January 6, 1941
10:41 a.m.

HM Jr: Hello.
Secy: Hello, Henry.
Knoxi: Good morning.
HM Jr: How are you?
Knoxi: I'm all right. This is in answer to your call of Saturday.

Knoxi: Yes. Well, I wanted to talk to you, Henry, because I had a talk with Admiral Evans of the British Fleet, who has some rather urgent needs which I have been trying to supply for certain items which he was very much interested in. I took the meat axe on my ordnance department and got most of them for him.

HM Jr: Wonderful!
Knoxi: And I took them to the President and got his okay, and I thought you would like to know about them before I told Evans. At least, I thought you would be interested.

HM Jr: Yes, I am.
Knoxi: There is nothing that you need to do, but I just wanted you to have it for your information.

HM Jr: Well, that's very courteous of you. Could you give me a list of the things?
Knoxi: Yes. I'll give them to you right now. I have them right here in the basket somewhere. Just a minute. (Pause) Just a second, Henry.

HM Jr: All right.
Knoxi: I guess we're all looking in the wrong place for them. Oh, yes, here they are. I was looking in the wrong place for them. He wanted some five-
inch, 38 calibre guns with the fire control. We haven't any of those, and I've got to say no to that because we haven't enough to take care of our own ships that are in commission. But he also wanted some binoculars. Hello?

HH Jr: Hello.

Knox: And I went to Bausch and Lomb, and put it up to them good and stiff.

HH Jr: Yes.

Knox: And I found they are only working two shifts, so I got them to agree to work three shifts if I could get some additional aluminum for them. Well, I went to Stettinius and got Stettinius to talk to those people, and they're going to get the extra aluminum. The minute they get that, they are going to work three shifts, and then I am going to suggest to the President that we divide them fifty-fifty, so that they will get as many as we do hereafter.

HH Jr: Wonderful!

Knox: And then they want some four-inch guns of a type we have on hand. They asked for 150 of them, and I find that we have 640 that we were saving to arm merchantmen with them, and I have fulfilled their full request of 150.

HH Jr: Grand!

Knox: And then they wanted some forgings for the flasks of torpedo boats - 21-inch and 18-inch - and I wormed out of our ordnance department the promise to give them 40 from January to May, and 385 from June to November, and 640 from December to May of next year, which I think probably will take care of part of their needs any way.

HH Jr: Yes.
Knox: Now those are the items and I haven't had a chance to see you since I worked this out, and I haven't talked to Evans yet, but I am going to send for him when he comes back and tell him that they can have these things.

HM Jr: Well, I appreciate the courtesy. It makes it easier for me.

Knox: All right, Henry.

Knox: Now, when are you going up to the Capitol?

HM Jr: Oh, about 1:15 or 1:30.

Knox: Are you going alone, are you taking your wife with you, or what?

HM Jr: Well, I have Bell and some other people from the Treasury.

Knox: I see. Well, I'll see you up there then.

HM Jr: And, Frank -

Knox: Yes.

HM Jr: I told Foley to show you that legislation.

Knox: Yes, and I think it is a damned well drafted piece of work. Simple, straight-forward, anybody could understand it. It does the things we want done, and if we can get it through in the form in which it is drafted, it will be just wonderful.

HM Jr: Right. Well, thank you so much. This works both ways, you know. If we keep each other posted, it helps a lot.
Knox: Yeah?

HM Jr: I say keeping each other posted helps a lot.

Knox: You bet. All right, Henry.

HM Jr: Thank you.

Knox: Goodbye.
Copy to Foley 1/6/41
January 6, 1941
10:47

H.M.Jr:
Hello.

Henry L. Stimson:
Hello, Henry.

H.M.Jr:
Good morning.

S:
I'm sorry I haven't been able to be very effective at these discussions about this bill, but I have been laid up for a couple of days.

H.M.Jr:
Well, your people.....

S:
They've been helpful.

H.M.Jr:
They were here all Sunday afternoon.

S:
Yes, and they've just been speaking to me about it. The one thing that worries me a little was the report that Rayburn was proposing to put it in so that it would go to the Foreign Affairs and Foreign Relations Committee on the ground that it would have easier going in those committees.
S: Well, I'm amazed at that because - of course, certainly the Foreign Relations Committee is backed against anything except Isolationists and the Foreign Affairs Committee, while I'm not very familiar with many of the men on the Democratic side, on the Republican side it has got Hamilton Fish, Tinkham and apparently is a pretty Isolationist bunch.


S: Now, if it went in as an individual bill and went to the Appropriations Committee of the Senate, it would have considerably better traveling, I should think.

H.M.Jr: Well, it hasn't been jelled yet but my boys here seem to think that it would have pretty good sledding in Foreign Affairs.

S: Well, how about Foreign Relations? It has got to go to both. Foreign Relations would debate it all winter. The Appropriations would be pretty good. Of course, this is a matter that you know a great deal more about than I do ....

H.M.Jr: No, I don't ....

S: I'm rather amazed.

H.M.Jr: Well, let me give you the background on it.

S: Yes.

H.M.Jr: As I gather - this is a confidential conversation I understood that took place between the President and Sam Rayburn - that he said to the President at this time as Speaker he wanted at least to give the impression that these things originated on the Hill, and the President said fine. And at Cabinet when I gave him this thing he said, now, get this thing to Eaton, Rayburn or McCormack and let them draft it and let them feel that they're going to do it.

S: Yes.

H.M.Jr: And we made no suggestions as far as I know as to where it should go, and I'm under
the impression, and I may be wrong, that this was Rayburn's idea.

S: Well, I heard that too, but I wondered. It seemed as though - it seemed to me as if you were running it right into the lion's den.

H.M.Jr: Well, why don't you, if you get a chance, raise it with the President?

S: Well ..... 

H.M.Jr: We'll be - we meet in Rayburn's room, don't we, today.

S: I supposed we met in the President's room.

H.M.Jr: Well, I think the President's room - that's right. It is the President's room. Well, I'll talk to my boys. I, frankly ......

S: If I can get him on the telephone now I'll speak to him, but I supposed he was very busy.

H.M.Jr: Well, I don't know, but as far as I'm concerned my mind is open, I mean, I have no opinion on it which ..... 

S: Well, I have no reason except the observation of an outsider. I know the two Committees. I've been before both Committees - Foreign Relations recently and Foreign Affairs constantly when I was here before, but of course it has changed somewhat since then, but they've got their old war horses in. Both of those Committees, Foreign Relations particularly, have been packed by the Isolationists for the last twenty years. That's why I was surprised.

H.M.Jr: Well, I'll talk to my boys and tell them what you said.

S: It's merely - mind you, I'm not trying to intervene or interrupt at all. That's just my best judgment.

H.M.Jr: Oh, Harry. Let's - I sent it over to you to get the benefit of your experience and your
advice because I'd just as soon have it as anybody's in town— a little more so. And that's why I sent it over there and I will tell Ed Foley, who has been handling this for me, just what you've said.

S: I think your boys did a very good job on it and I had practically no suggestions to make. They worked over it afterwards with McCloy and someone else in this office ..... H.M.Jr: Greenbaum.

S: ..... and they all tell me it is a very good job, but what I'm thinking is I don't want to see the President's plan turned into a Roman holiday to be discussed all winter by the Committee.

H.M.Jr: Well, it can't be; we haven't got time for that. The situation is too critical.

S: I know, but those damn fools don't know whether it's critical or not, they'll go ahead as they have before. All right, that's just what I imagine.

H.M.Jr: Well, thank you. Thank you for calling.
January 6, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

Re: Meeting of Colonel Maxwell's Advisory Committee

Colonel Maxwell had a meeting of his Advisory Committee this morning, at which I was represented by Mr. Buckley. Several points came up in which I think you will be interested. These are:

1. A proposed proclamation was presented to the group, the effect of which would be to eliminate the need for export licenses on all exports to Canada except arms, ammunition, and material of war. There was no sub-committee report on this proclamation, and it appeared to have been worked out by Colonel Maxwell and the State Department. The reasons advanced for wanting it put into effect were (1) that it would expedite shipment of goods to Canada, and (2) that it would lessen the detail work in the State Department of passing on these applications. It reserved to Colonel Maxwell the right to put any particular items back under the export license procedure if he so desired.

Neither Mr. Buckley nor I had been apprised of the content of this proclamation prior to the meeting, and he suggested in the meeting that there was serious danger at this time with rapid changes in the situation with respect to critical and strategic materials in having our large exports of these items to Canada not require an application. With so much of Canada's buying in the United States not coming through the British Purchasing Commission, there would be a rather serious danger that substantial shipments of items sorely needed in our defense program could be made before they would come to our attention through the customs figures. And even though some of these would be caught through the committees working with the Defense Commission, there are undoubtedly many materials which they are not following closely and many items even within categories they do follow closely which would not come to their immediate attention because so many Canadian orders come through American branches of Canadian firms and Canadian branches of American firms.
In the course of the discussions on this point, Mr. Alexander Henderson, Assistant on Export Licensing in the Defense Commission, supported the view taken by Mr. Buckley, saying that he had been informed of the meeting only a few minutes before it began and had never had an opportunity to examine or study the proposed proclamation. He stated that he was not in a position to say whether the proclamation was wise or not but certainly felt that from the standpoint of his section of the Defense Commission an opportunity ought to be given for careful consideration before any action was taken.

After additional discussion in which one or two others expressed the view that there were some aspects of this proclamation which might benefit from further study, Colonel Maxwell agreed to hold up any action on the proclamation until Friday, January 10, at 3:00 P.M., at which time another meeting will be held. In the meanwhile, I propose to discuss it with Mr. Henderson, of the Defense Commission, and should appreciate your views as to our attitude.

Another proposed proclamation was presented to the group bringing copper, brass, bronze, zinc, nickel, and potash under export control. A sub-committee report was presented indicating that either there was a shortage or danger of a shortage in each of these materials. Since this proposal coincides in most cases with ideas which we have been advancing for some time, Mr. Buckley made no comment, and it was agreed that the proclamation would be considered approved by the Committee. Colonel Maxwell will seek to have the President issue it as promptly as possible. The effective date on this proclamation is February 3, 1941.

Colonel Maxwell then presented to the group General Miles, Chief of Army Intelligence, who had been invited to talk to them briefly about the war situation in various parts of the world. His talk was brief and more or less a recapitulation of information which is generally available on the situation in the various countries. Of interest, however, is the fact that he prefaced his remarks with a reference to economic warfare as a function of export control, stating at the same time his view that economic warfare "must run parallel with military warfare."
4. Of interest also at this time is a statement made by Colonel Maxwell at the opening of the meeting that this was the "first meeting of the new year and the first meeting of this committee as a 'policy' committee". I have no explanation of this statement, nor am I aware that the function of the committee has changed from "advisory" to "policy making". This may have been a leading statement intended to tie in with General Miles' reference to economic warfare.
Copy to Gaston 1/6/41
Hello.

Congressman McCormack calling.

Hello, Mr. Secretary.

Hello, Mac.

How are you today?

Fine.

Happy New Year.

Plenty of them to you.

I've a matter I'm very much concerned about and I want to get to the source.

Right.

Do you know of any proposal to change Joe McGrath in Boston?

News to me.

Well, I'm glad to hear that because I'm - that pleases me very much because I'd feel very disappointed because he's been a great Democrat, his breakdown was due to the work he did for the Party, and he's coming back.

News to me.

Well, I'm glad to hear it because Bill Burke the chairman of the Democratic State Committee just called me up and told me that some fellow by the name of Matthews had called him up at the request of Ed Flynn to find out if he'd O. K. the appointment of a fellow by the name of Brennan to succeed Joe McGrath. Well, of course I couldn't believe it because somewhere along the line I think I'd hear of it.

McC: Sure, but this fellow Brennan, to give you an example – Brennan, while I like him personally, my God, he was a delegate to the Convention at Chicago and he wasn't for Farley – he voted for Farley – he was against the President. That's worse than being for somebody. You and I could be for somebody without being against the other fellow. Unfortunately, we might like to be for both, but we have to make a choice, but this fellow was against the President.

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

McC: And he was out talking to the Press, he was making statements, he was damning everybody who was with the President and of course you know the situation out there. I was the one that had to fight Walsh and the whole gang.

H.M. Jr: I know. You did a wonderful job.

McC: Well, thanks, Mr. Secretary, but I mean the boys looked to me and I was the one that wouldn't be afraid of him, you know, from a political angle. I knew that they wouldn't dare undertake to go into my District to punish me because they'd only hurt themselves. And they know that I wouldn't let them do it without fighting, but this fellow was vociferous. Well, I'm glad to hear that because you'd know.

H.M. Jr: Well, I still think I'm Secretary of the Treasury and I haven't heard anything about it.

McC: Well, all right. Now, we can forget this talk because apparently – because we want to nip it in the bud – that's enough for me, but I was very much concerned because if it was, why I think it would be wrong to change McGrath, but certainly if there was, it would be absolutely unwise and wrong to appoint this other fellow – not that I've got anything against him personally, but politically, why I have.

H.M. Jr: Right. Well, thanks so much. I hope to see you soon.
McC: Well, thank you, Mr. Secretary and anytime you have anything up here, while I'm not on Ways and Means, I still have my love for that Committee.

H.M.Jr: Well, I'll be needing your help.

McC: Well, you can always count on that - I say that because of the respect.

H.M.Jr: Thank you so much.

McC: Good-bye, Mr. Secretary.
January 6, 1941
12:06 p.m.

H.M. Jr: Hello.
Operator: Director Smith.
Harold Smith: Yes.
H.M. Jr: Harold, I see on the ticker that you're seeing the President at 3:15. Do you think you could put on his desk that Executive Order that I'm so much interested in?
S: Well, I talked to him about that, I think it was Friday or Saturday, in relation to this other defense order which he is trying to untangle and he said he didn't want to do anything about it until he got the other thing set up.
H.M. Jr: Well, couldn't he do the two together?
S: Well, I don't know whether he could or not. I think they've both got to be studied and we don't know how the other thing is going to come out. He's talked to Hillman and Knudsen today and he has referred some things to the Secretaries of War and Navy, and that has got to be untangled. I'm very sure of that, or the whole thing is likely to be in a mess. Now, he said he'd like to put it off for about a week.
H.M. Jr: Well, I want to tell you what I'm going to tell him - I think I'm seeing him tomorrow - so I want to lay my cards ....
S: Yeah.
H.M. Jr: Now Martin Dies has got onto this transfer of this Russian money. I don't know how he has done it and I don't know when he's going to get onto this whole thing and blow it, that we're not controlling this business, you see. Hello?
S: Yeah.
And I'd hate like hell to have Martin Dies force our hands and then have the President freeze the thing because Dies made him do it.

Yeah.

Now it's all there. As far as I know Mr. Hull is satisfied and Sumner Welles is satisfied and I just don't want the President to be in a position - I don't think he's very crazy about Martin Dies - to have him criticize the Administration for not controlling these foreign funds and their use. Now he's on it, he's out, he's gotten hold of the Russian thing, and I'm going to tell him that. I think I'm seeing him tomorrow. Now as far as I know - I got the impression from him that he liked the set-up.

Yeah. Well, now, I can tell you that normally you see when a thing like that would come in Bailey would send it around to the interested departments for their reaction.

Yeah.

We have thought that that other thing is so hot......

Which one?

The defense order - in perhaps relation to this that I told Bailey to hold up sending it out because I think eventually we'll have to send it out perhaps. But at any rate before we do, I think we ought to clear it fairly carefully with the President or - I don't know, they've got this whole Defense thing so completely stirred up that I don't know what else might be brought into the picture, and I'm just playing a cautious game with your order so far as any formal clearance is concerned.

Well, I just - I mean, I didn't want you to feel I was going - but I am seeing him tomorrow and I'm going to bring this thing of Martin Dies' to his attention.
S: All right.
H.M.Jr: And I do feel ..... 
S: And all I can tell you is that I've already brought it to his attention.
H.M.Jr: Fair enough.
S: Yeah.
H.M.Jr: Thank you.
S: All right.
Hello.

Hello, Good morning, Henry.

Hello, Arthur. On our usual man-to-man basis, I see in the morning Post that General Dowding......

Oh, yes. I was going to ring you about it this morning. I hesitated to worry you about it. He's coming here and is very anxious to meet you.

Yeah, but I mean it's all in the papers, but nobody asked me, said she.

(Laughs). No. Well, I'm the one to blame on that. I was going to ask you whether you could receive him. I just felt diffident about asking you while this other bigger thing was on the scene. That's all. He's coming here - he's here available at any hour of this afternoon or tomorrow, whenever you like.

Is he in Washington?

He will be here. He was to be here about - arrive about this time. They warned me last night that he will be arriving about this time and I said I would get in touch with you today, but that I did feel that with this legislation in the offing it might be difficult for you.

Well, let's make it tentative for 11:00 tomorrow.

11:00 tomorrow.

Tentative.

That will be simply grand.

If you could call tomorrow - have someone call McKay and just check, you see.
P: Yes, I will.

H.M. Jr: Have somebody call around 10:00 o'clock.

P: Excellent.

H.M. Jr: Will you bring him?

P: Yes, yes. Thank you very much. May I bring him in and then may I do something else? Would it be possible a little later today - we've been talking over certain things that are worrying us about this legislation - would it be possible for me to bring over a little memorandum this afternoon some time of points that are sort of worrying us?

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

P: Or I could even send it over, but I thought there were one or two that might be worth a word with you. I would be a relatively short memo, but ..... 

H.M. Jr: Supposing you come at 4:30 and go to Mrs. Klotz's office.

P: Yes.

H.M. Jr: And I'll be ready.

P: Thank you so much.


P: Splendid. Thank you very much, Henry.

H.M. Jr: Right.
Subject: The Business Situation, Week ending January 4, 1941.

Summary

(1) Preliminary data of the Federal Reserve Board indicate an FRB index of 136 in December, an increase of 3 points over the November figure, and 10 points over December 1939. This will make the average for the year 122, against 108 in 1939 and the previous record of 113 in 1937.

(2) Basic commodity prices rose somewhat further last week, particularly in the foodstuffs group. Substantial advances occurred in lard, cottonseed oil and tallow, attributed in trade reports largely to heavy buying of fats by Russia and Japan. On the other hand, prices of butter, cocoa, and wool showed noticeable declines.

(3) The recent sharp rise in building costs has increased the cost of building a standard 6-room house by 13 per cent, according to compilations for the St. Louis area by the Real Estate Analyst. While lumber costs levelled out in December, labor costs continued to advance.

(4) Export freight is again accumulating at New York, due to increased receipts without a corresponding rise in exports. Our total exports of domestic merchandise, now dominated by war materials, showed about a normal seasonal decline in November.

(5) New orders for steel have held up unusually well during the holiday season. U. S. Steel orders in the Christmas week remained above capacity, though declining to 110 per cent from 148 in the previous week. Steel companies have already found it necessary to allocate some types of steel, giving priority to defense uses.
FRB index reaches new high in December

Preliminary data of the Federal Reserve Board indicate a further rise in the FRB index to 136 in December, a figure higher than most expectations. This represents a 3-point gain over November and is 10 points above December 1939. The sharp gains of the past several months have brought the average FRB index in 1940 to 122, which compares with 108 in 1939 and with the previous record figure of 113 in 1937.

The rise in business activity is bringing noteworthy gains in employment. Total non-agricultural employment in November increased by nearly 40,000 workers, a strong contrast to the normal decline of about 400,000 in that month. The gain over the low of the year reached in February amounts to nearly 1,900,000 workers, the major portion of the increased employment being in manufacturing industries.

The potential expansion in consumer demand resulting from the increased employment and payrolls must be an important consideration in plans for capacity expansion of various industries, if a bidding up of consumer-goods prices is to be avoided. The scope of the increase in buying which has already occurred is indicated by data on retail sales, in dollar values, for the first 11 months of 1940. While non-agricultural employment in that period increased 3.1 per cent over the previous year, sales by department stores increased 5 per cent and sales of semi-luxury goods showed an even greater rise. Motor vehicle dealers, for example, report a gain of 22 per cent, household appliance dealers, 13 per cent, and jewelry stores, 13 per cent.

Basic commodity prices rise further

Indications of a renewed rise in basic commodity prices, particularly foodstuffs, became somewhat more noticeable last week. (See Chart 1.) The price index of 12 foodstuffs again reached a new high since last May, while among the 16 industrial materials only one (wool) declined. In the futures markets at the close of the week, hides, wheat, lard, cottonseed oil and coffee showed outstanding strength.

The decline in wool prices reflects in part an increasing volume of imports of South African wools, which are meeting a good demand. The fact that defense needs for the present fiscal year have already been largely covered has tended to discourage further speculative buying.
Steel scrap continues to advance. The rise in flaxseed prices reflects both an increased demand for paint materials and unfavorable crop reports from Argentina, with the scarcity of shipping space from that country a continuing bullish influence.

Among the foodstuffs, notable advances were recorded for tallow, lard, and cottonseed oil. Tallow prices have been strengthened by reduced supplies and high prices of imported fats and oils used in making soap. Trade reports attribute the recent strong market for various fats and oils in large part to heavy buying of coconut oil and lard by Russia and Japan, impliedly for trans-shipment to Germany. Russia is reported to have acquired large quantities of lard recently, presumably by taking delivery of January futures at Chicago, while Japan is reported to have taken about 500 tons of lard contracted for in December. In addition, trade reports indicate that Russia has bought coconut oil heavily on the Pacific Coast.

Butter prices again dropped sharply under heavy receipts. Cocoa prices continued the decline of the previous week on increased speculative liquidation, reflecting in part a feeling that some arrangement may be made by this country to relieve shipping shortages by taking over British trade routes.

A rise in copper prices is expected shortly in trade circles, owing to increasing tightness in domestic copper supplies. Only one producer is reported to have any copper available for prompt shipment.

Residential construction costs 13 per cent above July

Estimated costs of construction for a standard 6-room frame house in the St. Louis district, compiled each month by the Real Estate Analyst, show an increase of 13 per cent since July. The itemized increases for materials, labor, and general costs are shown in Chart 2.

It will be noted that the largest percentage increase has been in the cost of finished and unfinished lumber. Lumber costs, however, levelled out between November and December, (It may be mentioned that the BLS figures on lumber prices showed a levelling out during the three weeks ended December 14, but in the last two weeks of December a further rise has carried them again to new highs.) The cost of heating and plumbing materials in December shows a decline to below the cost in July, for which the Real Estate Analyst gives no explanation.
The greatest advances during the past month were in labor costs, and general costs have shown a further rise. (Lower sections of chart.)

Ordinarily, an increase of 13 per cent in residential building costs within such a short period might seriously reduce the volume of new home construction. The construction of new housing for workers on defense projects, however, seems likely to offset any drop in private residential building during 1944. The daily average F. W. Dodge residential awards for the first half of December (which include some military and defense construction) were 51 per cent higher than in the same period a year earlier, as compared with a gain of 31 per cent in November and 21 per cent in October.

Steel companies allocating orders

Steel makers have already found it necessary to allocate some types of steel, according to trade reports, giving priority to orders for defense purposes. The delivery situation for some steel products is becoming unusually tight, particularly for the heavier plates. In consequence, some consumers of plates have found themselves unable to secure delivery within as much as 20 weeks, unless the material is needed for defense use.

New orders for steel have held up unusually well during the holiday season. U. S. Steel orders in the Christmas week continued above capacity, the reported tonnage equaling 100 per cent of capacity, as compared with a high figure of 87 per cent in the previous week. Operations of the steel industry will reach a new high at 97.2 per cent of capacity for the current week, which compares with last week’s rate of 96.9 per cent.

To secure a large supply of iron ore next spring, the mining of iron ore will be continued during the winter in larger volume than usual. Ore vessels are being put into condition during the winter months, and there is a possibility that some additional boats may be put in service.

Export freight accumulating at New York

The volume of lighterage freight in storage and on hand for unloading in New York harbor at the end of December reached a new high for the period covered by our reports. (See Chart B.) There is no shortage of storage space, however, since the reported figures for December 31 show only 4,143 carload units in use out of a total of 20,025 units, including covered piers, open piers, and ground storage.
The accumulation at New York results from a recent increase in receipts of freight for export (see Chart 4), while the volume actually exported has remained at a somewhat lower level. (See Chart 5.)

War materials dominate November export trade

War material industries continued to receive strong stimulus from export business during November, while agricultural exports lagged far below year-earlier levels. Total exports of United States merchandise in November declined 4 per cent from the previous month, or about the usual seasonal amount, reducing the monthly total to $321,000,000 as compared with $336,000,000 in October.

Reference to Chart 6 will disclose that the principal declines occurred in shipments of aircraft, iron and steel, copper, iron and steel scrap, cotton and corn, while automobiles and machinery showed the most conspicuous gains. Despite the declines in aircraft and metal shipments, a group of 6 war material items consisting of machine tools, aircraft, heavy iron and steel, non-ferrous metals, firearms, and motor trucks accounted for no less than 40 per cent of total exports during the month.

The gain in automobile exports was due principally to increased shipments of motor trucks, while a moderate increase in exports of metal-working and other types of industrial machinery carried aggregate machinery exports to the previous peak figure reached last April. The decline in exports of iron and steel scrap to the lowest levels since January 1937 reflected the embargo measures put into effect in mid-October, while the 51 per cent drop in copper exports was due to a sharp decline in shipments to Japan. The value of aircraft exports in November was 15 per cent below the previous month and 29 per cent below the record high of last August.

Since the seasonal peak in agricultural exports is normally reached in October, a decline in this group was to be expected. However, in contrast to the decline of 20 per cent from the previous month, the reduction from November 1939 levels was no less than 58 per cent. The severe drop in agricultural exports reduced these items to only 8 per cent of the total, as compared with 22 per cent in the corresponding month in 1939. Cotton exports amounted to less than $5,000,000, a figure $23,000,000 below that of November 1939. Although exports of cotton to the Soviet Union declined somewhat from the previous month, this country took about one-third of the total.
New orders show holiday downturn

Our index of new orders for the last week of December showed a sharp decline due to the Christmas holiday. (See Chart 7.) Previous experience suggests that this or the following week should mark the seasonal low in the new orders index. In the New York wholesale markets, according to press reports, retailers are arriving in record numbers to begin active purchasing of spring merchandise, with initial buying budgets stepped up 7 per cent or more over a year ago.

Weekly business indexes

Due to the usual difficulty of making accurate allowances for holiday influences, the components of the New York Times index of business activity during the week ended December 28 showed wide fluctuations. However, declines more than offset gains, and as a result the combined index dropped to 114.2 from 115.6 (revised) in the previous week.

The principal factors in the decline were substantially greater than seasonal decreases in electric power production and cotton mill activity. However, it should be noted that in both cases the adjusted indexes had reached very high levels, and some reaction in the index of cotton mill activity was particularly likely in view of the sharp rise that had occurred in the previous week. The adjusted index of automobile production also declined sharply, while a smaller drop occurred in the index of steel ingot production. On the other hand, a sharp rise occurred in the index of lumber production and more moderate gains were made by the freight carloadings indexes.

Barron's index of business activity during the week ended December 28 confirmed the trend of the Times index and dropped to 125.4 from 126.4 in the previous week.

Preliminary data for the week ended January 4 reveal a recovery in steel operations which brought the operating rate nearly to pre-holiday levels. However, automobile production showed a further decline, which carried output 5,000 units below the previous week and 11,000 units below the corresponding week of the previous year.
CHANGES IN COST OF CONSTRUCTION OF STANDARD
6-ROOM FRAME HOUSE, ST. LOUIS

Percentage Change, November and December over July 1940

<table>
<thead>
<tr>
<th>Item and Percent Change</th>
<th>July to Dec. 1940</th>
<th>Cost Dec. 1940</th>
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</thead>
<tbody>
<tr>
<td>UNFINISHED LUMBER 32.9%</td>
<td>$493</td>
<td></td>
</tr>
<tr>
<td>FINISHED LUMBER 23.7%</td>
<td>$805</td>
<td></td>
</tr>
<tr>
<td>WINDOWS, DOORS, ETC.</td>
<td>645</td>
<td></td>
</tr>
<tr>
<td>MASONRY AND TILE</td>
<td>655</td>
<td></td>
</tr>
<tr>
<td>MATERIALS 6.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAINT, HARDWARE AND</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>ELECTRIC MATERIALS 1.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HEATING AND PLUMBING</td>
<td>508</td>
<td></td>
</tr>
<tr>
<td>MATERIALS</td>
<td>$3,496</td>
<td></td>
</tr>
<tr>
<td>MASONRY AND TILE</td>
<td>$726</td>
<td></td>
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<tr>
<td>MATERIALS 10.2%</td>
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<td></td>
</tr>
<tr>
<td>UNFINISHED LUMBER 15.2%</td>
<td>182</td>
<td></td>
</tr>
<tr>
<td>PAINT, HARDWARE AND</td>
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<td></td>
</tr>
<tr>
<td>ELECTRIC MATERIALS 13.1%</td>
<td></td>
<td></td>
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<tr>
<td>FINISHED LUMBER 13.0%</td>
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<tr>
<td>WINDOWS, DOORS, ETC.</td>
<td>219</td>
<td></td>
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<tr>
<td>HEATING AND PLUMBING</td>
<td>371</td>
<td></td>
</tr>
<tr>
<td>LABOR</td>
<td>$1,950</td>
<td></td>
</tr>
<tr>
<td>INSURANCE, SALES TAX, ETC.* 14.7%</td>
<td>$375</td>
<td></td>
</tr>
<tr>
<td>GENERAL CONTRACTORS' PROFIT 13.4%</td>
<td>585</td>
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<tr>
<td>SUBCONTRACTORS' OVERHEAD AND PROFIT 6.0%</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>GENERAL</td>
<td>$1,340</td>
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</tr>
<tr>
<td>TOTAL COST, DEC.</td>
<td>$6,786</td>
<td></td>
</tr>
<tr>
<td>TOTAL COST, JULY</td>
<td>$6,004</td>
<td></td>
</tr>
<tr>
<td>INCREASE</td>
<td>$782</td>
<td></td>
</tr>
<tr>
<td>PERCENT</td>
<td>13.0</td>
<td></td>
</tr>
</tbody>
</table>

* MISSOURI SALES TAX (NOW 2 PER CENT ON MATERIALS), OLD AGE AND UNEMPLOYMENT TAX (FEDERAL AND STATE), LIABILITY AND EMPLOYER'S COMPENSATION INSURANCE, FIRE AND TORNADO INSURANCE, COMPLETION BOND.

