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OFFICE OF
THE SECRETARY OF THE TREASURY

July 16, 1940.

1 copy of translation of documents
from German White Paper No. 6.

Received by

MALHany

THE WHITE HOUSE
WASHINGTON

July 16, 1940.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR YOUR INFORMATION

F. D. R.

WAR DEPARTMENT
WASHINGTON

July 5, 1940.

MEMORANDUM FOR GENERAL K. M. WATSON:

Subject: Employment of French aviation and
ordnance experts.

Mr. Morgenthau's memorandum on this subject has been given very careful consideration by the War Department. Selected technicians of unquestioned loyalty and discretion could undoubtedly be used to advantage at this time. However under present laws aliens cannot be employed by the Government, and unless this restriction is removed the services of foreign experts would have to be utilized by commercial firms engaged in airplane and armament production rather than by the War Department. Foreign ordnance experts are handicapped initially by difficulties in language, systems of manufacture and labor relations; and as a matter of fact those who were brought to this country during the World War proved to be a source of considerable embarrassment because of their tendency to publicize information and engage in unnecessary political activities.

We are doubtful if much can be accomplished by the proposal at the present time, except possibly in the case of a few outstanding experts whose services might be of such value as to outweigh the complications involved in their employment.

Louis Johnson

Acting Secretary of War.

THE WHITE HOUSE

WASHINGTON

June 24, 1947.

Sir:

To take this subject up with
Secy, Navy and Advisory Council.

F.O.P.



THE SECRETARY OF THE TREASURY
WASHINGTON

June 24, 1940

THE WHITE HOUSE
JUN 24 2 45 PM '40
RECEIVED

My dear Mr. President:

The French have unquestionably learned a lot at a tragic cost. There must be a number of top flight aviators, aviation engineers, ordnance engineers, and designers who know through bitter experience what they should have had. France, as you well know, has been in the ordnance business for a lifetime.

It seems to me that if a number of these men could be brought over here immediately and put at the disposal of the War and Navy Departments that we could profit greatly by their experience.

Yours sincerely,

The President,

The White House.

Purvis meeting

11-6

Mr. f. ha
not seen
only cof
py.
7/16/40

Memorandum for C.T. Ballantyne

(Not to be left in writing but you can
make suggestion verbally)

Mr. Bloch-Laine would be very happy
to respond to an invitation from Mr. Morgenthau
to spend five minutes with him on the subject if
Mr. Morgenthau feels it is desirable.

Thereafter Mr. Bloch-Laine would be only
too willing to ask the French Ambassador to agree
to the course proposed.

Mr. Bloch-Laine would in any case, I believe,
appreciate the opportunity of having a few minutes
with Mr. Morgenthau as he is now in process of
affecting his break with the Mission.

July 15, 1940

A.B.P.

Appointment made for 2.45 pm
7/18/40
py.

MEMORANDUM

French Purchasing Commission
Personnel and Plans

(a) It has come to our knowledge that a group of French production engineers of high calibre arrived in the United States just after the armistice was signed. They have with them full plans and specifications for the manufacture of tanks. In view of the new situation they propose to sail for France in the very early future.

(b) Amongst the members of the French Purchasing Commission was General Salmon who arrived just before the French armistice. He has very full plans and specifications of guns and ammunition used by the French, including such working drawings as will be necessary for manufacture. General Salmon was asked by Mr. Monnet to hand these plans to the British Purchasing Commission which he only did to the extent of a very small part of them. In certain instances the French have on this side actual guns, for example the 20 m.m. Hispano Suiza gun, which was sent over for the purpose of testing ammunition made in this country. This gun is also to be packed in the early future and sent back to France.

(c) Under the French assignment agreement the British Purchasing Commission is taking over a torpedo contract for the manufacture of torpedoes with E.W. Bliss and Co. The firm of Bliss have in their possession certain plans, drawings and gauges without which the contract cannot be successfully implemented.

In regard to (a) and (b), it is suggested that it might be very valuable to the new defence programme if an invitation could be extended by the United States Administration to these men to enter U.S. employ. It is believed that they would possibly welcome the opportunity provided it was acceptable to their Ambassador and they could be obtained no doubt for very reasonable remuneration.

As regards (b) it is suggested that it might be well if an invitation could be given by Mr. Morgenthau to the French Purchasing Commission to leave the plans on this side of the water, available for use in connection with the United States defence programme, and particularly to permit the 20 m.m. gun to remain here for purposes of testing the 20 m.m. ammunition, in which both the United States and the United Kingdom are immediately interested.

As regards (c), it would be appreciated very much if word could be passed to Bliss suggesting that they should not give up the plans, drawings, gauges etc. but should retain them in order to permit of the proper implementation of the contract in question.

The matter is one of extreme urgency as it is understood that the 20 m.m. guns and certain plans may be removed in the immediate future. Additionally, it is believed the tank unit personnel will begin to go back to France later this week.

A.B.P.

July 15, 1940

Regraded Unclassified

RE EXCESS PROFITS TAX

July 16, 1940
10:00 a.m.

Present: Mr. Foley
Mr. Sullivan
Mr. Paul

Sullivan: Invested capital, three hundred thousand;
income, six hundred thousand. Percent net
income, two percent.

Paul: I should think we should try to summarize
those.

H.M.Jr: I think so, too. Thank you.

Sullivan: Mr. Paul and I are not entirely in accord
on this matter. We share the belief that
the smaller corporation should be given
some preferential treatment over the larger
corporations. Mr. Paul feels that that should
be done by giving them all an advantage, both
the successful ones and those that have not
been so successful. I think that the problem
can be solved by giving a lift to the small
corporation that has not been doing so well
and I see no reason why the small corporation
that has been doing very well should be given
an advantage over the large corporation that
has been doing equally well.

Now, under his system he proposes to have the
rates which, in the case of the large cor-
porations, are not less than four nor more
than ten, increased for the small corpora-
tions - not less than four nor more than ten -
increased to not less than six nor more than
twelve and in between there, raising all the
rates of those that are in between by multi-
plying the percentage of their earnings to
invested capital by one and a quarter per-
cent; in other words, raising their rate by
25 percent. In other words, the company that
has been making six percent in the pre-emer-
gency period would be entitled to seven and
a half percent.

H.M.Jr: I am sorry, I don't get it. I am looking
at Ed's socks.

- 2 -

Sullivan: Take your socks off, Ed, we have got to work here.

H.M.Jr: I don't get it, gentlemen.

Paul: One and a quarter is 25 percent of six. If a corporation has been making six and it is a small corporation, I would raise it to seven and a half. I would raise the ten to twelve. I would raise the four to six. Mr. Sullivan and I are in agreement on the lower ones, raising the four to six. Where we depart from strict accord in view is with respect to the corporations above six, that is, the more prosperous pre-emergency period corporations. Now, I think they ought to be given better treatment than the very large pre-emergency corporations for the simple reason that a small corporation's pre-emergency earnings are not as reliable an index of their condition as in the case of a large corporation.

H.M.Jr: I still don't get it.

Sullivan: We are not waiting for anybody to change their socks.

H.M.Jr: Go ahead.

Paul: In other words, I think that if you are going to make pre-emergency earnings a standard, then you ought to recognize the fact that the small corporation's pre-emergency earnings are not as reliable an index as is the case with the bigger corporation. That is a well established economic fact. Now, I think Mr. Foley feels that the question depends on the rates.

Foley: I have no disagreement with either John or Randolph, in so far as increasing the exemption from four to six on the first hundred thousand dollars. I think that ought to be done. But when they go from ten to twelve, it seems to me that would depend on the rate you are going to use. I think if you are going to

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recapture at 40 or 50 percent, it makes a hell of a lot of difference whether you give an exemption to a corporation that has 12 percent earnings, over 2 percent.

On the other hand, if the rate isn't going to be high, then I don't think it is so important whether you give the exemption - increase the exemption from ten to twelve and I think until we know what the rate is going to be, Mr. Secretary, it is awfully hard to give an intelligent answer to this.

H.M.Jr: I agree with Foley.

Sullivan: May I just make one remark, sir?

H.M.Jr: Socks or no socks, I agree with him.

Foley: I will put them down.

H.M.Jr: Aren't they woolen?

Foley: No, they are not --

Sullivan: Insulated.

Foley: I put on a brown tie. They are the only ones I could find that had any brown in them and they are not wool.

H.M.Jr: I feel better now. I thought they were wool.

Paul: It takes a General Counsel for the Treasury to wear them, though. I don't think an ordinary tax lawyer could walk around Washington with them.

Foley: I agree with you.

Sullivan: I don't agree with Ed in his last observation for this reason: If we were to enact now the rates that were to apply so long as the excess profits tax was on the books, I would agree with Ed, but here is why I am reluctant

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to raise the upper bracket. As the emergency becomes worse and as we need to raise more money, there will be two different ways of doing it, increasing the rates or lowering the exemption. Now, if these smaller corporations are given an advantage in the exemption over the big corporations, when the time comes when you want to reduce that exemption with every Congressman and every Senator having several small corporations in his district, we are going to have great difficulty in lowering the exemption, far more difficulty in lowering the exemption than we would ever have in raising the rates. That is why I am reluctant to go up on the ceiling.

H.M.Jr: But why don't you begin to talk rates with me? Why are you all so --

Paul: I have some very definite rates in mind, but we haven't reached that problem.

Foley: I think you have got to have specific rates to talk about when you begin to talk about exemptions.

H.M.Jr: Well now, Paul, tell me what you have in mind.

Paul: Well, I have in mind the rates, ten, twenty, thirty and forty percent instead of twenty-forty, which was in the 1918 Act, that is, a more graduated --

H.M.Jr: Ten, twenty, thirty, forty?

Paul: Yes.

H.M.Jr: How would that work?

Sullivan: That is after the twenty percent has been taken out on the corporation tax.

Paul: Of course, --

H.M.Jr: Then a man would pay ten percent on the first twenty --

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Paul: No, ten percent on the first given percentage of his earnings above his exemption.

H.M.Jr: Well, let's just say a fellow earns \$500,000 and how much will he pay on that?

Sullivan: Twenty-one percent.

Paul: A hundred thousand.

H.M.Jr: He would pay a hundred thousand, roughly, though he has got earnings left at \$400,000.

Sullivan: That is right.

H.M.Jr: Now, this company is one that has - well, let's put it, to make it easy, it is in the four percent class.

Sullivan: That is right.

H.M.Jr: So the first four percent you deduct, is that right?

Sullivan: Not the four percent of that. He has an exemption that is equal to four percent of his capital investment.

Paul: Suppose his capital investment is a million. He would get forty thousand off before - well, that is all right.

H.M.Jr: Three hundred sixty, what?

Sullivan: That is right.

H.M.Jr: Now, do the rates still go on the capital investment thing?

Paul: That is right.

H.M.Jr: Not on the earnings?

Paul: No, the rates go on the earnings but they are bracketed with reference to the invested capital.

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Sullivan: In other words, that three sixty is 36 percent of his capitalization. Now, on the first block --

Paul: The first fellow would undoubtedly strike the 40 percent rate.

Sullivan: Oh, yes, without question.

H.M.Jr: I still don't get how the ten, twenty, thirty, forty works.

Paul: I can put that on a piece of paper for you.

H.M.Jr: With that example, how would it work?

Paul: I am just giving you --

Sullivan: We haven't had the slightest indication yet as to how much --

H.M.Jr: I know, but let me just play with this.

Paul: Let's assume his capital is a million dollars.

H.M.Jr: He earned a half million.

Paul: And he has got three hundred sixty that is subject to tax, that is after his exemption is off. Now, on those earnings above ten percent and not above twenty percent of his invested capital - ten and not above fifteen, let's say ten percent - that is, the first is on the earnings above the exemption up to ten percent. Now, he has got - up to ten percent, that would be a hundred thousand. The tax would be \$10,000. Ten percent on the earnings up to ten percent, above the exemption up to ten percent --

H.M.Jr: We can learn together.

Paul: Twenty percent on the earnings between ten and fifteen percent, we will say. That is \$50,000. Twenty percent of that is \$10,000.

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Thirty percent on the earnings from fifteen to twenty percent, let's say. That is \$50,000 more. Thirty percent of that is \$15,000. Now, on the earnings, about twenty percent of his invested capital, forty percent. Now, his earnings above - that is on \$160,000. Now, forty percent of 160 is \$64,000. He would have a tax of \$99,000 at those rates.

Sullivan: Plus the 49.

Paul: These total 360 that you have there in your example. This is ten percent on the earnings above the exemption up to ten percent of the invested capital. That is a hundred thousand.

H.M.Jr: Well, let me see. Ten percent above - you are taking ten percent on the what?

Paul: Ten percent on the earnings - on the first ten percent of the earnings above the exemption - the first ten percent of the invested capital.

H.M.Jr: That is ten percent on 360?

Paul: No, this is our lowest bracket. The first hundred thousand - the first ten percent of the invested capital above the exempt earnings --

H.M.Jr: I see.

Paul: A hundred thousand is the income - is ten percent of the invested capital. That is the first ten thousand. You attach that at ten percent.

H.M.Jr: You are not giving him the benefit of any exemption.

Paul: I have given that up here in giving him 360.

H.M.Jr: So you would get ten percent on the first hundred.

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Paul: On the first ten percent of the invested capital.

H.M.Jr: That is a hundred thousand dollars.

Paul: That is right. Then the tax over here would be ten thousand if you tax a hundred thousand at ten percent.

H.M.Jr: I see. Where do you get this ten from?

Paul: That is just an assumed - where you bracket it on the earnings with respect to the invested capital.

H.M.Jr: You are taking the first ten percent, which is a hundred thousand dollars.

Paul: And putting the lowest rate on that.

H.M.Jr: And that is ten percent?

Paul: That is right.

H.M.Jr: So you get ten thousand dollars tax?

Paul: Yes.

H.M.Jr: And twenty percent on the next hundred thousand?

Paul: No, twenty percent on the earnings between ten percent and fifteen percent of his invested capital.

H.M.Jr: Oh.

Paul: Which is between a hundred and a hundred and fifty.

H.M.Jr: Yes.

Paul: That is \$50,000 and you take twenty percent of that, that is ten. Now, between fifteen percent and twenty percent is another fifty, fifteen thousand there. Now, all the balance

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of his earnings out of the 360 would be at the top rate. That is the usual type of rate structure.

H.M.Jr: But I don't see how you get the first ten.

Paul: Well, that is the earnings above the exemption up to ten percent. It is just assumed, Mr. Morgenthau. You can take fifteen, if you want.

H.M.Jr: I see, but you use up the 360.

Paul: It is a way of graduating the --

H.M.Jr: And so on top of the forty which he paid - what is the exemption?

Paul: A hundred.

H.M.Jr: He would be paying a hundred thousand dollars excess profits tax.

Paul: That is right. He would pay two hundred thousand dollars tax out of five hundred thousand earnings.

H.M.Jr: Where would you grab the other hundred thousand?

Foley: On the twenty-one percent. This is normal tax.

H.M.Jr: That is right. So he would be paying roughly two hundred thousand --

Paul: \$200,000 on \$500,000 earnings.

H.M.Jr: Yes.

Paul: It is about forty percent, which of course is pretty high but that is because --

Foley: You took a case where you went all the way up, you see.

H.M.Jr: Well, but he would be practically doubling his tax.

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Paul: Just about.

H.M.Jr: Well, let me ask you something which may be rank heresy. Aren't we - just using this as an example - this may be an unfortunate example - aren't we trying to do what might be a very simple thing in a most difficult way? I mean, instead of doing it with all this rigmarole, you men just doing it on the rates.

Sullivan: Well, the answer is yes and then there is a long explanation.

H.M.Jr: Aren't we --

Paul: I don't agree with that.

H.M.Jr: Just take a minute. I mean, I realize the psychological effect and all that, but I mean supposing you just said to them, "Well, we are going to double your rates."

Paul: Well, the answer to that question in my mind depends upon the answer to the question, which corporations do you want to tax? You have a certain amount of money to collect. If you use a straight increase in the income tax, you tax them all. If you use this method, you tax the most prosperous.

H.M.Jr: Now, let's just be political in a sense. I don't mean party politics, see. I think it was you, Paul, that drew my attention to this the first time. Let's just philosophize a minute. I am terribly serious on this. Let's say that England loses and the whole burden is on us and there would be two schools of thought. There would be those who would say, "We don't have to tax ourselves," and those who would say, "We have got to fight that fellow to keep him off our shores. Now, we have got to tax ourselves." Is that right?

Paul: We certainly do.

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H.M.Jr: Now, that will come the minute England loses.

Paul: That is right.

H.M.Jr: Because the people in this country have still got their heads in the sands and the big business fellows, the phalanx of which are down here now, represent the kind of fellows who in large part say, "Let's sit down. What is the use of us taxing ourselves forty percent when we could make a deal with this bird?" I mean, as between making a deal and taxing themselves, they are going to make the deal with him.

Paul: That is what I am afraid of.

H.M.Jr: Now, for the man on the street, which one is he going to understand the best, that is the point.

Sullivan: I know we are in accord on that.

Foley: The excess profits.

Paul: He is going to say, "Let that burden come out of the rich fellow."

H.M.Jr: Because I don't know --

Sullivan: Wait a minute.

H.M.Jr: Just a minute, then you can have a chance. I don't know whether any of you people saw the Whaley-Eaton letter last Saturday. That was a vicious letter.

Foley: I did.

H.M.Jr: That was absolutely vicious. You see, this thing has got to be sold in a big way, in a way we have never sold a tax program since I have been here.

Paul: I agree with you absolutely.

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- H.M.Jr: We have never gone out to sell a tax program because - well, the country - what the hell, we could get it through Congress but the country wasn't ready for it. Let's be frank. You couldn't make a profit on this tax stuff, you just couldn't do it, but the thing that bothers me so much here is that I am for this sort of thing a hundred percent, I don't care how steep it is. We have got to get the money to keep this thing solvent and therefore - this is what I am thinking of - we will undoubtedly be accused of being social. You remember Harrison asked that. So we are going to do it and be damned for it and we might as well do a bang-up job.
- Paul: That is right.
- H.M.Jr: If we are going to do it, let's go the whole hog and not be mealy-mouthed about it. Now, the only thing I am talking here that this Administration has ever done on bigness was that intercorporate dividend tax, but it is the only thing you can point to. You point to anything else, a tax against big business except that, and when we put that in that was to have been the start and it was gradually to have been increased, but with that exception, you tell me anything that this Administration has done to curtail bigness. I don't know of anything, do you?
- Foley: No.
- H.M.Jr: I think if we are going to go - in this room here - we can't have the National Defense Council telling us how to write this.
- Paul: I agree absolutely. Just let me show you these figures.
- H.M.Jr: We can't have them telling us how to write this. If we are going to do it, there is no use doing it half way. We might just as well be damned and do a good job as to

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do a half of one. I am talking out loud.

Foley: That is right.

Paul: Here is General Motors --

Foley: They are going to holler like hell but they are not the fellows who are with us.

H.M.Jr: Who the hell is with us these days?

Paul: The majority will be with us.

Foley: There are more our kind than there are their kind, that is what I say.

H.M.Jr: I can't play with that kind. It is too late in life for me. I can't change just because they have got a lot of Floyd Odiums down here. Maybe Jerome Frank can, but I can't.

Paul: I think we are going to get into a lot of trouble - I wanted to show you the figures on the General Motors. They have an invested capital of a billion dollars. They made last year 190 million. Their exempt earnings will be a hundred million. The taxable earnings will be 90 million for that one corporation. If you take a tax of 40 or 50 million --

Sullivan: You get about 325 million - I mean about 32 million.

Paul: 32 or 35 million.

H.M.Jr: Let me ask you a question while we are talking here in percentages. Can anybody tell me what this would raise? What are we talking about, that is what I want. I mean, let's put it this way. Supposing in connection with this last five billion dollar program, I want to raise another billion dollars in taxes.

Paul: You can raise a billion easily by this tax.

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H.M.Jr: Could you fellows give me a little something, what the percentages would be per billion, per billion and a half, and two billion?

Foley: On present income? The income is going to be much higher.

H.M.Jr: Well, on the present income.

Paul: Mr. Morgenthau, I want to emphasize the fact that we must be careful in this bill to - even from the political standpoint, not to subject ourselves to criticism from the small corporation. There are a good many of them.

H.M.Jr: I agree with you.

Paul: And that is what I am working toward here.

H.M.Jr: Did you get anywhere in the half hour you have been here or didn't you? Have I helped at all? I have helped myself. All I have agreed to as of this morning is, I am with Ed. All I have done this morning is to agree --

Foley: To go from four to six.

H.M.Jr: But that is as far as --

Paul: Is your mind open on the rest of it?

H.M.Jr: Oh, surely. Listen, you have got the beauty of working with a fellow that has no tax hobbies.

Paul: Well, I know, but I just didn't know whether you were deciding it finally or --

H.M.Jr: No, we have - at least, I have covered a lot of ground this morning. I have talked myself out and you fellows can't make this thing too tough to suit me.

Sullivan: I think we should tell you it is contemplated that consolidated returns will be permitted under the excess profits tax.

- 15 -

H.M.Jr: You have got to do a job on me there. You can't do that in a few minutes.

Sullivan: Well, when will we do it?

H.M.Jr: Well, leave word with - you will have to --

Foley: Do it tomorrow.

Sullivan: We are in the drafting stage.

H.M.Jr: Well, I haven't time now.

Foley: Tomorrow is enough, sure.

H.M.Jr: I can't do it. The President has got me over there with the National Defense Council at 2:00.

Paul: Tomorrow, Mr. Morgenthau?

H.M.Jr: Yes.

Sullivan: Magill will be here tomorrow, too.

H.M.Jr: If you need more time - 10:00 o'clock, taxes.

JUL 16 1940

My dear Mr. Smith:

I have your letter of July 12, 1940 in which you suggest a different form of letter be submitted for the President's signature addressed to the Secretary of War from that which I forwarded to you on July 1.

The revised draft is not agreeable to me. The letter which I submitted adequately took care of the situation.

At the same time that the Acting Secretary of War wrote the President, he wrote me and I replied to his letter on July 2. So much time has elapsed since the memorandum to the President was submitted here for reply that there seems to be no point now in making any answer, but if there were the proper way to handle it would be for the operating subordinate of the Secretary of War (who actually handles the subject matter of the Executive Order) to communicate with Mr. Timothy C. Neasey of the Bureau of Internal Revenue, rather than with me which is what I suggested in the draft of letter you did not submit to the President.

Sincerely yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

The Honorable

The Director of the Budget

cc to Mr. Thompson

CLK:t
7-25-40

By Messenger // 10

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

25

Regraded Unclassified

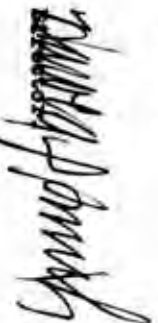
JUL 12 1940

My dear Mr. Secretary:

I have the memorandum of your Administrative Assistant, Mr. Thompson, transmitting, for the President's signature, a draft of letter addressed to the Acting Secretary of War with respect to the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act. This draft of letter was prepared by the Treasury Department in response to the President's memorandum of June 28, 1940 requesting that this office and the Treasury Department prepare a reply for the President's signature to the memorandum of June 25, 1940 (enclosed herewith) to the President from the Acting Secretary of War.

In lieu of the draft of letter prepared by the Treasury Department, I would suggest that, if agreeable to you, the enclosed form of letter, as revised in this office, be forwarded to the President for his consideration.

Very truly yours,


Director

The Honorable,

The Secretary of the Treasury.

Enclosures.

My dear Mr. Secretary:

I have the memorandum of the Acting Secretary of War of June 25, 1940 making certain suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

It is believed that the Executive Order which I have issued pursuant to H. R. 9522 takes into account the suggestions contained in the memorandum of the Acting Secretary. If the procedure outlined therein may, in your judgment, prove a serious hindrance to the expeditious handling and closing of contracts under which special additional facilities must be acquired, it is requested that you consult immediately with the Secretary of the Treasury and together work out an arrangement that will avoid serious and unnecessary delay in the letting of contracts and suitably protect the interests of the Government.

Sincerely yours,

The Honorable,

The Secretary of War.

HBS

EXECUTIVE OFFICE OF THE PRESIDENT

Bureau of the Budget

Washington, D. C.

July 12, 1940

My dear Mr. Secretary:

I have the memorandum of your Administrative Assistant, Mr. Thompson, transmitting, for the President's signature, a draft of letter addressed to the Acting Secretary of War with respect to the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act. This draft of letter was prepared by the Treasury Department in response to the President's memorandum of June 28, 1940 requesting that this office and the Treasury Department prepare a reply for the President's signature to the memorandum of June 25, 1940 (enclosed herewith) to the President from the Acting Secretary of War.

In lieu of the draft of letter prepared by the Treasury Department, I would suggest that, if agreeable to you, the enclosed form of letter, as revised in this office, be forwarded to the President for his consideration.

Very truly yours,

(signed) Harold D. Smith

Director.

The Honorable,

The Secretary of the Treasury.

Enclosures.

Copied:
7-15-40 t

THE WHITE HOUSE

Washington

My dear Mr. Secretary:

I have the memorandum of the Acting Secretary of War of June 25, 1940 making certain suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

It is believed that the Executive Order which I have issued pursuant to H. R. 9422 takes into account the suggestions contained in the memorandum of the Acting Secretary. If the procedure outlined therein may, in your judgment, prove a serious hindrance to the expeditious handling and closing of contracts under which special additional facilities must be acquired, it is requested that you consult immediately with the Secretary of the Treasury and together work out an arrangement that will avoid serious and unnecessary delay in the letting of contracts and suitably protect the interests of the Government.

Sincerely yours,

The Honorable,

The Secretary of War.

Copies:

7-15-40

(Original returned to Director of Budget 7/16/40)

29

Proposed draft of letter for President's
signature sent to Director of Budget
on July 1st with Mr. Thompson's
memo. of transmittal.

My dear Mr. Secretary:

I have your memorandum of June 25 making certain suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

The Executive Order embodying the regulations prescribing such procedure which I have issued pursuant to H.R. 9822 takes into account the suggestions contained in your memorandum. If you have any doubt on this, the Secretary of the Treasury suggests that you have a representative communicate at once with Mr. Timothy C. Hooney of the Bureau of Internal Revenue in order that there may be no misunderstanding as to the way these matters will be handled.

Sincerely yours,

President's signature

The Honorable

The Acting Secretary of War

CLK:6
7-3-40

31

7/16'40

Miss Frazier: *Room 285*

Here is the set
attached to the letter of 7/2'40.
I understand that the day this
went out Mr. Thompson handled
and it was one of those things
that was extra rush.

McGuire

me

C
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P
Y

July 2, 1940.

My dear Mr. Secretary:

I have your letter of June 25, in which you state that it is highly desirable that every step possible be taken by the Treasury Department to expedite final action on the certifications of the percentage of special additional facilities to be made by the Secretary of War pursuant to the Vinson-Trammell Act, as amended by H. R. 9822.

I think that the recently issued Executive Order setting forth the procedure to be followed by the War Department and by the Commissioner of Internal Revenue is adequate to assure rapid handling in the Bureau of all such certifications. Your cooperation in this matter has been very much appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Acting Secretary of War.

CLK:akm 7/1'40

copied fm 7/16'40

C
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THE WHITE HOUSE

Washington

My dear Mr. Secretary:

I have your memorandum of June 25 making certain suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

The Executive Order embodying the regulations prescribing such procedure which I have issued pursuant to H.R. 9822 takes into account the suggestions contained in your memorandum. If you have any doubt on this, the Secretary of the Treasury suggests that you have a representative communicate at once with Mr. Timothy C. Mooney of the Bureau of Internal Revenue in order that there may be no misunderstanding as to the way these matters will be handled.

Sincerely yours,

FRANKLIN D. ROOSEVELT.

The Honorable

The Acting Secretary of War.

CLK:t 7/1'40
copied fm 7/15'40

34

THE WHITE HOUSE
WASHINGTON

June 28, 1940.

MEMORANDUM FOR

✓ THE SECRETARY OF THE TREASURY
THE DIRECTOR OF THE BUDGET

FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

52

C
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THE WHITE HOUSE

WASHINGTON

JUNE 28 1940

MEMORANDUM FOR

✓ THE SECRETARY OF THE TREASURY
THE DIRECTOR OF THE BUDGETFOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. C. R.

copied in 7/15/40

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WAR DEPARTMENT

WASHINGTON

June 25, 1940

MEMORANDUM FOR THE PRESIDENT:

Subject: Certifications regarding special
additional equipment and facilities.

Reference is made to your memorandum dated June 15, 1940, concerning the anticipated enactment of H.R. 9822 and the certificates which would be required to be made by the Secretary of War pursuant thereto regarding special additional equipment and facilities acquired to facilitate completion of Army aircraft. Steps were taken promptly to bring to the attention of the chiefs of the supply arms and services concerned the information and suggestions contained in your memorandum.

The War Department has not yet received a draft of the regulations which will govern the procedure in the matter of these certifications. I am, however, in receipt of a letter from the Secretary of the Treasury under date of June 20, 1940, copy attached, advising me of the proposed organization and procedure in that Department to handle the matter.

The main objective sought by Section 4, H. R. 9822, was to facilitate and expedite the entering into of contracts in cases necessitating the acquiring by contractors and subcontractors of special additional equipment and facilities. The War Department will do everything in its power and will cooperate in every way with the Treasury Department and with the contractors and subcontractors to accomplish that end.

It is not understood to be the intent of the bill in question to make final action on the certifications in question mandatory before contracts are executed, the law being purposely

- 2 -

drawn so as to allow flexibility in this respect. In view of the time that may be required to process the detailed certifications and clear them with the Treasury Department, and in order not to set up any possible impediment to expediting execution of important contracts involved in the defense program, it is proposed, unless otherwise instructed, to prepare contracts and pertinent certifications concurrently in all applicable cases and take up the question of certifications with the Treasury Department at the earliest possible time with a view to prompt final determination of the matter.

It is believed that the foregoing is in substantial agreement with the views of the Treasury Department and with the spirit of your memorandum of June 15th.

(signed) Louis Johnson

Louis Johnson,
Acting Secretary of War.

1. Encl.
Copy of letter
from the Sec. of Treasury
dated 6/20/40.

(Original Returned to Dir. of Budget 7/16/40)

TREASURY DEPARTMENT

Washington

June 20, 1940

My dear Mr. Secretary:

Under existing law the Treasury Department determines what portion of the cost of special additional equipment and facilities shall be charged against a contract of the War or Navy Department for the construction or manufacture of a complete naval vessel or army or navy aircraft or any portion thereof. Under a procedure for closing agreements provided for by section 3760 of the Internal Revenue Code, a procedure was adopted whereby the Treasury would, prior to the execution of the contract, fix the amount which under existing law may be determined in advance as chargeable to the contract. Such a closing agreement was entered into only after certification by the Secretary of War or the Secretary of the Navy, as the case may be. In such cases the contractor filed his request for a closing agreement with the Commissioner of Internal Revenue, and a copy thereof was filed with the War Department or the Navy Department, as the case may be, in order to facilitate certification of such department. If section 4 of H. R. 9822 (76th Cong., 3d sess.) becomes law, this practice of entering into closing agreements with respect to special equipment and facilities will be discontinued.

Section 4 of H. R. 9822 would modify this existing practice by requiring the Secretary of War or the Secretary of the Navy, as the case may be, to determine in advance what portion of the cost of the special additional equipment and facilities shall be borne by the government and charged against the particular contract. The Secretary concerned will make certification as required by such section 4 to the Commissioner of Internal Revenue. Such certification would be binding upon the Commissioner of Internal Revenue, subject to such regulations as the President may prescribe. The President has indicated that Treasury approval of the certification will be necessary. In the Treasury Department the duty of considering such certification and of recommending Treasury action thereon will be performed by a Treasury Committee composed of Timothy C. Mooney, Chairman, Herman T. Reiling, Vice Chairman, John W. Burrus, C. A. Appel, and Dean W. Martin. Under the new procedure the contractor's request for a determination by the Secretary of War or the Secretary of the Navy, as the case may be, shall be filed with the Secretary of the Department concerned. In order to facilitate action along the lines indicated by the President, it is suggested that —

-2-

- (1) Copies of the contractor's request should be forwarded immediately to Mr. Timothy C. Mooney, Chairman, Room 4002, Internal Revenue Building;
- (2) Three copies of the certification by the Secretary concerned (agreed to by the contracting party), together with a copy of the contract or proposed contract shall be transmitted directly to the above-mentioned Chairman;
- (3) The certification shall itemize the special additional equipment and facilities, state the necessity and cost (or estimated cost) of each item thereof, and the percentage of cost of each item to be charged against the contract or subcontract;
- (4) A certification shall not be approved by the Treasury unless a certification has been made with respect to the first contract or subcontract on which such special additional equipment and facilities are used, and has been made successively thereafter on any intervening contracts or subcontracts.

Following consideration by the Treasury Committee referred to above, the Chairman or Acting Chairman thereof will make his recommendation for approval or disapproval of the certificate direct to the Secretary of the Treasury whose decision will be forwarded immediately to you.

Very truly yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

copied 7/16/40 by fm

The following progress reports by the seven members of the National Defense Advisory Commission were presented to the President today at his conference with the Commissioners, the Secretaries of War, Navy and Treasury and officials of the three departments:

FROM EDWARD R. STETTINIUS, JR. -- MATERIALS DIVISION

Through the prompt cooperation of the RFC and the Treasury with this Division, substantial supplies of strategic and critical raw materials are being acquired. Actual purchases have been negotiated and the material loaded aboard ship within a period of three or four days after the availability of the product was made known. This Division, through the cooperation between experts in various Government agencies and specialists on the staff of this Division, has made surveys of the entire field of strategic and critical materials. Where bottlenecks which might develop in connection with a total defense effort have been discovered, "red flags" have been marked on the chart and a detailed study is then made to explore every possible means of relieving the pressure that might develop.

For example, we have always been dependent upon imports for rubber. By the end of the month, it is expected that a plan will have been worked out whereby it would be possible in an emergency to supply most of our needs through the manufacture of synthetic rubber.

One point of concentration, at present, involves the production of 100 octane gasoline. This product is essential to the airplane program and substantially increased production is being worked out to assure the air services of adequate supplies. Plans are under way for the storage of large quantities of this gasoline at strategic locations underground.

This Division is working on plans to relieve our dependence upon foreign smelters for our tin supply and has obtained the cooperation of industry to this end.

Mr. Stettinius, Mr. Knudsen and Mr. Gano Dunn, the Division Head's Senior Consultant, went before Committees of the House and Senate to urge expansion of the TVA's power producing facilities in the total amount of \$65,000,000, of which \$25,000,000 was to be available for construction during the current fiscal year. Both Committees reported out the proposal favorably but Representative Donald H. McLean (R., N.J.) objected to consideration by the House and was supported by Representative John Taber (R., N.Y.) and Representative Everett A. Dirksen (R., Ill.). This made passage impossible before recessing for the convention. This Division has taken the position that it is absolutely essential to the national defense that the TVA power production be increased in the amount asked. Delay of a few weeks in authorizing this undertaking might mean delay of a year in filling the dam for the generation of power as it is necessary to catch the flood waters next spring.

Considerable of the work of this Division is highly technical and of a strictly confidential nature, making it impossible at this time to disclose a number of its activities.

FROM WILLIAM S. KNUDSEN -- PRODUCTION DIVISION

From June 6 to date, this Division has cleared contracts in the amount of \$1,661,891,494, which represents \$1,390,575,404.87 for the Navy and \$271,316,089.13 for the Army. Material covered under these contracts includes airplanes, tanks, battleships, ammunition, anti-tank guns, anti-aircraft searchlights, machine guns, various fire-control precision instruments, tractors, trucks, blankets, overcoating, serge cloth, worsted shirting, service shoes, ship propulsion machinery, storage batteries for submarines, airport and airstation construction, barracks and many other items necessary in equipping the United States Army and Navy.

Production of this material is being undertaken in plants from Maine to California.

Awarding of contracts by the Army for tank construction has begun through a commitment with the American Car and Foundry Company for 627 units. Mr. Knudsen has inspected at Aberdeen the light tanks and the revised designs for the heavy tanks which have been changed in certain respects on the basis of combat experience in Europe.

The contract for the production by Packard Motor Company of Detroit of 9,000 Rolls Royce liquid-cooled aircraft engines is about to be signed, the Company having stated that it is prepared to undertake this project.

Evidence has developed indicating progress toward solution, for the time being at least, of the bottlenecks in the machine tool industry. The embargo authority has contributed substantially to the retention in this country of vital machine tool units which otherwise would have been exported. Plans have been worked out to a point where tomorrow (July 17) a meeting of the Machine Tool Defense Committee, H. S. Vance, Head of the Machine Tool Section of the Production Division, and Donald M. Nelson, Coordinator of Defense Purchases, will be held to take up a cooperative plan under which a definite percentage of machine tool manufacturing facilities will be reserved for defense needs.

FROM SIDNEY HILLMAN -- DIVISION OF LABOR SUPPLY

This Division has emphasized formulation of plans for training skilled workers in industry under the direction of Mr. Owen D. Young as advisory aid to Mr. Sidney Hillman. Already between 30,000 and 40,000 enrollees are actively taking training through facilities provided by this program. In the vocational schools being utilized, training is made available to workers on WPA and NYA rolls and others interested in securing such courses, particularly those who feel the need for refresher training to retrieve their earlier skill.

Combined facilities of the NYA, CCC, and Office of Education are being coordinated to assure maximum use of existing facilities and agencies of the Government. All training is in anticipation of meeting such demands for labor as may arise in connection with the defense program. The first and major consideration is to provide employment to those who are employable and now without jobs. The unemployed, in the opinion of this Division, constitute the greatest labor resource which can be used most expeditiously in this connection. It is interesting to note that up to the present there have been no specific requests for skilled labor made to the Defense Commission. It is evident that thus far needs of private industry for skilled and other labor are being met.

This Division has organized a labor advisory board consisting of representatives of the American Federation of Labor and the Congress of Industrial Organizations, together with the Railroad Brotherhoods. It meets each week with Mr. Hillman and has pledged complete cooperation of its combined membership to the national defense program.

Through the intervention of the labor supply division acting with the Conciliation Service of the Department of Labor, several serious production stoppages have been averted in the General Motors Corporation, on Pacific Coast Shipping, in shipbuilding on the Gulf Coast, in the copper industry in Utah, and in the aluminum industry.

FROM LEON HENDERSON -- DIVISION OF PRICE STABILIZATION

The primary effort of this Division during the past few weeks has been directed toward the determination of the effects of the Rearmament Program on the nation's price structure.

A central Bureau of Research and Statistics has been organized under the direction of Stacy May as a clearing house for information required by the various divisions of the Commission, particularly in respect to information developed from other government agencies. Much of this information deals with the determination of materials and facilities required by the armed forces and the nature of the resources of the nation available to fill both military and civilian requirements.

Analysis of both the materials and resources have been coupled with consideration of measures for control and price stabilization. Numerous proposals for price regulation are being studied. With Donald Nelson, Coordinator of Defense Purchases, consideration is being given application of priorities from the viewpoint of their impact on prices. Surveys are also being made by this Division of the economic organization and controls within the belligerent countries.

Standards are being formulated to guide procurement agencies in connection with recent legislation authorizing negotiated contracts in lieu of competitive bidding.

The domestic price structure is under constant surveillance. When price increases appear unjustified conferences have been held and will continue to be arranged. Voluntary agreement is sought in this connection, and thus far business has evidenced its desire to cooperate.

The complicated problems involved in amortization for income tax purposes, as well as those inherent in the government policy for lending through the RFC to expedite plant expansion, have occupied considerable time in this Division. The whole problem of plant expansion is being studied in cooperation with Commissioners Knudsen and Stettinius as well as representatives of other government agencies involved.

- 5 -

FROM CHESTER DAVIS — AGRICULTURAL DIVISION

Development of a unit of this Division has been undertaken to work on the problem of new plant location for defense purposes with the view to utilizing surplus labor particularly in agricultural areas and thus avoid uneconomic concentration of industry.

Under the new powers created by Congress to the Reconstruction Finance Corporation, advance payments can be made against future deliveries of strategic materials. Funds thus made available can be used for the purchase of agricultural commodities. A substantial project in this connection is now in the process of preliminary negotiation.

This division has collaborated with Mr. Hillman in connection with the development of plans for training American youth with a view to affording equal opportunities to farm youth and those of the cities in the program soon to be inaugurated.

Extensive collaboration with the Department of Agriculture has been undertaken in developing plans to:

- (a) Promote increased use of surplus farm products at home and, where possible, abroad to minimize the effect of curtailed export outlets.
- (b) Maintain agricultural production at most favorable levels for national defense and health needs, promoting simultaneously the objective of parity prices for farm products.
- (c) Work out in advance specific plans to protect producers from unfavorable effects or changes that may result from international developments.

-6-

From MISS HARRIET ELLIOTT,--DIVISION OF CONSUMER PROTECTION

This Division has laid the ground work for an extensive educational campaign to mobilize public sentiment behind the idea that the civilian population must be prepared physically to meet the defense responsibilities placed upon it by any emergency. To this end the Commission has approved emphasizing the importance of health and public welfare in the defense program. A coordinating committee has been organized to facilitate development of these aspects of the program. The committee includes: Surgeon-General Thomas Parran, Dr. M. L. Wilson, Director, Extension Service, Department of Agriculture, Miss Katherine Lenroot, Head of the Children's Bureau, Department of Labor, and Arthur J. Altmeyer, Chairman, Social Security Board.

Definite plans have been prepared for meetings with: (1) leaders of civic organizations called together to mobilize human resources and direct them into constructive channels; (2) retailers, organized consumer groups, manufacturers of consumer goods and wholesalers.

Protection of the public from unjustifiable increases in consumer goods prices is a major project of this Division.

The staff in cooperation with economists of other government agencies is on the alert in this connection and continuing studies are under way to form the basis for whatever recommendations may be needed.

46

Emphasis has been placed by this Division upon securing a suitable car supply to meet emergency demands upon rail transportation. To this end this Division is working closely with the Association of American Railroads and the American Short Line Railroad Association. There is, at present, a dislocation of car loadings in the country. Certain areas are confronted with definite increases while others are experiencing a decrease.

Concrete recommendations have already been drawn up for acquisition of very substantial numbers of special rolling stock for handling troops and their equipment. Conferences have been held with representatives of railway car shops in Illinois, Indiana, Missouri and Pennsylvania to discuss cost and types of cars.

As a result of the study of the availability of serviceable freight cars, Mr. Budd has urged upon the Association of American Railroads, "the need for full performance by all lines of the repair work necessary to reduce cars in bad order to not more than 6%, as was agreed."

The entire subject of rail transportation, including special reference to army maneuvers scheduled later this year, is receiving earnest and intelligent consideration by Mr. Budd and his entire staff.

Special attention is being given by the Consultant to the Commissioner of Transportation representing the Great Lakes Carriers in connection with the movement of iron ore, a basic factor in the defense program.

Four consultants representing the highway users are making a study of defense program requirements in their fields to estimate demands which may be made upon that form of transportation in an emergency.

Studies involving the inland waterways and pipe line problems are being surveyed. Action has been taken to interest the various pipe line operators in effecting the most efficient transportation of petroleum and its by-products by pipe line for emergency requirements.

AC

PLAIN

Budapest

Dated July 16, 1940

Rec'd 1:20 p.m.

Secretary of State

Washington

161, July 16, 4 p.m.

The following is sent at the request of the Futura (grain buying agency of the Hungarian Government).

On June 13, 1940, the sum of 134,145 dollars was credited BQ the Chase National Bank of New York to the Banque Franco-Bulgare by order of the Banque Commercial Roumaine. According to a letter from the Hungarian General Bank and to a statement from Futura this money is the property of the Futura and is earmarked for the purchase of maize from Bulgarian grain monopoly for importation into Hungary due to fodder shortage here. The Futura has certified in writing that this money was credited to the Futura by the Hungarian National Bank for the purchase of maize abroad and also certified that maize will not be reexported from Hungary. As it has been and now is necessary for Hungary to import maize the Department is requested to ask the Chase Bank

to release

- 2 - #161, July 16, 4 p.m. from Budapest

to release this sum which will assist Hungarian farmers; also to request that Chase notify the Franco Bulgare Bank by cable of release.

