

DIARY

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BRITISH EMBASSY,
WASHINGTON, D.C.

July 2nd, 1940.

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very Sincerely yours,

L. N. N. N.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 1st, 1940

2

1. Yesterday enemy aircraft bombed shipping off Listerhead and also attacked Portland, but without effect. Indiscriminate bombing took place last night mostly on eastern and southern coasts and in Bristol Channel. Except for damage to one school, no serious material damage or casualties yet reported. Fighter sorties despatched, but no interceptions made.

2. Our fighter aircraft operating over France yesterday shot down six Messerschmidt 109's (confirmed) and seven Messerschmidt 109's (probable), one Hurricane missing but pilot believed safe. Blenheims attacked Merville aerodrome and railway station near Doullens yesterday. Three aircraft missing. Last night seventy two heavy bombers attacked marshalling yards, oil targets and aerodrome in western Germany, also fired area round Darmstadt. Mine laying also carried out. All aircraft returned. During the attacks by Royal Air Force on the night of 29th-30th June extensive fires were started in Black Forest and two chemical factories were successfully bombed. Factory at Hoeschat was left enveloped in flames. Other subsidiary targets successfully bombed. Air reconnaissance of Kiel reports one battle cruiser in floating

dock, one pocket battleship (stem damaged) in drydock, two cruisers, one aircraft carrier and two or three destroyers. Activity also with lighters or pontoons. General evidence accumulated that Germany is preparing for sea-borne invasion.

3. Customary weather, mine laying, reconnaissance and transport activities of German air force continued.

4. German troops reliably reported to have landed in Guernsey but no further details received.

5. Four British ships torpedoed off Western coast of Europe, two of which sunk. One enemy submarine reported sunk by His Majesty's Ship in Eastern Mediterranean.

6. No change reported in Mediterranean and African dispositions of French fleet. "Jeanne D'Arc" is at Guedeloupe. Most of French navy has now lost its fighting spirit though morale at Alexandria is better than elsewhere and generally smaller vessels have shown up better than battle fleet. Units not in contact with British appear content to remain in harbour.

7. Participation in war reported still unpopular in Italy. German division reported at Trieste and two more expected at Naples.

8. On June 29th and 30th seven Italian aircraft shot down by British fighters near Libyan frontier and one in Port Sudan area. Italian air attacks Malta yesterday caused six

-3-

casualties and slight material damage. Royal Air Force successfully attacked troop concentrations and bombed dumps south west of Djibouti.

July 2, 1940

Dear Mr. McManus:

Thank you for your letter of June 28th, addressed to the Secretary of the Treasury, which has been referred to me, concerning Rolls Royce Merlin engines.

I appreciate your taking the time and effort to tell the story from your point of view. I shall be delighted to communicate with you immediately upon the further release of the Rolls Royce plans now being held in custody by the War Department.

Sincerely yours,

(Signed) Philip Young

Philip Young
Assistant to the Secretary

Mr. John J. McManus,
150 Broadway,
New York, New York.

PY:bj

ROLLS-ROYCE

INC.
180 BROADWAY
NEW YORK, N. Y.

TELEPHONE BRONX 4-0334

June 28th, 1940.

SALES AND SERVICE

Hon. Henry Morgenthau, Jr.,
U. S. Secretary of Treasury,
Washington, D. C.

Re: Rolls Royce Merlin engines.

My dear Mr. Morgenthau:-

On page 8 of today's New York Times you are referred to and quoted as follows:

1. "It was an intergovernmental transaction, and I can't imagine that an engine or anything else that belongs to another government should be shut out from the government that made it available. (Underscoring mine).
2. "The engine 'is the property' of the government, not of the Rolls-Royce Company, and I don't see how it can be shut out of its own property. (Underscoring mine).
3. "Going back to the engines which were obtained, he said that the Chief of the Air Corps has been 'trying desperately' to get some Rolls-Royce engines from the British and that he (you) finally got them with the co-operation of Arthur Purvis, chairman of the Allied Purchasing Board." (Underscoring mine).

Just to keep the record of Rolls Royce, Limited, clear I refer to paragraph 5 above. I cannot imagine why anyone would give you this information. As far back as the Spring of 1938 I with another RR man made a trip to Washington to try and submit the Merlin without cost to either the Army or the Navy for test. Continuous from that time I have tried it. The answer I received was it would not be accepted for test unless it was not only built in this country but proof submitted that we had facilities and capital to continue the manufacture here. That would have cost millions. We could only reach the conclusion it was not wanted, and many thought the American industry would resent any such attempt.

I still kept at trying and finally arranged with Gen. Brett for a conference with Mr. Olley and myself. This was on February 28th, 1940. General Brett asked for two engines, and we said we would do what we could as the war was on. We went from General Brett to the British Embassy and then to see Admiral Towers. This was all in one day. I understand a cable was sent immediately to England. On return to New York the next day I saw the British Purchasing Commission (Mr. Purvis) and put in the request at that source. I still was not satisfied as I was within grasp of what I and RRL had been trying for over two years to do, so I wired the company. The result was that U.S. received the two engines. I do not know why you were not informed that long prior to the Treasury Department taking over this work RRL was trying to give the government engines.

ROLLS-ROYCE

INC.
180 BROADWAY
NEW YORK N. Y.

TELEPHONE MEADUR 8-0328

SALES AND SERVICE

Quotation from a letter to me from Hon. Robert A. Taft, dated
May 21st, 1940:

"I have talked with Brig. Gen. George H. Brett, Chief of the Air Corps' Material Division, regarding liquid-cooled engines, and am informed that aviation circles have been discussing this particular matter for the past several years. The Air Corps has been experimenting with liquid-cooled engines for many years, and would welcome from any manufacturer any such engine that could develop 1800 H.P. It is their contention that a liquid-cooled engine has yet to be developed equal to other types now in use.

April 30th, 1940 quoting from a copy of letter from Mr. Hives of Rolls Royce, England, Mr. Olley writes the British Embassy, copy to me:

Referring to the two engines above referred to:

"If you can find out how they are going to be used, we (meaning company) should be prepared to give ALL THE HELP AND ADVICE WE CAN to assist the testing and calibration of the engines" (Cps mine, and quoted to show British Company were willing to help."

On May 20th I wrote the President concerning the matter, and received an answer June 3d.

On May 18th an item appeared concerning the calling of the first meeting of certain officials in the plane and engine industry and I wrote the Asst. Secretary of the Navy, Hon. Louis Johnson, asking for any data that might result from such meetings. I was still determined to try to give America what it needed, and later what apparently has been proven it wants. The reply was that "No conclusions, therefore, were adopted which would be of value to you".

On June 4th, 1940 in response to a request from Mr. Mead that I use my endeavors to have key men sent from our Company in England and on other matters I cabled England, and wrote him I would do everything I could to rush matters as far as our company was concerned.

I quote this thing to show that the Company and not the U.S. were using every endeavor to get the engine here. Also to meet a rumor or statement by a U.S. Official that the Company might obstruct. And despite the fact that perhaps and maybe this is solely a matter between two governments, that key men and other information are needed that cannot be procured from blue prints ~~and~~ we are willing to co-operate if we are only allowed.

ROLLS-ROYCE

INC.
150 BROADWAY
NEW YORK, N. Y.

TELEPHONE RECTOR 2-0338

SALES AND SERVICE

As to the quotation above numbered "1" and "2" you say for the governments what I, as Attorney for Rolls Royce, Limited, for two weeks have been saying for the Company, and which I can say for Britain and for America:

About a ton and one-half of prints were shipped hastily to this country. Part of those prints were Merlin prints, other prints and private corporate documents of Rolls Royce Limited. Mr. Olley and myself were to receive these for Rolls Royce, Limited.

I can't imagine that anything that belongs to another should be shut out. Regardless of government contracts or prints, Rolls Royce made all these things available. We are up against the following:

1. Certain private papers of interest only to RRL as car manufacturers are locked up in a military camp at Wright Field and we cannot get them.

2. Engine prints which are necessary for efficient laying out of machine tools and for installation are also locked up. Mr. Olley is being called upon by this government and others and claims he needs them and that efficient work from one standpoint cannot go on, and it is doubtful whether the work can go on at all while these prints are locked up.

It is true that Treasury officials are now apologizing for the treatment afforded us both in this matter, but still our private papers are held, and still prints which Mr. Olley states are necessary for him to get are locked up doing no good and hindering progress.

I had a half hour's conference on long distance telephone with him last night. We both feel there is a solution to it, and the whole program, but we have no position to enforce except that we are Americans and want America to get the engines and at the same time Britain can get hers.

As above stated, I did not want to have the company appear in a wrong light, hence my writing you. I would like our papers, further from my telephonic conference last night, I feel this matter from both governments' standpoint can proceed if anyone wants to listen to us.

Respectfully submitted,

John M. Munn.
Resident, Rolls-Royce, Inc.
Attorney Rolls-Royce, Limited.

P.S.-- Could it be that someone like in 1917 is trying to block or use other means as was done in 1917 when prints and RE men were here resulting it is true in failure of their endeavors, but U.S. did not get RE engines?

BRITAIN TO SHARE IN PLANE ENGINES

Morgenthau Says as Matter of
Fairness Part of Rolls-Royce
Output Will Go to British

Special to THE NEW YORK TIMES.
WASHINGTON, June 27—Great Britain will share in any Rolls Royce airplane engines produced in this country as a matter of fairness, and because of the policy to aid the Allies, Secretary Morgenthau said today at his press conference.

Rights to the British engine, which Secretary Morgenthau obtained by negotiations with the British government, assisted by Ambassador Kennedy and the Allied Purchasing Board, were made available by the administration to the Ford Motor Company. However, these negotiations were ended this week when Henry Ford declined to make any of the engines if they were to go to the British.

The National Defense Advisory Commission has now turned to the Packard Motor Car Company as a substitute for the Ford concern in the mass production of Rolls Royce engines. The British sought to order 6,000 engines from the Ford Company, and the United States planned to take 3,000.

Profits Curb Approved

Other developments at the Treasury press conference were:

1. Secretary Morgenthau stated that while he did not recommend the recent amendment of the Vinson-Trammell Act to limit the profits on aircraft and ship orders to 7 and 5 per cent, depending upon the type of contract, he was heartily in favor of it now that it was passed.

2. The Secretary's announcement that the first application of a "formula" to work out the method of repayment of government loans for expense to defense industries was submitted in an agreement now being completed with a large corporation which would be made public in a few days.

In addition, the Secretary was asked what price the Treasury paid for the gold brought back last week

for the gold.

Engine Property of Britain

In discussing the abandoned negotiations with the Ford Motor Company on Rolls Royce production, Mr. Morgenthau said the British Government had imposed no legal restrictions on the United States in granting it use of the motor design, but that as "a matter of fairness and policy," rather than of contractual obligation, this government should cooperate with the British in making available some of any Rolls Royce engines which might be produced here.

"It was an intergovernmental transaction and can't imagine, the Secretary said, that an engine or anything else that belongs to another government should be shut out from the government that made it available."

He added that the engine "is the property of the British Government, not of the Rolls-Royce Company, and I don't see how it can be shut out on its own property."

Referring to the British, he declared that "they said we want you to have the license, but we want some engines too."

Air Corps Efforts Recalled

Going back to how the engines were obtained, he said that the Chief of the Air Corps had been "trying desperately" to get some Rolls-Royce engines from the British and that he (Secretary Morgenthau) finally got them with the cooperation of Arthur Purvis, chairman of the Allied Purchasing Board. After the sample engines were sent over he got the rights to manufacture them with the aid of Ambassador Kennedy, he added.

Regarding the new 8 per cent profit limitation on airplane and ship contracts negotiated by competitive bidding, the Secretary said "it is a very nice profit and now let's see how patriotic some of these people are who waved the flag and said they were so patriotic and wanted to aid national defense."

The Secretary said that it was definitely established that under present law the Treasury could not make any closing agreements with government contractors covering depreciation allowances for tax purposes except along the lines of the original closing order signed with the Colt Firearms Company about a year ago.

The only thing new he said was the application of a "formula" for taking care of amortization of government loans to defense industries, which would be made public in a few days.

John N. MANUS

ROOM 714
150 BROADWAY
NEW YORK, N. Y.



VIA AIR MAIL

Hon. Henry W. Morgenthau

Secretary of Treasury

Washington, D.C.

Return
Receipt requested.

Receipt Requested
FEE PAID

VIA AIR MAIL

REPRESENTATIVE IN CANADA AND THE UNITED STATES
OF THE
MINISTRY OF AIRCRAFT PRODUCTION
OF THE UNITED KINGDOM

Telephone:
PLateau 4136

ROYAL BANK BUILDING
MONTREAL

July 2, 1940.

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

Dear Mr. Morgenthau:

So that you may get rid of the plans, drawings, etc., recently delivered to you, other than those of the Rolls-Royce Merlin engines required in connection with our proposed joint project, may I request that the plans and drawings of the Halifax-Handley Page aircraft and the Rolls-Royce "G" engines be sent by express, collect, to:

Morris W. Wilson,
The Royal Bank of Canada,
Montreal.

The remaining parcel, consisting of car and experimental drawings, may be turned over to the Rolls-Royce representative presently in Washington.

I regret giving you so much trouble in this connection. Thanking you in anticipation, I am,

Yours sincerely,

Morris W. Wilson
Representative



DEPARTMENT OF STATE
WASHINGTON

July 2, 1940.

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury, and
encloses one copy of paraphrase of telegram No. 1914
of July 1 from London.

TO THE SECRETARY OF THE
TREASURY
WASHINGTON, D. C.

640 401 5 JUL 10 23

RECEIVED
JUL 10 1940

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: July 1, 1940, 7 p.m.

NO.: 1914

The following is for the Secretary of State and for the Secretary of the Treasury:

I had lunch today with Montagu Norman, and he asked the following during the course of our conversation -

First. Mr. Norman made reference to an announcement which was made on June 25 by the American Treasury and Navy Departments that gold had been bought from the French Government by the United States, and that for transporting it to the United States the United States cruiser VINCENNES had been used. Mr. Norman wondered whether similar facilities could be extended to the British, as he still had for shipment between 100 and 150,000,000 pounds in gold in a variety of ownerships. He expressed willingness to execute a deal.

Second. Credits were being canceled by the Manhattan, Irving and Guaranty, he said, and he felt this was a serious matter. He raised the question "where do we stand". He said he wondered if you could find out, in great secrecy, whether this will be a definite policy of these banks and whether it might become "contagious".

- 2 -

Third. Tomorrow Niemeyer is to sail on the same ship as Bewley and Phillips; Niemeyer is going to Ottawa. Kingsley Wood had said, Norman told me, that he wanted us to know this in advance so that we could make known any objection if by any chance we did object.

KENNEDY.

EA:LWW

TO THE DIRECTOR
GENERAL INVESTIGATIVE
DIVISION
JUL 10 1961

REC'D CIVIL RIGHTS
JUL 10 1961

RECEIVED
JUL 10 1961

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

The following is suggested as a draft of a statement to be given to the Press on July 9, provided it meets with British approval:

"The Secretary of the Treasury has announced that, upon his invitation, Sir Frederick Phillips, British Under Secretary of the Treasury, will shortly arrive in Washington for a visit. This meeting will provide the occasion for discussion of technical and other questions of the British and American Treasuries. It will be recalled that Sir Frederick Phillips visited Secretary Morgenthau in Washington during the Autumn of 1937."

Copy of paraphrase to TREASURY DEPARTMENT.

15956

Paraphrase of telegram No. 689 from Stockholm, July 2, 1940

Secretary of State,

Washington.

A most unsatisfactory heavy credit balance in Sweden is being created by the conduct of Swedish-Danish trade under a makeshift clearing arrangement which has been in operation since the occupation of Denmark. There is no need here for butter from Denmark though its exportation from Denmark would be permitted by the Germans. Sweden also has owing to it by the Danish considerable amounts representing interest payable on bonds including some payable in sterling and others in dollars. Both Denmark and Sweden desire the release in England and the United States of blocked Danish funds in amounts adequate to meet this interest, Sweden to guarantee that such exchange would not leave Sweden. Negotiations have already been opened, it is understood, in Washington or New York, and a like approach to London is being made. Since in terms of marks Denmark is a heavy creditor to Germany and in terms of crowns a heavy debtor to Sweden, Schacht favors a triangular arrangement, which, however is not favorably thought of in Sweden because of the political implications of such an arrangement.

STERLING

DCA:GHK:MEK

THE PRESIDENT'S APPOINTMENTS:

11:00--CHAIRMAN WARREN OF THE HOUSE REORGANIZATION COMMITTEE.
11:15--WORKS ADMINISTRATOR CARMODY.
11:30--DAVID LASSER.
11:45--REP. JERE COOPER.
12:00--ASSISTANT SECRETARY OF INTERIOR BURLEV.
12:15--POWER COMMISSION CHAIRMAN LELAND OLDS.
12:30--RED CROSS CHAIRMAN DAVIS.
1:00--PRESIDENT T. V. SOONG OF THE BANK OF CHINA (LUNCH).
1:45--SECRETARY ICKES.
4:00--PRESS.

7/2--R1103A

JUL 2 1940

Dear Mr. Pierson:

Mr. Joseph P. Cotton, Jr., having submitted his resignation to you June 27, 1940, as a Member of the Board of Trustees and of the Executive Committee of the Export-Import Bank of Washington, effective June 30, 1940, I nominate in his stead Mr. Harry D. White, Director of Monetary Research, Treasury Department, to serve as a Member of the Board of Trustees and of the Executive Committee of the Bank.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Warren L. Pierson,
President,
The Export-Import Bank of Washington,
Washington, D. C.

HH:r

File to Mr. Thompson
By Messenger

7/2/40

10:00 a.m.

Mr. Suffield called
and said that he had
tried every way possible
to get a leave of absence
but had been unable
to get it.

D E M

TO: .

Miss Chauncey

20

7/13/40

Re: Foreign Lessor of Aircraft Engine
Plant - Memo 7/2/40

Miss McGuire found the attached among
some papers Mr. Foley brought back from
the Secretary's office. It should be
in your file, so I am returning it.

A copy of this memorandum was sent to
you on July 8th.

Mrs. Brown

MR. FOLEY

21

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE JUL 2 1940

TO Secretary Morgenthau
FROM Mr. Foley

Foreign Lessor of Aircraft Engine Plant.

I have examined the draft agreement of lease and license between the French State and the Wright Aeronautical Corporation which I understand the Advisory Commission has informed the Corporation would be contrary to national defense policy. Although I have not seen a copy of the letter of the Commission to the Corporation, I assume that the reason for disapproval of the draft agreement is that the Government of the United States would lose control over the production facilities of a plant covered by such a lease.

Under the draft agreement the foreign government leases various lands, buildings, machinery and equipment and the Corporation agrees to pay as rent the annual local direct property taxes assessed against the facilities. The proposed lease terminates 90 days after Wright Aeronautical Corporation discharges any obligation to deliver engines to the lessor government, and further provides that upon such termination the foreign government may remove the leased facilities upon paying a fee of \$1,555,000 to the Corporation to compensate it for any rearrangement of its own facilities which it may be necessary to make if the leased facilities are removed.

In my opinion the lease in its present form ought not to be approved by the Advisory Commission, but I think that it ought to be possible to permit a leasing arrangement to be made, at the same time safeguarding the interests of the United States. The following modifications might accomplish this result:

1. The term of the lease should be a fixed period of at least 10 years. This would make it impossible for the foreign government to dismantle the plant or remove the machinery for at least that period of time, and thus the facilities will always be available for the production of aircraft engines for the United States.

2. The rent for the leased facilities should continue to be payment by the Corporation of the annual local direct property taxes so long as the foreign government is using the facilities but ought to be increased if the United States uses the facilities in order to compensate adequately the foreign government. If the Corporation makes aircraft engines for the United States and all the foreign orders have been filled, the annual rent might then be fixed at an amount equal to the sum of:

- (a) Local direct property taxes,
- (b) Normal wear and tear, and
- (c) 3% rent on the principal invested in the leased facilities.

-2-

3. An option should be included in the lease so that the Corporation may purchase the facilities at any time upon tendering to the foreign government whichever of the following amounts the foreign government elects:

- (a) An amount equal to the cost of the facilities, adjusted for depreciation at the date of the tender, or
- (b) An amount equal to the fair value of the facilities as fixed by three appraisers, one to be selected by the Corporation, one to be selected by the foreign government, and one to be selected by the RFC.

The purpose of this option is to make sure that if the Advisory Commission ever deemed it necessary for the President to exercise his commandeering powers under §120 of the National Defense Act of 1916, he could take immediate possession of the plant after the Corporation exercised its option, without having the situation complicated through ownership being vested in a foreign sovereign. Presumably in such a situation the RFC would advance the necessary funds to the Corporation so that the option could be exercised, and presumably the foreign government would be satisfied with a price determined as stated above.

Smith

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

23

Y DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Despite fairly large day-to-day movements in the prices of Treasury securities during the past week, the level of prices has experienced little net change for the week as a whole (Charts I and II).
- (2) During the first half of 1940 weekly reporting member banks have increased their holdings of Government securities by over \$450 millions in the face of a decline of the marketable supply of such securities by almost \$550 millions. The net result has been a reduction in the holdings of other classes of investors by about \$1 billion (Chart III).
- (3) High-grade corporate and municipal bonds moved within a narrow range last week. The first major corporate financing in almost six weeks occurred on June 24 with the \$38 millions offering of the Jersey Central Power and Light Company.
- (4) Italian dollar bonds broke sharply yesterday following a default in one such issue. Other foreign dollar bonds have been comparatively quiet (Chart IV).

I. United States Government Securities

Day-to-day movements in the prices of Treasury securities last week were fairly large -- averaging about 6/32 of a point for bonds with over 15 years to call, but the net effect upon the level of Government security prices was small. Declines on the first three days of last week have

Secretary Morgenthau - 2

been somewhat more than offset by the rally which has occurred since then (Chart I). The average yield of long-term Treasury bonds on Monday (2.30 percent) was only slightly above the level which prevailed before the invasion of the Low Countries (Chart II).

A considerable part of the trading in Treasury securities in the last week or ten days has consisted of switching transactions, to some extent occasioned by the adjustment of bank portfolios for the June 29 condition statements. The new 1 percent Treasury notes were in supply last week and about \$7 millions of them found their way into the Federal Reserve Open Market Account in exchange for the other two 1943 note maturities. The Open Market Account also sold outright \$22 millions of direct and guaranteed issues last week.

A substantially increased demand for Treasury bills appeared last week. The average rate on last week's offering was .046 percent as compared with .095 percent the preceding week. The average rate on this week's offering was still lower (.024 percent). This increased demand came largely from banks and corporations for midyear statement purposes.

II. Concentration of Government Securities in the Hands of Banks

It is interesting to note that in the past six months the holdings of direct and guaranteed Government securities by weekly reporting member banks in leading cities increased by more than \$450 millions in the face of a decrease of almost \$550 millions in the privately held marketable supply* of such obligations (Chart III). As a result, the proportion of the privately held marketable supply in the hands of these banks (33.2 percent) is the greatest that it has been since the latter part of 1936.

* The "privately held marketable supply" includes all interest-bearing obligations except United States savings bonds, Adjusted Service bonds, and securities held by Federal Reserve Banks, and Federal governmental corporations, credit agencies and trust funds.

The chart shows the changes, since the end of 1939, in the privately held marketable supply of direct and guaranteed obligations, and in the holdings of weekly reporting member banks and of other holders. It will be seen that notes were the only type of security to increase in supply. The net increase in reporting bank holdings of Treasury notes, however, was greater than the increase in the supply of notes.

The net result of the reduction in the marketable supply, together with the increase in weekly reporting bank holdings, has been a decrease of about \$1 billion in the holdings of all other classes of investors. It is improbable that any of this decrease occurred, on balance, in the holdings of banks other than weekly reporting member banks. (The only figures available relate to the holdings of member banks, other than weekly reporting, which increased by almost \$50 millions during the first three months of the year.) Our reporting group of 37 life insurance companies likewise increased their holdings by about \$150 millions during the first four months of the year. It appears, therefore, that at least \$1-1/4 billions of Government securities have been disgorged by holders other than banks and insurance companies during the first six months of this year.

III. High-grade Corporate and Municipal Securities

The prices of high-grade corporate securities moved in a narrow range last week (Chart II). The market for municipals, as reflected by the Dow-Jones average yield of twenty 20-year bonds, gained moderately. The Dow-Jones average, at 2.68 percent on June 29, was at the same level as on the day following the Netherlands invasion.

The market for new security issues showed signs of improvement last week when the \$38 millions issue of 3-1/2 percent, 25-year first mortgage refunding bonds of the Jersey Central Power and Light Company, which have been in SEC registry since last fall, were offered. This is the first major corporate issue to be offered since the \$75 millions debenture offering of the United States Steel Corporation on May 15. The new bonds, priced to yield about 3.35 percent, were reported to be moving slowly from dealers' hands, however, at prices around the issue price of 102-1/2.

It is also interesting to note that on June 19, the State of New Hampshire, which rejected bids for \$7 millions of bonds on a 2 percent coupon basis during the May break of the market,

Secretary Morgenthau - 4

sold these bonds on a 1-1/2 percent coupon basis. The bonds mature serially from 1941 to 1955 and were priced to yield from 0.20 percent to 1.50 percent.

IV. Foreign Government Securities

Italian dollar bonds broke sharply yesterday when it was announced that interest would not be paid on the Italian Public Utility Credit Institute 7's due in 1952. Canadian dollar bonds reached a new low for the current crisis last Tuesday, but have since gained on net balance. Australian dollar bonds gained slightly for the week as a whole (Chart IV).

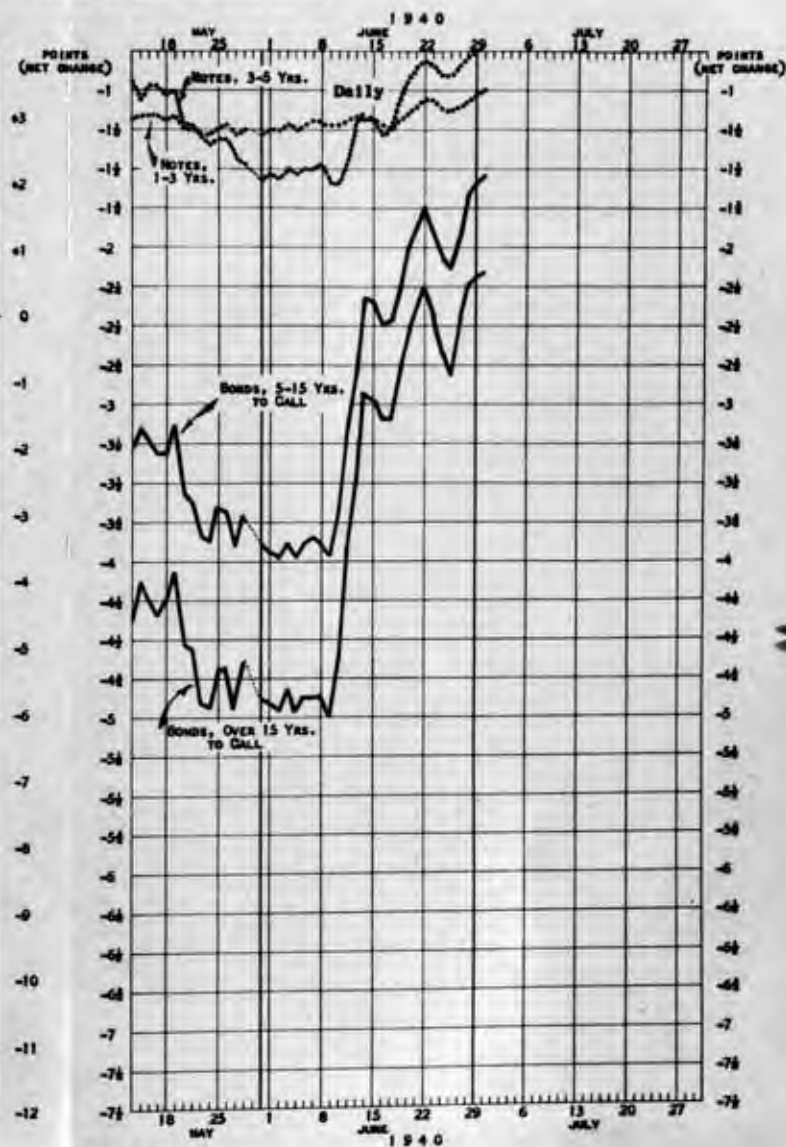
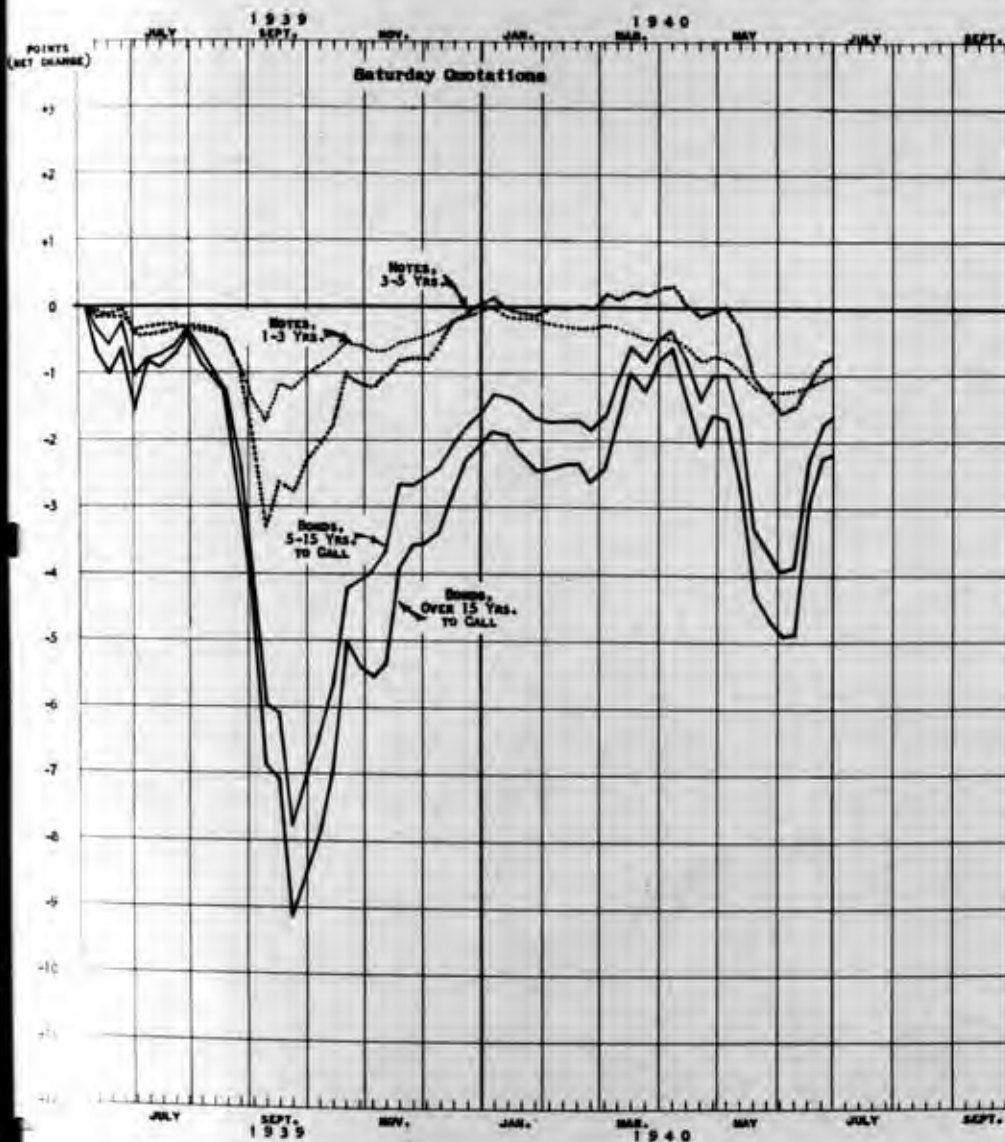
British 2-1/2 percent consols, after falling last Tuesday to the minimum price of 70-1/2 set by the London Stock Exchange, had recovered slightly to 71 by yesterday's close.