SOURCE: REAL ESTATE ANALYST.
LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*

*LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL
AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Office of the Secretary of the Treasury
Division of Research and Statistics
CARGOLOADS OF FREIGHT EXPORTED FROM NEW YORK

*AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.*

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

C - 308 - A

Regraded Unclassified
A telegram (no. 14) of January 6, 1941, from the American Consul General at Shanghai reads substantially as follows:

Foreign banks in Shanghai, including American, and vested interests in general, are reiterating strongly the opinion that it would be a grave mistake for the authorities at Chungking to give in to the school of political thought which is in favor of scuttling Shanghai as being no longer valuable to Chinese financial strategy, as would be the case if the national yen in the foreign exchange market of Shanghai were no longer to receive support. It is claimed that much of the advantage of past endeavors would be nullified by such action after so much effort has thus far been spent in keeping up the Chinese currency's prestige at Shanghai. Furthermore, such action would have the effect of forcing practically all interests in Shanghai to lose face in connection with resistance to the encroachments of the Wang Ching-wei regime. It is not likely, in the opinion of an American banker, that the stabilization funds will be drawn upon except for the purpose of supporting an excess of imports. In the opinion of this banker a fund of $50,000,000 (U.S. currency) should be sufficient for that purpose for a year and a half at least under present conditions and it is
it is not likely that speculators will attempt raids once they realize there is a powerful control. This American banker is of the opinion also that the reason for the heavy drains in the past on exchange reserves was that support was being maintained at too high a rate, which at one time may have been done on purpose to allow certain persons to get their money out, but that there is no need for repeating errors made in the past. Fani enjoys still a very great prestige, according to an emphatic statement made by this banker. Besides, it is said again and again, that in spite of the beleaguered position in which Shanghai is in some respects, that city continues to be the financial center of China. It is prophesied that there will be a sharp reflection in the areas controlled by the Chinese of any disaster to the Chinese national currency in Shanghai. For this reason no consideration should be given, except as a last resort, to any abandonment of the position in Shanghai, especially as after the hostilities the concentration at Shanghai of capital investment in industrial plants and otherwise must be used as a source for rehabilitation. Abandonment of the position in Shanghai could serve no useful purpose either to the American position or to Chinese aims and it would assist Japanese aims to destroy loyal
loyal Chinese position and American interests in Shanghai. The view was expressed by another American banker that the American fund (?) for stabilization should be used to keep trade open and on a working basis and later on, if necessary, to set up an allotment or licensing system at a pegged or official rate for specific necessary imports and to permit the existence at levels under those rates of a black market.
To

Secretary Morgenthau

From

Mr. Haga

For the week ended December 25, 1940, Work Projects Administration employment increased 6,000 to 1,878,000 persons. While this figure is 56,000 above employment during the final week of November, it is 274,000 below the figure for the comparable week of 1939.
### Number of Workers Employed - Monthly

#### United States

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>July</td>
<td>3,053</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>3,171</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>3,228</td>
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<tr>
<td></td>
<td>October</td>
<td>3,346</td>
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<tr>
<td></td>
<td>November</td>
<td>3,287</td>
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<tr>
<td></td>
<td>December</td>
<td>3,094</td>
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<tr>
<td>1939</td>
<td>January</td>
<td>2,986</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>3,043</td>
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<tr>
<td></td>
<td>March</td>
<td>2,960</td>
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<tr>
<td></td>
<td>April</td>
<td>2,751</td>
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<tr>
<td></td>
<td>May</td>
<td>2,600</td>
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<tr>
<td></td>
<td>June</td>
<td>2,551</td>
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<td></td>
<td>July</td>
<td>2,200</td>
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<td></td>
<td>August</td>
<td>1,842</td>
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<td></td>
<td>September</td>
<td>1,790</td>
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<td></td>
<td>October</td>
<td>1,902</td>
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<td></td>
<td>November</td>
<td>2,024</td>
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<tr>
<td></td>
<td>December</td>
<td>2,152</td>
</tr>
<tr>
<td>1940</td>
<td>January</td>
<td>2,266</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>2,324</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>2,288</td>
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<tr>
<td></td>
<td>April</td>
<td>2,092</td>
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<td></td>
<td>May</td>
<td>1,826</td>
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<td></td>
<td>June</td>
<td>1,665</td>
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<td></td>
<td>July</td>
<td>1,701</td>
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<tr>
<td></td>
<td>August</td>
<td>1,691</td>
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<td></td>
<td>September</td>
<td>1,704</td>
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<td></td>
<td>October</td>
<td>1,779</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>1,820</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>1,878</td>
</tr>
</tbody>
</table>

**Source:** Work Projects Administration

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

They include certified and noncertified workers.
<table>
<thead>
<tr>
<th>Week ending</th>
<th>Number of Workers (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940 May 1</td>
<td>2,059</td>
</tr>
<tr>
<td>1940 May 8</td>
<td>2,009</td>
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<td>1940 May 15</td>
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<td>1940 May 22</td>
<td>1,945</td>
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<td>1940 May 29</td>
<td>1,926</td>
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<td>June 5</td>
<td>1,858</td>
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<td>June 12</td>
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<td>June 19</td>
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<td>June 26</td>
<td>1,665</td>
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<td>July 3</td>
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<td>July 10</td>
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<td>August 14</td>
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<td>August 21</td>
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<td>August 28</td>
<td>1,691</td>
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<td>September 4</td>
<td>1,690</td>
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<td>September 11</td>
<td>1,687</td>
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<td>September 18</td>
<td>1,689</td>
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<td>September 25</td>
<td>1,704</td>
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<td>October 2</td>
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<td>October 9</td>
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<td>October 16</td>
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<td>November 27</td>
<td>1,820</td>
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<td>1,855</td>
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<tr>
<td>December 18</td>
<td>1,872</td>
</tr>
<tr>
<td>December 25</td>
<td>1,878</td>
</tr>
</tbody>
</table>

Source: Work Projects Administration
to Secretary Morgenthau
from Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £109,000
Purchased from commercial concerns £55,000

The Federal Reserve Bank of New York sold £776 in registered sterling to a non-reporting bank.

In the open market, sterling remained at 4.03-3/4 until late in the day. It closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns £6,000
Purchased from commercial concerns £14,000

As for the other currencies, there was a slight weakening of the Canadian dollar quotation, while the Cuban peso continued to improve. Closing quotations were:

Canadian dollar 14-1/8% discount
Swiss francs .2321
Swedish krona .2365
Reichsmark .4005
Lira .0505
Argentine peso (free) .2360
Brazilian milreis (free) .0505
Mexican peso .2066
Cuban peso 8-1/16% discount
Chinese yuan .05-5/8

We sold $997,000 in gold to the Central Bank of the Uruguayan Republic, to be added to its earmarked account.

We purchased $13,836,000 in gold from the earmarked account of the National Bank of Roumania.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped $5,297,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.
No gold or silver prices were received from Bombay today.

In London, the prices fixed for spot and forward silver were both unchanged, at 23-3/8d and 23-5/16d respectively. The dollar equivalents were 42.44¢ and 42.33¢.

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 775,000 ounces under the Silver Purchase Act. Of this amount, 300,000 ounces represented a sale from inventory, and the remaining 475,000 ounces consisted of new production from foreign countries, for forward delivery.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 6, 1941.

TO: Secretary Morgenthau

FROM: Mr. Cochran

The Federal Reserve Bank of New York reported to us the transactions on the attached statement in Hungarian accounts maintained with the National City Bank of New York and the Guaranty Trust Company of New York.
Account Debit: National City Bank.

Jan. 6

Received From

Amount Credited

$118,400

Account Credited: Central Corporation of Banking Companies, Budapest.

Jan. 6

Received From

Amount Credited

$118,400
January 6, 1941

MEMORANDUM FOR: The Honorable Henry Morgenthau, Jr.

FROM: Nelson A. Rockefeller

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment
COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

January 6, 1941

WEEKLY PROGRESS REPORT
ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

COMMERCIAL

$125,000,000 Loaned for Exchange Crises

The Export-Import Bank has loaned a total of $125,000,000 to meet the exchange crises in the other American Republics, which is expected to carry every Latin American country except Cuba through until next fall. The Cuban negotiations which constitute the final application for an emergency loan to be acted upon are still in process.

Cuba Faces Sugar Problem

The problem of the Cuban sugar crop is receiving increasing attention in Cuban negotiations. The view has been expressed that unless Cuba can market 2,500,000 tons of sugar this year, it will face a serious labor situation. Cuban production has averaged around 2,900,000 tons, and there may be need for financial assistance to carry the additional surplus.

Developments in Materials

Zinc: The President of Mexico is taking steps to solve the labor dispute at the Rosita smelter according to latest reports received from State. The Coordinator’s office has had prepared a preliminary survey of sources of zinc elsewhere than Mexico which indicates the possibility of obtaining 35,000 tons of concentrates per year from Peru, 60,000 tons from Argentina, and 20,000 tons from Bolivia, if the U.S. were to take their entire production.

Long-staple Cotton: Discussions concerning the possibility of increasing our quota on imports of Peruvian long-staple cotton are continuing among Agriculture, State, Tariff, and Coordinator’s office.

Rubber: Preliminary reports from the four rubber survey parties now in Latin America indicate suitable areas for rubber production in Latin America. The survey parties, numbering twenty-five people in all, were sent by Agriculture last August. They have been in every rubber-producing country from northern Bolivia to Nicaragua and will finish up in southern Mexico by the first of February.

Wool: Although the Argentine and Uruguayan wool markets remain firm, there is a lack of shipping space for northbound movement of this wool.
Colombian Debt Settlement

In December thirty-first the Colombian Government offered to the holders of its national dollar bonds a permanent settlement involving the issuance of new three per cent bonds in the amount of the present principal outstanding, plus one-half of the outstanding coupons in arrears, a total of about $50,000,000. State, on behalf of itself, the Treasury, and the Federal Loan Administrator, issued a statement indicating it was their opinion that the offer constituted a fair effort on the part of Colombia to adjust its obligations, although decisions to accept or reject the offer must obviously lie with the individual bondholder. On the following day the Foreign Bondholders' Protective Council, Inc. issued a statement criticizing the offer as less than the Colombian could pay.

Stacy May and Tariff Reports Near Completion

Coordinator's office has been distributing a series of twenty-six commodity studies prepared at its suggestion by the Bureau of Research and Statistics of the Advisory Commission (National Defense) under the general supervision of Stacy May. These reports illustrate complementary relations of the Latin American and U.S. defense economies.

Progress on reports of the Tariff Commission is as follows:

1. The Foreign Trade of Latin America: The Commission will release shortly the section dealing with the commercial policies and trade relations with Mexico. Preliminary drafts of the sections treating Panama and Costa Rica have been completed. When they are mimeographed, these confidential sections will be available to departments and agencies especially interested in the subject. It is expected that the translation of parts two and three of this report will commence shortly.

2. Latin America As a Source of Strategic and Critical Materials: Fourteen of the thirty-five commodity studies have been completed in preliminary form. They have been mimeographed and confidentially distributed.


First Development Group Appointed

When George W. Magalhaes and J. Rafael Oreamuno, member and vice chairman of the Inter-American Development Commission, left Rio de Janeiro last week to continue their tour of South American capitals, they announced the establishment of the first national council of the Commission in Brazil. The members of the council who discussed their duties with the representatives are Leonardo Truda, chairman, former president, Bank of Brazil, and chief, Brazilian Economic Mission to the U.S. last fall; Valentim F. Bocca, vice-chairman; Alvaro Omsco; Héctor Pires de Carvalho; and Jose Rebeco.

Regraded Unclassified
COMMUNICATIONS

Motion Picture Program Takes Shape

The motion picture program, its organization, its aims, and its developments, was extensively discussed at the Policy meeting (Coordinator) last Monday.

As executive committees, formed in Hollywood to help Whitney (Coordinator) carry out his program, has been divided into six sub-committees:

1. The committee on ways and means of finding stories, headed by Sheridan Gibney, head of the Screen Writers' Guild, numbers among its purposes the aim to have each studio produce one or two South American feature films a year, making a total of fourteen or fifteen films. Last year very few films having Latin American themes were produced.

2. The committee on stars to visit South America plans to have one star tour Latin America every month. Twentieth Century Fox is planning trips for Alice Faye and Carmen Miranda, and Paramount is planning one for Dorothy Lamour. Enthusiasm for Hollywood actors and actresses is evidenced by the frequent requests to Paley (Columbia Broadcasting System) on his recent trip that they appear on radio programs whether or not they speak Spanish.

3. The committee on South American film facilities will send several technicians to South America to make a survey of facilities, such as sound equipment, English-speaking extras, etc. It has been difficult to have films taken in South America because motion picture companies have had no knowledge of what facilities are available.

4. The committee on shorts is (a) examining existing material, and, (b) considering possible new shorts for sound tracking in Spanish and Portuguese. At present the possibilities of releasing "Fantasia" and making "March of Time" shorts for South American distribution are under discussion, but it has not yet been determined whether these projects will be undertaken.

5. The committee on art and design will encourage art directors to put Latin American motifs into costumes, etc.

6. The committee of the Academy of Motion Picture Arts and Sciences will direct educational functions; for instance, they are considering the establishment of a Berlitz School at the studios for instruction in Spanish and Portuguese.

The film producers have agreed that the Coordinator's office should advise them on the selection of an individual to read every script dealing with Latin America for the Producers' Association which has authority to disapprove any script deemed objectionable.

The cooperation of the movie industry is demonstrated by two recent changes made in pictures:

1. "Down Argentine Way" has been submitted to the Argentine Embassy for criticism, and a number of scenes are being re-shot at a cost of $40,000 to $50,000.

2. Because of South American objections to Clark Gable in the role of
Pogo ·I
January 6, 1941

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Latin America. "The Grant Dictator" with Charlie Chaplin

has

been

almost universally banned due to protest from the German Embas-

sive, and it is felt that a picture, "Eyes on Brazil," just completed by

Patho, may not be approved for showing in Brazil because of its anti-Nazi

content.

CULTURAL

The following cultural projects received favorable consideration last
Friday at the Executive meeting of the Coordinator's office.

Loan of Public Administrators: Under this plan which will be carried
out by the Moe committee (Coordinator), this office will pay the
travelling expenses and per diem of public administrators who may
be exchanged between the other American Republics and the U.S. or
vice versa.

Art Exhibits: The art committee has unanimously recommended that three
exhibitions of American paintings and water colors with accompanying
catalogs, North American art publications, and color reproductions be sent to South America. The first will go to the principal cities of
northern South America; the second to the principal cities on the west coast; and the third to the principal cities on the east coast.
The books and catalogs accompanying the exhibit will remain in South
America as permanent records.

Archaeological Expeditions: The art committee has recommended ten
archaeological expeditions to Latin America: (1) northern Mexico,
(2) Costa Rica and Salvador, (3) Cuba, the Antilles, and Venezuela,
(4) Colombia, (5) Ecuador, (6) Bolivia, The South Peruvian Highland,
and Lake Titicaca Basin, (7) North Peruvian Highland, (8) Costel
Peru and Chile, (9) Shell heaps of Peru and northern Chile, and, (10)
Brazil. These expeditions seem especially valuable since archaeology
is perhaps the most common link in the history of North and South
America, and is probably the greatest cultural pursuit of Latin
American intellectual leaders.

University of Chicago's Summer Sessions: Under this project the Coordin-
ator's office will assist the University of Chicago in bringing
eminent scholars from Brazil, Cuba, Mexico, the Argentine Republic,
and Peru to the regular summer session of the Harris Institute next
summer.

Ad to Students: A proposal that the Coordinator's office should assist
in the entertainment of a group of Chilean students coming for a
special course at Columbia University this winter was favorably
acted upon. Owing to the additional Latin American students coming
January 6, 1941

to the University of North Carolina this winter, an increase in funds for their trips in U.S. has been authorized.

*Inter-American Literary Magazine:* The meeting felt assistance for the Initial studies in connection with the proposed inter-American literary magazine, which will probably be called "The Hemisphere," was advisable.

**Speakers’ Bureau**

After discussion with Coordinator’s office, Time, Inc. is planning to announce shortly a non-profit speakers’ bureau so that U.S. organizations and groups may more easily obtain speakers on Latin America.
TO  Secretary Morgenthau

FROM  Mr. Klaus

FBI reports:

December 31. Frau von Lewinski, wife of the former German Counselor, has told Thomsen that she is working with Mrs. Wheeler, wife of the Senator, in the America First organization and is preparing at the request of Senators Tydings and Wheeler an outline of Hitler's peace objectives. Frau von Lewinski approached Thomsen for information and assistance.
January 6, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 2 copies of paraphrase of telegram No. 6 of January 3 from the American Legation, Bucharest, with regard to the sale of the controlling interest of the International Telephone and Telegraph Corporation in the Rumanian Telephone Company to the Rumanian National Bank.

Enclosure:

Paraphrase, No. 6, January 3 from Bucharest.

Copy of
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania

DATE: January 3, 1941, 11 a.m.

No. 6

The Legation has just been informed by Mr. Quinn of the International Telephone and Telegraph Corporation that last night the final contracts were signed for the sale of the controlling interest of his company in the Sar de Telefoane to the National Bank of Rumania. The National Bank is to pay approximately $13,700,000 from its funds blocked in the United States to the International Telephone and Telegraph Corporation. It is Mr. Quinn’s understanding that the Federal Reserve Bank of New York has received a request from the Rumanian National Bank to issue the necessary license. He further understands that instructions have been given to the Rumanian Charge d’Affaires in Washington to turn this sum over to Colonel Zeihn when it is unblocked, and the shares in turn are to be given to the Charge d’Affaires. It is provided under the terms of the agreement that the exchange must take place by the tenth of January, and that as soon as the transfer of stock is accomplished, complete operation and control of the Sar de Telefoane is assumed by the National Bank.

Until decision has been made by the Treasury Department on the question of unblocking the funds, Quinn requests that the sale be given no publicity. He said that when he has full texts of the several documents making up the agreement he will furnish copies to the Legation. I will forward them to the Department as soon as possible by pouch.

Quinn.

Regraded Unclassified
Secretary of State,
Washington.

27, January 6, 6 p.m.

In an article in the last issue of the DEUTSCHE (?) KRZEITUNG, Fritz Reinhardt, assistant Minister of Finance, gives data on the Reich's tax revenues for the first eight months of the current fiscal year April to November 1940. During this period taxes yielded 17,086 million marks as against 14,514 million marks during the corresponding period of the 1939-1940 fiscal year. The comparative figures for the three principle taxes were as follows: wages tax 1,900 million marks as against 1,750 million marks assessed income tax 2,159 million marks as against 2,780 million marks and turn over tax 2,619 million as against 2,572 million marks.

According to Reinhardt's estimate the Reich's tax revenues for the fiscal year ending March 31, 1941 will total 26 to 27 billion marks compared with 23.6 billion marks in the preceding fiscal year. Including the wartime contribution of German communes and other miscellaneous items the Reich's revenues from all sources except loans are expected to aggregate 30 billion marks according to Reinhardt. He also stated that no new tax increases were contemplated for the year 1941.

In his article Reinhardt also referred to the favorable conditions in the money and capital markets which have enabled the Reich to reduce without a
January 6, 6 p.m., from Berlin.

The interest rate on Treasury notes has increased from 4 1/2 to 3 1/2 percent.

However, his further statement that "the part of the Reich's expenditure which is met out of tax revenues is constantly increasing" does not check with statistics relative to the movement of the Reich's debt up until the end of September 1940. These data indicate that during the last six months the monthly borrowings of the Reich have increased faster than tax revenues. Please inform Commerce and Treasury.

MORRIS

WGC
Secretary of State,
Washington.

One, January 6, 10 a.m.

The "Central Reserve Bank" opened at nine o'clock this morning in accordance with announced plans.

Sent to the Department, Repeated to Chungking, Peking and Shanghai; by mail to Tokyo.

PAXTON

KLP

eh: copy
January 6, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

With reference to the attached transcript of your
telephone conversation with Congressman John McCormack on
January 6, regarding the possibility of replacing Joe McGrath
as Collector of Customs at Boston, I find nothing in the De-
partment of an official nature regarding the matter. Apparently
no official recommendation has been received.

Mr. Johnson, the Commissioner of Customs, advises me that
Congressman McCormack called him up today and was very much per-
turbed because he said that a Committee had advised him that
it was the intention to replace McGrath and that it would come
through Ed Flynn's office. I feel that it would not be advisable
to agitate the question with Ed Flynn, but see what develops.
The Committee statement alleging the transfer of $15,000,000 from the Soviets to the Reichsbank in New York in the "last two months" is not supported by our records. According to our records, payments and receipts in the Chase to and from Germany and its controlled governments during October, November, and December were as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>October</th>
<th>November</th>
<th>December</th>
<th>October</th>
<th>November</th>
<th>December</th>
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<tbody>
<tr>
<td>Germany</td>
<td>$10,500,000</td>
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<td>$1,050,000</td>
<td>$110,000</td>
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<tr>
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<td>$880,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>$70,410</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Totals</strong></td>
<td>$2,400,000</td>
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<td>$14,625</td>
<td>$1,071,685</td>
<td>$3,450,179</td>
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**Totals for Three Months' Period**

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<th>Country</th>
<th>Soviet Payments</th>
<th>Soviet Receipts</th>
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<td>Hungary</td>
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<td>Japan</td>
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<tr>
<td><strong>Totals</strong></td>
<td>$4,038,035</td>
<td>$9,325,546</td>
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</tbody>
</table>
Secretary of State,
Washington.
41, sixth.
FOR TREASURY:

With reference to the last paragraph of my No. 11 of January 3 in spite of preoccupation with the more fundamental problems of production and manpower there is apparent growing anxiety regarding the internal financial position. Total Government expenditure is certain to exceed the estimates of the July supplementary budget by around sterling 300 million while revenue though given some buoyancy by the degree of inflation already evident may also exceed estimates by something like sterling 100 million but it will not be sufficient to prevent a deficit well above that of the estimates. Furthermore as pointed out in an outspoken article in the ECONOMIST of January 4 the annual rate of expenditure in November and December was above sterling 4,000 million and in the first three weeks of December at the rate of sterling 4410 million which indicates the magnitude of next year's budget. Loans of all types ran at the annual rate of sterling
sterling 1232 million in December and though this was a substantial advance on the rates in earlier months the level is manifestly inadequate to meet the growing deficit. The amounts contributed by the use of gold resources is, as the statistic puts it, "singularly difficult to estimate". Furthermore perhaps they do not wish to count their chickens before they are hatched none of the writers commenting on the budget position mention the relief implied in the President's loan of armaments plan. But anxiety regarding the financial front is in fact based as much on the wage price situation as on a study of the exchequer returns. For example the TIMES of January 4 printed a lucid article by Seaborn Rowntree urging a Government wage policy coupled with family allowances to prevent widespread undernourishment while an editorial on the same day urged a "national" rather than a "government" wage policy, that is a policy agreed to rather than imposed but initiated by the Government for wages generally. Indeed the British experience in the field of wages is important. It is repeatedly urged that delay in facing this problem is the most patent of the present Government's failures and the nature of the problem is well summed up by Rowntree as follows: "The trade unions press for the highest terms they can get from the employers
employers and when the latter argue that in fixing wages the danger of inflation must be borne in mind the workers ask not unnaturally "Do you really believe that the granting or withholding of our demand which only applies to a very small proportion of all the workers in the country would affect the question of inflation one way or another?" When employers reply that in the case under consideration the effect on inflation would be negligible but that the cumulative effect of a number of such wage settlements would be very great then the workers reply, "Well, that's a matter for the Government to settle, they should lay down principles to guide negotiators on both sides". It is important that the Government should do this with the least possible delay for the absence of any unifying principles is leading to much confusion and the adoption of entirely different wage policies by different industries gives rise to much dissatisfaction. He urges family allowances to assure adequate nourishment for children because to achieve this by flat wage increases would be very costly and would foster inflation because from a study made in 1936 in York it appears that about 58 percent of adult male workers have no children while 9 percent have 42 percent of the dependent children. It is possible that statements in today's DAILY TELEGRAPH
41, January 6, from London

and FINANCIAL TIMES regarding impending changes in the Government system of committees coordinating production and economic problems may indicate that at long last the Government is grasping the nettle which has been nourished by its neglect. The political correspondents of these two newspapers state that a new production council to bring about 100 percent mobilization of manpower is contemplated to replace Greenwood's Committee referred to in the Embassy's telegram No. 1517, June 5 while the DAILY TELEGRAPH forecasts a "defence trade and export committee" to frame economic policy and deal with price control and import and export questions. The announcement that the Government would use its compulsory powers made by the Minister of Home Security in a broadcast on schemes for fire watching may also indicate that compulsion may be used in a wide enough field to have some bearing on wage problems.

JOHNSON

OSB
Secretary of State,
Washington,

58, Seventh.
FOR TREASURY.

There is considerable disappointment with last night's official announcement, forecast in the Embassy's No. 41 of January 6, outlining the Prime Minister's replacement of Greenwood's Economic Policy Committee by a new import executive and a production executive, with the directing committee presided over by the Lord President of the Council, Sir John Anderson (formerly by Chamberlain) continuing the coordination of the new bodies and the committees on civil defense, home policy and food policy, and the Prime Minister assuming responsibility for harmony with the War Cabinet's general policy. Those who have recently been urging the importance of a wage policy and steps to check inflation find that these two problems are not mentioned in the scheme. For example, the FINANCIAL TIMES' editorial states: "The present proposals relate to the supply of goods and man-power. They do
do not touch such important associated questions as prices and wages, without the dovetailing of which into a broad scheme the government will find the financial situation becoming increasingly difficult. These are thorny problems but they threaten to become the harder to handle as the delay in dealing with them becomes more protracted. In short, the government still seems not to have realized the need for the formulation of a comprehensive economic policy which is of far more immediate importance than any statement of peace aims." The TIMES' editorial also stresses the same point and deplores the government's apparent hesitancy to use the compulsory powers so willingly granted last May. "Worst of all the impression has been created that on the whole economic side of the war the government are still fumbling without any comprehensive policy." It is significant also that Kindersley in a broadcast last night launching the New Year's savings campaign asking for double the results of last year used the phrase, "It would be a disaster if the increased incomes were to be spent in competing for the greatly reduced quantity of goods available for personal use—for the certain result of such competition must be a disastrous rise in prices". As the TIMES asserts, "The absence of any
any well-considered policy to maintain the real value of the currency is plain enough, and if a disastrous rise in prices is allowed to occur, it will be disastrous particularly to those who respond to Kindsley’s appeal “to save and lend to the limit of their capacity”. The MANCHESTER GUARDIAN which is critical of the scheme on the grounds that it still lacks a responsible minister and staff devoted to dealing with the economic problem as a whole, also stresses in its city column today the urgent need for new ways “to ensure and perhaps to enforce a further expansion of savings voluntary, involuntary and if need be compulsory”. Indeed the present situation seems to underline the advisability of a planned and considered wage policy from the first if inflationary trends are to be avoided no matter what the powers, defined or undefined, of the authorities controlling credit and monetary matters. Incidentally, it is significant that the Federal Reserve Board’s request for more extensive powers to control inflation have been criticized here as an economic anachronism by the very writers who repeatedly criticized their own government for neglecting to prevent inflation. This is obviously because the British experience is proving that control of inflation lies not in money market control along but involves also a realistic grasp of wage, savings and price problems.

NPL

JOENSON
Treasury Department
Division of Monetary Research

Date       Jan. 7, 1941

To:        Secretary Morgenthau

From:      H. D. White

You may be interested in this British device for stimulating economical production and keeping prices and profits of Government armament contractors from rising unreasonably. It is called the "target price" mechanism and has been used widely by the British for some years, particularly in connection with their procurement of aircraft.
Mr. White

Mr. Gass

Subject: The Report of the Price Stabilisation Division on "Bonus" Schemes and "Target Price" Mechanisms Employed in British Armament Procurement Contracts

This is a very good piece of work—informative, admirably condensed, lucidly written and well reasoned.

It describes "bonus" and "target price" schemes used generally in British aircraft contracts and occasionally in contracts for other armaments. The essence of the "target price" idea is a price set by the Aircraft Ministry on the basis of its own observations of actual cost and its own control over the efficiency of operations, supported by constant inspection of both accounting and operations. The essence of the "bonus" idea is the sharing of cost reductions below target price (and of increased costs above target price) between the private manufacturer and the Aircraft Ministry.

Target price is determined from actual cost of production by tests, under government oversight, after "straight-line" production has been attained. Bonuses are paid as a percentage of cost reductions achieved after target price has been set. Costs during the period in which a bonus was earned are used to set a new target price, and so on. The principle of a moving target to keep both profits and prices in line is thereby made the essential feature of British aircraft procurement contracts.

Up to 1938, target price and bonus provisions were so adjusted that efficient contractors earned about 10 percent profit on their turnover. From then until the spring of 1939 prices and bonuses were adjusted to yield a profit of about 6 percent. By the spring of 1939 the efforts of the Air Ministry resulted in a system fixing 'target costs', 'target prices' and bonus schedules so as to yield a maximum of 5% on turnover in excess of normal yearly earnings, but this only resulted where exceptional efficiency operated and the contractor owned the capital assets. The fixed profit element of the 'target price' was scaled down to 3%. (Aviation, August 1940, p. 59, shows the profits of leading American companies, as
a percentage of sales, during 1939, to have been 7.6 percent for Douglas, 8.9 percent for Lockheed, 10.7 percent for Curtiss-Wright, 17.0 percent for Martin, 18.0 percent for United, 25.7 for North American and 30.6 percent for Consolidated.

Perhaps the most important of the lessons of the British experience are:

1. To reap full benefit from a bonus or target price system, there must be adequate provision for frequent revision of target prices.

2. The success of any bonus or target price system is dependent on a sound system of accounting prescribed by the Government.

3. To make a bonus or target price system work, Government must maintain systematic inspection of both production methods and accounting practices.
Price Stabilization Division
Leon Henderson, Commissioner

"BONUS" SCHEMES AND "TARGET PRICE" MECHANISMS EMPLOYED IN BRITISH ARMAMENT PROCUREMENT CONTRACTS

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<th>Page</th>
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<td>2. &quot;Target&quot; Price Setting and Bonus Provisions in Ordinary Commercial</td>
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<td>Contracts</td>
<td></td>
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<td>3. Target Price Setting and Bonus Schemes in &quot;Aircraft Shadow Factories&quot;</td>
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II. Contract Procedures Employed in Procurement of Armaments Other than Aircraft

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Regraded Unclassified
December 4, 1940

"SCHMIES AND "TARGET PRICE" MECHANISMS EMPLOYED IN BRITISH ARMAMENT PROCUREMENT CONTRACTS

This memorandum has been prepared almost entirely on the basis of conversations with British Air Ministry officials and British Ordnance officials now in the United States; in less important particulars it is based on the Reports of the Select Committee on National Expenditure, which are identified below.