MONTGOMERY

WSB

July 16, 1940

My dear Mr. Ward:

I am returning herewith the report which you were good enough to leave with me yesterday so that I might make a copy for my files.

With many thanks,

Sincerely yours,

(Signed) E. Morgenthau, Jr.

Mr. J. Carlton Ward, Jr.,
Hay-Adams House,
Washington, D.C.

By Messenger

July 16, 1940

My dear Mr. Ward:

I am returning herewith the report which you were good enough to leave with me yesterday so that I might make a copy for my files.

With many thanks,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. J. Carlton Ward, Jr.,
Hay-Adams House,
Washington, D.C.

By *Morgenthau*

July 18, 1940

My dear Mr. Ward:

I am returning herewith the report which you were good enough to leave with me yesterday so that I might make a copy for my files.

With many thanks,

Sincerely yours,

(signed) H. Morgenthau, Jr.

Mr. J. Carlton Ward, Jr.,
Hay-Adams House,
Washington, D.C.

Enclosure

By Messenger 435

Dated at Bordeaux
June 14, 1940.

TO: Colonel Jules Meny, Sous-Secrétaire de l'Air
via General Martinot Lagarde - Inspecteur General
de l'Aéronautique.

In accordance with our understanding with you, this memorandum will serve to present to you a brief summary of the work, the observations, and the recommendations of the group of American representatives sent to France in response to your request directed to Mr. Alfred P. Sloan, Chairman of the Board of the General Motors Company, and who were gathered together in the United States by the General Motors Company for this purpose.

Upon our arrival in France, at Paris, on the morning of May 29th, we received your summary of the general production plan of the Air Ministry for the production of aviation motors and also the understanding that production of aviation motors in France constituted the limiting feature for the production of complete airplanes. It was also made clear that training planes and motors for training were not a serious production problem. It was also explained to us that the Ministry was concerned with improving the quality as well as the quantity of completed aviation engines.

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This was followed by a succession of visits to various manufacturing and allied facilities, as follows:

May 30th - S.N.C.M. Factory, Argenteuil.

May 31st - Conferences at Hotel Meurice (S.N.C.M.)

June 1st - S.N.C.M. Factory, Argenteuil
Talbot Motors, Suresnes.

June 2nd - Chantilly - Air Headquarters.

June 3rd - Hispano-Suiza - Bois-Colombes

June 4th - Ford Air - Poissy
Hispano-Suiza, Laboratory

June 5th - Gnome-Rhone - Gennevilliers.
B.G., Paris.

June 6th - Conference, Hotel Meurice (Talbot)

June 7th - Ford, Asniwres
Turbomeca, Billancourt.

June 8th - To Le Mans - Gnome-Rhone

June 9th - Gnome-Rhone (under construction)
To Bordeaux.

June 10th - Ford Air - Bordeaux
Bloch S.N.C.A.S.C. - Bordeaux, Merignac.

June 11th - Ford Air - Conference.

June 12th - To Tarbes and return
Hispano-Suiza - Tarbes

June 13th - Bordeaux, Repair and overhaul Depot.

Before entering into the enumeration of the recommendations or suggestions of the Commission, it might be well to set down a

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few general observations.

Thus, in general, it may be said that the volume of aircraft engine motor production, as well as the facilities for production and the methods used, both for technical processes and for plant management, were on the whole better than the Commission had been led to expect through information which had reached it in America. It could be generally said that each of the various works visited showed unusual ingenuity with respect to certain phases of its operations. It is likewise true, as will be pointed out later, that in nearly all cases, specific improvements could be made which would tend to increase the general production and improve quality in accordance with the desires of the Air Ministry.

Secondly, it should be pointed out that conditions changed very greatly from those in existence at the time of the Commission's arrival, due to military operations which, in turn, necessitated movement of many of the manufacturing units, as well as cutting off a large number of suppliers. Thus, the character of the problem changed daily. Naturally, this affected the ability of this Commission to follow through your original request as it was primarily outlined. Consequently, while the present unstabilized military situation persists, with the resulting necessity for evacuation of plants from day to day, it is the considered opinion of the Committee that pro-

4.

duction cannot be stabilized.

Thirdly, in view of your statements that the American aviation equipment now being used in your military operations is superior in nearly all cases to the remainder of the available equipment, it is obvious that the greatest assistance can come through speeding up production of American aviation equipment in the United States and perhaps supplementing this production by furnishing necessary raw materials or partly fabricated materials to take the place of supplies which are now cut off from your plants due to the advance in military operations.

As the Committee has already intimated to you, it is the private opinion of this Commission that any equipment made in America and furnished as complete equipment should, in accordance with the above, be made to American designs. It does not seem necessary herein to give all of the reasons for this Commission's opinion with regard to the above, since the discussions were covered in detail with you in Asnieres, and again informally during a discussion held at the Hispano works in Tarbes, on June 12th.

It seems unnecessary at this moment to repeat the recommendations given to you with respect to the Government's S.N.C.M. works at Argenteuil and the Government's Pratt-Whitney 1830 engine license at the Talbot Motors in Suresnes. These

5.

have already been submitted to you in detail as well as to the management of the S.N.C.M. and, through you, to the Talbot organization as well.

It is interesting to point out, however, that the Commission's recommendation with respect to moving the new American machine tool equipment from the Paris area has now been borne out by the military situation existing at present. It is also felt that the Committee's recommendation that the Talbot equipment be kept intact for the furnishing of spare parts and later on for the manufacturing of motors of Pratt-Whitney design will be more desirable than ever before in view of the fact that the French engine industry will now have to rely to a greater extent on American sources of raw materials. It is further supported by the fact that the Pratt-Whitney engine has been evaluated by those of your military authorities who were contacted as the most satisfactory and useful of its various engine equipment now in use at the front.

The most important specific recommendations follow:

Technical Design and Engine Considerations.-

1) Wherever required engineering design tolerances should be readjusted to provide interchangeability. Hand fitting (adjusting) is now required in order to assemble the finished product. (Note: By studying the conditions in the Bordeaux Overhauling Shop with respect to new parts furnished by Pratt and

6.

Whitney for motors, it will be clear what is meant by the above).

2) Process grinding should be substituted for hand operations wherever possible in manufacturing highly stressed parts. Such parts can then be readily polished without the necessity of removing much metal.

3) Highly stressed parts should be highly finished, and all tool marks eliminated. (Note: In many of the plants visited it was observed that highly stressed parts were highly finished, but this was not a universal practice in all factories).

4) Eliminate unnecessary operations contributing to appearance only. Thus, to conserve man hours much painting, matching of surfaces on parting lines, particularly on castings and the hand polishing of relatively unstressed parts can be dispensed with, subject to engineering approval.

5) Avoid putting engineering changes into effect in such a manner as to delay production. Carefully schedule them for this purpose.

6) As was suggested in connection with the operation drawings submitted at the S.N.C.M. factory, it would be well to study the elimination of such drawings and the substitution of operation sheets wherever possible, thus conserving engineering facilities under the present conditions.

7.

7) In a great many factories more attention to keeping parts clean during assembly operations is urgently needed. Thus, it was noticed that ball bearings were frequently seen lying on benches without being properly covered. Floors should be cleaned and dust reduced to a minimum. Between shifts, partly assembled mechanisms should be carefully covered.

8) Parts should be carried in wood containers or containers lined with soft material and should not be set down on steel shelves or plates, or they will be scratched.

9) Engineering designs should be reviewed to see where manufacturing can be simplified by minor engineering design changes.

Manufacturing.-

1) Where automatic machines have been provided, a study should be made to see how many machines can be operated by one operator at the same time. It was observed in one factory that one man operated a single automatic machine which was timed to operate on a twenty-minute cycle. Adjacent to the machine was another automatic machine with a separate operator approximately on the same cycle. A single operator could have readily operated both machines. Similar conditions were noted in many places.

2) Spare sets of cutting tools should be provided for each important operation. This will eliminate the down time observed

where machines are idle waiting for tools to be re-sharpened.

3) In certain factories highly flexible machines were used for relatively simple operations. Equipment in such cases should be studied with a view to reallocation and the use of single purpose machinery on such operations, thereby releasing the more flexible machine for more complicated operations.

Thus a brand new Hendey tool room lathe was seen operating on a relatively simple operation which could have been done by a manufacturing lathe, releasing the tool room machine for badly needed tool room equipment.

4) In one factory there was observed a wide difference between the time study or standard time for an operation and the actual time. Factories lacking specialists for speeding up such laggard operations should institute an activity of this character.

5) In certain factories, machines were not placed to avoid unnecessary material handling. In other factories this feature was admirably taken care of. In some of the newer units this feature seemed to be well studied.

6) It is suggested that plenty of coolant - i.e., cutting oils - should be flooded on the work in order to prevent burning up the tools and increasing machine down time caused thereby.

7) Tools should be ground on a periodical basis and not allowed to run until they produce bad work. When the latter is done, the tool life is much shorter and the loss of time on the

machine is greater.

8) In many shops attention has been given to work containers. However, those were not universal in all factories, and should be adopted.

9) Lighting should be carefully checked. Some factories were poorly lighted for night work, thereby running the risk of poor work and lost time.

Management.-

1) It is recommended that, if there does not at this time exist a strong planning unit in the Ministry with coordinated planning agencies in the various production units, such a function be set up without delay. The detail planning functions within the manufacturing organizations should be left largely to the local managements, in order to adapt them to local conditions. However, the system as a whole should be carefully coordinated.

2) Professional workers, engineers and supervisors, where urgently needed for vital machine production should not be subject to draft in the army, without careful consideration of all the circumstances. Evidence existed in certain plants that organizations were being crippled as to supervisors, executives, tool makers, engineers and the like.

3) Liberalized contractual relations with private organizations by the Government, in order to meet the unusual production conditions now existing are needed. Everything should be done by the Ministry to prevent loss of production through inability

10.

of local managements to make decisions to adapt themselves to the quickly changing conditions.

4) The above is particularly true due to the disorganization of the telegraph and telephone systems under present conditions. If conditions cannot be improved, then greater initiative should be permitted for individual organizations to make emergency decisions.

5) As has been pointed out above, many efficient processes and operating methods have been viewed in certain plants, and are not general in others. Greater freedom of interchange of information should be provided for if possible. A good example, is the tinning of cylinder sleeves to be nitrided. In one plant this was done by hot tinning, hand wiped, and in another plant by an efficient hot metal spray gun.

6) In view of moving large bodies of workmen, organizations should be set up in each manufacturing plant to efficiently cooperate with local authorities in the matter of housing employees who are suddenly transferred. No doubt this has already received much consideration as is evidenced by the City in the Pines at Le Mans.

7) Many difficulties have been experienced in servicing and installing American manufacturing equipment due to not receiving specific information from the Air Ministry representatives. It has been suggested that the various American

11.

service, installation and engineering representatives should be put in touch with each other, with the idea of freely interchanging information for the use of all American companies, in order to promote a more efficient servicing of the French operated American aviation equipment. It is also suggested that the Air Ministry institute a coordinating bureau for the purpose of contacting the various American representatives so that the work may be done in the English language, owing to the unfamiliarity of many of the American representatives with the French language.

A headquarters location should be established for all these units, instead of each American company establishing its own location independently of each other and of that of the Ministry representative.

General

As has been stated in various places in the above, many capable and efficient arrangements have been inspected and especially notable is that of the use of women workers and young men on precision operations. At one plant women were found in supervisory positions as job setters, and vestibule schools were also in evidence for the training of unskilled workers in preparation to machine operation. Thus, the Commission feels that if quick decisions can be furnished or

12.

made by local managements and also if there is the free interchange of information together with the quick procurement outside of France of needed raw materials plus the purchase complete of American units to supplement French production, that much can be accomplished. The Commission concludes with the thought that it can be of more service by returning to America without further delay than by any further advice it can give or action it can take here, where the situation is so involved.

The Commission is particularly indebted to the executives of the various plants it has visited for their unfailing courtesy and their freedom in answering questions of every nature. It is equally indebted to the Air Ministry representatives who have made all of the necessary arrangements and, lastly, for the unfailing care taken of the members and the many courtesies extended to them by the Ministry's representative, General Martinot Lagarde.

In view of the inability of the Commission to make contact with you since leaving Paris, a copy of this report is being delivered to General Lagarde in person, in turn for delivery to you and on your behalf.

W. J. Davidson

B. D. Kunkle

Arthur Nutt

J. Carlton Ward, Jr.

Chairman

July 16, 1940

My dear General Marshall:

I thought you would be interested in having a copy of the report which Mr. Carl Ward gave me upon his return from France.

I am sending this to you for your confidential information.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
Munitions Building,
Washington, D.C.

Enclosure

9th 7/18

July 16, 1940

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General George C. Marshall,
Chief of Staff,
Munitions Building,
Washington, D.C.

atp

GRAY

(PARIS)
La Bourboule

Dated July 16, 1940

Rec'd 7:45 a.m. 18th

Secretary of State,
Washington.

82, July 16, 10 p.m.

FOR THE TREASURY FROM MATTHEWS

I saw today Cariguel at Clermont Ferrand, Rueff, Robert Masson of the Credit Lyonnais, Chadenet of the Societe Generale, Arragon of Morgan at Chatel Guyon, and Barrett of the Guardian Trust at Vichy. The consensus of opinion seems to be that there will be an early return of the Government, the Bank of France and other French banks to Paris. The administrative problems of trying to operate from this area and difficulties occasioned by lack of means of communication are of course increasing pressure for the return. The French are endeavoring to obtain certain "guarantees" from the Germans regarding free communication with the United States unoccupied zone and some of them are not indulging in a lot of wishful thinking in this respect. A meeting of the representatives of ten French banks was held at Paris shortly after the arrival of the first "convoy"

(my

-2- #82, July 16, 10 p.m. from (Paris) La Bourboule

(my telegram no. 59. July 12, 10, p.m.) under the leadership of Ardant of the Societe Generale and Escara of the Credit Lyonnais following conversations with German officials. Ardant stated that the Germans had declared their readiness to remove all possible difficulties and he therefore raised with them four problems a solution of which would be necessary to resumption of Paris banking operations on a scale sufficiently large to permit some return of economic activity. These points are (one) interpretation of the word "valeurs (?) ques" on "Wirtschaftlichwert" as it appears in Article 17 of the armistice agreement (you will recall that transfer of "wirtschaftlichwert" from occupied to Schafflichwert" from occupied to unoccupied territory ^{was} ~~forbidden thereunder~~; (two)- the question of the return of personnel to Paris and freedom of movement of bank officials from head offices at Paris to branches in occupied and unoccupied territory; (three) the question of means of transport not the least of which is the gasoline problem which is becoming daily more acute. Gasoline, except that in possession of the Germans, has become literally liquid gold: I have been informed of more than one case where a thousand francs was paid for two gallons;

(four)

-3- #82, July 16, 10 p.m. from (Paris) La Bourboule

(four)- the question of postal, telephone and telegraph communications. Ardant reported to the meeting that the Germans have requested to general management of the banks to return to Paris and he takes the view that such return is absolutely imperative "even if the occupied zone is a (?) to specify for those who go back". They advocated however that "certain documents and confidential accounts as well as certain of their banking services" on other unoccupied territory though all current accounts should be brought back immediately. The banks represented at the meeting thereupon decided to reopen in occupied territory and requested the suppression of the legal moratorium existing in Paris since June 25--a moratorium which I understand was requested by the Bank of France which had destroyed its bank notes and not by the other banks. END SECTION ONE.

MURPHY

WTC

JT

GRAY

(PARIS)
VICHY

Dated July 16, 1940

Rec'd 5:10 p.m., 17th

Secretary of State,
Washington.

82, July 16, 5 p.m.
Department's 44, tenth.

The situation in France today is so confused and so fluid with various governmental departments and agencies scattered throughout this area of France and resultant division of responsibilities that it is impossible at the present time to give more than the following tentative outline in this changing situation.

One. Bank deposits of American residents in unoccupied France and of American concerns with representatives in unoccupied France are subject to no unusual restrictions. As to means of transferring funds from the United States to unoccupied France you are probably better informed than the Embassy. For transfers of funds to the United States to cover commercial debts and other authorized transactions the Office des Changes is still functioning in unoccupied France and it is understood will grant the necessary applications. In fact government

-2- No. 82, July 16, 5 p.m., from Vichy

ment contracts placed in the United States are in some cases of which the Embassy has learned, being paid (BEGIN UNDERLINING) before (END UNDERLINING) the due date. An effort is being made by at least one American bank to obtain authority from the Bank of France to transfer dollar accounts of their nonresident clients from France to head office in New York, but it seems doubtful that this will be permitted. There are no restrictions on utilization of franc accounts in unoccupied France by nonresidents. Funds may be transferred from one to another in unoccupied France and even to Bordeaux and La Rochelle at present--though the latter two are uncertain. The National City Bank located at Lepuy, Haute-Loire, Morgan and Chatel Guyon, the Guaranty Trust at Vichy, and presumably the Chase Bank at Jurancon are continuing to conduct business on a small scale and to look after their clients' interests. (END SECTION ONE)

MURPHY

NPL

JT

GRAY

(PARIS)
VICHY

Dated July 16, 1940

Rec'd 3:11 p.m., 17th

Secretary of State,
Washington.

82, July 16, 5 p.m. (SECTION TWO)

The question of their return to Paris (the first two have left a small organization there to cash depositor's checks) is under consideration. The belief appears to prevail that gradually the distinction between unoccupied and occupied territory will become of less and less practical importance.

Two. As to real and personal property in unoccupied France, there are no restrictions other than that of military or government requisition similar to that to which French properties are subject. Requisitioned property is, in theory at least, subject to reimbursement: Requisition orders may be redeemed locally for payment one-third in cash and two-thirds in treasury bills due one year after the date of requisition. No cases of requisitioned American property have yet been brought to the Embassy's attention. In occupied France, the German authorities

-2- No. 82, July 16, 5 p.m. (SEC ONE)² from Vichy

authorities appear in general to have respected American property where the latter bore one of the notices of ownership furnished by the Embassy.

Three. With respect to merchandise on consignment and claims for merchandise delivered there appear to be no general restrictions on payment but either case will be decided presumably on the basis of circumstances involved. As indicated above, remittances of dollars owed in the United States continue to be permitted. Chief obstacles to payment are, of course, (a) the difficulty of locating the individual debtor or even the company concerned, with millions of the population completely out of touch with their normal relationships, and, (b) the difficulty for even the most solvent debtors to obtain funds for remittance in the present confusion and breakdown of normal means of communication.

MURPHY

NPL

JT

GRAY

(PARIS)
VICHY

Dated July 16, 1940

Rec'd 4:30 p.m., 17th

Secretary of State,
Washington.

82, July 16, 5 p.m. (SECTION THREE)

Four. With respect to inheritance and insurance payments in France there is no moratorium though the question of remittances to the United States therefrom is less clear. Exchange control regulations previously in existence continue to apply and it appears that the tendency will be towards an increased tightening rather than relaxation thereof.

Five. The moratorium on payment of debts, counter-foil deposits, et cetera, existing in Paris since June 25 is due to be lifted tomorrow.

Six. While access to safe deposit boxes in German-occupied territory has hitherto been forbidden it is now being permitted in the presence of some German officials and subject to the requirement that any foreign currency, foreign securities, or gold must be placed in the custody of the Bank of France or of the bank of deposit on the latter's behalf.

The

-2- No. 82, July 16, 5 p.m. (SEC THREE) from Vichy

The Embassy will endeavor to report fully and promptly pertinent developments as they occur.

(END OF MESSAGE)

MURPHY

NPL

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

reply refer to
840.51 Frozen Credits/271

July 16, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information four copies of despatch No. 559 of May 9, 1940 from the American Consulate General, Amsterdam, Netherlands, reporting on the delivery of a personal message from the Secretary of the Treasury to the President of the Netherlands Bank.

Enclosures:

4 copies, No. 559 of
May 9, 1940 from
Amsterdam.

TO THE SECRETARY
OF THE DEPARTMENT
OF STATE
WASHINGTON, D. C.

55 7 12 11 2 55

RECEIVED
JUL 16 1940

22

77
NO. 559

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN CONSULATE GENERAL,
Amsterdam, Netherlands.

May 9, 1946.

SUBJECT: Delivery of a personal message from the
Secretary of the United States Treasury
to the President of the Netherlands
Bank.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON.

SIR:

I have the honor to acknowledge the receipt of the Department's telegram no. 29 dated May 8, 6 p. M., which directed me to deliver a quoted personal message to Mr. Trip, President of the Netherlands Bank, from the Secretary of the Treasury regarding the release to the press in Washington of information relative to the appointment of the Netherlands Minister in Washington as this government's fiscal agent abroad.

Following the Department's directive in the case, I obtained an interview at 3 o'clock this afternoon with Mr. Trip, at which time I personally delivered to him the message in question incorporated in a letter of this date. Mr. Trip seemed to be most appreciative of the Secretary's concern and his

immediate...

-2-

immediate reaction was that a leakage of the development could only have occurred through their own Minister in Washington or the Legation. He explained that at first the Netherlands Bank had thought that the Federal Reserve Bank in New York had been responsible for giving the information to the press. However, he then showed me a copy of a telegram received today from the Federal Reserve Bank which categorically denied any such suggestion. Therefore, Mr. Trip said, as there were only three possible places in the United States from which the information could have been obtained at the time stated, the inference is decidedly that it must have been given out by the Netherlands Legation in Washington.

Mr. Trip said that he would like very much to transmit the information contained in the Treasury Secretary's message to the Netherlands Foreign Office as the latter had been somewhat disturbed by the incident, and I took the liberty to tell him that such action would seem to follow naturally.

I might add that in the course of our conversation Mr. Trip also said, although not in a critical sense in any way, that it was rather difficult nowadays for his Bank to judge as to the general attitude of the United States Government regarding its fiscal matters abroad. He had in mind the various laws and the policy of our government in general and referred to the manner in which they are connected with the international financial

transactions...

Regraded Unclassified

-3-

transactions and relations of the two countries. He hoped, however, that as time went on many of the confusing points would be cleared up.

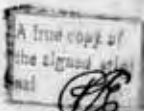
It was for this reason, I believe, that he especially appreciated the reassurance contained in the last sentence of the Treasury Secretary's message to the effect that in all of these matters the Treasury desires to cooperate most effectively with the authorities of the Netherlands.

Respectfully yours,

Frank G. Lee
American Consul General

File No. 102.1
FUL/rjc

In quintuplicate to Department.
Copy to the American Legation,
The Hague.



TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

SS 2 MR 21 JUL 1946

RECEIVED
TREASURY DEPARTMENT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: July 16, 1940, 9 a.m.

NO.: 2967

Reference is made to telegram of June 23, noon,
No. 2039 from the Embassy.

The following is for the Treasury from Heath, and also
for the Department's information:

Today I had a talk with Puhl. He said that the Reichsbank was proceeding with studies of economic and monetary problems in the hope and belief that after the war an economic structure may be established in Europe on lines more moderate and more free than has been the case during the past 10 years. The Reichsbank he said is cooperating toward reestablishing the Bank of France in Paris, looking toward its resuming its activities in full in the occupied part of France as well as the unoccupied part. He asserted that cordial relations existed between the representative of the Reichsbank on the Armistice Commission at Wiesbaden and the French financial representative.

Puhl remarked that in view of the military occupation, the Reichsbank would have to maintain an official in the Bank of France. The functions of this individual would be somewhat similar to those of the French representative who was formerly stationed at the Reichsbank in accordance with
the

- 2 -

the Dawes plan terms.

Puhl said that the Reichsbank's research division had undertaken studies looking forward to future international monetary arrangements. The tentative conclusion reached was that the present purchasing power parity of the Reichsmark in relation to the dollar was almost exactly the same as the prevailing rate before dollar devaluation - 4.20 marks. In purchasing power, on the other hand, the relation between sterling and German currency should be about one pound to 22 marks, whereas the parity before the depression was about one pound to 20.40 marks.

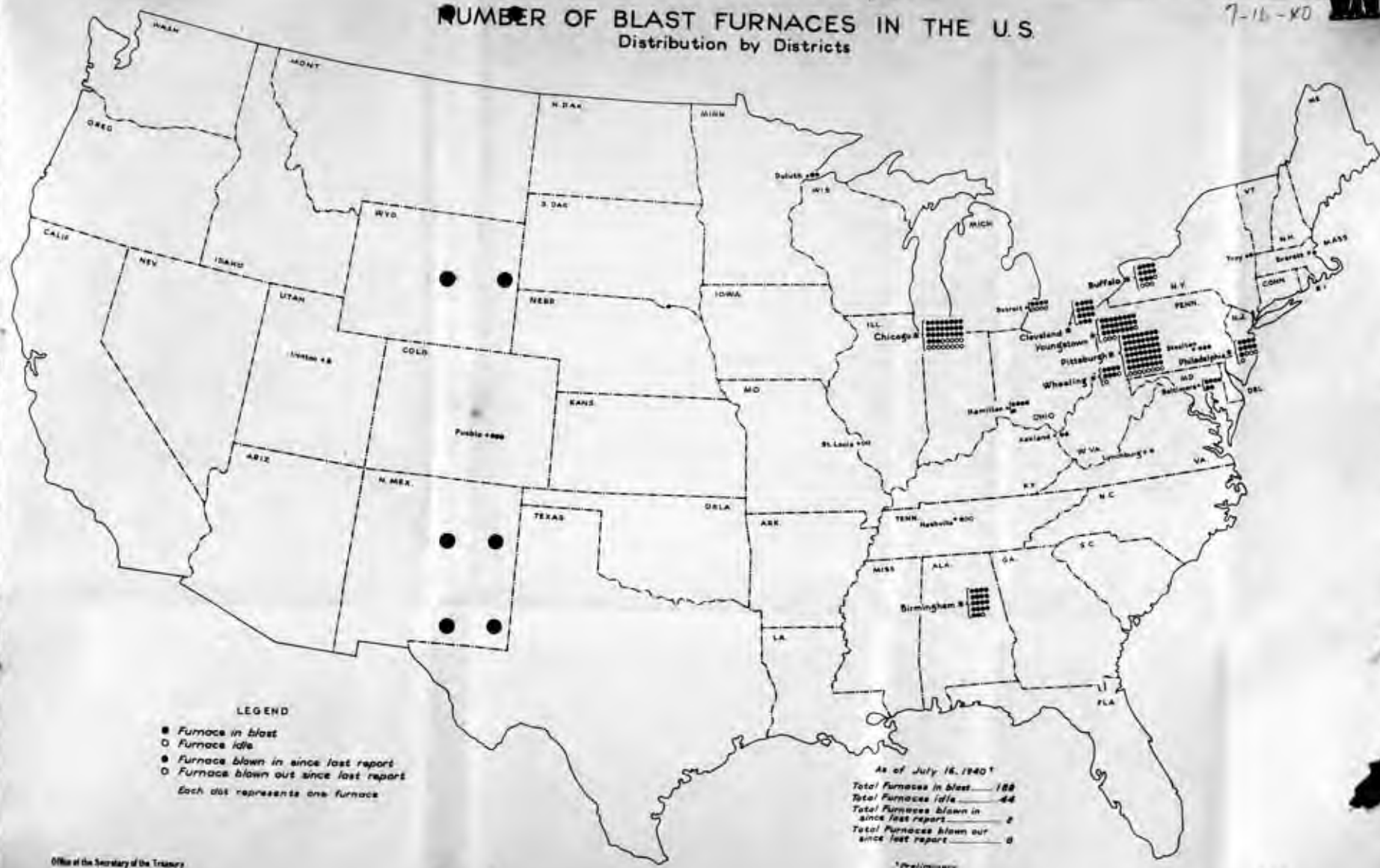
In the above regard, recently I had a talk with the chief of a research section in another branch of the Government, who said that he had just started studies as to the proper parity for the dollar and mark. He had not gone into the matter very far, but he was of the impression at that time that in regard to parity of purchasing power, the rate should be about one dollar to 3.5 marks.

END OF MESSAGE.

KIRK.

EA:LWW

NUMBER OF BLAST FURNACES IN THE U.S. Distribution by Districts



LEGEND

- Furnace in blast
 - Furnace idle
 - ◐ Furnace blown in since last report
 - ◑ Furnace blown out since last report
- Each dot represents one furnace

As of July 16, 1940*

Total Furnaces in blast	188
Total Furnaces idle	44
Total Furnaces blown in since last report	2
Total Furnaces blown out since last report	0

*Preliminary

GROUP MEETING

July 16, 1940
9:30 a.m.

Present: Mr. Haas
Mr. Thompson
Mr. Graves
Mr. Harris
Mr. Young
Mr. Sullivan
Mr. Schwarz
Mr. Cochran
Mr. Foley
Mr. Bell
Mr. White
Mr. Viner
Mrs Klotz
Mr. Stewart

H.M.Jr: Did you know that Mrs. Harris would be here for lunch today?

Harris: I know that.

H.M.Jr: Of course, everybody else in the room is invited. I am sorry I ran out of champagne.

Harris: I am a dry, anyhow.

H.M.Jr: It has taken me a long time to find it out.
Ed, are you boys staying at 10:00 o'clock to tell me what is what?

Sullivan: Yes.

Foley: We have a ship, the Examelia, in Newport News. She is American Export Lines. She has a cargo of coal and steel pipe and she wants to clear for Lisbon, Portugal. She is chartered by the Consolidation Coal Company. She wants to depart today.

H.M.Jr: What has she got on board?

Foley: Coal and steel pipe for Portugal.

H.M.Jr: Let her go. This ship holding committee seems to move around the room all the time. Are you it now?

- 2 -

Foley: Cairns gave me this and asked me to bring it up.

H.M.Jr: Okay.

Young: There is no reason why this ship in Philadelphia shouldn't get a license, the one with the peculiar captain.

H.M.Jr: Here is a letter to Smith. The President sent over a letter and asked us to prepare a reply on the first of July. Smith kept it two weeks and then he changed the letter. The way he changed it isn't acceptable. What is it all about?

Foley: It is one of those letters from the War Department that the President sent over here and asked us to prepare a reply for.

H.M.Jr: Is this Navy?

Klotz: Yes.

H.M.Jr: Phil, you can get a copy of this but don't copy it verbatim. Do it while you are in here. You say that ship with the unusual captain --

Young: With the unusual captain in Philadelphia, should she get clearance papers or should perhaps someone investigate him a little further.

H.M.Jr: What is the answer? Are you telling me or asking me?

Young: I am asking you what your ideas are.

H.M.Jr: Well, I told you how to handle it.

Young: Yes, I did that.

H.M.Jr: Well, haven't you heard?

Young: I haven't heard anything on it.

- 3 -

H.M.Jr: Well, tell them if we don't hear from them by this afternoon to let her go. Has that Philadelphia Swedish ship - is she waiting?

Foley: Yes.

H.M.Jr: Well, tell them if we don't hear by noon today to let her go.

Young: Do you know, Ed, whether she has formally applied yet? I don't think she has.

Foley: I don't think she has formally applied but it was expected she would make application today or tomorrow.

Harris: Mr. Secretary, I was telling Phil the fact that the captain stated he intends to go somewhere else from where he is clearing is violation in itself which is perfect grounds to hold the ship if you want.

H.M.Jr: But if the people who are chartering the ship are satisfied, why should I worry? If they don't worry, would you worry? They have been told.

Harris: It depends on how busy they are.

H.M.Jr: 7,000 tons of ingots. Somebody could give it five minutes.

Harris: I believe, though - I am not clear. Ed probably knows the law, but I should think they would have a perfect right to ask them to remove that captain.

Foley: It would have to be done by the local police.

Harris: You see, you can seize the ship if a fellow clears for one place and goes somewhere else. That is very bad.

H.M.Jr: Under Maritime law, who would do that?

Harris: Ed, I guess.

- 4 -

Cochran: Only an American Consulate could remove the captain of an American ship in a foreign port.

H.M.Jr: Is this a Swedish ship? Could a Swedish Consul remove him?

Young: She is owned by the Norwegian Government under charter to a British company. It is owned by Norway.

Foley: Well, if there was a riot on board or if there was a violation of our --

H.M.Jr: Look, Phil, this isn't the place to bring this thing up. I told you to tell the English about it and if the English can't handle it, it is just too darned bad. I can't hold it up. If they can't act on 24 hours notice, it is just too bad. I can't be holding their hand day and night. Somebody has got to be responsible. Talk to them before you actually let her go. Talk to me between now and 12:00, will you? If somebody over there can't act, it is just too bad.

Harris: There is just one further thought, if I might intrude, and that is if you have reason to suspect she is going to other than where she clears for, then you can exact a bond for the amount of value of the ship.

H.M.Jr: On a foreign flag?

Harris: On any flag.

H.M.Jr: Well, Phil, when you go out of here, call up Ballantyne and ask him what he knows, will you?

Young: Yes.

H.M.Jr: Merle?

Cochran: Irigoyen of the Argentine is going to phone this morning and wanted an appointment with you for Wednesday or Thursday.

- 5 -

H.M.Jr: Let Mr. Bell see him. I can't see all these people. I am just sunk with this man here.

Cochran: I don't think it is necessary.

H.M.Jr: It is just impossible.

Cochran: That is all I have.

H.M.Jr: Chick?

Schwarz: I have here a request for a statement from you endorsing the 1940 community mobilization for human needs, which I think is the only outside effort to have - this is from Charles Francis Adams, the former Secretary of the Navy.

H.M.Jr: This is Community Chest?

Schwarz: Yes. I will prepare something and send it up to you.

H.M.Jr: Phil?

Young: I have talked to Morris Wilson since I saw you at 9:00 o'clock and I have two letters prepared. He said, of course you can have anything you want of those plans but he would like to have you call Mr. Purvis on the telephone before you actually release them to get his ideas on the safety factor, as to how it should be handled.

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

Young: Yes.

H.M.Jr: You call up Purvis and tell him that I recommend they be turned over to Knudsen today and as soon as you have got it, let me know. I want to give Knudsen service on that this morning, please.

What else?

Young: That is all.

- 6 -

Haas: I have nothing.

H.M.Jr: Harry? Have you got that translation?

White: Yes.

H.M.Jr: Can I have it?

White: Do you want the original?

H.M.Jr: Which is the original? Give it to Mrs. Klotz. Did they have to work all night?

White: Some of them did.

H.M.Jr: How many people did it?

White: A couple of men and four girls.

H.M.Jr: A couple of men?

White: A couple of men and about three or four girls.

H.M.Jr: Will you thank them for me?

White: I will. It was extremely difficult. It was unusual. There were a lot of errors in the original.

H.M.Jr: Is it interesting?

White: Parts of it. Parts of it are not. It seems to be a lot of padding.

H.M.Jr: I will try to get to you today.

Graves: All right.

H.M.Jr: Dan?

Bell: Under this National Defense Program, the War Department will probably be calling out a number of people in the Government service who are Reserve Officers and they wanted some indication as to policy.

- 7 -

H.M.Jr: Who does?

Bell: War Department. I told them I thought we would like to cooperate, certainly, on the 14-day training, but if it went over that that we might want to consider each individual case, as to whether or not we could spare the man beyond the 14-day period.

H.M.Jr: Do they want them just 14 days?

Bell: Fourteen days is the usual training period for a Reserve Officer. Under this program they can take them in for months and I should say if they were going over 14 days, you might want to consider each individual case.

H.M.Jr: But you gave them a blanket okay on the 14 days?

Bell: Yes, I said on the 14 days they could take anybody who is a Reserve Officer. Do you want to talk today a little bit about Commodity Credit financing? You said to do it Thursday. I think the docket is a little bit crowded this week.

H.M.Jr: I say these foolish things, don't I?

Bell: I think we had better try to do it next Wednesday.

H.M.Jr: Okay. "Manana, manana," the day after tomorrow.

Bell: I think next Wednesday will be all right.

Thompson: We are moving the Comptroller of the Currency today.

H.M.Jr: Don't let McReynolds know about it.

Thompson: We have sent over to the Advisory Council about 50 Treasury employees, many of whom had already been dismissed. By these placements, we have been able to avoid dismissals

- 8 -

in our own reduction of force.

One of the men we sent over is Griesbauer.

H.M.Jr: Should that ring a bell?

Thompson: Yes. About three months ago I brought him in, a crippled boy, and you then gave him a five dollar promotion. He was in the Appointment Division.

On this retirement case of Samuel Cohn, here is a memorandum. He is an expert estate and gift tax man down in the Internal Revenue Bureau.

H.M.Jr: How did that ever go to the President?

Thompson: Mr. Helvering recommended it and it went to the Civil Service Commission.

H.M.Jr: Then just handle it your own way.

What else?

Thompson: That is all.

H.M.Jr: We will do it right now.

Dan, what I thought I would do with you gentlemen is that I would see Mr. Phillips alone for a few minutes the way I did last time and then phone you gentlemen to come in again. I will be ready for you at 10:00 o'clock.

Sullivan: All right, sir.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
July 8	5,000	18,537	34,000	22,979
9	Nil	Nil	1,000	1,072
10	50	2,860	2,000	2,145
11	Nil	Nil	48,000	30,586
12	50	2,860	39,000	31,137
13	<u>2,800</u>	<u>10,403</u>	<u>Nil</u>	<u>Nil</u>
	7,900	34,660	124,000	87,919
Sales from February 22 to July 6	<u>1,371,848½</u>	<u>48,050,353</u>	<u>2,295,000</u>	<u>2,064,660</u>
TOTAL FEBRUARY 22 TO JULY 13	1,379,748½	48,085,013	2,419,000	2,152,579

Mr. Gifford reported that sales of non-vested securities for the week ended July 6 totaled \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

After opening at 3.82-1/2, three cents lower than last night's close, sterling developed a firmer tone this morning. The noontime quotation was 3.84. During the afternoon, sterling touched 3.84-1/4 and closed at 3.84.

The reported turnover figures shown below reveal that orders to purchase sterling exceeded selling orders by £236,000. More than offsetting the preponderance of reported buying orders were sales of sterling by the New York agency of the Bank of China. We learned that this Bank sold about £320,000 in the open market today. Our informant stated that it made sales only on bids, withdrawing from the market whenever other banks appeared with offers. While we were unable to ascertain definitely what this sterling represented, it is believed that the Bank of China kept approximately half of its reserves in London and that these sales of sterling represent a transference of the reserves from London to New York. We also learned that the Bank of China, New York, disposed of £165,000 in yesterday's market.

Sales of spot sterling by the six reporting banks totaled £413,000, from the following sources:

By commercial concerns.....	£ 71,000
By foreign banks (Far East, Europe and South America).....	£342,000
Total.....	£413,000

Purchases of spot sterling amounted to £649,000, as indicated below:

By commercial concerns.....	£493,000
By foreign banks (South America, Europe and Far East).....	£156,000
Total.....	£649,000

The following reporting banks sold cotton bills totaling £15,000 to the British Control on the basis of the official rate of 4.03-1/2:

£11,000 by the Guaranty Trust Company
4,000 by the Irving Trust Company
<u>£15,000 Total</u>

Sterling in the amount of £9,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£ 8,000 by the Guaranty Trust Company (for rubber)
1,000 by the Bankers Trust Company (for whisky)
<u>£ 9,000 Total</u>

- 2 -

The other currencies closed as follows:

Swiss franc	.2271
Canadian dollar	13-1/4% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	10% discount
Mexican peso	.1990 bid, .2020 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following gold shipments were consigned to it:

\$4,230,000 from Canada, shipped by the Bank of Canada for its account, for sale to the U.S. Assay Office.
 3,439,000 from Colombia, shipped by the Central Bank of the Colombian Republic, to be earmarked for its account.
\$7,669,000 Total

The State Department forwarded cables to us stating that the following gold shipments would be made:

\$ 574,000 from Hong Kong, shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.
 313,000 from England, shipped by the Swiss Bank Corporation, London, to its New York agency.
 279,000 from Hong Kong, shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.
 35,000 from England, shipped by the Midland Bank, London, to the National Bank, New York.
\$1,201,000 Total

The shipments from Hong Kong will be sold to the U.S. Mint at San Francisco, and those coming from England are for sale to the U.S. Assay Office at New York.

The report of July 10 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of \$13,319,000, a decrease of \$1,030,000 in the short position. The net changes in the positions are as follows:

Country	Short Position July 3	Short Position July 10	Decrease in Short Position
England	\$ 2,276,000	\$ 1,434,000	\$ 842,000
Europe	7,484,000	7,590,000	106,000 (Increase)
Canada	39,000 (Long)	253,000 (Long)	214,000 (Increase in Long Position)
Latin America	243,000	326,000	83,000 (Increase)
Japan	3,502,000	3,192,000	310,000
Other Asia	862,000	1,056,000	193,000 (Increase)
All others	21,000	25,000 (Long)	46,000 (Increase in Long Position)
	<u>\$14,349,000</u>	<u>\$13,319,000</u>	<u>\$1,030,000</u>

CONFIDENTIAL

- 3 -

The Bombay gold price was equivalent to \$23.78, a gain of 3¢ over the quotation of July 13.

Spot silver in Bombay worked out to the equivalent of 44.16¢, up 7/16¢ from the July 13 price.

In London, spot silver was fixed at 23-3/16d, up 1/8d. The forward price was unchanged at 21-3/4d. The U.S. equivalents were 40.34¢ and 39.54¢ respectively.

Hendy 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 one purchase of silver amounting to 300,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

B. M. R.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*

For the week ended July 3, 1940, Work Projects Administration reports show that 1,611,000 persons were employed, a decrease of 55,000 from the 1,666,000 persons employed during the last week of June.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week Ending 1939-40	Number of Workers (In thousands)
December 6	2,075
December 13	2,123
December 20	2,144
December 27	2,152
January 3	2,160
January 10	2,190
January 17	2,222
January 24	2,244
January 31	2,266
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666

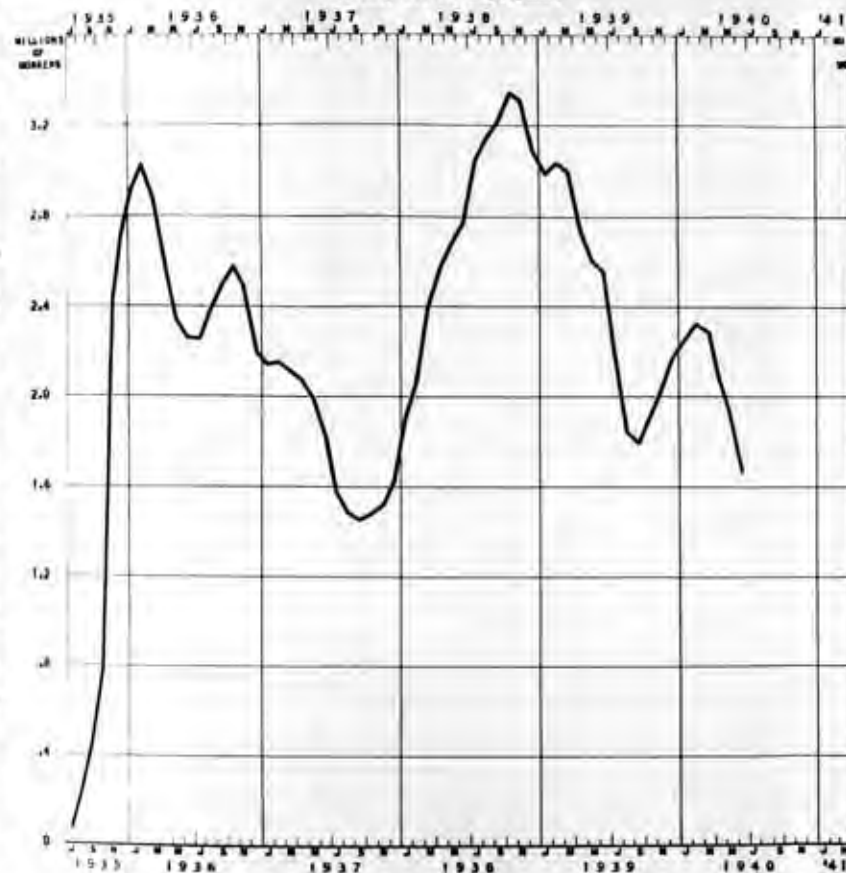
Source: Work Projects Administration.

