600</u>
	\$27,860	\$632,776	\$403,000

Note: November Normally includes a pre-Christmas increase.

Treasury Department,
Division of Monetary Research,
December 12, 1940.

American Express Company Remittances

In thousands of dollars

	Jan./July	Aug./Nov.	Total Jan./Nov.
To Germany			
Reg'd., gift, and support marks			
15 - 15.6¢	362	332	694
Travel marks			
16 - 16.6¢	76	137	213
Free marks (money orders) (40¢)	<u>56</u>	<u>51</u>	<u>107</u>
Total to Germany.....	494	520	1,014
To Italy			
Emigrant lire (4.05¢)	822	463	1,285
Internal lire (since Sept. only)			
3.9¢	0	334	334
Free lire 5.07¢	<u>180</u>	<u>36</u>	<u>216</u>
Total to Italy	1,002	833	1,835
To Japan — no data			

 Treasury Department, Division of Monetary Research. Dec. 12, 1940

American Express Company Remittances of Marks and Lire

	<u>Reg. Marks Gift & Support Mks.</u>	<u>Travelmarks</u>	<u>Free Marks M.O. only</u>	<u>Emigrant Lire</u>	<u>Internal Lire</u>	<u>Free Lire M.O. only</u>
<u>1940</u>						
Jan.	293,841.	27,400.	24,463.	1,845,717.	- - -	588,117.
Feb.	323,694.	20,272.	17,920.	3,023,359.	- - -	575,397.
Mar.	414,678.	22,579.	26,091.	4,164,513.	- - -	826,469.
Apr.	337,261.	18,353.	26,242.	2,854,760.	- - -	492,027.
May	354,888.	30,427.	13,114.	3,280,487.	- - -	595,292.
June	367,365.	148,495.	13,722.	2,468,528.	- - -	258,206.
July	324,533.	212,402.	18,996.	2,656,858.	- - -	221,839.
Aug.	378,386.	253,056.	28,053.	3,493,781.	- - -	411,716.
Sept.	345,057.	213,724.	14,853.	2,892,598.	1,620,743.	96,138.
Oct.	506,213.	219,494.	44,592.	2,313,685.	3,135,523.	140,176.
Nov.	801,504.	124,298.	39,375.	2,729,059.	3,814,407.	59,890.
Total-	4,447,420.	1,284,494.	267,421.	31,723,345.	8,570,673.	4,264,267.
	@ .1560	@ .1660	@ .4005	@ .0405	@ .0390	@ .0507
Dollar Equiv.	\$693,797.	\$213,226.	\$107,102.	\$1,284,795.	\$334,256.	\$216,198.

Foreign Funds in
the United States

Funds in the United States of Germany,
Italy, Japan, Rumania and Hungary

(In Millions of Dollars)

	Germany:	Italy:	Japan:	Rumania:	Hungary:	Total of known items	Date
held on earmark	-	-	-	27.1	-	27.1	12/4/40
Official funds:							
At New York Fed. Res. Bank	.4	-	-	.2	-	.6	12/4/40
At other New York banks	.5	.1	-	?	?	.6	11/27/40
Private funds:							
In New York Fed. Res. Dist.	6.8	18.2	115.8	24.9 ^{1/}	4.8 ^{1/}	170.5	11/27/40
In other districts	.3	.6	4.2	?	?	5.1	11/13/40
United States securities	15.	37.	?	?	?	52.	10/31/40
Real estate and other investments	84.	34.	?	?	?	118.	12/31/39
Total	107	89.9	120	52.2	4.8	373.9	

on September 25, 1940. Deposits only.

Treasury Department, Division of Monetary Research

December 12, 1940.

FEDERAL RESERVE BANK
OF NEW YORK

December 12, 1940.

STRICTLY
CONFIDENTIAL

Dear Mr. Secretary:

Because of the current interest in the subject, we have recently undertaken a study of the gold and dollar resources of the British Empire and the extent to which these assets are being depleted. I should like to take this opportunity to forward to the Treasury the results of this study.

At the start of the war the British Empire was armed with an estimated \$5,500,000,000 of gold and other readily available assets which could be used for purchases in the United States. In addition, something like \$1,500,000,000 of direct investments in American business enterprises and other less liquid investments were held for British Empire account. The readily marketable assets are shown by countries in Table I below.

TABLE I

Estimates of
British Empire Holdings of Gold and Dollar Assets
At Outbreak of War

(In Millions of Dollars)

	<u>United Kingdom</u>	<u>Canada</u>	<u>Other Empire</u>	<u>TOTAL</u>
<u>Gold Reserves</u>				
Under earmark here	-	-	-	-
Elsewhere	<u>2,000</u>	<u>215</u>	<u>520</u>	<u>2,735</u>
Total	2,000	215	520	2,735
<u>Short Term Assets</u>				
Official	55	50	-	105
Private	<u>540</u>	<u>505</u>	<u>100(est.)</u>	<u>945</u>
Total	595	555	100(est.)	1,050
<u>Negotiable Long Term Securities (Market Value)(a)</u>				
	<u>1,165</u>	<u>565</u>	<u>45(est.)</u>	<u>1,775</u>
GRAND TOTAL	<u>5,760</u>	<u>1,135</u>	<u>665</u>	<u>5,560</u>

(a) Based on Department of Commerce estimates for the end of 1939, adjusted for sales and changes in market value between the end of August, 1939 and the end of the year.

Dollar Outlays by the British Empire During First Year of War

While an analysis of the trade balance between the United States and the sterling area throws some light on the rate at which these resources have been depleted, this method has many shortcomings. In the first place, of course, the invisible items in the balance of payments must also be taken into account. Moreover, allowance must be made for British pre-payments on orders and advances for plant construction in this country. The more accurate method would be to determine the total amount of payments out of all Empire accounts maintained in this country, thereby automatically taking into account all items in the balance of payments. If it is assumed that all substantial payments of

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dollars are made through the official accounts at this bank, much information can be gathered from an examination of these accounts. We, therefore, undertook a comprehensive analysis of the accounts at this bank of the British, Canadian, Australian, and South African authorities.

This analysis revealed total dollar payments out of these accounts during the first year of war of \$2,100,000,000, after adjustment for inter-account and intra-Empire transfers. Of this amount, \$1,800,000,000, or about 85 per cent of the total, went through the British account; one third of it, i. e., \$600,000,000, can be identified as expenditures by the British Purchasing Commission and various other Governmental agencies engaged in buying American goods. Not all of this, it must be borne in mind, shows up in our trade figures (see Table II below), since, as suggested above, considerable amounts have been advanced to American industry, particularly aircraft concerns, to develop new productive capacity. We understand very confidentially that, as of the end of last November, the British Purchasing Commission had outstanding on its books advances against supplies in the amount of \$485,000,000 and, in addition, "capital assistance" payments of \$134,000,000.

In addition to the \$600,000,000 of expenditures in connection with official British purchases of war material, the British authorities paid out \$1,200,000,000 for all kinds of other purposes, such as customary British imports (other than official purchases) and other items in the balance of payments for which the British exchange control will supply dollar exchange, including the settlement of maturing forward sales contracts of dollars entered into by the British control during the period of severe strain on sterling in the months leading up to the actual outbreak of hostilities. Dollar outlays to cover this short forward position in dollars occurred mainly in October and November, 1939 and probably totaled something like

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\$110,000,000.

Aside from the \$1,800,000,000 total outlays made by the British authorities, the Bank of Canada paid a total of \$800,000,000 out of its account at this bank during the year ended August 28, 1940, and dollar outlays through the Commonwealth Bank of Australia's account aggregated \$30,000,000. The South African authorities, on the other hand, made only negligible dollar disbursements directly through this bank during the period.

As to the weekly rate at which these payments for account of the British Empire were made, it is of interest to note that the collapse of French resistance in June necessarily placed an added burden on the British Empire. During France's participation in the war, combined dollar disbursements out of the official British, Canadian, and Australian accounts at this bank were at an average weekly rate of about \$34,000,000. In addition to this, the French authorities were disbursing dollars at the rate of \$20,000,000 a week. Since the French capitulation the weekly rate of official British Empire spending has advanced to nearly \$70,000,000, or considerably in excess of the combined Empire-French outlays prior to mid-June. This again demonstrates the fact revealed in the last war that war expenditures tend to increase progressively as hostilities continue.

Although, as mentioned above, it is impossible accurately to estimate British Empire spending in this country by an analysis of the trade balance alone, an examination of the month-to-month trade between the United States, on the one hand, and the sterling area together with other British Empire countries, on the other, at least gives some indication of the rate at which deliveries are being made on British Empire orders.

TABLE II

United States Trade with Sterling Area and
Other British Empire Countries

(In Millions of Dollars)

	1938 - 1939			1939 - 1940			Net Exports 1939-40 as Percent of 1938-39
	U. S. Exports	U. S. Imports	Net Exports	U. S. Exports	U. S. Imports	Net Exports	
Sept.	104.5	55.2	49.3	134.1	74.4	59.7	121
Oct.	122.9	63.5	59.4	138.4	79.6	58.8	99
Nov.	103.5	59.1	44.7	103.3	80.4	22.9	51
Dec.	102.7	56.7	46.0	121.9	92.6	29.3	64
Jan.	85.9	62.6	23.3	137.3	90.7	46.6	200
Feb.	82.9	52.5	30.6	128.2	72.4	55.8	162
Mar.	97.8	66.9	30.9	126.4	85.1	41.3	154
Apr.	89.1	63.4	25.7	130.1	83.9	46.2	180
May	99.9	72.1	27.8	133.2	85.5	54.9	197
June	96.5	64.1	32.4	167.5	94.3	73.2	226
July	96.3	62.3	34.0	202.2	102.9	99.3	292
Aug.	109.4	61.3	48.1	221.1	91.3	129.8	270
TOTAL	1,191.7	739.5	452.2	1,748.7	1,030.9	717.8	159

Total American exports to British Empire countries during the first year of war amounted to \$1,750,000,000 (or about \$550,000,000 in excess of the previous year). American imports from the British Empire in the same period totaled \$1,050,000,000 (or \$300,000,000 over the previous year, reflecting largely the accumulation of vital raw materials, particularly rubber and tin, for reserve stocks). It should be borne in mind, however, that during the early months of the British exchange control, it was possible for American importers to pay for sterling area products with sterling acquired in the free market, which, of course, reduced the amount of dollar exchange available to the British control. We have estimated that during the first five months of the war the equivalent of about \$200,000,000 of the \$250,000,000 due the Empire on American imports was paid for in free market sterling. As a result of the series of new

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restrictions, beginning on March 8, which were designed to canalize exchange transactions through the official market, this loss of exchange has now been virtually eliminated. Nevertheless, the net amount of dollars which the British exchange authorities had to supply for American exports during the first year of the war must have been well in excess of our \$720,000,000 export surplus which the above table indicates.

Examining this "favorable" balance, it will be seen that during most of the war months in 1939 our net exports were actually below those of the comparable months in 1938. With the turn of the year, however, there was a contra-seasonal expansion in our exports and, with no sizable increase in our imports, our export surplus by this summer had risen to more than double the comparable 1939 months.

Method of Financing Spending in United States

Now, how did the British Empire finance its dollar expenditures?

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TABLE III

Financing of British Empire Spending
in the United States
-First Year of War-
(In millions of dollars)

	<u>United</u> <u>Kingdom</u>	<u>Canada</u>	<u>Australia</u>	<u>TOTAL</u>
Total Dollar Outlays ^(a)	1,772	506	27	2,105
<u>Means of Financing</u>				
Sales of Gold	1,556	415	30	1,799
Sales of American Securities	211			
Other Receipts	240 ^(b)	} 71 ^(c)	} 6	} 528
Total Receipts	<u>1,807</u>	<u>484</u>	<u>36</u>	<u>2,527</u>
Less:				
Net Increase in Dollar Balance at Federal Reserve Bank ^(a)	<u>55</u>	<u>178</u>	<u>9</u>	<u>222</u>
Net	1,772	506	27	2,105

(a) Adjusted for interaccount and intra-Empire transfers.

(b) Includes about \$116,000,000 transferred from accounts of British authorized banks with New York banks.

(c) Includes \$59,000,000 transferred from British Purchasing Commission to Bank of Canada for French account.

The British Empire has obviously relied chiefly on sales of gold to finance its buying program in this country.

In the case of the United Kingdom alone, about \$1,550,000,000 were acquired through the liquidation of gold resources. As might be expected, British holdings of American securities have been held as a secondary reserve and selling thus far appears to have been dependent more on the condition of our security markets than on the need for dollar exchange. According to the figures reported weekly, net sales of American securities for "British" account aggregated \$160,000,000. We have reason to believe, however, that these

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figures have underestimated the extent of the British selling. In the first place, certain purchases have been reported under the United Kingdom, which actually represented the buying of American securities by Swiss banks operating through London. A more important factor tending to underestimate the amount of the British liquidation arises from the fact that a large part of those securities requisitioned by the British Treasury have presumably been sold, through private negotiation, to insurance companies, banks, and in some cases even to the companies whose obligations are outstanding. Since these sales are not likely to go through reporting channels, they have not been adequately reflected in the reported weekly figures. By adjusting the reported figures on the basis of those payments to the official British accounts at this bank, which we are reasonably sure represent the proceeds of security sales, we estimate that the British acquired at least \$200,000,000 through security sales during the first year of war. Significantly, more than half this amount was acquired during the first three months of the war, or prior to the time the British authorities began to requisition private British holdings.

In addition to the acquisition of dollar exchange through sales of gold and American securities, the British authorities received \$245,000,000 through other sources, largely, no doubt, the requisitioning of dollar balances held by private British accounts at the imposition of exchange control and also the acquisition of dollars derived from exports.

In the case of Canada, their chief source of dollar exchange has likewise been the sale of gold to the United States Treasury. Unlike the British sales, however, the liquidation of Canadian gold has been far in excess of Canada's current needs. The Bank of Canada received over \$400,000,000

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through gold sales, which should have virtually exhausted the Canadian monetary reserves. Since the dollar balances of the Canadian authorities show a net increase of \$140,000,000 (excluding the receipt of \$40,000,000 held for French account) during the period, it is quite apparent that these sales were motivated by other factors than the current need for exchange. This action appears to be in sharp contrast with the United Kingdom's policy of selling gold only to the extent needed to meet the immediate demand for dollars.

As regards Australia, the figures, as shown in the table above, are small and call for no comment. Transactions for account of South Africa, as said before, were negligible.

The Probable Future Course of British Empire Spending

After one year of war British Empire holdings of gold, balances, and readily marketable American securities may be estimated at somewhat around \$4,000,000,000, or nearly \$1,500,000,000 below the level at the start of the war. Of this net reduction, \$900,000,000 represented a net loss of gold. The fact that the gold reserves declined by only \$900,000,000 in the face of total sales amounting to \$1,800,000,000 is, of course, largely due to the fact that new gold production in the Empire, amounting to \$790,000,000 during the first year of war, became available for sale. In addition to the new production, a considerable amount of privately hoarded gold was probably acquired by the authorities after the imposition of restrictions. A breakdown of the estimated gold and dollar resources available to the Empire at the end of last August is given in Table IV below.

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TABLE IV
Estimates of
British Empire Holdings of Gold and Dollar Assets
After One Year of War

(In Millions of Dollars)
 (As of End of August, 1940)

	<u>United</u> <u>Kingdom</u>	<u>Canada</u>	<u>Other</u> <u>Empire</u>	<u>Total</u>	<u>Net</u> <u>Change</u>
<u>Gold Reserves</u>					
Under earmark here	80	-	-	60	
Elsewhere	<u>1,125</u>	<u>40</u>	<u>610</u>	<u>1,775</u>	
Total	1,185	40	610	1,835	- 900
<u>Short Term Assets</u>					
Official	90	190(a)	10	290	
Private	<u>280</u>	<u>170</u>	<u>120(est.)</u>	<u>570</u>	
Total	370	360	180(est.)	860	- 190
Negotiable Long Term Securities (Mkt. Value)(b)	920	505	55	1,460	- 515
GRAND TOTAL	2,475	905	775	4,155	- 1,405

(a) In addition, the Canadian authorities apparently held about \$40,000,000 at the Federal Reserve Bank for French account.

(b) Based on Department of Commerce estimates for the end of 1939, adjusted for sales and changes in market values since that time.

How long will these resources last? This question cannot, of course, be answered unequivocally, since any projection into the future must take into account not only the rate at which future orders will be placed and advances made, but also the amount of advance payments outstanding at present, against which future deliveries will be made. Furthermore, the extent to

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which the British will provide support to their latest ally, Greece, will greatly affect future spending. We have, therefore, attempted to determine only the maximum duration of the present rate of spending. Since the French capitulation, the United Kingdom has been suffering a loss of gold and American assets of about \$80,000,000 a week. When the rest of the Empire is included, the loss has probably averaged close to \$70,000,000 a week. Against these losses, the British Empire has been acquiring about \$15,000,000 a week in newly-mined gold. The weekly net drain has, therefore, been approximately \$55,000,000. Assuming that this rate is, at least, maintained—and there are many indications that it will be increased this year—the resources which were available to the British Empire for its essential purchases abroad at the end of last August can hardly last beyond the early part of 1942. This would furthermore assume that the British Empire is prepared to continue spending until its last dollar is gone, and that the British authorities will actually have access to all private British holdings of dollars which have been included in these calculations. Both assumptions may be a little unrealistic. The critical point, therefore, probably will come sooner than this study would indicate.

Faithfully yours,

L. W. Knoke,
Vice President.

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

December 13, 1940
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Well, Herbert, how are you?

Gaston: Very well.

H.M.Jr: Have a good trip?

Gaston: Yes. I can give you a little report today any time.

H.M.Jr: I want to see you, if you will stay behind a minute; I want to ask your advice on something.

Gaston: Yes, I haven't any public business.

H.M.Jr: Mr. Foley?

Foley: Mr. Secretary, we have looked into the question of that advertising of that Army and Navy whiskey.

- H.M.Jr: Yes.
- Foley: And I don't think that there is any legal ground for the action that Berkshire took. Berkshire sent two or three telegrams to these people, the distributor and the two distillers that bottled this stuff, and has peremptorily revoked the label.
- H.M.Jr: Good.
- Foley: Now, there is no procedure in the law for doing that.
- H.M.Jr: Good for Berkshire. I always knew he was a good man.
- Foley: And I don't think we can sustain his action. I understand that Congressman McGranery of Pennsylvania, who used to be United States Attorney up in Philadelphia, has already gotten in touch with Berkshire protesting. There is a procedure --
- H.M.Jr: Well, I am surprised at Berkshire. He is a good attorney.
- Foley: Well, he sent these telegrams out without clearing them with the Legal Division.
- H.M.Jr: I see.
- Foley: There is a procedure for disciplining a fellow by revoking his distributor's license where he engages in questionable practices through advertising. There is a procedure there whereby a complaint is filed, a notice of hearing is given, a hearing is held and testimony taken, and for the first offense the permit to distribute liquor may be suspended; and for offenses after that, it may be revoked entirely. I think since this offense is in connection with advertising rather than in

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connection with the use of the label on the bottle, the procedure in so far as discipline in connection with advertising, the one that should have been used rather than just to peremptorily revoke the permit --

- H.M.Jr: Well, mind you, I gave him no instructions how to proceed. I just sent him the ad. I just sent him over the ad. You know that, don't you?
- Foley: Well, I didn't know what had happened.
- H.M.Jr: Well, the ad came in, and I said to send it over to Berkshire, with no instructions. I gave him no instructions.
- Foley: After all, these people do have some investment in this label.
- H.M.Jr: I told him --
- Foley: They have been distributing liquor under that label for five or six years.
- H.M.Jr: Just ask him what instructions he has got.
- Foley: I haven't spoken to him at all. I had the lawyer for the Alcohol --
- H.M.Jr: I said to study it and come over in the morning and talk to me.
- Foley: These are the telegrams.
- H.M.Jr: We will find out what message he got from them. That is all right. I brought it up at 9:30. I took your advice. I didn't go out on the end of a limb.
- Foley: No, you are not on the end of a limb.

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- H.M.Jr: We ought to help Berkshire out. You let me know. What else?
- Foley: We had a talk yesterday with Walker Stone.
- H.M.Jr: Yes.
- Foley: And we set up a little committee composed of Henry Murphy as Chairman, and Chuck Kades and Ecker-Racz in John's section, and we are going to get him the examples he wants and he is going to put on a campaign and keep it up all during the legislative session; and also he is going to put a man on to write stories that appear in publications. So they are ready to go ahead. Here is a little memorandum about it.
- Cochran: I have this memo that you mentioned on the phone last night. (December 12, Re telephone conversation of same date with Sir Frederick Phillips.)
- Sullivan: Gulick was going to call this morning.
- H.M.Jr: Oh. Wiley?
- Wiley: We looked at the films yesterday afternoon that I spoke of yesterday. These German films don't seem to make any sense under any heading. There were Army and Navy and Marine Corps representatives present, and they don't seem to be educational films. They don't look dangerous, but no one can make up his mind whether they are just very harmless or not. I think there is going to be a Colonel in the Army, who is a specialist on South America, go into them more carefully.
- H.M.Jr: Good. That thing that Klaus gave me, I will give back to you.
- Pehle?

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Pehle: Did you see the article in P. M. on Wednesday on the State Department, an editorial?

H.M.Jr: No.

Pehle: You might be interested in it. It is taken from the Louisville Courier Journal. It is very sharp.

H.M.Jr: Well, I was told to read it, and I said I would send for it.

Chamberlain: Mr. Secretary, I am informed there was another which came out yesterday, which I expect to see a little later in the day. It came out Thursday.

Pehle: This is Wednesday.

Chamberlain: There is another, I understand, on Thursday; and I am told there are other papers going to break, expecting to break on the Department.

H.M.Jr: Well, could somebody pick it up for me?

Pehle: Yes.

H.M.Jr: Schwarz is sick.

Chamberlain: I will have to --

H.M.Jr: Well, Pehle will do it.

Chamberlain: Pehle will do it, yes.

White: Are they critical or laudatory?

Pehle: Very critical, particularly of the Assistant Secretary. Welles, they say, is good; but he doesn't have the feel of the international

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situation, and he is not very useful; but the three assistants they just go after.

- Wiley: It goes far enough to say that Welles should leave the Department also.
- Chamberlain: What they say is that Welles ought to begin the job of traveling ambassador in South America.
- Wiley: Roving ambassador.
- White: By air, so he can get around faster.
- H.M.Jr: A Justice of the Supreme Court called me up and told me to get this, and then I forgot about it, so I am glad I have it.
- Behle: There is a controversy now going on with regard to some Danish Boats, most of which are tied up in these waters, and the dispute is between the agents for the boats, Isbrandtsen and Moller, New York City's agents, and Moller - the Moller Company, which is a Danish Company which owns the boats, both sides are accusing the other of representing the Germans. The Danish Legation is supporting one side, and the State Department in the past, at least, has more or less favored the other. One side is now trying to charter the boats to American interests through the Maritime Commission, and the other side is trying to charter the same boats for the Navy. The lawyers were in here yesterday and tried to leave an envelope addressed to you saying to be opened when the agents call from New York, and gave you authority to open it, and we took the matter up with Mr. Foley and discussed it and decided that we shouldn't accept anything on that conditional basis, so they didn't leave it. The envelope apparently contains papers turning the whole group of boats over to you, so that when --

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- H.M.Jr: Why didn't you take it? (Laughter)
- White: What is the matter with the boats?
- Pehle: They are good boats, as a matter of fact.
- H.M.Jr: Yes, they are, and I know what to do with them, too.
- Pehle: They are good boats, but you would be taking it from the agent, who may very well not have any authority over the boats at all any more; and besides, you weren't given authority to open the envelope at this time.
- H.M.Jr: Now listen, fellows, don't be fussy about those boats. I know where to use them and we can take them and argue about the title afterward. I am not fooling - much. (Laughter)
- Pehle: Well, I raised the question because there is a question as to whether we want to --
- H.M.Jr: I am serious. If we can lay our hands on that fleet, the United States Navy will take them. Then they would release an equal number to whoever needs them. So if you can lay your hands on these things, don't think of ways not to do it, but think of somehow to lay your hands on them.
- Foley: Well, we wanted to talk with you and find out whether or not you wanted us to explore the thing a little further. If the Maritime Commission, for instance, is interested in working out a deal with the British whereby they could buy them and the British would immediately pay for them, that money could go into the blocked account and they could argue about it afterward.