The memorandum surveys the use of "target price" mechanisms and "bonus" schemes in British contracts for the production and procurement of armament. Because these devices are used almost exclusively in contract procedures for the production of aircraft, the procedures in that industry have been treated at considerable length in Section I. The lesser extent to which "target price" and "bonus" schemes have been used in the procurement of armaments other than aircraft has been discussed briefly in Section II.

SECTION I
"Target Price" and "Bonus" Schemes in British Aircraft Procurement Contracts

1. Basic Principles and Procedure

"Bonus" schemes to encourage economical production of the aircraft requirements of the British Air Ministry have been used in all Air Ministry contracts since the rearmament program was initiated. Their use has been necessitated by the peculiar conditions of the aircraft industry and the peculiar nature of Air Force needs. The permanent British aircraft industry consists of a small number of firms, each producing special types of planes and engines and each controlling most of its own patents and designs. Hence reasonable prices and efficient production could not be sought by the use of competitive tender. Nor could they be secured by direct negotiation at the time contracts were let. Pressure of time was always acute, and the specifications for aircraft requirements were almost always subject to change during the duration of a contract.
For these reasons it has been necessary to determine prices by actual experience with each contract, and to make special provision to ensure that contractors' costs be kept as low as possible. These objectives have been sought by the use of several forms of combined "target" price setting and bonus schemes. The basic principles underlying the methods of price setting used by the Air Ministry in recent years, and the bonus schemes which supplemented them, will be enumerated below. The evolution of the plans, and the variants employed to meet special circumstances, will be described later.

(a) The actual cost of production of the article is determined by tests after "straight-line" production is attained. These tests are conducted under government oversight (but without detriment to the contractors' responsibility) and the cost accounting methods employed require governmental approval, and all accounts are subjected to governmental audit. Certain elements are mutually agreed upon as constituting cost for the purpose of the test and all subsequent cost computations. Fixed cost items are included only when the contractor owns capital equipment.

(b) On the basis of this actual test a so-called "target cost" is agreed upon between the Air Ministry and the contractor. This "target cost" adjusts the actual cost of producing the test batch for increases and decreases which may be expected to accompany the production of the remaining output under the contract with reasonably efficient management by the contractor. It provides the point of reference for both the basic price to be paid the contractor for subsequent production and for the determination of his "bonus", as described below.

(c) The "target price", which is the base price promised the contractor for his output under the contract, is determined by adding to the "target cost" a fixed sum per unit for profit determined as an agreed percentage on the estimated "target cost" per unit; it is designed to ensure that total profits do not exceed what is considered an adequate and equitable profit on turnover. In practice, the Air Ministry usually takes into consideration, when fixing the price, the remuneration which the reasonably efficient contractor is likely to receive on account of the bonus described below, so that the total remuneration including the bonus should represent a fair return. This rate of return on turnover is calculated to yield a fair and adequate return on the capital investment of the contractor, or to represent a reasonable reward for economical management, where the assets are government-owned.

(d) The "savings bonus" is a percentage of any reduction below "target cost" which the contractor achieves on subsequent output. Actual cost is computed in the same manner as the cost of the test "batch." The contractor receives percentages of any reduction of actual costs below "target costs" according to a prearranged schedule of progressively increasing bonuses. Complementing the bonus schedule is another, used in commercial contracts, by which the Air Ministry and
the contractor share any amounts by which actual costs exceed "target costs."

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Virtually all Air Ministry contracts provide for revision of the "target costs" and of "target prices" should changed conditions make such revision appropriate. In fact, revisions based on subsequent tests of straight-line production costs are almost universal in large contracts. In certain cases revision is made at stated intervals of time but a more typical practice is to revise the "target price" at appropriate "batch" stages corresponding to production schedules. The principle of a "moving target" to keep both prices and profits in line and to make bonus payments depend on efficiency alone is thus an essential feature of British aircraft "bonus" contracts.

A hypothetical illustration of the operation of a typical bonus scheme follows: If the actual unit cost of the test "batch" were £100, and straight-line production indicated reasonable prospects of cost reductions, the "target cost" for the next batch might be left at £100, in order to make it possible for the contractor to effect some savings without great difficulty. But the contractor's share of savings in this "easy" region would be limited to 10%. As savings become more difficult, the sharing would be stepped up to 20% and ultimately to 30%. The "target price" might then be set at £105 which would yield £5 for fixed profit. If the contractor's actual cost for a subsequent "batch" were £90, and the bonus schedule provided for his receiving 10% of the first 5% savings, 20% of the next 5% and 30% of all further savings, below "target cost," his share of savings would amount to £15. (The actual price he receives would be £97½ the target price of £105 minus £15 which is the Government's share of the savings.) On an actual cost of £90, therefore, the contractor receives a profit of £7½ which equals 7.7% on his turnover. Had his total cost equalled the "target cost" at £100, he would have received the "target price" of £105, but his profit would have been only £5, or about 5.6% on turnover. Had his actual cost been £105, he would have received nevertheless only the "target price" of £105 plus one-third of the excess cost of £5 i.e. £5-1/3. His total revenue would thus be £105-1/3 and he would reap a profit of only £1-5/3, roughly 4% of his turnover. (In this case, as typically, the contractor bears one-third of the first 5% excess, two-thirds of the next 5%, and the whole of any excess beyond 10% of the "target cost.")

2. "Target" Price Setting and Bonus Provisions in Ordinary Commercial Contracts

The first tentative step towards the adoption of bonus schemes
in aircraft contracts with private firms was taken about 1927, for
the purpose of securing for the Air Ministry any savings made in
production, and to insure that the contractor would not reap ex-
orbitant profits. Although the simple arrangement adopted at that
time did not in itself constitute a bonus scheme, it is described
in this memorandum because it provided the Air Ministry with the
basic procedures upon which bonus schemes were subsequently de-
veloped.

This scheme simply prescribed a maximum price to be paid to
the contractor set as to yield, according to Air Ministry estimates,
about 10% on turnover. The contractor was required to refund to
the Air Ministry in their entirety all savings achieved below this
maximum price as compared to actual costs plus 10%. The contractor,
however, bore all risks of exceeding the estimated cost and received
nothing in excess of the maximum price. Since the scheme provided
the contractor no incentive to minimize cost, the objectives of
securing efficiency and minimizing air procurement cost were not
fully assured.

The first true "bonus scheme" was adopted in 1935. That
scheme provided that savings, determined in the manner described
above, should not be returned entirely to the Air Ministry, but be
shared with the contractor according to a formula related to the
facts of the particular case. A typical instance would be; Of the
first 5% reduction below "target cost", the contractor would receive
10%; of the next 5% reduction, 20%; whilst of savings in excess of
10% below "target cost" the contractor would receive 50%. If the
contractor's cost exceeded the "target cost" he suffered the entire
loss beyond an excess of 10% with a scaled sharing of excesses up to
that limit as indicated above. In this as in later bonus schemes
"target costs" were fixed to permit some savings at the 10% sharing
level, but in order to earn bonuses at the higher rates a contractor
had to be exceptionally efficient.

The foregoing represents the developed practice as it emerged
in 1938 but since, as in the earlier period, 1935-1937, the primary
concern of the Air Ministry was to ensure profitability of aircraft
production despite small turnover, the maximum price was so fixed
that when the bonus was added the contractor would earn about 10% on
turnover. But at that time the contractor carried all excesses of
cost beyond the maximum target price.

About 1938 the greatly increased turnover of the contracting
Aircraft firms made it possible and desirable to reduce basic rates of profit on aircraft contracts. Prices and bonuses, though determined on the same principles as earlier, were not fixed so as to yield, with reasonably efficient management, about 6% on turnover. The target price was set at about 4% above "target cost." The latter was fixed so as to make it fairly easy for the contractor to realize savings sufficient to yield him an additional 2%. Only by exceptionally efficient operation could he make savings sufficient to bring his profit much above 6%.

By the time the war began the turnover of aircraft firms was large as to make even a 6% profit on turnover unnecessarily high. By the spring of 1938 the efforts of the Air Ministry resulted in a system fixing "target costs," "target prices" and bonus schedules so as to yield a maximum of 5% on turnover in excess of normal yearly earnings, but this only resulted where exceptional efficiency operated and the contractor owned the capital assets. The fixed profit element of the "target price" was scaled down to 3%.

As explained above, "target costs" were adjustable by agreement should changed cost conditions make them obsolete. Furthermore, except on small contracts, the Air Ministry early adopted the policy of adjusting "target costs" rather frequently to insure that prices, bonuses, and the total profits of contractors remain reasonable. In large contracts revisions were often made about every 300 units of output; in some cases the revision was almost a continuous process due to frequent changes in specifications. No formal arrangement for periodic revision was, however, incorporated in contracts with British firms. The Air Ministry and the aircraft firms had sufficient experience with, and confidence in, each other to make informal procedures were considered sufficient.

In a very recent contract between the British Air Ministry and a British aircraft firm, the Houdaille Company, for the procurement of machine guns, a formal arrangement for adjustable target price and bonus determination on a somewhat different principle, is embodied. This arrangement is considered especially appropriate to a contract with the procurement agency and the contractor have had experience with each other's methods.

The Houdaille contract provides that the actual price paid the company be set for each quarter-year as follows, subject to the clause that in no circumstances will a price of more than $350 per gun be paid: The maximum price which will be paid the company during each quarterly period is equal to the actual cost of the previous quarter year, plus a fixed manufacturing fee of $3 per gun, plus a fixed royalty payable to the Colt Company for the use of design. Should the company's
cost plus the fixed fee plus the royalty in any current period be below this maximum price, it receives its actual cost plus fee plus royalty—except for any adjustment on account of the bonus described below. Should, however, its cost plus fixed fee plus royalty rise above its maximum price for the current quarterly period, it receives, nevertheless, only the maximum price—plus bonus, if any. Its actual cost plus fee plus royalty for the current period thereupon becomes the maximum price for the ensuing period, and the same procedures obtain for determination of the price paid the company during that period.

The above procedure by which basic prices are determined is supplemented in the Houdaille contract by the following bonus scheme: The base for the bonus is the fixed maximum price of $350, regardless of subsequent costs of production. The contractor receives one-quarter of any amount by which his actual cost of production plus fee plus royalty in any quarter falls below this $350 maximum price; the remaining three-quarters of these savings are retained by the British Government.

The company, therefore, has two continuing incentives towards economy: First, its 25% share of any savings made by producing a gun at a cost below $350, and second, the fact that should its costs during any period rise above those for the previous period, its base profit during that quarter will be correspondingly reduced.

5. Target Price Setting and Bonus Schemes in "Aircraft Shadow Factories" 1

The typical system described in the previous section was applied without fundamental alteration to production in the so-called "shadow factories", government plants constructed and operated by contractors as government agents.

The original shadow factory agreements called for construction of the plants and a stipulated output of engine components, engines, or airframes. Later contracts covered further production by these factories. No bonus features were included in the construction contracts, which simply provided for payment of fixed construction fees, roughly proportioned to the size of the plant. With respect to production, however, a basic fixed fee, proportioned roughly to the expected cost of output—originally to the costs of private firms which produced identical aircraft products, but later to costs as revealed by shadow factory experience—was supplemented in all shadow factory contracts by bonus schemes.

As in the schemes used in commercial contracts, the bonus for efficient management was based on the relation between a "target cost"

---

(called in these contracts a "basic price") and actual cost of production. This "target cost" did not include, as did "target price" in commercial contracts, a profit item, since the government owned all capital and the contractor received his basic remuneration in the fixed fee mentioned above. For the same reason "target" and actual costs did not include fixed cost elements; the "target", however, include costs of labor, materials, insurance, maintenance and other operating expenses.

Procedure for the determination of the "target cost" was as follows precisely in the contract. If there was no difficulty in obtaining agreement, "target cost" was to be based on the actual cost of the first "batch" of twenty-five planes or engines produced as soon as straight-line production was reached. Should the Air Ministry and the contractor be unable to agree, successive "batches" of twenty-five units, up to five, were to be run off, the fifth "batch" to be accepted for target cost setting if prior agreement had not been obtained. Should no agreement be reached on the basis of the fifth "batch", there was resort to arbitration. The arbitrator was one person agreed upon between the Air Ministry and the company, or, in default of agreement, a person to be appointed by the Lord Chief Justice of England.

The actual cost of production was thereafter obtained for the output of each four-week period. The contractor was given credit in a special "bonus account" for agreed percentages of any savings by which his actual cost during that period fell below "target cost" for the units produced. Conversely, the contractor was debited the same percentages of any excess of actual cost over "target cost." At the end of the contract any net amount standing in the credit of the contractor in the bonus account was paid to him as a reward for efficient and economical operation. The contractor suffered no loss of revenue should his actual costs over the life of the contract exceed "target cost." The fixed fee was thus a guarantee to the contractor.

The contractor was paid increasing percentages of "savings" as his savings relative to "target cost" increased. In the original fixed factory agreements the contractor received 12½% of the savings up to an amount which, in the case of airframes, represented about 5 or 6% of their originally estimated actual cost, and 17½% of all further savings. These percentages, as well as the basic operation fees were readjusted downward in later shadow factory contracts, but the principle of progression remained the same. Although the Federal Shadow agreements contained no arrangement for periodic
Revision of the "target cost", it was agreed that if changes in the cost of materials or wages, or other factors not related to the contractor's efficiency of operation, should make the "target cost" appear unfair to either party, it should be varied by agreement to give effect to such changes. If agreement upon such readjustment proved impossible, resort to arbitration was provided. In later shadow contracts the "target cost" was reset from time to time, often after each 500 units of production, by new tests of the cost of producing additional "batches."

The only essential differences, then, between the bonus schemes used in commercial contracts and those used in shadow factory agreement were: (1) In the shadow factory schemes the basic remuneration of the contractors was not fixed by determining a "target price" as in commercial contracts, but was a negotiated fee proportioned to estimated cost of production—originally to the costs of similar products produced by private firms, but later to the costs as revealed by shadow factory experience. The sole use of the "target cost" device was to help determine the amount of bonus which would supplement the fixed fee; (2) The determination of cost was simplified by the exclusion of overhead cost items; (3) The amounts by which actual costs exceeded "target cost" was debited against earned bonus, but the contractor suffered no loss of income if over the life of the contract, actual costs were higher than "target cost"; (4) Provision for arbitration was formally agreed upon; (5) The schedule for the sharing of savings was less elaborate.

The importance of the bonus provision to the net income of the contractor is indicated by the fact that, in the original contract for the production of Bristol Blenheim bombers, a reduction in actual cost of even 5% below "target cost" raised the contractor's profit on turnover from about 3.7% to 4.6%. Should costs be cut by 10% the profit on turnover would be 5.8%.

The above method of "target" cost setting and bonus payments has continued in operation in shadow factory contracts since the original agreements, although the fixed fees have been greatly reduced and the "target costs" have been successively readjusted downward. The total remuneration of the contractor, which in the original agreement amounted to about 5 to 7%, has been reduced to about 2% on turnover.

Outstanding Lessons of British Experience

In the opinion of British Air Ministry officials the following
Important lessons have been learned from their experience with "target price" and "bonus" schemes;

(4) Bonuses schemes applied to the production of air force requirements are highly useful in encouraging economy and reducing Air Ministry costs. They have not been found useful in connection with the construction of aircraft plants on government account because of the impossibility of using actual experience as a test to determine costs of construction under normally efficient management;

(5) Negotiation of contracts and the commencement of actual production are accelerated by the knowledge that prices will later be determined at a reasonable level by the target system. The addition of bonus schemes further facilitate negotiation by assuring the contractor that he will benefit from all increases in efficiency which he may subsequently develop;

(6) The British Air Ministry considers the use of bonus schemes to encourage speed inadvisable. They feel that contractors can be relied upon to speed production under the stimulus of sharing of savings and that to pay pure bonuses for early deliveries to profit-making corporations would lead to labor unrest;

(4) Bonuses for reducing costs need not be complemented by penalties for failure to attain economy, other than liability for sharing of excess costs beyond the "target cost", if prices are determined, as in the target system, in such a way that contractors' profits decline as their costs rise;

(6) No bonus scheme designed to encourage economy is an adequate substitute for a sound method of fixing basic prices on government procurement contracts. In fact, British Air Ministry experience indicates that the efficacy of bonus schemes designed to promote economy and to prevent unjustified profits or undeserved losses to contractors requires a method of fixing base prices which accurately predicts the actual cost of straight-line production under reasonably efficient conditions;

(6) In the absence of adequate cost precedents, the "target cost" and "target price" system, under which actual cost experienced in producing the contracted article is obtained, is the best method by which prices and bonuses on aircraft procurement can be determined. The advantages of its use may be summarized as follows:
(1) By basing prices upon actual costs of production and by providing for their periodic or continuous revision, it insures that the basic profit paid the contractor is closely related to his actual cost of production;

(2) When combined with a bonus scheme, it insures that this cost of production will be as low as diligent management can make it;

(3) Because the bonus, which is an integral part of the total remuneration, is based upon an accurate test of his cost conditions, the contractor's total remuneration will depend upon his efficiency and not upon fortuitous circumstances beyond his control;

(4) To reap full benefit from a bonus or "target price" system, the government must include in its contract practical provisions for revision of "target prices" at frequent intervals of time or production. Definite revision provisions are particularly advisable when the government procurement agency has limited experience with such systems or with the firm under contract;

(5) The success of any bonus scheme, as well as of the "target price" system, requires an adequate system of accounting prescribed by the Government;

(6) Governmental oversight (but without detriment to the contractor's responsibility) of the production of the test batches, upon which target cost is based, and adequate auditing of contractors' accounts, are essential to the success of any bonus or "target price" system;

(7) The British Air Ministry has found it advisable to set "target cost" sufficiently high to permit the normally efficient contractor to realize some savings bonus, but to consider such anticipated bonus in calculating the "target price."

(8) If an elaborate sub-contracting system is developed, the same "bonus" and "target price" systems employed by parent firms can be incorporated in agreements with sub-contractors.

(9) The Excess Profits Tax applies a chargeable rate of 100% to all "excess" business profits earned since April 1, 1939. The incidence of this tax has virtually nullified the incentives to economy provided by "bonus" schemes. However, both "target prices" and "bonus" systems have been retained as the best available means of directly controlling costs, prices and profits.
Contract Procedures Employed in Procurement of Armaments Other Than Aircraft.


Bonus schemes have not been used in the procurement of the ordnance requirements of the British War Office or the British Admiralty. Their use has been considered unnecessary for the following reasons:

(a) The immense experience with the production of all types of ordnance, amassed in the several Government ordnance factories, provided the procurement agency with adequate data concerning the cost of producing these armaments;

(b) The whole production system was based upon elaborate production "layouts" (charts, photographs, drawings, blueprints, specifications, and instructions) which closely estimated the amount of material and the number of men and machine hours required in the production of each component part, and the probable cost thereof; a check of methods, output and costs was made at frequent intervals.

(c) A large number of experienced firms capable of making ordnance, according to the above methods, were usually available. Such firms, acting as parent firms, formed the nuclei of a large subcontracting system, each unit of which was capable of satisfactory production under the system mentioned above.

Accordingly, the competitive tender system was practical in most cases and has continued in general use up to the present time in both War Office and Admiralty ordnance procurement contracts. Although such contracts stipulated a fixed price, they almost invariably included an escalator clause which provided for revisions of that price should those costs beyond the control of the contractor change. The basic profit included in this fixed price was formerly
about 10% in both Army and Navy contracts; this profit item has, however, been reduced since early 1939 to lower levels.

Where straight competitive bidding was impracticable, where the experience of government arsenals was not convincing, or where a firm was asked to make a product in the production of which it had little or no experience, the following system of "target price" setting (not, however, complemented by "bonus" schemes) was employed: The cost of a "test batch" was determined by a time and cost study of its production. The test was run in accordance with the "layout" provided by the government arsenals and under the close inspection of arsenal officials. The cost of this batch having been ascertained, it was compared wherever possible with a "bogey" cost based on the experience of the government arsenals. If the contractor's cost was, in the opinion of the procurement officials, reasonably in line with the "bogey" and reasonably indicative of subsequent cost of production, a fixed price, based on results of the test, was adopted for subsequent output for the entire life of the contract. As in the contracts let by tender, the price was fixed so as to yield a fixed percentage, originally about 10%, on turnover. Escalator clauses were likewise included.

Should the contractor cut his cost below that upon which the price was set, he reaped the entire benefit; conversely, should his costs be above those anticipated, he suffered the entire loss.


In constructing some of the cantonments for the British Army, an attempt was made to apply the target price and bonus system. The following paragraphs from the Third Report of the Select Committee on National Expenditure, printed May 7, 1940 (pp. 7-9) outline the scheme and the reasons for its apparent failure:

"The contracts for these camps, known as 'target price contracts,' provided that the contractors should be paid (a) actual and necessary prime costs, (b) a fixed fee calculated as a percentage of an estimated cost and covering overheads, profits and the use of certain tools, and (c) a bonus on any saving they succeeded in making on the target price. The target price may perhaps be best described as 'an adjusted price of a previous estimate having regard to local conditions and the cost of labour.' Its purpose was to encourage economy in building, by fixing a reasonable basic estimated cost, such as would enable a contractor by
the exercise of care, energy, and ability, to reduce this basis or target cost and thus to earn a bonus.

"This theory has proved entirely unworkable in practice. As the cost of labour and material varied so extensively, the actual target price could not always be ascertained until the work was approaching completion. The Sub-Committee were informed that the system was adopted in order to find out the theoretical cost of a camp under certain specified conditions, but, as these conditions rarely prevail, the target price becomes of little practical utility. In effect, the incentive to economy only exists as long as the contractor has a prospect of earning a bonus. Although the divergencies between the original estimates and the final cost are at present unknown, the general indication is that the latter will be greatly in excess of the estimates.

"The Sub-Committee consider that the failure of the target price system and the resulting inadequate returns to contractors have led firms to accept more work (involving few extra overhead charges) than they could effectively deal with, and that this has led to much inconvenience and delay. They do not think that the supervision of work has been effective or satisfactory....

"Since speed is no longer the dominating factor, a stronger incentive to economy may now be provided by obtaining fixed price tenders by competition, subject to subsequent measurement. In order to induce firms to tender at reasonable prices under existing conditions, "variation clauses" are included in these contracts by which the fixed contract price may be varied up and down after the date of acceptance, in accordance with clearly defined alterations in the rate of wages and the market prices of materials."

Contract Procedures in Ship Construction and Repair by the Admiralty.

So far as we have been able to ascertain, no bonus schemes or "target price" mechanisms have been employed by the Admiralty in contracting for the construction of ships or their repair. Contracts for ship construction have traditionally been let on a competitive tender basis and this system generally obtains at the present time. During the first year of World War II, because of shortages of time and facilities, the Admiralty has used various types of "cost-plus" contracts, but the Select Committee on National Expen-
diture has recently recommended that the Admiralty revert to its traditional fixed price contract system. A more complete discussion of contract procedures traditionally and recently employed by the Admiralty in the construction and repair of ships is contained on pages 3-5 of the Seventh Report of the Select Committee on National Expenditure, printed June 25, 1940.
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Office of the Secretary of the Treasury Division of Research and Statistics.

January 6, 1941.
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Notice to the Secretary of the Treasury, Division of Research and Statistics.

January 6, 1941.

Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 5 percent of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

As defined in the President's regulations of July 26, 1940.
Military Supplies for Greece

Since our memorandum of December 14th, there have been the following developments in this situation:

On the 18th of December the British Charge d'affaires told the State Secretary of State, Mr. Welles, that the Greek Government had informed the British Government that they would accept 30 planes from the British aviation forces in Egypt in substitution for 30 P-40s offered by this Government. Apparently shortly after this the Greeks reserved their stand, since on December 20th Mr. DePasta came in from the Greek Legation with a memorandum rejecting the offer of Defiant planes and discussing the reasons why the Greek Government "insists on securing P-40 airplanes". However, three days later, December 23rd, the State Department, as a result of an exchange of cables with the American Minister in Athens, apparently still felt that the matter would eventually be cleared up by the British turning over to the Greeks certain planes which they had in Egypt.

On December 30th the Greek Minister came in to see Mr. Young of the President’s Liaison Committee and explained, in connection with the 30 pursuit planes, that he had been instructed by his government to accept delivery of any modern American pursuit plane, not necessarily the Curtiss P-40. In response to a suggestion, he said he had no instructions from his government in regard to accepting any British planes, even though they might be of a type superior to those heretofore offered the Greeks.

On December 31st Mr. Murray of the Near Eastern Division of the State Department showed to Mr. Young copies of a letter from Mr. Butler of the British Embassy, stating that the British were willing to turn over to the Greeks 30 Curtiss P-36a (Mohawks) immediately, if the United States Government would undertake to deliver 30 P-40s (Tomahawks) to Greece by an American steamer at an early date. At this point, Mr. Murray produced a copy of a cable from the American Minister in Athens, as well as a report of a conversation on December 28th between the Greek Minister and Mr. Murray, both to the effect that the Greek Government will accept in lieu of P-40s any modern United States pursuit plane, if it is of a type now on order by the United States Army. (This restriction had not been mentioned by the Greek Minister in his conversation of the 30th with Mr. Young.) Accordingly, there
was also discussed at this time the possibility of obtaining a release of the Republic P-43a now being produced for the Army. While these planes are not armored, they might prove suitable for us by the Greeks and would certainly fulfill the conditions set forth by that Government. In the course of this conversation with Mr. Murray, it also developed that the Greeks, as a result of their conversations with the Under Secretary of State on November 20th, had come to expect eventual delivery of 60 planes by the United States, 30 more or less immediately and 30 over a period.

**Ammunition:**

A long list of Greek ammunition requests was brought in by the Minister on November 13, 1940. At that time it was suggested that the Greek Government confer with the British Government to see what part of this list could be supplied direct by the latter, then with the British Purchasing Commission to ascertain what part of the remainder could be supplied by that organization and that we would then be glad to consider with them whatever requirements remained.

The next development of any importance in this matter was a short list of 5 items left by the Greek Minister with Mr. Allen in the Near Eastern Division of the State Department. This list was checked with the War Department and on December 28th Mr. Joe Green reported that while certain of the items were apparently somewhat similar to United States Army items, there was definitely no surplus of any of this material. This statement was subsequently confirmed directly with Colonel MacDorland.

In the meantime, a specific request had been made for a small amount of 57 mm. ammunition to be released from Navy surplus stocks. This ammunition had not been part of that mentioned on either of the two lists.

On December 30th the Greek Minister came in to see Mr. Young and was told that there was apparently some question as to the availability of the items which he required, at least out of Army stocks, in view of the shortness of our own supplies. The Minister said he appreciated this point and was accordingly writing Mr. Hull a letter, asking for special consideration in this connection.

On January 3rd, 1941 a group consisting of the commercial councillor of the Greek Legation, a Greek army ordnance expert, and a representative of the British Purchasing Commission, Captain Leigh, came in and spoke to Mr. Williams of Mr. Young’s staff. They submitted a list of ordnance requirements which they said rendered obsolete any previous list in this connection. They had apparently checked this list with the War Department and found that it would be possible to use a number
of items that we have on hand, with only slight modifications; in this connection, they said that they had received a friendly and sympathetic reception in the War Department. These gentlemen were advised, in accordance with the procedure originally outlined to the Minister, to check this new list with the British Purchasing Commission technical experts and then send it, through the British Purchasing Commission, a specific request as soon as possible.

In a conversation on January 6th, with Mr. Koundouriotis, Greek Chancellor, it was apparent that he had no knowledge of the information which had been presented to us on Friday, January 3rd.

Miscellaneous:

Other requests for assistance by the Greeks have been received as follows:

On November 11th negotiations were reported under way with Continental Motors in connection with 35 220 h.p. airplane engines for training purposes. No specific action was taken by the Greek Government on these negotiations at that time. When the matter was brought up by Mr. Koundouriotis on December 30th, he was again advised that filing of a specific request by the Greek Government in this connection would be the next step.

On December 21st, a request for allocation to the Greek Government of 500,000 pounds of magnesium out of the Dow Chemical Company production schedule was asked for by the Greek Minister. This request is still under consideration by the Army, Navy and Defense Commission.

On January 4th a request was received from the Minister for priority on certain orders for fire trucks of a total value of $570,000.
TELEGRAM SENT

GRAY
January 6, 1941
10 p.m.

ALLEGATION

BELGRADE (YUGOSLAVIA)

2.

FROM TREASURY.

An application is pending before the Treasury Department for a transaction involving the sale of gold by Danmarks National Bank, the purchase of such gold by the B.I.S. and the sale of an equivalent amount of gold by the B.I.S. to Banque Nationale du Royaume de Yougoslavie, payment to be effected by latter bank against dollar sight account maintained by such bank with B.I.S. Treasury would appreciate it if you will investigate and promptly cable your comments on Yougoslavian end of transaction.

HULL
(FL)

4:20.00 R 296 B.I.S./903

EA:GL:LWW
TO:  

171  1/6'41

Mall  4:15 p.m.

This is a copy of the memo and statute that was taken to the White House at 4:15 p.m. today for discussion with the President.

I dated the memo. The Sec'y had not seen it so I will not know how it was signed until Mr. Foley returns from the White House.

Mc

Mr. Foley

MR. FOLEY
HONORABLE FOR THE PRESIDENT:

Attached is a proposed joint resolution to enable this country to furnish war materials of every character to other countries whose defense you consider to be vital to the defense of the United States.

The attached draft amends the Joint Resolution which you signed last June authorizing the United States to manufacture, purchase and repair war materials for the South American republics. Since the original resolution was referred in both Houses to the Committee on Foreign Affairs, the proposed amendment will go back to the same Committees. Otherwise, a controversy might arise among several Committees for jurisdiction over the measure.

The proposed legislation provides in the broadest terms for material aid to the non-aggressor countries upon such conditions as you may prescribe. Certain belligerents, such as England, Canada and Greece, are expressly mentioned, so as to repeal, without doing so by specific reference, certain restrictive legislation such as the credit provisions of the Neutrality Act, the provisions of the Espionage Act of 1917, which may conceivably prohibit the
sending out of motor torpedo boats and other vessels of war; the
provisions of the Embargo Act of July 2, 1940, insofar as it might
require the Secretaries of War and Navy to get a license for the
exporting of war materials; and other provisions of domestic law
which limit aid to belligerents.