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

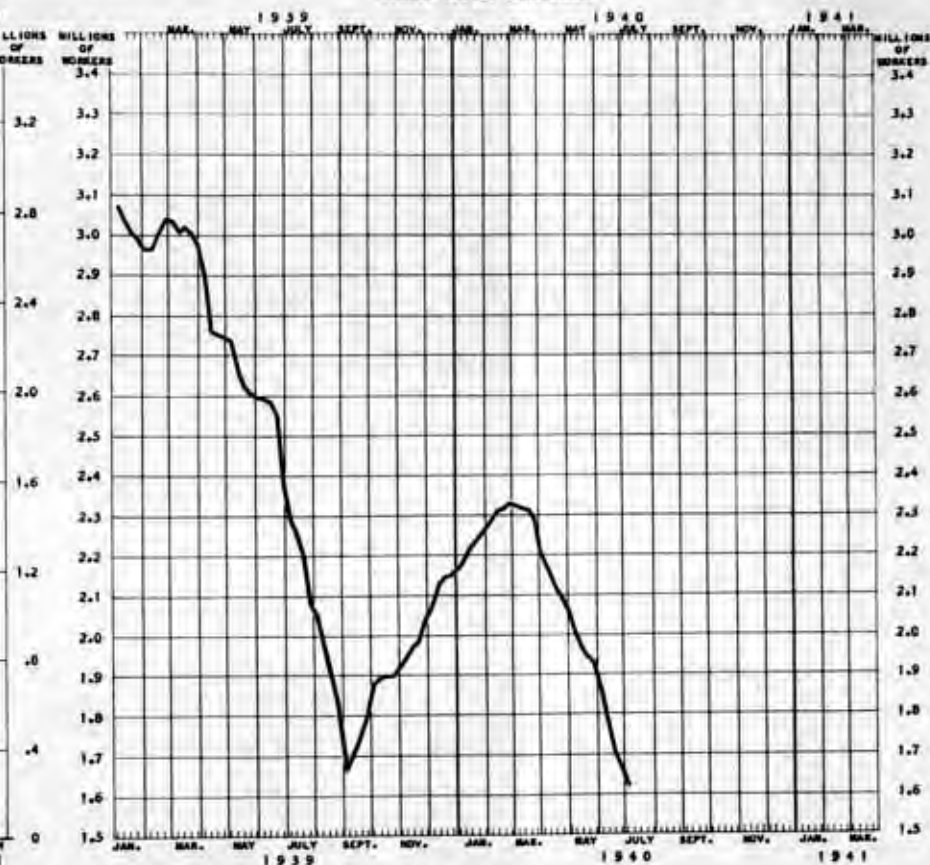
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

COPY OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm

NO.: 733

DATE: July 16, 1940

Von Bayer Swedish subject desires approval transfer his account John Melady Company, New York, \$432.46 remitted by Henriques, Copenhagen, to Bank Manhattan, New York. We recommend. Cable action.

STERLING

COPY:EA:EB

C A B L E

From: London
To: Federal Reserve Bank of New York
Date: July 16, 1940

#723/40

FOR KNOKE.

- PARAGRAPH ONE Referring to previous conversations and cables regarding arrangements now completed with New York Exchange Market Committee to deal in sterling at official rate of exchange
- PARAGRAPH TWO Regulations governing the opening of registered accounts in the names of banks in the United States and dependencies will be issued on July 17 and will come into force at the opening of business in New York on July 15
- PARAGRAPH THREE Balances of such accounts are convertible on demand into United States dollars at the official rate of 4.02-1/2
- PARAGRAPH FOUR In order to bring this arrangement into force would you be good enough to advise the New York market that you have received the following instructions from the Bank of England
- PARAGRAPH FIVE Until further notice please buy sterling at 4.02-1/2 and sell sterling at 4.03-1/2 without limit as to amount of the dollar proceeds of these transactions to be passed through His Majesty's Government Account & the sterling so dealt in must be passed through the registered accounts of United States banks.
- PARAGRAPH SIX We ask you to carry out these instructions on our behalf but without responsibility on your part

BOLTON
BANK OF ENGLAND

JT

PLAIN

SHANGHAI VIA N.R.

Dated July 16, 1940

Rec'd 8:55 p.m.

Secretary of State,
Washington.

648, July 16, 5 p.m.

FROM COMMERCIAL ATTACHE.

Special Financial. Shanghai open market foreign exchange rates erratic, interbank selling spot opening yesterday morning easier at five and seven eighths cents and three and twenty seven thirty seconds pence due to press reports of pending British acquiescence in Japanese demands for prohibition of freight transshipments to China through Burma, but rates firmed yesterday afternoon and this morning to a high of six and five sixteenth cents and three twenty nine thirty seconds pence due to press reports of British offers of mediation for Sino-Japanese peace. Currency Reserve Board Chungking has announced outstanding note issues of the four government banks as of end June in million yuan: Central Bank one six two three point four, Bank China eleven hundred point two, Bank Communications seven two seven point six, Farmers Bank five eleven, total three nine six two point two against announced cash

RESERVE

-2- #648, July 16, 5 p.m., from Shanghai

reserve of one nine one seven point five. Increase of eight eighty in note issues for half year or one four six per month is unprecedentedly large representing accelerated inflation as result financial strain of long continued hostilities. Comparison with yen bloc note issues of interest same totalling also in millions yen four nine six naught as of end June which includes official Japan and Manchurian figures, F.R.B. other Japanese sponsored North China issues and Hua Hsing notes but not military scrip circulated in China which believed to be over five hundred.

INFORM COMMERCE.

BUTRICK

NPL

Mr. Carlson
103

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 16, 1940

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

J. W. McLean

BANK OF ENGLAND 402

I telephoned Mr. Bolton at 11 noon today and told him that yesterday our banks had received new regulations, in connection with registered accounts, and other notices which our Foreign Exchange Committee had received from the London Committee. As these are very lengthy the banks have not yet had time to fully digest them.

Shortly before calling Mr. Bolton I had spoken with Mr. Lere and he suggested that I mention to Mr. Bolton that the banks here would like to follow the custom of the London market and deal 402-404, thereby giving the banks one-half cent on either side for their compensation. Bolton said it would be perfectly all right with him.

I asked Mr. Bolton if he expected to send us a cable in connection with the new official rates. Bolton replied that Mr. Knake had said some time ago that we would be glad to act as their agent, and he, Bolton, was sending us a cable this afternoon to the effect that we would deal for their account without any responsibility whatever on our part, and that we would be acting solely as their agent. I assured Mr. Bolton that we would be very happy to do this. I also asked Mr. Bolton if he planned to send us a daily cable to operate, and he said we would receive a daily cable from him.

Bolton then asked about the market, and I gave him a very detailed resume of the market yesterday and today. When I told him that the only offerings today were from the Far East, he said that after Thursday, sterling offerings from Shanghai would not be eligible for sale in this market.

Bolton wished me to express to Mr. Lere and the Committee his hearty thanks for their cooperation, which he said had been extraordinarily helpful.

I asked Bolton about conditions in general and ^{he} said he had been having a comparatively peaceful life. He seemed most optimistic and hopeful, ending with "We will get through."

AS

PLAIN

London

Dated July 16, 1940

Rec'd 1:45 p.m.

Secretary of State,
Washington.

2208, July 16.

FOR TREASURY FROM BUTTERWORTH.

Such has been the press criticism of the decision to discontinue publication of debt items in the Exchequer returns, excerpts from which were quoted in my 2094 of July 10, that in answer to a parliamentary question Sir Kingsley Wood stated today that he intends to make the full figures available at monthly intervals. In the course of his reply he said that it is his present intention to continue the separate weekly publication of receipts from national savings certificates, national war bonds and loans free of interest but that with regard to the floating debt, Treasury bonds, ways and means advances and other items, these are to a large extent interchangeable and "fluctuations from week to week are unimportant and likely to be misleading".

KENNEDY

WSB

Translation of memorandum in French handed by Mr. Pinsent of the British Embassy to Mr. Cochran at 10:30 A. M. July 16, 1940.

Banque Societe Generale, 29 Boulevard Haussmann, Paris.

The Devisenschutzkommando in France has assumed in that part of French territory occupied by the German troops the control of foreign exchange and each bank therein, its branches and agencies in Paris and in the department of the Seine must file its statement on June 14 as follows:

- (a) Foreign exchange with the exception of reichsmarks, Dutch crowns, Belgian francs, Danish and Norwegian crowns, sloty.
- (b) Gold, coin of all kinds, gold scraps and gold bars.
- (c) Securities, shares and bonds (foreign).
- (d) French securities specified in foreign currencies are not included with securities specified in foreign currencies.
- (e) Those in reichsmarks, Dutch crowns, Belgian francs, Danish and Norwegian crowns and in sloty, in foreign currencies in foreign banks and credit institutions.
- (f) Securities of trust in foreign currencies other than those mentioned in paragraph (a).
- (g) Precious stones and rough diamonds.
- (h) Bank notes in reichsmarks.

It is forbidden to dispose of the currencies mentioned in paragraph 1 until further orders.

The strong-boxes of all clients are closed and cannot be opened except in the presence of a representative of the Devisenschutzkommando in France. The date of the opening of the strong-boxes will be set by the latter after agreement with the bank concerned and the bank must

- 2 -

submit to the Devisenschutzkommando in France until July 5, 1940, a statement in triplicate of the currencies mentioned by name, (*) (July 5, 1940) a list in triplicate of all clients having a strong-box either at the head bank or (? words omitted: e.g. "at a branch. This list must") set forth (a) the name of the client (b) his address if the bank knows it and the date of the client's last visit to his box. Violations of this (? regularis) will be punished.

(Sgd.) HARTMANN.

*(In the text: "mentionées au nom")

July 16, 1940

Under Secretary Hall

Mr. Cushman

Mr. Vincent, Financial Counselor of the British Embassy, telephoned us this afternoon. He had observed a notice in the Maritime Commission's announcement of July 12, the last two items whereof dealt with the chartering of two vessels, the S. S. Halantia and the S. S. Windrush to Mr. Lauritzen of Copenhagen for trips to South America and return. Mr. Vincent hoped that we were watching such transactions, since his people naturally were not desirous of Danish concerns making profits through such operations.

(Init.) H. M. Ga

H.M.G. 7.16.40

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

Y DEPARTMENT

— CE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of Treasury bonds and notes show net increases for the first half of this month, 3 to 5 year notes making the largest gain for the period as a whole (Chart I). The new 2-1/4 percent bond was well received and went to a premium in excess of two points. It is now selling to yield somewhat less — i.e., is selling at a somewhat higher price — than might be expected from a comparison with outstanding issues (Chart II).
- (2) High-grade corporate and municipal bonds have improved on balance so far this month. Municipals have about recovered their losses since the invasion of the Low Countries (Chart III). New corporate financing experienced a sharp revival last week.
- (3) United States Government security holdings of weekly reporting member banks in New York City increased by \$635 millions in the first half of 1940, and are now substantially above the previous peak of June 1936. Only three among nine of the largest banks in New York City now hold a smaller volume of Governments than at that time. Six of these nine banks increased their holdings in the first half of this year, three of them by more than 25 percent each (Chart IV). Holdings of Government securities per dollar of deposits range from 52 cents for J. P. Morgan and Company to 21 cents for Irving Trust Company (Chart V).
- (4) Dollar bonds of Australia and Canada are slightly higher than they were at the end of June. German dollar bonds have declined almost continuously during the first half of July (Chart VI).

Secretary Morgenthau - 2

I. United States Government Securities

The prices of all classes of Treasury bonds and notes have increased on balance so far this month (Chart I). The volume of trading has been relatively light. The net price increase of 3 to 5 year notes since the end of June has been greater than that of other groups of Treasury securities. This is indicated in the following table, which shows net price changes, by maturity classes, from the end of June through the close yesterday, July 15:

	: Average price change
	: July 1 through 15
	(In thirty-seconds)
<u>Notes</u>	
1 to 3 years	+ 1
3 to 5 years	+ 8
<u>Bonds</u>	
5 to 15 years to call	+ 2
15 years and over to call	+ 4

The new 2-1/4 percent, 14 to 16 year bond, offered on Thursday, was well received by the market. Unofficial quotations on Thursday opened at 101-8/32 and moved up to 101-12/32 during the day. On Friday, the premium was in excess of two points. There was a slightly lower tendency in outstanding Treasury bonds occasioned in part by switches into the new issue. Chart II compares the yield, based on when-issued prices, of the new bond with the yields of outstanding Treasury issues. It will be seen that the new issue is somewhat out of line, selling on a lower yield basis -- i.e., at a higher price -- than might be expected from a comparison with outstanding issues with two-year call periods.

II. Other Domestic High-grade Securities

High-grade corporate securities have risen in price on net balance since the end of June. Our average yield of such bonds (moving inversely to prices) decreased from

Secretary Morgenthau - 3

2.87 percent on June 30 to 2.83 percent at the close yesterday, July 15.

Municipal securities have been improving somewhat more rapidly this month than have either long-term Treasury bonds or high-grade corporates. A decrease of nine basis points in the Dow-Jones average yield of twenty 20-year bonds for the two weeks ended last Saturday (Chart III) compares with decreases of one and three basis points, respectively, in the average yields of Treasuries and corporates during the same period. Municipals have now recovered almost to the level of May 4, the Saturday before the invasion of the Low Countries.

Encouraged presumably by the absence in recent weeks of large movements in the market prices of high-grade bonds, the market for new security issues staged a sharp revival last week, especially in the corporate field. New corporate bond offerings in New York last week amounted to about \$110 millions, comprising four issues. The largest issue consisted of \$60 millions of 3 percent debentures of The Texas Corporation, due in 1965, which were priced at 103 to yield about 2.83 percent. All four issues were well received. New municipals offered in the New York market last week amounted to about \$4 millions.

III. Assets of New York City Banks

The United States Government security holdings of weekly reporting member banks in New York City increased by \$635 millions in the first half of 1940. Early last November they passed the previous peak established in June 1936, and at the end of last month had attained a new high of \$5,238 millions.

Chart IV shows the Government security holdings of nine large banks in New York City and of all weekly reporting member banks in New York City on June 30, 1936, the date of the previous high of such holdings of weekly reporting member banks in New York City; on September 30, 1937, the date of the subsequent low; and on the three most recent quarterly report dates. J. P. Morgan and Company, it should be noted, is not a weekly reporting bank.

It will be seen that only three of the nine banks hold a smaller volume of Governments now than they did in June 1936, but that the holdings of two others are only slightly

Secretary Morgenthau - 4

greater now than at that time. The remaining four -- National City, First National, Guaranty Trust, and notably Chase National -- show fairly substantial increases.

Three of the nine banks have shared in marked degree, in proportion to the size of their holdings last December, in the growth during the past six months. Only one, J. P. Morgan and Company, shows any large decrease in Governments for the first half of this year. Despite this decline, J. P. Morgan and Company still has the largest volume (52 cents) of Governments per dollar of deposits of any of the nine banks shown in the chart, and their holdings of United States securities are twelve times as great as their loans.

The net changes for the first half of 1940 in the Government security holdings of the several banks and of all weekly reporting member banks in New York City are shown (arranged in order of percentage increase) in the following table:

	: Change December 31, 1939 - : June 30, 1940 : Millions of: Percent : dollars :	
Guaranty Trust	+ 229	+ 31.4
First National	+ 90	+ 31.1
Chase National	+ 219	+ 26.7
All New York City Reporting Banks	+ 635	+ 13.8
Central Hanover	+ 36	+ 10.9
Bankers Trust	+ 46	+ 9.2
Manufacturers Trust	+ 24	+ 8.6
National City	- 8	- 1.1
Irving Trust	- 10	- 5.8
J. P. Morgan and Company	- 76	- 18.3

It is also interesting to compare the distribution of the various types of assets of each of the banks with the distribution for all weekly reporting banks in New York City. The basic facts are presented in Chart V, which shows, for each bank and for the weekly reporting group, selected assets expressed in cents per dollar of deposits.

Secretary Morgenthau - 5

Cash per dollar of deposits ranged from 32 cents in the case of Manufacturers Trust Company to 65 cents for Irving Trust Company. Only two of the nine banks, however, have more than 50 cents in cash per dollar of deposits.

As was noted previously, J. P. Morgan and Company leads in holdings of Governments per dollar of deposits with 52 cents. First National Bank follows closely with 51 cents in Governments for each deposit dollar, while at the opposite end of the scale is Irving Trust with 21 cents.

Loans continue to provide small use for deposit dollars, ranging from 4 cents in the case of J. P. Morgan and Company to 26 cents in the case of Manufacturers Trust. All weekly reporting members in New York City hold 19 cents of loans per dollar of deposits.

IV. Foreign Government Securities

Australian and Canadian dollar bonds are now slightly higher in price than they were at the end of June, although both groups have receded moderately from the levels of last week (Chart VI). Italian dollar bonds, after recovering somewhat last week from the declines occasioned by the default on July 1 of interest on the bonds of the Italian Public Utility Credit Institute, fell nearly four points yesterday. The course of German dollar bonds since the end of June has been almost continuously downward.

British Government internal securities rose slightly in the first week of July, but remained fairly stable last week. The 2-1/2 percent consols closed yesterday at 72-1/4 to yield 3.48 percent.

Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from June 5, 1939 Price of Each Maturity Class.

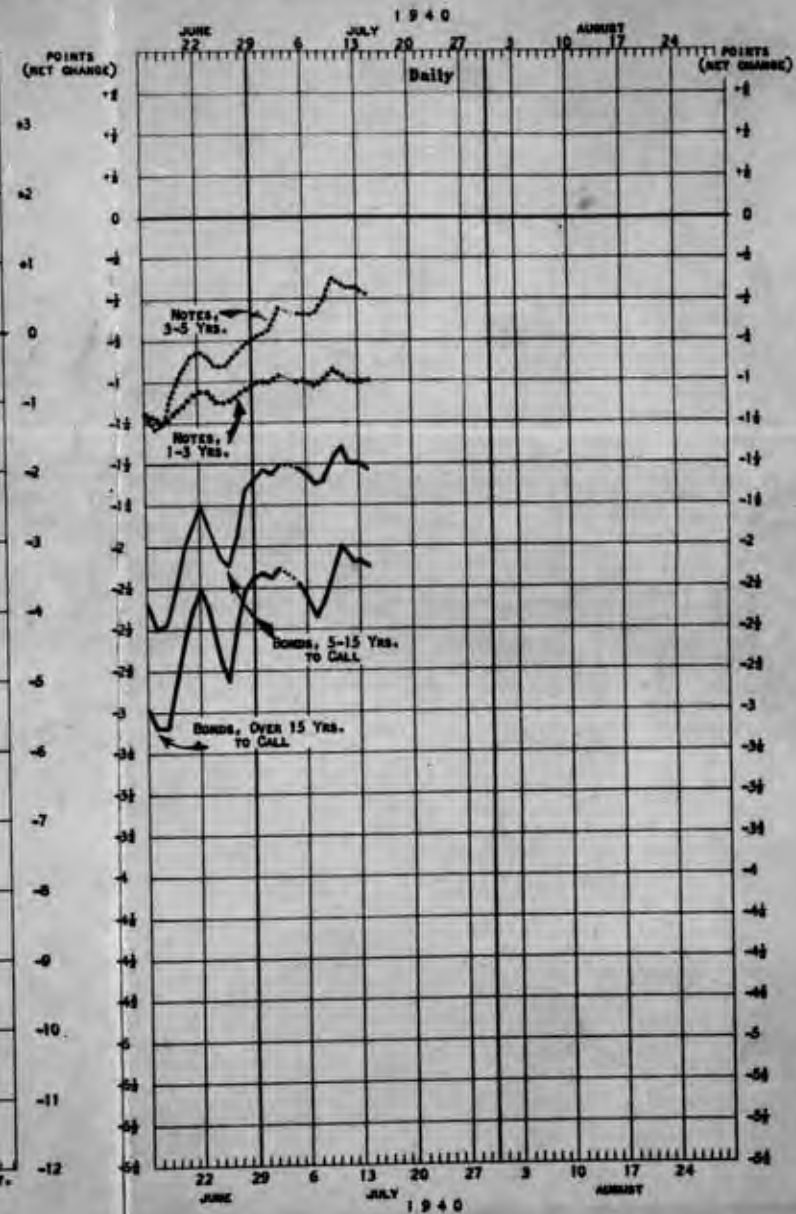
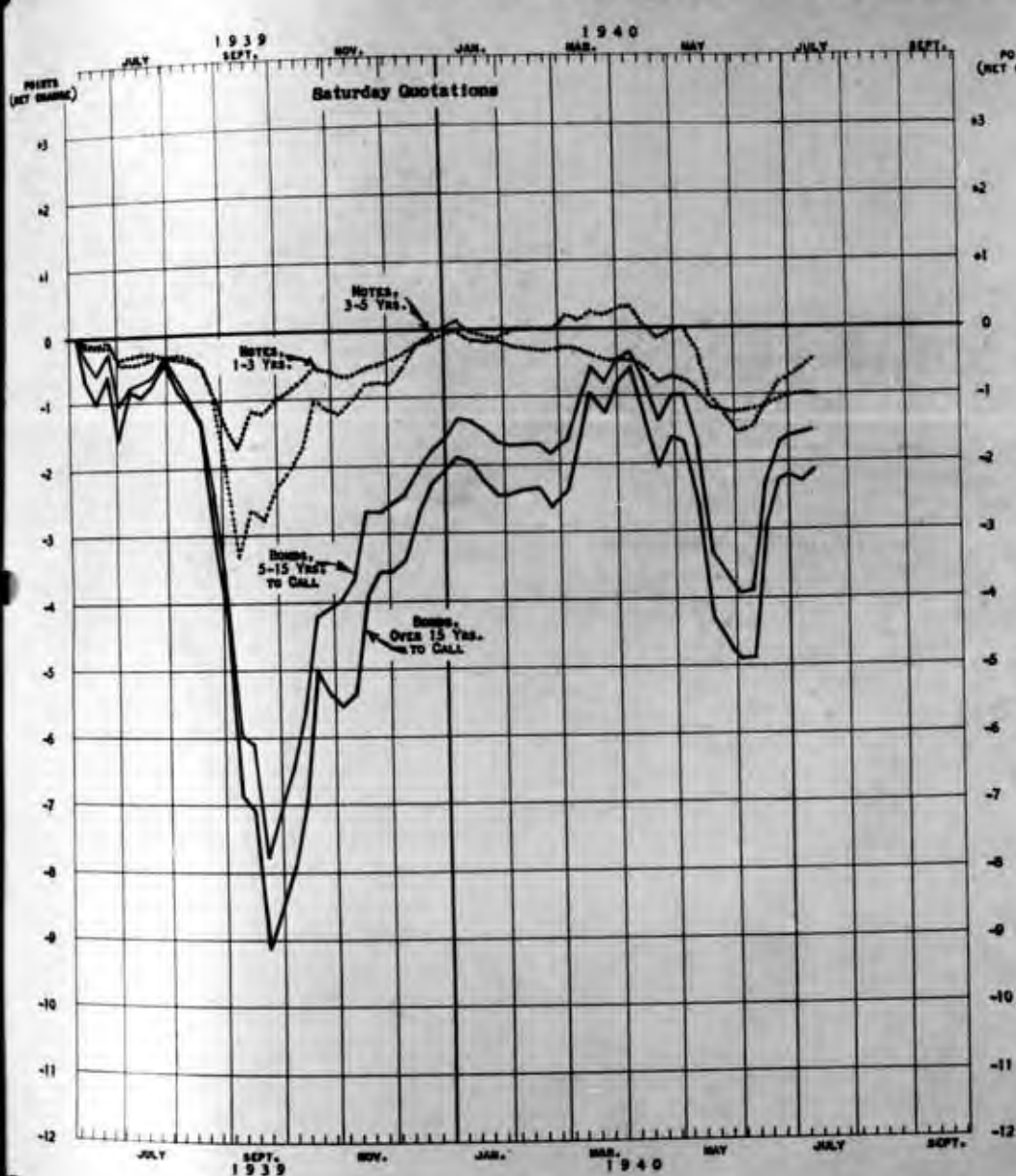
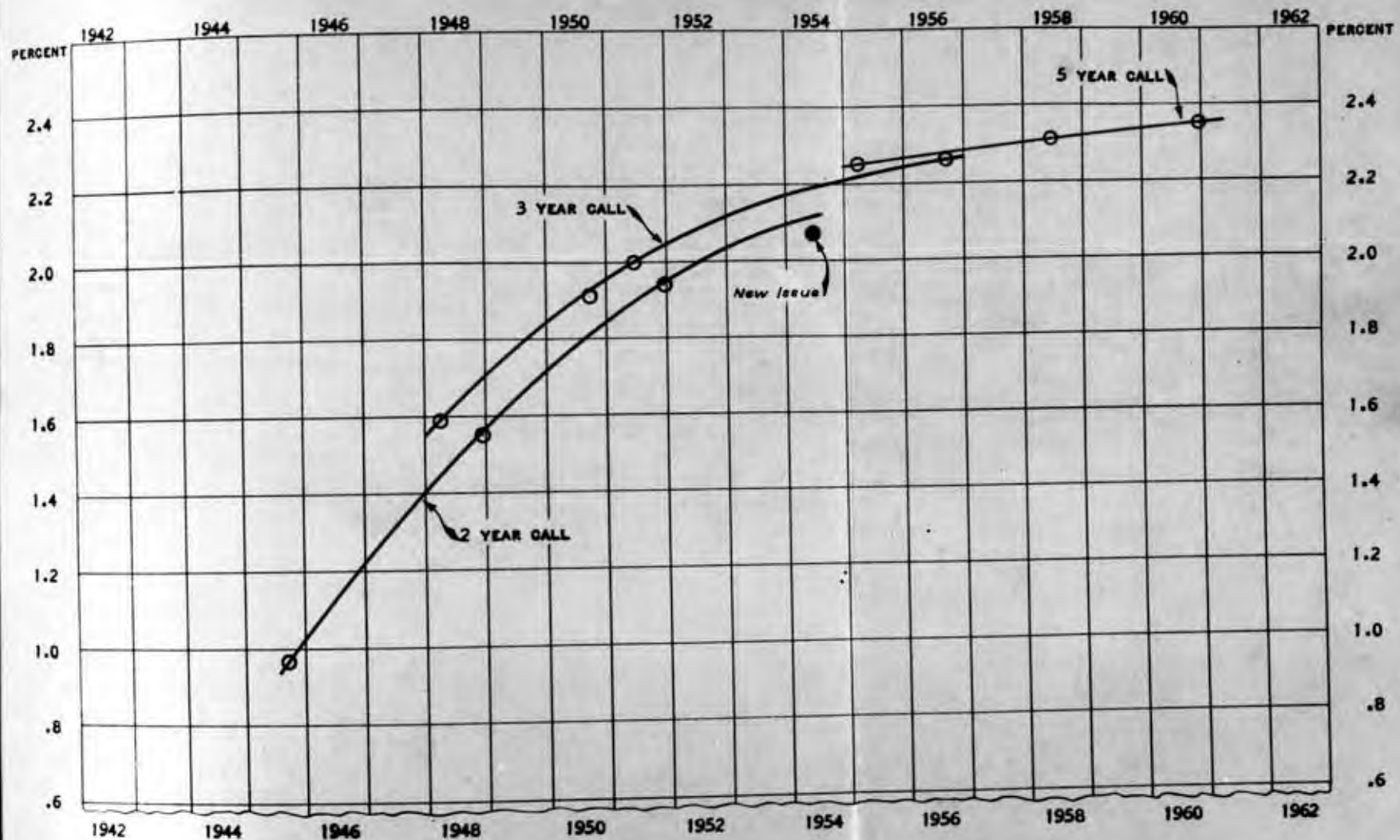


Chart II
**YIELDS OF TREASURY BONDS WITH 2 YEAR, 3 YEAR AND
 5 YEAR CALL PERIODS***

Based on Closing Bids, July 15, 1940

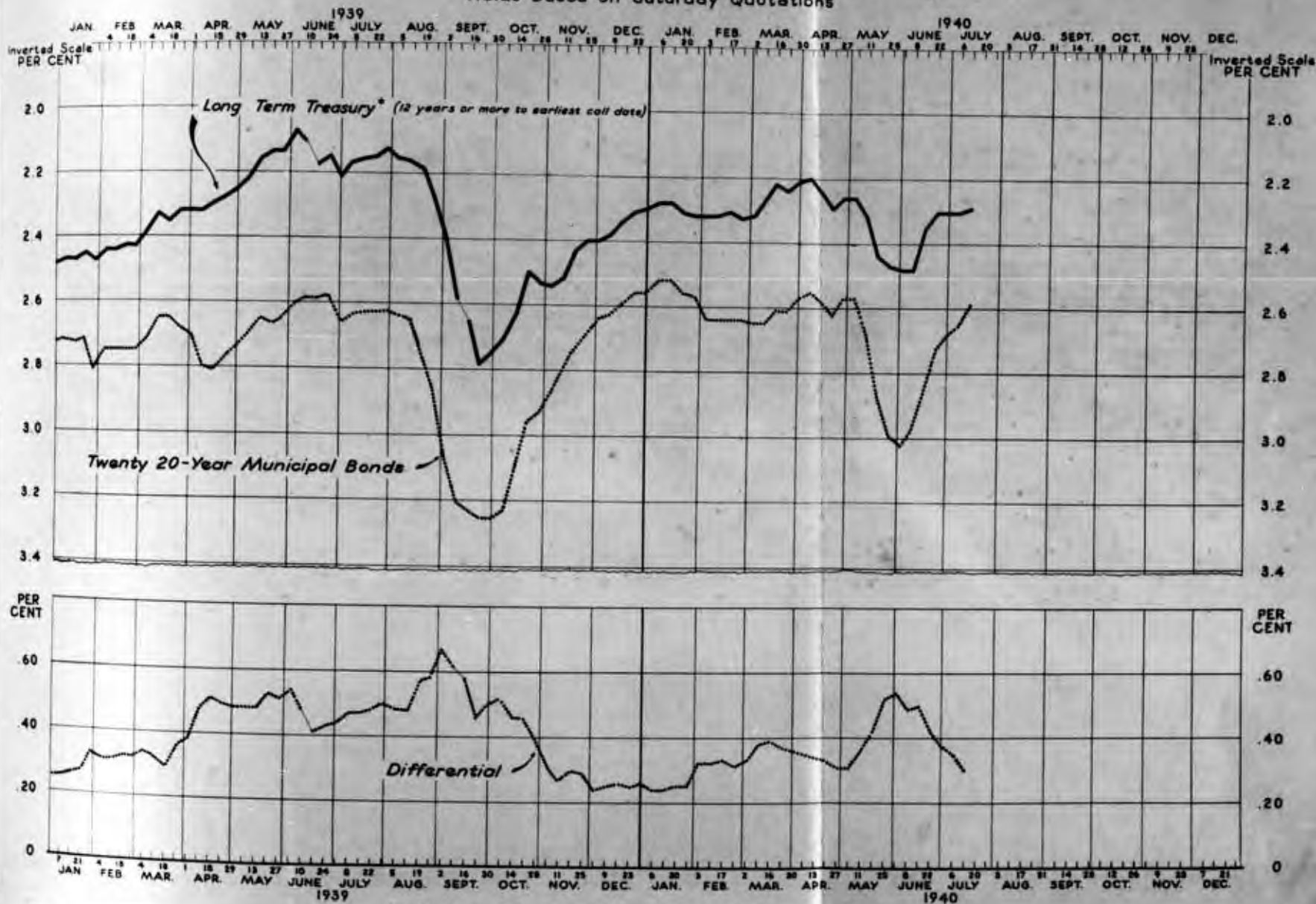


* EXCLUDING ISSUES WITH 3% OR HIGHER COUPONS

Chart III

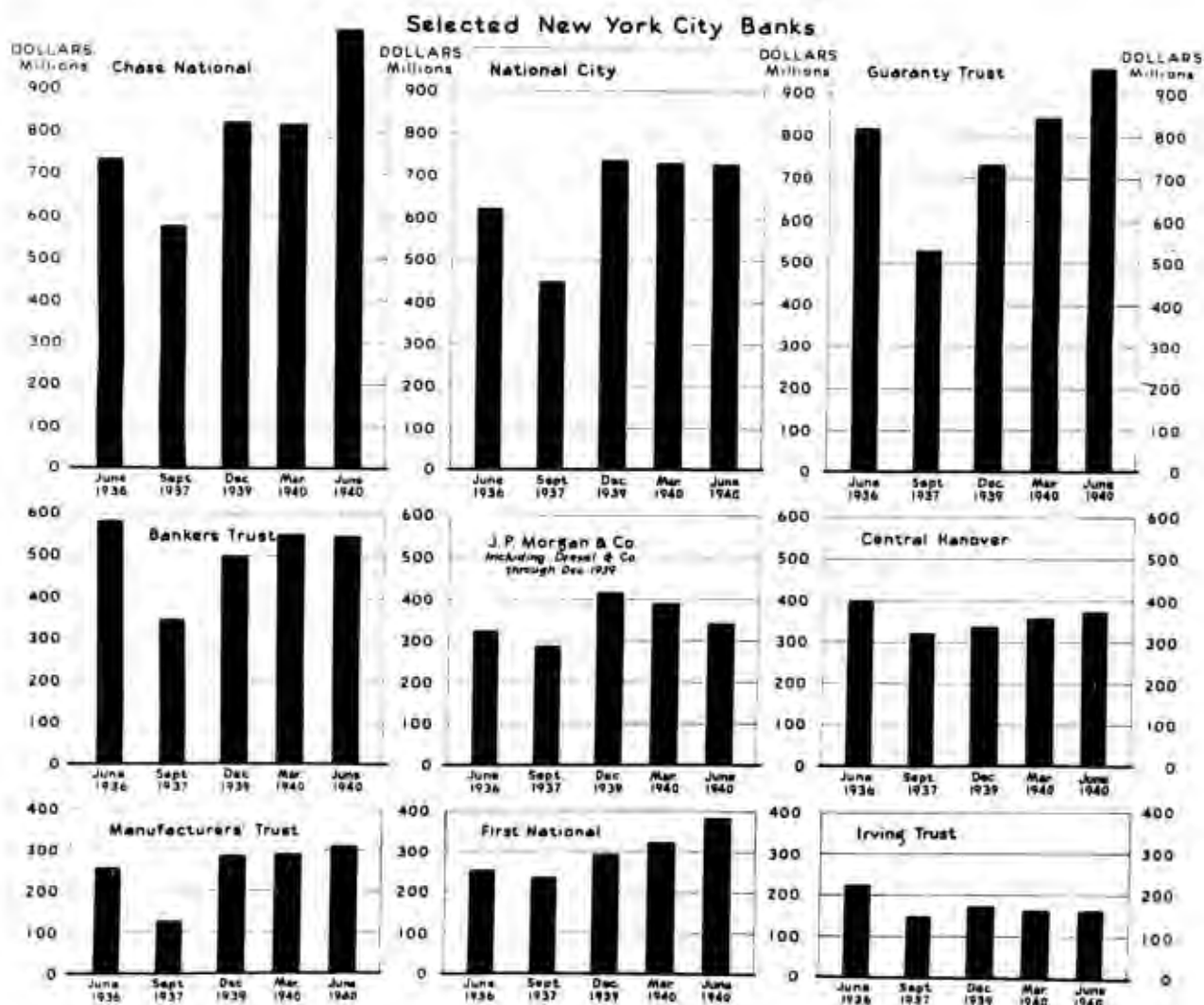
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



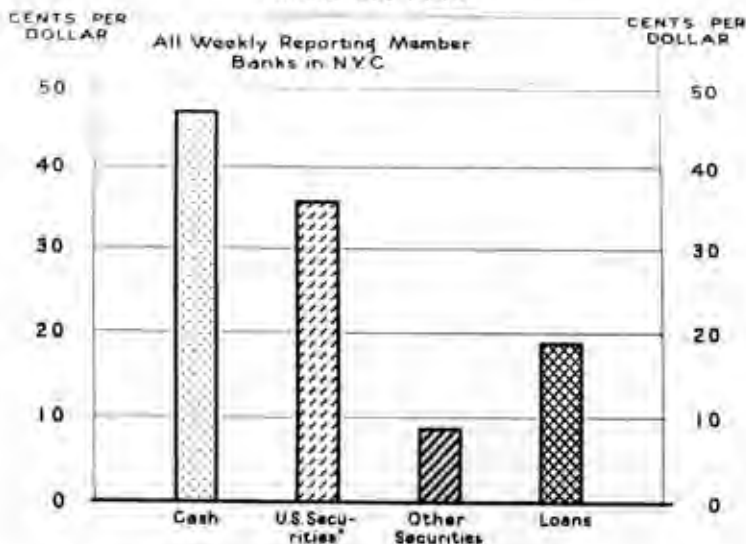
*Break in line indicates change in composition of Long Term Treasury average.

NEW YORK CITY BANK HOLDINGS OF U.S. SECURITIES Including Guaranteed Obligations

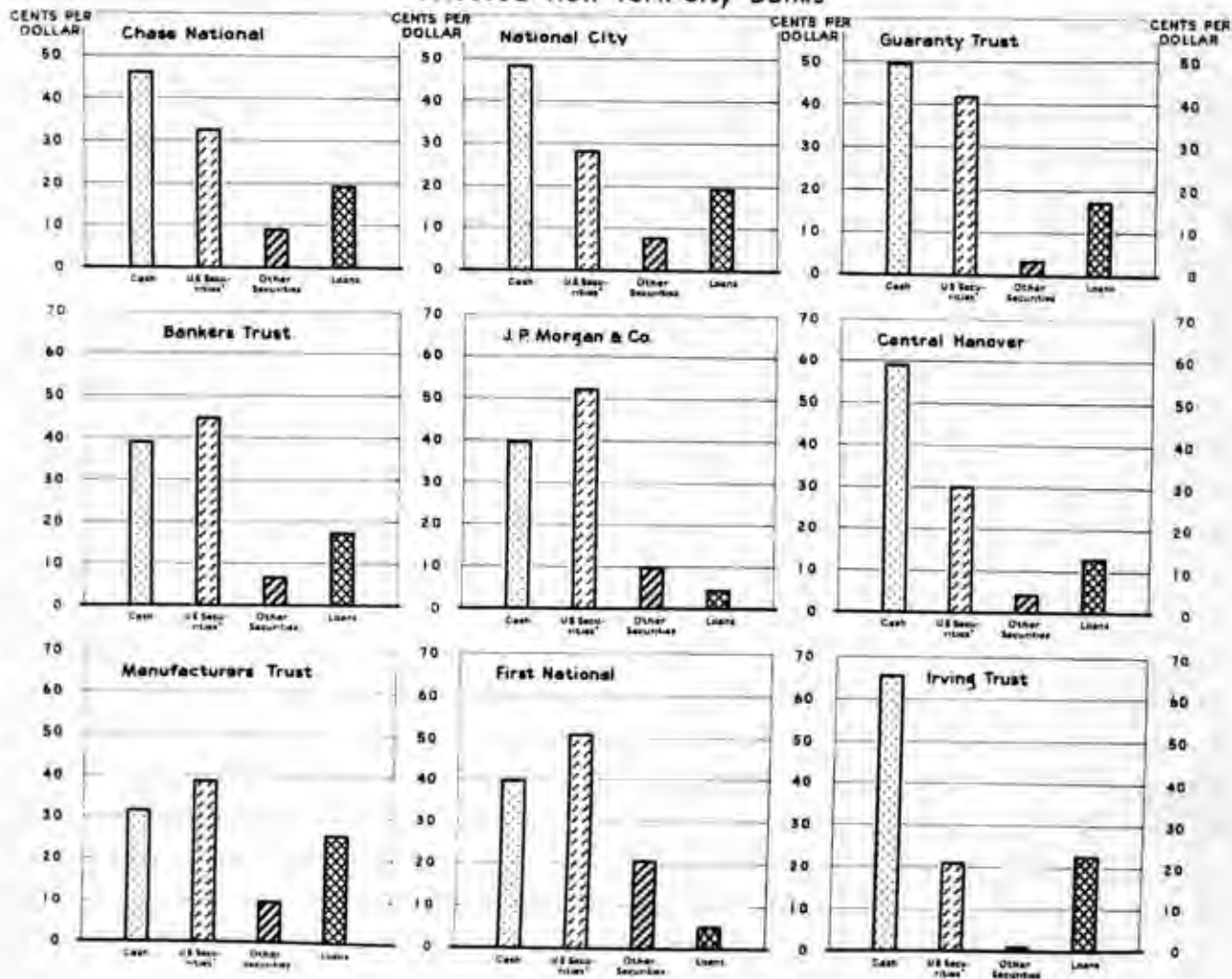


Note: Figures are for end of month indicated

PRINCIPAL ASSETS OF NEW YORK CITY BANKS Expressed in Cents Per Dollar of Deposits JUNE 30, 1940



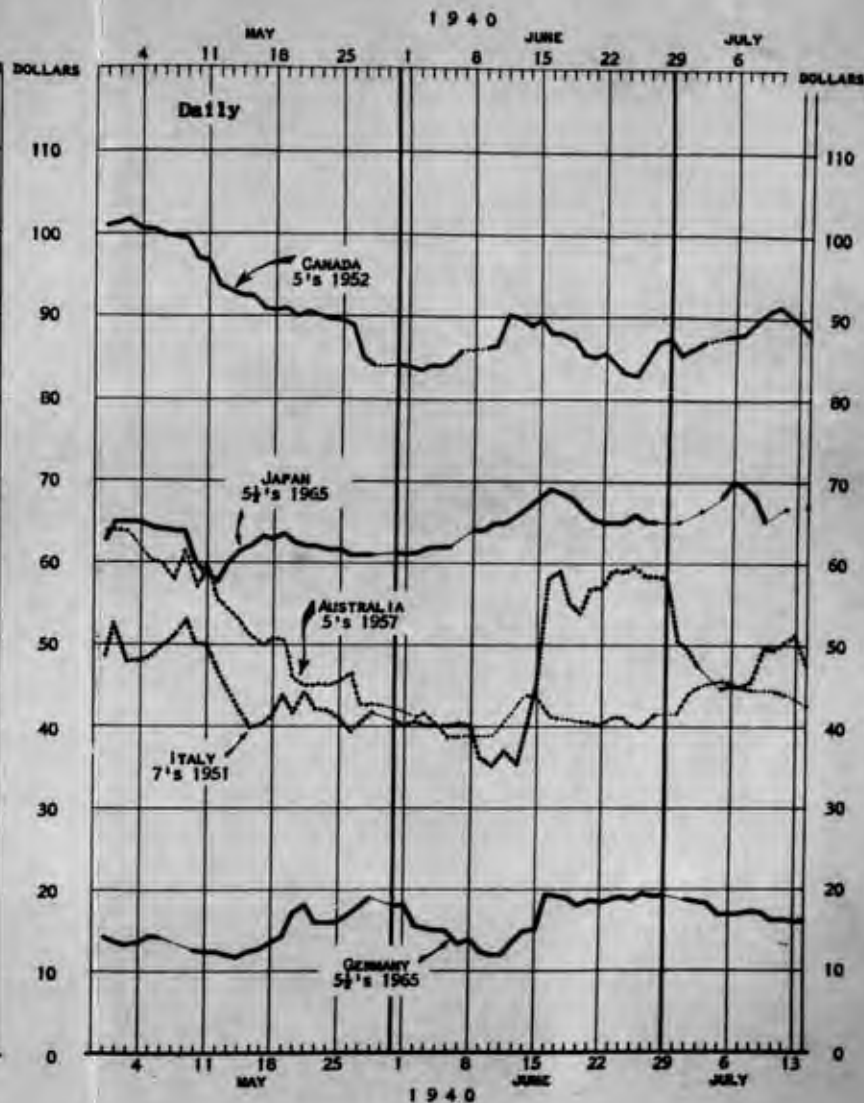
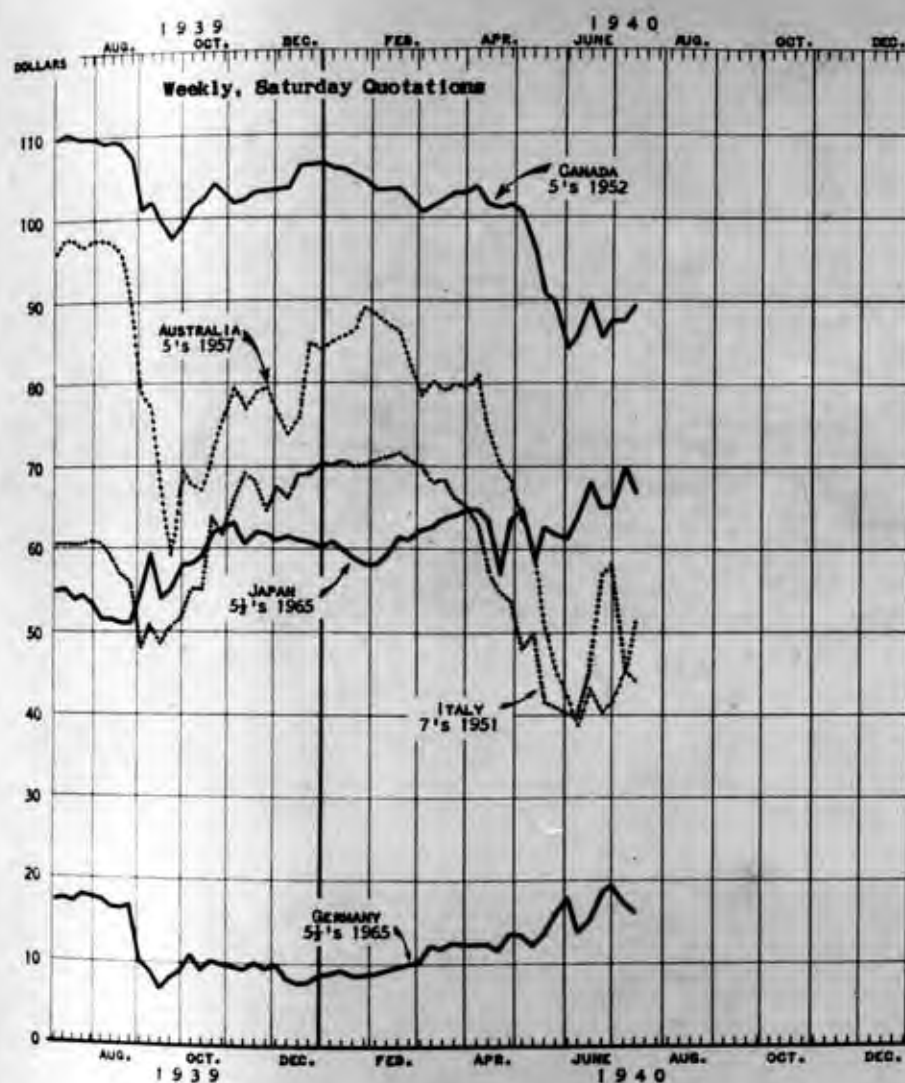
Selected New York City Banks



* Including Guaranteed

Chart VI

PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



SECRET

July 16, 1940 119

Conjectural balance of payments between United Kingdom and U.S.A.