- H.M.Jr: But that isn't the play. The play is that we will buy them, the United States Government, from one of these agents. The whole thing, as I get the story - and you can check it on this thing - this thing is just because somebody hasn't hit this thing and hit it hard. Everybody is timid. The trouble is, the English won't give a guarantee that if these boats are bought - no, it is the other way around. If the English buy them, there is no guarantee that the Germans won't sink them. Now if we buy them, and they become --
- White: The Germans will sink any boat with a British flag.
- H.M.Jr: Put if we buy them, we buy them. That is what I wanted to say.
- White: Yes. They would still consider them as enemy ships even though we acquired title illegally, they would claim.
- H.M.Jr: And my thought is to put them on the Pacific run.
- White: And release other ships?
- H.M.Jr: With which there is no doubt as to the title on this side, see. Is that a nifty?
- White: It sounds smart. I don't know. (Laughter)
- Foley: Yes, but I mean where are we going to get the money to buy them?
- H.M.Jr: Jesse Jones, one of his many corporations.
- White: The money would be forthcoming from the sale of the American ships.
- Bell: They have a construction loan fund.

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- White: Well, there would be some American ships released and they would presumably be released for some quid pro quo.
- Pehle: Those would be private ships, Harry?
- White: Well, somebody is going to pay for them.
- H.M.Jr: We will sell ships to the British, built in the United States yards; and they will always be United States ships. Let's say we sell 10 million dollars worth of these ships. Isn't there some corporation that that money could go to?
- Bell: Maritime Commission.
- H.M.Jr: Maritime Commission --
- Foley: The Maritime Commission could buy the ships if they had the money.
- H.M.Jr: All right. Now, they will sell --
- Foley: Now, if they can find a purchaser, they could take these boats over from Isbrandtsen and Moller and then immediately turn them over to a purchaser --
- H.M.Jr: Who will operate them on the Pacific.
- Foley: Who will operate them on the Pacific, and the money would go right back into this frozen account in New York; and then Mr. Isbrandtsen and Mr. Moller could fight that out as to which one of them had title to the money.
- White: That is a little different pattern than what the Secretary is describing and isn't that pattern possible --
- H.M.Jr: No, that is what I had in mind.
- Sullivan: Well, why can't the --

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- H.M.Jr: The thing that everybody has been afraid of, supposing we take those ships and then the ships are sunk and then we are in trouble with the Germans; but if we take these ships and operate them in the Pacific where there are no German raiders, I think it is pretty safe.
- White: I don't see where the payments into frozen funds comes into that picture.
- Foley: Well, Harry, they have got to be paid for. You just can't take them over from the Danes without paying for them.
- White: I see.
- Foley: And that is the proceeds from the sale to the operator on the Pacific Coast, which would go to the Maritime Commission to the Danes.
- H.M.Jr: What do you think, Professor Chamberlain, just a horseback opinion.
- Chamberlain: Just a horseback opinion, I should think that would be a very good solution of the question, but wouldn't --
- H.M.Jr: Could you put a little time on it today yourself?
- Chamberlain: If there is anything I can do, yes, I would be very glad to. I can talk it over with Mr. Pehle, perhaps.
- H.M.Jr: Because if we can solve this, it would be wonderful; because there is a tremendous need for these ships, a tremendous need for these ships.
- Pehle: Mr. Secretary, the Navy and the Maritime Commission are now negotiating with these two parties. Now, do you want us to get in that picture and see what we can do, or do you want us to stay out?

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- H.M.Jr: Get in with both feet - and your brains.
- Foley: Why not let the British buy them, Mr. Secretary, instead of buying the ships --
- H.M.Jr: They won't do it.
- Foley: Why? Any ships they have are going to be sunk by the Germans anyway.
- H.M.Jr: You ask them. I don't know why, but they won't do it.
- Pehle: The British won't buy them or the Danes won't sell them?
- Foley: The Danes sell them to the Maritime Commission, and the Maritime Commission turns around and sells them to the British.
- H.M.Jr: But that is the thing which has been going on, and the Danes won't do it.
- Pehle: Well, the Danish owner is in Denmark, Mr. Secretary, and I assume he doesn't dare sell these boats to the British.
- H.M.Jr: Exactly, but if we - that is the whole thing. Nobody has thought this out. Then they say, "Well, we won't buy them because if we buy them and fly the American flag, the Germans will sink them and then it is a cause of war," but I come along with a brand new idea and say to the Maritime Commission, "We will put these ships on the Pacific run." Well, there isn't one chance there in a hundred of them being sunk. Everybody has had a fling at it, but nobody has made the suggestion I am making.
- White: Ed, the other would be too transparent, if the American Government were to buy these ships and turn around and sell them directly to the British; it would be too transparent. That is

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why I think there has to be some scheme like the Secretary's of not using the same ships but other ships.

Sullivan: Or giving them planes and guns, what difference does it make?

H.M.Jr: But the thing gets back to the Dane in Denmark, who is there under the guns of the Germans. Now, they will know in five minutes what happened. They know before they even put the pen on it, but if the Dane can say, "This is going to the United States, the United States is operating these things in the Pacific," I will bet you the sale goes through.

Gaston: Is the Danish Minister willing to sell them?

H.M.Jr: That I don't know, but the thing is the fellow that is back in Denmark.

Foley: There are some 40 odd ships, you know.

H.M.Jr: And they are good ships.

Foley: They are pretty good ships. They are 125,000 tons.

Pehle: This particular line, Ed, there are only a small number.

White: Mr. Secretary, you might even give consideration as an inducement if necessary, to pay for them not in frozen funds, but in funds which will be free, that the ships may be bought at sacrifice if you can't get them any other way from the Danes. The Germans might acquiesce.

H.M.Jr: Yes, but I don't think Mr. Roosevelt would. He is very strict about this. Try it my way. I think you will find that the suggestion that I

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make will break the log jam. Who would normally carry this?

Pehle: On the sale question?

H.M.Jr: Yes.

Pehle: I think Foley.

H.M.Jr: I do too. Get in on it Foley, fast, will you? And consult with Professor Chamberlain and get his advice.

White: Since Jones will have to put up money somewhere, usually --

H.M.Jr: No --

White: Won't he somewhere on the picture --

H.M.Jr: I think the Maritime Commission has the money.

Bell: They have a sizable appropriation. Whether it is obligated or not, I don't know. It was 150 million dollars last year.

H.M.Jr: I would love to get this and if this works on this, then these Esthonian ships that there is so much fussing about --

Wiley: Latvian ships.

White: If Jones does happen to have to be in on it, the sooner he is in from the beginning the more cooperative he is apt to be.

H.M.Jr: Well, let Foley work on this thing, and just see how he does. I don't think Jones has to get in on it.

Bell: I heard yesterday, Mr. Secretary, that there were negotiations going on to sell the Italian ships

in our harbors to the British.

H.M.Jr: That is interesting.

Pehle: Mr. Secretary, we have an application now from the French to take \$50,000 at this time out of their government frozen funds here and give it to the American Friends Service Committee to be used by them in buying milk in Switzerland for use among children in France.

H.M.Jr: Now wait a minute, say it again, will you please?

Pehle: The French Government, after Pickett had asked them for the money, is willing to give him at this time \$50,000, and I believe \$50,000 a month hereafter, but this involves the initial payment, which will be used by the American Friends Service Committee in buying milk in Switzerland for distribution among children in France. You remember Pickett mentioned the matter when he was here. Mr. Alphand, the French Financial Attache came in yesterday, and he told me Pickett had told him you approved the matter, which I didn't think was what happened.

H.M.Jr: Well, you were here.

Pehle: Yes, that is right, and I told him that that wasn't the case. Some time ago the Red Cross told me that they had sufficient funds in Switzerland to buy all the milk that is being produced there, and were doing it. I asked Mr. Pickett about that after we left the office when he was here, and he said, as he had indicated in here, that what they wanted to do was to buy the milk up in advance, two or three months, on the ground that the Germans were pressing the Swiss to exchange coal for milk, and the Swiss would then be in a position to say, "We haven't got the milk, we have already sold it to this American organization for distribution in France." It was discussed last night in

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the committee. Mr. Wiley felt that it ought to be approved and so did Dr. White. I feel somewhat uneasy about it, because I think it is the beginning of the use of French Government funds for use in France, and there are all sorts of valid uses they could have for those funds in France, and - or in connection with France. They could buy food in other areas.

H.M.Jr: Is this frozen or unfrozen?

Pehle: Frozen funds. It doesn't involve the blockade, of course, because the milk is in Switzerland and not on this side.

White: There are certain unusual circumstances about this, though, if you are going to disapprove, which I would like to set before you before you make up your mind.

H.M.Jr: Just hold you horses a minute.

White: Yes.

H.M.Jr: My inclination is to approve. I just want to ask Professor Chamberlain.

Chamberlain: I should be inclined, Mr. Secretary, to approve on the ground that while I am somewhat dubious about their getting this milk, yet I think you ought to encourage them to go as far as they can. I know there is pressure on the Swiss from the Germans, which is very severe, and getting more so. I think this is about the only way that there is any chance of the French getting any of this milk.

H.M.Jr: Well, I would like to do it.

Chamberlain: I would like to check with the Red Cross. I don't know what you would get from them. I wouldn't take their word finally either way.

- H.M.Jr: No, but I would clean it up before sunset one way or the other. I would make this proviso. I want Mathews, who is partly on our payroll, first Secretary at the American Embassy at Vichy, to follow this thing for me personally, see. I want that as a condition. He would see some of this milk come in and can follow the financial part, visit a couple of these kitchens and so forth and so on. Unless the Red Cross raises some objection, I would say to go ahead with it.
- Wiley: It is powdered milk in paper bags, not even any tin cans involved.
- H.M.Jr: Well, I would like Mathews to be fully aware of it and go into the field once or twice and see it. I also suggest that we call the Swiss Minister here and ask him also to follow it for us, the Swiss Minister, but this again - Alphanand proves that he and Henri Haye are both damn liars and this proves that Alphanand is, too. They are just liars is all.
- Pehle: You mean on the ground as to whether you approved it?
- H.M.Jr: Yes.
- Pehle: I don't know whether it was him or Pickett.
- H.M.Jr: Well, somebody lied. I know Henri Haye is a liar.
- Pehle: It was discussed with my staff before and they did not agree to approve it because we never do that on any applications.
- H.M.Jr: Ask Pickett point blank.
- Pehle: I will next time I see him.

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H.M.Jr: I would write him a letter and say that Alphand said so and so, "Did you or didn't you." Write him a letter and please say, "Did you or didn't you say so." Let's nail it on him.

Pehle: I would like to do that right away.

I rewrote this memorandum and added to it the portion about Portugese gold.

H.M.Jr: Thank you.

(See attachments 1 and 2 with meeting on December 12, at 12:00 Noon - Re Freezing.)

H.M.Jr: While we are on this to let you people know how I feel, I personally am leaning this way, that where we can make sure that no food will go from the soup kitchen directly into the mouths of these children under American Citizen supervision, irrespective of what country it is in, I am leaning toward doing it. Where it is an American soup kitchen under American citizen supervision, direct feeding into the mouths of the children, I am inclined to try it, and I wouldn't be too fussy about whether the funds were frozen or not. I mean, I wouldn't go into any million dollar schemes, but certainly \$50,000 at a throw, where it could be under, as I say, American citizen supervision, directly into the mouths of the children; but as I said last night, if we don't do this, it is like being at the bottom of a well looking up, you just see black; but if you could see one single star, it gives you a little ray of hope that some place, some where, somebody shows interest. That is for your guidance.

Pehle: Of course, right now the American organizations are largely not operating outside of France and largely in unoccupied France. The Red Cross isn't operating in any of those countries.

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- H.M.Jr: When it is put up to me, that is the way I feel.
- Chamberlain: There may be an appeal for Belgium very soon. I don't --
- H.M.Jr: When it comes, I want to clear that personally with the President, but I would make the same recommendation. I don't believe in any of these schemes which they are talking about, mass feeding and shooting the thing - millions of dollars into it, but if you could make a test, \$50,000 here, \$10,000 somewhere else, and try this thing out, I just think it is - we have got to give some spiritual leadership and hope, and I don't know any other way of doing it. I mean, try it out. I don't believe these tremendous schemes - shooting the works. Then you can't withdraw.
- Chamberlain: There are some very serious difficulties in any of the schemes that have been proposed, that I think would make them unworkable.
- H.V.Jr: There may be, but as they come up, you try them in a very small way and I will be sympathetic toward it.
- Chamberlain: Especially as to children.
- H.M.Jr: I am talking just about children, direct to them. So if the schemes come, bring them up to me, will you?
- Anything else?
- Behle: No.
- Chamberlain: No.
- Young: I have nothing.

Haas: I have nothing.

H.M.Jr: Harry?

White: I heard a bit on the radio last night. I don't know whether it has come to your attention or not. There was a discussion between Senator Clark somewhere, and somebody else. I heard amazing statements. Have you seen them?

H.M.Jr: Oh yes. Bennett came to my rescue. I have got to call him up.

White: I have forgotten who the other Senator was.

Foley: Austin of Vermont.

White: He said something about its being the greatest step toward Nazification of the United States.

H.M.Jr: State Socialism. Bennet Clark said I had vision.

Foley: Statesmanlike vision. A great step forward for perfecting the Income Tax system that has been taken since the 16th of November.

H.M.Jr: That is all due to going up on the Hill. This is going to be a nice fight. It is going to be good fun.

Bell: If we get him around on our side on the Stabilization Fund, we will be all right.

H.M.Jr: Harry?

White: You asked for a memorandum on social changes in England. The body of the report was prepared by Mr. Adler.

H.M.Jr : Thank you.

White: I have some totals and some information which

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we have so far compiled about the British securities, et cetera. I didn't know whether you wanted to take this up prior to your meeting or at the meeting.

H.M.Jr: At the meeting.

White: The Export-Import Bank is about to extend assistance to Peru, 10 million dollars. I raised the question that I thought you might like to consider here, whether or not two million of that might not be undertaken by the Stabilization Fund, since it is a Stabilization Fund operation, and whether they didn't want to give us a chance to consider it.

H.M.Jr: I can't be bothered with less than 50 million dollars.

White: Well, it is another country and I think that there is some importance in maintaining the pattern. There is very little involved, but there is involved the question of the principal --

H.M.Jr: I just can't be bothered with less than 50 million.

White: I don't think we could approve 50 million. Can we, Merle?

H.M.Jr: Bring it up some other time.

White: They have to know whether it will get any reconsideration, because they are eager --

H.M.Jr: Well, you have got a letter here from Sumner Welles on Chile.

White: Well, you asked to bring that up Monday. Today is Friday.

H.M.Jr: Well, bring them both up Monday.

White: Then I will be able to tell the Export-Import Bank

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that we are going to reconsider the matter Monday for Peru?

H.M.Jr: Look at it, we will look at it.

White: That is a synonym for consideration. I will do that.

H.M.Jr: A little milder.

Bell: Christmas is coming.

White: Well, they are pushing, I think unnecessarily, but they are pushing.

H.M.Jr: Well, you report that you brought it up --

White: And that you are going to take a look at it Monday.

H.M.Jr: If I feel all right.

White: Well, I mean the latter is implied. If you don't feel well --

H.M.Jr: All right, Harry. We will take a look at it Monday.

(Telephone conversation with Senator Clark follows.)

December 13, 1940
10:04 a.m.

H.M.Jr: Hello.

Operator: They expect Senator Clark shortly. I left a message for him to call you.

10:05 a.m.

Bennett C.
Clark:

Hello.

H.M.Jr: Bennett?

C: How are you, Henry?

H.M.Jr: Thanks for them kind words.

C: Well, Henry, it was a great pleasure to me to be able to do that and I don't think I said a damn word that wasn't absolutely true.

H.M.Jr: Well, and you know what they say: politics makes strange bed-fellows. You and I'll get together yet.

C: (Laughs). Well, Henry, I really think you did a very, very fine statesmanlike thing in that course you took about that matter and I really admired it very much indeed.

H.M.Jr: Well, thank you so much, and I'm sincere. I appreciate

C: Well, I'm sure of that, Henry.

H.M.Jr: your coming to my defense.

C: Well, I think it was very well deserved, Henry.

H.M.Jr: Thank you.

C: Thank you, sir, very much.

H.M.Jr: Good-bye.

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

White: Well, that is all. (Laughter)

H.V.Jr: Harold?

Graves: Nothing.

H.V.Jr: Listen, I don't want to let the week go out without doing the Bank of America, so if you can't get Brother Delano out of bed, we will do it at three o'clock without him. Is he still in bed?

Bell: I think he still is.

H.V.Jr: I will bet you if we do it this afternoon, he will be around tomorrow. The man is staying in bed until this thing is accomplished. (Laughter)

Anyway, all those people interested in the Bank of America report at three o'clock. What else?

Bell: That is a good thing, because we have got two or three problems out there that are tied in with it. I would like to give Dr. Prebisch, or the Ambassador, this morning, a preliminary draft of the agreement between the Treasury and the Bank. Dr. Prebisch is also sick in bed, and he probably won't be able to come; but the Ambassador said he would if Prebisch isn't able to. I think that is a good way to get a vacation. Congress this year passed the Soldiers and Sailors Relief Act of 1940, its purpose being to protect the insurance policies of the persons inducted into the military service. The administration of that act is under the Veterans Administration, and the only duty we have to perform is fix a rate of interest with the certificates. There are some letters of administration issued.

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The policies, of course, have a contract rate, usually five or six per cent, which the holder will pay on deferred payments. Our only security outside of the Soldier's agreement to pay is the cash surrender value of the policies, in most cases, which accumulate at the rate of three per cent. Now, the Veterans Administration doesn't recommend, and they say it is our responsibility. They thought we ought to fix a three per cent rate for these certificates, because that is the rate at which these cash surrender values accumulate.

H.M.Jr: What do you recommend?

Bell: We think that is a fair rate.

H.M.Jr: O. K.

H.M.Jr: Harold, are you getting together with McReynolds today?

Graves: At 10:30.

H.M.Jr: Wonderful.

 Norman?

Thompson: I have a statement from the hearing before the Appropriations Committee.

H.M.Jr: O. K. See you all later in the day.

December 13, 1940
10:30 a.m.

THE BRITISH PURCHASING PROGRAM

Present: Mr. Purcell
Mr. Frank
Mr. Cochran
Mr. White
Mr. Gifford
Mr. Pinsent
Mr. Phillips
Mr. Playfair
Mr. Forrestal
Mr. Wise
Mr. Bell
Mr. Clark
Mr. Klotz

H.M.Jr: How long since we have seen each other,
Mr. Gifford? Is it about a year?

Gifford: I think I was here when - no, it was the last
of the year, about six or seven months ago.

H.M.Jr: The reason I asked for this meeting was this:
In my conversations with the British and the
Canadians, the question comes up as to their
selling - well, American owned securities in
the United States and also direct investments,
and I have been quite frank in my statements
that I don't believe that the methods have
been followed which would have made it possi-
ble to sell the securities as rapidly as they
might have been sold. I am going to say now
what I have been saying, that Mr. Frank and
I gave a great deal of time to this when
Mr. Gifford and Mr. Wigham first came over.
It is their securities, so naturally they can
sell them any way that they want, but they
chose not to follow the advice of the Securities
and Exchange and our Treasury.

Now, I made this statement to Sir Frederick
and asked him whether in view of the fact
that he has made the statement several times
that you couldn't sell more than what you have -
and I believe you could - if you want us to
repeat again how we think you could, knowing
that we are taking a great responsibility of

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being accused of forcing our opinion on you, but we are prepared again to say how we think that you could sell more securities if you used different methods, and I asked Mr. Forrestal if he would mind stepping out of his role as Under Secretary of the Navy and coming over here and, putting it quite bluntly, I warned Sir Frederick yesterday that if we were going to do this we were going to be very blunt about it and he said to go ahead. There is nothing personal. I have heard the story of the means used at present to do the thing and I just couldn't believe what I heard, and if you people would like to have it in a very blunt way, why, I asked Mr. Forrestal if he would mind doing it.

Forrestal: You want me to address myself simply to the method, Mr. Secretary?

H.M.Jr: The method that you and I have been told that they are following in the sales of their securities.

Forrestal: As I understand it, it has been sales on the Exchange and through the Exchange from day to day. Is that substantially correct?

Gifford: That has been one part of the method, yes.

Forrestal: You haven't done any block marketing?

Gifford: Yes, we have.

Forrestal: What particular securities?

Gifford: We have done Standard Oil of California, Pacific Gas and Electric, just straight from memory, but they are very good examples. May I explain just the principle on that? Perhaps you had better finish, because I want to reply, if Mr. Morgenthau will permit me, to the whole question.

H.M.Jr: You can be just as blunt as I feel, so I don't care how blunt you are.

Gifford: That is right.

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H.K.Jr: I have got no selfish interests in this.

Gifford: Oh, obviously not, sir.

Forrester: It may be that you have done exactly what I had in mind. I think the market over the Exchange is very limited. On the other hand, as you know, and as Mr. Frank knows, there are a large number of investment dealers over the country looking for stuff to distribute. I think you can market almost any amount of well-known American securities, and I don't believe that the frequency with which they are brought to the market, unless they happen to be the successive blocks of the same company's securities - that would be bad because that leaves an impression that you haven't completed your job and I think to that extent it does curtail what you can do if the market never knows how much more there is to come out, but I think if you addressed yourself to the marketing of even as much as 20 millions of any standard issue and had that distributed, then said that was disposed of completely, and then addressed yourself to the next one, I think - and maybe I shouldn't be talking at all, because I haven't been in that atmosphere for the last six months - but I believe that you could do several of those operations a week, possibly with different groups. Maybe that is exactly what you have been doing.

Gifford: I will answer that.

Forrester: I think that the piecemeal distribution through the Exchange exposes you to the operations of day to day traders, and there are still a few of them left, and also weakens your position vis a vis the investor who is buying substantial amounts and is reluctant to buy when he thinks there is a lot more to follow.

The second thing which I think could be explored is the companies themselves, and that would have to be by selection. The heads of most companies of any size are interested, as a rule, in their securities to the point

where they will organize a group to take over a block of stock. I don't think you can do that on quite such a scale, because it is usually limited to a small number of people, but I believe that if you addressed yourself vigorously to the disposition of the securities that I wouldn't be at all subtle about it. I would say exactly what you are going to sell. As far as I know, that has never been done. There has been an atmosphere of uncertainty as to how much you were going to - maybe you didn't know yourselves, that is quite possibly true, but all I am giving you is an impression and not anything more than my own personal feeling about it. That is about the substance of my --

H.M.Jr: Well, the thing that I have felt right straight along, that whenever you got through selling a - if it is Standard Oil of California and you are through, tell the market that you have no more Standard of California, you are out of the market, you are finished, but there is all this mystery. Now, I understand that they call up a broker and you give an order, it is whispered to them, about a thousand shares of this, then this great mystery has got to go to some bank to get the stock and he is sort of sent around hush-hush to some other place where he gets a check and the whole mystery. I can't understand it and I am surprised you can sell anything that way.