The proposed legislation gives the United States the
following powers in supplying material aid to those countries
whose defense is vital to the defense of the United States:

(1) To manufacture war defense materials in its
arsenals, factories, and shipyards.

This power to manufacture does not carry
with it a waiver of any of the domestic
laws, such as the Eight-Hour Act, the
Walsh-Healey Act, the Wagner Act, and other
similar legislation.

(2) To procure or purchase any war materials from our
airplane factories, private shipyards, or our other
manufacturers.

This purchasing can be done on the conditions
and in the manner which you deem to be satis-
factory.

(3) To sell, lease, lend or otherwise dispose of any war
materials to any country whose defense is vital to the
defense of the United States.
Such a disposition is to be made upon such conditions and in any manner which you deem to be satisfactory. A sale or lease of the articles can, if you wish, provide for payment in kind, or for any direct or indirect benefit to the United States. Such a disposition to a foreign country would not require the certificate of the Chief of Staff of the Army or the Chief of Naval Operations, and could be made, in your discretion, without the formality of public advertisement, or without the other restrictions which would otherwise apply to the disposition of Government property.

(4) To test, repair, outfit, or otherwise to place in good working order any defense article.

These powers can also be exercised upon such conditions and in the manner which you deem satisfactory. This provision is broad enough to permit the use of our bases, yards, and other naval facilities to outfit and to repair men-of-war of Great Britain and other non-aggressive countries.

(5) To communicate any defense information.
This section gives you the widest discretion to use available designs, blue-prints, and other information for use either in connection with particular equipment, which is supplied, or for manufacturing defense materials in the foreign countries.

(6) To export any defense articles.

This section is intended to eliminate restrictions in the Espionage Act of 1917 and in the Embargo Act of July 2, 1940, against the exportation of certain war materials.

It is not broad enough in itself to authorize the physical delivery in American vessels of war materials to combat areas.

(7) To furnish any other aid of a supply or material character.

This section is a general grant of power intended to cover unforeseen situations not specifically enumerated, and to supply a certain degree of flexibility in meeting situations which may arise in the fast-changing world situation.

Provision is made in the proposed Act for the purchase in South America, Canada or the other countries whose defense is vital to
The United States, of arms, ammunition, and implements of war when it is deemed necessary in the interests of the United States to do so. War material purchased in Canada by the United States, for example, could then be transferred to Canada by sale or lease under the provisions of this joint resolution.

The proposed Act limits any foreign country which obtains defense articles from the United States from transferring them to any other foreign country without the consent of the President.

The rights of American manufacturers are safeguarded under the proposed Act by providing for payment for the patent and other rights of such manufacturers to any defense article disposed of to a foreign country.

The proposed resolution contains an authorization for an appropriation, and provides that the moneys collected from the disposition of war materials will, if the Director of the Budget approves, be placed in the same appropriation out of which came the moneys to acquire the articles.

The joint resolution contains a provision authorizing you to issue rules and regulations to carry out its purposes and to delegate to any Department, Agency, or officer any of the powers granted to you under the resolution.

SCja
1/6/41
JOINT RESOLUTION

To furnish material support to nations whose defense is vital to the defense of the United States.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That Public Resolution Numbered 53, approved June 15, 1940, entitled "Joint resolution to authorize the Secretaries of War and of the Navy to assist the governments of American republics to increase their military and naval establishments, and for other purposes," is amended to read as follows:

"Section 1. This Act may be cited as 'An Act to promote the Defense of the United States.'"

"Sec. 2. As used in this Act —

"(a) The term 'defense article' means:

*(1) Any weapon, munition, aircraft, vessel, or boat;
*(2) Any machinery, facility, tool, material, or supply necessary for the manufacture, production, processing, repair, servicing, or operation of any article described in this subsection;
*(3) Any component material or part of or equipment for any article described in this subsection;
*(4) Any other commodity or article for defense.

Such term 'defense article' includes any article described in this subsection: Manufactured or procured pursuant to section 3; to which the United States has or hereafter acquires title, possession, or control; or owned, leased, or otherwise held by any foreign government."
*(b)* The term 'defense information' means any plan, specification, design, prototype, or information pertaining to any defense article or to defense.

*Sec. 3(a).* Notwithstanding the provisions of any other law, the President may, from time to time, when he deems it in the interest of national defense, authorize the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government:

*(1)* To manufacture in arsenals, factories, and shipyards under their jurisdiction, or otherwise procure, any defense article for the government of any American republic, England, Canada, Ireland, any other government of the British Commonwealth of Nations, Greece, or any other country whose defense the President deems vital to the defense of the United States.

*(2)* To sell, transfer, exchange, lease, lend, or otherwise dispose of, to any such government any defense article, including, but not limited to, a sale, transfer, exchange, lease, or loan, providing for payment or repayment in kind or property, or for any other direct or indirect benefit to the United States which the President deems satisfactory.
"(3) To test, inspect, prove, repair, outfit, recondition, or otherwise to place in good working order any defense article for any such government.

"(4) To communicate any defense information to any such government.

"(5) To export any defense article to any such government.

"(6) To furnish to any such government any other aid of a supply or material character which the President considers necessary or proper in the interests of the national defense and to effectuate the purposes of this Act.

"(b) The powers conferred by and the actions authorized under paragraphs (2) to (6), inclusive, of this section shall be exercised and carried out upon such conditions and in such manner as the President deems satisfactory.

"Sec. 4. All contracts or agreements made for the disposition of any defense article or defense information pursuant to section 3 shall contain a clause by which the foreign government undertakes that it will not, without the consent of the President, transfer title or possession of such defense article or defense information by gift, sale, or otherwise, or authorize the use of such defense article or defense information by or under the direction of any other foreign government.
Sec. 5. The Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the Government involved shall, when any such defense article or defense information is exported, immediately inform the department or agency designated by the President to administer section 6 of the Act of July 2, 1940 (54 Stat. 1090), of the quantities, character, value, terms of disposition, and destination of the article and information so exported.

Sec. 5(a). There is hereby authorized to be appropriated from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act.

(b) All money and all property which is converted into money received under section 3 from any government shall, with the approval of the Director of the Budget, revert to the respective appropriation or appropriations out of which funds were expended in acquiring the defense article or defense information for which such consideration is received, and shall be available for expenditure for the purpose for which such expended funds were appropriated by law, during the fiscal year in which such funds are received and the ensuing fiscal year.

Sec. 7. The Secretary of War, the Secretary of the Navy, and the head of the department or agency shall in all contracts or agreements for the disposition of any such defense article or defense information fully protect the rights of all citizens of the United States who have patent rights in and to any such article or information which
is hereby authorized to be disposed of and the payments called royalties on such patents shall be paid to the owners and holders of such patents.

"Sec. 5. The Secretaries of War and of the Navy are hereby authorized to purchase or otherwise acquire arms, ammunition, and implements of war produced within the jurisdiction of any country to which section 3 is applicable, whenever the President deems such purchase or acquisition to be necessary in the interests of the defense of the United States.

"Sec. 9. The President may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out any of the provisions of this Act; and he may exercise any power or authority conferred on him by this Act through such department, agency, or officer as he shall direct."
THE SECRETARY OF THE TREASURY
WASHINGTON
January 6, 1941

Dear Eleanor:

I am sending you, in strict confidence, for your guidance a copy of the inclosed telegram from Mr. Matthews, who has been in charge of our Embassy at Vichy.

Sincerely yours,


Mrs. Franklin D. Roosevelt,
The White House.
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, (Paris) Vichy
DATE: January 2, 1941, 5 p.m.
NO.: 4
FOR THE TREASURY FROM MATTHEWS.
Reference is made to telegram of December 18, 5 p.m., No. 856 from the Department.

There is no representative of the American Friends Service Committee stationed at Vichy. Therefore I asked our Consul General at Marseille to keep a close eye on milk distribution to French children; the headquarters of the Committee is at Marseille.

In a letter from the Consul General at Marseille he reports that a "great difficulty" confronts Mr. Kerchner, the head of the Quakers organization in France, in view of the fact that milk exports from Switzerland are not permitted by the Swiss Government. Seventy tons of milk were purchased in Switzerland by the Committee, and this purchase has been paid for in full, but delivery has not been made. The letter from the Consul General continues that with past supplies "substantial stocks of which are apparently still on hand Mr. Kerchner and his associates have been making distribution through the Secours National in a large number of centers in unoccupied France and a considerable shipment of milk was sent recently to Paris where its distribution will be supervised by two members of Mr. Kerchner's organization. The Quakers are not only distributing milk but clothing and such medicines as are available to them.

END SECTION ONE.

MATTHEWS.

HA:LMW
inc

COPY
PARTIAL PARAPHRASE, SECTION TWO, TELEGRAM No. 4,
January 2, 1941, from the American Embassy, Vichy

"Mr. Herschner said that although the Secours National was
in active charge of the distribution of supplies in unoccupied France,
his own people kept a close personal check on this distribution also
and that no case had arisen as yet where he had any reason to believe
that the relief went elsewhere than to the French children for whom it
was intended. He also expressed his conviction that whatever was
being sent to Paris would be given only to French children there. Up
to this time his organization has had no difficulty whatever with the
German authorities and has, apparently, been impressed with the correctness
of the latter with respect to this distribution."

Herschner himself, says his executive secretary, personally oversees
a "great variety of projects such as delivery of food to 140 school
cafeterias in Marseille where 10,000 children receive a noon day meal;
delivering milk to 90 nurseries and clinics in Marseille where 4,000
children receive half a liter of milk a day."

I am making attempts to check milk distribution through other
sources, and shall try to keep as careful a watch as possible on this
matter.

END OF MESSAGE.

MATTHEWS.

EA:LIB

COPY

Regraded Unclassified
January 6, 1941

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The White House.
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FROM: American Embassy, (Paris) Vichy

DATE: January 2, 1941, 5 p.m.

NO.: 4

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RED RED CROSS C.N. 13

K.A.

REGR.
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January 2, 1941, from the American Embassy, Vichy

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sources, and shall try to keep as careful a watch as possible on this
matter.

END OF MESSAGE.

MATTHEWS.

R: LAW

COPI

Regraded Unclassified
Treasury Department

TELEGRAPH OFFICE

PSCW NEW YORK NY JAN 6 1139A

HONORABLE HENRY MORGENTHAU JR

SECRETARY OF THE TREASURY

VERY IMPORTANT I SEE YOU TUESDAY YOUR CONVENIENCE. WIRE IF AT ALL POSSIBLE

G W VAUGHAN

1218P

[Signature]

4:00 pm

[Handwritten Note]
OFFICIAL

JANUARY 6, 1941

MR. GUAY W. VAUGHAN
PRESIDENT CURTISS WRIGHT CORPORATION
30 ROCKEFELLER PLAZA
NEW YORK NY

SECRETARY MORGENTHAU GLAD TO SEE YOU TUESDAY JANUARY SEVENTH
AT FOUR PM

H S KLOTZ
PRIVATE SECRETARY
OFFICIAL

JANUARY 6, 1941

MR. OXAY W. VAUGHAN
PRESIDENT CURTISS WRIGHT CORPORATION
50 ROCKEFELLER PLAZA
NEW YORK NY

SECRETARY MORGENTHAU GLAD TO SEE YOU TUESDAY JANUARY SEVENTH
AT FOUR PM

K S KLOTZ
PRIVATE SECRETARY
OFFICIAL

JANUARY 6, 1942

MR. GUAY V. VAUGHAN
PRESIDENT CURTISS WRIGHT CORPORATION
50 ROCKEFELLER PLAZA
NEW YORK 20

SECRETARY MORGENTHAU GLAD TO SEE YOU TUESDAY JANUARY SEVENTH
AT FOUR PM

H S KLOTZ
PRIVATE SECRETARY
Dan Bell said tonight that Mr. Aldrich made a speech - I think he said in Boston on November 8th - which is practically the so-called Eccles plan. I wish that Harry White would get hold of Aldrich's speech, break it down for me, and see where the Aldrich speech and the Eccles plan are the same, and where they are different. I would like to have this not later than Wednesday morning.

Copy to Mr. White
at 9:00 January 7, 1941.
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE Jan. 6, 1918

TO Secretary Morgenthau
FROM Mr. Haag

SUBJECT: Transferring Checking Accounts of Banks to the Post Office — The 100 Percent Reserve Plan.

The following is in reference to your request for a memorandum developing your idea that checking accounts of banks would be transferred to the Post Office, etc. Such a transfer would be one means of applying in practice the so-called 100 percent reserve plan. This plan — however its details are worked out — proposes in effect to restore the state of affairs which existed before banks, first by issuing notes in excess of their reserves of specie, and later by the acceptance of deposits subject to check, created a medium of exchange backed by only a fractional reserve. Before that time the only money was specie or notes secured 100 percent by specie.

The most obvious advantage of this simple state of affairs is that it is perfectly safe. The whole medium of exchange is of one piece and there can be no question of the ability of the issuers of some kinds of money — as e.g., bank notes or bank deposits — to exchange them on demand for other kinds of money — as e.g., specie or Government paper money — which kinds are alone deemed to be "fundamental" or good-in-themselves. Under the 100 percent reserve system there can be no problem of bank failures affecting the money supply.

A less obvious advantage of the 100 percent reserve system — but a more important one under present circumstances — is that the total amount of the medium of exchange is not subject to exaggerated or "leveraged" fluctuations dependent upon how far banks choose to expand their loans and investments (and hence deposits) based upon relatively small changes in the supply of the fundamental money which constitutes their "reserves". There would be only a one-for-one expansion (or contraction) ratio between changes in the fundamental money supply and changes in the total medium of exchange. Under the 100 percent reserve system there can be no problem of excess reserves.

The 100 percent reserve plan, while old in its fundamental idea, has received widespread attention among students of economics as a partial solution of today’s problems only since
1933. For a hundred and fifty years before that time economic thought on this matter was largely dominated by the idea that the use of fractional reserves economized the use of the precious metals and so was a good thing on balance despite its incidental disadvantages. Since 1933 the idea that "economizing" the use of the precious metals is such a good thing has been swept away by the force of circumstances — although it by no means follows that those who have abandoned the idea of economizing the precious metals have thereby become converts of the 100 percent reserve plan.

The 100 percent reserve system was first seriously proposed to the American public in a pamphlet circulated in November 1933 by a number of economists at the University of Chicago including Harry Simons, Frank Knight, Henry Schultz and Paul Douglas. It has since been advocated by Professors Irving Fisher of Yale University, James V. Angell of Columbia University, Frank Graham of Princeton University and by Laughlin Currie then of Harvard University. It enjoys at the present time the support of a large number, but probably not the majority, of professional economists interested in the subject.

It is the essential element of the 100 percent reserve plan that all banks maintain a reserve of 100 percent against their demand deposits. This reserve could be maintained either in the form of a credit directly on the books of the Treasury or on the books of a central bank or some other instrumentality of the government designated for the purpose. As the entire amount of their demand deposits would be required for the reserve, there would be no surplus to lend. Bank loans and investments could be made only from time deposits and "commercial" banking as now conducted would disappear. It would be necessary to draw a very sharp line between demand and time deposits. Only the former would be designed for use as money while the latter would become interest-bearing investment certificates designed to attract real savings which the banks could re-invest in loans and investments. The savings function would still require banking judgment and would best be left in the hands of the privately-owned banks. The demand deposit function would be entirely mechanical, and it would become a mere question of convenience whether it continued to be carried on by the privately-owned banks or whether it was transferred to the Post Office or some other governmental agency.

In order to effect a transition to the 100 percent reserve system it would be necessary for the banks to turn over to the government assets equal in value to the whole of their demand deposits.
deposits — the Government in turn to assume the liability for such deposits. Total demand deposits (excluding interbank deposits) amounted to about $34.5 billions as of June 30, 1940. Total reserves held with the Federal Reserve Banks as of the same date amounted to about $13.8 billions. These would all have to be turned over to the Government and the problem of excess reserves would thus disappear. In addition, practically all of the $16.6 billions of Government securities (including guaranteed securities) held by banks other than mutual savings banks would have to be turned over to the Government and would disappear as interest-bearing debt. These two items would account for about $20.4 billions of the total liability assumed by the Government. Another $17 billions would be accounted for by member banks turning over to the Government their stock in the Federal Reserve Banks — as the necessity for and function of these banks would disappear with the adoption of the 100 percent reserve system.

Payment for the remaining $4 billions could be made in other assets which the Government could either hold or liquidate at its convenience — applying the proceeds to a reduction in the public debt. If the Government were to take over the actual servicing of the demand deposits through the Post Office or otherwise, it might well take over nearly $1 billion of the total of $1-1/4 billions of banking house, furniture and fixtures now held by all banks since most of this is now used in servicing demand deposits. The remaining assets would remain for the benefit of the time deposits (which the Government might then guarantee in order to avoid any accusation that it had "skipped off the cream" of the assets and left the blue milk for the time depositors.)

Several alternative plans have been proposed for transition to the 100 percent reserve system and the details could be worked out relatively easily if the principle itself were agreed on.

The transitional process could be made either inflationary, deflationary or neutral, as desired, in its effect on the economy. The system itself is neither inherently inflationary nor deflationary. Its great advantage is merely that it would permit of a more delicate operation of the controls in any direction desired.

The 100 percent reserve plan is not inherently a "radical" proposal. In the long run the balance of advantage appears strongly in its favor and it is completely compatible with a continued functioning of the competitive capitalistic order. Its great disadvantage is that it would upset a powerful vested interest. It certainly could not be adopted except after a bitter fight and should not be proposed unless such opposition is expected and prepared for.
NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter Tag 350.05 (9-19-40) 1-3-41.

NOTES ON GERMAN AND ITALIAN BOMBS

SOURCE

The notes presented herewith, dated October 10, 1940, are from a British official source, which makes the following comment:

"These . . . items . . . are intended to give only intelligence of general interest on the subject of foreign bombs. Technical details are not given, nor are the items in any way intended to provide instruction on the disposal of delayed action and other bombs."

Attention is invited to a discussion of German incendiary bombs in TENTATIVE LESSONS BULLETIN No. 67, Section 2, and to a discussion of British methods of dealing with German bombs in TENTATIVE LESSONS BULLETIN No. 63, Sections 1-3.

CONTENTS

1. GERMAN BOMBS

2. ITALIAN BOMBS
1. **GERMAN BOMBS**

a. **750-Kilogram Bomb**

There is a new type of German bomb which has a thin case and weighs approximately 750 kilograms. It is not known exactly what form the tail takes, as no bomb has yet been recovered with this intact. No markings have been noted. The bomb is sky blue.

b. **Concrete Bomb**

The German concrete bomb weighs from 30 to 36 kilograms, is two feet three inches in length of body, and seven inches in diameter. The color is light green.

The bomb consists of an outer casing of concrete 1½ inches thick, with miscellaneous steel reinforcement. It contains a T.N.T. charge in a steel cylinder, as well as a high explosive charge in a similar cylinder in the nose.

It is possible that the bomb was designed for practice purposes but is being used as an anti-personnel bomb.

c. **Drone of Twin Bombs**

It is reported that the Germans are dropping twin bombs, one of which detonates on impact. The other, fitted with a delay fuse, buries itself in the ground. The presence of the delayed-action bomb is concealed by the crater formed by the first bomb.

2. **ITALIAN BOMBS**

a. **The Thermos Bomb**

Reports indicate that the Italians are using a new type of bomb which becomes live on impact and may be detonated thereafter by vibration or disturbance, such as that caused by moving vehicles or aircraft engines running up. Letlois presently being used for clearing the bombs are as follows:

(1) Small arms fire from a minimum range of 50 yards;

(2) Fire from an armored Pern gun carrier;

(3) A heavy metal rope or chain, as long as practicable, dragged over the ground between two suitably protected vehicles.

(This method is used in large open spaces such as aerodromes.)
In appearance the bomb is shaped like a thermos flask, 11½ inches long by 3½ inches in diameter. It has two brass rings around the neck. The bombs are painted either black and black or green. Those painted green are reported to be the more sensitive and should be treated with additional caution.

It is possible that these bombs may be used in larger sizes.

b. The 150-Pound Semi-Armor-Piercing Bomb

The new Paulin semi-armor-piercing type bomb weighs 150 pounds, has a total over-all length of four feet and is ten inches in diameter. The length of the bomb without tail and fuse is two feet six inches. The shell is painted gray, while the main casing is a natural steel-gray color with slight traces of gray and red paint and is previously filled with metal.

The bomb becomes armed by the withdrawal of the arming wire during flight. Since the fuse has an inherent delay action of a fraction of a second, the bomb will always burst after the nose has penetrated a depth varying from two to five feet, according to whether the ground is hard or soft. A case has been reported in which a bomb penetrated the substantial stone roof of a house in Oslo and struck between this roof and the pant floor.

An unexploded bomb may penetrate soft ground to a depth of ten feet, and subsequently, like other delayed action and "wind" bombs, it may roll indiscriminately in any direction or even turn up. In the case of stout houses, the regular bomb will penetrate three or four floors and cause no rest in the basement.

c. The 250-Pound High Explosive Bomb

This bomb is similar in action to the 250-pound bomb, but weighs only 230 pounds. It has an overall length, complete with tail, of three feet. The bomb itself is one foot eleven inches long. The diameter is the same as that of the 250-pound bomb — two inches.

Since the walls of this type of bomb are thinner than those of the 250-pound bomb, particularly at the nose, it lacks the armor-piercing effect of the heavier bomb and is not expected to penetrate a strong stone floor.

d. All-Purpose Incendiary Bomb

The 15-pound incendiary bomb has an overall length,
complete with tail, of two feet nine and one-half inches. The body itself is one foot ten inches long. The diameter is six and one-half inches.

The bomb, which is similar to the German one-kilogram incendiary, consists of a body of magnesium filled with igniting medium - in this case, pressed aluminium powder and oxide of iron. Around the casing of the bomb are five holes, closed by cork plugs, to assist in the combustion of the contents.

Armed by the withdrawal of the arming vane during flight, the bomb ignites immediately upon striking the ground. The main filling burns with violent spluttering for a period of from two to three minutes. During this time, showers of sparks are shot out to a radius of ten yards, and it is not possible to approach nearer than this to the bomb. At the end of this period the spluttering has ceased and the casing of the bomb itself is burning, as with the German one-kilogram incendiary. The phase in which the magnesium itself burns lasts about ten minutes.

Since, generally speaking, incendiary bombs weigh about half as much as high explosive bombs of similar size, it is possible that the 12-pound incendiary may be mistaken for the 50-kilogram Italian torpedo type bomb. Accordingly, it is not recommended that unskilled personnel endeavor to disarm "dud" incendiaries of this size.
SITUATION REPORT

January 6, 1940. 12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.


There was minor German offensive activity over Great Britain during daylight of the 4th and 5th. On the night of the 4th-5th the German Air Force operated normally, focusing principally on the Bristol area. Last night the scale of attacks was again normal with the main effort directed against London.

Information on R.A.F. operations is incomplete. However, it is known that Bristol was attacked on the nights of the 4th-5th and 5th-6th. In addition there were raids elsewhere over the occupied territory and over western Germany.

II. Greek Theater of War.

Actions of a local character are reported in Albania, incident to Greek infiltration in the north and east. Air activity apparently was minor.

III. Mediterranean and African Theaters of War.

Bardia, the first big Italian stronghold in Libya, was captured by the British at 1:30 p.m. January 5, 1940. Advanced British mechanized units are reported some fifty miles to the west of Bardia.

The R.A.F. cooperated closely in the assault on Bardia.
London, filed 1648, January 6, 1941.

1. On Sunday, January 5, planes of the Coastal Command attacked German barges, merchant ships and destroyers and made direct hits on a cruiser. On the same day German oil installations were attacked. During the night before one large fire was started when British medium bombers bombed oil installations in Holland and Germany. The city of Brest was the principal target of the attack that night and several fires were observed in the water-front area in spite of limited observation due to unfavorable weather conditions.

2. During daylight hours of January 5, 45 German planes were plotted over Britain, principally engaged in scattered raids and in reconnaissance. A small number of planes were over London, and Maidenhead, Pangbourne and Burford were attacked. Later information now indicates that 220 German planes were over Britain on the night of January 4-5 and that 88 were plotted during daylight hours of January 6. During the night of January 5-6, the Germans used many incendiary bombs in a fairly severe attack on London, but no large fires resulted because of the efforts of the newly-established fire watchers organization. High explosive bombs caused some damage. On the same night minor German attacks were directed at Lancashire and Yorkshire.

3. During the period January 3 to 5, the British lost three destroyers and destroyed one German barge and two German fighter planes.

4. The Royal Air Force is active in the Middle East, both in Albania and between Tebruk and Bardia in Libya. On January 5, five
Italian airplanes were destroyed and large fires were started in Tripoli where five tons of bombs were used by the British. On January 4, five Italian airplanes were unsuccessful in their attack on the 1,000-ton British monitor, Terror, off the coast of Libya. One of the attacking planes was damaged and three others destroyed by one British fighter plane.

5. On January 4, a German submarine, 250 miles off the Cape Verde Islands torpedoed and set fire to a British vessel. Twenty-four merchant vessels in a convoy have arrived in England. On January 5, a 2,000-ton British vessel struck a mine in the Thames Estuary and sank.

6. The damage inflicted on Manchester by the 12-hour German raid during the night of December 29-30 and the 8-hour night attack on Manchester 29-30 has been reported by the British Consul in two reports, dated December 27 and December 30. A total of 1,897 persons were slightly injured, 635 were seriously injured and 655 were killed. The gas distributing system and the water works were wrecked. Private, public and industrial properties suffered severe damage. The most severe damage to industrial properties was inflicted on the Alkali Co., Victoria Aviation, Linotype and Machine Co., Barberside Factory, a chemical plant, Supermarket Co., and other plants. Of the city's 22 railroad stations, three were damaged. The financial loss is estimated by Manchester bankers to be at least £20,000,000, and it may be as high as £50,000,000. Civilian morale is at a very high point.

7. At London, new fires have broken out in the "city" as a result of considerable ruins left by the German attack of December 29-30.
CONFIDENTIAL

Dangerous wreckage must be demolished before the fires can be completely put out.

8. Warehouses, stores of food, and a railroad station were hardest hit by the German attack on Bristol during the night of January 3-4. In the raid on Cardiff during the night of January 3-4, the important industrial plants were affected only by the disruption of public utility services. Seventy-four persons were killed and 160 were seriously injured during this raid.

9. A total of 27,570 persons have been injured and 19,946 have been killed by German air activity in the entire United Kingdom during the three-month period beginning in September 1940.

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Distribution:
Secretary of War
State Department
Secretary of Treasury
Aent. Secretary of War
Chief of Staff - II
War Plans Division
Office of Naval Intelligence
AF - 2
E-S, 1

CONFIDENTIAL
The task which confronts the office of Production Management is one, not only of national importance, but also one of surpassing urgency.

The President has said that the United States must become the arsenal of democracy. To create such an arsenal and to establish and maintain production that will ensure its efficiency and adequacy require for more than we, who are charged with its management, our combined efforts. We promised all that we have to the fulfillment of this order from our Commander-in-Chief, but all that we have will be far from sufficient.

We shall have need of the active, aggressive, and enthusiastic cooperation of every man, woman, and child in the United States if we are to make this arsenal in America adequate to the successful defense of democracy and freedom. This can only mean that in the immediate future everything in our national life must be subordinated to the necessity for defense.

Industry must coordinate its concern over the possible future effects of transitory, large, or expansion. It must be synchronized with a normal period for its vital required. If there is in Industry some much greater, a continuous, unexpressed hope for an-time profits, that must be firmly repressed. If there are those who think they can exploit this emergency for any selfish advantage, they must address such thoughts. Democracy is fighting for its very life in its struggle to retain the principles of a free economic system.

In any successful defense program the active, intelligent, and patriotic cooperation of all who man the machines is vital. Laws and in effect make sure the principles of collective bargaining and their efforts to the interests of the workmen adequate protection. Later must know that under the administration of the Office of Production Management sacrifices will be made of it that will not be matched by a corresponding sacrifice on the part of itself, but just as it is intolerable for capital to seek a selfish advantage by reason of the present emergency, so must labor avoid any attempt to make improper use of its position in the present world-wide emergency. The main principle of collective bargaining and the rights of labor under our system of Government and society is being challenged.

If the totalitarian forces of the world are victorious, all the hard-won rights and ideals will be destroyed, and both capital and labor will become the involuntary victims of an all-powerful State. Labor is as much a stake in this crisis as capital, and both must work together harmoniously if the United States is to make its contribution to a democratic victory in the world.

To achieve the results which the country expects from the Office of Production Management, we expect and must have the kind of cooperation from everyone that results in sacrifices too great to make if it will contribute to a more successful and more efficient defense. It is this spirit which we seek to evoke, and it is in a similar spirit that we endeavor to make this great task given the Commander-in-Chief as committed to our hands.

HERBERT B. STURKEN
Secretary of War

WILLIAM S. MOORE
Director General

FRANK KNOX
Secretary of the Navy

SIBERT HILLMAN
Associate Director General

January 7, 1941
The President today signed and issued the following Executive Order, Administrative Order and the additional papers attached:

THE EXECUTIVE ORDER

ESTABLISHING THE OFFICE OF PRODUCTION MANAGEMENT IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes, and in order to define further the functions and duties of the Office for Emergency Management with respect to the national emergency as declared by the President to exist on September 3, 1938, and to increase production for the national defense through mobilization of material resources and the industrial facilities of the Nation, it is hereby ordered:

1. There shall be in the Office for Emergency Management of the Executive Office of the President, an Office of Production Management which shall consist of (1) a Director General, and (2) an Associate Director General, each to be appointed by the President, (3) the Secretary of War, and (4) the Secretary of the Navy. The members shall serve as such without compensation but shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of their duties.

2. With such advice and assistance as it may require from other departments and agencies of the Federal Government, and subject to such regulations or directions as the President may from time to time prescribe, and subject further to the general policy that the Departments of War and Navy and other departments and agencies of the Government will be utilized to the maximum extent compatible with efficiency, the Office of Production Management shall:

a. Formulate and execute in the public interest all measures useful and appropriate in order (1) to increase, accelerate, and regulate the production and supply of materials, articles and equipment and the provision of emergency plant facilities and services required for the national defense, and (2) to insure effective coordination of those activities of the several departments, corporations, and other agencies of the Government which are directly concerned therewith.

b. Survey, analyze, and summarize for purposes of coordination the stated requirements of the War and Navy and other departments and agencies of the Government, and of foreign governments for materials, articles, and equipment needed for defense.

c. Advise with respect to the plans and schedules of the various departments and agencies for the purchase of materials, articles, and equipment required for defense, to coordinate the placement of major defense orders and contracts and to keep informed of the progress of the various programs of production and supply.