Attachments

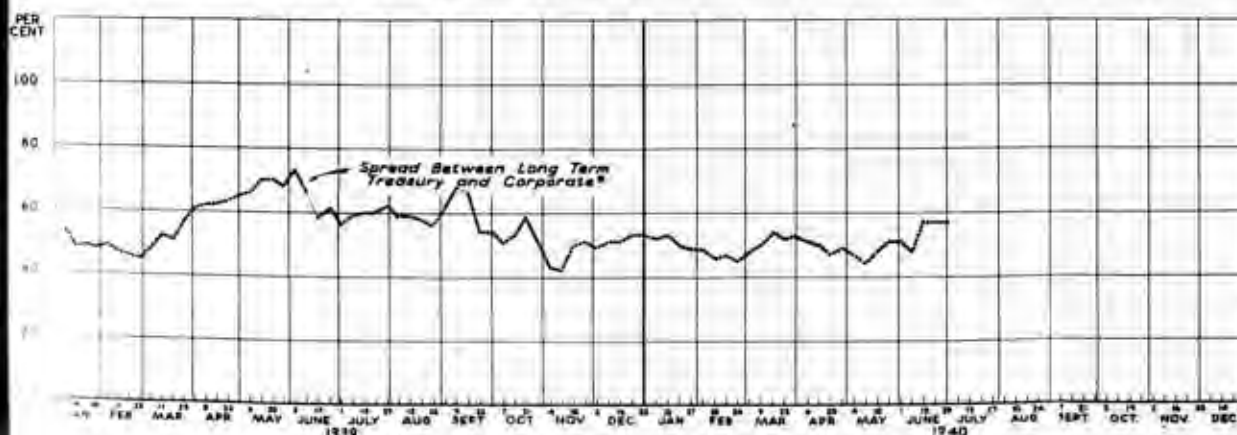
Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

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



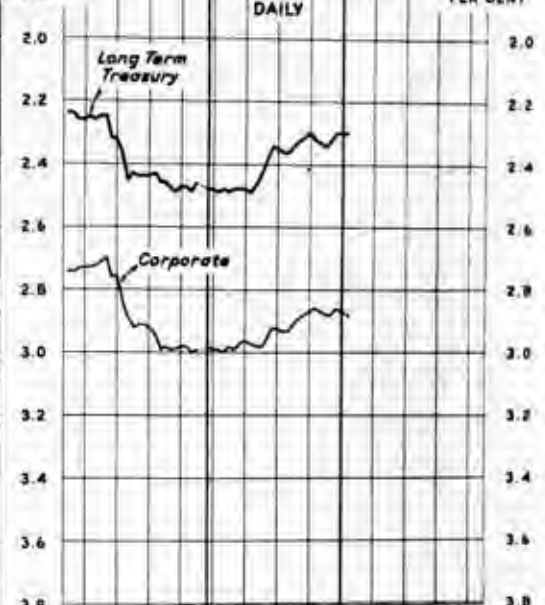
WEEKLY. Saturday Quotations



U.S. Department of the Treasury
Bureau of Economic Analysis

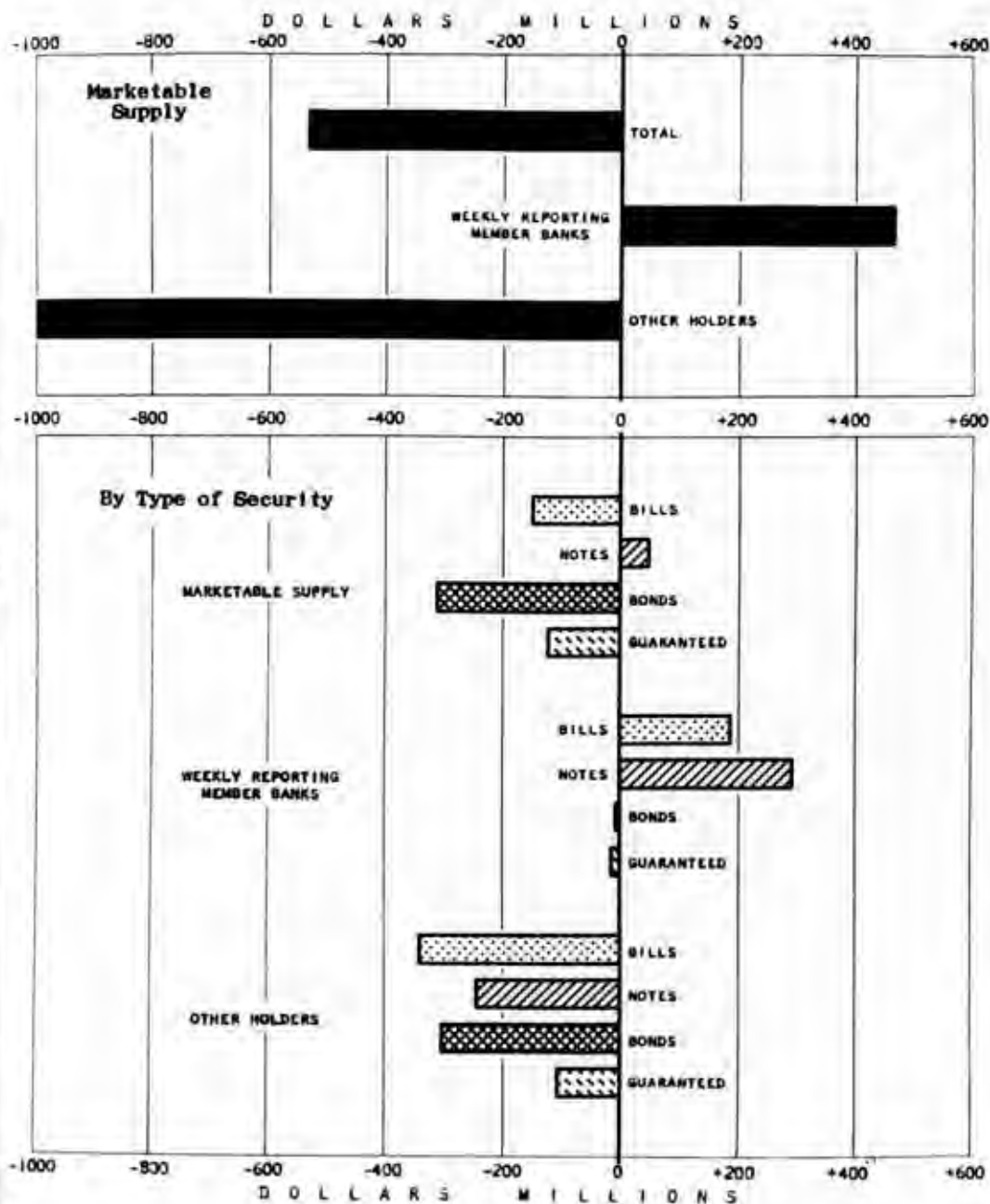
^aBased on the indicated change in composition of long term Treasury average.

Figure 1 is a line graph showing the percentage of inverted scales on the dorsal surface of the head of the larva of the black fly *Simulium vittatum*. The x-axis represents time from May to July 1940. The y-axis represents the percentage of inverted scales, ranging from 0 to 100. The graph shows a sharp increase in the percentage of inverted scales starting in late May, reaching a peak of approximately 80% in early June, and then gradually declining to about 40% by late July. The data points are connected by a line, and the graph is labeled with "Inverted Scales PER CENT" on both the y-axis and at the bottom.



Date	Spread (%)
May 4	50
May 10	48
May 15	45
May 20	48
May 25	52
May 30	53
June 5	50
June 10	52
June 15	50
June 20	60
June 25	60
June 30	58
July 5	58
July 10	60
July 15	60
July 17	60

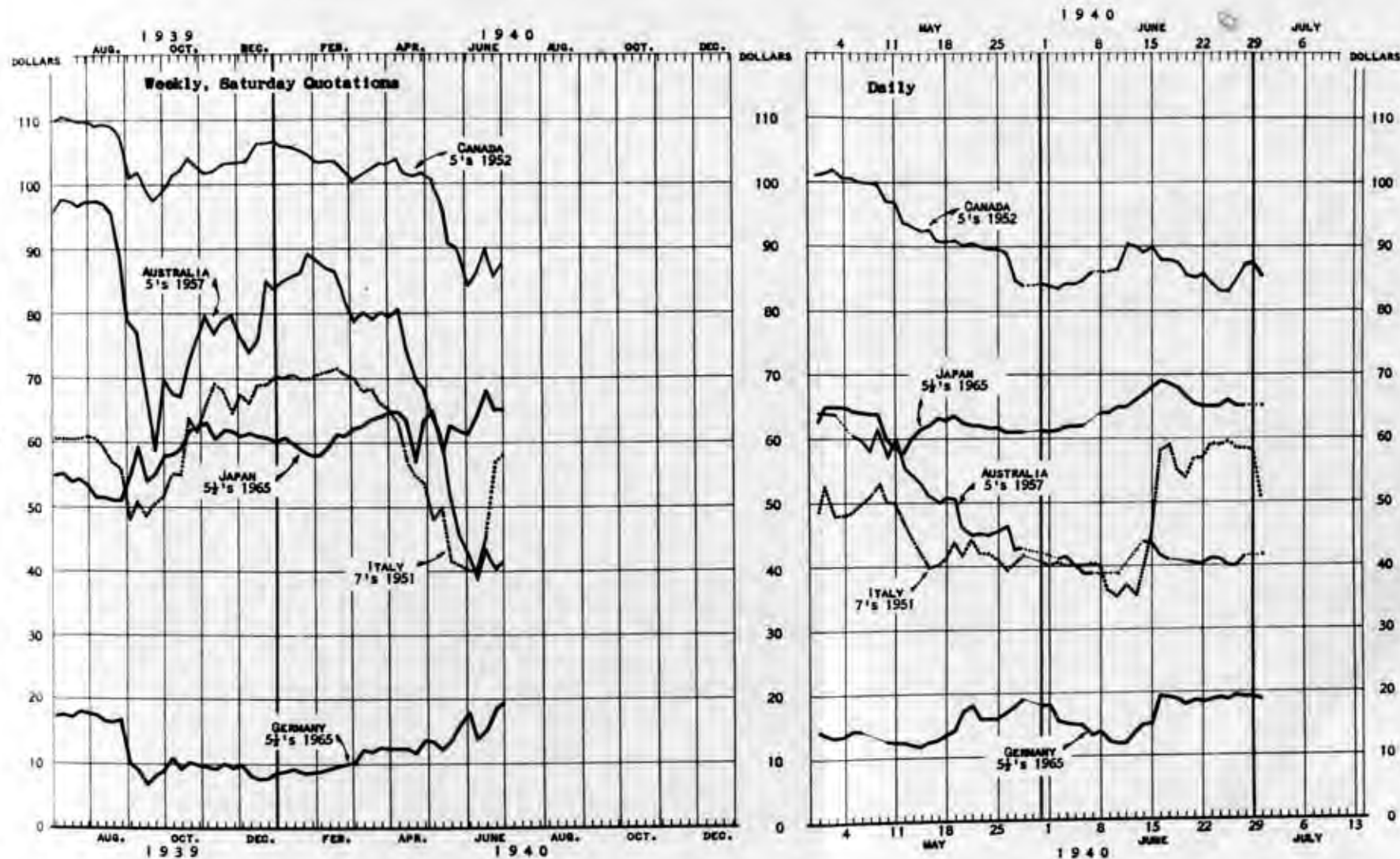
Chart III
 CHANGES IN U.S. SECURITY HOLDINGS OF WEEKLY
 REPORTING MEMBER BANKS AND ALL OTHER HOLDERS
 Changes, December 31, 1939 to June 19, 1940*



* HOLDINGS ON JUNE 19, PARTLY ESTIMATED

Chart IV

PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



CORRECTED COPY

JIL

GRAY

BERLIN

Dated July 2, 1940

Rec'd 8:35 p.m.

Secretary of State,
Washington.

2289, July 2, 2 p.m.

FOR TREASURY FROM HEATH AND ALSO FOR THE INFORMATION
OF THE DEPARTMENT.

Although tax revenues of the Reich for the fiscal year ended March 31 had been officially forecast at 24,000,000,000 marks the actual collections according to the Berlin press were only 23,575,000,000 marks as compared with 17,212,000,000 marks in 1938 and 1939. Of this total 18,235,000,000 marks represented revenues from property and transaction taxes including war surtaxes. (i.e. wage, income, corporation and inheritance taxes, taxes on business turn over sales of property stamps on documents, motor vehicles, transportation and freight taxes, et cetera) and 5, 340,000,000 marks were revenues from customs and consumption taxes. The corresponding figures for 1938 and 1939 were 13,061,000,000 marks property and transaction taxes 4651 customs and consumption taxes.

Total 23,575,000,000

-2- #2289, July 2, 2 p.m., from Berlin

Total tax revenues for the last quarter of the 1939 and 1940 fiscal year (January to March) were 5,840,000,000 marks as compared with 6,335,000,000 marks in the 3rd quarter, a decline of 495,000,000 marks. However, there is probably no particular significance to be attached to this decline in view of the fact that tax revenues are customarily lower in the fourth than in the third quarter, the highest tax collections of the year usually occurring in the October to December period. Of the total revenues for the January to March 1940 period 4,574,000,000 marks was from property and transactions taxes including war surtaxes and 1,266,000,000 marks from customs and consumption taxes compared with 4,922 and 1,414 million marks respectively in the previous quarter and 3,464 and 1,205 million marks in the 4th quarter of the fiscal year 1938--1939. It is assumed that the special war consumption taxes are included in the customs and consumption taxes item and not under the war surtaxes because of the fact that this item has shown little variation in spite of reduced imports and restricted consumption.

Tax certificates in the amount of 669,000,000 marks were turned in during the period from January to March so that cash receipts from tax revenues were only

5,171,000,000

-3- #2289, July 2, 2 p.m., from Berlin

5,171,000,000 marks compared with 6,174,000,000 (tax revenue less amount received in tax certificates) in the preceding quarter. Reich debt on account of tax certificates outstanding was of course reduced by the amount of tax certificates used for tax payments but it was necessary to increase borrowing in other ways to a like amount above what would have otherwise been necessary. Presumably large amounts of tax certificates of type 1 will also be used for tax payments in April and May (in March alone 319,000,000 marks were turned in) but after May only small amounts will be turned in since their issuance having been discontinued on November 1st of last year none will mature in the following months and the rest outstanding will probably be turned in very slowly as they are presumably being held to make use of the special depreciation allowances. No tax certificates of type 2 will mature before June 1942.

No detailed statement of tax revenues such as was customary before and at the beginning of the war will presumably be published since this was also omitted for the previous quarter.

HEATH

GW

RDS

PLAIN

Stockholm

Dated July 2, 1940

Rec'd 2:58 a.m., 3rd

Secretary of State,
Washington.

691, Second.

Result trade negotiations Germany in 1940 will purchase approximately 70,000 tons paper and cardboard. Refer our 679, Germany will take 170,000 tons pulp in addition to unimportant quantity already ordered, total may reach 220,000. Agreement includes use of Swedish shipping whereas formerly German bottoms used. This expected engage most coal burners now inside Skagerrak blockade. Regulations promulgated provide that funds for payment obligations to Belgium, France, Luxemburg, Netherlands be deposited with Riksbank for account clearing board. In millions crowns Riksbank June 29 gold reserve 834 point 25, Foreign exchange reserve 436 point 6, Swedish Government securities domestic bills et cetera 849 point 4.

INFORM COMMERCE

STERLING

EMB

RAW

PLAIN

London

Dated July 2, 1940.

Rec'd. 2:03 p.m.

Secretary of State,
Washington, D.C.

1937, July 2.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer has announced the appointment of Lord Catto as financial adviser to the Treasury, a newly created post, and also the appointment of a consultative council of eight members to advise him on special problems arising from war conditions. Lord Catto is a director of many enterprises including the Mercantile Bank of India and is the most active partner of Morgan Grenfell. Recently he has been director general of equipment stores at the Ministry of Supply. He is a tough, straightforward Scot with a great capacity for tackling practical problems and although he has not had fiscal experience the British Treasury's work now includes so much that goes beyond the administration of public finance that there is great need for such a man who can remain unencumbered by administrative burdens. The consultative council is made up of Keynes; Campbell, Chairman of the National

Provincial

RAW -2- 1937, July 2, London.

Provincial Bank and of the Committee of London Clearing Bankers; Citrine, General Secretary of the Trades' Union Congress; Henderson, the economist; Hornsby, formerly Governor of the National Bank of Egypt and now chairman of the Commercial Union Assurance Company; Riddle, Chairman of the Finance Committee of the Cooperative Wholesale Society; Riverdale, chairman of Arthur Balfour, Ltd.; and Beale, chairman of Guest Keen and Nettlefolds. Given the fact that this body is merely consultative and that its members are so heterogeneous as to preclude agreement on almost any subject, there is every reason to believe that its utility will mainly be as a public air raid shelter to protect Sir Kingsley Wood from the splinters and blasts of criticism to which the Treasury in general and he in particular are now being subjected.

2. To prevent evasion of capital export prohibition the export or taking out of the United Kingdom of jewelry and other valuables has been made subject to Board of Trade license.

KENNEDY

CSB

TELEGRAM SENT

RDS

GRAY

July 2, 1940

7 p.m.

AMERICAN CONSUL

SHANGHAI (CHINA) VIA NAVAL RADIO

292.

Treasury Department requests information be obtained from responsible officials of Shanghai branch of Bank of Indochina regarding any difficulties being experienced as a result of application of American control over French assets in the United States. Cable reply for account of Treasury Department.

HULL
(FL)

EA:FL:MEG

MA

TELEGRAM SENT

GRAY

July 2, 1940

1 p.m.

AMEMBASSY

ANKARA

56.

Your despatch number 1459, May 22.

Treasury requests Embassy advise Monsieur Rothe that it is contemplated that license will be issued authorizing the Banque Belge pour l'Etranger to make payments on his order out of his checking account upon application by such bank, to be filed upon receipt of such orders.

HULL

(FL)

EA:FL:EB

TELEGRAM SENT

GRAY

July 2, 1940

7 P. M.

AMERICAN EMBASSY,

LA BOURBOULE (FRANCE)

13.

"For Matthews from the Treasury.

Federal Reserve Bank of New York refers to your cablegram #99 June 26 and asks that the following message be delivered by you to Governor Fournier of the Bank of France:

1. From June 10 to June 17 no cables were received by us from Bank of France. From June 18 to July 1 we received 12 cables from Bordeaux but 9 additional messages evidently dispatched to us are still missing as previously advised. As soon as #3 was received on June 18 we dispatched to Bordeaux our cable #1 which was followed by 14 cables to Bordeaux numbered 2 to 15 inclusive between June 21 and July 1. We are still awaiting reply to our #4 of June 22, #6 of June 24, #7 of June 25, and #12 of June 28.
2. Action on Bank of France #3 had to be delayed temporarily until we had traced Bank of France's missing #1 and #2 and received the necessary license from the Treasury Department. Completion of the transaction was cabled to Bank of France and Swiss National Bank on June 27. Regret not having kept Bank of France currently informed regarding this particular transaction, an "oversight" on our part due to the unrelenting pressure of business under extraordinary conditions. As regards advice of receipt of and payment for the recent special gold shipment the Treasury Department will explain.
3. Our investigation therefore indicates that non-receipt by Bank of France of cables from us

PT -2- #13 July 2, 1940 to La Bourboule

us was almost wholly due to the same circumstances which so seriously interfered with Bank of France's cables to us, and that failure to maintain prompt and continuous contact was due to circumstances over which we had no control. We regret the inconveniences and embarrassment of a situation which we were powerless to correct.'

With reference to the final sentence of paragraph 2, please tell Governor Fournier that since the negotiations for the gold transaction had been handled between governments, the Treasury Department had considered its message of June 19, 9 p. m. sufficient notice to Governor Fournier, who had through your #46 June 20, 6 p. m. acknowledged it. The Federal Reserve Bank of New York had been informed to this effect."

HULL

(PL)

CA:PL:MEG

RDS

GRAZ

Buenos Aires

Dated July 2, 1940

Rec'd 9:27 p.m.

Secretary of State,
Washington.

268, July 2, 8 p.m.

Exchange control circulars dated June 28 and made available last night, indicate new or additional restrictions on American products in the following classes: white cement, varnishes, paints, enamels, silk yarn. (It is estimated that American trade in these items in the past year has been worth between 2,000,000 and 3,000,000 dollars. Trade reports are to the effect that the only alternative source of silk yarn at present is Japan which continues unrestricted). The quotas on American barbed wire and light tractors have been somewhat liberated. Eggs may be imported up to July 31, 1940. Air mail report follows.

PLEASE INFORM COMMERCE

ARMOUR

EMB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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>
June 24	Nil	Nil	Nil	Nil
25	100	3,226	3,500	3,570
26	Nil	Nil	Nil	Nil
27	6,000	21,630	21,000	22,133
28	7,300	69,921	12,000	9,889
29	Nil	Nil	Nil	Nil
	<u>13,400</u>	<u>94,777</u>	<u>36,500</u>	<u>35,592</u>
Sales from February 22 to June 22	<u>1,338,163½</u>	<u>47,807,794</u>	<u>1,854,500</u>	<u>1,634,097</u>
TOTAL FEBRUARY 22 TO June 29	1,351,563½	47,902,571	1,891,000	1,669,689

Mr. Pinesent reported that sales of non-vested securities for the week ended June 22 amounted to \$1,500,000. Mr. Gifford reported that sales of non-vested securities up to June 22 totaled \$196,000,000.

B. M. P.

July 2, 1940

Dr. Fels

Mr. Cochran

Will you kindly send the following cablegram to the proper destination for receipt by Mr. Matthews of the American Embassy in France:

"For Matthews from the Treasury.

Federal Reserve Bank of New York refers to your cablegram #99 June 26 and asks that the following message be delivered by you to Governor Fournier of the Bank of France:

- '1: From June 10 to June 17 no cables were received by us from Bank of France. From June 18 to July 1 we received 12 cables from Bordeaux but 9 additional messages evidently dispatched to us are still missing as previously advised. As soon as #3 was received on June 18 we dispatched to Bordeaux our cable #1 which was followed by 14 cables to Bordeaux numbered 2 to 15 inclusive between June 21 and July 1. We are still awaiting reply to our #4 of June 22, #6 of June 24, #7 of June 25, and #12 of June 28.
- 2: Action on Bank of France #3 had to be delayed temporarily until we had traced Bank of France's missing #1 and #2 and received the necessary license from the Treasury Department. Completion of the transmission was cabled to Bank of France and Swiss National Bank on June 27. Regret not having kept Bank of France currently informed regarding this particular transaction, an "oversight" on our part due to the unrelenting pressure of business under extraordinary conditions. As regards advice of receipt of and payment for the recent special gold shipment the Treasury Department will explain.
- 3: Our investigation therefore indicates that non-receipt by Bank of France of cables from us was almost wholly due to the same circumstances which so seriously interfered with Bank of France's cables to us, and that failure to maintain prompt and continuous contact was due to circumstances over which we had no control. We regret the inconveniences and embarrassment of a situation which we were powerless to correct.

-2-

With reference to the final sentence of paragraph 2, please tell Governor Fournier that since the negotiations for the gold transaction had been handled between governments, the Treasury Department had considered its message #17 of June 19, 9 p.m. sufficient notice to Governor Fournier, who had through your #46 June 20, 6 p.m. acknowledged it. The Federal Reserve Bank of New York had been informed to this effect."

B. M. B.

WHD:cmk:7.2.40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In very light trading, sterling opened at 3.78-1/2, moved within a 3-cent range, and closed at 3.80.

Sales of spot sterling by the six reporting banks totaled £167,000, from the following sources:

By commercial concerns.....	£ 70,000
By foreign banks (Europe, Far East, Near East and South America).....	£ 97,000
Total.....	£167,000

Purchases of spot sterling amounted to £130,000, as indicated below:

By commercial concerns.....	£ 69,000
By foreign banks (South America and Far East).....	£ 61,000
Total.....	£130,000

The Bank of Manhattan reported that it had sold cotton bills totaling £1,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Guaranty Trust Company stated that it had purchased £1,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for a whisky shipment.

The other currencies closed as follows:

Swiss franc	.2265
Canadian dollar	16-1/4% discount
Lira	.0505
Reichsmark	.4000
Cuban peso	9-15/16% discount
Mexican peso	.1980 bid, .2020 offered

According to an Amsterdam report in today's New York Times, the German authorities have fixed the guilder at 1.88-3/16 to 1.88-9/16 in terms of the dollar (equivalent to \$.5313-7/8 and .5303-1/4 per guilder, respectively). The last quotation for the guilder in New York was \$.5309 on May 9.

On June 28, the Guaranty Trust Company of New York cabled to the Twentsche Bank, Amsterdam, inquiring if that bank could receive and make guilder payments by order of and under the account of the Guaranty Trust Company of New York. The reply from the Twentsche Bank, received today, was as follows: "Payments in favor of nonresidents require the permission of the Exchange Institution in Amsterdam. Payments in favor of residents require no permission. No overdrafts are permitted."

- 2 -

We purchased \$50,000,000 in gold from the earmarked account of the Bank of England.

The Federal Reserve Bank of New York reported that the Bank of Canada, Montreal, shipped \$18,199,000 in gold from Canada to the Federal for its own account, for sale to the U. S. Assay Office at New York.

The report of June 26 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of \$18,361,000, a decrease of \$949,000 in the short position. The net changes in the positions are as follows:

Country	Short Position June 19	Short Position June 26	Decrease in Short Position
England	\$ 4,716,000	\$ 5,315,000	\$ 599,000 (Increase)
Europe	10,122,000	8,465,000	1,657,000
Canada	293,000 (Long)	124,000 (Long)	169,000 (Decrease in Long Position)
Latin America	166,000	170,000	4,000 (Increase)
Japan	3,607,000	3,686,000	79,000 (Increase)
Other Asia	1,041,000	880,000	161,000
All others	49,000 (Long)	31,000 (Long)	18,000 (Decrease in Long Position)
	<u>\$19,310,000</u>	<u>\$18,361,000</u>	<u>\$ 949,000</u>

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 June 26, showed that such deposits totaled \$37,223,000, a decrease of \$1,540,000 since the last report as of June 19. Included in this total were \$29,584,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China. No funds were held by this bank for its head office and Japanese branches, as compared with \$1,397,000 so held on June 19. The Federal Reserve Bank noted that these deposits were used to pay off part of the overdraft of the head office and Japanese branches on the books of Yokohama's New York agency. The overdraft amounted to \$66,131,000 on June 26, a decrease of \$8,327,000 from the June 19 figure. Most of the reduction, according to the Federal, was accomplished by the utilization of sight bills drawn on United States banks, which were acquired during the week.

The Bombay gold price advanced the equivalent of 30¢ to \$33.18.

Spot silver in Bombay worked out to the equivalent of 43.77¢, off 1/16¢.

In London, the price fixed for spot silver was 21-13/16d, up 1/8d. The forward price was unchanged at 21-11/16d. The U. S. equivalents were 39.66¢ and 39.43¢ 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 two purchases of silver totaling 125,000 ounces under the Silver Purchase Act, both of which were new production from foreign countries, for forward delivery.

CONFIDENTIAL

TREASURY

15818

47

MA

PLAIN

Tokyo via Shanghai
and N.R.

Dated July 2, 1940

Rec'd 9:30 a.m. 6th

Secretary of State

Washington

ATTACHE COMMERCE.

One. July second. Japanese business interests reported concerned over movement for establishment new single political party due uncertainty regarding economic and financial policies of proposed party. Business interests reportedly agree desire for national political unit in order terminate China incident but hesitate back movement pending more definite clarification party's aims particularly as to degree of reform which will be imposed on business circles. Uncertainty of business leaders and future trend domestic political developments and fears possible involvement Japan with third powers over status Asiatic possessions belligerent nations had depressing effect stock market transactions and average quotations selected group shares reached lowest level since outbreak current European war during past week. Cabinet formally approved materials mobilization plan for 1941 fiscal year although view international situation execution of plan

MA -2- tel # -, July 2 from Tokyo via Shanghai.

of plan will be on quarterly basis. Objectives of plan in order importance replenishment war materials, developments resources and industries China Manchuria, expansion domestic industrial capacity, encouragement export trade to increase importation power, supply adequate daily necessities to stabilize national livelihood. Plan reportedly provides for particular stress on increasing domestic gold production and negotiations for expanding export trade in accordance with changes in overseas market. Plans for establishment single national policy import concern to handle purchase distribution all imported materials required by export industries reportedly progressing. Proposed concern would eliminate certain difficulties now encountered under link system according Japanese press. Establishment single national policy export concern to handle export miscellaneous goods also reportedly under consideration. Proposed export firm would distribute orders received from foreign markets and establish standard prices on all goods shipped by designated exporters. Price policy investigation Council of Cabinet has reportedly drafted broad measure providing for restrictions on manufacture luxury goods and standardization articles for domestic consumption. Program drafted for submission Cabinet will impose

MA -3- tel # - July 2 from Tokyo via Shanghai.

impose restrictions use labor fuel materials for manufacture luxuries and nonstandardized articles in order use economic resources best possible advantage and encourage greater public savings. Restrictions will not apply export goods or those necessary for preservation national artistic and cultural standards. Due unfavorable trend shipments cotton cloth to foreign currency markets Japan Cotton Spinners Association has decided voluntarily restrict production export cotton yarn, including yarn used production cotton cloth exports, to one two five thousand bales monthly during July and August. Development will mean production approximately twenty four percent below same period last year. According report Cotton Spinners Association cotton cloth shipments to foreign currency markets middle ten June amounted to nine two three seven thousand yards valued at yen six seven one five thousand, decline four six point two percent volume two one point five percent value compared consamer. Opinion reportedly developing that more intensified control desirable over cotton trade and plan under consideration provides for establishment single committee which will be charged with assuming responsibility for raw cotton purchases, regulation cloth production, and determine foreign markets for cotton cloth.

