

DIARY

Book 331

November 15 - 26, 1940

- A -

Book Page

Aeronautical Chamber of Commerce of America
See War Conditions: Airplanes
Argentina
See Latin America
Australia
See War Conditions

- B -

Baillie, Earle
Death reported to HMJr in Jamaica - 11/15/40..... 331 45
Bank for International Settlements
See War Conditions
Business Conditions
Haas memorandum on situation for week ending
November 16, 1940..... 68

- C -

China
See War Conditions: China; Gold
Churchill, Winston
See War Conditions: United Kingdom

- G -

Germany
See War Conditions: Foreign Funds Control
Gold
See War Conditions

- H -

Hamburg American Line
See War Conditions: Germany

- I -

Italy
See War Conditions: Foreign Funds Control

- J -

Japan
See War Conditions: Gold; Japan

- L -

	Book	Page
Latin America		
Argentina: Financial delegation received by Bell:		
Cochran memorandum - 11/20/40.....	331	171

- O -

Ordinance		
See War Conditions		

- P -

Phillips, Sir Frederick		
See War Conditions: United Kingdom		
Purvis, Arthur B.		
See War Conditions: United Kingdom		

- R -

Revenue Revision		
Tax Avoidance: Five loopholes described by Sullivan		
for HMJr in Jamaica - 11/19/40.....		126
Doughton informs Treasury that FDR wants conference		
immediately after HMJr's return - 11/20/40.....		184
a) FDR announced he could write a tax bill		
in two hours		
b) FDR invites HMJr, Doughton, Cooper, George,		
and Sullivan to supper November 29, 1940...		188,189
1) Sullivan and Blough asked to fly to		
Miami with material.....		195
a) Suggested tax program.....		271

- S -

Switzerland		
See War Conditions: Foreign Funds Control		

- T -

Tax Avoidance		
See Revenue Revision		

- U -

U.S.S.R.		
See War Conditions: Foreign Funds Control		
United Kingdom		
See War Conditions		

	Book	Page
War Conditions		
Airplanes:		
Aeronautical Chamber of Commerce of America memorandum: "Preliminary Control of Foreign Sales Negotiations" - 11/15/40.....	331	29
Priorities in Army-Navy-British program discussed in memoranda from and to Treasury and Patterson - 11/26/40.....		277
a) Knudsen memorandum.....		280
Australia: Request that Federal Reserve Bank of New York open and maintain dollar account - 11/26/40.....		314
Bank for International Settlements: Federal Reserve Bank of New York procedure in effecting payments discussed - 11/15/40.....		18
China:		
Burma Road traffic from February 1939 to end of October 1940 - 11/15/40.....		15
Burma Road to be closed for six months: Report from American Consulate, Rangoon - 11/22/40.....		220
Exchange market resume' - 11/15/40, etc.....		1,79,98, 179,203
Export Control: Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain as shown by departure permits granted for week ending November 23, 1940.....		272
Foreign Funds Control:		
Germany: Transactions with Chase National Bank and National City Bank - 11/15/40, etc.....		5,95,152,172, 175,208,209
Italy: Transactions with Chase National Bank and Federal Reserve Bank of New York - 11/15/40, etc...		3,94,96,173, 175,205,207,210
Switzerland: "Unique financial situation and its significance for the United States": Swiss Legation memorandum left with Cochran - 11/26/40.....		283
U.S.S.R.: Transactions with Chase National Bank - 11/20/40.....		177
France:		
Report by American Friends Service Committee - 11/26/40..		262
Cochran, Pehle, and Financial Counselor of French Embassy confer with Berle at State Department - 11/26/40.....		289
a) French West Indies, Martinique, St. Pierre-Miquelon, etc., discussed		
Germany: Hamburg American Line: Working agreement with NYK Line to collect all passage fares in American dollars reported to Treasury by State Department - 11/18/40.....		82
Gold:		
China: Gold production in unoccupied China will show increase for 1940: Report from American Embassy, Chungking - 11/15/40.....		13
Refugee governments' sale of gold against blocked sterling discussed by British Embassy and Cochran - 11/16/40....		51
Japan's Gold Position: American Embassy, Tokyo, report - 11/22/40.....		216
Allied Gold Reserves: British Embassy memorandum - 11/25/40..		260

- W - (Continued)

	Book	Page
War Conditions (Continued)		
Japan: Possible heavy withdrawals of Japanese funds from American banks reported in message from American Embassy, Tokyo - 11/15/40.....	331	11
Military Planning:		
War Department bulletins:		
Soviet Mechanized Materiel for Winter Warfare - 11/19/40.....		111
Miscellaneous Technical Developments in Great Britain - 11/19/40.....		116
Ordnance: Basic British needs covered in Young memorandum to HMJr - 11/26/40.....		281
Purchasing Mission:		
Vesting Order: Official sales of British-owned dollar securities - 11/20/40, 11/22/40.....		181,215
Federal Reserve Bank of New York statement showing dollar disbursements - 11/22/40.....		212
Shipbuilding: British Purchasing Mission requests clearance on construction of sixty ships and capital assistance of approximately \$9 million: Young memorandum to HMJr - 11/26/40.....		276
United Kingdom:		
Purvis letter of gratitude to HMJr on eve of sailing - 11/15/40.....		44
Churchill asks Lothian to express to HMJr his deep appreciation for aid to Britain - 11/25/40.....		273
Phillips (Sir Frederick) sails for further discussion - 11/26/40.....		295

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£195,000
Purchased from commercial concerns	£ 54,000

Of the sterling sold, £193,000 was purchased by an insurance company.

In the open market, sterling was again quoted at 4.04 all day. Transactions of the reporting banks were as follows:

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

The other currencies closed as follows:

Canadian dollar	13% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay gold price was 3¢ lower at the equivalent of \$33.79. Silver was priced at the equivalent of 43.57¢. off 1/4¢.

In London, the price fixed for both spot and forward silver was 23-1/4d. off 1/16d in each case. The dollar equivalent of this price is 42.22¢.

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 175,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

J. M. J.

CONFIDENTIAL

M195

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 15, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

B. M. S.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 13				\$ 55,000	Banca de America et d'Italia, Rome	Chase National Bank, N.Y., for account of Banca Commerciale Italiana, N.Y., for account of Banca Commerciale Italiana, Rome
Nov. 14	\$ 55,000	Banca Nazionale del Lavoro, Rome	Chase National Bank, N.Y., by order of Banque Federale, Geneva by order and for account of Moira Forbes, Turin			

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 14	\$ 300,000	Reichsbank, Berlin	Chase National Bank, Rockefeller Branch, N.Y., for account of Standard Oil Co. of N.J., N.Y., by order of Konversionkasse fur Deutsche Auslandschulden, Berlin on behalf of Pan Foreign Corp., N.Y.
	35,000	"	Irving Trust Co., N.Y., by order of Export Credit Bank, Berlin
	300,000	"	Chase National Bank, N.Y., for account Yokohama Specie Bank, N.Y., for account of Yokohama Specie Bank, Tokio
	200,000	"	Chase National Bank, N.Y., for account of Deutsche Golddiskontbank, Berlin
	150,000	"	Chase National Bank, N.Y., for account of A/B Svenska Handelsbanken, Stockholm, for account of Reichsbank, Berlin

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



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
A 862.51/4836

November 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 217 dated November 9, 1940 from the American Legation at Bern, replying to the Department's inquiry of October 28 concerning purchases of German bonds in the United States for German accounts.

Enclosure:

From Bern,
November 9.

22

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern.

DATE: November 9, 1940, 5 p.m.

NO.: 217.

Reference is made to your 196 of Oct. 28, 7 p.m.

Legation has inquired into the matter and discussed it with the directors of several of the banks, who state that there has been a great deal of activity in German dollar bonds in the Zurich market for some time past. About a month ago the Reichsbank sent a commission to Zurich to look into the situation here regarding these and other foreign loans of Germany. This action by the Reichsbank aroused great interest, particularly among members of the large German colony who are said to have been given a tip to purchase such securities which had reacted favorably to summer successes of the German army. It has also been reported that the Reichsbank has taken part in these purchases in the markets of Switzerland.

Apparently the aim of the Reichsbank has been to buy up and repatriate German loans in foreign currencies which are held abroad. It appears that Swiss brokerage firms were authorized to make purchases on the stock exchange for New York calling for delivery in Lisbon to be repatriated to Germany eventually. The identical procedure was used in making purchases through Swedish brokerage houses calling for delivery to Stockholm to

be

-2-

be transferred to Germany from there. Some purchases which were made in the U.S. have also been delivered to South America and Mexico where they are to be kept for safekeeping until such time as they can be transferred to Germany safely. Due to the danger of sending these securities through Great Britain's blockade, the Reichsbank has found it necessary to place the securities in other countries of the Western Hemisphere for safekeeping.

There have been set forth many reasons for these heavy purchases of German foreign loans, which it is possible to purchase at around 1/6th of the issue price. One reason is the problem of German prestige and the wish to build up an international money market in Germany to some extent. Another reason is the desire to eventually secure new loans in foreign markets which will be needed for purposes of reconstruction if Germany is able to set up the continental system which it proposes.

The following is strictly confidential.

In confirming the above, Rossey of the National Bank stated that should U.S. authorities frown on these purchases for German account by Swiss banking houses he would be obliged to take appropriate measures to discourage such purchases. He feels, however, that it would not be fair to restrict Swiss brokers so long as German purchases can be made directly in New York.

EA:MSG

DEPARTMENT OF STATE

Washington

In reply refer to
EA 862.51/4838

November 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 219 of November 12, 1940 from the American Legation at Bern, a further report in reply to the Department's recent inquiry about current large purchases of German bonds in this market for German account.

Enclosure:

No. 219, from Bern,
November 12, 1940.

eh

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: November 12, 1940, 4 p.m.

NO. : 219

Reference is made to telegram of November 9, No. 217 from the Legation.

Instructions were also received by the British Legation here to report to its Government on the developments described in telegram of October 28, No. 196 from the Department. The findings of the British Legation correspond with mine, and emphasize the probable desire of Germany to build up, as part of its proposed European economic and financial system centering in Berlin, a maneuverable mass of dollar securities.

I am also informed by the British Legation here that recently the Director of the Berlin Central Finance Department of I. G. Farben Industry, Mr. Rong, was in Basel at the time the Luscher Bank received an order to buy all available shares of the Koster Konzern on the New York market. Many transactions for the I. G. Farben Industry have been handled recently by the Luscher Bank. Lazard Freres and H. Hents and Company are the New York representatives. Hans Dittsheim, who formerly worked with Rong in Bucharest, is a Jew of Swiss nationality and one of the partners of the Luscher Bank.

The British Legation also said that instructions have been given to the Luscher Bank by the Lander Bank of Berlin to pay the sum of 114,977 francs into the Bank of Sturseneger and Company of Basel. The Lander Bank, I was told, is the chief source of payment of the Propaganda Ministry of the Reich. The Lander Bank was also formerly the private bank of I. G. Farben Industry, it is understood.

EA:LWW
ah

HARRISON.

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan.

DATE: November 15, 1940, 3 p.m.

NO. : 1150

There have been reliably reported to the Commercial Attaché developments which it is believed should be brought immediately to the Department's attention and to the attention of the Federal Reserve Bank, as there are indications that in the near future heavy withdrawals of Japanese funds from American banks may occur.

It is reported that negotiations for the early conclusion of a trade agreement by Germany and Japan are under way. However, the financing of German imports remains an unsolved problem. It is said that the Germans have been unwilling to consider Japanese requests for immediate credit for sterling funds which were advanced to German manufacturers for goods immediately prior to the outbreak of the war. The Germans are said to be insisting that all new orders which may be placed must be paid for in advance in marks. The Germans are understood to have suggested that the Japanese utilize their commercial dollar credits in the United States (amounting to nearly \$125,000,000, not including Japanese Government credits) such funds to be transferred to Germany through Swedish firms, Russian firms in the United States and German firms in South America.

Some agreement along the lines indicated would not appear
improbable

-2-

improbable in view of German pressure and present relations between the United States and Japan.

The Japanese authorities are understood to have informed exporters on November 14 that in the future all export bills covering shipments to Sweden must be presented to the Yokohama Specie Bank and paid in yen currency. Formerly, it was customary for Swedish interests to open dollar credits through American banks in New York and such bills were purchased locally by American branch banks...the resulting funds being transferred back to the United States. It is possible that the procedure is directed against American banking business in Japan, but it is believed to indicate an intention to reduce holdings of dollars in the United States.

Until satisfactory arrangements have been made to liquidate American credits frozen in Japan it is hoped that the withdrawal of Japanese credits from the United States will not be permitted.

GREW

EA:GL

EMBASSY OF THE
UNITED STATES OF AMERICA

13

No. 698

Chungking, November 15, 1940

Subject: Gold Production in Unoccupied China.

Air Mail

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

I have the honor to report that the Gold Mining Administration recently announced an expected increase in gold production in unoccupied China for the year 1940.

Summary

By the end of December of this year the total productions of gold is expected to reach 350,000 ounces valued at approximately \$200,000,000, Chinese national currency. The Gold Mining Administration is trying to increase the production of the metal by granting financial assistance to private companies, establishing bureaus and fitting out prospecting parties. Lack of funds seriously handicap the Administration and the lack of modern machinery is also a disadvantage to the private companies. According to a Government decree all gold must be sold to government banks but some is held back by the companies and sold in the "black market".

The total production of gold is expected to reach 350,000 ounces for the year ending December 31, 1940. This represents a 700 per cent increase as compared with prewar figures. The present official rate for gold is \$560, Chinese national currency, an ounce which will mean an increase of almost \$200,000,000, Chinese national currency, to the nations income.

Of the total output over 95 percent comes from alluvial mining. During the past year new deposits, believed to amount to 100,000 ounces were found at Hweitung in western Hunan. Another discovery was made at Kiangtsing near Chungking where the alluvial soil is thought to contain 50,000 ounces.

The Gold Mining Administration is taking an increased interest in gold mining and is engaging in the production of the metal. A cooperative arrangement has been made with the Sikang authorities and a joint gold mining administration has been formed. Half of the \$1,200,000 capital of the Mo Li Gold Mining Corporation has been provided by the Gold Mining Administration and the rest subscribed from the banks and private interests. Sikang is now able to produce 100 ounces of gold per month and it is expected that the capacity will soon be increased.

The province of Szechuan has a monthly output between 400 and 500 ounces. Hunan province is producing about 300 ounces each month but after tapping Hwaitung reserve the production will increase.

The Gold Mining Administration in addition has established bureaus in Chinghai and Honan and prospecting parties in Yunnan.

- 2 -

As a further means of increasing production the Administration has encouraged alluvial mining by private interests. The Administration is greatly handicapped by its limited annual budget of only \$4,000,000, Chinese national currency, but government banks are offering to assist by granting loans of \$3,000,000, Chinese national currency, to private concerns.

Another handicap is the lack of modern machinery and the difficulty of importing it. Administration officials are optimistic and state that between 50 and 60 tons of machines have been ordered and are now on the way to Chungking.

All gold mined, according to a Government decree, must be sold to government banks through agents who are stationed in all production centers. This is rather a difficult decree to enforce and it is believed that some of the concerns hold back a certain amount of their production since they can obtain as much as \$900 to \$1,000, Chinese national currency, an ounce for gold on the "black market".

Respectfully yours,

NELSON TRUSLER JOHNSON

Original (by air mail) and
five copies to the Department
Copy to Peiping
Copy to Shanghai

863.4

NJM:MCL

TO THE SECRETARY
TECHNICAL SERVICES
OFFICE OF THE

eh:copy

60 DEC 3 10 22

RECEIVED
TECHNICAL SERVICES

CONFIDENTIAL

SUBJECT: Statement of Chinese Government traffic over the Burma Railways from the time of the opening of the Burma Road in February 1939 to the end of October 1940.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D. C.

SIR:

I have the honor to report that supplies for the Chinese Government carried by the Burma Railways from Rangoon to Lashio from the time of the opening of the Yunnan-Burma highway (Burma Road) in February 1939 to October 28, 1940, amounted in weight to 96,808 long tons, exclusive of 2,669 motor trucks, which were also forwarded by rail.

All of the supplies and all of the trucks were shipped by the Southwest Transportation Company, the Chinese concern in general control of Government shipments over the Burma Road. The figures are exact, and they cover all Chinese Government traffic from Rangoon to Lashio, except occasional shipments made by road, some in new trucks en route to China, and a few rail shipments made by other Chinese Government agencies.

The total of 96,808 tons of supplies included 24,911 tons of arms and ammunition, and 5,385 tons of explosives. Other items were 23,715 tons of gasoline, 1,203 tons of motor-vehicle and airplane parts, 2,056 tons of machinery, and 39,538 tons of miscellaneous materials.

That China has obtained only very limited quantities of war materials from overseas countries in recent months is indicated by the traffic figures, which show shipments of only 831 tons of explosives and 552 tons of arms and ammunition since April 1, 1940. Most of these explosives and more than a third of the other war supplies were shipped in the month of April.

Practically all materials and supplies for the aircraft factory of the Central Aircraft Manufacturing Company at Loiwing, China, have been shipped from Rangoon by river, but relatively little other freight destined for China has gone by that route.

Payments to the Burma Railways for the Chinese Government traffic provided by the Southwest Transportation Company in the period stated amounted to Rupees 4,353,889, or approximately \$1,236,436 at the average rate of exchange for that period.

Respectfully yours,

Austin C. Brady
American Consul

Distribution:

1. In quintuplicate to Department.
2. Copy for Embassy, Chungking.
3. Copy for Consulate, Kunming.

800
ACB/ep

sh:copy



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 835.51/1341

November 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 238 of October 10 to the American Embassy at Buenos Aires, regarding the proposed visit of representatives of the Argentine Minister of Finance to Washington.

Enclosure:

To Buenos Aires,
October 10, 1940.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Buenos Aires.

DATE: October 10, 1940

NO.: 238.

Department has advised the Argentine Ambassador that there is nothing to stand in the way of the representatives of the Minister of Finance coming here immediately to hold discussions with the Secretary of the Treasury and other United States Government officials.

HULL
(SW)

835.51/1341

~~XXXXXXXXXX~~

EA:MSG

COPY

FEDERAL RESERVE BANK
OF NEW YORK

November 15, 1940

Bernard Bernstein, Esq.
Assistant General Counsel,
Treasury Department,
Washington, D. C.

Dear Mr. Bernstein:

I enclose herewith a copy of a letter dated September 20, 1940 which we received from the Bank for International Settlements in the matter of our procedure in making payments to the debit of that bank's dollar accounts and making sales of gold from its Gold Account No. 2 in view of Executive Order 8389, as amended, together with a copy of our proposed reply to such letter. I shall appreciate receiving any comments you may care to make respecting our proposed reply.

Very truly yours,
(signed) T. G. Tiebout

T. G. Tiebout
Assistant Counsel

Encl.2

copy:jba

BANK FOR INTERNATIONAL SETTLEMENTS

BASEL

(temporarily at Chateau-d'Oex)

20th September 1940.

Federal Reserve Bank of New York,
New York.

Dear Sirs,

We wish to refer to your cable No. 427 of June 29th by which you informed us that you have received a licence from the U.S. Treasury authorising you to effect payments from our account which you consider normal transactions.

It is our understanding that the decision whether a particular operation has to be considered as normal remains with you and for this reason we venture to approach you with a view to obtaining some information as to the principles ruling your decisions. Going over our records we find that in some instances our instructions were executed at once, on the strength of the general licence granted to you, whereas in identical cases you have applied for a special licence from the Treasury.

You will find attached a list of all payments which we have asked you to make from our account since June 29th - when you obtained the general licence covering normal transactions - with those payments specially marked for which special licences have been asked.

We realise of course that many difficulties are raised by the new legislation and that time must pass before steps to improve its practical administration in the light of experience can be taken. Still we must point out that the present arrangements do constitute a serious interference with the daily business of this institution. In the hope of securing some improvement in this connection we asked you in our cable No. 372 of August 30th to open in your books a new account "C" in our name, in which we should maintain a sum equivalent to the dollar balances we hold for the countries named in Executive Order No. 8389 and amendments. We are grateful for your willingness to open such an account which has already shown its utility in giving us the occasion to transfer to it on receipt of Executive Order 8484 the equivalent of dollar balances held for the account of the central banks of the Baltic States. Your cable No. 528 of August 29th to the effect that both accounts require the same treatment under the Treasury ruling has been noted.

With the two accounts as they now stand we can assure you

20th September 1940.

20

that transactions passing through Account "B" are such as we believe could be carried out by an American bank without application for a special licence, and we hope that this assurance will enable you to regard them almost without exception as falling under the general licence which has been granted to you in our favour.

We are somewhat at sea in connection with sales of our own gold from Account No. 2 to the U. S. Treasury (our cables No. 333 of July 23rd and No. 381 of September 13th). Such transactions have been customary for years, but apparently you are not able to regard them as falling under the general licence. Would you be good enough to let us have your views in this connection, as it is important for us to be able to gauge the time necessary for proceeds of gold sales to become available? Nine days were required to obtain the licence for the sale requested in our cable No. 333.

We fully appreciate that your hands are not free in these matters and feel sure that you will go as far as you can to assist us.

I am, dear Sirs,

Yours faithfully,

T. H. McKittrick

President.

Encl.

copy:jba

COPY

DRAFT No. 4 (November 15, 1940)
TGT:AS:HMG

Mr. T. H. McKittrick, President,
Bank for International Settlements,
Basle, Switzerland.

Dear Mr. McKittrick:

We have your letter of September 20, 1940, with the enclosure therein mentioned, in the matter of our procedure in making payments to the debit of your dollar accounts and making sales of gold from your Gold Account No. 2, in view of Executive Order 8389, as amended.

In your letter you refer to the general license issued to us to make payments, transfers and withdrawals from accounts in your name in those cases which we do not have reason to believe involve other than normal transactions, and you state that in going over your records you find that in some instances your instructions were executed at once, "on the strength of the general license", whereas in identical cases we applied to our Treasury Department for a special license.

Upon reviewing our records we find that those payments which appeared to you to have been effected by us under the general license and which were similar to other cases in which we applied for a special license, were actually executed by us under a special license. In cases in which we obtained a special license on the day on which we received your cabled instructions to make the payment we merely advised you by cable that the transaction had been completed or that the payment had been made. It was therefore natural for you to assume that these transactions had been effected under the general license. In the other similar cases the special

license for which we applied was not received before the close of business on the day our application was filed, and we then informed you by cable that we were applying to the Treasury for a license. It has been this difference in our procedure, we think, rather than a real difference in the treatment of similar cases which has occasioned your question.

As to sales of your own gold from your Gold Account No. 2 to the United States Treasury, while it is true that such sales have been made from time to time over a period of years, we have not considered that they were intended to be included within the scope of our general license as constituting "normal transactions". It is, as we are sure you will appreciate, a difficult matter to formulate any general rule as to what may be said to constitute a "normal transaction", and it is inevitable that the application of the rule should at times seem arbitrary.

We appreciate that the delays incident to applying for licenses to make payments from accounts which have been "blocked" pursuant to Executive Order 8389, as amended, may well cause inconvenience, and bearing this in mind, we have given careful consideration to each payment order which we have received from you to determine whether we could not properly execute the order under the general license. You may be assured that we shall continue to give our prompt and careful consideration to each case, and will try to avoid any unnecessary delays.

Very truly yours,

copy:joa

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: November 15, 1940, 1 p.m.

NO.: 3471

TRIPLE PRIORITY.

FOR TREASURY.

On Saturday November 16th an order will be issued by the British Treasury, which is not to be made public until November 19, Tuesday, under which there will be vested in the British Treasury American securities which should have been vested under the orders of February and April but were not because the owners had not registered them, and because those vesting orders were applicable only to securities actually on the books of the Treasury.

An intermittent flow of registrations of such securities has come to the British Treasury since the dates of the above-mentioned orders, coming from people who did not comply with the first order for registration through inadvertence or for other reasons. Since that time the British Treasury has been awaiting an appropriate time to issue another vesting order to take care of these cases. At the time the Low Countries and France were invaded, they did not issue the order because of the slump then on the Stock Exchange in New York, since it would have been unfair to the owners to have the securities vested.

It was at least two weeks ago that a tentative decision

was

- 2 -

was reached to select this period but the order was delayed so that decision could be reached on the means of distinguishing in the operation of the order between those registrants coming into the ownership of securities by inheritance from American owners, and those registrants who were late by their own fault or negligence.

END OF MESSAGE.

JOHNSON.

EA:LWW

PAW

PLAIN

LONDON

Dated November 15, 1940

Rec'd 12:44 p.m.

Secretary of State

Washington

3752, Fifteenth.

FOR TREASURY

An announcement of the League Loans Committee states that: "the suspension of transfers in foreign exchange for the service of Bulgarian external loans still continues and that in consequence no funds have been received by the paying agents of the above-named loan either to provide for payment of the interest coupon due 15th November 1940 or for sinking fund purposes. The committee have been informed that the equivalent in leva of the monthly installments of interest due under the arrangement of February 1940 is being regularly paid by the Bulgarian Government to the credit of a special account at the National Bank of Bulgaria which has been opened for the purpose in the name of the bondholders."

JOHNSON

CSB

EH

PLAIN

Stockholm

Dated November 15, 1940

Rec'd 10:33 p.m.

Secretary of State,
Washington.

1038, Fifteenth.

Preliminary total Swedish defense loan 795,000,000 crowns. Bank syndicate issuing for Stockholm 30 year loan for 30,000,000 crowns at 97% bearing 4% interest, public subscriptions first day fairly large. Loan to Goteborg of 14,000,000 crowns expected soon. Trade negotiations with Italy broken off 2 months ago now being resumed, Swedish Delegation including head of Clearing Board leaving for Rome. Next week negotiations will be entered into with Germany for renewal of trade agreement expiring December 31, negotiations of utmost importance as Germany is Sweden's only remaining export market of consequence but negotiations will be more complicated than last year's as Swedish trade with occupied countries is now under German control Germany's credit balance in Swedish-German clearing smaller than year ago owing to larger German purchases of lumber, woodpulp, et cetera. September industrial production index 105 many industries showing marked drops from previous month. In
million

EH -2- 1038, November 15 from Stockholm.

million crowns national debt October 4487, Riksbank
November 7 metallic reserve 640, loans discounts 706,
foreign exchange reserves 768, note circulation 1394.
Refer our 1016, November 4, metallic reserve should read
630. Government asking for additional appropriation current
year 32,000,000 crowns for starting construction 2 light
cruisers. October bankruptcies numbered 127, protested
bills 2827, totaling 1,900,000 crowns. Finland's recon-
struction loan with Swedish Riksbank was raised by 5,000,000
crowns to provide for certain outstanding items previously
overlooked. Undetermined amount dollar exchange sold in
Sweden few days ago for foreign account.

INFORM TREASURY COMMERCE.

STERLING

JRL

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

November 15, 1940.

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

Dear Mr. Morgenthau:

Thank you very much for the following reports,
which you sent me this date:

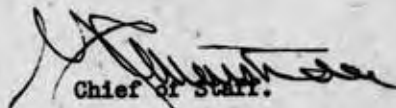
Part I - Airplanes

Deliveries of and New Orders for Airplanes,
June 9 - November 9, 1940; Unfilled Orders
and Estimated Deliveries on November 9, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, June 9 - November 9, 1940; Unfilled
Orders and Estimated Deliveries on November
9, 1940.

Faithfully yours,



Chief of Staff.

AERONAUTICAL CHAMBER OF COMMERCE OF AMERICA

INCORPORATED

SHOREHAM BUILDING — 15TH & H STREETS, N.W.

WASHINGTON, D.C.

29

EXPORT BULLETIN NO. 78

GENERAL

TO: ALL MANUFACTURING MEMBERS.

November 15, 1940.

PRELIMINARY CONTROL OF FOREIGN SALES NEGOTIATIONS

The explanation which follows has been prepared in collaboration with the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases.

I. HISTORY

The President, on December 6, 1939, notified the Secretary of the Treasury, the Secretary of War, and the Acting Secretary of the Navy that he had created an informal liaison committee, hereinafter called the Interdepartmental Committee for Coordination of Foreign and Domestic Military Purchases, to represent the United States Government in all matters relating to the purchase of military or naval supplies, materials, and equipment in the United States by foreign governments. The scope of the Committee's activities has now been enlarged to include export transactions relating to all strategic materials, including machine tools, commercial and private aircraft and other aeronautical products.

II. FUNCTIONS AND OBJECTIVES

This Committee serves as the exclusive liaison with reference to procurement matters between the United States Government and interested foreign governments. The requirements of such foreign governments for supplies, equipment, and materials are considered by the Committee in relation to (a) availability of the desired articles, (b) priority, and (c) prices. An important part of the Committee's function is to prevent conflict between such foreign requirements and the requirements of the United States Government and its citizens in American markets.

The Committee also protects the manufacturer by assuring him that, if preliminary approval to negotiate is granted, he will, if circumstances are not altered

- (1) experience no difficulty in securing export licenses (where required) or in shipping the material from the United States.
- (2) be able to make deliveries as scheduled under the terms of the contract since the contract will have been negotiated with full knowledge and approval of all the interested parties in the United States Government. (To protect export orders the Committee is making recommendations to the Priorities Board for the assignment of priority numbers to all foreign contracts. The plans for this procedure have not been completely worked

Export Bulletin No. 78 - Page 2.

out; however, we will advise you upon their completion).

In summary, it may be stated that the Committee's chief functions are:

- (1) To establish liaison between the United States Government agencies (State, War, and Navy Departments, and the Advisory Commission to the Council of National Defense), foreign purchasers and, indirectly, interested manufacturers.
- (2) To prevent the possibility of embarrassment to manufacturers who might make commitments which they would later find impossible to fulfill.

III. ORGANIZATION

The Committee is composed of Mr. Philip Young (Treasury Department), Rear Admiral Ray Spear (Navy Department), Major General J. H. Burns (War Department) and, in an advisory capacity, Colonel Russell L. Maxwell, Administrator of Export Control.

In certain British Negotiations there is associated with the Interdepartmental Committee the Army - Navy - British Purchasing Commission Joint Committee composed of the following:

Air Commodore G.B.A. Baker, British Purchasing Commission
 Mr. C.R. Fairey, British Purchasing Commission
 Major General George Brett, Acting Chief of the Air Corps, U.S.A.
 Major General R. C. Moore, U. S. Army
 Rear Admiral John H. Towers, Chief, Bureau of Aeronautics, Navy
 Captain Walter W. Webster, U. S. Navy
 Mr. Philip Young, Interdepartmental Committee

The Army - Navy - B. P. C. Joint Committee is also known as the Standardization Committee. Under the Standardization Committee is the Allocation Subcommittee composed of the following:

Dr. A. E. Lombard (Chairman)	) National Defense Advisory Commission
(Vacant)	
Mr. C. R. Fairey	) British Purchasing Commission
Air Vice Marshall Cave-Browne-Cave	
Major E. M. Powers	) United States Army
Major E. E. Longmead	
Captain D. C. Ramsey	) United States Navy
Lieut. G. W. Anderson	
Mr. J. C. Buckley	Interdepartmental Committee

Export Bulletin No. 78 - Page 3.

The Standardization Committee and Allocation Subcommittee concerned with British Purchases are charged with the following duties:

- (a) Reconciling the technical differences between aircraft and engines about to be constructed or ordered by the United States and British Governments. (The ironing out of these technical differences will allow speedier production of a greater number of units than heretofore contemplated.)
- (b) Allocating such increased production of units as result from the speeding up of delivery (made possible by either the Standardization Committee's work or other means.)
- (c) Allocating any production that might be made available through erection of new plants or expansion of existing units.

IV. POLICY

The Interdepartmental Committee functions as a coordinating group with respect to preliminary negotiations for purchase by foreign governments or private buyers of strategic materials or equipment produced for export in the United States. Where the intended purchase of such materials totals one thousand dollars or more (all aeronautic items are considered strategic materials) the foreign buyer is expected to report his intention to conduct such negotiations to the Committee. However, it should be noted that while the Committee desires such notification of intent to negotiate, there is no legal authority to enforce it and actual compliance is voluntary.

V. PROCEDURE

The general procedure followed in advising the Committee of intention to carry on negotiations for the foreign purchase of strategic materials totaling one thousand dollars or more is as follows:

General Procedure:

After the prospective foreign purchaser* has held exploratory and educational conversations with different manufacturers to determine what makes and types of equipment (planes, engines, parts, etc.) he would like to buy, he then files, with the Interdepartmental Committee, a "Report of Preliminary Purchase Negotiation" (copy attached and hereinafter referred to as a P.N.R.).

*The Interdepartmental Committee will only recognize, as negotiators, such non-diplomatic agents of foreign governments who have been registered with the State Department in accordance with the provisions of the Espionage Act (Title VIII), June 8, 1917 (40 stat. 226).

Export Bulletin No. 78 - Page 4.

The Committee on receipt of the P. N. R. (11 copies to be filed by British and 7 for other countries) will move in accordance with the procedure outlined in Section 6 entitled "Routine". Upon completion of its inquiry the Committee will notify the applicant that:

- (a) The P. N. R. has been approved, i.e., the negotiations may proceed.
- (b) The P. N. R. has been rejected and further negotiations are discouraged.
- (c) The P. N. R. has been partially approved, and an alternative or compromise plan should be worked out before negotiations proceed further.

British Procedure:

Procedures, now in force, are described below:

There are the three following methods of working through the Interdepartmental Committee in the purchase of aircraft and engines by the British; in the second and third methods it is the foreign buyer (British Purchasing Commission) which approaches the Committee.

(1) The first method does not call for a P.N.R. since it covers the British military aeronautical production quota which has already been authorized and provides for delivery of a definite number of units and types during the period from July 1, 1940 to July 1, 1942. Negotiations within the prescribed quota limits may be freely entered into; however, at least seven days before the signing of a formal contract for the delivery of any aircraft or engines already provided for in this British military quota, a report known as the "Seven Day Advice Form" (see attached copy) should be filed with the Committee. (Upon receipt of this "Advice Form" it is sent directly to the National Defense Advisory Commission.)

(2) The second method, which involves a P.N.R., applies to the contemplated purchase of strategic materials (such as commercial and military aircraft or engines) by any British Dominion or Crown Colony. If the P.N.R. is approved for these purchases, a "Seven Day Advice Form" must be filed prior to signing a formal contract.

(3) The third method calls for both a P.N.R. and a "Seven Day Advice Form". It applies to all military aircraft, engines and propellers which are produced in excess of the quota referred to under method (1).

It should be noted that the "Seven Day Advice Form" is filed by the British Purchasing Commission for British purchases only.

Non-British Procedure:

In other than British cases where a private individual or firm is the purchaser (such as private airlines, civil pilots, or aeronautical firms) the American manufacturer (seller) may prepare and file with the Interdepartmental

Report Number _____

Date _____

TO: PRESIDENT'S LIAISON COMMITTEE

FROM:

REPORT OF PRELIMINARY PURCHASE NEGOTIATION1. MATERIAL

- (a) Full description and identification -
- (b) British or American specification? -
- (c) Mark -
- (d) Navy, Army or Air involved? -

2. APPROXIMATE QUANTITY3. APPROXIMATE TOTAL VALUE

- (a) Purchase Price - \$ _____
- (b) Capital assistance divided between:
 - i. plant - \$ _____
 - ii. equipment - \$ _____
 - iii. other assistance - \$ _____

4. SUPPLIERS

- (a) Name
- (b) Plant used (if unknown, so state)

5. REMARKS

Advice Number _____

Date _____

To: Liaison Committee

From:

Advice of Intention to Place an Order under
14,375 Airplane Program1. Order covered by this advice:

Seven days hence, we propose to place the following order:

QUANTITYDESCRIPTION2. Proposed delivery schedule:3. Status of Orders for this item:4. Action by Advisory Commission:5. Remarks:

Export Bulletin No. 78 - Page 5.

Committee the P.N.R. or a letter containing the essential information. If the purchaser wishes, he may have some official in his Embassy or Legation at Washington handle the P.N.R. or letter. (In such cases the foreign embassy or legation will receive prior notice.) However, a P.N.R. should be filed in all cases when the purchase involves large quantities of strategic materials.

VI. ROUTINE

The Interdepartmental Committee proceeds as follows in the handling of a P.N.R.:

- (a) A check up is made with the State Department to ascertain if there is any foreign policy reason which might preclude strategic materials shipments to the country in question.
- (b) The P.N.R. is sent simultaneously by messengers to a liaison officer in the National Defense Commission and to the Interdepartmental Committee members in the War and Navy Departments. In the Defense Commission in the case of aeronautic material the P.N.R. is referred to the Aviation Division. Through the War or Navy Departments copies are brought to the attention of the Joint Aeronautical Board, Bureau of Aeronautics and other interested offices or divisions in those Departments. After these several offices have made their recommendations, they are sent to the Defense Commission for coordination. Then the final complete recommendation is sent to Mr. Young's office.
- (c) When the recommendation, whether favorable or not, is received from the Defense Commission, the Interdepartmental Committee will send written notifications to both the foreign applicant and the American manufacturers concerned that the P.N.R. has or has not been approved.
- (d) It is expected that the War and/or Navy Departments will arrange to send written notifications to their inspectors or procurement officers in the plants affected by approval of P.N.Rs.
- (e) The time normally required to have a P.N.R. acted upon varies from two (2) to seven (7) days.

VII. CONCLUSION

None of the foregoing information is to be construed as applying to the sale of used equipment nor are negotiations relative to sales to the

Export Bulletin No. 78 - Page 6.

non-contiguous territories of the United States subject to the procedure set forth in this bulletin.

This bulletin contains only the essential descriptive details of a system of prior control which directly concerns the prospective buyer from abroad, but is of considerable interest to the manufacturers. The organization and procedure can be no more static than the conditions which they propose to control. The Chamber will follow developments closely and supplement this bulletin as required.

Nothing in this bulletin is meant to imply any change in the export release policy of the Aeronautical Board nor of the export licensing requirements and procedure of the Department of State (Division of Controls).

I. H. Taylor
Manager, Export Department.

CONFIDENTIAL

37

Paraphrase of Code Cables Received at the
War Department at 9:10 A.M., November 15, 1940

Berlin, Filed November 14, 1940.

German army dispositions are stated by a source which can
be considered fairly reliable to be in part as follows:

<u>AREA</u>	<u>ARMY COMMANDER</u>	<u>STRENGTH</u>
Belgium	Dallmann	8 Divisions.
Austria—Bavaria— Bohemia.	Reichenau	16 Divisions (colonial equipment)
Rumania—Hungary— Slovakia.	Blaskowitz	16 Divisions

The center of gravity of the army of General Blaskowitz
is shifting steadily southeastward.

The navy should be informed of these dispositions.

PEITON.

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
ONI

CONFIDENTIAL

CONFIDENTIAL

38

Paraphrase of Code Radiogram
Received at the War Department
at 7:55 A.M., November 15, 1940.

Belgrade, filed November 15, 1940.

Until Christmas the weather conditions in Thrace will be favorable, and maneuvering in that area will be easier than in Albania.

The German dispositions remain generally unchanged, except for their troop movements into Rumania. To date their strength in this area can be estimated at 30,000 troops.

The G-2 of the Yugoslav Army states that as a result of the Molotov visit it is probable that a combined German Bulgarian Army will soon go into action. This officer correctly predicted an Italian offensive against Greece this autumn, and that Germany would postpone debouching from Rumania until its rearward lines of communication between Rumania and Germany were secure.

FORTIER

Distribution:

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

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 6:10 P.M., November 15, 1940

London, filed 16:00, November 15, 1940.

1. The Bomber Command conducted no daylight operations on Thursday, November 14. That night it was planned to dispatch a total of 126 bombers, 45 against Berlin, 17 against enemy railroads, eight against ports, 11 against airfields, eight against oil targets, and 57 against Italian targets. In spite of an electrical storm and severe icing conditions over Germany, the bombing results during the night of November 13-14 were good. There were 72 sorties, with two planes lost and three crashed on landing. That night Wellington bombers of the Royal Air Force supplemented the recent attack by the Fleet Air Arm by dropping ten tons of bombs on Taranto. Operations of the Coastal Command were routine, with 48 patrol missions, 92 sorties and 20 convoy escorts. The Fighter Command operated 637 planes on 114 patrols.

2. Daylight operations of the German Air Force on November 14 consisted mostly of attacks against shipping and reconnaissance missions. That night a large scale attack, originating from Denmark, Holland and France, was made on Coventry. There were some attacks elsewhere.

3. Six British airdromes were attacked, but the only damage

CONFIDENTIAL

CONFIDENTIAL

was at one field where a crater 50 feet wide and 25 feet deep was made. Five fields are reported either wholly or partially unserviceable. Coventry suffered major damage from the effects of high explosive bombs, mines up to eight feet in length, and numerous incendiary bombs. It is reported that there are at least 200 fires and a shortage of water. Rail and telephone service is badly disorganized. It is considered inevitable that a considerable number of important munitions plants, public services and public utilities suffered great damage. Greenwich also suffered major damage, with reports that more than 100 houses were demolished. Damages elsewhere were minor.

4. The British lost no planes; while German losses were 19 confirmed, eight probable and nine damaged.

LEE

Distribution:

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

CONFIDENTIAL

-2-

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 12:42 P.M. November 15, 1940

Belgrad, filed 15:30, November 15 (?), 1940.