Regraded Unclassified
c. Plan and take all lawful steps necessary to assure the provision of an adequate supply of raw materials essential to the production of defense products needed for defense.

e. Formulate plans for the mobilization for defense of the production facilities of the Nation, and to take all lawful action necessary to carry out such plans.

f. Determine the adequacy of existing production facilities and to assure their maximum use, and, when necessary, to stimulate and plan the creation of such additional facilities and sources of production and supply as may be essential to increase and expedite defense production.

p. Determine when, to what extent, and in what manner priorities shall be accorded to deliveries of material as provided in Section 2(a) of the Act entitled "An Act to expedite National Defense and for other purposes," approved June 28, 1941. Deliveries of material shall take priority, as provided in said Act, in accordance with such determinations and the orders issued in pursuance thereof by the Office of Production Management.

h. Perform the functions and exercise the authorities vested in the President by Section 9 of the Selective Training and Service Act of 1940.

i. Serve as the liaison and channel of communication between the Advisory Commission to the Council of National Defense and the Department of War and Navy with respect to the duties imposed upon the Commission by the following named acts, and with respect to all other matters pertaining to defense purchasing and production: Public Nos. 967, 751, 451 and 801 and Public Resolution No. 74, 76th Congress.

j. Perform such other functions as the President may from time to time assign or delegate to it.

3. The Director General, in association with the Associate Director General, and serving under the direction and supervision of the President, shall discharge and perform the administrative responsibilities and duties required to carry out the functions specified in paragraph 2, subject to and in conformity with the policies and regulations (not inconsistent with such regulations as may be issued by the President) prescribed by the Office of Production Management.

4. There shall be within the Office of Production Management the following and such other operating divisions as the President may from time to time determine:

a. A Division of Production
b. A Division of Purchases
c. A Division of Priorities

Each division of the Office of Production Management shall be in charge of a director appointed by the Office of Production Management with the approval of the President.
5. There shall be within the Office of Production Management a Priorities Board composed of six members. A chairman and three other members shall be appointed or designated by the President; the Director General and Associate Director General shall be members, ex officio. The Priorities Board shall serve as an advisory body. From time to time as may be required by the Office of Production Management, it shall make findings and submit recommendations with respect to the establishment of priorities, the placing of mandatory orders, the assignment of preference ratings, the allocation of deliveries, and other related matters. In making its findings and recommendations, the Priorities Board shall take into account general social and economic considerations and the effect the proposed actions would have upon the civilian population.

6. Within the limits of such funds as may be allocated to it by the President on recommendation of the Bureau of the Budget, the Office of Production Management may employ necessary personnel and make provision for the necessary supplies, facilities, and services. However, the Office of Production Management shall use, in so far as practicable, such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available through the Office for Emergency Management or other agencies of the Government.

7. Executive Order No. 8572 of October 21, 1942, as amended by Executive Order No. 8612 of December 12, 1942, is revoked.

FRANKLIN D. ROOSEVELT
THE WHITE HOUSE,
January 7, 1943.

ADMINISTRATIVE ORDER

FURTHER DEFINING THE DUTIES AND FUNCTIONS OF THE OFFICE FOR EMERGENCY MANAGEMENT

WHEREAS Executive Order No. 8246, dated September 8, 1939, provides, in part, as follows:

"There shall be within the Executive Office of the President, the following principal divisions, namely: (1) The White House Office, (2) the Bureau of the Budget, (3) the National Resources Planning Board, (4) the Liaison Office for Personnel Management, (5) the Office of Government Reports, and (6) the office of a national emergency, or threat of a national emergency, such office for emergency management as the President shall determine;"

AND WHEREAS the Office for Emergency Management was formally established by Administrative Order of May 28, 1940, and it is deemed advisable to modify the said order and further define the duties and functions of the said office;

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and the Statutes, and in pursuance of Part I of the aforesaid Executive Order of September 8, 1939, it is hereby ordered as follows:
1. The Office for Emergency Management shall have the following duties and functions:

(a) To advise and assist the President in the discharge of extraordinary responsibilities imposed upon him by any emergency arising out of war, the threat of war, imminent of war, flood, drought, or other condition threatening the public peace or safety.

(b) To serve as a division of the Executive Office of the President, with such subdivisions as may be required, through which the President, during any emergency, may coordinate and supervise and, in appropriate cases, direct the activities of agencies, public or private, in relation thereto.

(c) To serve as a channel of communication between such agencies and the President concerning emergency activities, to keep the President currently advised of their progress, to assemble and analyze information concerning additional measures that should be taken, and to assist in the preparation of recommendations for any necessary legislation.

(d) To provide and maintain liaison during any such emergency with other divisions of the Executive Office of the President and with other agencies, public or private, for the purpose of bringing about maximum utilization and coordination of their services and facilities.

(e) To advise and assist the President upon or before termination of any such emergency with respect to any measures that may be needful to facilitate a restoration of normal administrative relations and to mitigate the consequences of the emergency.

(f) To perform such other duties and functions with respect to any such emergency as the President may from time to time direct.

2. The work and activities of the following-named agencies, and such other agencies as the President may from time to time designate, shall be coordinated in and through the Office for Emergency Management under the direction and supervision of the President:


(b) Defense Communications Board.

(c) Office of Production Management (to be created immediately hereafter).
3. Provision may be made in the Office for Emergency Management for liaison facilities and for the maintenance of routine office service required in the conduct of the work and activities of this service co-
ordinated through or established in the Office for Emergency Management.

4. Any provisions of the Administrative Order of May 16, 1940 establishing the Office for Emergency Management inconsistent with this order are hereby superseded by this order.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 7, 1941.

ORDER OF THE COUNCIL OF NATIONAL DEFENSE
ESTABLISH AN OFFICE COORDINATING THE OFFICE FOR THE ORGANIZATION OF NATIONAL DEFENSE PURCHASES

The Order of the Council of National Defense heretofore approved on June 27, 1940, establishing the Office for the Coordination of National Defense Purchases and Appointing a Coordinator of National Defense Purchases is hereby revoked. All records of the said Order shall be made available to the Executive Office of the President, to the end that any un-
finished business may be taken over and carried on in that Office. This Order shall take effect when approved by the President.

Henry L. Stimson,
Secretary of War

Frank Knox,
Secretary of the Navy

Herold L. Ickes,
Secretary of the Interior

Clayton A. M票据,
Secretary of Agriculture

James H. Jones,
Secretary of Commerce

Frances Perkins,
Secretary of Labor

Approved:

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 7, 1941
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ORDER OF THE COUNCIL OF NATIONAL DEFENSE
REVERSING AN ORDER RELATING TO
A PRIORITIES BOARD

The Order of the Council of National Defense here-to-
fore approved on October 18, 1940, establishing a Priorities
Board is hereby revoked. All records of the said Board
shall be made available to the Executive Office of the
President, to the end that any unfinished business may be
taken over and carried on in that Office. This Order shall
take effect when approved by the President.

Henry L. Stimson,
Secretary of War.

Frank Knox,
Secretary of the Navy.

Harold L. Ickes,
Secretary of the Interior.

Claude R. Hickard,
Secretary of Agriculture.

Jesse H. Jones,
Secretary of Commerce.

Frances Perkins,
Secretary of Labor.

Approved:

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 7, 1941
January 7, 1941
9:06 a.m.

E.M. Jr: Hello.

Jerry
Frank: Hello. Jerome talking.

E.M. Jr: Hello, Jerry.

F: I want to tell you what happened up in New York yesterday and get your advice with respect to a meeting to be held this noon.

E.M. Jr: Right.

F: Apparently Quinn has got along very well with everybody but three groups, three houses. He's got enough money without them. They are: Bunker of Lehman Brothers, Tracy of the Dillon Read Investment Trust and McGrath of Lazard Frereas Investment Trust.

E.M. Jr: Yeah.

F: Those three fellows ostensibly take the position that the British oughtn't to be required to sell this, that they didn't want to sell in the last War and they oughtn't to have to. Now, that's what Dave reported to me yesterday afternoon late. Last night I got word - I got it very confidentially - that in the Lehman camp they are saying that the way it was put up to them, which I don't believe, was that this was an effort to force the British to sell at an unconscionably low price, which of course isn't so.

E.M. Jr: Right.

F: Now what the motivation is I don't know. It may be one of several. It may be that these fellows are close to the corner and that the corner sent out that word. It may be that they want to have this business done, they want to grab it and make public distribution of it and are against the idea of the investment trust buying it and holding some of it and not selling it.
I get you.

That's a fight between - you see, they're fearful I think, some of these investment trusts, these three I named are dominated by investment bankers.....

That's Lehmann.....

Lehman, Dillon and Lazard.

Well, Dillon.....

Dillon has got an investment trust that they manage, Lehman has got one that they manage, and Lazard have. Now they've got a conflict of interest there.

Yeah.

There is a likelihood that the investment trusts will, as in this case, become real underwriters; that is, buy securities and dispose of them when they get ready. The investment bankers don't like that and this may be a symptom of that fight.

I see.

Now, Dave wants to know what he can say today and I wondered if this would be all right.....

Please.

..... for him to say that the United States Government is not requiring the British to sell.

That's right.

But it is trying to work out something so that should they decide to sell they can sell on the best terms, and with the least disturbance to our markets.

Exactly. Of course.
And that we have been asked merely to see that the group get together so that they can first get into reasonable negotiations for a decent price and second, so that nobody in the group will get an unfair advantage.

H.M.Jr: 100%.

F: All right, I'll tell him that, and he can certainly say that the Government isn't trying to have the British sell at an unfair price.

H.M.Jr: Well, it's ridiculous.

F: That's just propaganda, you see.

H.M.Jr: Now, one thing if you have the time that I'd like to suggest: that you call up Forrestal, see, and tell him ......

F: About Dillon.

H.M.Jr: ...... to call up Dillon and tell him to get on the bandwagon.

F: Yes. That's what I had planned. I'll certainly do it now that you've suggested it.

H.M.Jr: Call up Forrestal and then if Lehman and Lazard want to hold out, to hell with them.

F: Well, that's what Quinn says. He can get along with them and he thinks that if the deal progresses they'll either come in at the last minute or that they'll try to horn in and get it for themselves.

H.M.Jr: Well, I can take care of them later. I'll talk to you about it, but I'd like Forrestal, who sat in with us, I'd like him at least to have a chance to talk to Clarence Dillon and tell him to get on the bandwagon.

F: O. K. I'll do it right away.

H.M.Jr: And then, as I say, just leave those other two houses. If we want to take care of them, I know how to do it.
F: All right, I'll let you know. Dave is going to meet them about noon and I'll let you know what happens.

H.M. Jr: Swell.

F: Fine.
January 7, 1941
9:20 a.m.

RE BRITISH PURCHASING PROGRAM

Present:  Mr. Young
          Mr. Purvis
          Sir Hugh Dowding
          Mrs. Klotz

Purvis:  Well, Sir Hugh has just arrived via Canada. We really haven't had a chance of talking with him yet as to how we can get real value out of his visit; but from my very short acquaintance in London, I am quite sure that we are going to get very great value out of his visit here. He was Fighter Commander, as you know.

E.M. Jr:  Do you want to talk first or should I talk?

Dowding:  Well, may I talk just for a minute?

E.M. Jr:  Please.

Dowding:  I want to say that I exercised considerable ingenuity at home so as not to get cut and dried instructions over here, you see, and I have got a perfectly free hand to exercise myself in whatever way seems to be best for the common objective, you see, and I should very much appreciate your advice how I can best spend my time out here. That is all I want to say.

E.M. Jr:  Well, I think I am partly responsible for your coming. I asked for somebody who had the
experience that you have gone through. Both for your own fight and for our own defense, I think there is a distinct contribution that you can make along these lines. You take it, for instance, these Curtiss P-40's that you are getting. They run along until some time in June or July. Now, so far as I know, the Curtiss have not a proven plane which will follow along after the Curtiss P-40. The next fighting plane that we have, which comes into production, is the Bell. Everybody seems to think it is pretty good, but I don't think anybody is sure; and I don't suppose they will be sure until you have actually fought it. I can't find out - it may exist - of anything that we have which is going to follow after the Bell, and as I understand it, you have found it necessary to constantly increase gun fire and whether even the Bell is up to what you already have, I don't know; but you would know.

I don't know what plane, for instance, they are going to put the Rolls Royce engine in, which is being made by Packard. I don't know whether there is one. In other words, it seems to me that we have gotten along to a certain point here and you, knowing what is necessary to win in the air, my suggestion is that the sooner that you can get the Army people to let you see what they have on their drawing board, the better; and then give them the benefit of your experience.

Now, that was what I had in mind when I originally asked for somebody from the Fighter Command to come, and I am sure that the Army will make that possible. If they don't, I will be glad to help; and I think with that in mind, the sooner that you call on the Secretary of War the better, and then General Marshall and then I suppose he will turn you over to the head
of our Air Corps, but I am very much worried about what plane we are going to have to fight with in '42, and I don't see anything that we have.

Now, there undoubtedly are things on the drawing board, and I suppose the place where you could find out the quickest is by going to Dayton where the Army has all of their experimental planes and drawings, and everything else; but does that sound fairly reasonable?

Dowding: Certainly, yes.

H.M.Jr: Wouldn't that be putting your talents to the best use?

Dowding: I won't use the word "talents", but it is a thing that I am absolutely up to date on, what I may call the theory and practice of our fighting, and that experience is absolutely at the disposal of your companies.

Purvis: We have a vital interest in this country being at work on a fighter which - more than ever we have that vital interest now with the line that the President has decided to take.

H.M.Jr: Well, what I envisage and what I hope, once we get this legislation through, is that we will be ordering so many thousands of fighters which the President will be able to say, "Well, so much for the United States Army, so much for the Navy, and so much for the English, so much for the Greeks, and so much for the Chinese," but it will be one fighter. Therefore, I think it is terribly important that we are not the way we are - we have got 20 Boeings somewhere, and they have got to rip out the Norden bomb sight and put in the other bomb sight
and all that time is lost. If you can get in on the drawing board stage before the thing gets into production, that is the time to do it; and frankly, I really - while it is not my responsibility, I have made it such. I am very much worried what we are going to have in '42.

Now, I would be very much surprised if there is a plane already designed and ready for these Packard Rolls Royce engines. I would be very much surprised. And only a week or two ago I asked Tony Teach of Curtiss-Wright what he had. Well, it is still very much in the experimental stage, what is going to follow, and I think that the sooner you could get into that situation the better. What do you think?

Survis: Oh, I think it sounds like straight common sense to me. Of course, it is what you said originally when the question of a visit was in question. Also it should apply to the bomber situation, too, and you have a lot of information on that even though your special experience has been in the fighting class.

Foehner: Yes.

Lt. Col: Well, I certainly would extend it to the bomber, but as I say, my own feeling is, I think that the quicker you can get to Dayton with permission to stay there long enough and to see everything, the better, and the more use it will be both to your country and to ours. Dayton is the nerve center.

Survis: I should take Sir Hugh to see Secretary Stimson and also Secretary Knox.
Purvis: Because there is a Navy side to this, though that is secondary to the Dayton.

H.M.Jr.: Yes, but then as soon as you can get Mr. Stimson to General Marshall and General Marshall will turn him over to the Air Corps, I think the better. I take it what you are more interested in is to get the correct type rather than the actual purchasing, isn't that right?

Dowding: Yes. In other words, the financial purchasing side I am glad to say has nothing to do with me.

H.M.Jr.: But as to the types?

Dowding: Yes.

H.M.Jr.: You see we still have a bomber, and I think I am right, Phil, that we are making - we have three different types of power drives for the gun in the same bomber, which seems to me rather silly. I mean we ought to make up our mind how we are going to drive the gun, what the force is, but here is three different kinds of motive power --

Purvis: Such as electric, hydraulic, and so on.

H.M.Jr.: Yes, isn't that right?

Young: Yes, on the turret.

H.M.Jr.: Instead of saying, "Well, this is the best under battle conditions. We ought to take that."

Dowding: We have had practical experience, because we have tried the other. We have been through a
period of trial and error for several years over this turret power business, and I don't say that we have got the best possible thing now, but we have got a very good one which works. I mean, the best is always the enemy of the good, and we have got a very effective power turret now and - I mean, I have noticed in recommending to you the Bolton Paul, which is a proved and tried turret.

H.M. Jr: Is that the Nash?

Dowding: The Nash is the hydraulic turret and the Bolton Paul is an electric, and one or the other suits different types of machines, of course. They are both very good types.

H.M. Jr: Well, what I would appreciate is for my own education that after you have been out to Dayton and after you have seen what you have, if you would come back and give me the benefit of what you have seen.

Dowding: Yes.

H.M. Jr: Plus your criticism.

Dowding: Yes.

Purvis: There is a point which arises in connection with that from both sides of the water, which I learned from Commander Boom, a commander of yours in the aeronautical end, that I can't be too emphatic about. He pointed out that there is equipment going from this side, and he thinks the idea works equally the other way, which has no appropriate technical talent from here to teach its proper use and application on the other side, and that as a result very naturally things are discarded. He thinks that
the trouble - this is from his own observations which he has apparently made in England - the trouble with the 50 calibre gun that we have been hearing about that have been coming from here, that that is literally due to certain lack of knowledge about the handling of that particular gun which should come straight out of the supplier over here and that every contract should carry through with the necessity of an actual instruction unit on its peculiarities and so on. He said the same thing here, taking the turret that you were just mentioning. I understand that our turret has certain defects from the point of view of the people on this side which Boom is quite sure now from his observations on the other side is due to a lack of appropriate teaching at this end as to how that thing has to be handled, and he received reports, apparently from the United States end, that our turret was not good; but he was able to see on the other side the fact that it was and also to get a pretty good idea as to why they were probably discarding it as being poor here.

But I think this exchange of technical talent both ways to make our special apparatus work is a matter of first class importance, and I promised, by the way, I would mention it to you, and I thought some time if you wouldn't mind letting Boom have a chance of talking his own experience in England on this thing with you. I think he is very valuable.

E.V. Jr:

One little thing, Phil, which I have been meaning to say to you. If we are going to get the last of those 9 Consolidated bombers for the English - I don't know how far along they are, but if you could find out - we shouldn't begin to put the Norden bomb sight in and then
have to rip the damn thing out again, so if
the English are going to get those nine - I
think there is now a 66-2/3 chance that you
are - for heaven's sake, even though the deal
hasn't been made, why don't they issue orders
to begin to put the Sperry bomb sight in. You
would save a couple of months on that.

Purvis: Yes, it would be just terrible if we had to
reverse on that.

G.V.Jr: It seems perfectly asinine to put the thing
in and have to rip it out. I don't see why
they can't stop the thing now and begin to
put the Sperry bomb sight in.

Wending: There is a very good instance of that going on
now at present. You have sent a number of
fighters over to England, and they all came
off French contracts. The result is the first
two or three months over there they can't be
used if they are to be pulled to pieces and
have our equipment put in.

Purvis: You mean radio equipment

Cowling: Not only that, but everything is non-standard.
The French, if they want to open up the throttle,
they pull it back. If we want to open up the
throttle, we push it forward.

Purvis: Rather unfortunate to do it wrong then in the
middle of a battle.

Cowling: Yes. Then there is the radio and the oxygen
apparatus, the blind flying instruments, every-
thing has got to be altered to our standards
over on the other side.

Well, I agree this is an extreme case, of course,
because the French have entirely different
equipment, entirely different ideas from ours,
but it is a case in point about the value
which could be obtained from a proper - from
the greatest possible degree of standardization
over on this side. I daresay complete standard-
ization is not possible, but one should go as
far along that road as it is possible to get.

E.V. Jr: You see, I have been asking about once a week
why they don't fight those Curtiss P-40's and
I always get some other answer, but this is the
best answer I have had yet.

Purvis: Sounds much more convincing than any we have
had yet.

H.V. Jr: But don't the English government have inspectors
at the Curtiss factory to make sure --

Purvis: The French debacle was June 17. These things
were probably so far advanced at that time that
the contractor wouldn't change all his speci-
fications. He had no doubt ordered all these
instruments to French specifications and there
we were. I imagine that is what it is, because
I think changes were introduced later.

E.V. Jr: How is it now, Phil, do you know? You have been
up to Curtiss.

Young: Oh, they have been putting out the English type
for some time now. They have changed over.

Purvis: I wonder whether you could give the Secretary
just a very thumbnail sketch of where the
various types of American machines are being
used. I know you (Secretary) are interested
in it.

Dowding: Yes. One gets out of date in a fortnight about
the very latest developments, you see, but this is the general situation.

The Hudsons, of course, have been in use for a long time. They are, I think, probably the best type of aircraft which the Coastal Command have for that particular kind of work. It is used for observation over the sea and attack of submarines and so on and so forth. That is a proved and tried type which has been invaluable to us.

Then we have got the Glenn Martin, which is just going into service now, and I think there are only a few of them that have been delivered now, but they are actually in use now in the Mediterranean, and I don't know if you saw some very interesting pictures after the attack in Taranto on the Italian fleet. Those photographs were taken by Glenn Martin reconnaissance machines.

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F.W. Jr: I got last night the Illustrated Weekly from London, and that is where I saw those photographs.

Burvis: Yes, that just arrived.

F.W. Jr: It had all of those Taranto pictures.

Dowding: Yes. Then we have got the Douglas bomber --

F.W. Jr: Excuse me. That is the magazine that has those pictures. (Hands to Burvis)

Dowding: The Douglas F-7, and so far as the fighter plane is concerned, we thought that it would make probably a very good night fighter, particularly with the more powerful engines with which it is going to be equipped; and when I came away, there was one squadron being equipped with these F-7's for use as a night fighter.
You understand there are certain special radio equipment and so on that have to be put in. But I expect we shall get good results from them as a night fighter. I am a little bit doubtful about the hitting power because at the present moment it has got four different calibre machine guns, and then you understand that when you do make an interception at night, the opportunity lasts only a very few seconds and you have got to deliver a very hard fire and get the bomber down in a few seconds or you lose your opportunity, but that would be my only criticism of that as a type for the night fighter when it has got a little bit more performance.

The other unaltered type is, I believe, going into service as a light bomber. I don’t know in what form the proposed deal is, I haven’t heard the proposals for that. But there are two uses for the DE-7, and substantially there is one squadron operating with them now as night fighters. I can’t give you the exact situation, but this squadron had already got several machines for familiarizing all the pilots with them, doing night flying, night landings on them, preparatory to fuller equipment. Everybody is very enthusiastic about the tricycle undercarriage. They think that it is a very excellent innovation and particularly for night landings.

W.V. Jr: Does the Douglas have that?
Dowding: Yes, the DE-7.
W.V. Jr: I see you have got a new trainer with a tricycle landing now too.
Dowding: Yes. Naturally we choose training types which will give the requisite flying experience for
the service types that we are going to use, but as a matter of fact, I should think there was very little need to do special training on the tricycle type, because it is so very easy to land on.

Now, the point is, if it hasn't occurred to you, that an ordinary bad landing is caused by the pilot allowing the wheels to touch - to drop the machine down while it has still got some flying speed. The result of that is that the tail drops, the angle of incidence increases, and he goes ballooning off the ground again, and then drops heavily onto the ground again. With the tricycle undercarriage, the main wheels are so far back that if he makes a bad landing of that sort, all that happens is that the nose slams down onto the ground instead of the tail coming down, and he sticks to the ground like glue and doesn't do this ballooning at all.

E.M.Jr: Will it spoil a pilot if he gets used to a tricycle landing gear and has to go back to the other type?

Dowding: Yes.

Purvis: It is like all luxuries.

Dowding: Yes, and so the - any special training would be required for people who have to fly ordinary undercarriages after learning to fly the tricycle.

Well then, the fighter types - I will explain about these Curtiss machines. It seems that the amount of reconstruction is very serious, because I made some special inquiries about that and I was told that the first two will not be completely altered to our requirements until February.
Purvis: Is that so?

Dowding: The first two. I believe they didn't have armor and bullet proof glass in, did they?

Purvis: Were those the P-40's or P-36's?

Dowding: P-40's.

E.M. Jr: They won't be ready until February?

Dowding: Those two.

Purvis: These must have been French types.

Dowding: Yes, certainly, they were French types.

Purvis: Then there will be a point at which the British type came in, the exact date of which we could find out from Self, and those types - there won't be a corresponding lag, I take it, on the British type?

E.M. Jr: Shouldn't be any lag.

Dowding: There will be no lag at all.

E.M. Jr: I would like to ask, how many of the French type of the P-40's were there?

Purvis: I will find that out.

E.M. Jr: How many did you get?

Purvis: I know there was a French contract for P-40's, and the question will be at what point we were able to get the manufacturer switched. What we want to know is how many French P-40's we had.

E.M. Jr: Too bad we didn't put some of Mr. DeGaulle's
men in them and let them fly them.

Dowding: Well, there aren't an awful lot of Mr. DeGaulle's men there.

Purvis: There might have been two.

Dowding: Oh yes, more than that.

H.M., Jr.: But they don't get around until February.

Dowding: I made some special inquiries about that, and I was astonished to hear that that was the answer, that the modifications were so extensive as that.

Purvis: I will try to get a little memorandum for you on the thing from Self, from the supply end.

Dowding: I am not authorized by the Air Staff to speak about this, but I think it is possible that the main use for these P-40's will be in the Middle East and in Egypt and that, I think - I mean, if that were the decision, I think it would be a very reasonable one. You see, we are all organized in our home defense unit for using the Hurricanes and the Spitfires, and we have got our spares and our stores there and our pilots all trained for them, and while we have got to create new organizations on some, it is reasonable to put the new types there. In the spring the Middle East will probably be the main theater of war, of course. It seems incredible that the Germans shall hold aloof indefinitely from that theater. And for a time, probably, the most important fighting will be taking place in the Middle East. That is only a personal guess, really.

Then we have got the Grummans, which the fleet air arm is using. I have very little direct
information about that, but I know they have been in use for at least three months. I believe they have encountered some technical trouble in using them owing to a redistribution of the weight laterally. They have found the undercarriage a little bit narrow and inclined to tip over to one side. But I don't think that that was anything very serious. They are now in use in the fleet air arm.

Purvis: I think a method was found of overcoming a defect, but it was a defect in the design of the plane.

Dowding: Yes. I wouldn't say it was a defect in the design. I rather gathered it was some redistribution of weight which had been carried out at our instance, but I don't know the details.

Purvis: Oh, I see. That may be it.

Dowding: After all, the United States Navy have been using the Grumman for a long time. There can't be anything fundamentally wrong with them at all. Would you like me to say a word on the question of fighter armament and the reason for — this is a very big change in principle that is going on now.

H.M. Jr.: Please.

Dowding: Up to the present the .303 weapon has been a perfectly adequate weapon for the fighter. We started in the last war with a single gun and then at the end of the war we were using twin guns and then, thinking on general principles, I have always been of the opinion that fire power is one of the decisive factors in war, whether it is on land or sea or air, and why stop at two guns? Why not get the maximum
possible volume of fire during the short period that you can keep your sights on the enemy in air battle. I don't want to make too much of a personal thing about that. It happened to be a fad of my own. Anyway, the Air Ministry as such accepted this principle and adopted the eight gun fighter, which was the maximum fire power.

E.V. Jr:

That is a real contribution.

Dowding:

And at the beginning of the war, the eight gun fighter was really decisive. There was nothing that could stand up against it for more than a few seconds. It is true that the Germans had rendered their petrol tanks immune to small arms fire, which would otherwise have been their most vulnerable part, but the crew was vulnerable and the engines were vulnerable, and it was not a very difficult task to shoot down a German bomber, whereas the small fighters were almost contemptible adversaries because they were so easily shot down once this great blast of fire was delivered even for a second or so.

Well now, one had always foreseen that this state of affairs would not persist indefinitely. I think if I were to - if I were let loose in the Air Ministry archives, I could produce a memorandum which I wrote about in 1932, pointing out that sooner or later the defense against this eight gun fighter would be an intelligent armor of all types of aircraft, fighters and bombers, against fire delivered from directly or nearly directly astern. It at present appears to be an insolvable problem to armor a machine against fire from every direction, you see, and I don't think that it is a contingency that we have to consider at the moment. But, however, it also seemed to me obvious that the time would
come when enemy aircraft would be armored against attack from directly astern and the rifle calibre machine gun would then become practically useless from that particular aspect.

There remains the possibility of a flank attack with heavy deflection, which is, of course, extremely difficult to carry out very accurately because the amount of allowance you have to make ahead of a machine flying at 300 miles an hour is fantastic. I mean, it amounts to, in certain cases, more than two complete lengths ahead of a big bomber, in those ranges. So, although one could get a certain amount of effect from that, I didn't think you could get a decisive effect from heavy deflection shooting. Actually, I have been surprised at the success which has attended deflection shooting, especially against bombers in formation, because perhaps if we don't hit the one we aim at, we are apt to hit the next one behind, and as there is no armor protection from the flank, a single bullet which hits the pilot may bring the machine down, whereas if you have got to bring it down by fire from astern, it may take - I worked out very roughly that it took 500 hits with machine gun bullets to bring down a heavy bomber, even if it wasn't armed.

H.M. Jr: As against one on the side.

Purvis: If you are very lucky.

Dowding: I don't say that one bullet hitting the machine on the side will bring it down, but if the one bullet hits the pilot, it will bring it down; whereas the pilot in the big bomber was substantially immune even without any armor because of the length of the fuselage behind and all the --
Purvis: All the stuff that had to be penetrated before it got to him.

Dowding: All the impediments in the way of the bullet. And then there is, of course, the third possibility which again has been surprisingly successful, and that is the attack from head on, which has proved very deadly when it has been possible to bring it about against the bombers. In fact, very often a single fighter has broken up a whole formation, attacking from the front and shooting down the leader.

Well, I must get - I mustn't start a lecture on this, but the point is that the time has come when we have got to go to a piercing weapon instead of a - I mean a weapon which is capable of piercing the armor, and I am afraid that even the .5 gun is not such a weapon.

H.M. Jr: But how about our 37?

Dowding: The 37 is unnecessarily big. The 20 millimeter is unnecessarily big, as a matter of fact, but there is nothing in existence between the 20 millimeter, which is .8 of an inch, and the .5 gun. The theoretical ideal is probably a .55 or a .7 gun, but we are really compelled to use the 20 millimeter and that is amply big enough and it is not necessary to have a piercing gun bigger than the 20 millimeter.