Rayon

MA -4- tel # - July 2 from Tokyo via Shanghai

Rayon and staple fiber manufacturers reportedly instructed curtail production by thirty percent due shortage caustic soda, supply of which restricted by cessation imports industrial salt from North African countries. Approximately twenty thousand metric tons caustic soda required monthly for normal requirements rayon staple fiber industries but future deliveries will average only thirteen thousand tons monthly according trade reports. Meanwhile two leading rayon textile export associations announced suspension purchase fifteen different types rayon cloth due heavy accumulation stocks. Money market firmed during week ending June twenty ninth under stimulus heavy demand funds for midyear settlement, overnight rates advancing to uniform level seven kin. Same factors responsible for sharp increase Bank Japan note issue which totaled three five nine seven million June twenty ninth, increase two four four million during past week. Bank Japan loans reached nine four five million June twenty ninth, increase three nine four million during past week. Recent survey financial statements one hundred forty leading corporations covering six months ending May showed twenty three concerns forced reduce dividends compared previous six months term. Scarcity materials,

MA -5- tel # - July 2 from Tokyo via Shanghai.

materials, increasing production costs, government's insistence for lower dividends primarily responsible for reduced dividends. Firms earning less during past six months were primarily iron steel concerns, collieries, and poer companies. In contrast to increasing unfavorable operating conditions in heavy industries, peace industries particularly electric railway companies reported increased earnings during past six months, twenty eight concerns raising dividends rates last term. Finance Ministry reportedly plans more active supervision earnings all corporations capitalized at over yen ten million with view to persuading companies devote larger part earnings to undivided profits and purchasing national bonds with surpluses thus accumulated. Ministry also reported negotiating with companies paying high dividends to restrict dividends to more appropriate levels. Finance Ministry officials reportedly seriously concerned over basis unit prices to be adopted in drafting budget for next fiscal year although view prevails that basis will be prices prevailing September eighteenth last year when prices were pegged by anti-profiteering ordinances. Principal objectives nineteen forty one forty two budget strengthening of national defense and stabilization national livelihood. In

contrast

MA -6- tel # - July 2 from Tokyo via Shanghai.

contrast decline point seven percent in Tokyo wholesale prices during May according Bank Japan survey, Ministry Commerce industry survey covering thirteen principal cities showed point five percent increase. Ministry's May index reported at one six five point nine, increase nine point eight percent compared comsumer and three six point two percent compared prior outbreak China incident. Proposal of Manchurian authorities to increase price coal for shipment Japan to compensate Manchurian producers for higher production costs reportedly opposed by various circles Japan including military authorities on grounds such action would be contrary to local government's low price policy. Japan Gold Development Promotion Company plans merge number small mining companies effort increase domestic gold output. Acute shortage mining equipment reportedly restricting mining activity and merger planned to coordinate efforts greater gold output. Japanese marine insurance companies announced substantial upward revisions in rates on which state compensatory system not applicable effective from July first. Rates to Central and South American Pacific ports Singapore Rangoon British India Australian New Zealand Hawaii Pacific coast United States and
Philippine

MA -7- tel # - July 2 from Tokyo and Shanghai.

Philippine ports raised fifty percent, rates to Atlantic coast United States via Panama Canal raised twenty five percent. Further limitation on newsprint supply announced effective from July first, new limitation will reduce present supply consumers about ten percent. Home Ministry announced stricter control over publications near future. Generally anticipated publication many nonurgent periodicals will be ordered discontinued. Second estimate supplementary cereal crops covering all districts except Hokkaido places wheat yield at one one eight five naught thousand koku, increase point seven percent compared consamer, barley at six nine eight naught thousand koku, decline twelve point naught percent compared consamer, rye at six naught two eight thousand koku, decline seven point three percent compared consamer. Slight increase wheat crop achieved only through thirteen point five percent increase acreage and as areas under cultivation barley rye showed comparatively little change it is obvious that weather conditions for supplementary cereal crops were decidedly unfavorable. Ray silk market depressed during past week under influence liquidation Japanese buyers prices slumping from one four six five on June twentieth to one four one naught on twenty seventh but prices

later

MA -8- Tel # - July 2 from Tokyo via Shanghai.

later firmed to one four three naught one twenty ninth. Speculative purchases by large silk reelers responsible for heavy stock cocoons carries over beginning current silk year June first, stocks amounting one nine four two thousand kan, increase six six naught thousand kan over comsamer. Spring cocoon yield of forty prefectures reached three four eight six naught thousand kan, increase four six one six thousand kan or eleven point seven percent compared comsamer according report Ministry Agriculture Forestry. Foreign trade last ten days lead thousands exports one two seven eight six seven, imports nine two eight one one. Industrial share prices twenty ninth average eighty nine point zero three index ninety one point twenty five, week's average eighty nine point thirteen index ninety one point thirty four. End. Signed Smith.

FOR COMMERCE.

GREW

KLP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1940

TO Secretary Margemthen
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. Arthur H. Young called on me yesterday. He had accompanied Dr. Soong from China. He talked to me about the Chinese situation, stressing, as he has on previous occasions, the desirability of the United States giving China some effective aid to enable her to carry on her struggle against Japan. When I asked Dr. Young if he had any specific suggestion to make, he said that he could say nothing at present, awaiting the development of Dr. Soong's conversations with the President, whom he was to see yesterday, and other high officials of this Government.

Dr. Young's Washington address is Apartment 728 at 2400 Sixteenth Street.

July 3, 1940

At 1 p.m. today, Dr. Young called on me again. He stated that Dr. Soong had seen the President and that the latter had indicated his strong desire that further help be given to China. Dr. Soong understood that the President would speak to the Secretary of the Treasury on this subject. Dr. Soong would like to see the Secretary early next week to discuss the matter. I mentioned this to the Secretary at 3:00 this afternoon, and it was understood that I would remind him on Monday next of Dr. Soong's desire for an appointment.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Norwegian Minister telephoned me at 10:30 yesterday morning in regard to the shipment of gold from Baltimore to New York and Canada. I immediately telephoned Mr. Liddy of the Federal Reserve Bank at New York, who gave me rates for transportation by railway express from Baltimore to New York. I telephoned these back to the Minister and he, upon finding that they are much more reasonable than we had been led to expect from our original inquiry made of the Federal Reserve Bank at New York late on Saturday morning, decided to proceed at once with the gold shipment. I suggested that he get directly in touch with Mr. Liddy. Later in the day, Liddy called me back and said that arrangements were being made, but that word from us to the Commissioner of Customs at New York to permit the gold to be delivered to the Federal Reserve Bank at New York on an in transit entry would be essential. Consequently, I telephoned Mr. Basil Harris in the office of the Collector of Customs at New York, at noon yesterday, and the matter was arranged. It was not necessary for a Customs official to go from Baltimore to New York with the gold, since it was carried in bond by the express company. Mr. Harris stated that we should take up directly with the Collector in New York any problem that might arise in connection with the transit shipment of the gold destined for Canada. Later in the afternoon, Mr. Bernstein, from my office, talked with the Collector of Customs at Baltimore, in order that the latter might approve the clearance of the gold from Baltimore for shipment to New York.

This morning, Mr. Liddy telephoned me from New York that the gold had been picked up at Baltimore at 5:30 yesterday evening and that 130 cases thereof had been delivered to the Federal. Another 120 cases had been consigned to Montreal. Liddy stated that a United States Customs official had accompanied the gold from the express car to the bank and required some sort of a statement in regard to the value of the gold shipment. I telephoned Mr. Morgenstierne at 9:15, but he did not have any specific information. Consequently, I then telephoned Mr. Colbjornsen, one of the two Norwegians who had brought the gold to this country, and who had returned to the Shoreham Hotel last night from Baltimore. He told me that the gold shipped to New York was valued at approximately six million dollars, and that to Canada at around three million dollars. He explained that no accurate invoice had been handed to them before their departure from England, due to the hasty sailing, but that the Bank of England had promised to send by mail a detailed inventory. As soon as this is received, Mr. Colbjornsen promised to provide the Federal Reserve Bank at New York, as well as the Treasury, with an accurate statement of the gold delivered to New York. Mr. Colbjornsen informed me that his companion, Mr. Haslund, was going to Montreal to take care of the shipment to Canada. I reminded Mr. Colbjornsen, as I had the Norwegian Minister, that they should get in touch with the Bank of Canada at Ottawa to learn whether gold would be received by it for earmarking in Montreal. My impression was that earmarking was effected at Ottawa. After this conversation, I telephoned back to Mr. Liddy, who stated that a provisional entry could be made on the basis of the six million dollar figure.

- 2 -

Yesterday afternoon, Mr. Weber telephoned from the Federal Reserve Bank and I communicated his message to the Norwegian Minister. I asked the latter to send to the Federal Reserve Bank a letter dated June 26, to replace the one forwarded two days ago, asking the Federal Reserve Bank to open an earmarked gold account for the Norwegian Government. The second request was that a letter dated July 1 also be sent to the Federal Reserve Bank, authorizing the latter to receive for placing into the Norwegian Government's gold account the shipment of six million dollars which was arriving by rail from the steamship Boma (?) at Baltimore. The Minister promised to attend to these two letters at once.



STRICTLY CONFIDENTIAL

July 2, 1940
3:42 p.m.

H.M.Jr: Hello.

Congressman May: Hello, Mr. Morgenthau?

H.M.Jr: Talking.

M: This is Congressman May.

H.M.Jr: Hello, Mr. May.

M: Some gentlemen here in Washington are interested in a corporation that's engaged in the manganese business down in Cuba and they sent their engineer down there to Havana and he shipped a couple of samples of their ore -- about 300 pounds in one and about 500 in the other -- to a Mr. Lucius Pitkin who is a metallurgical engineer in New York City for an analysis of it.

H.M.Jr: Yeah.

M: And the Customhouse officers in New York Harbor have seized it and got the samples holding them for an analysis to see whether they are manganese or not and they're nothing in the world but the manganese ore, you know, just chunks of it in boxes and we don't know what to do here, or they don't, to get it released.

H.M.Jr: Well, I'll have it looked into at once.

M: Did you get a memorandum of -- it's shipped from J. C. Hopdave -- that's the engineer from Havana, Cuba to Lucius Pitkin, 47 Fulton Street, New York.....

H.M.Jr: Right. I got it.

M: and it was carried by the United Fruit Lines from Havana on June the 19th.

H.M.Jr: I'll look into it and we'll let you know not later than tomorrow.

M: All right, Mr. Secretary. Thank you very much.

H.M.Jr: Thank you for bringing it to my attention.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul General, Beirut, Lebanon

NO.: 46

DATE: July 2, 1940, noon.

~~XX~~

The uncertainty of the economic and financial situation of this territory without the support of the British is causing the High Commissioner serious concern. Frozen French credits in the United States have been mentioned repeatedly by High Commission authorities, and the three local banks which are authorized foreign exchange dealers (all three of which are French) are refusing American checks. If this situation continues, there is certain to be an increase in the embarrassment to citizens of the United States and to others, including beneficiaries of the Veterans' Bureau. The Consulate General will appreciate any advice or information which the Department considers might be useful.

PALMER

EA:EB

JR

PLAIN

London

Dated July 2, 1940

Rec'd 3:45 a.m.

Secretary of State,
Washington.

1923, July 2.

FOR TREASURY FROM BUTTER CRI..

Following confidential and self-explanatory letter has been received from British Treasury under date July 1:

"We have for some time had under consideration the extent to which subsidiaries in the United Kingdom should be allowed to remit their profits to parent companies, our object being to allow normal remittances but to avoid disguised removal of capital.

We are now going to tell American-owned subsidiaries that applications will be considered if they are limited to an amount based upon the defunct limitation of profits bill, i.e., the dividend is not to exceed the maximum dividend paid in any of the last three years.

We are of course in direct relation with the United Kingdom subsidiary and not with any American national, but I thought you would like to be told for your confidential information the lines upon which we are proceeding".

DDM

KENNEDY

AMERICAN CONSULATE

Yunnanfu, China, July 2, 1940.

CONFIDENTIAL

SUBJECT: Possible Closure of Indochina
Route for Exports from Yunnan.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to my telegram No. 20 of July 1, 10 A.M., regarding the possible closure of the Indochina route to exports from China, and the measures being considered to cope with such an eventuality.

As stated in my telegram under reference, it is not yet clear whether the Indochina route will be closed to exports from Yunnan, including transit shipments from other provinces. So far as can be learned here, the Japanese have made no demand that such exports be stopped, but the local representatives of Chinese Government agencies handling exports fear that the Indochina route will no longer be safe for Chinese goods of any description. As a consequence they are considering measures to evade the expected Japanese control of trade by that route.

The local manager of the Foo Shing Company states that the last shipment of tung oil from Yunnanfu to Haiphong was made on June 20, 1940. Since that date stocks of oil have been accumulating here at the rate of about 50 tons daily, and were estimated to amount to about 1,100 tons on June 29, 1940. A short time before the Japanese demands regarding Indochina the local office of the Foo Shing Company also shipped 1,300 cases of bristles to Haiphong. According to Foo Shing's local manager, several hundred tons of tung oil destined for the Universal Trading Corporation

are now in French Indochina, and it is also believed that a large part of the last shipment of bristles is likewise in Haiphong.

Foo Shing is said to be considering an arrangement with the Universal Trading Corporation under which the latter would open a small office in Yunnanfu and take title to shipments of tung oil here. It is said that the transfer of title is effected at present in Haiphong, the contract between the two firms calling for delivery F.O.B. named port. The local manager of Foo Shing states that under this plan the Universal Trading Corporation might be designated as agent of the Foreign Trade Commission for the marketing of other goods, the proceeds of sales possibly to be applied to the Export-Import Bank credit secured on tung oil shipments.

The National Resources Commission, which handles mineral exports from Yunnan, likewise is fearful that the Indochina route may be closed. Shipments of Yunnan tin have regularly been made through Haiphong, and an unknown quantity that may amount to several hundred tons is in Haiphong now. Since April of this year, 400 tons of Kwangai tin have also been shipped by this route. According to available information here, about 3,750 tons of tin have been shipped to the United States by this route since December 1, 1939. For some unknown reason, however, the French authorities in Indochina have refused since last October to permit the transit of wolfram and antimony exports from Yunnan, and as a consequence exports of those products in transit through Yunnan have been shipped to Burma.

Should the alternative route through Burma remain open to exports, it is believed that its capacity would depend primarily on the availability of gasoline in the interior. Other factors would be weather conditions during the summer months and the demand for trucks elsewhere in China for military uses. With respect to the latter point, however, it appears fairly certain that Chinese-owned trucks can and will be supplemented if necessary by Burma-owned trucks on the Yunnanfu-Lashio route. A number of Burma firms are now maintaining a regular commercial trucking service from Lashio to Yunnanfu, and it is known that at least one of them (Steel Brothers & Company, Limited) has regularly obtained tung oil cargoes for return freight.

The arrangement made by Foo Shing with the Southwest Transportation Company last February* is said to be still in effect; it provides for shipments of 3,000 tons of export goods monthly in trucks of the latter company. However, it is said that the leakage of tung oil transported by Southwest is much greater than the leakage of tung oil transported by private firms;

this is attributed to the fact that a number of transfers are necessary when handled by Southwest trucks, while trucks of the Burma firms go straight through to Lashio. The question of leakage is important if tung oil has to be shipped via Burma, since the leakage sometimes runs as high as 40% if shipments are made in gasoline tins or wooden tub containers. If shipments are made in steel drums the leakage ranges from 1% to 5%. A shortage of drums therefore would limit shipments by this route; and it should be noted that a chronic shortage of drums has existed hitherto. The local manager of Foo Shing has recently succeeded, however, in obtaining a supply of 8,000 steel drums.

With reference to transportation costs, it is said that rail freights from Yunnanfu to Haiphong and from Lashio to Rangoon are approximately the same. In the case of tung oil, the freight from Yunnanfu to Haiphong is said to be 24 Customs Gold Units plus 23 piastres per ton; while the freight from Lashio to Rangoon is said to be 38 rupees per ton. Foo Shing is paying freight at the rate of about \$1.05 per ton-kilometer for motor transportation from Yunnanfu to Lashio.

It is believed that, although shipments of tung oil might be maintained at their former rate if they have to be diverted to the Burma route, other exports might meet difficulties. Foo Shing is now negotiating with China National Aviation Corporation to fill with bristle shipments all empty space in their weekly plane to Rangoon; it is hoped to obtain a rate somewhat below the usual rate, as it is said that on this route the plane usually leaves Yunnanfu for Rangoon half-empty. However, the lack of a market in Rangoon may effect this plan. Present stocks of bristles in Yunnanfu are said to amount to 1,010 cases.

With respect to mineral exports, difficulties are very likely to be experienced. So far as known, the National Resources Commission has no arrangement with any other agency such as the Foo Shing Company has with the Southwest Transportation Company. The Commission itself has a Tungsten and Antimony Transportation Agency, established some time ago, that has been engaged in transporting tin, wolfram and antimony from Kwangsi and Hunan to Yunnanfu; but this agency controls only 400 trucks.

One possible effect of a closure of the Indochina route to Chinese exports is a breakdown of the Chinese Government monopolies of certain types of exports. If it becomes impossible or difficult for Chinese Government agencies like the Foo Shing Company and the

National Resources Commission to export goods for their own account, they may prefer to sell to foreign firms in Yunnanfu or elsewhere in China on condition of payment in foreign exchange. The proposal of the Foo Shing Company to deliver tung oil to the Universal Trading Corporation in Yunnanfu seems to be a step in this direction. A plan for readjustment of tung oil prices in China, said to be under consideration by the Foo Shing Company, would also be a step in this direction; for under the proposed plan the price of tung oil in Yunnanfu would be increased and the price elsewhere would be reduced in order to induce private merchants to transport the oil to Yunnanfu at their own cost, thus diminishing the demand on means of transportation available to the Government. As the government agencies come more and more to rely on private merchants and foreign purchasers to effect the shipment of exports from China without interference from the Japanese, it appears quite likely that the system of export monopolies may in the end be reduced simply to the requirement of surrender of foreign exchange to the Chinese Government banks.

SUMMARY

Although so far as known the Japanese have not yet demanded that the French authorities in Indochina stop exports of goods from China, representatives in Yunnanfu of Chinese Government agencies engaged in the export of goods fear that the Indochina route will no longer be safe for Chinese goods of any description. They are consequently making plans to evade possible Japanese interference. One plan under consideration for tung oil exports is the opening of an office in Yunnanfu by the Universal Trading Corporation, and delivery of stocks to that firm here. It is possible that the same firm might be designated to handle other goods also. Should the Burma route remain open, it is believed that exports of tung oil might be maintained at their former rate, though they would depend to some extent on weather conditions and the available supply of steel drums for use as containers. Plans are being made for shipment of bristles by air. It is believed that mineral exports might meet difficulties, at least until transportation facilities could be organized.

One possible effect of a closure of the Indochina route to exports is a breakdown of the Chinese Government monopolies of certain export goods. If it becomes difficult for the Chinese Government agencies to export goods on their own account, their increasing reliance on private merchants and foreign purchasers to effect shipment of the goods may finally reduce the monopolies

merely to the requirement that foreign exchange be surrendered to the government banks for all export shipments of the monopolized commodities.

Respectfully yours,

Troy L. Perkins,
American Consul.

In sextuplicate to Department;
original and 2 copies by air mail.
Copies to Embassy, Peiping & Chungking.
Copy to Commercial Attache.
Copy to Consulate, Rangoon.
Copy to Consul, Hanoi.

610.22/800
SCB/EPY

hd

63
Copy Filed 7/8/40

July 2, 1940.

MEMORANDUM FOR THE SECRETARY'S DIARY.

At the request of Mr. David Ginsberg of the Securities and Exchange Commission, Mr. Kades attended a meeting in Mr. Leon Henderson's office at the Federal Reserve Board Building from 3 P.M. to 4:30 P.M., Tuesday afternoon, July 2, 1940. There were present at the meeting Mr. Ginsberg, counsel to Commissioner Henderson, Mr. John Ham, assistant to Commissioner Henderson, Dr. Taggart, economist connected with the Securities and Exchange Commission, and Mr. Floyd Odium.

There was a general discussion of the law and regulations relative to depreciation and obsolescence deductions for income tax purposes. Mr. Kades was asked whether the Treasury would consider a proposal for writing off the cost of new facilities in equal installments over a four-year period under the income tax law. He replied that this would not be possible under existing law but that the Secretary of the Treasury had announced at a press conference that the Treasury was studying an excess profits tax and in that connection would study all suggestions for extraordinary amortization allowances. He also called the attention of those present to the reports of the Cousens Committee and the Nye Committee which in general disapproved of special amortization allowances for war-time facilities and to the position on depreciation taken by the Ways and Means Committee in 1934.

The discussion then turned to the plan of financing the expansion of plant facilities approved in principle by Secretary Morgenthau, Mr. Knudsen and Mr. Jones. There was considerable misunderstanding concerning the nature and content of the plan. It was conceded by all present, however, that it was very attractive to private industry.

Mr. Odium stated that at least \$300,000,000 of stock issues could be floated by private underwriters for financing the expansion of facilities for the manufacture of aircraft if liberal amortization for tax purposes was allowed. He thought it might be advisable for the R.F.C. to participate in such equity financing with the underwriters (in effect, guaranteeing the underwriters against loss). Mr. Odium emphasized that he disapproved financing plant expansion on a loan basis, whether by the R.F.C. or private banking institutions, whenever stock issues could be floated on such a basis.

Throughout the conference it was assumed by the SEC representatives and Odium that the Tobey amendment to the Vinson-Trammell Act would be repealed in the near future and in this connection reference was made to

- 2 -

the President's message calling for a steeply graduated excess profits tax "without discrimination." On his return to the Treasury, Mr. Kades stated to Mr. Foley he feared either Odlum or the SEC would jump the gun in calling for the repeal of the Tobey profit limitation law as their remarks concerning its effect in delaying the national defense program without preventing truly excess profits were very significant.

THE WHITE HOUSE
WASHINGTON

July 2, 1940

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

Attached are several copies of a statement, which the President will give the Press this afternoon at four o'clock.

Please treat this statement as confidential until it is released to the Press.

Release to the Press is expected about 4.30 p.m. E.S.T.


STEPHEN EARLY
Secretary to the President

FOR THE PRESS

IMMEDIATE RELEASE

69
JULY 2, 1940

The President today signed H.R. 9850, providing legal authority for the control of exports from the United States of munitions, materials, and machinery essential to our national defense. A proclamation issued under this authority sets up the controls considered necessary at this time.

The items and materials listed in the proclamation include certain strategic materials as well as semi-finished products and machine tools of which there are actual or prospective shortages as a result of the National Defense program.

The Materials and Production Divisions of the National Defense Advisory Commission are collaborating with the Administrator of Export Control in the determination of the items to be controlled and the extent and character of the controls to be exercised.

While the control of exports is primarily a national defense matter, the Department of State provides the machinery for the actual issue of licenses under which any controlled items are released for export.

The President also signed and issued the following Military Order:

"The administration of section 6 of the act of Congress entitled "An Act to expedite the strengthening of the national defense" approved July 2, 1940, is essentially a military function, and by virtue of the authority vested in me as President of the United States and as Commander-in-Chief of the Army and Navy of the United States, I hereby designate Lieutenant Colonel Russell L. Maxwell, U. S. Army, Administrator of Export Control to administer the provisions of the said section under the direction and supervision of the President as Commander-in-Chief of the Army and Navy of the United States.

"FRANKLIN D. ROOSEVELT

"Commander-in-Chief

"THE WHITE HOUSE

"JULY 2, 1940"

The Proclamation follows:

ADMINISTRATION OF SECTION 6 OF THE ACT ENTITLED,
"AN ACT TO EXPEDITE THE STRENGTHENING OF THE
NATIONAL DEFENSE" APPROVED JULY 2, 1940

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS section 6 of the act of Congress entitled
"AN ACT To Expedite the strengthening of the national
defense," approved July 2, 1940, provides as follows:

"Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material or supplies necessary for the manufacture, servicing or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe. Any such proclamation shall describe the articles or materials included in the prohibition or curtailment contained therein. In case of the violation of any provision of any proclamation, or of any rule or regulation, issued hereunder, such violator or violators, upon conviction, shall be punished by a fine of not more than \$10,000, or by imprisonment for not more than two years or by both such fine and imprisonment. The authority granted in this Act shall terminate June 30, 1942, unless the Congress shall otherwise provide."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority vested in me by the said act of Congress, do hereby proclaim that the administration of the provisions of section 6 of that act is vested in the Administrator of Export Control, who shall administer such provisions under such rules and regulations as I shall from time to time prescribe in the interest of the national defense.

AND I do hereby further proclaim that upon the recommendation of the aforesaid Administrator of Export Control, I have determined that it is necessary in the interest of the national defense that on and after July 5, 1940, the articles and materials hereinafter listed shall not be exported from the United States except when authorized in each case by a license as hereinafter provided:

1. Arms, ammunitions, and implements of war as defined in my Proclamation No. 2237, of May 1, 1937.

2. The following basic materials and products containing the same:

- a. Aluminum
- b. Antimony
- c. Asbestos
- d. Chromium
- e. Cotton linters
- f. Flax
- g. Graphite
- h. Hides
- i. Industrial diamonds
- j. Manganese
- k. Magnesium
- l. Manila fiber
- m. Mercury
- n. Mica
- o. Molybdenum
- p. Optical glass
- q. Platinum group metals
- r. Quartz crystals
- s. Quinine
- t. Rubber
- u. Silk
- v. Tin
- w. Toluol
- x. Tungsten
- y. Vanadium
- z. Wool

3. Chemicals as follows:

- a. Ammonia and ammonium compounds
- b. Chlorine
- c. Dimethylaniline
- d. Diphenylamine
- e. Nitric acid
- f. Nitrates
- g. Nitrocellulose, having a nitrogen content of less than 12 percent.
- h. Soda Lime
- i. Sodium acetate, anhydrous
- j. Strontium chemicals
- k. Sulphuric acid, fuming

4. Products as follows:

- a. Aircraft parts, equipment, and accessories other than those listed in my proclamation of May 1, 1937.
- b. Armor plate, other than that listed in my proclamation of May 1, 1937.
- c. Glass, nonshatterable or bullet proof,
- d. Plastics, optically clear.
- e. Optical elements for fire control instruments, aircraft instruments, etc.

5. Machine tools as follows:
Metal-working machinery for -

- (1) Melting or casting
- (2) Pressing into forms
- (3) Cutting or grinding, power driven
- (4) Welding

AND I do hereby empower the Secretary of State to issue licenses authorizing the exportation of any of the said articles and materials the exportation of which is not already subjected to the requirement that a license be obtained from the Secretary of State authorizing their exportation and I do hereby authorize and enjoin him to issue or refuse to issue licenses authorizing the exportation of any of the articles or materials listed above in accordance with the aforesaid rules and regulations or such specific directives as may be, from time to time, communicated to him by the Administrator of Export Control.

AND I do hereby admonish all citizens of the United States and every person to abstain from every violation of the provisions of section 6 of the act above set forth, of the provisions of this proclamation, and of the provisions of such regulations as may be issued thereunder, and I do hereby warn them that all violations of such provisions will be rigorously prosecuted.

AND I do hereby enjoin upon all officers of the United States, charged with the execution of the laws thereof, the utmost diligence in preventing violations of the said act, of this my proclamation, and of any regulations which may be issued pursuant hereto, and in bringing to trial and punishment any offenders against the same.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

DONE at the City of Washington this second day of July, in the year of our Lord nineteen hundred and forty, and of the Independence of the United States of America the one hundred and sixty-fourth, at 11:00 A.M., E.S.T.

(SEAL)

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL
Secretary of State

Hiding

Notes on Conference in the
Secretary's Office at 10:30 A.M.
Tuesday, July 2, 1940.

Those present, the Secretary; Mr. Brennan, the Irish Minister; and Mr. Young. The Irish Minister stated that he was delighted to meet the Secretary and apologized for imposing upon his time during a period of such pressure. The Secretary replied that he was glad to see Mr. Brennan, and that he had been doing what he could on the request for armament submitted by the Irish Free State.

The Irish Minister started to talk about this request, but the Secretary stopped him and said he wanted to ask a question, namely, would it be possible for the Irish to purchase from Canada. Mr. Brennan said that he had some doubts about that, but that he supposed it could be done provided the material was turned over to Canada by this country with such an understanding. The Secretary asked the Irish Minister not to send any cables or any form of communications to any one about the matter as it was all being done very informally.

The Irish Minister said that he could telephone King as he knew him well enough for that. The Secretary, however, frowned upon the idea and asked him just to keep it to himself for the time being. The Secretary added that he was having a meeting tomorrow morning with the Army and Navy "brass hats", and it would be determined at that time what material, if any, could be made available as well as what portion of it could be turned over to Ireland. The Secretary emphasized the fact that he thought it would be much better to turn over the stuff to Canada.

Mr. Brennan greatly appreciated what the Secretary had done and promised to do nothing for the next twenty-four hours. He added that he had talked with Mr. Purvis and Mr. Ballantyne, and also with Mr. Green in the State Department, and that those persons fully understood the situation. The Secretary stated that either he or Mr. Purvis would contact the Irish Minister directly as soon as a decision had been reached.

Ry.

FY:bj

July 2, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Consul, Shanghai.

Treasury Department requests information be obtained from responsible officials of Shanghai branch of Bank of Indo-China regarding any difficulties being experienced as a result of application of American control over French assets in the United States. Cable reply for account of Treasury Department."

HNC:enk:7.2.40

JUL 2 1940

My dear Mr. Secretary:

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

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

Very truly yours,

(Signed) H. Worgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Acting Secretary of War.

CLK:ahn 7-1-40

cc to Thompson

By Messenger 10²⁰

JUL 2 1940

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(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,

The Acting Secretary of War.

CLK:ahn 7-3-40

By Messenger

WAR DEPARTMENT
WASHINGTON

June 25, 1940.

The Honorable,

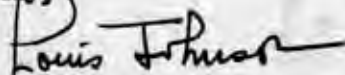
The Secretary of the Treasury.

Dear Mr. Secretary:

Receipt is acknowledged of your letter of June 20, 1940, with reference to the certifications to be made by the Secretary of War or the Secretary of the Navy, as the case may be, concerning special additional equipment and facilities acquired by contractors or subcontractors in connection with procurement subject to the profit limitation features of the Vinson-Trammell Act.

It is noted that in the Treasury Department the duty of considering certifications and of recommending Treasury action will be performed by a Committee, of which Mr. Timothy C. Mooney is Chairman. Your suggestions as to the procedure to be followed in bringing War Department certifications before the Treasury Department are also noted. As indicated in a memorandum of this date, addressed to the President, the main objective sought by Section 4, H. R. 9822, is understood to have been to facilitate and expedite the entering into of contracts in cases necessitating the acquiring by contractors and subcontractors of special additional equipment and facilities. The War Department is, of course, desirous of doing everything in its power and will cooperate in every way with the Treasury Department and with the contractors and subcontractors to accomplish that end. In order that no impediment may be placed in the way of expediting the procurement of Army aircraft involved in the defense program, it is highly desirable that every step possible be taken by your Department to expedite final action on the certifications involved and I am certain that your Department will cooperate fully in this regard.

Sincerely,



Louis Johnson,
Acting Secretary of War.

June 25, 1940.

The Honorable,

The Secretary of the Treasury.

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Sincerely,

(Signed) LOUIS JOHNSON

Louis Johnson,
Acting Secretary of War.

July 2, 1940

Memo. To The President
From Secretary Morgenthau

I think we may anticipate that the blockade of the Spanish Coast cannot be enforced under present circumstances as effectively as the blockade of other neutrals contiguous to German controlled territory has been enforced heretofore. This may raise quite formidable questions as to our policy with respect to shipment of a wide variety of merchandise to Spain in excess of Spanish needs. The use of American ships in this trade is under the control of the Maritime Commission. We shall need guidance in the matter of giving permission to depart of the foreign ships in the same trade.

Our power to detain ships under the Ship Movements Regulations is quite broad, but if we are to refuse definitely to permit departure our action will, no doubt, have to be based on considerations which the State Department can defend.

Mrs. Klotz -
Secretary did not
want to sign -
Daw



THE SECRETARY OF THE TREASURY
WASHINGTON

July 2, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

In the application of the Proclamation and Regulations with respect to ship movements it appears probable that we shall have to deal with an increasing export of oil from U. S. Gulf ports to Spain. Since you signed the Regulations on Friday permission to depart with cargoes of oil for Spain has been granted to two vessels, one a Panamanian and the other owned by the Spanish Oil Monopoly. In both cases the cargoes were consigned to the Spanish Monopoly.