In Serbia secret mobilization continues despite fall of Nedic. Today 6 active divisions of 3rd and 9th Armies complete their mobilizations. 3rd Army faces Albania and 9th watches Bulgaria. The two armies are throwing off their reserve divisions in varying degrees. Within the armies regrouping of formations appears to be in progress. It is believed by many Yugoslav officers and military attaches that Nedic was dropped because he was heading the country toward war and that the present government will continue subservient to Germany.

FOURTH.

Distribution:

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

CONFIDENTIAL

G-2/2657-220

RESTRICTED

No. 246

SITUATION REPORTM.I.D., W.D.
November 15, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

Weather conditions were excellent.

During daylight of the 14th the German Air Force was active over southern England. Dive bombers are said to have been employed in some instances and to have sustained heavy casualties. German night activity was on an exceedingly heavy scale. While some bombs were dropped in the London area, the focus of attacks was over the Midlands. Coventry, site of many aircraft engine plants, was subjected to particularly long and heavy raids. The Germans claim to have dropped 500 tons of bombs here and the British authorities estimate that about 1,000 casualties were caused.

The R.A.F. raided Berlin last night, where considerable resistance seems to have been met. Other raids, apparently widely dispersed, were made on 26 German occupied airdromes and harbors. These included points in Norway.

II. Greek Theater of War.

Greek counterattacks continued. They were apparently local in nature. Air activity was widespread but the forces employed seem to have been small.

III. Mediterranean and African Theaters of War.

No reports of ground or aerial operations available.

RESTRICTED

No. 247

SITUATION REPORTM.I.D., W.D.
November 16, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

During daylight of the 15th the German Air Force conducted widespread raids, mostly by small elements over England. Last night their operations centered over London. The raids were very heavy, involving about 500 planes and lasted from dark to 7:00 A.M. There were some minor night attacks elsewhere in England; Coventry was attacked again on a small scale.

Last night the R.A.F. made a relatively heavy attack on Hamburg, where docks and oil facilities were bombed. Airdromes and ports in German-occupied territory were also raided.

II. Greek Theater of War.

The Greeks report advances by their ground troops all along the front. It is still uncertain whether this represents a Greek offensive movement or merely the occupation of ground evacuated by the Italians in the course of the reorganization of their forces. Aerial activity on a small scale was widespread throughout the theater.

III. Mediterranean and African Theaters of War.

No ground operations and only minor air activity reported.

RESTRICTED

150 CENTRAL PARK SOUTH

November 16th

Dear Henry,

My "Cipper" has
been delayed a week
& consequently it is
only today the 15th that
we appear to be getting
off. Even now I shall
have my fingers crossed
in case we get held
up at Bermuda.

Before I go I want
to thank you for all
the consideration and
help you have given me

personally during a
trying year - quite
worn for years
devotion to the Cause.
But for that I think
some times I might be
broken entirely as
administrative work
hangs heavily on my
body & soul! From
now on I shall
be organised - in fact
am now organised
so that such administrative
work will be on
others shoulders &
therefore there should be

more time to keep chart
course. Meantime
again a thousand thanks.

As you know so
far I have not said
anything specially re
Marianne, but before
leaving, and because I
am leaving, I have told
Young he may be in
touch with him & other
Depts. during my absence.
As you know he was
sent to me with the
highest word from
London to be part of
my organisation. I
intend to check on
their views carefully
while I am over.

Lesson is excellent
I think, & would have
flown down to Jamaica
to see you rather than
miss you. I like his
approach & type. Between
ourselves I gather they
are all a little worried
about the "Beaver".

I am hoping to
accomplish something
towards more understanding
in London! Phillips
is staying over till I
get here & will then
leave immediately.

Again so very much
appreciation of all you
have done to ease my
pain, & with my best wishes
to you & Mrs. Houghton
Arthur

Form 6406
TREASURY DEPARTMENT
U. S. COAST GUARD
Sept. 1935

U. S. COAST GUARD

OFFICIAL DISPATCH

TRANSMIT

16 NOVEMBER, 1940

DATE		
FROM	COAST GUARD HEADQUARTERS	CODE
TO (FOR ACTION)	LTCOMDR D E MCKAY CASABLANCA HOTEL MONTEGO BAY JAMAICA	CIPHER
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.		ACKNOWLEDGE
TO (FOR INFORMATION)		PRIORITY
		ROUTINE
		ACKNOWLEDGE
		PRIORITY
		ROUTINE
MAIL TO		
TELEPHONE TO		
MESSENGER TO		

OUTGOING HEADING

TEXT

PLEASE INFORM SECRETARY THAT EARLE BAILIE DIED LAST
NIGHT GREAT SHOCK TO ALL

HENRIETTA KLOTZ

OPERATOR'S RECORD

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 2-15617

U. S. COAST GUARD

OFFICIAL DISPATCH

TRANSMIT

46

16 NOVEMBER, 1940

DATE		
FROM	COAST GUARD HEADQUARTERS	CODE
TO (FOR ACTION)	SECTREAS	CIPHER
		ACKNOWLEDGE
		PRIORITY
		ROUTINE
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.		ACKNOWLEDGE
TO (FOR INFORMATION)		PRIORITY
		ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

YOUR LETTER RECEIVED X DICK WRITING IN DETAIL X YOU ARE
CORRECT 500 NUMBER 5 PURCHASED OCTOBER 30. EFM NOW HAS
1800 NUMBER 5 AND DICK WILL BUY 200 MORE X MOORE BOUGHT
1000 NUMBER 5 AT 22-1/2 3/8THS FOR TRUST YESTERDAY

HENRIETTA KLOTZ

OPERATOR'S RECORD

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 2-15617

Mrs. Klotz

47

November 16, 1940

**Radio to Secretary Mergenthau
Kingston, Jamaica**

Forrestal planning visit to Boeing, Douglas and Lockheed starting in Seattle November 25th. Have advised British but do not consider Treasury representative necessary unless you insist as no serious problems exist currently at these plants. Expect to take next week off but Buckley who has been away this week will be on job. Our plans will be adjusted to meet situation if you insist on West Coast trip but strongly advise against asking anyone to fly northwest route this time of year. Please advise.

Philip Young

Copy to Mrs. Klotz

48 11-16-40

FOR MRS KLOTZ

CONNECTION MEXICAN

GOVERNMENT INVITATION SEND OUR
X REGRETS X REQUEST SULLIVAN, BY
TUESDAY NIGHT, PREPARE AND SEND
AIRMAIL HALF DOZEN MOST GLARING
INSTANCES TAX EVASION LOOPHOLES
OR TAX INEQUALITIES X I WISH, FOR
EACH, POPULAR EXPLANATION WHICH I
CAN USE AND UNDERSTAND OVER RADIO
FIRST WEEK IN DECEMBER X WISH IN-
STANCES WHICH WILL STRIKE IMAGIN-
ATION, AS MY ANNOUNCING CONGRESS
WOULD BE ASKED TO ABOLISH TAX
EXEMPTS X CHECK FOR DATE AND TIME
ON AIG WITH BELL AND WHEN IT IS
DEFINITE CABLE ME X

SIGNED BEST RE-

GARDS

H M JR

* "AIG" JUST AS REC'D

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 16, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£88,000
Purchased from commercial concerns.....£ 9,000

In the open market, sterling held steady at 4.04. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 3,000
Purchased from commercial concerns.....£11,000

Closing quotations for the other currencies:

Canadian dollar	13% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-3/16% discount

We sold \$800,000 in gold to the Central Bank of the Uruguayan Republic, to be added to its earmarked account.

No new gold engagements were reported.

The Bombay gold price was equivalent to \$33.75, off 4¢, and silver was 1/8¢ higher at the equivalent of 43.71¢.

B. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 16, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. Somary, the Swiss economist who has been acting for several months as financial counselor to the Swiss Legation, called on me yesterday morning at 11 o'clock. Dr. Somary is concerned lest the United States might, even without entering the war, take some steps to stop payments to Germany and Italy, which might be extended in some form to other European countries, most likely those touching upon the two above-mentioned states. Dr. Somary cited the example of Canada which under date of September 20, 1940, had issued orders to bar all payments to continental Europe, unless they are made with the specific approval of the Canadian Exchange Control. Dr. Somary stated that any such application by the United States of control over financial transactions with Switzerland would be extremely detrimental to the latter country. He thought it advisable to give us arguments against such a step in advance of any possible application thereof, rather than wait until such action may take place, and then endeavor to have an exception made for Switzerland.

I told Dr. Somary I thought that both the State and Treasury Departments were fully aware of the reasons which his country, and also Sweden, had advanced on several occasions, principally through their Legations in Washington, against the imposition of any control which would apply to their two countries. I told Dr. Somary, however, that if he desired to proceed with a memorandum such as he proposed, I would, of course, accept such a document for the Secretary's confidential and personal information. Likewise, I thought such a document would be accepted by Dr. Feis for the Secretary of State. Dr. Somary will therefore, I understand, proceed with the preparation of a brief, informal memorandum in the premises. He will point out that Great Britain has seen fit to give Switzerland exceptional treatment, this being the only country in Europe to be treated on the same basis as the United States under British paying regulations. Furthermore, Italy as well as Great Britain, is granting special dispensation to the Swiss to permit the delivery to Switzerland and export from Switzerland of goods carried in steamships chartered by the Swiss from Greece. Dr. Somary stressed as his main points, however, the fact that Switzerland is the remaining Tripartite partner of the United States, under the monetary accord of 1936, and is the one country in Europe which is being faithful to a gold policy similar to and cooperating with our own.

Dr. Somary does not expect the war to go into a third winter. His wife had just arrived from Switzerland via Spain and had described to him the appalling poverty which now obtains in Spain. Dr. Somary feels that the cost and destruction of the war as waged at present and the results of blockades will be so heavy that some conclusion to the war must be reached within the next twelve months. He stressed the degree to which this is a war of nerves. He is of the opinion that England is suffering much more severe punishment than Germany in the way of bombings, but he is heartened by the moral and military resistance that the British have shown.

November 16, 1940

Acting Secretary Bell

Mr. Cackran

STRICTLY CONFIDENTIAL

When Mr. Pincent, Financial Counselor of the British Embassy, called on me at 12:35 noon, November 14, he raised with me again the question as to what our attitude would be if the British Treasury succeeds in negotiating with certain refugee governments in London for the sale to them of gold against blocked sterling. The question would arise with us when it might be a matter of disposing of gold held under earmark in the United States.

I told Pincent that I had submitted this matter to Secretary Mergenthau briefly before the Secretary departed for the West Indies. I let Pincent know confidentially that the Secretary on first glance seemed to see no objection that might arise on our part. We were, however, fully aware of the technicalities involved. When Pincent pressed me, in his usual fashion, for a definite commitment on the part of the Treasury that we would license the contemplated transactions when funds are involved of countries over which we now have control I definitely refused to give such a commitment. I stated that I had explained the matter briefly to the Secretary, but he latter had not had opportunity to make any case study thereof, or to call in his assistants for consultation. I was not willing to take the matter up with the Secretary by cablegram during his holiday. Furthermore, I did not think it correct to seek a commitment from Acting Secretary Bell in the circumstances. I advised Mr. Pincent that this matter should be held entirely in abeyance until Sir Frederick Phillips arrives in this country. The latter may then, if he desires, take up this or any other propositions directly with the Secretary of the Treasury. When Pincent then insisted that some of us from the Treasury and his Embassy might get together in the meantime to study various phases of the question, I again refused. I told him that he was not yet able to report any progress made in London toward purchasing the gold assets against sterling. If there is any preliminary work to be done, I thought it was with the British. I knew that once their proposal was put to the Secretary, we could give speedy consideration thereto. The understanding was that Pincent would advise his people in London that the Treasury desired that this question be not raised prior to Phillips' arrival, unless Pincent heard from me to the contrary after I had talked with Acting Secretary Bell later in the day. Mr. Pincent telephoned me yesterday morning and I told him that Mr. Bell had supported my position entirely.

When this matter comes up for consideration we naturally shall have to give attention to various aspects of the problem. There is, first, the serious question as to whether the Federal Reserve Bank of New York would be disposed to honor instructions from the refugee governments in London for the utilization of gold such as that held under earmark for the Netherlands Bank, unless and until the legislation

- 2 -

advocated by the Federal Reserve to protect them in this field is adopted. It is my understanding that some financial lawyers in New York consider this proposed bill unconstitutional and will recommend to their banks against exposing themselves to damages which might result from carrying out transactions in the light of a law which might be declared unconstitutional within a period wherein claims could be made against the banks. Furthermore, is it to our interest that the gold resources of these countries which have been invaded should be turned in to the British for sterling which can only be used in the sterling area? Would it be more to our interest for the gold in question to be sold directly to us and it be left to the British and the representatives of the refugee governments to work out some subsequent transactions whereby dollars might be made available to the British against sterling?

Mr. Pincent let me know that a further vesting order was to be taken by his Government toward taking over securities which had not been registered in time for vesting under previous orders. That is, this new order will simply clean up the residue of securities already vested, and will concern only those same securities. Since having this word from Pincent, we have received a cablegram from the Embassy in London reporting the transaction. This cable is No. 3471, dated November 15, 1940.

Mr. Pincent stated that a problem had arisen as to how to facilitate the business of the United States officials and their personnel and employees who may be in British possessions in this hemisphere for the purpose of establishing and operating aural bases. That is, some scheme must be worked out so that these people will not be hampered by British exchange control regulations. Pincent promised to send me a separate memorandum upon this subject.

B.M.F.

HMC:dm:11.18.40

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: November 17, 1940, 5 p.m.

NO.: 966

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

I was visited this morning by Couve de Murville who was here for a day. He spends most of his time now between Paris and Wiesbaden. Couve spoke frankly and made no secret of the fact that he is opposed to the so-called policy of collaboration between France and Germany. He said that it is possible to carry out such collaboration, but only at the expense of complete loss of independence for the French. He does not think it likely that there will be any immediate important material benefits to his country. I told him in confidence that the Marshal has decided to inform the Germans that the French can no longer continue payment of the daily amount of 400,000,000 francs to the Germans, and Couve seemed to be surprised and pleased at this. However, he told me, no communication to Wiesbaden has as yet been made to such effect. The Germans do not seem to fully realize as yet the dangerous potentialities of serious inflation; on the other hand he has seen no indication that monetary inflation is desired by the Germans. Couve said that the Germans are beginning to use part of the huge sums accruing to their credit in their Bank of France accounts for the purpose of making heavy purchases of industries in France.

A great

- 2 -

A great deal of interest is being shown by the Germans in French dollar balances in the United States and the possibilities that such balances might be utilized. No formal demand has been made of the French that they make efforts to have the balances unblocked by some means or another; however, the Germans would like to see these balances utilized for substantial purchases from us of cotton and petroleum by the French, of course for the use of the Germans.

French gold is of less interest to the Germans, although they knew where it was located and the possibilities of obtaining the stock which the RICHELIEU took to Dakar. Couve told me that the figure is 30 billion francs - which is the first time I had heard the amount.

In view of the severe provisions of the recent anti-Jewish law, I asked Couve what would happen to Rueff's position in the Bank of France. It was not yet sure, he said, but he hoped very much that they could find a way to keep him with the Bank.

END OF MESSAGE.

MATTHEWS.

EA:LWW

MH

GRAY

Berlin

Dated November 16, 1940

Rec'd 10:30 a.m.

Secretary of State,
Washington.

4728. November 16, noon.

Today's morning press (#) the inauguration of a clearing system for payments between Germany (including the protectorate) and France (including the French Colonies, protectorates, African mandated territories and Syria, Lebanon). Payments for commodities services as well as certain capital payments may be made over the clearing system. The rate of exchange provided is one mark twenty francs.

Inform Treasury and Commerce.

MORRIS

ROW

(#) Apparent omission

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 16 November, 1940.

SECRET

From: Spagent, Shanghai, China.
To : Mr. Dietrich.

Message from Mr. Nicholson.

Thanks for your message of November 9th. I see no objection to the procedure outlined and have acted accordingly. Best regards.

Note: This message refers to cable sent to Mr. Nicholson in connection with Executive Order No. 6560 as amended and Executive Order No. 8389 as amended.

FD

Paraphrase of Code Radiogram Received at the
War Department on November 17, 1940.

London, Filed 20:05, November 16, 1940.

1. The Bomber Daylight carried out no daylight operations on Saturday, November 17th. That night it was planned to dispatch a total of 109 bombers, 52 against German industrial plants, 35 against airframes and 22 against railroads. The operations of this Command during the night of November 14-15th were extremely successful. Thirty bombers dropped 17 tons of high explosive bombs, 4,000 incendiary bombs and six 1,500-lb. bombs. Other missions were very well executed. These included 13 tons of bombs, three of which were 1,000-lb. bombs, dropped on an oil plant in Hamburg. This Command carried out a total of 124 sorties that night, with ten planes missing, two lost in the sea and one crashing on landing. The Coastal Command operations by day and night were satisfactory, with 44 patrol missions, 92 sorties and 13 convoy escorts. No planes on either side were lost. The Fighter Command operated 718 planes on 107 missions.

2 Daylight operations of the German Air Force on November 16 consisted mostly of four sweeps by fighter formations, by about 30, 60, 30, and 40 planes, respectively, over South and Southeast England. In addition, reconnaissance missions were flown. About 350 German planes were plotted.

3. Seven British airdresses were reported attacked. Seven planes were damaged at one field and some buildings and trucks were hit at another; otherwise there were minor damages only. Eight airfields are either wholly or partially out of commission. Parachute bombs in London seriously damaged a number of buildings at 2 points and set a gas tank on fire. There were many other facilities damaged in the London area and a considerable number of fires, including those in a tire plant and an ordnance factory. Two railroad stations were damaged. Piccadilly Street opposite Green Park was hard hit, to include many hotels and clubs. The Oxford area suffered a similar fate, the bombs in this district falling but three blocks from the Embassy. One crater measured 90 feet in diameter and 30 feet in depth. It appears that both sides are going in for heavier bombing.

4. German plane losses were 19 confirmed, two probable and four damaged. The British lost one plane with its pilot. In the Eastern Mediterranean the British lost two planes and the Italians none.

5. During the night of November 14-15th the Fighter Command had 119 patrols and 123 sorties in the air and succeeded in knocking down one German bomber. This is the largest night fighter effort made to date by the British. They are extremely hopeful that their scientific interception development, if it is successful, will go far in deciding the final outcome of the war.

CONFIDENTIAL

59

6. There is no new information of the Molotov visit.
7. The German air raid at Coventry was apparently carried out by 430 planes, of which about 340 were long range bombers. This is very likely a maximum German effort.

LEE.

Distribution:

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

CONFIDENTIAL

CONFIDENTIAL

60

SECRET

**Brief of Paraphrase of Code Radiogram Received
at the War Department on November 17, 1940.**

London, Filed 20:05, November 16, 1940.

1. During the night of November 14th-15th the Bomber Command dropped 30 tons of high explosive bombs, to include six 1,500-lb. bombs. Other operations routine.
2. German air operations were normal, but extensive damages and fires resulted in London. Heavy bombs, one of which made a crater 90 feet wide and 30 feet deep, were dropped.
3. In England the Germans lost 19 and the British one plane. In the Eastern Mediterranean the British lost two and the Italians no planes.
4. One night recently the British put 123 fighter planes in the air and destroyed one German bomber. They hope that their night interception system will have decisive results.
5. The Germans used 340 long range bombers and 90 other planes in their heavy attack on Coventry; apparently their maximum effort.

CONFIDENTIAL

CONFIDENTIAL

61

BRIEF

Brief of Paraphrase of Code Radiogram Received
at the War Department on November 17, 1940.

London, Filed 20:05, November 16, 1940.

1. During the night of November 14th-15th the Bomber Command dropped 30 tons of high explosive bombs, to include six 1,500-lb. bombs. Other operations routine.
2. German air operations were normal, but extensive damages and fires resulted in London. Heavy bombs, one of which made a crater 90 feet wide and 30 feet deep, were dropped.
3. In England the Germans lost 19 and the British one plane. In the Eastern Mediterranean the British lost two and the Italians no planes.
4. One night recently the British put 123 fighter planes in the air and destroyed one German bomber. They hope that their night interception system will have decisive results.
5. The Germans used 340 long range bombers and 90 other planes in their heavy attack on Coventry; apparently their maximum effort.

CONFIDENTIAL

Form 9626
TREASURY DEPARTMENT
U. S. COAST GUARD
Sept. 1935

U. S. COAST GUARD

OFFICIAL DISPATCH

TRANSMIT

DATE 18 NOVEMBER, 1940

FROM	CODE
COAST GUARD HEADQUARTERS	CIPHER
TO (FOR ACTION)	ACKNOWLEDGE
HON HENRY MORGENTHAU CASA BLANCA HOTEL MONTEGO BAY JAMAICA	PRIORITY
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.	ROUTINE
TO (FOR INFORMATION)	ACKNOWLEDGE
	PRIORITY
	ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

SINCE NOVEMBER 5 THROUGH NOVEMBER 18 1050 CARTONS CORTLANDTS
SOLD TO A. AND P. BALANCE OF 239 NUMBER ONE CARTONS LEFT IN
COLD STORAGE X BEST REGARDS

MRS KLOTZ

OPERATOR'S RECORD

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 2-15417

November 18, 1940.

MEMORANDUM

TO: Mr. D. W. Ball

FROM: Mr. Gaston

I have talked both to Berkeley of HBC and to Harry Dutcher of Columbia. Dutcher will have to consult his headquarters before letting us know. Berkeley said, however, that they would be very glad to have the Secretary for a fifteen-minute period in the week beginning December 24. I told him I thought that if the Secretary decided to make the speech he would probably prefer Tuesday evening, December 24, between 9:00 and 10:00. Berkeley said he felt reasonably sure they could provide the time from 9:45 to 10:00, or the time from 10:00 to 10:15; that the latter would perhaps be preferable on account of the Pacific Coast.

I did not make any definite engagement.

Copy to Mrs. Klots.

HEG/r

November 18, 1940

64

TO: COAST GUARD COMMUNICATIONS

FROM: H. S. KLOTZ

Please send the following message, in code, to Secretary Morgenthau:

We are following instructions contained in your cable of Monday, November 18. However, we are in great doubt about the wisdom of your making a radio speech during the first week of December on the subject you have indicated. Our reasons are as follows:

(1) We fear that until there is accord with the Congressional tax leaders as to the coming tax program, unfortunate complications may result from Treasury public statement on taxes.

(2) We feel that any radio statement at this time having anything to do with dangers of inflation may cause harm, unless it includes definite proposals for preventive measures of a fiscal or monetary character, including tax measures.

(3) In any case, we feel that a radio speech on that subject by yourself is so important that there should be more than a few days for you personally to work on it.

(4) We are of the opinion that a more appropriate vehicle for the first of the talks you have in mind is a speech before some suitable organization. You will receive an invitation to attend a dinner of the Accountants Association in Washington for December 9. This may provide a proper occasion. It may be possible to have the speech broadcast.

With respect to radio time - NBC representative feels sure he can arrange for fifteen minutes on December 3rd between 9:45 and 10:15 p.m.

D. W. Bell

2009 11/14/40

We are following instructions contained in your cable of Monday, November 18. However, we are in great doubt about the wisdom of your making a radio speech during the first week of December on the subject you have indicated. Our reasons are as follows:

(1) We fear that ^{until} ~~unless~~ there is accord with the Congressional tax leaders as to the coming tax program, unfortunate complications may result from Treasury public statement ^{on taxes}.

(2) We feel that any radio statement at this time having anything to do with dangers of inflation may cause ~~early~~ harm, unless it includes definite proposals for preventive measures of a fiscal or monetary character, including tax measures.

(3) In any case, we feel that a radio speech on that subject by yourself is so important that there should be more than a few days for you personally to work on it.

(4) We are of the opinion that a more appropriate vehicle for the first of the talks you have in mind is a speech before some suitable organization. You will receive an invitation to attend a dinner of the Accountants Association in Washington for December 9. This may provide a proper occasion. It may be possible to have the speech broadcast.

~~With respect to the arrangements of time on the radio —~~
^{radio}
 NBC representatives ^{are} sure ~~to~~ ^{be} ~~can~~ ^{fighting} ~~arrange~~ ^{minutes on} ~~for~~ ^{Dec} ~~and~~ ^{between} ~~9:45 and 10:15 pm~~

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HQ.

HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

CRYPTOGRAPHIC MESSAGE

WASHINGTON

18 November, 1940.

SECRET

From: Secretary of the Treasury Morgenthau.
To : Mrs. Henrietta Klotz.
(Attention Young and Buckley)

Have ready for me on my return the most glaring examples of lack of coordination and design of both engines and planes as between Army and Navy and English. Consult with Admiral Towers and anyone else you can trust. Have this report in such shape that I can give it to the President immediately upon my return.

Best regards,

H. M. Jr.

SECRET

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

Week ended November 16, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	229,322 Bbls	---	---	---
Crude -				
Blended or California High Octane Crude*	19,895 Bbls.	---	---	---
All Other Crude	262,837 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	90,021 Bbls.	81,500 Bbls.	---	73,000 Bbls.
All Other Gasoline	---	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil ***	1,309 Bbls.	---	---	63,000 Bbls.
All Other Lubricating Oil	110,177 Bbls.	---	---	4 Bbls.
Tetraethyl Lead ***	---	---	---	---
Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	1,588 Tons
All Other Scrap	---	---	---	1,915 Tons

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

November 18, 1940.

Office of Merchant Ship Control, Treasury Department.

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

Aviation Gasoline.

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

TREASURY DEPARTMENT

68

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 18, 1940

TO: Secretary Morgenthau
FROM: Mr. Haas *HA*
Subject: The Business Situation,
Week ending November 16, 1940

Summary

(1) Speculative optimism and inflation talk subsided somewhat during the past week, as evidenced by some recession in stock prices and in the volume of trading in the stock market. However, the commodity markets continued to display a strong undertone, with rising tendencies apparently developing in response to rising industrial demand and other fundamental factors.

(2) The FRB index for October has been revised upward to a record high of 128, comparing with 125 in September and 121 in the previous 3 months.

(3) Weekly indicators of business activity, such as the New York Times and Barron's indexes, continue to make a good showing, with preliminary data for the early part of the current month showing gains over October's high levels.

(4) New contract awards for heavy construction, in connection with the defense program, remain at a high level. Residential construction contracts on a seasonally adjusted basis have shown some decline, but still are not far from the best levels of the year.

(5) The textile industry has been operating at a high rate. Cotton consumption by domestic mills in October was the second highest on record; production of rayon yarn this year will probably reach a new record high; and the woolen industry has benefited from a huge volume of Government buying.

- - - - -

Market activity slackens

Commodity buying continued strong in the early part of last week, but at a somewhat moderated pace compared with the vigorous price increases and the substantial volume of buying in the preceding week. The level of prices and volume of trading in the stock market showed some recession. By the end of last week, speculative sentiment in both commodity and securities markets showed some unsettlement as a result of foreign developments. Nevertheless, the maintenance of a high level of activity in various important industries, such as steel, construction, automobiles, and textiles, continues to be a factor of underlying strength in commodity buying. Defense orders are gradually being reflected in new areas of activity, with reports of increased demand, for example, appearing last week in the chemical and building material industries (particularly for paint materials).

Agricultural products took the lead in the commodity price rise last week. Prices of basic foodstuffs increased 2.7 points to an index of 111.2 (August 1939 = 100). Industrial material prices also rose, but by a smaller amount. (See Chart 1.)

The increases for the week in tallow, butter, cottonseed oil, and lard reflect increased demand for fats and oils, although the rise in butter prices is partly seasonal. Wheat, barley, and corn moved upward together, while hogs and steers declined. A rising trend in wheat and cotton prices has resulted from tightness in available supplies due to Government loan operations.

Among the industrial materials, the increased prices of shellac, rosin, and flaxseed arose from an increased demand for paint materials. A decline in quoted spot prices for wool resulted from a change in the basis of trading and is not of market significance. As a matter of fact, wool top futures showed a strong increase for the week.

Cost of living index lower

In spite of the rising trend of sensitive commodity prices, no further advance in the cost of living has developed. The National Industrial Conference Board reports a decline of 0.1 point in the cost of living index, to 85.5 in October, owing to lower food prices. All other items in the wage earners' budget either increased or remained unchanged, however.

Steel orders show further rise

New business continues to pour into the steel industry in heavy volume. New orders received by the U. S. Steel Corporation during the week ended November 7 rose to 123 per cent of capacity from 105 per cent in the previous week, thus reaching the highest level since the week ended August 22. Iron Age reported that incoming steel orders in November have been 20 per cent or more above the corresponding period of October.

During the past week, the operating rate for the industry showed an advance of only 0.1 per cent from the previous week. The shutting down of some open hearths for repairs is reported to have prevented a larger advance, although any really substantial further gain cannot be expected in view of the present near-capacity rate. The scheduled rate for the current week shows a further advance of 0.5 to 96.6 per cent of capacity.

The Tennessee Coal and Iron Company (a U. S. Steel subsidiary) announced last week that it would immediately start on an 18-month program to expand its ingot capacity by a little more than 400,000 tons or 20 per cent. It should be pointed out, however, that this expansion will increase the nation's steel producing capacity by only about one-half of one per cent.

An increase in the price of beehive coke to a range of \$5.00 to \$5.25 a ton, an advance of nearly 10 per cent, will increase further the costs of merchant pig iron producers. The Iron Age expects the higher price of coke to hasten the use of additional coke ovens.

Heavy construction awards higher

The increased activity in heavy construction, which has been an important contributing factor to the high level of operations in the steel industry, shows no signs of abating, on the basis of latest available data released by the Engineering News Record. Thus, new contracts awarded for engineering construction during the week ended November 14 totaled \$139,000,000, and after allowing for the shorter week due to Armistice Day jumped to the third highest figure of the year. (See Chart 2, upper section.) Among the more important construction projects contributing to the week's increase were ammunition and shell loading plants, barracks, cantonments, and defense housing. The largest contract for

-4-

private construction covered coke ovens and a reduction mill to be constructed for the American Rolling Mill Company in Ohio at a cost of more than \$5,000,000.

Reference to the lower section of Chart 2 will disclose some decline thus far in November in lettings of structural steel from October levels, although the most recent figure covering the week ended November 12 is still 57 per cent above the corresponding period in 1939. The most important order included in the total for the week mentioned was one of 5,000 tons for a Douglas Aircraft Company plant to be erected in California.

In contrast to heavy construction, residential building declined slightly in October (see Chart 3, upper section), while FHA mortgages selected for appraisal (dotted line) held steady in contrast to a rise in October last year. Mortgages selected for appraisal have tended downward during the early part of November, affected by the Election Day holiday and seasonal influences. (See Chart 3, lower section.)

With the outstanding mortgages insured by FHA approaching their limit of \$3 billions, the limit was raised to \$4 billions last week. This assures further insurance operations which otherwise would have had to be discontinued early next month, according to the Federal Loan Administration. Since the FHA handles about 75 to 80 per cent of all homes built in industrial areas, insurance operations are important, especially because of the outlook for more winter building than usual this year as the defense program gets under way.

Business activity continuing at high level

The FRB index for October has been revised upward to a record high of 128, as compared with 125 in September and 121 in the previous 3 months.

The very high level of business activity which characterized the month of October appears to have carried into November. As measured by the New York Times index of business activity (see Chart 4), a further noticeable gain occurred in the early part of the month. The gain in the latest week, however, was entirely due to less than seasonal declines in total and miscellaneous freight car loadings, and some statistical inaccuracies also may have developed in allowing for Election Day influences. Reference to Chart 4, lower section, will disclose that miscellaneous and LCL loadings were not declining as abruptly as last year, while total

loadings are holding around year-earlier levels despite a loss in coal traffic, which is likely to be temporary.

Automobile production at new high

Stronger evidence of the sustained high level of business activity may be seen in a further moderate rise in automobile production during the past week. Reference to Chart 4 will show that an uninterrupted rise has been in progress since the week ended August 10. Furthermore, reports of retail sales of new cars on the whole have been very good. For example, General Motors sales to consumers in the United States during October not only set a new record for that month but were also the best for any month since April 1937. As a result of the showing to date, earlier trade estimates of production for the remainder of the year have been raised upward somewhat, although the peak in production in all likelihood was reached during the past week.

Textile industry active

Reference to Chart 4 will disclose that a rather sharp reaction occurred in the New York Times adjusted index of cotton mill activity during the first week in November. However, in view of the heavy cotton goods buying in the latter part of that week, this reaction is likely to be only temporary. The recent high level of operations in the cotton textile industry is evidenced by figures just recently released by the Census Bureau, showing that cotton consumption by domestic mills in October was the highest on record, with the single exception of the month of March 1937. In the post-election spurt of buying, trade commentators indicated that the volume of cotton goods buying was very large, although this has not been reflected as yet in our reports from individual companies.

The rayon industry has been very active, and as a result of a 19 per cent gain in shipments of rayon yarn in October over September figures, stocks held by producers dropped to the lowest level since the end of 1939 and amounted to only about one week's production. It is now estimated that shipments of rayon yarn for the year as a whole will reach a new record high.

In the woolen industry, many mills are solidly sold up 4 and 5 months ahead. According to trade reports, daily wool consumption in the next few months may be the largest since late 1935, with mills operating close to capacity. Backlogs of unfilled orders are estimated at 66,000,000

yards, or about 6,000,000 yards more than at this time last year. More than 50 per cent of the orders have come from the defense services. The price of wool top futures advanced strongly again last week, in spite of the fact that Army contracts no longer require domestic wool. Apparently, there will be continuing pressure for this season's clip even if producers are free to use wool of foreign origin; the unavoidable necessity of securing a sufficient amount of fine wool is in itself a restriction, and the dates of delivery called for in Army contracts make it impossible to postpone purchases until next season's clip becomes available.

The status of the silk industry is much less favorable than the other divisions of the textile industry. However, mill takings of silk have expanded considerably from the 20-year low touched last July.

New orders still high

Our new orders index for the week ended November 9 remained high (see Chart 5), although below the previous week's level, which has now been revised even higher. The steel component showed a substantial increase, the primary decline being in textiles, while the total excluding steel and textiles was also lower.

Weekly business indexes

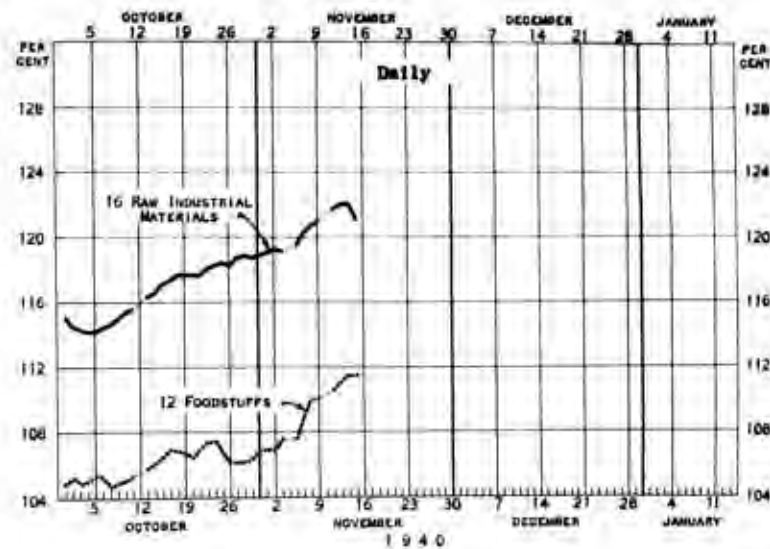
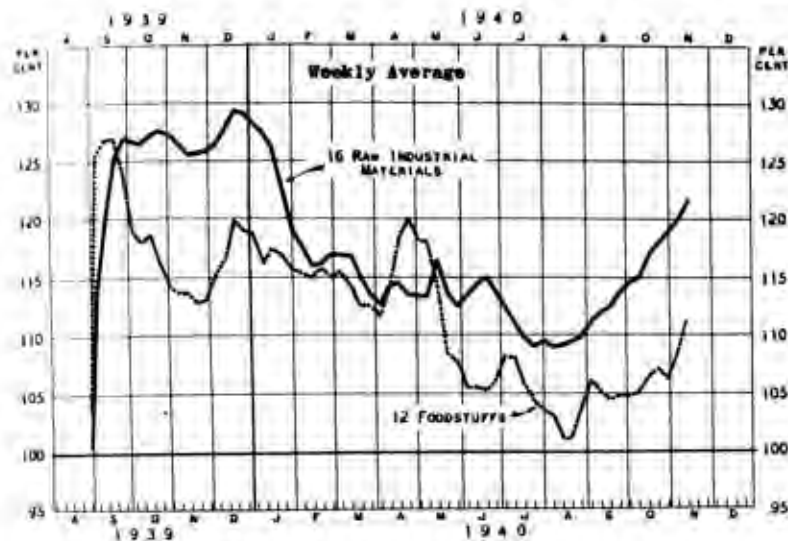
Due to a substantially less than seasonal decline in freight car loadings, the New York Times index of business activity during the week ended November 9 rose 1.4 points to 111.1. As a result the index stood at the highest level since the week ended August 14, 1937.

Other factors contributing to the rise were a less than seasonal decline in lumber production and an unchanged level of steel ingot production at a time when some decline is normal.

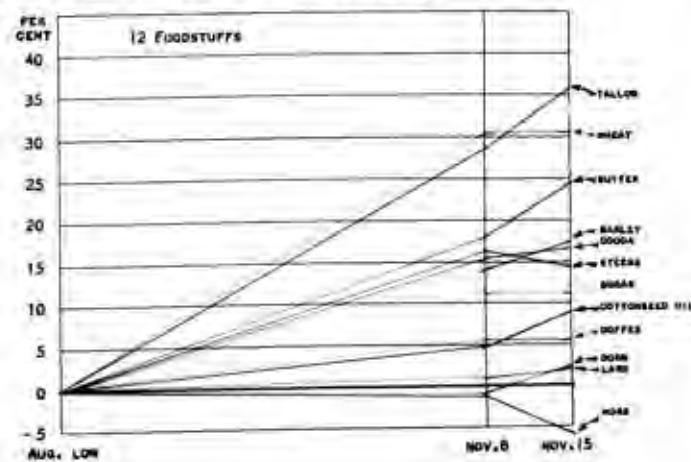
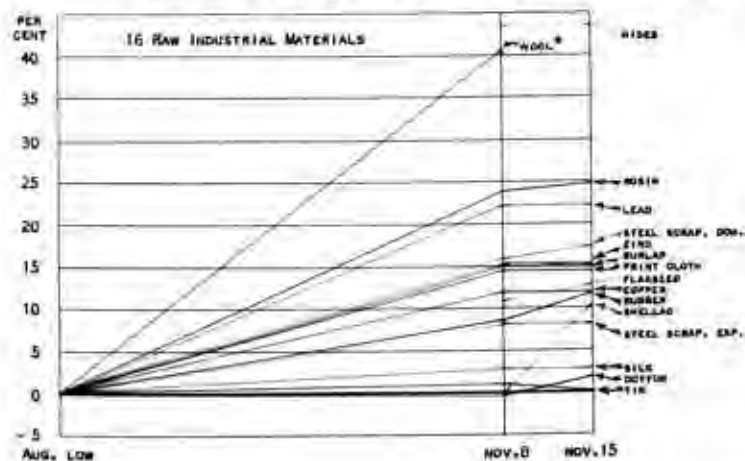
On the other hand, the adjusted indexes of automobile production and cotton mill activity were sharply lower. The adjusted index of electric power production showed a slight decline, although actual electric power output stood at the second highest level on record.

Barron's index of business activity for the week ended November 9 confirmed the trend shown by the Times index, rising to 119.5 from 118.8 in the previous week.