H.M. Jr: Of course, the Bell is equipped with the 37 millimeter cannon that goes through the propeller.

Dowding: Yes, I know.

H.M. Jr: That will go through anything, then?
Reading: Yes, but it is uneconomical.

Purvis: You are taking up more than you need to do the job.

Reading: You are getting into the question of destroying airplanes by explosive shells, which is an uneconomical procedure.

E.V.Jr: Well, at least we are ahead, anyway.

Purvis: But this puts a premium on getting the 20 millimeter guns going pretty promptly.

E.V.Jr: Well, I am glad to have had this, and I want to hear more. I want to hear more and I do want to make sure that everything gets in the Army; and if, for any reason, it doesn't, and Sir Hugh isn't given prompt access, let me know.

Purvis: I will. Thank you very much.

Reading: I am quite sure that I shall be given every facility, and I will go off right away and take advantage of it; and if I may, I will come back and talk to you again later. But the point I want to put over is that this - the necessity for going to the big piercing gun has blown up the whole size of the fighter, you see.

Purvis: Because of the weight, you mean?

Reading: Because of the weight you have got to carry and it means that you have got to have a 2,000 horsepower engine instead of a 1,000. I am talking two years ahead, you see.

E.V.Jr: That is what I was talking, you see. We are all set for this year, but what is going to come in the calendar year of '22, I think - I am very
much worried about it.

Dowding: Every fighter in two years' time will have to have a 2,000 horsepower engine. A little fighter with the Merlin type --

H.M. Jr: You see then, if that is true, these engines which are going in with the Rolls Royce, which is going into Packard now, and we have no 2,000 horse liquid cooled engine even in the beginning of production.

Dowding: No, but --

H.M. Jr: We have no 2,000 horse, liquid. We have them in the air cooled, but not in the liquid cooled.

Purvis: Is the Sabre 2,000 horsepower?

Dowding: The Sabre is the answer at present, yes.

H.M. Jr: Well, you see, I have been saying again and again that they ought to bring this Sabre engine over.

Purvis: I think we have got one coming.

H.M. Jr: Plus the plane.

Purvis: The only way we can do it at the moment because of the lack of planes, I understand, is to demonstrate to people over on the other side, but very quickly that will be able to be changed, but at the moment they have shipped the engine anyway, I understand.

H.M. Jr: Well, they ought to.

Dowding: And they ought to send a Typhoon over here at the earliest possible moment. There are two errors they could make. One is to send it over
when the whole assembly might have some fundamental fault that prevented it flying and simply give it a bad name over here, although it was easily curable. The other thing is to keep it there until they have cleared every blessed trouble, all the little things that don't matter, you see. They ought to get the thing right, get any big bugs eliminated and then send it over here.

H.M. Jr: You see, if the Typhoon and the Sabre are the answers, I have been hearing about them—that is a Napier engine, isn't it? Anyway, before you get too far along with these 9,000 Rolls Royce engines the question is whether you will want those or whether you will want --

Dowding: Oh yes. The 1,000 horsepower engine was still coming for the twins and that sort of thing.

H.M. Jr: Of course we are not using them except in the single engine fighters, but that is all the thing --

Purvis: That is all bound up --

H.M. Jr: That is all the thing that has been going on for months and that is where you can render your country and mine a great service.

Dowding: Well, I am giving you my personal opinion, which is based on experience, you see, and if I start talking to people things that I think they would like to hear or somebody else would wish me to say, then my personal value will have disappeared.

H.M. Jr: No, if you get to know me better, I am not—what I want is the bare facts, no matter if they hurt.
Purvis: Yes, that is right, that is very true.

Dowding: And what is more, if they hurt the other end, I will still say them.

Purvis: May I have that talk with you on that other subject fairly soon?

E.V. Jr: Yes, but you will have to do Philip Young; and the press knows that you are here, so that you may meet them when you go out.

Dowding: Yes, I am going to talk to them at 3:30 this afternoon.

E.V. Jr: You can talk to them, but I just want to tell you I can't keep it a secret.

Dowding: That is all right.
January 7, 1941
10:32 a.m.

Jin?

Henry?

My apologies.

I just wanted to say to you that I now know that the Treasury gets everything you have including your shirt.

(Laughs). Well, I apologize, but I don't feel terribly guilty.

You don't, eh?

I thought I was the last person off that car. I don't know where you were, whether you were asleep or what.

(Laughs).

But I never saw you on the train.

(Laughs). Well, I never knew you were on until I heard you had my bag.

And then this porter picks up everything loose and put it in the car and I didn't - getting in terribly late that night.

When I leave the Government, I'll just be able to confirm every impression about the Treasury.

I - ah ..... 

O. K., Henry. I want to see you soon.

Listen, while I've got you on the wire - (laughs) - I won't ask you whose shirt you slept in that night, but seriously, I told Jerome Frank to call you up. Has he done it?

Yes, he called me and I called Dillon this morning to see if - and he hadn't heard of the thing at all.
Well, what do you know about that?

So I told him to get busy on it and take a look. I think that what you're running against probably is the usual thing in business of who is going to run the party. That's my hunch.

Oh, that's it, huh? Well, I thought the S.E.C. was going to run it.

Well, no. Jerry told me that what's his name - the fellow at Seligman's is running it.

Quinn.

Yeah, and I think you'll run into difficulty on that.

Oh.

But that's the usual thing. I've come up against that in business right along.

Okey doke. Next time I go up I suggest you have a steel chain around your bag, see, tied to your wrist. Hello?

Yeah.

So that I can't steal it from you.

Let me drop over sometime during the day, Henry.

All right.

I'll check with your office.

Do that.

Good-bye.

O. K.
Hello.

Good morning, Henry.

Hello, Sumner.

I was wondering if you would be able to let me have about fifteen minutes with you sometime within the next two or three days.

Sure. What subject?

In order to take up with you and Philip Young the question of five particular machine tools that the Soviet are interested in. It's a question of replacement and priorities. It's one of those cases that it'll have to be done under your own decision and the question of policy is directly involved.

I see. How's 3:00 o'clock Wednesday?

3:00 o'clock Wednesday will be fine. That's tomorrow.

That's tomorrow.

All right. Will you have someone in your office notify Philip Young?

It will be done in one second. I'll do it immediately. Sure I'll take care of that.

All right, Henry. I'll be there at 3:00 tomorrow.

Right.

Good-bye.

Good-bye.
Hello.

Senator Wagner.

Hello.

Hello talking.

Yes, Henry. This is Bob Wagner.

Good afternoon.

Good afternoon. Say, I wanted to ask you this question: if we open that matter of the British credits here, I take it that we ought to ask you. We can't ask anybody inferior in a banking committee hearing, so you'd have to come.

Yeah.

Would it be convenient for you - what do you think of the advisability of it first, Henry?

Well, now, here's the thing: the President told me about his conversation with you yesterday. See?

Yeah.

And this is - since I've talked with you and since he's talked - I've had a long talk with Cordell Hull, not on this thing but on this question of this bill, aid for Britain. See? Hello?

Yeah.

And I think I know how it's going to shape up but I'm not sure and I just wonder if we can't - in a day or two now we'll know. But starting this thing with you might be given the wrong kind of significance. I'm nervous as hell about it.

What is that?
I am nervous as hell about it because I think we all agree the thing to do is to get this bill through to help England.

Yeah.

E.M. Jr.

Now, if I come up there and say the wrong thing and hurt getting this bill through, I never would forgive myself.

Yeah.

E.M. Jr.

So I wonder if you couldn't give me a day or two because I think by tomorrow night I'll know more which way this bill is going to shape itself.

Yeah. Of course in any event I did tell Lister I don't think you can avoid, if any legislation comes up, the committee insisting upon - whatever committee it is - some evidence as to what their financial situation here is.

I know, but I don't know which way .......

That's all right, Henry.

E.M. Jr.

..... and the President said that he wasn't sure and, as I say, I never would forgive myself if I pulled a boner.

Yeah, I understand.

E.M. Jr.

And if you'd be a little patient - when I say a little patient I'm asking for a day or two.

Well, that's all right. I'm not impatient at all. I thought originally you had the idea that it would be a wise thing to do.

E.M. Jr.

I still think so.

Yeah. Eventually it will have to be done, Henry. You can't get away - I told that to the President. I said, you'll never pass legislation without some - in my opinion. Now, I'm only giving an opinion - without
some information on that. Well, anyway, I've talked to nobody about it. I've kept it down. I happened to talk to Jimmy Byrnes about it. In a way I was sorry because, while Jim is a wonderful fellow, he begins to confer and all that sort of thing. I haven't talked to anybody else about it, and so I'm going to keep it quiet, and I won't hold - I was going to hold a meeting of the committee tomorrow or Thursday ......

E.H. Jr: 

No. I'm not ready.

..... and I'll just ..... 

E.H. Jr: 

And then another thing, let's be frank. Jesus, if I come up there before you they're going to cross-examine me on this Eccles thing.

Well, of course we can keep that - that's another question that's coming up later on, because there's already legislation introduced on that. I must have a talk with you about that - I mean, a lot of things are going to loom up, but we'd be able to control that pretty well.

E.H. Jr: 

Well, you wouldn't control it if somebody asked me what I thought about it.

W: 

Yeah. Well, of course you're always able to answer those things.

E.H. Jr: 

Well ..... 

W: 

But I tell you what I'll do. I'll let it rest now.

E.H. Jr: 

I'll positively get in touch with you in a day or two, just as soon as I know which way this other thing is going to go.

W: 

Now, on the other thing, I talked to Carter yesterday and whenever you're ready now - you're overwhelmed on this - and whenever you're ready why we can meet easy enough and I'll bring Al Barkley into it too.
H.M. Jr.: Well, how about Friday morning?
M: I'll find out if Carter is going to be here and I'll let you know.
H.M. Jr.: Friday morning is O.K.
M: Yeah. All right.
H.M. Jr.: Thank you.
M: All right, Henry.
January 7, 1941
3:20 p.m.

H.M. Jr: Hello.

Frank Knox: Hello, Henry.

H.M. Jr: How are you, Frank?

K: Fine.

H.M. Jr: Frank, I hope in the next couple of hours to have the final draft of this legislation of aid to England.

K: Yeah.

H.M. Jr: I saw the President yesterday and he asked me to get Cordell first to initial it, then me, then Stimson and you.

K: Get what?

H.M. Jr: Get all four of us to initial it.

K: I see.

H.M. Jr: Now, it's over there now and it's ..... 

K: Over with Cordell?

H.M. Jr: Yeah. I had an hour and a half with him this morning and he made a couple of changes - not important.

K: Yeah.

H.M. Jr: And the principal one is it's not an amendment to another bill, it's an original bill so therefore it can go to any committee that the leaders want to send it too, you see.

K: Yeah.

H.M. Jr: It doesn't have to go to Foreign Affairs.

K: Yeah.
H.M. Jr: And the other thing he suggested which I thought was good, instead of naming the countries - not to name any countries.

K: Well, I don't know. I thought there was rather a good reason for naming the countries.

H.M. Jr: Well, he doesn't want to name them and then he thinks that it's a little bit safer.

K: Well, you'll lose some following.

H.M. Jr: True, but .......

K: Naming Ireland in there was a stroke of business I thought.

H.M. Jr: I know, but the President also was weak on that whole thing - much to my amazement. He was worried about it that fellows like Wheeler might say, well, this is really a declaration of war, you see, and as long as the President felt a little worried about the whole thing taking this form and Hull was a little worried, I don't think it's important enough to fight about.

K: That's right.

H.M. Jr: What?

K: That's right.

H.M. Jr: Particularly now as Cordell is willing to work with me and take the brunt of it on the Hill. See?

K: That's good.

H.M. Jr: Sometime - we'll phone you to find out - but sometime between now and 6:00 or earlier, I hope, I'll call up to find out if we can send it over. Take your time and read it and if you could initial it why it would help.

K: All right, fine, Henry.
E.M. Jr.: But when it comes to you it'll already have Hull's and mine on it and I hope to get it in the hands of the President tonight.

E.: All right, Henry. I'll do it as soon as it comes.

E.M. Jr.: Thank you so much.

E.: All right. Good-bye.

E.M. Jr.: Good-bye.
H.M.Jr: Hello.
Operator: Secretary Stimson.
H.M.Jr: Hello.
Henry L. Stimson: Yes, Henry.
H.M.Jr: How are you?
S: Fine.
H.M.Jr: Harry, I had an hour and a half with Hull today, after having an hour with the President yesterday on this bill.
S: You're speaking now of the ..... 
H.M.Jr: Aid to England, or aid Ireland or aid to China.
S: You mean, now, the bill that I've been talking of with Foley.
H.M.Jr: That's right. Now the objection that you raised was the way it was written as an amendment it had to go to Foreign Affairs.
S: Yes.
H.M.Jr: That's been crossed off so it's an original bill now.
S: Yes, well that's the only point I had objection to. I only objected to that in case the people who knew more about it than I did agreed with me that Foreign Affairs was not the best committee for it to go to.
H.M.Jr: Well, Cordell thinks that Foreign Affairs in the Senate is very bad; he thinks in the House it's all right.
S: Yes.
But he is joining with me tomorrow in seeing the leaders in the Senate and the House to try to direct it to the best committee, but it is crossed off so it's an original bill so it can go to any committee.

So it can go to any.

The chances are it will not go to Foreign Affairs in the Senate.

I want you to understand, Henry, my attitude wholly about it. I approved of its being an amendment to that Act except for this question.

I think your judgment was good.

And that question occurred to me when, I think it was Foley or someone else told me that they were thinking it would go to the Foreign Affairs Committee.

Now they made one other change at Cordell's suggestion. We're not naming any countries; we're leaving the names out. He didn't want any names.

Yes, all right.

And the President was a little worried about that aspect - not that, but the whole question. Somebody had been to him on making .......

Let me see. I forget now the - it named the oppressed countries, didn't it?

Yes, but it left out China.

Left out China.

But when it came to that Cordell thought it was better not to name any countries. See?

Yes. I don't remember - I haven't the bill before me now and I shouldn't ......

I don't think it makes enough difference. Hello?
S

Yes. Well, I'm perfectly agreeable on it.

H.M.Jr: 
Now what's happening is the President said he wanted all of our initials on it first and then he would initial it.

S: 
Yes.

H.M.Jr: 
It is over in Mr. Cordell Hull's office now and as soon as he has initialed it, I'd like to send it over to you and then I'm sending it to Frank Knox and I hope to get it to the President yet before supper.

S: 
All right. It won't take any length of time here.

H.M.Jr: 
And then Cordell and I are seeing that ......

S: 
Will you send it by a messenger who'll carry it along to Knox?

H.M.Jr: 
Well, Foley will come himself.

S: 
Oh, yes. All right.

H.M.Jr: 
I'd come, but I'm sending Foley.

S: 
Oh, no, no, no. Well, I think it is a wise precaution to leave it so that it doesn't necessarily go to that committee.

H.M.Jr: 
Well, it leaves it so it can go to any committee - it can go to different committees in the Senate and the House.

S: 
Yes, I see.

H.M.Jr: 
I was worried because somebody had practically sold the President on making it a corporation. I don't know who.

S: 
Someone had told the President what?

H.M.Jr: 
That it should be done through a corporation.

S: 
I hadn't heard of that.
Well, he was practically sold on it, but then we pointed out that if it was a corporation it would mean an amendment to the Johnson Act and then he dropped it.

An amendment to the .....  

Johnson Act.

You mean as to lending .....  

Well, private lending.

Private lending, yes.

But somebody did a job on him; I don't know who.

By jinks - (laughs) - that would have been a bad fix, wouldn't it?

I think it would have been terrible because you know how much trouble it is: you get it all fixed up, then you've got to go through Jones all over again and we haven't got that much time to waste.

No, we have not. Well, I think you've done a good job, Henry. I'm very glad you did it.

Thank you.

Good-bye.
ADDRESS BY THE HONORABLE WILLIAM C. BULLITT
BEFORE THE INTERNATIONAL RELATIONS CLUB
OF THE UNIVERSITY OF NORTH CAROLINA,
CHAPEL HILL, N. C.,
AT 10:00 o'clock TUESDAY EVENING, JANUARY 7, 1941.

To be carried over nation-wide Blue Network of
NATIONAL BROADCASTING SYSTEM 10:00 to 10:30 P. M.

The fifth of December, 1938, it was my privilege to accompany President
Roosevelt on his visit to Chapel Hill. The President began his address that
day by quoting the words: "We live in a world of change."

The speed of change has been so accelerated since the President spoke
those words that it has become enormously difficult to "see life steadily
and see it whole." Nations have lost their independence in a few hours.
Shrines and landmarks of centuries have been blown to dust in a night. The
world of yesterday does not exist today. The world of today will not exist
tomorrow.

We are trying to live our lives in peace, in freedom and in Christian
decency on an earth where there is little peace, less freedom and a con-
stantly diminishing area of Christian decency.

Moreover, we are obliged to think of our relations with other nations
in terms of a shrunken geography. For the first time in our history the war
machines of Europe can reach the Western Hemisphere in a few hours. The
physical isolation in which we have lived and developed our own way of life
is at an end. Whether we like it or not – and most of us don’t like it because we were happy in our isolation – the earth has been so contracted by the airplane that in a very real sense all the nations of the world have become our neighbors.

Another invention has abolished distance completely for the ear. The radio enables us to hear instantly a voice speaking in any spot on earth. We can no longer ignore ideas on other continents. They are in the air in our homes, our offices, and our automobiles. There is an old and noble saying: “Nothing human is alien to me and my brother’s sorrows are my own.” So also today is his propaganda.

The moral change which this shrunken world has suffered is even more bewildering than the geographical change produced by the radio and the airplane. Before 1914 all the nations of the earth accepted in one form or another the ethical principle of Christian life – the great Commandment: “Do unto others as you would they should do unto you.” The Chinese phrased it passively in the words of Confucius saying: “Do not do unto another what you would not wish him to do unto you.” The Mohammedans and the Buddhists had their phraseologies. But all men, except a few tribes of savages, bowed to a moral doctrine that was either that of Christ or close to that of Christ.

The Emperor of Japan, the Czar of Russia, the Emperor of Germany, the Emperor of Austria-Hungary; like the King of England, the King of Italy, the President of France, the President of the United States, and the heads of all smaller nations, were linked by a community of moral doctrine. All were ashamed to kill without due process of law, to be cruel, to lie, to break their pledged word. A unity of moral outlook had replaced to some degree the old unity of Christendom. If men did not live up to their principles, they at least felt a sense of guilt when they did not; and, if their
principles did not guide their actions, at least they restrained their actions. The rulers of all nations spoke the same moral language.

The community of moral outlook which existed before 1914 exists no longer. The Bolsheviks in Russia were the first rulers to deny the validity of Christian ethics when they declared: "Religion is the opium of the people," and instituted a government of the people, by the dictator, for the bureaucrats: a government based on secret police and firing squads under which only an obedient slave can enjoy relative security.

The Fascists in Italy followed, but discreetly, since they knew that the Catholic Church was Italy's greatest asset and feared to lose that asset. But they installed the lie, the pledged word given and broken, as their chief weapon in international politics.

The Nazis under the leadership of a genius of evil then turned their backs on all the moral teachings of Christ, Mohammed, Confucius, and Buddha, and announced that the highest virtue was to be hard, and that there was one master race - the German - which was superior to all other races, that this race had the right to conquer Europe and then the whole earth and rule triumphant over a world of slaves.

The Japanese, meanwhile, rediscovered a divine mission for themselves, and to prove their moral superiority began to disembowel the Chinese with their bayonets.

In the course of a few brief years Russia, Italy, Germany and Japan turned away from even lip-service to the moral principles which had been accepted generally throughout the world before the war of 1914. The speed of this transformation seems extraordinary until one considers that the moment a dictator seizes power he establishes immediate and absolute control over all avenues by which thought can reach the human brain. He controls the press, the radio, the motion picture and all speech. He shields his people with the
utmost care from the intrusion of truth. And into them he pours propaganda.

No man in any totalitarian country, in these days of dictaphones, can express an opinion at variance with the dictator— even privately to his most intimate friends or his family—without risking a firing squad.

Moreover, there are in the human animal powerful and imperfectly repressed instincts that respond to the dictators’ creed of barbarism. Evolution is a long and slow process, and in spite of twenty centuries of Christian civilization a savage hides beneath the surface of each civilized man’s nature. Hitler was able to force the people of Germany, — who had given the world Goethe and Beethoven, and had given the United States so many splendid citizens, — to adopt a creed of cruelty, because he offered an enjoyable outlet to the primitive anthropoid who lurks in man and delights in cruelty and slaughter.

In our country, we still are free men— the heirs of twenty centuries of Christian civilization. Our homes, our communities, and our nation are founded on our belief in the eternal verity of the teachings of Christ. Our lives are so permeated by this belief that we almost forget it exists. It is as present and impalpable as the air we breathe. We are so accustomed to living in liberty and Christian decency with free churches, free speech, a free press, and free discussion that we forget that these are luxuries which now can be enjoyed in only a very few countries. And we are apt to forget that when freedom leaves, fear enters.

Unless one has lived in countries where a man does not know whether the workman on the bench next to him, or his closest associate or friend, is, or is not, a secret agent of the all-powerful dictator— where every man and woman fears to hear in the night at the door the knock of the secret police— it is difficult to comprehend the degree to which fear dominates human life when freedom is destroyed, or the horror that life becomes when lived in total fear.
Existence in the totalitarian states is not life as we Americans understand life, but is living terror.

No bridge of understanding can be built between our nation and the totalitarian states, because a minimum of good faith is as necessary for friendly understanding between nations as between individuals. The dictators have proved to us that we cannot believe a word they say or trust a pledge they make. They have discarded for themselves and for their peoples the whole code of international morality. Force unrestrained by morality is their creed. Their threat to us is a threat not only to our independence but also to all that we care about on earth. Our country is in danger. Our way of life is in danger. Our Christian civilization is in danger. We can expect no mercy or honor in their dealings with us. And we face the threat of this new barbarism on a shrunken earth.

To carry out their plans of conquest, Germany, Italy and Japan leagued themselves together by an agreement signed in Berlin on September 27, 1940. The threat of ultimate war against us contained in that agreement has since been underlined in red by the Chancellor of Germany, by the Foreign Minister of Japan, and by spokesmen of the Italian Government.

How are we going to meet that threat?

At no time in our history has there been greater need for clear thinking by all Americans. We cannot solve this problem by emotional reactions or epithets, or good intentions or high sounding words. We have to think hard in the old American way — with cracker-barrel common sense.

Let us begin by remembering that the Atlantic and Pacific Oceans, even in these days of airplanes, are formidable obstacles to invasion of the Americas. So long as the British Navy continues to hold the Germans and Italians on the other side of the Atlantic, while our Fleet watches in the
Pacific, we have the practical equivalent of a two-ocean navy. This is the situation today. But if the British Navy were eliminated, we should have a one-ocean navy — and we would still have two oceans to defend. And a one-ocean navy can cover two oceans just about as well as one pair of pants can cover two pairs of legs.

We are building ships of war as fast as we can, but we shall not have a two-ocean navy until 1945. If, before that time, the British Navy should cease to defend the Western Hemisphere on the Atlantic side, we should be able to protect either the Pacific Coast or the Atlantic Coast; but we could not protect both. Without the British Fleet, we could not bolt both the front door and the back door of our national home.

Some people faced by this fact comfort themselves with the belief that even though Great Britain should collapse, the British Navy would continue to fight and hold the Atlantic for us. Unfortunately, we cannot shape our national policy on pure optimism alone. The present government of Great Britain would no doubt desire the fleet to continue to fight even though the British Isles should have been occupied by the Nazis. But when disaster over-whelms a country, its government falls. The French Government of Reynaud desired the French Navy and Army to base themselves on North Africa and continue to fight against Germany. That government fell, and the French Army and Navy were withdrawn from the struggle. In the face of this recent example, it is not wise to be too optimistic about a continuance of war by the British Navy — if we should be so blind as to permit by default the conquest of Great Britain.

We know that Latin America is vital to our national defense. But if we are thinking honestly we have to admit that in many states of Latin America there are strong totalitarian elements. If Great Britain’s resistance to Germany and Italy should collapse, the way would be wide open for the installation of totalitarian government in one or more states of South America. Re-
ently a distinguished opponent of President Roosevelt’s policies argued that even if the dictators should control all South America as far north as the Equator, we could still be safe. The experience of cities in England has shown that the Panama Canal cannot be made secure at this moment against bombing planes based on South America. If the Canal should be put out of commission, our one-ocean navy would be fixed in one ocean, and the other ocean would become a broad highway—open for invasion.

More than ninety percent of the human race would be controlled by the dictators and be organised against us. A Japanese iron ring around Asia and Australasia and a German iron ring around Africa and Europe, including Great Britain and Ireland, would cut us off from trade with so great a portion of the earth that we— in a mutilated stump of the Western Hemisphere—would be thrown into economic disorder. The standard of living of even the poorest American would be gravely reduced. And we should have to try to support with our crippled economic system armaments colossal enough to resist the whole world. How long under those conditions could we keep alight the flame that was kindled on the Fourth of July, 1776—the flame of freedom for all men?

Because it is disagreeable to look at these facts, there are still a few Americans who close their eyes andumble that we ought to try to come to some reasonable understanding with the dictators. Austria, Czechoslovakia, Belgium, the Netherlands, Norway and Denmark did everything they could to avoid displeasing the Nazis; but they were attacked as ruthlessly as if they had acted with outright hostility to Germany. Their fate has shown what happens to nations that try to appease the Nazis. Yet those who cannot bear to look at the harsh reality still comfort themselves by dreaming that we can get close to the dictators and establish happy cooperation with them. That kind of
wishful thinking reminds me always of the old limerick:

"There was a young lady of Niger,
Who went for a ride on a tiger,
They came back from the ride,
With the lady inside
And the smile on the face of the tiger."

If we cannot appease the dictators, and if the victory of the dictators would have such tragic consequences for ourselves, what should we do?

Help the British! Help the Greeks! Help the Chinese!

That answer is obvious.

Help how?

We hate war and because of that hatred the question of entering this war as a national policy does not even arise. We know that the surest way to defeat the axis powers is for us to go to war in support of Great Britain, Greece and China, but we hate war so much that we prefer to take a chance on the ability of the British, the Greeks and the Chinese to defeat the dictator powers without direct military assistance from us. We know what the consequences of totalitarian victory would be for us, and we are taking this risk with our eyes open. Unquestionably the people of the United States at this moment prefer to take this risk rather than go to war.

How can we diminish the risk?

Only by giving to those who are fighting the axis powers every possible supply, material, munition, and arm that can be of use to them. We must give what they need, not what we think we can comfortably spare. We can not, in our own self-interest, give less than what they need. If we have not got what they need, we must produce it and produce it fast. Merchant ships, war vessels, airplanes, guns, munitions, steel, wheat – all that we give will be used in defense of our own security.

If we should stack the cards against the British by withholding what they need and we have, we would condemn ourselves to war at a day not distant, alone, without allies, and unprepared.
It is no greatly to the advantage of the totalitarian states to have us stay out of war while they are attempting to conquer Great Britain, Greece and China that they will almost certainly not make war on us so long as Great Britain stands — no matter how much material aid we furnish and no matter what form that aid may take. The dictators will fume and fulminate but they will not risk declaring war on us unless they first have conquered Great Britain.

Each day that the British, the Greeks and the Chinese hold out increases our own readiness to parry attack. But it is no secret that today we are far from prepared. We must buy time in which to prepare. We can buy that time only by helping the nations that are now holding the totalitarians away from our shores.

The totalitarian governments have expressed the opinion that we are already too late — that nothing our "clumsy democracy" can now do to accelerate production will produce enough weapons in time, and that they will conquer Great Britain before we wake up.

Our method of production during the past six months has been the comfortable and lazy one of superimposing production for defense on the normal business of the country. That was the method employed by France and Great Britain before they were drawn into war. It led to the defeat of France and to the deadly peril in which Great Britain now finds itself. It has failed us, as it failed them. And the President has now declared that production for defense must take precedence over other production. The Nation, from East to West, from North to South, — every man, small or great, — must respond to the President's leadership. This response will constitute the acid test of our democracy, of our ability as free men, acting of our free will, to banish every thought of self and selfish gain.

The problem of increased production can not be solved by any administrative organization or any small group of men, however able they may be. It can be
solved only by the whole American people working together as a unit. Without being in war, and in order to keep war away from our shores, we must now produce instruments of defense as fast as though we were in war.

To find within themselves the will to work as if they were in war is hard for men who live in peace. But the instinct of self-preservation should tell each individual American that the very existence of all that he holds dear depends now on his own efficiency and his own readiness to work and to sacrifice for his country.

We read each day in our newspapers and we hear each day on our radios the news from London, and we should all know now just what Churchill meant when he promised his countrymen nothing but "blood, toil, tears and sweat." If we toil and sweat now — but only if we do — we may be able to escape the blood and tears.

At this time of danger each American must ask himself each day not what he can get from his country but what he can give to his country, and must ask himself each night: "Have I given enough?"

We are told by propagandists for the dictators that our democracy is out-worn, inefficient, a thing of the past, that our government of the people, by the people, and for the people is sure to perish from the earth. We are asked to fall on our knees before a system in which one man decides for all other men what they shall think, eat, drink, wear, and do; — a system the essence of which is fear, the secret police, the firing squad, the concentration camp and torture. We are told that this is "the wave of the future."

But we know that through all changes on this earth, there is that which does not change: the Eternal Nature of the Commandment: "Do unto others as you would they should do unto you." We know that no "wave of the future", no firing squad, no torture, can change that Truth. It has already hung on the Cross.
The totalitarian dictatorships have turned their peoples away from that truth and are trying to impose on Europe and the world what they call a "new order". By their works we know them, and we know that their "new order" is a very old order indeed; the foul, old order of slavery.

Our forefathers died for the right of a man to bow to no master but God. They started the wave of the future: a wave which has not yet even begun to reach its crest. The wave of the future is freedom, democracy, peace. The wave of the past is slavery, dictatorship, war.

Our forefathers took this continent and made it a good land for men of every race to live in. We, too, can turn our faces into flint. We have in our American loins the strength of every people. We are, in living truth, a brotherhood of man. And we can take the future as our forefathers took the past. The inventions that have shrunk the world are now being used for slaughter and propaganda. We can use them to establish peace and spread truth.

In this past year, men of good will throughout the earth have felt more deeply than for centuries the need for a unity of Christendom. Each one of us, each individual American, has his place today in the construction camp of Christendom.