Gifford: May I --

H.M.Jr: I am surprised you sell anything.

Gifford: May I explain to the --

H.M.Jr: Please.

Gifford: First of all, on the question of the amount of securities that we have sold, the instructions which I received, along with Mr. Wigham last autumn, were that the requirements of dollars to be raised from the sale of American securities, dollar securities, was between 50 and 60 million sterling, to take the higher

figure, 240 million dollars to be raised within the first 12 months, the year to the 31 of August, 1940, and that figure was raised. So that so far as my own instructors are concerned, the figure that was mentioned to me and that had not been altered prior to that was accomplished.

I certainly am not aware -- it may be lack of memory -- that I have failed to carry out any understanding arrived at with you, sir, or with the SEC. The policy that I proceeded on was during the months until the day battle on the continent, we were selling securities at full rate, ahead of the rate required to meet the sum which I was told was desired to raise in that first war year from American securities.

What then happened was that with the day battle in the low countries, as you will remember, Mr. Forrestal, the market fell 20 - 25 points just like a plummet and as some evidence of the possibility of selling securities - I am not suggesting it is the full evidence at all - the turnover on the New York Stock Exchange fell to a series of very low turnovers per day. I think that during the latter part of the summer there was reached a day which was the record low turnover since 1915.

Forrestal: I don't think that is a complete index, though.

Gifford: Oh, no. You will admit that I said it is part of the evidence. You will admit that I said that. I am not suggesting it is the whole evidence at all.

I then communicated with the people behind me at home when the fallen market occurred, saying that rather than to try to depress - not to try to depress, try to sell with the grave risk of depressing the market when it was already in a very depressed state, I proposed to hold off. That I received approval of and that was the policy during the summer months of June, July and August. I don't remember the exact date, but I think it was

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somewhere in August that I cabled to London saying that I thought we must now regard the level of the market as being stabilized and not likely to show any particular recovery and that accordingly, though it would involve a deficit as compared with what we had paid our own private owners for the securities, that I thought sales might now be commenced on that footing.

The reply I got was not to proceed on that footing at the time. This was why in the depressed market no grave attempt was made to press securities. You may remember - Mr. Frank, I think you will agree with me - that we laid a great deal of stress in our discussions on the importance of not hitting the market and not getting the impression about that there was an unlimited amount of British securities, which would have had a very bad effect on the market, and that was certainly always a good deal in my mind, that one had to treat the market reasonably and sensibly.

As regards the question of distribution, of which we have now, since I came back to the beginning of October, done a certain amount, we have always had this in view, that of course from the point of view of British selling it is pretty expensive as a method.

- H.M.Jr: Pretty expensive?
- Gifford: Expensive method. The charges are very much heavier than on the Stock Exchange. It is a method that undoubtedly is popular among the firms --
- Forrestal: It isn't very much so, accurately. To be precise, just what are the gaps between the two?
- Gifford: Well, take your Stock Exchange Commission --
- Forrestal: It costs you three eighths on the Exchange, doesn't it?

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- Gifford: Not so much. I had occasion to go into it on account of an order which I thought was very adverse to us at, I think you will agree, about 11 cents per share.
- Forrestal: It varies with the price of the stock. Let's stick to a hundred dollars par, which gives you a base of 37.5 cents. Now, comparable to that, I say that on good stocks your cost would be about a dollar and thirty cents.
- Gifford: I agree with you absolutely.
- H.M.Jr: What is that?
- Forrestal: In other words, the difference to sell the commissions on the Exchange would be about 37.5 cents on a hundred dollar par stock, or a stock selling at that price. To market it through the national distributive channels would cost about one and three eighths, so it is about a dollar difference per share.
- H.M.Jr: If you did it through private selling?
- Forrestal: Is that right?
- Gifford: It runs between three and four times --
- Forrestal: But on a billion dollars, that amounts to about one million.
- Gifford: You have, of course, a list of our securities from which it is evident that we do not have a very large number of holdings in which our individual holding is very heavy. The number of cases where we hold a hundred thousand shares is very limited. What we hold is usually 30 or 35 thousand shares or less.
- H.M.Jr: We don't know what you have sold.
- Gifford: No, you haven't a detailed list of what we have sold. That, I think, has never been asked for.
- H.M.Jr: Well, up to the time - I have lost all interest in it because up to the time - Sir Frederick is here now and Mr. Clark and they make the statement to me, which I know they make in all sincerity, that they only think they can raise three million dollars a week. I think that

was the figure, wasn't it, Sir Frederick?

Phillips: Yes. It was three and a half million dollars a week. I was talking about the period after June.

H.M.Jr: Well, I just don't think Sir Frederick has all the information, because I am sure that that thing could be - if the other methods were used and the British Treasury or the Canadian Treasury wanted to raise three or four times that a week, barring some very bad news, that it could be done and done very easily. Now, I don't know how much --

Gifford: Please don't leave out of account, so far as what has been done, the position taken up, up to date, as regards the policy and the amount to be realized.

H.M.Jr: Well, I don't know what your orders are.

Gifford: Exactly. I was trying to explain that.

H.M.Jr: But when I am told that you can only raise three or four million dollars a week in this market, I know that Sir Frederick has not gotten the best information that he could get. Now, that is my opinion.

Gifford: I and my advisors must be to blame on that.

H.M.Jr: Well, somebody is to blame.

Forrestal: Mr. Gifford's point is that he has completed what his assignment was, Mr. Secretary, I think, and he has operated within the limits of his objectives.

Gifford: Until my return the beginning of October. Since then, I have been following in considerable degree the lines that you (H.M.Jr.) indicated. I may say at once that the response to any attempt to sell to the companies themselves --

Forrestal: Is out.

Gifford: It is most disappointing. We have two examples

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where we succeeded in doing that. They were not an important amount. There were one or two cases, one in particular that I have in mind, of stock where we were told from the very beginning that the company would be anxious to buy. Well, the only proposal we have had from them is at a discount of about \$8.00 from the price, which seems to me just sheer taking advantage of us.

Forrester: Sounds like it.

Gifford: We have during the last two months now been proceeding by using the distribution method. It is required by that method to keep the sales up to the figures that we have been getting. The possibility of sales on the New York market at the present time is not exactly --

H.M.Jr: How much are you supposed to raise?

Gifford: We are raising at the moment, about three and a half million dollars a week. I put it to people who I work closely with whether five million dollars one could rely on raising. The answer I got was that they would be sorry to say that couldn't be done.

H.M.Jr: My answer to you is, I think you ought to get some new advisors and I have said so right along, because I don't believe it. I don't believe it.

Gifford: Then this raises, Mr. Secretary, a completely different situation. If the position is that it is desired that we should push the securities just as hard as we can, then I certainly realize that that is a different situation from the way in which I had regarded it up to date. I don't pretend that I have regarded it on that footing up to date at all. These have not been my instructions from London, and I am sorry if I misunderstood things, but I didn't gather that that was what was desired.

Frank: There are two questions I might suggest that ought to be kept distinct. One is the policy,

or program. One is the program, what the objective is, and the other is the method of accomplishing it. Now, if you confuse the two, then confusion results. As I understand, Mr. Gifford's instructions have been other than what the Secretary had assumed was the objective.

H.M.Jr: I didn't know what his instructions were.

Phillips: May I tell you something about it, sir, because I think it is rather confusing. When Mr. Gifford says that he was selling at the rate of 260 the first year of war, that is quite right. That was the rate at which we wanted to sell securities to finance our war.

H.M.Jr: For --

Phillips: In the first year of war.

H.M.Jr: 400 million the second?

Phillips: We haven't got to a figure for the second.

H.M.Jr: I thought you said 260 --

Phillips: For the first, yes. If Mr. Frank or anyone had advised us in January that Hitler would be in Paris in June --

Frank: I didn't advise at all, sir.

Phillips: We would have sold much faster in the first six months of this year. So would every other holder of securities, of course, but since about July there has been no reason why the securities could not be sold as fast as the market can absorb them, other than the risk that we should be, as it seemed to us, breaking the market and incurring your censure.

H.M.Jr: Well, I don't know what your objective is, for this year. I don't know how much money you want to raise. But I do know from people that I have confidence in, that when all of this mystery, all of this whispering on this thing - instead of having it quite out in the open, I just don't believe that that is the way to handle a large transaction, and I think

if you took the investors into your confidence and lifted all of this mystery - I mean, this having to go one place to get the stock and another to get your check and another to get your order and all of this thing --

Gifford: I think you must have been misinformed.

H.M.Jr: I don't think so.

Gifford: I am quite willing to tell you exactly what the procedure is. The procedure is that a broker is told to sell - given authority to sell so many shares. He then has to appear - I am sure Mr. Forrestal will bear me out on this - where he will have to lift the securities.

Forrestal: Pick them up.

Gifford: Pick them up, and payment has to be made against delivery and that is the whole story. There isn't any other story, but the securities, there being a considerable volume of them, are not all lying in one bank and it may therefore well be - in fact, it is so that when he sells today one security he has to go to the Chase. Tomorrow when he sells another security, he has to go to the Guaranty. If he works up an idea that there is mystery in that, I think Mr. Forrestal will bear me out that that is perfectly normal.

Forrestal: I don't think there is anything abnormal in that procedure. I think that the atmosphere of mystery still exists and maybe in normal markets that might be a good thing. It isn't now.

Gifford: When you speak of the atmosphere of mystery, what have I done to create that atmosphere?

Forrestal: Well, if I were in your place and I had a million shares of New Jersey stock to sell, I would say, "We have got a million shares to sell."

Gifford: Yes, but Mr. Forrestal, I think you will agree with me in this. I have calls, of course, from just dozens of people, some just trials only.

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Forrestal: I know, a lot of them.

Gifford: They would like to know how many shares I have of a given security. You wouldn't suggest for a moment that I should tell every Tom, Dick and Harry --

Forrestal: No, but at the moment you decided to sell Jersey stock I wouldn't sell them in blocks of a hundred thousand apiece. I would negotiate with any responsible fellow.

Gifford: But I suppose the attitude of mystery has arisen just because Tom, Dick and Harry come in and I don't tell every looker-in, and he then says it is all very mysterious.

Forrestal: I think you can dispel all of that if you decide in your own mind what you want to sell and talk with three or four responsible people and tell them this is a block and this is what will be sold.

Gifford: That is what I have been doing for the last six weeks or two months. You must remember, I think, in fairness to me, that as far as the instructions given me - maybe I am wrong or I may have misinterpreted what I was expected to do here, but I do claim that I have carried out the instructions that were given me and I have no reason to believe that the instructions that were given were ones that you would disapprove of.

H.M.Jr: I don't know what they are, so I am in the dark, but I am sure that the amount of idle money in this country is great enough that you can sell, of the good securities - I mean the companies that are making money and paying dividends - that you can sell unlimited amounts of these securities just as rapidly as the British Treasury needs the money.

Frank: As I understand, Mr. Gifford, I think in fairness to Mr. Gifford it should be said that at least as far as I know, certainly in no discussions we have had was there any

suggestion as to the amount you could sell. That was a matter between you and your government. Now the question is, is the present moment - assuming that the policy is to sell as rapidly as possible, without unnecessarily depressing the price, whether that can be done more expeditiously than apparently it has been and Mr. Forrestal, who is eminently able to answer that question --

Forrestal: You can't tell. The markets change from day to day.

Frank: But your method of technique is, apparently the one you have been pursuing --

Gifford: With this explanation, in order to be completely frank, I have only been pursuing it for the last six weeks.

Forrestal: That may be the answer, because you can certainly sell more than three and a half million dollars a week.

Gifford: I think Mr. Forrestal will sympathize with me when I say I have begun feeling my way a little, gently. It hasn't been altogether encouraging at times, and I have been disappointed in the difficulty of getting people to be interested in some of the stocks. I think that the feeling of the idle money in America creates an impression of greater ease in selling than actually exists. I have found it disappointing. I think you will allow me, without presumption, to say so, sir. I would have shared your view but practice hasn't - isn't encouraging me just as much as I thought it might be.

H.M.Jr: Well, as I say, all I - I have got a job to do with these two gentlemen, one representing the British and one representing the Canadian Treasury, and when they tell me - and they have no way to know except what you tell them - that only three million or only three and a half million dollars worth of American securities can be sold in this market over an average - I don't mean every week, but let's say

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over an average of 10 weeks, I say, as Secretary of the Treasury, I don't believe it.

Gifford: Well, now, just one small point on that.

H.M.Jr: I don't believe it.

Gifford: I imagine you would still say you don't believe it if I had raised the figure to what would be, in my view, a dangerous figure, if I had raised it to five million. That wouldn't have altered your view?

H.M.Jr: I am not saying every week, but I am saying over 10 weeks.

Gifford: Oh, clearly.

H.M.Jr: I went to say this and as I say, in front of Sir Frederick, I am not telling Sir Frederick how much he should or shouldn't sell, but in our negotiations where he and I are working so closely together and the question of how much he can or cannot raise is an important question and I am not attempting to tell him how much, but it is important for his sake and mine to know if he wants to raise another hundred or two hundred or three hundred million, can he do it. That is all.

Phillips: Perfectly correct.

H.M.Jr: Is that correct?

Phillips: Yes.

H.M.Jr: And I am not putting any pressure on him to sell one dollar, but I am not going to - I mean, after what I went through two days ago, where to my amazement insurance companies were amongst our best customers on our three quarters, wholly taxable notes - insurance companies came in for big blocks. Now, when an insurance company will buy a five year wholly taxable note paying three quarters of one percent - I think that the last I heard - I don't know how many times the thing was oversubscribed. Over a period of ten weeks, I think the British Canadian

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people can sell any reasonable amount if the tactics are changed and if you get different advisors. I have had a partner down here recently from one of your advisors.

Gifford: Yes, I know you have.

H.M.Jr: And he is quite frank. I don't think they want the securities sold.

Gifford: Now --

H.M.Jr: I don't think they want them sold. If a fellow sits back and doesn't want them to be sold, you can think of all kinds of excuses why they don't want it, but all I want is Sir Frederick and Mr. Clark to have a chance to know that if they want to sell so many securities, is the market there, and I believe it is there, but I think you have got to have a different frame of mind. Now, it is a matter of opinion and I know that I have, to use the vernacular, stuck my neck out, because they are going to come back and say, "All right, how?"

Gifford: May I say one thing, sir? You certainly, from my point of view, have clarified the situation very much because - I am speaking without orders from my office, but I am pretty certain that my thoughts are right - you have made it clear that, A, you feel that a much higher rate of realization is possible, and I presume Sir Frederick will agree.

Phillips: Desirable.

Gifford: That it is desirable. Now, one cannot ever quite get away from the background in which one expresses a view. The background, of course, behind my view, at that time three and a half million dollars, necessarily was on something of the lines along which I proceeded, and with something of the background of a limited realization. If I am told that we must get the securities out quickly, then the position may change, but that, please note, I have not been told up to date by anyone. You are the first person who has

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given me that clear indication. With that clear indication in my mind, if I am still allowed to handle the situation --

H.M.Jr: No, sir, I haven't said that.

Gifford: No, no, I know you haven't said that.

H.M.Jr: No, I haven't said that. I am simply saying that if the British or the Canadian Treasury will make up their mind independently that they want to sell more than three and three and a half billion dollars worth of securities --

Gifford: It can be done.

H.M.Jr: I say it can be done.

Gifford: I realize that.

H.M.Jr: That is their decision.

Gifford: But I expect to get their decision now.

H.M.Jr: Don't you think it can be done?

Gifford: One hates, you know, sir, to say that you can raise cash. My whole training is against saying I can raise a certain amount of cash by a certain date unless I am for all practical purposes absolutely certain that I can fulfill what I have said I would do.

Forrestal: I share that view.

H.M.Jr: I want to listen.

Gifford: And to make an estimate of what the market will take over two months is a thing on which one is bound to err in the course of that time.

Forrestal: I would limit it to two weeks.

H.M.Jr: Well, I was talking in terms of over 10 weeks, and I want to say one other thing. I want to get it all off my chest. We are talking in terms here of billions and I am

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giving over half of my every working day toward the British mission. It goes awfully against my grain to talk about 37 cents. I mean, it is a language I don't understand.

- Gifford: I am in entire sympathy. I think I understand perfectly.
- H.M.Jr: I don't.
- Phillips: Now that these gentlemen are here, I would like to ask one question. Is December normally a good month for selling stocks on the New York market? Is there any reason to suppose January is a better month, usually than December?
- Forrestal: I don't think there is ever a good or a bad month.
- Phillips: I do hear that December is a bad month.
- Forrestal: Well, after all, that is stock sheet gossip.
- Gifford: I think Mr. Forrestal and I will agree quite easily on that. There is a lot of stock talk about that.
- Forrestal: They think up the reasons after the event.
- H.M.Jr: Do you want to say anything, Purcell?
- Purcell: No, sir, Mr. Secretary.
- H.M.Jr: Do you get a feeling of what they are doing now?
- Purcell: Only occasionally through conversations with people in New York who mention some indications that they have gotten. Frankly, I haven't gotten any impression that there was much feeling in New York of the British Government sales. I mean they haven't made much impression in the city.
- Gifford: They haven't pushed prices.
- Frank: No, there is no such impression.

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- H.M.Jr: One of the things I feel most strongly, and I think that you (Frank) agreed with me originally, I don't know whether Forrestal does, that whenever they are finished selling a security --
- Forrestal: Say so.
- Frank: Yes.
- H.M.Jr: You remember we went over that originally.
- Gifford: May I make an explanation on that? When we vested these securities, unfortunately all the owners had not registered their securities with the Bank of England. I was informed of that during an early stage of the summer, that there would be more securities coming along and a vesting order was made three weeks ago to catch up these original securities. I was thus in the position that if when I had sold the securities, sold the total of any one security that I had charge of, I said, "I have sold the lot," I knew that it would not in all probability be true because there would be more coming along within a limited but uncertain time and therefore up to now I have not been able to say --
- Frank: Have you now got complete vesting?
- Gifford: They have now been vested, but they haven't all arrived yet.
- Frank: But you do know the total quantities now?
- Gifford: No, that is the trouble. You see, you don't know the quantities until the people actually deliver them.
- Forrestal: If you just said that was what you had available at the moment, that you had completed all of the --
- Gifford: What would have happened, Mr. Forrestal, if I had done that and then appeared 6 weeks or a couple of months later with more of the same securities?

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- Forrestal: I would tell them the facts.
- Gifford: But it would look a little odd, wouldn't it?
- Forrestal: I don't think so.
- Gifford: That is a matter of a difference of opinion. I wanted my statement to be accurate.
- Forrestal: I don't think you should come back three or four or five times.
- Gifford: I thought it was undesirable to say I had sold all Consolidated Edison of New York, but that would have been wrong.
- Forrestal: Well, it is preferable, but if a security is stable which never has any great fluctuation, I don't think --
- H.M.Jr: Aren't there some securities you have gone through with?
- Gifford: Not now, because I am waiting for these other ones to come in and the trouble is practically everyone on my list are coming in.
- Phillips: When are you going to get them in?
- Gifford: They ought to be in in another three or four weeks.
- H.M.Jr: You could make a statement, for instance, "We have sold a hundred thousand shares of 'XYZ.' That is all I have on hand. The next month we may receive up to another 25,000 shares, but I have sold what I have on hand," to protect yourself.
- Gifford: The point that has been in my mind, sir, is that if I say that with regard to so many securities, the market then knows better than ever that I still have other securities to sell and that has not seemed to me a favorable position for the seller to put himself into.
- H.M.Jr: Well, I have said my say. I said it - I don't know whether it was 6 months ago or a year ago. I made no impression.

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Gifford: I think you are not quite fair to me there, sir.

H.M.Jr: No, no --

Gifford: I really don't think you are fair to me.

H.M.Jr: I am sorry, but the fact remains I went all through this once before --

Frank: Mr. Secretary, at the time I don't believe Mr. Gifford was here.

H.M.Jr: Oh yes he was.

Frank: I was present at a conference and as I remember the suggestion was that he go and do some dealing.

H.M.Jr: No, we have had several talks and I have been over this before, but I don't want to get personal and I am simply - it is hard enough for me to keep up my enthusiasm for this cause and I have to supply my own yeast to keep myself going, but both the British and The Canadian Treasury know how I feel, and it is up to them to do what they want.

Gifford: I agree with you.

H.M.Jr: It is up to them to do what they want. Well, I hope I haven't said anything that --

Gifford: You have been very helpful to me, sir.

H.M.Jr: I introduced it and then --

Gifford: You have certainly been, perhaps more than you can realize, very helpful to me this morning.

H.M.Jr: As I say, I don't know what your instructions are, I don't know what they are now, but in order to clear the atmosphere between the three Treasuries, it was necessary to have this talk and if in that you unfortunately come between the nutcracker, I am sorry.

Phillips: We haven't had, sir, really an estimate from either Mr. Forrestal or Mr. Frank of the rate they think we can sell.

Forrestal: I share Mr. Gifford's reticence about giving estimates. All I am saying is that I think it could be accelerated.

Phillips: Mr. Frank, you wouldn't like to give us an estimate?

Frank: No, I wouldn't

Forrestal: I know two or three transactions in one week where there were blocks of a hundred thousand shares of stock that were dealt in on a margin of about a dollar.

Gifford: We haven't got blocks because they are much smaller and it takes more time.

Forrestal: But you can do two or three in quite rapid succession and there is no particular effect. In fact, the more they sell you will find actually that the more activity there is. That it is general rates interest because the man with one block goes and he gets interested and the salesman wants to get business so he is busy, bustling about.

H.M.Jr: All right, gentlemen, thank you.

December 13, 1940
1:02 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Hello. How are you?

H.M.Jr: I'm alive.

J: Good. Well, I see you're still at the bat.

H.M.Jr: What?

J: I see you're still at the bat.

H.M.Jr: Yeah and I see we're still together.

J: That's right.

H.M.Jr: What?

J: That's all right.

H.M.Jr: We're both going to ask Congress before we give them a handout.

J: That's right, when we've got to, whether we like it or not, haven't we.

H.M.Jr: Oh, sure.

J: Why, sure. Well, I think it's all right. It's all to the good I believe.

H.M.Jr: I almost fell over when I saw Bennett Clark came to my rescue.

J: Did he?

H.M.Jr: I called him up and I said, Bennett, politics makes strange bed-fellows, and he laughed - he loved it.

J: Good.

H.M.Jr: And they called me state socialist because I came out for wholly non-tax exempt bonds.

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J: Uh-huh.

H.M.Jr: The Republicans did. That's a good issue.

J: Well, any news of any kind?

H.M.Jr: Pardon?

J: Any news of any kind?

H.M.Jr: No. I haven't heard from the President and I just sent off a message a little while ago asking whether he wouldn't please answer me and so I've had nothing on that and so really, as far as that goes, I'm just marking time.

J: How'd the British react to your suggestion?

H.M.Jr: Which one?

J: Well, about that.

H.M.Jr: You mean

J: About that thing you sent the wire about.

H.M.Jr: Oh, - I haven't heard from them either.

J: But you told them what you

H.M.Jr: They knew I had sent a message and they've sent a message to their Government whether they were willing to put up the cash, and they've had no answer.

J: I see.

H.M.Jr: So everything is just where we left it. What's new with you?

J: Well, not a thing - just a lot of little

H.M.Jr: They're trying to nick me from Peru. I told them to come around and see me Monday.

J: Who's that - somebody - oh yeah.

H.M.Jr: Well, Harry White spoke to me about it.