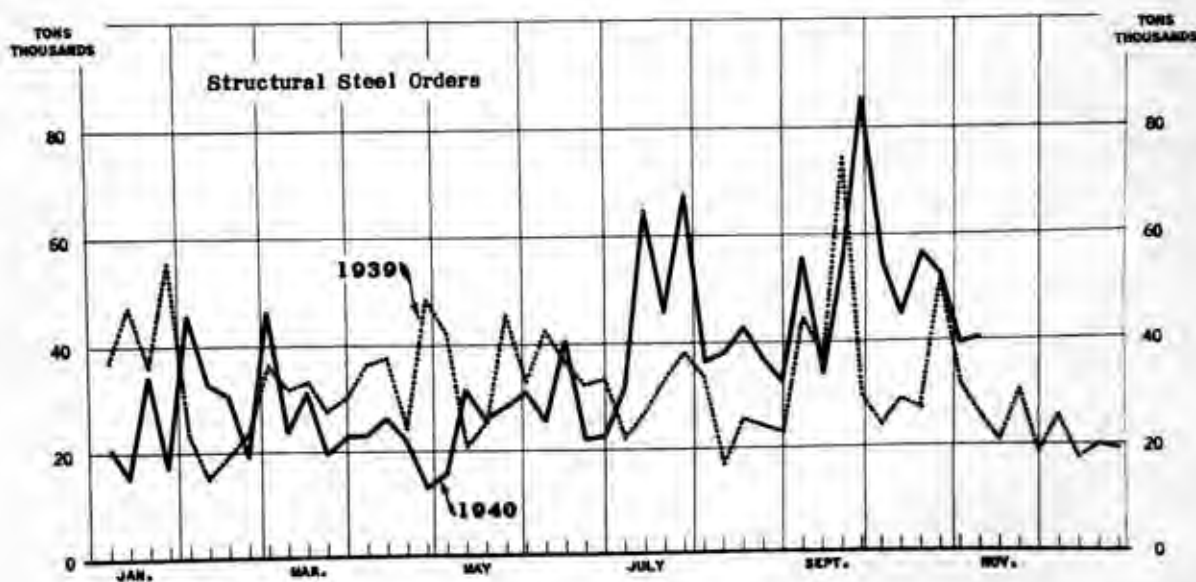
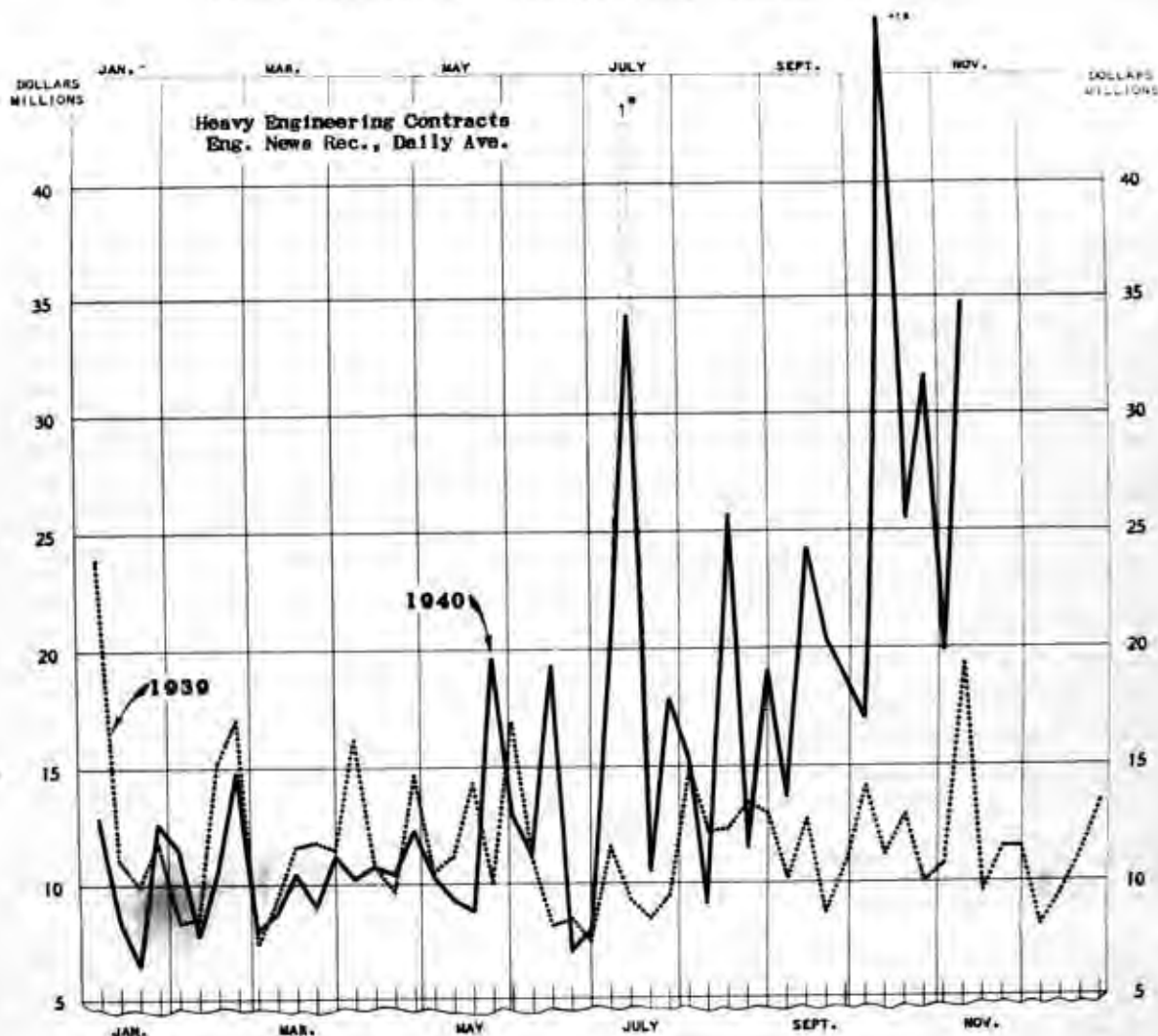
MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to November 8, and to November 15, 1940

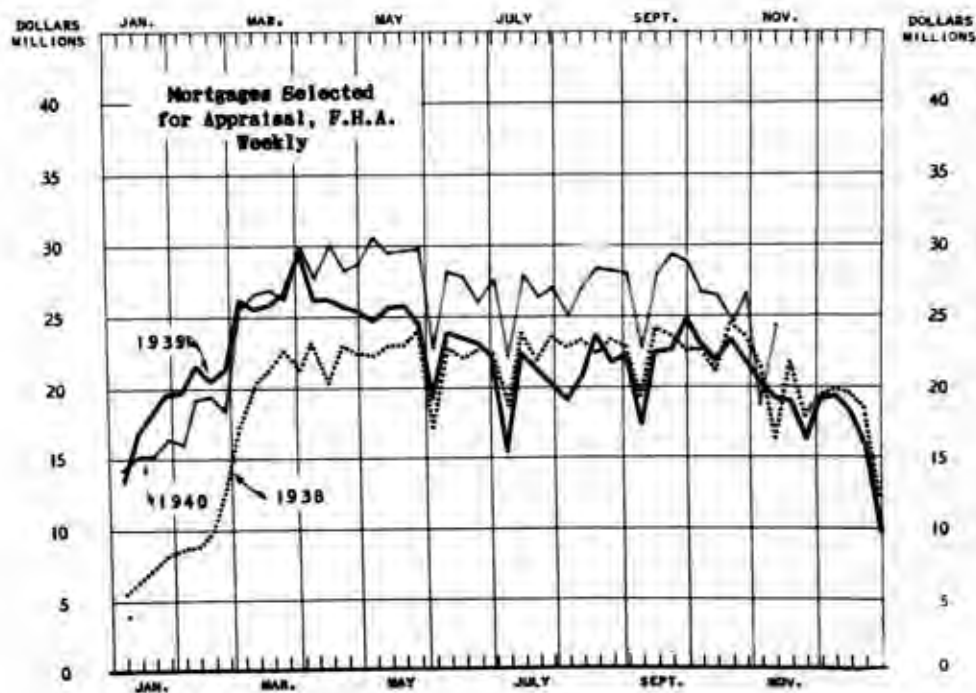
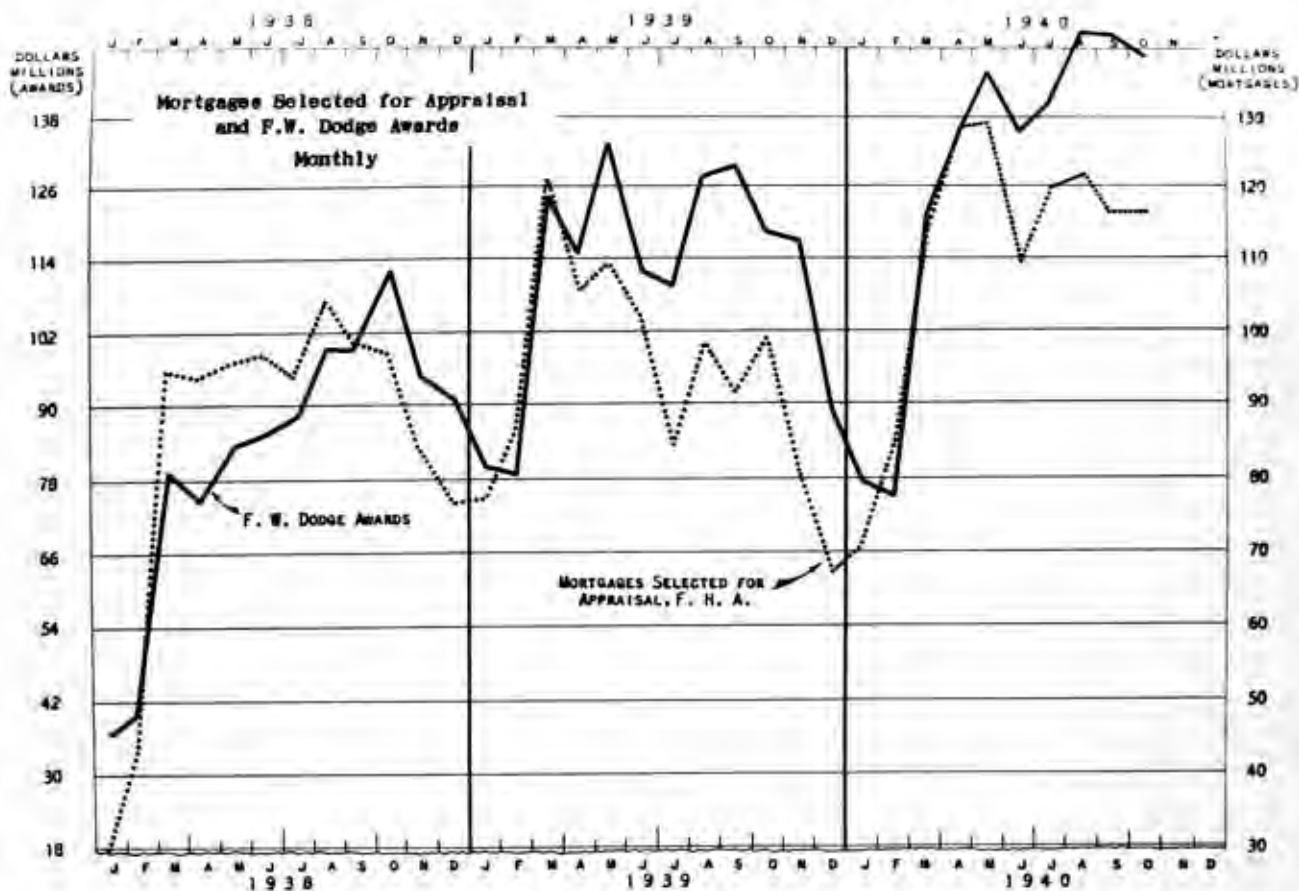


CONSTRUCTION AND STRUCTURAL STEEL ORDERS



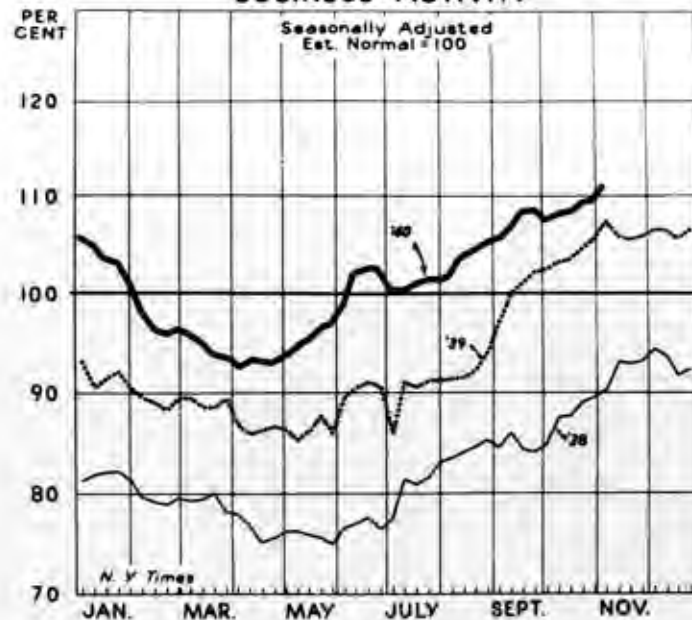
* INCLUDING OUTLYING POSSESSIONS OF THE U.S.

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES

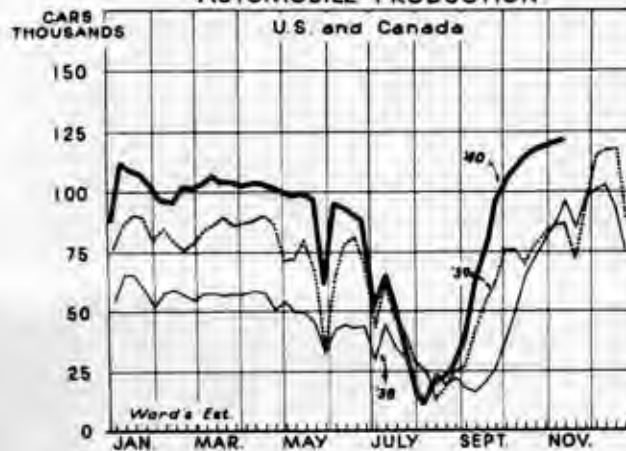


SELECTED BUSINESS INDICES

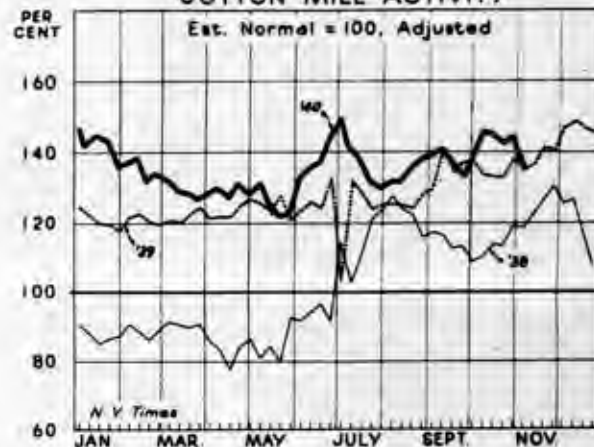
BUSINESS ACTIVITY



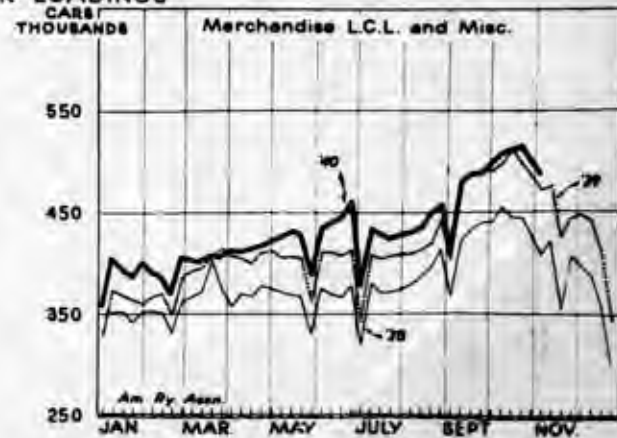
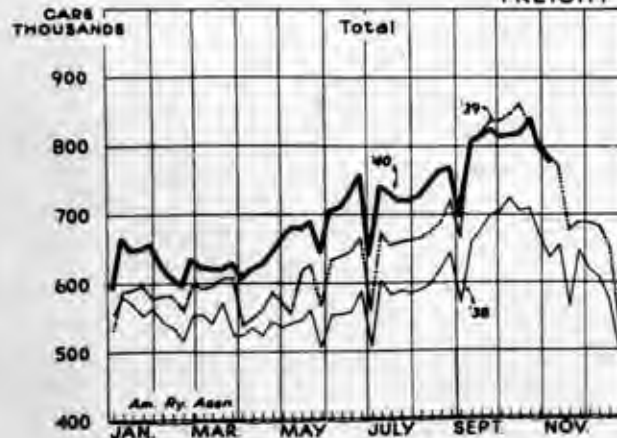
AUTOMOBILE PRODUCTION



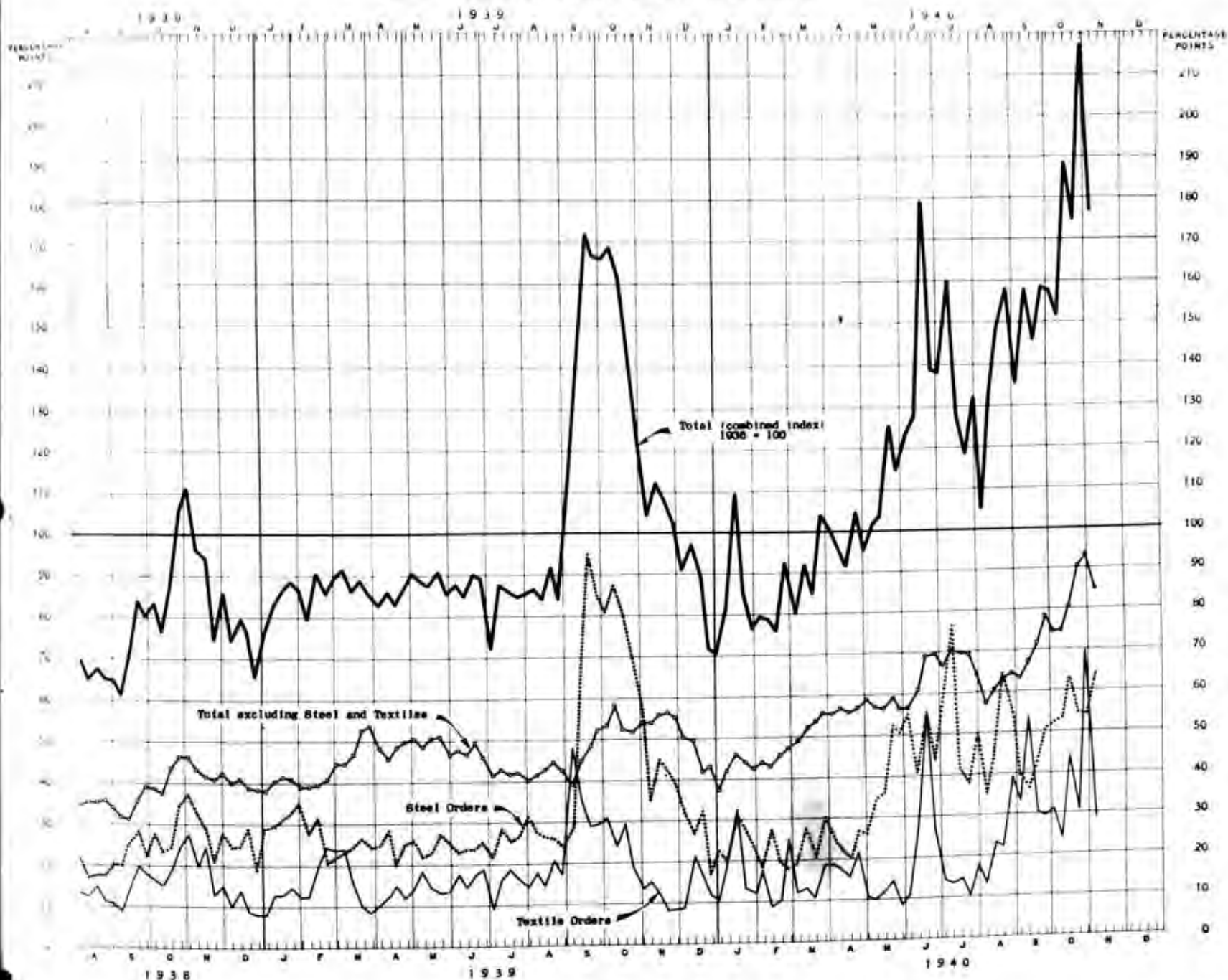
COTTON MILL ACTIVITY



FREIGHT CAR LOADINGS



INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£106,000
Purchased from commercial concerns	£ 27,000

In the open market, sterling was quoted at 4.04 during the morning. It moved to 4.03-3/4 in mid-afternoon and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 2,000
Purchased from commercial concerns	-0-

There was a slight improvement in the Canadian dollar. As compared with Saturday's closing discount of 13%, that currency was quoted today at 12-7/8%.

The other currencies closed as follows:

Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	3-1/8% discount

We purchased \$45,000 in gold from the earmarked account of the Central Bank of Nicaragua.

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

\$ 9,096,000 from Canada, shipped by the Bank of Canada for account of the Government of Canada, for sale to the U.S. Assay Office at New York.

512,000 from Peru, shipped by the Central Reserve Bank of Peru for its own account, disposition unknown.

\$ 9,608,000 Total

-2-

No gold or silver quotations were received from Bombay by the New York banks today.

In London, the price fixed for spot silver was 23-3/16d, off 1/16d. The forward price was unchanged at 23-1/4d. The dollar equivalents were 42.10¢ and 42.22¢ 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 225,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on November 13, showed that such deposits totaled \$106,773,000, an increase of \$8,020,000 since November 6. Included in this total were \$36,809,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, an increase of \$660,000 from the figure of November 6, and \$58,449,000 in deposits made by Japanese banks in Japan and Manchuria, up \$7,038,000. The increase in deposits may reflect in part a rise of \$3,090,000 in the Yokohama agency's loans to Japanese banks in Asia, which were placed \$36,123,000 as of November 13, and the sale of \$3,100,000 worth of imported Japanese gold to the San Francisco mint. From additional figures submitted by Yokohama's New York agency, relating to its liabilities to and claims on Asia as of November 13, we learn that Japanese banks in Asia held, in addition to their deposits with New York agencies, approximately \$29,174,000 in U.S. Treasury bills and short-term commercial paper expressed in dollars at the Yokohama agency. As for claims on Asia, we understand that, besides its loans to Japanese banks in Asia, the Yokohama agency reported other dollar claims totaling \$25,102,000, consisting almost wholly of Japanese import bills. The agency's liabilities and claims expressed in foreign currencies were negligible.

**CONFIDENTIAL**

EH

GRAY

Caracas

Dated November 18, 1940

Rec'd 7:45 p.m.

Secretary of State,

Washington.

176, November 18, 5 p.m.

Import control regulations published as of November 16 implement existing and future exchange control.

Imports will be permitted in three groups, i.e., prime necessities, secondary necessities, luxuries. Lists of items in each group will be published as determined and will be subject to change. Import licenses are divided into three classes. The first is for payment after goods have been received; the second is for goods paid by established bank guarantee, and the third is for goods paid for in advance. In the first case, a copy of import license must be presented to the Venezuelan Consul at port of shipment and then forwarded, together with consular invoice, to Venezuelan importer or his authorized agent.

CORRIGAN

NK

C
O
P
Y



DEPARTMENT OF STATE
WASHINGTON

November 18, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of a Departmental memorandum dated October 18, 1940 recording reported financial arrangements of German and Japanese steamship lines regarding the acquisition of dollars in the United States.

Enclosure:

Memorandum.

DEPARTMENT OF STATE

Visa Division

October 18, 1940

Confidential Memorandum:

Mr. Walter Plaut of the Plaut Travel Agency called today and gave me the following information.

It appears that there is a close working agreement between the Hamburg American Line and the NYK line whereby there is a strong attempt to collect all passage fares on the NYK line in American dollars being made by Hamburg American Line through its branches in the United States. Apparently the NYK line is reimbursed either in marks or in barter goods for the price of their passage and the Hamburg American Line thus receives American dollars.

Furthermore various welfare and other organizations in Germany, including the Hamburg American Line, have, according to Mr. Plaut's experience, advised interested persons in this country that transportation to the United States, regardless of what line involved, must be collected by the branches of the Hamburg American Line in this country, representations even being made that otherwise the American consuls would not be satisfied with transportation arrangements made.

Mr. Bromberg of the American Express Company has privately confirmed to me the fact that he has had personal experiences identical to those outlined above.

JCF

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 868.51/1614

November 18, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 305 dated November 14, 1940 from the American Minister to Greece, reporting a conversation in which the Greek Minister of Finance discussed with the Minister the possibility of extension of dollar credits to Greece.

Copies of the telegram are also being sent to the President of the Export-Import Bank of Washington and to the Federal Loan Administrator.

Enclosure:

No. 305, November 14,
from Legation, Athens.

COPY

imc

GRAY
Athens
Dated November 14, 1940
Rec'd 9:40 a.m., 15th.

85

Secretary of State.

Washington.

305, November 14, noon.

The Minister of Finance called on me last Saturday in connection with the possible extension of dollar credits to Greece. I advised him that such a matter might better be taken up directly with the Department through the Greek Minister at Washington and this I understand is being done. He has also, however, addressed me a five page appeal which he requests that I forward together with a favorable report of my own.

Briefly summarized his appeal states: While the British have already extended an initial credit of 5,000,000 pounds it may be used only for purchases within the British Empire or for internal needs through the issue of drachma notes against cover in pounds. Consequently British credits will take care of only a fraction of Greece's urgent needs since such items as wheat, sugar, wool, iron, tires, sanitary materials, motor vehicles, etc., must be purchased from the United States or from other countries which demand payment in dollars. Since

Greece's

-2- #305, November 14, noon, from Athens.

Greece's supply of dollar exchange is no longer being replenished her reserves will thus be quickly exhausted. American assistance is, therefore, implored in supplying the necessary credits or money or the goods themselves. If that extension of credit for the sale of military goods is impossible under American laws then the supply of non military items or the granting of open credits available for purchases of the latter either in the United States or, in cases of emergency, in other countries, becomes a question of imperious necessity. The Minister mentions the recent transfer of \$100,000 against interest due this month on the American (r) refugee loan as the latest evidence of Greece's determination to honor her obligations; and, citing the example of the United States' assistance to Finland, he appeals to American generosity and philhellenism in extending similar financial aid to Greece. He adds that the Greek Minister at Washington will approach the Department with regard to specific needs.

I am aware that the direct extension of credit to Greece is impossible under the terms of the Johnson Act. Furthermore, I have suggested to the Minister of Finance as well as the King and the Prime Minister, in previous conversation

-3- #305, November 14, noon, from Athens.

conversation that they might do well to handle the question of supplies from the United States through the medium of their British ally. However, Greece's need appears to be as urgent as her cause is just, and I hope that every possibility of the extension of indirect assistance will be explored with generous consideration.

MACVEAGH

DEM

copy

ATP

PLAIN

LONDON

Dated November 18, 1940.

Rec'd 1:10 p.m.

Secretary of State,

Washington

3773, eighteenth.

FOR TREASURY

(1) A Bank of England notice to banks enlists the Exchange Control Administration in assisting in preventing the enemy from obtaining goods by sea. Applications on form E.2 for approval of credits will not be approved when applying to shipments by sea unless the goods are to be carried in a quote approved ship unquote, namely; (A) a vessel sailing under a flag of the British commonwealth of nations (excluding Eire) Norway, Poland, Holland, Belgium, Sweden or U.S.A. or (B) a vessel chartered to the Ministry of Shipping or a national of the British commonwealth of nations (excluding Eire) or (C) a vessel holding a ship warrant. The scheme put into effect on August 23rd last grants ship warrants to ship-owners and charterers wherever their ships are trading, on their undertaking to refrain from carrying on trade injurious to the allied war effort, in particular when they (A) obtain a navicert wherever applicable and (B) furnish required information regarding voyages and cargoes. The TIMES city editor points out that though

-2- 3773, November 18, from London

though primarily designed to prevent enemy trade by sea, the ruling will also result in the receipt of increased foreign currency for shipping services since it should induce shippers to use British or British controlled tonnage.

(2) Two notable developments have been announced by Lyttelton, the new president of the Board of Trade, the restriction of supplies to the home market reported in no 1549 of June 7th, are to be extended to new articles, and the percentages of goods allowed to retailers under the July restrictions are in some cases to be further curtailed. In export policy an important change of emphasis is apparent in views expressed by Lyttelton in a statement in which he implied that exports of non-essentials to the sterling area and also to Canada are not desirable, while exports to these areas of products they would otherwise have to obtain for dollars is desirable. Though this distinction seems obvious, it has not heretofore been made in the export drive fostered by the government. That it must be accompanied by consumption restrictions on non-essentials in the dominions - lest the dominions replace such British exports by purchases in the United States is possibly the reason for so belated an announcement of policy.

JOHNSON

WSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: November 18, 1940, 5 p.m.

NO.: 227

CONFIDENTIAL

My British colleague and I had luncheon with a local Swiss banker who had visited Germany. He told us that title had been acquired by Germany to one-half of the National Bank of Belgium's gold, in the amount of 700,000,000 Belgian gold francs (which is now at Dakar). The other half of the gold belonging to the Bank is in New York.

I was told by the British Minister that on previous occasions he had found our informant to be reliable, and that he would communicate the foregoing information to his Government.

HARRISON.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1940

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information:-

I thought you would be interested in having for your files the attached telegram and the reply concerning the water project of the City of San Diego.

S. H. fh.

Attachments (2)

P Y

POI M 71 NL 5 EXTRA

1940 NOV 16 am 8 35

SANDIEGO CALIF NOV 15 1940

HON E E FOLEY
GENERAL COUNSEL

WILL YOU PLEASE ADVISE CITY OF SANDIEGO AT YOUR EARLY CONVENIENCE THE
BASIS OR BASES UPON WHICH THE APPROPRIATE FEDERAL LOAN AGENCY CAN
MAKE AVAILABLE TO THIS CITY BY GIFT, LOAN OR OTHERWISE, APPROXIMATELY
SEVEN AND ONE HALF MILLION DOLLARS TO BE USED IN CONSTRUCTION OF PROJECT
TO BRING WATER FROM ALL AMERICAN CANAL TO SANDIEGO STOP SIMILAR INQUIRY
IS BEING SENT TO HONORABLE FRANK KNOX

P J BENBOUGH MAYOR
WALTER W COOPER CITY MANAGER.

824a

National Defense

Washington, D.C.
November 18, 1940

Hon. P. J. Donbough, Mayor
Hon. Walter W. Cooper, City Manager

San Diego, California

Re: November 15 suggest you communicate with John M. Carmody, Federal Works
Administrator and also with Neil Schram Chairman/Board Directors Reconstruction
Finance Corporation concerning construction of aqueduct from All American Canal
to San Diego. I have discussed this project briefly with Carmody and Schram
these being the appropriate agencies to which San Diego should apply for funds.

(Initialed)

E.H.F. Jr.

E. H. Foley, Jr.
General Counsel
Treasury Department

CLK:t
11-18-40

TREASURY DEPARTMENT

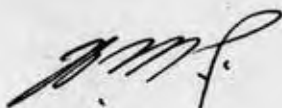
INTER OFFICE COMMUNICATION

DATE November 18, 1940

TO *Miss Chauncey*
 Secretary Morgenthau
 FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following credit to the account of Sveriges Riksbank, Stockholm by order of the Banca d'Italia, Rome.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>
November 16	\$ 300,000	Sveriges Riksbank, Stockholm	Banca Commerciale Italiana, N.Y., by order Banca d'Italia, Rome



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 15	\$ 250,000	Reichsbank, Berlin	Central Hanover Bank and Trust Co., N.Y., for account of Banco de la Nacion Argentina, Buenos Aires, for account of Reichsbank, Berlin
	60,645	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Carl Marks

J. M. P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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



<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 14	\$ 70.399	Banca Commerciale Italiana, N.Y.	Banca Commerciale Italiana, N.Y. (3 checks drawn by Lunham & Reeve, Inc. N.Y. on N.Y. Trust Co., N.Y.)			
	50,000	"	Banca Commerciale Italiana, N.Y. (Cashier's check of the First National Bank, N.Y.)			
	29,463.53	"	Banca Commerciale Italiana, N.Y. (Miscellaneous checks)			
Nov. 16	165,000	"	Chase National Bank, N.Y., by order of Credito Italiano, N.Y.	\$165,000	Credito Italiano, N.Y.	Chase National Bank, N.Y., for account of Banca Commerciale Italiana, N.Y., for account Banca Commerciale Italiana, Rome.
				100,000	Banca Commerciale Italiana, N.Y.	Check to order of National City Bank, N.Y.
				300,000	"	Check issued by order of Banca Commerciale Italiana, N.Y., to order of Federal Reserve Bank of N.Y. in Federal Reserve Funds

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 19, 1940

CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£59,000
Purchased from commercial concerns.....£12,000

The Federal Reserve Bank sold £3,700 in registered sterling to a non-reporting bank.

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

Sold to commercial concerns.....£ 2,000
Purchased from commercial concerns.....£11,000

The Argentine free peso, which has remained in the neighborhood of .2360 during the past several days, opened at .2345 this morning. It remained steady at that figure until mid-afternoon, and then recovered somewhat, to close at .2350. Only a small amount of business was reported to have been transacted in that currency.

Closing quotations for the other currencies were as follows:

Canadian dollar	12-7/8% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/8% discount

We sold \$5,000,000 in gold to the Java Bank, to be added to its earmarked account.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$25,000 yesterday, setting aside as collateral \$28,294 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$847,000, secured by \$947,075 in gold.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$4,357,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The report of November 13 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$11,087,000, a decrease of \$1,385,000 in the short position. Most of the reduction took place in sterling commitments, with one leading New York bank lowering its short position in that currency by more than \$1,000,000. The net changes in the positions are as follows:

Country	Short Position November 6	Short Position November 13	Decrease in Short Position
England*	\$ 2,153,000	\$ 898,000	\$1,255,000
Europe	4,234,000	3,915,000	319,000
Canada	38,000	198,000	160,000 (Increase)
Latin America	369,000	346,000	23,000
Japan	4,471,000	4,472,000	1,000 (Increase)
Other Asia	1,227,000	1,274,000	47,000 (Increase)
All others	20,000 (Long)	16,000 (Long)	4,000 (Decrease in Long Position)
	<u>\$12,472,000</u>	<u>\$11,087,000</u>	<u>\$1,385,000</u>

No gold or silver quotations were received from Bombay by the New York banks today.

In London, the prices fixed for spot and forward silver were both unchanged, at 23-3/16d and 23-1/4d respectively. The dollar equivalents were 42.10¢ and 42.22¢.

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

We made one purchase of silver amounting to 50,000 ounces under the Silver Purchase Act. This silver consisted of new production from foreign countries, for forward delivery.

B. M. R.

CONFIDENTIAL

CONFIDENTIAL

100

Paraphrase of Code Cablegram
Received at the War Department
at 2:00 A.M., November 18, 1940

London, filed 18:05, November 18, 1940.

1. There were no operations of the Bomber Command on Sunday, November 17. That night it was planned to dispatch 80 bombers, mostly against oil targets. On the previous night half of the bombers attacking Hamburg failed to locate their assigned targets because of clouds and icing conditions. However, 68 of the planes dropped 42 tons of high explosive plus many incendiary bombs. Out of the total of 142 sorties, three planes were lost and five crashed on landing. The Coastal Command carried out its normal missions and attacked nearby enemy airdromes, dispatching 87 patrol missions, 53 bombing sorties, and 20 convoy escorts. One plane was lost. The Fighter Command dispatched 519 planes on 84 patrols.

2. Daylight operations of the German Air Force on November 17 consisted of reconnaissance missions, attacks on shipping in the Thames River and English Channel, and two sweeps of fighters of about 110 and 80 planes, respectively. A total of about 270 planes were plotted. German aircraft were over England throughout that night in considerable force but with no apparent definite objective.

3. Of the six Royal Air Force airdromes attacked one was put out of commission by an unexploded bomb. A naval air station suffered slight damage. In London the Battersea power station and

CONFIDENTIAL

two other power plants were slightly damaged but not sufficiently to stop operations. At Southampton high explosive and incendiary bombs and six land mines caused major damages. Two hundred houses were rendered uninhabitable and 5,000 were damaged. Casualties were 18 killed and 88 injured. At another town there were bad fires in a railroad yard and production was stopped in a munitions factory. Casualties in London on November 13-15 were 137 killed and 219 seriously injured while the following day 28 were killed and 64 injured. Casualties at Coventry have now been fixed at approximately 280 killed and several hundred wounded.

4. German plane losses were 15 confirmed, five probable and seven damaged. The British lost five planes and one pilot. In the Middle East the British lost two planes and the Italians one.

5. In the Eastern Mediterranean there was the usual air activity, to include a night attack by 11 bombers on Bari on November 16 with good results and an attack on Brindisi the preceding night.

6. German long range guns fired a total of 46 rounds on Dover, of which all but two fell in the ocean. Three ships were damaged.

7. An air attack on the inbound convoy on November 15 sank one 9,000-ton ship. Three outbound convoys, totalling 134 vessels, cleared the British Isles safely.

8. War Office intelligence reports indicate that about 20,000 German troops of all categories are now in Rumania and that reinforcements are crossing into Hungary at the rate of one division each week.

CONFIDENTIAL

CONFIDENTIAL

9. Air Chief Marshal Dowding, at present commanding the Fighter Command, is slated to proceed to the United States where he will represent Lord Beaverbrook, Minister of Aircraft Production, on design and production problems.

10. The Air Ministry today announced a reshuffle in the high command which includes the establishment on December 1 of one additional command to be called the Army Co-Operation Command. It will be charged with securing cooperation between the Air Force and the Army. Air Marshal Barratt will head this Command, a senior Army officer will be chief of staff, and the remainder of the staff will be made up of Air officers and Army officers in equal proportions. This Command will have the function of organizing, training, and experimenting with all forms of cooperation in the Air Force and the Army. The employment of the squadrons in land operations will be under the control of the Army unit commanders concerned. This is a belated move to rectify conditions which have been a great source of worry to Army heads but which has had to be deferred while the Royal Air Force was concerned with the defeat of the Germans. It is believed that this reorganization is a direct result of the observations of Mr. Edm, Secretary of State for war, on his recent tour of the Middle East.

LHM

Distribution:

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

CONFIDENTIAL

CONFIDENTIAL

102-A

Paraphrase of Code Radiogram Received at the
War Department 11:14, November 17, 1940.

London, filed 2:30, November 16, 1940.

1. It seems to me that the war is about halfway through its first phase. This initial phase so far has consisted of the preliminary clashes of the scattered enemy forces and it is the present endeavor of the British to stabilize the warfare on some position. If they can set up an approximate equilibrium along some line, they can maintain a blockade of the Continent and behind it mop up the scattered outlying positions and, reinforced by such assistance as the United States is able to make available, mobilize the full resources of the British Empire.

2. A corresponding phase of the World War in 1914 embraced the German invasion of France and Belgium, the First Battle of the Marne, and the race of the armies to the sea. At that time the belligerents reorganized and reoperated behind a line entirely on land extending from the North Sea to the Swiss border, and later along the Alps eastward from Switzerland and, in a disconnected manner, through the Balkans to the Dardanelles, thence through Turkey and to Palestine. In the main this line was held by land armies.

3. In the present war all of this is on a vaster scale. If Britain is successful in her present operations, the line will extend from the Bay of Biscay along the France-Spanish frontier and through the Mediterranean Sea to Istanbul in Turkey. The creation of four points of support in the Mediterranean for sea and air operations

CONFIDENTIAL

CONFIDENTIAL

102-B

against the enemy by the addition of Crete to Malta, Gibraltar and Cyprus greatly enhances the hope of the British that they can hold the Mediterranean. If the British can hold this line they can then operate against Italy proper, guarantee the safety of the Suez Canal, cut off the Italian forces in Ethiopia and Libya, and continue the support of Greece. The ability to establish this line in large part depends upon Spain remaining neutral and upon seizing Crete promptly, for which operation the necessary troops are hard to find. It remains to be seen whether British leaders have sufficient audacity to make a rapid shift of adequate forces from Egypt or the British Isles to carry out the occupation of Crete. The inestimable advantage of these four points of support in the Mediterranean is that they are out of reach of the German land forces, the one enemy weapon with which Britain at present is unprepared to cope. The successful air operations against the Italian Navy at and near Taranto during the last two days greatly enhance the possibility of a British success.

4. The fact that this line of equilibrium will be held almost entirely by air and sea power is a novel feature. This fact leaves to the British land forces the task for the winter of cleaning up Ethiopia and Libya in addition to guarding the fortress of the British Isles. If this line is successfully maintained it is a distinct possibility that Morocco and Tunisia will secede from the Vichy Government, and, at least, proclaim a state of neutrality. If this attempt is unsuccessful and the British lose control of the Mediterranean, they will have to drop back to a line crossing Africa south of the Sahara Desert. While such a line would be impregnable to an enemy attack, any attempt to launch an attack from it would be likewise hopeless.

-2- CONFIDENTIAL

CONFIDENTIAL

102-C

5. Based on the assumption that the British can establish this line, the question of primary interest to the United States is whether or not the British will have at their disposal the military forces of all kinds necessary to maintain it and at the same time to meet all other obligations. (In discussing this subject with British officials they seemed to take it for granted that the situation in the Far East can be met only by pressure from China and the United States).

6. It is my opinion that the War Department should devote great attention to the problem of the ability of the British to establish the Mediterranean position, to hold it and to advance from it in the future. It is a corollary of this problem that should the strength of the British alone be inadequate for these tasks, a combination of conditions or events might lead our own country to take a hand to assist her. The War Department should give considerable advance study to the situation before the United States takes over an area for operation. Under such conditions the American commander should be given the exclusive responsibility and command for the entire area taken over and for all operations therein.

END

Distributions:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WFO
ONI

CONFIDENTIAL

LW
102-D

Paraphrase of Code Dispatch
Received at the War Department
at 20:00, November 18, 1940

CONFIDENTIAL

London, filed 16:15, November 17, 1940.