Prior to the issuance of the Proclamation we detained the American tanker SPENCER KELLOGG at the request of the State Department and the Maritime Commission refused its approval of a charter to this vessel to carry oil to Spain. We are now informed that the Maritime Commission has refused charters to six other American tankers to engage in the same trade. It is reported to us that W. R. Davis, who was active before the war started in selling Mexican oil to Germany and other European countries, is behind these new efforts to ship increased quantities of oil to Spain.

We are undertaking to gather information on the question of recent oil shipments to Spain, as well as on normal shipments prior to the war.

With the German Army on the Spanish frontier it may be expected that any surplus of oil reaching Spain beyond immediate Spanish needs will be used to supply the Germans and Italians.

- 2 -

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HEG/r

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July 2, 1940

MEMORANDUM

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FROM: Secretary Morgenthau

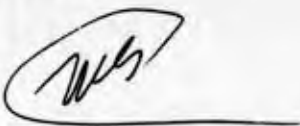
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July 2, 1940

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

At the meeting in Mr. Hoover's office at ten o'clock this morning I presented your suggestion that an investigator be sent at once to Fort-de-France, Martinique. I volunteered that if no other suitable person could be found we could arrange to send a Customs agent or some other Treasury representative. Mr. Hoover agreed to discuss the matter with the State Department and assured me that someone would be sent.

July 2, 1940

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HGG/r

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
Room 2850 ~~FEDERAL RESERVE BUILDING~~ Munitions Bldg.
WASHINGTON, D. C.

July 2, 1940.

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

Dear Mr. Secretary:

Thank you for your letter of
June 27 and copy of the weekly report on rail-
road freight movement for export, for the week
ending June 22, 1940, sent to me therewith.

Very truly yours,

L. A. Harriman

July 2, 1940

MEMORANDUM

TO: Admiral Haseho
FROM: Assistant Secretary Gaston

Attached is copy of letter from the President to the Secretary with regard to the provisions of Section 7 of H. R. 9822.

You will please see that the President's instructions are complied with and prepare a regulation for submission to the President. You will perhaps want to collaborate with the Navy Department in the preparation of this regulation. Should you desire the assistance of the General Counsel of the Treasury he will, of course, make available such legal services as may be necessary.

FCR/jm

July 2, 1940

My dear Mr. President:

Complying with the instructions in your letter of June 28th, I wish to advise you that regulations will be prepared at once for submission to you governing the operations under Section 7 of H. R. 9622. No payments under this provision will be authorized until after your approval of such regulations.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

cc to Mr. Thompson

FOR/jm

gmr mjt H

By Messenger 3¹⁰ on 7/3

July 2, 1940

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Secretary of the Treasury.

The President,
The White House.

FOR/jm

By Messenger

July 2, 1940

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Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,
The White House.

By Messenger

THE WHITE HOUSE
WASHINGTON

June 18, 1940.

My dear Mr. Secretary:

I have noted that the enrolled bill H. R. 9822, "To expedite national defense, and for other purposes," contains a section (Section 7) which provides double pay for vacation time for those employees of the Navy Department and the Naval Establishment and of the Coast Guard whose services, in the judgment of the Secretary of the Navy or the Secretary of the Treasury, as the case may be, cannot be spared during such vacation time without detriment to the national defense.

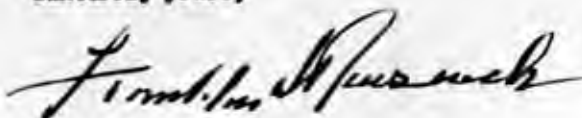
I note that the enrolled bill H. R. 9850, "To expedite the strengthening of the national defense," contains no such provision with respect to War Department employees; and also that there is no such provision in existing law with respect to any class of employees.

In view of this situation, and because this proposal, if it had been presented to me as a separate measure, would have received my unhesitating disapproval, I am writing to say to you that, in approving H. R. 9822, it is my wish that operations under this provision for double pay for vacation time be held to an absolute minimum, and that no payments be authorized thereunder until there has been presented for my consideration an administrative regulation governing such operations.

Sincerely yours,

The Honorable,

The Secretary of the Treasury.



July 2, 1940

11 a.m.

Present:

The French Ambassador
Mr. Leroy-Beaulieu
Mr. Bell
Mr. Cochran

Ambassador: Well, sir, I think I had better let Mr. Leroy-Beaulieu tell you the object of our visit. I will just mention that I saw the Secretary of State and spoke to him about the Bank of Indo-China and he told me that you had better see the Secretary of the Treasury. I told him if I followed my inclination I would go to see the Secretary of the Treasury every week, but I just contact the Department of State, but I am very glad to take this up with you.

Mr. Leroy-Beaulieu: Well, Mr. Secretary, we came to see you, as I mentioned to Merle Cochran yesterday, about this freezing situation. We understand very well the motives of which you have frozen our accounts and we don't ask de-freezing of our accounts, but we have some special situation which arises every day, either for banks overseas or for our officials or nationals in this country. Mr. Bell and Mr. Cochran went over them very carefully and we know it's a great job and a great deal of work, so we quite understand that the de-freezing business cannot go on as rapidly as sometimes we would wish.

I think we can divide that into two different parts. First, banks, and then what we would call the routine business.

As far as banks are concerned, we have three cases which are very important because they have also political repercussions. That was the Bank of

-2-

Indo-China, and the branches in China.

HM, Jr: Where is that located?

Mr. Leroy-Beaulieu: Shanghai.

HM, Jr: Shanghai?

Mr. Cochran: Yes.

Mr. Leroy-Beaulieu: Yes. Shanghai. It's a sort of combination. It is the Central Bank in Indo-China. It also is our big commercial bank in all the Pacific. When people over there heard that the Bank was freezing, especially in Shanghai and in China, of course there was a little nervousness and I think that some of these big Chinese merchants went to look after their deposits and got a little nervous. So we ask you to unfreeze it as much as you could and you gave us a 25% unfreezing of their assets here.

HM, Jr: That's the Bank of Indo-Chin.

Mr. Leroy-Beaulieu: Yes.

Mr. Bell: We gave them 25% of their deposits in this country plus any payments that might come in so it is a revolving fund plus 25%.

Ambassador: I mention the Bank of Indo-China is the Bank of Chungking. The French concession has about 800,000 people, also the bank of the police forces which insures services of the International concession.

HM, Jr: What city is the Bank of Indo-Chin in, or is it all over?

Mr. Leroy-Beaulieu: Its headquarters are in Hanoi. That is the capital of French Indo-China. It has branches all over the Pacific, the biggest one being, of course, Shanghai, but it has some all over China, all over the French Pacific Islands, New Caledonia, Tahiti, Australia and even California,

-3-

so we are very careful and we were very careful that the unfreezing should be asked only for their four eastern branches and not for their Paris branches because they have special accounts for each of these branches.

After you had unfrozen 25%, they sent a new cable in which they said it wasn't enough, so I wonder whether you could not increase that at least for the Chinese branches, because it is true that you have nervousness in those places when they know that their dollar balances are frozen.

HM, Jr: I am listening to you. I am not familiar with this. Mr. Bell and Mr. Cochran are.

Mr. Bell: Which bank is that? The Indo-Chin? They say 25% is not enough? Do they make any suggestions?

Mr. Leroy-Beaulieu: They say it is not enough and ask if we could not increase that.

Mr. Bell: The reason we made it 25% was in order to get some information on the kind of transactions and then when we had that we have better information on which to act the next time. They just say it is not enough and they don't furnish any reasons why. The first one was rather arbitrary, in order that they could operate.

Mr. Leroy-Beaulieu: The suggestion I made is you could perhaps have different treatment for the actual Chinese foreign branches and the Indo-China itself because in Indo-China they handle the situation better. After all, it's a French protectorate.

HM, Jr: What you are suggesting is how could he distinguish between funds which are on deposit here which are for the Bank

Mr. Leroy-Beaulieu: Because they have special accounts.

HM, Jr: Oh, they have?

Mr. Bell: Yes. The Indo-Chin Bank has about

-4-

\$800,000 on deposit and we thought we could give them a release of some \$200,000. Whatever receipts are added to that would enable them to operate temporarily until we could find out more about it.

HM,Jr: The point he's making is for the mainland and the other part is for some outlying

Mr. Leroy-Beaulieu: Yes. Chinese.

HM,Jr: But is the \$800,000 here separated or all in one pot?

Mr. Leroy-Beaulieu: No. I think they have a special account for each bank.

Mr. Bell: I don't know.

HM,Jr: Let's look into it. Give these gentlemen a chance to look into it. I get what you mean -- special treatment for the banks in Indo-China.

Mr. Leroy-Beaulieu: No. In China. Better treatment for the bank in China.

HM,Jr: Better for the ones in China?

Mr. Leroy-Beaulieu: Yes, because there they are competing with other banks and if you don't give them they may have a run on their banks.

HM,Jr: Oh! I thought you wanted better treatment on the French concession.

Mr. Leroy-Beaulieu: No, I should think not.

Ambassador: The French concession is in China. It's a French settlement.

HM,Jr: French colony in China.

Ambassador: We have a Minister of that Chinese town. Has about 700,000 or 800,000 inhabitants and

-5-

of course a good many foreign, even American banks or clubs settled on that concession.

HM, Jr: Just give me your whole story because I can't

Mr. Bell: Let me ask you. Better treatment for the branches in China?

Mr. Leroy-Beaulieu: I suggest that.

Mr. Bell: That's outside of Indo-China?

Mr. Leroy-Beaulieu: That's outside of Indo-China.

HM, Jr: Now, what is the next point?

Mr. Leroy-Beaulieu: Then we have the Bank of Martinique. Have you done something for them? That's French West Indies.

Mr. Bell: I haven't got that.

Mr. Cochran: On the Bank of Martinique, we suggested that you have one of the banks in New York which has an account with the Bank of Martinique submit a license.

Mr. Leroy-Beaulieu: Didn't we?

Mr. Cochran: I have not heard of it.

Mr. Bell: I haven't anything on that.

HM, Jr: How much money is involved?

Mr. Leroy-Beaulieu: I don't know.

HM, Jr: We have not an application.

Mr. Leroy-Beaulieu: They have not made application?

Mr. Bell: No, I don't think so. Neither has the Irving Trust Company made application on your Shanghai Bank.

-6-

Mr. Leroy-Beaulieu: Well, I sent them the letter I got.

Mr. Bell: They have not made application.

Mr. Leroy-Beaulieu: I got a cable direct and I sent them immediately this cable.

HM,Jr: There are three things?

Mr. Leroy-Beaulieu: Yes. Then we have the Bank of Syria and du Liban, which I mentioned yesterday to the Federal Reserve, which came up yesterday. This is the central bank of the two mandated territories and the matter arose this way. The check which had been drawn by the Bank of Syria on the National City Bank of New York, payable to the Chase Bank, was not paid by the National City Bank.

HM,Jr: Now, if you don't mind, I can't get into these things. The Ambassador wanted to see me and I am always glad to see him, but you are asking me about details which I can't handle. Any time the Ambassador wants to see me, I am delighted to see him, but this is Mr. Bell's responsibility and, if you don't mind, I wish you would take them up with him.

Ambassador: They are details and they have great political bearing.

HM,Jr: I got what you said and during the day I will discuss it with Mr. Bell and, if necessary, I will discuss it with the State Department and I will give it very serious consideration as to policy, but as to details, Mr. Leroy-Beaulieu should work it out with our people, but I get what you mean, and give me 24 hours.

Mr. Bell: May I say, Mr. Secretary, we try to handle them as promptly as possible. Mr. Leroy-Beaulieu brought in a number of cases last week and practically all of them have been handled on the 25% basis that we have had so far. We tried to get them out of here certainly the next day if we can, if we have enough information. We try to keep them operating.

-7-

Mr. Leroy-Beaulieu: Then we have the question of our consulates.

Mr. Bell: We have released everything where we have got an application, haven't we? We asked you to put in an application for your consulates and those we have received we have cleared.

Ambassador: We are under the impression that is a very strict ruling. It is very difficult for consulates to enforce exactly what is required and to bring justifications. We don't see really what fears you can have.

Mr. Bell: We have required not only in the case of France, but every other country, a statement of about what each Consulate will need a month and then we put in over-all limits above that so they can operate within that. I think they would like the whole account freed with no reports. We have thought that was a means in which quite a lot of funds could escape or some activities carried on which we did not want.

Ambassador: Are you fixing a limit for such Consulates as the German and Italian Consulates? Both are troublesome for internal law, but for our unfortunate Consulates at Chicago I don't see really what point, what fear, you can have. You have all machinery to keep it from getting into German hands and to be used contrary to your interest and we are ready, of course, to help you in that way, but we have no sympathy whatsoever to the Germans or Italians, but I am under the impression that sometimes your machinery is such that really it hampers the operation of our Consulate.

Mr. Bell: I feel it does not hamper you because we do give you a license to operate and after we get information we may go so far as to unfreeze, give a general license, but I think for a while we ought to see what are the purposes of those accounts, just like any other.

Ambassador: As far as Consulates, I don't see why the Germans should use a French Consulate because it is so easy to operate through their own.

-8-

Mr. Leroy-Beaulieu: That is a question we submitted to Mr. Bell ten days ago.

Ambassador: Do you think really the Germans -- when we know the Germans have spent \$30,000 for certain document -- we know very well that they -- I don't know the facts, \$10,000 a month -- they find the money all right.

HM,Jr: I don't know what particular cases you are referring to.

Ambassador: They spend money lavishly here for their propaganda. I don't know what fear you have. You are taking much of your valuable time and some of the time of our Consulates to find an existing danger.

Mr. Leroy-Beaulieu: The chief danger is the Bank of France account and there you have frozen it and we don't ask you to unfreeze it because there lies the whole money, but when it gets out of that and goes to the Consulate offices, that part of the money that goes there is very small and has to be used for regular Consulate expenses, so there I don't think you need to fear a great deal.

HM,Jr: We are doing the best we can. Mr. Bell is doing quite a remarkable job and we are all human. We make mistakes, but for the time being I think you will have to be a little patient with us and give us time to see this thing a little more clearly than we know now.

Mr. Bell: I think it will work out too.

HM,Jr: I think it will too. Be just a little patient and we will do the best we can.

Ambassador: I repeat, I am pleased to see you always. They told me at the State Department, "Why don't you see my competent colleague" and I explained to him at length and I also saw Berle several times.

oOo-oOo

July 2, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Bell
Mr. Harris
Mr. Graves
Mr. Haas
Mr. Young
Mr. Schwarz
Mr. Thompson
Mr. Nelson
Mr. Foley
Mr. Cochran
Mr. White
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: Nothing, I think.

Foley: Here is another one of those letters. This was written by Louie Johnson to you about the Vinson-Trammell. It is exactly the same as the one he wrote to the President.

H.M.Jr: Incidentally, if you give me that Vinson-Trammell stuff and mark it for the farm, Mrs. Klotz will have it sent up.

Foley: Fine. Bill Levy, Senator Wagner's secretary, called and said the Senator talked to you late yesterday afternoon about a plank for the Democratic platform. The Senator is Chairman of the Resolutions Committee. He said he would like to have 200 words by tomorrow night.

H.M.Jr: That is right. It is all done and finished. I told them we could do it just as well by Wednesday of this week as a year from Wednesday.

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Foley: There is a good platform that Ben and Tom wrote.

H.M.Jr: On money?

Foley: No, it is the whole platform.

White: No money?

H.M.Jr: No money in the platform? What a platform.

White: Not yet.

H.M.Jr: Well, I took it that Mr. White would write it and then we would have a money plank seance. George Harrison is coming at 10:30 tomorrow. Shall we let him sit in on it?

White: Yes, I think it probably would make him glad he is no longer in the Federal Reserve Board.

H.M.Jr: He is.

Cochran: He is staying on until January.

White: Maybe he had better not be invited.

Foley: Have you seen Ben's, Harry?

White: I think so.

H.M.Jr: Let's say money plank at eleven tomorrow and all those who have any interest in money planks are invited.

Bell: Merle wrote it down.

H.M.Jr: Isn't Merle coming?

Bell: Yes, he is coming. He is coming to guard the stabilization fund.

H.M.Jr: For an Arizonian, you (Cochran) ought to be a pretty good Democrat.

Cochran: Appointed by Mr. Bryan personally.

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H.M.Jr: Well, that explains a lot.

Bell: All the silver purchases.

H.M.Jr: Yes. You have been holding out on us, Merle.
Does that finish you up?

Foley: That finishes me.

Cochran: I told you Mr. Ren from the Universal Trading Corporation was down. He has some tin to sell.

H.M.Jr: Now look, Mr. Joe Cotton resigned from Treasury on the 30th of June, which leaves a vacancy on the Export-Import Bank, and we had a meeting this morning and we unanimously put on Mr. White as a director of the Export-Import Bank, inasmuch as he has handled the South American stuff. Any objection? Motion carried.

White: No objection.

H.M.Jr: Would you like to do it, Harry?

White: Yes, I would.

H.M.Jr: I think you are fitted for it as well as anybody.

Now, this tin, you see before all you gentlemen came down I was very much interested in tin and tungsten and I discussed the thing yesterday with the President. We want to help the Chinese all we can and they have got 900 tons of tin in New York now, Universal Trading. Incidentally, it is water over the dam, but if we do any business with China, Universal Trading Company is - I would underwrite them, and this Mr. Lee is very questionable as to his business ethics and Universal down here protested. After all, Universal has got Chinese people and our own people in it.

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Nelson: We got the list from the Munitions Board yesterday, and there is about nine million dollars worth of tungsten.

H.M.Jr: This particular thing is tin.

Nelson: That will be handled by RFC.

H.M.Jr: All right. Can somebody give me a memorandum that I can give to Mr. Jones at lunch? Will you do that, Harry?

White: With respect to tin?

H.M.Jr: Well, give me the status of Universal, what they have on tin, see, and I would like to give it to Mr. Jones tomorrow at lunch.

White: Is that 12½ million dollars allocation for tungsten no longer in point? You were going to reserve twelve hundred million dollars out of the Procurement fund.

H.M.Jr: Well, Mr. Nelson was in on the deal. He has offered to buy all of the tungsten and antimony in Indo-China.

Nelson: All the Chinese Government has there.

H.M.Jr: Which would certainly --

Nelson: There were six thousand tons of tungsten.

H.M.Jr: We only agreed to take five, didn't we, Harry?

White: I agreed to take five million dollars worth.

Nelson: This will be about four million dollars worth, this six thousand tons. We don't know yet whether we have it.

H.M.Jr: Could you give the man next to you a little memorandum on it?

Nelson: Yes.

H.M.Jr: So I can give it to -- what we are doing on

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that, so I can give that tomorrow to Purvis, you see, and say, "Well now, Mr. Purvis, I consider if this deal goes through my obligation to you on tungsten is completed for the year." Now, I will be glad to do that.

H.M.Jr: But tin is Jones. I will take care of him at lunch.

Nelson: Tin, rubber and manganese for Jones.

H.M.Jr: Yes. I was reading about it. Have you (Bell) heard from Jones, how he is going to finance those corporations? He is talking about selling stock in them.

Bell: No, I have not. He said he really didn't need much money.

H.M.Jr: You are going to give me a memo, aren't you?

Bell: Yes.

H.M.Jr: Got anything?

Nelson: Sir?

H.M.Jr: Have you got anything?

Nelson: Yes, sir, I wanted to tell you that we are beginning now to get a lot of requests from the South American Governments and from other Governments for munitions. We had Chile and Venezuela. We have got North Africa coming in today.

H.M.Jr: Have you got Casablanca?

Nelson: Yes, sir. We have got the Netherlands Legation. There are quite a few of them beginning to pile up. I have handled them, but I am telling Mr. Young about them so he can take them up.

H.M.Jr: Good. Do we charge you rent in your quarters?

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Nelson: Well, no sir, you can dock my salary for the rent.

H.M.Jr: That is fair enough.

Well, have we anything to sell to Chile?
We are all out of second hand merchandise,
aren't we?

Nelson: What they are after now are new munitions. They are after them principally for training purposes. You see, we wanted some anti-aircraft guns, but somebody, Mr. Secretary, is going to have to make a policy on that thing because the War Department can't supply them, the Navy can't supply them, and unless the policy is made they just will wait two or three years to get them.

H.M.Jr: If you fellows can line it up, and Phil is complaining he hasn't got enough to do - if he will give me a memorandum on it so I can read it, I will try to go --

Nelson: I have been having Mr. Young sit in on all of them so he is familiar with them.

H.M.Jr: I will try and see the "Big White Father" and see if he will give me a policy.

You (Foley) are going to take care of that law business. The Navy says now under this new law they can't do anything, their hands are tied, and they are coming in at nine tomorrow morning.

Phil, will you meet Mr. Foley and Mr. Foley meet Mr. Young before nine o'clock tomorrow morning on whether the Navy can or cannot do any more swapping.

Young: I have already started to check on it.

Foley: Have you changed that eleven o'clock appointment tomorrow morning for Chamberlain?

H.M.Jr: Why?

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Foley: Well, didn't you say you were going to put down the platform at eleven?

H.M.Jr: Professor Chamberlain at eleven to twelve tomorrow. Let's do money at two thirty.

Foley: Okay.

H.M.Jr: Philip?

Young: No sir, I have no problems.

H.M.Jr: Chick, last night I referred Mr. Felix Belair to you.

Schwarz: He didn't call, but John Crider did.

H.M.Jr: What was his worry?

Schwarz: He wanted to know more about taxes.

H.M.Jr: And you told him?

Schwarz: Yes.

H.M.Jr: And Skip Gordon?

Schwarz: I was just going to ask about that, that mysterious ship arriving with gold at Baltimore last night.

H.M.Jr: Another one?

Schwarz: It had no flag and no name.

H.M.Jr: Last night?

Bell: Arrived last night?

White: Was that the Norwegian ship that they --

Schwarz: Yes, Norwegian ship.

White: With nine million dollars?

Foley: Another one.

H.M.Jr: No, it is the same one. You don't know

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anything about it. It is a marvelous story.

Schwarz: They think it went up to New York in a special railroad car. They have got the amount and they suspect it is a Norwegian ship, but they can't prove it.

H.M.Jr: Well, let them dig. What else?

Schwarz: That is all.

H.M.Jr: I thought the tax story, everything I read today, I was very much pleased with the way it went off.

Klotz: I think yesterday's press conference took care of that.

H.M.Jr: I hope I didn't spoil anything.

Schwarz: It helped a lot.

H.M.Jr: George?

Haas: These new orders are now about equal to the high limit of last fall (handing report to Secretary).

H.M.Jr: How many engines did Allison make last week, George?

Haas: Eight.

H.M.Jr: They are slipping, aren't they?

Haas: From eleven to eight.

H.M.Jr: No wonder Mr. Sloan didn't call me this week. Eight.

Haas: Yes, eight. Eleven had been --

H.M.Jr: The high water mark. It is terrible. Eight engines! It is terrible. Do I get that today?

Haas: I sent it in about ten fifteen yesterday morning.

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H.M.Jr: What?

Haas: You were talking about the Allison report?

H.M.Jr: You sent it in at ten fifteen?

Haas: Yes.

H.M.Jr: Speak to McKay about it. It is most likely on me. But eight last week?

Haas: Eight.

H.M.Jr: Basil?

Harris: The Maritime Commission has disapproved the charter of six American tankers to Spain.

H.M.Jr: Well, that ought to go into my letter to the President. Will you get together with Basil?

Gaston: Yes.

Harris: We are getting off a lot of these fellows by reason of the fact that they have to apply to the Maritime Commission for any sub-chartering or anything of that nature. When they come in there, we are beginning to turn them down.

Gaston: Those are American ships.

H.M.Jr: I was asking about these too. How soon will we have that?

Gaston: I just didn't get a chance.

H.M.Jr: Well, will you? I mean, that gives you another piece of the picture.

Gaston: Yes, I knew they had last week refused to charter a couple of ships.

H.M.Jr: Herbert tells me two tankers have sailed for Spain in the last few days with oil.

White: What is going to be the procedure with respect to the information we get from the docks?

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Shall we just forward that material now to Mr. Gaston, on control of exports, who is going to --

H.M.Jr: It is this new committee of Colonel Maxwell's, isn't it?

White: That, I gathered, but how -- are we going to collect any more information or if collected, whom --

H.M.Jr: Let Norman Thompson sit down and work that out. I don't know enough about it. You pick it all up, will you? You are talking about machine tools and all that stuff?

White: That is included.

H.M.Jr: Norman, pick it up and see what it looks like, will you?

Gaston: All those materials will have to have permits too, to be exported.

H.M.Jr: That is run by Maxwell from now on.

Harris: You mean it will be run by Maxwell.

H.M.Jr: Right.

Gaston: There seems to be some confusion about who it is run by now.

Harris: It is going on day after day after day and all the action that we had in the past is still illegal and they still haven't passed that law. The amount of stuff that is going out to Japan and these other countries is a tremendous volume.

H.M.Jr: You mean it is still going?

Harris: Still going.

Gaston: The proclamation is to be signed today to be effective Friday.

H.M.Jr: I thought he said the law --

Harris: I don't know.

Gaston: The President is to sign it and the proclamation is to be effective Friday.

White: Doesn't the Treasury come in at one point in the administration of it?

H.M.Jr: Well, the Customs collectors, of course, had to refuse clearance to any of these materials listed in that proclamation unless they have an export license after Friday.

You had better pull it together, will you, Norman, please? I thought that the Navy was holding up all really important machine tools that were leaving the country.

Harris: I will say they were.

Gaston: We are holding them up at the request of the Navy.

H.M.Jr: But notwithstanding that, there is a lot of stuff going out.

Harris: There is a great deal of stuff that it is just questionable whether you want to keep it or not. All this scrap iron, ingots, molybdenum, all kinds of stuff.

H.M.Jr: Molybdenum is leaving the country?

Harris: Yes, I have given you notes on it from time to time.

H.M.Jr: Yes, but nothing --

Harris: Well, fairly sizable.

Gaston: Those metals are on that list of which the export will be prohibited after the fifth. It is going to be operated mainly in the State Department by Green in the Division of Control.

H.M.Jr: Where will Maxwell be?

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Gaston: Maxwell, according to the understanding and the proclamation, is to give certain directives as they are called, to Green, but they told me yesterday that he is not to pass on the individual applications for permits, that Green is to pass upon them.

H.M.Jr: Who is the liaison man?

Gaston: Maxwell. That is his sole function, is liaison man between the various departments and Joe Green of the State Department.

H.M.Jr: Well, I recommended to the President that he put it on either State, Army and Navy or Commerce, and he turned me down.

Gaston: It is a wonderful and weird system. Mr. Berle expressed his great disgust to me over the phone last night.

H.M.Jr: Evidently you have got company, Basil.

Anything else?

Harry?

White: I would like to have a sentence drafted to include in the report that is going to the Cabinet with respect to foreign exchange and monetary problems. I have a sentence drafted. I can either read it now and you can pass it or --

H.M.Jr: Read it.

White: "The Treasury Department is prepared at once to initiate a program for longer term co-operation in the establishment, strengthening and improvement of monetary and exchange systems and institutions of the countries in this Hemisphere."

H.M.Jr: What is the matter with that?

White: That is --

H.M.Jr: Why are you afraid of it?

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White: I am not afraid of it if it has your approval.

H.M.Jr: Dan, can you smell anything wrong with that?

White: Shall I read it over again?

Bell: What report?

White: This is a report that is going to this Cabinet Committee.

Bell: Well, are you prepared, when you say you are prepared?

White: Yes, sure we are, but this means an acceptance of the willingness to use the fund for stabilization purposes.

H.M.Jr: Then read it over again.

White: "The Treasury Department is prepared at once to initiate a program for longer term cooperation in the establishment, strengthening and improvement of monetary and exchange systems and institutions of countries in this Hemisphere." That implies or suggests possible gold alone, stabilization loans, out of the stabilization funds.

Bell: That is what it implies. I just wondered if you are prepared to do that.

H.M.Jr: Why? Yes.

White: That is what the fund is for.

Bell: Are you prepared to initiate it?

H.M.Jr: I looked up this letter in which I said, in November, 1938, practically word for word what that says. I will pass on that and I will read what we said in November, 1938, on that. What else? Let me pass you and come back.

Harold?

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Bell: Nothing.

H.M.Jr: In view of the fact that Philip Young has now been put on this committee of three to handle foreign munition orders - well, he contacts Joe Green anyway. Do I have anybody now contacting Joe Green?

Thompson: Young does.

H.M.Jr: This takes Cotton's place?

Thompson: Yes.

White: We have somebody on the Munitions Control Board who is opposite Joe Green.

H.M.Jr: That is me.

White: You are the member, but Cairns was the last --

Cochran: Mr. Harris sat in on it.

Thompson: Mr. Harris had a specific meeting and Cairns has had the rest.

White: It is mostly legal matters.

H.M.Jr: Does it make any difference? Do you care about that over there?

Harris: No.

H.M.Jr: I didn't know. He (Young) is seeing Joe Green all the time.

This is what I said in October, '38:

"The extension of credit to Latin American countries. Our neighbors to the South are sorely in need of capital and commerce to enable them to develop their resources free from foreign intervention. Unless we assist them, they will become a helpless field for political and economic exploitation by the aggressor nations. Now, after the Munich Agreement, we may expect that Germany, Italy and Japan will become bolder and more effective

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in their attempts to establish areas of economic and political support to the south of us. We can stop that penetration by an intelligent use of a small proportion of our enormous gold and silver holdings."

I wrote this in October, 1938.

"The measures we may adopt can be developed as the specific occasions requiring assistance may arise. We have several such occasions before us right now: Brazil, Cuba, Mexico, Peru. The details of assistance can be worked out in conjunction with the representatives of those Governments, but it is first necessary that we accept in principle the need for positive action of this kind as a part of our "Good Neighbor" policy."

Well, I say up here earlier, "We can stop that penetration by intelligent use of a small proportion of our enormous gold and silver holdings." To be consistent, I don't think this thing is any different. I went further.

White: There is a suggestion in the proposal which, in the light of something you said there, a suggestion of a loan to Mexico of silver bullion to be repaid in silver bullion.

H.M.Jr: I just make one condition, that if we get into this thing, that the Treasury is responsible to the President of the United States and nobody else. Otherwise, I won't do it.

White: Well, the Treasury is prepared.

H.M.Jr: All right. What else, Harry?

White: That is all.

H.M.Jr: All right.

White: Then I may tell them that you are satisfied?

H.M.Jr: And you (Nelson) will sit with us as long as we house you.

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Nelson: Thank you.

H.M.Jr: If you enjoy the meetings. All right,
gentlemen.

Information has been received from source "M", origin San Francisco, that Japanese traders have received word from Tokyo to place all war risk insurance on shipments to Japan in this country instead of with Japanese Government pool as heretofore. A reliable informer considers this a very strong indication of impending trouble since loss in foreign exchange is sizeable.

(Rec'd. by phone from Commander Thompson - July 2, 1940)

RE TREASURY PLANK IN
DEMOCRATIC PLATFORM

July 3, 1940
2:35 p.m.

Present: Mr. White
Mr. Cochran
Mr. Schwarz
Mr. Foley
Mr. Bell

White: This is a little long on the assumption it could be trimmed down.

H.M.Jr: "We of the Democratic party continue to regard money as the servant, not the dictator, of public policy."