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J: That's right.

H.M.Jr: And I said that - oh, I didn't feel much like doing anything - (laughs).

J: I was planning to go home for Christmas a little bit early and I was just talking to the boys yesterday - I want to get all the Export Bank matters out of the way.

H.M.Jr: Well, when are you going, Jesse?

J: I'm going next Thursday.

H.M.Jr: Well, got to see you before then.

J: So we'll have plenty of time before that.

H.M.Jr: What?

J: Yeah.

H.M.Jr: Let me just see a second. Wait until I look at my calendar for next week. Wait a minute. How would you like some of my fish on Tuesday?

J: I'd like it.

H.M.Jr: Huh?

J: I'd like it.

H.M.Jr: Swell. Jesse Jones on Tuesday for lunch. O. K.?

J: Fine. And I'll try to think of anything that there is to talk about, if anything.

H.M.Jr: Right.

J: O. K.

December 13, 1940
2:11 p.m.

H.M.Jr: Hello, Jerome.

Jerome
Frank: Hello, Henry.

H.M.Jr: Hello, Jerome, how's my softener up?

F: Oh, you did a grand job. I want to tell you an amazing story.

H.M.Jr: Yeah.

F: Gifford came to see me and told me he was delighted with what you had done - you guess right.

H.M.Jr: No!

F: Yeah.

H.M.Jr: Well, I'll be damned.

F: But he told me this amazing story: he said as to our selection of Morgan, he said, Mr. Frank, you remember shortly after I came down here - came into this position, I was at dinner, you were there, at the Embassy and I sat next to - let's see, on the one side there was the fellow you have as Attaché to the Embassy in London - your man.

H.M.Jr: Butterworth.

F: Butterworth and on the other hand was Under Secretary Hanes and the subject came up of who our advisers were going to be and Butterworth said he thought that was splendid and Hanes said he thought that was most excellent and he said, after all, he said, I thought the Secretary might not want to talk to me directly but this is a way of letting me know.

H.M.Jr: I see.

F: He said, therefore, it was something of a shock to us to learn that that wasn't altogether desirable.

H.M.Jr: Well, I'll be darned.

F: Well, now, I can believe it.

H.M.Jr: Oh, yeah.

F: Because that's just what Johnny would say.

H.M.Jr: Sure.

F: I went on to tell him - I said, now talking man to man - I explained Johnny to him.

H.M.Jr: (Laughs).

F: I said, now he's naive as he can be and he never understood that when he was in the President's Cabinet that he was the President's servant.

H.M.Jr: That's right.

F: And he believed that he was autonomous, that he was independent. Well, he said, Mr. Frank, in our British Government what any member of the official family says we take to express official views and I said, quite justifiably.

H.M.Jr: Well your story, Jerome, is very interesting.

F: You don't believe it?

H.M.Jr: I believe that part of it, yes, but I certainly let him know in no uncertain terms that I didn't want him to have Morgan.

F: How long afterwards was that?

H.M.Jr: Well, I don't know when this happened.

F: Well, this was about, I would say, about two weeks after he first got over here.

H.M.Jr: Well, I would say right around that time because when I heard that he did go with Morgan and had his office there I told him that some day Congress would have an investigation of this whole thing and that it would be very harmful to him.

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F: You said that to Gifford.

H.M.Jr: Yeah.

F: Well, I poured it on pretty heavy. I said, now look, people haven't forgotten the last war, you'll have all those stories dragged up again, and I said, as to your keeping your securities, I said, that story will be dragged up after a while, then he said this: oh, I almost forgot to tell you this which is most important.

H.M.Jr: Go ahead.

F: He said, I would like - and I don't know if you'll get this done - but he said, what I'd like to do would be to get permission to go to the Secretary and say we don't - that we're going to sell our securities is certain, it's really a question of how and when and if the American Government would like it, we will hand over our securities now to them and tell them, you sell them if, as and when you please.

H.M.Jr: Yeah.

F: Well, I said, if I were you I'd do it not that it'll be accepted perhaps but I would do it. And I'm rather inclined to think he's going to be able to tell you that.

H.M.Jr: Be very interesting.

F: I think this fellow is all right. I think he was delighted. He told me - well, he gladly told me that what he's been trying to get done what you crammed down their throat.

H.M.Jr: Well, I don't know how sorry he felt about me because I put it on pretty hard.

F: Oh, yes, and he said you helped them tremendously. He was very grateful.

H.M.Jr: It's amazing.

F: Isn't it?

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H.M.Jr: Because I can just see both Johnny and Butterworth say, oh, sure.

F: Well, I don't know about Butterworth but Johnny of course would. If they'd asked Johnny whom to go to he would have told them that.

H.M.Jr: That's right. Well, I suppose the answer is we live and learn.

F: Don't we.

H.M.Jr: Yeah.

F: (Laughs). All right then.

H.M.Jr: Thank you.

December 13, 1940
2:30 p.m.

H.M.Jr: Hello.

Operator: Mr. Quinn.

H.M.Jr: Hello.

Harold
Quinn: Hello, Mr. Morgenthau.

H.M.Jr: I'm sorry you missed out yesterday.

Q: I was awfully sorry too. I felt very badly about it but there wasn't anything I could do. I was up - aloft over Baltimore all that time.

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

Q: Something - I don't know what happened. They said nothing when we started out here and then we didn't land in Baltimore until 2½ hours after we left here.

H.M.Jr: Good heavens.

Q: So we circled around for almost an hour and a half.

H.M.Jr: I see.

Q: I felt absolutely helpless.

H.M.Jr: Was there something special you had in mind?

Q: Mr. Morgenthau, what I wanted to say was this: I wanted to make this - advance this idea and see whether you thought there was any helpful thing in it from your point of view.

H.M.Jr: Please.

- 2 -

- Q: In connection with the problem of the British we wondered whether there wasn't some place there where the investment companies might be of some assistance.
- H.M.Jr: I see.
- Q: Because I just wanted to point this out that were certain assets of theirs which were in the form of companies here and which were difficult to realize on.
- H.M.Jr: That's right.
- Q: But the investment companies it seems to me might be of some assistance there.
- H.M.Jr: Well, it is a very interesting idea.
- Q: And I wondered if it was interesting enough so that if you wanted me to I could come down some day next week and just tell you how my mind has been running.
- H.M.Jr: Very definitely.
- Q: Would you be in town on Thursday next, Mr. Morgenthau?
- H.M.Jr: Oh, it's awfully hard to know from one day to the next.
- Q: I know.
- H.M.Jr: If you're thinking of coming Thursday, if you could send me a telegram Tuesday, I could answer you.
- Q: Or should I call you - should I call Mrs. Klotz the first of the week.
- H.M.Jr: Well, if you just send a telegram, that's the easiest thing. Send a telegram and we can answer it. We'll answer it right away.
- Q: All right, we'll fix it. I could suit your book really almost any day.

- 3 -

H.M.Jr: Well, I just don't know but if you were coming Thursday - but this thing is so hot. If you've got some idea, I wouldn't put it off that far.

Q: Well then could I come on Monday?

H.M.Jr: Yes. No, I'm going on the Hill Monday morning.

Q: Tuesday?

H.M.Jr: Just a second here. I could see you Tuesday at 10:30.

Q: That would be fine.

H.M.Jr: Yeah, yeah. I'll be glad to see you.

Q: Well, I just have this thought. We'd like to be helpful if we could and it seemed that there was a place where we might be.

H.M.Jr: That's perfectly possible. Hello.

Q: Yeah.

H.M.Jr: So I'll see you Tuesday.

Q: Tuesday at 10:30.

H.M.Jr: Right.

Q: Right you are. Thank you.

December 13, 1940
5:04 p.m.

H.M.Jr: Hello.

Jerome
Frank: Hello.

H.M.Jr: Congratulations on enjoining

F: Oh, yeah.

H.M.Jr: Very timely.

F: It's very timely.

H.M.Jr: (Laughs). Oh, that's terrible. Is that
supposed to be a pun?

F: What?

H.M.Jr: Is that a pun?

F: Yeah. (Laughs).

H.M.Jr: O. K. Well, you're beginning to get the
breaks.

F: Yeah. Well, we'll
Thanks for calling.

H.M.Jr: Thank you.

December 13, 1940

Dear Heath:

Upon my return to Washington from a brief trip to the West Indies, I was happy to have your interesting personal letter of October 11. Such observations as you have made are always of interest to us here.

Cochran has told me that you were getting away to Switzerland for a few days before Christmas and I hope this may have provided you with an opportunity for rest and recreation.

With very best wishes, I am,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Donald H. Heath, Esquire,
Secretary of Embassy,
Berlin, Germany.

Via State Dept. Pouch
By Messenger 100 on 12/16
to Mr. Clarke, State Dept.


HMC:dm:12.13.40

December 13, 1940

Dear Heath:

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(Signed) H. Hoogenhau, Jr.

Donald R. Heath, Esquire,
Secretary of Embassy,
Berlin, Germany.

Via State Dept. Pouch
By Messenger
to Mr. Clarke, State Dept.


HMG:dm:12.13.40

T
N
Berlin, October 11, 1940.

Dear Mr. Secretary:

A good many shattering events have occurred since you so kindly gave me an opportunity to come to Washington last January. At that time the barometer of public morale in Germany was not very high. After the battle of France it rose to the top of the tube, but it has again perceptibly fallen in these last few weeks.

I still keep up my contacts with people like Puhl, who is active administrative head of the Reichsbank, Bergemann and Wiehl, who are respectively, directors of commercial policy of the Economics Ministry and the Foreign Office, and others as well. Naturally they are pretty taciturn these days as regards giving information, but I glean certain impressions and certain information which I incorporate in my telegrams.

Following the battle of France the press and officials in public addresses here announced that King Gold was to be entirely toppled from his throne. In various telegrams I have indicated that these statements were largely for propaganda purposes. As a matter of fact the upper officials of the Reichsbank, the Economics Ministry and Göring's staff, particularly the latter, are conservative in their monetary views and are

hoping

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington.

hoping and, as far as they can under war conditions, planning for a freer monetary system and a partial return to gold. The catch is of course that these officials are practically powerless under present conditions to make their viewpoint felt. They are career officials, however, who came into office before the Nazis seized power and when a change to a normal regime occurs they will undoubtedly still be in office and their point of view might then be felt. While the upper rank of German career economic officials are essentially conservative, the junior officials are to a large extent rather radical proponents of state socialism and intervention.

I have sent this letter of random observations to Cochran, and with instructions not to send it in to you if you are too busy, as I am sure you must be. The tasks you were bearing last January were too much for any one man's shoulders, and since then you have added another mountain of responsibilities. I hope, personally and for the sake of the country, in this critical period, that you are managing to bear the load without impairment of health.

Faithfully yours,

Donald R. Heath

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran of the Treasury at 10:30 a.m., December 13, 1940.)

Telegram from H.M. Treasury dated 1st December 1940.

Polish National Bank representative in West Africa has reported that one plane leaving Dakar Kayes going north with approximately one ton of gold. His informant pretended only Belgian gold being removed.

(1) G. H. S. P.

BRITISH EMBASSY,
6th December 1940.

Copy: jpt



TREASURY DEPARTMENT

WASHINGTON

December 13, 1940.

MEMORANDUM FOR THE SECRETARY.

Regarding Notes on the Food Situation in Spain.

I am sending you a memorandum, giving the gist as I see it of the eight page memorandum by Dr. J. H. Janney of the Rockefeller Foundation which was sent by Dr. Sawyer, and which Mr. Pehle has forwarded to you.

If you did not have time to read the whole memorandum, I thought this would help.

J.P. Chamberlain



TREASURY DEPARTMENT

WASHINGTON

December 13, 1940

MEMORANDUM FOR THE SECRETARY

These notes show a very great unevenness in the food situation in different parts of Spain. In the South and East, the situation is very bad. Bread, the staple of Spanish diet, together with olive oil, is very short. Oil is unobtainable. "The house without bread is a house of starvation." The 1940 wheat crop was far short of normal and a normal year has never been enough for Spain's needs. The 1940 oil crop, I am told on best authority, is being exported for foreign credit; local needs will be partially supplied by substitutes.'

Meat and potatoes are scarce. Milk is very short. Well-to-do people can buy meat, eggs and olive oil, and sometimes even butter, from speculators at very high prices. In schools in Seville, visited by Dr. Janney, he says:

***** never have I seen such examples of undernourishment. Above the first grade there was scarcely a well nourished child to be seen, 90% were thin and all seemed completely pepless. I was immediately struck by the high proportion of children who showed marked anemia. In one or two rooms we found 60% by actual count. Had we done hemoglobins the rate would have been much higher. There was no evidence of other deficiency disease such as scurvy or pellagra and we were inclined to feel that it is a deficiency in quantity rather than quality. *****

Only a very small proportion of the children who need feeding in schools could get milk and meals, and that insufficient.

In Barcelona, he says that well-to-do people find it difficult to buy their quota of bread and potatoes. Eggs, butter and olive oil can be found only in small quantities at four or five times their normal price. He adds, "One wonders what the poor are living on."

In the North and Northwest, he reports that there is a much better supply of food and even in some cities meat and milk can be had. Bread is plentiful.

- 2 -

The great need is wheat. If the Red Cross sends wheat and flour, "there should be sufficient American personnel for proper control and for making surveys as to needs and the extent to which these needs are being met."

J. P. Chamberlain

see pages 3 & 7

NATIONAL DEFENSE ADVISORY COMMISSION

Not to be released before
9 p.m., December 13, 1940

FR 304

377

Address by Donald M. Nelson,
Coordinator of Purchases of the National Defense
Advisory Commission delivered before the Bankers
Club of Chicago, Blackstone Hotel, Chicago, Ill. at
9 p.m., Friday night, December 13, 1940.

Several weeks ago, when I first accepted an invitation to address this group, I had in mind the desirability of discussing with you certain financial aspects of the national defense program; some of probable and possible effects it will have on the national economy; and the opportunities I believe we have of avoiding a general inflationary movement.

This seemed to be an important subject. Moreover, I thought it would be of particular interest to this group as a whole and to its individual members because you are bankers and these are problems of special concern to you.

But a few days ago I changed my mind and decided to talk to you not as bankers with particular interest in financial and monetary matters but as citizens of the United States of America who, as such, share joint interests with every other citizen of this country.

The reason I mention this is because I want to explain to you why I changed my mind. There was a very important reason for doing it. And it has much to do with what I am going to talk about.

It was because from where I sit in Washington it suddenly became apparent that we need to refresh our memories --- and very short memories they are; we need to go back for a moment and examine some very fundamental aspects of this national defense program --- such as its reason for existence, its justification, and the degree of urgency involved in its fulfillment.

Having re-examined these fundamentals we need to take a fresh look around us and then do a lot of hard thinking and straight talking — right from the shoulder. When I say "we" need to do these things I mean all of us — the whole country — as citizens and not as bankers or manufacturers or farmers or lathe operators or as any other group or faction or interest. In other words we must make this re-examination together — as Americans — conscious of the inseparability of our highest national aim and our highest ideals. We can do this here today in the spirit of comradeship and unity of purpose that always ought to prevail among people of common citizenship in times of grave emergency. And I hope fervently that other groups — many of them — will do the same thing in the days and weeks that follow.

Suppose we begin by going all the way back to the starting point and ask ourselves why we have undertaken a program of national defense of such magnitude that it will strain our every resource — human and material. The answer is obvious but perhaps it is well to state it all over again. Let me read you a list of names: Ethiopia, Spain, China, Czechoslovakia, Albania, Poland, Finland, Denmark, Norway, Latvia, Estonia, Lithuania, Luxemburg, Belgium, Holland, France, Egypt, Rumania and Greece. There are twenty countries on the list. Nine of them have been overrun, conquered and reduced to a slave status, existing at all only at the indulgence of their conquerors. Four have been absorbed completely without fighting. Two have been forced to give up territory and are leading a truncated, precarious existence, never knowing from day to day whether they will be forced to give up more. One was torn asunder by a bloody civil war that left it prostrate and semistarved. Three are still fighting, two of them with their own forces and the third with the help of the British Empire. A little over five years ago each of this list of twenty was an

independent political unit, seeking to work out its own national destiny. Some of these countries were not well advanced by our standards. Some of them were not too devoted to our own form of government. But others were among the most progressive, most democratic, most enlightened and best-governed countries the world has yet seen.

All this has happened within a little over five years. Today the mightiest empire in history, made up of people from whom we have largely drawn our cultural, political and religious ideals, is fighting with its back to the wall --- bloody, wounded, tired --- still standing and trading blow for blow with a merciless enemy who is better equipped and who is fired with a fanatical zeal based upon the religion of destruction by murderous force. For fifteen months the British Empire has been fighting and we know that it will never throw in the sponge. But we can see from here that she is groggy, that her endurance and courage may not be enough to pull her through, that we must face the possibility that she may go down.

You can trace the origin of the fate that has befallen this long list of countries and now threatens the British Empire back to the advent of Nazism in 1933, or back to the peace treaty that followed the last great war, or still further back if you choose to. You can call it a world war or a world revolution or a battle of ideologies or anything you like. But the simple fact remains that the most annihilating wave of destruction the world has ever seen has been gathering force and momentum for at least five years. And the peak of its fury has not yet been reached --- the scope of its danger not yet fully understood by all people.

Small wonder, then, that six months ago the United States decided to build the greatest all-round defense force in the history of the world.

Some have complained that this decision should have been reached much sooner. But let me remind you that until the Nazi tidal wave rolled over the Low Countries last spring the public was not ready to support any such effort. We needed a shock of that intensity to rouse ourselves from an attitude that was dangerously close to apathy.

Finally we were thoroughly aroused and being aroused we demanded action. That was typically American. We have a way in this country of waiting until the last minute and then expecting miracles. However, the important thing is that the War and Navy Departments laid down a program of gigantic proportions, congress voted the funds with the almost unanimous support of the nation, and the President established the National Defense Advisory Commission to assist the Army and Navy.

Nobody with two eyes in his head expected this thing could be accomplished overnight.

Those of us who were called down to Washington to help out on the Advisory Commission soon realized that it would be a long, hard pull, that there would be headaches and delays, mistakes and a certain amount of confusion. That was inevitable. William S. Knudsen, chief of the Production Division, immediately warned the nation that it must not expect magic. Because of his training and genius he well knew the tremendous production problems that would bedevil the program. He told us over and again that before we could get mass production we would have to design and build the tools and the "tooling up" phase, as he called it, would be long and tedious. There would be many months in which it would be difficult to see progress, mainly because the progress would be unspectacular, unsusceptible to headlines --- taking place in the machine shops and on the drawing boards, in the labor training schools, the

- 5 -

preparation of production schedules, the gathering of raw materials, the expansion of plant.

What has happened during the intervening six months? Has the world crisis abated? Has anything happened to remove any of the justification for this program? Has anything occurred that tends to lessen the urgency of its prompt completion? Obviously the answer to these questions is "no". The threat to our safety and free institutions is graver than ever. The demand that we act with the utmost conceivable speed is more urgently pressing than six months ago. The fact that this is an emergency — an emergency in which everything we have and believe in and live for is at stake — is more clear today than ever before. We have passed the stage where there is any room for debate on that point.

As for the defense program, it has, in the past six months, moved from the initial phase of letting contracts to the "tooling up" stage. Next comes the real production period — the delivery of defense equipment into the hands of the armed forces. That is, by and large, still many months away.

But the defense program also has reached the stage where important decisions must be made — decisions bearing on the extent to which the prompt achievement of this program shall become our dominant national goal, which means the extent to which we are really serious about national defense, the extent to which we, as a nation, understand the urgency of completing the program at the earliest possible moment, the extent to which we are determined to make our country and our way of life safe from aggression and ultimate extinction, the extent to which we are willing to sacrifice the luxury of normal procedure and accustomed practices so that we may remain free to regain normalcy once more.

When the Defense Commission went to work early in June, it decided upon a policy of attempting to superimpose the armament program on top of the normal economy of the nation, to make full use of all existing facilities, to avoid the inevitably harmful effects of indiscriminate plant expansion. Most thoughtful men concurred in that policy and we still intend to follow it to the greatest possible extent consistent with our one all-powerful objective, which is to arm this nation to the teeth and do it as fast as is humanly and mechanically possible.

But perhaps it was a mistake ever to talk of "normal" procedures and the "normal" economy. Because this is not a normal program in any sense. It was forced upon us by abnormal conditions throughout the world. Its fulfillment demands of us abnormal attention, abnormal effort and sacrifice, perhaps abnormal methods and techniques.

I want to state quite plainly that if this program could have been taken in our stride, with no disturbance to normalcy, then it was too small, because conditions demand maximum results and they can be obtained only by extraordinary effort.

As I said a few moments ago we have passed through the greatest part of the work of letting contracts. My personal belief is that that phase was handled well and expeditiously. I see no reason for complaint on the basis of what has been done so far.

But this new phase — this "tooling up" phase — is susceptible to speed-up methods. There is no time here for going into exact techniques. The important thing is that "tooling up" and production can be accelerated by extraordinary effort and methods.

I am convinced that this must be done. It is impossible to know how much time we shall be permitted. We cannot know the exact dimensions of

next year's burden, except that it will be heavier than it is now. We cannot know to what exact extent Britain will be forced to rely upon us to supply her with the weapons she so desperately needs and can use so well, except that she inevitably must lean more and more upon our shops and production lines.

We do know the burden is already staggering and that it is going to increase every week that goes by. We know also by now that it is the will of the country and the determination of the government that Britain must not go down because we could not supply her with what she needs. Some of you out here in the Mid-West had your doubts about that point for awhile but I believe they are melting away rapidly as the reality of the world situation and its relation to this country becomes more and more clear in its broadest ramifications.

So the realities of today cry out for speed, speed, and more speed on national defense.

This means more work, more disturbance to "normal" processes, more sacrifice on the part of everybody.

The country is too big, the stakes are too high, to permit the development of bottlenecks in national unity, in national determination, in national effort to weld the entire strength of a free country into a cohesive force with a single dominant goal — national defense.

I think it was the late Will Rogers who said something to the effect that when enemy bombers roar in over our borders they will catch the American people dressed in knickerbockers trying to sink a forty-foot putt on the eighteenth green. Now Will Rogers was a keen student of the American people and an able philosopher, but some of the totalitarian leaders seem to have

overlooked the fact that he also was a humorist. I suspect they are counting heavily on catching the American people in knickerbockers on the eighteenth green.

I think they are wrong in that assumption. I believe they will find America ready — so ready, in fact, that they will be forced to abandon their cherished notions about the congenital weakness of democracy. But I also see rather disturbing signs that the American public is not yet fully aware of the peril. Something has happened to us since the tense excitement of last May and June. Perhaps our nerves were too ragged from the strain of those weeks to maintain interest. Perhaps the failure of Nazi plans for invading England this Fall had the effect of lulling us into a sense of false security, a too-easy faith in the ability of Britain to withstand forever the hammer blows of the totalitarian war machines.

Whatever the reason, I have a sense of a let-down on the part of general public. Let me make it perfectly plain that I do not for one moment suggest that the public is not ready to do everything asked of it. On the contrary, I am thoroughly convinced that a vast majority of the people of this country are more anxious than ever to do something that will permit them to feel they have contributed, that they have made some personal sacrifice in the interest of making their nation strong.

But we are menaced with a form of drowsiness induced by familiarity with the struggle. It is the sort of dullness and boredom that sometimes makes men go to sleep at the wheel of an automobile when they are driving at night and become too accustomed to the drone of the motor. Something of the same sort is happening now. Bombs keep falling and nothing much seems to happen. London still stands and still fights back.