BRIEF

1. On November 17-18th British air operations were normal. The night before 44 tons of bombs were dropped on Hamburg.
2. German air attacks were light.
3. One British air station was totally destroyed. Other damages were light but hits on a bus and an air raid shelter caused 45 casualties.
4. One German plane was shot down by a bomber and another by antiaircraft. The British lost three planes at home and one in Greece.
5. Unconfirmed reports from Russian sources indicate that Hitler at the Berlin conference wants Russian aircraft badly. If true, this indicates that Germany is short of aircraft, that British bombing of German aircraft factories has been successful, and that Germany is apprehensive of the American aircraft program.

LHE

CONFIDENTIAL

Paraphrase of Code Dispatch
Received at the War Department
at 20:00, November 18, 1940

CONFIDENTIAL

London, filed 16:15, November 17, 1940.

1. Daylight operations of the Bomber Command on Sunday, November 17th were negligible. That night it was planned to dispatch 127 planes against Hamburg, 14 against enemy airfields, and four against enemy ports, a total of 145. During the night of November 15-16th, 129 bombers were dispatched. Hamburg was attacked heavily with 49 planes dropping 44 tons of high explosive and numerous incendiary bombs. Twenty airdromes in France and the Low Countries were successfully bombed with the results well observed. Other attacks were also satisfactory. One plane was lost and another crashed on landing. One German fighter was destroyed. The Coastal Command concentrated on German airfields with uncertain results, operating 43 patrol missions, 73 bombing sorties and 17 convoy escorts. Two planes were lost. The Fighter Command operated 326 planes on 91 patrols.

2. Daylight operations of the German Air Force on November 17th were at a minimum, consisting of about 50 planes on reconnaissance missions and weak attacks on shipping. The German planes refused combat. That night enemy operations were on a reduced scale, with London their primary objective.

3. The Royal Air Force station at Coventry was totally destroyed. Seven other airdromes were attacked but suffered no damage. A census of British airdromes indicates that three are completely out of commission, one being waterlogged and one because of the presence of an unexploded bomb, and four are partially

CONFIDENTIAL

CONFIDENTIAL

out of commission due to construction work. Near London two railroad lines suffered minor damage and a gas supply was interrupted. In London one munitions plant and 21 other points were hit. The worst instances were 30 casualties when a bus was destroyed and 15 casualties when an air raid shelter was hit. Twenty houses were also demolished. Two south coastal towns suffered major damage and heavy casualties. A main railroad line was badly damaged.

4. Except for one German plane shot down by anti-aircraft fire, there were no German or British planes lost over Britain. The British lost one bomber in Greece.

5. Although there is little known of the subject of the Berlin conference, two independent sources, one of which is close to the Russian Embassy, intimate that Hitler is very anxious to secure large reinforcements of aircraft from Russia and that he is even willing to build aircraft factories on Russian soil. If this is correct it signifies (a) a current shortage of aircraft; (b) that British attacks on the German aircraft industry have been successful; and (c) that the American manufacturing program has caused the Germans to be apprehensive.

LXX

Distribution:

Military Aide to the President
 Secretary of War
 State Department
 Secretary of Treasury ✓
 Asst. Secretary of War
 Chief of Staff - 2
 War Plans Division
 Office of Naval Intelligence.

CONFIDENTIAL

G-2/2657-220

RESTRICTEDM.I.D., W.D.
November 18, 1940.
12:00 M.

No. 248

SITUATION REPORT

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

I. Western Theater of War.1. Air Force Operations.

The German Air Force was normally active by day and night on the 17th and 18th. There was considerable air fighting incident to daylight operations. London and Liverpool were the main objectives of night bombardment. The German air effort against shipping at sea continues.

On the night of the 16-17 the R.A.F. Bomber Command concentrated on Hamburg, last night on Gelsenkirchen. About 100 planes were used against Hamburg. There were minor raids against German occupied territory and against the Ruhr.

II. Greek Theater of War.

Greek offensive efforts, probably in small strength, continue in the Koritsa area. Elsewhere the front appears to have stabilized. There have been widespread Italian air attacks over Greece by relatively small formations.

III. Mediterranean and African Theaters of War.

No ground operations and only minor aerial operations reported.

RESTRICTED

CONFIDENTIAL

TENTATIVE LESSONS BULEETIN
No. 67
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 18, 1940.

NOTICE

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

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

MISCELLANEOUS TECHNICAL DEVELOPMENTS IN GERMANYSOURCE

Information contained in this bulletin was furnished by a high British official source, except as otherwise noted.

CONTENTS

1. GUNS AND MORTARS
 - a. Long Range Gun
 - b. Light Guns Carried in Aircraft
 - c. 81-mm. Mortar
2. INCENDIARY BOMBS
 - a. General
 - b. One-Kilogram Incendiary Bomb
3. AVIATION EQUIPMENT
 - a. Combat Aviation Drug
 - b. Aircraft Message Container
 - c. Apparatus of Undetermined Use
4. LIGHT MEDIUM TANK
5. MAGNETIC MINE DETECTOR
6. POSSIBLE NEW GASES

CONFIDENTIAL

CONFIDENTIAL1. GUNS AND MORTARSa. Long Range Gun

Fragments of some of the shells which have fallen on the southeast coast of England have been recovered and examined, and while it is not yet possible to state the caliber with certainty, it appears to be about 305 mm. It seems probable that the shells are all of the same caliber and that they were fired by a high velocity gun.

The design of the shell is unusual. The wall thickness is less than would be expected in a 305-mm. shell, and five or six keys of ferrite, set in longitudinal undercut slots at an angle of about five degrees in the body of the shell, appear to take the place of the normal driving band arrangement. At the moment there is insufficient evidence for a full understanding of the design.

b. Light Guns Carried in Aircraft

The possibility of producing a gun made almost entirely of light alloys has been investigated, and it is considered technically possible to produce a super-light gun of a caliber up to 150 mm. On a gun of this caliber, a reduction in weight of approximately 50 per cent could be effected. Consequently, the German heavy Infantry gun, 150 mm., which normally weighs 1.6 tons, could possibly be produced at less than one ton.

c. 81-mm. Infantry Mortar

Although this is not a new weapon, it is outstandingly efficient. Reports received from units in France, Belgium, and Norway agree that this weapon can be brought to bear quickly on the target, can maintain a high rate of fire, and is accurate up to a range of 3,000 yards. A considerable quantity of ammunition appears to be available even when the weapon is used in forward positions. A feature of the mortar is the very small report of discharge and the very loud report of burst. This report is said to have considerable effect on morale, but the fragmentation and the damage done by the bomb are not as great as might be expected with a weapon of this caliber. Characteristics are as follows:

Caliber	81 mm.
Mounting	Base plate and bipod; trigger fired.
Total weight in action	56.7 kg. (125 lbs.)
Maximum range with light bomb	4,600 yards
Maximum range with heavy bomb	2,100 yards

CONFIDENTIAL

CONFIDENTIAL

Minimum range	66 yards
Maximum rate of fire	45 r.p.m.
Practical rate of fire	10-12 r.p.m.
Weight of heavy bomb	14.3 lbs.
Weight of light bomb	8.8 lbs.

2. INCENDIARY BOMBSa. General

The following is a brief description of a German liquid-filled incendiary bomb as reconstructed from fragments by the British Research Department:

(1) General Characteristics

The bomb is of sheet iron containing about 14 gallons of an inflammable liquid which is scattered and simultaneously ignited by a charge of 2.8 pounds of T.N.T. Since inflammable liquids are not usually ignited by detonation of high explosive, the flash from the T.N.T. is reinforced by a quantity of charcoal and magnesium contained in two tubes of tinned iron. The bomb is of the same size as the German 250-kg. high explosive bomb. Its overall length is 5 feet, 3 inches, its diameter 14½ inches, but its weight is only about 100 kilograms (246 pounds), including the empty body, filled steel container and fuse, etc., which weigh altogether about 60 kilograms. The liquid filling is presumed to weigh about 50 kilograms.

(2) Materials

(a) The black composition in the two tubes gave the following results on a preliminary analysis:

Fine magnesium powder	77.7 per cent;
Charcoal	14.7 per cent;
Aluminum and iron	1.0 per cent;
Water soluble material	5.0 per cent.

(b) The T.N.T. setting point was 80.06.

(c) The wood wool on which the T.N.T. was cast was from a white or yellow deal, e.g. spruce.

(d) The inflammable liquid filling extracted from the earth in the crater of one or two bombs consisted of crude solvent naptha. The liquid found in the crater of the other bomb, sent separately to the Research Department, was a clear liquid colored pink with an azo-dye and was found to be a mixture of approximately 50 per cent gasoline and 50 per cent solvent naptha.

CONFIDENTIAL

CONFIDENTIAL

There is another report, however, concerning the liquid obtained from a bomb dropped elsewhere. This liquid was a black oil, the boiling range of which corresponded to that of a mixture of gasoline with either spent lubricating oil or fuel oil. It is considered that this bomb should allow of the use of various types of inflammable liquid provided there is a certain amount of volatile material present.

(3) Markings

These bombs may be painted green on a red undercoat, red, or possibly camouflage red and green. The suspension ring of the nose casting and the light alloy tail ring are painted bright blue.

The markings on the two bombs were as follows:

	<u>First Bomb</u>	<u>Second Bomb</u>
Tail Vanes	VO	VO
	3 J 01 1940	4A 01 1940
Light Alloy		
Tail Ring	KC 250 GB	3 J VO 01 40
Nose Casting	KC 250 GB	
On Screwed		
Steel Cap of		
T.N.T. Container,	17624	17638
in Small Letters		

b. One-Kilogram Incendiary Bomb

Of the various types of incendiary bombs which have been dropped on England, the most common is the one-kilogram incendiary. It consists of a thick-walled tube, nine inches long and two inches in diameter, made of an alloy of magnesium and filled with a priming composition of the thermit type, which is fired by means of an igniter situated either in the nose or the rear end of the tube. With the exception of a few ounces in the tail and the igniter, there is no dead weight, the whole being incendiary material.

The bomb does not explode. It functions through the melting of the magnesium tube on account of the heat generated by the thermit composition. The latter burns for 40 to 50 seconds at a temperature of about 2,500° C., and melts and ignites the magnesium, which burns for 10 to 15 minutes at a temperature of about 1,300° C. It may remain active for as long as 20 minutes, and will set fire to anything inflammable within a few feet.

During the first 50 seconds or so, while the priming composition is still burning, the bomb looks very violent. Jets of flame

CONFIDENTIAL

CONFIDENTIAL

are emitted from vent holes, and pieces of molten magnesium may be thrown as far as 50 feet. After the first minute the bomb becomes less active because the magnesium tube melts and the pressure within is released.

3. AVIATION EQUIPMENT

a. Combat Aviation Drug

An unconfirmed report from an American press representative who is generally believed reliable, states that the German Air Force is issuing a drug known as "Pervetine" to aircraft combat crews. It is reported that this drug has a strong stimulating effect but a rather severe let-down, with the result that a considerable number of landing accidents have occurred when crews were returning to home bases after completing combat missions.

b. Aircraft Message Container

The following is a description of a message container taken from a Me. 110:

The apparatus consists of a metal cylinder painted red; length 14 $\frac{1}{2}$ inches and diameter 2 inches. The cylinder is hollow for half its length. The hollow end contains the message, and is closed by a cap on a bayonet-joint fastener. The other end, which is marked by a yellow ring, is a smoke flare container, and is surmounted by a small knob.

The message end is marked as follows:

UNGEFAHRlich	(Not dangerous)
WICHTIGE MELDUNG	(Important message)
SOFORT RÜCKGEBEN	(Hand on immediately)

At the smoke flare end is a label marked as follows:

Message container (land). Fl 24575.
 Method of use. Height for throwing out, 100 mm.
 (1) After inserting the message shut bayonet cap firmly.
 (2) Unscrew the red fuse knob and pull out lengthways.
 (3) Then immediately throw the apparatus overboard.
 Fuse delay one second.

c. Apparatus of Undetermined Use

A piece of apparatus recently found appears to have been

CONFIDENTIAL

jettisoned from a German aircraft over England. It was severely damaged by impact with the ground.

It appears to have consisted of a cylinder made of plywood about 7 feet 6 inches long and 3 feet 6 inches in diameter, and may have been fitted with fins on the tail. It has not yet been possible to determine the precise purpose of this apparatus, but certain reports have referred to auxiliary fuel tanks which can be carried by aircraft and jettisoned after use.

4. LIGHT MEDIUM TANK*

Recent photographs show that some of the German light medium tanks (Pz. Kw. III) have been fitted with squat fixed turrets with what appear to be 75-mm. guns. As this gun has a field of fire to the front only, it is thought that the converted vehicle may be intended for the destruction of antitank obstacles.

Photographs also show the unconverted Pz. Kw. III fitted with a rack behind the turret to take twelve extra gasoline cans of about five litres capacity each, making the total extra gasoline carried by the tank approximately fourteen gallons.

5. MAGNETIC MINE DETECTOR

A free-hand sketch recently received shows a type of magnetic mine detector in use. The detector is mounted on small wheels so that the under side appears to be about six inches from the ground, and is pushed along by an operator by means of two handles similar to those on a mowing machine.

Notes accompanying the sketch explain that the magnetic detection device is contained in the lower portion of the machine. A device is also incorporated for depositing chalk on the road to mark the positions where mines have been spotted. The body of the apparatus is also said to contain sufficient explosive to destroy it in case of it falling into enemy hands.

Three dials connected to the magnetic device are mounted on the handle and move in the direction of the mine-field when approaching a mined area. It is explained that the device is only sensitive to iron objects.

Magnetic mine detectors are not unknown, but in this case the drawing appears to indicate an unnecessary bulk for the device; this,

* Source: American official observer. G-2.

CONFIDENTIAL

amongst other disadvantages, makes it impossible to push the apparatus into wire entanglements where mines are frequently laid. It would not seem that the provision of the chalk and explosive would compensate for the disadvantages due to this bulkiness.

It is not considered likely that the reference to the three dials moving in the direction of the mine-field is accurate. On the other hand, it is possible that one of the three dials is illuminated when nearing a mine and that the illuminated dial indicates whether the mine is left, right or center.

With regard to range of detection, it has been found that the detectability of a metal object with an apparatus such as this varies as the inverse fourth power of the distance, so that at a distance between five and six yards it is only one thousandth of what it is at one yard. Consequently, an instrument sensitive enough to indicate a mine at five yards would react violently to a very small piece of metal at one or two yards. Therefore, unless the detector works on some principle unknown to the British, its effective range is not likely to be more than five or six feet.

6. POSSIBLE NEW GASES

An unconfirmed report from a new and untried source states that in the dyeworks at Leverkusen a new gas of the blue cross type has been developed which decomposes in contact with the charcoal of the respirator to liberate carbon monoxide and prussic acid.

It is further stated that after the addition of a special stabilizer, chosen after a long series of tests, the liquid is stored in glass vessels until required, when it is mixed with the blue cross gas in thin walled bombs coated on the inside with zinc.

The same source reports that experiments are being made with mixtures of cacodyl cyanide and metallic carbonyls.

CONFIDENTIAL

RESTRICTED

TENTATIVE LESSONS BULLETIN

No. 69

C-2/2657-235

MILITARY INTELLIGENCE DIVISION

WAR DEPARTMENT

Washington, November 19, 1940.

NOTICE

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

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

SOVIET MECHANIZED MATERIEL FOR WINTER WARFARESOURCE

The information contained in this bulletin is based upon the report of an official American observer at Helsinki late in May, 1940.

CONTENTS

1. ARMORED SLEIGHS
2. MOTOR SLEIGHS
3. STEEL SHIELDS MOUNTED
ON RUNNERS
4. FLAME PROJECTOR TANKS

RESTRICTED

RESTRICTED1. ARMORED SLEIGHS

During the greater part of the Soviet-Finnish War, the Soviet Infantry seldom followed tanks after the latter had been exposed to the effective fire of the Finns. It was possible for the Finns to separate Infantry from tanks by fire, and, after neutralizing the Infantry attack, to repel the tank attack.

Towards the end of the war, however, the Soviets employed armored sleighs to establish closer cooperation. These sleighs, which compelled Infantry to follow tanks, were of two types—those pushed in front of tanks and those drawn by tanks.

The pushed sleigh was about 3 meters long and 70 centimeters wide, with a parapet about 30 centimeters high. It was equipped with a machine gun protected by armor, and its probable mission was to protect the tank from combustible bottle and anti-tank mine attacks.

Drawn sleighs were of two types—personnel carriers and demolition carriers. Personnel carriers were of two sizes, with capacities of 10 and 20 men, respectively. Explosives intended for destruction of concrete were transported on the demolition carriers.

For purposes of reducing concrete emplacements and similar structures, the following method was employed, although not with good results:

After the approach of tanks, the riflemen and pioneers, who were carried in armored sleighs and on top of the tanks themselves, advanced beyond the emplacement under cover of fire from supporting riflemen, tanks, and machine guns on sleighs. Having taken up positions behind the emplacement, the pioneers then advanced upon it and, still under cover of fire, attempted to blow it up. Effective results were not obtained in any instance.

2. MOTOR SLEIGHS

Motor sleighs employed on the eastern shore of Lake Ladoga had the following characteristics:

Motor: 100 h.p.
Gasoline consumption: 25 kilograms per hour.
Gasoline tank capacity: 100 kg.
Speed: 20-70 kilometers per hour.

Since the sleigh was intended for evacuation of the

RESTRICTED

RESTRICTED

wounded, red crosses were painted on its outer walls, but the Soviets also employed it for combat. Its chassis was entirely covered. Armament consisted of one Degtyarev quick firing rifle with three drums of ammunition, one rifle with sixty rounds of ammunition, one Nagan revolver, and four hand grenades. The crew consisted of a driver and a mechanic. Some of the sleighs were equipped with two stretchers, while others had seats for six men.

The sleighs belonged to the 8th Motor Sleigh Unit, which comprised three sections of seven sleighs each and an additional sleigh to carry two gasoline drums. The unit commander was a major.

3. STEEL SHIELDS MOUNTED ON RUNNERS

Steel shields mounted on runners were used for protection of machine guns, quick firing rifles, and riflemen. The individual soldier could either push forward under the protection of such a sleigh or dig in behind it, but he must be aware of possible annihilation by flanking fire, since the shield did not protect the lower part of his body.

Shields were of great assistance to soldiers following tanks which were attacking over a wide front, and they aided considerably in holding terrain.

4. FLAME PROJECTOR TANKS

During combat on the Karelian Isthmus, a Finnish strong point was attacked by a Soviet detachment reinforced with 16 tanks, two of which were equipped with flame projectors. These two tanks were in the front line with other tanks.

One of the tanks moved along a trench at a distance of 10 to 15 meters projecting both flame and a burning liquid which produced intense black smoke. The burning liquid stuck to the revetment of the trench and continued burning. It did not char the revetment, which consisted of timber without bark, although burned spots were sooty and greasy. The tank traveled about 150 meters with its flame projector in operation before it was destroyed within the Finnish position by an antitank mine.

The other tank crossed the front trench, advanced abreast of the nearest machine gun emplacements, and directed its flame against a number of trees which were covered with hoar-frost. The branches of the trees pointing toward the Soviets were turned black with soot and became clearly distinguishable from their surroundings. It is assumed that the object of this procedure was to

RESTRICTED

RESTRICTED

mark the location of the machine gun emplacements in order to facilitate conduct of artillery fire.

The flame projector tank destroyed within the Finnish position was a light Vickers model of about six tons with armor which seemed to be lighter than that of other light tanks. The flame projector was located on the right side of the tank and about half a meter from it was a machine gun. A fairly powerful searchlight was located on the left side. The end of the flame projector pipe was equipped with metal pins, and as the liquid was projected through them, it was probably ignited by electric current passing through the pins. Two compressed air cylinders and a container holding about 250 to 300 liters of liquid were located inside the tank behind the searchlight. The length of the flame projected was about 20 meters and the height about five meters.

RESTRICTED

G-2/2657-220

RESTRICTED

No. 249

SITUATION REPORTM.I.D., W.D.
November 19, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

During daylight of the 18th the Germans raided along the south and southeast coasts of England. Last night London was bombed and Liverpool received a short, rather heavy, attack. Generally speaking the level of activity over England was low. There were some attacks on shipping.

The R.A.F. attempted a minor raid against Levna last night. Their communique did not mention any other operations.

II. Greek Theater of War.

Greek ground pressure of undetermined extent continues against Koritsa. Main Italian air effort now appears to be directed against ground forces.

III. Mediterranean and African Theaters of War.

No ground operations and only minor air activity reported.

RESTRICTED

RESTRICTED

TENTATIVE LESSONS BULLETIN
No. 68
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 19, 1940.

NOTICE

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

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

MISCELLANEOUS TECHNICAL DEVELOPMENTS IN GREAT BRITAINSOURCE

These notes, except for Section 1, were furnished by a high British official source in August, 1940. Section 1 came from the report of an American official observer in October, 1940.

CONTENTS

1. SAFETY PRECAUTIONS AGAINST GERMAN AERIAL MINES
2. METHODS OF DEALING WITH THE ONE-KILOGRAM INCENDIARY BOMB
3. AUTOMATIC SPRINKLERS IN FIRES RESULTING FROM BOMBING ATTACKS
4. PENETRATION OF PROJECTILES AND SPLINTERS ON VARYING CONCRETE SPECIFICATIONS
5. EFFECTIVENESS OF NAILS, SPIKES, AND BROKEN GLASS AGAINST PNEUMATIC TIRES

RESTRICTED

RESTRICTED1. SAFETY PRECAUTIONS AGAINST GERMAN AERIAL MINES

The following information has recently been published by the Office of British Home Security in view of the German trend towards dropping large caliber aerial mines by parachute over London and other populated areas:

Two of the risks involved in detonation of mines dropped by enemy aircraft result from the magnetic operation of the mines and from the effects of vibration. As regards the former, it is important that small steel or iron implements, such as shovels, hammers, chisels, screw drivers, and steel helmets, be kept at a distance of at least four or five yards from the mine. Detonation depends upon a clock which may be stopped when the mine is falling or as it comes to rest. Very slight vibration, however, may set it going again. For example, a mine was hanging in a warehouse with its nose on the ground, and the footfall of those approaching it set it going. Thus, when barriers are to be erected around a mine, it is inadvisable to drive stakes into the ground. If use of stakes is unavoidable, the barrier must be erected not less than 50 yards from the mine.

The blast from aerial magnetic mines has been felt as much as two miles away, and windows have been broken at a distance of a mile. Blasts which break windows may tear off inside doors and affect persons in adjoining passages or rooms. Such effects have been felt at a distance of about 150 yards. On the other hand, in the case of well constructed houses, damage would probably not be great at a distance of about 100 yards, and even at lesser distances it might be neutralized where other buildings gave complete physical intervention.

For the purpose of clearing houses in the vicinity of an unexploded mine, greater distances should be taken than for an unexploded bomb of 500 kilograms in view of the more extensive range of blast.

2. METHODS OF DEALING WITH THE ONE-KILOGRAM INCENDIARY BOMB

The one-kilogram incendiary is more frequently encountered than any other type of incendiary bomb which has been dropped on England. It has been fully described in TENTATIVE LESSONS BULLETIN No. 67, Paragraph 2b. A number of conclusions have been reached regarding measures to be taken in dealing with this type of bomb.

There are, generally speaking, two principal means of extinguishing fires—by cooling and by smothering.

RESTRICTED

RESTRICTED

The thermit composition in these incendiary bombs contains its own oxygen and thus cannot be extinguished by smothering. The magnesium, however, must get its oxygen from the air or surrounding materials in order to burn; this it can do from most materials upon which it may fall, even if air be excluded from it.

Smothering will not, therefore, normally extinguish the bomb, although it will tend to localize its effects. If, because of lack of water, it becomes necessary to resort to smothering, sand should be used. Extinguishing materials in powder form are no better for this purpose than sand, and they have the disadvantage of requiring close approach, which is necessary for success but not always possible. Sand and special powders have no cooling properties.

There is nothing more effective for cooling than water, and there is no known material of practical use which will deal more effectively with a magnesium incendiary bomb.

The first consideration should always be control of the fire caused by the bomb. Dealing with the bomb itself is a secondary matter. Ordinary fire fighting methods are applied to localize and control these fires.

The action of water on a magnesium bomb is to accelerate combustion. If an excessive volume is applied, acceleration of combustion will be such that burning magnesium will be violently scattered in all directions. Water should therefore only be applied in the form of a fine spray. On the rare occasions when a bomb can be tackled within the first few seconds of its landing, the application of water to the magnesium tube will cool the latter sufficiently to prevent its melting and taking fire as a result of the action of the thermit.

As a general rule, liquid chemical extinguishers are not recommended. In particular extinguishers expelling special liquids—usually carbon tetrachloride—or glass hand grenades filled with such liquids, while excellent for dealing with oil fires or fires in the open, should not be used for dealing with incendiary bombs in confined spaces, since there is a danger from poisonous fumes. They should not be used on the incendiary bomb itself unless a respirator is worn. The heat causes a generation of phosgene.

Extinguishers expelling water can be used to deal with fires caused by incendiaries, but they are not particularly suitable for dealing with the incendiary bomb itself. The water is expelled in the form of a jet, and if it is used at a distance of less than 12

RESTRICTED

RESTRICTED

feet, there is a risk from flying particles of burning metal. The risk is increased if the operator is forced to lie with his face near the ground. About $3/4$ of a gallon of water is necessary to deal with the bomb itself, and with most extinguishers of this type, only about $1\frac{1}{4}$ gallons would remain for use on the resulting fire.

Special solutions have been put on the market for extinguishing incendiary bombs through use in a chemical extinguisher or through application by hand pumping. In no instance are they more effective than water, and in some cases they are less effective.

3. AUTOMATIC SPRINKLERS IN FIRES RESULTING FROM BOMBING ATTACKS

It is known that automatic sprinklers provide a safeguard of very high order. Considerable insurance rebates and certain types of waivers are allowed for sprinklers in many classes of risk. There is little doubt that a sprinkler system is vulnerable, both in connection with and apart from possible damage to the main sources of water supply. However, it is considered far better to be equipped with such unquestionably efficient protection than to dispense with it because of possible risk to the water supply system during a raid.

Sprinklers almost certainly extinguish or hold in check fire caused by an incendiary bomb. If spray from a sprinkler head fell on the bomb, the effect would be not unlike that of the spray from a stirrup hand pump. However, unless the bombs were within about three or four feet of a sprinkler head operating at 155° F., the usual operating temperature in England, sufficient heat would not be given off to open the sprinkler, although the resulting fire would soon do so.

Enemy action on a garrison town or camp may result in the opening of so many hydrants that pressure on power mains will fall very considerably. The primary supply to a sprinkler system will probably be furnished by the town's water mains with usually an auxiliary supply in addition. If the latter is from a static source, the supply will generally be almost unlimited, although failure of the electric supply may cause a breakdown if the pump is electrically driven. If the secondary supply is from a pressure or elevated tank, the quantity will be limited, and if many sprinkler heads have opened, the duration of operation may be curtailed to a dangerous degree. Pressure tanks are, generally speaking, much to be preferred to elevated tanks, for they will deliver water at a much higher pressure than the latter.

Although the system has not been used in England, a special

RESTRICTED

RESTRICTED

fire brigade connection has been made available elsewhere to pump the water into the sprinkler system. By this means, water will reach the seat of fire at once, but it may be some time before lines of hose are getting water into a similarly favorable situation. This special connection is, therefore, to be recommended, but it should be made above the main stop valve and should itself be provided with a stop valve and back pressure valve.

Sprinkler valves should never be closed as a precaution against water damage through fracture of one of the sprinkler pipes. The essential feature of the sprinkler system is that it will work automatically at the inception of the fire. It should not be made to depend on the fires being spotted by personnel inside or outside the building.

4. PENETRATION OF PROJECTILES AND SPLINTERS ON VARYING CONCRETE SPECIFICATIONSa. Mechanical Strength of Aggregate

Tests show that the depth of penetration and the volume of the crater vary little over a wide range of aggregate crushing strengths. Aggregates varying in crushing values from 11.7 (B.S.S. No. 882/1940) to 72.8 were used in the tests and the depth of craters with various projectiles varied only from 2.8 to 5 inches.

b. Mix Proportions

For a specific ratio of cement to total aggregate, an increase in ratio of fine to coarse aggregate results in a decreased resistance to penetration and, on the whole, to a decrease in the amount of crater material removed by the projectile. Decrease in cement content results in increased penetration and in increased crater volume, but the changes are not important unless the mix is very weak. It would also seem that badly graded mixes do not offer as good resistance to penetration as the well graded mixes, and, in particular, under-sanding is a source of weakness in this respect.

c. Water-Cement Ratio and Consequent Strength of Concrete

The conclusions reached from tests is that no very significant difference either in penetration or in crater volume results from such changes in strength as are due to changes in the water-cement ratio. Variations in strength were appreciable, but penetration figures were comparatively little affected.

d. Maximum Aggregate SizeRESTRICTED

RESTRICTED

There is not much data on this subject available, but it would seem that, provided the grading is satisfactory, the resistance to penetration increases as the size of aggregate increases. This is probably not true for very weak aggregates, but may be so for ordinary types.

c. Thickness of Concrete Required to Give Protection Against Splinters

Tests were taken on concrete made with Ham River sand and ballast 28 days old. A projectile weighing $1\frac{1}{4}$ oz. and having a striking velocity of approximately 4,650 feet per second was used. From these tests and other results, it was concluded that 12 inches of structural quality concrete would provide the degree of protection required. The minimum crushing strength for this quality of concrete is 2,250 pounds per square inch at 28 days. Ordinary concrete, however, requires a thickness of 15 inches.

5. EFFECTIVENESS OF NAILS, SPIKES, AND BROKEN GLASS AGAINST PNEUMATIC TIRES

It is known that the Germans have in the past considered that four-pronged spikes, three inches long and scattered in the road formed an effective block against pneumatic tired motor vehicles. Tests have recently been carried out to determine to what extent spikes of this type, as well as nails and broken glass, destroy rubber tires, and to what extent such obstructions in the road would hold up the movement of motor transport.

The results of these tests have shown that nails and spikes will cause immediate and serious punctures in unprotected commercial tires, but glass will not present any danger provided the tires are in good condition. In the latter case, however, it is recommended that immediately after glass has been traversed, the tires be examined and brushed with a steel brush so that pieces of glass picked up in the treads or slightly embedded in the rubber will be removed and not allowed to work their way into the cover.

Military tires of the "run flat" type will not, of course, be affected by punctures.

Tests were also carried out with commercial tires protected by means of linings, and with a second tire cover whose bead had been removed slipped over the normal cover. In this case the trials were very severe. The test vehicle was allowed to bump onto broken bottles and 2-inch nails. The car was also started and stopped violently and skidded on the obstructed surface for about 15 minutes without any

RESTRICTED

RESTRICTED

outward sign of a punctured tire on the front or rear wheels. Subsequent examination, however, showed that the nails had caused punctures, which, in turn, had caused the tire concerned to go flat, but not until the car had been subsequently driven 10 miles.

RESTRICTED

CONFIDENTIAL

123

Paraphrase of Code Cablegram Received at the
War Department on November 19, 1940.

London, Filed 15:20, November 19, 1940.

1. The operations of the Bomber Command during the night of November 18-19th were satisfactorily executed. A total of 51 sorties were dispatched and one plane was lost. Operations the previous day were negligible due to bad weather conditions. The Coastal Command operations were normal, with 43 patrol missions, 62 bombing sorties and 16 convoy escorts. The Command lost one plane and destroyed one enemy plane certainly, two probably, and destroyed one. The Fighter Command dispatched 210 planes on 69 patrol missions.

2. Daylight operations of the German Air Force on Monday, November 18, were on a small scale, totaling about 70 planes. There were country wide raids that night in fair numbers.

3. Three airdromes were attacked. The Overseas Airways Corporation suffered seriously, with its station wrecked and with one flying boat seriously and two slightly damaged. Bombs falling in the working class districts in southern ports resulted in major damages with 60 casualties. An Army barracks north of London was hit and 27 troops were killed and 35 wounded. In Birmingham a margarine factory and a gas tank suffered minor damages. During the night of November 15-16 casualties in London were 95 killed and 510 injured and in Bournemouth were 33 killed and 14 injured.

CONFIDENTIAL

CONFIDENTIAL

124

4. There were no plane losses at home or in the Middle East.
5. Two destroyers were damaged and a trawler wrecked by a collision on the Clyde. A destroyer at Alexandria was damaged by an air attack. A bomb striking its engines disabled a ship in a Thames convoy.

6. A fire chief of the New York Fire Department spent three days in Coventry and reports that the center of the town proper, which covers two square miles, has been flattened out but that the factories around the town are practically undamaged. A British Army general has been given about 10,000 Engineer troops, in addition to civilian laborers, to commence the work of clearing away the wreckage in London.

7. British cruisers have arrived at Piraeus, near Athens, carrying troops from the Middle East. The Greeks continue to take many prisoners. The 47th Battalion Division has moved Valona, Albania to the Pinus sector in Greece.

8. A radiogram from Gibraltar states that five automobiles of German photographers have arrived in that area and are stopping in La Linea (just outside Gibraltar - G-2). These are the same boys that appeared in Belgium, Holland and France just before the Germans invaded those places.

END.

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
ONI

CONFIDENTIAL

-3-

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HQ.



TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

(11-19-40)

For Mrs. Klotz
Attention Bell, Gaston, White

I wish to convince public that Treasury is prepared to fight inflation; therefore prepare for me when I return the 27th pros and cons regarding continuance domestic and foreign silver purchase program, as well as arguments for each side concerning continuation of President's various emergency monetary powers.

Wish Treasury to publish history of gold commencing in 1932. Warburg, Harrison, Williams, Day, Sprague, Tugwell, Moley, Pearson, Warren, and President Roosevelt should be consulted and requested for their records.

(Signed)

Best Regards

SECRET



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington,

November 19, 1940.

My dear Mr. Secretary:

In accordance with your cable request I am enclosing herewith a memorandum giving a short description of five loopholes which permit legal tax avoidance and two tax inequities and inequalities in favor of the Government.

I realize that these are probably far less dramatic than you had desired. In 1937 most of the more striking examples were cured: personal holding companies, use of foreign holding companies, incorporated yachts, and inter-family losses (sales of securities from husband to wife and vice versa). The only loophole remaining which lends itself to both intellectual and emotional attack is the tax exemption of Government securities. Four addresses on this are in process of preparation and will be ready for you on your return. If you would care to have these sooner, we will be glad to speed their completion and mail them to you.

The "examples" illustrating the advantage taxpayers are taking of some of these opportunities for avoidance are actual cases in our files.

With kindest personal regards to Mrs. Morgenthau and yourself, I remain

Yours sincerely,

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury
of the United States,
c/o The American Consul,
Kingston, Jamaica.

SELECTED INEQUALITIES AND TAX AVOIDANCE
OPPORTUNITIES UNDER THE FEDERAL
ESTATE, GIFT AND INCOME TAXES

I. ESTATE AND GIFT TAXES

- (1) Exemptions
- (2) Powers of appointment

II. INCOME TAX

- (3) Capital gains
- (4) Community property
- (5) Percentage depletion
- (6) Expenses incurred in the
production of income
- (7) Deductions for bad debts
and worthless stock losses
- (8) Tax-exempt securities (examples)

I. ESTATE AND GIFT TAXES

(1) Exemptions

Taxes on the transmission of wealth from one generation to the next - inheritance, estate and gift taxes - afford one of the very few opportunities we have for assessing taxes in accordance with individual ability to pay them. However, despite the universal acceptance of estate and gift taxes and despite the vast amount of property which is transferred by individuals during their lifetime and at their death, the estate and gift taxes are comparatively small revenue producers in our fiscal system. During this fiscal year the Federal taxes on estates and gifts will yield less than \$400 million. They will yield only about half as much as either the liquor or tobacco taxes.

One of the reasons for the inadequate revenue yield of the estate and the gift taxes is the multiplicity of exemptions and the lack of coordination between them. Our present laws provide four different and independent exemptions which can be utilized in minimizing property transfer taxes. The estate tax provides a \$40,000 exemption. It exempts an additional \$40,000 in the form of insurance on the decedent's life payable to specified

- 2 -

beneficiaries. The gift tax also provides a \$40,000 exemption. In addition, each year individuals are permitted to distribute free of tax \$4,000 gifts to each of any number of individuals.

As a result of this multiplicity of exemptions, individuals can transfer to their heirs \$120,000 or more of their wealth, without paying any Federal estate or gift taxes. For instance, an estate of \$280,000, including \$40,000 of insurance, can be transferred to one's wife and three children, tax-free by gift distributions over a period of ten years and a transfer of the remainder at death. For the Federal Government to provide the means for exempting family fortunes of such size from transfer taxes, in the light of present Federal revenue needs, seems inadvisable.

Aside from the revenue significance, these numerous exemptions raise also problems of tax equity. Consider, for instance, the \$40,000 insurance exemption. While the practice of providing a liquid fund for one's family is socially desirable no valid reason can be presented why insurance should be singled out for especially favored treatment. The beneficiary of a \$40,000 insurance policy

- 3 -

has no less taxpaying ability than the heir to a \$40,000 bank account. Under present laws the bank account is taxable but the insurance is exempt.

These exemptions together with the variations between the estate and gift tax rates and tax bases produce great disparities in the amount of Federal taxes imposed on property transfers under different conditions. For example, the \$500,000 estate of an individual who retains title to all his property until death, will under present tax rates be liable to a tax of \$88,440. However, if this same individual is able to make systematic property distributions to his wife and three children during the ten years before his death he can reduce that tax liability to \$18,856. In other words, he can cut the tax bill by 79 percent. At the same time, his income taxes are also reduced.

The inequity is accentuated by the fact that many individuals cannot take advantage of the use of gifts to minimize their transfer taxes. For business and other reasons they find it necessary to retain control of their property in their own hands until death.

(2) Powers of Appointment

It is the object of the Federal estate tax to impose a tax on property that is left by a deceased person to his heirs. When in the course of time these heirs die and in turn leave their property to their heirs, the estate tax properly seeks to tax the property passing upon second death. Consequently, under ordinary circumstances, the property is taxed once in each generation. However, certain legal devices which are permitted under the Internal Revenue Code have been used as a means of transferring property for several generations without the imposition of an estate tax, no matter how greatly the property has increased in value.

One of the most common means of effectuating the passage of property without tax through more than one generation is by the use of so-called limited powers of appointment. For example, a father by his will may leave his property to his son to be enjoyed by the son during the son's life and also give the son the power to leave that property at the son's death to such of the son's children as the son wishes to. In such an instance, under the Federal estate tax as it now stands, a tax is imposed when the father dies, but there is no tax imposed when the son dies and leaves the property to the grandchildren. Thus, by the use of such powers, a tax may be postponed until the death of the grandchildren, which may not take place for scores of years thereafter.

II. INCOME TAX

(3) Capital gains

The individual income tax is intended to give application to the universally accepted principle that individuals should contribute to the cost of government in accordance with their taxpaying ability; that those with larger incomes should pay higher rates of tax than those with lesser incomes. With this objective in view our income tax rates are steeply graduated, rising from 4.4 percent to 81.1 percent (including the present defense levies).

The steeply graduated income tax rates notwithstanding, the objective of progression is only partially attained and in some instances is not attained at all. This is due to the favoritism shown several kinds of income under our tax laws. Profits realized from the sale of stocks, bonds, real estate, or other forms of property - so-called capital gains - are a case in point.

Under our present laws profits realized from the sale of stocks, bonds, etc., which have been held by the taxpayer for two years or more are segregated from other income and accorded special treatment. In the first place only half of such capital gains are taken into account.

Secondly, the maximum tax rate imposed on the one-half of the capital gains which is taken into account is limited to 33 percent. This means that in effect, regardless of the size of the taxpayer's total income, the rate of tax on his profits from the sale of capital assets can in no instance exceed $16\frac{1}{2}$ percent. If he derived the same amount of income from business operations, dividends, or from salaries, the tax rate can be as high as 81.1 percent.

This favored treatment of capital gains defeats the principle of ability to pay and undermines the progressive feature of our income tax. The damage is particularly great because it so happens that capital gains are relatively far more important in large incomes than in small ones. Moreover, those in the high income groups are at times in a position to take their profits in the form of capital gains rather than in fully taxable corporate dividends. Wealthy stockholders may be able to induce their corporations to accumulate earnings which would normally be paid out in the form of fully taxable dividends and take them instead in the form of appreciation on their stocks. In doing so, they can accomplish substantial tax savings.

The tax statistics for the period since the adoption of this special treatment of capital gains clearly reveal the extent to which the progressiveness of the income tax is being undermined. In 1938, for example, those with incomes of \$5,000,000 or more, paid on the average only a 30 percent tax, whereas in the absence of the special capital gains treatment they would have paid a tax in excess of 75 percent. Perhaps even more damaging is the result that while the average tax rate paid by individuals increased progressively up to the \$1,000,000 income level, it declined thereafter. In other words, those with two or three million dollar incomes actually paid a lower rate of tax than those with smaller incomes. The principle of progression has been turned upside down.

EXAMPLES

(In presenting these examples it is not intended to imply that equitable taxation of capital gains requires their taxation at the same rates and in the same manner as other income. The purpose is rather to show how much the discrepancy is between full taxation and taxation under the present provisions. This discrepancy is believed to be much too great for equity.)

1. In 1938 a certain individual realized a total capital gain of \$15,355,000, all on assets held more than two years. His net income from other sources was \$250,000. If the total income had been taxed at the regular rates, his tax would have been \$12,141,000. The tax actually assessed was \$2,430,000, or 80.0 percent less.