We know how to work; and we know how to fight; and we know what it is to be free. The slaves of the dictators are not the future. We are the future.

And the future is ours!
January 7, 1941

To: The Secretary
From: Mr. Young

Re: Meeting with Messrs. Burdette Wright and Guy Vaughan concerning P-40 planes.

At the present time the British have been negotiating with Curtiss Wright for a total of 2066 P-40D airplanes in three lots - 420, 600, and 1066. With respect to the negotiations for the 420, the British are ready to sign the contract but have advised Curtiss Wright that they are barred from so doing by instructions from Washington. Negotiations for the 600 have progressed satisfactorily, but the British have stated that they are not yet quite ready to sign. Concerning the 1066, the British are still in the talking stage.

The deliveries on these three groups are as follows:

<table>
<thead>
<tr>
<th></th>
<th>420</th>
<th>600</th>
<th>1066</th>
</tr>
</thead>
<tbody>
<tr>
<td>August, 1942</td>
<td>65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September, 1942</td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October, 1942</td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November, 1942</td>
<td>60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>December, 1942</td>
<td>55</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January, 1943</td>
<td>85</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February, 1943</td>
<td>65</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>March, 1944</td>
<td>100</td>
<td>130</td>
<td>165</td>
</tr>
<tr>
<td>April, 1944</td>
<td>100</td>
<td></td>
<td>165</td>
</tr>
<tr>
<td>May, 1944</td>
<td>100</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>June, 1944</td>
<td>52</td>
<td></td>
<td>115</td>
</tr>
<tr>
<td>July, 1944</td>
<td></td>
<td>115</td>
<td></td>
</tr>
<tr>
<td>August, 1944</td>
<td></td>
<td>165</td>
<td></td>
</tr>
<tr>
<td>September, 1944</td>
<td></td>
<td>280</td>
<td></td>
</tr>
<tr>
<td>October, 1944</td>
<td></td>
<td></td>
<td>115</td>
</tr>
<tr>
<td>November, 1944</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In addition to the potential British orders outlined above, Curtiss Wright can also produce 845 P-40E planes with delivery as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1941</td>
<td>2</td>
</tr>
<tr>
<td>May 1941</td>
<td>6</td>
</tr>
<tr>
<td>June 1941</td>
<td>8</td>
</tr>
<tr>
<td>July 1941</td>
<td>30</td>
</tr>
<tr>
<td>August 1941</td>
<td>97</td>
</tr>
<tr>
<td>September 1941</td>
<td>65</td>
</tr>
<tr>
<td>October 1941</td>
<td>90</td>
</tr>
<tr>
<td>November 1941</td>
<td>150</td>
</tr>
<tr>
<td>December 1941</td>
<td>170</td>
</tr>
<tr>
<td>January 1942</td>
<td>214</td>
</tr>
<tr>
<td>February 1942</td>
<td>101</td>
</tr>
</tbody>
</table>

These 845 additional planes would have to be released by the Air Corps if they were to be sold to a foreign purchaser. Further some arrangement would have to be made for the supply of engines.

(Signed) Philip Young
January 7, 1941

MEMORANDUM FOR: Secretary Stimson
Secretary Knox
Secretary James
Mr. Emsden
Mr. Hillman

The President is going to see us at eleven o'clock Thursday morning. The reason that I asked for this appointment is to afford an opportunity for all of us to discuss with the President what we can do to assist the British during the interim period pending the passage of legislation by Congress.

I am enclosing herewith (1) a suggestion for an interim program and, (2) a very confidential memorandum given me by Mr. Arthur Purvis as to the latest estimate by the British government of their military needs.
MEASURABLES FOR THE SECRETARY

Interim Plan

Pending the enactment of the proposed joint resolution authorizing the placement by the United States of orders on behalf of foreign governments and leasing to foreign governments the articles so ordered, the following interim plan can be used for:
(1) The expansion of productive facilities for defense material; and
(2) The procurement of such material.

(1)

Expansion of Production Facilities

The R.F.C. and the War and Navy Departments presently have funds available for the expansion of defense production. The R.F.C. has a revolving fund of $1,500,000,000 for such purposes. Of this amount approximately $400,000,000 is probably still available.

By a recent decision of the R.F.C. to reduce the take out obligations of the War and Navy Departments about $400,000,000 more has been made available to these departments for defense plant expansion. In addition to other plant expansion funds which these departments still have available, further funds for this purpose could be made available by releasing all R.F.C. take out funds which have been set aside by Army and Navy.

There would appear to be ample funds for the additional plant expansion program. If any more funds become necessary, the note issuing power of the R.F.C. could be increased by the amount necessary to accomplish this objective.
(2)

Procurement

For the actual placement of additional orders the War Department has available: (a) $60,000,000 for the procurement of aircraft, aircraft engines and aircraft parts; and (b) $430,000,000 for the procurement of ordnance items. The War Department is prepared to make these funds available for the foregoing purposes, instead of using them, for example, for April - June 1941 maintenance of aircraft, with the idea in mind that the War Department can get further appropriations later for such maintenance and similar purposes.

In all probability, the Navy Department can make similar funds available.

By spreading the procurement orders with these funds and dovetailing them with plant expansion, the program can be carried forward so that the necessary deliveries can be made as soon as the proposed joint resolution is enacted.
BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Willard Hotel
Washington DC

January 5, 1941

Dear Mr. Secretary:

I inclose for transmission to the President the new statement of British Requirements during 1941 and 1942 of:

- Merchant Ships
- Aircraft
- Ordnance
- Steel
- Machine Tools

which statement was promised in the Prime Minister's letter to the President of December 8th, 1940, paragraph 16, and again in his cable of January 2, 1941.

Very truly yours,

[Signature]

Chairman

The Secretary of the Treasury,
Washington,
D. C.


<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Estimated Deliveries</th>
</tr>
</thead>
<tbody>
<tr>
<td>From Orders Already Placed or Under Negotiation in the United States</td>
<td>Total Deliveries Required from the United States</td>
</tr>
<tr>
<td>1941</td>
<td>1942</td>
</tr>
<tr>
<td>Small Non-Tank Aircrafts</td>
<td></td>
</tr>
<tr>
<td>Gross tons</td>
<td>320,000</td>
</tr>
<tr>
<td>Single</td>
<td>1,000</td>
</tr>
<tr>
<td>Non-Tank Aircrafts</td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>1,000</td>
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<tr>
<td>Non-Tank Aircrafts</td>
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<td>1,000</td>
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<td>Non-Tank Aircrafts</td>
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<tr>
<td>Single</td>
<td>1,000</td>
</tr>
<tr>
<td>Non-Tank Aircrafts</td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>1,000</td>
</tr>
</tbody>
</table>
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £80,000
Purchased from commercial concerns £36,000

The Federal Reserve Bank of New York sold £16,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns £5,000
Purchased from commercial concerns £3,000

The Canadian dollar, which has had an easy tendency of late, recovered today. It closed at 13-7/8% discount, as against 14-1/8% yesterday.

A further improvement took place in the Cuban peso rate, which moved from 8-1/16% discount yesterday to 7-11/16% at the close today.

Closing quotations for the other currencies were:

Swiss franc .2321
Swedish krona .2301
Reichsmark .4005
Lira .0505
Argentine peso (free) .2360
Brazilian milreis (free) .0505
Mexican peso .2066
Cuban peso 7-11/16% discount
Chinese yuan .05-5/8

There were no gold transactions consummated by us today.

Under licenses previously issued, the Federal Reserve Bank of New York transferred from the account of the Central Bank of El Salvador gold valued at approximately $300,000 to account No. 6 of the B.I.S. This transfer raises the amount of gold in B.I.S. account No. 6 to $450,000; gold in this account is owned by the Central Bank of El Salvador and is pledged to secure repayment of credits granted by the B.I.S.
There were no new gold engagements reported to us today.

A gold price equivalent to $33.29 was received from Bombay today, 3½ higher than last Saturday's quotation. Silver was priced at the equivalent of 43.97c, a gain of 1½c.

The price fixed in London for spot and forward silver were both unchanged, at 32-3/8d and 32-5/16d respectively. The dollar equivalents were 42.44c and 42.33c.

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

We made four purchases of silver totaling 595,000 ounces under the Silver Purchase Act. Of this amount, 300,000 ounces represented a sale from inventory, and the remaining 295,000 ounces consisted of new production from foreign countries, for forward delivery.

The report of December 31 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $98,986,000, an increase of $115,000 in the short position. Net changes were as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Short Position December 31</th>
<th>Short Position December 31</th>
<th>Change in Short Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>England**</td>
<td>$883,000</td>
<td>$1,300,000</td>
<td>+217,000</td>
</tr>
<tr>
<td>Europe</td>
<td>3,533,000</td>
<td>3,754,000</td>
<td>+221,000</td>
</tr>
<tr>
<td>Canada</td>
<td>287,000 (Long)</td>
<td>310,000 (Long)</td>
<td>-113,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>537,000</td>
<td>415,000</td>
<td>+38,000</td>
</tr>
<tr>
<td>Japan</td>
<td>4,126,000</td>
<td>4,154,000</td>
<td>+28,000</td>
</tr>
<tr>
<td>Other Asia</td>
<td>1,257,000</td>
<td>56,000 (Long)</td>
<td>+149,000</td>
</tr>
<tr>
<td>All others</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$9,640,000</td>
<td>$9,955,000</td>
<td>+$315,000</td>
</tr>
</tbody>
</table>

*Plus sign (+) indicates increase in short position, or decrease in long position.

Minus sign (-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

The Federal Reserve Bank's report of December 31, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $99,479,000, a decrease of $3,520,000 since December 31. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on December 31:

CONFIDENTIAL
<table>
<thead>
<tr>
<th>Liabilities: Deposits for Japan &amp; Manchuria</th>
<th>December 31</th>
<th>Change from Dec. 24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits for China</td>
<td>$50,550,000</td>
<td>- $4,430,000</td>
</tr>
<tr>
<td>= U.S. Treas. bills, comm. paper, etc.</td>
<td>36,637,000</td>
<td>+ 994,000</td>
</tr>
<tr>
<td>Claims</td>
<td>31,049,000</td>
<td>- 1,134,000</td>
</tr>
<tr>
<td>Loans</td>
<td>36,454,000</td>
<td>- $ 81,000</td>
</tr>
<tr>
<td>Other - mainly Jap. import bills</td>
<td>12,349,000</td>
<td>+ 468,000</td>
</tr>
</tbody>
</table>

The last three categories refer mainly to Japanese banks in Japan and Asia. It will be observed that deposits and bills held for account of such banks together declined about $5,500,000. Since more than $3,000,000 worth of gold arrived from Japan on December 27 and was sold to the San Francisco Mint, it appears that as much as $8,500,000 may have been withdrawn from Japanese deposits with Yokohama's New York agency during the week under review.

CONFIDENTIAL
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE January 7, 1941

TO Secretary Morgenthau
FROM Mr. Klaus

RE reports:

January 3. An investigation has been conducted of the activities of one
Leopold Hugo Paul Klotz and his wife, generally known as "Baroness" Vera Mont-
gomery, and their relation to the Luscombe Airplane Corporation. Klotz is a
German alien and his wife was a customers' woman for Beverley Bogert and Com-
pany, stockbrokers in New York. They have bought into the Luscombe Airplane
Corporation and now have control. The Corporation is suspected of violation
of Export Control regulations regarding airplanes and airplane parts, and the
Herald-Tribune is about to publish a story that Vera Montgomery has carried,
and is proposing to continue to carry, large amounts of money (allegedly a
billion dollars in currency) into Mexico, obtained by liquidating German ac-
counts in the United States through the brokerage firm of Winalow, Douglas
and McVoy. On April 6, 1940, Klotz flew to Mexico with persons said to be
connected with William Rhodes Davis (former New York State Senator John A.
Hunting and others) to see President Cardenas.

January 3. It is reported that Germany has 22,000 former Ukrainian army
officers concentrated in Poland for the purpose of acting as officers in a
Ukrainian army of 500,000 to fight Russia in an invasion of the Ukraine; the
informer states that these officers have secret intentions of fighting both
Russia and Germany when the army is organized and supplied in order to free
the Ukraine.

January 4. The Japanese press is showing more and more hostility to
the United States; Russians have become popular in Tokyo in consequence of
Japan's idea that Hitler should whet Stalin's appetite in the direction of
Iran and Afghanistan in order to eliminate Japan's anxiety regarding Siberia
and Mongolia.
January 7, 1941

Memorandum Dictated by Mrs. Klotz

Tom Smith came in to see me and asked me to help his boy get into Ordnance, and I said no, that I could not. Then he asked me whether I considered it an exemption to get into Ordnance, and I said that I did. He then asked me, "Do you think he should take his chances in the draft?" I told him that I thought he should.

I was very frank in letting Tom Smith know, and I looked him straight in the eye, that I thought it was wrong and that I could not help him.
January 7, 1941.

Mr. H. H. Merle Cochran,
Treasury Department,
Washington, D. C.

Dear Mr. Cochran:

At Mr. Inako's suggestion I am enclosing a memorandum which was prompted by the recent publicity concerning transfers of dollars from Russia to German account.

Very truly yours,

/s/ Walter E. Rosell, Jr.

Walter E. Rosell, Jr.

Enclosure

Copy: airm
Much publicity was given in today's press to large transfers of funds from the Russian State Bank to the Reichsbank account at Chase and a "mysterious financial process" by which Germany is able to acquire dollars despite the British blockade. The New York Times dispatch goes so far as to state that the Dies Committee has preliminary evidence to show that "at least $15,000,000" was transferred in this manner during the past two months. Specifically, three individual transfers were mentioned; $700,000 on October 2, $500,000 on October 14, and $250,000 on October 25.

On the basis of the information which Chase currently makes available to us, three such transfers were actually made on Chase's books at approximately the dates indicated. Actually, the $700,000 transfer on October 3 was the first of a series of seven Russian dollar payments to Germany. The total, however, amounted to only $2,900,000. In addition, a small transfer of $200,000 was made by the Russian State Bank to the Deutsche Goldmarkbank last August. Aside from being considerably below the $15,000,000 mentioned in the news dispatches, these transfers are only one half the picture. During the same period, $525,000 was transferred from the Reichsbank account to the Russian State Bank. Furthermore, when transfers of $1,075,000 made between the early part of June and the end of last September are taken into account, the total movement of funds from the Reichsbank to Russian account amounted to about $1,600,000. In addition, $2,000,000 was transferred from the Goldmarkbank account to the Russian account at Chase.
The total movement of dollar balances to German from Russian account from early June, therefore, amounts to about $3,600,000 or more than the total amount of transfers in the opposite direction.

While, as Chase intimated in its statement to the press, transfers between Russian and German accounts probably reflect to a large extent commercial transactions, it is possible that some of the payments made to Germany by Russia may represent reimbursement for German gold which was exported to the United States by Russia. During September and October Russia exported and sold about $25,200,000 of gold to this country. However, judging from the size of the Russian dollar transfers to Germany, it would appear that if any of this gold belonged to Germany it must have been relatively small.

The relative importance of the transfer of funds between Russia and Germany may be seen from the size of the recent transfers between Russia and other European countries. In the early part of September we know that Greece paid $5,900,000 to Russia, primarily in payment for the purchase of Russian wheat. In addition, Chase's reports to us indicate that Russia has received a net amount of at least $5,000,000 from Sweden since the first of last June and at least $4,000,000 net from Switzerland. Here again it probably can be assumed that these net payments to Russia are largely of a commercial nature and, no doubt, represent the settlement of adverse balances accumulated in connection with these countries' trade agreements with Russia. Under a new arrangement between Switzerland and Russia, Switzerland reportedly has agreed to pay for Russian wheat and cotton in free exchange. Some part of the recent Swiss payments to Russia, however, may be associated with Swiss purchases of gold from the Soviet Government.
Secretary of State,
Washington.

45, January 7, 3 p.m.

My 4941 of December 7, 10 a.m.

FOR TREASURY FROM HEATH.

Investments of the Reichsbank normally show the greatest increase during the last week of the year but the increase shown in the Reichsbank's statement for the 31st of December far exceeds previous year end records. This development had been forecast by the press.

The investment portfolio of the Reichsbank (Treasury and commercial bills, collaterals and security holdings) stood at 15,846,000,000 marks on December 31 as compared with 14,965,000,000 marks a week earlier, 14,038,000,000 marks on November 30 and 12,619,000,000 marks on December 31, 1939. The increase was almost exclusively due to rediscouts, commercial and treasury bill holdings of the Reichsbank having increased to the record figure of 15,419,000,000 marks on December 31 as compared with 13,554,000,000 marks a week earlier, 13,532,000,000 marks on
on November 30 and 11,392,000,000 marks on December 31, 1939. The Reichsbank's holdings of eligible securities stood at 32,000,000 marks on December 31, 1940 as compared with 51,000,000 marks the end of November and 804,000,000 marks on December 31, 1939. Collateral loans on December 31, 1940 were 52,000,000 marks as compared with 26,000,000 marks on November 30 and 50,000,000 marks on December 31, 1939. Holdings of miscellaneous securities stood at 357,000,000 marks on December 31, 1939 and compared with 427,000,000 marks a month earlier and 395,000,000 marks a year earlier. In contrast to the sharp increase in investment holdings the Reichsbank's miscellaneous assets (which include the Reichsbank's operating credit to the Government) decreased to 1,726,000,000 marks on December 31 from 2,044,000,000 marks on December 21, 1,870,000,000 marks on November 30 and 20,033,000,000 marks on December 21, 1939.

Reichsbank note circulation stood at 14,033,000,000 marks on December 31 as compared with 15,688,000,000 marks a week earlier 15199 a month earlier and 11,798,000,000 marks on December 31, 1939. The unusual increase in investment holdings was compensated for on the liabilities side by the increase in note circulation above shown.
EE-3-45, January 7, 3 p.m., from Berlin.

an unusual increase in the volume of sight deposits which reached a new record of 2,561,000,000 marks a figure far in excess of the previous high of 2,018,000,000 marks on December 31, 1939. Sight deposits had stood at on November 30, 1,782,000,000 marks on December 21 and 1,706,000,000 marks.

The commentary in the BOERSEN ZEITUNG ascribes the unusually large increase in investments on the one hand and note circulation and sight deposits on the other—in increase in sight deposits particular the unusually large due to the fact of the new 3½% Government bonds on January 2 following a period of about two weeks in which no Government bonds had been issued for the purchase of which funds were being gotten ready. It has been admitted in the press, however, that the expansion was even larger than anticipated.

MORRIS

E73
Secretary of State,
Washington.

5, January 7, 5 p.m.

Nanking’s 1, January 6, 10 a.m.

“Central Reserve Bank”.

The local Chinese press this morning reports that, after the opening ceremony on the 6th, Chow Fu-Hai, Governor of the new institution, made a statement the gist of which follows:

BEGIN STATEMENT (1) Although the “Government” upon its establishment strove to reserve the value of the old fapi for the people’s interest Chungking, disregarding that consideration, has flooded the market with unlimited quantities of notes which resulted in depreciation of currency values and increase in commodity prices. Chungking claim last June that only four billion dollars were in circulation was ridiculed by an expert who declared that at that time the actual circulation was six billion six hundred million dollars. The new bank is being established to avoid inflation and will issue its notes against ample cash reserve. The new notes are to circulate at par with the old at first but if the value of the latter drops too far the new notes will be stabilized to prevent disturbance to finance and the people’s livelihood.

(2) Cash reserves for the new notes not only exceed the forty per cent provided for by the bank’s regulations but have reached nearly one hundred per cent. Therefore the new notes may be freely used to purchase foreign exchange or changed for fapi at par without restriction for the time being in order to help circulation.

(3) With a view to maintaining the value of the currency, efforts will be made to increase exports so as to balance foreign trade. Control measures on foreign trade will be adopted when necessary in accordance with article four of the agreed terms of the Sino-Japanese agreement. Restrictions will be exercised on the importation of old fapi notes from Hong Kong to prevent depreciation in the value of the currency. END STATEMENT.

The “Central Reserve Bank” authorizes claim to have received deposits of twenty million dollars on the first day of business and to have issued notes to the value of seven million dollars.

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

FAXTON

TFV
sh:copy
GRAY
Shanghai via N. R.
Dated January 7, 1941
Rec'd 7:13 a.m., 8th.

Secretary of State,
Washington.

January 7, 3 p.m.

Shanghai's December 23, 3 p.m.

Japanese consular officer states after further investigation that neither Shanghai nor Hankow Japanese authorities officially informed of regulations in question; that regulations nevertheless understood to have been issued at Hankow with the aim of preventing transportation of funds for profit due to difference in Shanghai and Hankow exchange values; that regulations are understood to be applicable to transportation of funds both up and down river; that transportation of actual currency not in excess of $300 Chinese is prohibited but that transportation of letters of credit or drafts or transmission of funds through the mail is not (repeat not) prohibited; and that, although the matter was of some importance earlier, when the regulations were announced, because of the then existing difference in exchange rates at the one point, at the present time the matter is of less significance because the exchange rates at Hankow and Shanghai are at nearly the same level. The official in question indicated that he had not (repeat not) had access to the actual regulations.

Sent to Hankow; repeated to Department; Peiping, Chungking.

LOCKHART

Regraded Unclassified
January 7, 1941

MEMORANDUM FOR HERBERT GASTON

FROM: SECRETARY MORGENTHAU

Please see that this is taken care of by noon tomorrow and let me know so that I can call up Jere Cooper myself.

Thank you.
January 7, 1941
4:07 p.m.

E.M. Jr.: Hello.
Operator: Congressman Cooper.
Jere Cooper: Henry?
E.M. Jr.: Jere, you’re quite a traveler.
O: Oh-huh.
E.M. Jr.: Where in the hell have you been all day?
O: Well, you’ve been traveling some yourself.
E.M. Jr.: Yeah, sitting right here at my desk with
my coat off sweating.
O: Oh, yeah. I called down there and they
said you were fixing to leave the country.
E.M. Jr.: Yeah.
O: Yeah. Well, I wanted to see if I could sleep
an hour later in the morning – didn’t know
whether you wanted to call me or not and
thought I had better check up and find out
before I tried it.
O: (Laughs).
E.M. Jr.: What’s on your mind?
O: Sorry to bother you but you know this is a
reciprocal game and I don’t want you to ever
hesitate calling on me when I can help you
so it sometimes happens that I have to have
a little help too you know.
E.M. Jr.: It’s granted. What is it?
O: Well, you may recall that in October, 1939
I took it up with you and you very kindly
took care of it for me, and I’m calling you
about my good friend Rice A. Ingram - I-n-g-r-s-m. You had him appointed on October 25, 1939 in your Special Agents Division there under Chief Wilson, you know.

H.M.Jr: Oh, yeah.

C: You remember taking care of that for me.

H.M.Jr: Yeah.

C: And he was first assigned to duty here in Washington in a field office, then later assigned to Birmingham on January 15, 1940, and he has a splendid record and I understand he got notice a few days ago that it's going to be terminated at the end of December - I mean the end of January.

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

C: So I can't have that now.

H.M.Jr: We can't have that happen until we get the tax bill through anyway.

C: Of course, now, if you want me to do the job for you why I can't do it with a 200-pound man around my neck.

H.M.Jr: (Laughs). If it was a woman it would be something different.

C: That would be different, yes, but I can't carry the load you boys want me to carry now with a 200-pound man around my neck so I've got to have some relief.

H.M.Jr: Jere, I will take it off your neck.

C: Fine. All right.

H.M.Jr: Consider it done.

C: All right, and listen, Henry.

H.M.Jr: Yeah.
Have them tend to it right away because he's here for a few days leave and he'll be due to go back Friday of next week, I think.

If it's done before noon tomorrow, is that quick enough?

That'll be fine.

All right.

Let me hear from you, old fellow.

I will.

All right, Henry. Thank you so much.

You're welcome.

I appreciate your kindness.

Good-bye.

Good-bye.
TO: Mr. McKay

I am returning this for your files. Cooper was in Committee Meeting but I informed his Secretary (who knew about the matter) that diagram would be retained.

From: Mr. Gaston
Chief Wilson has ordered the instructions to drop Race A. Ingram from the emergency roll and will continue his appointment to June 30. (Emergency appointments are limited to the first 1 year.) Wilson rates him as "just fair" but says we can continue to get useful service out of him and perhaps his dismissal may be a tonic. It was not for cause but one of ten made because of lack of funds to carry them all.

From: MR. GASTON
January 7, 1941

MEMORANDUM FOR HERBERT GASTON
FROM: SECRETARY MORGENTHAU

Please see that this is taken care of by noon tomorrow and let me know so that I can call up Jere Cooper myself.

Thank you.
January 7, 1941

Messrs. Stimson and Knox,
Washington, D.C.

Gentlemen:

On December 31, the President of the United States received the Greek Minister.

The President has informed me that at this interview he promised the Greek Minister the opportunity to purchase in the United States 60 fighting planes.

I would greatly appreciate your cooperation in assisting me to carry out the President's promise. This matter is urgent.

Yours sincerely,

(Signed) H. MORGENTHAU, JR.

(Copy to Honorable Cordell Hull)

(Note: A ribbon copy of this letter was sent to each of the two gentlemen to whom it is addressed.)

Copy also given to Mr. Young.
January 7, 1942

Messrs. Stimson and Knox,

Washington, D. C.

Gentlemen:

On December 31, the President of the United States received the Greek Minister.

The President has informed me that at this interview he promised the Greek Minister the opportunity to purchase in the United States 50 fighting planes.

I would greatly appreciate your cooperation in assisting me to carry out the President's promise. This matter is urgent.

Yours sincerely,

(Copy to Honorable Cordell Hull)
January 7, 1940

My dear Cordell:

For your information, I am
inclosing copy of a letter to Messrs.
Stimson and Knox.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.
January 7, 1949

My dear Cordell:

For your information, I am enclosing copy of a letter to Mears.
Stimson and Knox.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.
This appointed
Kundzawa
Hillman
The President today stated and issued the following:

Executive Order, Administrative Order and 4 additional papers
attached.

EXECUTIVE ORDER

ESTABLISHMENT OF THE OFFICE OF PRODUCTION MANAGEMENT IN THE EXECUTIVE OFFICE OF THE PRESIDENT
AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes, and in order to define further the functions and duties of the Office of Emergency Management with respect to the national emergency as declared by the President to exist on September 8, 1941, to increase production for the national defense in a coordination of material resources and the Economic, military, and other military, and necessary transportation, established, and other expenses incidental to the performance of their duties.

1. There shall be in the Office for Emergency Management of the Executive Office of the President, an Office of Production Management which shall consist of (a) a Director General, and (b) an Associate Director General, each to be appointed by the President, (c) the Secretary of War, and (d) the Secretary of the Navy. The members shall serve as such without compensation but shall be entitled to actual and necessary transportation, entertainment, and other expenses incidental to the performance of their duties.

2. With such advice and counsel as it may require from other departments and agencies of the Federal Government, and subject to such regulations or restrictions as the President may from time to time prescribe, the Director shall further the general policy that the Department of War and Navy and other departments and agencies of the Government will be brought to the maximum extent compatible with efficiency, the Office of Production Management shall:

a. Formulate and take in the public interest all measures and appropriate in order (1) to increase, wherever, the production and supply of material, and equipment, in the national defense, and (2) to exercise control over the activities of the several departments, agencies, and other branches of the Government which are directly concerned therewith.

b. Survey, analyze, study, the various for purpose of coordinating the requirements of the Department of War and Navy and other departments and agencies of the Government, the use of the foreign resources in war and civilian materials, equipment, and other resources of the Government which are directly concerned therewith.

c. Direct, when necessary, the policies and activities of the various departments and agencies for the purpose of the efficient, and equipment, for the purposes of the national defense, the policies and equipment, and to the extent of the several departments and agencies.
4. Plan and take all lawful steps necessary to ensure the provision of an adequate supply of raw materials essential to the production of finished products needed for defense.

5. Formulate plans for the mobilization of defense of the production facilities of the Nation, and to take all lawful action necessary to carry out such plans.

6. Determine the adequacy of existing production facilities and to assure their maximum use; and, when necessary, to stimulate and plan the creation of such additional facilities and sources of production and supply as may be essential to increase and expedite defense production.

7. Determine when, to what extent, and in what manner priorities shall be accorded to deliveries of material as provided in Section 2(a) of the Act entitled "An Act to Expedite National Defense and for other Purposes", approved June 28, 1940. Deliveries of material shall take priority, as provided in said Act, in accordance with such determinations and the orders issued in pursuance thereof by the Office of Production Management.

8. Perform the functions and exercise the authorities vested in the President by Section 9 of the Selective Training and Service Act of 1940.

9. Serve as the liaison and channel of communication between the Advisory Commission to the Council of National Defense and the Departments of War and Navy with respect to the duties imposed upon the Commission by the following named acts, and with respect to all other matters pertaining to defense purchasing and production: Public Nos. 667, 781, 800 and 801 and Public Resolution No. 98, 76th Congress.

10. Perform such other functions as the President may from time to time assign or delegate to it.

3. The Director General, in association with the Associate Director General, and serving under the direction and supervision of the President, shall discharge and perform the administrative responsibilities and duties required to carry out the functions specified in paragraph 2, subject to and in conformity with the policies and regulations (not inconsistent with such regulations as may be issued by the President) prescribed by the office of Production Management.

4. There shall be within the Office of Production Management the following and such other operating divisions as the President may from time to time determine:

A. A Division of Production
B. A Division of Purchases
C. A Division of Priorities

Each division of the Office of Production Management shall be in charge of a director appointed by the Office of Production Management with the approval of the President.
5. There shall be within the Office of Production Management a Priorities Board composed of six members. A chairman and three other members shall be appointed or designated by the President; the Director General and Associate Director General shall be members, ex officio. The Priorities Board shall serve as an advisory body and, from time to time as may be required by the Office of Production Management, shall make findings and submit recommendations with respect to the establishment of priorities, the placing of mandatory orders, the assignment of preference ratings, the allocation of deliveries, and other related matters. In making its findings and recommendations, the Priorities Board shall take into account general social and economic considerations and the effect the proposed actions would have upon the civilian population.

6. Within the limits of such funds as may be allocated to it by the President on the recommendation of the Bureau of the Budget, the Office of Production Management may employ necessary personnel and make provision for the necessary supplies, facilities, and services. However, the Office of Production Management shall use insofar as practicable such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available through the Office for Emergency Management or other agencies of the Government.

7. Executive Order No. 8772 of October 21, 1940, as amended by Executive Order No. 8012 of December 16, 1940, is revoked.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

January 7, 1941.