(Mr. Bell entered the conference)

Come on in here, you Democrat from Illinois.

"Monetary power, like political power, belongs exclusively to the people --" Why don't you spell people with caps? "...and not to the banks." Why don't you say the utility magnates?

"We therefore advocate the retention in the hands of the American people and its Government of effective control over fundamental national monetary and banking policy and we unqualifiedly oppose the surrender of any of that control to private interests."

White: I thought Danny would like that.

Foley: Exclusively to the people. That is enough.

White: That is one sentence more than I thought would be left.

H.M.Jr: We will go over it again.

"We advocate the continuance of the monetary policy of the last eight years. That policy has made the dollar the soundest and most desired currency in the world." Hear! Hear!

"We insist upon monetary preparedness as an integral part of national preparedness and

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reject the premature scrapping of the administrative powers necessary for effective and speedy action to protect our foreign trade and internal economic stability in a violently disturbed world."

Shouldn't that last sentence end with a question mark? Now, this is marvelous.

"We insist upon retaining necessary scope for executive judgment and discretion in order to effectively adapt the policies laid down by Congress to changing conditions."

White: That is in the Republican platform, to take away the --

H.M.Jr: That is all right.

Schwarz: We don't want to split infinitives, do we?

H.M.Jr: Oh, a couple will help. After all, we are the people.

Schwarz: Stop boasting.

White: The power to split infinitives belongs to us.

H.M.Jr: You know, we have got three sentences starting with "we."

White: I know. You always start them all with "we" --

Bell: Put "they" in.

Foley: There are a lot of "we's" in the Republican platform.

White: It is all "we, we's" there.

H.M.Jr: I didn't know they had a wet platform.

Foley: As far as you can see all the way down there, it is all, "we, we, we."

H.M.Jr: I thought we had settled that issue.

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"The Democratic Party insists upon maintaining the dollar at full parity with gold for all legitimate international transactions. Backed by abundant stocks of the precious metals and guarded by the Stabilization Fund against speculative raids and fluctuations in the value of foreign currencies, the dollar has withstood and will continue to withstand the severest tests.

"We support continuing reexamination of our monetary policy and administration by appropriate Congressional committees in the light of rapidly changing world conditions.

"We propose to use our gold and other financial resources for even greater efforts to maintain world trade, to guard the western hemisphere against the incursions --" What kind of a word is that?

Bell: Incisions.

White: It is a good word.

H.M.Jr: You don't mean incisions, do you? What the hell? Whoever reads this --

(Discussion off the record)

Where were we?

Bell: Next to the last paragraph.

H.M.Jr: Oh, yes. "We pledge ourselves to continue the historic Democratic Party policy of safeguarding the savings of depositors and investors. Already \$25 billions of deposits, belonging to 60 million depositors, have been insured against loss by action of the present Democratic Administration. Our banking system has been cleansed and strengthened."

You don't want to say we took them to the dry cleaners, do you?

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Bell: Substantially cleansed.

H.M.Jr: "Every effort has been made to prevent misrepresentation in the issuance of new securities. We are determined to keep our national credit and capital from again becoming the plaything of private interests and speculations."

(Discussion off the record)

Where were we?

Foley: Last paragraph.

H.M.Jr: "The objective of our monetary policy remains a higher national income and full employment. To this end, we advocate making our abundant credit and capital available at reasonable interest rates to the farmer, the home owner, and the businessman alike. The necessity of achieving rapid and economical industrial expansion for national defense makes the maintenance of a policy of reasonable interest rates more vital than ever before."

Aren't you going to say we advocate the continuation of abundant credit?

White: Yes, continuing to --

H.M.Jr: Yes, something like that.

"The necessity of achieving rapid and economical industrial expansion for national defense makes the maintenance of a policy of reasonable interest rates more vital than ever before."

Look, I could sit and argue over this thing for a couple of days and most likely would be only words. I don't want it to go up over my signature. Can't you just sort of drop it in his lap and then run?

White: Oh, yes. This is by no sense a Treasury product. After you make whatever changes you want to make,

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we will just give it to him as a suggestion.

H.M.Jr: What is your idea?

Bell: What is the last sentence?

White: What is the last sentence?

Bell: Yes.

"The necessity of achieving rapid and economical industrial expansion for national defense makes --"

White: "...the maintenance of a policy of reasonable interest rates more vital than ever before."

Bell: Some of that is --

H.M.Jr: That was cut, he said.

Bell: That is where the incision took place. I suppose, "dash" marks the spot.

Foley: Mr. Secretary, this is the basis for so much of the plank as would deal with monetary policy. I should think that the Treasury plank, which I understood he asked for, would go farther than this and involve taxation, involve the budget, involve things that --

H.M.Jr: What are you going to do, come out for a balanced budget?

Foley: You have got to say something about it. I thought that was what he wanted. That was what Phil said, he wanted a Treasury plank which would include taxation.

H.M.Jr: No, that isn't what the Senator told me. He wanted a monetary plank. What the hell can you say about a budget?

White: It is best to say nothing. Did the Republicans say anything about it?

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H.M.Jr: No.

Bell: It speaks for itself.

White: The budget speaks for itself?

Bell: Yes.

White: The accent is loud and red.

H.M.Jr: I think you ought to say this. I think you ought to say something about war millionaires.

White: Wouldn't that be under tax policy?

H.M.Jr: Who is going to say that if we don't?

White: Well, the Treasury ought to --

Foley: Excess profits tax, the elimination of tax exemption. You want to get that in there?

H.M.Jr: War millionaires, sure.

White: Well, they have a whole section for taxes, do they?

H.M.Jr: If they did, they would be asking us. I think you ought to bring in the war baby theory and the excess profits tax.

White: Want to try a hand at a section for taxes?

H.M.Jr: I don't want to try it. I don't want to play, but I think if some of you fellows could put in a little something - I am going to leave here in about an hour.

White: Well, is there anything here that you take violent objection to? I suspect it will be trimmed and trimmed.

H.M.Jr: That is what I figure. Merle, did you get violent about any of this?

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Cochran: I admire it as a document so much I can't object to it. This thing about "backed by abundant stocks of the precious metals," I might prefer singular letters.

Bell: Either that, or put in, "including silver."

White: Including silver? No, that is one of the precious metals.

H.M.Jr: Chick, have you got anything?

Schwarz: Just one line in the next to the last paragraph. "Our banking system has been cleansed and strengthened." I think we could improve that.

H.M.Jr: Wouldn't it be well to figure over the last seven and a half years there have been only three bank failures?

Schwarz: That is right.

Bell: Well, is the place for statistics?

H.M.Jr: Sure.

Bell: As evidenced by the fact that --

H.M.Jr: During the last - '33 to date, there have only been --

White: There have been only three banks, whereas the eight years prior to that there were about --

Schwarz: We intend to maintain this record.

H.M.Jr: You give me time and if I put my mind to it, I could give you a couple of good ideas.

White: We have got until convention.

Bell: Of course, you might say something --

White: We don't have to give him this today, do we?

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Polley: He would like to have it tonight, but he doesn't have to have.

White: We can give him a preliminary copy.

Polley: We have got three things, taxation and public credit and public spending.

T.H., Jr: What do the Republicans say about that?

Polley: On taxation, they say, "Public spending is trebled under the New Deal, while tax burdens have doubled. Huge taxes are necessary to pay for New Deal waste and neglected national defense. We shall revise the tax system and remove those practices which impede recovery and shall apply policies which will stimulate enterprise. We shall not use the taxing power as an instrument of punishment or to secure objectives not otherwise obtainable under existing law. With urgent need for adequate defense, the people are burdened by a direct and contingent debt exceeding 50 billion dollars. 29 billion of this debt has been created by New Deal borrowing during the past seven years. We pledge ourselves to conserve the public credit for all essential purposes by levying taxation sufficient to cover necessary military and civil expenditures. A substantial part of the defense cost in the interest and retirement of the national debt.

"Millions of men and women still out of work after seven years of excessive spending refute the New Deal theory that spending is the way to prosperity and jobs. Our Americans in private enterprise who are permitted to go to work can rapidly increase the wealth and standard of living of all the people. We solemnly pledge that public expenditures other than those required for future national defense needs or relief shall be cut to levels necessary for the essential services of Government."

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Here is what they say on money.

"The Congress shall proclaim its constitutional powers over money and withdraw the President's arbitrary authority to manipulate the currency established by metallism, issue redeemable paper money and deface the gold and silver coinage. We shall repeal the Thomas amendment of 1933 and the Foreign Silver Purchase Act of '34 and take all possible steps to preserve the value of the Government's huge holdings of gold and reintroduce gold into circulation."

H.M.Jr: Well, I think Harry has done a pretty good job. I think you ought to say something - if you are going to say something about taxes, I think you ought to say something about taxing - you know --

Bell:securities, future issues, I suppose.

Foley: We can get that in there.

White: About the tax-exempts, about the war rich and about --

Foley: We are opposed to the extension of the doctrine of exemption from taxation of all kinds. We propose that --

White:a continuation --

Foley:of future public issues, Federal, local and state, shall be subject to taxation.

White: Do you remember in one of your tax statements you enunciated three principles of taxation? It might look good to say that we propose to continue to modify our tax laws or such additions to taxes as are called for will be pursued according to the following principles.

H.M.Jr: I would like to get this in, because they talk about - they are going to continue to prosecute high and low evaders of Federal laws.

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I mean, you could sort of throw a hint that we have Annenberg in mind, you see, something like that.

White: Treat rich and poor alike. Let them both sleep under the bridges if they want to.

H.M.Jr: And Atlanta. Well, I tell you what you do so you can have this thing. Why don't you show it to these people, plus Gaston, again? Let this one go up as a preliminary, see.

White: All right. Just with one or two minor changes.

H.M.Jr: All right.

White: And I have got a couple of things here that I have to take up. I just got a communication from the State Department about two things to take up now.

H.M.Jr: Well, I have got Mr. Moffatt and I don't want to keep him waiting. I will try to do it afterward. Tell McKay.

White: They have got to be taken up before you go.

H.M.Jr: That is all right.

Cochran: Dr. Soong wants an appointment for Monday or Tuesday. He is seeing the President. Dr. Young said he was very much encouraged and they are going to do something. Do you want me to give him a day, or wait until Monday?

H.M.Jr: Wait until Monday.

Monetary Policy

We of the Democratic Party continue to regard money as the servant, not the dictator, of public policy. Monetary power, like political power, belongs exclusively to the people and ~~not to the banks~~. We therefore advocate the retention in the hands of the American people and its government of effective control over fundamental national monetary and banking policy and we unqualifiedly oppose the surrender of any of that control to private interests.

We advocate the continuance of the monetary policy of the last eight years. That policy has made the dollar the soundest and most desired currency in the world.

We insist upon monetary preparedness as an integral part of national preparedness and reject the premature scrapping of the administrative powers necessary for effective and speedy action to protect our foreign trade and internal economic stability in a violently disturbed world. We insist upon retaining necessary scope for executive judgment and discretion in order to effectively adapt the policies laid down by Congress to changing conditions.

The Democratic Party insists upon maintaining the dollar at full parity with gold for all legitimate international transactions. Backed by abundant stocks of the precious metals and guarded by the Stabilization Fund against speculative raids and fluctuations in the value of foreign currencies, the dollar has withstood and will continue to withstand the severest tests.

We support continuing reexamination of our monetary policy and administration by appropriate Congressional committees in the light of rapidly changing world conditions.

We propose to use our gold and other financial resources for even greater efforts to maintain world trade, to guard the western hemisphere against the incursions of totalitarianism, and to assist in post-war reconstruction.

We pledge ourselves to continue the historic Democratic Party policy of safeguarding the savings of depositors and investors. Already \$25 billions of deposits, belonging to 60 million depositors, have been insured against loss by action of the present Democratic Administration. Our banking system has been cleansed and strengthened. Every effort has been made to prevent misrepresentation in the issuance of new securities. We are determined to keep our national credit and capital from again becoming the plaything of private interests and speculations.

The objective of our monetary policy remains a higher national income and full employment. To this end, we advocate making our abundant credit and capital available at reasonable interest rates to the farmer, the home owner, and the businessman alike. The necessity of achieving rapid and economical industrial expansion for national defense makes the main- of a policy of reasonable interest rates more vital than ever before.

AC

GRAY

Bucharest

Dated July 3, 1940

Rec'd 10:35 p.m.

Secretary of State

Washington

336, July 3, 9 p.m.

I am informed by the Rumanian subsidiary of the International Telephone and Telegraph Company of New York that it has bought from a Rumanian exporter through the Banca Commercial, Bucharest, \$65,000 already remitted to its parent company. The funds arose from a Rumanian export to Spain and are deposited with the Chase Bank, New York. Chase Bank has blocked the release of these funds in accordance with Presidential proclamation because of alleged French and Belgian interest in Banca Commerciala. This organization has submitted statements to show that it is a Rumanian incorporated stock company founded in Bucharest in 1907, that its stock consists of bearer shares, two-thirds of its directors are Rumanian subjects and all its personnel are Rumanian. Its credit balance as an institution authorized to deal in foreign exchange belongs to the National Bank of Rumania representing the counter value of Rumanian merchandise exported to

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to various countries.

Although I am informed that the question of releasing the funds has been taken up with Irimescu by the Foreign Office and the National Bank the Telephone Company here would appreciate any action the Department may be able appropriately to take in expediting the transfer.

GUNTHER

PEG

July 3, 1940
8:55 a.m.

RE ALLIED PURCHASING PROGRAM

Present: Mr. Foley
Mr. Young
Mr. Cox
General Marshall
Admiral Stark
Colonel Burns
Admiral Spear
Major Lyons
Mrs. Klotz

H.M.Jr: Give me a short course in Navy law.

Foley: There are two new bills. One, HR9850 and the other is 9822. 9850 refers to specific additional powers. First, it expressly authorizes the Army to enter into contracts for the exchange of deteriorated, unserviceable and obsolescent or surplus equipment for other equipment which there is a shortage of, so if they have an excess of one kind and a shortage of another, they can turn in the excess for the things that they are short of. That is the first.

The second is that they can place an embargo on all of the - on the export of all machine tools, machinery --

H.M.Jr: Is that the thing the President got out yesterday?

Foley: Yes, I think that is right, where he embargoed everything except some scrap iron.

Young: That is the Maxwell business.

Foley: That is one bill. The other bill provides that

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no weapons or ships or aircraft or munitions of any kind may be exchanged or sold or disposed of in any way unless the Chief of Operations of the Navy or the Chief of Staff of the Army certifies that there is no need for the particular material or aircraft or shipments turned in. In other words, it can't be essential for the national defense of the United States.

W.M.Jr: The latter thing is in the Navy bill.

Foley: That is in the Navy bill, 9822, and also in case there is such a certification, within 24 hours after the contract has been entered into for the disposal of aircraft or weapons where they have held that those weapons or aircraft are not essential for the national defense, the contract has to be filed with appropriate committees of Congress within 24 hours.

W.M.Jr: Are these two laws supplementary or are they in conflict?

Foley: They are supplementary, passed in the same second.

W.M.Jr: But it is two separate bills?

Foley: Two separate bills. The other power, the second power in 9822 is that the President, during the emergency proclaimed on the 8th of September, 1938, may declare certain orders that have been placed by other countries or by private industries - he may take what he needs by priority over what is already placed by way of order with those companies. Now, that will take care of those Vultees, those Swedish planes.

W.M.Jr: Will it?

Foley: Yes, because he can say that that contract should be - deliveries should be deferred on that contract and he can take the 144 Vultees. Then he can turn in, if the Chief of Staff of the Army found that they had other bombers, that were not as good as the

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Vultees, were deteriorated or were not needed for national defense, he could turn them in and they could sell them.

H.M.Jr: Could they do this? The 140 Vultees are not modern because they haven't got the latest things and therefore could he sell the 140 and give Vultee another 140?

Foley: First he would have to take them from Vultee under that priority clause.

H.M.Jr: Well he takes them --

Foley: The Army would take them.

H.M.Jr: Then they turn them back again to the company and get 140 up to date Vultees, and the company can sell those 140 to the English.

Foley: Well, that is a little risky, isn't it, Oscar?

Cox: Yes.

Young: Pretty crude.

H.M.Jr: Well, you refine it. The Army has got nothing more. It has got - they have nothing more. You are not going to give them those A-17-A's, or whatever you call those things?

Cox: Most of these Vultees are seaplanes, I think.

H.M.Jr: Yes, but they are not modern. They don't have any armament. This latest plane that is doing all the work is the Defiant. The success of that is that it has this revolving turret with four machine guns in it and that is the thing that may - they only let her loose on the 29th of May. It is the pursuit plane and the man sits there with a revolving turret with a power driven machine gun. Now, we ought to get - I take it we are onto these things now and these things haven't got the thing and I am sure the Germans are copying the Defiant and it makes these things --

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Foley: It is like the British.

H.M.Jr: Yes, it is a British plane but they have developed this thing. When they sprung this thing, as I understand it, it was the Defiant that saved the situation at Dunkerque.

Cox: I don't think he would have any real legal objection, but you would have other objections by the Chief of Staff.

H.M.Jr: Did you see what Mr. Stimpson and the rest of them said? They would sell anything they could place orders for in three months. They would sell anything they could replace in three months. I found their testimony yesterday. Would that go also for these two thousand machine guns which are going to Sweden?

Foley: That could be worked out.

H.M.Jr: Let's go back to the Enfields. What about them?

Young: There is just one little question on that. Can we take priority on those orders which they are not going to use?

Cox: I think they can. They get the planes by priority and then if the Chief of Staff certifies they are not essential to the national defense, then they can trade them back as part payment for new planes.

Foley: It would be better not to turn them back to Vultee. It would probably be better to turn them back to somebody else. Don't you think so?

Cox: Yes, I think you have got a public relations problem there if you want to face it. It is just going through a lot of motions and getting nothing except some new planes in the future.

H.M.Jr: What I am going to say this morning, if these Vultees are what I think they are, they are out of date. I don't care what the machinery is.

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We will take the 140 and sell them to the English and these people can get - let Vultee make another 140 for the Army.

Foley:

Whether they are out of date or not, isn't it essential that they not go to the Swedes, because we don't know what disposition the Swedes may make of them and they may never get to Sweden. They may be intercepted by Germany or by Russia before they get there.

H.M.Jr:

I don't think they ought to go to Sweden.

Foley:

So under any circumstances, it seems to me, we ought to exercise the priority right and take those from Vultee. Then what disposition we will make of them afterward, it seems to me we ought to stress as a separate thing. We ought not to make it a part of the same deal.

H.M.Jr:

You are wrong, excuse me, because if we don't make it part of the same thing, we will never get them. I want them for the English. I don't care about the Swedes. They have got to tie the thing up together. At least in talking to the fellow. If you want to do it legally separate - but let me talk to them here. Under this thing we can get 140 for the English. Now, if you want to make them two separate packets legally - but in discussing it, tie the things up together. Otherwise you won't get them.

Cox:

Phil has got the figures that there are some 500 more planes on order by other foreign governments such as Norway and so forth.

Young:

Between 650 and 700 planes on order for other foreign governments outside of South America, England and France and so on, but they are not broken down by countries yet.

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H.M.Jr: You say there are another five or six hundred going to Norway?

Young: About 650, as I recall it.

H.M.Jr: Hasn't George got that?

Young: In a few cases he has an indication as to what country.

H.M.Jr: How long would it take to get that?

Young: You would have to get it from the manufacturer.

H.M.Jr: No, you could get it from General Brett.

Young: Brett may have it.

H.M.Jr: I know he has it.

Young: You could get it from him. Of course, that is unfilled orders and they reach a peak along about the end of this year, but for instance by the end of July, 30 planes are supposed to be out.

H.M.Jr: For --

Young: Other foreign governments.

H.M.Jr: We ought to get that.

Young: It gradually increases each month up to November. The same way with engines. There are two or three hundred engines coming out in July for other foreign governments.

Cox: You may also want an inventory on the other types of equipment, such as small arms ammunition, guns, and so forth which will keep cropping up. Winchester is making the ammunition for them. There is no --

H.M.Jr: There is a real job to be done here.

Foley: This is a complicated thing.

H.M.Jr: You were worrying about not having enough to do.

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Young: I think I will get enough.

H.M.Jr: You ought to have those foreign orders. You ought to walk over there. Major Lyons has got that book.

Foley: There is enough work here for Phil and Oscar almost full time to work these things out. The tactics now are so complicated and the care with which you have to see that the paper record is entirely clear on these transactions is very important.

H.M.Jr: Well, this thing here, then I think get it ready and if Mr. Stimpson is confirmed, I think we can put it before him.

Foley: He was confirmed today.

H.M.Jr: Incidentally, did they talk to you about Wilmerding? Wilmerding is through on the first of July. They are going to give him another assignment. Talk to me about it, will you?

Young: Norman spoke to me about him yesterday. I turned him down.

H.M.Jr: Did you? That is your privilege.

Young: I am sorry. I have seen him before.

H.M.Jr: All right. Well, I want you to have somebody in there. In case you go on a vacation or you should get a head cold or something, who is in there? You make some recommendations.

Young: All right.

H.M.Jr: I mean, I want an understudy.

Young: Norman and I are going to talk more about it.

H.M.Jr: When I get back here Monday, I would like you to give me some names. I want somebody in that office. Everybody ought to have an understudy. That is all right, Phil. Mrs. Wilmerding will still play tennis with my wife.

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Young: We square dance.

H.M.Jr: You square dance?

Young: Yes.

H.M.Jr: He is a nice fellow socially. He has got a very lovely mother.

Young: Yes. We know them, and our children play together and that sort of thing.

H.M.Jr: But you want to keep it on that basis.

Young: Well, if I am going to have to do the job I haven't got any time to bother with him. That is what it boils down to.

H.M.Jr: I don't think you would have said that three months ago.

Foley: He has got more confidence.

H.M.Jr: I am very much pleased. No sir, as long as you are here, nobody will be forced on you. Oh, we may force a Tammany Hall Democrat in once in awhile, but outside of that --

Young: One other item that ought to come up this morning in addition to that machinery again, which I gather is progressing nicely.- what they have done on that, Oscar, they are trying to get the Chief of Staff to approve - of course, it has already been approved by their lawyer - a general leasing power for all surplus machinery and that sort of equipment so they can lease any surplus machinery, no matter what it is, automatically.

H.M.Jr: Lease it?

Young: Lease it.

H.M.Jr: Who leases what?

Young: Army leases it.

H.M.Jr: From?

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Young: Army machinery, and they lease to DuPont, for instance, machinery for the new Allied Powder Plant.

H.M.Jr: How will it - take "X" number of rifles. How would you do that?

Cox: They can trade them in for newer rifles or --

H.M.Jr: That still can be done?

Cox: Yes.

Young: Did you know they took out the Springfields again and put in 35,000 Enfields in place? On a rifle for rifle basis, not on a dollar for dollar basis.

(Admiral Stark and Admiral Spear entered the conference.)

H.M.Jr: This new law has opened quite a lot of legal stuff. They say General Marshall is on his way over.

Stark: I don't know.

H.M.Jr: Yes, they phoned over.

(General Marshall entered the conference.)

Marshall: My apologies, Mr. Secretary. I had five college friends on my hands, and I lost track of time.

H.M.Jr: That is all right.

Would it be agreeable to you, General, if I sent for General Brett, because I want to ask some questions on how many planes are on foreign order. Would that be all right?

Marshall: Yes sir. I just had Arnold over here in the car. We were talking business on the way over.

H.M.Jr: I will see if I can get him over here.

What I wanted to get straightened out with you people before we get down to how generous we are going to be - are you gentlemen familiar with these two new laws? I have only been going to school for the last fifteen minutes.

Stark: I am only familiar with them to the extent that we have to certify that anything we sell to the Allies now or to England is not essential to the national defense. That is the decision.

H.M.Jr: Well now, there are two different ones, aren't there, Ed?

Foley: That is right. That power, the certification power and the filing of the contracts with the Military and Naval Affairs Committees, as the case may be, and HR9822. That also contains a provision about priorities. When in the discretion of the President it is necessary - during the emergency declared last September, the President may take priority over all deliveries for private accounts and for export so that if he made a declaration, for instance, that those Vultecs that are on order for the Swedish Government were needed for the Army, he could obtain those 140 Vultecs for the Army and the Swedes would have to have a deferred delivery.

The other powers in 9850 are the powers to the Army to trade in deteriorated, unserviceable, obsolescent or surplus military equipment for other military equipment on munitions or supplies for which the Army has a shortage. In other words, if it has an excess of certain material and a shortage of other material, the excess can be turned in and material for which there is a shortage obtained in exchange.

Stark: That is not for export, however, is it?

Foley: No, that would simply be for the Army's own needs under that particular power. You might by a combination of other powers, work out a scheme whereby you could --

Shenp: You mean the Army wouldn't be interested in what became of the material they turned in?

Stark: That is what we have been doing.

H.M.Jr: Wasn't Colonel Burns supposed to be here today?

Marshall: I don't know. He was with you at the time you called me up in connection with the thing. I didn't know whether you had asked him to come over or not. Would you like him to be sent for?

H.M.Jr: Only if you want.

Stark: Does that apply to the Navy?

Foley: No, only to the Army, but Navy has the exchange power still and you can turn your stuff over to the Army and it becomes surplus for the Army and the Army has a shortage of something else, so it turns in the stuff you turn over to them. We are in the same position you are. We have got a little more power than we had before. However, you have to make a certification now and you didn't have to do that before.

Marshall: Well, you say I have to make a certification. Are you stating that in relation to the trading?

Foley: Yes, sir. The statute expressly says that no military or Naval weapon, warship, boat, aircraft, munitions, supplies or equipment to which the United States has title, in whole or in part, or which has been contracted for, can be transferred, exchanged, sold or otherwise disposed of in any manner unless the Chief of Naval Operations or the Chief of Staff of the Army, as the case may be, first certifies that such material is not essential to the defense of the United States.

(Colonel Burns entered the conference.)

Stark: That is a coverall.

Foley: That is a coverall. That applies to both of them.

Stark: In other words, if we have something which - well, there is our own interpretation of the word essential. If it is not as essential as something we could get, then it isn't essential.

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Foley: That is right, and then in addition you have to buy within 24 hours after you enter into a contract for the disposal --

Stark: That is a fee lawyer's definition.

Spear: Which is planned to get us into an argument with every transaction.

Stark: We might have ten thousand rifles that are essential to the defense of the United States. We can't spare ten thousand rifles as of themselves. But if you can turn them in and get ten thousand better rifles --

Spear: Or even eight thousand.

Stark: Eight thousand which are more essential or better from the defense standpoint, couldn't you certify that the first ten thousand were not essential?

Marshall: Of course, that is perfectly logical.

Foley: On those deals, it seems to me you would have to take into your confidence the chairman of the appropriate committee.

H.W.Jr: In advance.

Foley: In advance, just the same as we have to take in the joint committee on taxation down on the Hill when we want to make a refund. We decide that somebody is entitled to a refund. If it is over a certain amount, we have to go down and talk to the joint committee and get their approval so that they won't object when the refund is made and we file with them the necessary papers showing that the refund is made and what the circumstances are.

Spear: What happens when Congress stands adjourned and they are all home? This thing has got to be carried on as a daily routine.

Foley: Well, I should imagine that the chairmen of the committees will be available and in the interest of diplomacy, I should think it would be wise to

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talk to them first, but if they are not here, you can go ahead and just file, within 24 hours after you enter into the agreement, a copy of the agreement and take a chance that they won't object.

Marshall: What is the legal slant on this thought? Suppose - we will exaggerate this for the purpose of illustration. Suppose we have good reason to feel that 50,000 rifles, or the necessary ammunition, turned over at the present time might possibly have a determining effect.

Foley: Might have what?

Marshall: A determining effect in the struggle in England.

Foley: Yes, sir.

Marshall: There it is a question as to what extent we dare reduce our resources in order to bolster up the British defense and the protection of the British fleet, which is our main concern. Now, we have the word "essential" in this law.

Foley: That is right.

Marshall: What possible co-relation is there between those two thoughts?

Foley: Well, I - this is very broad. Such material is not essential to the defense of the United States. I assume a very broad construction of that would mean that if in your opinion it was more essential for that material to be in the hands of the British in the interests of the defense of the United States, than in our own hands, you could probably make a certification.

Stark: I hadn't thought of that.

Marshall: You are now in a speculative realm as to whether this will do it. If it fails to do it, then our situation is the more critical because it has failed there and we have the less here.

Foley: That is right.

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H.M.Jr: May I interject?

Foley: But by being able to save England or keeping them going a little while longer, we might buy, so to speak, by that method, very valuable time to equip ourselves.

Stark: But that reasoning in effect was put up to General Marshall and me, where we thought the United States' interests lay, and that is really beyond our province. I have thought of the same thing and we have talked it over in the department. Now, is our defense served by having the British win this war, for example, and if our answer to that is yes and that is what we would feel, then comes the question of whether we are taking a chance or not. If she loses, it might be our turn next.

Marshall: It is a matter of degree there. There is a fine proportion between --

H.M.Jr: General Marshall, supposing instead of using England you use Canada.

Marshall: Beg pardon?

H.M.Jr: Insert the word Canada instead of England on this example. Is it true that if England loses, as I understand it from the President's public statement, and Canada is invaded, we go to their defense, don't we?

Marshall: That is right.

H.M.Jr: And if we give or sell 50,000 rifles to Canada for their defense, isn't it also in our own interests?

Marshall: It is distinctly in our own interests with a reservation - well, permit me to exaggerate again. We are not at war and Canada is at war with Germany. So, to exaggerate, we might give virtually all of our defensive material to Canada and to England in order to insure that they get the best of Germany. I am exaggerating this for illustration. If we were certain that that would accomplish that end and were equally certain that we would not

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be embarrassed later on in our relations with Canada and England, that is one way to save us from a tremendous expenditure of money and from a possible war. However, as you moderate that, from the absurd extreme, which I pictured, you come down to a speculative proposition as to how far we can weaken our resources against the necessity of doing something positively in order to strengthen some other country. I presume you have already talked to the Minister from Canada, Mr. Moffatt.

H.M.Jr: No, I have not.

Marshall: Mr. Moffatt was talking to me yesterday, and he was explaining to me the situation in Canada. Roughly, to put it the way he explained it to me or the way I understood it, they have just fallen apart in their preparations. They have sent out of the country so many aviators they thought they could use for instructors. They haven't received the training planes they expected to receive. They have had to send so many of their troops out of Canada to England, to the Carribean area and other places, that as he stated, I think about in these words, their situation is lamentable. It hasn't developed the way they expected. I don't mean that in the terms of the war abroad hasn't developed that way, but they expected from England - what their contribution would be. They were to set up a tremendous training school for pilots and send them at a certain rate of speed out of Canada. That hasn't materialized. The equipment hasn't come back. They are very much at odds, I understand, with the British Government because of the long delays about this and that in their procurements. It would almost appear that they have had much more difficulty in their adjustments with England than we have had, and the Allied Purchasing Agent had in his relations with us. In other words, he has got more direct action here than the Canadians have gotten out of the British Government. So rare in a precarious position.

H.M.Jr: Is Moffatt in town?

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Marshall: He is going to leave Thursday, I believe.

Stark: Yes. He says they are more defenseless than they have ever been in their existence. At one time they were down to a matter of something like 45,000 cartridges. Everything is gone, and they see themselves now practically open to attack and they have nothing. People that they counted on to go ahead and train, they haven't got. Their productive facilities haven't come through.