July 1940 - June 1941.

£ million.

Admiralty ¹	11	U.K. exports	40
Purchase of merchant ships	2	U.K. invisible exports	5
Air Ministry ²	179		
Munitions ³	85	Adverse balance of payments	428
Iron and Steel ⁴	100		
Other Materials ⁵	33		
Petroleum ⁶	17		
Food and Tobacco ⁷	21		
Manufactures ⁸	25		
	—		—
	473		473
	—		—

1. Existing orders 4, new orders 7. No allowance for any purchase of completed warships.
2. Aircraft, British programme 62½; aircraft French programme 100; machine tools, materials, etc. 16¼.
3. Machine-tools 12, production sanctioned by end June 1940, 25, new proposals of June 30th, 38, Anglo-French purchase of goods 10. Nothing known about any other French contracts.
4. Steel 74, alloy steel 12, pig-iron 5, scrap 7, ferro-alloys 2.
5. Timber 9, paper pulp etc. 11, sulphur and phosphate rock 2, non-ferrous metals 3, cotton 3, miscellaneous 5.
6. Excludes 8 for dollar oil from Aruba (N.W.I.)
7. Cereals 4, starch 2½, lard and dairy produce 4, canned fish 2½, tobacco 6, other 2.
8. Includes machinery 10.

Conjectural balance of payments between sterling area
and U.S.A.

Net adverse balance of U.K.	428	Exports (Rest of sterling area):	
		new gold	20
Imports (rest of sterling area)	65	rubber	45
		other	65
Net invisible imports	5	Adverse balance (U.K. and sterling area)	368
	498		498

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Shortly after 11 o'clock this morning the Secretary received Sir Frederick Phillips and a conference followed in which participated: Messrs. Bell, Bewley, Pinsent, Stewart, Viner, White and Cochran.

Sir Frederick Phillips presented to the Secretary the attached secret statement. He explained that these figures were estimates. It was, moreover, difficult to break them down because of certain factors which are unknown. As an example, he cited the figure of £179,000,000 for the Air Ministry expenditures, which total does not take into consideration what part of the French program of purchases the British will have to pay, and, secondly, there is nothing included therein for the purchase of the Merlin engines which will be manufactured in this country under the arrangement with Rolls Royce.

As to the item on munitions, Phillips suggested that we talk further with Mr. Purvis. In discussing the allotment for iron and steel, Phillips explained that the British naturally would have preferred to purchase scrap iron and do the manufacturing themselves. Because of the urgency of obtaining finished products, however, and considering the possibility of increasing difficulties in landing supplies in British ports, they are going in for the purchase of more highly manufactured articles.

Phillips placed at £428,000,000 or \$1,700,000,000 the prospective adverse balance of payments between the United Kingdom and the United States for the fiscal year July 1940 - June 1941. The adverse balance of payments between the sterling area and the United States for the same period is estimated at 368,000,000 sterling or \$1,500,000,000.

Sir Frederick stated, in answer to the Secretary's question, that considering sterling area payments to South America and Canada, the adverse balance would approach £400,000,000 or \$1,600,000,000 for the period under reference.

Granted that the attached schedule shows the program of purchases, the Secretary asked Phillips whether he would be inclined to explain how the British would pay for this program involving the adverse balance cited. Phillips replied that they would pay in gold and through liquidating securities. He stated that if the liquidation of securities proves impossible, the British would have to ask us to help out some way. By June 1941 Phillips estimated that the British Exchange Fund would be down to a point where the British could not carry on without a substantial credit. By that date Phillips figures that his assets will be down 400,000,000 sterling from the present estimate.

The Secretary told Sir Frederick that he hoped to be able to present him at the White House on Wednesday between 11 and 1 o'clock. He will give him a call at the Embassy tomorrow morning in time to come down for such an appointment, to be followed by a luncheon at the Treasury at 1 o'clock where Mr. Purvis also will be a guest.

Following the luncheon the group which has met today will convene for further discussions.

With the view to meeting our own requirements, and also to satisfy the questions which the Secretary is confident the President will ask, it was suggested to Sir Frederick that Mr. Bealey come to the Treasury this afternoon and work with Dr. White toward getting down such figures as the British can provide in a form to which we are accustomed, and which will give us a complete picture. The idea will be to incorporate in this table figures on the asset side, comparable to the proposed out-payment for the 1940-1941 fiscal year.

In describing to Sir Frederick what the Treasury wants, the Secretary said it was a British balance sheet with the whole world. Expanding on this topic it developed that the most helpful procedure would be for the British to estimate a balance sheet for the whole sterling area, in which Canada could either be included, or to which Canadian figures could be added. The Secretary wants to know when the point will be reached, at which, if securities are unavailable, something else will have to be done. The Secretary was sure the President would want to know how much gold is available, how many securities, and how much British investments abroad, such as public utilities in Argentina.

Sir Frederick said that gold and American dollar security totals were pretty accurately known, except for the errors resulting from what he believed would be only a limited number of errors of the British law requiring a census of dollar securities. As to fixed investments abroad, such as public utilities in Argentina, Sir Frederick wanted to know who would buy them. He pointed out that while debentures could usually be counted on as being salable, the national or local authorities in the country of investment can through their own laws control or greatly affect ordinary shares. He said that the two alternatives for investments in Argentina, for instance, would be for Argentina to take them over, or for the United States, the only outside possible purchaser, to step in.

In stressing the point that we should like to know what the assets of the British are that could be sold or against which they could borrow, by July 1941, the Secretary stressed that he wanted to be helpful and that his questions were not inspired by curiosity. It may be up to the United States to decide what we can do, but we must know what the British have on both sides of the ledger. This involves putting all cards on the table. Estimating that the British assets will decline between \$400,000,000 and \$410,000,000 pounds, the Secretary asked what would be the position with respect to liabilities on contracts outstanding as of July 1, 1941. Phillips and Bealey roughly estimated this between \$300,000,000 and \$400,000,000. The Secretary made the point that he had some responsibility in answering inquiries of American manufacturers involved in British contracts as to the availability of foreign exchange to pay therefor.

Mr. Bell described the system followed during the last war whereby the British kept this Treasury informed as to commitments. This was, however, at a period when the United States Treasury was extending credits to Great Britain.

- 3 -

In checking over the attached sheet, the question arose as to why the British cotton purchases here would be only around \$12,000,000. The answer was that Great Britain has great cotton stocks on hand and is getting important quantities through barter arrangements.

One of the points which the sub-committee of Dr. White and Mr. Bewley was asked to work on was that of explaining the discrepancy between British and American estimates of British owned dollar securities. Sir Frederick thought that the latest estimate was around £150,000,000 to £175,000,000 sterling. It was explained that this calculation was difficult because of shifting market values.

Dr. Stewart made the suggestion that the table showing assets reveal gross instead of net figures, particularly with respect to receipts of gold from South Africa and the balancing offsets.

The Secretary stressed the desirability of the British dominions pooling their purchases in the United States with the Anglo Purchasing Mission. This makes it simpler for this Government to handle, and should also guarantee better contracts for the buyers.

In speaking of British investments in Latin America, Phillips stated that the best British authority on the subject came over with him and is now at Ottawa. This is Sir Otto Niemeyer. The Secretary stated that he did not know Sir Otto but would be pleased to receive him here if he desires to call. He left to Phillips the question as to whether Niemeyer should be invited down here or whether Phillips should request a report from him on the subject under reference.



- 4 -

After the visitors departed the Secretary read from a penciled memorandum which Phillips had given him and which purported to contain data not even known to high British officials. This estimated present British holdings of gold and securities at \$2,200,000,000. The rate of loss for the whole sterling area for the fiscal year 1940-1941 is estimated at \$1,600,000,000. Within six months the British will be short of gold and may have to borrow against securities not readily salable. One year from now the assets will be down to \$600,000,000.



SECRETConjectural balance of payments between United Kingdom and U.S.A.

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5. Timber 9, paper pulp etc. 11, sulphur and phosphate rock 2, non-ferrous metals 3, cotton 3, miscellaneous 5.
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-2-

Conjectural balance of payments between sterling area
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		other	65
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	—		—
	498		498
	—		—

(Copy)

BRITISH EMBASSY,
WASHINGTON, D.C.

July 16th, 1940

Personal and Secret

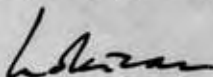
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 15th.

1. The channel convoy was bombed yesterday afternoon. H. M. ship "Vanessa", escorting destroyer, hit in engine room, no casualties. One small British merchant ship, 780 tons, sunk; one Norwegian, one Dutch merchant ship damaged.

Same day; armed merchant cruiser "Esperance Bay" bombed and badly damaged western approaches, has safely arrived Plymouth. New Turkish sloop under British delivery crew attacked off Portland by enemy aircraft, slight casualties. Two southward bound British transports escorted by two destroyers bombed west of Ushant without result. M.T.B.s made sweep to mouth of Texel Mass and Scheldt during night.

2. During the night of 13th to 14th majority of R.A.F. aircraft which were despatched to northwest Germany successfully attacked primary targets or alternatives. Observation of results in most cases difficult owing to weather, intense anti-aircraft searchlight activity. Main attacks were against aircraft factories and parks, railway targets and oil installations. Out of 69 aircraft one Wellington, no fighters, out of 12 Blenheims which attacked oil plant and petrol tanks in Ghent area, one missing. Mine-laying

carried/

carried out Copenhagen - Aaleborg areas, all machines returned. Day operations on July 14th not completed owing to bad weather.

3. Yesterday afternoon about 40 dive-bombers escorted by single seater fighters attacked Dover harbour and convoy in Straits. Three fighters and three bombers, one by anti-aircraft, were destroyed, (confirmed). One fighter, one bomber (unconfirmed). Our casualty one Hurricane. Hostile air reconnaissances over Portland and Plymouth afternoon of July 14th. No bombs dropped. Last night two air attacks at Avonmouth. Some damage to main line station and dock's railway line, ineffective attacks by H.E. and incendiaries near Colchester and in Isle of Sheppey; a fire at Duke of York's school successfully extinguished, full information not yet available. At 06.30 hours today attacks delivered on Brighton and Hove. Preliminary reports indicate several casualties and damage to Hove. Mine-laying carried out, probably in Thames estuary and between Wash and Middlesborough. Large amount of air transport continues from northwest Germany to Oslo and Stavanger via Copenhagen or Aaleborg.
4. July 14th Panamanian S. S. "Bene" 3,059 tons sunk by gunfire from enemy submarine 120 miles west of Beirut; crew saved.
5. Malta. Enemy aircraft attacked Malta night of 13th to 14th. No damage or casualties.

EXVPL

Egypt. On night of 12th to 13th July air attacks carried out on Bardia, shipping at Tobruk harbour, and aerodromes at Eladem and Elgubbi; fires caused at Bardia. Following night six British aircraft again attacked Tobruk harbour. All aircraft returned from these operations.

Sudan. Nine Wellesleys made dive bombing attacks on Massawa aerodrome July 12th; bursts seen amongst hangars. One aircraft shot down by enemy fighters.

Libya. Light and ineffective air raids on Mersematruh 12th and 13th July. Further reinforcement of Italian C. R. 42 fighters has been sent to Libya. Rumoured air force is also now using German Henschel 126 aircraft probably bought by Italy operated by Italian pilots.

Aden. Enemy aircraft bombed Aden, damage and casualties slight.

On night of July 13th to 14th British machine attacked naval stores and barracks south of Asseb and returned safely. Large fires started.

Kenya. Aircraft of South African Air Force attacked enemy concentrations Moyale area July 11th with bombs and machine guns. There are indications that Italian East Africa will shortly

be reinforced by a squadron of 8 79 bombers.

Somaliland. Second battalion, King's African Rifles and one light battery have arrived at Berbera.

6. Extensive damage caused by explosion High Alloys Limited, Slough, night of July 13th to 14th, production will be seriously affected for some days, three persons killed, forty-eight injured. Cause of explosion under investigation.

7. Connection between three Baltic States and Germany has been severed for last two days; frontier traffic stopped and no telephone communication.

July 16, 1940

Dear Mr. Knudsen:

Attached herewith is a copy of a letter which I have transmitted to the Secretary of War, with respect to the release of the Rolls Royce Griffon engine plans.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Honorable William S. Knudsen, Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

By Messenger 405

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The Advisory Commission to the
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Federal Reserve Building,
Washington, D. C.

By Messenger



THE SECRETARY OF THE TREASURY
WASHINGTON

July 16, 1940

Dear Mr. Knudsen:

Attached herewith is a copy of a letter which I have transmitted to the Secretary of War, with respect to the release of the Rolls Royce Griffon engine plans.

I have been advised by Mr. Morris W. Wilson, Representative of the British Ministry of Aircraft Production, that Mr. Arthur Purvis, Chairman of the British Purchasing Commission, is the person in the United States who is directly responsible, not only for the safekeeping of the plans released, but also for the plans remaining in the custody of the War Department.

Sincerely,

Honorable William S. Knudsen, Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

July 18, 1940

My dear Mr. Secretary:

I have been advised by Mr. Morris W. Wilson, Representative of the British Ministry of Aircraft Production, that Lord Newerbrook has no objection to the release of the Dells Boyce Griffon engine plans for inspection and engineering purposes to Mr. William S. Knudsen, Member of the Advisory Commission to the Council of National Defense.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

W:bj

P.1

By Message 405

July 16, 1940

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Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

FY:bj

By Messenger

Letter from Santiago, Chile, July 16, 1940.

CHILEAN DEFENSE LAW

I seem to have been correct in my assumption that the Germans were behind this proposed law, about which I wrote you on 12th and 15th inst., more clearly I think that this can definitely be asserted. I have today heard from reliable quarters that the proposition was made to deliver Chile old armaments beginning October of this year, and that the proposition was made in Paris to the Chilean Minister to France, Senor Gabriel Gonzalez Videla. The feeling in official circles seems to be however that accepting this proposition would be somewhat unloyal to U.S. and would certainly be interpreted this way, and that consequently it would be better to purchase the armaments in U.S. Also there is the feeling that U.S. would not release the copper, which, so far as the major productions are concerned, is in their hands, and that consequently the agreement might prove unpracticable. This latter idea makes me believe that the tonnage of copper which Germany wants in compensation and which would probably not only be compensated against armaments, is considerable; this is moreover likely for the reason that Chile needs other imports against the copper, and moreover is understandable from the German point of view since this would divert the source of Chilean imports into their channels, to the detriment of U.S.

The fact that the Mining dollar has not come through as yet in spite of all promises and definite statements made by responsible people (Caja, Soc.Nac.de Mineris etc.) may have relation with the above, for, if copper were exported to Germany, more export dollars would be required and it might then not suit the Government to allow gold products to be sold as "disponibilidades".

Spain has just cut relations with Chile. Axis policy? Of course grave insults against Franco have been uttered publicly by Chilean left politicians from the balcony of the main Government building.

From Mr. H. K. Hochschild

Extract of letter from B, Mexico City,
July 17, 1940.

The President is discussing two reorganization schemes concerning two vital branches of industry: oil and railroads, both of which have not been as prosperous in the workmen's hands as had been anticipated. These discussions have now been going on for some time without any visible results. As a matter of fact the Railroads seem to be going from bad to worse. Lack of discipline is still causing constant accidents with the consequent loss of life and material. Service is bad and rates are high, and the public is getting pretty tired of these conditions.

Lic. Suarez and Subsecretary of Foreign Affairs, Lic. Beteta, heading the Mexican delegation to the Havana conference, are said to have left last night for Cuba to be in time for the inauguration on the 20th. Mr. Suarez wanted to hear propositions from the Mining Industry by which help could be extended through the proposed Inter-American Cartell to be discussed at Havana. The uncertainty and vagueness surrounding the Havana Meeting made it impossible to talk about suggestions. So, what was given to Mr. Suarez were merely the facts about the present situation. Before expecting help from the outside, especially in regard to financing the country, they should endeavor to bring some relief from the inside. Lowering of taxes, stabilized labor conditions, a stabilized exchange, etc., would be the most essentials. But in that respect nothing has been done. On the contrary, the exchange is showing a tendency again towards a lower dollar. It went again to-day to 4.98 and someone claims to have heard the President say that he will get exchange back to 3.60 before leaving office.

There has been no change in the status of the Cananea strike, but the agitation for sympathetic strikes in the industry seems to have died down.

(The last paragraph refers to the strike at the Anaconda's Copper Mines, which is of several months duration)

in Sonora

Copies of letters of July 12th and 13th from
Santiago, Chile, on proposed Chilean Defense Law.

July 12th

I enclose for your information an excerpt from a project of law just presented to Congress in Chile whereunder additional taxes will be raised with the purpose of strengthening military defense. It is of course possible that there will be strong opposition on account of the fact that the rights still have a majority in Congress but, so far, in the end some of them have always given way and eventually the law in some form or other may be approved.

I have translated literally some passages due to the fact that it seemed to me that this law might be inspired by prospective sellers of armaments which might very well be the Germans since they seem to calculate anyhow that the war might be over in a few months and behave accordingly in export/import business, i.e., are already trying to place orders. The law does not by itself show any partiality, but the suggestion that compensation might be the way of settlement of the cost of the armaments seems to fit in very well with the idea of 1938 of compensating armaments with metals. I have no definite indication that there is such an intention and investigations made have not proved anything, so I pass on my suggestions for what they may be worth.

July 13th

With reference to my letter of yesterday would mention that the explanation which I received in regard to the defense law, plausible, is the following: As you know there was discontent in army circles, and there is a project pending approval by Congress giving the army 20 million pesos more per year to be spent to a large extent in salaries; at the same time they seem to have been promised armaments, which, it is true, they need. The defense law might thus be a political move and, at the same time, a fresh source of income to the Government. This, however, does not exclude the possibility which I mentioned in my last letter and indeed, reading in the papers that there has been German influence at work in other South and Central American countries with the object of predisposing these countries unfavorably to the Habana Conference called by U.S., I cannot get away from my first impression that the Germans have also been at work here.

PROJECT OF A NATIONAL DEFENSE LAW PROPOSED TO CONGRESS BY THE
CHILEAN GOVERNMENT - JULY 12th. 1940. (excerpt)

Events in Europe have induced some governments of America to adopt measures of a reasonable provision for security. Our country which has maintained and wishes to conserve honest neutrality, which it has followed up to this date and its policy of peace and lawful friendship towards all nations of the world, may be disturbed in these noble objectives if it does not adopt with sufficient anticipation measures to safeguard its sovereignty. (I copy this passage in full for certain reasons).

Article 1 of the project provides the creation of a national defense council including the Minister of Defense, Finance and Foreign Relations, superiors of the Army and Navy, etc.

In article 2 there is a provision according to which this council is to study the different foreign markets in order to determine the most advantageous compensation which might be obtained from Chilean exports to a determined country in relation to value of the ballistics equipment which may be purchased in that country, purchase and export of such national products necessary to establish that compensation. (For similar reasons as above, I also translated this passage in full).

Article 3 authorizes the President to contract one or several internal or external loans totaling not above one billion pesos at an interest rate which should not exceed 5%.

Article 4 increases corporation and individual taxes by one to four percent of income (NOTE: 4% for any practical purpose) and creates an additional purchase and sales tax of one per cent.

Articles 5 and six dwell on the same subject and contemplate that these additional taxes will enter into force on July 1, 1940.

Articles 7, 8 and 9 provide that the President of the Republic will be authorized to declare indispensable for the defense of the country any industry, commerce or activity and direct such activities as he may esteem convenient or necessary within and for the purpose of the defense law; public utility services will have to establish defense protection for their installations and the same obligation will apply to any private enterprises which the defense council may desire to include. The State may cover part of the cost of such defense installations.

Article 10 provides that the personnel of public utility services must be Chilean with the exception of special technicians, inclusion of which would have to be authorized by the President. A similar obligation may be imposed upon any fiscal, semi-fiscal or private enterprises in any activities which may be important for the security or progress of the country and these provisions will have to be complied with within six months of the date of establishment of this law.

Article 11 provides that any foreigners, natural or juridical persons or companies owned in part by foreigners will not be allowed to lease, work or administrate agricultural property, industrial and mining concessions or own property except such as the national defense council may designate at less than 50 kilometers from the territorial boundaries or 15 kilometers from the coast. (NOTE: The Braden copper mines should be in this situation but will surely be authorized. The Toje iron mines and the Disputada mine, also Volcan, are in this situation as well, but not Chuquicamata or Poterillos) In case of any operations in contravention of this article, the President may decree that corresponding property be sold at public auction.

Article 12, establishes fines against actions which might compromise neutrality.

Article 13 authorizes the President to declare of public utility and decree expropriation of any properties, concessions, industrial and mineral exportations, etc. situated less than 50 kilometers from the territorial boundary and 15 kilometers from the coast, such expropriations to be paid from the funds provided for in this law.

Articles 14 and 15 provides that the President may expropriate any invention interesting for the national defense.

CONFIDENTIAL

Tri 142

Confidential

PARAPHRASE

A telegram of July 17, 1940, from the American Consul at Saigon reads substantially as follows:

The press of July 17 carries an announcement by the Government General to the effect that there will begin soon negotiations for a commercial agreement with Japan.

As a result of action taken on July 13 by the British blocking credits of French Indochina, an order dated July 14 has been issued to the Banque de l'Indochine making exports to Singapore, Hong Kong and the like whose currency is sterling subject to payment in United States dollars and requiring transfer of the dollars telegraphically before shipment, at least in the case of Hong Kong. It is understood that the purpose of the action taken by the British is to help in forcing the Government General to make a declaration as to its position, since London has informed the British banks in Saigon that the Banque de l'Indochine (whose head office is in France) is not considered as an enemy bank and that French Indochina is not considered enemy territory.

RECEIVED
LIBRARY DEPARTMENT
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OF THE
CHIEF OF
STAFF
U.S. ARMY
WASHINGTON

17046

JR

PLAIN

Shanghai via Tokyo & N. R.

Dated July 17, 1940

Rec'd 11:40 a.m., 20th.

Secretary of State,

Washington.

NOT TO BE DISSEMINATED WITHOUT
THE CONSENT OF COMMERCE

Attache COMMERCE.

"Three. July SEVENTEENTH. Yonai Cabinet resigned July sixteenth and Prince Fumimaro Konoe, who has been active in single party movement which has caused business leaders adopt cautious attitude during past few weeks was entrusted task forming new Cabinet July 17. Business circles favor internal political unity which aim new party but they are frankly apprehensive over future trend government regulation all phases commercial, industrial, financial activity which new party will institute. No indication yet given regarding new Cabinet economic and financial policies and business world has and suspended activity pending clarification of party's aims. Meanwhile, industrial and financial leaders admit need for reform in certain phases of commercial and industrial activities but they fear the methods which will be employed by new Cabinet. It is generally believed that new Cabinet will favor trend towards planned economy. Private financial circles reportedly concerned over downward trend leading stock

-2- Three, July 17, from Shanghai.

stock prices during past few months and are negotiating with directors Tokyo Stock Exchange to draft practical measures to check further slump in quotations. Recent survey shows that during period from April to middle July leading short term issues have suffered losses of from twelve to thirty points. Meanwhile, official circles appear unmoved by decline stock quotations. Tokyo Stock Exchange officials reportedly intend use fifteen million yen funds raised from brokers association and exchange financing company to support share prices. Due continual firmness money market Government reportedly intends distribute excess payments throughout month particularly towards close when funds most urgently required. During week ending July thirtieth Tokyo money market remained firm with overnight rates quoted uniform level seven rin. Government intends strength control over distribution bank dividends and will henceforth restrict dividends to seven per cent instead present eight per cent level according press reports. Finance authorities have reportedly introduced new regulations restricting loans by Japanese bank's operating North China, measure effective from July eleventh provides approval Japanese Commercial Attache at Peiping required all loans between five naught thousand and five naught naught thousand yen. Approval Japanese finance authorities still required all loans excess five hundred thousand

-3- Three, July 17, from Shanghai.

thousand. Measure reportedly designed check inflationary trend North China, strengthen position North China Federal Reserve Bank, and divert surplus funds national bond purchases. Yen block investments and indications point to further restrictions on outward movement funds to North China and Manchuria during current year. Due prospects that industrial expansion Manchuria will be restricted due shortage funds, Manchurian firms reportedly disposing of construction materials to obtain ready cash. Tokyo wholesale prices declined by one point one per cent during June according Bank Japan survey. Of one hundred ten items survey seven advanced, twenty declined, balance remained unchanged. None issue Bank Japan July thirtieth totalled three two three six million, decline one four four million during past weeks. Bank Japan loans amounted seven naught nine eight naught six million on thirteenth, decline one one six million during week. Yen sterling exchange rates fluctuated between one two seven eighths and one three three eighths. Yen dollars rates remained unchanged at two three and seven sixteenths but rumored that finance authorities are considering raising value of yen to twenty-five cents. Cabinet formally approved plan for administrative reorganization functions Ministry Commerce Industry and Ministry Agriculture Forestry in order strengthen control over foodstuffs and foreign trade policies. New plans provide for transfer all administrative

-4- Three, July 17, from Shanghai.

administrative affairs relating production distribution agriculture forestry dairy and aquatic products and beverages, including supervision over commercial associations handling such products, to Ministry Agriculture and Forestry. All matters relating promotion foreign trade these products will henceforth be concentrated in Ministry Commerce Industry which also supervise production chemical fertilizers in future. Farmers and merchants reportedly welcome proposed administrative change due probability coordination activities two ministries will smooth distribution farm products and materials required by rural communities. Meanwhile Ministry Agriculture Forestry has announced plans for nationwide survey covering production and consumption eleven important food products and one four naught thousand yen requested this purpose. Cabinet approved plan Ministry Agriculture Forestry disburse one one seven two five thousand yen for encouragement increased production rice other agricultural products current fiscal year although Ministry has originally requested six five million yen this purpose. Money which will be obtained from second reserve fund to be utilized as follows seven three five five thousand as bounty increased rice acreage, three seven seven thousand prevent use arable rice

-5- Three, July 17, from Shanghai.

rice land other purposes, one naught one seven thousand for reportedly young rice seedlings destroyed by drought during May June, eight naught naught thousand for bounties for purchase irrigation pumps, one nine seven seven thousand for development miscellaneous agricultural resources, one eight thousand miscellaneous expenses. Record wheat crop forecast by latest government estimate of one two one five seven thousand koku, increase four three thousand over consanper. Current barley crop estimated seven naught one two thousand koku, seven five two thousand koku decline from consanper. Naked barley estimated six one four naught thousand koku, decline five nine naught koku less than consanper. Despite official assurance of ample rice supply and favorable prospects for current rice crop concerned movement has started large cities to totally ban serving rice in department store restaurants and other eating places where foreign style food obtainable. During past two weeks fears of drought have been dispelled as rainfall has been general throughout country. Continued slump cotton yarn and textile exports leading to belief that further voluntary restriction should be imposed on yarn production. According press reports Japan cotton spinning association favors forty four per cent reduction compared with previous year effective from September first.

Present

-6- Three, July 17, from Shanghai.

Present restriction between twenty^{and}/twenty five per cent below consanper. Raw silk market depressed during past week with prices falling to one three five naught yen level on twelfth which brought Government into market in effort stabilize quotations. Government agents reportedly purchased two thousand four hundred ten bales during past two days last week. Raw silk shipments first ten days July exceedingly low, exports to United States amounting only two three four five bales, decline three naught one naught bales compared consanper while exports to Europe totalled only twenty bales compared with nine four one during same period last year. Meanwhile Board Trustees, Japan Silk Reelers Association, approved sealing of twenty-five per cent of silk riling basing throughout country with view to curtailing production. Prior downfall Yonai Cabinet, Minister Commerce and industry in press interview claimed Japan only country in position supply goods Latin American, African, Indian, and South Seas markets. He furthermore stated that he was convinced that it would not be difficult to expand Japan's export trade from present five billion yen level to ten or fifteen billion yen. Foreign Trade first ten days read thousand exports one one one two five six imports nine two seven naught seven. Industrial share index week ending July six incorrectly

-7- Three, July 17, from Shanghai.

incorrectly reported since index should have been based usual forty stocks. Revised indices for week ending July sixth average on July sixth eight seven point naught four index eight nine point two naught, weeks average eight seven point naught eight eight nine point two four. Industrial share prices July thirteenth average eight four point nine nine index eight seven point one naught, weeks average eight five point four naught index eight seven point five two. End. Signed Smith". Inform Commerce.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau
FROM Mr. Foley

The London Economist in its issue of June 15, 1940 has an article entitled "A Check on Production" which criticizes the use of business men in England where their experience prevents them from being open-minded and where their inescapable self-interest is a drag on the ruthlessness which is needed to raise the production of materials of war. A good deal of what is said about the necessity of giving orders to industry instead of issuing appeals, and about the complete failure of ideas which "transformed the trade association from a body of doubtful legality, a conspiracy in the restraint of trade into a favoured instrumentality of the state" is applicable to our present problem of national defense. Speaking of the set of ideas which has dominated the economic philosophy of the Conservative Party, the Economist concludes:

"* * * It is a set of ideas that is admirable for obtaining security, 'orderly development' and remunerative profits for those already established in the industry—at the cost of an irreducible body of general unemployment. It is emphatically not a set of ideas that can be expected to yield the maximum of production, or to give the country wealth in peace and strength in war.

"Nevertheless, when the war broke out and it became obvious to all but the purblind that maximum production had become the one object that superseded all others, this anti-productive system was carried to its highest point. The noble army of controllers was recruited from organized industry; the rings, from being tolerated, became endowed with all the power of the State. The result has been what could have been, and was, predicted—not so much an unfair advantage to certain private pockets as a sluggish tempo of advance and a low limit to what was considered possible. British industry, by and large, has, until recent weeks, been making the maximum effort compatible with no disturbance to its customs now or to its profit-making capacity hereafter. There is no accusation of unpatriotism in this; on the contrary, business men, placed in an impossible position of divided loyalties and contradictory intentions, have done their best. But the result has been what we see—a startling

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inadequacy of production. What was formerly prophecy is now fact: the men who run the existing organisations of their industries have not been the best men to organise their industries for war. The best of them have been only partial successes; the worst have been failures. Both in tanks and in aircraft (to take only the two outstanding cases) the existing rings have failed to produce the goods and, nine months too late, outsiders have had to be brought in."

The above quotation suggests that the activities of John Biggers, Blacky Smith and Lawyer Alvord had their counterparts in England, with sorry results with which we are all familiar.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 17, 1940.

Press Service
No. 21-61

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2-1/4 percent Treasury Bonds of 1954-56.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$6,609,000,000. Subscriptions in amounts up to and including \$5,000, totaling about \$39,000,000, where the subscribers specified that delivery be made in registered bonds 90 days after the issue date, were allotted in full. All other subscriptions were allotted 9 percent, on a straight percentage basis, with adjustments, where necessary, to the \$100 denomination.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

-oOo-

Outgoing cablegram to Bank of England

Sent: July 17, 1940

Our No. 870/40

For Bolton

Reference your No. 723/40

The following are the terms upon which we are at present willing as your agent and for your account and risk to buy at 4.02-1/2 and sell at 4.03-1/2 registered sterling for spot delivery:

(a) Forms of contract will indicate that we are acting as your agent and for your account and that contracts are made solely in your behalf and do not involve any obligation on our part.

(b) In case of contract to buy sterling you authorize and instruct us to transfer when contract is made the full amount of dollar cost from His Britannic Majesty's Government current account G to an account payable from which payment of dollar cost will be made when due under contract STOP Under contract to buy sterling the delivery of sterling to you will be due three days after date of contract and payment of dollar cost by us will be due one business day prior to delivery of sterling, for example if contract made on Saturday payment of dollar cost will be due on Monday, and delivery of sterling on Tuesday STOP Foregoing arrangements respecting contracts to buy sterling are desirable in view of provisions of Neutrality Act.

(c) In case of contract to sell sterling you authorize and instruct us to credit full amount of dollar proceeds when received to an account payable from which transfer will be made to His Britannic Majesty's Government current account G upon receipt by us of confirmation from you that sterling has been delivered STOP If for any reason the sterling should not be delivered you authorize us to cancel contract and repay purchase price to buyer by debit to such account payable STOP Under contracts to sell sterling both the delivery of sterling by you and receipt of dollar proceeds by us will be due on third day after date of contract.

(d) Confirming your paragraph 6, it is understood that you agree to reimburse us for our expenses and hold us harmless from and indemnify us against all loss and liability in connection with contracts.

(e) You will confirm by cable and letter your agreement to foregoing terms.

We will telephone to you July 18 at 3 o'clock p.m. your time to obtain your oral agreement to foregoing terms.

We propose to inform Chairman New York Foreign Exchange Committee July 18 that we are willing to receive applications for purchases and sales of registered sterling from New York banks having registered sterling accounts.

(Signed) Federal Reserve Bank of New York.

(By phone from Mr. McKeon's office, Fed. Res. Bk. of N.Y.-inc. 7-18-40 11:30 a.m.)

7-17-40

FOR DEPARTMENT OF STATE.

VOLUNTARY

JAPAN'S DECREASING GOLD EXPORTS

From
L. H. Gourley
American Consul

American Consulate,
Kobe, Japan

Date of Completion: July 16, 1940

Date of Mailing: July 17, 1940

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Decreasing Gold Exports from Japan

Japan's gold exports are on the decrease and it seems unlikely that during 1940 they will amount to anything like the totals for the previous three years. Exports during the first half of 1940 were less than one sixth of the total quantity of exports for the calendar year 1939, only about one seventh of the 1938 exports, and only about one ninth of the 1937 exports.

Exports of Gold in Recent Years

In round numbers* Japan's gold exports to the United States in recent years have been as shown below:

<u>Year</u>	<u>Million Troy Ounces</u>	<u>Metric Tons</u>	<u>Million Yen</u>
1937	7.1	220.3	851.6
1938	5.6	175.0	686.25
1939	4.9	153.9	676.6
1940 (Jan. to July 15)	<u>0.8</u>	<u>25.4</u>	<u>120.84</u>
Total	18.4	574.6	¥2,335.29

1940 Exports Compared with Production

At the present rate of exportation of 25 metric tons a half year it would not be impossible for newly mined gold to represent the entire exports. Before the policy of secrecy in regard to gold was established since the "China Incident", gold production in the Japanese Empire** was officially reported to have amounted to 41 metric tons in 1936. With all the Japanese Government's efforts

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*More detailed figures are given in an attachment to this report.

**Including Japan Proper, Chosen and Taiwan.

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to encourage an increase in production* it can be safely assumed that production is now greater than in 1936. It is hard to say how much greater it is. Hopes of getting any unusual quantities in Taiwan** or elsewhere appear, from occasional public admissions*, to have been too great.

No Longer Any Important Voluntary Sales of Gold by Private Individuals

The prospects of getting gold from voluntary sales of old gold and gold objects by private individuals are not at all promising. Most of the Japanese who really wanted the Government to receive or buy their gold let the Government have it as a result of previous campaigns and censuses.

As voluntary offerings of gold as gifts or for sale are not now being made in quantities in spite of official urgings, there have been indications in recent weeks that the Government may insist on compulsory sales of gold by persons who are definitely known through censuses to have gold holdings.

Gold Reserve Holdings of the Government

The gold specie reserve of the Bank of Japan was shown on July 16, 1940, to be ¥501,287,000. Since the policy of secrecy
regarding

*See previous reports from the Kobe Consulate.

**At the end of 1939 discoveries of alluvial gold in Taiwan received much publicity in the newspapers but an investigating commission found that no fabulous quantities could be obtained and it could be inferred that the obtention of even normally large quantities in the mountainous wilds of Taiwan might prove, in general, to be unrewardingly costly.

-3-

regarding gold has been in force, no foreigner is known to have ever seen this quantity of gold. In foreign banking circles in Japan there is some doubt whether all this gold could be shown in the form of bullion in this country.

It was interesting to note that in December, 1939, when shipments of gold were being hurried out of Japan in noticeably larger quantities, the gold specie reserve was shown for a few days during the latter part of December by THE JAPAN TIMES AND MAIL to have been reduced to ¥369,780,000. The Kobe branch of the Yokohama Specie Bank stated by telephone that this figure was correct. Other leading newspapers in the English language, however, continued to show the old figure of ¥501,287,000.

The new figure of less than ¥370 million as a gold reserve may have been an error. On the other hand, there may have been some change in the gold holdings of the Bank of Japan in December, 1939, to have justified giving out the lower figure. Perhaps gold reserves actually left the vaults of the Bank of Japan and went to the United States. If earmarked there, it might have been correct to keep on showing the gold reserves at the old figure of somewhat more than 501-1/4 million yen.

With the policy of secrecy that followed the revaluing of the gold reserves in the summer of 1937 and a reduction in the reserves in 1938 it is impossible to know the exact situation. Old gold trinkets and ornaments might take the place of some of the

-4-

the gold bullion as reserves. With the yen at a lower value today could it be possible that the gold reserves might be revalued and partly used without the publicity of the summers of 1937 and 1938? Back in the summer of 1938 a reserve of \$501,286,000* represented perhaps 145,385 kilograms* of gold bullion. It may represent the same quantity today. Yet there has been some temptation to ship some temptation to ship some of this gold to the United States for earmarking and even for use. This temptation may have been resisted in spite of Japan's needs of imports, especially those for use in its plans on the Asiatic mainland.

Notes in Circulation

In the meantime the Bank of Japan notes in circulation have risen from a little over 2 billion in July, 1938, to almost 3-1/4 million on July 15, 1940.

Attachment:

No. 1 Gold Exports from Japan
to United States.

851

LHG/mh

In quintuplicate to Department of State.
Copy to Embassy, Tokyo.
Copy to Consulate, Osaka.
Copy to Consulate, Yokohama.

A true copy
of the signed
original

*See the Kobe Consulate's report, "Japan's Gold Problem" of February 28, 1939.

CHIEF SOURCES OF INFORMATION

American consular records in Japan.

THE ORIENTAL ECONOMIST.

Press reports.

Attachment No. 1 to report (voluntary)
dated July 16, 1940, from
L. H. Gourley, American Consul at
Kobe, Japan, on the title:
"Japan's Decreasing Gold Exports".

GOLD EXPORTS FROM JAPAN TO UNITED STATES

GOLD EXPORTS FROM JAPAN IN 1937, 1938, 1939 AND
FIRST HALF OF 1940

(From consular records of American consular offices in Kobe, Osaka and Tokyo. Shipments were made chiefly through the port of Kobe.)

<u>Year</u>	<u>Troy Ounces</u>	<u>Grams</u>	<u>Net Value in Yen</u>
1937	7,082,659.286	220,295,529	851,602,433.49
1938	5,626,746.034	175,011,473.7625	686,248,598.39
*1939	4,932,664.891	153,850,115.9	676,596,345.57
1940 (Jan. to Jul.16)	818,187.069	25,448,481.5	120,839,230.49
 TOTAL	<u>18,460,257.280</u>	<u>574,605,600.1625</u>	<u>2,335,286,607.94</u>

*This includes a December 27, 1939 shipment which was not shown in the Kobe Consulate's report of December 22, 1939.

1940 GOLD SHIPMENTS TO UNITED STATES
BY MONTHS

(January 1, 1940 to July 16, 1940, Inclusive)

(From consular records of the American Consulate at Osaka and the American Consulate General at Tokyo. The shipments shown with * were declared at Tokyo. The others were declared at Osaka.)

<u>Date</u> <u>De-</u> <u>clared</u>	<u>Date</u> <u>Shipped</u>	<u>Net</u> <u>Troy Ounces</u>	<u>Net Grams</u>	<u>Net Value</u> <u>in Yen</u>
Feb. 1	Feb. 5	142,088.739	4,419,457.1	¥20,984,836.36
" 16	" 21	31,823.788	989,831.2	4,699,860.02
" 21	" 24	127,802.556	3,975,106.8	18,874,941.74
* " 23	" 7	7,853.631	244,275.4	1,160,080.25
<u>February Total</u>		309,568.714	9,628,670.5	¥45,719,718.37
Mar. 19	Mar. 23	73,160.638	2,275,551.9	¥10,804,946.44
* " 22	" 7	62,891.642	1,956,150.2	9,290,699.09
<u>March Total</u>		136,052.280	4,231,702.1	¥20,095,645.53
Apr. 18	Apr. 23	137,011.086	4,261,524.3	¥20,234,975.15
May 14	May 18	137,365.203	4,272,538.6	¥20,287,323.09
" 16	" 18	98,189.786	3,054,046.0	14,501,568.35
<u>May Total</u>		235,554.989	7,326,584.6	¥34,788,891.44
<u>GRAND TOTAL</u>		<u>818,187.069</u>	<u>25,448,481.5</u>	<u>¥120,839,230.49</u>

RECEIVED
JULY 16 1940

July 17, 1940

Secretary Stimson told me that it was Felix Frankfurter and Grenville Clark who first called him and asked him whether he would take the post of Secretary of War if it were offered to him. This was on June 1.

He never heard from the President again until the day after he made his speech at New Haven. When the President talked to him, he reminded the President that in the original talk with Felix Frankfurter, it was they who had suggested Judge Patterson because the President suggested Bob Lovett of Harriman's firm.

He has had a number of talks with Johnson and Johnson told Colonel Julius Adler and Stimson that Judge Patterson was to be special assistant to Stimson, and he (Johnson) was to continue. I suggested that he make out the nomination for Judge Patterson and send it over Friday so that it can go up on the Hill Monday. He did not know that he could do that.

I said, "You have just got to get rid of Johnson." He said the President offered to make Johnson one of his special administrative assistants but Johnson didn't want it. I told him how Johnson said that Farley had promised to make him Secretary of War and Farley said it was a lie. Stimson knew the story. Stimson was most appreciative of my talk and I told him to call on me at any time.