2. In 1938 a certain individual had income of \$15,687,000 including capital gains and losses in full. Net income entirely excluding capital gains and losses was \$270,000. The tax liability if the capital gains had been subject to tax in the same manner as other income would have been \$12,209,000. The actual tax liability was \$2,454,000, or 79.9 percent less.

(4) Community Property

In most situations an individual pays income tax on all of his earnings. In a few States, however, income earned by a husband is treated under the property laws of those States as belonging one-half to the husband and one-half to the wife. As a consequence, in these States the husband is taxed under the income tax only upon one-half of his earnings, the other half being taxed to his wife. This difference in local rules of property causes serious inequality in tax treatment. For example, a husband living in one of these States and earning \$20,000 a year will pay a Federal tax of \$660.00 on \$10,000; his wife will pay a tax of \$660.00 on the other \$10,000. In the vast majority of States, however, where the so-called community property laws do not apply, a husband earning \$20,000 a year will pay a tax of \$2,336.40 on the full \$20,000. Thus, a family living in a community property State will pay 40 percent less in total income taxes than a family having the same income but living in a non-community property State.

We should revise our income tax law in order to eliminate this inequality of treatment.

EXAMPLES

1. In 1938, a certain husband and wife in one of the community property States reported combined net income of \$289,000, practically all of it salary, which apparently was earned by the husband. If a joint return had been filed or if separate returns had been filed in a State not having a community property law, the tax would have been \$154,000. Actually the combined tax was \$121,000, or 21.4 percent less.

(5) Percentage depletion

Our tax laws properly provide that where an owner uses property for business purposes, he is permitted to deduct from his gross income, before arriving at income to be taxed, the cost of the property used up or worn out. An owner of a garage or a store, for instance, may write off that fraction of the cost which it is estimated has been lost through wear and tear or obsolescence during the year. If, however, a person or a corporation owns an oil well or a mine, or an interest in a well or a mine, he is not limited by the above general rule. Instead, regardless of the cost of the property to him, the law permits him to deduct an amount equal to a certain fraction of his gross income. It permits him to make that deduction year after year, so long as he receives income from the property. Operators of oil and gas wells may deduct 27½ percent, operators of sulphur mines 25, metal mines 15 percent and coal mines 5 percent of their gross income before being subject to tax. As a result, a taxpayer may recover several times the cost of a well or mine before he is required to pay tax on the income received.

The injustice to other taxpayers who must make up the revenue lost by reason of this provision in the law,

- 2 -

is recognized by many -- and has been complained of even by some of those who benefit from it. As an illustration, a man bought a lot in Oklahoma City for \$500 and built on it a house, which he rented. Subsequently, oil was discovered on his property and under the percentage depletion allowance he recovered each year many times the cost of the lot. The man finally wrote to the Department to make sure that he had the authority under the law to do this because, to use his own words, "it was not right." Our illogical laws, however, make it right.

EXAMPLES

1. In 1934 a certain oil corporation took percentage depletion of \$3,652,000 whereas the depletion necessary to return the cost would have been \$1,453,000. As a result of the percentage depletion, the corporation had no income subject to tax, whereas if only the depletion necessary to return cost had been allowed, the tax would have been \$202,000.

2. In 1936 a certain sulphur company took percentage depletion of \$4,267,000 whereas the depletion necessary to return the cost would have been \$614,000. As a result of the use of percentage depletion the Government lost revenue of \$557,000.

3. In 1934 a certain oil corporation took percentage depletion of \$2,118,000 whereas the depletion necessary to return the cost would have been \$139,000. As a result of the use of percentage depletion the Government lost revenue of \$272,000.

(6) Expenses incurred in the production of income

In the situations mentioned above, the tax laws discriminate unfairly in favor of limited classes of taxpayers and against the Government, and therefore against the vast majority of taxpaying citizens. There the remedy is to broaden the tax laws so that they reach these limited groups and require them to pay as much tax as is paid by others in the same economic position. However, while we are revising our tax structure in order to eliminate unfair advantages enjoyed by a few at the expense of all, we must at the same time rectify those situations in which our present tax laws discriminate inequitably against certain limited classes of taxpayers. In these cases the remedy is to relieve such taxpayers of the burden unfairly borne by them.

An example of discrimination against a limited class of taxpayers is the case of a taxpayer who incurs expenses in the production of income which is not connected with a trade or business. Such expenses are not deductible, since the law permits the deduction from gross income only of those expenses which are incurred in connection with a trade or business. Thus, a salary paid to an employee in the taxpayer's regular business is deductible in determining

the income from the business which is subject to tax. On the other hand, a salary paid to a person who manages some of the taxpayer's nonbusiness property is not deductible in ascertaining the taxable income from that property. A widow whose sole source of income is from property left by her deceased husband and who lacks the necessary experience to manage that property is thus taxed upon the entire income from the property without deduction of any of the expenses which she must necessarily incur for advice and counsel in the management of her property. At the same time, another taxpayer deriving the same amount of income from a business conducted by him will only be taxed upon the income from that business remaining after deduction of the necessary business expenses. Taxpayers who are entirely dependent upon income from property or investments are thus taxed more heavily than are other taxpayers. Consideration might well be given to relief provisions equalizing the effect of the income tax in such cases.

(7) Deductions for Bad Debts and Worthless Stock Losses

The provisions of the income tax laws concerning the deduction of losses from bad debts have long been the object of criticism. This criticism is directed at the conditions governing the allowance of the deduction. A taxpayer cannot deduct a bad debt from his gross income unless he both ascertains that the debt became worthless during the taxable year for which he seeks to take the deduction and charges it off within that year.

Frequently it is difficult to ascertain exactly when a debt becomes "bad" and this question of fact has given rise to much litigation. As an example of the way in which these requirements may deprive a taxpayer of a deduction let us suppose that a taxpayer learns facts which lead him to think that a certain debt owed to him will never be paid. He charges the debt off as worthless on his books and seeks to take a deduction on account of the bad debt for that year. The Bureau of Internal Revenue, however, may have reason to conclude from all the evidence available that the debt had not yet become worthless. The case may be carried to the Board of Tax Appeals and the courts and several years may elapse before it is definitely settled.

Let us suppose that the court decides in favor of the Bureau and rules that the taxpayer charged off his debt too soon. For two reasons the taxpayer may then be debarred

- 2 -

from claiming any deduction on account of the bad debt. The statute of limitations may have run with respect to the year in which the debt actually became worthless, making it now too late for the taxpayer to claim a deduction for that year. Or it may be that the taxpayer had failed to charge off the debt in the year in which, according to the court, it actually became worthless, in which case he would not be allowed a deduction even though the statute of limitations had not barred a claim for a deduction for that year.

Somewhat similar difficulties exist with respect to the deduction for losses sustained upon stocks which have become worthless. While the charge-off requirement does not apply to such losses, the statute of limitations may operate to deny a taxpayer a loss to which he is legitimately entitled. The equity of the income tax would be materially increased if the difficulties which often operate to prevent the deductions for bad debts and worthless stock losses could be eliminated.

(8) Tax-exempt securities: Examples

1. In 1938 a certain taxpayer reported net income of \$353,000. He reported in addition, \$1,345,000 fully tax-exempt interest. If this interest had been subject to tax, he would have had a tax liability of \$1,078,000, whereas his actual tax liability was \$100,000, or 90.8 percent less.

2. In 1938 a certain individual reported net income of \$236,000 in addition to which he reported \$1,340,000 of wholly tax-exempt interest received on reported holdings of \$44,000,000. If the tax-exempt interest had been subject to tax, his tax would have been \$1,125,000. His actual tax was \$120,000, or 89.3 percent less than he would have paid.

3. In 1938 a certain taxpayer had net income of \$3,525,000. In addition he had fully tax-exempt interest of \$2,852,000 on \$122,244,000 of tax-exempt securities. If this interest had been taxable, his tax would have been \$4,798,470. It was actually \$2,562,000, or 46.6 percent less.

HEM

PLAIN

London

Dated November 19, 1940

Rec'd 1:10 p. m.

Secretary of State,
Washington.

3737, November 19.
FOR TREASURY.

The Treasury order referred to in my No. 3741 of November 15, 1 p. m. is announced in the press today. The price listed in the order for each security is based on a quotation on November 16 or the price stated in the original vesting order, whichever is the lower. Distinction between those who failed to register their securities and those who have acquired them through inheritance from an American owner since the original registration order, is made by the quotation of alternative higher prices where the present price is the higher. This price will apply in cases where "it appears from information given to the Bank of England that at the date of the original order no person was under obligation to register the securities". The present order covers the securities included in the two vesting orders of February 17 and April

hsm -2- No. 3787, November 19, from London

April 13 relating to American securities but does not include Canadian securities the acquisition of which was the subject of separate vesting orders.

JOHNSON

CEB

November 19, 1940

Acting Secretary Bell

Mr. Goodwin

STRICTLY CONFIDENTIAL

Reference is made to my memorandum of November 16 in which I reported that Mr. Pimental, Financial Counselor of the British Embassy, had let me know that his people had seen the Argentine financial delegation at the Shoreham Hotel on November 15, the day after the delegation had been received in the Treasury.

When in my office yesterday noon, Mr. Pimental gave a little more detailed account of the British meeting with the Argentines. He said that this meeting had enabled the British to learn something of the negotiations which were under way between the Argentine and British Governments. He said that these negotiations envisaged the British buying £40,000,000 sterling of Argentine products during the second year of the war. The Argentines think they could purchase 139,000,000 sterling from the sterling area during that year. At present Argentina has built up with Great Britain a sterling balance of £7,000,000, part of which may be liquidated through current commercial transactions. The first securities which Argentina would contemplate buying back from the British would be railway equities. It looks as if there would not be enough sterling on hand for this, so Argentina might appeal to us for loans to facilitate such a transaction.

Pimental stated that Clayton confirmed the idea advanced by Secretary Morgenthau, namely, that some arrangement could be worked out whereby the United States would lend to Argentina against British securities as collateral. (I corrected Pimental a little on his quotation of the Secretary's remarks on this subject.) Pimental also stated that Clayton favored the idea of funds which the United States makes available to Argentina being at least partly free for payments for British products. Pimental stated that his group had gained quite a bit of information from the Argentines and the latter had seemed pleased to have contact with the British, stating that they had acquired a better understanding of the American attitude toward them. Pimental remarked that no specific figures had been mentioned insofar as Argentina's requests for American aid are involved.

I received the above information without any comment upon the propriety of the discussion by the British with the Argentine delegation or American negotiations with that delegation.



ENC(AM) 11, 19, 40

December 19, 1940

Acting Secretary Ball

Mr. Goddard

Mr. Poinsett, Financial Commissioner of the British Embassy, called on me yesterday at 12.30 by appointment. Mr. Poinsett showed to me, but did not leave with me, a somewhat garbled code message which he had received from London on the subject of banking services for the United States Government at the banks in this hemisphere which our Government is acquiring from the British. The impressions in London seemed to be that our ally and many people were already in conversations or negotiations with these banks. The British Government thought that this might complicate the situation and apparently desired to discuss these matters with us in London.

In answer to Poinsett's inquiry, I told him that the Treasury had been approached by the representatives of practically all of the British and Canadian banks having offices in one or more of the bases. We had received such information as these representatives volunteered and had, sometimes through a fairly form letter, requested additional factual information for our guidance if and when the time may come for the Treasury to discuss depositaries for Government funds in the bases. I told Poinsett that the selection of such depositaries was strictly a Treasury matter, and not one for negotiation. While Poinsett was still at my desk I went to Mr. Bell's office and showed him the message. Mr. Bell confirmed that the information which I had given, as above set forth, was in accordance with his understanding of the situation. He also permitted me to tell Mr. Poinsett that in selecting depositaries the Treasury would give preference to banks locally capitalized.

In answer to Poinsett's further question, I told him that a United States Naval Commission had already been visiting the bases in question and might conceivably have been obliged to check checks at local banks. It was entirely possible that on such occasions there might have been some conversations as to the facilities which the banks might offer. I reiterated that, insofar as the Treasury was aware, there had been no formal discussions with banks at the bases. I was not willing to check up with the Naval Commission as to what the members may have done on their recent trips.

The message which Poinsett had was quite indefinite as to what points the British desired to discuss with American representatives. With Mr. Bell's approval, I told Mr. Poinsett that if the British Government does have any points with respect to emergency rates and regulations, etc., which they desired to discuss with us, such discussions should be with the Treasury officials in Washington, rather than with our Embassy in London. I reminded Poinsett that Sir Frederick Phillips and Mr. Dewley are expected within the next few weeks and their visit might provide an opportunity for straightening out any problems which may exist. I added that the sending of any important matter of ours from the United States to the new bases is not immediately imminent, and that there would seem to be no rush in coming to definite decisions with respect to the currency and exchange problems that may be involved.

- 2 -

Pineau agreed to limiting his telegraphic report to London to the fact that the interested banks had been in touch with the Treasury and that the Treasury would welcome any discussions which the British Government might desire to institute here in Washington with us.

BM/P

EH

PLAIN

Stockholm

Dated November 19, 1940

Rec'd 10:15 p.m.

Secretary of State,

Washington.

1045, Nineteenth.

Riksbank November 15 metallic reserve 650 foreign
exchange 777 loans discounts 700 circulation 1367 additional
appropriations 22 requested for defense purposes October
imports 139 point 4 exports 103 all million crowns. Whole-
sale price index up 6 points in October to 154.

INFORM COMMERCE, TREASURY.

STERLING

NFL

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 19, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in German accounts maintained at:

Chase National Bank
National City Bank
Federal Reserve Bank



<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 18				\$ 50,000	Reichsbank, Berlin	Chase National Bank, N.Y. for account of Skandinaviska Banken, Stockholm, for account and by order of Reichsbank, Berlin
				200,000	"	Chase National Bank, N.Y. for account of Stockholm Enskilda Bank, Stockholm for account and by order of Reichsbank, Berlin
				67,666	"	Corn Products Refining Co., N.Y. Head office account by order of Konversionkasse fur Auslandsschulden, Berlin
				120,000	"	Chase National Bank, N.Y. for account of Riggs National Bank, Washington, D. C. to be paid to German Embassy, Washington, D. C. by order of Foreign Office, Berlin

National City Bank

\$100,000	Reichsbank, Berlin	National City Bank, N.Y. by order of Banque Nationale Suisse, Zurich	100,000	Reichsbank, Berlin	Chase National Bank, N.Y.
			50,000	"	Federal Reserve Bank, N.Y.
			50,000	"	Guaranty Trust Co. N.Y.
			100,000	"	National City Bank, N.Y. for account Stockholm Enskilda Bank for account of Reichsbank

Federal Reserve Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 18	\$ 50,000	Reichsbank, Berlin	National City Bank, N.Y. by order of Reich- sbank, Berlin			

STRICTLY CONFIDENTIAL

~~CONFIDENTIAL~~

(CONFIDENTIAL)

155

PARAPHRASE

The following is the substance of telegram no. 40, dated November 19, 4 p.m., which has been received from the American Consul at Hanoi:

A French and Indochinese delegation, which will number about twenty persons, headed by Robin, former Governor General of Indochina who is now in France, will at the end of November go from Indochina to Japan for the negotiation of permanent economic relations. The group will include Cousin, Director of Financial Control, Marty, Director of the Economic Section, des Rouveaux, Chief of the Mining and Industrial Supplies Section, and Ganney, Inspector General of the Bank of Indochina. I have been informed by the Director of the Economic Section (Marty) that a new customs tariff upon an ad valorem basis has been formulated for Indochina. In connection with this, he said that the Japanese are asking for preferential treatment as regards certain classes of imports and that negotiations concerning this question will without doubt be protracted and attended with difficulty. M. Got, a high official of the Bank of Indochina, has told me that before long he will go to Japan to open in Yokohama a branch of the Bank of Indochina and that concurrently branches of
the

CONFIDENTIAL

-2-

the Yokohama Specie Bank will be opened at Haiphong or Hanoi or both. The opening of these banks is understood to have been envisaged in the agreement between the Japanese and the Vichy Governments which was signed last August. Closer relations in commercial and economic fields may be indicated by closer bank relations.

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 704

Chungking, November 19, 1940

SUBJECT: BOMBING OF CENTRAL AIRCRAFT MANUFACTURING COMPANY
AT LOIHING, YUNNAN ON OCTOBER 26, 1940

STRICTLY CONFIDENTIAL

AIRMAIL

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose for the confidential information of the Department a copy of a report (without specified maps which were not available) which I have obtained from the local American representative of the Central Aircraft Manufacturing Company, Mr. E. Pawley, in relation to the bombing of the Loiwing (Yunnan) factory of the Central Aircraft Manufacturing Company by Japanese airplanes on October 26, 1940.*

Summary of report: The factory was bombed by 36 Japanese planes on the afternoon of October 26, 1940. There was no preliminary alarm since the planes came from the direction of Burma. Approximately 150 bombs of various types and sizes were dropped. One bomb fell well within Burmese territory. As a result of the attack 40 persons were killed on the factory grounds and at least 60 injured. The power house, final assembly building, employment office, transportation building and various houses suffered varying degrees of damage. Three planes were burned and eight others were damaged. Other damage was negligible.

Mr. Pawley, who witnessed the raid, orally informed an officer of the Embassy that the 40 Americans at Loiwing all had miraculous escapes from death or injury and he averred that the toll of native employees would have been much greater if the Company had not previously instituted precautions by closing the plant daily between 10 a.m. and 3 p.m. He said that the damage caused by the Japanese raiders was in fact not heavy, but the Company was content to let the impression get abroad that the plant had been severely damaged. The Company had made no announcement of the bombing and did not intend to do so, Mr. Pawley said.

*See Running's telegram of November 1, 7 p.m. to Chungking, which was repeated to the Department in Chungking's November 3, 12 noon.

The informant declared that the British authorities were fully aware of the action of the Japanese planes in flying across the territory of Burma and that he personally was cognizant of the fact that the British authorities had investigated the bombing of the factory as well as of the dropping of one bomb in Burmese territory. He asserted that he was not informed whether the British authorities had lodged a protest with the Japanese Government in respect of the violation of the territory of Burma; he seemed rather inclined to doubt whether the British had done so.

Mr. Pawley said that work was continuing at the factory and denied that there was any intention of ceasing work or of removing the factory. He said that all Americans now domiciled at the factory, who with dependents now number about 40, are remaining at or near the factory and have no intention of withdrawing notwithstanding the advice of the American Government to do so. He said that in the future the majority of the personnel planned to cross well into Burmese territory when alarms were sounded. Mr. Pawley said that the raid of October 26 was the first experienced by the factory, although what appeared to be Japanese reconnaissance planes had flown over the factory previously on two or three occasions and had even scouted as far as Khamo in Burma.

Mr. Pawley did not indicate whether the Central Aircraft Manufacturing Company intended to lodge a protest in regard to the bombing in question, but he asserted that the New York office of the Company was "in close touch with the Department of State" in regard to various affairs of the Company (the status of which was believed to be the subject of correspondence between the Department and the Consulate General at Hankow in the early months of 1938). Mr. Pawley emphasized that he was supplying the Embassy with a copy of his report for its confidential information and not for any other purpose.

Respectfully yours,

NELSON TRUSLER JOHNSON
Nelson Trusler Johnson

Enclosures:

1/Copy of report as above.

Original (by airmail) and four copies by pouch (through Hong Kong)
Copy to Kunning
Copy to Rangoon

EFD/wr

(Enclosure no. 1 to despatch no. 704 dated November 19, 1940 from American Embassy at Chungking)

(C O P Y)

Report of Bombing of Loiwing
by Japanese Planes

The Loiwing factory area was bombed by Japanese planes on October 26th, 1940, at 1:30 P.M. Loiwing time. The bombers came in a group of 27 planes followed at approximately a one mile interval by 9 others, making a total of 36 planes. No preliminary alarm was sounded since no advice concerning enemy planes was received from the usual radio network, which consists of stations at Kunming, Chuiching, Yunnanyi and Paoshan. This absence of a preliminary alarm may be accounted for by the fact that the enemy planes came to Loiwing across Burma, thereby avoiding the network. However, about 3 minutes before our urgent alarm was sounded our listening post, which is located six miles out, had reported by telephone to Air Defence Headquarters that they heard planes. These were then believed to be several Chinese Government trainers which were being flown by military ferry pilots preparatory to flyaway. A short urgent alarm was sounded about 5 minutes before the arrival of the planes, their presence having been definitely detected by the CAMCO listening post when the planes actually came within their range of vision.

The Japanese planes were first seen over Burma approaching Loiwing. The direction from which the planes arrived is indicated on the large map attached hereto marked Exhibit "A". The entire complement of approximately 150 bombs was dropped almost salvo, there being practically no clear lull between explosions.

An examination of bomb craters indicates that various sized bombs were used ranging in size and type from incendiaries and fragmentation up to 500 lbs. demolition. Of the total number, 5 or 6 duds have been located.

After the bombs had been dropped the planes made a turn to the South over the extreme West edge of CAMCO and straightened out over Burma.

Before reaching the mountain range to the South the entire group re-formed so that the 9 trailing planes joined up with the leading 27. The flight path of the planes on leaving is shown on Exhibit "A". This direction is obtained from innumerable competent witnesses. It is verified by the fact that after leaving Loiwing one of the planes dropped a bomb which fell in Burma about 6-1/2 miles from the China Burma border. The location of the Burma bomb crater is about 3/8th of one mile South of Loi Wun, about 3-1/2 miles South of Namkham. The exact location is marked on Exhibit "A".

We understand that the bomb crater has been inspected by British Burma officials. It has also been inspected by two Americans connected with CAMCO. Their report states that the bomb landed near the top of a very steep hillside which almost completely encircles a small rice paddy. The point at which the

bomb struck the hill is approximately 150 feet above paddy level. The explosion of the bomb was sufficiently powerful to dislodge many cubic yards of top soil and underlying sandstone which was blown into a small ravine leading toward the rice paddy. The force of the explosion also removed the tops from all surrounding bamboo trees and other small growth. The indications are that the bomb must have been about 200 lbs in size.

The locations of bomb hits are shown on Exhibit "B". It will be noted that the approximate sizes and types of bombs are indicated on Exhibit "B".

As a result of this bombing 35 CAMCO employees and members of their immediate families and one staffman have died. The bodies of five unidentified natives not employed by CAMCO were found. Approximately 60 individuals were admitted to the hospital for treatment of injuries. The majority were killed or injured while running from the sheds and houses out into the open fields. It must be understood that the factory was working from 7 to 10 A.M. and from 3 to 8 P.M. in order that the working area would be free of personnel during the time when bombing raids might be expected to occur. All personnel had been cautioned to avoid large groupings and hold themselves and families in readiness to evacuate in the event of an alarm. This measure saved a great many lives.

The following list gives a general idea of how these casualties occurred.:

Three women, two children and three workmen were buried in a dugout at the corner of the class "B" houses as indicated by "A" on Exhibit "B". This dugout was constructed by a group of workmen on their own initiative and although of suitable construction to afford protection against shrapnel it was not strong enough to withstand the direct hit it received.

One workman, three women and five children were burned to death in the fire that enveloped and destroyed the Market area and the B & C married workmen quarters as indicated by "B" on Exhibit "B". This fire was the direct result of incendiary bombs.

One military guard was killed by the bomb which struck the entrance to the factory as indicated by "C" on Exhibit "B" and the second guard was killed by the bomb which fell directly behind the power house as indicated by "D" on Exhibit "B". Both guards were on duty and were killed at their posts.

One staffman who was stationed in the power house in connection with air raid alarm system was killed by the bomb as indicated by "D" on Exhibit "B". This man was responsible for sounding the urgent alarm which warned the civilians of the approach of the bombers. It was not until after a complete alarm was sounded and the electrical power shut down that this staffman retired from the power house toward a dugout located behind the power house, placed there for his safety. He was killed before reaching his dugout, the bomb as indicated by "D" falling directly in his path.

Material damage may be summed up as follows:

- Loiwing Market area burned out completely.
- Power house building suffered serious damage to non-structural parts but the damage to equipment and machinery was negligible.

East end of final assembly building directly hit and 100 feet of this building demolished or severely damaged. 400 feet of this building undamaged.

- One Condor airplanes burned on runway.
- One Ryan trainer burned on runway.
- Two Ryan trainers damaged on runway but repairable.
- One Ryan trainer burned in final assembly.
- Five Ryan trainers damaged in final assembly.
- The last five of these Ryans contain salvageable parts including engines and equipment.
- One Sikorsky amphibian damaged in final assembly by shrapnel and concussion. This plane can be rebuilt.
- One truck (owned by contractor) containing cases of aluminum sheet burned.
- One staffman house completely demolished by direct hit ("E" on Exhibit "B").
- The number 2 houses on Exhibit "B" all suffered some damage such as shattered glass and plaster and roof damage due to concussion and shrapnel.
- Employment office directly hit, completely demolished.
- Some damage was done to sensitive instruments at various places in the plant due to concussion.
- Transportation building and some other buildings suffered some non-structural damage.

Aside from the specific items mentioned above, the damage done to buildings, equipment, machinery, materials and tools was negligible.

No. 145

AMERICAN CONSULATE

Kunming (Yunnanfu), China, November 20, 1940.

SUBJECT: Japanese Bombing of Plant of Central Aircraft Manufacturing Company at Loiwing, Yunnan.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to transmit herewith for the Department's information a copy of a memorandum on the above subject prepared by Vice Consul Stephen C. Brown of this office, who visited the plant of the Central Aircraft Manufacturing Company during a recent trip to Burma.

Respectfully yours,

TROY L. PERKINS,
American Consul.

Enclosure: -

- 1/ Memorandum prepared by
Vice Consul Brown dated
November 20, 1940.

In quintuplicate to the Department,
original and one copy by air mail.
Copy to Embassy, Peiping.
Copy to Embassy, Chungking.

SOO
SCB:Epy

Enclosure to despatch no. 145 dated November 20, 1940 from Consul Troy L. Perkins, Kunming, China, to the Department of State, entitled: "Japanese Bombing of Plant of Central Aircraft Manufacturing Company at Loiving, Yunnan."

163

MEMORANDUM

November 20, 1940.

While in Lashio I hired a car and visited the plant site of the Central Aircraft Manufacturing Co. at Loiving, arriving there on November 18 and remaining until 11.40 A.M. November 19. I was shown over the plant by an American employee of the firm.

According to the reports of the Americans who were at Loiving on the day of the Japanese bombing (October 26, 1940), thirty-six planes appeared over the plant at 1:27 P.M. and immediately commenced bombing. No advance warning was given, and employees of the company, including the American employees, had only about three minutes in which to evacuate the scene before the bombs began to explode.

The Japanese came in from the east, flying a course almost parallel to the Shweli River, which here flows in an approximately west to east direction and forms the boundary with Burma. The first bombs dropped in a paddy field just east of the plant site, and the bomb pattern was placed from that point on in a slightly off-center position with reference to the factory site. The last bomb dropped just beyond the western end of the landing strip of the airfield, a few hundred yards from the area in which the quarters of American employees were located.

So far as could be determined only one direct hit was scored on the factory itself, a heavy bomb striking the eastern end of the main assembly building and causing heavy damage there. The power plant, which was located near this point, was untouched, although liberally sprayed with bomb fragments. The center of the pattern was placed on the workmen's quarters, located across the landing strip from the factory; the strip itself was also heavily bombed.

Material damage to the factory itself was slight. Although all the machinery had been removed when I visited it, I was informed that practically all of it was saved. This I can easily believe, as there was no evidence of any serious damage to the buildings except for the end of the assembly building mentioned above.

At the time of the bombing five recently-completed Ryan training planes and a Sikorsky belonging to the Aeronautical Commission were stored in the part of the building destroyed. The Ryans were completely demolished, but it is stated that the Sikorsky can be repaired, the chief damage being to the skin and fuselage. A Condor transport plane belonging to the company, which was standing on the field when the Japanese came in, was totally destroyed. Two other recently-finished Ryans were in the air being test-flown at the time and escaped.

Casualties

- 2 -

Casualties among the workmen totalled about forty; many of their houses were badly damaged or destroyed. No Americans were hurt. The Americans have since evacuated their quarters and have set up temporary quarters on the Burma side at Manwing and Pankham. It should be noted that many of them have no permits to reside in Burma, but an attempt is being made to arrange for them in Rangoon.

I was informed that the present plan is to set up the plant again in China, in isolated units strung out along a sixteen mile front. Some of the Americans with whom I talked were not very hopeful that this would reduce the danger of air raids very much, while it is obvious that it will hamper and slow down production. At the present time practically nothing is being done, the company's efforts being directed entirely toward the problem of reorganizing along the new lines. I was told that the morale of the workmen has not been greatly shaken, and that they now work from 5 P.M. to 10 P.M. in the evenings. They also have evacuated their quarters and now live in small villages on the Chinese side.

As mentioned above, practically all the machinery has been removed already with the exception of one dieselelectric plant which is furnishing lights for the factory site. The machinery is said to be stored in various places throughout the area.

Opinion among the Americans differs as to whether the Japanese made a deliberate attempt to avoid bombing their quarters. Some seem to think that they released their bombs too soon for this reason; others, and apparently the majority, believe that it was merely an example of poor marksmanship and timing. It was said that had the raid come about five minutes later it would have caught the entire American personnel crossing the airfield, returning to the factory after their lunch hour.

(initialed) SCB

ch:copy

G-2/2657-220

RESTRICTED

No. 250

SITUATION REPORTM.I.D., W.D.
November 20, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

The German Air Force was only lightly committed over England during daylight of the 19th. Last night's operations were heavy and were concentrated on Birmingham, where apparently great damage was inflicted. London and another Midlands town were also bombed.

Last night the R.A.F. attacked a number of objectives in Germany, including Berlin.

II. Greek Theater of War.

Greek ground forces made limited advances in Albania and captured the village of Ersek, thus cutting the Koritsa—Melissoptera road. The road Koritsa—Tirana apparently is still available to the Italians. The Italian Air Force attacked Greek troops and cities in northern Greece.

III. Mediterranean and African Theaters of War.

Nothing to report.

RESTRICTED

Paraphrase of Code Radiogram
Received at the War Department
at 9:54 A.M., November 20, 1940

Rome, filed 15:50, November 20, 1940.

Large north to south movements of troops with equipment to seaports in the southern Adriatic are reported. There has been indefinite suspension of air service to Spain and Portugal and many other air lines have also suspended. This is to make troop transports to Albania available at the rate of \$,800^{troops}/daily. It is stated that four commercial planes are all that are still in service and that only four crews are available for them. Every other plane has been requisitioned and converted. At Rome, a 12-plane parachute squadron is being altered to night bombers. Italian supplies in Albania suffice only for 50,000 men during a six months' period, according to an unconfirmed report. Same source says Italy can ship additional supplies with great difficulty and irregularity at best, because of activity of Greeks and British in the Adriatic Sea. As to real situation on Greek front, definite information is scanty, but accuracy of Greek communiques is indicated by all reports. Mussolini is said to be rabid at Italian losses in Greece and has given orders for a strong and immediate offensive. Badoglio's recent visit to Germany, trustworthy sources say, was due to Germany's demand for a unified command under a German officer, if German

CONFIDENTIAL

CONFIDENTIAL

assistance against Greece was to be expected. What this conference led to is not known.

PAINÉ

Distribution:

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

CONFIDENTIAL

CONFIDENTIAL

168

Paraphrase of Code Cablinggram Received at
the War Department on November 20, 1940.

London, Filed 17:00, November 20, 1940.

1. All daylight operations of the Bomber Command on Tuesday, November 19, were abandoned on account of the weather. That night it was planned to dispatch a total of 108 bombers, 47 against oil targets, 24 against Berlin, 15 against railroads, 11 against airfields and 11 against factories in Czechoslovakia. Except for 12 planes, of which nine successfully attacked Leun, Prussia, the bombing missions planned for the preceding night were cancelled on account of local weather conditions. Operations of the Coastal Command were routine, with 35 patrol missions, 47 bombing sorties and 14 convoy escorts. No planes were lost. The Fighter Command operated 393 planes on 95 missions.

2. Daylight activities of the German Air Force on November 19 were mild, with a total of about 150 planes plotted. That night heavy attacks were delivered, especially against Birmingham and the Midlands area by German bombers from bases in France, Denmark and the Low Countries. A total of about 350 planes operated against a wide area.

3. Two British airfields were attacked and one of them is now unserviceable due to the large craters formed. In addition four other fields are either wholly or partially out of commission

CONFIDENTIAL

due to the weather and other causes. Twelve important munitions factories at Birmingham were hit but reports indicate that damages are not serious. However, the railroads were badly smashed and blocked. Three plants are reported destroyed at Leicester. In London the considerable night bombing damaged hospitals, a railroad bridge and such well known land marks as the Convent Garden, the Savoy Strand, the Palace Hotel and the Ministry of Supply. Casualties in the city for the night of November 16-17 were 44 killed and 155 seriously wounded. Revised reports from Coventry as of November 16th indicate that the heavy bombardment of that city destroyed one factory, seriously damaged one, and that hits on four others put them partially out of production. All factories are handicapped in their operations by crippled utilities.

4. Except for five German planes brought down by striking cables of the balloon barrage, no planes were lost on either side.

5. The Greeks are reported advancing along the Pernati Road and across the Kalamas River.

6. It appears that the Germans have finally remembered the principles of mass and economy of force. If they continue to use all the bombers available to concentrate on one place after another, their air attacks will begin to get results. Damage will begin to mount up; but the morale of the people is still strong and dogged. The solution of the problem of night interception depends largely upon British material.

CONFIDENTIAL

LHM.

CONFIDENTIAL

170

Distribution:

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

CONFIDENTIAL



170-A

Transmission of Code Radiogram
Received at the War Department
at 9:54 A.M., Nov. 20, 1940

CONFIDENTIAL

Budapest, filed 11:55, Nov. 20, 1940.

The Italian Military Attache in Budapest states that there are now 30 German divisions in Austria and in addition 2 armored divisions ready to move through Hungary to Rumania on short notice; also that the Russians have moved four infantry and one mechanized cavalry division from the Caucasus rather than from the reserve of 35 divisions northeast of Kiev. This increases the 12 divisions at present in Bessarabia to 17.

This information was also cabled by his government to the Turkish Military Attache here who is now quite optimistic over the position of Turkey.

The Swedish Military Attache at Rome declares that the 1 Alpine, 3 infantry and 1 mechanized divisions stationed in Albania were doubled on the outbreak of war and that this force is being further increased.

All these officers estimate the German force in Rumania and Bulgaria to be 300,000. My estimate is 100,000 with rapid increase to 300,000 in the immediate future and followed promptly by a move to encircle Greece where Italians are making no progress.

PATRIDGE

- Distributions:
- Military Aide to the President
 - Secretary of War
 - State Department
 - Secretary of Treasury
 - Asst. Secretary of War
 - Chief of Staff - 2
 - War Plans Division
 - Office of Naval Intelligence

CONFIDENTIAL

November 20, 1940

Files

Mr. Cushman

At 11:00 a.m. November 14 Mr. Bell received in his office the Argentine financial delegation, presented by Ambassador Ruyil, and headed by General Manager Saul Frélich of the Argentine Central Bank. The other Argentine members of the delegation were Messrs. Miguel Grumbach and Roberto Verrier. Accompanying them was Mr. Christian Rovital, Second Secretary of the American Embassy at Buenos Aires, who had made the trip from South America to Washington with the delegation. Mr. Collado also came over from the Department of State, and Messrs. White, Cox and Cushman of the Treasury Department were present.

Mr. Bell welcomed the delegation in the absence of Secretary Harganham and expressed the latter's regret at not being present. At Mr. Bell's suggestion, Mr. Frélich gave a general picture of the Argentine situation. He stressed the dilemma which confronts his country in present war circumstances, involving a tendency for Argentina to buy more of products from areas with which a balance of funds has been built up, as a result of exports to such areas paid for in the importers' exchange, and also a necessity for curtailing imports from countries of whose exchange Argentina has a declining and insufficient amount. Great Britain was the specific example in the first instance, and the United States in the second. Mr. Frélich did not give detailed figures as to the extent to which Argentina's trade has declined as a result of the war.

It was the suggestion of Mr. Bell that the Argentines draw up a memorandum setting forth their position and their desires in some detail. It was agreed that this would be presented to Mr. Bell by Monday, November 18. The Treasury and other interested departments and agencies of the Government could then have some basis for their studies of the cooperation which our Government may be able to extend to Argentina.

TREASURY DEPARTMENT

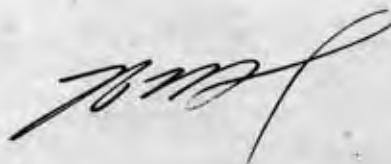
INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 19	\$ 300,000	Deutsche Golddiskontbank, Berlin	Chase National Bank, N.Y., for account of Reichsbank, N.Y.
	30,000	Reichsbank, Berlin	Chase National Bank, N.Y., for account of German Consulate General, N.Y., 17 Battery Place, N.Y.
	30,000	German Consulate General, N.Y.	Cash withdrawal
	9,625	Reichsbank	Chase National Bank, Rockefeller Center Branch, N.Y., for account of Standard Oil Co. of N.J., N.Y., by order of Konversionkasse fur Deutsche Auslandsschulden, Berlin on behalf of Pan Foreign Corp., 30 Rocke- feller Plaza, N.Y.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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



Chase National

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 19	\$ 50,000	Credito Italiano, N.Y.	Credito Italiano, N.Y. (Check drawn on Chase National Bank, N.Y., by Banca Commerciale Italiana, N.Y.)	\$ 25,000	Banca Commerciale Italiana, N.Y.	Cash Withdrawal
				\$ 50,000	"	Check to order of Credito Italiano, N.Y.
	2,825	"	Credito Italiano, N.Y. (Miscellaneous checks)			

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 20	\$ 65,000	Certified check to order of Central Hanover Bank and Trust Co., N.Y., account Banco de la Nacion, Argentina, Buenos Aires

BMR

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following transaction in the account of the Reichsbank, Berlin, maintained with the National City Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 20	\$ 200,000	National City Bank, New York, for account of Skandinaviska Banka, Stockholm



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

Principal changes in the State Bank of Russia's dollar account during the period November 15 to November 20, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Nov. 15	\$170,000	Amtorg Trading Corp.	\$ 91,650	Mellon National Bank, Pittsburg, Pa., for account of Nesta Machine Co., Pittsburg, Pa., by order of Machine Import, Moscow
			88,567.14	Commercial Letters of Credit
Nov. 16			399,869.75	"
Nov. 18			57,079.16	"
Nov. 19			1,000,000	Amtorg Trading Corp.
			70,410	Chase National Bank, N.Y., for account of One Hundredth Bank, Tokio (exchange contract for 300,000 yen)
Nov. 20	58,358	Chase National Bank, N.Y., by order of Skandinaviska Banka, Stockholm	294,592.95	Commercial Letters of Credit
			450,000	Chase National Bank, N.Y., by order Stockholm Enskilda Bank, Stockholm
			550,000	Chase National Bank, N.Y., for account of Skandinaviska Banken, Stockholm

-2-

On November 20 the balances of the State Bank and the Amtorg Trading Corporation were as follows:

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$ 12,643,300	\$ 1,231,400
Cash commercial Letters of Credit	14,421,800	2,156,900
Time deposits	<u>10,300</u>	<u>-0-</u>
Total	\$27,075,400	\$3,388,300
Changes in total since November 13	- \$ 2,180,800	- \$ 212,400

3mm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£66,000
Purchased from commercial concerns	£10,000

The Federal Reserve Bank sold £2,500 in registered sterling to a non-reporting bank.

In the open market, sterling was first quoted at 4.03-1/2. It moved to 4.03-3/4 around noontime and remained there for the rest of the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£24,000
Purchased from commercial concerns	£ 2,000

Closing quotations for the other currencies were as follows:

Canadian dollar	13% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	Holiday
Cuban peso	8-1/8% discount

We purchased \$50,214,000 in gold from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank of New York reported that the Bank of Canada was shipping approximately \$50,000,000 in gold from Canada to the Federal, to be earmarked for account of His Britannic Majesty's Government.

For the third consecutive day, no gold or silver prices were received from Bombay. It is believed that trading in the Bombay markets has been brought to a virtual standstill as a result of India's political situation.

- 2 -

In London, the price fixed for spot silver was $23\frac{1}{4}d$, up $1/16d$. The forward quotation was also fixed at $23\frac{1}{4}d$, unchanged. The dollar equivalent of this price is $42.22\frac{1}{2}$.

Handy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}\phi$. The Treasury's purchase price for foreign silver was also unchanged at 35ϕ .

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B.M.P.', is written across the middle of the page.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
November 4	21,465	630,382	4,500	4,048
5		H o l d a y		
6	6,875	278,514	Nil	Nil
7	35,600	1,446,605	18,000	14,026
8	28,300	833,324	61,000	48,060
9	16,835	683,918	1,000	412
	109,075	3,872,743	84,500	66,546
Sales from February 22 to November 2	<u>1,824,394</u>	<u>64,260,939</u>	<u>5,242,000</u>	<u>4,073,608</u>
TOTAL FEBRUARY 22 TO NOVEMBER 9	1,933,469	68,133,682	5,326,500	4,140,154

Mr. Pinsent reported sales of non-vested securities for the week ended November 2 totaled \$750,000.