We must shake off this drowsiness. We must take a cold shower and step out for a fresh look around us, for a new realization of danger, for a new alertness to reality. Also we must beware the numbing effect of clever slogans — slogans that tell us we can build up the mightiest defense machine in history and at the same time continue "business as usual"; that tell us we can do more work in fewer hours; that we can have our cake and eat it too. Such slogans are dangerous sedatives. They are broadcast either by men who do not know what they are talking about or who know too well what they are talking about, and by the latter I mean those who are consciously working to undo us.

No, we must sluff off this sense of complacency, reject these slogans and go to work to prove to a doubting world that a democracy knows just as well as a dictatorship what it takes to be tough—and can do it in a democratic way.

The democratic way to get tough is for individual units of industry to voluntarily weld their cumulative capacities into an effective whole; for labor to voluntarily work harder and longer whenever necessary; for capital to throw its resources into the fight wherever possible to relieve the load on the government; for taxpayers to willingly contribute their dollars to pay for the equipment we are determined to have. Yes, the democratic way is for groups that sometimes feel that their interests conflict — labor and management groups, farm and city groups, consumer and producer groups — to join their collective assets and capacities into the one supreme effort of a free people in support of a free government determined to preserve a free way of life.

I changed my mind about talking to you on a particular subject in which you are particularly interested, so I could come out here and talk to you about the absolute necessity for doing these things. I wanted to tell you that we as a nation must forget our prejudices and join hands to build for national defense --- build with all our heart and hands and minds and skill --- build faster and faster and faster.

-----O-----

C O P Y

387 ✓

BRITISH EMBASSY,
Washington, D.C.

13th December 1940.

Dear Mr. Secretary,

I enclose lists replacing the lists previously sent to you and covering all the United States securities which have been registered by British holders at the Bank of England as at the 29th June 1940, excluding only those which had been vested in the British Treasury or sold by the private holders before that date. There may be some small holdings which have been registered late and are not included in these lists, but the amount is very small. The lists include those securities, about 67 in number and about \$104 million in value, which will be included in the Vesting Order proposed to be made tomorrow, December 14th, 1940.

Believe me,

(Lists in
"Security Safe"
HSK)

Dear Mr. Secretary,

Very sincerely yours,

F. Phillips

The Honourable,
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

December 13, 1940

Mr. Clark of the Canadian Treasury lunched with me.

He brought up the question himself of the French gold in Canada and asked me how I felt about it. So I said, Well, about a month or six weeks ago Mr. Pinsent asked me several times whether we would buy the French gold and from that time on I took it perfectly for granted that England was going to sell us around \$650,000,000 worth of gold, and I so told the President, and that is one of the reasons why I have not been worried about an immediate financial crisis with England because I felt that they had that gold which they could sell us any time they wanted to, but, I said, I have heard recently that there is some doubt about their selling and frankly it worries me.

Then I told him what I was trying to get over was that they must take the attitude that they have complete confidence in the President and me so that when I go on the Hill to be investigated or to make recommendations in regard to our future relations with England and Canada, I must be in the position that I am the hard-boiled, two glass-eyed banker and let Congress take the position that Morgenthau is too tough, rather than find myself in a position that I am accused of being too sympathetic and that you fellows have pulled the wool over my eyes.

I told him that, talking for myself, if they would lay all of their assets on the table that we would continue to see that they got the material they needed and I felt that they were fighting our battle and giving us time to get ready and when we felt that they no longer had sufficient resources left I was in favor of giving them the war supplies necessary to continue the fighting. He was very much pleased.

He said, to show you how he felt, we asked for some figures from their Stabilization Fund and under their law they are not permitted to give them out and so he sent word to the Prime Minister what should he do and Mackenzie-King sent word back that he should give us everything that we asked for.

*see reply
dated 12/14.*

December 13, 1940

Dear Sir:

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

QUOTE - Would appreciate a reply to
my message of December tenth in con-
nection with our proposal to the British.
UNQUOTE.

Yours sincerely,

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

December 13, 1940

Dear Sir:

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

QUOTE - Would appreciate a reply to my message of December tenth in connection with our proposal to the British.
UNQUOTE.

Yours sincerely,

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1940

TO Secretary Morgenthau
FROM Mr. Foley and Mr. Pehle

For your information:

A conference was held in Admiral Land's office at the Maritime Commission today with respect to Danish ships tied up in American waters. The Treasury was represented by Messrs. Foley, Chamberlain, Cox, and Pehle, and the Maritime Commission by Rear Admiral Emory S. Land, Commissioner Truitt, General Counsel Farbach, Assistant General Counsel Lutz, and Huntington Morse, Assistant to the Chairman.

Mr. Foley explained that in connection with the operation of the Executive Orders relating to the freezing control, problems with respect to such Danish ships were constantly arising and that the Secretary had requested that the question be explored. A discussion was had as to the feasibility of this Government's purchasing or requisitioning such ships. It was explained that we were interested in working out some method by which the Danish ships in question could be made available to the British, or taken over by this Government and other ships now in American trade turned over to the British. Mr. Truitt in particular envisioned a number of objections to any such procedure, among which were the following:

1. Title to the ships.

This is particularly a problem with regard to the Maersk Line where a dispute exists between the agents of the line in the United States, Isbrandtsen-Moller, and the owner of the ships, A. P. Moller, now in Denmark, and his son Maersk Moller, now in the United States. It was suggested by the Treasury that possibly both groups might agree to a transfer of the Danish boats provided the purchase price was put in escrow in a frozen account pending settlement of the dispute.

2. American use of the boats.

Mr. Morse insisted that at least 50% of the boats were too small to be of service in American trade. Admiral Land did not agree with this statement and seemed convinced that the boats would be of real use. Mr. Truitt raised several objections with respect to the use of these boats in American trade. He said that the ships did not comply with the safety laws and further that under our statutes it would be necessary that the ships be manned principally by American seamen. Mr. Truitt referred to the difficulty in getting American seamen to sail these vessels.

3. Lack of authority to requisition or purchase.

It was indicated that the Maritime Commission does not have authority to requisition or purchase these vessels. The Navy Department does have authority to purchase vessels and has been trying to purchase particularly the Grete Maersk which is in the Philippines, but the purchase has not been effected apparently due to difficulties with regard to title. Admiral Land seemed to favor having some agency under Jesse Jones purchase the boats.

4. British attitude.

Mr. Truitt indicated that one of the difficulties was the British attitude in the matter. We suggested that the Treasury might be able to work the matter out with the British, and Mr. Truitt indicated that the Treasury might tell the British to accept the Danish offer and let the boats sail under the Danish flag. Mr. Truitt was advised that the Treasury would not wish to make any such suggestion to the British, with which Admiral Land concurred.

5. Treasury's interest.

It was indicated that Secretary Hull was directed by the President to see what could be done in this matter and was working on it, and the attitude of the Maritime Commission representatives, excluding Admiral Land, seemed to be that the Treasury had no legitimate interest in the matter.


E. J. F. H.

DEC 13 1940

Dear Leon:

I have been much concerned with the extent of the price rises that have already occurred in many important commodities, particularly in lumber and a number of other basic defense materials. Looking at a chart showing recent price changes among the 25 basic commodities in the Bureau of Labor Statistics daily price index, a copy of which is enclosed, I notice that prices of practically one-third of these commodities have risen 20 per cent or more since August. Lumber prices, shown in a second chart enclosed, have had a very extensive rise, to far above the peak reached in 1937, although total stocks of lumber have not been greatly reduced.

I wonder what action has been taken with respect to the situations responsible for these price increases, and what further action, if any, ought to be taken?

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Leon Henderson,
Commissioner of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

Enclosures - 2 charts which are incorporated in Haas' Business Report of December 9, 1940.

By Messenger 3⁴⁰

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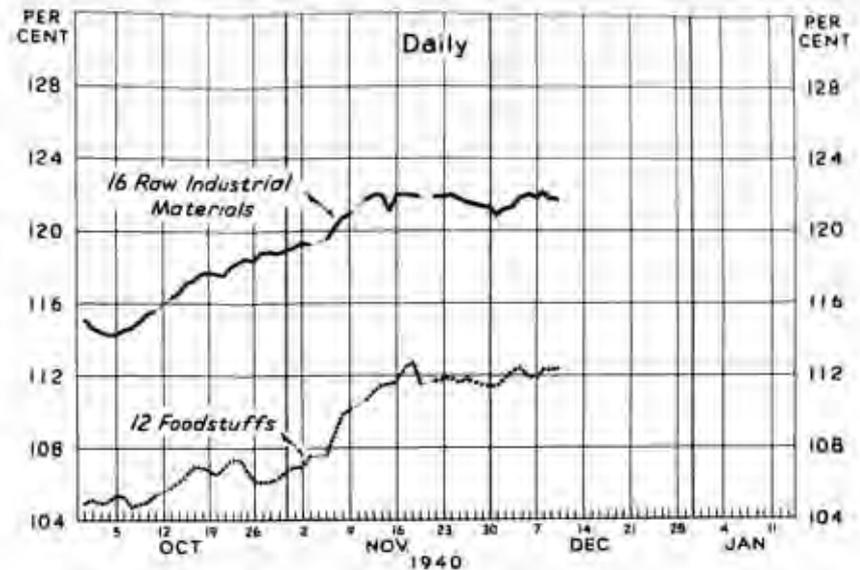
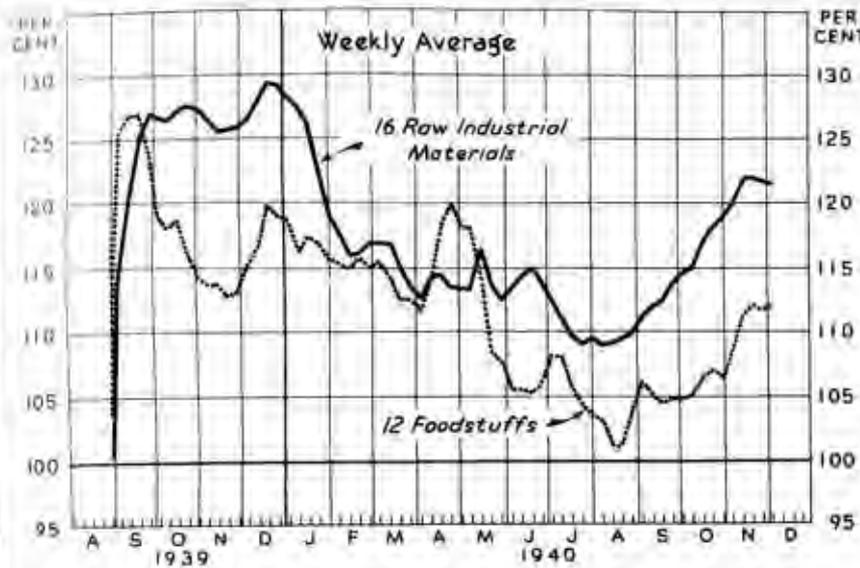
CC to Mr. Thompson

21A

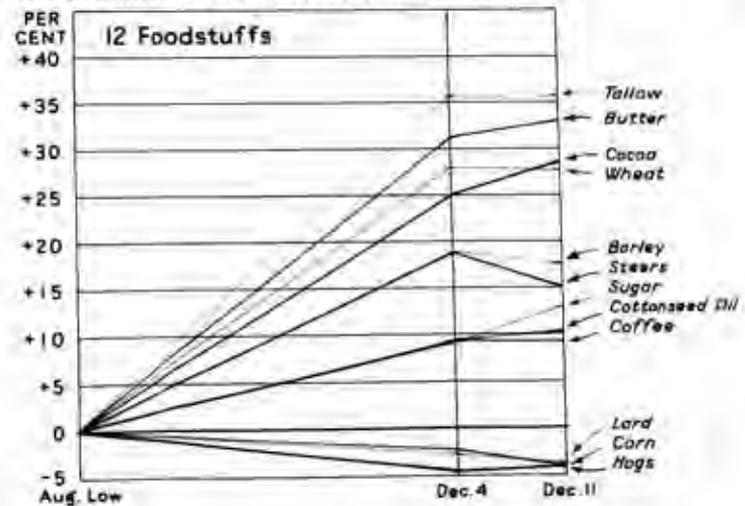
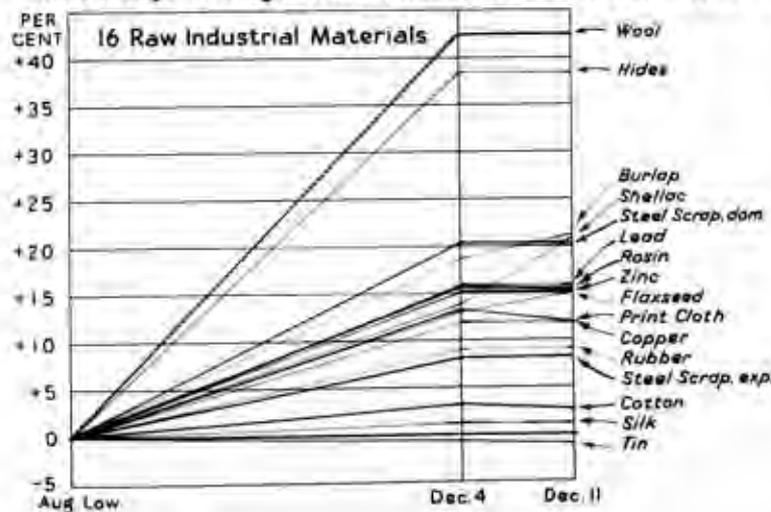
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MOVEMENT OF BASIC COMMODITY PRICES

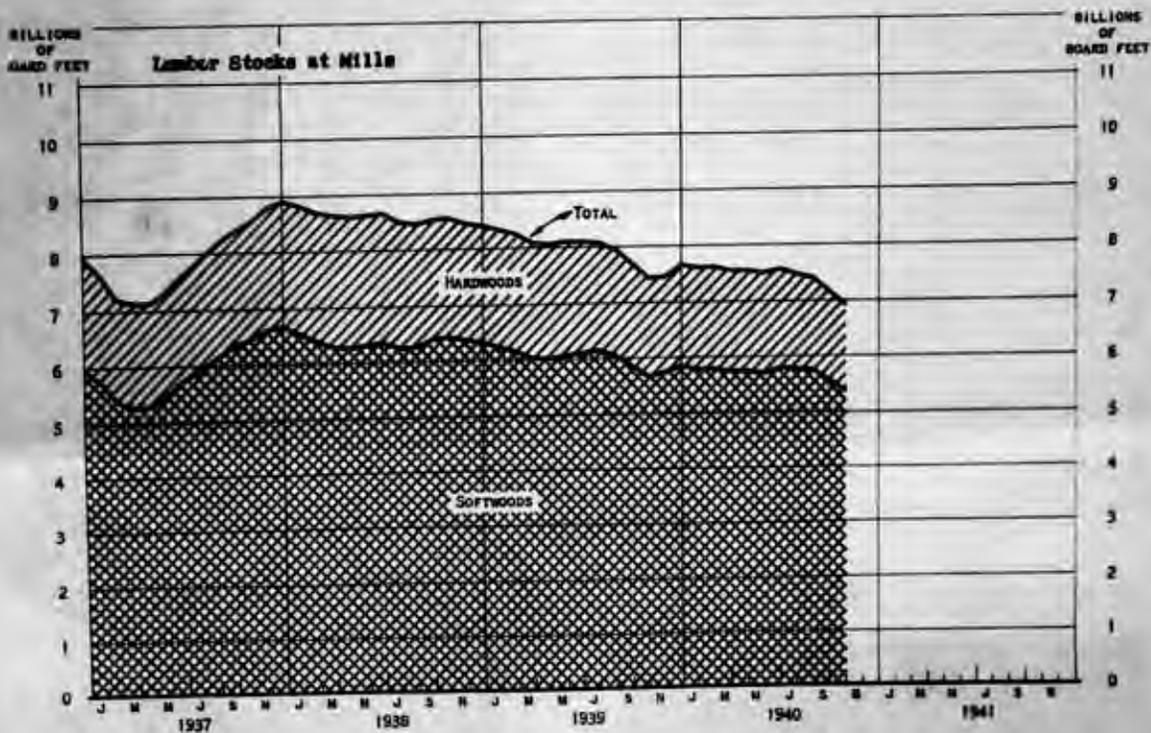
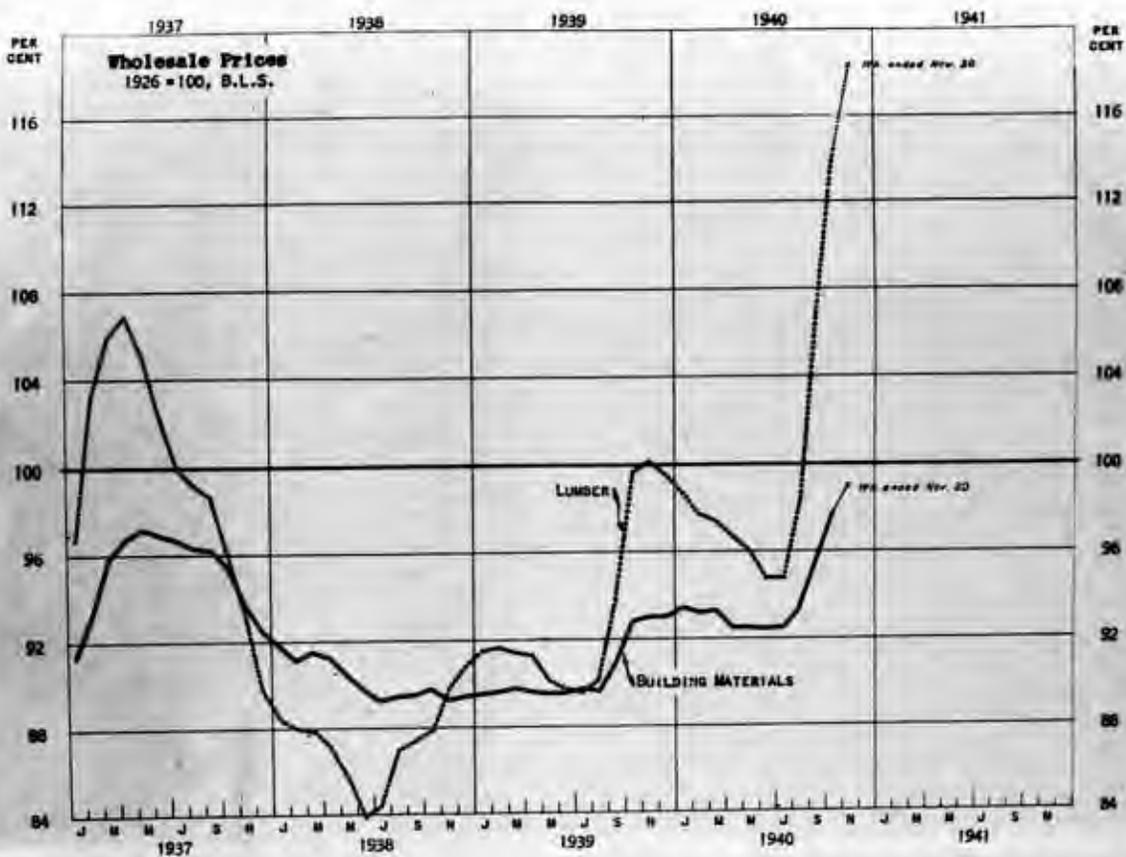
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to December 4 and to December 11, 1940



LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



*This was given to H. J. by Sir Fred Phillips
at the 10:30 meeting Dec 13/40*

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Memorandum for the Secretary of the
Treasury

*No reply
from Washington
12/17/40*

Last August the Secretary of the Treasury expressed his regret that he was unable to undertake at that time such amendment of the United States Customs law as would have obviated the inclusion of the British Purchase Tax in the dutiable value of goods imported into the United States from the United Kingdom. Deeply impressed by the disastrous effect which the increase in valuation resulting from the Purchase Tax was likely to have upon the trade of the United Kingdom with the United States, Mr. D'Arcy Cooper asked, on his arrival in Washington, that the matter should be reconsidered. Mr. Cooper has been informed confidentially that the Executive Committee on Commercial Policy, with the concurrence of the Bureau of Customs, has recommended that the Administration should support a Bill introduced by Mr. Cullen for the amendment in the sense desired by the United Kingdom Government of Section 402(c) of the Tariff Act of 1930 as amended.

The British Purchase Tax became effective on the 21st October and increased assessments are thus already being made in accordance with the existing Customs law of the United States. It is earnestly hoped that the

Secretary of the Treasury may now see his way to ask Congress to enact, as a matter of urgency, the measure which has been introduced by Mr. Cullen, subject, of course, to such amendment as Mr. Morgenthau may consider necessary.

BRITISH EMBASSY
WASHINGTON, D.C.

December 1940

December 17, 1940.

To: Secretary Morgenthau
From: Mr. Gaston

I am attaching a memorandum from Commissioner Johnson on the subject of the memorandum handed to you by Sir Frederick Phillips, and also the first draft of a proposed report to the Chairman of the Ways and Means Committee on the Cullen bill. This bill, with some necessary amendment as indicated in Johnson's memorandum, would accomplish the object of the British to exclude their purchase tax from the computation of ad valorem duties.

We see no objection to thus amending our law. However, it is to be doubted that the Treasury should take the lead in proposing the change. In the last several years we have established the precedent that the Treasury speaks to Congress on the administrative feasibility of changes in the Tariff Act, but not on questions of tariff policy. As to tariff policy, we have a voice in the deliberations of the Executive Committee on Commercial Policy, which through the Secretary of State or the President seems the proper authority to recommend policy changes in the law. The sound reason for this precedent is that the Treasury has to hold a neutral position as between the conflicting interests of importers, exporters and domestic manufacturers in its administration of the Tariff Act.

The value of this course is illustrated in the present case. The Cullen amendment is sponsored by the National Council of American Importers. We know that it will be opposed by the Association of Woolen Manufacturers, the New Hampshire Manufacturers Association (which wrote to John Sullivan), and by the Columbia Carbon Company. We also understand that it will be opposed by the American Tariff League.

We can, however, quietly facilitate the amendment before the proper committees after it has been formally sponsored by other authority.

The same point is raised by another memorandum attached hereto which Mr. Cochran sent directly to Mr. Johnson. We have no objection to an amendment to the administrative provisions of the Tariff Act to permit the admission free under bond of materials supplied by a foreign government which are to be used in the manufacture of articles ordered by that government for export. It is administratively feasible and the policy involved seems to be a proper one under the present circumstances. A matter of tariff policy is involved, however, and the recommendation should come from another source, and that is the State Department or recommendation of the Executive Committee on Commercial Policy, or the President.

RMH:as

Buttsworth's report

December 13, 1940.

399

MEMORANDUM

Inasmuch as the studies prepared in the Treasury and the data supplied by Sir Frederick Phillips cover in detail the external financial situation of Great Britain, it only seems worthwhile to mention in this memorandum a few general impressions obtained at first hand: first and foremost that the future British supply requirements from the United States will be almost limitless both in kind and in quantity and will ultimately call for dollar payment far in excess of the value of the gold or security assets which the United States may acquire for cash from Great Britain.

The recent past casts light on the near future. Until the emergence of the Churchill Government, which almost coincided with the conquest of Norway, Denmark, Holland, Belgium and France, British supply requirements from the United States were held down to modest levels, the then policy being to conserve British dollar resources and use other sources of production whenever possible. When these sources of production were no longer available and the critical period of an isolated Britain abruptly occurred, of necessity the British supply demands of the United States mounted enormously. And now hostilities are again taking on a new violence! Activity on the sea has increased decidedly; air warfare has reached a new intensity; and active land operations have again begun on the European mainland and in North Africa. This condition indubitably presages greater British supply requirements from the United States which, it is my impression, will in time reach astronomical proportions. Concurrently British domestic production for war purposes has declined well below the August 1 level despite the coming into production of new plant facilities. This has been due to

- (a) destruction by bombing of factories and public utilities;
- (b) transportation delays incident to air raids;
- (c) reduction in efficiency and working hours as a result of the excessively long hours of labor worked during the critical summer months, of increased air raids, blackout delays, increased illness, etc.