Before accepting, Stimson told the President, first, that he was for selective conscription; second, had the President read his New Haven speech, and the President said he had read every word and approved; and, third, he wanted to be able to pick his own assistant, and the President approved of that. At no time did I indicate to Stimson the President's reluctance of ever firing anybody, but I did impress upon him the importance of pushing the President. He said the President had asked Steve Early to smooth down Johnson, and I said Steve Early was Johnson's friend and would never smooth him down to resign. It will be interesting to see what happens.

- 2 -

I also warned him about General Arnold and told him the story about Arnold's being Mitchell's assistant and handling the publicity of Mitchell at the time that Mitchell was fighting the then Secretary of War on a unified Air Corps. He said he knew all about that, too. Stimson said if he didn't get his own assistant he would go home.

JUN 10 1940

Stimson Advocates U. S. Open Ports to All Allied Vessels

Washington Star
Former Secretary of State
Says Fleet May Need Bases
in America

By the Associated Press.

NEW HAVEN, June 10.—Henry L. Stimson, Secretary of State during the Hoover administration, last night advocated that the United States "throw open all of our ports to the British and French naval and merchant marine for all repairs, refueling and other services."

In a speech broadcast nationally Stimson declared successive air attacks on naval bases in Great Britain might force its fleet from the Atlantic and deprive it of power.

"On the other hand," he continued, "if assured of our supplies, and of the use of our bases, it could in all probability continue to command that ocean and our own fleet could devote itself to holding the Pacific against the manifest dangers which may face us there."

He contended the United States Navy and maritime forces of France and Britain should work in "harmonious co-operation."

"We should not be compelled helplessly to await attack," Stimson asserted, "while a powerful aggressor chases his own opportunity."

Stimson recommended also that the United States repeal provisions of "our ill-starred so-called neutrality venture, accelerate by every means the sending of planes and other munitions to Britain and France, if necessary in our own ships and under convoy."

"We should open our lands as a refuge for the children and old people of Britain," he added.

"We should at once adopt a system of universal compulsory training and service, which would not only be the most potent evidence that we are in earnest but which is at the present moment imperative if we are to have men ready to operate the planes and other munitions, the creation of which Congress has just authorized by a practically unanimous vote."

Stimson said America "should not be fooled by the evident bluff of Hitler's so-called fifth-column movements in South America."

"They are, on the face of them, attempts to frighten us from sending help where it will be most effective," he said. "We should combat the defeatist arguments which are being made in this country as to the unconquerable power of Germany."

"I believe that if we use our brains and curb our prejudices we can, by keeping command of the sea, beat her again as we did in 1918."

"In these ways and with the old American spirit of courage and leadership behind them I believe we should find our people ready to take their proper part in this threatened world and to carry through to victory, freedom and reconstruction."

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Wednesday, July 17, 1940.

Press Service
No. 21-61

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the cash offering of 2-1/4 percent Treasury Bonds of 1954-56.

Reports received from the Federal Reserve Banks show that subscriptions aggregate \$6,609,000,000. Subscriptions in amounts up to and including \$5,000, totaling about \$39,000,000, where the subscribers specified that delivery be made in registered bonds 90 days after the issue date, were allotted in full. All other subscriptions were allotted 9 percent, on a straight percentage basis, with adjustments, where necessary, to the \$100 denomination.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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GROUP MEETING

July 17, 1940
9:30 a.m.

Present: Mr. Bell
Mr. Foley
Mr. Graves
Mr. Haas
Mr. Thompson
Mr. Cochran
Mr. White
Mr. Young
Mr. Sullivan
Mr. Schwarz
Mrs Klotz

H.M.Jr: Phil, Mr. Knudsen called me up a few minutes ago and as soon as Mr. Purvis is through with his 2:30 meeting at your office, he would like you to bring Purvis over to see him to talk about airplane contracts which he is proposing to place. Is that clear?

Young: I got the same story from Mead this morning. He called me up on it. They are pretty hot under the collar.

H.M.Jr: Knudsen wasn't hot. He just wanted to talk to him.

Young: I will make the appointment with Knudsen.

H.M.Jr: Well, we - he said whenever you are through. I said I thought they were meeting at your office at 2:30 with Vance on machine tools. Is that right?

Young: That is right.

H.M.Jr: Whenever you are through, you are to phone him and to take Purvis over there.

Now, one other thing I want to get off my chest, George. What I want from you is this: From now by months, beginning with the first of July and through until June 30th, I want a statement for England, the amount of money by months of contracts let, running through June 30th. In other words, how much money are they going to spend each month,

- 2 -

contracts already let, starting July first, and I want to know how much money did they spend in July, but I want it forward, too, you see.

Haas: You want their estimate?

H.M.Jr: Estimate based on actual contracts let and if you don't understand it, ask me.

Haas: Yes. Well, I will repeat it. You want by months, beginning July, 1940, the actual amount of money spent in this country by the British and estimated by months - how far do you want that to run?

H.M.Jr: To June 30, 1941.

Young: Just for England?

H.M.Jr: No, just a minute.

Haas: Just for England?

H.M.Jr: No. Beginning with the British Empire. Get that cleaned up first. After you have got that, then we will take on all the other countries that are doing any sizable amount of business.

White: Where will you get the figures of the actual amount spent? We don't have the totals. Does he have access to the totals?

H.M.Jr: Well, we are supposed to have and if we haven't got it, certainly England - one account where they check out all their money.

White: I will show him later what we have, but our information is that that figure does still not include their total expenditures.

H.M.Jr: Well, if it isn't, then that is a thing for this afternoon after lunch, when we talk with what's-his-name. I am not going to have any monkey business from now on. I am just

- 3 -

not going to stand for it. But every dollar for any item that any country that belongs to the British Empire spends has got to go through one checking account in the Federal Reserve.

White: Mr. Secretary --

H.M.Jr: There is no possible loophole. They have got to pay through this one account from now on.

White: You are speaking now only of Government purchases, aren't you?

H.M.Jr: Well, whatever enters into this estimate that they are going to give us.

Cochran: Then there would be private purchases, you see.

White: Those include private purchases.

H.M.Jr: Let's get Government purchases first. I don't know how you are going to do the other.

White: Because their estimates include the amount of foreign exchange they will have to have available and that includes private purchases.

H.M.Jr: Well, you fellows will have to think that up. George can't do that unless there is some other way. You will have to think that up.

White: Well, we will figure out what we need to know in order to get, A, the total Government purchases and expenditures on those purchases, whether they all go through that account; B, then we will have to estimate what the private expenditures will be and we can get figures of the actual payments by either requesting it and checking up on their balances here - but we haven't yet asked them for that second information.

H.M.Jr: Well, George is in a position to get the contracts, aren't you, George?

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Haas: Yes, sir.

H.M.Jr: And this goes for England, Canada, Australia, India, South Africa and New Zealand.

Haas: There will be some difficulties immediately, but I think we had better get a figure which is the bulk and then improve it.

H.M.Jr: I want something. That is all right. You see, Phillips is here and Bewley is here and we haven't got it and Purvis is here and we haven't got it. At 1:00 o'clock at lunch, I am going to put down that ultimatum.

White: There is one other figure, Mr. Secretary.

H.M.Jr: Just a minute.

Haas: Here is the difficulty, Mr. Secretary, that I have run into. That brings up this question of Harry's about private purchases. There are steel purchases that come over here that look like a private purchase, that come from a private steel company, but that British firm has a British Government contract. There is that difficulty.

H.M.Jr: Well, we will have to just clean it up. They can't - they have got to do it for me. I have been asking for this thing for months now and I am not in any frame of mind to do any more asking, I am going to tell them, but --

Haas: How soon do you want this?

H.M.Jr: Well, I want the set-up just as soon as it is physically possible and this man is only going to be here this week, so you and White and Young better immediately after this meeting put your heads together, immediately after this meeting, and Cochran. Bell, do you want to pull it together or what?

Bell: I will if you want me to.

H.M.Jr: Why don't you right after this meeting have White and Haas and Young and Cochran in your room, see?

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Bell: All right.

H.M.Jr: You see what I am getting at, don't you?

Bell: Yes, I do. I don't think it operates through one account, but we can get something on it.

H.M.Jr: Well, I am so tired of being kidded.

White: You also want the total of all outstanding contracts, the total - I mean the total.

H.M.Jr: I want every contract which is on their books. That leaves out options. They have got a lot of options, but firm contracts which means obligations, irrespective of how long ago.

White: There will be a lot of contracts which George won't be able to split up in months, but can give you totals.

H.M.Jr: Well, he gets the deliveries. He gets the plane deliveries and machine tool deliveries. But a lot of this stuff runs until September, '41. That is a sort of cut-off date.

Haas: There are some of their contracts that run that far, say engines, for example, and say 500 runs - as long as the war should last.

H.M.Jr: Well, George, we have got to get what are their contractual relationships with American manufacturers, because I am in this position, that I tell Knudsen - he asks me can they pay and I have been telling him yes. Now, I am taking a new look-see at this thing to see whether they can pay.

Now, what I am saying - it mustn't get out of this room. I can't always have separate groups, but - I mean, I don't want any intimation of what I am saying, but I want to know what are their contractual obligations to American manufacturers; in other

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words, how much have they obligated themselves to pay over whatever the period is. Right? And George is the fellow to get that on that end.

Haas: I have been working on it. You told me about this before, so I think we will have something very soon.

H.M.Jr: Yes, but I want to be able to have - I want on one sheet - that I can say, "Well, England, here, total obligations to American manufacturers," and then string it out, if possible over the months. Under that, Canada, India, South Africa, Australia and New Zealand. And there is a grand total for the British Empire column here and the months they - however it spreads up and then we have got to figure what they are. I mean, what are the - what have they obligated themselves to buy from the American manufacturers in dollars, total, and over how many months does it run. That is a clean cut statement of what I want, isn't it?

Bell: That is right. Wouldn't the months of that come from Purvis?

H.M.Jr: Let George tell you some of his troubles.

Bell: I should think they would.

H.M.Jr: Well, South Africa is in here. They won't tell you and this steel cartel won't tell you, but they have got to from now on. They have just got to. If a few minutes before 1:00 o'clock you could give me a rough sheet to put on the table at 1:00 o'clock at lunch - Bell and Young are eating with me and Purvis and Phillips - so I could say, "Now, gentlemen, this is a rough sheet --" Dan, bring down a rough sheet at 1:00 o'clock that I can say, "This is what I want on the British Empire." It will be all right if it is in pencil.

Bell: All right.

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H.M.Jr: Norman?

Thompson: I have prepared a letter to the President on the Customs Commissionership.

H.M.Jr: Oh, yes.

Thompson: I was just going to say it is an appointment by the Secretary.

H.M.Jr: Yes, but I want to give the President that courtesy. Somebody for me should have had me - knowing this fellow, should have - I should have got this over to the President last week.

Thompson: I didn't know whether you would want it to go over. I will get it right over.

H.M.Jr: All right. He is not an economist.

White: Is that supposed to be in his favor?

Bell: He is a World War veteran.

H.M.Jr: This doesn't say that. Now, you don't write down here, "Approved," so we will get it back.

Thompson: I will fix that up.

Bell: I question whether you want to start that.

H.M.Jr: Would I appoint a head of a Bureau? I want the President's initials. What is the difference? As long as I am here, I am not going to appoint anybody unless it is agreeable with the President.

Thompson: It is an unusual position.

H.M.Jr: I know. It is the same thing like the Comptroller of the Currency, when that fellow was here, tried to say that he was appointed by the President and not by me. I had a little raw meat for breakfast this morning.

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Thompson: That is the appointment of Snyder, the economist for Harry White.

H.M.Jr: That was funny. Poor old Jake. As soon as he was out from under Jake's wing, he was in a position where Jake could criticize him.

Anything else?

Thompson: That is all.

H.M.Jr: Dan?

Bell: I just wanted to let you know that there is an Executive Order going through to make you one of the people who purchase for the Red Cross under this 50 million dollar appropriation recently made by Congress.

H.M.Jr: How do you mean, one of the people?

Bell: Wallace is the other. Wallace will take care of the agricultural supplies. Harold has been working with the Budget people and I understand there is only about six million dollars of the fifty that will go to the Procurement Division.

H.M.Jr: Do I sign anything?

Bell: No, Budget is going to do it.

We have an application for Mr. Loree, who is, as you know, Vice President of the Guaranty and also head of that exchange group of Harrison's, to get a license to send five hundred dollars to a sister-in-law in France who has six minor children. This brings up the whole question of sending money abroad. And I also have an application from a gentleman by the name of Morgan Davis in New York who wants to send five hundred dollars to a niece in Norway who is married and whose husband has been thrown out of work as a result of the invasion. She has a youngster with infantile paralysis and the last word he had from her she had nothing to eat, and I tell

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you, you get some wild stories on this.

We have heard nothing from the State Department other than they are considering the whole policy of sending money abroad.

H.M.Jr: Didn't I write a letter to Mr. Hull on that?

Bell: Yes.

H.M.Jr: (To Lieutenant McKay) Mac, will you call up the British Embassy and leave word for Sir Frederick Phillips that the President of the United States will receive him and me at 3:00 o'clock this afternoon.

Number two, I agreed that the Coast Guard should send a cutter and plane to Greenland and take this Army captain with them. General Watson said something about taking a gun off. I don't have to get into that. The gun is already off, isn't it, to make a place for the plane?

McKay: They will send up another ship in place of the Comanche. In other words, the Duane is going up. She will be ready to go Monday.

H.M.Jr: They are sending a plane to make an aerial survey and they are sending an Army captain as an observer to see whether there are any German bases up there. It is thought there may be a submarine base up there.

I have been trading just to try to get an appointment for Admiral Waesche to see the President on this appropriation.

Bell: We have about 250 to 300 applications of this character and we are holding them up waiting for the determination of this policy. I think it is a little inconsistent to hold up these kind of applications and allow the Red Cross to take donations from the American people and also take money out of the Treasury and send supplies to these people. I recommend that you grant these licenses on these applications until this policy is settled.

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H.M.Jr: Isn't Professor Chamberlain going to be here today?

White: Yes.

Bell: I don't think you would establish a precedent that you couldn't change at the end of three months if the policy changes. I think it is going to get pretty hot in a few days.

H.M.Jr: Do you know when Professor Chamberlain is going to be here?

Foley: Tomorrow morning at 9:00 o'clock.

H.M.Jr: Well, let's have a meeting on this thing at 11:00 tomorrow.

Bell: All right.

H.M.Jr: I will ask Mr. Hull if he wants to send somebody and let Professor Chamberlain know in advance what it is going to be.

Bell: The total subscriptions in the recent Treasury bond issue are now six billion six hundred nine million. That is less than the six, seven we gave out. The Federal Reserve Banks --

(Telephone conversation with Secretary Hull follows:)

July 17, 1940
10:07 a.m.

H.M.Jr: Hello.

Mr. Hull's
Secretary: Just a minute, Mr. Secretary.

H.M.Jr: Hello.

Cordell
Hull: Hello.

H.M.Jr: Cordell?

H: Yes, sir.

H.M.Jr: Good morning.

H: How're you?

H.M.Jr: Oh, I'm all right. How are you?

H: Good.

H.M.Jr: Cordell, there's one thing which I'd like
if you can't settle before you go, if you'd
designate somebody

H: Yeah.

H.M.Jr: Some time ago, I wrote you a letter about
a number of these applications we have from
American citizens who want to send their own
money over to Norway.

H: Oh.

H.M.Jr: Now we have also applications from American
citizens who want to send their own money to
France.

H: Their own money.

H.M.Jr: Yes.

H: Yeah.

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H.M.Jr: And we've just got to fish or cut bait, and I wondered if you were going away whether you wanted to leave that with somebody.

H: Yes. We've been prohibiting it?

H.M.Jr: We have -- we just sat tight. I wrote you a letter about it, I think it was, oh, maybe two weeks ago.

H: I think I was away at that time.

H.M.Jr: Yeah, about two weeks ago, asking for your advice.

H: Yeah. Well, I'm sorry. I think I was away because I haven't seen that letter.

H.M.Jr: Well, I think you'll find it on this matter of Norway.

H: Yeah. I'll look into the matter.

H.M.Jr: Could you and either give me some advice before you go, or else tell me with whom you'd like me to take it up while you're gone within the next day or so.

H: Yes. Would our man Livesey be of any help do you think?

H.M.Jr: No, he isn't

H: He's not up on that.

H.M.Jr: Well, I don't think he's important enough in a policy matter.

H: Yeah.

H.M.Jr: This is a matter of major policy whether we're going to let this money go into this occupied area.

H: Yes, I know. Well, what I meant was whether he'd be the expert we'd want to use over here.

H.M.Jr: No.

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H: Feis is away.

H.M.Jr: Is Sumner Welles going to be here right along?

H: He'll be here Thursday and be here right along.

H.M.Jr: Well, if you could take a look at it yourself and if you could indicate how you felt and if you didn't have time why then if you could ask Sumner Welles to take it up with me the minute he gets back.

H: All right. I'll do both.

H.M.Jr: Would you, please?

H: Yes, sir.

H.M.Jr: Because I'm really terribly worried about it.

H: All right, Henry.

H.M.Jr: Thank you so much.

H: Good-bye.

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H.M.Jr: He never saw the letter. He was away.

Bell: The Federal Reserve Banks have done a little better job piecing this time, particularly the banks outside of New York. We had quite a talk with them at our Dallas conference and told them they were falling down on the job and Dallas alone, I think, cut 50 million dollars out of that. It is quite an item. That taking out the 39 million of the 5,000 preferred brings it down to six billion five seventy, at nine percent. That makes you 591 million. Add the 39 back, you get 630 million dollars as the public allotment. Adding 50 for investment accounts makes a total issue of 680 million dollars. Nine percent is all you can do, because one percent is 65 million dollars and the 630 is a nice figure.

H.M.Jr: Let her ride. Has she already gone out?

Bell: Oh no. It is ready, though.

This is a telegram to New York, approving that thing on subscriptions. That is all I have.

Graves: You asked me to bring up this morning a matter of Procurement Division publicity.

H.M.Jr: We don't get any publicity on Procurement.

Schwarz: What we have got lately hasn't been so good, of course. We have dropped employees. But we can. There is plenty of good constructive activity there. The President yesterday in his defense report thanked the Procurement Division on strategic materials.

H.M.Jr: But I don't - well, he didn't. Mr. Stettinius did.

Schwarz: Mr. Stettinius did in a report made public by the President. We can push it, because there is enough --

H.M.Jr: Who is going to do it?

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Schwarz: I will do it.

H.M.Jr: Well, I met with Mr. Mac and Graves this morning and there is a lot of stuff over there.

Schwarz: With your reorganization now and the volume of stuff that they are purchasing and now that you have a new set-up, there is a good story there.

H.M.Jr: Well, there is a story every day.

Schwarz: We have had considerable activity during the time they were purchasing strategic materials. There was a lot of interest.

H.M.Jr: There is a lot of stuff over there. My golly, they do all kinds of stuff over there.

Thompson: Ed Mayl is on the Procurement payroll.

Schwarz: We know the division well.

H.M.Jr: Yes, but does the public.

Schwarz: I think it has learned during the past year considerably more than it did know and we will see that it knows more.

H.M.Jr: Ed Mayl is on that payroll?

Schwarz: Yes, sir. He was over there full time for some time.

H.M.Jr: I would like to see one story in the last six months that he has written on Procurement.

Schwarz: All right, sir.

H.M.Jr: One.

Schwarz: He has several. I will send you some.

H.M.Jr: It is a big enough job. A fellow ought to

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be over there looking after that all the time.

Schwarz: He gets over there frequently and we keep in very close contact by telephone.

H.M.Jr: There is something happening over there all the time. I just don't want Stettinius to say, "Nice little boy, Procurement Division. They cooperate."

Schwarz: For the past month - is that right, Mr. Graves? - they were not buying anything on the strategic material program.

Graves: That is right; our money has just become available.

H.M.Jr: They are buying 15 or 20 million dollars a month for unemployed.

Schwarz: Textiles for WPA.

H.M.Jr: A lot of stuff. And there are all kinds of things going on over there.

Schwarz: The bulk of that, the financial papers pay the principal interest. The Wall Street Journal and the Journal of Commerce constantly have stories of that nature.

H.M.Jr: See what you can do.

Schwarz: Certainly.

Graves: We have just finished the fiscal year, of course, and I think that in a few days we will have available the results --

H.M.Jr: I mean little unusual stories of things that they do. There must be things over there.

Schwarz: The magazines are always interested in the variety of stuff that they buy.

H.M.Jr: See what you can do.

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Schwarz: We will produce something.

H.M.Jr: Harry?

White: Sometime before you see the President, I wonder whether you don't want to go over the results of the meeting that we had last night. If we could have either a little meeting on it or I could take it up at 11:00 o'clock, if you have no other time.

H.M.Jr: Better bring it to me at 11:00.

White: And I will write it out for the other men.

H.M.Jr: George?

Haas: (Handing report to Secretary) I have this report again.

H.M.Jr: Is that the airplane stuff for me today?

Haas: Yes.

H.M.Jr: Phil?

Chick?

Schwarz: I take it you wish to wait until you hear back on W. R. Johnson's appointment before we --

H.M.Jr: Yes. I don't want - sure. I don't want a lot of candidates.

Schwarz: Two of the newspaper boys know about Mr. Harris' departure. I will wait until I get the Johnson appointment.

H.M.Jr: Just sit on it.

Schwarz: Yes, sir.

H.M.Jr: Merle?

Cochran: Nothing.

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H.M.Jr: Ed?

Foley: Mr. Moricca of the Texas Company was in this morning. He was supposed to bring back the material we asked him for.

H.M.Jr: Who reports on ship movements?

Foley: Cairns.

H.M.Jr: Anything moving today?

Foley: He didn't say anything this morning.

H.M.Jr: If there is, tell him to give a little memorandum to Mac in the next half hour. I want to know what ships we are holding as of today. You are going to stay on this tax business?

Foley: Yes.

H.M.Jr: All right, gents.

July 17, 1940

My dear Mr. Hoover:

Thank you for your letter of July 9th transmitting the results of your Bureau's investigation of Mr. Woodring and Mr. Henry Grunwald.

I have given this careful reading.

Sincerely yours,

(Signed) H. Montalban, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

July 17, 1940

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I have given this careful reading.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

July 17, 1940

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Sincerely yours,

(Signed) H. Mangum, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

JOHN EDGAR HOOVER
DIRECTOR

Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

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Personal and
Confidential

July 9, 1940

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

My dear Mr. Secretary:

Apropos of our recent discussion concerning former Secretary of War Woodring, I wanted to advise you that I have caused a detailed investigation to be made into the several allegations which involve both Mr. Woodring and Henry Grunewald of Washington, D. C. As of interest to you in connection with this situation I am transmitting herewith copy of a memorandum dated July 8, 1940, which summarizes the results of the Bureau's inquiries in this matter. It may be noted that the investigation has failed to substantiate any of the charges that have been made.

Sincerely yours,

J. Edgar Hoover

Enclosure

Federal Bureau of Investigation

United States Department of Justice

Washington, D. C.

July 8, 1940

M E M O R A N D U M

Under date of June 18, 1940, Honorable Stephen Early, Secretary to the President, furnished a memorandum to the Director of the Federal Bureau of Investigation setting out information which had been received at Mr. Early's office on June 15, 1940, from Mr. Smith E. Brodchart, former United States Senator. Mr. Brodchart's information was to the effect that Henry Grunseld (correct spelling later determined to be Grunseld), a German-American living at the Westchester Apartments, Washington, D. C., was believed to be in cahoots with Senator Gerald P. Nye; that D. H. McArthur, former Secretary to Senator Nye, had told Brodchart Grunseld on two occasions had given Mr. McArthur, for Senator Nye, two checks in the sum of \$4,000.00 each, Grunseld having stated that this money came through former Secretary of War Harry H. Woodring. Brodchart intimating that the money was in connection with certain War Department negotiations; and, that Grunseld had frequently telephoned Mr. Woodring from Senator Nye's office, talking in more or less intimate terms and sometimes repimanding Mr. Woodring, apparently in connection with War Department activities. Mr. Early requested a careful and thorough investigation of the matter complained of by former Senator Brodchart.

There was also received by the Federal Bureau of Investigation a copy of a memorandum dated June 25, 1940, from Lieutenant Colonel C. W. Busbee, General Staff Executive Officer, G-2, for the Acting Assistant Chief of Staff, G-2, with reference to a conference Colonel Busbee attended on June 24, 1940, with Honorable Louis Johnson, Acting Secretary of War, and former Senator Smith E. Brodchart at Mr. Johnson's office, Mr. Brodchart at that time having advised that Major Thomas C. McDonald, a friend of long standing of the former Senator and an alleged member of the French English Intelligence Service in 1917 and 1918, informed that the head of the East espionage service in Washington, D. C., was one Frederick Wilhelm Grunseld, also known as Henry William Grunseld, a resident of the same apartment building as Major McDonald, to wit, the Westchester Apartments, Washington, D. C. Former Senator

Breakhart stated that McDonald claimed Grunewald has three unlisted telephones in his apartment; that Grunewald has a close tie-in with the Curtiss-Wright Corporation; and, that Grunewald has an espionage tie-in in the War Department in Washington, D. C., with Mrs. Kate Buckingham.

On June 22 and 26, 1940, Colonel Emmanuel Lombard, Military Attache of the French Embassy, and Lieutenant P. L. Breton, Assistant Military Attache, communicated with the Federal Bureau of Investigation, advising that during about September, 1939, the French Government from Paris, France, had requested them to endeavor to secure about 100,000 rifles; that, thereafter, Colonel Lombard contacted the War Department of the United States and learned there were no rifles for sale through that source; and, that from about November, 1939, to April, 1940, Edwin J. O'Malley, 79 Wall Street, New York City, A. L. Joffe, 100 West 42nd Street, New York City, and Francis T. Sanford of New York City, through correspondence with the French Military Commission at New York City and through personal contact with the French Military Attache at Washington, D. C., endeavored to negotiate a sale of approximately 2,000,000 Lee-Enfield military rifles to the French Government, various of these three representatives claiming from time to time that they could secure these rifles from the United States Government through their contacts with various high Governmental officials, including President Roosevelt, Postmaster General Farley, former Secretary of War Woodring and James Roosevelt, son of the President. In this connection Colonel Lombard advised that during these negotiations he had personally conferred with Honorable Harry H. Woodring, then Secretary of War, with a view to determining the authenticity of such negotiations, whereupon Mr. Woodring informed that there were no such guns for sale and further remarked that if such a supply of guns were available for sale by the War Department, the United States Government would deal directly with the purchasing governments and not through any secondary or intermediary parties.

Investigation of this matter has revealed that Henry William Grunewald, age 50, was apparently born in New York City, New York. He served five years in the United States Navy from 1909 to 1914, having been honorably discharged, and in connection with that enlistment the official papers indicate that he exhibited evidence of his United States citizenship. For about two years during the last World War Grunewald was employed as a Special Agent of the Federal Bureau of Investigation, assigned to the New York City Office, and during that time he was engaged in counter-espionage work, his former superiors in that work, who are no longer connected with the Federal Bureau of Investigation, having advised that Grunewald performed meritorious services during the World War,

including the successful performance of an assignment wherein Grumewald and a fellow Agent secured certain German documents from a safe in the Swiss Consulate at New York City. Subsequent to his service with the FBI, Grumewald did various investigating work, including employment as a Federal Prohibition Agent for about fifteen months in 1921 and 1922, from which service he was dismissed with prejudice as a result of an indictment secured against him and other prohibition agents on a charge of false making, forging and uttering fraudulent Customs permits covering the unlawful removal of 4,900 cases of whiskey and 295 cases of champagne from the Customs bonded warehouse in New York City without paying the Customs duty and Internal Revenue tax due thereon, a motion to dismiss as to all defendants having been granted at the conclusion of the Government's trial which started on November 13, 1923. Records of the FBI reflect that during the course of this investigation in about 1923, Grumewald paid \$1,000.00 to an FBI Agent as an attempted bribe. Subsequently, during the years 1924 and 1927, Grumewald applied for reinstatement in the Federal Bureau of Investigation; however, no appointment was tendered to him. From approximately 1925 up to and including the present time Grumewald has been employed as a private and confidential secretary by Henry W. Marsh, a wealthy insurance broker who is Chairman of the Board of Directors of Marsh and McLennan at 70 Pine Street, New York City. In that capacity Grumewald receives \$1,000.00 a month compensation from Mr. Marsh. Grumewald is said to make a daily report to Mr. Marsh concerning various happenings in the Nation's Capital and elsewhere, and, also, from time to time Grumewald effects the introduction of Mr. Marsh to various Governmental officials in Washington, D. C. Removable to Arthur C. Robinson, a former Senator who was interviewed by an agent of the Treasury Department during about the fall of 1939 at a time when an investigation was conducted concerning a complaint that Grumewald might be dealing in narcotics due to various suitcases he carried to New York City, remarked that Mr. Marsh, Grumewald's employer, has a very marked eccentricity with a fervent desire to know just what is going on and consequently had employed Grumewald on a substantial salary. Mr. Robinson further remarked that Grumewald claims to have many friends "on the hill." Mr. Robinson stated he had visited Grumewald on various occasions at his apartment and that Grumewald has a beautiful wife and two charming daughters. Mr. Robinson remarked that one who had not visited at Grumewald's home might get the wrong impression of Grumewald's secretive actions and very confidential manner in which he sends his daily reports to Mr. Marsh. Mr. Robinson further remarked that Grumewald is very secretive and on many occasions stays friends on the street and tells them that he has some "dope", which he often whispers to these friends. It is noted that for a period of approximately one year in 1937 and 1938 Grumewald had office space in the suite of offices occupied by Mr. Robinson, above

used, and Major Thomas O. McDonald, one of the informants in this matter to Mr. Breckbart as mentioned hereinabove.

During the course of instant investigation by FBI Agents, interviews were had with former Senator Breckbart and the two individuals from whom he stated he received all of his information in this matter, Mr. D. H. Walrthur and Major Thomas O. McDonald, Mr. Breckbart stating that he had no information except hearsay Mr. McDonald stating that he had no information except hearsay and in connection with the reports which he made to the White House and to the War Department.

Mr. Walrthur, age 73, former Secretary to Senator Rye, in an affidavit furnished to FBI Agents on June 27, 1940, stated that during the year 1938 either Mr. Ormswold or his employer, Mr. Birch, or both of them agreed to make some contribution to the campaign fund of Senator Rye with reference to his campaign for re-election as United States Senator, Mr. Walrthur also remarking at this time as at other times that Senator Rye was also trying to build up a campaign for the Presidency. Walrthur stated that during the year 1938 Ormswold had brought to Senator Rye's office and turned over to Walrthur on several occasions envelopes which contained currency, which money was for the purpose of helping defray the campaign expenses of Senator Rye, Mr. Walrthur having turned this money over to a clerk in the Senator's office who in turn forwarded the same to a representative of the Senator in North Dakota. Mr. Walrthur stated that about this time Emory Ormswold had remarked that \$8,000.00 was to be set aside to assist Senator Rye in his campaign for re-election. It was this sum of money that Walrthur believed Ormswold had delivered from time to time in envelopes to the Senator's office, though at no time did Walrthur ever count the money received, merely having noticed on some occasions that there was currency in the envelopes delivered to him by Ormswold for the Senator's campaign fund. Walrthur advised that on one occasion he personally added Ormswold, jokingly, where this money was coming from, and in some manner during this conversation the sum of \$100.00 was mentioned by Ormswold, this having occurred during the year 1938. Walrthur stated that Ormswold did not definitely and rationally state that the then Secretary of War Woodring had been the source of this money for Senator Rye's campaign fund and that Ormswold had never presented any check for \$8,000.00 or two checks for \$4,000.00 each to the Senator so far as Walrthur had knowledge. Mr. Walrthur further stated that he had no knowledge of Senator Rye's receiving any money from Ormswold or Birch than that received for Senator Rye's campaign fund. Mr. Walrthur stated that on various occasions Ormswold had made telephone calls from Senator Rye's Office in Mr. Walrthur's presence, at which times Ormswold inferred that these calls were to the then Secretary of War Woodring. However, Mr. Walrthur did not hear the conversations and does not know that the calls were actually to Mr. Woodring, with the exception of the inference he drew from statements by Ormswold. Mr. Walrthur stated that he knew of no improper acts committed by

Senator Rye or by former Secretary of War Redding and that he knew of no influence exerted upon them by Ormswold to secure such acts. Mr. Blairbur did remark that he had information that two Government employees working under Senator Rye had on various occasions related back part of their salaries from the Government to Senator Rye. However, Mr. Blairbur stated that both of these individuals are now deceased and advised that he is the only individual presently living who could furnish information concerning these refunds. It is the opinion of the FBI Agents who conducted this investigation, as a result of their conversation with Mr. Blairbur, that he is now rather bitter at Senator Rye, his former employer.

Major Thomas C. McDonald, age 65, who was a Major in the Intelligence Department of the New York National Guard from about 1924 to 1934 and who claims to have been in the Intelligence service of the French and British Governments during the last World War, upon interview claimed that he felt Ormswold might be the head of the last espionage system by reason of his secretive nature. McDonald remarking that on occasions when he, McDonald, had been in Ormswold's apartment in the Westchester Apartments, Washington, D. C., Ormswold, upon placing or receiving a telephone call, would go into another room and not talk in the presence of McDonald. McDonald also remarked that Ormswold was reported to leave his apartment in his automobile at various odd hours of the night and early morning, adding that during the fall of 1937 or 1938, while Ormswold was occupying space in the offices of McDonald and former Senator Robinson in the Housing Building, Washington, D. C., an incident had taken place which impressed Mr. McDonald. At that time Mr. McDonald was representing the Carborundum Company, a wholly owned corporation of Niagara Falls, New York. This Company had a subsidiary named the Millstone Company, located somewhere in Germany, possibly in Hanburg, and the parent company wanted to obtain some of its money from the subsidiary company. Mr. McDonald and Mr. Robinson were discussing this matter whereupon Ormswold joined the conversation, and subsequently Ormswold brought Colonel Eberle Hansen into the office of McDonald and Robinson and introduced him to Major McDonald and George McQuire, a representative of the Carborundum Company. McDonald remarked that Colonel Hansen was a close friend of Hitler and Schacht of the German Government. Colonel Hansen and Ormswold then engaged in a conversation in the German language which Mr. McQuire was able to understand according to McDonald and which related to the return of this money from Germany. Major McDonald remarked that he is certain nothing out of the way transpired during this conversation or McQuire would have advised him. Subsequently Colonel Hansen advised that Schacht would not permit the withdrawal of any of this money from Germany. McDonald stated that Colonel Hansen was a German spy during the last war. From this acquaintance between Ormswold and Colonel Hansen, Major McDonald draws the conclusion that Ormswold is apparently engaged

in the Nazi espionage service in Washington, D. C. It is noted that this incident occurred several years ago and that nothing happened at that time which would indicate any espionage activities on the part of Emerson or Ormswold, it appearing to be merely a commercial deal.

The files of the Federal Bureau of Investigation contain considerable information on Emerson, now age 71, a resident of Alexandria, Virginia. These files indicate that Emerson, apparently a graduate of Harvard University, has been a newspaper man, a soldier of fortune and a propagandist in behalf of Germany as far back as the beginning of the last World War. He is said to have office space with the German Consul at New York City.

At the invitation of Ormswold to check his telephone line at the Westchester Apartments, Washington, D. C., with a view to determining whether the same might be tapped, representatives of the Federal Bureau of Investigation, believing this was a good opportunity to closely surveil Ormswold's apartment, on July 2, 1940, appeared at his apartment. Ormswold has one unlisted telephone number and from this main telephone in his reception hall he has an extension in his bedroom and another extension in his living room. There is a switch on the main instrument of his telephone permitting him to make phone calls through the regular Westchester apartment switchboard. He does not have three phones as claimed by Major McDonald, merely having one phone with two extensions. Nothing was observed in the apartment of Mr. Ormswold which would indicate that he was pro-German or anti-American in any manner in his sympathies.

Throughout the instant investigation by FBI representatives various individuals stated that Ormswold was acquainted with various Governmental officials, including former Secretary of War Woodring, Commissioner of Internal Revenue Belverling, Mrs. Kate Hoetingham of the War Department, Senator Rye, the late Senator Borah and numerous other individuals, many of whom he called by their given names and they in turn called him by his given name. Information was received that Ormswold frequently entertains at Washington hotels various groups of individuals high in Government official circles, including former Attorney General Cummings, Honorable Harry H. McIntyre, Secretary to the President, and other individuals.

Interviews were had during the course of this investigation with O'Malley, Jaffee and Sanford, the individuals who endeavored to negotiate a sale of military rifles to the French Government, and in addition to these men other individuals who had knowledge of these negotiations were also interviewed. These three negotiations abated

that they had no contact with any Government official, including former Secretary of War Woodring, but stated they hoped that in the event they could obtain a purchaser for a quantity of military rifles and could put up a sufficient sum of money to handle the deal, they would be successful in getting the United States Government to set aside a quantity of rifles as surplus, which rifles could be purchased by these negotiators or which they, as agents, could negotiate the sale of to some foreign country. Certain of these negotiators, as well as other individuals interviewed, admitted that in their negotiations they had used the names of President Roosevelt, Postmaster General Farley, former Secretary of War Woodring and James Roosevelt, son of the President, as contacts of theirs in an endeavor to make the negotiations appear important, admitting, however, that they had not had any contact with these Governmental officials at any time.

It is noted that O'Malley was previously investigated by the Federal Bureau of Investigation in connection with his activities during March, 1940, in association with George Edward Oliver and Charles James Demin, in a similar attempt to sell such rifles, at which time they were endeavoring to negotiate with John E. Siegel, a broker of New York City. Inasmuch as O'Malley and his associates, particularly Demin, claimed that during that deal they were making a sale for an undisclosed principal and further that they represented a personal agent of the President of the United States and four cabinet members, the substance of the investigation in memorandum form was furnished by letter of May 23, 1940, by the Director of the Federal Bureau of Investigation to Brigadier General Edwin M. Watson, Secretary to the President. The evidence obtained during the investigation of O'Malley, Oliver and Demin during March, 1940, was discussed with an Assistant United States Attorney for the Southern District of New York, who advised that these individuals in their negotiations to sell these rifles had not violated any Federal Statute.

It is further noted that Arthur Lee Jaffee, one of the negotiators, is one of approximately seventy-five individuals who were indicted in the United States District Court for the Southern District of New York on September 30, 1938, on mail fraud charges growing out of a stock switching racket by the Underwriters Group, Incorporated, resulting in a loss of approximately \$5,000,000.00 to the known victims. Jaffee plead not guilty to this charge on November 17, 1938, and was released on \$2,000.00 bail, the mail fraud charges still being outstanding against Jaffee and many of his co-defendants.

Inasmuch as the purpose of the inquiries by the Federal Bureau of Investigation was to determine whether Henry William

Grumwald was the head of a Nazi espionage system in Washington, D. C., or was connected with such a system and to determine whether former Secretary of War Woodring had been guilty of using his influence in any way to assist Grumwald in activities inimical to the best interests of the United States and the investigation of the original allegations revealed they were based upon surmise and suspicion and not upon definite knowledge of the complainants of wrongdoing and has not revealed any such conditions as were alleged, no further investigation is contemplated.

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BRITISH EMBASSY,
WASHINGTON, D. C.

July 17th, 1940

Secret and Personal

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. S. S.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 16th.

1. Northbound convoy attacked by about 15 Dorniers off Orfordness yesterday afternoon. British ship "Heworth" (2855 tons) and Polish ship "Zbyszko" (2088 tons) set on fire. Our three escorting Hurricanes claimed two enemy aircraft (unconfirmed).

Reference to telegram of July 15th, paragraph 1. H. M. Ship "Drake" being shore establishment: this paragraph implies that ships mentioned have been placed under the command of Commander in Chief at Plymouth.

2. Results of night bombing by heavy bombers July 14th to 15th, to Gelsenkirchen synthetic oil plant; fires and large explosion, red glow visible for 40 miles. Hamm railway target; large and extensive fires accompanied by heavy explosions. Soest railway target; large fires, black smoke visible for 50 miles. Bremen airframe factory; large fire. Buer Vaght Hunsloren and Borkum aerodromes; hits registered, satisfactory results reported.

Attack by Blenheims on oil tanks at Ghent; 4 direct hits on tanks and storage buildings searchlights machine-gunned and large fires observed.

Yesterday afternoon Blenheim visited aerodromes at St. Inglebert, Chartres, le Tréport and aluminium factory at Ludwigshafen. Last night despite unfavourable weather 20 heavy bombers attacked Paderborn aircraft park and oil refinery at Strasse. Mine laying operations carried out in Copenhagen area. From these night operations, all machines returned. Reports are awaited.

3. Enemy air raid on Brighton and Hove previously reported resulted in three persons killed five wounded only, though considerable damage to houses.

Normal railway traffic resumed at Avonmouth.

Yesterday light bombardment of Barry docks, Plymouth, Angmering, Pembroke dock, St. Athan and Llandow, only minor damage and no casualties reported. Last night weather unfavourable and little enemy activity. Aircraft reported mine-laying in Liverpool Bay and today this port is closed. Bristol Channel partially closed following report of unknown vessel being mined.

Enemy air training has begun again after a period of apparent inactivity in Zeltwig and Vienna areas. Considerable training still continues in East Prussia and the Baltic.

Transport aircraft show increase from northwestern Germany to northern Denmark and southern Norway, also to Bruxelles and Paris.

Two enemy aircraft destroyed, two more probably destroyed and one Hurricane brought down off Plymouth during period under review.

4. Yesterday afternoon patrolling aircraft sighted British ship "City of Limerick" (1260 tons) and Portuguese "Alpha" (850 tons). Both ships have been abandoned by crews after bombing, destroyers are standing by. Neither was in convoy.

5. Malta. On July 10th R. N. hospital at Bigelow was bombed; a protest is to be made.

Egypt. At Cappuzze an ammunition and petrol dump were set on fire by our shelling; an enemy column trying to enter Cappuzze withdrew under our shell-fire.

East Africa. At 20 hours on July 14th garrison of one company withdrew from Moyale owing to lack of water. Company brought back rifles, individual machine-guns complete and some ammunition, any equipment left behind was destroyed. Our total casualties since attack started 10 killed, 35 wounded, 9 missing. North of Lake Rudolf 2 companies of our troops supported by Ethiopian battalion raided enemy post at Hamaraput driving off strong force of enemy tribesmen with loss; our forces now withdrawing to British territory.

Somaliland. Our frontier post west of Dobo Pass mentioned in paragraph 6 of telegram of July 14th was reoccupied on July 14th.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochrane

STRICTLY CONFIDENTIAL

The Secretary entertained at luncheon today in the Treasury: Sir Frederick Phillips, Mr. Purvis and Under Secretary Bell. Following the luncheon and after the departure of Mr. Purvis the Secretary had the following officers join the group in his office: Messrs. Bewley, Pinsonet, White and Cochrane.

While waiting to be called into the Secretary's office, Messrs. Bewley and Pinsonet had been waiting in the office of Mr. Cochrane. At this time Mr. Pinsonet gave the following figures in regard to French assets in Canada, which he had obtained by cablegram from Ottawa to meet our inquiries on this subject. French gold held with the Bank of Canada totals 376,000,000 United States dollars. Bank of France balances with the Bank of Canada amount to 3,000,000 United States dollars. Private French balances in Canada are not more than 1,000,000 United States dollars. Canadian securities held by France are not more than 3,000,000 United States dollars.

When our group was assembling in the Secretary's office I questioned Sir

Frederick Phillips with respect to the location of the French gold held under secret with the British, since his intimation on Monday that this still remained in London, conflicted with the impression of Messrs. Bewley and Pinsonet that practically all gold, including that under secret, has now left England. Phillips said that while he could not say what had been the exact destination of the gold that would be considered French gold, he could say that by this date practically all of the gold had left London. The French gold presumably had reached North America, South Africa or, possibly, Martinique.

Sir Frederick Phillips presented to the Secretary the attached memorandum entitled "Dollar Requirements of the United Kingdom Exchange Control", which extends and amplifies the data previously given to the Secretary by the British. After studying this document and asking for certain explanations, the Secretary found it to be quite a good report, giving considerable more detail than the first one. After a brief discussion, the Secretary took Sir Frederick to the White House to present our visitor to the President.