Paraphrase of confidential telegram
of November 20, 1 p.m., from the
American Consul General at Calcutta.

According to unofficial information which I have received on a strictly confidential basis, importers of steel are being required to report, in detail, to Delhi, their imports of the last three years. Presumably this is preliminary to the establishment of restrictions on imports effected for commercial purposes. In this connection arrangements have been made, it is said, between the British, Indian and American authorities under which, from January 1, the United Kingdom will be replaced by the United States as the supplier of steel for the Supply Department. Most requirements will be rerouted through the Supply Department and payment will be effected by the Reserve Bank. An additional drain on supplies of dollar exchange are suggested by this arrangement, which also supports rumors that effective January 1, further restrictions on imports are also possible.

C O P Y

AMON



TREASURY DEPARTMENT

WASHINGTON

November 20, 1940

Dear Mr. Secretary:

I am sorry that my arrival coincided so exactly with your departure, but I hope that you have been enjoying your vacation as much as I have my return here.

After talking with a number of people here, I leave today for my home in New Orleans (3914 Prytania Street) and needless to say I merely await word from you to return to Washington to see you.

Please remember me most kindly to Mrs. Morgenthau.

Sincerely yours,

Laetia B. Brewster

The Honorable

The Secretary of the Treasury

November 20, 1940.

Congressman Doughton telephoned me at 2:40 re his meeting with the President this morning. He said that the President wanted a meeting held as soon as possible on the pending tax bill. Congressman Doughton said we should have a conference just as soon as Secretary Morgenthau returns and as soon as he can arrange it with Senator Harrison, either to attend or to have his representative attend. Mr. Doughton suggested Friday evening, November 29, but I reminded him that the 29th was the day after Thanksgiving in some States. He said yes, he knew that, and he thought it probably would be difficult to have a meeting on that date. However, he said the date was not definite. General Watson is to advise Doughton and he will let me know when the meeting is called.

Mr. Doughton said the President did most of the talking and that he just listened. The President said he could write a tax bill in two hours covering no more than two pages, which would raise all the money necessary to raise. Doughton replied that the President must have had some tax experience that he (Doughton) had escaped.

Mr. Doughton informed the President that it was extremely important to enforce some economies in the unnecessary spending that was now being done and asked the President to send Congress a message to that effect. Mr. Doughton said he could not give me the reply the President made, but subsequent inquiries on my part indicated that he did not know whether the President would send such a message.

Mr. Doughton said he was leaving town tomorrow, but that he would return for the meeting whenever it is to be held.

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

185

20 NOVEMBER, 1940

DATE

FROM

COAST GUARD HEADQUARTERS

TO (FOR ACTION)

SECTREAS

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

TO (FOR INFORMATION)

CODE

CIPHER

ACKNOWLEDGE

PRIORITY

ROUTINE

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

PLEASE CABLE EXACT DATE YOU WANT VINER AND STEWART IN
WASHINGTON X IS IT DECEMBER THIRD X JOAN LEFT FOR
NORTHAMPTON TODAY IN GAY SPIRITS X EVERYTHING AT HOUSE
RUNNING SMOOTHLY X MRS LEACH WIRED THAT MRS MORGENTHAU
WAS ELECTED TO COSMOPOLITAN CLUB TODAY X BEST REGARDS

HENRIETTA KLOTZ

OPERATOR'S RECORD.

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 9-15417

Treasury Department

TELEGRAPH OFFICE

PO. 2 16 VIA IMPERIAL XCI

MONTEGOBAY JCA 20 NOV 1940

LC MRS KLOTZ

1940 NOV 21 AM 10 16

WASHN

YES. WANT VINER STEWART WASHINGTON DECEMBER THIRD, BEST REGARDS.

MORGENTHAU

1015A

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 20 November, 1940.

From: Secretary of the Treasury Morgenthau.
To : Mrs. Henrietta S. Klotz.
(Attention: Undersecretary Bell)

If President expects to leave Washington on the night of the 27th, I will surely come back from Miami in time to see him. Please try and find out at Cabinet from President where he will be from November 27th to December 2nd, inclusive. Suggest if he is leaving Washington on the 27th I would like to have lunch with him. Try and get a definite appointment and wire me whatever information you have.

Best regards,

H. M. Jr.

November 20, 1940

TO: CODE ROOM, COAST GUARD
Room 316, Liberty Loan Annex

FROM: H. S. KLOTZ

Please send the following message in code to the Secretary:

The President wants you to have supper with him along with Congressmen Doughton and Cooper, and Senator George in Harrison's absence, on Friday evening, November twenty ninth at the White House at seven thirty to discuss tax matters. John Sullivan has also been invited. Best regards.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

21 November, 1940.

SECRET

From: Secretary of the Treasury Morgenthau.
To : Mrs. Henrietta S. Klotz.

Please inform the President that I accept the Friday supper invitation. Does this invitation have anything to do with my request via Bell for an appointment with the President for next Wednesday? Stop sending mail to me after Saturday. Please have Luther Gulick of New York at my office Friday morning, November 29th. Please mail to me Saturday two most recent issues of New Republic and Time Magazines.

Best regards,

H. M. Jr.

PARAPHRASE

Telegram no. 597, from Rio de Janeiro, November 21.

We hear that the Bank of Brazil may receive \$10,000,000 for deposit on Japanese account.

RA:Walmsley:MES

eh:copy

MR

GRAY

VICHY
(Paris)

Dated November 21, 1940

Rec'd 2 p.m.

Secretary of State,
Washington.

996, November 21, 10 a.m. (SECTION ONE)

The text of the Franco-German Compensation Agreement of November 14 was published in last night's JOURNAL OFFICIEL. All payments between the two countries other than those for which special arrangements have been made are to be effected by means of compensation. The Compensation Office at Berlin will open two accounts in the name of the French Compensation Office; "A" for debts payable in occupied France, and "B" for those payable in the unoccupied zone. Similar accounts will be maintained by the French Compensation Office in the name of its German equivalent.

(END SECTION ONE)

MATTHEWS

PEG

MR

GRAY

VICHY
(Paris)

Dated November 21, 1940

Rec'd 1:55 p.m.

Secretary of State,
Washington.

996, November 21, 10 p.m. (SECTION TWO)

The conversion rate for German debts payable in French currency and French debts payable in German currency is fixed at 1 reichsmark equal to 20 francs. However, French debts which fell due before June 25 and payable in francs will be paid in Germany at the rate of 1 reichsmark equal to 16.27 francs. The loss resulting from such operations will be borne by the French Compensation Office. Four percent interest is to be paid on French debts which fell due before June 25.

The compensation agreement will be in force for the duration of the Armistice convention.

(END OF MESSAGE)

MATTHEWS

PEG

mg

CONFIDENTIAL

193

Paraphrase of Code Cablegram Received at the
War Department, November 21, 1940.

London, filed 14:50, November 21, 1940.

1. Daylight operations of the Bomber Command on Wednesday, November 20th were negligible. That night it was planned to dispatch 86 bombers, 50 against the railroads in the Ruhr, 18 against submarine bases in France, and 18 against enemy airfields. The previous night a total of 63 bombers were dispatched against the targets previously indicated with satisfactory results. Three planes were lost and two crashed on landing. The operations of the Coastal Command were normal with 25 patrol missions, 41 bombing sorties and 13 convoy escorts. No planes were lost. The Fighter Command operated 268 planes on 60 patrols.

2. Daylight German air operations on November 20th were restricted to reconnaissance and threats against convoys. That night there was dirty weather but there were heavy, wide-spread raids, chiefly against provincial cities, employing about 175 planes.

3. Five British airdromes were reported attacked but none were crippled and there was little damage. Renewed attacks against Birmingham were less severe than the preceding night. Hits shot down one factory on account of unexploded bombs, set two fires, and destroyed 40 motor buses. The final census of the attack on Birmingham on November 19-20th disclosed that 13 factories were affected, of which five were gutted by fire, two are out of production for a month, one has suspended operations on account of unexploded bombs, and one plant of the Birmingham Small Arms Corporation has had its production reduced by about 90%.

CONFIDENTIAL

4. At home the Germans lost one plane and the British none.

5. British fighters operating from Trikala (50 miles east of Jannina, Greece) on November 19th positively destroyed nine Italian planes and probably two others. A British pilot was injured. One British bomber was lost in Greece and another in Asia.

6. On November 19th the Greeks were mopping up the north sector. Crossing the Greek-Albanian frontier south of these cities, they captured and set on fire Barrova and Ersek and cut the north-south road at Leskovik, Albania. They also occupied Vlora and held the bridge across the Kalama River at Vryonisi.

7. British shipping is still using the Channel and the Thames Estuary.

END

Distributions:

Military Aide to the President
 Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 War Plans Division
 Office of Naval Intelligence
 Air Corps (2)
 G-3

CONFIDENTIAL



HEADQUARTERS

CRYPTOGRAPHIC
MESSAGE

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

22 November, 1940.

SECRET

From: Secretary of the Treasury Morgenthau.
To : Mrs. Henrietta S. Klotz
(Attention Assistant Secretary Sullivan)

I suggest Sullivan and Roy Blough, providing he has no objection to flying, meet me in Miami next Tuesday at 5:00 p.m. My plane can be used if it is back in time. Bring material to prime me for my meeting with the President, particularly how much revenue has been produced by tax laws passed this year. Please mail to me two copies of Dies White Paper.

Best regards,

H. M. Jr.

Form 6450
NAVY DEPARTMENT
U. S. COAST GUARD
Sept. 1940

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

196

22 NOVEMBER, 1940

DATE		CODE
FROM	COAST GUARD HEADQUARTERS	CIPHER
TO (FOR ACTION)		ACKNOWLEDGE
	SECTREAS	PRIORITY
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.		ROUTINE
TO (FOR INFORMATION)		ACKNOWLEDGE
		PRIORITY
		ROUTINE
MAIL TO		
TELEPHONE TO		
MESSENGER TO		

OUTGOING HEADING

TEXT

GULICK CAN BE IN WASHINGTON FRIDAY MORNING NOVEMBER 29 BUT
MUST LEAVE AT ONE PM FOR IMPORTANT APPOINTMENT IN NEWYORK
THAT EVENING PERIOD HE PREFERS COMING DOWN DECEMBER 3 OR
4 BEST REGARDS

HENRIETTA KLOTZ

OPERATOR'S RECORD:

OFFICIAL BUSINESS.

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 16-35457

197

Miss Chauncey

Mr. Young says reply to this
telegram is not necessary.

bj
12/2/40

MR. YOUNG

Treasury Department

198

W 34 WP 175 114 DL

TELEGRAPH OFFICE

SAN DIEGO CAL 1227P NOV 22 1940

SECRETARY OF THE TREASURY WASHNDC

PRESS REPORTS VULTEE STRIKE BEING SETTLED BY TWENTY FIVE PERCENT INCREASE IN LABOR RATES AND OTHER CONCESSIONS. IF REPORT IS CORRECT WE ESTIMATE IT WILL BE NECESSARY TO INCREASE OUR CONTRACT PRICES AT LEAST TEN PERCENT AND WE ASK YOUR COOPERATION IN WORKING OUT THIS PROBLEM. BOTH ON ALL CONTRACTS WITH YOUR DEPARTMENT AND ON ALL OUR CONTRACTS WITH BRITISH PURCHASING COMMISSION. WHILE LABOR RELATIONS ARE MOST HAPPY IN THIS COMPANY AT PRESENT, WE HAVE BEEN ALREADY ADVISED BY THE BUSINESS AGENT REPRESENTING THE COLLECTIVE BARGAINING AGENCY IN THIS PLANT THAT WE WILL HAVE TO MATCH CONCESSIONS GRANTED AT VULTEE INSTANTLY.

Treasury Department

W 34 WP 175 114 DL

TELEGRAPH OFFICE
(SHEET TWO)

WE BELIEVE THIS CONDITION WILL EXIST GENERALLY IN AIRCRAFT INDUSTRY.
ARRIVING WASHINGTON MONDAY.

CONSOLIDATED AIRCRAFT CORPORATION.

522p

RESTRICTED

No. 251

SITUATION REPORTM.I.D., W.D.
November 22, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

On the 20th and 21st German daylight operations were on a small scale. On the night of the 20th-21st the German air effort centered over the Midlands and was fairly heavy. There was little activity last night, probably due to bad weather.

On the night of the 20th-21st the R.A.F. heavily bombed the inland port and communications center of Duisburg-Ruhrort and also attacked a number of airdromes in German occupied territory. Last night apparently no offensive operations were undertaken.

II. Greek Theater of War.

The Greek counterattacks have developed into a counter-offensive. Italian forces (2 divisions) have evacuated Koritza and occupied a defensive line west of the city. The Greeks have pushed up the valley toward Argyrokastron, cutting the road between Porto Eda and Koritza at Gyorgunsati (Georgoutsades). The air forces on both sides are operating in close support of ground troops and are also bombing communications in rear areas.

III. Mediterranean and African Theaters of War.

No ground operations. A sharp aerial engagement between pursuit took place in North Africa on the 20th. Elsewhere in the theaters there have been numerous minor bombing raids.

RESTRICTED

CONFIDENTIAL

201

Paragraphs of Code Cablegrams
Received at the War Department
November 22, 1940.

London, filed 15:40, November 22, 1940.

1. On Thursday, November 21, the Bomber Command carried out very effective attacks on French airfields and the port of Plymouth. The preceding night 25 tons of bombs were dropped on the inland ports of Dieppe and Robert in France and other attacks were reasonably successful. No bombers were lost. Operations of the Coastal Command were routine with 24 missions dispatched. The Fighter Command operated 65 patrols.

2. German daylight activity on November 21 was on a small scale with about 80 planes plotted. That night enemy activity was minor and intermittent.

3. There was the usual air activity in the Middle East but no plane losses. Evidently the loss of nine bombers yesterday took the starch out of the Italians in Albania and this apparently explains the rapid advance of the Greek Army.

4. Personnel casualties in London during November 18-19 were three injured but the following night 26 were killed and 29 seriously injured. This same night 195 were killed and 882 seriously injured in Birmingham and 25 killed and 161 injured in Leicester.

5. Many reliable reports are coming in of the heavy damage inside Germany done by British bombers.

CONFIDENTIAL

202

6. Four vessels have been torpedoed off Freetown, Sierra Leone, (on the west coast of Africa - G-2) during the last five days. One tanker was sunk in the North Sea and a convoy in the same area was attacked by air resulting in one German plane being shot down and a second damaged. Dive bombers attacked another convoy in the Thames but there was no damage.

7. Three interesting points show the difficulty of forecasting the developments of a modern war:

a. The total number of casualties in all of Great Britain since the war started have been less than the daily casualties for which hospitalization was prepared in London.

b. The losses in British night bombers from crashes on taking off and landing are about three times the losses from all other causes.

c. The property losses from fire have been much greater than those from high explosives so far, but this probably would not have been true if land mines had been used from the start.

LEE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary (S) War
Chief of Staff
War Plans Division
Office of Naval Intelligence
G-2

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£98,000
Purchased from commercial concerns	£34,000

The Federal Reserve Bank sold £5,000 in registered sterling to a non-reporting bank.

From an initial quotation of 4.03-1/2, open market sterling moved to 4.03-3/4 around noon and remained at that level during the rest of the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£6,000
Purchased from commercial concerns	£7,000

The Cuban peso, which has been quoted for several days at 8-1/8% discount, weakened today to 8-9/16%.

The other currencies closed as follows:

Canadian dollar	12-7/8% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	.2070

We sold \$10,000,000 in gold to the Bank of Java, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the Bank of the Colombian Republic shipped \$3,334,000 in gold from Colombia to the Federal for its own account. disposition unknown.

The State Department forwarded to us a cable stating that Samuel Montagu & Co., London, shipped \$85,000 in gold from England to the Guaranty Trust Co., New York, for sale to the U. S. Assay Office at New York.

A gold price equivalent to \$33.76 was received from Bombay today, up 1¢ from the November 16 quotation. Silver in Bombay was priced at the equivalent of 43.57¢, off 1/8¢ from November 16.

In London, a price of 23-1/8d was fixed for both spot and forward silver, in each case 1/8d lower than the quotation of November 20. The dollar equivalent of 23-1/8d is 41.99¢.

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

We made four purchases of silver totaling 300,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 7	\$ 28,410.14	Banco di Napoli Trust Co., N.Y.	National City Bank, N.Y., for account of Credito Italiano, N.Y.
	32,000	Banco di Napoli Trust Co., N.Y.	National City Bank, N.Y., for account of Credito Italiano, N.Y.
November 9	28,000	Credito Italiano, Rome	National City Bank, N.Y., for account of Credito Italiano, N.Y.
	400,000	Banco di Napoli Trust Co., N.Y.	Check to order of Banco di Napoli Trust Co., N.Y., deposited with the Federal Reserve Bank of N.Y.
November 12	364,325	Banca d'America e d'Italia, Genoa	National City Bank, N.Y., for account of Credito Italiano, N.Y.
November 13	30,000	Banca d'America e d'Italia, Genoa	Chase National Bank, N.Y., in favor of Banca d'America e d'Italia, Centro Raccolta, Rome
	120,000	Credito Italiano, N.Y.	Irving Trust Co., N.Y., for account of Credito Italiano, N.Y.
	75,000	Credito Italiano, N.Y.	Chase National Bank, N.Y., for account of Credito Italiano, N.Y.
	67,000	Credito Italiano, N.Y.	Guaranty Trust Co., N.Y., for account of Credito Italiano, N.Y.

- 2 -

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 13	\$ 30,000	Banco di Napoli Trust Co., N.Y.	Banca Commerciale Italiana, N.Y.
	30,000	Banca Commerciale Italiana, N.Y.	National City Bank, N.Y.
November 14	150,000	Banca Commerciale Italiana, N.Y.	Chase National Bank, N.Y.
	50,000	Credito Italiano, N.Y.	Irving Trust Co., N.Y., for account of Credito Italiano, N.Y.
November 16	45,000	Credito Italiano, N.Y.	Guaranty Trust Co., N.Y., for account of Credito Italiano, N.Y.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO *Miss Gandy,*
 Secretary Morgenthau
 FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following credits in the account of the Banca Commerciale Italiana, New York, maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 20	\$ 290,144.20	Banca Commerciale Italiana, N.Y., (Two cashier's checks of the National City Bank, N.Y., to order of Banca Commerciale Italiana account of the European American Trade Development Corp.)
	60,000	Banca Commerciale Italiana, N.Y., (Check of the American Express Co., N.Y., to order of Banca Commerciale Italiana, N.Y., account of Banca d'Italia)
	13,069.16	Banca Commerciale Italiana, N.Y., (Miscellaneous checks)

BMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 20	\$ 125,000	Chase National Bank, N.Y., for account of State Bank of the U.S.S.R. for account of Reichsbank, Berlin
	141,000	J.P. Morgan and Co., N.Y., by order of Konversionkasse fur Deutsche Auslandsschulden, Berlin
	100,000	Chase National Bank, N.Y., for account of Union Bank of Switzerland, Zurich
	100,000	Chase National Bank, N.Y., for account of Stockholms Enskilda Bank, Stockholm

For Miss Chauncey

TREASURY DEPARTMENT

209

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following transactions in the account of the Reichsbank, Berlin, maintained with the National City Bank of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 22	\$ 100,000	National City Bank, N.Y., by order of Banque Nationale Suisse, Zurich	\$200,000	Guaranty Trust Co., N. Y., for account of Reichsbank, Berlin
			\$250,000	Chase National Bank, N.Y., for account of Reichsbank, Berlin



For Vice Chairman

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following transaction in the account of the Banca Commerciale Italiana, New York, maintained with the Chase National Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 22	\$200,000 ,	Federal Reserve Bank of N.Y., for account of Sveriges Riksbank, Stockholm, by order of Banca d'Italia, Rome



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:50 this afternoon Mr. Latchford telephoned me from the Department of State. He said that the Pan American Airway officials have reported that they are trying to arrange for the two British officials (Sir Frederick Phillips and Mr. Bewley) to depart for the United States on the clipper sailing either November 26 or November 28, and are very hopeful that such an arrangement will be possible. This should land the two Treasury men here around December 1. I thanked Mr. Latchford for his assistance in the premises and for letting us know the results of his efforts.



FEDERAL RESERVE BANK
OF NEW YORK

November 22, 1940.

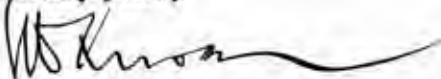
CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended November 15, 1940, showing dollar disbursements out of British Empire and French accounts at this bank and the means by which these expenditures were financed.

You will note that we are now analyzing the accounts maintained at this bank by the Bank of Canada and the Commonwealth Bank of Australia, in addition to those of the British and French authorities. Aside from a somewhat different classification of the debits and credits, the procedure followed in compiling these new figures is the same as in the case of England and France.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosures

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Nov. 13, 1940. Strictly Confidential

PERIOD	UNIT OF ENGLAND						UNIT OF FRANCE						Net Incr. (+) or Decr. (-) in Balance			
	C R E D I T S			D E B I T S			C R E D I T S			D E B I T S						
	Total	Proceeds of Sales of Gold (Est.) (a)	Securities Registered (Sterling) (b)	Other (incl. adjust- ments) (c)	Total	Gov't Expend- itures (e)	Other	Total	Proceeds of Gold Sales	Other	Total	Gov't Expend- itures (d)		Other		
1939																
Apr. 31 - Sept. 29	207.8	185.4	33.8	-	-11.2(e)	94.3	3.6	96.7	+113.6	11.3	-	11.3	19.4	6.0	15.4	- 2.1
Sept. 30 - Nov. 1	142.0	3.2	58.6	-	86.2(f)	106.7	5.8	100.9	+ 35.3	76.2	35.0	41.2	86.6	61.8	105.4	+ 19.4
Nov. 2 - 29	105.8	77.8	28.0	-	23.0	101.7	6.9	102.8	- 85.9	82.9	58.1	27.8	78.6			+ 4.3
Nov. 30 - Jan. 3	75.2	50.6	14.2	-	10.4	97.7	6.7	89.0	- 21.5	109.3	93.9	15.3	86.6	28.1	58.7	+ 22.4
1940																
Jan. 4 - 31	43.4	20.5	17.8	-	5.0(g)	54.6	18.8	36.0	- 11.4	56.9	30.1	6.8	61.3	31.2	30.0	- 5.6
Feb. 1 - 28	108.3	56.7	17.9	-	33.7	124.5	15.4	104.8	- 15.9	71.5	54.8	16.7	75.7	34.8	39.9	- 1.2
Feb. 29 - Apr. 3	94.0	60.9	23.5	-	11.6(h)	118.5	14.5	101.0	- 71.5	108.0	79.4	28.6	99.6	35.9	63.7	+ 3.4
Apr. 4 - May 1	86.4	46.8	13.4	-	26.2(i)	118.4	26.1	87.3	- 27.0	78.7	50.7	18.0	84.6	20.4	55.4	+ 6.1
May 2 - 29	126.2	93.2	7.1	-	25.9	100.9	23.6	77.3	+ 25.3	148.4	116.2	19.2	101.4	57.0	44.4	+ 44.0
May 30 - July 3	319.3	301.3	5.1	-	12.9	283.2	149.3	137.0	+ 26.1	345.1(j)	235.6	9.5(j)	186.7(j)	127.3(j)	29.4	+188.4
July 4 - 31	225.0	212.2	2.0	2.6	8.0	249.7	158.7	93.0	- 54.7	3.2	3.0	0.2	7.3	6.3	1.0	- 4.1
Aug. 1 - 28	294.8	267.4	1.0	2.4	24.0(k)	261.1	160.2	80.9	+ 33.7	10.9	10.4	0.5	8.9	0.6	6.4	+ 2.0
First year of war	1,808.2	1,356.1	211.3	5.2	235.7	1,793.2	605.6	1,187.6	+ 35.0	1,095.3	900.2	125.1	886.3	416.6	449.7	+229.0
Aug. 29 - Oct. 3	300.9	271.5	6.0	1.1	30.3(l)	316.8	244.3	72.3	- 7.9	1.3	-	1.3	8.6	4.4	4.2	- 7.3
Oct. 3 - 30	198.5	160.5	6.0	0.3	31.7(m)	196.7	167.8	28.9	+ 1.8	0.5	-	0.5	0.5	0.3	0.2	-
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED:																
Oct. 23	61.3	52.1	2.0	0.1	7.1	58.3	50.9	7.4	+ 3.0	-	-	-	-	-	-	-
30	58.0	50.1	2.0	-	5.9	40.6	31.5	9.1	+17.4	0.1	-	0.1	0.1	0.1	-	-
Nov. 6	61.2	47.2	6.0	0.1	7.9	55.4	47.7	7.7	+ 5.8	0.2	-	0.2	0.4	0.1	0.3	- 0.2
13	76.5(n)	62.2	4.0	0.1	10.2(o)	74.6(n)	62.8(n)	11.8	+ 1.9	0.1	-	0.1	-	-	-	+ 0.1

Average weekly expenditures since outbreak of war:
 France (through June 19) \$19.6 million
 England (through June 19) 27.6 million
 England (since June 19) 60.8 million

Transfers from British Purchasing Commission to

Bank of Canada for French accounts:

Week ended November 13 - million (See footnotes on reverse side.)
 Cumulation from July 28 \$86.8 million (revised)

- (a) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (b) Includes proceeds of sales of "registered" sterling in this market only.
- (c) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Includes adjustment for (a) above.
- (f) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (i) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (j) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (n) Adjusted for \$5.6 million paid out and subsequently returned to the British Purchasing Commission.
- (o) About \$4 million transferred from accounts of Empire authorized banks with New York banks.

RECEIVED
TREASURY DEPARTMENT
NOV 23 AM 9 18
OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY
OF THE ARMY

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended November 13, 1940. Strictly Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA								
	DEBITS				CREDITS					DEBITS				CREDITS				
	Transfers to				Proceeds Transfers from Official					Transfers to				Proceeds Transfers from Official				
	Total Debits	Official British A/C	Other Debits	Total Credits	of Gold Sales	For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Official British A/C	Other Debits	Total Credits	of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance		
1939																		
Aug. 31 - Sept. 27	17.5	0.6	15.9	21.8	15.1	0.6	-	5.9	+ 4.3	-	-	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	10.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.2	-	-
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.6	5.6	-	+ 3.5	-	-
1940																		
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.2	-	-
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.3	0.2	- 0.2	-	-
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8	-	-
Apr. 4 - May 1	38.2	-	38.2	42.9	24.6	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3	-	-
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4	-	-
May 30 - July 3	44.1	-	44.1	72.6	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6	-	-
July 4 - 31	26.2	-	26.2	117.6	95.3	-	19.2	2.1	+ 29.4	2.5	-	2.5	5.0	4.2	0.8	+ 0.2	-	-
Aug. 1 - 25	16.7	-	16.7	73.6	53.9	-	19.5	0.2	+ 24.8	6.8	-	6.8	5.0	3.4	1.6	- 1.6	-	-
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 121.7	31.2	0.9	30.3	36.1	30.0	6.1	+ 4.9	-	-
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	9.7	-	9.7	2.0	6.7	1.3	- 0.7	-	-
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.8	2.6	7.9	6.5	1.4	- 2.2	-	-
Oct. 31 - Nov. 27																		
Nov. 28 - Dec. 31																		
WEEK ENDED																		
Nov. 6	10.2	-	10.2	22.0	15.5	-	6.4	0.1	+ 11.8	0.8	-	0.8	0.1	-	0.1	- 0.7	-	-
13	4.6	-	4.6	3.5	3.5	-	-	-	- 1.1	0.1	0.1	-	2.6	2.1	0.5	+ 2.5	-	-

Weekly Average of Total Debits Since Outbreak of War (Canada)
Through November 13 \$6.5 million

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 22, 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>
November 11		H o l i d a y		
12	25,900	669,887	Nil	Nil
13	23,900	739,603	11,000	10,182
14	51,649	1,721,485	49,000	29,516
15	23,155	771,527	5,000	3,632
16	2,030	128,529	20,000	14,182
	126,634	4,031,031	85,000	57,512
Sales from February 22 to November 9	<u>1,933,469</u>	<u>68,133,682</u>	<u>5,326,500</u>	<u>4,140,154</u>
TOTAL FEBRUARY 22 TO NOVEMBER 16	2,060,103	72,164,713	5,411,500	4,197,666

Mr. Pinsent reported sales of non-vested securities for the week ended November 9 totaled \$500,000.



Tokyo, November 22, 1940

No. 5168

216

SUBJECT: JAPAN'S GOLD POSITION

The Honorable

The Secretary of State

Washington

Sir:-

I have the honor to submit herewith an analysis of Japan's gold position as of November 1, 1940. This analysis has been largely based on estimates as scant official information on gold production has been available for the past two years.

According to the Finance Division of the Bureau of Foreign & Domestic Commerce's letter of February 8, 1939, gold stocks at the end of 1938

	<u>In Kilos</u>
amounted to	129,797
Estimated exportable gold collections from people during 1938.	<u>15,000</u>
Total.....	144,797
Estimated domestic use of gold for industrial purposes during 1938 based on normal consumption of 10 tons per annum for 1935 and 1936.....	<u>8,000</u>
Actual stocks January 1, 1939.....	136,797
Production estimated 1939	
Japan Proper.....	30,000
Korea	27,000
Formosa.....	4,000
Manchuria.....	10,000
Total.....	71,000
Estimated exportable gold collections 1939.....	<u>10,000</u>
Total gold resources during 1939.....	217,797
Estimated domestic consumption 1939..	5,000
Actual exports 1939.....	149,902
Total.....	<u>154,902</u>
Balance on hand January 1, 1940.....	62,895

- 2 -

		<u>In Kilos</u>
Estimated production 1940, 77,000 kilos, which gives for Jan-Oct. 1940 period.....	65,000	
Estimated gold collections Jan- Oct. period.....	2,000	
Total.....		<u>67,000</u>
Total resources Jan-Oct period.....		129,895
Estimated domestic consumption Jan-Oct.....	3,000	
Exports Jan-Oct period.....	53,118	
Total.....		<u>56,118</u>
Stocks on hand as of November 1, 1940. (Equivalent to Yen 353,314,000 or \$83,028,750).		

The report appearing in the Japan Times of December 19, 1939, and several days thereafter giving the Bank of Japan's gold holdings in Japan at Yen 369,780,000 was undoubtedly a correct report, for shipments between December 19th and December 30th amounted to Yen 23,300,000 leaving a balance of Yen 346,480,000 at the end of the year, which is only Yen 6,834,000 below our figure of Yen 353,314,000 for November 1, 1940. This error could well appear in our calculations on domestic consumption, collections and production. Furthermore an error only this large gives considerable credence to our figures.

Another consideration is the fact that gold shipments of Yen 53,119 kilos for the first ten months of this year must approximate total production, estimated at 65,000 kilos, plus collections, estimated at 2,000 kilos, and less domestic industrial consumption, estimated at 3,000 kilos, or a total of 64,000 kilos. The difference of 10,881 kilos would represent gold mined but not yet refined or ready for shipment. Undoubtedly Japan has been rushing shipments to the United States during the past few months as a result of the disturbed international situation.

MERCHANDISE POSITION

It is believed the following tabulation fairly accurately indicates the merchandise position as of October 31, 1940:

	<u>Kilos</u>	<u>Million Yen</u>
Gold shipments 1939.....	149,902	661
Import merchandise balance with foreign currency countries for 1939.....		<u>405</u>
Credit balance January 1, 1940		256
Gold shipped January-Oct. 1940,...	53,119	252
Plus credit balance January 1, 1940,.....		<u>256</u>
Total.....		508
Import merchandise balance as of Oct. 31, 1940 with foreign currency countries.....		<u>763</u>
Debit balance October 31, 1940		255*

Note:- *Yen 255,000,000 equivalent to
\$59,925,000.

In the Department's Despatch No. 1894, dated February 5, 1940 relative to Japan's gold position, mention is made of a sum of around \$200,000,000 which Japan had in the United States in January, 1940 in the form of international realizable assets. The above figures show that such funds were not necessary to finance Japan's international trade up to the end of 1939. For the first ten months of this year, however, Japan has a debit balance in her merchandise trade and gold position of Yen 255,000,000 or the equivalent of \$60,000,000. It would seem logical to conclude that such international assets or commercial credits as have been built up must have been reduced by this amount as of November 1, 1940. It is believed that the merchandise import balance for November and December of this year will run to something like Yen 60,000,000 each month, or Yen 120,000,000 for the two months. This is the equivalent of \$27,200,000. For November and December gold production is estimated at 12,000 kilos net, worth approximately \$13,384,000. The difference between these two figures - \$13,816,000 - represents a further debit balance, which, added to the \$60,000,000 debit as of November 1st, gives a total of \$73,816,000 to be taken from commercial

- 4 -

assets by the end of 1940. Considering the current trend of Japan's foreign trade, import excesses will continue to accumulate during 1941, but probably not to the extent experienced this year for the reason that Japan cannot now buy American scrap iron, machine tools, certain kinds of machinery, certain grades of oil and non-ferrous metals used in alloys. Cotton and pulp will not be needed for the next six months. Japan must, however, buy quantities of pig iron, iron ore, oil, rubber and tin. However, she will likely obtain the last two items from French Indo-China on a "credit basis". It is, therefore, believed that the commercial assets in the United States will be sufficient to see Japan through for at least another year or more if these assets are not frozen or voluntarily reduced or withdrawn.

Respectfully yours,
For the Ambassador

File 863.4

FSN/mp

Distribution:

Original and 2 copies to
Department

George A. Makinson
First Secretary of Embassy

Copy:alm

P A R A P H R A S E

The following is the substance of a confidential telegram dated November 22, 1940, from the Consulate at Rangoon:

For a period of six months the Burma road is to be closed to all traffic originating in Burma save that of the Chinese Government. This decision was made by the Chinese Government and applies, of course, only to that section of the highway under its control. The Chinese Customs are already holding up at the frontier commercial shipments, according to official information received at Rangoon.

It is understood that this step was taken as a result of representations by the Southwest Transportation Company to the effect that government shipments were being delayed by competition from commercial goods for railway and truck facilities. Although the British and Burma Governments have been informed of the Chinese move, they have not as yet given approval.

While officials here appear to be sympathetic toward the Chinese wish for accelerated transportation into China of Chinese Government supplies, they seem to be reluctant to concede arbitrary control of traffic beyond Lashio by the Southwest Transportation Company. No action is being taken at Rangoon until probable adjustments have been made.

High

CONFIDENTIAL

-2-

High freight rates for transportation from Lashio by truck and congestion on the Burmese railroad have resulted from marked increase in commercial traffic to Yunnan and other parts of China.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Calcutta, India

DATE: November 22, 1940, 5 p.m.

Under Rule 92, sub 1, of Defense of India Rules, the holders of dollar bank balances, whether such balances are held in India or abroad, are required as of the twenty-third of November to offer them within one month for sale to the Reserve Bank against the rupee equivalent at the current buying rate for transfers by telegraph. This provision does not apply to persons who are not His Majesty's subjects or who are subjects of an Indian state who in the Reserve Bank's opinion are resident of India for business purposes only. Nor does the regulation apply to persons whom the Central Government has authorized under Rule 92, Subdivision 4 - i.e., authorized dealers in exchange and those requiring balances for reasonable requirements of business. Persons are liable to prosecution if they do not instruct New York banks to effect delivery of dollar bank balances which they may hold before December 23 to the Reserve Bank or its nominees.

WILSON.

EA:LWW

AS

PLAIN

London

Dated November 22, 1940

Rec'd 12:17 p.m.

Secretary of State,
Washington.

TRIPLE PRIORITY.

3816, twenty-second.

FOR TREASURY.

The British Treasury will announce tomorrow further amendments to the defence (finance) regulations closing two more loopholes, perhaps not of major importance, but nevertheless deemed by the British Treasury to be worth while. It may be significant that the terms of such a possible order have been under consideration since last April, a considerable part of the delay being attributed to difficulties in satisfying law officers of the Crown on various points. Tomorrow's press release will read as follows:

"The Treasury announce that an Order in Council, the text of which is published as S.R. & P. 1940, No. 1989 has been made bringing into force further amendments in the defence (finance) regulations, 1939.

A new

AS-2 No. 3816, 22nd. FOR TREASURY, from London.

A new regulation empowers the Treasury, when granting permission to make any payment to a non-resident to make that permission conditional upon payment being made to a blocked account with a banker authorized to hold such accounts. The purpose of this regulation is to prevent the transfer into foreign currency of certain capital payments to non-residents, of which cash legacies, the redemption proceeds of securities (other than 3 per cent defence bonds and national savings certificates) and the proceeds of sales of real estate are typical examples. Sums so paid to blocked accounts may be invested in securities specified in a list to be published by the Treasury, and interest on such securities will be dealt with in the same manner as interest on other securities held by a non-resident. This is in furtherance of the policy already exemplified by the regulation of 12th May (S.R. & O., 1940, No. 709) which prevented the sale of securities owned by non-residents unless permission was granted by the Treasury. The purpose of the new regulation is not to place further restrictions upon sterling already in the hands of non-residents nor to disturb the procedure by which permitted transfers are made.

Another new regulation deals with companies set up outside the sterling area but under the effective control
of

AS-3- No. 3816, 22nd. FOR TREASURY, from London.

of persons in the United Kingdom. The persons in question are called upon to exercise this control so that the company abroad shall notify to the Bank of England any gold, specified foreign currencies or American and other specified securities it may possess, with a view to their being offered to the Treasury for sale. Any persons who control such companies abroad are warned that they may be committing an offence if they allow such companies to part with or pledge any asset except with Treasury consent.

This regulation does not apply to United Kingdom companies whose share or loan capital is quoted on any recognized stock exchange in the United Kingdom; unless the Treasury specifically direct otherwise, such companies are not required to take any action with regard to subsidiaries which they may control outside the sterling area.

The object of this regulation is to secure for the State resources in gold and foreign exchange which are at the disposal of persons in the United Kingdom, but have hitherto escaped the regulations owing to their being technically owned by a non-resident corporation. Many persons have already acted voluntarily in the sense now prescribed by the new regulation, and it is not considered equitable that others should escape, by means of a
technicality,

AS-4 No. 3816, 22nd. FOR TREASURY, from London.

technicality, obligations imposed on all residents".

As far as legacies are concerned, the British Treasury informs the Embassy that the first regulation will apply even to legacies under pre-September 3, 1939 wills or trusts and the British Treasury feels that there is no derogation of vested rights involved, because the obligation is in nearly all cases for the payment of sterling and the British Treasury has it within its power to fix restrictions on the use of the sterling from the date of payment. (Legacies or trusts payable in dollars are of course not affected). The British Treasury emphasizes in this connection that there is no blocking of existing sterling balances owned by non-residents and that the new regulation only applies to new balances created in the manner specified in the order.

The British Treasury informs the Embassy that the enforcement of the second new regulation is, of course, to be directed personally against the individuals in the United Kingdom, and the British Treasury realizes that it will not be in a position to impose a sanction in any case unless the individual in question has it legally within his power to do what the regulation requires. In other words, if a company organized under American law, being involved in receivership or other legal proceedings, is ordered by or
enjoined

AS-5- No. 3816, 22nd. FOR TREASURY, from London.

enjoined from doing a certain act by a competent American court such court order would remove compliance with the regulation from the power of the person in the United Kingdom and thus exempt him pro tanto from compliance with the regulation.

The British Treasury also realizes that there will be difficulty in enforcing this regulation in cases of family companies in which the effectively controlling person lives in the United Kingdom but members of the family in the United States hold legal power as directors which place power over the corporation in their hands as far as the law is concerned. The other case in which the British Treasury expects difficulty is that of a company controlled by trustees resident in the United States even though the beneficiary is in the United Kingdom.

The text of the order will contain in substantially the following words this definition of the corporate bodies affected: "the said bodies corporate are any bodies corporate incorporated outside the United Kingdom in the case of which any of the following conditions is fulfilled (A) that the body corporate is by any means managed or controlled (whether directly or indirectly) by persons in or resident in the United Kingdom; (B) that more than half of the sums which,

AS-6- No. 3818, 22nd. FOR TREASURY, from London.

which, on a liquidation thereof, would be receivable by holders of share or loan capital would be receivable directly or indirectly by or for the benefit of persons in or resident in the United Kingdom; (C) that more than half of the assets which, on a liquidation thereof, would be available for distribution after the payment of creditors would be receivable directly or indirectly for the benefit of persons in or resident in the United Kingdom; (D) that more than half (I) of the interest payable on its loans and loan capital; or (II) of the dividends payable on its preference share capital, if any; or (III) of the dividends payable on its share capital, if any, not being preference share capital, is receivable, directly or indirectly, by or for the benefit of persons in or resident in the United Kingdom." Exemption from the second regulation mentioned in the penultimate paragraph of the press announcement is intended to avoid interference in the business of bona fide foreign branches of United Kingdom corporations.

With regard to interest payments on securities in which legacy funds may be invested, reference should be made to enclosure number one with despatch 5388, June 10, 1940.

It should also be noted that the first new regulation will cancel the general rule set out in the second and third paragraphs of enclosure number three with despatch 5588 of July 12, 1940.