Marshall: There have been changes and changes in the classifications and things from England and the whole thing is muddled into a very serious impasse. Now, under the terms of this law, it comes to Admiral Stark and myself to determine of what value these things are going to be to Canada in relation to the serious extent to which they deplete our very slender resources, and that is a very important decision to take.

Foley: That is right and that is in line with the second suggestion there.

Marshall: I am not going to issue, if I can help it, all of our materials to somebody that isn't going to use it. That is putting it crudely. It is a question of how much they need and how it is going to be handled. We know what we can do with it. We don't know what they will do with it. In other words, it is a very difficult decision. This comes down, of course, in the way of weapons, to the question of ammunition, which you already know our situation in and when the first corrective measures can be taken and the time factor is the dominant factor in this whole matter.

Now, any decision to further weaken us in materiel presents an immediately - an immediate possibility of a precarious situation for ourselves in case we are reduced to the necessity in the next two or three months of doing something overt in connection with this war. The Canadian field is a pretty large one. The requirements would be tremendous in view of what they tell me now.

Stark: Then if the attack comes in South America, everything has gone to Canada, and we are again in a very bad situation.

- Marshall: I am not presenting this as the solution, and I am just using it as an illustration, but it would almost look like it is the safer thing for us to make the plans for using our own troops in Canada rather than to disperse the materiel into Canada.
- H.M.Jr: You know what the President told Ralph Budd, don't you?
- Marshall: Yes, I know that.
- H.M.Jr: About getting the railroads ready, how would he handle 300,000 troops to Halifax? The President told me this himself. He said Budd was just flabbergasted because he just didn't know and he didn't know what the available tax situation was or anything else.
- Marshall: We have already been going into plans for the possible movement of troops up into that region. What I mean is, the question is, do we pour our slender means into a situation up there over which we have no control and reduce ourselves to the point where we can't protect our own interests?
- Now, when it comes to the training of pilots, we are in a difficult situation. When it comes to ammunition, we are in extremely critical ammunition times.
- H.M.Jr: General, I am thinking out loud, because you have opened up a new line of thought. I wanted to ask you a question. Did Mr. Moffatt come down here with a request --
- Marshall: He is down here to promote some conversations, or whatever you should call them, between the Canadian staff and our Army and Navy staff.
- H.M.Jr: That is just what I was going to say. We make the statement we are going to protect Canada, but isn't it just as important for us - if we are going to do it, isn't it just as important for us to know what they are doing and have some say as is demonstrated in the fact that France has nothing to say about Belgium and their coming through Belgium is what destroyed France.
- Marshall: Yes, sir. My own reaction to that - it came up the other day. There was a message. I don't know whether you knew about it or not. There was a telegram to the State Department from our Minister in Canada which brought up the question and suggested that we go there because there would be more secrecy than if their people came here, particularly as their people were so very busy.

Stark: I took issue with it.

Marshall: In the first place, my point on that immediately was that we were not in the position - I certainly am not and I assumed Admiral Stark was not - to have a discussion with them until we had some backing of what was the Government's policy.

The first issue, of course - one of the issues they brought up in that case was the handling of the British fleet if it came to this shore. There are a great many questions that have public policy involved which would have to be at least - at least there would have to be a rough basis for our discussions or they would merely lead to irritations, because we wouldn't know what we were talking about as to what the decision of the Government is going to be, and by the Government I am assuming both the President and the Congress. I don't mean there will be a debate in Congress but I am assuming it would be necessary for the leaders of Congress and the President to be in some agreement as to what the measures would be, because now you are right on the verge of war there, as to what our relations are with the British fleet if it comes over here and it has to be based in this country largely because they haven't the facilities otherwise. Yet Admiral Stark and myself were in agreement that it was unthinkable that we wouldn't do everything in our power to salvage the British fleet, but we would have to have a very definite basis on which to operate. That was one of the considerations that were brought up in this telegram.

Now, as I understand it, the President asked Mr. Moffatt to come down here and he is down here for that purpose now. The President hasn't given him any definite reply, but he saw Mr. Welles yesterday, he saw me yesterday and he saw Admiral Stark yesterday. He told me their situation, and the question, as I left it, was whether there would be a good moral result, a good result in the way of morale, if we had the discussion prior to our having

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on our side here a better understanding of what the Government's policy is to be, because the fleet is immediately involved in it. It is a superficial thing if you ignore that. Of course, behind that it gets into details of materiel and now we are into the question we started discussing this morning.

H.M.Jr: One thing it seems to me I would like to do if you gentlemen approve is to let this committee that the President set up, Mr. Young and Colonel Burns and Admiral Spear, immediately get a list of orders for airplanes and engines and everything else which these countries other than England and France and Canada have on order and the deliveries. It seems to me we ought to have that at once. Particularly, Sweden --

Marshall: That they have on order?

H.M.Jr: Take Sweden and Norway, and I don't know how many other countries, have things on order which are to be delivered immediately, like these Vultees, like these Smith & Wessons, 2,000 machine guns, that start delivery July 18th, and whether the President oughtn't to get up a proclamation or whatever the thing is under this law and take them and then decide afterward what he is going to do with them. I think certainly we ought to have a list of materiel by countries which will be delivered, say, for the rest - between now and the 31st of December, anyway.

Foley: That seems to me to be very essential, because even though that may not be an affirmative release, it is a negative release, because we know these things won't be falling into the hands of the enemy.

Marshall: I think that is quite essential.

H.M.Jr: Is that agreeable to you, Admiral?

Stark: Yes, to have such a list made.

H.M.Jr: Yes.

Marshall: You said December 31st, didn't you?

(Major Lyons entered the conference)

Spear: Do I understand that the British Purchasing Commission have sent out letters stating that they are taking over all orders by the French?

Young: They sent out a letter to the manufacturers saying that they were taking over the French contracts. There may be one or two exceptions, but that is practically universal.

Spear: I understand the only exception was the ammunition, which the British claimed they would not use. Therefore, they would not accept deliveries for those particular items, but they would take everything else.

Young: A statement was contained in that letter to the effect that the manufacturer could, if he had any questions or doubts about it, get in touch with the British Purchasing Commission. Undoubtedly, certain of those items would be canceled where the British couldn't use them, but at that time a settlement would be made between the British and the manufacturer.

H.M.Jr: Well, before I ask you, Major, as I understand it now, you feel that this major policy should be decided first before we get down as to any more rifles or anything else, is that right?

Marshall: Well, no, not exactly that. I was talking about the major policy before we got into conversations with the officials from Canada, because my feeling was that if I conversed with them now, in the first place, I wouldn't tell them our dilemma, and in the next place, they would tell me their dilemma and then I haven't got any definite base on which to discuss the thing with them, because it would be an approximation

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of our policy. I know the statement that the President made, but dare I go ahead in any realistic fashion at all and if I don't do that, wouldn't I create more harm than I will good, because it will seem futile? It will be all conversation with no form of assurance of any kind. We can't go to completion on any such thing. The best we could do would be a tentative arrangement, but as I feel now, I couldn't get into even a tentative arrangement until a more or less well understood Government policy was involved in this thing, which has a great many ramifications. Is that the way you feel?

Stark: Yes. For example, I told Mr. Moffatt yesterday, suppose the British fleet comes to Canadian waters. It can't be supported there, refitted. Now, they can't come to us and stay in our ports over 24 hours, according to international law. Therefore, we have got to take care of - throw international law to the winds and when we do so, we cease to be a neutral.

H.M.Jr: You saw what Mr. Stimson said on that yesterday?

Stark: No, I didn't.

H.M.Jr: About giving refuse to the British fleet?

Stark: No, I haven't seen that. Of course, if they wanted to come over here to save themselves, that is another thing.

I wish the French fleet had broken for our shores and been interned, but if they intended to operate from the United States, it certainly makes us a belligerent.

H.M.Jr: Let me put it this way. There is no reason why these three gentlemen shouldn't take, say, "X" number of rifles and work out the formula and have the Solicitor General and the Attorney General and everybody else pass on it and say, "If you want to dispose of 'X' number of rifles or transfer the Vultee planes or these Smith &

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Wessons, that is the way the thing --" and have it all agreed upon as to the legality and who signs what and what you have to do, certify, and so forth. That could all be done, couldn't it?

Spear: I think that probably is a very simple problem.

H.M.Jr: Excuse me, not if you listen to Mr. Foley. He says there is an awful lot of work that has to be done. Don't you think so?

Foley: Yes, I think now - I mean, these additional statutes add that much more to what we already have to weave through in order to do any of these things and I think we ought to clarify the situation and get approval from the Attorney General before we do anything. We don't want to have another situation like the electric boat situation, for instance, and before we even talk to anybody on the Hill, I think we ought to have the matter all set up from the legal standpoint and approved by the Attorney General.

H.M.Jr: I would like to see that done so it is all signed and sealed and you could say to the President, "Well now, if the Administration's policy is so, this is the way to go," but right now we couldn't do that.

Stark: It would be very helpful, I think, to make a digest of these, if that is what you mean, for guidance, of laws passed.

Foley: Not only a digest, Admiral, but also --

Stark: A brief.

Foley: Specific instances where there are possibilities of being of some help. There I think we ought to set up whatever is necessary in the way of papers and have them approved by the Attorney General.

H.M.Jr: Like the Vultee planes.

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- Foley: Before we go any further - the Vultee plane, for instance, and the Smith & Wesson sub-machine guns that are on order here by the Swedes. There are a number of those situations where we know that there are possibilities of being of some help. I think we ought to set them up. I think we ought to agree among ourselves that we can do something in connection with those matters and then have the paper work all approved by the Attorney General before we go any farther. Then we can decide the policy.
- Marshall: In other words, you have a digest of the law, what it means, a list of the possibilities, and then the procedure if you try to carry those out.
- Foley: That is right, have it all set up.
- H.M.Jr: Which isn't ready today. I would like to ask a question, Major Lyons. Who besides Sweden has on order planes here to be delivered during the next six months, planes or engines? I mean, what planes or engines are on delivery in the next six months?
- Marshall: While he is getting that data, I would like to ask a question here. Take the Vultee planes, we have shortages right now because we don't get our deliveries for quite some time and I am a little dubious whether they are going to come when promised. All right, here are the Vultee planes. They are cut off from Sweden. We have a shortage. What about turning it over to somebody else? They first pass into our possession, don't they?
- Foley: Yes.
- Marshall: The minute they come into our possession, we have a situation like that Navy bomb the other day. I've got a tragic shortage on the Army side. Admiral Stark brought up the question I might hold on to them. When

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I got a grip on them on the Army side, wasn't it my job to hold them? We just passed them on through. Now, the situation as I see it under this law is something different.

Foley: General, let's say these Vultees were modern, up to date and usable and that you had a shortage of that kind of fighter. Are they fighters?

Cox: Fighters and pursuit planes.

Marshall: That is our shortage right now.

Foley: Wouldn't it be possible if you got those immediately that you might have something else that then would become surplus and you could release?

Marshall: Well, that was the issue brought up at the time. The only trouble was it took about two months or more to convert the Vultees to our purpose.

Foley: Would that still be so?

Marshall: Because they are built on another basis, you see.

H.M.Jr: If you took these Vultees - now, they have the authority to take them. I just wondered if they could be turned over to the English or Canadians.

Marshall: Ours come in before they can be converted to our use. Now, of course you are in something else that doesn't concern our national defense. We seize them ostensibly for our use and turn them over to somebody else. That, of course, is outside my consideration. I don't know how you get around that.

H.M.Jr: That is the package I want them to wrap up for me and see how it looks.

Marshall: If they wrap that up, they are master hands, because that is a hard one to beat. We seize

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them for our use and give them to somebody else.

H.M.Jr: He knows how to do it. They accused me of being a little crude, but that is all right. I like to be present when the President calls me his buccaneer diplomat. I have earned that. The same would be true on the Smith & Wesson. Are you ready now for Major Lyons?

Marshall: Yes.

Lyons: The orders we have that are open are Canada, England, France, and we are carrying the recent orders, Anglo-French. We don't know how much they are. Then there is Belgium, Brazil --

H.M.Jr: What have you got for Belgium?

Lyons: There are 35 pursuits. I will have to go back to the company to break that down.

H.M.Jr: We can get it after this. We will get some rough idea. There are 35 to Belgium. What else?

Lyons: Brazil, 24.

H.M.Jr: We don't want to take those.

Lyons: China, Egypt, Finland --

H.M.Jr: How much has Finland got?

Lyons: They are just about cleaned up, according to this report. They have some spares. Iraq, Netherlands --

H.M.Jr: What is Netherlands?

Lyons: They have a balance of two. Norway, 101.

H.M.Jr: Are they pursuits, do you know?

Lyons: They are all Curtiss, very similar to the French air-cooled, inverted job. Portugal, eight Grummans. Siam, 18. Sweden, of course, is 268.

Foley: 268?

Marshall: Sweden is 268?

Lyons: Yes, sir.

Marshall: What are they?

Lyons: There is a P-35, which is the Republic job, and also an advanced model of the basic P-35. They are all from Republic. They call it their pursuit airplane.

Marshall: They call it what, the pursuit interceptor?

Lyons: Pursuit interceptor, yes.

Cox: Is that in addition to the Vultees?

Foley: Are the 144 Vultees included in the 268?

Lyons: I am sorry, 144 - you were right - are from Vultee. It is the interceptor.

Foley: And that is included in the 268?

Lyons: That is included in the 268. That completes the airplanes.

The engines, by country, are the Anglo-French, Brazil, China, England, France, Netherlands, same list practically. *pe lists 7/5*

H.M.Jr: Well, if it is agreeable to you (Marshall) could he give them in more detail on Belgium, Sweden and Norway?

Marshall: Certainly.

H.M.Jr: And if he could give it to Young and then --

Marshall: You want both planes and engines?

H.M.Jr: And anything else, machine guns or anything else, and let's see if Foley can work out a way that we can lay our hands on them and then if you gentlemen have to decide whether they are of any use to you, and if they are not, can they be turned over to anybody else, such as Canada.

Foley: Or can something else be turned over if we can't turn over those things?

H.M.Jr: If you could work that out, Ed, it would help.

Foley: Yes.

Spear: I have one suggestion, Mr. Secretary. As long as we are going to present something to the Attorney General, this 9822 starts off with a preamble, Section 14, that notwithstanding any other laws.... Now, on June 15, there was a bill approved by the President to extend help to the American republics, the Latin and South American republics. It authorizes the Secretary of War and the Secretary of Navy to build and construct, and so forth, in Navy Yards and arsenals. What effect does this later law, this 9822 that we are talking about here this morning, have on our ability if we care to - it is not a mandatory law, that South American law. What effect has that law got on any request we may receive now from a South American country? Chile, for example is a specific case right now.

Foley: Well, Admiral, I would like to study it. That is a question of statutory construction here. Don't you think it would be a good idea to cover this, say, because it has a certain - this 9822 is a restrictive law. It doesn't give us any authority to sell anything. It puts restrictions on the sale or exchange.

Foley: That is right.

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- Spear: And I don't know whether that is going to have any - throw any monkey wrenches into this South American rule or not. Of course, as I pointed out, that South American bill of June 15 is not a mandatory law at all. It merely places that discretion with the Secretary of War and the Secretary of Navy.
- Stark: That South American legislation was something they drove very hard to get through the last session of Congress and it was held up and they did get it through this. The President is very much behind it. It is a question of whether it isn't largely nullified by this 9822.
- Foley: It may be possible to read the two of them together. It is a question of a law of special application dealing only with South America passed at the same session, but earlier than a later enacted general statute that lays down restrictions in so far as the whole field is concerned. It may be possible to read the two of them together and read an exception out for the South American thing, but I would have to study it.
- Spear: To start right off, this 9822 says, "Notwithstanding any other laws."
- H.M.Jr: Thank you very much.

JUL 8 - 1940

Secretary Houghton

E. E. Foley, Jr.

Subject: Exercise of Priority Powers Over War Material Granted to the President by Public - No. 671 - 76th Congress (H. R. 9422)

I.

Section 2(a) of Public - No. 671 gives the President the power to give all naval and Army contracts and orders precedence over all deliveries for private account or for export.

This power can be exercised by the President, in his discretion, whenever he deems it in the best interests of the national defense to do so during the existence of the national emergency declared by him on September 8, 1939.

II.

As you know, there are more than 600 military and naval airplanes on order by foreign governments other than those ordered by the Canadian and British Governments. Most of these have been ordered by Norway and Sweden. Some deliveries on these orders are due this month. The rest are staggered for about the next year. Similarly, small arms and ammunition and other war material are on order by foreign governments other than the Canadian or British Governments. You asked this morning to have a complete inventory made of this material.

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When this inventory is made up it, together with the inventory of foreign aircraft orders, will supply the groundwork for the exercise of priority orders.

III.

There is immediately presented the questions of how and when the priority power should be exercised.

My recommendation would be that we have prepared at once for the President's signature an Executive Order providing that upon the recommendations of the Secretary of War or the Secretary of the Navy, as the case may be, and the recommendation of Donald M. Nelson, the President will issue such priority orders as he approves. I add Nelson's recommendation because the Defense Council Order of June 27, 1940 approved by the President provides that Nelson shall make recommendations to the President relative to the granting of priority orders.

If you approve I will prepare the necessary Executive Order with a covering memorandum from you to the President.

Approved:

(Initialed) E. H. F., Jr.

Secretary of the Treasury

OSC:WJk
7/3/40

JUL 3 - 1940

Secretary Morgenthau

E. H. Foley, Jr.

Subject: Exercise of Executive Powers Under H.R. 9850.

Pending a decision by the President on when and how he is going to exercise the priority powers granted to him by Section 2(a) of Public No. 671 - 76th Congress [H.R. 9822] I would recommend that the President, pursuant to the power granted him by H.R. 9850, prohibit the export of all of the material covered by H.R. 9850 except that which is being exported to Canada, Great Britain and South America.

(Initialed) E. H. F., Jr.

OSC:ahb
7/3/40

7/3

155 m.m. GUNS

We have received an urgent request for release from United States stocks of the following:

- 20 (or more) complete 155 m.m. guns (comprising guns; carriages; sighting gears; normal tools and spares)
- 500 complete rounds of ammunition and 600 primer tubes per gun for use with above.

We are asked to state if platforms would be available.

The ammunition desired is armour piercing with penetration equal to 2 1/2 inches at normal on 50 ton steel plate at 5,000 yards. If this is not available can high explosive (fused) shell be supplied instead?

Hand books and range tables would be desired.

A.B.P.

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HM of has not
seen - I have
copy of
7/3/40

SMALL CALIBRE ARMY OR NAVY GUNS

for

ANTI-MOTOR TORPEDO BOAT WORK

We have received an urgent request for
release from U.S. stocks of the following:

20 (or more) guns

2,000 complete rounds of ammunition per gun
(either armour piercing or high explosive)

Types of guns which might be suitable
would be:

3 pounder guns on pedestal

6 pounder guns on pedestal

3" pounder naval guns on pedestal

3 pounder naval landing guns

Ammunition rate of fire of ten rounds per minute is
wanted.

A.B.P.

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BUREAU OF FOREIGN AND DOMESTIC COMMERCE
OFFICE OF THE DIRECTOR

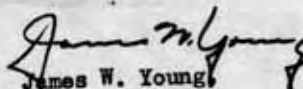
7/5/40

From DIRECTOR

To Hon. Henry Morgenthau, Jr.
Secretary of the Treasury

For

Sent at the request of Mr. Noble,
Under Secretary of Commerce.


James W. Young,
Director.

Inclosure - Economic Developments 7/3/40

July 3, 1940.

ECONOMIC DEVELOPMENT

RECOVERY OF GENERAL BUSINESS ACTIVITY, initiated with some hesitation a month earlier, spread over a broader area in June and gave signs of growing strength. Unfavorable aspects of the May business situation (i.e., declining share quotations, commodity prices, and consumer buying), which arose with the implications of the fiscal events in Europe, were to a large degree dispersed. If Britain is defeated and the war ends in the near future, a setback in business is still quite possible and perhaps probable. But it is now evident that the eventual impact of the vast national defense program upon production and investment is being reflected in revised expectations of business men.

BUSINESS PURCHASING RAN ON A WIDER SCALE in June—a major sign of the more favorable view being taken of the outlook. May increase in new orders was restricted largely to durables with large gains occurring only in steel and nonferrous metals; new business had not usually declined in certain nondurable lines. In June, however,

Steel buying continued very active and purchase of non-ferrous metals increased further.

Purchasing of railway equipment picked up considerably—there had been a sharp decline in May.

Industrial machinery and equipment—advanced buying indicated in almost every line.

New orders placed for textiles increased markedly, reversing downward May trend.

Interest in shipped goods for fall season much more active following hesitation in previous month.

SIGNIFICANCE: This is the first broad buying movement since last September-October. Backlogs in most lines of business were probably increased in June, and an impressive addition to the total volume of unfilled orders was surely made. Current revival has not been as feverish as the buying wave let loose by the outbreak of war in September, however, and for that reason alone the expansion gives promise of developing more soundly than the situation of last fall.

IN CONSEQUENCE, INDUSTRIAL PRODUCTION was moved ahead vigorously, a 10 point jump being recorded in the Bureau Board's Index. After the rise from 102 in April to 105 in May, the Index was close to a 115 average for June (preliminary estimate). As in the previous month, steel led the way, with output rising from 77 percent of capacity at the end of May to over 86 percent by the end of June. But contrary to May many other manufacturing industries, for example, the important textile industry, entered a rising phase of activity in June, or made larger gains than in the earlier month. Freight-car loadings increased more substantially, lifting the weekly total above the year's previous high. Automobile assemblies declined more than seasonally as the model year approaches its close, but this is not particularly significant in the light of the very good year the industry has had.

EXAMPLES (seasonally adjusted indexes)

1940	Industrial production	Steel output	Automobile assembly	Cotton concmp- tion	Car- loadings
January	119	146	123	130	76
April	102	92	105	113	70
May	105	110	95	116	72
June (prel.)	115	116	92	128	75

SIGNIFICANCE: The rise in June carried the Board's production Index to the highest point since January, signalling a large part of the January-April loss. The month's gain in terms of the Index is comparable to that made last September and October. In terms of employment, however, the rise will not be so large because many advanced durable goods industries (not represented in the Index), which have held at the high winter levels, cannot advance further so easily at this time.

MAY'S DECLINE IN PRICES AND CONSUMER SPENDING, which cast doubts on the prospect for business, was halted in June. Security prices actually recovered some of the previous month's loss. Commodity prices averaged approximately the same at the end as at the beginning of June after a moderate rise during the first half and a moderate decline during the last week of the month. Department store sales were up sharply during the first three weeks of June, with a gain of 5 points in the adjusted Index indicated for the month. After continuing the unfavorable May showing through the first third of June, retail car sales also made a sizable gain—probably enough to carry the June total above the previous month's.

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EXAMPLES:

	May 10	May 31	June 17	June 29
Dow-Jones:				
Industrial stocks.....	145	116	123	121
Corporate bonds.....	86.7	83.5	85.3	87.2
Bureau of Labor Statistics:				
Spot commodity index.....	117.5	110.0	110.3	109.9
Agricultural products....	123.0	112.7	110.2	112.1
Industrial raw materials.	115.6	112.3	114.4	112.7
Import commodities.....	121.1	112.6	113.8	112.8
	<u>Jan.</u>	<u>Apr.</u>	<u>May</u>	<u>June</u>
Department store sales (adjusted index)	92	89	87	92

SIGNIFICANCE: These changes in some of the most unfavorable factors of the May situation are indicative of the extent to which anticipations have shifted from repercussions of the catastrophe in Europe to those of the national defense program. The advance in consumer buying has already had a stimulating effect upon industries producing such goods.

IS THERE ANOTHER INVENTORY BOOM IN THE MAKING?

The current upswing in production following so quickly upon the experience of last fall naturally raises this question. June data are, of course, not yet available but the trend is fairly evident. Inventory liquidation was substantially ended in May—entirely in manufacturing though continuing in wholesaling and retailing. With June's sharp rise in production, total stocks probably were added to in that month.

What should be recognized, however, is that the present situation differs in its essentials from that set off by the September-October buying wave. Last fall, expectations were changed by the possibility of increased exports which the outbreak of war created. At a time when the increase in exports was only a possibility, production expanded to an extent that could not be validated over the near term by any probable increase in demand from abroad, or, in fact by ~~some~~ increase which later occurred.

In the present situation, apart from the fact that the volume of new orders has increased much more moderately, the basic demand arising from the national defense program is likely to require an expansion in the volume of production even beyond present expectations. Should there be moderate inventory accumulation during the intermediate term, therefore, to meet requirements that will

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arise when full demands for defense requirements reach the market, it should not be a serious factor. Intermediate interruptions to the rising trend of production should, therefore, be of less importance than was formerly the case when a basic demand factor comparable to the defense program was not in the picture. Such interruptions could come from a quick termination of the European war or from readjustments of a technical character. They are not likely to affect materially the longer term trend.

FOREIGN TRADE NOTES

Norway: According to a recent cable from Stockholm, the Norwegian wood pulp industry, which has been almost at a standstill since the German occupation, has received a very large order for wood pulp from Germany which will keep most of the mills occupied for the next three or four months. It is presumed that a part of the order is intended for trans-shipment to Italy. The transaction is based on a clearance arrangement with German coal as the principal factor in the compensation.

Sweden: A large number of German commercial travelers are acting as brokers in Sweden for the sale of a variety of Balkan products, including olive oil, hematite manganese, and cake for feeding stock. The sale is to be made on the basis of free exchange and it is hinted that a part will be turned over to the German Reichsbank.

Australia: According to a recent official announcement by the Chairman, The Australian Consolidated Industries, Ltd., which was to manufacture motor vehicles in Australia, the plans have been postponed, probably until the end of the war.

Japan: The great shortage of labor has brought about an extraordinary increase in the wages for skilled labor, but real wages are still declining as a result of the rise in the cost of living. In some cases the wages have gone up to as high as 30 yen per day for skilled labor in the munitions and other heavy industries. In many instances these laborers are paid salaries far above those ordinarily received by responsible Government officials, store managers, and other office workers.

Bureau of Foreign and Domestic Commerce
July 3, 1940.

WEEKLY WHOLESALE PRICE INDEXES

(1926 = 100)

Group	1939			1940		Percentage increase, June 29, 1940 from—	
	July 1	Aug. 26	Sept. 16	June 22	June 29	July 1, 1939	Aug. 26, 1939
All commodities	75.5	74.8	79.3	77.1	77.1	2.1	3.1
Farm products	62.9	61.1	69.7	65.6	65.7	4.5	7.5
Foods	67.4	66.7	75.5	70.1	69.7	3.4	4.5
All commodities other than farm products and foods	80.5	80.4	82.4	82.4	82.3	2.2	2.4
Hides and leather products	93.1	92.6	98.3	99.6	99.9	7.3	7.9
Textile products	66.9	67.4	71.4	71.9	72.0	7.6	6.8
Fuel and lighting materials	73.7	73.2	74.1	71.9	71.9	- 2.4	- 1.8
Metals and metal products	93.3	93.5	94.9	94.8	94.8	1.6	1.4
Building materials	89.7	89.7	90.7	92.3	92.4	3.0	3.0
Chemicals & allied products	(1)	(1)	(1)	76.3	76.0	—	—
House-furnishing goods	87.0	87.0	87.1	89.9	89.9	3.3	3.3
Miscellaneous	73.6	73.1	76.1	77.2	76.9	4.5	5.2
Raw materials	67.7	66.2	73.0	70.2	70.2	3.7	6.0
Semimanufactured articles	74.1	74.4	82.0	77.9	77.8	5.0	4.6
Finished products	79.8	79.3	82.3	80.6	80.6	1.0	1.6

✓ Comparable data not available.

Source: Bureau of Labor Statistics, U. S. Department of Labor.

SELECTED COMMODITY PRICE SERIES

Commodity	Unit	1939			1940	
		July 5	August 30	Sept. 13	June 26	July 2
Copper, electrolytic, New York	per lb.	10	10 1/2	12	11 1/2	11 1/2
Lead, prompt shipment, New York	do	4.85	5.05	5.50	5.00	5.00
Zinc, New York	do	4.84	5.14	6.64	6.64	6.64
Tin, straits, New York	do	48 4/5	49 3/4	1/75	52 1/4	52 1/4
Rubber, plantation, New York	do	16 7/16	16 13/16	22 1/2	22 1/4	21 1/2
Hides, light native cows, Chicago	do	11	11	15	12	12 1/2
Milk, 13-15 denier, 785 scriplane, N.Y. .	per lb.	2.64	2.72	3.31	2.68	2.97
Cotton, middling, aver- age, 10 markets . . .	per lb.	9.46	8.53	9.01	10.46	10.40
Print cloth, 60 x 64, 18 1/2 inches, N.Y. .	per yd.	4 5/8	4 5/8	5 3/8	4 3/4	4 3/4
1 taps, Oct. 1940 futures, New York . .	per lb.	2/80.8	1/81.5	1/111.9	94.1	91.9
Sugar, raw, 96°, duty free, New York . . .	do	2.90	2.92	3.70	2.70	2.75
Cocoa, Acara, New York	do	4.30	4.38	6.45	4.95	4.95
Coffee, Santos, No. 4, New York	do	7 1/4	7 5/8	7 3/4	7 1/8	7 1/8
Ward, cash, Chicago . .	do	5.87	5.65	7.75	5.70	5.90
Cottonseed oil, Sept. 1940 futures, N. Y. .	do	1/6.51	1/5.61	1/7.30	5.97	6.21
Wheat, Sept. 1940 futures, Chicago . . .	per bu.	1/ .70	1/ .67 1/4	1/ .85 3/8	.78	.75 5/8
Hogs, good and choice, 220-240 lbs., Chicago	per cwt	7.53	6.88	8.13	5.30	6.03
Steers, beef, medium, 750-1,100 lbs., Chi.	do	8.50	8.38	8.88	9.13	9.38

/ Nominal. 2/ October 1939 futures. 1/ December 1939 futures. 1/ September 1939 futures.

Sources: All commodities, with the exception of wool taps, cottonseed oil, hogs, and steers, are taken from the Journal of Commerce; wool taps and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U. S. Department of Agriculture, Bureau of Agricultural Economics.

TELEGRAM SENT

RDS

PLAIN

July 3, 1940

AMEMBASSY,

LONDON

1572, Third.

Department's 1343, June 22.

Rubber Trade Association has finally replied referring to large tonnage purchased for shipment during months July to December, concerning which the Association says it was the understanding, confirmed several times by the Rubber Trade Association of London, acting upon advice of the Bank of England, that free sterling could be used in payment of these contracts regardless of when the documents are presented. The Association adds that to establish now any terminal date prior to the time December shipment contracts are liquidated, curtailing the use of free sterling in payment of rubber, QUOTE would work an extreme hardship on American rubber importers and would furthermore upset an understanding which we already have with the authorities in London UNQUOTE.

HULL
(AMB)

841.5151/1653

EA:FL:PB EU

FEDERAL RESERVE BANK
OF NEW YORK

91(e) 174

OFFICE CORRESPONDENCE

DATE July 3, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM: L. W. Knoke

I called Mr. Bolton at 12:45 today. I first referred to his cable #654 dealing with the Ottoman Bank and advised him that the Treasury had authorized the issuance of general licenses for thirty days:

- (a) to the Chase National Bank for the London branch of the Ottoman Bank (I pointed out that the Treasury had not as yet acted on the Turkish branch but Bolton replied that the license for the London branch was quite adequate as far as the British authorities were concerned and that the license for the Turkish branch was not urgent from their viewpoint).
- (b) to the Chase National Bank for the London office of the Banque Franco-Serbe.
- (c) to the Chase National Bank and Barclays Bank for the London branch of the Credit Lyonnais.
- (d) to the Guaranty Trust Company for the Banque pour le Commerce et l'Industrie.