Given the continuance of air raids and the rate of mobilization of man power for the fighting services, it would be optimistic to expect British production to increase decidedly. It may well decline drastically if lucky hits are made on key plants.

Furthermore, even without air raids British industrial production unaided by supplies from its former ally France and the former European neutrals would have proved inadequate for modern war. The ability of the British Empire (exclusive of Canada) to produce manufactured war material has been and will continue to be strictly limited. Accordingly, North America is the only available source of adequate supplies of instruments of war. On this source Great Britain has begun to draw and must continue to draw in ever increasing amounts if she is to have a chance of competing with the German-organized industrial production of the Continent of Europe.

To date British supply requirements from the United States have been particular, if numerous; soon they will be general and limitless. In time Great Britain will require everything and everything in increasing quantity.

Thus far the American policy of giving "all aid to Britain short of war" has not had to be defined in terms of finance. Great Britain has been able to liquidate readily realizable assets and pay cash [except in the case of the destroyer deal when payment was made in land bases] for the supplies which, through action by the American Government or otherwise, were made available.

That halcyon ^{period} is now almost ended.

No Great Power engaged in a life or death struggle has been more dependent on benevolent and drastic action by a non-belligerent country than Great Britain is now dependent on action by the United States. Willy-nilly, the United States holds one end of the Scales of Fate on which balances precariously the future of the British Empire. This is, of course, well understood by the ruling group in Great Britain [though not by the British people as a whole]. The British Government is aware that it is not in a position to resist quid pro quo demands from the United States. Concessions by the British Government in connection with financing British supply requirements in the United States will ultimately be accorded, though in some cases reluctantly, for the British are not ready givers and they are even now conscious of post war political, economic and strategic implications of a drastic liquidation of British overseas assets. But the fact remains that they will in the last analysis stand and deliver.

W B Webster

HR

PLAIN

Peiping Via N. R.

Dated December 13, 1940

Rec'd 11:30 a.m., 14th.

Secretary of State,
Washington.

516, December 13, 4 p.m.

Vernacular press here reports that during yesterday's conference of the Hsin Min Vui, Wang Shih Chin, Director General of Finance of the North China Political Affairs Commission, gave following information concerning Commission's expenditures and issuance of Federal Reserve Bank notes: He said, with reference to Government's estimates for next fiscal year that "various sides" had requested issuance of an additional \$330,000,000 worth of Federal Reserve Bank notes and that when this amount had been rejected as being too large a request for issuance of notes valued at Federal Reserve Bank \$260,000,000 was approved in spite of fact that total expected revenue during next fiscal year would amount to only Federal Reserve Bank \$160,000,000.

Mr. Wang also said that since the establishment of North China regime three years ago a total of Federal Reserve Bank \$400,000,000 had been spent by the Government; that the total amount of Federal Reserve Bank notes issued to date was \$700,000,000 including \$50,000,000 in subsidiary notes; and that the continued purchase of "fapi" by the bank at the fixed rate of exchange cost the bank approximately Federal Reserve Bank \$5,000,000 a month.

Sent to the Department. Repeated to Chungking. By mail to Tientsin and Shanghai.

AIC

SMYTH

mg

COPY



TREASURY DEPARTMENT
WASHINGTON

*Mr. Sullivan has seen
+ copies sent to
Mr. Foley
Mr. Thompson
12/16/40*

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

December 13, 1940

403

MEMORANDUM TO THE SECRETARY:

Pursuant to your recent request, steps are being taken immediately to examine all of the distilled spirits, wine, and malt beverage labels previously approved by the former Federal Alcohol Administration, with a view to recalling approvals of any labels on which statements, designs, or representations are used which imply sponsorship by any division of the Government or appeal in any manner to the service forces, or which are otherwise objectionable. For this purpose, the regular label examination staff has been increased by transferring personnel from other sections of the Unit. Since there are nearly 500,000 labels which will have to be examined individually, it appears that this task will require approximately six weeks.

It is not believed that there would be any advantage to increasing the label personnel further by additional transfers from outside the Unit because of space limitations and because of the importance of restricting this work to employees who already have some understanding of the Unit's labeling requirements.

Steps are also being taken to have point of sale and other local advertising thoroughly examined by the Unit's field organization, with a view to preventing the dissemination of advertising similar to the Army and Navy posters circulated in Philadelphia.

Stewart Berkshire
Stewart Berkshire,
Deputy Commissioner.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

December 13, 1940

MEMORANDUM FOR THE SECRETARY:

Chairman Ludlow of the Appropriations Committee has gotten slowed up in his hearings, and he now advises that they will have to cancel the appointment for Monday. If convenient to you they would be glad to have you at 10 o'clock on Tuesday, or if that day is not convenient to you Mr. Ludlow said that any day that may be convenient to you will be arranged by the Committee.

A handwritten signature in cursive script, appearing to be "J. H. [unclear]", with a horizontal line underneath.

CONFIDENTIAL

PARAPHRASE

A telegram (no. 135) of December 13, 1940, from the American Embassy in Nanking reads substantially as follows:

It is stated in Chinese newspapers in Nanking that the draft of the regulations of the Central Bank of Issue has been referred for consideration to the Legislative Yuan in Nanking after approval by the "Central Political Council". According to information received from the French Consul, Chou Fu-hai informed the French Consul on the morning of December 13 that the notes which would be placed in circulation on January 10 would be maintained on a par with currency of the Chinese National Government and that in the Nanking area both currencies would remain in circulation.

BRITISH EMBASSY,
WASHINGTON, D.C.

13th 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.

Telegram received from London
dated December 11th.

1. Ethiopia. In the areas East of the Sudan frontier and South of the Provincial boundary of Eritrea rebel bands are causing considerable trouble to local Italian garrisons. It is estimated that a minimum of six Italian Colonial brigades are engaged by these activities.

2. Royal Air Force. Night of the 10th/11th.
Sixty-eight bombers were despatched to attack the following targets:

<u>Locality</u>	<u>Targets</u>	<u>Number of Aircraft</u>
Mannheim	Inland port and electric power station	27 heavy
Western Germany	Industrial and communications	13 heavy 19 medium
French ports	Transports and shipping	9 heavy

3. German Air Force. Night of December 8th/9th.
Amended report gives casualties in the London area 116 killed 544 seriously injured.

4. Aircraft casualties in operations over and from the British Isles:

<u>Enemy:</u>	<u>Probable by A.A.</u>
By our fighters	One damaged
One bomber	

5. British: One medium bomber missing.

CONFIDENTIAL

408

Paraphrase of Code Radiogram
Received at the War Department
at 11:58, December 15, 1940

London, filed 15:45, December 15, 1940.

EXTRACT

1. The Curtis P-40 fighter has not as yet been in combat or assigned to an operational unit. This plane has been assigned to a photo reconnaissance unit for a test. As soon as possible I will cable further information on this subject.

LEE

Distribution:
Secretary of Treasury
Office of Naval Intelligence
AG-2
G-3
AS

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 11:58 a.m., December 13, 1940

CONFIDENTIAL

London, filed 14:30, December 13, 1940.

1. Forty-nine planes of the Bomber Command during the night of December 11-12th delivered attacks on various harbors and airdromes at Brest and Boulogne and on the German cities of Ludwigshafen and Mannheim. The same night the Coastal Command laid mines and bombed two Channel ports. The next day its planes attacked three enemy vessels; and the following night bombed a French port. The British attacks on Sidi Barrani and other Italian positions on December 11th were supported by heavy bomber attacks to aid the advance of the land forces. That night British bombers attacked retreating Italian troops.

2. Daylight German air operations on Thursday, December 12, consisted of a fighter sweep over the Thames Estuary and shipping and coastal patrols over the south and southeastern coast. About 90 planes were plotted. That night there were widespread activities over large areas, the main attacks being against Leeds, Sheffield and other Midland industrial towns, and there were many flights over London. Additional reports received indicate that British planes over Britain during day and night of December 11th were 130 and 450, respectively.

3. During daylight hours three German planes were destroyed and three damaged. That night British fighters destroyed one and damaged one plane.

CONFIDENTIAL

CONFIDENTIAL

4. A total of about 30,000 Italian prisoners have been taken in Egypt.

5. New Italian fighters encountered by British planes over Sicily closely resemble the Hawker Hurricane and while they have fewer guns, they have about the same tested speed. They are powered with the German Daimler Benz engines. Italian fighters have some increased gun power and their engines have been boosted.

6. According to reports, the public utilities are practically back to normal in Bristol.

7. Thirty-two American destroyers have arrived in Britain.

8. There are reliable reports that the refinery in Terneuzen, Holland, has been completely destroyed; as well as two-thirds of all factories in Gelsenkirchen, Prussia.

LHE

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-3

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£43,000
Purchased from commercial concerns	£59,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

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

Sold to commercial concerns	£ 2,000
Purchased from commercial concerns	£ 1,000

The Cuban peso discount narrowed to 8-7/8% today, as against 9-1/4% yesterday. This currency has now regained most of the ground lost last Tuesday, when the discount widened from 8-1/2% to 9-5/8%.

Closing quotations for the other currencies were:

Canadian dollar	13-1/2% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070

The yuan in Shanghai was 1/32¢ lower at 5-29/32¢.

There were no purchases or sales of gold consummated by us today.

In our report of October 18, reference was made to the U.S. Fund's purchase of 200,000,000 Brazilian milreis from the Banco do Brasil as fiscal agent of the Brazilian Government, representing the first exchange transaction that took place under the terms and conditions of the agreement set forth in the letter dated July 15, 1937 from the Secretary of the Treasury to the Minister of Finance of Brazil, as supplemented and modified. It will be recalled that the U.S. equivalent of \$10,000,000 was credited to the account of the Banco do Brasil as fiscal agent of the Brazilian Government on the books of the Federal Reserve Bank of New York. Today, the Banco do Brasil cabled the Federal Reserve Bank of New York to debit this account on the Federal's books

-2-

with \$5,000,000, with which the Brazilian Bank is to repurchase one-half of the milreis sold to the U.S. Fund on October 18. Having received the Treasury's approval, the Federal Reserve Bank also returned to the gold account of the Banco do Brazil as fiscal agent of the Brazilian Government \$5,040,538.17 of the \$10,103,967.74 worth of gold which had been set aside in October as collateral. After completion of the above operations, the U.S. Fund holds 100,000,000 Brazilian milreis, equivalent to \$5,000,000, and the value of the Brazilian gold held by the Federal Reserve Bank as collateral is \$5,063,429.57.

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

- \$1,122,000 from the account of the National Bank of Denmark to B.I.S. Account #2. Gold in B.I.S. Account #2 is owned by the B.I.S.
- 1,119,000 from B.I.S. Account #2 to the account of the National Bank of the Kingdom of Yugoslavia.

These transfers merely represent a gold purchase from the Danish Bank and a gold sale to the Yugoslavian Bank by the B.I.S., and do not appreciably change the gold holdings of the B.I.S. in New York. The B.I.S. paid the Danish Bank in dollars withdrawn from its dollar account at the Federal, and payment to the B.I.S. by the Yugoslavian Bank was settled through the books of the B.I.S., probably in Swiss francs.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$25,000 yesterday, setting aside as collateral \$28,519 in gold from the Salvadorean Bank's earmarked account. The total of such loans now outstanding amounts to \$922,000, secured by \$1,032,336 in gold.

The Bombay gold price was unchanged at the equivalent of \$33.83. Silver in Bombay was 1/16¢ higher at the equivalent of 42.92¢.

In London, the prices fixed for spot and forward silver were both unchanged, at 22-7/8d and 22-13/16d respectively. The dollar equivalents were 41.54¢ and 41.42¢.

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

We made five purchases of silver totaling 580,000 ounces under the Silver Purchase Act. Of this amount, 355,000 ounces represented sales from inventory, and the remaining 225,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement to buy up to 1,200,000 ounces. So far this month, we have purchased 500,000 ounces from that source.

[Handwritten Signature]
CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1940

Miss C

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following information regarding the transactions listed on the attached statement in Italian accounts maintained with the Chase National Bank, New York.

[Handwritten signature]

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Dec. 13	\$250,000	Banca Commerciale Italiana, N.Y.	Banco di Napoli Trust Co., N.Y.	\$250,000	Banco di Napoli Trust Co., N.Y.	Banca Commerciale Italiana, N.Y., for account of Banca Commerciale Italiana, Rome

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 13, 1940

MSS C

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 11	\$ 55,990	Irving Trust Co., N.Y., for account of Carl Marks and Co., Inc.

MSS

December 14, 1940

Mr. Morris Wilson, representing Lord Beaverbrook, called on me at 9:00 this morning. He said that Lord Beaverbrook wanted me to know that in view of the interest of the President of the United States in getting 30 planes to Greece, that he (Lord Beaverbrook) was prepared to send at once 30 new Defiants to Greece, and put in the card of the President of the United States to accompany these planes. Mr. Wilson also said that at some future date the English would like to get another 30 P-40s, but Morris Wilson wanted to make it plain that as soon as Lord Beaverbrook knew that President Roosevelt himself was in the picture, he said, "Why, of course, I will drop all technicalities and help in the situation." (At this time, I was not aware of the fact that President Roosevelt evidently had made no promises of any kind to the Greeks with regard to planes.)

December 14, 1940

Before talking to the Greek Minister this morning, I telephoned to Cordell Hull and told him of my message from Lord Beaverbrook. He said it was all right to transmit this to the Greek Minister, provided that I made it perfectly plain to him that we wanted to know, if the Greeks accepted these 30 English planes, whether they felt our promise to them was completely fulfilled.

I then told Hull that nobody in my shop had given the Greek Minister any promise, and that I was curious to know had he (Hull) heard from the President in regard to this. He said, "No." So I said, Well, did the President communicate with Welles or Berle, because both men had been in touch with my shop on this subject?" He said that he didn't know but he would find out.

Then Mr. Hull went into a long talk that I was the only person who could convince the President that he must do something about preparedness in this country, particularly on planes, because I had all the figures. Well, I told Cordell that I could do my little bit, but that he and others would also have to convince the President, and that he (Hull) would particularly have to convince him as to the seriousness of the world situation.

Hull told me that last night at the Manufacturers' Association, the man who got the most applause was General Wood, the so-called appeaser. Hull considered the whole situation extremely critical.

December 14, 1940

The Greek Minister told me this morning that about a month ago he called on Mr. Sumner Welles, and asked for 60 planes. During that and subsequent conversations, Mr. Welles told him he could have 30 planes from the United States Army. Mr. Welles referred the Greek Minister to our armed services and, at no time in reporting his conversations between representatives of the United States Government and himself, did he bring in the name of the President. It is quite evident to me that no promise from the President was communicated to the Greek Government through the Greek Minister.

I very carefully told the Greek Minister that I had a message from Lord Beaverbrook, via Morris Wilson, that the English were prepared to ship 30 Defiant planes at once to Greece and that the English, at some future time, wanted an additional 30 planes from us. I told the Minister that I personally thought it was a very good bargain. He said that speaking for himself he thought so also. I said that we would like to know as soon as convenient whether the Greek Government would be pleased with this transaction and consider that it was a fulfillment of our promise. He said he would get a message off at once and let me know.

December 14, 1940

My dear Cordell:

I am sending you herewith a time-table of our various conversations in regard to release of 30 planes to the Greeks.

I am satisfied from a conversation that I had this morning with the Greek Minister that, at no time, was it intimated to him that the President of the United States had anything to do with the plane transaction. The Greek Minister informed me that the only promises made to him were by Mr. Sumner Welles.

The Greek Minister promised to transmit Lord Beaverbrook's proposal to Athens at once and would communicate with me just as soon as he gets a reply.

Yours sincerely,

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

Enclosure

Planes for Greece

Up to Dec. 14

Since July, 1940, conversations have been carried on between the Greek Minister and the Liaison Committee. It was not until September, however, that any specific request was made for pursuit ships. During September and October a number of agents purporting to act for the Greek Government called upon the Liaison Committee to request either the immediate release of fifty or more pursuit planes from United States Government stocks or clearance to place an order for fifty or more pursuit planes for immediate delivery with American manufacturers. In some instances, these agents were halfheartedly supported by the Minister of Greece.

On September 30th, the Greek Chancellor called upon the Liaison Committee to state that a request which had been received from one of the Greek Government agents for fifty to seventy-five Faltco pursuit planes was officially recognized by the Greek Government. This request was referred to the Advisory Commission, the War Department, and the Navy Department in accordance with the usual procedure. On October 10th, the Greek Chancellor was advised informally that this request could not be approved.

During the latter part of October, several conferences were held with the Greek Minister in an attempt to find some source for planes and engines but without success. During the course of these conversations, the Greek Minister also wished to know as to the availability of the Swedish planes and the Thai planes which had been an order and which were taken over by the Air Corps. He was advised that these planes could not be released.

During the first part of November, the Liaison Committee was advised by Gurliac Wright that the latter would produce approximately 100 P-40 pursuit ships over and above the number called for by existing orders for delivery in the summer and fall of 1941. The Air Corps stated that it would not place an order for these planes, so that they become available for allocation to other purchasers.

An allocation was determined in conference with the State Department as follows:

- 50 for the British
- 30 for the Greeks
- 20 for the Chinese.

- 2 -

The Greek Minister was advised that possibly thirty P-40 airplanes could be made available with delivery in the late summer and fall of 1941, but the Minister took the stand that the Greek Government would not place such an order unless immediate delivery could be secured.

Through the combined efforts of the Liaison Committee and the State Department, coordination was secured between the Greek Minister and the British Purchasing Commission in order that a deal might be worked out whereby the British would defer immediate delivery for thirty planes in favor of the Greeks, and then subsequently make up this deferment from the Greek order during the summer.

The British Purchasing Commission took this matter up with London and advised the Liaison Committee that no such arrangement could be made for the following reasons:

- (1) The British are already giving the best possible assistance to the Greeks by sending what the High Command considers the proper number of the proper types of aircraft that can be spared.
- (2) Thirty P-40 planes would not, by themselves, form one squadron, and under the present plans there are no other P-40's operating in the same zone.
- (3) There are no spare parts available against the P-40 planes now being produced here.

It should be emphasized, however, that the British were anxious to avoid any misunderstanding and were only taking that action as it was deemed to be for the best interests of Greece. After the Greek Minister had been advised of this situation by the British, he addressed a letter to Under Secretary of State Sumner Welles on or about December 8th asking for more help.

It was during the period when the British were considering the advisability of deferring delivery of P-40's that Mr. Welles referred the Press to the Liaison Committee for information which resulted in a public statement on November 30th announcing the fact that negotiations between the United States and Greece were being carried on. After the Greek Minister presented his letter to Mr. Welles, newspaper stories appeared on December 8th and 9th to the effect that thirty P-40 planes would be made available to the Greeks, and in some instances these stories stated as a fact that fifteen of these planes would come from British orders and fifteen from United States orders.

On Monday, December 9th, Mr. Philip Young of the President's Liaison Committee communicated with General Brett of the Air Corps, who advised that neither he nor General Marshall knew anything about planes being released to the Greek Government. An inquiry was also made as to the possibility of making P-40's available from United States stocks. Mr. Young was advised that the Air Corps had no P-40's in fighting condition.

In an attempt to get more information, Assistant Secretary of State Berle was consulted and he advised that the State Department, presumably Under Secretary Vellie, had received specific instructions from the President to make thirty P-40 planes available to Greece. It was explained to Mr. Berle that these planes would either have to come from British orders now in production or from Army stocks, that the Air Corps seemed to have no P-40's suitable for combat, that no P-40's were being produced currently for the Army, and that the British were taking the entire Curtiss P-40 production which was approximately equal to eight planes per day.

Mr. Berle felt very strongly that the British should release the planes to the Greeks regardless of the tactical and military disadvantages mentioned above. It was suggested that the British Purchasing Commission be asked to reconsider and further to inquire into the possibility of finding some other method to help the Greeks which might be more pertinent.

After reconsideration, the British Purchasing Commission again emphasized its reasons for not making P-40's available and restated its position that it would be very glad to help the Greeks in any other way that could be suggested.

The Greek Minister called upon Mr. Young on Monday, December 9th, to inquire with respect to the newspaper stories mentioned above. He was advised that the release of planes was still being considered and that no definite action had yet been taken.

Assistant Secretary of State Berle telephoned Mr. Young on December 9th to inquire concerning the conversation with the Greek Minister. Mr. Berle took the stand, because of the instructions the State Department had received from the President, that thirty P-40's would have to be made available and inquired as to the use of legal priorities against current British deliveries. It was his thought that this could be used to exert pressure upon the British Ambassador to secure a voluntary British deferment. It was explained to Mr. Berle that forcible deferment could be secured

- 4 -

by rejection of export license application, or by placing an order for Army P-40's giving it priority, but that in the latter case it would be necessary for the Army to then release the P-40's for delivery to Greece, a situation which would involve technical difficulties.

At this point Secretary Morgenthau was immediately advised of the situation, and he called Secretary Hull on the telephone to ask him what was being done. During the course of the conversation, it was pointed out to Secretary Hull that the British were getting fighting planes at the rate of 10 to 1 as against the United States, a condition which made it impossible to ask the Army to release any planes for the Greeks. Secretary Morgenthau suggested, however, that probably the British had forty or fifty P-40's already delivered but awaiting shipment in American ports, the idea being that perhaps Greece could take some of these if they had transportation available. Secretary Morgenthau said that he would ask the British Purchasing Commission about this possibility.

Shortly thereafter, and subsequent to a conversation with representatives of the Air Section of the British Purchasing Commission, Secretary Morgenthau talked with John F. Stone, secretary to Mr. Hull, during which Mr. Morgenthau stated that the British Purchasing Commission pointed out that if thirty P-40 Curtiss planes were made available to the Greeks, the chances are that they would lay somewhere in Greece unused because the proper facilities and landing fields were not available. Further, that the English had over 400 fighting planes already assisting the Greeks, so that it would seem a wiser course of action if the United States could furnish some help in a form which would be of greatest use as determined by the British after consulting with General Metaxas. The result of this conference should be transmitted to the United States through the Greek authorities.

Mr. Morgenthau added that the English had offered to send thirty Hurricanes which could land in a cow pasture as landing fields of the type necessary for the P-40's were not available. It was also pointed out that the Greek pilots had not been trained to fly the P-40 planes, so that the probable result would be that the P-40's if made available could not be used. Secretary Morgenthau also suggested to Mr. Stone that the Greek Minister be sent for and brought up to date. The following day Secretary Hull called to say that it was his understanding that the Greeks had been promised thirty planes. Secretary Morgenthau stated that no one in the Treasury had promised any one anything.

December 14, 1940

SECRET

FROM GENERAL WATSON TO SECRETARY OF THE TREASURY

PRESIDENT WITHOLDING ACTION YOUR CABLE REGARDING
PROPOSALS TO BRITISH UNTIL RETURN WASHINGTON. HE DESIRES TO
DISCUSS THE MATTER IN FURTHER DETAILS

REGARDS

EDWIN M WATSON

SECRET.....SECRET.....SECRET

Received at house
8:50 a.m. 12/14/40
by messenger from
White House.
P.E.M.