CSB

JOHNSON

Treasury Department

TELEGRAPH OFFICE

llw

NY11 M CABLE DUPLICATE OF TELEPHONED TELEGRAM
1940 NOV 23 AM 8 38
MONTGOMERYJA 51 22/1425

LC MRS KLOTZ
TREASURY DEPARTMENT
WASHN-DC

PLEASE TRY MAIL ME SATURDAY PAMPHLET ENTITLED ECONOMIC
MOBILIZATION REFERRED TO NEWYORK TIMES NOVEMBER
EIGHTEENTH PAGE FOUR BY TURNER CATLEDGE WANT TO
CONSULT GULICK BEFORE SEEING PRESIDENT SO HE HAD
BETTER COME FRIDAY FORENOON WE ARE FEELING WELL.
HOPE YOU ARE ALSO. BEST REGARDS.

MORGENTHAU.

B14A



TREASURY DEPARTMENT

WASHINGTON

November 23, 1940

To: Coast Guard Communications
from: H. S. Klotz

Please send the following message to
Secretary Morgenthau:

"Dr. Stewart now finds he
cannot come on December third,
fourth or fifth. What other
date would suit you. Best
regards.

(Signed) H. S. Klotz

AS

PLAIN

London

Dated November 23, 1940

Rec'd 10:27 a.m.

Secretary of State,
Washington.

3830, twenty-third.

FOR TREASURY.

Embassy's 3816, November 23.

(1) A detailed list of payments to non-residents, henceforth permitted to be made to blocked sterling account only, is announced today as follows: "(1) sterling proceeds of securities drawn for repayment or maturing after the date of this notice, or surrendered after the date of this notice for encashment before maturity. (This does not apply to National Savings Certificates, 3 per cent Defence Bonds, or Treasury Bills); (2) amounts to be distributed following the sale or winding up of companies or the dissolution of partnerships; (3) legacies and similar payments; (4) capital payments arising out of settlements; (5) proceeds of the sale of real estate, furniture, pictures, jewellery or other moveable assets situated

AS-2- No. 3830, 23rd. FOR TREASURY, from London.

situated in the United Kingdom other than goods imported for sale in the ordinary course of trade."

(2) The banks authorized to open blocked accounts are as follows: Bank of Scotland, Barclays, British Linen Bank, Clydesdale Bank, Commercial Bank of Scotland, Coutts and Company, District Bank, Glyn Mills and Company, Lloyds, Martins, Midland, National Bank, National Bank of Scotland, National Provincial Bank, North of Scotland Bank, Provincial Bank of Ireland, Royal Bank of Scotland, Union Bank of Scotland, Westminster Bank, Williams Deacons Bank, and in Northern Ireland Bank of Ireland Belfast Banking Company, Hibernian Bank, Munster and Leinster Bank, National Bank, Northern Bank, Provincial Bank of Ireland, Ulster Bank.

JOHNSON

DDM

PARAPHRASE OF TELEGRAM RECEIVED

233 ✓

FROM: American Embassy, Vichy.

DATE: November 23, 1940, noon

NO.: 1012

FROM MATTHEWS FOR THE TREASURY.

I had lunch with Rueff, who told me in confidence that now the Germans have demanded that they be given the Belgian gold which is now at Dakar. Rueff could not inform me as to when the gold would probably be transferred or the means by which it would be transported. However, he presumed that the gold will be transported by air. There has been no similar request for the French gold at Dakar. Rueff believes that at least a large part of the money being deposited to the German account in the Bank of France (400 million francs per day), only one-third of which the Germans continue to spend, will be used for buying foreign securities. Rueff said that the Germans have now categorically demanded that the banks furnish immediately the information asked for regarding foreign securities held by the banks in the unoccupied territory which belong to banks or individuals domiciled in the occupied territory. Reference: telegram of November 13, 9 p.m., No. 947 from the Embassy. It is my understanding that up to the present no American bank has complied with this instruction, but a number of other banks have done so.

Rueff

- 2 -

Rueff told me that he does not believe any great quantities of shares in French industries have as yet been purchased by the Germans, mainly because the Paris bourse does not quote them, and to a great extent they are located in the unoccupied territory. Reference: remark by Couve de Murville, telegram of November 17, 5 p.m., No. 966 from the Embassy.

Rueff said that the Bank of France circulation continues to be approximately 210,000,000,000 francs.

END OF MESSAGE.

MATTHEWS.

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£24,000
Purchased from commercial concerns	£ 3,000

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

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

Closing quotations for other currencies.

Canadian dollar	12-7/8% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-5/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the shipment of \$1,008,000 in gold, from Canada, by the Bank of Canada, Ottawa, to the Irving Trust Company, New York for the account of Banque Mellie Iran.

The State Department forwarded to us a cable stating that the following gold shipments were made from Bombay:

\$2,337,000 representing two shipments by the National City Bank to the National City Bank, New York.
 850,000 shipped by the National Bank to the Chase National Bank, New York.
 494,000 shipped by the Chartered Bank of India, Australia and China to its New York branch.
 433,000 shipped by the French Bank to the Chase National Bank, New York.
 \$4,114,000 Total

All of the gold shipments reported by the Federal Reserve Bank and the State Department will be sold to the U. S. Assay Office at New York.

- 2 -

The equivalents of the Bombay gold and silver prices were \$33.76 and 43.66¢.

B.M.F.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In my memorandum of November 22 relative to Italian accounts maintained with the National City Bank of New York, there is a debit of \$400,000 to the account of the Banco di Napoli Trust Company, New York, representing a check to that Bank's order deposited with the Federal Reserve Bank of New York. When this transaction was reported it was not clear as to why the deposit should be made at the Federal. An inquiry was made of Mr. McKeon at the Federal regarding this deposit, and he now informs us that the Banco di Napoli Trust Company, New York, maintains with the Federal a non-member clearing account in which this amount was credited. Such an account is usually used by non-members of the Federal Reserve System in connection with Clearing House balances and for payments in Federal Reserve funds. This morning the account had \$2,400,000, which includes the \$400,000 referred to.

As this account is an Italian account for which we have not previously received reports, I have requested Mr. McKeon to have a transcript of the account made from November first up to and including today, which he is to forward to me. I have also arranged with him that transactions in this account in the future be reported to us.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in Italian accounts maintained at:

Chase National Bank

National City Bank



<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov.23	\$190,000	Banca Commerciale Italiana, N.Y. (for account of B.C.I.Direction Centrale in Milan)	Chase National Bank, N.Y., by order of Banco de la Provinciale de Buenos Aires	\$300,000	Banca Commerciale Italiana, N.Y.	Check of Chase National Bank, N.Y., in Federal Reserve Funds to the order of Federal Reserve Bank of New York
	150,000	"	"			

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov.18				\$ 25,000	Banca Commerciale Italiana, N.Y.	Chase National Bank, N.Y., for account of Italian Lines, N.Y.
19				150,000	"	Banco di Napoli Trust Co., N.Y.
20				100,000	"	"

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following credits to the account of the Banca Commerciale Italiana, N.Y., maintained with the Chase National Bank, N.Y.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 22	\$50,000	Banca Commerciale Italiana, N.Y., (check of Banco di Napoli Trust Co., N.Y., on National City Bank, N.Y.)
	45,000	Banca Commerciale Italiana, N.Y., (check of Credito Italiano, N.Y., on Guaranty Trust Co., N.Y.)
	24,943.07	Banca Commerciale Italiana, N.Y., (miscellaneous checks)



MISS
TREASURY DEPARTMENT

241

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported to us the following transaction in the account of the Sveriges Riksbank, Stockholm, maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
November 23	\$300,000	Banca Commerciale Italiana, N.Y., by order of Banca d'Italia, Rome

B. G. R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 22	\$490,610.19	Deutsche Golddiskontbank, Berlin	Chemical Bank and Trust Co. N.Y., for account of and by order of Themis and Zug, Switzerland, according to arrangement Kollmar
	22.095	Reichsbank, Berlin	Mitsubishi Shoji Kaisha, 120 Broadway, N.Y., by order of Mitsubishi Shoji Kaisha, Berlin
	14,912	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Carl Marks and Co., N.Y.
	91,620	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., for account of Carl Marks and Co., N.Y.
	490,610.19	Reichsbank, Berlin	Chase National Bank, N.Y., for account of Deutsche Golddiskontbank, Berlin

AC

PLAIN

Stockholm

Dated November 23, 1940

Rec'd 6:04 a.m., 24th

Secretary of State

Washington

1051, twenty-third.

Government financial requirements still urgent and large issues of ten year 4 per cent Treasury notes expected this month and December; Government also planning new state loan for January next. Money market strained following unprecedented demands state loan recently closed Stockholm city loan selling very slowly and issuance Gothenburg loan 15,000,000 postponed indefinitely. French franc rate adjusted downward 1 point 20 per hundred to agree with new mark-franc rate. Export price index October 150 import 199 this further increasing spread against Swedish goods. Automotive registration October passenger cars 162, of which American 127, trucks 816, of which American 167. Factories reported closing down or curtailing operations with further rise in unemployment.

INFORM COMMERCE, TREASURY.

STERLING

NPL

mg

COPY

G-2/2657-220

RESTRICTED

No. 252

SITUATION REPORTM.I.D., W.D.
November 23, 1940.
12:00 M.

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

I. Western Theater of War.1. Air Force Operations.

On November 22nd German daylight air activity was confined to southeastern England and was light. Last night the Germans conducted heavy raids over the Midlands, concentrating on Birmingham and Coventry. London, Bristol and Southampton also were attacked.

The R.A.F. attacked targets in western France and western Germany last night, including Duisburg-Ruhrort, Channel ports and airfields.

II. Greek Theater of War.

The Italian force driven out of Koritza has been forced back 25 miles to Pogradec (southwest corner of Lake Ochrida). Greeks report large captures of materiel. The Greeks are advancing with caution into the Argyrocastro plains where Italian mechanized units may prove effective. Aerial operations were principally directed against ground forces.

III. Mediterranean and African Theaters of War.

No ground operations and only minor air activity reported.

RESTRICTED

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 2:45 P.M., November 23, 1940.

London, filed 15:30, November 23, 1940.

1. Unfavorable weather conditions caused the daylight activity of the Bomber Command on Friday, November 22, to be confined to a few small attacks on enemy airdromes. All missions for the preceding night were cancelled for the same reason. Operations of the Coastal Command were routine with no statistics of missions available. The Fighter Command operated 90 planes.

2. Weather conditions restricted the daylight operations of the German Air Force on November 22 to eight single plane raids and some reconnaissance flights. About 75 planes were plotted. That night the moderate activity of the enemy centered principally on Birmingham and the Midlands.

3. One British airdrome was rendered unserviceable. Four refineries were damaged to an unknown extent and about one kilometer was broken in each of two pipelines. Railroad communications were slightly damaged which will result in slowing up oil shipments about one week.

4. The British lost no planes and the Germans two confirmed and one damaged.

5. The Australian 9,870-ton cruiser AUSTRALIA and a mine sweeper

CONFIDENTIAL

CONFIDENTIAL

244-B

collided, sinking the latter. An armed drifter sunk when it struck a mine in the North Sea. On the East Coast two convoys were attacked on November 21, with one ship only damaged. There are at least three and possibly five German raiders abroad.

6. Reports from Sidi Barrani as of November 19 credit the British with a victory with slight losses against heavy Italian casualties.

7. There has been no change in the disposition of the German forces during the past week. This includes the motorized division being held in readiness on the Franco-Spanish border and along the boundary between Austria and Yugoslavia.

8. The British are anxious over the present Japanese troop concentrations. They fear that the Japanese may push to the south, possibly in the direction of Borneo, while they are still in a poor position to send reinforcements to the Far East.

9. Additional British intelligence reports indicate that the production of Rumanian oil is disappointingly small.

10. As a result of the wide publicity given the success of British bomb disposal squads, the Germans have changed their fuse mechanisms and code colors on delayed action bombs. The result is that the method of disarming these bombs used today will detonate those to be used tomorrow. This emphasizes the importance of secrecy.

-2-

CONFIDENTIAL

CONFIDENTIAL

244-C

11. The following is an abstract of the information the Russian Ambassador Maisky gave a mutual friend yesterday:

"All speculation regarding the results of the visit of Malotov to Berlin is purely guess work because nothing was definitely settled or signed.

"The Russian Government will continue its policy of safeguarding its own interests and national integrity. At this time it feels sure that the British are incapable of defeating Germany in land warfare due to the vast size of Hitler's army; while they further believe that Germany is unable to defeat the British Navy and Air Force. Russia discredits the value of American assistance, feeling that it will prove disappointing because of its small scale and slow speed. Maisky himself sees little prospect for anything but an eventual stalemate.

"The number of German planes is not as great as the British believe and as the Germans claim.

"The constant repetition of the air tactics followed in attacking Birmingham and Coventry is certain to make things difficult for the British.

"It is considered probable that the concern of Germany over the Russian aviation industry was because it was necessary for Germany to increase its Air Force which had suffered because of the devastating damage inflicted on its aircraft industry by

CONFIDENTIAL

CONFIDENTIAL

244-D

British bomber attacks.

"In the existing circumstances Russia's 'benevolent neutrality' will be most helpful to Britain but this attitude is most difficult to maintain because the British diplomacy has consisted of nothing but blunders during the past four months."

LEE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff (2)
War Plans Division
Office of Naval Intelligence
Air Corps (2)
G-3

CONFIDENTIAL

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at War Department
at 5:45 P.M., November 24, 1940

London, filed 13:25, November 24, 1940.

1. The Bomber Command carried out no daylight operations on Saturday, November 23. The results of the operations during the preceding night were very satisfactory. The Bomber Command made minor attacks on November 23 and carried out routine operations consisting of 47 patrol missions, 80 bombing sorties, and 20 convoy escorts. Two planes are missing. The Fighter Command operated 691 planes on 141 missions. During the night of November 22-23 British night fighters operated 100 planes in 96 patrols.

2. The German Air Force took advantage of the good weather on November 23 and operated about 300 sorties on reconnaissance missions, attacks on shipping, and four high altitude fighter sweeps consisting of about 60, 50, 70, and 40 planes, respectively. The second sweep consisted in part of Italian biplanes. An attack by British fighters resulted in enemy plane losses of 11 confirmed, four probable and three damaged, all of which were Italian except one. The British lost no planes. After the fighter attack the rest of the formation decamped. That night the principal German activity was mine laying. Although the weather was favorable the only attack in force was in the Portsmouth-Southampton area. The whole country was clear after 1:00 A.M.

CONFIDENTIAL

CONFIDENTIAL

3. A statement last night by the Army Director of Military Intelligence indicates that there is a growing optimism over the British position in the Mediterranean. He considers that Il Duce's speeches indicate that the latter is aware of the lack of enthusiasm in Italy for the war and for the Axis.

END

Distribution:

Military Aide to The President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence
G-3
Air Corps - 2

CONFIDENTIAL

- 2 -

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar.

DATE: November 24, 1940, 11 a.m.

NO.: 73.

FOR THE TREASURY.

much
Apparently there is a/greater amount of Belgian Central Bank gold than Polish in French West Africa. 4,944 cases of gold belonging to the Belgian Central Bank and 1,208 cases of the Polish Central Bank's gold were loaded at Lorient, not at Brest. It is reported that the Polish cases are larger in size than the Belgian cases.

Officials keep the greatest secrecy with regard to the gold in French West Africa.

WASSON

EA:MSG

G-2/2657-220

RESTRICTED

No. 253

SITUATION REPORTM.I.D., W.D.
November 25, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

German daylight activity on the 23rd and 24th was light. On the night of the 23rd-24th the Germans attacked Southampton heavily and on the 24th-25th an equally heavy attack was made on Bristol.

The R.A.F. on the night of the 23rd-24th bombed a number of objectives scattered over western Germany, the occupied areas and Italy. The Vichy Government claims that Marseilles also was bombed. Last night the British attacked Hamburg, a number of other objectives in western Germany and several ports and airdromes in occupied territory. Apparently the intensity of the German attacks on cities such as Birmingham, Bristol and Coventry is compelling the British to direct more of their night effort against hostile airdromes in France.

II. Greek Theater of War.

The Greeks have taken Moskopoli, ten miles west of Koritza, and are approaching the outskirts of Pogradeo, 20 miles beyond Koritza, astride main highway to Tirana. Italians are expected to organize a third defensive line along Shkumbi River (non-fordable) below Elbasan. Premeti, in the center, 15 miles within Albania, is still in Italian hands but Greek troops have passed it on both sides, and may soon threaten it with artillery. Little activity in the Argyrokastro valley, where the Greeks are holding their positions. Air operations were minor in the Greek theater.

III. Mediterranean and African Theaters of War.

No ground activity reported. A considerable number of minor bombing raids along the Mediterranean Coast.

RESTRICTED

Paraphrase of Code Cablegram
Received at the War Department
November 25, 1940.

London, filed 17:00, November 25, 1940.

1. There were no daylight operations of the Bomber Command on Sunday, November 24. In spite of the foul weather the attacks on all objectives the previous night were considered quite satisfactory. These included 22 planes against oil targets, 16 planes against Berlin and 10 against an arsenal in Turin. One plane was lost. Berlin and Turin were both hard hit. The bombing program for the night of November 24-25 was kept secret. The Coastal Command dispatched 57 patrols as well as photographic and convey escort missions. The Fighter Command operated 122 patrols.

2. In the fairly bad weather on November 24 the German Air Force staged three sweeps over Southeast England of about 20, 12, and 60 planes, respectively, and carried out light reconnaissances. A total of about 150 planes were plotted. The principal attack that night was on Bristol, but it does not appear that this was carried out on a maximum scale. In addition there was mine laying and sporadic bombing. All was clear after 1:00 A.M.

3. Damage reports for the night of November 24-25 are not available. The civilian casualties in London for November 22-23 were six killed and 16 seriously injured. Further reports of the attack on Birmingham have been received. The utilities, especially

the water system, was hard hit but the damage to factories was less severe than estimated at first. The casualties are now estimated to be 100 killed and 300 seriously injured. The raid on Southampton on the night of November 23-24 resulted in slight damages to Fleet Air Arm and Admiralty stores and caused casualties of 40 dead and 180 injured.

4. The Germans lost four planes and the British none.

5. Enemy submarines sunk two Norwegian ships, totalling about 8,000 tons, in one convoy, and two British vessels, totalling about 15,400 tons, in another. A 3,700-ton British ship was sunk by a mine.

LNE

Distribution:

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

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 99,000
Purchased from commercial concerns	£135,000

In connection with the sterling purchased, a few of the New York banks stated that they had received overnight instructions from London to pay out small amounts of registered sterling to several American concerns, which the beneficiaries sold back to the banks. It is possible that these transfers represented liquidation of American-owned sterling balances, brought about by the fear that such balances might be blocked by the British authorities. It will be recalled that the British Government, over the past weekend, enacted a new regulation stipulating that certain capital payments to non-residents be made in blocked funds.

The Federal Reserve Bank of New York sold £20,000 in registered sterling to a non-reporting bank, and purchased £2,500 from another non-reporting bank.

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

Sold to commercial concerns	£ 11,000
Purchased from commercial concerns	£ 3,000

The Cuban peso discount, which widened to 8-5/8% at the end of last week, narrowed to 8-7/16% today.

The other currencies closed as follows:

Canadian dollar	12-7/8% discount
Swiss franc	.2321-1/2
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2353
Brazilian milreis (free)	.0505
Mexican peso	.2070

There were no gold transactions consummated by us today.

No new gold engagements were reported.

-2-

The New York banks stated that they had received no gold or silver prices from Bombay today.

A price of 23-1/16d was fixed in London for both spot and forward silver, 1/16d lower than Friday's quotation in each case. The dollar equivalent of this price is 41.88¢.

Sandy 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 six purchases of silver totaling 300,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.



CONFIDENTIAL

HLS

PLAIN

STOCKHOLM

Dated November 25, 1940

Rec'd 9:25 p.m.

Secretary of State,
Washington.

1054, Twentyfifth.

According to study just published yield of income and property taxes during current fiscal year will be higher than budgeted but this will be more than offset by smaller yields of indirect taxes. Hog cholera again breaks out in central Sweden. Quarterly food inventory as of December second ordered by government. Butter and margarine production combined now at rate of only about one quarter kilo per week per capita or about 60 percent of 1939.

INFORM COMMERCE, AGRICULTURE.

STERLING

NPL

DEPARTMENT OF STATE
WASHINGTONIn reply refer to
EA 012.3/2661

November 25, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and transmits for his consideration copies of telegram no. 557, dated October 22, 1940, from the American Consul General at Amsterdam together with a relevant letter from the Secretary of War, dated November 14, 1940, concerning certain payments said to be due in Amsterdam to the Italian Line in relation to the steamship CONTE BIANCAMANO.

Enclosures:

1. From American Consul General,
No. 557,
October 22, 1940.
2. From Secretary of War,
November 14, 1940.

WAR DEPARTMENT
WASHINGTON

November 14, 1940

The Honorable,

The Secretary of State.

Dear Mr. Secretary:

In reply to your letter of October 28th regarding the present status of the Italian steamship Conte Biancamano, I have the following information from the Canal Zone under date of November 5, 1940.

The status of the Conte Biancamano is unchanged. The vessel is lying in the stream at Cristobal under attachment of the U. S. Marshal. Mr. L. R. Deutekom, a Dutch citizen, is the general agent of the Royal Netherlands Steamship Company for both the Canal Zone and Panama. The company has no American agent in the Canal Zone.

Sincerely yours,

HENRY L. STIMSON

Secretary of War.

RDS

PLAIN

AMSTERDAM

Dated October 22, 1940

Rec'd 5:15 a.m., 23rd

Secretary of State,
Washington.

557, Twentysecond.

FOLLOWING TELEGRAM TRANSMITTED ON BEHALF LOCAL AGENT, ITALIAN LINES, WITH REQUEST THAT IF DEPARTMENT HAS NO OBJECTION IT INFORM TELEGRAPHICALLY PROPER JURISDICTIONAL AUTHORITIES AT CRISTOBAL, INFORMING ME OF ACTION AND TELEGRAPHIC CHARGES.

"Controversy between Italian Line and American agent of KNSM presumably court Cristobal Canal Zone and consequent confiscation steamship CONTE BIANCAMANO allegedly under pretext non-payment in United States of America of Italia S A N to KNSM her share freight on through cargo transshipped Central American ports. Evidence in form of authenticated letter dated October 21st from management KNSM, Amsterdam, received by Italian Line agent here containing confirmation terms agreement between the two steamship companies concerned according to which settlement of freight question is to be made in Amsterdam. Duly authenticated letter follows."

I

-2- No. 557, Twentysecond, from Amsterdam.

I have no comment whatever to make in this connection but the authenticated letter referred to was presented at Consulate General and reads in part as follows:

"According to the agreement between our two companies you have to pay us in Amsterdam our share in the freight on through cargo carried ex and per your and our steamers and we expect payment of same in due course.

Provided that the figures stated by you, which have still to be checked by us, have been found correct you owe United States dollars United States of America sixtyeight thousand one hundred fortyone and twentyone cents and pounds sterling two thousand eight hundred seventeen shillings seven and pence two.

We agree to you paying us the equivalent of the above amounts in Dutch currency at the rate of exchange on the date of payment.

Trusting you will be in a position to obtain the permit required for this transaction and kindly requesting you to accelerate the settlement as much as possible, for which we thank you in advance, we remain."

LEE

EMB

AS

PLAIN

London

Dated November 25, 1940

Rec'd 1:05 p.m.

Secretary of State,
Washington.

3839, November 25.

FOR TREASURY.

Under headlines such as "Britain's gold and security holdings used up" (FINANCIAL NEWS). "Lord Lothian's appeal—finance problem urgent" (MANCHESTER GUARDIAN). "America may give us cash" (DAILY MAIL). "United States credits for Britain—Lord Lothian sees President" (TELEGRAPH). "We may ask United States for credits" (DAILY EXPRESS). "Roosevelt to discuss credits for Britain" (DAILY HERALD). This morning's press reports Lord Lothian's press interview, the following phrases appearing in most accounts: "Referring, as a subsequent sentence clearly showed, to our available gold and securities Lord Lothian told America that Britain is beginning to come to the end of her financial resources". Following the report of the interview the TELEGRAPH and DAILY HERALD state that the President returned from Hyde Park presumably

AS-2- No.3839, Nov. 25. FOR TREASURY, from London.

presumably for a discussion of the subject and all papers carry the statement that questions will be asked in Parliament this week about Lord Lothian's statements. The DAILY HERALD and the NEWS CHRONICLE feature the fact that gold and securities are likely to be exhausted in six to twelve months while the other newspapers tend to convey a more immediate exhaustion of resources. In this connection the ECONOMIST of November 23 infers from the most recent vesting order (reported in my No. 3741, November 15, 1 p.m.) that "since we have now begun to scrape this particular dish it is fairly clear that our available reserves of really marketable securities have been considerably encroached upon". But after analyzing movements of the tap Treasury bill issue and taking into account sterling area gold production, loans in terms of sterling of dollar credits of the empire, purchases and borrowing of private gold holdings in London, diamond sales and the assets of the Dutch and Belgians, concludes that "our gold and dollar resources will keep us going for several months yet". The following NEWS CHRONICLE editorial is typical of comment: "Whatever means are adopted to get over or around the legal obstacles which stand in the way of American financial help we can be sure of one thing—the supplies will go on. America has no intention of letting Hitler win this war".

JOHNSON

WSB

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury
at 5:45 p.m., November 25, 1940.) ✓

260

STRICTLY CONFIDENTIAL

Extract from Memorandum dated 4th November 1940.

ALLIED GOLD RESERVES.

Norway holds £13 millions in Canada and perhaps £6 millions
in the U.S.A.

Holland holds £22 millions in Canada, which we vested in our
Custodian of Enemy Property and subsequently released to the Dutch,
and some £94 millions in the U.S.A. or South Africa.

Belgium owns £87 millions in the custody of the Bank of
England, and a further £42 millions in the U.S.A., which is at present
blocked. Belgium also has £46 millions at Dakar.

Czecho Slovakia holds £7½ millions which is in the custody
of the Bank of England.

Poland has about £20 millions at Dakar.

(Int.) G.H.S.P.

British Embassy,

25th November 1940.

Copy:als

Date... *11/25/40* 261

TO: *Miss Chauncey*
Room... *285*

B. L. Immors
From: FOREIGN FUNDS CONTROL

UNOCCUPIED FRANCE

and the

AMERICAN FRIENDS SERVICE COMMITTEE

Neutral observers with long experience in relief work are in unanimous agreement that the unoccupied zone of France will be the most critical area in Europe these next six months. A number of factors have contributed to the real dangers of starvation. France as a national unit was nearly self-sufficient. The zone now "in occupation" is a productive agricultural country, and includes important industrial cities. All grain stores are in this zone, as are available supplies of meat and milk. Unoccupied France, on the other hand, is primarily vineyard country.

The present unoccupied zone has, in the months since May, fed a surplus population of more than 7,000,000 refugees. At least a million of these homeless people still remain and new thousands are arriving daily from Alsace and Lorraine. Unoccupied France has supported and continues to support homeless refugees, despite the fact that many fields were untilled because the men were in the army and that the actual crop yield in 1940 was under normal. Supplies have, therefore, been depleted beyond safety.

Peacetime economy has not been resumed, due to the lack of raw materials. Factories are idle, ports empty, and men are being demobilized from the army to unemployment.

- 2 -

THE QUAKER ORGANIZATION IN FRANCE: The American Friends Service Committee has 56 representatives in unoccupied France. Full maintenance of these workers is paid by our Committee, the average monthly allowance approximating \$100 per person. A list of this personnel is attached hereto.

THE TASK: Since May, when refugees from Belgium, Holland, and the northern departments of France sought haven in the South, the American Friends Service Committee has maintained field offices at Toulouse, Montauban, Perpignan, Auch, and more recently at Marseille. These emergency services included the purchase of beds, blankets, medical equipment for the hostels for women and children, and large-scale feeding operations in all of these cities.

Toulouse, where the largest relief service was maintained, fed 5,000 a day in a canteen, in addition to daily food distributions to the nearby villages and distribution of clothing and food to 85,000 Belgian boys who, although under military age, were subject to Belgian military authority. The Toulouse services were further extended in mid-July to assist in the feeding of a million refugees, who had started north and, because bridges were out and roads impassable, had been stopped at the line between the two zones. As this country is extremely poor, with barely enough food

- 3 -

for its own population, emergency service was essential. As indicative of the scope of the Toulouse service, it may be stated that in one two-month period 600 tons of food were distributed.

The Montauban service has maintained a canteen, feeding 1,000 women and children two meals daily, and is also directing the work for 1,000 mutilated men, who are not only being fed and housed, but are also learning new skills and trades. A day nursery for 120 children is also maintained.

The Perpignan office, serving three departments in the South, has provided clothing, food, and medicines to some 20 refugee hostels in the area, in addition to a dry food packet service, distributed in the cities of Montpellier and Sete. This office has continued to work in the concentration camps, and is providing supplementary food for 1500 Spanish children in camps, as well as school materials. A small hospital has been built and equipped in the camp of Bram. Food, medicine, blankets, books, and some clothing have been distributed to all the concentration camps in southern France.

In Arach clothing distributions have been made to children and a canteen for 500 women and children has been in operation.

The Marseille office, in addition to directing

- 4 -

the field services, is the purchasing unit for the entire Quaker relief service, and administers nine children's colonies for 604 children. A refuge for women and children has been in operation and a special feeding program for infants and school children has been undertaken.

PURCHASE OF SUPPLIES: The American Friends Service Committee has since June attempted, as far as possible, to do its purchasing outside of France, in order not to deplete the already low food stores of the country. Regular monthly shipments of three thousand cases of milk, five tons of cheese, and two tons of canned meat have come from Switzerland. Oil and sardines have been purchased in Portugal; dried fruits and some grain from North Africa and from Greece and Bulgaria. Warm clothing and shoes, which are urgently needed, have been purchased in France, but it is increasingly difficult to make these purchases in any quantities.

- 5 -

URGENT NEEDS:

<u>Service</u>	<u>Cost per Day per Person</u>	<u>Estimated Monthly Cost</u>
Milk for 10,000 needy babies in Marseille, Perpignan, and Montpellier	10¢	\$30,000
Supplemental feedings for 20,000 school children by provision of rice, cocoa, and milk	2¢	12,000
Colony care for 604 children in Quaker houses scattered over southern France	25¢	4,600
Care of 1,000 mutilated men	21¢	6,300
Distribution of children's clothing, warm clothes for mothers, layettes for newborn babies		1,000
Food packet service to approximately 675 needy families to permit mothers to cook at home	6¢	5,000
Concentration camp visiting: for clothing, medicines, provision of books, toothbrushes, wood for beds, and supplementary food for 1500 children		8,000
Individual case work with refugees "in transit," including some temporary help until they are able to procure funds from relatives overseas.		2,000
Personnel	\$100 per month	5,600
Transmissions for Mennonite Central Committee to support child feeding stations at Cerbere, Banyuls, and Perpignan		1,000
TOTAL AMOUNT NEEDED PER MONTH		\$75,500

- 6 -

DIVIDENDS IN DEMOCRACY: To the workers in the Quaker service in France, it has been increasingly evident that an American relief organisation which functions at this critical time does more than give material assistance. It is a hand of friendship, a faith in the spiritual and democratic values of France which, as an expression of the goodwill of this democratic nation, gives France renewed confidence in the democratic way.

PERSONNEL IN FRANCE
(As revised November 5, 1940)

Marseille

29 Boulevard d'Athenes

Howard E. Kershner, Director, A.F.S.C. Relief Work	
Gertrude Kershner	Colony program, canteens
Allen Bonnell, American	Statistics and Accounting
Benjamin Gerchenovitch	Assistant to Mr. Bonnell
Dorothy Bonnell, American	Publicity, some interviewing
Herbert Lagler, American	Personal assistant to H.E.K., has charge of all permits, official papers.
William Frey, Swiss	Refugee case work.
Dr. Bessie Strongman, American	In charge, rest home for women and children.
Burns Chalmers, American	Refugee case work.
Josiah Marvel, American	Refugee case work.
Una Mortished, Irish	Office, negotiator and contract person in interviews with officials.
Mrs. Caroline Hill, American	Inspection work in milk distribution.
Miss BecQ	Office worker
Miss Millescamps	Office worker
Mrs. Cavallion, French	Telephone Operator
Albert, Uruguayan	Chauffeur and general handy man.
Isabel Needham	Colony director
Edna Ramsayer	Colony director

PERPIGNAN

30 Avenue des Balears

Mary Elmes, Irish	Directrice Perpignan Office, in charge of work in Departments of Pyrenees Orientales, Herault and Aude
Rosa Poy, Spanish	Stationed in Montpellier (Herault)
Three Spanish office workers, one French assistant; also warehouse staff.	

TOULOUSE

1 Place St. Scarbes

Helga Holbek, Danish	Directrice, Toulouse Office
Toot van Oordt, Dutch	Refugee case work
Harriet Marple, American	Visiting surrounding villages, reported on need and distribution.
Alice Resch, Norwegian	Nurse, assists with colony at La Rade, Refugee case work, and in charge of canteen.
Seraphine Lieven, Latvian	Investigations and general assistant to Miss Holbek.
Henry Wiens) American Ernest Bennett) Mennonites Antonio Gartner	Direct warehouse, motor equipment Driver
Madame Serrie, French	Assistant and secretary to Miss Holbek.

Ten or fifteen Spaniards complete the staff in Toulouse.

M. et Mme. Dubois, Live in Toulouse office, belong to Service Civil and collaborate with A.F.S.C.

MONTAUBAN

Celina Rott de Neufville, American citizen, French born	Co-Directrice Montauban
---	-------------------------

David Blickenstaff, American	Co-Director case work.
------------------------------	------------------------

Miss Rott is assisted by a number of French and Spanish people in this area.

AUCH

Donald Stevenson, American	Director
Madame de Beylier	Co-Director

BORDEAUX

47 Rue de Verginand

Arthur Gamble, American	In charge occupied territory.
Barbara Watkins, American	Aide to Arthur Gamble.

Personnel in France

- 3 -

PARIS (Ve)

12 Rue Guy de la Grosse

Henry van Etten, French

Friends Centre

Marguerite Czarnecki

Friends Centre

Relief Office - 30 Rue de Gramont

(No personnel)

BIARRITZ

28 Avenue Republique

(Colony office only)

SUGGESTED TAX PROGRAM

1. Announcement by the Secretary of the Treasury stating that no further taxes will be imposed on 1940 incomes or profits, and warning that unnecessary retention of 1940 profits is subject to the penalty tax of Sec. 102. OK.
2. An immediate drive to secure the repeal of tax exemption of the interest on future issues of Federal, State and local securities, -- this to be the first tax bill and a separate one. OK.
3. Revision of the tax laws to eliminate certain inequities and administrative difficulties, -- this bill to include an amendment to the general relief provision of the excess profits tax. Such revision of the tax laws should not be confused with the "general revision" so often requested by those who seek general reduction. ?
4. Additional revenue, if required, to be raised from among the following sources:

Increase in the personal surtax rates on surtax net incomes between \$0 and \$16,000	\$250,000,000	OK ?
--	---------------	-----------------

Increase in the rates of the estate and gift taxes (excluding top brackets)	200,000,000	OK.
---	-------------	-----

Special excise taxes on		
Soft drinks	\$95,000,000	
C checks	45,000,000	
Admissions (reduction in exemption to 10 cents)	25,000,000	
Transportation	<u>250,000,000</u>	415,000,000

Revision of the excess profits tax (to be attempted after 1940 returns are filed and studied)	?	?
---	---	---

5. Opposition to the imposition of general sales taxation to be continued.

Given me by Sullivan & Blough
on Nov 26, 1940

11-25-40.

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

Week ended November 23, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	162,639 Bbls.	---	90,300 Bbls.	45,700 Bbls.
Crude -				
Blended or California High Octane Crude *	342,335 Bbls.	---	---	---
All Other Crude	171,029 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	165,714 Bbls.	---	---	---
All Other Gasoline	---	---	---	1,200 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil ***	1,744 Bbls.	---	---	643 Bbls.
All Other Lubricating Oil	51,669 Bbls.	---	---	17 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Heptane, or Iso-Pentane	---	---	---	108,148 Bbls.
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	1,272 Tons
All Other Scrap	---	---	---	3,135 Tons

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

November 25, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

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

Aviation Gasoline.

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

BRITISH EMBASSY,
WASHINGTON, D.C.

November 25th, 1940

Dear Mr. Secretary,

When I was in England the Prime Minister asked me to give you a special message to say how deeply he appreciated the way in which during the past year you had worked indefatigably to secure for Great Britain the aeroplanes and other munitions she so badly needs in her struggle against Hitlerism. He has heard from Purvis and other people how invaluable your help has been and asked me particularly to express to you his gratitude.

Believe me,

Dear Mr. Secretary,

Yours sincerely,

L. S. P.

The Honourable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.

November 26, 1940
3:35 p.m.

H.M.Jr: Hello, Mrs. Spangler.

Mrs.
Spangler: Yes.

H.M.Jr: After that let me talk to the house.

S: All right, fine.

Dan Bell: Hello there. How are you?

H.M.Jr: Hello, Dan.

B: Well, nice to hear your voice.

H.M.Jr: I'm all right.

B: Are you feeling good?

H.M.Jr: Feeling fine.

B: Sunshine down there hot?

H.M.Jr: Very hot.

B: Uh-huh. Have you seen Sullivan yet?

H.M.Jr: Yeah. He's outside.

B: Well, that's good. Well, I've got the whole crew here: Gaston, Haas, Cochran, Foley, and White.

H.M.Jr: Good.

B: Anything you want?

H.M.Jr: No, no.

B: When are you coming back?

H.M.Jr: Well, I can't tell yet. I'm going to send a telegram as soon as I know. They say the weather north of Jacksonville is bad.

B: Uh-huh. Well, it's terrible here. It's raining and it's very cold. Looks like snow.

- 2 -

H.M.Jr: Gosh.

B: You really want to be careful when you approach Washington.

H.M.Jr: Well, I've got nothing.

B: Well, everything is kind of quiet here - have a lot of matters to take up with you when you get here, but they can wait.

H.M.Jr: All right, Dan.

B: O. K.

H.M.Jr: Give my regards to everybody.

B: All right, and we'll see you tomorrow sometime.

H.M.Jr: That's right.

B: All right. Good-bye.

CONFIDENTIALACTION REQUIRED

November 26, 1940

To: The Secretary

From: Mr. Young

Re: Shipbuilding Program

The British Purchasing Commission has now filed a request for clearance on its merchant shipbuilding program involving the construction of sixty (60) ships and capital assistance of approximately 9 million dollars. Again, as in the case of the airplane program and the ordnance program, if it is the policy of this Administration to finance this shipbuilding capacity as essential to national defense, the RFC should make the necessary fund available for this purpose.

I have been advised informally that the Navy Department will be glad to certify that this production capacity is essential. I have also been informed that the British Purchasing Commission will probably wish to duplicate this capacity and order a total of one hundred twenty (120) ships.

The plant facilities to be provided under this shipbuilding program can be used for any type of ship, merchant or naval, up to at least 450 feet long and would thus provide yards for building ships of the C-1, C-2, and possibly C-3 types now on the program of the Maritime Commission. Such facilities could also be used for the building of destroyers, naval tenders, tankers, and possibly the smaller cruisers.

Fg.

Judge Patterson recommends that formal instructions be issued to the Advisory Commission to the Council for Nat. Defense, the Army, Navy, and any other governmental departments involved to require that all matters affecting priorities or allocation of productive capacity of aircraft industry be coordinated with the Army-Navy-British Purchasing Commission Joint Committee.

November 26, 1940

My dear Mr. Secretary:

In the absence of the Secretary of the Treasury, may I thank you for your letter of November 20th concerning the Army-Navy-British Purchasing Commission Joint Committee on aircraft standardisation.

The subject of priorities and allocations for foreign governments other than the United Kingdom is a matter which has been receiving serious consideration for several weeks. A procedure is now being established so that priorities on orders for foreign account may be handled directly between the President's Liaison Committee, which has the initial responsibility for such priorities, and Mr. Donald Nelson, Administrator for the Priorities Board.

Concerning the allocation of productive capacity of the aircraft industry, all requests for such capacity by foreign governments other than the United Kingdom should be coordinated with the Army-Navy-British Joint Committee. I would like to raise the question, however, as to whether the British should have any formal vote in the allocation of aircraft production to other foreign countries.

I shall be delighted to talk with you about this problem at your convenience and will also call the matter to the attention of the Secretary upon his return to Washington.

Sincerely yours,

(Signed) Philip Young

Philip Young
Assistant to the Secretary

The Honorable,

The Secretary of War.

PF:ls

CONFIDENTIAL

279

WAR DEPARTMENT
WASHINGTON

WD 452 (11-15-40)M

JUL 20 1940

Honorable Henry Morgenthau, Jr.,
Chairman, President's Liaison Committee,
Washington, D. C.

My dear Mr. Morgenthau:

As you know, I appointed a joint committee on September 13, 1940, with the concurrence of the authorized representatives of the several agencies involved, for the purpose of coordinating the matter of standardization and with authority to make decisions affecting deliveries and plans for future productive capacity of the aircraft industry.

This committee is now functioning and has already made considerable progress.