Bolton thanked me for the information.

I next referred to our recent exchange of cablegrams dealing with the change in the names of the Bank of England accounts and told Bolton that the matter was progressing and that they might expect to hear from us in the near future.

I reverted to our telephone conversation of Monday night and his cable #624 of June 26 and asked whether there were any new developments. The answers, Bolton replied, which the committee had requested of them by its recent cable, were going to be sent to the American banks in London and they in turn would pass them on to Loree. We, of course, would get a copy. I took^{it} upon myself to suggest that Bolton might wish again to impress upon the American banks in London

FEDERAL RESERVE BANK
OF NEW YORK

175

OFFICE CORRESPONDENCE

DATE July 3, 1940.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

2

the need to treat in strictest confidence anything which they might learn from the Bank of England; this in order to avoid a premature leak of which there had been evidences in two recent cases with the result that the sterling market here had gone wild. Could he say with confidence, Bolton asked, that we had no particular objection to the proposals discussed in his #624? I replied that it was, of course, difficult for us fully to understand all the details touched upon in his message but that I had tried to explain to him more fully in our conversation of July 1 what our import trade was hoping for and how disappointed it would be if some mutually satisfactory arrangement couldn't be worked out and that it seemed to me that some concessions on the part of the British might be worth while. Bolton replied that they still didn't understand how our importers in conditions such as have prevailed in the last nine months at least, could have assumed the exchange risk which they evidently did assume; that their procedure was altogether different from that followed by the importers on his side where the latter had always taken the precaution to cover his exchange and never to allow himself to run an exchange risk in a market as erratic as that for free sterling in recent months. The theory on which our importers had operated, it seemed to them in London, was a very poor one; nevertheless the British authorities were doing the best they could to see them through. I repeated the whole argument advanced by our importers as given to Bolton on Monday night. In reply to his question I stated

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 3, 1940.

TO CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knoke

3

that copy of his cable #624 had been forwarded by me to the Treasury Department, that I had had no reaction so far but that presumably this matter was being further pursued through Mr. Kennedy. Bolton added that it seemed to them that the appreciation in the free sterling rate which had been brought about by the latest steps taken by the British was the very thing which our authorities would view with sympathy.

I told Bolton of my plan to get away for a few days and suggested that if he wanted to talk to anybody here about this exchange matter he call Mr. McKeon who in turn would keep Mr. Sproul informed.

LWK:KW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rome

NO.: 278

DATE: July 3, 1940, 7 p.m.

The Department has been informed by the houses in this country who acted as the issuing houses for 6-1/2 percent dollar bonds of the City of Rome and who are now acting as paying agents that the Mayor of Rome has notified them that instead of making dollar remittances to cover the July 1 instalment for debt service on the \$16,000,000 of these bonds outstanding, it is planned that a deposit shall be made in Italy in blocked ^{up} transferable lira. The American houses also say (1) that in 1925 when the City of Rome loan was issued, the Government of Italy agreed to pay during the lifetime of the loan, twenty-five years, under authority of Italian Royal Decree, certain annuities which were to be sufficient to cover the loan service, and (2) that the Government of Italy agreed that it would buy from the City of Rome the entire dollar proceeds of the loan and that ^{at} any time necessary to service the loan, it would resell dollars to the City of Rome at the same rate at which it bought the dollars.

It seems to the Department that under the circumstances this action, if carried out, will be tantamount to default.

The

-2-

The injury and loss which would result to United States holders of these bonds if such action were carried out would be regrettable. Italy's public credit in the United States has been maintained over a period of many years. From the standpoint of the Italians as well as from our standpoint, future credit relationships are likely to be injured. This will be noted all the more because of the fact that at the present time there are no controls in the United States over remittances of any kind to Italy and to Italian nationals. The Department will appreciate it if you will discuss this matter with the Italian Government in any manner which you consider most effective and appropriate and try to get them to take care of this loan service by the remittance of dollars.

HULL (ACB)

EA:HF:EB

EA:EB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 3, 1940.TO FilesSUBJECT Yokohama Specie Bank.FROM L. W. Knode

(Copies to Messrs. Cochran, Rouse and Rosell)

Mr. Rouse told me today that according to market belief, the Yokohama Specie Bank has two security accounts, one for the New York Agency and the other for the home office.

As regards the New York Agency's account, the market figures that it had liquidated its holdings before the early spring. The account of the home office, on the other hand, which was estimated to have held between \$40,000,000 and \$50,000,000 is said to have sold since the beginning of the totalitarian war, about \$22,000,000 operating carefully but almost daily, and that these sales may continue until \$30,000,000 to \$50,000,000 have been liquidated. All these, of course, are estimates and guesses. Yokohama Special Bank has generally in the past been accredited with having exercised fairly sound judgment and market activity *by it* in the past usually has preceded unusual developments.

LWK:K

RAW

GRAY

Stockholm

Dated July 3, 1940.

Rec'd. 11:59 a.m.

Secretary of State,
Washington.

692, July 3, noon.

Department's telegraph No. 208, June 21, noon.

Recommend release for transfer back to Harrson's
account funds amounting to \$8400 belonging to Swedish citi-
zen, Harro Harrson, which are at present deposited in the
National City Bank of New York in the account of Harrson's
Danish employee, Svend Michelsen.

STERLING

TFV

EXPORT-IMPORT BANK OF WASHINGTON
WASHINGTON

WARREN LEE PIERSON
PRESIDENT

CABLE ADDRESS
"EXIMBANK"

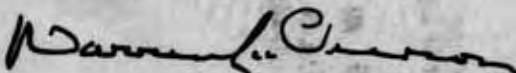
July 3, 1940

Dear Mr. Secretary:

We are pleased to receive your nomination of Mr. Harry D. White, Director of Monetary Research, to serve as a member of the Board of Trustees and Executive Committee of the Bank in the place of Joseph P. Cotton, Jr., resigned.

The appointment of Mr. White as Trustee will be made at the next meeting of the Board. In the meantime we hope that he will attend meetings of the Executive Committee.

Sincerely yours,

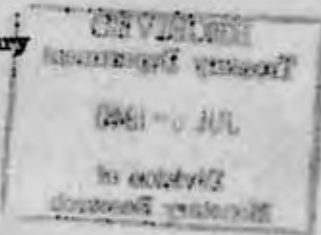


President

The Honorable

Henry Morgenthau, Jr.

Secretary of the Treasury



JR

PLAIN

London

Dated July 3, 1940

Rec'd 12:50 p.m.

Secretary of State,
Washington.

1961, 3rd.

FOR TREASURY FROM BUTTER/C.R.T.H.

The text of the purchase tax (announced by Simon in his budget speech see my No. 1067 of April 23) gives no indication of the rate or date of operation, these details to be settled by Parliamentary resolution. The bill provides for registration of manufacturers, wholesalers and importers, sales between whom will not be taxed, but sales by whom to non-registered firms (retailers) will be taxed on the price paid by the retailer including carriage. Exports will thus not be taxed. A wide range of goods will be included the principal exceptions being liquor, tobacco and gasoline already highly taxed; food, drink, children's clothing and footwear, fuel, light, water and rent and expensive medicinal and surgical goods. "Cinemas" will be subject to a separate tax. The bill will receive its second reading next week. Naturally the results both fiscal and economic depend largely on the percentage rate of the tax. The FINANCIAL NEWS estimates the turnover liable to the tax at about stlg 650 million.

RR

KENNEDY

JT

GRAY
LONDON

Dated July 3, 1940

Rec'd 4:09 p.m.

Secretary of State,
Washington.

1964, July 3, 7 p.m.

FOR THE SECRETARY OF STATE AND SECRETARY OF THE
TREASURY.

Your 1335 and 1337, June 22nd.

After protracted discussion with the British Treasury and the Bank of England they have agreed to regularize the interim arrangement previously reached and issue an exchange control notice to banks indicating that pre-March 8 contracts for the old 5B products can be satisfied by purchase of sterling in the unofficial market as long as such sterling is available. But as you know it is the intention of the British monetary authorities to wind up that market as soon as possible and only have one effective rate, namely, the official rate. They further agreed that cases where official sterling has been purchased since June 8 in satisfaction of such pre-March 8 contracts will be reconsidered and rectification made, probably in the form of according such

-2- #1964, July 3, 7 p.m., from London

such American importers an adjustment based on the closing rate in New York of the day on which the official sterling was purchased.

This is an alleviation, but of course only a temporary one inasmuch as the effective free market is to be terminated. Furthermore, it does not deal with the general contracts made before June 8 if sterling had not been bought by that date for their satisfaction. The arguments pro and con in this matter are set forth in my 1773, June 21, 7 p.m.; but the crux of the matter is that when Washington acquiesced in the ban on the sale of British securities in the benefit of American ownership--and I now gather the British Treasury was holding its breath awaiting the decision--it automatically agreed to such a diminution in the supply of sterling as to make the Treasury's request of Pinsent on June 14 impossible of fulfillment.

The notice will be cabled when it is drawn up.

KENNEDY

NPL

DEPARTMENT OF STATE

Washington

In reply refer to
EA 103.91/655/656
012.3/1812

July 3, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegrams in French, nos. 303, 304 and 305 of July 1, 1940, from the American Consulate at Bordeaux, transmitting two messages from Governor Janssen of the National Bank of Belgium for Federal Reserve, New York, and one for Fidelitas regarding certain payments to be made.

Enclosures:

From Bordeaux, nos. 303,
304 and 305, July 1,
1940.

July 3, 1940.

The 3 messages were phoned to N. Y. at 3 p.m. July 3 by Mr. Cochran in conversation with Mr. Knoks. Copies mailed this date to Federal Reserve Bank of N. Y. for attention Mr. Cameron.

RDS

PLAIN

Bordeaux

Dated July 1, 1940

Rec'd 11:14 p.m., 2nd

Secretary of State,
Washington.

305, First.

FOR FIDELITAS.

378, vous recevrez de fedreserve 321.918 dollars 18
creditez compte d gouvernement belge. Ce versement est
effectuer pour paiement coupons 1 juillet emprunt belge
6-0/0 265.674 dollars 1/4-0/0 commission 664 dollars 18
et dotation amortishment 1 juillet 55.580 dollars cablez
execution chez Banque France tarbes hautes Pyrennees
avisez ministre theunis ambassade belgique gouverneur
janssen Banque Nationale Belgique.

WATERMAN

EMB
JUL 1 1940
JUL 1 1940

NC

PLAIN

BORDEAUX

Dated July 1, 1940

Rec'd 5:27 p.m. 2nd

Secretary of State

Washington

303, FIRST.

FOR FEDERAL RESERVE, NEW YORK.

216 VENDEZ OR A CONCURRENCE 340.000 DOLLARS AUX
PRIX DE 5 DOLLARS MOINS 1/4-0/0 HANDTING CHARGERS A
PRELIEVE NOTRE DEPOT A CHEZ VOUS. CREDITEZ NOTRE
COMPTE A CABLEZ EXECUTION CHEZ BANQUE FRANCE TARBES
HAUTES PYRENNEES 288 GOUVERNEUR JANSSEN BANQUE NATIONAL
BELGIQUE.

WATERMAN

NPL

JT

PLAIN

BORDEAUX

Dated July 1, 1940

Rec'd 9:30 p.m., 2nd

Secretary of State,
Washington.

304, first.

FOR FEDRESERVE NEW YORK

217. PRIERE VERSER CREDIT COMPTE D GOUVERNEMENT
BELGE CHEZ GUARANTY TRUST COMPANY 321.918 DOLLARS
18. CABLEZ EXECUTION CHEZ BANQUE FRANCE TARDES HAUTES
PYRENNEES 516 GOUVERNEUR JANSSEN BANQUE NATIONALE
BELGIQUE.

WATERMAN

NPL

Treasury Department
Division of Monetary Research

189

Date 7/3/40 19

To: Secretary Morgenthau

From: Mr. White

This is the report which is to be submitted to the Cabinet Committee on Inter-American Economic Affairs. I thought you might be interested in reading it over before the meeting.

MR. WHITE
Branch 2058 - Room 210

Revised Draft
Please substitute for Draft dated July 1, 1940

STRICTLY CONFIDENTIAL

July 3, 1940

REPORT TO
CABINET COMMITTEE ON INTER-AMERICAN
ECONOMIC AFFAIRS
FROM
INTERDEPARTMENTAL COMMITTEE OF EXPERTS

The Interdepartmental Committee of Experts submits the following recommendations for immediate steps to be taken by the Government of the United States in the sphere of inter-American economic cooperation, pending the outcome of negotiations with the other American Republics relative to a more comprehensive plan of cooperative action. The Committee expects to submit soon its recommendations with regard to the nature of the proposals to be laid before the other American Republics.

I. SUMMARY OF RECOMMENDATIONS

The principal recommendations made in this Report may be summarized as follows:

1. Immediate creation of an effective means of formulating policies and of coordinating the work of the existing and proposed operating agencies through the appointment of a single Coordinator, functioning under a permanent Cabinet Committee on Inter-American Economic Affairs and with the aid of appropriate interdepartmental technical committees.

2.

-3-

2. Enactment of legislation permitting the Reconstruction Finance Corporation to set up an appropriate agency or agencies for handling export products of the Western Hemisphere.

3. If emergency situations should develop pending the creation of the new agency or agencies, temporary and limited utilization for the purposes in view of the existing powers of the Commodity Credit Corporation, provided that the Attorney General finds that the Corporation's funds may legally be used for these purposes, that approval or acquiescence is secured from the Congress, and that the RFC is authorized to make a loan to the Corporation equal to the amount of any funds thus used.

4. Enactment of legislation increasing the lending powers of the Export-Import Bank and liberalizing some of the existing limitations on its activities, in order to enable the Bank to expand its activities with respect to productive investment in the other American countries, the rendering of assistance as regards immediate foreign exchange needs, and the provision of appropriate commercial credit facilities for American exporters.

5. Formulation and initiation by the Treasury Department of a program for longer-term cooperation with certain American countries in the establishment, strengthening, and improvement of their monetary and foreign exchange systems and institutions.

6. Implementation on the part of the United States of the Convention for the establishment of an Inter-American Bank and increased effort on our part to induce other American Republics to give their adherence to the Convention.

7. Provision of sufficient funds and of a suitable staff for the Inter-American Development Commission.

The reasons for these recommendations are discussed below under appropriate headings.

II.

-3-

II. COORDINATION OF ACTIVITIES

In order to make possible the most rapid organization and the most vigorous effectuation of the entire program of action and to ensure the putting into effect at once of such measures as can be undertaken through existing agencies, there is urgent need for an effective means of coordinating the various activities envisaged in this Report. For this purpose, it is essential to set up a compact and effective policy-formulating group which would function in close touch with the several operating agencies.

It is recommended that policy formulation be entrusted, under the President, to a permanent Cabinet Committee on Inter-American Economic Affairs, acting through a single Coordinator. There should also be established from time to time appropriate technical committees, made up of representatives of the various interested agencies.

The Coordinator should be in a position, with the aid of the technical committees which should function under his chairmanship, to consider situations which may arise involving a particular country of the Western Hemisphere, a particular commodity or group of commodities, or broader problems. He should be in a position to determine, within the framework of the broad policies laid down by the Cabinet Committee and approved by the President,

-4-

President, in what manner and through what agencies the United States will be able best to act or to cooperate in dealing with each particular problem.

III. HANDLING OF SURPLUSES

In order to deal with pressing problems arising out of dislocation of overseas markets for the products of the countries of the Hemisphere, the United States Government should be in a position to make selective purchases of particular commodities or to make loans against or with respect to such commodities. In this manner, a hard pressed nation would find itself in a vastly strengthened position both as regards its economic situation and as regards its bargaining power.

Facilities are also necessary for disposing of the products acquired through purchase or loans by such methods as the following: (a) sale or exchange overseas; (b) increased trade among the American countries, where this may be found feasible with due regard to domestic conditions in the countries concerned; (c) transfer to stocks of strategic materials or to defense agencies in the United States; (d) relief distribution in this country, in other American countries, or overseas.

The powers in this general field should be sufficiently broad to enable this Government to participate effectively

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effectively with the other nations of the Western Hemisphere and possibly with other countries in the development of commodity production and marketing agreements, and to enter into arrangements with individual countries involving the bulk or all of the other country's exports.

Existing agencies do not possess sufficiently broad powers to carry out all of these purposes, all of which are deemed necessary to a full success of the plan. It is, therefore, recommended that legislation be enacted which would permit the Reconstruction Finance Corporation to create or organize a corporation or corporations which would have the necessary powers, and that such an agency or agencies to be set up immediately upon the enactment of the legislation. A copy of a draft bill and a suggestion for a possible statement by the President in connection therewith are attached.

It should be noted that the Commodity Credit Corporation has the power under its charter to carry out some of the essential operations envisaged, and that, with a change in its financial policy, the Corporation could be placed immediately in a position to divert \$500,000,000 to \$1,000,000,000 for that purpose. There is, however, some doubt as to whether the Corporation's broad charter powers carry with them the legal right for an agency of this Government to utilize its funds for loans on, or
purchases

-6-

purchases of, commodities of other countries, and an opinion of the Attorney General on this point is being requested. Moreover, there are grave doubts as to the political advisability of such a course of action.

Nevertheless, if a pressing situation should develop pending the establishment of a new agency or agencies proposed above and if the Attorney General finds that the funds of the Corporation may be used for the purpose in view, it is recommended that the powers of the Corporation be used at least temporarily and on a limited scale, provided either approval or acquiescence of the Congress is secured. It is also recommended that in the event the Commodity Credit Corporation is used for this purpose, the RFC be authorized to make a loan to the Corporation equal to the amount of any funds thus used.

Finally, the Committee does not believe that it is necessary to reach at this juncture a definite decision with respect to the possible use, in the handling of commodity surpluses, of exchange control and multiple currency systems. The matter calls for much additional study and is, in any event, of far greater importance in connection with the larger cooperative plan than with the measures here recommended. The present recommendations neither preclude nor require the use of exchange controls and multiple currencies. The decision as to whether or
not

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not such methods should be employed and, if they are, in what measure and in what form, is a matter of policy which can well be left to later determination.

IV. DEVELOPMENT OF PRODUCTION

An important phase of any program for the economic defense and progress of the Western Hemisphere is the promotion of economic readjustment and the expansion of economic activity in the American countries, through the establishment and development of sound production of complementary commodities capable of being marketed in the Hemisphere, and in other appropriate ways. In this field, three existing and one proposed agencies—namely, the Department of Agriculture, the Export-Import Bank, the proposed Inter-American Bank, and the Inter-American Development Commission—will, probably, be adequate to accomplish the desired objectives, if the following recommendations with respect to them are carried out:

1. In order to permit the Export-Import Bank to perform the functions here indicated and other functions indicated below, its lending powers should be increased to \$500,000,000, and certain limitations on its activities should be liberalized. There is attached a draft of legislation which would accomplish these purposes.

2. The implementation on the part of the United States of the Convention for the establishment of the Inter-American Bank, now under way, should be vigorously pushed; and earnest efforts should be made

to

-8-

to induce all American Republics to give their adherence to the Convention.

3. The Inter-American Development Commission should be provided with an appropriate staff and with sufficient funds to carry out its work of planning and promoting the development of sound productive enterprises in the American countries.

V. FOREIGN EXCHANGE AND MONETARY PROBLEMS

It will undoubtedly be necessary to extend credits to, or otherwise to assist, certain American countries to bridge temporary foreign exchange difficulties. Moreover, there exists a large field for longer-term cooperation in the establishment, strengthening, and improvement of monetary and exchange systems.

The Export-Import Bank, if strengthened in the manner recommended above, can expand its activities as regards immediate foreign exchange needs. The Treasury Department appears to be prepared to initiate a program of longer-term cooperation in the monetary and foreign exchange field. It is recommended that the Treasury Department should proceed at once with the formulation and initiation of such a program.

VI. COMMERCIAL CREDIT FACILITIES

An important problem which has confronted our exporters to other American countries has been the willingness of Germany to sell goods on longer credit terms than are customarily granted by our exporters. In order

to

-8-

to meet this type of competition, it is necessary to provide our exporters, especially the smaller manufacturers and exporters, with facilities for arranging appropriate financing. The activities of the Export-Import Bank in this respect should be expanded.

VII. OTHER ACTIVITIES

The need for many other activities in addition to those already indicated will, unquestionably, arise in the carrying out of the envisaged program. There will be such problems as commercial policy relations; removal or mitigation of existing irritations in various matters; possible subsidization of our exports; possible creation or encouragement of new marketing facilities; provision of facilities for possible relief distribution of some surpluses; further arrangements for technical assistance to other American countries; possible adjustment of existing indebtedness; and many others. There appears to be no immediate urgency in taking steps with respect to these questions. It is to be anticipated that the coordinating agency will give them appropriate attention as they arise.

VIII. RELATION TO AN INTER-AMERICAN PLAN

It is believed that, properly coordinated, the agencies herein described or recommended will provide a
sufficient

-10-

sufficient range of powers and an adequate degree of flexibility to enable this Government, in the immediate future, to apply fully effective measures to any situation that may be anticipated. For the present, the program outlined above should be regarded as temporary in character, to be replaced, in most of its essentials, by the broader and more permanent system of inter-American cooperation, which will, it is hoped, be established through negotiations among the American countries.

The measures recommended, if rapidly carried into effect, will undoubtedly facilitate the conduct of negotiations for the larger plan, while providing emergency means of dealing with whatever emergency situations may arise in the meantime. Even if it should happen that the negotiations with the other American countries would, in the end, fail, the measures proposed in this report would still represent a substantial accomplishment from the viewpoint of the safety and security of the United States and of the Hemisphere as a whole.

THE AMERICAN METAL COMPANY, LIMITED
61 BROADWAY
NEW YORK

TELEPHONE BOWLING GREEN 9-1800
CABLE ADDRESS: EFFLUX, NEW YORK

HKH:AA

July 3, 1940.

Honorable Henry Morgenthau,
Washington, D. C.

Dear Henry:

Enclosed are copies of letters of June 18th and 21st, respectively, received by me from Mexico City. Notwithstanding the time which has elapsed since they were written, I am sending them to you so that you may see the sort of information I occasionally get from there. I am also sending copies of these letters to Mr. Hoover.

It was a great pleasure to see you yesterday. Don't forget about Eagle Nest.

Sincerely,

Harold

Encs

FOREIGN POLICY

The Mexican Ambassador came here with some clean-out demands from Washington which this Government accepted at once. These demands are especially for an end of the Fifth Column activities, some military measures like road building, and the consideration of complete economic cooperation. Some people here claim that Mexican independence has been lost, which, however, is not the case as the United States apparently does not want to mix into local affairs. Strictly speaking, it may mean a certain loss of independence, but this may be only temporary. Anyway it is remarkable that there has been no opposition anywhere here to this change.

As to Fifth Column activities, they are apparently curtailed. I say "apparently" because while the newspapers have received orders to take a completely pro-Ally attitude, the Fifth Columnists are still active in an underhanded way. Their secret radio stations in this country are still working full blast, and nothing apparently has been done about that.

Mexico's military importance seems to be highly overrated here. Everyone is talking about the enormous amount of armament which the States would ship here and the fortifications for which the States would pay. People here even go so far as to say that our silver will be bought at the United States domestic price and that the difference between that and the market price will be taken away in taxes by the Mexican Government, the money to be used for armaments.

Compulsory military service as recently decreed by the Cabinet is merely putting in practice a pet idea of the President. Nothing will come of it unless the States should take an interest therein. How is Mexico going to maintain an army of 2,000,000 men when it can barely feed 50,000 soldiers and cannot supply them with anything but obsolete armament thirty years old?

INTERNAL POLICY

The States have clearly indicated that they do not care who will be president but that they will not stand for a revolution and that they will support the man who is elected or claims to be elected. Such a declaration is completely sufficient to end all idea of revolution in Mexico. No revolution in Mexico can have hope of success without the connivance of Washington, and as Washington apparently is not seeing any need for change in the methods of the Mexican Government there will be no revolution. I say this notwithstanding that people here are very uneasy and that lots of arms have been handed out to the laborers. There may and there probably will be quite some rioting and some local isolated riots but no orderly conducted move. Under these conditions, of course, Almazan has no chance. The machine will elect its candidate, Avila Camacho.

ECONOMIC SITUATION

If the United States buys up all Mexico's export surpluses (especially metals) it should help matters considerably. There is

a growing feeling here that under the new president, whoever of the two it may be, Mexico will go back to an administration of more common sense and to a government which governs for all classes. Considering the vicinity of the States, the low taxes and the agreeable climate, we should have a tremendous boom coming along during 1941 if the foregoing expectation materializes. I also foresee a much more reasonable attitude on the part of the new government towards employers, and a quick solution of all problems pending with the United States, like Chamizal, land expropriation, oil, National Railways, foreign debt, seems quite possible.

FOREIGN EXCHANGE

As forecast in my letter of the 18th, exchange has now reached par. It is generally believed that the Banco de Mexico, which should make the price, has been deprived of this right, and that daily orders are given from the Ministry of Finance to the Bank. This means that politicians and not the economists are running our money policies, and under these conditions anything is possible. I understand from Government authorities that at the moment anyhow it will not let the peso go better than 5, but if somebody in the Ministry of Finance should get another idea anything is possible.

POLITICAL

The attack on Trotsky is now definitely attributed to the Communist party and may be used as a motive for outlawing that party. However, no steps have so far been taken in that direction notwithstanding that the Government is seriously thinking of doing so, probably with the idea of appeasing Washington.

Extract of Letter of June 18, 1940 from
Mexico City

Strange as it may seem, business here is quite good. The people have little to complain about and the markets for merchandise are plenty. Of course it must be remembered that the small factories have been steadily expanding their output for a number of years. Big business is still considerably handicapped by tax policies, labor policies and politics.

The income of the Government is anything but good, and it has great difficulties in meeting its payrolls. The betterment of exchange was effected solely for political reasons against the advice of all leading business men and, I understand, even of the central bank. It appears that the President is ambitious to put exchange back to where it stood when he took over, i.e. 3.60, and even though that appears most unlikely at present he at least wants to get it as near to that figure as possible.

At the moment the Bank of Mexico is trying to hold exchange at 5.25 to see how it reacts at that figure and then gradually put it down to 5. People here are afraid that your country may undergo an inflation and also that they may not be able to dispose freely of their dollar balances if the United States enters the war; consequently there were large offerings of dollars here, which, however, at the present rate of 5.25 have completely stopped for the moment. On the other hand, because of the very strict credit restrictions in force here for the last three months, nobody has any money to buy dollars except the people who, because of the aforesaid fears, sold their dollars at 6 and who are not yet convinced that their money is safe in the United States.

The mining companies of course continue to offer dollars, and I believe that the Bank will be able to put the dollar down to 5 to 1 and hold it there for some time.

There is some talk that the Communist party will be outlawed and that Mr. Lombardo Toledano, the labor leader, is already turning his back on the Communist party and is now a Socialist.

July 3, 1940.

MEMORANDUM FOR:

Secretary Morgenthau

Professor Shoup has returned from his sabbatical leave of absence in the west and is again working with me on the excess profits tax.

I mention this so that you will know he is available in case you wish to have him participate in the excess profits tax conference on Saturday.

RB

yes

Telephoned information
to Mr Blough at 2:40 pm 7/3
DEM

TO: *Sec 7-3*

Secretary Morgenthau

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The attached memorandum is a further development of economic reasons for repealing the Tobey profit limitation rider to the Vinson-Trammell Act of 1934. It was based upon my memorandum to you of July 1, 1940, the original of which is attached, and has been approved by Harry White.

S.N. 71

Foley memo 1940-11-10
W. H. Foley
MR. FOLEY

*Gave me full Foley Memo
of July 1st on same subject.
Hm 2.*

Vinson-Trammell Act, Tobey Rider

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I. Background

A rider to the Vinson-Trammell Naval Construction Act was offered by Senator Tobey (then Congressman) of New Hampshire, and adopted by the House of Representatives at a night session in 1934. The rider purported to limit profits on contracts for naval vessels and naval and military aircraft.

The rider has been subsequently amended, and now provides for payment to the United States of all profits in excess of 8 percent of the purchase price under contracts for naval vessels and aircraft, or portions thereof, or subcontracts involving amounts greater than \$25,000, provided the profit does not exceed 8.7 percent of cost. (Before recent changes, allowable profits were 10 percent and 12 percent on vessels and aircraft, respectively, under contracts and subcontracts involving \$10,000 or more.)

II. Examination of the Tobey rider reveals that (a) it is ineffective in limiting profits, (b) it raises the cost of armament to the Government, (c) it seriously hampers the defense program, (d) it discriminates against small producers, (e) it fails to provide adequate revenue, and (f) it was designed to meet a situation which no longer exists. The defects in operation are so serious as to warrant repeal of the Tobey rider if a comprehensive and adequate excess profits tax is imposed.

(a) The Tobey rider has no relation to a fair return on invested capital, allowing high profits to businesses with a large capital turnover, and discriminating against producers with a slow turnover of capital.

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This form of profit limitation has no relationship to the manufacturer's actual investment or risk. The profit allowed is a percentage of the contract price and of cost. Profits, generally, are considered reasonable or unreasonable in their relation to invested capital.

The rider acts to discriminate against a producer in an industry with a slow capital turnover. For example, a builder of heavy ships might turn his capital over once in two years, while a parts manufacturer (with the same amount of capital) might turn his capital over five times in one year. Thus one producer would enjoy much higher profits in terms of risk and investment. The parts manufacturer in this example would enjoy a profit of 40 percent of invested capital. .

A manufacturer, therefore, with a rapid capital turnover can enjoy extremely high profits (in relation to investment) under the rider, while the Government might recover nothing in the form of excess profits taxes. In contrast, a manufacturer with a slow capital turnover might have a low profit (in terms of invested capital) of which the Government could recover a large proportion, thus discouraging this manufacturer. It is likely that some producers of the latter type supply the most vital parts in the defense program. The rider, therefore, would tend to discourage important producers, at the same time proving inadequate in curbing extreme profits of other (and perhaps less essential) manufacturers.

(b) The rider discriminates against production in two of the most vital defense industries and hampers the defense program.

Whether or not the rider actually harms or helps the aircraft and shipbuilding industries as a whole is subject to argument. For, while it limits the profits on a contract, it does not limit the profits on investment. Furthermore, it tends to guarantee profits by a carry-over of losses or of deficiencies in profit to future years.

Nevertheless, aircraft and shipbuilders can point to the Act as discriminating against their industries. No doubt, this complaint would be sincere in many instances.

Although the rider may not discriminate against these industries as a whole, it does discriminate against some production in these industries, and might create serious bottlenecks.

Under the rider's provisions, the manufacturer of a motor (or part thereof) for a tank or army truck is not subjected to its provisions, but the manufacturer of an airplane motor is covered. Similarly, a producer of infantry machine guns is not covered, but if he manufactures machine guns for an airplane, the rider applies to him and his subcontractors.

The defense program might be seriously obstructed because many manufacturers would hesitate to take orders subject to the rider's provisions, if they could utilize their capacity in

other ways. Naturally, the profit on aircraft contracts will appeal to any producer; but unlimited profits would be more attractive. For example, an engine manufacturer would prefer to produce for army trucks, armored cars, or tanks (with no limitation on profits) rather than for airplanes or boats (which are subject to the rider). Under an intense armament program, it is likely that the demand for engines for all purposes will be so active that he can exercise some choice, with the result of hindering the output of such vital instruments as airplanes and vessels.