During the above discussion, Sir Frederick Phillips explained that at the present rate Canada is contributing around \$45,000,000 annually to England in the way of Canadian dollars. This comes partly through Canada repatriating sterling securities issued on the London market, giving Canadian dollars therefor, and partly through the Canadian Exchange Fund holding sterling.

In reply to Mr. Bell's question in regard to sources of British foodstuffs, Sir Frederick explained that a large part thereof came from the British dominions; that special arrangements were in operation with Argentina, with which a regular refrigeration service is maintained; that consumption of foodstuffs in the United Kingdom is rationed; and that the home production of foodstuffs has been speeded up.

Messrs. Bewley and Pinsent remained behind for a few minutes with Messrs. Bell, White and Cochran. They could give us no more information on Belgian and Polish central bank gold, except to state that the ship on which these reserves reportedly left France sailed from Lorient. In reply to our question as to how much gold the British had actually loaned to Turkey some months ago, Bewley stated that Great Britain provided £11,000,000 and France £4,000,000. This gold was actually delivered to Turkey.

B. M. P.

DOLLAR REQUIREMENTS OF THE UNITED KINGDOM EXCHANGE CONTROLSummary.

A provisional forecast of the drain on the gold exchange resources of the United Kingdom in the twelve months from the 1st instant suggests a figure of say \$1632 million as a minimum. Details of this forecast are given below.

As against these requirements the exchange assets of the United Kingdom are set out in paragraph 4. They include:

- (a) Gold to a total of \$1444 million, of which say \$600 million is about the minimum gold balance with which the fund could work;
- (b) United States dollars: \$108 million.
- (c) Dollar securities at current prices, say, \$700 million. Other assets are of a much less liquid type such as some direct investments in the U.S.A. and sterling investments elsewhere.

The available assets would thus be very low at the end of twelve months and some help in liquidating dollar securities may be wanted long before then.

1. The sterling area consists of the United Kingdom, India, Australia, New Zealand, South Africa, Eire and the British Colonies and Dependencies. It includes also Egypt and Iraq. Purchases by the United Kingdom in any part of the sterling area do not affect the foreign exchange resources of the British Control as payment is made in sterling. On the other hand, transactions between any part of the sterling area and countries outside it do affect the British Control. For example, if Australia buys motor-cars in the U.S.A. it is the British Control which finds the dollars and, similarly, if Malaya sells tea or rubber to the U.S.A. the British Control receives the dollar proceeds.

Canada is not included in the sterling area, and for the present purpose is in a position similar to that of a foreign country.

2. Conjectural balance of payments between the sterling area, including the United Kingdom, and the United States of America.

	<u>July 1940 - June 1941</u>	<u>\$ million</u>
United Kingdom imports from U.S.A.	1892	
	United Kingdom exports, visible and invisible	180
Rest of sterling area imports from U.S.A., visible and invisible	280	
	Rest of sterling area exports	440
	Adverse balance	1552
	2172	2172

The figures are, of course, estimates made in advance, and to be treated with the greatest reserve. They are based on the latest information available but it will be appreciated that the major buying programmes, which were vastly altered as a result of the events of May and June, have hardly yet reached a settled state.

The direct purchases by the United Kingdom in the U.S.A. during the twelve months, totalling \$1892 million, include for aircraft and aircraft materials \$716 millions, for munitions \$340 millions, for iron and steel \$400 millions, for other raw materials \$132 millions, for manufactures \$100 millions, for food and tobacco \$84 millions, for petroleum \$68 millions, with some smaller items.

3. The adverse balance with the United States is by far the greatest drain on our exchange resources. There is, however, in addition a large adverse balance with Canada and a smaller adverse balance with foreign countries.

Against this must be set the receipts from the sale of newly mined gold and the proceeds of any loans which we obtain from Canada and other countries. A rough conjecture of the total drain in twelve months on the Exchange Control would stand as follows:

		\$ million.	
Adverse balance between sterling area and U.S.A. as shown above	1552	Proceeds of sale of newly mined gold:	
		sent direct to U.S.A.	80
Adverse balance with Canada.	560	sent to United Kingdom	400
Adverse balance with foreign countries.	220	Loans and credits from Canada and other countries	220
		<u>Net drain on exchange resources</u>	1632
	2332		2332

Having regard to the course of events in June it is believed that the final figure of \$1632 million is much more likely to prove an under- than an over-estimate.

4. Assets:

Gold. \$1444 million

Note. This is the figure of the gold still held in the United Kingdom Exchange Equalization Fund: it does not include the gold reserves held by the Central Banks of India and South Africa, since that gold is at the disposal of the Governments of those Dominions and not at the disposal of the United Kingdom authorities. On the other hand the Exchange Control, which is in the position of a bank and like a bank must carry a substantial cash reserve, cannot divest itself of all its gold and the necessary balance could hardly be put at less than \$600 million.

Dollars.

\$108 million.

Note. These are dollars held by the United Kingdom Exchange Equalization Fund. There were fairly substantial private dollar deposits in the United States at the outbreak of war but these have been in large part requisitioned. Under the exchange control arrangements in force in the United Kingdom remaining private dollar deposits are kept to the minimum amounts required for carrying on business and these deposits can therefore properly be regarded as nothing more than necessary working capital.

Dollar securities

\$700 million.

Note. In addition to these dollar securities there are fairly substantial direct investments in the United States, but it is impossible to give at the present stage any figure on which reliance could be placed for the liquidation value of such direct investments. The matter is being looked into. In addition there are of course large British investments in the rest of the world in sterling. It is impossible to give any reliable figure for such investments in present circumstances and their value for the purpose under consideration would depend on finding a willing purchaser or lender in the United States.

It will be seen that at the end of the twelve months the available assets will be very low, whereas it is certain that there will still be very substantial commitments in respect of long-term contracts still outstanding. No figure can be given for this, but it might be anywhere in the neighborhood of \$1,000 million, and if the war continues the net drain in the following year could not be much less than \$1600 million.

Long before twelve months are out the question of finding some more rapid method than market sales for converting dollar securities into cash may become acute.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 11:30 today. During the visit he handed to me the attached memorandum which he has addressed to Sir Frederick Phillips on the subject of possible apprehension on the part of American banks with respect to their credits extended to British concerns. Mr. Pinsent had prepared this memorandum for the information of Phillips, with the idea that the latter might see fit to discuss the question with the Secretary of the Treasury while here in Washington.

I told Mr. Pinsent that on July 2 and July 6 we had received cablegrams from Ambassador Kennedy at London reporting that the Manhattan, Irving, Guaranty and National City were canceling credits extended to the London market, the National City having called \$19,000,000 on one day. I told Pinsent that the Treasury had considered it unwise for it to take the initiative and make any inquiry in banking circles in New York on this point. If we had done this, we might have caused the movement to become contagious. That is, the banks would have been curious as to the reason for our inquiry and would undoubtedly have asked assurances from us as to the wisdom of continuing their credit lines. Since the Treasury itself could not take the responsibility of giving definite assurances in the premises, the nervousness might conceivably have been augmented. Consequently we had cabled Ambassador Kennedy that we hesitated to make any inquiries pending the early arrival of Sir Frederick Phillips.

Pinsent agreed that our attitude had been entirely correct, and he is somewhat nervous over opening too much of an inquiry in New York at the present time. I told him that there might be a possibility of a leak, if Sir Frederick himself should take this matter up with different banks while in this country. I suggested that discreet inquiries could be made through the Federal Reserve Bank of New York, at our instance, just to see what actually is being done. On the other hand, if the British Government is willing to make the arrangement suggested in the attached memorandum, an approach might be made through Morgans to get an idea as to what the reaction in banking circles would be thereto. Such an inquiry, and any subsequent arrangements, could be made by either Sir Frederick or by Mr. Pinsent.

I did not mention that the Ambassador's inquiry in regard to canceling of credits had been inspired by Governor Norman of the Bank of England. Neither did I mention the Governor's interest in sending gold to this country by warship. However, I did let Pinsent know that Kennedy had raised the latter question, and I read Pinsent our reply to this suggestion. Pinsent confirmed that the British themselves had made arrangements to clear out all gold from London and that he had some time ago let me know that all of it probably would be out within a fortnight. Today he confirms that all of it has been removed. He based this on Bowley's statement to the effect that the latter thought the last bar of gold had come out from London on the convey with which

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Bewley travelled to Halifax. I reminded Pinsent on this point that Phillips had told us on Monday that the French still had \$300,000,000 in gold in London. I have asked Pinsent to clear up this discrepancy, since we would really like to know whether there is still any French gold in London. I thought that there might be some chance that part of the French gold was on the French cruiser at Martinique, but he will endeavor to learn more about this. Likewise I told him that we should appreciate any further data that may be given us in regard to the fate of the Polish and Belgian central bank gold which had been held in France.

B. M. S.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran
in the Treasury at 12:15, July 17, 1940)

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MINUTE SHEET

Reference.....

Sir Frederick Phillips.

Mr. Auburn, an English friend of mine who is European representative of the Manufacturers' Trust Company, but is now working for his Bank in New York, has mentioned to me once or twice the apprehension felt by some of the New York banks lest, in the event of emergency, the short-term credits which they have outstanding in England could not be covered. I asked a question about this in a letter I addressed to Waley on June 10th, and heard in reply by telegraph on June 30th that this question had not yet been considered.

I understand that the position is that, while the balances held here by British banks in the aggregate are probably sufficient to cover the outstanding credits given by American banks to their British clients, this does not hold in individual cases. The Manufacturers' Trust, for example, has given a considerable amount of credit, nearly half a million dollars, for the purchase of machine tools, the largest item being direct to Messrs. Herbert (the British machine tool makers). In all, the credits granted by the Manufacturers' Trust are uncovered to the extent of \$1-1/2 million at present.

The suggestion made to me was that each British bank should keep a balance with its American correspondent banks at least equal to the outstanding confirmed and unconfirmed credits, and that each American bank should have a lien on this balance, to be exercised only if essential. I explained, however, that for various reasons I understood it was the policy of H.M.G. at present that the balances held in U.S. banks, all of which were due sooner or later to be paid to the British Exchange Control, should be kept at the lowest convenient point. The suggestion was then made to me that we should let it be known that in the last resort, e.g. if communications were cut off, we would provide for covering these bank credits out of our funds at the Federal Reserve Bank.

I think there must be a certain amount of genuine apprehension among the American banks as to the position if a German invasion of England were really attempted. I am told that the First National Bank of Boston actually has got a lien on the balances held with it by British banks. The Manufacturers' Trust would hardly like to ask direct for this arrangement. In the last resort it is presumably the obligation of the British

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Exchange Control to provide that these credits shall be covered, and I think there is a good deal to be said for the view that if we could let the American banks know quietly that we accept this view it would on the whole tend to protect us against the risk of the outstanding volume of credit being withdrawn. It is, of course, difficult to assess what is this risk without putting ideas into the heads of the banks, and it might be worth while to ask what are Mr. Morgenthau's views on the point.

(Initialed) G.H.S.P.

16th July 1940.

GHSP:KIP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. Somary, Financial Adviser to the Swiss Legation in Washington, called on me yesterday at 2:30 p.m. by appointment. I had arranged that Dr. Walter Stewart be present, since he has known Dr. Somary for many years. Dr. Somary had come to see me because of telephone calls which he had yesterday received from both the President of the Swiss National Bank and an officer of the Swiss Government, inquiring in regard to conversations between the American and British Treasuries. Somary said that Germany was issuing propaganda to the effect that both our countries were worried over the outlook for gold, and that we were discussing this subject. Certain German propaganda was said to carry the suggestion that this question of gold was one on which Germany might be willing to treat with Great Britain on peace settlement. I told Dr. Somary confidentially, as the representative of our Tripartite partner, that we had not discussed the future of gold. I reminded him that the United States, as the largest holder of gold, and Great Britain, as the largest producer of gold, have a joint and common interest in the future of this metal, and certainly will do nothing to prejudice it. Dr. Somary gave me quite a survey of the Swiss situation, but nothing of exceptional importance. He admitted that certain control regulations had been instituted in the Swiss financial system recently, but this was principally with respect to invaded areas. He expects the Swiss franc to be held at its present level. In spite of there being 150,000 French refugees already in Switzerland, he thinks food supplies now available will take care of the situation for at least another year. American coal and certain other imports are coming to Switzerland via the Italian port of Savona, following the special arrangements made by the Swiss with both the British and Italian officials. Switzerland is practically cut off from England and thus loses an important trade. There is the likelihood of certain Swiss factories being moved to Canada in order that they may supply British contracts for instruments of precision, etc. Dr. Somary stressed the difficulty of travel and transportation in France. He said that the Swiss army was being demobilized to the extent of approximately seventy percent.

J. M. P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

As our group on Control of Foreign Funds is particularly interested in the accounts of the Deutsche Gold Discount Bank with the Chase Bank of New York, would you be good enough to let me see, for the next few days, any reports that you may receive in confidence upon the German balances with the Chase or other banks in New York.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The open market rate for sterling moved downward today. From an opening of 3.81-1/4, the pound fell to 3.75 by noontime. It recovered to 3.80-1/4, but then eased to close at 3.77, a loss of 7¢ when compared to yesterday's final rate.

Heavy purchases of sterling by commercial concerns again led to an appreciable excess of reported buying orders. In contrast to the large amount of sterling sold by the New York agency of the Bank of China yesterday, that Bank disposed of only £60,000 in today's trading. Several other non-reporting New York banks, however, had orders to sell sterling, we were informed.

Sales of spot sterling by the six reporting banks totaled £180,000, from the following sources:

By commercial concerns.....	£ 52,000
By foreign banks (Europe, Far East and South America).....	£128,000
Total.....	£180,000

Purchases of spot sterling amounted to £580,000, as indicated below:

By commercial concerns.....	£454,000
By foreign banks (South America and Europe).....	£126,000
Total.....	£580,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £3,000 to the British Control on the basis of the official rate of 4.02-1/2.

Sterling in the amount of £48,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£34,000	by the Guaranty Trust Company (for rubber and whisky)
12,000	by the Bank of Manhattan (for rubber)
2,000	by the Chase National Bank (for furs)
£48,000	Total

The other currencies closed as follows:

Swiss franc	.2270
Canadian dollar	12-1/4% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	9-15/16% discount
Mexican peso	.1990 bid, .2020 offered.

- 2 -

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Swiss Bank Corporation, London, shipped \$52,000 in gold from England to its New York agency, for sale to the U. S. Assay Office.

The State Department forwarded cables to us stating that the following gold shipments would be made:

\$346,000 from England, shipped by Chase National Bank, London, to its head office at New York, for sale to the U. S. Assay Office.

252,000 from Mexico, shipped by the Bank of Mexico, Monterrey, to the Federal Reserve Bank of New York, disposition unknown.

\$598,000 Total

Gold in Bombay was slightly higher at the equivalent of \$33.80.

The Bombay spot silver quotation was equivalent to 43.97¢, off 3/16¢.

In London, spot silver was fixed at 22-3/8d, up 3/16d. The forward quotation was 21-13/16d, up 1/16d. The U. S. equivalents were 40.68¢ and 39.66¢ respectively.

Hendy 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 four purchases of silver totaling 350,000 ounces under the Silver Purchase Act. Of this amount, 275,000 ounces represented sales from inventory, and the remaining 75,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 300,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

CONFIDENTIAL



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Mergenthau
FROM Mr. Haas *HAAS*
Subject: Railroad freight movement for export.

Receipts of freight for export at New York declined sharply again last week following the decline of the previous week which included the Fourth of July. (See Chart 1 and table attached.)

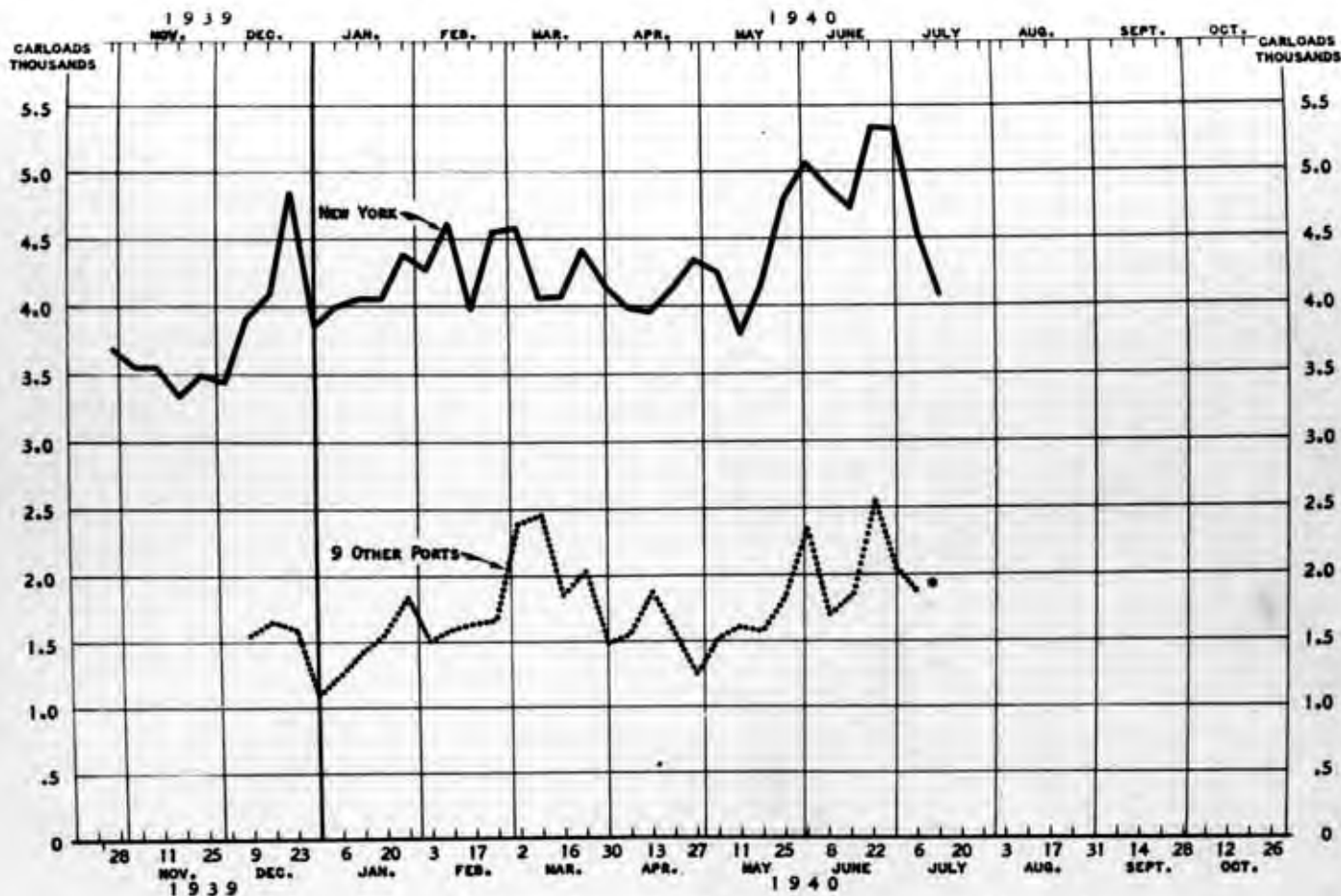
The volume of freight exported from New York totalled 4,503 carloads and showed little change from the preceding week in contrast to a steep decline a week earlier. (See Chart 2.) Since the volume of freight exported exceeded receipts by a substantial margin, the lighterage freight in storage and on hand for unloading in New York declined for the first time since the week ended May 11. The drop of 499 carloads brought the total to 9,436 carloads. (See Chart 3.)

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK

Week ended 1940	New York 1/ (In carloads)
February 3	4,274
February 10	4,617
February 17	3,974
February 24	4,550
March 2	4,577
March 9	4,059
March 16	4,072
March 23	4,424
March 30	4,150
April 6	3,979
April 13	3,957
April 20	4,133
April 27	4,346
May 4	4,255
May 11	3,793
May 18	4,165
May 25	4,794
June 1	5,071
June 8	4,888
June 15	4,726
June 22	5,334
June 29	5,323
July 6	4,548
July 13	4,054

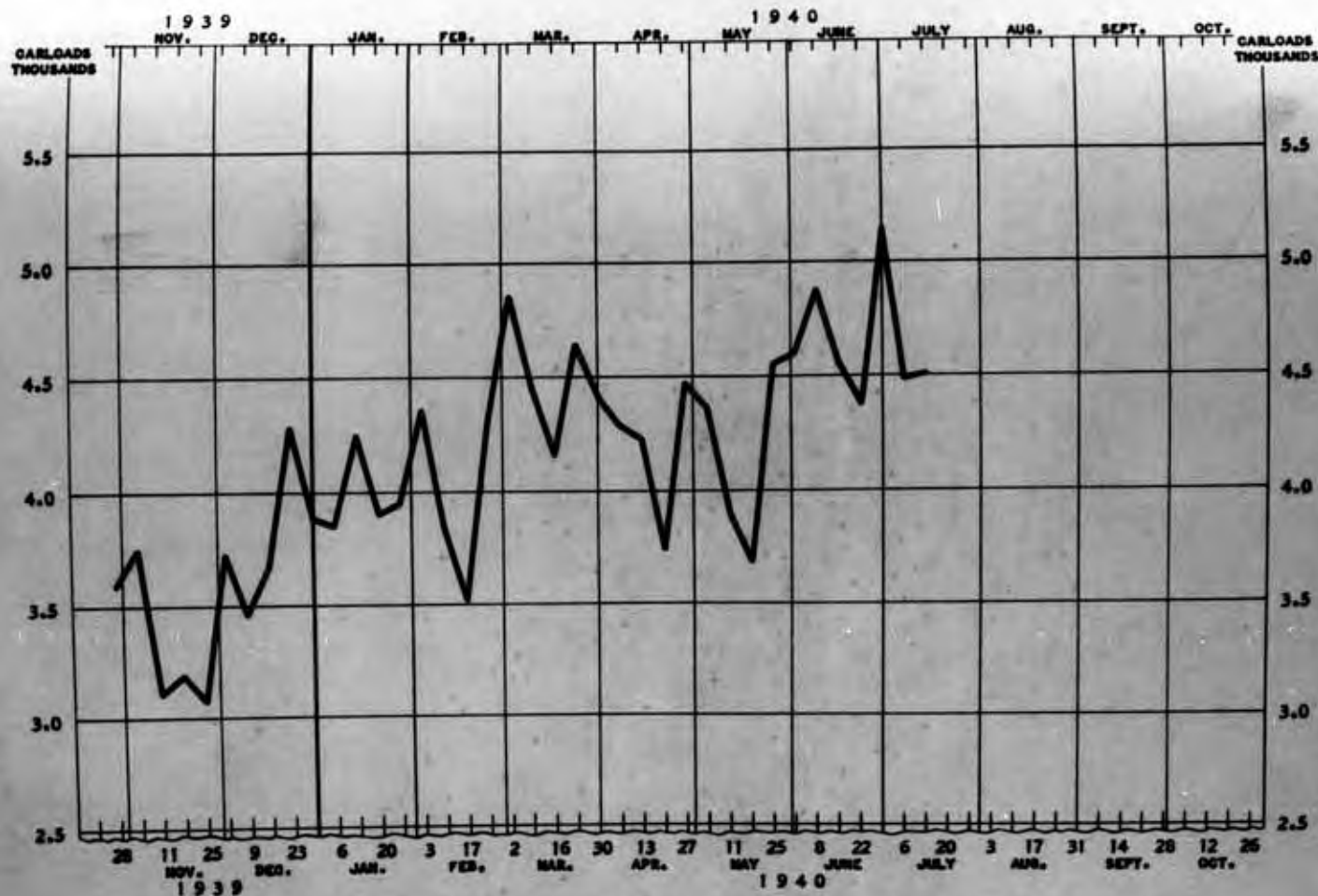
1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS



* Figure for week ending July 13 not available by July 17.

CARLOADS 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

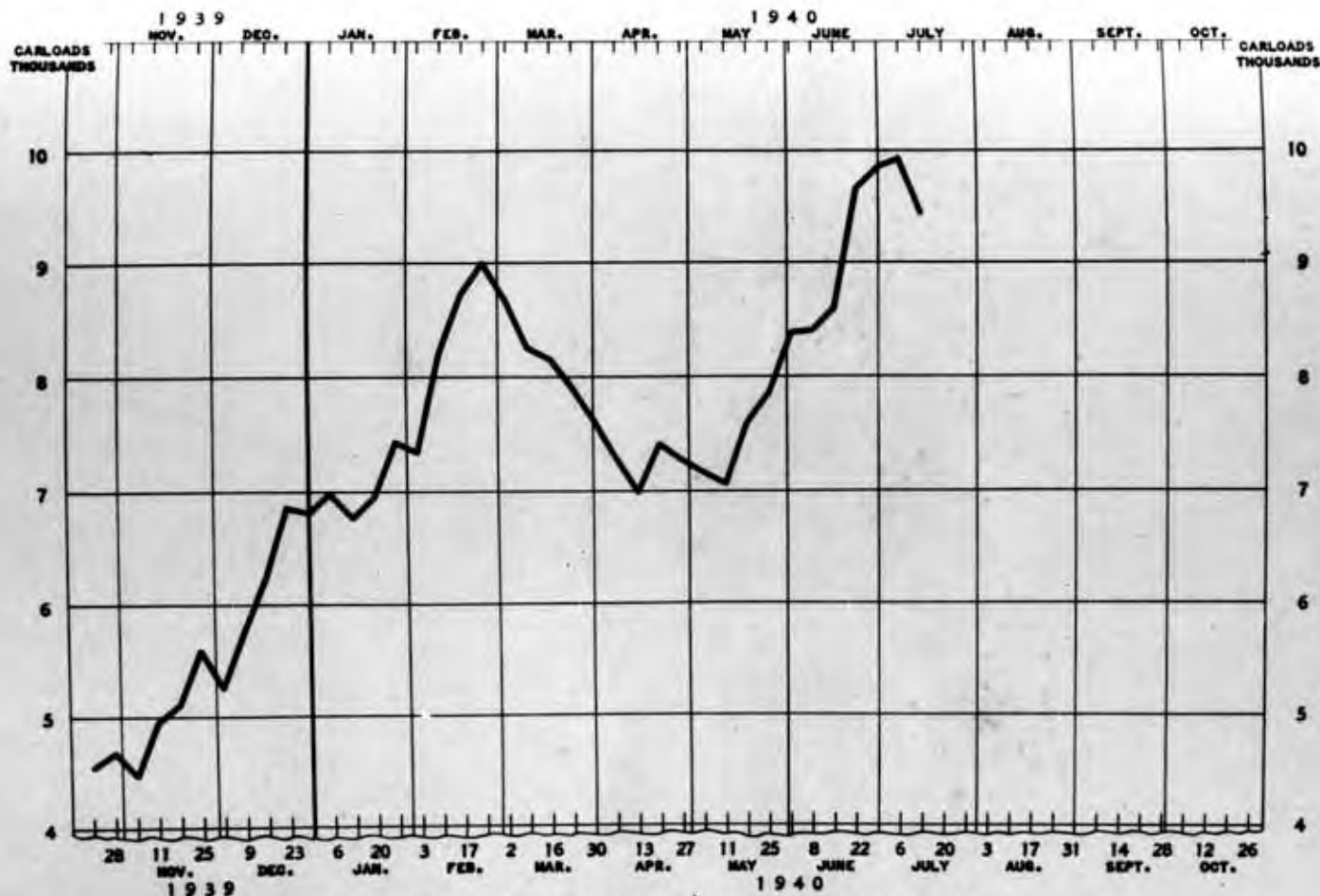
C - 308 - 1

Regraded Unclassified

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Chart 2

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.

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

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221 Chart 3

Regraded Unclassified

from Sir 7 Phillips
7-17-43

7-17-43
Secret 222

DOLLAR REQUIREMENTS OF THE UNITED KINGDOM EXCHANGE CONTROL

Summary.

A provisional forecast of the drain on the gold exchange resources of the United Kingdom in the twelve months from the 1st instant suggests a figure of say \$1632 million as a minimum. Details of this forecast are given below.

As against these requirements the exchange assets of the United Kingdom are set out in paragraph 4. They include:

- (a) Gold to a total of \$1444 million, of which say \$600 million is about the minimum gold balance with which the fund could work;
 - (b) United States dollars: \$108 million.
 - (c) Dollar securities at current prices, say, \$700 million.
- Other assets are of a much less liquid type such as some direct investments in the U.S.A. and sterling investments elsewhere.

The available assets would thus be very low at the end of twelve months and some help in liquidating dollar securities may be wanted long before then.

1. The sterling area consists of the United Kingdom, India, Australia, New Zealand, South Africa, Eire and the British Colonies and Dependencies. It includes also Egypt and Iraq. Purchases by the United Kingdom in any part of the sterling area do not affect the foreign exchange resources of the British Control as payment is made in sterling. On the other hand, transactions between any part of the sterling area and countries outside it do affect the British Control. For example, if Australia buys

motor-cars in the U.S.A. it is the British Control which finds the dollars and, similarly, if Malaya sells tea or rubber to the U.S.A. the British Control receives the dollar proceeds.

Canada is not included in the sterling area, and for the present purpose is in a position similar to that of a foreign country.

2. Conjectural balance of payments between the sterling area, including the United Kingdom, and the United States of America.

<u>July 1940 - June 1941</u>		<u>\$ million</u>	
United Kingdom imports from U.S.A.	1892	United Kingdom exports, visible and invisible	180
Rest of sterling area imports from U.S.A., visible and invisible	280	Rest of sterling area exports	440
		Adverse balance	1552
	2172		2172

The figures are, of course, estimates made in advance, and to be treated with the greatest reserve. They are based on the latest information available but it will be appreciated that the major buying programmes, which were vastly altered as a result of the events of May and June, have hardly yet reached a settled state.

The direct purchases by the United Kingdom in the U.S.A. during the twelve months, totalling \$1892 million, include for aircraft and aircraft materials \$716 millions, for munitions \$340 millions, for iron and steel \$400 millions, for other raw materials \$132 millions, for manufactures \$100 millions, for food and tobacco \$84 millions, for petroleum \$55 millions, with some smaller items.

3. The adverse balance with the United States is

by far the greatest drain on our exchange resources. There is, however, in addition a large adverse balance with Canada and a smaller adverse balance with foreign countries. Against this must be set the receipts from the sale of newly mined gold and the proceeds of any loans which we obtain from Canada and other countries. A rough conjecture of the total drain in twelve months on the Exchange Control would stand as follows:

		£ million.	
Adverse balance between sterling area and U.S.A. as shewn above	1552	Proceeds of sale of newly mined gold:	
		sent direct to U.S.A.	80
Adverse balance with Canada.	560	sent to United Kingdom	400
Adverse balance with foreign countries.	220	Loans and credits from Canada and other countries	320
		<u>Net drain on exchange resources</u>	<u>1632</u>
2332			2332

Having regard to the course of events in June it is believed that the final figure of \$1632 million is much more likely to prove an under- than an over-estimate.

4. Assets:

Gold. \$1444 million

Note. This is the figure of the gold still held in the United Kingdom Exchange Equalization Fund: it does not include the gold reserves held by the Central Banks of India and South Africa, since that gold is at the disposal of the Governments of those Dominions and not at the disposal of the United Kingdom authorities. On the other hand the Exchange Control, which is in the position of a bank and like a bank must carry a substantial cash reserve, cannot divest itself of

all its gold and the necessary balance could hardly be put at less than \$600 million.

Dollars.

\$108 million.

Note. These are dollars held by the United Kingdom Exchange Equalization Fund. There were fairly substantial private dollar deposits in the United States at the outbreak of war but these have been in large part requisitioned. Under the exchange control arrangements in force in the United Kingdom remaining private dollar deposits are kept to the minimum amounts required for carrying on business and these deposits can therefore properly be regarded as nothing more than necessary working capital.

Dollar securities.

\$700 million.

Note. In addition to these dollar securities there are fairly substantial direct investments in the United States, but it is impossible to give at the present stage any figure on which reliance could be placed for the liquidation value of such direct investments. The matter is being looked into. In addition there are of course large British investments in the rest of the world in sterling. It is impossible to give any reliable figure for such investments in present circumstances and their value for the purpose under consideration would depend on finding a willing purchaser or lender in the United States.

It will be seen that at the end of the twelve months the available assets will be very low, whereas it is certain that there will still be very substantial commitments in respect of long-term contracts still outstanding. No figure can be given for this, but it might be anywhere in the neighbourhood of \$1,000 million, and if the war continues the net drain in the following year could not be much less than \$1600 million.

Long before twelve months are out the question of finding some more rapid method than market sales for converting dollar securities into cash may become acute.

July 17, 1940

Mr. Bewley submitted the following figures and comments on detailed items of their foreign exchange assets:

1. Gold - \$1,450,000,000

This did not include Canadian holdings, nor did it include any gold held in England under earmark for foreign countries. Mr. Bewley also stated that the dominions and colonies, excluding Canada, had negligible amounts of gold. (I later showed him the figures in the Federal Reserve Bulletin which give the Central Bank holdings of South Africa and India alone as being over \$500 million. He said he was quite surprised at that because he had thought they had only negligible amounts.)

2. Dollar Balances - \$105,000,000

This figure is the amount held on British government account alone in the United States. It is somewhat larger than our figure, but he has more recent data and he said the balances have increased since the date of our figures.

He said they do not include in their assets the dollar balances held here on private account (our figures show them to be about \$290 million) inasmuch as the British government had already reduced these dollar balances to the minimum essential for the conduct of private business.

He also stated that the dollar balances of the dominions and colonies would, he thought, be negligible. (Our data shows about \$120 million balances of British dominions and colonies, exclusive of Canada, in the United States, \$75 million of which is reported as balances of Hong Kong.)

He stated that British balances in Canada are less than Canadian balances in England, and British balances in non-Empire countries outside of the United States were negligible.

3. U.S. securities - \$615,000,000

British holdings of American securities at current market prices are about \$615 million. In addition, Mr. Bewley said, they have about \$100 million of American securities that are not readily marketable here.

- 2 -

He estimated that there might be \$100 million of Canadian securities held by the British that might be marketable in New York. They have other Canadian securities, but their marketability he said was very doubtful. In any case, England, he said, needs Canadian securities to obtain Canadian dollars with which to help pay her adverse balance to Canada.

3. British Direct Investments in the United States.

Mr. Bewley had no idea how much British investments in American plants (not included in their security holdings) amounted to and was dubious whether their liquidation value would be substantial. He was also sceptical whether such investments should be included among British foreign exchange assets.

(Our Department of Commerce data estimated that British direct investments as of September 1, 1939, amounted to \$833 million. These direct investments include ownership of such concerns as American Viscose, Shell Union Oil, Lever Brothers, Dunlop Tire and Rubber Co., American Thread Co., American Potash and Chemical, Brown Williamson Tobacco Co., J. and P. Coates Co.)

4. British Holdings of Non-Empire Securities.

Mr. Bewley has no idea what these might amount to. He said he did not believe his government had the information. He doubted whether the liquidation value of such holdings would be at all significant. He further was very doubtful whether such holdings should be included in the foreign exchange assets of the British Empire. He expressed doubt whether anybody could tell how much such securities would be worth.

(Our information is that such holdings are substantial. One of the leading British authorities on this subject estimated the liquidation value of British foreign investments outside of the United States to have been at the end of 1938 over \$10 billion. And these figures did not include direct investments that the British had in various parts of the world, and also excluded some other items that we might be inclined to include.)

- 3 -

What the liquidation value of those securities would be during the coming year is obviously a matter about which there could be a good deal of difference of opinion. Their investments in Latin America alone were estimated to have been almost a billion and a half dollars by one authority, and more than twice that amount by another source. The value of their foreign holdings would, of course, be greatly modified by their prospects of victory.

5. Their estimate of the net outpayments for the coming year seems rather high, but we do not have enough information to check on it.

Their estimates of Empire gold production (exclusive of Canada) is over \$100 million less for the coming year than our own estimates.

Their estimate that their income from service income and interest account will not exceed their outgo on invisible items is rather surprising, but again we do not as yet have the information necessary to check their estimates.

July 17, 1940

MEMORANDUM FOR THE FILES:

Luncheon conference in the Secretary's office between
Sir Frederick Phillips, Mr. Purvis, Mr. Philip Young,
and Mr. Bell

The Secretary stated that he had been trying for some time to bring together the loose ends of the British purchases in this country as they are related to our National defense program. He has found it rather difficult at times because of the lack of information on foreign commitments in this country, and the insistence on the part of our own National defense people that they go ahead with our program. He said that Mr. Purvis has furnished him complete information as to his activity, but all of the payments for account of the British Government in the United States are not made through Purvis nor are they charged to the special accounts of the British Government set up on the books of the Federal Reserve Bank of New York. He asked me to explain some of these discrepancies.

I explained that at the time we set up these British accounts with the Federal Reserve Bank of New York, it was our purpose to secure information from such accounts if we ever found ourselves in a situation such as now exists. We thought that we would be able to obtain complete information concerning British payments in this country, but we now find that the figures which the Federal furnishes the Treasury on the transactions in these accounts represent only from one-third to one-half of the total expenditures which are reported from other sources.

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Mr. Knoke puts these other figures in his weekly letter but we have not yet ascertained from the Federal just what are the sources of this information.

I then explained the character of information in reports which Mr. Purvis' organization furnishes Mr. Haas - that it is practically the same information with respect to contracts entered into as was furnished the Treasury during the World War, except that additional information was furnished the Treasury in 1918 showing the payments that had been made on account of the contracts entered into. I then showed the Secretary a form I had drawn up during the morning which will show (a) the total commitments in this country outstanding and unliquidated as of July 1, 1940, for the countries of Great Britain, Canada, Australia, South Africa, New Zealand, and India; (b) the net changes from month to month in these contracts, that is, new contracts and cancellations; (c) total commitments to be liquidated; (d) the payments made on account since July 1, 1940; (e) the total amount due to be liquidated in the future. Then there would be a number of columns where the estimated payments for each month up to June 30, 1941, could be included.

Mr. Purvis told Sir Frederick that it was quite important that all of the British purchasing activities in the United States be concentrated in his organization or that there be proper liaison with his Commission. It could then furnish all the information that the Secretary needs. He indicated quite plainly that he had had complete cooperation from the Secretary of the Treasury and that if he had not had this friend at Court where he could come for advice and counsel,

he would have been lost and would not have made as good progress as he has. He told Sir Frederick that his organization was prepared to compile the information the Secretary needed and submit it to him on a monthly basis, if the other organizations not now operating through the British Purchasing Commission could be brought under that organization in some form or other.

The Secretary told Sir Frederick that it was quite important that he have this information and he thinks it is something that he should not be denied, in view of his responsibility in the matter. He said he was being asked almost daily by Mr. Knudsen of the National Defense Council whether the British can pay for the contracts that they were allowing to go through. The Secretary stated that he does not see how he can continue accepting this responsibility unless he has the information asked for.

While there was nothing definite as to what could be done in the matter, Sir Frederick intimated that he would look into it and see what could be done and straighten it out. He said he was quite aware of the problems and thought it might be even necessary to establish an airline between England and Canada so that the officials could get back and forth to exchange information and straighten out problems of this kind. He knew that Canada was having somewhat the same difficulty in its war purchases and that there was a great need for concentration and coordination of effort.

sub B

RE EXCESS PROFITS TAX

July 17, 1940
10:00 a.m.

Present: Mr. Magill
Mr. Paul
Mr. Sullivan
Mr. Foley
Mrs Klotz

H.M.Jr: This is the thought that I had on your proposal yesterday. In order to give the little fellow a break, it makes sense to me that - to let the man with a hundred thousand dollars capital or less have his six percent but start - I would let it go back.

Paul: How about new money, Mr. Secretary?

H.M.Jr: Do you see the point? I wouldn't raise it to 12 percent. In other words, if we let him have the six and the ten --

Paul: On new money, the ten instead of the eight.

Sullivan: He means six.

H.M.Jr: Let it be between six and ten. In other words, you are talking about a small fellow - do you like it?

Foley: Yes.

H.M.Jr: You are talking about a small fellow - you see, what they were going to do, they were going to say the floor would be six instead of four percent and let them make twelve percent. I don't think twelve percent - you talk about twelve percent - fits so well with the country just now. I am perfectly willing to make the distinction that before - on the small man - you can have your six percent, your overhead is greater, and so forth and so on, and that gives you that much edge on the big fellow, but I can't quite see raising it from ten to twelve before this thing is over. That is the effect it has on me after I have slept on it.

- 2 -

Paul: What is your position, Mr. Morgenthau --

Magill: I think that makes sense.

H.M.Jr: Do you see what I mean, Mrs. Klotz?

Klotz: Yes, I think it makes sense.

H.M.Jr: Ed? In other words, the small man, sure, "We will give you the edge on the big fellow by two percent, but you all start - if you have been making ten percent or more you are all in the same class."

Paul: Or if you have been making six percent or more.

H.M.Jr: Yes, but you give him an edge of two percent.

Paul: You give the man a two percent edge and if he has been making less than six --

H.M.Jr: Yes.

Klotz: That is right.

Paul: What about new money?

H.M.Jr: You didn't talk about this yesterday.

Sullivan: No, we didn't.

Paul: The economists feel very strongly --

H.M.Jr: But that wasn't mentioned yesterday. Before we go on new money, what do you think of this, what I am talking about, you, Randolph Paul?

Paul: I think we ought to do that. I am not in disagreement at all. I am inclined to think we should do a little more than that, but I am in the minority party, I think, on that.

H.M.Jr: Let me throw that at you and you can chew that over. I can't quite stomach the

- 3 -

twelve percent but I think it is fair - in other words, before he goes in we give him a two percent better break than the big fellow, I mean, the little fellow has more expenses. He has got less --

Paul: I think an argument applies to the man above six, if he is small.

H.M.Jr: Well, when it leaves my shop I would like the jumping off place to be ten percent. I don't want to go up and make a speech about it if the small man pays any excess profits - that if he pays them he is entitled to twelve percent. I can't do it. You can't argue very much with me on that.

Magill: I think you are all right on that when you see what that really means. Your six percent in the case of somebody who has earnings for three out of four years prior to 1940, in which he has been making this record. Now, if a smaller or larger corporation for three years prior to 1940 has been making ten percent every year, I don't weep any more tears for them than you do. If he now starts in making twelve or fifteen or something, why shouldn't he come under this?

H.M.Jr: That is right. I couldn't see - just because a man is small, I don't see why he should be permitted to make twelve percent before he contributes anything, but I do think he should get the break at the other end. What do you think, Ed?

Foley: I agree.

H.M.Jr: John?

Sullivan: Oh, I have been fighting all week for just that position. Nobody else agreed with me until you did.

H.M.Jr: Well, I didn't understand you to say that yesterday.

- 4 -

Sullivan: I beg your pardon, sir.

Paul: That is right.

Sullivan: That has been my position all along.

H.M.Jr: What?

Sullivan: Raise the four to six and leave the top the same.

Foley: I think that was John's position.

H.M.Jr: Did you say that yesterday?

Sullivan: Yes. I couldn't have said anything else, because that has been my position.

H.M.Jr: Just for my own curiosity, would you (Reporter) read it over and see whether Mr. Sullivan said it in my office? Will you?

Sullivan: I think that is the time I was competing with the socks.

H.M.Jr: Well anyway, if you did say it, you see how it gradually soaks through so that I gradually come around. I have been tossing in my bed thinking about what Sullivan said.

Now, what about borrowed money? It takes a little time for me --

Paul: I don't wonder. I don't see how you get it as quickly as you do.

H.M.Jr: It is just - I don't --

Sullivan: Now, there is one other phase of this that we should clean up, I think, before we go on borrowed money. Do you recall we discussed yesterday the proposal of the economists in which Mr. Paul shared that on earnings between the floor and the ceiling or the first five hundred thousand dollars of capital, there should be allowed one and a half times --

- 5 -

H.M.Jr: I couldn't get that. It is too complicated.

Paul: That is out now, anyway.

Sullivan: Well, I don't know. I just wanted to make sure that it is.

Paul: I understand the Secretary ruled that out.

Sullivan: I have been against that all along, but you came along with one and a quarter.

Magill: His is quite simpler and much better.

H.M.Jr: What?

Magill: Yours is much simpler and much better.

H.M.Jr: I think it is simpler and I would like to have it leave the Treasury in that shape. What they do upon the Hill is something else, but I don't want - I would like to leave it that way when it leaves the Treasury.