It has been brought to my attention that several agencies are involved in the matter of granting priorities and allocations, affecting the functions of this committee. The matter of allocations to foreign governments other than the United Kingdom has come up.

In order to interlock the functions of the several agencies now concerned with these matters, it is recommended that formal instructions be issued to The Advisory Commission to the Council of National Defense, the Army, the Navy, and any other governmental departments involved, to require that all matters affecting priorities or the allocation of productive capacity of the aircraft industry be coordinated with the Army-Navy-British Purchasing Commission Joint Committee.

Sincerely yours,

R. P. P. P.

Acting Secretary of War.

Copy to:
Secretary of Navy.

CONFIDENTIAL

CONFIDENTIALACTION REQUIRED

November 26, 1940

To: The Secretary

From: Mr. Young

Re: Additional Aircraft Program

Mr. Knudsen has attempted to evolve a method whereby capital assistance required for additional aircraft production capacity can be prorated between the United States and the British. In this scheme, Mr. Knudsen proposes to give the British credit for capital assistance already paid to aircraft companies. A checkup on the amounts of capital assistance actually paid by the British to airplane and airplane engines companies is now being made.

The problem involved in this situation is simply that it is my belief Mr. Knudsen will not let the British place orders for the additional 12,000 planes until the detailed financing plan has been worked out. As in the case of the ordnance program, if it is the policy of this Administration to finance such additional capacity as essential to the national defense, then the approximate amount of money required for this extended aircraft program should be set aside by the RFC for that purpose. If that can be done, then it should be possible for the British and the United States to go ahead and place orders, leaving the detailed financial mechanics to be worked out subsequently.

Ry.

CONFIDENTIALACTION REQUIRED

November 26, 1940

To: The Secretary

From: Mr. Young

Re: Ordnance Program

For the first time I have received from the British a basic ordnance program which includes ordnance and ammunition items on order, those items now under negotiation, those items to be negotiated, and, in addition, a so-called A and B program presented by Sir Walter Layton and concurred in by the War Department. This schedule represents the complete British ordnance requirements as of the present time, and a copy is attached for your information. *See Letter of 11/26/40 from Army about A and B*

There are three problems in connection with the program:

1. Financing
2. Timing
3. Deliveries

1. Financing.—This ordnance program in conjunction with the United States Army ordnance program will necessitate certain plant expansion, the total cost of which will amount to a substantial sum. A rough estimate of the dollar amount required should be available today or tomorrow. It must be determined if it is the policy of this Administration to finance, presumably through the RFC, sufficient plant capacity to take care of the British program as well as the United States program on the basis that the extra capacity is essential to the national defense.

Because of the large dollar amount involved and the great variety of the sources of supply for the many ordnance items, the most feasible way to approach the financing would seem to be a meeting at which the Secretary of the Treasury, the Secretary of War, and the Federal Loan Administrator would discuss the matter from the point of view of earmarking a certain sum of money to be used as directed by the War Department for

the financing of this production capacity. If such a fund could be made available for this purpose, the War Department is ready to negotiate and place orders both for itself and on behalf of the British. Of course, the British share of capital assistance would be ultimately paid as an additional charge incorporated in the unit price which would be payable upon delivery of the specific item. (The general method which has been employed in the case of the Continental engines and other similar contracts.)

2. Timing.--As a result of the conversations between Sir Walter Layton and Secretary Stimson, the Layton "B" program is to receive precedence in timing and deliveries over other British ordnance requirements. In fact, it is my understanding that Secretary Stimson has consented to give the Layton "B" program a priority over United States Army orders, but with the exception that it will not interfere with the United States Army training program. The Layton "B" program is designed to equip ten British divisions with United States equipment, and this scheme includes maintenance for those divisions in the future. The problem involved in timing the "B" program so that deliveries under it can meet British requirements is this question of conflict with the United States training program - a question which the General Staff must determine.

3. Deliveries.--In a number of instances it will be necessary for the War Department to defer deliveries on United States Army contracts already placed in favor of British if the delivery schedules under the Layton "B" program are to be met. This deferment of deliveries involves certain legal problems which might conceivably require additional legislation to resolve. This question is being studied by Colonel Greenbaum, Mr. Arthur Palmer, and others.

Note: The problems mentioned above of timing and deliveries will more or less automatically take care of themselves provided that it be determined as a policy that this Administration will finance sufficient production capacity to meet current United States Army and British requirements.

FY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Some days ago I welcomed the idea advanced by Dr. Somary, the Swiss economist who is acting as financial adviser to the Swiss Legation, that he submit a memorandum setting forth his reasons why Swiss assets in the United States should not be blocked if the United States Government decides to extend its present control to assets of Germany, Italy and perhaps other countries. At 9:45 yesterday morning Dr. Somary called, by appointment, and submitted to me the attached memorandum, with the request that it be brought to the Secretary's personal and confidential attention. Dr. Somary told me that he planned to call later in the day at the Department of State, for the purpose of handing one copy of the memorandum to Mr. Dunn and one to Dr. Fels for Secretary Hull.

Dr. Somary stated that there were two points which he hoped we would consider in formulating our policies, but which he could not put down in writing. The first of these is that Switzerland is now liquidating the small Nazi organizations in that country. This will inevitably arouse resentment on the part of these groups within Switzerland and on the part of Nazi organizations outside of Switzerland. For the next month or so it is, therefore, specially important for Switzerland to be strong politically. Dr. Somary feels that the extension of our freezing control to Switzerland, even though we might be generous in our licenses, would be a most serious blow to Swiss political, as well as financial, strength. In the second place, Dr. Somary volunteered that if the United States desires to block German and Italian assets, Switzerland would gladly cooperate with us. This might best be done through a secret committee in Washington consisting of representatives of the Treasury and State Departments and the Swiss Legation. The Swiss Legation would communicate to its Government the aims and purposes of our control, and would obtain from the competent Swiss authorities full cooperation toward the same end. In this connection Dr. Somary pointed out that there is an undue amount of criticism of Switzerland's financial transactions with Germany at the present time. It is wrong, in his opinion, to condemn a Swiss banker for one side of a transaction involving German funds which is legal both in Switzerland and the United States, and where the second party to the transaction is an American bank.

In reading over Dr. Somary's memorandum I was struck by the statement in regard to the predominance of Swiss funds in the holdings in the United States designated as Swiss. Dr. Somary insists that ninety percent of such holdings, including both bank deposits and securities, are actually the property of bona fide Swiss citizens or concerns. He estimates eight percent of such holdings as of French ownership, and two to three percent of various other ownerships. He said that the German proportion therein was much less than one percent. He said that it is now possible for Switzerland to arrive at rather accurate estimates in this connection as a result of their clearing agreements, which show coupons cashed, securities transferred, etc. Somary estimated

- 2 -

at between \$1,400,000,000 and \$1,500,000,000 the amount of the above-designated Swiss holdings on the American market. He said that the French had moved into Switzerland during recent years a considerable amount of valuables which had been placed in safe deposit boxes. These had consisted, however, principally of bank notes and jewelry. Some of the bank notes are Swiss currency of large denomination. There has been no transfer to the United States from Switzerland of the contents of these safe deposit boxes. Thus the French valuables in Switzerland which attracted considerable attention at the time French citizens were carrying them into Switzerland do not actually figure in the assets held in the United States. In describing the importance of Swiss financial interests, Somary pointed out that Switzerland is second only to Great Britain in investments in Shanghai. The United States comes third. The principal Swiss holdings there are in electric and silk concerns. Switzerland has had four billion marks invested in Germany alone.



LÉGATION DE SUISSE
WASHINGTON, D. C.

SWITZERLAND'S UNIQUE FINANCIAL SITUATION AND ITS
SIGNIFICANCE FOR THE UNITED STATES.

Of the 45 countries which at the beginning of the first world war adhered to the gold standard, and of the remaining six which concluded the Tripartite Agreement a few years ago, only two maintained the gold standard - the United States and Switzerland.

The exceptional standing of these two countries in international trade and finance was emphasized by the British Government in granting in its war regulations to these two countries, and these two countries only, special exchange conditions.

The maintenance of the gold standard by the United States is a matter of course: based on the shifting of the political importance and on the development of the incomparable economic resources of this country. The other country, however, singled out in the British regulations together with the U.S.A. is by nature one of the poorest countries in Europe, with no raw materials of her own, no access to the sea, without political power, with fewer inhabitants than Colombia, and in size smaller than any of the Central American countries.

Switzerland owes her position in international finance to the natural thrift of her people and her methodical investment in foreign countries extending over a period of more than three generations. There is no other country where

- 2 -

the standard of living is so dependent on the fluctuations of the American market as in Switzerland, and the investment in American securities infiltrates into the remotest valleys of Switzerland. Since New York took over the position of London as financial world center, a good part of the currency reserves of Switzerland were centered in the U.S.A. A rough estimate shows an average investment in the United States of almost \$ 1000 per Swiss family, a figure without comparison to any other country in the world. On the other hand research has proved that the assertion to the effect that a considerable part of the Swiss holdings in the U.S.A. represent foreign - i.e. non-Swiss - investments is actually unfounded.

These large foreign holdings, spread over all classes of the Swiss population, enable the country to balance her foreign trade liabilities, even in times lacking assets derived from tourist traffic, insurance and bank transactions. This permits the upkeep of a comparatively high standard of living among the lower middle class and labor, thus counteracting the radicalisation so strongly and effectively enforced in other countries. While most of the other states of the world will, upon termination of the war, be confronted with the alternative of either basing their economic life on an international barter trade or requesting long term credits from the United States, Switzerland will not only be in a position to support herself financially, but will most probably be able to participate in rendering financial support to those countries in need of capital for reconstruction. All this will be possible for her

- 3 -

in spite of the set back suffered through the loss of one billion dollars in Germany alone during the past decade and in spite of the war expenditures, the comparatively large amount of which will hardly be surpassed by any other country. Switzerland has called to the colors not less than 15% of her population. The extraordinary war expenditures during the first year of war reached a total of no less than \$ 700.- per family.

There is no other country in the world where there is such contrast of natural poverty on one side and so comparatively high a standard of living on the other. This is the result of incessant hard work, peaceful international trade relations and full confidence extending over the past century. Once destroyed, this foundation could hardly be rebuilt.

The financial power of Switzerland is of particular importance to the United States. Switzerland can be considered her partner in the maintenance of the gold standard and its manifold consequences. The opinion so often expressed, that the maintenance of the gold standard is practically impossible for any other state than the U.S.A. is contradicted by the fact that a country without natural resources and without colonies is still in a position to fulfill the requisites of adhering to the gold standard, thereby setting an example for the possibility of future rehabilitation. It may prove important for the United States to have a partner after the war to help solve these difficult problems of reconstruction, a partner not only experienced, but capable of financial participation, even though

- 4 -

to a limited extent only - as a matter of fact, the only potential partner, since financial power in Western Europe suffered a collapse.

There have circulated many rumors about hemispheric politics and an economic or even a financial blockade of the entire European continent. From a purely administrative point of view, it may appear as a tempting simplification to make no exceptions while proceeding in this direction. But, since Switzerland is defending her exceptional position as a free economy country against all contrary influences, she has a right to demand this position to be respected. A blocking of the Swiss assets in the United States, even in form of only temporarily restrictive measures, would not only inflict irreparable damage to the economic standing of Switzerland, but would also destroy the gold standard and with it the independence of the Swiss currency and the so hard defended international solvency. It is the firm hope of people and government of Switzerland that such catastrophal and undeserved developments can be prevented and both shall do their utmost to cooperate in this direction, with the U.S. Government. Switzerland will remain in the future what she was in the past, but this is only possible if her financial status remains untouched.

20
November 16, 1940

File

Mr. Coghlan

At the request of Assistant Secretary Berle, Mr. Peble and I went to the State Department for a conference yesterday morning at 11 o'clock. Messrs. Atherton and Livesey were with Mr. Berle as representatives of the State Department. Mr. Alphand, Financial Counselor of the French Embassy, was accompanied by First Secretary Dumaine and the new Naval Attache, Captain de la Bourdonnaye.

Mr. Alphand asked if our Government was prepared to give monthly licenses for the provisioning of the French West Indies. Mr. Berle replied in the negative. He stated that a development had now occurred which caused the Department of State to hesitate to approve the monthly licensing system until certain questions are cleared up. At Mr. Berle's request, Mr. Atherton explained this situation. Atherton remarked that Admiral Robert, in command of the French naval units in Martinique, apparently had supplanted the civilian authorities in control in that island. This resulted in the United States having a foreign navy installed on its flank. Since naval authority had been instituted in Martinique, this Government had seen fit to send a naval observer to that island to be in touch with the French Admiral. Our observer had reported this past week that Admiral Robert had given him notice that if he did not receive oil supplies from the United States within twenty-four hours he would quit the island with gold on board his ship. Atherton stated that our Government did not understand this move. He pointed out that the State and Treasury Departments were approving French requests for food and other supplies for Martinique, and that arrangements had been made with the Standard Oil Company to transport 1,000 tons of oil to Martinique ^{port} ~~directly~~. This move of the French Admiral gave rise to the question as to whether he is a detached authority responsible only to himself, and not to the Vichy Government. Atherton remarked that the French Ambassador was coming to see Under Secretary Welles yesterday afternoon and that this question of Admiral Robert's authority and actions would be discussed. It is also possible that this might be the subject of discussions between Admiral Leahy, our new Ambassador, and the Vichy Government. Until the matter is straightened out, however, Mr. Atherton thought that no monthly licenses should be planned for Martinique and Guadeloupe. He and Mr. Berle offered no objection, however, to the institution of a monthly license system for St. Pierre-Miquelon.

Both Alphand and the Naval Attache endeavored to advance what they thought might have been the reasons of the French Admiral for his action of last week. They thought that he had become alarmed over his inability to obtain fuel oil for his ships and over the possibility of being without sufficient oil on hand to operate such ships. Consequently, the Admiral probably had in desperation decided that the only alternative might be for him to quit Martinique while he still had enough fuel oil to reach some South American port and take along with him to such a port sufficient gold from the Martinique cache to acquire the oil. They did not feel that a direct threat had been made by the Admiral but thought that he had probably discussed the alternative if necessary.

ations were not ameliorated. It was apparent, however, that neither of the French officials was sufficiently familiar with the case to give a convincing explanation.

Mr. Berle went over with the group certain items for which the French are applying, and to which approval has not yet been given. He was quite sympathetic with the needs of the Martinique sugar industry and of the St. Pierre-Miquelon fishing fleet. It was agreed that the Department of State would provide the Treasury Department with a reply to the latter's letter of October 17. This would clear up several items for Martinique and St. Pierre-Miquelon, and would also suggest a monthly license system for the latter area. The Treasury Department is to consider outstanding applications from the French for supplies for the French Antilles, and solicit the views of the Department of State thereon.

At the close of the conference, Mr. Alphand accompanied Messrs. Fable and Cochran to the Treasury Department. He presented to them the attached draft of a document which he planned to submit to the British, presumably Mr. Finnest, for forwarding to London, with the hope that the British Government may give its approval to certain exports from unoccupied France to the United States. It was Alphand's desire that we assist in some arrangement which might help the French in convincing the British that the proceeds of such exports will be blocked in this country. This memorandum was exhibited to our Central Group meeting yesterday afternoon and it was understood that we should proceed with a study of Point 2 thereunder to see if we can be of any service in the premises.

BMP

(Handed by Mr. Alphand, Financial Counselor of the French Embassy, to Messrs. Fahle and Cochran in the Treasury at 12:30 p.m., November 25, 1940.)

G
O
P
I

New York, November 22, 1940.

As regards exports from France towards the United States, the following procedure is suggested:-

1). The American importers of French goods manufactured in the non occupied zone would be advised by the French exporters that they must deposit the amount of their debts in a special blocked account in the name of the French Government. These deposits would constitute "payment in full".

2). In order to control the centralization of the product of these French exports in the French Government special account mentioned above, the goods could not be cleared through the customs unless the payment had been made to this account, or unless the American importers promised to deposit the product of their purchases to this account.

3). The French exporters would receive through the Exchange Control Office the equivalent in francs of the amount in dollars for which the French Government would have been credited for their account.

Navicerts would be delivered in order to permit the shipment to the United States of the goods exported under these conditions.

Copy:alm

Department of Treasury copy

PARAPHRASE

Telegram no. 601. from Rio de Janeiro, November 26.

The Bank of Brazil states that it has received for credit to Italian banking institutions in the New York account of the Bank of Brazil, the sum of 3,521,728 bringing to \$5,502,940 the transfers of Italian financial companies to the Brazilian Bank since the entry of Italy into the War. The two and one-half million dollars in cash, which it is recalled was recently carried to Brazil by Italian "couriers", is included in neither of the foregoing sums.

RA:Malmsley:MES

eh:copy

PARAPHRASE OF TELEGRAM

No. 184, November 26, 1940
S. R. M. from Embassy, Lima.

The Embassy has learned from the Ministry of Finance that Beltran is now negotiating with a view to obtaining a credit from the Export-Import Bank to support exchange. The amount of the credit was mentioned as \$15,000,000. The Minister of Finance stated that reserves now amount to \$1,200,000 over and above the \$2,000,000 credit granted last June and that he believed it would not much longer be possible to maintain the sol at its present rate. With exports declining sharply, especially since the Japanese have stopped buying cotton, he said there were no sources of exchange likely to relieve the situation. He believes accordingly that the situation will continue to decline but that the credit he is seeking would secure, until the latter part of 1941, the present level of the sol.

I see no reason for hasty action with respect to this request for such a large credit, considering that the reserve fund now amounts to the appreciable total of \$1,200,000 over and above the \$2,000,000 credit which has not been touched. Last June, at a time when circumstances were as uncertain as they are at present, it will be recalled that the Minister of Finance's request for \$5,000,000 was satisfied by the grant of \$2,000,000.

Air mail report follows.

ROSCOE

November 26, 1940

Acting Secretary Bell

Mr. Cushman

Mr. Livesey telephoned me last night from the Department of State. He said that Mr. Dolbear, the American adviser to the Government of Thailand, had telephoned the Department of State last week in regard to the desire of that Government to obtain a loan against the \$10,000,000 of gold held with the Federal Reserve Bank at New York. It was thought that such a loan might be given by the Export-Import Bank, the Federal Reserve, or private banks. The Department of State told Dolbear that this question would be studied and that he would be given the Government's reaction. Livesey particularly wanted to know how the Treasury felt about the third alternative. I reminded Livesey that when we had discussed this matter previously I had told him that I did not want to suggest this possibility to Dolbear unless the Department of State was clearly in favor of it being utilized. I explained again that we had refused to permit the National City Bank to lend to Thailand against gold held with the Federal Reserve Bank in September 1939. We had subsequently developed the idea in the Treasury of permitting loans by commercial banks against gold held with the Federal Reserve but when the first opportunity for such a loan arose, in the case of Spain, we solicited the opinion of the Department of State, and learned that the latter did not desire such a loan to be made considering the Spanish attitude toward American investments, particularly those of the I.T.F. It was conceivable to me that the State Department would now desire to consider the political factors in connection with Thailand. I told Mr. Livesey, therefore, that we would not take any action toward facilitating a loan by private bankers against gold held by the Federal unless his Department might tell us definitely that they favored such a transaction. Mr. Livesey promised to convey opinion in his Department and call me back.

ENC:dm:11.26.40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

STRICTLY CONFIDENTIAL

FROM Mr. Cochran

Mr. Pinaent, Financial Counselor of the British Embassy, called on me yesterday evening at 5 o'clock. He handed to me the two attached envelopes, for delivery to Secretary Morgenthau as soon as the latter returns. Pinaent stated that one of these letters was an explanation which Lord Lothian thought he should make to the Secretary of his statement given out at New York upon his arrival last weekend in regard to British need of financial aid from the United States.

Pinaent stated that he had received a cablegram from London indicating that Sir Frederick Phillips would probably leave London today, November 26, and would take the first available plane from Lisbon for the United States. London had cabled in regard to a press release, suggesting that no announcement be made before Phillips actually departs from Lisbon. This precaution is for reasons of safety. Pinaent submitted the following draft of a release for our consideration:

"In continuation of the discussions which took place in July, Sir Frederick Phillips has arrived in order to place the latest available information before the United States Treasury."

Mr. Pinaent would like our reaction to this draft as early as possible, in order that he may cable London for a simultaneous release there of such communications as may jointly be agreed upon.

Pinaent stated that he was working on certain data, together with London and the British Purchasing Mission at New York, which he hopes to have available for consideration by the Secretary, at least by the date of Sir Frederick's arrival.

When Pinaent asked me what the Treasury's reaction had been to Lord Lothian's statement in regard to need for financial help, I told him that there was no official reaction to report. I remarked that the press, including British papers, apparently had been somewhat surprised by the Ambassador's announcement of British need for financial aid. Pinaent said that he also had been surprised by the statement, and had talked it over with the Ambassador when he arrived in Washington Saturday night. Pinaent was of the impression that the Ambassador thought it was probably best for him to make such a statement immediately upon his arrival here rather than wait until he had been in contact with American officials. This way it would come as a purely British move. Pinaent admitted that it might focus much more attention and publicity on Sir Frederick Phillips' coming trip to the United States. Furthermore he realized that the Purchasing Mission might have some increased difficulty in making contracts with American concerns which may be alarmed over the ability of Great Britain to pay. Referring to possible Congressional action, Pinaent asked me whether it would be necessary for Congress to be given full information in regard to Great Britain's

- 2 -

financial position. This, he said, would make the British position known to the enemy. I told him that I had never heard of a secret session of Congress, and I presumed that Congress would want full information before taking any action.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 5:15 this evening Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me that a cablegram had been received from London to the effect that "our friends" will leave London tomorrow, November 27, weather permitting, on the first leg of their trip, that is, to Lisbon. Pinsent thinks that it will not now be possible for the British officials to reach here before late next week. It is his understanding that a Treasury man named Playfair will be accompanying Sir Frederick Phillips in Bewley's place.

F.M.R.

DJ - 10:55 a.m. - November 26, 1940

Denies Britain Discussed Return to Gold Standard

LONDON - In reply to question in the House of Commons, Chancellor of the Exchequer Sir Kingsley Wood denied that a recent discussion between United States Secretary of the Treasury Morgenthau and a British Treasury official included a proposal that British return to the Gold standard. Sir Kingsley Wood added that, subject to exigencies of the war, British monetary policy remains as stated in the second paragraph of the Tri-Partite Monetary Agreement of September 1936.

HSM

PLAIN

London

Dated November 26, 1940

Rec'd 2:10 p. m.

Secretary of State,
Washington.

3853, November 26.

FOR TREASURY.

1. Today's press devotes much prominent space and editorial comment to Britain's dollar financing problem. The second thoughts of those newspapers which yesterday reflected surprise at the immediacy of the question indicate a realization that Lothian was giving notice well ahead of actual exhaustion and devote considerable space to quoting Congress members and United States press views and proposals and to Secretary Hull's press conference of yesterday. The DAILY MAIL features a special interview with William Allan White outlining the probable contents of the plan "submitted to Mr. Morgenthau". In discussing estimates the FINANCIAL NEWS alone mentions direct investments as such referring to them as "the third line of dollar resources which represent in the main wholly owned United States corporations, trust funds and estates

hem -2- No. 3853, November 26, from London

estates" estimating the figure at around 1,000 million dollars adding this to 600 million dollars of gold, 900 million dollars (present values of negotiable securities held in August 1939 and annual gold production at 750 million dollars. Though it does not mention direct investments as such the FINANCIAL TIMES quotes the article in the October 5 Department of Commerce Foreign Trade Review showing British investments at 2,803 million dollars 1,180 million of which represent readily marketable securities. The MANCHESTER GUARDIAN notes the significance of the recent registration of the securities order in India and refers also to Canadian assets in the United States. Lothian's frank statement of the situation is universally approved, the concluding sentence of the FINANCIAL TIMES editorial being typical: "The preparation of plans for the future is no more than a matter of ordinary business prudence and common sense". Incidentally the FINANCIAL TIMES' Washington report states that "Treasury officials are reported to have said that there is no move in Washington to freeze British assets in the United States as had been reported in some circles". This evidently refers to the FINANCIAL NEWS' comments last week on the reported proposal to freeze all non-Western Hemisphere foreign assets in which Einzig pointed out that such action would not only paralyze the external financial activities

hsm -3- No. 3853, November 26, from London

activities of the Axis powers but would also be useful as a method of blocking undeclared British assets in the United States.

2. The Bank of England today publishes a list of 139 foreign securities, dealings in which between United Kingdom residents will now be allowed subject to prior approval on Form S.2. The prohibition of dealings dates from June 18, as reported in the Embassy's No. 1713, June 18, 6 p. m. Sales to non-residents have been permitted in certain circumstances since July 18 (see telegram No. 2287, July 19). The present list comprises stocks in which deals are normally rare omitting such active securities as Canadian Pacific, International Nickel and Brazilian tractions, but dealers hope that with the principle established the list will soon be extended to the more popular securities.

JOHNSON

WSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
November 18	21,861	779,751	15,000	10,596
19	25,245	1,006,590	28,000	19,205
20	6,423	143,993	2,000	783
21		H o l i d a y		
22	4,545	100,014	Nil	Nil
23	1,846	31,189	Nil	Nil
	59,920	2,061,537	45,000	30,586
Sales from February 22 to November 16	<u>2,060,103</u>	<u>72,164,713</u>	<u>5,411,500</u>	<u>4,197,666</u>
TOTAL FEBRUARY 22 TO NOVEMBER 23	2,120,023	74,226,250	5,456,500	4,228,252

Mr. Pinsent reported sales of non-vested securities for the week ended November 16 totaled \$500,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£123,000
 Purchased from commercial concerns.....£ 19,000

The Federal Reserve Bank of New York sold £4,000 in registered sterling to a non-reporting bank.

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

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

There was virtually no movement in quotations for the other currencies, and closing rates were as follows:

Canadian dollar	12-7/8% discount
Swiss franc	.2321-1/2
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2353
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/2% discount

We sold \$600,000 in gold to the Central Bank of the Uruguayan Republic, to be added to its earmarked account.

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

\$50,000,000 from Canada, shipped by the Bank of Canada, to be earmarked for account of His Britannic Majesty's Government.
 12,428,000 from Canada, shipped by the Bank of Canada for account of the Government of Canada, for sale to the New York Assay Office.
 1,400,000 from Portugal, shipped by the Bank of Portugal, to be earmarked for its account.
\$63,828,000 Total

-2-

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on November 20, showed that such deposits totaled \$118,763,000, an increase of \$11,990,000 since November 13. Included in this total were \$37,745,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, \$938,000 higher than the figure of November 13, and \$69,083,000 in deposits with the Yokohama agency made by Japanese banks in Japan and Manchuria, up \$10,634,000. The latter increase is explained in part by the sale of \$6,195,000 worth of imported Japanese gold to the San Francisco mint. The Yokohama agency also stated that it had received approximately \$5,000,000 from New York banks, which it credited to the account of the head office according to the latter's instructions. In addition to their deposits with New York agencies, Japanese banks held, on November 20, about \$30,130,000 in U.S. Treasury bills and short-term commercial paper expressed in dollars at the Yokohama agency, up \$956,000 from November 13. The Yokohama agency reported that its loans to Japanese banks in Asia amounted to \$32,783,000 on November 20, a decrease of \$3,340,000, while its other dollar claims on Asia, consisting mainly of Japanese import bills, totaled \$28,599,000, an increase of \$3,497,000 since November 13.

Bombay gold and silver prices for both yesterday and today were received by the New York banks this morning. Yesterday's quotation for gold was equivalent to \$33.86, the gain of 10¢ over Saturday's level being attributed to speculative buying. Today, gold was priced at the equivalent of \$33.84. Silver advanced 1/8¢ over last weekend to the equivalent of 43.77¢ yesterday, but then returned to 43.66¢ today.

In London, a price of 23-1/16d was fixed for both spot and forward silver, unchanged from yesterday's quotation. The dollar equivalent of this price is 41.88¢.

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 200,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 25	\$ 85,545.96	Reichsbank, Berlin	Chase National Bank, N.Y., for account of DuPont dividend marks by order of Konversionkasse fur Deutsche Auslandsschulden, Berlin
	20,000	German Consulate General, N.Y.	Cash withdrawal
	15,818.75	Deutsche Golddiskontbank, Berlin	Irving Trust Co., N.Y., account of Vongibara



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statement in Italian accounts maintained at:

Chase National Bank

National City Bank



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 25				\$ 587,500	Credito Italiano, N.Y.	Check in favor Bankers Trust Co., N.Y., for account of Banco do Brasil, Rio de Janeiro

National City Bank

1,500,000	Banco di Napoli Trust Co., N.Y.	Banco do Brazil, Rio de Janeiro, for account of National Institute of Exchange
-----------	------------------------------------	---

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statement in Italian accounts maintained at:

Chase National Bank

National City Bank



<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 23				\$ 50,000	Credito Italiano, N.Y.	Check in favor Banco di Napoli Trust Co., N.Y.
Nov. 25	\$550,000	Banca Commerciale Italiana, N.Y.	Banca Commerciale Italiana, N.Y. Check drawn by Banco di Napoli Trust Co., N.Y., on Federal Reserve Bank, N.Y.	169,781	"	Chase National Bank for account Banco Esposito Santo Commerciale de Lisboa in Lisbon by order of Credito Italiano in Rome
	50,000	"	Banca Commerciale Italiana, N.Y. Check drawn by Banco di Napoli Trust Co., N.Y., on National City Bank, N.Y.	50,000	Banco Nazionale del lavoro, Rome	Federal Reserve Bank, N.Y., for account of Sveriges Riksbank, Stockholm
	26,471.48	"	Banca Commerciale Italiana, N.Y. Miscellaneous checks	113,000	Banca Commerciale Italiana, N.Y.	Check in favor Chase National Bank for account and by order of Banca d'Italia, Rome
	500,000	Credito Italiano, N.Y.	Banco di Napoli Trust Co., N.Y. by order and for account of Italian Institute of Exchange	400,000	"	Certified check in favor of Irving Trust Co., N.Y.
				500,000	Banco di Napoli Trust Co., N.Y.	Credito Italiano, N.Y., for account and by order of Italian Institute of Exchange
	219,355.01	"	Credito Italiano, N.Y. Check drawn by Post and Flagg, N.Y., on Bank of Manhattan Co., N.Y.)	149,873	Banca d'Italia, Rome	Chase National Bank, N.Y., for account Banco Esposito Santo e Commerciale de Lisboa, Lisbon
	30,000	"	Credito Italiano, N.Y. Check drawn by Banca Commerciale Italiana, N.Y., on Chase National Bank, N.Y.			

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 25	\$ 1,941	Credito Italiano, N.Y.	Credito Italiano, N.Y. Miscellaneous checks	\$500,000	Banco di Napoli Trust Co., N.Y.	Chase National Bank, N.Y., by order Banca de Italia e Rio de La Plata, Buenos Aires, by order of and for account of Italian Institute of Exchange, Rome
	1,044,602.90	Banca Napoli Trust Co., N.Y.	Banca de Napoli Trust Co., N.Y., Certified check drawn by C. J. Devine & Co. Inc., N.Y., on Central Hanover Bank and Trust Co., N.Y.			
			<u>National City Bank</u>			
Nov. 23				35,000	Banca d'Italia, Rome	National City Bank, N.Y., for credit Banca Commerciale Italiana, N.Y.
				50,000	Banco di Napoli Trust Co., N.Y.	Check in favor of Banca Commerciale Italiana, N.Y.

(CONFIDENTIAL)

CONFIDENTIAL 311

P A R A P H R A S E

A telegram (no. 1307) of November 26, 1940, from the American Consul General at Shanghai reads substantially as follows:

Mr. Chow Fu-hai returned from Japan, according to reports in Chinese banking circles, and on November 25 went to Nanking by airplane. Mr. Chow reported information to the effect that he and the Japanese Minister of Finance had exchanged opinions in regard to the new central bank and other matters relating to financial cooperation between Chinese and Japanese. Therefore, the conclusion of the Abe-Wang agreements and the opening of the new bank with its own issue of currency is expected soon by Chinese bankers in Shanghai. The indications are for a compromise in regard to the Japanese military script and the relative position of the new notes. In the Shanghai market on November 26 the rumor prevails that the head office of the bank is to be located in Nanking (branches being set up at Shanghai, Hangchow, Soochow and Pengpu) and that December 1 is the day set for the opening of the bank.

Q-2/2657-220

RESTRICTED

No. 254

SITUATION REPORT

M.I.D., W.D.
November 26, 1940.
12:00 M

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

I. Western Theater of War.1. Air Force Operations.

Unfavorable weather prevailed in the theater.

The German air force operated at a very low level on the 25th and last night when it reconnoitered and did some bombing over Bristol.

The R.A.F. raided Kiel and the Hamburg area last night. Some pilots could not find their primary targets and bombed Dutch airdromes.

II. Greek Theater of War.

Severe fighting has been confined to the extreme east and west. The Greeks are reported to have taken Pogradec and Lesnica. Greek troops landed from boats behind the Italian flank opposite Corfu in an attempt to cut Italians in the Argyrokastron area off from the base at Porto Edda. The Italians claim to have repulsed them. British reports say that the Greek force penetrated beyond Philiates (Filiate) and cut off Porto Edda. Greek reconnaissance has reached a point 12 miles west of Moskopolis (Voskopojje).

Air activity was limited on both sides.

III. Mediterranean and African Theaters of War.

Minor ground and aerial activity only.

RESTRICTED

313

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

CRYPTOGRAPHIC
MESSAGE

WASHINGTON

26 November, 1940.

SECRET

From: Secretary of the Treasury Morgenthau.
To : Mrs. Henrietta S. Klotz
(Attention: Harry White)

I want Thursday the latest balance sheet of
English assets for the President.



TREASURY DEPARTMENT

WASHINGTON

November 26, 1940.

Dear Sirs:

Enclosed is a copy of a letter dated November 23, 1940, from the Secretary of State to the Secretary of the Treasury, transmitting the request of the Government of the Commonwealth of Australia that the Federal Reserve Bank of New York open and maintain a dollar account and a securities custody account in the name of the Government of the Commonwealth of Australia, together with one of its enclosures, a certified photostatic copy of a letter to the Secretary of State from the Minister of the Commonwealth of Australia to the United States.

The Treasury Department would be pleased to have the Federal Reserve Bank of New York open and maintain accounts as requested by the Government of the Commonwealth of Australia on the same basis that the Federal Reserve Bank of New York handles other foreign accounts. Accordingly, I request and authorize the Federal Reserve Bank of New York, as fiscal agent of the United States, to open and maintain a dollar account and a securities custody account as requested by the Government of the Commonwealth of Australia on the same basis that the Federal Reserve Bank of New York handles other foreign accounts.

Very truly yours,

W. W. B. Lee

Acting Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Enclosure.



THE SECRETARY OF THE TREASURY
WASHINGTON

WHITE HOUSE
NOV 25 12 56 PM '40
RECEIVED

November 25, 1940.

MEMORANDUM FOR THE PRESIDENT:

The Australian Government desires that certain funds and securities held in the Federal Reserve Bank of New York in the name of the Commonwealth Bank of Australia be transferred to accounts in the Federal Reserve Bank of New York in the name of the Australian Government.

The proposed transaction is similar to those recently executed at the request of the Netherlands, British and Canadian governments, which transactions you approved. As I indicated in memoranda to you concerning the latter transactions, it is my opinion that the President and the Secretary of the Treasury have the power to authorize the Federal Reserve Bank of New York to hold accounts for foreign governments.

Accordingly, if you approve, I propose to send the annexed letter to the Federal Reserve Bank of New York authorizing the Bank to open accounts as requested by the Australian Government. If you approve the foregoing, kindly indicate at the foot hereof.

W. B. E. Bell

Acting Secretary of the Treasury.

APPROVED:

Franklin D. Roosevelt

November 25, 1940.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Bu

November 23, 1940

My dear Mr. Secretary:

There are enclosed herewith two certified photo-static copies of a letter which this Department has received from the Minister of the Commonwealth of Australia to the United States containing the request of the Government of the Commonwealth of Australia that the Federal Reserve Bank of New York open and maintain a dollar account and a securities custody account in the name of the Commonwealth of Australia, and that the Federal Reserve Bank of New York transfer to such account from accounts with it in the name of the Commonwealth Bank of Australia, upon the receipt of instructions from the Commonwealth Bank of Australia, certain dollar funds and certain securities, which are the property of the Commonwealth of Australia.

The

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

The Department of State recognizes the Right Honorable Richard G. Casey, who executed such letter, as the duly accredited Minister of the Commonwealth of Australia to the United States. The Department also recognizes that such Minister is duly authorized and empowered to execute and deliver such letter on behalf of the Government of the Commonwealth of Australia; that the requests, instructions and representations set forth in such letter emanate from and are the requests, instructions and representations of the Government of the Commonwealth of Australia; and that the Commonwealth Bank of Australia is duly authorized and empowered to manage and operate the accounts thus requested to be opened in the name of the Commonwealth of Australia with the Federal Reserve Bank of New York.

The foregoing is transmitted to you for your information and in order to enable you to give such advice in the premises to the Federal Reserve Bank of New York as you may consider appropriate.

Sincerely yours,



Acting Secretary

Enclosures:
From Minister of
Australia (two
photostat copies).

No. 6169

United States of America



DEPARTMENT OF STATE

All to whom these presents shall come, Greeting:

I Certify That the document hereunto annexed is a true copy
as the files of this Department.

In testimony whereof, I, SUMNER WELLES

Acting Secretary of State, have hereunto caused the Seal of the Department of
State to be affixed and my name subscribed by the Director of Personnel
of the said Department, at the City of Washington, in the District of
Columbia, this 22nd day of November, 1940

Sumner Welles
Acting Secretary of State.

By Edward Gordon
Director of Personnel.



AUSTRALIAN LEGATION,
WASHINGTON, D. C.

November 14th, 1940

Sir,

I have the honour to say that I have been instructed and authorised by my Government to advise you that my Government desires to have the Federal Reserve Bank of New York open and maintain a dollar account and a securities custody account in the name of the Commonwealth of Australia, and to request that you be good enough to transmit to the Secretary of the Treasury and to the Federal Reserve Bank of New York the following requests, instructions and representations:

1. A. That a dollar account be opened and maintained with the Federal Reserve Bank of New York in the name of the Commonwealth of Australia, and that accounts constituting part of such dollar account be designated as follows:

Commonwealth of Australia - Ordinary Account

Commonwealth of Australia - Special Account

- B. That a securities custody account be opened and maintained with the Federal Reserve Bank of New York in the name of the Commonwealth of Australia, and that such account be designated as follows:

Commonwealth of Australia - Securities Custody Account

- C. That the Commonwealth Bank of Australia is authorised by the Commonwealth of Australia to designate other accounts with different designations which shall also constitute part of such dollar account and such securities custody account.

Honourable
Cordell Hull,
Secretary of State of the United States,
Washington, D.C.



AUSTRALIAN LEGATION,
WASHINGTON, D. C.

- 2 -

2. That the Federal Reserve Bank of New York transfer to and receive in such accounts all funds and all securities which the Commonwealth Bank of Australia has instructed or will instruct the Federal Reserve Bank of New York to transfer thereto from accounts with the Federal Reserve Bank of New York in the name of the Commonwealth Bank of Australia.
3. That all funds and securities which may be thus transferred to such accounts in the name of the Commonwealth of Australia, and all other funds, securities and other property which may in the future be transferred, deposited or placed in such accounts are, and will be, the funds and property of the Commonwealth of Australia.
4. That the Government of the Commonwealth of Australia has authorized the Commonwealth Bank of Australia to make payments and withdrawals from and deposits in, and otherwise to manage and operate, the dollar account and the securities custody account to be opened with the Federal Reserve Bank in the name of the Commonwealth of Australia, and in connection therewith to give all manner of orders, instructions and advices relating to said accounts, including instructions to designate other accounts with different designations which shall also constitute part of such dollar account and such securities custody account, and authorizes and requests the Federal Reserve Bank of New York to accept and act upon any orders, instructions or advices of the Commonwealth Bank of Australia with respect to such accounts, and agrees with the



AUSTRALIAN LEGATION:
WASHINGTON, D. C.

- 3 -

- Federal Reserve Bank of New York that such orders, instructions and advices will be binding upon the Commonwealth of Australia.
5. That the Government of the Commonwealth of Australia authorises and requests the Federal Reserve Bank of New York to accept and act upon any cablegram, radiogram or telegram relating to such accounts, which is received by the Federal Reserve Bank of New York in the name of the Commonwealth Bank of Australia and which conforms to arrangements agreed upon between the Commonwealth Bank of Australia and the Federal Reserve Bank of New York with regard to the authentication of cablegrams, radiograms or telegrams by the use of test numbers, and agrees that all such cablegrams, radiograms or telegrams will be binding upon the Commonwealth Bank of Australia and the Government of the Commonwealth of Australia and will have the same effect as letters signed in behalf of the Commonwealth Bank of Australia by officers who are authorised to sign correspondence and documents containing instructions or other communications such as are contained in the cablegrams, radiograms or telegrams.

I should be grateful if you would be good enough to direct that copies of this letter be transmitted to the Secretary of the Treasury and to the Federal Reserve Bank of New York.

I have the honour to be,

With the highest consideration,

Sir,

Your obedient servant,

H. B. Casper