December 14, 1940

Sir Frederick Phillips called me this morning and said he was working on the figures as to how much money they had and how long it would last. He said he wanted to ask me what my best estimate was as to how long it would take to get the necessary legislation through Congress. I told him I couldn't answer this question because I have to await the return of the President, at which time I expect to discuss the ways and means with the President fully. Sir Frederick said that in view of the fact that the President will be back in a couple of days, he will be glad to wait.

December 14, 1940
2:20 p.m.

H.M.Jr: Hello.

Prime Minister
Mackenzie
King:

Hello.

H.M.Jr: Morgenthau speaking.

K: Oh, hello. Can you hear me all right?

H.M.Jr: I hear you fine.

K: Oh, first rate. I received a message from Churchill today. In it he says: "Your telegram of December 11th, am very grateful to you for helping me about Purvis. Cabinet proposed to meet your point about his relations with the Ambassador on basis of independence but subject to harmonious consultation."

H.M.Jr: Oh, I see.

K: Alas, all this is now influx. Lothian is grievous loss at this juncture, but it will clear up the point about the independence all right.

H.M.Jr: Oh, I didn't know that you were going to - that you took me that seriously and passed it on.

K: Oh, well, I wanted to play safe - not take any chance.

H.M.Jr: Well, I really thought it would be a great mistake.

K: Yes. I agreed with you and that is why I took it on myself. I told him that I was just taking it on myself to indicate what I felt - there was likely to be a situation, you see.

H.M.Jr: Well, I think it's

K: Howe will be landing there this week and I thought it would be well for him to have a good talk with Howe, that Howe understood the situation pretty well.

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W.M.Jr: Yes, he does.

K: But you know I just got pretty bad news. The ship that Howe was on was torpedoed.

W.M.Jr: Really.

K: We don't know yet whether he has been saved or any on board have been saved.

W.M.Jr: Oh, I'm shocked.

K: Oh, it's terrible, yes.

W.M.Jr: I'm shocked.

K: He is 300 miles from the coast of Scotland which gives me a little hope. If it were about 700 miles off the coast of Ireland I'd feel very concerned but I - the word came first that they were being attacked, then later that she had been torpedoed and then nothing further has come. That was early this morning and we haven't heard any word today and we can't get any further word. Be a terrible loss if poor Howe is gone.

W.M.Jr: Yeah. Well, it is a terrible time for everybody.

K: Frightfully terrible, yes. My, you must have been shocked at poor Lothian's death.

W.M.Jr: Yes, it was so unexpected.

K: Oh, terrible.

W.M.Jr: So unexpected.

K: Yes, and he's such a fine fellow.

W.M.Jr: Yeah.

K: By the way, you might be interested in the balance of this telegram from Churchill.

W.M.Jr: Yes, I would.

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- K: He says: "I am sure you will be glad about Libya. We must be doubly thankful when we remember where we were four months ago. I am very glad we ran the risk in the teeth of the invasion menace of sending our best tanks to this distant battlefield. Consequences of victory may be far-reaching. We must be worthy of them."
- H.M.Jr: Yes.
- K: They've been pretty plucky about parting with some of their stuff there to send it off to Italy or off to Africa.
- H.M.Jr: Very. Well, this time it was a good gamble.
- K: Oh, splendid. Hasn't it been?
- H.M.Jr: Yes. It has encouraged us all down here.
- K: Yes. Well, that's nice to hear.
- H.M.Jr: Mr. Prime Minister, if you would send for Clarke, who I think left here yesterday, he could give you a picture of what I've been doing this last week.....
- K: I'll be glad to do that.
- H.M.Jr: which I think would interest you because it's pretty important on the financial front, and he sat in on some of the conferences with Frederick Phillips.
- K: Yes, well, I have left word for him whenever he gets here to come and see me just after he has had a talk with his Minister.
- H.M.Jr: And there was some particular thing that I asked him to tell you.
- K: Yes. Have to get that.
- H.M.Jr: I mean, I sent a message to you through him.
- K: I see, yes. Well, thank you so much.

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H.M.Jr: Clarke was very constructive and his attitude was excellent.

K: Oh, I'm so pleased to hear that.

H.M.Jr: His attitude was excellent.

K: Yes, and he's a good - he's a very able servant.

H.M.Jr: And we were glad to have him down here.

K: Oh, I'm so pleased to hear that. Many thanks.

H.M.Jr: Right. Well, thank you and

K: By the way, I was just going to say I nearly came down myself.

H.M.Jr: Oh, really.

K: If I could have managed it, I would have come to Lothian's funeral on Monday. I thought of it, in fact intended yesterday - he was to have dined with me here tonight.

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

K: Yes, and to have met my colleagues this afternoon.

H.M.Jr: Oh, that's too bad.

K: I would have gone down but unfortunately it's out of the question now with this word about Howe, but there have been other things that have kept me as well, but I had it all planned the day before to send you a line to say that I'd be there at the funeral and probably on Monday. However, I'll be getting down there some day again.

H.M.Jr: I hope so soon. I hope when you come it will be on a cheerful mission.

K: Well, thank you, indeed. You'll be seeing the President, will you tell him that I had nearly turned up?

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H.M.Jr: I'll do that.

K: And give him my best wishes.

H.M.Jr: I'll do that.

K: May I extend my good wishes to Mrs. Morgenthau and yourself and your family for the approaching season?

H.M.Jr: Thank you so much.

K: All right.

H.M.Jr: Thank you.

K: Good-bye.

H.M.Jr: Good-bye.

COPY

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PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Vichy

DATE: December 14, 1940, 5 p.m.

NO.: 846

Casablanca's no. 236 of Dec. 13, 5 p.m.

Please confer with the appropriate authorities and point out this Government's interest in this report; obtain all the information you can regarding it and its possible significance, particularly regarding the respective purpose for which this gold shipment will be used, and any further details of a material nature.

HULL

S:FEIS:AH PA/D

EA:MSG

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

Week ended December 14, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	---	---	---	80,000 Bbls.
Crude -				
Blended or California High Octane Crude*	282,565 Bbls.	---	---	---
All Other Crude	7,138 Bbls.	---	---	---
Gasoline -				
Gasoline A**	---	---	---	78,000 Bbls.
Gasoline B*	162,154 Bbls.	---	67,000 Bbls.	---
All Other Gasoline	71,976 Bbls.	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil***	338 Bbls.	---	---	99 Bbls.
All Other Lubricating Oil	101,458 Bbls.	---	---	100 Bbls.
Tetraethyl Lead***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	250 Tons
All Other Scrap	---	---	---	1,450 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
December 16, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

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

*Aviation Gasoline.

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: December 14, 1940, 7 p.m.

NO.: 1139

FOR TREASURY FROM MATTHEWS.

This afternoon I had a visit from Roger Auboin of the Bank for International Settlements. He had been in Paris for several weeks for the purpose of arranging some method of payment for the French shareholders of the Bank in occupied France, and had just returned.

Auboin told me that somewhat paradoxically, the Germans have, under their orders against foreign exchange transactions in the occupied area, made it impossible for the shareholders to be paid in the French franc equivalent of Swiss franc dividends; there is, on the other hand, no legal obstacle to transferring funds to the occupied area from the unoccupied area. Therefore it was his suggestion that the dividends be paid to the Bank of France at Clermont-Ferrand in Swiss francs, since dollar payments are blocked, and the shareholders residing in occupied France be paid the equivalent in French francs. At present the Bank of France is in such a timid frame of mind that it was reluctant to make an approach to the German High Commissioner in Paris. That was why Auboin himself went to Paris. He took the matter up with Yost, who was quite agreeable to this procedure after he had made certain that no order of the Devisen Schutz

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Kammondo was violated thereby and that he would not have to consult with the military. Most of the German financial authorities in Paris he found to be of a decidedly mediocre type, which somewhat surprised him; he said that this was the general French impression there also.

Auboin confirmed what I have been told by others, that there is growing eagerness on the part of the Germans to buy into industries in France through utilizing the heavy balances they have been accumulating in the Bank of France, which he said now amount to 40 milliards. Such procedure is frightening some of the French industrialists who are most disposed to "collaborate" with the Germans, for now they realize that they themselves may well be eliminated from the picture when German interests purchase stock control in their concerns.

Auboin recited a gloomy picture of the seriousness of unemployment in occupied France, and the practical stagnation of industry there. Fournier, the former Bank of France Governor, is now head of the French national railway system. Auboin had a long talk with him, and was told that he has only 50 percent of the former French rolling stock of the railways. French rail car loadings are at present working at a rate of only 10 percent of normal on the average, if the loadings of French industry are any gauge. He said that foodstuff arrivals at the capital are only 5 percent of normal; textiles are somewhat higher,

- 3 -

being 20 percent of normal.

END OF MESSAGE.

MURPHY.

TO THE DIRECTOR
TECHNICAL SERVICE
OFFICE OF THE

240 DEC 12 6 11 13

RECEIVED
TECHNICAL SERVICE

EA:LWW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE December 14, 1940.

TO Secretary Morgenthau
FROM Mr. White
Subject: Information with respect to British sales of securities.

1. To bring our information up to date (and incidentally to explain the large discrepancy between our figures on the value of British-held American securities and those supplied to us) -- it would be very helpful if we could have the present holdings of British securities listed by amount of specific securities, similar to the list they left with you last year.
2. To enable you to keep track of the activities of the sales of British-held securities and provide factual basis for subsequent discussions, it would be very helpful if each week there could be included in the report of total sales now submitted to us by the British:
 - (a) An itemized list of the specific securities sold;
 - (b) Their amount and price;
 - (c) The specific day of the sale; and
 - (d) The broker or agent through which the sale was effected. (no)

see meeting of 12/16 at 3 pm

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Mr. Morris Wilson left this with
the Secretary at the latter's
house on Saturday, December 14, 1940.

(Copies were sent to The President,
Secretaries Hull, Stimson, Knox and
Mr. Knudsen on 12/18/40)

SECRET AND MOST CONFIDENTIAL

✓
photostat to
Mr Young
12/18/40 438
also copies to
Pres
Hull
Stimson
Knox
Kunze
12/18/40

	May 10.	Sept. 27.	Nov. 29
Stocks	3.209.	3.735	4.185
(Hurricane, Spitfires, Wellington, Blenheim, Whitley & Hampden)			

N.B. Planes shipped to other theatres of war by Britain were included in September figures, but not in November. (These numbered 374 in period from May to November.) Consequently improvement between September and November is greater than appears at first glance.

Pilots	3.101	4.149	4.398
--------	-------	-------	-------

N.B. Pilot wastage last quarter about 400 per month, allowing for half wounded returning to duty.

C.R.O.	1.874	1.882
(Awaiting repairs and inspection)		

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 14, 1940

W3C
 TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	L23,000
Purchased from commercial concerns	L12,000

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

Sold to commercial concerns	L 5,000
Purchased from commercial concerns	L20,000

There was no change in quotations for the other currencies. Closing rates were as follows:

Canadian dollar	13-1/2% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-7/8% discount

We sold \$12,000,000 in gold to the Bank of Mexico, to be added to its earmarked account.

No new gold engagements were reported to us today.

The Bombay gold price was unchanged at the equivalent of \$33.83, and silver was 1/16¢ higher at the equivalent of 42.96¢.

JMP

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE December 14, 1940

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of November 1940.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the month of November 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on November 27. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Purvis

This review contained, in addition to analysis of the current situation, the following special study:

Analysis of allotments of cash subscriptions to Government securities (page 4). - Mr. Turner

2. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll
3. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. March

- (1) Weekly statements are received covering in dollar volume the itemized purchases by British Empire Governments through the Commission, the itemized purchases made by these Governments with the knowledge of the Commission but not through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. Similar statements are received showing, by itemized contracts, the dollar volume of deliveries made with respect to orders placed by Great Britain through the Commission. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the division each week and a report is then prepared summarizing the information on orders and deliveries, by commodity groups. This report consists of eight statements: the first three summarize orders placed by the individual governments of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on a historical basis; the last two statements present data on deliveries with respect to orders placed by Great Britain through the British Purchasing Commission. These weekly commodity statements were prepared on November 7, 14, 21, and 28, covering in each case orders placed in the second preceding week and deliveries during the third preceding week. Copies of the complete reports were transmitted according to instructions by the Secretary.

- (2) The Commission also supplies the Division each week with the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of worksheets prepared by the Commission, but it is necessary for the division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by companies and by type of plane or engine, the volume of orders placed and the volume of deliveries made, (a) in the period between June 1938 and the beginning of the war, (b) by months beginning with September 1939, and (c) by weeks for a current period. Other tables show the number of

- 3 -

planes or engines on order and the scheduled deliveries made with respect to those orders. Similarly, tables on options show the number of planes or engines under option and the delivery schedules. Spare parts are now segregated from complete units and data concerning orders, deliveries, unfilled orders, and options for spare parts are listed in separate tables for airplanes and for engines. Orders for second-hand planes and engines and deliveries thereon, as well as scheduled deliveries with respect to unfilled orders, are shown in separate tables. Summary tables show, in one table each, the most important information on planes and on engines, respectively, and also present information concerning the number of planes or engines which have actually been shipped out of the United States, and the country of destination for both planes and engines. These aircraft reports were prepared as of November 2, 9, 16, and 23, and were transmitted according to instructions by the Secretary.

- (3) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries from United States companies. The data for these statements are provided by the Commission but the tables actually are prepared in the division.

During November tables showing capital commitments as of October 26, November 2, 9, and 16, were prepared and were transmitted according to instructions by the Secretary.

- (4) Monthly statements also are prepared with respect to certain activities of the Commission. One of these statements shows the physical volume of iron and steel purchases by, and deliveries to, the British Government in the United States and is also prepared monthly from data supplied by the British Purchasing Commission. The regular monthly report was not prepared this month because of a revision in the data but the new

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report as revised is now being prepared. This statement will show the United States mill schedule with respect to British orders of selected iron, steel, and alloy materials. A similar schedule of British purchases of ferrous metals, ferrous alloys and other metal alloy products is also being prepared.

- (5) Information supplied by the British Purchasing Commission is now at hand for the preparation of additional statements concerning contractual deliveries on orders placed by the British Empire in the United States for (a) explosives and propellants, (b) toluol, (c) shells and bombs, (d) small arms ammunition, (e) ordnance, (f) automatic small arms, and (g) sub-machine guns, revolvers, and rifles.

4. At the request of the Secretary, arrangements have been made to secure periodically from the Netherlands purchasing missions certain information regarding purchases in the United States by the Dutch Government, and Lindeteves, Inc.

Weekly statements are received covering in dollar volume the itemized purchases by Dutch Government purchasing missions in the United States, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for all of these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed by the British Empire in the United States.

These data are reviewed and edited in the division each week. Reports are then prepared summarizing the information on orders and deliveries for (1) the Dutch Government purchasing missions, and (2) Lindeteves, Inc., classified by commodity groups. The first reports on these data are now in process of preparation. These reports summarize separately for the Dutch Government

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purchasing missions and Lindeteves, Inc., orders placed in recent weeks, deliveries made during the same periods, and the delivery status of total orders reported. Reports have been received from the Dutch Government missions showing unfilled orders as of September 28, 1940, and orders placed during the successive weeks through November 2, and delivery data are expected to be received within a few days. Reports have been received from Lindeteves, Inc., showing unfilled orders as of October 19, and orders and deliveries weekly thereafter through November 23. - Mr. Lindow

5. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared every other week showing this information by type of plane or engine and by class of purchaser. Reports for the fortnights ended November 9 and 23, were prepared on November 13 and 27, and were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
6. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group, considering matters of general interest in connection with defense financing. - Mr. Haas, Mr. Murphy, Mr. Daggit, Mr. Turner

The material presented during the month included the following:

- (1) An analysis was made of recent price movements of commodities, illustrated by two wall charts: the first showing the movements of an index of 16 raw industrial materials and of an index of 12 foodstuffs since August 1935; and the second showing the movements of the NICB cost-of-living index compared with the BLS index of 863 commodities since 1935, and the BLS index of 28 basic commodities compared with the BLS index of 863 commodities

- 6 -

since August 1939. (Charts presented at the meeting on November 22). - Mr. Daggit, Mrs. May

- (2) An analysis was made of recent price movements of basic commodities illustrated by the wall charts described in item (1) above, but brought up to date for the week, and by a wall chart showing zinc prices, production, deliveries, and stocks at smelters, monthly from 1935 to date. (Charts presented at the meeting of November 29). - Mr. Daggit, Mrs. May
- (3) "J. M. Keynes' Plan to Pay for the War", an analysis, based on an earlier review of the book "How to Pay for the War", was presented which considered the general problem of war or defense production, the Keynes' plan, its possible applicability to the United States, and similar plans advanced in the United States. (Outline at meeting of November 29). - Mr. Turner, Mr. Murphy
7. At the request of Under Secretary Bell on October 9, a memorandum was prepared on the increase of money in circulation in the United States, and was transmitted to him on November 6. - Mr. Murphy, Mr. Turner
8. At the request of Under Secretary Bell on October 11, a memorandum was prepared on suggested changes in the laws affecting the public debt, and was transmitted to him on November 15. - Mr. Murphy, Mr. Conrad
9. At the request of Under Secretary Bell on November 6, a memorandum was prepared on maturities of long-term State and municipal debt during 1941, and was transmitted to him on the same date. - Mr. Murphy
10. In response to a request by Mr. Foley on November 4, a proposed letter to the Secretary of the Navy relating to the review of the indebtedness compromise offer of the Erie Forge and Steel Company, was received and returned to Mr. Foley on November 4. - Mr. Haas, Mr. Conrad, Mr. Murphy
11. A review of a report by the Bureau of Accounts on S. 4269 (to extend the Social Security Act), at the request of Senator Harrison, Chairman of the Finance Committee, was made in response to a request by the Bureau of Accounts on September 10, and was transmitted to Mr. Gerardi on November 6. - Mr. Murphy, Mr. Reagh, Miss Michener, Mr. Brown

II. Projects or studies under way

1. Comparison of yields of long-term Treasury bonds and over-the-counter volume. This project is temporarily in abeyance. - Miss Eyre
2. Study of the relationship between the yields and maturities of high-grade securities immediately preceding major bear markets in such securities. - Mr. Turner
3. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
4. Study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
5. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
6. Review of war-financing measures in belligerent countries in the present war. - Mr. Murphy, Mr. Purvis, Mr. Stringham
7. United States Savings Bonds. - An analysis of factors affecting sales and redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad
8. At the request of the Division of Statistical Standards, Bureau of the Budget, on September 20, a review is being made of the "Base Book of Financial Statistics", to be issued by the Federal banking authorities. - Mr. Murphy
9. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
10. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Conrad, Mr. Purvis

11. At the request of Under Secretary Bell on November 12, a study is being made of the relationship between the amount of currency in circulation and the volume of bank deposits. - Mr. Murphy

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period November-June 1941, and was transmitted on November 4. - Mr. Wilson, Mr. Delcher
2. The regular monthly summary comparison of estimated receipts and actual receipts in October 1940 on the daily Treasury statement basis, was prepared. - Mr. Wilson, Mr. Delcher
3. The regular monthly detailed comparison of estimated and actual receipts in October 1940, and for the period July-October 1940, based on the collections classification, was prepared. - Mr. Wilson.
4. An estimate was completed for use in preparation of a section of the Secretary's Annual Report of miscellaneous internal revenue except from capital stock, estate, and gift taxes, in the calendar year 1941, if the taxes in existence as of July 1, 1928 were in effect. - Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith
5. At the request of the Division of Tax Research on November 25, a revenue estimate was prepared for Assistant Secretary Sullivan of the increase in receipts in the calendar year 1941, which would be derived from a proposed schedule of increased surtax rates to be applied to surtax net income of individuals of \$16,000 and under. The estimate was telephoned Assistant Secretary Sullivan at Miami and a memorandum was transmitted to Mr. Blough on November 26. - Mr. O'Donnell, Mr. Bronfenbrenner
6. At the request of the Division of Tax Research on November 27, the following revenue estimates were prepared for Assistant Secretary Sullivan and were transmitted in a memorandum to Mr. Blough on November 28:
(1) net receipts for the fiscal year 1941 under the

revenue system which existed prior to the Revenue Acts of 1940; (2) additional revenue in the fiscal year 1941 attributable to the Revenue Act of 1940 and the portion earmarked under Title II of the Revenue Act of 1940; (3) additional revenue in the fiscal year 1941 from the Second Revenue Act of 1940; (4) for the fiscal year 1942, preliminary and tentative estimate of net receipts to general and special accounts, and the portion earmarked under Title II; (5) the yield of sales tax imposed on articles costing over one dollar; and (6) the increased revenue for the fiscal year 1942 which would be obtained by lowering the exemptions under the admissions tax from 20 cents to 10 cents. - Mr. O'Donnell, Mr. Leahy, Mr. Wilson, Mr. Bronfenbrenner, Mr. Smith

7. At the request of Mr. Blough on November 28, the following revenue estimates at the fiscal year 1942 forecast levels of business activity, were prepared for Assistant Secretary Sullivan and transmitted in a memorandum to Mr. Blough on November 29: the yield to be derived from raising the tax on brandy from \$2.75 to \$3.75 a gallon, and from raising the tax on other distilled spirits from \$3.00 to \$4.00 a gallon; the yield to be derived from raising the tax on fermented malt liquors from \$6.00 to \$7.00 a barrel; the yield from an additional floor stocks tax of \$1.00 a barrel on distilled spirits and fermented malt liquors; and the yield from an increase in the tax rate to the "next even amount" - an increase of 16 2/3 percent, - on wines, cordials, and liqueurs. - Mr. Wilson

8. At the request of Mr. Blough on November 29, an estimate was prepared for Assistant Secretary Sullivan, and was transmitted to Mr. Blough in a memorandum on that date, of the effect of making future issues of securities of the Federal Government and its corporations and agencies issuing obligations guaranteed by the United States fully subject to Federal income taxes, while State and local governments will continue to issue securities which are fully exempt from Federal income taxes. - Mr. Leahy

7. At the request of Mr. Blough on November 29, a revenue estimate was prepared for Assistant Secretary Sullivan, and was transmitted to Mr. Blough on that date, for each of the next five years of the effect of making future issues of the Federal Government and its corporations and agencies issuing obligations guaranteed by the United States fully subject to Federal income taxes, while State and local governments will continue to issue securities fully exempt from Federal income taxes, on the assumption that the Federal debt held by the public will increase \$5 billions in each of the next five years. - Mr. Leahy
10. As one of a series of projects for revising and improving methods of estimating revenues, a new study was completed of the tax on domestic distilled spirits. - Mr. Smith

II. Projects or studies under way

1. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. T. F. Leahy
2. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101 (11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahy
3. The usual detailed estimates of Federal revenues by sources are being prepared for use in the Budget of the United States Government for the fiscal years 1941 and 1942. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Leahy, Mrs. May, Mr. Chevraux, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith, Miss Hagedorn
4. An estimate for use in the preparation of the Secretary's Annual Report is being made of Federal revenues by sources, assuming two specified levels of national income. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. Leahy, Mrs. May, Mr. Wilson, Mr. T. L. Smith, Mr. Bronfenbrenner, Mr. R. R. Smith

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and were transmitted to the Secretary on November 6, 12, 19, and 27. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained in addition to analysis of the current situation the following special studies:

- (1) Spot prices of wool tops, weekly and monthly, and futures prices, daily, in New York. (Chart in memorandum of November 6). - Mrs. May
 - (2) A forecast of possible freight car surplus in 1941. (In memorandum of November 6. Also described below, under Economic Conditions, section I, as item 11). - Mr. Daggit, Mr. Chevraux
 - (3) A comparison of an index of new orders in the lumber industry and the New York Times index of lumber production, from 1937 to date, weekly. (Chart in memorandum of November 12. Also described below, under Economic Conditions, section I, as item 12). - Mr. Daggit, Mrs. May
 - (4) Prices of lumber and other building materials, and lumber stocks, from 1937 to date, monthly. (Chart in memorandum of November 12). Mr. Daggit, Mrs. May
2. Memoranda on employment under the Work Projects Administration were prepared on November 18 and 25. - Miss Hagedorn
 3. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending November 2, 9, 16, and 23. On November 4, 12, 18, and 25, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Mr. Tickton, Mr. D. J. Leahy

4. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mr. Chevraux
5. A forecast was made of the following basic business series for the calendar years 1940 and 1941 and for the fiscal years 1941 and 1942, for use in estimating Federal revenues in connection with the President's Budget Message: FRB index of industrial production, new and old bases; BLS index of wholesale prices; our index of the value of industrial production; BLS index of factory payrolls; Department of Commerce series on salaries and wages; Standard Statistics index of 419 stock prices; Federal Reserve series on bank debits outside New York City; and New York Times series on volume of stock transfers. - Mr. Haas, Mr. Daggit, Mrs. May, Miss Hagedorn
6. A forecast was made of the basic business series listed in item (5) above, assuming two specified levels of national income. - Mr. Daggit, Mrs. May, Miss Hagedorn
7. A study was made of suitable values for the FRB index of industrial production and the BLS index of wholesale prices for selected levels of national income. The results were used in connection with item (6) above. - Mr. Daggit
8. At the request of Under Secretary Bell on November 27, a memorandum was prepared and was transmitted to him on that date, containing a plan of procedure for detecting bottlenecks in industrial production, by use of surveys, by observing lengths of delivery periods, and by following the movements of prices. - Mr. Haas, Mr. Daggit
9. In connection with the request of Under Secretary Bell (item 8 above), a study was made of average delivery periods for five selected types of steel products reported in "Iron Age" and "Steel" magazines, to determine the amount of delay required before delivery could be promised and the changes in the period of delay from week to week between September and November 1940. A table on average delivery periods on steel bars accompanied the memorandum described in item (8) above. - Mr. Daggit, Miss Spiegel

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10. In connection with the request of Under Secretary Bell (item 3 above), a chart was prepared showing reported new orders and shipments, and indicated unfilled orders of the United States Steel Corporation, and accompanied the memorandum described in item (3) above. - Mrs. May, Mr. Smith, Miss Hagedorn
11. A study was made of possible freight car surplus in 1941 based on past relationship to (1) freight carried one mile, and (2) freight cars owned by the railroads. A method was devised for estimating freight carried one mile by means of its past relationship to the SRS Index of industrial production. - Mr. Daggit, Mr. Chevreux
12. A project was completed during the month which was designed to obtain current figures of new orders in the lumber industry for appraising the outlook for lumber production. The series of new orders reported by the National Lumber Manufacturers' Association has been placed on a seasonally-adjusted basis and expressed in a form suitable for comparison with the New York Times index of lumber production. - Mr. Daggit, Mrs. May

II. Projects or studies under way

1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit

2. Forces determining trends of basic commodity prices.

This project involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed: An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn

3. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales", which is designed to measure the "offtake" of manufactured goods into various consumption channels.