Sullivan: Fine. Now, on borrowed money, the original proposal was that new money was to be admitted at the rate of eight percent. The economists in the case of the small corporations would like to have the eight raised to twelve.

Paul: This is on all money, John, borrowed or not.

Sullivan: Whether it is borrowed or new money come in.

H.M.Jr: I don't see why you make a distinction, just as long as it is new capital.

Sullivan: Well, a distinction has to be made later on in the discussion, because we have different treatment of borrowed money.

Paul: I think we have to make a distinction, but I think we ought to talk first about new money, irrespective of whether it is borrowed.

- 6 -

Sullivan: They say the small corporation should be allowed to get in new money and have the twelve percent exemption rather than the eight in the case of the larger corporations.

You have two problems there. One is inducing new money into small business where the risk is admittedly greater and on the other side you have the evasion problem, because if a concern can borrow for four percent or less and you are allowing them twelve percent exemption, then they are making eight percent on whatever they borrow.

E.M.Jr: What is the answer to that?

Sullivan: Well, I would be willing to go along to ten but I wouldn't be willing to go along to twelve and I think the economists and I think Randolph feels that it should be twelve, don't you?

Paul: Well, I don't feel very strongly about that. I think ten is probably a good compromise there.

H.M.Jr: For a corporation of a hundred thousand or less.

Sullivan: Well, we hadn't determined on the size.

E.M.Jr: Give them a two percent break. Give them a two percent advantage.

Paul: On the first hundred thousand - if it is a borrowed capital question, but this applies whether it is borrowed money or equity money. In any event, if it is borrowed money, we come to that question whether if it should be borrowed money you would give them ten percent exemption and they may be borrowing at four or five percent.

H.M.Jr: Supposing a man has a hundred thousand dollars capital. That puts him in that class. But supposing he borrows a million dollars.

- 7 -

- Paul: Oh well, we are only talking about the first hundred thousand dollars or whatever it may be.
- H.M.Jr: Wait a minute, the man has a hundred thousand dollars capital. How much are you going to let him borrow under this special exemption?
- Sullivan: It would be until his assets get up to that level.
- H.M.Jr: So that his combined assets and borrowed money do not exceed a hundred thousand?
- Sullivan: That is right, and of course a hundred thousand is too low for that. Wouldn't --
- Magill: I think the difficulty on this new money thing is that we have got a head-on conflict between two propositions. Personally, I don't see how we can arrive at any compromise. On the one hand, you know, as Randolph has said, that whether by means of borrowing or by raising equity, there is going to be an incentive to corporations that are earning a higher rate to get in more capital so that the rate will be lower. If you encourage them to take in new money, you just accelerate a movement that will take place anyway and that you don't want.
- On the other side of it, it is also true that there are some corporations that you would like to encourage to get in new money for defense work and otherwise.
- H.M.Jr: You have brought out something new. Have you people thought it through?
- Magill: No.
- H.M.Jr: Could I talk to you about this again when I come back from the White House? I am going over at 3:00. When I come back, Mrs. Klotz --
- Paul: I think your mind would be clearer on this issue if we told you, provided you have time at the moment, our borrowed capital problem.

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H.M.Jr: I haven't, but I would have when I come back from the White House.

Paul: All right.

H.M.Jr: All right?

Magill: Okay.

H.M.Jr: It will be sometime around half past 3:00.

Sullivan: Now, should I give you --

H.M.Jr: No. I would rather do it then. I would rather take, if necessary, half or three quarters of an hour at that time.

Magill: I think it would be well - and this borrowed capital is a thing we have discussed a good deal, so if you could give us enough time so that you could get it thoroughly in your own mind --

H.M.Jr: You can have all the time you need. I won't make any other appointments.

Foley: You will probably want to sleep on it, too, but if you could give us the answer, what you think it is, tomorrow morning --

H.M.Jr: Well, if you let me soak it up this afternoon and see how I get it - but these things are terribly important.

Paul: It is important that we get that borrowed capital problem settled, because that is holding up the drafting.

H.M.Jr: Maybe we can settle it this afternoon. I think you men ought to talk amongst yourselves.

Sullivan: If you have a half minute, there is one thing I think I should tell you now. They called up again from the National Defense Council yesterday afternoon. They have

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hired your friend Alvord and Prettyman and they had a meeting yesterday. Ginsberg called me and he is entirely with us and he said that the purpose of the meeting was so that the National Defense Council crowd would have a united front when we sent the bill over for approval before it went up to the Hill and I told him we had no intention of doing that.

H.M.Jr: Wait a minute. Alvord and Prettyman? I hired Prettyman.

Magill: Of course, you can't put the Treasury in the position of submitting its work to the Defense Council for approval.

H.M.Jr: Who told you that?

Sullivan: Ginsberg.

H.M.Jr: Who is Ginsberg?

Sullivan: He is an attorney over there.

Foley: He is Ben Cohen's man.

Sullivan: He is with us a hundred percent. He is a grand fellow.

Paul: I think --

H.M.Jr: Well, I won't have to mention it. He said that we are going to submit our own bill?

Sullivan: They were told over there - Carl Adams is the head of a committee to pass on our excess profits bill. Now, Adams is the fellow who was so unpleasant with Ed and was unpleasant with Randolph.

Paul: He tried to blitzkrieg me over there.

H.M.Jr: Carl Adams?

Sullivan: That is right.

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Paul: He was pretty ugly.

(Telephone conversation with Mr. McReynolds follows:)

July 17, 1940
10:35 a.m.

H.M.Jr: Hello.

Wm. H.
McReynolds: Good morning, sir.

H.M.Jr: Mac, how are you?

McR: First rate, thank you.

H.M.Jr: Mac, I've just been told by the grapevine that they've got a Committee over there which Carl Adams is the Chairman of on taxation and they have employed Mr. Alvord and Prettyman as tax consultants so that when the Treasury sends its excess profits bill over there they can pass on it. Well, they're just crazy. See?

McR: Yeah.

H.M.Jr: And if they're going to hire Alvord and Prettyman -- you were with me

McR: Yes, sir.

H.M.Jr: and as we

McR: I'll find out about it.

H.M.Jr: Well, if they think we're going to send a bill over there for their approval, they're just crazier than I think they are.

McR: Of course. I'll find out about it.

H.M.Jr: And if they -- we'll treat them as we will any other of the 130 million people. If they want to come over and see Mr. Sullivan, he'll see them.

McR: Yeah.

H.M.Jr: But for them to employ -- I've gone all through that once with a man by the name of Eccles

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and I haven't got the time or disposition to go through it and you'd better kill it before I get angry.

McR: O. K.

H.M.Jr: Because I haven't got time, Mac.

McR: Well, I don't want you to burn yourself up so I'll try and kill it before you get mad. (Laughs).

H.M.Jr: You know me.

McR: Yes, I do.

H.M.Jr: Thank you.

McR: Right-o.

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Sullivan: Biggers phoned from Toledo and he wanted to bring some fellow --

H.M.Jr: Is that telling him?

Sullivan: That is telling them swell.

RE EXCESS PROFITS TAX

July 17, 1940
4:15 p.m.

Present: Mr. Magill
Mr. Sullivan
Mr. Paul
Mr. Foley

H.M.Jr: If you fellows want a good laugh, Mr. Biggers called me up that he wanted me to know personally that he was in charge of that tax business and that some little fellow down the line that sent for a couple of the boys just to talk to them - but everything was all right and he wasn't going to have anybody like that running around the place and that he was so appreciate of what we have done that if we wanted anything - if they wanted anything more done, they would just look to me, but they weren't having any of these tax fellows running around. So the little person just made a mistake. He mentioned the man's name. They were coming over to see you at 10:00 tomorrow.

Sullivan: That is right.

Foley: Who made the mistake, not Ginsberg?

H.M.Jr: No, his name was mentioned but it was not Ginsberg.

Sullivan: Carl Adams?

H.M.Jr: Yes, Carl Adams just didn't know what it was all about. Now, when McReynolds called me back at 2:30, he never talked to Biggers. He talked to Stettinius and Knudsen about this thing and told them there wasn't going to be any monkey business, I wasn't going to stand for it, and they said they were with me, but Biggers sort of left the impression that he would be very glad to have me submit the stuff to him but nobody else was going to interfere with it.

Sullivan: He put that up to me, too, in a very smooth way. He said, "I wouldn't think of having those fellows look at an excess profits tax, because they are really not with the Government. He said, "I think it would be nice

if this fellow I spoke of from Toledo would go over it," and I said, "I would be very glad to go over the amortization with anybody you name."

H.M.Jr: Now, if we are going to show it to them we might as well show it to Associated Press and all the rest.

Sullivan: I guess you didn't hear me. I said "amortization."

H.M.Jr: I heard you. Did you hear me?

Sullivan: Yes, I heard you. If you think you are tough, take a look at my transcript when I talked with these fellows.

H.M.Jr: All right, I just wanted to make sure.

Sullivan: Yes.

H.M.Jr: All right. Who is teacher?

Magill: Well, we have talked about - Professor Sullivan is teacher. We have talked about --

H.M.Jr: All right, go on, Magill.

Sullivan: He is my substitute. I am on sabbatical.

Magill: The Professor is still shuffling his papers.

H.M.Jr: And they keep coming in in dribblets. That is what disturbs me.

Sullivan: My God, you have never been able to take care of what we bring in. You always say, "Bring them back tomorrow."

H.M.Jr: I wanted to give you a chance to get ready.

Sullivan: We have been waiting a week.

Magill: The thing we have talked mostly about that needs a decision is borrowed capital.

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H.M.Jr: Decision or incision?

Magill: It needs an incision, too. The boys up at the Capitol are apparently working on the incision part.

The other thing we have talked about this afternoon is consolidated returns. I think the borrowed capital is the best one to bring to your attention at this time today, probably. I will tell it this way.

H.M.Jr: These fellows who have worked for me a little while know after 4:00 o'clock I run downhill.

Magill: We have no such idea at all.

Paul: I am not so sure they don't run downhill pretty fast, too.

Magill: We have been running down since 2:00 o'clock.

H.M.Jr: And I am running down easier than I used to.

Magill: And Randolph Paul and I had lobster for lunch, so we have been in bad shape all afternoon.

H.M.Jr: What did you wash it down with?

Sullivan: Buttermilk.

H.M.Jr: And lobster? Gentlemen, that is terrible.

Magill: It is very good.

H.M.Jr: Is it?

Magill: Sure, it is just churning around there in good shape.

Sullivan: Listen, I have got a deadline on Monday on this bill.

Magill: To digress for a moment, speaking of borrowed capital, the economists have been of the

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view, I think, Blough and Shoup, that borrowed capital clearly should be included in invested capital, certainly in the case of the smaller concerns --

H.M.Jr: (Smoking one of Mr. Sullivan's cigarettes)
Wow! Gentlemen, this is mouth wash. That is a dirty trick.

Sullivan: That got rid of that 4:00 o'clock feeling quick, didn't it?

Magill: They think that borrowed capital ought to be a part of the invested capital, certainly in the case of the small concern. The points, I think, are essentially these, that first of all - I had better add this. By borrowed capital, we mean capital that was borrowed on an interest-bearing obligation of some sort, whether it is a note or a bond or anything like that, but whether a short term note or bond, but we do not mean to include such things as accounts payable. It would be simply interest-bearing obligations of one sort or another.

It appears that, looking at the figures, concerns in the various income classes borrow a pretty uniform amount in relation to their invested capital straight along through, no matter what their size. The hardship of excluding borrowed capital, borrowed money, from invested capital would apparently be greater in the case of the smaller concerns than in the case of the larger ones and another thing they have in mind is the fact that if we have got a small corporation of some sort that wants to expand, we share the view that it would be very difficult in these times for it to expand in any other way than by borrowing money, that it probably couldn't acquire additional capital in any considerable amount by means of stock issues.

Well, that has lead us, I think, to a reasonably clear agreement. Paul has

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some reservations but I think the rest of us are pretty well --

Paul: My reservations are only on the bigger --

Magill: The plan we have in mind to offer to you is this, that if the corporation has less than a hundred thousand dollars in capital --

Sullivan: Including borrowings.

Magill: I was going to state it the other way. If it has under a hundred thousand dollars, it shall be able to include its borrowings and interest-bearing obligations up to a hundred thousand dollars, a hundred percent, in invested capital.

H.M.Jr: Say that again, will you, Ros?

Magill: If the company has less than a hundred thousand dollars in its capital stock, we will say that it shall be able to include borrowed money up to a hundred thousand dollars.

H.M.Jr: A hundred thousand of borrowed money in addition or the two together?

Sullivan: If the company has sixty thousand, it can borrow forty.

Magill: Then between a hundred thousand and a million, allow borrowed money to be included to the extent of two-thirds the amount and above a million, the extent is only one-third.

H.M.Jr: Now wait a second. A hundred thousand or under, you allow what?

Magill: A hundred percent.

H.M.Jr: A hundred percent what?

Magill: Includes borrowed capital.

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H.M.Jr: So it would be six percent?

Sullivan: No sir, it would be - in the case of the large --

H.M.Jr: I mean, if it is a hundred thousand dollars. It wouldn't begin to pay until it was six.

Sullivan: No --

Magill: Put it this way. If a company had sixty thousand dollars of capital stock and forty thousand dollars of notes and bonds so it had a total of a hundred thousand dollars, you would let them treat that as their base for invested capital purposes so if they had earned, let's say, eight percent - well, I will put it this way. If they had earned eight thousand dollars a year, you would treat them as earning eight percent on their investment, you see.

H.M.Jr: I see.

Magill: As distinguished from treating them - whatever eight thousand dollars on sixty thousand dollars capital stock would be. Then from a hundred thousand to a million, cut them down to two-thirds of the borrowed money. The reason for the cutting down is this, that it is the consensus that companies find it easier to borrow money as they get bigger and further, can borrow money at lower rates of interest than we --

Paul: Also they aren't so unable to get money by equity financing.

Magill: Yes, they can get equity financing more easily and we want to try to draw this thing in such a way that we don't too much encourage firms to go out and borrow money which they don't need, for the sake of reducing their excess profits.

H.M.Jr: I think it sounds good.

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Paul: One-half is your figure.

Sullivan: No, above one-third. You see, new money for big corporations comes in at eight percent and if you are only allowing it at one-third, there is two and two-thirds percent, so nobody is borrowing money much cheaper than that.

H.M.Jr: I think it sounds all right.

Sullivan: Now, in addition to that, we are allowing them to deduct the interest on that part of the borrowings which we do not admit to the base.

H.M.Jr: Why do you do that?

Sullivan: To even it up.

H.M.Jr: Explain it, give me an example.

Sullivan: All right. Here is a company that is in this class that is over the million dollars and it borrows three million dollars. Now, we are allowing one million dollars of that to be admitted to the base and we are allowing their interest charges on the other two million to be deducted.

H.M.Jr: As what?

Magill: Well, the interest deduction for income tax purposes at present is, you might say, a hundred percent deduction.

H.M.Jr: The interest on what?

Sullivan: On the two million, on the two-thirds, which is not --

H.M.Jr: Do you allow that to be deducted --

Sullivan: As a charge against the current expenditures.

Paul: Put it the other way, to the extent that a person is getting borrowed capital, he is

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not allowed an interest deduction. In other words, a man can't get out of the two. If he is going to take borrowed capital and invested capital to that extent, he must be denied the interest deduction on that borrowed capital.

Magill: Take the - I think we will start with a little case first. We are going to let them include it a hundred percent if they are under a hundred thousand dollars, see. Well now, suppose you had here a fellow that had eighty thousand dollars invested in capital stock in his company and he didn't have any loans at all. Well now, if you said to him, "If you borrow money you can include that in your invested capital and you can also deduct the interest on the loan," there would be that double incentive to borrow money.

H.M.Jr: I am not going to take time. Do you fellows all say it is fair?

Sullivan: Yes.

Paul: I just want to say this. There is one place --

H.M.Jr: I okay it now if you all say it is fair. Are you together?

Foley: Yes.

Paul: I just want you to understand that I have some few misgivings. I would be inclined to be a little tougher in the upper amounts, particularly above a million. I just have a general feeling that a third is too large and it ought to be a quarter, but the general idea, I would accept.

H.M.Jr: Well, Randolph, if I may say it, all of these things, if they are fairly fair, when we get down to whether it is a third or a quarter and an eighth, I think all we can do is get the principle right.

Paul: The principle is all right.

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H.M.Jr: If it is all right - a third sounds all right, a quarter sounds all right; I don't give a damn. This other thing - I want to understand it tomorrow and I am not going to hold you up tonight.

Sullivan: There is just one other wrinkle in this phase of the work and that is that on corporations --

H.M.Jr: I want that explained to me tomorrow. I don't have time tonight.

Sullivan: Yes, sir. On corporations with less than a hundred thousand dollars, the rate at which the borrowed money is to be admitted is to be ten percent as against the eight percent on the larger corporations.

H.M.Jr: Say it again.

Sullivan: The company with less than a hundred thousand is --

H.M.Jr: The rate is to be eight.

Sullivan: Is to be ten percent, rather than the eight percent that we agreed to.

H.M.Jr: That is all right. I said that this morning.

Paul: That is the same thing.

Sullivan: The other two matters we wanted to discuss with you were the consolidated returns for excess profits tax purposes and the exemption of intercorporate dividends on these consolidated companies.

H.M.Jr: I can't see why that has to be changed now.

Sullivan: This isn't changing the income tax. They still do not file consolidated returns for any --

H.M.Jr: But they must --

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Magill: The question, I think - I gave this illustration in there and I think it makes a point for your purposes. I presume the DuPont Company has a number of operating subsidiaries of one sort or another.

H.M.Jr: They make one return, don't they?

Magill: No, they don't now. The Treasury has taken the position, as we were saying up at the farm, I think, that consolidated returns should be allowed for income tax purposes but they are not at present except in the case of railroads and one or two other classes of companies.

H.M.Jr: Make a return for each subsidiary?

Paul: That is the way they do now.

Magill: Now, for invested capital purposes I think it is even more important that they should be allowed to make consolidated returns and we discussed that with you, you remember --

H.M.Jr: Let me just - letting them do it for excess, wouldn't that be a lever to make them do it the other way, too?

Sullivan: Yes.

Magill: Now, the question of the intercorporate dividends, you can see it in this way. Suppose then we say that if the DuPont organization consists of companies A, B, C and D, those should be allowed to make a consolidated return. Now, DuPont is reputed to own about 25% of General Motors stock. Well, that wouldn't be in the consolidated group because it is too small an ownership where you require 95% ownership. Should you say, however, that the intercorporate dividend tax is to apply, so that when General Motors declares dividends to its stockholders, including

DuPont, that DuPont has to pay a tax to some degree on these General Motors dividends, even though it distributes them at once to --

H.M.Jr: I never could see a consolidated return but I always felt that it was a method of tax avoidance.

Paul: It started as a way of preventing tax avoidance. That is the reason in the committee reports for allowing consolidated returns under the old excess profits tax.

H.M.Jr: Let me ask you again, because I don't want to hold you up unnecessarily. Is everybody for this thing?

Foley: For consolidated returns.

Magill: We are for consolidated returns, I think, isn't that so?

Paul: Yes, we all are.

Sullivan: I don't think Ed is, though.

Foley: I am not completely sold, but these fellows know a lot more about it than I do, Mr. Secretary.

H.M.Jr: Are you for this, Paul?

Paul: I am for consolidated returns and I am for not taxing intercorporate dividends but not permitting the stock to be admissible assets. I don't think that question of intercorporate dividends amounts to much.

H.M.Jr: Let me put it this way. I am not - if you can get a three to four vote out of this crowd, that is good enough, and you can leave me out of it. That is fair, isn't it?

Foley: If three of you are for it, I will have to go along. This thing has got to keep flowing.

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I can't give it the time.

Sullivan: Blough and Shoup and Tarleau and Ros and Randolph were all for it when we met in New York. I was the only one who had any reservations on it and I deferred to their good judgment.

H.M.Jr: You have got to sell Ed on this thing. He has got a 25% vote.

Paul: Well, he is easy.

H.M.Jr: Well --

Magill: We will give it some thought, Ed.

H.M.Jr: I will leave it this way with you. If you can get a three to four vote on this thing, that is fair enough. I don't need to have it unanimous, but get a three to four vote and if Ed feels strongly enough about it, then I am going to ask you to hold it up and I will go over it myself. If you think this is a major mistake, Ed, I want to go into it. If you feel, well, like that, all right, but if you think it is a major mistake - because I want to know. If you say, "Well, the boss ought to know this thing, this is a real mistake and I can't go along," I will sit in with you tomorrow, but if you are just undecided, let her go. Some time I want to know what it is all about.

Paul: When do you want us to go into that question? You said you wanted to discuss tomorrow the question of the interest on this borrowed capital.

H.M.Jr: Oh, you fellows do it. I can't. Just go ahead. I have been holding you up too much.

Sullivan: Have you any idea when we are going to know how much money is wanted to be raised?

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H.M.Jr: No.

Magill: I don't see how you can tell them.

Paul: You can tell them very approximate figures.

H.M.Jr: I would say between one and two billion dollars.

Sullivan: That looks pretty high from the figures given us.

Magill: Why can't you tell them this --

H.M.Jr: Let me do that again tomorrow.

Magill: Why can't you tell them it all depends on how tough they want to be?

H.M.Jr: I will do it tomorrow.

MEMORANDUM

July 17, 1940.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

After meeting with you this afternoon Messrs. Foley, Magill, Paul and I discussed the question of consolidated returns and the exemption of inter-corporate dividends for purposes of excess profits taxes only.

We unanimously agreed that for excess profits tax purposes consolidated returns should be permitted and that inter-corporate dividends should not be taxed. The reason we are adverse to taxing inter-corporate dividends is that if we do, we will then have to admit to invested capital the value of the stock upon which the dividends are being paid. Such an increase in the invested capital would seriously reduce the revenue we hope the excess profits tax act will yield.

JLS

RE DEPARTURE PERMITS

July 17, 1940
4:00 p.m.

Present: Mr. Foley
Mr. Thompson
Mrs. Klotz

H.M.Jr: I have got one fellow I can count on to do this shipping business and he isn't here now. I can't switch five times a day to somebody else. Where is he? Herbert is sick. Every day I get a new man on this shipping business.

Foley: Well, I don't know about every day getting a new man. Huntington has been doing it ever since --

H.M.Jr: Every day somebody else gives me another report.

Foley: That is because he doesn't attend your meetings, sir.

H.M.Jr: Where is he?

Foley: He asked me if he could take the afternoon off.

H.M.Jr: But Gaston is sick and he should be here. When Mr. Gaston comes back, who is there, some one person who will work the same hours that I do on this shipping business? I want some one person to show enough interest.

Thompson: Well, Mr. Gaston headed it up and in his absence it was to be headed up by Huntington and Foley.

H.M.Jr: I have no report on what happened on that business in Texas.

Foley: There it is. There is a report attached to that memorandum.

H.M.Jr: He should be here. You work the same hours that I do. What is all this, boiled down?

Foley: Well, they said they were still considering the question of reimbursement through sale

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of lubricating products. They submitted their requirements under the contract. They submitted what they thought were normal peacetime requirements for Spain and they left it all with us. They said they would go along with anything we wanted.

H.M.Jr: I didn't know Huntington was away. I just was called in a conference to decide that Huntington - should he do this when Gaston came back or not. I didn't know that. That is why Norman Thompson is here. Then I get the answer he is gone for the day.

Foley: Well, his father is very sick. He is dying over in Baltimore and he had to go. He said he would like to get out in the country and get freshened up a little bit and I said it was all right.

H.M.Jr: Who should do this when Gaston gets back? I want any time during the day or night to be able to call on somebody and I don't think Gaston can do it.

Thompson: Well, I think probably we can arrange between Gaston and Cairns.

H.M.Jr: Yes, but I want one person to follow this for me. How busy is Cairns?

Foley: Oh, he is not too busy that he can't do this.

H.M.Jr: Well, I think until we get this thing straightened out, he ought to do it.

Foley: All right.

H.M.Jr: Don't you?

Thompson: I think he is the best man --

H.M.Jr: He can report to Gaston and me, but I can't put the pressure on Gaston. He can't take it.

(Telephone conversation with J. Edgar Hoover follows:)

July 17, 1940
4:11 p.m.

H.M.Jr: Hello.

J. Edgar
Hoover: Hello.

H.M.Jr: Mr. Hoover.

H: Yes.

H.M.Jr: How-do-you-do.

H: How're you today?

H.M.Jr: Say, I've got a nice one for you.

H: What is that?

H.M.Jr: The Allied Purchasing Mission.

H: Yeah.

H.M.Jr: The French are packing up some guns that we need and some plans and I want -- Mr. Purvis, who's chairman of it, has agreed that he'll take one of your top men as his assistant to watch this thing for us, and we just don't want that stuff to get out of the country.

H: Yes.

H.M.Jr: Now, the point is, they're going to move it over to the French Consulate and when it gets over there, it's too late. How about it? Do you want to take this on?

H: I think we can do it.

H.M.Jr: Well, at least -- I don't know. Maybe when the guns and the plans move they may never get to the Consulate -- they may get down to the War Department or something, and that's where I want them to go.

H: Exactly. Exactly.

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H.M.Jr: Something. A little highway robbery or

H: I think I can -- I think almost anything is justified at this time.

H.M.Jr: I think so because this is stuff that we want and I want to keep it here for the Army.

H: Certainly. Well, now, who shall we get in touch with, Mr. Secretary.

H.M.Jr: Well, he's here in town -- in the Treasury now.

H: That is, Purvis is.

H.M.Jr: Purvis is -- he's in the Treasury in a conference down my hall.

H: What I have in mind, I'd have Mr. Foxworth of my office here who is handling the Foreign Intelligence for me now to see him.

H.M.Jr: Well, if Foxworth could come here immediately

H: I'll have him come to your office right away.

H.M.Jr: To my office.

H: To your office. He's the Assistant Director here that I've put in charge of this special intelligence work.

H.M.Jr: Well, I could have the two of them if he could come over at once.

H: I'll have him right away.

H.M.Jr: I'll have Mr. Purvis in. He's down the hall in a meeting.

H: I'll have him there right away.

H.M.Jr: Two of them could arrange it, but a little something like what you -- you know -- Panama.

- 3 -

H: Yes. Well, exactly and the same thing we did in the last war with regard to the Swiss documents down at the Swiss Consulate, you know.

H.M.Jr: But they'll cooperate and they'll know what's important and what isn't.

H: Yes, yes. Well, it may just accidentally get lost somewhere, you know.

H.M.Jr: Yeah. But it's just silly to have these things shipped over there.

H: Well, it certainly is. To my mind that kind of thing is just fatal to our future defense.

H.M.Jr: Right.

H: The isolationists or not to the contrary. We've got to realize that this is on a world-wide basis, I think. Now, this other situation here at Washington -- you know, the one you spoke to me about.

H.M.Jr: Right.

H: We're working on both of those places, so we'll be getting material now.

H.M.Jr: Oh, are they in effect?

H: Yes, they're in effect today.

H.M.Jr: Good.

H: Yes. We had some technical difficulty of actually making the connection there because it had to be done very quietly, but we've got that thing now well sewed up. So we ought to have some angle on that end this next week -- that is not later than Monday, I hope to have this whole radio thing ironed out.

H.M.Jr: Fine.

H: Is Gaston back on the job, Mr. Secretary.

H.M.Jr: He'll be back Monday morning.

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H: Fine, because I naturally want him -- I would like to have him sit in for your Department on it.

H.M.Jr: He'll be back Monday.

H: My idea was that those of us who are really thinking the same way get together and get a united plan and then we may do a Blitzkrieg on the F.C.C.

H.M.Jr: Fine.

H: Because if we are not in unity on what we want done before we go after that F.C.C., they'll try all kinds of things on us.

H.M.Jr: Right.

H: I don't think they have any ulterior motive, but they're just not practical, you know.

H.M.Jr: Will you let Fox -- what's -- Foxcroft

H: No. Foxworth.

H.M.Jr: Foxworth -- let him come over?

H: I'll have him over at your place within the next ten minutes.

H.M.Jr: Thank you.

H: Fine. Good-bye.

- 3 -

H.M.Jr: They have got some plans and some guns there and these fellows are going to get this stuff out tonight or tomorrow. That is what that man is coming for. I am not going to wait. I am going to put an FBI man in there tomorrow morning.

Klots: Is that what he wanted to see you about?

H.M.Jr: I think so.

Klots: It is just as well you postponed it.

H.M.Jr: If it is by tomorrow morning, there will be somebody in there and when these plans and guns move out - they have got the latest French Hotchkiss and they have actually got the guns. They are moving it over to the French Consulate.

Foley: Where, New York?

H.M.Jr: Yes. It will arrive up at - what is the island down there?

Foley: Ellis?

H.M.Jr: No, the other one.

Foley: Oh, Governor's?

H.M.Jr: Governor's. Needless to say, I don't expect to read about this in Pearson and Allen.

Klots: Alsop and Kintner.

H.M.Jr: Don't you tell this to Alsop; I want to tell it to him.

Foley: Do you see him today?

H.M.Jr: No.

Foley: Well, there is a man at Cairns' desk. He is there and he knows everything that Cairns is doing.

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H.M.Jr: All right.

Foley: Cairns has been here every Saturday.

H.M.Jr: All right. We will fix up a little something that Cairns will service Mr. Foley and me. I want a memorandum and also something so it will also go to Gaston, but the point is, I don't know how well Gaston is. Foley takes it and he gets fat on me and I don't know whether Gaston can take it or not. All right.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Kaunas

NO.: 156

DATE: July 17, 1940, 9 a.m.

I have received confidential information to the effect that it is possible that England will follow the example of the United States and freeze the \$5,000,000 in gold which is on deposit in London. On July 16 after announcement was made here that Baltic credits in the United States had been frozen, Dekanosov, Assistant Commissar for Foreign Affairs of the Soviet Union, hurried to Moscow to secure instructions.

When business was opened this morning, a rate for the dollar was not quoted by local banks.

A copy of this message has been sent to Moscow.

NOREM

EA:EB

DEPARTMENT OF STATE

Washington

July 17, 1940

My dear Mr. Secretary:

Let me acknowledge your letter of July 6th relating to the applications received by the Treasury Department for licenses which would permit the transfer to Norway, and in a few cases to the other countries covered by Executive Order No. 8389 of April 10, 1940, as amended, of funds belonging to persons residing in this country, which funds are to be used for the support of relatives and friends in the countries covered by that Executive Order. I note that in most of the cases the amount to be sent to any one person is not in excess of \$100 per month.

In the view of the Department of State, there is no objection to the licensing of such transactions, especially if precautions can be taken to assure that the funds in question reach the individuals for whom they are intended.

Sincerely yours,

(Signed) Cordell Hull

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

(COPY)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau

FROM Mr. Cairns

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker **ARYAN**, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

2. A departure permit was refused for the American Tanker **NEVADA**, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.

Pending Cases

1. The Texas Company has submitted a request to export 610,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.

2. The Texas Company has requested advice as to whether or not the SS **MONTE JAVILON**, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, some time between August 10 and the early part of September. This matter is under consideration.

3. Suspicious circumstances have arisen in connection with the departure of the **SIMLA**, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.

4. The Lithuanian Steamship **DENNY** is now in Boston. The Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

Huntington Cairns

July 17, 1940

A conference was held in Mr. Cairns' office at 9:30 a.m. with T. E. Buchanan, General Manager, Marine Department, Texas Company, L. A. Morison, Assistant to the Management, Export Department, Texas Company, and Mr. Feldler. Mr. Morison stated that Spanish imports of petroleum products for the years 1930 to 1935 were as follows:

1930	-----	725,000 tons
1931	-----	759,000 tons
1932	-----	799,000 tons
1933	-----	758,000 tons
1934	-----	815,000 tons
1935	-----	881,000 tons

He stated that for the first six months of 1940 the Texas Company had sent 432,000 tons, and that during the present month, 34,000 tons had been sent. The estimated requirements for the balance of the year 1940 are 610,000 tons, making a grand total of 1,076,000 for the year 1940. The balance of 610,000 tons for the remaining six months of 1940 will probably be spread evenly, depending upon the availability of ships and the requirements of the Spanish Government.

The Texas Company wishes to know if the SS MONTE JAVILON under Spanish registry will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, at some time between August 10 and the early part of September. Preparations for loading, however, have to be made well in advance, and the company does not wish to embark upon the work without an assurance that departure permit will be issued.

Mr. Buchanan stated that the offer to mitigate any loss arising out of the refusal to issue departure permits for the NEVADA and the ARVAN was still under consideration by the Texas Company, but he did not believe it would be accepted. He said that the company was not so much interested in disposing of additional oil as in fulfilling the obligations of the contract with the Spanish monopoly. Mr. Buchanan added that, if the Texas Company lost this contract, it would be probable that the Spanish monopoly would look to Russia and Rumania for oil supplies.

The representatives of the Texas Company were advised that a decision would be made as promptly as possible.

Secretary Morgenthau

July 17, 1940

Mr. Cairns

MERCHANT SHIP MOVEMENTS

Closed Cases

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2. The Texas Company has requested advice as to whether or not the **SS MENTE JAVALON**, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, some time between August 10 and the early part of September. This matter is under consideration.
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HS/ep

(Signed) Huntington Cairns

July 17, 1940

MEMORANDUM

In behalf of the Lithuanian-American Import & Export Corporation, of New York City, I would like to apprise the Department of the Treasury of the following facts:

That the said corporation is the general agent representing the original owners of the Steamship BENNY, now lying in the Boston Harbor. This vessel had been acquired in New Orleans in March, 1940, with the funds furnished by the Lithuanian-American Import & Export Corporation. Since that time, the ship has not been out of American waters, and it has been in the Boston Harbor since April, 1940, due to the inability to sail to its port of destination - Riga, Latvia.

During that period, the wages of the crew, expenses and repairs and other expenditures in the upkeep of that ship had been furnished by the Lithuanian-American Import and Export Corporation. Before that ship is permitted to leave the port at Boston, we would like to be notified so that an opportunity may be given to present all the essential facts in connection with the purchase, the upkeep, and the preservation of the said steamship. We believe that the facts we have in our possession may be of extreme importance before a decision is made by your Department permitting the departure of that ship to any other port. We therefore request you to send a notice of any application to your Department for the sailing of that ship out of the Boston port, to Mr. Leopold Grigonis, President of the Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, and Mr. Anthony Oswald Shallna, Attorney and Counsellor at Law, 366 W. Broadway, Boston, Massachusetts.

It might be added that the said corporation had furnished the funds, care and interest for the safety of the said ship and the preservation of the assets in connection with that investment in the purchase of the ship from that date to the present time.

Secretary Hargreaves

JUL 17 1946

Mr. Foley

The London Economist in its issue of June 15, 1946 has an article entitled "A Check on Production" which criticizes the use of business men in England where their experience prevents them from being open-minded and where their insuperable self-interest is a drag on the reticence which is needed to raise the production of materials of war. A good deal of what is said about the necessity of giving orders to industry instead of issuing appeals, and about the complete failure of ideas which "transformed the trade association from a body of doubtful legality, a conspiracy in the restraint of trade into a favored instrumentality of the state" is applicable to our present problem of national defense. Speaking of the set of ideas which has dominated the economic philosophy of the Conservative Party, the Economist concludes:

"... It is a set of ideas that is admirable for obtaining security, 'orderly development' and remunerative profits for those already established in the industry—at the cost of an irreducible body of general unemployment. It is unquestionably not a set of ideas that can be expected to yield the maximum of production, or to give the country wealth in peace and strength in war.

"Nevertheless, when the war broke out and it became obvious to all but the purblind that maximum production had become the one object that superseded all others, this anti-productive system was carried to its highest point. The whole army of controllers was recruited from organized industry; the rings, firm being tolerated, became enmeshed with all the power of the State. The result has been what could have been, and was, predicted—not so much an unfair advantage to certain private pockets as a singular tempo of advance and a low limit to what was considered possible. British industry, by and large, has, until recent weeks, been making the maximum effort compatible with no disturbance to its customs now or to its profit-making capacity hereafter. There is no accusation of unpatriotism in this; on the contrary, business men, placed in an impossible position of divided loyalties and contradictory intentions, have done their best. But the result has been what we see—a startling

-2-

inadequacy of production. What was formerly prophecy is now fact: the men who run the existing organizations of their industries have not been the best men to organize their industries for war. The best of them have been only partial successes; the worst have been failures. Both in tanks and in aircraft (to take only the two outstanding cases) the existing rings have failed to produce the goods and, nine months too late, outsiders have had to be brought in."

The above quotation suggests that the activities of John Sigmund, Elsie Smith and Edgar Alford had their counterparts in England, with sorry results with which we are all familiar.

(Initialed) E. H. F., Jr.

CLK:t
7-17-40

JUL 17 1940

My dear Mr. Secretary:

There are transmitted to you herewith two copies of letter dated July 15, 1940, and enclosures, from the Federal Reserve Bank of New York relative to accounts which it has opened on its books in the name of the British Government. It is requested that you furnish a copy of such letter and enclosures to the British Government.

Very truly yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

The Honorable

The Secretary of State.

Enclosures.

EB:HM
7/27/40

Lat: EB:HM

0077

61-276

Federal Reserve Bank of New York

RECEIVED
TREASURY DEPARTMENT

July 15, 1940

12 A Mq TI JUL 1940
By ~~Hand~~ Secretary

THE FOLLOWING receipt is acknowledged of the letter of the Acting Secretary
TREASURY DEPARTMENT dated July 12, 1940, and of the enclosure, a photostatic
copy of the letter dated July 12, 1940, addressed to the Treasury Department
by the Secretary of State, relative to the opening and maintaining of
accounts at this bank in the name of the British Government and transfers
thereof of the dollar balances and gold from accounts in the name of the
Bank of England.

In accordance with the instructions of the British Government as set
forth in the letter of the Secretary of State, and in accordance with
cable instructions previously received from the Bank of England in the
cable No. 986/40, of June 20, 1940, we opened accounts on our books for
and in the name of the British Government, and made transfers to such ac-
counts, at the close of business on July 12, 1940, as follows:

We opened a dollar account designated His Britannic Majesty's
Government Current Account F and credited \$2,909,769.12 there-
to by transfer from the account designated Bank of England
Account F, this amount being the balance in the latter account
immediately prior to such transfer.

We opened a dollar account designated His Britannic Majesty's
Government Current Account E and credited \$27,760,902.56 there-
to by transfer from the account designated Bank of England
Account E, this amount being the balance in the latter account
immediately prior to such transfer.

We opened a dollar account designated His Britannic Majesty's
Government Special Account A and credited \$21,146,171.98 there-
to by transfer from the account designated Bank of England
Account A, this amount being the balance in the latter account
immediately prior to such transfer and

We opened a gold account designated His Britannic Majesty's
Government No. 3 Account and transferred thereby all the gold
(said to contain 3,670,687.652 ounces fine gold) held immediately
prior to such transfer in the account designated Bank of England
No. 3 Account.

We enclose copies of the following:

- (1) Our cable to the Bank of England No. 819/40, dated
July 12, 1940, advising of the opening of the accounts
in the name of the British Government and of the
transfers thereby as described above.

(2) Bank of England cable to us No. 924/40, dated June 10, 1940.

(3) Our cable to the Bank of England No. 624/40, dated June 8, 1940.

We shall appreciate it if you will transmit copies of this letter and of its enclosures to the Secretary of State with the request that copies be furnished to the British Government.

Respectfully,

/s/ Allan Sprunt,

Allan Sprunt,
First Vice President.

Enclosure

Honorable Harry Hopkins, Jr.,
Secretary of the Treasury,
Washington, D. C.

INCOMING CABLEGRAM

London, June 20, 1940.

Federal Reserve Bank of New York

New York

No. 566/40 CONFIDENTIAL FOR SPROUL

ONE

Your No. 666/40 Upon receipt of British Government request mentioned in your paragraph ONE which is being transmitted to your Government through the American Embassy here please transfer under advice to us balances held for the following accounts to new accounts similarly designated in the name of His Britannic Majesty's Government:-

Currency Accounts:

Bank of England Current Account F
 Bank of England Current Account G
 Bank of England Special Account A

Gold Accounts:

Bank of England number 3 Account.

TWO

After the transfers in our paragraph one have been effected any sum which may be tendered to you for the account of the Bank of England should automatically be placed to the credit of His Britannic Majesty's Government Current Account G.

Similarly any instructions issued by the Bank of England which may reach you by mail, after the transfers have been effected, to receive or pay for the credit of or by the debit to a Bank of England Account should be

- 2 -

carried out by passing the relative entry through the appropriate accounts in the name of His Britannic Majesty's Government

- THREE We understand that British Government request will authorize you to accept our instructions for all operation of accounts in the name of His Britannic Majesty's Government. We confirm that conditions and signatures covering our accounts with you will until further notice apply to the conducting of the accounts in the name of His Britannic Majesty's Government.
- FOUR Your No. 666/40 paragraph THREE British Government have requested your government to provide confirmation required if this is considered necessary.
- FIVE You will be informed by your government that notification as in paragraph ONE our 517/40 may be given to you by counsellors for the time being to British Embassy in Washington at present Mr. Neville Butler as an alternate to His Majesty's Ambassador.
- SIX You will similarly be informed that authority extended to His Majesty's Ambassador and J. A. G. Osborne in our No. 517/40 paragraph TWO includes power to delegate authority to operate on the accounts in favor of any

person or persons whom either may specify.

SEVEN Your No. 606/40 We confirm that upon receipt of notification in form quoted from one of the persons authorized in paragraph FIVE instructions and authority contained in paragraphs ONE TWO and THREE of our 317/40 will be effective and will apply to our Dollar Account F Dollar Account G and our Gold Account Number 1.

Cablegram
Bank of England.

BY TELETYPE

Cable Division

OUTGOING CABLEGRAM

July 12, 1940

Bank of England

London

No. 645/40 CONFIDENTIAL FOR GATTHERS

ONE In accordance with your instructions in paragraph one of your cable No. 566/40 and instructions from British Government received through our Secretaries of State and Treasury we have opened dollar and gold accounts for and in name of British Government, and have transferred thereto at close of business today dollar balances and gold from accounts in name of Bank of England designated with corresponding letter or number, as follows:

dollar accounts opened are designated His Britannic Majesty's Government Current Account F, His Britannic Majesty's Government Current Account G, and His Britannic Majesty's Government Special Account A, respectively, and amounts transferred thereto are \$2,909,765.12, \$27,760,902.56, and \$21,146,171.98, respectively; gold account opened is designated

- 2 -

His Britannic Majesty's Government No. 3 Account and we have transferred thereto gold said to contain 3,004,527.632 ounces fine gold.

two Instructions to us from British Government are to accept on its behalf instructions of Bank of England on all matters relating to bank accounts until notice of cancellation. We note your instructions in paragraphs two and three of your cable No. 386/40. We assume also that we are authorized to consider checks in form heretofore used for drawing on dollar account A in name of Bank of England as drawn on account designated His Britannic Majesty's Government Special Account A. Please confirm this and at your convenience advise us whether it is desired to have different form of checks printed to conform to present designation of account.

Federal Reserve Bank of New York

WHE
Postal 278

Cable Division

CHUCKING CABLEGRAM

June 8, 1942

Bank of England

London

No. 688/48 CONFIDENTIAL FOR CATTREB

Reference your 436/48 indicating that your government and yourselves desire to arrange for transfer of accounts now in your name with us to accounts in name of your government. We have now been requested and authorized by Secretary of Treasury to open and maintain accounts for British Government as requested by such government and we are prepared to do so under such authority. We suggest

- (1) That British Government cable the following to our government through American Embassy in London:
 - (a) Request and instructions that we open and maintain accounts in name of British Government and transfer thereto the gold and dollar balances now in designated accounts with us in name of Bank of England;
 - (b) Instructions as to who is authorized, in behalf of British Government, to give instructions to us regarding payments and withdrawals from, and otherwise in relation to, such accounts. Presumably these instructions would cover emergency authority referred to in your 517/48.

- 2 -

(a) Confirmation that such gold and dollar balances are the property of British Government.

- (2) That we cable to Federal Reserve Bank of New York your instructions to make transfers as in (1) (a).
- (3) That British Ambassador in Washington, by letter to Secretary of State, confirm all of foregoing, and certify the legality and validity thereof.