ADMINISTRATIVE OFFICE

FURTHER DEFINING THE STATUS AND FUNCTIONS OF THE OFFICE FOR EMERGENCY MANAGEMENT

WHEREAS Executive Order No. 8655, dated September 2, 1939, provides, in part, as follows:

"There shall be within the Executive Office of the President the following principal divisions, namely: (1) The White House Office, (2) the Bureau of the Budget, (3) the National Resources Planning Board, (4) the Liaison Office for Personal Management, (5) the Office of Government Reports, and (6) in the event of a national emergency or threat of a national emergency, such office for emergency management as the President shall determine;"

AND WHEREAS the Office for Emergency Management was formally established by Administrative Order of May 28, 1940, and it is deemed advisable to modify the said order and further define the duties and functions of the said office;

NOW, THEREFORE, by virtue of the authority vested in me by the Constitution and the Statutes, and in pursuance of Part II of the aforesaid Executive Order of September 2, 1939, it is hereby ordered as follows:
1. The Office for Emergency Management shall have the following duties and functions:

(a) To advise and assist the President in the discharge of extraordinary responsibilities imposed upon him by any emergency arising out of war, the threat of war, insurrection of war, flood, drought, or other condition threatening the public peace or safety.

(b) To serve as a division of the Executive Office of the President, with such subdivisions as may be required, through which the President, during any emergency, may coordinate and supervise and, in appropriate cases, direct the activities of agencies, public or private, in relation thereto.

(c) To serve as a channel of communication between such agencies and the President concerning emergency activities, to keep the President currently advised of their progress, to assemble and analyze information concerning additional measures that should be taken, and to assist in the preparation of recommendations for any necessary legislation.

(d) To provide and maintain liaison during any such emergency with other divisions of the Executive Office of the President and with other agencies, public or private, for the purpose of bringing about maximum utilization and coordination of their services and facilities.

(e) To advise and assist the President upon or before termination of any such emergency with respect to any measures that may be useful to facilitate a restoration of normal administrative relations and to ameliorate the consequences of the emergency.

(f) To perform such other duties and functions with respect to any such emergency as the President may from time to time direct.

2. The work and activities of the following-named agencies, and such other agencies as the President may from time to time designate, shall be coordinated in and through the Office for Emergency Management under the direction and supervision of the President:


(b) Defense Communications Board.

(c) Office of Production Management (to be created immediately hereafter).
3. Provision may be made in the Office for Emergency Management for liaison facilities and for the maintenance of routine office services required in the conduct of the work and activities of the agencies coordinated through or established in the office for emergency management.

4. Any provisions of the Administrative Order of May 23, 1940 establishing the Office for emergency management inconsistent with this order are hereby superseded by this order.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 7, 1941.

HERED OF THE COUNCIL OF NATIONAL DEFENSE

RESOLVING AN ORDER CREATING THE OFFICE FOR THE COORDINATION OF NATIONAL DEFENSE PURCHASES

The Order of the Council of National Defense heretofore approved on June 27, 1940, establishing the Office for the coordination of National Defense Purchases and appointing a Coordinator of National Defense Purchases is hereby revoked. All records of the said Board shall be made available to the Executive Office of the President, to the end that any unfinished business may be taken over and carried on in that office. This order shall take effect upon approval by the President.

Henry L. Stimson,
Secretary of War

Frank Knox,
Secretary of the Navy

Harold I. Ickes,
Secretary of the Interior

Claude R. Wickard,
Secretary of Agriculture

Jerome H. Jones,
Secretary of Commerce

Francis Perkins,
Secretary of Labor

Approved:

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

January 7, 1941

Regraded Unclassified
ORDER OF THE COUNCIL OF NATIONAL DEFENSE
REVOKING AN ORDER ESTABLISHING
A PRIORITIES BOARD

The Order of the Council of National Defense heretofore approved on October 18, 1940, establishing a Priorities Board is hereby revoked. All records of the said Board shall be made available to the Executive Office of the President, to the end that any unfinished business may be taken over and carried on in that Office. This Order shall take effect when approved by the President.

Henry L. Stimson,
Secretary of War.

Frank Knox,
Secretary of the Navy.

Harold L. Ickes,
Secretary of the Interior.

Claude R. Wickard,
Secretary of Agriculture.

Jesse H. Jones,
Secretary of Commerce.

Frances Perkins,
Secretary of Labor.

Approved:

FRANKLIN D. ROOSEVELT
THE WHITE HOUSE
January 7, 1941

Regraded Unclassified
I spoke to Eugene Duffield and apologized to him. He didn't seem to know what I was talking about. He said he had not heard from you. I suggest that Duffield come over to see you this morning.

I also want to know whether you have or have not been in touch with Steve Early. If you haven't, I think you should get in touch with him this morning.
FROM: MR. GASTON'S OFFICE

TO: The Secretary

I talked to Steve Early and let him know that in my opinion it is bad business to put detectives on to trying to find out where a newspaper story came from. He said he had no idea of having Duffield or the Wall Street Journal questioned, but that somebody had gone up to New York and talked a secret draft of an order and was determined to find out who the traitor was. The fact is, Duffield tells me (I saw him at 11:30), he picked up the story from a few casual words heard here, including words spoken at a cocktail party, and he never saw our draft. Torre and called me from a very emotional mood and told him in effect that they were serving "Moscow" by printing such a story. He asked if I thought we should tell him Steve. I told him he would be doing Steve a favor and on the basis of what I know of the people; and I thought it was in his obligation to tell anybody anything. He said he would tell Steve. I told the Chief his men were not to ask any questions of Duffield or his witnesses. The rest of their work, which was interviewing people in the Senate and Defense Department and picking up copies of the so called official drafts, has been completed.

[Signature]

Regraded Unclassified
Knudsen
Receives Broad Powers
In Tentative Executive
Order in Defense Set-Up

A Current Draft Makes Him
"Director General" Over
Hillman, Stimson and Knox

Batt, Biggers May Be Elevated

From THE WALL STREET JOURNAL Washington Bureau
WASHINGTON—William S. Knudsen will become “director general” of the defense program under a current—but tentative—draft of the executive order creating the new office of production management for defense.

Although President Roosevelt in announcing the new office insisted that no one man would be given command of the defense program, one draft of the order actually establishing the office makes Mr. Knudsen administrator-in-chief.

Sidney Hillman, labor representative who is to be “associate director general,” is relegated to a position of “adviser” to Mr. Knudsen with no administrative authority. Mr. Roosevelt in announcing the new office had put Mr. Hillman on a par with Mr. Knudsen.

Secretaries Stimson and Knox, the other two members of the four-man office of production management, retain their administrative functions as heads of the War and Navy Departments, exercising these functions under the “director generalship” of Mr. Knudsen.

Definite Personnel Problems

Presidential approval of the executive order in this form would indicate a basic change in Mr. Roosevelt’s feeling about the desirability of one-man supervision of the arms program. Two other important defense personnel matters are also facing the President. They are:

1. Appointment of an administrator of priorities. Donald M. Nelson, administrator for the existing priorities board, is to be elevated to membership on the new priorities board, leaving the important position of administrator vacant. William L. Batt, deputy to defense commissioner Edward K. Stettinius, Jr., has been mentioned for the post. The administrator will have the real day-to-day control of the priorities system.

2. Selection of a chief for the “production subdivisions” of the new office of production management for defense. The head of this subdivision will be, next to Mr. Knudsen himself, the most important official in industrial mobilization. Friends of John D. Biggers, Mr. Knudsen’s deputy, are urging his appointment to this position.

Questions of Business Connections

One suggestion which may affect the staffing of these and other positions is that the executive order creating the new defense office should require members of the organization to divest themselves from any business connections. Many business men, serving the defense commission on a dollar-a-year basis, retain their business positions. Some officials suggest that, since the members of the new office will have executive duties as distinguished from the advisory duties of the commission, appointees to the new office should follow the example of Commissioners Knudsen and Stettinius in relinquishing all business connections. This suggestion, however, is not in the current version of the executive order.

Because a draft of the executive order creating the defense office apparently modifies the President’s original ideas about the co-equal character of Messrs. Knudsen, Hillman, Stimson and Knox, there is some doubt whether it will be approved in its existing form.

Order Not Yet Submitted

Thus far the order has not been submitted to the White House for approval or even cleared by the true responsible for it: Budget Director Harold Smith. White House administrative assistant William McReynolds and Louis Brownlow, co-author of the President’s governmental reorganization plan. However, representatives of the budget bureau, the Justice Department, the War Department and Mr. Knudsen’s staff

Please turn to page 3, column 1

New Defense Set-Up

(Continued from First Page)

sion of the defense commission have been working on drafts of the order.

The executive order, in at least one present draft, resembles the Army-Navy proposal for a defense high-command rather than the plan described by President Roosevelt on December 29. The Army and Navy originally suggested a three-man defense board consisting of Mr. Knudsen and Secretaries Stimson and Knox.
January 7, 1941

To: Mr. Kuhn

From: Secretary Morgenthau

Please get in touch with Edgar Mowrer of the Chicago Daily News, and tell him that I am very sorry to inform him that we must not write a story that we are thinking of freezing all foreign funds. I cannot be put in the position of trying to force the President's hand. Please tell him that if he writes such a story, not only will I be very much displeased, but he will be taking the responsibility of most likely being instrumental in postponing any action along these lines.
January 7, 194[.]

George Haas

Secretary Morgenthau

I wish you would take a look at a half dozen of the leading bank stocks during December, and then see what happens to their prices after Roos’ statement. Please run a chart on the prices of these bank stocks, and as soon as you have it ready bring it to my attention.
MEMORANDUM

January 7, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

Immediately after you advised me to consult with others in regard to the advisability of the Carnegie Corporation or any other outside foundation contributing through the Institute of Public Administration to supplement Treasury salaries on the work Dr. Culick was to perform for us, I canvassed Messrs. Bell, Gaston, and Foley. We were unanimous that it was unwise for the Treasury Department to permit any second foundation to contribute to the salaries we will be paying the staff selected by the Institute of Public Administration.

Accordingly I called Dr. Culick and so advised him. He suggested that it might be possible for his own Institute to make up whatever differences existed between Treasury salaries and the amount the Institute was required to pay these men. I then told him that that would be agreeable. He then suggested that the Carnegie Corporation might be willing to make a contribution to the Institute of Public Administration to put them in a more solvent position. I advised him that we had no interest in any loans or contributions the Carnegie Corporation might make to the Institute of Public Administration but that we had not been willing to undertake this venture knowing that by some indirect means the Carnegie Corporation had made a contribution to the Institute of Public Administration for this particular purpose. When our conversation concluded he felt that although this might cause him more difficulty in working the proposals out it was better to encounter this difficulty now than to run into any embarrassments and disturbances that might result on the Hill when it became known that another foundation was helping to sponsor this work.

Dr. Culick is to work out the difficulties and write to me at once.

I then called Mr. Fred Osborne representing the Carnegie Corporation and advised him that we were reluctant to have another foundation contribute to the expense of this project and he agreed that it might prove most unwise.
AIR MARSHAL SIR HUGH DOWDING, CHIEF OF BRITAIN'S HOME DEFENSE AIR CORPS, SAID TODAY THAT THE ROYAL AIR FORCE IS USING FOUR TYPES OF AMERICAN PLANES--THE LOCKHEED HUDSON MEDIUM BOMBER, GLENN MARTIN BOMBER, CURTISS PURSUIT AND DOUGLAS DV-7 BOMBERS--WITH "MOST VALUABLE RESULTS."

SIR HUGH SAID THAT THE COASTAL COMMAND HAD FOUND THE LOCKHEED HUDSON BOMBERS "OUTSTANDING." THESE PLANES, HE SAID, ARE BEING FLOWN TO ENGLAND, WHERE THEY HAVE ADDITIONAL GUN TURRETS INSTALLED.

THE GLENN MARTIN BOMBERS, HE SAID, ARE "JUST COMING INTO REAL SERVICE." PHOTOGRAPHS OF THE BRITISH RAID ON THE ITALIAN SEA BASE OF TARANTO WERE TAKEN FROM THESE PLANES, HE SAID, ALTHOUGH THEY DID NOT TAKE PART IN THE ACTUAL ATTACK.

WITH STANDARDIZATION IN SUCH MATTERS AS RADIOS, THROTTLES AND OTHER DETAILS, THE CURTISS FIGHTERS ARE BEING "SUCCESSFULLY USED" WHILE THE DOUGLAS DV-7 BOMBERS ARE "VERY USEFUL" AND HAVE TAUGHT THE BRITISH THE ADVANTAGES OF TRICYCLE UNDERCARRIAGES.

SIR HUGH REVEALED THAT THE EAGLE SQUADRON, MADE UP OF AMERICAN VOLUNTEERS, HAS COMPLETED ITS INITIAL TRAINING WITH HURRICANE PLANES, AND "MAY NOW BE IN ACTION" IN THE EAST part OF ENGLAND.

"WE WELCOME THE AMERICAN PILOTS," SIR HUGH SAID, "NOT BECAUSE OF ANY ACTUAL NEED FOR THEM, BUT BECAUSE THEY ARE VOLUNTEERS WHO WISHED TO SHARE WITH THE BRITISH EMPIRE THE PERIOLS AND THE GLORY OF THIS WAR.

AN INVASION OF ENGLAND, SIR HUGH SAID, IS "AN IMPOSSIBILITY" AS LONG AS BRITAIN RETAINS CONTROL OF THE AIR OVER ENGLAND, AND LIMITS GERMAN AVIATION OPERATIONS TO "HAPHAZARD NIGHT BOMBING."
By appointment I received Mr. Alphand, Financial Counselor of the French Embassy, at 4:30 this afternoon. He told me that he had mentioned to Mr. Fehle that his Ambassador had discussed with Under Secretary of State Welles the question of disposing of certain amounts of gold from the French stock at Martinique for the purpose of obtaining funds to pay for goods to be shipped from this hemisphere to Northern Africa. Fehle had let him know, in turn, that Ray Atherton had telephoned from the State Department seeking an indication as to the Treasury’s position on the subject. Alphand had come to me since he felt that there was a gold question involved, as well as a Control question.

Alphand explained his ideas in some detail. He hoped it would be possible to ship from the Martinique gold stock certain small amounts, the first quantity to be $10,000,000, to some port in the United States, or preferably to Puerto Rico. Against this gold he hoped that the Treasury would make available to the French Government free dollars which could be used to finance exports to Martinique or to Northern Africa. I told Alphand that the Treasury would not accept gold for earmarking or for purchase delivered in Puerto Rico or in any American port other than New York or San Francisco. He argued that it should be possible for us to let the gold be deposited in Puerto Rico, then send someone there to verify the quantity, and extend a credit to France against this gold. I told him definitely that we had no facilities in Puerto Rico for assaying and taking care of such gold and that it would be necessary in any circumstances to have such gold delivered to our Assay Office in New York before it could either be sold to the Treasury or added to the earmarked gold account of the French Government or Bank of France with the Federal Reserve Bank of New York. Alphand indicated no preference as to selling the gold and then having the proceeds placed in a free account, or in adding the gold to the earmarked stock of the Bank of France in New York and obtaining from us a liberation of a corresponding amount of dollars from the blocked account of France.

Alphand stressed the need for petroleum products in Northern Africa. He said it was particularly important that these be available for the harvesting and threshing of the grain crops of that area, since he said this was all done mechanically and fuel is lacking. He pictured the distress and starvation that might result from inability to harvest the vitally important cereal crops of French Northern Africa.

In our conversation Alphand reiterated his desire that we correct the December allotment of funds for French West Indies, it being very important that the full allotment be given during this busy sugar season. He regretted the decision which he said Foreign Funds Control had taken with respect to an application for the transfer of certain private French blocked dollar accounts on this market to the Federal Reserve Bank against the payment of francs to the French concerns involved.
Alphand told me that he was seeing Atherton tomorrow at 12:00 and asked if I would not speak with Atherton before that time. I called Atherton while Alphand was here, but was not able to reach him until after Alphand's departure. Atherton briefly summarized the State Department's position. He said there was the question as to whether we should facilitate the utilization of Martinique as an entrepot for shipments of merchandise from the Western Hemisphere to Northern Africa. The suggestion had been made that gold be taken from the Martinique stock and be disposed of for this purpose. I told Atherton of my technical talk with Alphand, and Atherton assured me that his Department had emphasized to the French that the gold in question would have to be delivered at New York, rather than in Puerto Rico, if a plan might be consummated. It was the understanding of both Alphand and Atherton that it would not be a question of moving the whole French gold stock from Martinique at one time, but merely the utilization of such amounts as could be utilized for making exports, with British approved navigators thereof, from this hemisphere to Northern Africa. Alphand had added that the question might later be raised of shipping wheat and corn directly to continental France, but he realized that the question of obtaining navigators for this purpose might be difficult.

Atherton told me that he was to receive Alphand at 12:00 tomorrow, but would like very much to have an expression of Treasury opinion before that hour, and if possible, in time for him to discuss the question again with Mr. Welles before receiving Alphand. When I asked Atherton if the State Department favored our taking care of the gold problem along the lines set forth by Alphand, he replied that the State Department would view favorably a very much controlled trade between Martinique and Africa. He stated furthermore that the State Department does not object to the use of gold from the Martinique stock for this purpose, rather than see France move toward the exhaustion of her other credits in this market. He thought it was in our interest to see the gold expended in the United States and the purchases made therefrom rather than the trade diverted to Latin America. He feels that if some arrangement is not made to permit the French to utilize their gold through operations on this market, it will eventually send it to some other market and we will lose the trade which it might finance. I told Atherton that I would have to take this matter up with the Secretary, but that I would try to do so tomorrow morning and let Atherton hear from me before noon. After this conversation, I telephoned Alphand at the French Embassy, I simply let him know that I had spoken with Atherton who had posed the problem much as Alphand had done, and that I had promised to see if I could submit the technical question to Secretary Morgenthau tomorrow morning.
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,

[Signature]

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.
Telegram from London dated January 6th 1941.

1. **Naval.**

Commander-in-Chief Mediterranean

with the fleet which bombarded Bardia on 3rd has arrived at Alexandria. During these operations

enemy aircraft attacked on several occasions but no damage or casualties were sustained apart from a few casualties in one gunboat due to a near miss.

2. **Attacks on shipping.**

One British vessel (6000 tons) was sunk by a submarine on January 5th 250 miles north-east of Cape Verde Islands.

3. Two east-coast convoys and a Channel convoy were attacked by enemy aircraft yesterday. No damage has been reported.

4. **Royal Air Force.**

On January 4th Sankelma engaged at least 8 dispersed aircraft at Birna and other landing grounds where direct hits were also registered on stored cards and tents. Other successful hits were carried out against Bardia and Tobruk which was bombed later on the same night.

5. **German Air Force. Night of 5th/6th.** About 80 enemy aircraft were engaged chiefly in the London area.

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

   **Enemy:** 1 fighter destroyed by two bombers.

   **British:** 1 aircraft missing.

7. **Home Security. Bristol.**

   Night of 3rd/4th. Casualties are not given
as 91 killed and 123 seriously injured. Gas supply is still badly affected and also the water supply at high levels. Electricity is normal.

8. Avonmouth.

Night of 4th/5th. No key points were seriously affected.

BRITISH EMBASSY, WASHINGTON, D.C.

7th January, 1941

Personal and Secret

Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
Telegram received from London

dated January 3rd, 1941

Naval

Merchant ships lost by enemy up to December 29th, 1940:

German

850, representing 1,287,000 gross tons approximately.

Italian

86, representing 463,000 gross tons approximately.

in addition 27 ships of 44,000 gross tons (approximately) under enemy control or useful to the enemy have been sunk.

3. Mediterranean. In bad weather during the night of January 1st and the destroyers escorting Vichy French convoy to Gibraltar lost touch with 3 of them. Additional destroyers have been sent to search.

4. Attacks on shipping. A British ship (6500 tons) not in convoy was torpedoed on the night of January 2nd/3rd 350 miles North East of Cape Verde Island.

5. Convoys. Two convoys totalling 36 ships have arrived from Canada. One British (6400 tons) is feared sunk. Cargoes included 10 of steel and metals, 9 of grain, and 3 tankers.

6. Italy. A photographic reconnaissance on January 1st showed three 6-inch cruisers, 4 destroyers, and 20 large merchant vessels at Tripoli; and an air reconnaissance on December 31st reported a large convoy approaching Valona.


Forty-seven heavy bombers were sent out; 39 to Bremen, 7 to a shipyard at Miden and 1 to an oil target at Amsterdam.
One aircraft missing.

7. On the night of January 1st/2nd ten Wellingtons dropped 18 tons of bombs on the port and shipping at Tripoli. Two or three merchant ships received direct hits. All our aircraft returned undamaged.

8. German Air Force. Night of January 2nd/3rd about 170 enemy aircraft were operating main concentration being directed against the Cardiff area. Our night fighters damaged one enemy bomber over South coast and probably destroyed another over France.

9. Aircraft casualties in operations over and from British Isles:

<table>
<thead>
<tr>
<th>Enemy: by our fighters</th>
<th>Destroyed</th>
<th>Damaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>By day</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Probable by night</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

British: One bomber missing.


Cardiff. One ship in docks was hit. Three gasometers were hit and gas supplies have temporarily failed. Extensive damage was done to private and commercial property principally in the centre of the city.
1. **Naval**

On January 3rd a 6,000 ton tanker mined 180 miles west of Gironde. Aircraft sent to attack, 1 located tanker and near missed her. Reconnaissance January 3rd showed 1 Hipper class cruiser in dock at Brest and 16 U-boats at Bordeaux. During the night of January 3rd and 4th aircraft attacked these U-boats, reports not yet available.

Two ships of French convoy intercepted off Moroccan coast have arrived at Gibraltar and other two were expected to arrive yesterday afternoon. **Attacks on shipping.** British ship (2,500 tons) sunk by mine in Thames Estuary yesterday.

Convoy of ships has arrived in home waters from Sierra Leone.

2. **Military**

**Albania.**

In the central sector 4 Italian counter-attacks on St. Tomor repulsed. Elsewhere nothing to report.

3. **Royal Air Force.**

**Night of January 2nd and 3rd.**

Shipyards and railways at Bremen attacked by 30 heavy bombers with good results. Five more heavy bombers attacked miscellaneous targets. During the same night 3 Blenheims from Fighter Command carried out offensive patrols against enemy aero-
aerodromes in Northern France and at the same time made bomb attacks.

Night of January 3rd and 4th.

Seventy-one aircraft sent to Cannes.

Early reports indicate this attack very successful. One aircraft missing.

Libya.

On nights of January 1st/2nd and 2nd/3rd both heavy and medium bombers attacked military targets at Bardia and during daylight on January 2nd 46 Blenheim's carried out similar operations.

Albania.

January 2nd & medium bombers attacked El Basan and started large fires in the centre of the town.

German Air Force.

January 3rd. Enemy activity chiefly over Channel and North Sea. Reconnaissance by single aircraft made over Glasgow and Cardiff. Weather was bad and our fighters made no interceptions.

Night of January 3rd/4th. About 200 enemy aircraft operated, main attack was made upon Bristol area.

Aircraft casualties over and from British Isles.

Enemy 111
British 1 bomber missing.

Home Security.

London, 4 fires, still burning in the City on the night of January 2nd/3rd. Glare was caused by smouldering debris which cannot be extinguished until dangerous buildings in the vicinity are...
are demolished. January 3rd delayed action bomb exploded while being dealt with; 4 men killed and one wounded.

**Cardiff.**

Night of January 2nd/3rd. Latest casualties 48 killed and 160 seriously injured. Many fires but only about 10 buildings actually gutted. All fires extinguished by 2 a.m. Same night. Roof and windows of Llandaff Cathedral extensively damaged. No key point factory affected except indirectly through interruption of public utility services.

**Bristol.**

Night of January 3rd/4th. Attack started at 6:30 p.m. and continued throughout the night. Several serious fires but all under control by 6 a.m., although not before considerable damage done to private property and to some food stores and warehouses. Main damage is to principal railway station.

Number of fires caused at Bath by incendiary bomb and high explosive bombs but quickly brought under control.

Scattered bombing occurred in Newcastle East and in Lancashire.
Telegram from London dated

January 6th, 1941

Naval

Air reconnaissance on January 3rd showed one
Hipper class cruiser in dry dock at Brest and 16 U-boats
at Bordeaux.

2. H.M.S. "Terror" was unsuccessfullly attacked
by 5 enemy aircraft off Libyan coast.

3. The other 2 French merchant vessels referred
to in yesterday's operational telegram have arrived at
Gibraltar.

4. A British contraband control vessel bombarded
Bulhar in British Somaliland yesterday morning and
demolished the Residency. She was unsuccessfullly attacked
by enemy aircraft.

5. British ship "Nalkora" was shelled by 2 U-boats
about 550 miles N.N.W. of Cape Verde Islands at 8100/2
and was last seen burning; some survivors have been picked
up.

6. Military

Libya. By the evening of January 4th, 8,000
prisoners had been captured and operations were proceeding
satisfactorily.

7. The garrison of Bardia was estimated on December
31st to be 20,000 with 90 field and medium guns.


January 4th. During the late afternoon Blenheim
from the coastal command attacked the Hipper class cruiser
at Brest. It is believed that direct hits were obtained.
In addition a Mass class destroyer was hit and also
another vessel thought to be a destroyer. One German
fighter was destroyed and one of our aircraft is missing.

End
One Hudson obtained six direct hits on a three thousand ton merchant vessel and another aircraft scored three direct hits on an 800 ton vessel both off South West Norwegian coast.

9. Right of the 4th/5th January. A total of 105 aircraft sent out:

<table>
<thead>
<tr>
<th>Locality</th>
<th>Target</th>
<th>Number of Aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brest</td>
<td>Enemy cruiser</td>
<td>54 heavy bombers</td>
</tr>
<tr>
<td>Hamburg and</td>
<td>Oil</td>
<td>28 medium bombers.</td>
</tr>
<tr>
<td>Rotterdam</td>
<td>Inland port</td>
<td>9 heavy bombers</td>
</tr>
<tr>
<td>Duisburg-Ruhrort</td>
<td></td>
<td>10 aircraft</td>
</tr>
<tr>
<td>Mine-laying</td>
<td>Propaganda leaflets</td>
<td>2 heavy bombers.</td>
</tr>
</tbody>
</table>

All our aircraft returned safely.

10. 

Libya.

On January 3rd Blenheim bombers bombed Bardia, Tobruk and enemy landing grounds. Three enemy aircraft on the ground were hit and one Blenheim is missing. Our fighters maintained offensive patrols and one Hurricane intercepted five Italian bombers which were attacking H.M.S. "Terror"; the Hurricane destroyed three of them and damaged a fourth.

11. Photographs show that a 10,000 ton merchant vessel was sunk during attack by our heavy bombers on Tripoli harbour on January 1st.

12. 

Italian East Africa.

On January 3rd a Blenheim dropped bombs on the main quays at Massawa and probably hit a destroyer. Three other medium bombers severely damaged buildings at two Italian bases in Ethiopia.


January 4th. Enemy activity was chiefly continued.
confined to shipping reconnaissances off our coasts. Only 10 aircraft came inland two of which reconnoitred Liverpool and Glasgow areas respectively. One enemy fighter and one bomber were destroyed.

14. Night of 4th/5th. About two hundred and forty aircraft were operating, main attack being directed against Avonmouth area. MINING is suspected off various East coast ports.

15. Aircraft casualties in operations over and from British Isles.

<table>
<thead>
<tr>
<th>Enemy</th>
<th>Fighters</th>
<th>Bombers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Destroyed by our fighters</td>
<td>8</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

British
2 bombers missing.

16. Home Security
Cardiff. Night of 2nd/3rd January. Casualties now reported 74 killed and 156 seriously injured.

17. Bristol. During air raid on Bristol night of 3rd/4th Corvette Orcn Rose and one boom vessel slightly damaged. Considerable damage done to commercial sheds and timber yards.

18. Night of 4th/5th. Although a few bombs fell in Bristol and South Wales area, the main attack was on Avonmouth where a number of fires were started but all were extinguished by 10 p.m. Damage cannot yet be assessed. At Weston Super Mare, damage was caused to houses and railway property but public utility services were generally undamaged.
Paraphrase of Code Telegram
Received at the War Department
at 2:12 p.m. January 7, 1941.

London, filed January 7, 1941.

1. On Sunday, January 6, Lockheed-Majace reconnaissance-bombers attached to the Coastal Command caused some damage to a German convoy off the coast of Norway by several near misses. The same day a German tanker was hit directly by one of two British bombers that were assigned the mission of bombing tankers. Unfavorable weather during the night of January 5-6 caused the cancellation of all activity of the Coastal and the Bomber Command except the mining of French ports.

2. During daylight hours of January 6, German planes attacked London without causing damage to industrial properties. Some shops and private residences were damaged. There was good weather in Britain, and several German raids were made in the southeastern and eastern sections. The Croydon, Northolt and Hornchurch airfields were bombed but the extent of the damage is not known. Later reports now estimate that on January 5, 48 German planes were over England and that during the following night 60 were active.

3. On January 5 and during the following night, the Italian Air Force was much more active than usual. During this same period seven tons of bombs were dropped with great success.
by the British on the Tobruk defences. On January 3 a near miss caused minor injuries on a small British gunboat taking part in the bombardment of Bardia. This was the only casualty to ships or personnel suffered by the British fleet in this bombardment.

4. The electric power system in Bristol, which was damaged by the German attack during the night of January 3-4 is now operating normally but the water and gas services are still out of order. Ninety-one individuals were killed and 35 seriously injured in this raid.

5. On January 5, German airplanes unsuccessfully attacked three British merchant vessel convoys. On the same day a 5,000-ton British vessel, 280 miles northeast of the Cape Verde Islands was torpedoed by a U-boat and sank.

Lee

Distribution:
Secretary of War
State Department
Secretary of Treasury
Amt. Secretary of War
Chief of Staff
War Plans Division
O.W.I.
AG
G-8
I. Western Theater of War.


Air activity during daylight yesterday was unimportant over and around the British Isles. Last night both British and German bombers were grounded by a snow storm and generally bad weather.

II. Greek Theatre of War.

Local actions reported. The R.A.F. again bombed Valona.

III. African and Mediterranean Theatre of War.

British advance elements are reported approaching the Tobruk area. Clearance of the battlefield at Bardia is progressing. Patrol activity is reported on the Anglo-Egyptian Sudan, and Kenya frontiers.

The R.A.F. is now attacking Tobruk.