Studies on a monthly basis have been nearly completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Mr. Smith

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October 1939, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

8. Weekly approximations of the FRB index of industrial production.

This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith.

9. Classifications of specified export data by Commerce and Treasury Departments.

A study has been made to determine how to classify export data from the Department of Commerce to conform as closely as possible to the classification in the weekly reports summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as shown by departure

permits granted. Monthly statistics were compiled, on the Commerce classification developed by this division, from January 1937 to July 1940. A memorandum is in preparation showing the Commerce series chosen, with an explanation of divergences in the Commerce and Treasury series. - Mr. Daggit, Mrs. May

Actuarial Problems

I. Projects or studies completed

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

In response to a request from Mr. G. B. Buck, a letter was prepared and mailed on November 7, commenting on a proposed program of work for the Board for the fiscal year 1942. - Mr. Reagh

2. Civil Service Retirement System.

At the request of Under Secretary Bell, a memorandum was prepared and transmitted to him on November 1, making certain recommendations relating to the Civil Service Retirement System. - Mr. Reagh

3. Deferred Income Bonds.

At the request of Under Secretary Bell on November 8, a memorandum was prepared and transmitted to him on November 12, on a suggested form of United States deferred income bonds, which would provide a fixed return during a specified number of years as a deferred annuity certain, and with an optional provision which would continue the income for life after the expiration of the certain period, the bond with the life income guaranteed to be sold at a higher price, the amount of difference being dependent upon the purchaser's age. - Mr. Reagh

4. Retirement System for Haitian Government employees.

The State Department requested assistance in devising a retirement system for employees of the Haitian Fiscal Service. Cooperation was promised the Fiscal Representative of Haiti in preparation of cost estimates on the basis of data submitted. The project has been discontinued unless and until further information is received from the State Department. - Mr. Reagh

5. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees."

A first draft of the chapter on "Financing the Plan" has been in process of preparation. Work on this project has been suspended because the Committee has been disbanded temporarily. - Mr. Reagh

6. Review of Memorandum on Pension Trust Plan vs. Group Annuity Plan.

At the request of the Division of Tax Research on October 29, a review was made of a memorandum submitted by Mr. B. E. Wyatt, University of Michigan, entitled "The Inequitable Tax Provisions of the Pension Trust Plan in Comparison with the Group Annuity Plan", and was transmitted in a memorandum to Mr. Blough on November 6. - Mr. Reagh, Mr. Brown

II. Projects or studies under way

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

There is pending before the Board of Actuaries the matter of approving regulations with respect to the optional benefits payable under the Civil Service Retirement Act. The Comptroller General has decided that a cash refund of voluntary contributions would not be permissible under the Act. On the basis of this decision and other information the Board of Actuaries is now deciding whether to approve the regulations. - Mr. Reagh

2. Board of Actuaries of the Civil Service Retirement and Disability Fund.

The Board of Actuaries is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown

3. Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund.

In cooperation with the members of the staff of the Social Security Board, there is being prepared a draft for the first annual report of the Board of Trustees. - Mr. Reagh, Mr. Murphy, Mr. Brown

4. Actuarial valuation of the Foreign Service Retirement and Disability Fund.

The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. A preliminary estimate of the appropriation required for the fiscal year 1942 has been prepared, and has been submitted to the State Department. - Mr. Reagh, Mr. Brown

5. Retirement System for Field Employees of the Farm Credit Administration.

In response to a request from the Farm Credit Administration on October 10, assistance is being given in devising a retirement system covering field employees in that organization. Several conferences have been attended by a member of the staff, and it is expected that additional assistance will be requested. - Mr. Reagh

6. Federal Communications Commission.

The Federal Communications Commission on November 27 requested additional assistance in connection with the pension plan of the American Telephone and Telegraph Company. In accordance therewith members of the division's staff plan to review and make recommendations with respect to a tentative report prepared by the Commission. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared for the November issue of the Bulletin on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

All the material submitted for the November issue was reviewed and edited. Substantial revision was made in the following tables: Summary table on budget receipts and expenditures and public debt outstanding; Budget receipts and expenditures; means of financing the deficit; Treasury bill offerings since July 1, 1939; and Treasury Department criminal cases in the United States District Courts.

Additional revisions are being considered for the December issue. - Mr. Lindow, Miss Eyre

2. Annual Report of the Secretary of the Treasury.

Articles for the text of the Annual Report for the fiscal year 1940, including the special review have been prepared on the following subjects: Public Debt; Obligations guaranteed by the United States; Absorption of the direct and guaranteed public debt by classes of holders; Bond market developments; Banking developments; Treasury activities under the provisions of the Social Security Act; Treasury neutrality and defense activities; and the Administrative report for the Division. An article on estimates of receipts is in preparation. - Mr. Haas, Mr. Tickton, Miss Michener, Miss Westerman, Mrs. Wolkind, Mr. Turner, Mr. Purvis, Mr. Murphy, Mr. Reagh, Miss Ziegler, Mr. O'Donnell, Mr. Leahey, Mr. Wilson, Mr. Bronfenbrenner, Mr. T. L. Smith

Manuscript for the Annual Report, both for the regular features of the Report and for the special review articles, is being given an editorial review as received. The usual handling of the material is going forward. - Mr. Tickton, Miss Westerman, Mrs. Wolkind

3. Other material for publication.

At the request of Assistant Secretary Gaston on October 18, an article is being prepared on the operations of the Treasury Department during 1940 to be incorporated in the 1941 Americana Annual. - Mr. Tickton

4. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

5. Sources of Statistical material in Annual Report and Bulletin.

Request was made by Mr. Henriksen, Bureau of Accounts, on October 14, for information on the sources of statistical material in the Annual Report of the Secretary of the Treasury and in the Bulletin of the Treasury Department. The material on the Annual Report was transmitted on October 25, and the information on the Bulletin on November 16. - Miss Michener, Mr. Lindow, Mr. Tickton, Miss Westerman

6. Correspondence.

Replies were prepared to letters received on subjects relating to the work of the division, and letters drafted elsewhere and submitted to the division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During October 307 letters were received in the Division and 296 were handled as required.

7. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of November is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during November 1940

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Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New charts:</u>			
Total charts completed	41	15	57
Bond book charts completed	-	-	-
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	25 (times)		25 (t)
All other charts brought up to date	671	24	695
<u>Miscellaneous:</u>			
Total jobs	14	16	30
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	49	34	83
Number of-			
Negatives	138	115	253
Contact prints	115	312	427
Enlargements	89	90	179
<u>Photostats:</u>			
Total jobs	127	7	134
Number of-			
Lettersize copies	929	7	936
All other copies	9,211	190	9,401
<u>Multilith:</u>			
Total jobs	5	4	9
Number of-			
Zinc plates	87	82	169
<u>Miscellaneous:</u>			
Total jobs	8	17	25

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Statistical Report on Work Completed by the
Graphic Section, Division Research and Statistics, by months,
beginning July 1940.

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. Graphic							
New charts completed	45	18	39	43	57		
Charts brought up to date	748	687	716	711	695		
Bond book charts completed	-	2	-	63	-		
Bond books brought up to date	28 (times)	27 (t)	26 (t)	27 (t)	25 (t)		
Miscellaneous jobs completed	23	17	36	32	30		
B. Photographic							
<u>Photographs:</u>							
Total jobs	53	48	66	62	83		
Number of-							
Negatives	151	170	158	220	253		
Contact prints	164	158	250	181	427		
Enlargements	177	96	196	681	179		
<u>Photostats:</u>							
Total jobs	123	116	149	140	134		
Number of-							
Lettersize copies	3,657	342	420	745	936		
All other copies	8,165	12,467	8,967	9,210	9,401		
<u>Multiliths:</u>							
Total jobs	7	5	5	4	9		
Number of-							
Zinc plates	91	131	80	83	169		
<u>Miscellaneous:</u>							
Total jobs	14	12	27	26	25		

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9-3-40

10-1-40

11-1-40

12-3-40

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TREASURY DEPARTMENT
WashingtonFOR IMMEDIATE RELEASE
Saturday, December 14, 1940Press Service
No. 22-89

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of $3/4$ percent Treasury Notes of Series B-1945, National Defense Series.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$4,073,000,000. All subscriptions were allotted 13 percent, on a straight percentage basis, but not less than \$100 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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BRITISH EMBASSY,
WASHINGTON, D. C.
December 14th, 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.

Telegram received from London
dated December 12th, 1940

Naval.

1. During the night of December 8th-9th bombardment by naval units was made on Maktila camp and Sidi Barrani. Royal Air Force and naval aircraft cooperated. All salvoes fell in the target area. On December 11th and the night of December 11th/12th bombardment of Sollum carried out. On December 12th naval vessels actively cooperating with the army advance forces reported estimated 30,000 prisoners taken on Libian front.

2. Reconnaissance of Bordeaux on December 11th shows 9 U-boats in wet dock. Oil refinery on the island in the Gironde completely gutted and bomb holes in oil tanks.

3. Aircraft attacked these U-boats on the night of December 11th/12th - no reports yet. During air attack on the night of December 11th/12th, aircraft security vessel at Brest was not seen to be hit but other bombs scored hits on important targets on the shore.

4. Two convoys in the Thames estuary attacked by aircraft p.m. December 11th, only 2 small vessels slightly damaged.

5. 32 out of 50 town class destroyers have arrived in the United Kingdom from America.

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6. Royal Air Force.Night of December 11th/12th.

<u>Locality</u>	<u>Targets</u>	<u>No. of Aircraft</u>
Mannheim Ludwigshafen)	transportation	20 heavy
Various	aerodromes	17 medium
Boulogne	harbour	2 heavy and 4 medium.

In addition, 6 medium bombers attacked the harbour at Brest.

7. German Air Force.

At Birmingham many fires were reported but all were under control by 5.30 a.m.

8. Aircraft casualties in operations over and from the British Isles.

<u>Enemy</u>	<u>Fighters</u> (by day)	<u>Bombers</u> (by night)
By our fighters	1 destroyed	1 probable 1 damaged

Totals: 1 destroyed, 1 probable, 2 damaged.

British. Fighters:

2 destroyed (1 pilot safe)
3 bombers destroyed.

9. Home security.

Bristol. Following situation reported subsequent to 3 recent night bombing attacks. Gas, about 70% normal. Electricity, 100% domestic, about 90% of industrial supply available. Water, domestic supply practically normal.

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Paraphrase of Code Radiogram
Received at the War Department
at 23:56, December 14, 1940

London, filed 15:40, December 14, 1940.

1. All operations of the Bomber Command on Friday, December 13, and for the preceding night were cancelled because of adverse weather conditions. Planes of the Coastal Command sighted twelve ships in convoy off Helder, Holland, bombing one. One ship was hit north of Utoger light (?) and an unobserved attack was made on another off Norway.

2. The German Air Force carried out but one daylight raid over the south coast of Wales on December 13; and there was limited fighter activity. That night German air attacks were negligible, with some mine laying and one attack on Sheffield.

3. In the Egyptian theater British planes bombed an ammunition depot and motor transport and anti-aircraft at Bardia, wharves and buildings at Tobruk, and a camp and landing fields at Bomba. Aerial reconnaissance showed that the hangars at El Adem were gutted, that there were large troop concentrations in the mountains in the Bardia area, and that a few troops were moving on Tobruk. British forces are in contact with the Italians, who appear to be carrying out a disorderly withdrawal. The British have captured about 25,000 prisoners, which includes three general officers; and 75- and 105-mm. guns have been taken. All the British people are immensely buoyed up by the successes in Egypt. They now understand clearly what Mussolini had in mind when he said that, "Nothing can stop my troops in Africa." He forgot the Atlantic.

4. British bombers in the Sudan attacked Gen Bagot and set fires in Gubba Ham (?).

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5. The Grecian advance into Albania has pushed past Figueras (?). The Italians have transferred six divisions, totalling about 75,000 troops, into Albania since these operations started.

6. Our consul in Liverpool has reported that 32 merchant vessels in convoy that were due on December 5 were attacked and that 14 ships were sunk. There is an unconfirmed report that diplomatic pouches were on board.

7. Our consul in Sheffield has telephoned that the German attack during the night of December 13-14 started at 7:00 P.M. and lasted for nine hours, with the enemy aircraft coming over in waves. Attacks were concentrated on the residential and business districts. The two largest department stores were gutted by fire. Most of the buildings along the main business street and many of the finest residences were damaged. The number of casualties and the extent of damage to industry is not known.

8. Information has become available from official A.R.P. records, to supplement the cabled resume of General Scoullan's inspection of Southampton. The following tabulation shows the cumulative figures for that city up to the dates shown:

	<u>October 31, 1940</u>	<u>December 2, 1940</u>
Killed	189	416
Severely Injured	206	600
Injured	271	610
High explosive bombs	500	1,020

9. Major James G. Taylor, Air Corps observer in this office, inspected Liverpool on December 15 and found that city substantially

undamaged. A large number of incendiary and high explosive bombs and 30 land mines had been dropped on the city. Over 5,000 houses have been destroyed. Casualties were about 1500 dead and 4,000 injured. Losses to shipbuildings, docks and shippings are minor. Transportation and utilities are intact. There have been minor damages to factories. Production has dropped off temporarily, especially at night because of the lack of transportation for workmen. The morale of the civil population is high and few have left the city. Medical supplies and hospital services are adequate and the relief agencies are well organized.

10. During the night of December 11-12, civilian casualties at Birmingham were 25 dead and 303 seriously injured. There was some dislocation of rail facilities but no serious damage to utilities. There was no important damage in London that night. Twenty-eight were killed and 19 injured. In Cheltenham nine were killed and 80 injured.

11. It is quite apparent that the German bombardment does not aim at the destruction of the munitions industry and the actual implements of war, but that it intends to dislocate the life of the workmen, thinking in this manner to disrupt production. It is our observation that this policy is inconvenient and bloody but that it will have small success against the British who are "tough babies".

LHE

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469-A

Paraphrase of Code Radiogram
Received at the War Department
at 3:55 P.M., December 14, 1940

Rome, filed 18:35, December 14, 1940.

As regards Telegram No. 1156 from Department of State:
It is not expected that Germany will give Italy any direct help
of a military nature. The report of the presence of German
"troops" is probably due to the presence of Germans on their way
to Libya to study colonial policies. It is possible that German
ships and perhaps two hundred transport planes may be employed.

The Italian Ministry of War thinks that the situation
in Albania has become much better during the last couple days.
The strength of the Greek offensive has run out, it is felt, and
the Italians now hope to consolidate positions sufficiently far
southward to make sure Valona is safe.

It is reported that General Milch is now in Rome.

Reports from various reliable sources assert that
Yugoslavia has offered to assist the Italians. There is no in-
timation what reward is asked or what the German attitude toward
such a proposal may be.

The British offensive in North Africa is expected by
Germans to stop at the frontier. After that they expect a stalemate
in this theatre of war.

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SPECIAL BULLETIN
No. 29
G-2/2657-231

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 14, 1940

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

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CHARACTERISTICS OF GERMAN ANTIAIRCRAFT
AND ANTITANK MATERIEL

SOURCE

The information contained in this bulletin was supplied by an American official observer in Paris late in October, 1940. For other information on German materiel, see TENTATIVE LESSONS BULLETIN NO. 20, "The German Artillery."

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1. ANTIAIRCRAFT MATERIEL
2. ANTITANK MATERIEL

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CONFIDENTIAL1. ANTIAIRCRAFT MATERIELa. 20-mm. Machine Gun, 30

Field of fire: Horizontal, 360 degrees
Vertical, -10 to 90 degrees
Weight in battery: 460 kilograms
Means of transportation: Tractor
Rate of fire: 320 rounds per minute
Projectile: Automatic explosive
Initial velocity: 845 meters per second
Maximum vertical range: 4200 meters
Weight of shell: 0.14 kilograms
Remark: Also used against tanks

b. 37-mm., Model 1918

Field of fire: Horizontal, 360 degrees
Vertical, +5 to 85 degrees
Weight in battery: 1750 kilograms
Means of transportation: Two-wheel trailer
Rate of fire: 160 rounds per minute
Projectile: Automatic explosive
Initial velocity: 840 meters per second
Maximum vertical range: 4800 meters
Weight of shell: 0.625 kilograms

c. 75-mm. Krupp

Field of fire: Horizontal, 360 degrees
Vertical, +5 to 85 degrees
Weight in battery: 2570 kilograms
Means of transportation: Tractor
Rate of fire: 20 rounds per minute
Projectile: Explosive with mechanical fuse
Initial velocity: 850 meters per second
Maximum vertical range: 11,300 meters
Weight of shell: 6.5 kilograms
Weight of explosive: 0.5 kilograms

d. 80-mm. Rheinmetall

Field of fire: Horizontal, 360 degrees
Vertical, -3 to 80 degrees
Weight in battery: 3800 kilograms
Means of transportation: Tractor
Rate of fire: 25 rounds per minute
Projectile: Explosive with powder fuse

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Initial velocity: 750 meters per second
 Maximum vertical range: 9000 meters
 Weight of shell: 8 kilograms
 Weight of explosive: 0.510 kilograms

e. 88-mm. Rheinmetall

Field of fire: Horizontal, 360 degrees
 Vertical, -10 to 70 degrees
 Weight in battery: 6000 kilograms
 Means of transportation: Tractor
 Rate of fire: 20 rounds per minute
 Projectile: Explosive with mechanical fuse
 Initial velocity: 760 meters per second
 Weight of shell: 9 kilograms

f. 88-mm. Krupp

Field of fire: Horizontal, 360 degrees
 Vertical, -3 to 85 degrees
 Weight in battery: 5000 kilograms
 Means of transportation: Tractor
 Rate of fire: 20 rounds per minute
 Projectile: Explosive with mechanical fuse
 Initial velocity: 840 meters per second
 Maximum vertical range: 10,600 meters
 Weight of shell: 14.7 kilograms

g. 105-mm. Rheinmetall

Field of fire: Horizontal, 360 degrees
 Vertical, 0 to 70 degrees
 Weight in battery: 5500 kilograms
 Rate of fire: 20 rounds per minute
 Projectile: Explosive with mechanical fuse
 Initial velocity: 710 meters per second
 Weight of shell: 17.4 kilograms
 Remark: Fixed gun

h. 105-mm. Rheinmetall

Field of fire: Horizontal, 360 degrees
 Vertical, -10 to 80 degrees
 Weight in battery: 11,750 kilograms
 Rate of fire: 20 rounds per minute
 Projectile: Explosive with mechanical fuse
 Initial velocity: 1000 meters per second
 Maximum vertical range: 17,000 meters

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Weight of shell: 15.8 kilograms
 Weight of explosive: 1.725 kilograms

1. 125-mm. Antiaircraft Gun

Means of transportation: Caterpillar tractor
 Rate of fire: 15 rounds per minute
 Initial velocity: 1000 meters per second
 Maximum vertical range: 12,000 meters

2. ANTITANK MATERIELa. 37-mm. Antitank Gun

Field of fire: Horizontal, 60 degrees
 Weight in battery: 310 kilograms
 Means of transportation: Horse or tractor
 Rate of fire: 20 rounds per minute
 Initial velocity: 800 meters per second
 Perforation: At 300 meters, 45 mm.
 At 750 meters, 30 mm.
 Remark: Mount has mobile trail

b. 37-mm. Antitank Gun

Field of fire: Horizontal, 60 degrees
 Vertical, -3 to 25 degrees
 Weight in battery: 440 kilograms
 Means of transportation: Tractor
 Projectile: Explosive shell with fuse in base or
 with fuse in nose
 Initial velocity: 825 meters
 Perforation: At 400 meters, 40 mm.
 At 1000 meters, 14 mm.
 Weight of shell: 0.69 kilograms
 Remark: Mount has mobile trail

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RESTRICTED

No. 270

SITUATION REPORTM.I.D., W.D.
December 26, 1940.
12:00 M. 14

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.

Unfavorable weather prevailed.

German air activity over England was on a limited scale.

The R.A.F. on the night of December 13-14 made attacks, which were probably very light, on Kiel, Bremen, docks and airdromes in Holland and on the Bordeaux submarine base.

II. Greek Theater of War.

The Greeks, after the capture of Porto Palermo, are pushing on toward Chimara, some five miles up the coast. Elsewhere Greek progress was insignificant.

III. African and Mediterranean Theaters of War.

The British report that in western Egypt, the defeated Italian Army, probably 5 divisions, continues to withdraw toward the Solum bottleneck along the coast highway, only motor road to Libya, closely followed by British advanced troops. The Mediterranean fleet and planes are harassing the retreat.

Patrols were active along the Sudan frontier.

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