We are prepared upon receipt of request, instructions, and confirmations as indicated in (1) and (2) above to make the transfers to accounts in name of British Government, and to accept instructions given as authorized in behalf of British Government. Letter of British Ambassador referred to in (3) could follow in due course. Please advise British Government of terms and conditions on which we earmark gold and hold gold under earmark as set forth in our letters to you dated December 1, 1937, and April 11, 1940.

Special
Federal Reserve Bank of New York

My Best

Cable Division

JR

PLAIN

London

Dated July 17, 1940

Rec'd 12:47 p.m.

Secretary of State,
Washington.

2232, July 17.

FOR TREASURY FROM BUTTERNORTH.

1. There has been much discussion of late in the British press of the surplus raw material problem as affecting both Latin America and the British Empire, with particular interest in the United States' plans for the forthcoming Pan American Conference. The following quotation from today's Financial Times is typical:

"While Great Britain has no definite status in a discussion which is primarily a domestic matter for the United States and Latin America, the visits of Sir Frederick Phillips to Washington and Sir Otto Niemeyer to Ottawa are particularly opportune in view of the indissoluble interest of this country in the results of the conference".

2. An increase in the cost of living index of over 3 per cent in June, made public today, underlines the importance of the new budget to be presented on Tuesday. The increase since the outbreak of war is about 20 per cent, most of the rise having taken place before Christmas and

the

-2- #2232, July 17, from London.

the depreciation of sterling being the most important single cause. As indicated in my 1992, July 5, the index is obsolete and therefore the real rise is undoubtedly greater. Although the index remained relatively stable recently, food price increases since the beginning of June, due to curtailed imports and a rise in agricultural wages, will inevitably give impetus to general wage increases which no practicable control of prices can prevent from having an influence on the inflationary trend.

KENNEDY

RR

AS

PLAIN

Casablanca

Undated

Rec'd July 17, 1940
2:50 a.m.

Secretary of State,
Washington.

55.

Many inquiries as to whether bank accounts French citizens residing about, off France are blocked and if so as to how, from whom permission is obtained to use blocked accounts for payment of debts to American creditors and by whom such permissions should be sought, whether by the American banks holding the accounts or by French Moroccan debtors themselves.

GOULD

EMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

While waiting in my office today, Mr. Pinsent stated that his Embassy had recently been approached by Mr. Pierre Roche with the view to the British Government taking over certain holdings of the Empain financial interests of Belgium. It is understood that these properties are principally owned by Baron Empain of Belgium. It is the apparent desire of the owners that Germany should not acquire title to the properties, following German invasion of Belgium. The British are sympathetic with the idea of blocking any attempt of Germany to acquire the properties, but the Embassy here is not sure how far the British can go. It is definitely understood that the Empain properties in Canada can be blocked by the Alien Property Custodian. As far as the properties in Egypt and the Belgian Congo are concerned, there is still a doubt as to what Great Britain can do. Furthermore, the British Embassy here is not sure that Mr. Roche, who is supposed to be the Director General of the Empain interests in Canada, may have authority to deal with the Empain properties in other countries.

Pinsent offered the above information gratuitously. I told him it was quite a coincidence that I had received a little information, covering part of the above ground, from another source. When I asked whether there was anything he wanted us to do, Pinsent replied in the negative, but did want to consult with us further if either of us had any more information.

I am returning herewith the letter on the above subject which the Secretary handed me this morning.



Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

July 15, 1940

Personal and
Confidential

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

My dear Mr. Secretary:

I thought the following information would be of interest to you:

The Empain financial interests of Belgium are working frantically in an effort to maintain their interests and holdings intact despite German occupation of Belgium. Pierre Roche, Director-General of the Empain interests in North America, with his attorney, fulfilled a luncheon engagement with the British Ambassador in Washington on Sunday afternoon, July 14, 1940. The purpose of this engagement was to enable Pierre Roche to make appropriate arrangements to turn over to the British Ambassador as the representative of the British Government a complete power of attorney and authority to take over all of the assets of the Empain group actually located outside of Belgium and utilize these assets for whatever purpose the British Government desires. It is reported that this group has certain assets in the United States which have been "frozen" by the Federal Government and apparently the Empain group believes that through the British Ambassador they will be able to effect the release of these financial interests. The holdings of the Empain organization in Canada, Belgian Congo, Palestine, and other parts of the World, will however be included in the power of attorney executed by Pierre Roche, who appears from information available to be the only surviving, ranking official of this group able to act in behalf of the corporation.

Sincerely yours,

J. Edgar Hoover

By Special Messenger

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 17, 1940

TO Secretary Morgenthau
FROM Captain Puleston
Subject: Observations Based on Conversation with
Captain Benjamin F. Kelsey, United States Air Corps.

1. Captain Kelsey had visited air squadrons throughout England that were in actual operation. He had visited the entrance depots at which candidates for the Air Force were received. He had visited all the intermediate training stations. He had thus a clear idea of the training system, the method of squadron operation, and the whole system of aircraft offense and defense as existing at present in the United Kingdom. He had been in England since before the Dunkirk evacuation and remained there until late June or early July. His comments range from technical performance of planes, professional skill and zeal of the personnel, and his final views on the relative powers of German and British aviation.

2. His conclusion, as I previously reported, was that, "The British Air Force has already defeated Germany by gaining a superiority over the German Air Force".

3. The British personnel are not stale. They are worked very continuously. One group that Captain Kelsey was with had had eight missions in seven days. Individual officers had operated on as many as three missions during twenty-four hours.

4. The same group of planes, frequently as low as three in a formation, would undertake both a bombing and a fighting mission on the same trip over occupied France and Belgium. It was generally customary for all planes to carry some bombs, and returning from a reconnaissance they would drop the bombs on some objective. They always had orders never to bring a bomb load home.

5. A single British fighter has been known to attack successfully a formation of thirty German planes. Similarly, three planes have been known to attack a German formation of thirty planes. Odds of one-to-three are regarded in the vernacular as "duck soup".

6. It was to be expected that a sport-loving nation like the British would be willing to fight against long odds, but Captain Kelsey also observed that there was great system in selecting the objectives to be bombed; these objectives were given a definite priority, and all effort is being made to accomplish definitely one objective before attempting to undertake another. While a concentrated effort is being made upon a particular objective, other objectives are bombed by one or two planes, just to keep the Rhinish workers from sleeping at night. The British Air Force are now thoroughly acquainted with German territory, so that their night raids are becoming increasingly effective. Captain Kelsey gained the impression that the British Air Force were more at home at night over Germany than the German Air Force, simply because of their greater experience.

Secretary Morgenthau - 3

7. Captain Kelsey stressed the psychological factor in aviation warfare, asserting that it was the most powerful single factor and had more effect than superior numbers or even superior quality in a plane. British aviation is now using all its planes, even those whose performance is not as good as the Germans. The personnel of a particular type of plane attempts to compensate or ameliorate the poorer performance of the plane. He attributed the advertisement the Germans gave their dive bombing and the British their turreted planes to a desire to impress the other side with a feeling of inferiority.

8. Captain Kelsey confirmed previous reports that German aviation had not been able to disrupt the British convoys, even those proceeding in narrow coastal waters. Each convoy has an "umbrella" of three planes that constantly accompany it. These planes can call reinforcements from the squadrons stationed ashore, or the call can be made by the surface ships, so that reinforcements quickly reach a convoy under most conditions. This is a very important fact. It has long been Navy opinion that it was unnecessary to invade the United Kingdom if her supplies were cut off. In other words, it is easier to starve the United Kingdom than to invade it.

(Comment: The British have more merchant ships today than at the commencement of the war. They have no troops in France that require supplies. They can concentrate their tonnage on home needs,

and from Captain Kelsey's report, I should say that in the immediate future, at any rate, the United Kingdom can be supplied.)

9. Captain Kelsey was convinced that an invasion of the United Kingdom is practically impossible, and he gave reasons that I think are conclusive. He did believe that, if the Germans were willing to lose enough airplanes, they could practically destroy London. He thought they would lose a very large number of planes in any such undertaking, and the destruction of London would not be vital to the defense of the United Kingdom; he did not think it would cause the capitulation of the British people.

10. Although primarily interested in aviation, Captain Kelsey took careful note of all preparations, Army, Navy, and civil, to defend the United Kingdom against a German invasion. He was convinced that finally the entire population realized that they were taking part in a war. Every night there were some reports of a person or persons without the proper papers being killed or wounded for being in unauthorized places. Far from gaining any sympathy from the public, if an offender was only wounded, he was further tried for violating the defense regulations.

11. In reply to the question whether these bombing raids already staged were preliminary to an invasion, he said he did not think they were, that they were only being undertaken because the German Government had advertised an attack and had to make good on it.

Secretary Morgenthau - 5

He does not rule out the possibility of an invasion, but there was nothing in the pattern or system of attacks to indicate a systematic preparation for invasion such as happened in Poland, Holland, Belgium and France. The air attacks frequently were obviously intended to alarm as wide a stretch of country as possible for psychological reasons. Instead of frightening the British people, it has made them more determined to resist, and the whistling bombs no longer have the terrifying effect desired. Both in England and Germany the air defense now do not knock off work or send civilians to shelter until they are certain a real attack is intended.

12. I asked about the feasibility of invading Southern Ireland. He thought they were less prepared to resist an invasion in Southern Ireland than in any other place. This led him to comment on the lack of coordination in certain parts of the British Government and British services. He said that apparently they were unable to determine upon a proper course of action in Southern Ireland. He had noted the same lack of smoothness in coordination between the fighters and the higher-ups in the aviation. He said the High Command and the actual fighters were excellent, but between the two groups there was frequently lost motion.

13. Captain Kelsey will prepare a report, and Colonel Magruder agreed to supply us with a copy, but I wished to preserve my first impressions of his views.

Secretary Morgenthau - 6

14. Comment: The views of Captain Kelsey are not entertained by Major Whitehead, who has observed very closely the operations of both German and British aviation. I understand from Colonel Magruder that Captain Kelsey's views are partially corroborated by another Army observer, a colonel, who is now in England. They agree substantially with the views of Colonel Frederick Palmer, who, although not an aviator, is a trained observer. I think you would enjoy a talk with Colonel Palmer sometime in the near future while the picture is still in Colonel Palmer's mind.



W. D. Puleston,
Captain, U.S.N., Retired.

Rio de Janeiro, Brazil,

July 17, 1940

No. 3288

Subject: Inquiry of Bank of Brazil Re Funds Of The Banco Frances e
Italiano Blocked In New York.

The Honorable
The Secretary of State,
Washington.

Sir:

With reference to the Department's telegram No. 211 of July 11, 1940,
5 P.M., concerning the payment of drafts drawn by the Banco Frances e
Italiano on the Chase National Bank, I have the honor to report that the
Director of Exchange of the Bank of Brazil has sent the following telegram
to the Chase National Bank of New York:

"Our collections 2956/7 - \$17,126.52 - drawn on you by Banco
Frances Italiano and similar collection Bahia CN 82 \$2250
for payment of which intervention American Embassy has been
requested were posted S/S Brazil 25/6/40 to your address."

Respectfully yours,
For the Ambassador:

Walter J. Donnelly,
Commercial Attache.

File 851.6

WJD:KF.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

I have red-lined the few
paragraphs which may
interest you.

W. B. S. Is this in
diary

234

RESTRICTED

C/S

G-2/2657-235

H.I.D., W.D.
Tentative Lessons
Bulletin No. 17.
July 17, 1940

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

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.

Contents

1. Information Service, German Army.
2. German Protective Clothing Against Gas.
3. Gas Decontamination.
4. Observation Balloons.
5. German Opinion on Anti-Tank Weapons.

1. Information Service, German Army.

One of the most interesting innovations in the German methods of conducting the present war has been the establishment of a monopoly with regard to war information by the Armed Forces. This monopoly is operated by the newly created Propaganda Companies, which were established and recruited jointly by the High Command of the German Army and the Propaganda Ministry. After taking the field, however, these units are placed under the sole control of the High Command.

The immediate purpose of the Propaganda Companies is to furnish the German people with the maximum amount of news of the War consonant with the maintenance of military secrecy. The ulterior purpose is to unite Army and People in the Prosecution of the War.

The course of the War to date indicates that the German people are receiving much more and better news of the fighting at the front than are the French or British people. It should be pointed out, however, that it has been relatively easy for the Germans to furnish this information inasmuch as their army has met almost uninterrupted success, while the Allies were under the necessity of concealing from their people the extent of their reverses.

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The "Propaganda Company" operates in the German Army a number of varied kinds of information services.

The most important of these are:

- a. A Radio Service
- b. A Press Service
- c. A Moving Picture Service.

In addition, painters and magazine writers are also members of the company, and their work is then distributed by the Army to German magazines and newspapers.

After the Propaganda Ministry selects the members of the Propaganda Companies, the Army enlists them as regular members of the armed forces. A small proportion of the personnel are given commissioned rank.

The Propaganda Companies are given six weeks infantry training before being sent to the front. The platoon appears to be the largest permanent organization. A platoon, consisting of a section each of correspondents, radio broadcasters, and moving picture operators is generally attached to an army. Individuals are then reattached to air units, infantry platoons, or batteries, depending on where they are apt to see the most active service. Members of the Propaganda Companies then accompany the units to which attached into action and write their stories, broadcast their accounts, or take their pictures from the actual front line. Over forty members of the Propaganda Companies have been killed in action since the start of the war. Many more have been wounded. These casualties have created an exceptional morale in the Propaganda Companies. The members feel themselves as soldiers of the Army, not outsiders, and give their all to fulfill their mission. Recent broadcasts of men of these companies, heard on the Berlin radio, told vivid stories of the fighting at NARVIK, the Meuse, Dunkirk, and the Somme in a military form, quite unlike most of the dispatches of military-inexperienced war correspondents. Propaganda Company men have participated in bombing flights over England, have made submarine cruises in the Atlantic, and have accompanied the Armored Divisions deep into France. The German War movies shown in this country also have been unusual in that they depict actual front line battle scenes and are far superior to the general run of World War battle pictures. Similarly, the German front dispatches are written in a military form and convey to the public a seemingly accurate and realistic picture of front line conditions.

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RESTRICTED2. German Protective Clothing Against Gas.

In addition to the service respirator, the German soldier is reported to carry a gas cape (gas plan). This is a rubberized sheet, 5 ft. 4 in., with a circular hole in the center for the head, the cape reaching to the knees. When not worn, the cape is fastened to the strap of the gas mask, or carried in the haversack.

Full protective clothing in the German Army is stated to consist of one-piece overall with fixed hood, or separate trousers and jacket with fixed hood. Either type of suit is made up in rubberized fabric, of which there are two types, one rubberized on both sides, resisting mustard gas for seven hours, the other rubberized on one side only, resisting mustard gas for about two and one-half hours. Hitherto, only a few specimen suits have been issued to organizations, but recently large issues are believed to have been made to many units.

3. Gas Decontamination.

The Germans are reputed to prefer dry bleach to bleach ointment for skin decontamination, and German prisoners have been found to carry packages of "losantin," a stabilized bleach of high chlorine content. Work has, however, been carried out on ointments, and it is believed that a chlormine type has been developed.

4. Observation Balloons.

It is reliably reported that the Germans are using captive balloons to a limited extent, especially for general observation and heavy artillery. In a fast moving situation, extensive employment is not necessary. The Germans intend to continue limited use of captive balloons. A device, it is claimed, has been developed that improves observation and limits sway.

5. German Opinion on Anti-Tank Weapons.

As a result of the campaign in the West, the general consensus of opinion among German officers is that the French 25mm. Anti-Tank Gun is too light, the British 2 pounder and the Belgian 47mm. too large and too heavy, and for mobile use, too unwieldy. The Germans believe the 37mm. Anti-Tank Gun is very satisfactory and the best gun of all developed so far. It is significant to note that this opinion makes no mention of the French anti-tank gun, 47 mm.

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M.I.D., W.D.
 Tentative Lessons
 Bulletin No. 18
 July 18, 1940.

TENTATIVE LESSONS FROM THE RECENT
 ACTIVE CAMPAIGN IN EUROPE

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

1. German Army - Air Force Command and Signal Coordination.

There have recently been received in the War Department a number of Field Orders of the Sixth German Army (von Reichensau) which throw considerable light on the manner of coordination of German air and ground forces during the Battle of FLANDERS.

These orders confirm the long suspected fact that the larger units of the German Air Force preserved their independence throughout the campaign and were not attached to groups of armies, armies, corps, or divisions, except as noted below. The German Air Force operated throughout the FLANDERS battle as a General Headquarters Force. It was divided into two air fleets, each of several air corps, and each air corps of several air divisions.

The air squadrons of the Sixth Army were not numerous. Each of the three corps which composed the Sixth Army possessed a corps observation squadron and a battalion of anti-aircraft artillery. (In Germany, the anti-aircraft artillery is a part of the Air Force.) The army possessed, in addition, a distant reconnaissance squadron and a "messenger" squadron equipped with "STORCH" slow flying planes. The Sixth Army possessed, however, three other air installations which are of considerable interest, in view of the successful cooperation of German ground and air forces in this battle.

These were:

- a. An Air Headquarters known in the Sixth Army as "EOLUPT" which operated with the Sixth Army or perhaps under it.
- b. An Air Signal Battalion.
- c. An Air Telephone and Telegraph Axis of Communi-

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cations reaching back from the front on the LY5 through BELGIUM to Germany and connecting at the border with the Air Wire Circuit of the Zone of the Interior, which tapped every German air field and air headquarters throughout the country.

The latter axis had been pushed from and by the Air Signal Battalion of the Sixth Army. In places, five double lines had been run forward. It was not used in common by the Air Force and Sixth Army, but was for exclusive Air Force use. The Sixth Army possessed its own lines of signal communication. It would seem that the German Air Force ran from four to six of these signal axes forward into Belgium, Holland, and Northern France.

The axis behind the zone of operations of the Sixth Army began at the German-Belgian frontier at AACHEN and ran forward through ST. TROND, TIRLEMONT, WAVRE, TUBIZE, to ATH.

At WAVRE, a lateral wire branch ran northward to EVERE where was located a headquarters known as "SPECIAL LUFTGAU (Air Corps Area) NO. 12." This headquarters was apparently charged with the AIR DEFENSE of the occupied area of BELGIUM and was similar to the "LUFTGAUS" of interior Germany, which are, in reality, AIR CORPS Areas. These Luftgaus defend the areas under their command from hostile air attack and have under their command pursuit units, anti-aircraft battalions, and the civil passive air defense organization. It would seem, therefore, that parallel with the occupation of Belgium, a similar air defense unit was established for that country.

Further toward the front at TUBIZE, another connection led to another air headquarters known as the "Commander of Pursuit Forces." The mission of the pursuit forces is not known.

At ENGHEN, Sixth Army Headquarters, the axis made contact with "KOLUFT", the special air headquarters of that army.

Beyond ENGHEN, the air axis continued forward to LEUZE, a village close to the headquarters of the XXVII corps of the Sixth Army, and was seemingly, on May 25, in process of being further extended westward.

This very complete ground communication net of the Air Force enabled direct wire service from every army headquarters on the front and many corps as well, and to every German air headquarters and air field in Germany. It was doubtless partly responsible for the close coordination of ground and air forces in this campaign.

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Paragraph 3 of Field Orders No. 12 of the Sixth Army dated May 24th, 1940, read, in part, as follows:

"Sub-Paragraph 5.

"Air Corps IV will support the attack of the Army by attacks against roads, road junctions, and recognized troop concentrations in front of the XI and IV Army Corps. A liaison officer from Air Corps IV will be attached to the IV Army Corps for the day of May 25th."

This is the only occasion in the three available orders of the Sixth Army when the Sixth Army received the direct air support of the German Air Force and no mention is made of the attachment of air force units to the Sixth Army except as mentioned above.

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TENTATIVE LESSONS FROM THE RECENT
 ACTIVE CAMPAIGN IN EUROPE

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

Contents1. Winter Warfare

- a. Introduction.
- b. Finnish Ski Troops.
- c. Partisans and Patrols.
- d. Soviet Use of Tanks.
- e. Finnish Rations
- f. Finnish Supply and Transportation.
- g. Effect of Cold Weather on Arms and Ammunition.

1. Winter Warfare

a. Introduction. This Bulletin deals with the tentative lessons in specialized winter warfare resulting from a study of the Soviet-Finnish War, November 30, 1939 to March 13, 1940.

As more information is available about the methods of winter warfare in the Finnish than in the Soviet Army, most of this Bulletin relates to the former army. At the beginning of this war, the Soviet Army appeared to be very inept in winter warfare, especially in the use of Ski Troops, which was probably due to the lack of basic training in skiing and the lack of natural aptitude for this sport.

The Finnish Army was much more successful in the use of Ski Troops on the minor fronts north of the Karelian Isthmus than on the Isthmus itself, due to the terrain peculiarities of the Isthmus; extremely rocky and dense forest with very few roads.

On the Isthmus, the Soviet Army during the first period of operations—upon the beginning of the war until the end of January—made very little progress. During the second and final period, however,

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it carried out mass attacks against the Finnish Army without regard to losses until the latter finally collapsed on March 13. During this period, the Soviet Army appears to have been very successful in supplying its troops with material and munitions, especially Field Artillery shells.

b. Finnish Ski Troops.

(1) Selection and Training. While all Finns learn to ski almost from the time they learn to walk, ski troops were very carefully selected. Finnish regulations recommended that ski detachments be selected from a unit not smaller than a battalion and preferably from an entire regiment or larger unit. These troops underwent intensive training, which consisted mainly of long hikes on comparatively level ground. Since the terrain in Finland is not particularly hilly, it was thought better to train ski troops in endurance rather than in mountain climbing and down steep slopes, although a certain amount of this sort of training was included.

(2) Clothing. Ski troops wore warm clothing but were never encumbered with long overcoats. They generally wore a fur cap which could be pulled down over the ears and the usual outer garment was a short canvas jacket lined with sheepskin. Woolen mittens were usually preferred to gloves with fingers. Ordinarily, boots were worn, into which the trousers were stuffed, which allowed absolute freedom of movement for the knees. As a rule, very heavy woolen socks were worn, although, in some cases, a flat woolen cloth, such as that used by the Red Army, was wrapped around the foot inside the boot. In fitting shoes for winter weather, it was essential that they not be tight anywhere.

Finnish ski troops were always equipped with an outer covering of white. This usually consisted of a coat, equipped with a hood, which reached about halfway to the knees, and white trousers which were pulled on over the ordinary boots and trousers. It was very difficult to keep these white camouflage garments sufficiently clean to make them actually effective.

(3) Equipment. The equipment carried by ski troops was reduced to a minimum and was usually carried in a very light canvas pack worn high on the shoulders. The skis themselves were usually made of hickory, and the bottoms of them were treated with tar. No case was observed where wax or material other than tar was used on the bottoms of skis. As a rule, the ski was attached to the boot by the very simplest method possible, which would not add weight to the ski and could be easily detached. In some cases, this consisted of nothing more than a thong which fitted over the toe of the boot.

Ski troops sometimes carried food and other supplies in Lapp sleds. These sleds somewhat resembled a very small canoe, which

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would be drawn over the snow or ice by one or two men, depending upon the size of the load it carried. Troops were furnished with comparatively small octagonal tents approximately fifteen feet in diameter. These tents could be rolled into a compact bundle, which could be drawn on a Lapp sled by two men. At the center of the tent was a small, light, rectangular sheet-iron stove in which were packed the necessary lengths of stove pipe. The tent, at its center, was approximately ten feet high. It furnished shelter for eighteen men, who slept almost shoulder to shoulder. One man remained on watch at all times in order to keep the fire burning in the stove. Tent poles and pegs were not carried but were cut from the forest at each halt at which the tent was pitched, as was wood for fuel for the stove. Ventilation was obtained by means of slits in the upper part of the tent, which could be opened when necessary, and the opening was covered with a screen net to keep out insects. With the fire going and with the heat of the bodies of eighteen men, this tent was always extremely warm, even in the coldest weather. As it was a dark green in color, it was also very difficult to discover, either from the ground or from the air, when it was set up in the forest.

(4) Armament. Ski troops were all equipped with a Finnish knife called a "puuka", which was used for many purposes. Most of these troops also carried light rifles and many of them light automatic rifles or the Suomi machine pistols.

c. Partisans and Patrols. Much of the success of the Finnish operations north of the Isthmus was due to the skillful use of partisans and patrols. Extracts from the instructions issued to these units are given below.

"When the Soviet lines of communication are extended, they must be incessantly harassed, for which purpose detachments of picked ski-runners are most suitable. A condition for the success of the raid is that such detachments receive clear and frequently detailed instructions. Orders to such detachments should, therefore, be issued by an experienced officer, either a battalion commander or, preferably a regimental commander.

"During very cold weather, night attacks against hostile troops, which, for lack of bivouacs, have to halt in the open, yield better results than usual. The mere fact that the activities of patrols and aircraft prevent the Soviets from lighting fires causes many frostbites and severe colds and makes him more vulnerable to attacks by major forces. The patrols are equipped with machine pistols, hand grenades, material for destroying armored vehicles and for burning trains, supplies, etc.

"The increasing depth of snow impedes hostile mobility

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and favors the possibilities of friendly partisan action. When partisan troops are detached, special attention should always be paid to a careful planning of their return.

"Distant raids necessitate careful preparation. The men selected for a partisan detachment that is to make a distant raid should be excellent ski-runners and stubborn fellows used to life in uninhabited country (frequently volunteers) who, if possible, should also be familiar with local conditions. Since it is often difficult to find a sufficient number of suitable men in a minor unit, such as a battalion, the selection should generally be made within a regiment and frequently within a larger unit. The units operating north of Lake Ladoga can requisition the necessary number of reindeer required for the transportation of demolition and other materials during a partisan raid. If the unit has no reindeer attendants, the regular attendants should accompany the animals. Reindeer which eat bread can be employed farther to the south of the northern Ladoga district."

The light sled made by a tribe of Lapps is, according to experience gained at Petsamo, particularly well suited for partisan activities; it can be drawn by one man.

The Reds have used strong patrols of 10 to 20 men as security detachments, especially at night, posted at small intervals. Nevertheless, the Finnish patrols and partisan detachments have frequently been able to get through the security line.

The scouting activities of the Reds have not been effective. An improvement was, however, noticeable after the Reds began to employ ski troops

In woods, Finnish partisan groups and patrols have been able to operate in the rear of the Red Army for two or three days and return without losses. Partisan activities must, therefore, be employed more frequently. Especially on cold nights when the Soviets have to keep their motors running, partisan groups can discover the motor vehicles and destroy them. In uninhabited areas where supplies are difficult to obtain, the Soviets may be harassed by destroying their train (by killing the horses and setting the supplies on fire).

Several times, the Soviets have attacked on the Isthmus by night and once even across a water obstacle. Therefore, security detachments must be posted even at such obstacles.

In Northern Finland, the Soviets have been very active during the night, apparently with the objective of disturbing the rest of Finnish troops.

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The ski training of the infantry employed by the Soviets on the Isthmus has generally been very primitive; the men move awkwardly on skis in their long overcoats. Only part of them are equipped with skis and white snow cloaks. Infantry armament has consisted of rifles, hand grenades, quick-firing rifles, machine pistols and guns, grenade projectors and rifle grenades (with both time and percussion fuses), as well as anti-tank guns.

At Petsamo, the Reds had machine guns mounted on wheels (Model 1937 - 1938), quick firing rifles heavier than the 1938 Finnish models and equipped with a drum containing 47 rounds; moreover, there were ordinary rifles and, also, rifles with a telescopic sight. Some egg-shaped grenades were available, but usually were not distributed, as the Red soldiers were not trained in their use. It is probable that the Reds also had small grenade projectors.

d. Soviet Use of Tanks. The Reds used tanks to support almost all of their infantry attacks on the Isthmus. Tanks were used usually in mass in close coordination with the infantry, but the wooded terrain prevented the close support of the tanks by artillery. The comparative failure of the tanks on the Isthmus was largely due to the terrain peculiarities; extremely rocky and dense forest indented with many small lakes; a scarcity of highways and even forest roads; the presence of many large boulders which could easily be used for any tank obstacles. The tanks usually were compelled to advance along highways or forest roads where their progress was interfered with by partisans. The tanks also had to contend with mine fields concealed by snow; accurate anti-tank fire, and heavy snow, which impeded their progress. Frequently, tanks had to withdraw and advance in the same track in order to avoid unbroken surfaces.

In field orders of a Soviet tank brigade, instructions were given to the troops pointing out that even in a moderate cold, the fuel consumption was three to four times higher than the normal consumption, because the motors, due to the difficulty of starting, had to be kept running during halts on the march. The orders stated that tanks halting for ten or more hours in their assembly positions should be provided with heating apparatus and that the motors of tanks and transport trucks should be warmed up for ten to fifteen minutes every fourth hour.

From the orders it was furthermore noted that the Soviets had at their disposal heating apparatus and air-pressure starters for their tanks. However, the starting of tank motors by compressed air was permitted only during combat action.

Congestions on roads provided good targets for Finnish pilots and partisan detachments. During calm winter nights, operations

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of partisans against tanks were facilitated by the noise of the running motors.

According to a statement made by a captured Red officer, the tanks moved easily even in deep snow and on the ice. When a tank moved on the ice, every twelfth cog of the track was lifted up. In general, the tanks did not get out of order, and it was seldom necessary to repair them. According to other sources, the Reds had much difficulty in keeping their tanks in order, and their losses were very heavy. It was also reported that the Red amphibian tanks proved absolutely useless in operations in snow and icy water.

e. Finnish Rations. Two kinds of rations were issued to the Finnish troops; the regular ration and the so-called partisan ration issued to petrole and partisans detailed to operate at long distances in the rear of the Soviet lines. Occasionally, long distance raids lasted for several weeks.

Normal Wartime Ration.

Basic Daily Ration in Grams		Alternate Ration	
Bread, dried	500 gr.	French bread, Flour	600 gr. 500 gr.
Butter	60 gr.	Butter	30 gr.
Cheese	60 gr.	Condensed Milk	225 gr.
		Fresh Milk	500 gr.
Sausages	60 gr.	Canned Pork	60 gr.
		Canned Beef	80 gr.
Sugar	50 gr.	Coffee	20 gr.
Tea	2 gr.	Cocoa	5 gr.
Grits	125 gr.	Flour	125 gr.
Potatoes	600 gr.	Cabbage	800 gr.
		Fresh Veg.	800 gr.
		Dried Veg.	100 gr.
		Pens	175 gr.
		Macaroni	100 gr.
		Grits	100 gr.
Meat	200 gr.	Pork	150 gr.
		Canned Pork	100 gr.
		Canned Beef	150 gr.
		Sausages	175 gr.
		Fresh Fish	250 gr.
		Herring or Baltic Herring	150 gr.

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Salt and other condiments	15 gr.		
Lard	25 gr.	Butter	25 gr.
Flour	25 gr.		

Partisan RationBasic Daily Ration
in Grams

Bread, dried	600 gr.
Butter	80 gr.
Sausages, smoked	100 gr.
** *Grits	
** *Milk, condensed	100 gr.
** *Meat, canned	200 gr.
Sugar	
Coffee	40 gr.
Salt	
Cigarettes	10 gr.

Alternate Ration

Cream Cheese	100 gr.
Hard Boiled Eggs	3 gr.
Specially Prepared Bacon	100 gr.
Cream Cheese	100 gr.
(See below)*	
(See below)*	
Specially Prepared Bacon	200 gr.
Canned Pork	150 gr.
Cured or Boiled Beef	300 gr.
Cured or Boiled Pork	150 gr.
Tea	
Cocoa	4 gr.
	10 gr.

* Substitute 200 grams of Dried Potatoes on the Alternate Ration for 125 grams of Grits and 100 grams of Condensed Milk on Basic Daily Ration.

** Substitute 400 grams of Special rations (for instance, liver or blood pudding, pea- and pork-stew, cabbage pies, beefsteak, etc.) on the Alternate Ration for 125 grams of Grits and 100 grams of Condensed Milk and 200 grams of canned Meat on the Basic Daily Ration.

f. Finnish Supply and Transportation.

(1) Distance of DP from railheads. The distance between the railheads and distributing points varied between 20 and 80 km.; the distances from the latter to the firing positions were 10 to 15 km. Thus the distances from the railheads to the troops varied between 30 and 95 km.; the longest distances occurred naturally in parts of the country with a sparse railway net.

(2) Vehicles. Supplies were usually transported by 3-ton trucks from railheads to distributing points but at times supplies were carried direct to the troops. On the extensive eastern frontier

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where the condition of the roads precluded the employment of motor vehicles, trucks were replaced by tandem sleighs (two pairs of runners, in column, the first pair turning on a pivot and connected by a chain to the second pair), which carried a load of 400-500kg. Although the distances on the Karelian Isthmus were very short compared with the eastern frontier, trucks instead of railway trains had to be used to forward supplies, due to the Soviet superiority in the air. When the days grew longer, the supplies had to be forwarded by truck trains under cover of darkness. Occasionally, supplies were forwarded even by single trucks. Since the Soviet aircraft continually attacked the road net in the rear, it was impossible to employ horse-drawn vehicles, which would have been too slow under the prevailing circumstances. Railways on all fronts could be used only to a limited extent owing to the air menace and damages caused by bombing. Unloading had to be carried out in darkness.

During the winter, each artillery piece was provided with a detachable sleigh runner which was detached when the piece went into position.

(3) Roads. The roads were kept open by teams of snow-ploughs, road companies, and traffic squads. Due to the fact that war commenced in the fall before snow had fallen, it was possible to plan the road net for winter traffic and to make the necessary preparations. The most important means for keeping the winter roads open to traffic were: (1) The use of snow ploughs which were pushed in front of medium (4-6 ton) trucks; then harrows of different types drawn by trucks were used for levelling the surface; (2) Fences were erected along the roads to protect them from snow drifts; (3) Snow shovels were employed by the road companies.

In some places the roads were too narrow, i.e., they had been prepared for only one-way traffic, which resulted in congestion.

For the construction of new roads during the winter, the Finnish army corps had special units equipped with heavy trucks and tractors.

In northern Finland, the Soviets constructed ice roads over which a great deal of their traffic was moved. It is believed that these roads were formed by building up blocks of ice and reinforcing these with straw or other material. These roads proved very effective once they had been constructed, and as long as the weather remained below freezing.

g. Effect of Cold Weather on Arms and Ammunitions. The efficient functioning of automatic weapons during extremely low tempera-

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ture was largely dependent upon the kind of lubrication used. Spindle oil has proved to be the best lubricant, since it coagulates at a temperature of -50° - -60° C. When the weapon has been cleaned of grease and other lubricants, it must be slightly oiled with spindle oil, the quantity of which, if required, may be increased during continuous firing.

Special precautions were taken to prevent the liquid in weapons with hydraulic recoil brakes from freezing and from getting too viscous during extremely low temperatures.

The shell and fuses of automatic guns do not seem to have been affected by frost.

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July 17, 1940
9:25 a.m.

H.M.Jr: Good morning.

Wm. S.
Knudsen: Good morning, sir. Do I -- Mr. Purvis is coming down to see you today isn't he?

H.M.Jr: That's right. He's coming here at 1 o'clock.

K: I called up for him. That's the reason I know it.

H.M.Jr: Yeah.

K: Now, I'd like to get a hold of him after you get through with him.

H.M.Jr: All right.

K: I'll tell you the reason. We get reports of so many projected purchases of airplanes that somewhat interfere with our program.

H.M.Jr: Well, supposing I -- they're having a meeting here on something or other at 2:30 -- Purvis and I think Vance and some of the people are meeting with him. I think that's right on machine tools.

K: That's right. Yeah.

H.M.Jr: At 2:30. Now if you'll tell me a time that you want to see him, I'll have Philip Young bring him over.

K: Yeah, I'd like to see him as soon after 2:30 as he is free.

H.M.Jr: Well, when they're through with that meeting should they telephone you?

K: Yes, thank you.

H.M.Jr: Supposing I have Phil Young telephone you as soon as the meeting is through. They're meeting, I think, it's on machine tools.

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K: Yeah. That's right.

H.M.Jr: What?

K: Yeah. But I'd like to get a shot at him on airplanes after that.

H.M.Jr: Well, I'll tell him -- Phil Young to call you and I'd like him to bring him over so we can sort of

K: All right, sir. If I can impose on you to that extent, I'm much obliged.

H.M.Jr: Well, consider it done.

K: Now, this Arthurdale business. I looked up -- I found some prints over here of the buildings and, of course, there's nothing down there but a woodworking shop which we have and then there's a couple of empty buildings.

H.M.Jr: Yeah.

K: Now, what was your idea -- that the Government would operate these buildings?

H.M.Jr: Something like that or get a manufacturer

K: In other words, the place can't be a sop on anybody. They're going to have a direct contract. Is that right?

H.M.Jr: Well, I -- all I was thinking of is if in these many contracts there was somebody that could give employment to three or four hundred people

K: Yeah, but that'll have to be a direct contract because the Government will have to finance it, won't it?

H.M.Jr: I suppose so.

K: Uh-huh. All right, I just wanted to ask you that. Thank you.

H.M.Jr: Yeah. Thank you.

July 17, 1940
3:45 p.m.

H.M.Jr: just returned from England and Military Intelligence brought him over here. He's actually seen the English fighting now for several weeks -- hello?

Wm. H.
McReynolds: Yeah.

H.M.Jr: It's the most encouraging thing that I've listened to, well, in a month.

McR: Oh, wonderful.

H.M.Jr: And I thought if he could be invited over to talk to the people of your Council -- I gave him forty-five minutes -- and I really think if they gave him forty-five minutes or half an hour or an hour that it'd be distinctly worthwhile, because I haven't listened to anybody that's as cheerful about the picture as he is.

McR: Yeah. Well, I'll be glad to see that he gets whatever time he can spend.

H.M.Jr: And he was brought over here by Colonel -- whatever -- the head of Military Intelligence.

McR: Uh-huh. Where can I reach him?

H.M.Jr: Well, through

McR: Military Intelligence.

H.M.Jr: Yeah. I can't remember the name.

McR: Well, the General in charge.

H.M.Jr: Yeah, it's Admiral -- General Miles.

McR: General Miles.

H.M.Jr: But it's Captain S. Kelsey and he's just returned from England and really he ought to have a chance because it bucked me up so.

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McR: I'll get in touch with him right away and I'll make dates with these fellows for him to talk -- to get them together.

H.M.Jr: Right-o. Thanks, Mac.

McR: Thank you for calling. Now, incidentally, I got hold of Ed and Knudsen this morning and told them about these tax boys that were apparently planning to look over your tax bill and they said, well, they were interested in one thing and we'll take a careful look at these consultants and, as a matter of fact, we'll see that they're kicked out quickly and -- (laughs) -- Ed was particularly awfully worried because of the natural reaction you would have had to that kind of a proposal and, I think, you'll find it's entirely properly taken care of. I said, now, so far as anything that you want to present that you feel that you have, I'm all interested insofar as it stays within your own staff -- it doesn't have any tax advisors involved in it or any of these tax consultants on the outside brought into it at all. Now, I'd like to get in touch with Johnny Sullivan -- that's the regular course and if Jack Biggers and Leon Henderson and any of the boys want to talk to Johnny about it, why, he's glad to talk to them, but for Christ's sake don't bring in these fellows who are working for clients.

H.M.Jr: Right.

McR: Well, Ed was terribly distressed about it but I

H.M.Jr: When you say Ed, Ed

McR: Ed Stettinius.

H.M.Jr: He was terribly, what?

McR: Distressed about it, that the thing had happened.

H.M.Jr: It's as stupid a thing as has come my way in a long time.

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McR: The most stupid thing in the world, I mean, he recognized it as such.

H.M.Jr: But, I mean, nobody has fought the Treasury harder than those two birds.

McR: Well, I know it.

H.M.Jr: What?

McR: I know it, and the hell of it is, he knew it too.

H.M.Jr: Who knew it?

McR: Stettinius knew it, too, but he didn't know that they were being brought into it.

H.M.Jr: Well, I'm very much obliged.

McR: O. K.

H.M.Jr: And I guarantee you that whoever listens to Captain Kelsey will go home and have a good night's rest.

McR: Swell. Thank you very much.

H.M.Jr: Right-o.

McR: Good-bye.

July 17, 1940
3:50 p.m.

H.M.Jr: Hello.

Operator: Mr. Biggers. Go ahead.

H.M.Jr: Hello.

Mr. John Biggers: Mr. Secretary?

H.M.Jr: Talking.

B: John Biggers.

H.M.Jr: Yes.

B: I called you because Mr. McReynolds mentioned to Stettinius and me this noon that a couple of tax lawyers had approached the Treasury presumably in behalf of the Defense Commission.

H.M.Jr: No. That isn't quite correct.

B: Well, anyway, I wanted you to know that our Committee, of which they claim I am chairman, has consulted no such people. Apparently one of the Division did consult those two men

H.M.Jr: Alvord and Prettyman.

B: Yes. I'd never heard of it until it came to my attention this noon and I respect very highly the consideration that you showed us, and I sense our obligation and I wanted you to know that I'd cleared that up so that those men or any other men who might have similar interest from a personal or partisan standpoint would not be participants in anything that you entrusted to us for our consideration.

H.M.Jr: Good. Good.

B: I'm going to see Sullivan

H.M.Jr: That's right.

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B: with the members of our Committee tomorrow morning at ten o'clock.

H.M.Jr: He's the man to see. Good.

B: But I just wanted to

H.M.Jr: Well, I was very much disturbed because it seemed to me a little bit out of the ordinary.

B: Well, I find that Mr. Stettinius asked to have one man added to our Committee and that man who is, I think, who is Carl Adams

H.M.Jr: Yes, that's the man.

B: in Mr. Stettinius' Division and who I presume with good intentions consulted these two men or discussed the general subject with these two men and that's the extent to which they have been considered and by an individual and not by our Committee.

H.M.Jr: Well, it's better to snuff it while it's young.

B: Yes, indeed, and I just felt that you'd been so extremely cooperative that I wanted to take a moment of your time to clear that up personally.

H.M.Jr: Good. Thank you so much.

B: All right, sir.

H.M.Jr: Good-bye.

B: Good-bye.

July 17, 1940
4:00 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello.

Secretary Stimson: Yes, Mr. Secretary.

H.M.Jr: I'd like to, if you wouldn't take objection, to send back to you the letter you wrote me about these engines.

S: Yes.

H.M.Jr: I hate to have it in my file and whenever we've supplied you with the necessary information which you've asked for, which we're getting you, you see?

S: Yes.

H.M.Jr: Then I'd like to sit down and discuss it with you.

S: Well, I'd be very glad to. It went over my desk without

H.M.Jr: Would you mind if I just put it in an envelope and addressed it to you because you see, the last sentence is -- "Request that tests be taken to make available to Army the surplus engines referred to above."

S: Yes.

H.M.Jr: And I don't want to be in a position that I have to write, well, they can't do it or so forth and so on.

S: Yes.

H.M.Jr: And I'd much rather when we have the invitation say now, we've got everything. What are they going to do with these engines? May we sit down and discuss it?

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S: Yes, well, only this
nothing will be done without letting me
know, will it?

H.M.Jr: Pardon me?

S: Nothing will be done without letting me
know at the same time.

H.M.Jr: Oh, no. As soon as I have the information
which Mr. Purvis is collecting for me, then
I'm going to ask him to come down and have
an interview with you and me.

S: And have a further interview. Yes.

H.M.Jr: And if you want to bring General Arnold or
whoever it is who's on that, we can all sit
down around a table, but I'm pressing him
for the information and I'd just rather not
have the letter in my files.

S: Yes, I see.

H.M.Jr: Is that all right?

S: That'll be all right. Send it back and I'll
consider it again.

H.M.Jr: But I'm pressing

S: I had caught in my mind -- the only recollection
I had when I spoke to you the other day was
that there was some statement in it to the
effect that those particular type engines
were not needed by the British Government.

H.M.Jr: Well, that they will attempt to justify
and they're now working on the possibility
of swapping some around.

S: Yes.

H.M.Jr: The possibility of releasing some of these
if they could get some others. But they're
taking it very seriously and I'm pushing
them very hard for an answer, but I'd like
to keep it on an informal basis.

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S: All right.
H.M.Jr: Thank you.
S: All right.
H.M.Jr: Thank you.
S: Good-bye.