(c) The Tobey rider tends to encourage waste and the "padding" of costs, and may actually increase profits in some cases, resulting in increased Government expenditures.

Because of the absence of effective competition, the incentive is to fix contract prices as high as possible to enlarge the 8 percent maximum allowed under the Tobey Amendment to the Vinson-Trammell Act. Moreover, after the contract has been awarded, this form of profit limitation tends also to increase the cost of constructing vessels and aircraft, and parts thereof, since the higher the cost, the higher the allowable profit, a factor which will tend to encourage manufacturers to inflate costs.

Contractors receive the same amount of profit however wasteful they may be, and have no incentive to avoid unnecessary costs (provided they do not cut into their 8 percent of the contract price). On the contrary, the contractor derives an increased profit from uneconomical management and resulting high costs. Surveillance might

prevent them from charging excessively for depreciation and obsolescence. But nothing in the act prevents them from paying exorbitant salaries and bonuses to executives, or from filling their payrolls with the names of relatives and friends in order to increase production costs and allowable profits.

One of the important constituents in keeping the cost of production low is efficient buying of raw materials and supplementary parts. Where the costs are borne by the Government, in effect, irrespective of their height, the corporation is likely to find it not only easy but indirectly profitable to pay higher costs for raw materials. In their calculations, they are apt to estimate it at the highest cost of raw material and not at the lowest, especially since a community of interest frequently exists between a large manufacturer and his suppliers of raw materials and parts.

Under such circumstances, the manufacturer would quite readily enjoy higher profits under the rider than without it, though the higher profits might not appear as profits but might be hidden in costs.

(d) The Tobey rider tends to discriminate against small producers in the industries affected.

Numerous small shops, operating under subcontracts, feed parts into the manufacture of airplanes and vessels.

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Banks, with limited funds to loan, will hesitate to loan working capital to small producers that are subject to profit limitations and to the complexities of a little-known law, especially if the manufacturers devote their entire production to airplane or vessel parts. A larger company, which can more likely diversify its output, would not be subject to the same restriction of capital.

Moreover, many of these small producers are without complex accounting systems. The necessity to install and maintain the complicated and intricate cost accounts (necessary under the rider) would be a burden to them, while a large and more diversified plant would probably already have the personnel and the system.

(e) The Tobey rider adds to the risk of very high prices for vessels and aircraft in the event of war.

The bargaining position of the Government would change drastically if the period of military preparedness were replaced by conditions of actual war, a factor which, under the carry-over provisions of the Tobey rider, creates a potential risk of exorbitant prices in the event of war.

Under present circumstances, it is likely that some vessel and aircraft contractors or subcontractors may not make the allowable 8 percent profit. Under the provisions of the rider, any losses or deficiencies in profit can be carried over. If the United States should become involved in a war during the carry-

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over period, the Government might be forced to pay especially high prices for planes in order to allow manufacturers the carry-over amount from previous years. In such an event, the Government would be in no position to seek better prices, and would thereby be forced to pay the highest amounts at the time of most extreme emergency.

(f) The Tobey rider is hardly self-supporting.

The Tobey rider acts to cut down Government revenue. Aside from the fact that it may well increase the cost of aircraft and vessels and provide a premium for inefficiency, it actually reduced the revenue that would accrue to the Federal Government because prices are so set as to leave little excess profits recoverable to the Government, from which must be deducted the substantial costs of a complicated administration.

If, however, the rider did not exist and a more equitable excess profits tax were imposed, the revenue from these particular industries would be greater. For example, an airplane motor manufacturer makes 8 percent profit on sales, but his sales might be three times his invested capital, in which event he would net 24 percent on his investment. Under the Tobey rider, the Government would get no revenue other than the normal tax. Under a more comprehensive excess profits tax, the Government would be able to impose a graduated tax on the 24 percent.

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The rider, in fact, has not been productive of any substantial revenue. From the date of enactment of the Tobey rider in March, 1934, through May of this year, the Treasury Department has collected about \$3,700,000 in excess profits on 2,577 contracts completed during that period (of these, 1,266 returns are still being audited), from which must be deducted the substantial cost of administering the rider, which may well exceed to amount collected.

Many elements of uncertainty require difficult judgments and administration concerning the proper allocation of costs in plants having commercial and Government work not covered by the rider, as well as Government contracts subject to its provisions.

(g) The Tobey rider was designed to meet a situation which no longer exists, and acts as a handicap in meeting new conditions.

In 1934, the public would have approved any attempt to curtail the profits of armament manufacturers as much as possible, in order to minimize their pressure on the Government in favor of an armament program. Whether or not that was a sound objective in 1934, it could not be supported as was a sound objective now. Our immediate necessity at present is to stimulate as much as possible a rapid increase in the production of vital armaments.

Even if the rider would obtain its objectives in 1934, therefore, it should be repealed now. Any failure to repeal it would constitute a dangerous threat to democracy, the strength of

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which should lie in its flexibility and its ability to modify its instruments to changing needs.

(h) The Tobey rider was never studied by the committees which normally initiate tax legislation, and was criticized by the Nye Committee.

Notwithstanding the fact that the rider levied a 100 percent excess profits tax over and above the percentage limitation, it has never been studied by either the House Ways and Means Committee or the Senate Finance Committee. In these committees is vested the function of initiating tax legislation, and they are by experience best qualified to determine the economic and fiscal effects of excess profit laws.

It is also noteworthy that the Special Committee of the Senate on the investigation of the munitions industry (consisting of Senators Nye, George, Clark, Bone, Pope, Vandenberg and Barbour) in a report made on June 19, 1936 concluded:

**** there is no effective profit-limitation law today *** the price of real enforcement of the attempts of Congress to limit profits (is) a costly policing force of accountants and auditors *** and a series of costly law suits after those audits have been completed *** the attempts to enforce profit limitation are being thwarted ***." (Senate Report No. 944, Pt. 7, pp. 12-13, 74th Cong., 2d sess.)

JOHN EDGAR HOOVER
DIRECTOR

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

July 3, 1940

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

My dear Mr. Secretary:

*I desire to thank you for your
courtesy in furnishing to me with your
note of June 26th the material which we
had previously discussed. This matter
is receiving investigative attention at
the present time.*

With kind personal regards,

Sincerely yours,

J. Edgar Hoover

JT

GRAY

(PARIS)
LA BOURBOULE

Dated July 3, 1940

Rec'd 10:30 p.m., 5th

Secretary of State,
Washington.

14, July 3, 3 p.m.

The French Government has just informed me that at 10:30 this morning units of the British home fleet steamed into the harbor of Oran where were lying the DUNKIRQUE and STRASBOURG which the French Government had planned to send to Toulon. The British admiral gave the commanders of the DUNKIRQUE and STRASBOURG six hours in which either to deliver the ships to him or to sink them.

The ultimatum will expire at 4:30 this afternoon.

BULLITT

NPL

To go via 217

State Dept.

Perch

JMS

July 3, 1940

My dear Rueff:

Your note of June 16 arrived yesterday, and I hasten to extend to you and Mrs. Rueff the most heartfelt sympathy of my wife and myself in the tragic and trying circumstances which you have had to face. We shall keep you constantly in our thoughts, and hope that either of you will let us know if there is any way in which we can be of assistance to you.

During recent days I have noted from Matthews' cables that you and your wife reached Bordeaux, and that you have now been assigned to the Armistice Commission.

With pleasant recollections of the occasions that we have had in recent years for cooperation and friendship, and with very best wishes, I am

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. Jacques Rueff,

Under Governor of the Bank of France.

HMG:enk:7.3.40



Sent to Mr. Cochran to go in diplomatic pouch

BANQUE DE FRANCE
LE SOUS-GOUVERNEUR

June 16th 1940

Dear Mr. Secretary,

The worst has happened.
Everything now is possible.
Of course I am remaining
here - and my wife with
the baby (18 months old)
don't want to leave. May
I take advantage of your
kindness, which I had so
many opportunities to
appreciate, to say when
it is true that if the
future is as can be
foreseen ~~to~~ some help
from the outside may

be very useful for
us. May I ask
to keep my family
in mind.

Please give my
regards to Mrs.

Gurgen Khan

Very sincerely yours

Samuel

Jacques Russell
Christian Russell
Marie - Caroline Russell (1842)

sent to Mrs. Cook

July 3, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 29, 1940; Unfilled Orders and
Estimated Deliveries on June 29, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 29, 1940; Unfilled
Orders and Estimated Deliveries on June 29,
1940.

These tables carry forward through June 29, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau

Admiral Harold H. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D. C.

BA

FILE COPY

By Messenger 4"

July 3, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 29, 1940; Unfilled Orders and
Estimated Deliveries on June 29, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 29, 1940; Unfilled
Orders and Estimated Deliveries on June 29,
1940.

These tables carry forward through June 29, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
War Department,
Washington, D. C.

BA FILE COPY

By Messenger 4⁰⁰

July 3, 1940.

Dear Mr. Knudsen:

I am sending you herewith, for your confidential use, two copies of each of the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 29, 1940; Unfilled Orders and
Estimated Deliveries on June 29, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 29, 1940; Unfilled
Orders and Estimated Deliveries on June 29,
1940.

These tables carry forward through June 29, 1940
the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Knudsen,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2004, Federal Reserve Building,
Washington, D. C.

FILE COPY

By Messenger 4th

July 3, 1940

Last night I told Ed Foley that on or before the first of August two-thirds of these business executives that the President has brought down here within the last month will find a good reason to go home.

Dear Secretary.

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Please note that this is the
same point I have been making.
We should in fact encourage
bona fide French (and other)
refugees to get their funds out from
a country which carry a French
(or other invaded country) label.

J. V.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Russell Leffingwell, of J. P. Morgan and Company, telephoned me yesterday afternoon from New York. It will be recalled that when Mr. Leffingwell was in Washington a fortnight ago, he talked with Mr. Bell, and then with me, about the current situation, including the application of the Treasury's control of foreign funds.

In our conversation yesterday, Mr. Leffingwell remarked that he and his friends were beginning to have some anxiety lest the general freezing orders might work out toward our holding officially in convenient packages assets in this country of invaded nations, which might be found quite convenient for the Germans. He mentioned specifically the question of French and other refugees in this country who are permitted to draw only up to \$500 monthly on their dollar accounts. Mr. Leffingwell felt there could be little chance of people who have fled their native lands and have come to the United States sending money out of the country into the hands of the aggressors. He thought it more helpful to permit such individuals to get their funds out of an account which could be identified as French, for example, as quickly and as completely as possible, rather than be obliged to spread this over many months or years, during which period the aggressors might conceive some way to seize such holdings.

In the above connection, Mr. Leffingwell recalled the work of the Robinson Committee, which accompanied the Dawes Commission to Germany, and was particularly charged with ascertaining the foreign holdings of Germans.

Mr. Leffingwell asked if we might desire that one of his associates come to Washington to advise us of the experience which his people are having with cases coming up under the "freezing" control. I reminded him that Mr. Bernstein and I had talked with one of his officers a few days ago, but that we would be glad to have a memorandum, if he cared to prepare it, setting forth the views of himself and his associates, based on their experience under the present control system. Mr. Leffingwell stated that he would prepare this. When finished, he will either send it down or raise the question as to whether one of his men should bring it down and explain it. I told Mr. Leffingwell that I would report our conversation to Under Secretary Bell, and would bring to his attention any further information which Mr. Leffingwell might convey to us.



MEMORANDUM

July 3, 1940

Re - Mr. Atherton:

Mr. Max Greeven, of Anderson Clayton Company, called and, after generalities, said that he had very close relations with Reichsrat Wohltat, (with whom I dealt in my negotiations in Berlin in 1939) who is now economic dictator of the Netherlands. Mr. Greeven said that Herr Wohltat had the happiest of memories of his negotiations with me and wished me to know that he was still hopeful that there would be an improvement of relations between Germany and the United States, particularly economic relations, and that in time he might have some definite thoughts on the subject which he would wish to communicate.

Mr. Greeven said that Herr Wohltat had accomplished wonders in the Netherlands, that he was getting along famously with the Dutch officials and business men and that he was hopeful of restoring independent Dutch economy which might be coordinated with the German economy in a relatively short time.

Mr. Greeven said that Mr. Wohltat was deeply concerned, however, with the freezing of Dutch securities in the United States. It would be very difficult to
restore

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restore normal economy in the Netherlands as long as this condition was retained and he hoped that consideration might be given to a gradual relaxation of the present restrictions.

I said that I was not in a position to discuss this matter, that it was essentially a Treasury question but that I would not wish to encourage Mr. Vahlund to believe that in the present state of affairs there was any likelihood that these restrictions would be relaxed. I said that this was a "horseback" judgment and that for an authoritative opinion Mr. Croezen would have to go elsewhere.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

8:40 JUL 19 PM 3 54

TREASURY DEPARTMENT
RECEIVED

En:Poll:LS

July 3, 1940

On May 31, 1940, an anonymous memorandum was communicated to the Secretary. The anonymous memorandum was typewritten with a blue ribbon on unwatermarked paper with the letterhead cut off. The following considerations point to X as the source of the memorandum.

1. On the day the COLUMBUS was scuttled, X states of his own knowledge that Cairns said: "God help the United States if Germany wins the war." This remark was made by Cairns in the presence of Feidler and X, who were in Cairns' office when word was received that the COLUMBUS had been scuttled. The news carried a strong intimation that American cruisers had revealed the position of the COLUMBUS to British war vessels. Cairns' calendar sheet shows X's presence in Cairns' office with Feidler at the time this news was received, namely, 3:30 p.m., December 19, 1939.

2. X asserts from his own knowledge that Feidler's legal opinion was that title oaths should be required for ship dunnage intended for sale in a belligerent port. X's discussion of the dunnage matter shows an intimate knowledge of the considerations involved therein. The question turned on whether dunnage which was intended for sale abroad was in the same category as bona fide dunnage. The language used in the anonymous memorandum with regard to the dunnage matter shows a knowledge and acquaintance with terms and procedure in the Treasury office with which X is connected. Furthermore, X accompanied Feidler to the Department of Justice on March 23, 1940, where a conference on the dunnage question was held in the offices of Judge Townsend. X represented the Treasury in a subsequent conference on the dunnage question on March 27, 1940, in the Department of Justice and composed the Treasury letters which set forth the Department's final decision in the matter. The other persons who were acquainted with the dunnage matter were few in number and are easily eliminated on other grounds from any connection with the anonymous memorandum.

3. X asserts that Feidler maintained that the installation of degaussing equipment on belligerent vessels was contrary to law. As Messrs. Gaston and Foley well know, this allegation is false. Nevertheless, it may be explained by the following circumstances. X's chief telephoned Feidler on April 27, 1940, while the degaussing problem was under consideration, and inquired about three vessels in New York which, he had heard, were having difficulties in connection with degaussing and the installation of protection for wheelhouses and radio shacks. X's chief apparently assumed that Feidler was opposed to permitting the degaussing and immediately entered into an argument to distinguish the degaussing situation from the ruling made by the President, Secretary of State, and Secretary of the Treasury in the case of the NORMANDIE. Feidler felt

- 2 -

that the test being proposed by X's chief was broad enough to permit the installation of armor plate on an armed vessel to an extent where her value as an armed cruiser would be greatly increased. He therefore objected to that test. This may have been the source of X's misunderstanding of Feidler's position.

4. In the anonymous memorandum, the writer refers to a conversation that he had with Feidler and other Treasury Department personnel. Shortly before the outbreak of the present war, Feidler and a friend, also in the Department employ, had lunch at the S & W cafeteria with X. At that time, X took the position that since a defeat of Britain and France would be disastrous to the United States, it might be well for the United States to go to war immediately in their behalf, should war come. Feidler dissented from those views, and said that he doubted that the American way of life would necessarily perish if there were a change in the British and French status quo. He said that no doubt it would be hard for us, but that we would pull through better than by going into the war.
5. The paragraph style of X's office memoranda is similar to that of the anonymous memorandum.
6. The anonymous memorandum is in the main directed toward Feidler, with whom X has much closer relations than with Cairns.
7. While it is not of much value as evidence, it may be observed that the writer of the memorandum approaches Feidler from the point of view of a position of equality. There is an apparent psychological change when Cairns' activities are discussed, indicating a relationship of an inferior official to a superior official.
8. The writer of the anonymous memorandum shows a wide acquaintance with decisions made with respect to neutrality in the office with which X is connected. X is in a position to be acquainted with those decisions.
9. The remarks attributed by X to Feidler with respect to convoys are of such a nature that they would not be made to an outsider, but they might very well have been made by Feidler to a person with whom the close relations of confidence necessary within the Department would exist. In the early days of the interpretation of the Neutrality Act, X and Feidler had numerous conferences with respect to interpretations of the Neutrality Act.
10. The overall picture of the memorandum points to a person in the Treasury office in which X serves or in Feidler's own office. The persons in Feidler's office can be disregarded by a simple process of elimination.
11. It is known that X's personal feelings with respect to the present war are of the most intense kind.
12. It is not known whether X has any friends in the F.B.I. It is known, however, that his most intimate friend and inseparable companion has a number of close friends in the F.B.I. This point is relevant only if the document were communicated to the Secretary by the F.B.I.

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Conclusion

The above considerations are entirely circumstantial, but point to X as the source of the anonymous memorandum. He may also well be the author of it. It is believed that the above considerations make out a prima facie case against X in the sense that, if presented in a civil case in a court of law, and X put in no defense at the close of the plaintiff's case, a verdict would be directed for the plaintiff.

June 25, 1940

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

The attached anonymous document which you handed to Mr. Foley some two weeks ago has been treated by the Secret Service to bring out fingerprints in an effort to ascertain the identity of the writer. This was not successful.

However, Mr. Cairns states that the document itself contains quite convincing internal evidence of its authorship. The man he believes to be its author is an employee of the Bureau of Customs.

Mr. Foley is convinced that the identification made by Mr. Cairns is correct and that his suspicions directed against Assistant Secretary Barle were not justified.

The reflections cast by the author of this document on Mr. Feidler and Mr. Cairns are, in the opinion of Mr. Foley and myself, wholly untrue and unwarranted.

The action of the anonymous author in covertly placing this document in your hands seems to us thoroughly vicious and damaging to Treasury morale. We believe some action should be taken.

MBG/r

(COPY)

1. Davis Miles
2. William Raffle
3. Huntington Cairns
4. Ernest Feidler

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Ernest Feidler is in charge of the Opinion Section of the General Counsel's Office of the Treasury Department, acting under the immediate supervision of Huntington Cairns, who is an Assistant General Counsel in the Treasury. Cases involving a construction of the Neutrality Act of 1939 administered by the Treasury Department, principally section 2(c) of that Act relating to the transfer of title requirements, come before Feidler and Cairns for decision. During Cairns' absence Feidler acts in his stead as Assistant General Counsel.

From the very inception of the administration of the Neutrality Act Feidler has given every indication of a disposition to construe that Act so as to bring about a result which is wholly contrary to the policy of the administration of assisting the democracies.

Shortly before the war began I discussed the prospects of war with several Treasury people (including Feidler) and I expressed my own conviction in no uncertain terms that an Allied defeat would be disastrous from our standpoint and that German domination of Europe would be calamitous for the United States. Feidler dissented heartily from this view.

After the Neutrality Act was passed conferences were held at the Treasury and certain shipping interests were pressing for a ruling with respect to transfer of title requirements and these interests attributed their haste for a ruling to the necessity of obtaining clearance for the vessels in time to permit them to join a British convoy. Feidler remarked to one of the persons present at the conference "What the hell do we care if they miss the convoy. We are not here to help the British enforce the convoy system".

While instructions and rulings were in the process of preparation immediately after the enactment of the Neutrality Act every horrible example cited by Feidler of danger to United States vessels involved their being sunk by British warships, whereas the rest of the conferees were talking of German submarines as being the potential villains.

Where questions of interpretation of the Neutrality Act have arisen from time to time Feidler has always been found to argue for a result which will be injurious to the Allies' cause by imposing a requirement for a transfer of title whenever possible. As an example of Feidler's attitude in this regard, he was firmly of the view that a transfer of title was required for damage used for propping cargoes on vessels destined to belligerent ports for sale there. Fortunately Judge Townsend of the Department of Justice adopted a contrary view, and a ruling was prepared in accordance with Judge Townsend's views.

Another example of Feidler's attitude is his firm conviction that the De Gaussing of vessels in United States ports was not permissible.

The third example of Feidler's attitude came to my notice recently regarding the application of the statute under which the currencies, credits, and securities of Norway, Denmark, etc., were frozen by executive order. Feidler, I am told, argued that the statute was not applicable to foreign securities and if his view had prevailed the effectiveness of the executive order would have been greatly impaired.

The foregoing examples are merely a few of the many instances which have arisen during the past eight or nine months which clearly indicate an approach to neutrality problems by a person who is "neutral against the Allies".

It may be stated that Feidler is a strong personality and possesses considerable ability. These qualities result in his exerting an influence on persons of less ability and independence of thought in deciding neutrality questions not only in the Treasury Department but also in other Departments since there is a free interchange of views by the Departments administering the Neutrality Act.

Obviously when the Neutrality Act is construed by a person of Feidler's predilections, the beneficial results which were intended to flow to the Allies from that Act are materially diminished.

I am not in a position to give very definite information with respect to Feidler's superior, Assistant General Counsel Huntington Cairns. I do know that at the time the COLUMBUS was scuttled Cairns felt quite upset and remarked "God help the United States if Germany wins the war", indicating that he thought that the United States was instrumental in the British knowing of the location of the COLUMBUS and that Germany would take punitive action.

I am told that Mrs. Cairns is extremely pro-German, and this factor undoubtedly influences her husband's views.

Cairns has not shown any disposition to resolve doubtful questions of construction of the Neutrality Act in a manner favorable to the Allies.

I am also informed that although Cairns expressed the opinion that the De Gaussing of vessels in United States ports was permissible, he stated that he hoped that the final decision would be not to permit De Gaussing to be done.

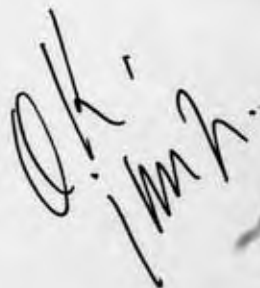
July 3, 1940

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



I suggest that during my absence next week the responsibility for making decisions on ship movements in doubtful cases be delegated to the General Counsel. I have discussed this with Mr. Foley and Mr. Cairns, and if you agree I will instruct Commander Derby to consult Mr. Cairns in my absence.



7 June Foley July 3

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Problems Arising under Freezing Control

40

(1) Examination of mail addressed to consular officials and the person and baggage of consular officials for the purpose of ascertaining whether securities are being brought into the country in violation of General Ruling No. 5. What problems would arise should such securities be brought in by diplomatic officers or in the diplomatic pouch?

(2) Effect with respect to property in this country of foreign decrees such as the Dutch decree "nationalizing" assets located in this country and belonging to nationals of Holland who are in the invaded area.

(3) Seizure or set-off of property belonging (a) to a foreign government, (b) a central bank of such government, (c) nationals of such government, to satisfy claims which (i) this government has against such foreign government; (ii) our nationals have against such foreign government; (iii) our nationals have against nationals of such foreign government.

(4) How can we most effectively justify refusal to grant appropriate licenses where a foreign government such as France demands assets in this country belonging to such government, its central bank and nationals thereof.

(5) What means can be used to release assets, which have been "frozen", to governments of invaded countries toward which we are sympathetic and which have issued nationalizing decrees, and, at the same time, prevent such assets from being released to the invading governments. Cf. S. 4174, currently being considered by Congress.

* * * *

An additional problem not coming under the freezing control is the following: May this government impose a transfer tax on the transfers of securities from, let us say, British nationals to the British Government, and on the transfer of securities by the British Government to American purchasers of such securities? Does the imposition of such a tax constitute a tax on a foreign sovereign which is invalid?

July 3, 1940
10:15 a.m.

Admiral
Stark: Mr. Morgenthau?

H.M.Jr: Talking.

S: With regard to the Moffat conversations that we mentioned this morning, I think that should be kept highly secret. I had only told a few people over here in War Plans that I had working on it and I cautioned them as to secrecy because I think that any talk about our holding those conversations just shouldn't get out.

H.M.Jr: Well, we'll keep it as secret as the Vincennes. How's that?

S: Yes. Right.

H.M.Jr: What?

S: Right. Well, it wasn't mentioned to your people this morning and I thought afterwards

H.M.Jr: Well, I'll see that everybody that was here gets -- I'll caution them.

S: All right.

H.M.Jr: I couldn't have guessed that from the way the conversation went.

S: I know you couldn't. Well, I was surprised at his mentioning it so openly because we have taken over here to keep it absolutely quiet. I think it should be, don't you?

H.M.Jr: I'll see that there's nothing out of the Treasury. I can guarantee that.

S: All right, sir.

H.M.Jr: I can guarantee that.

- 2 -

S: All right.
H.M.Jr: I'm glad you called me.
S: All right.
H.M.Jr: Thank you.
S: Right. Good-bye.

July 3, 1940

My dear Mr. Hoover:

I am writing to acknowledge receipt of the following letters which you have been good enough to send me:

- June 26 - The Government-owned boat "Panama"; German population in Haiti; purchase of chemicals by Chemical Engineer at either Fort Monroe or Fort Monmouth;
- June 26 - Communist and Nazi activities in Mexico;
- June 26 - Route for a canal through Colombia;
- June 28 - Further information concerning proposed purchase of aviation gasoline for Japan;
- June 28 - Duluth, Mesabi and Iron Range Railroad;
- June 29 - Mitchell Metal Products Company at Cleveland;
- June 29 - Anti-American agitation in Mexican newspapers;
- July 1 - Transaction between the Banco de Nacion, Buenos Aires, and the Italian Lines. *presented Mr. Jackson 9/19/90*

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

July 3, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

JOHN EDGAR HOOVER
DIRECTOR

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*to be
acted*

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

June 26, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

There is being transmitted to you herewith,
as of possible interest, a memorandum incorporating
information recently conveyed to a confidential source
of information of this Bureau through which it was re-
layed to me.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 25, 1940

MEMORANDUM

The Government-owned boat "Panama" which operates between Panama and the United States has in its crew fifteen German-born naturalized American citizens who hold key positions thereon. During a recent voyage several Americans complained to a high official aboard that these employees were openly cheering German radio reports of Nazi victories but nothing has apparently been done about the matter.

In Haiti the German Population has mysteriously increased over 150% in the last year. Two weeks ago an American of faultless background arrived there and deposited a large sum of money to the account of the most notorious Nazi on the Island. A large part of this deposit was immediately withdrawn. The permanent German-born population of Haiti now outnumbers the American. Passport frauds are definitely occurring all through the West Indies.

The head Chemical Engineer of either Fort Monroe or Fort Monmouth was given \$100,000 to expend by June 1, 1940, in the purchase of chemicals for laboratory research purposes, but in the Nazi order, he has been forbidden to buy chemicals from certain companies which are the ones having monopolies on the necessary materials.

JOHN EDGAR HOOVER
DIRECTOR

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

June 26, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest, there is being transmitted herewith a memorandum incorporating information recently received from a confidential source relative to Communist and Nazi activities in Mexico.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 25, 1940

M E M O R A N D U M

A series of articles currently running in El Popular, the newspaper of the C. T. M., would indicate the labor press is acting as a mouthpiece for the Nazi propaganda machine. These articles attack R. H. K. Marett, head of the British Press Bureau in Mexico City, and brand him as "Public Enemy No. 1" of Mexico. These articles utilize Marett as a medium of attack on his government and the British Consulate in Mexico, and accuse him of being an alien agent interfering in Mexican affairs. El Popular says nothing, however, of Arthur Dietrich, the German propaganda chief, and head of the Gestapo in Mexico; nor does it mention that he has been operating in Mexico for three years while Marett arrived only last November and does not enjoy the diplomatic immunity afforded Dietrich.

The Mexican Communist Party, recently organized, promotes a program for increased influence in Mexican affairs through the organization of Communist cells within all labor, farm and political organizations. It seeks closest collaboration with the C. T. M. and the National Farm Confederation. A bulletin recently published by the Communist Party declares, "Our relations with the C. T. M. and its heads have never been closer and more cordial than they are today."

This Communist influence is spread not only through the C. T. M. but also through the Latin American Labor Confederation which embraces affiliated unions throughout Latin America. An early meeting of the continental Confederation is scheduled to take place in Mexico and it is expected its purpose will be the promotion of further propaganda against world democracies in Latin America.

JOHN EDGAR HOOVER
DIRECTOR

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

June 26, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you, there is being transmitted to you herewith a memorandum incorporating information recently received by this Bureau concerning a route for a canal through Colombia, South America, in lieu of the proposed construction of a new set of locks at the Panama Canal.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 25, 1940

MEMORANDUM

At his request, Mr. Fred Marvin, Assistant Director, International Pictures, Talisman Studios, Los Angeles, California, was recently interviewed by a Special Agent of the Los Angeles Field Office of the Federal Bureau of Investigation.

Mr. Marvin advised that he had received a letter from his father-in-law, Dr. Marcel Gutierrez, Colombian Vice Consul at San Francisco, California, containing information which Dr. Gutierrez requested be furnished the United States Government indirectly because of the fact that he was in the Consular Service. The following is a literal translation of Dr. Gutierrez' letter as made by Mr. Marvin:

"Since the United States is arming for defense and Congress has voted an allotment of 277 millions for the construction of a new set of locks at the Panama Canal I am passing this confidential information to you in order that you may forward it to the proper authorities in Washington.

"It is suspected by Colombian engineers that the river Chagres which forms the lake which in turn supplies the water so necessary to the present locks, would be unable to cope with two sets and by using the new, proposed locks, commercial shipping might suffer so substantially that the original purpose of the canal would be defeated.

"In Colombia there is a route, where a level canal could be constructed at a cost equal to or less than the allotment now passed by Congress for an additional set of locks at Panama.

"The defense committee recently appointed by President Roosevelt might be interested in arranging the formation of an Inter-American Company (commercial) for the construction

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of this level canal which would relieve the Panama Canal of the greatly increased traffic expected. (I believe that President Santos would be very happy to cooperate and assist in every way possible, as well as the rest of the Colombian Government).

"Also the expense and trouble in the construction of the canal would not nearly approach that of the other proposed canal through Nicaragua.

"In 1910 as assisting Engineer to Arturo Undurraga of Chile we made a survey of the route I now suggest - the Rio Atrato, Atlantic side; the Rio Domingodo and the Rio Truando may be used to bring the canal out at Bahia de Cupica in the Pacific Ocean.

"I should like to state here that the Colombian concession for the construction of this canal would be very easy to obtain (provided the concession is applied for by a commercial company of Pan American capital).

"I may state here that at the time of Undurraga's survey (which was during the time of President Gonzalez Valencia - Colombia) he was refused audience and President Valencia said to me that he did not want an English Company controlling a canal through Colombia - and besides there were American interests at that time interested in the construction of the Panama Canal".

Mr. Marvin submitted a coffee map of the Republic of Colombia wherein the proposed Colombian Canal is indicated by a line running roughly from a point southeast of Titumate, on the Atlantic side of the Province of Choco, to Cupica on the Pacific side of said Province. A copy of the pertinent portion of this map is attached hereto.

JOHN EDGAR HOOVER
DIRECTOR

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

June 28, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

Reference is made to previous correspondence with you concerning the proposed purchase of aviation gasoline by the Taiyo Sekiyu Kaisha, Limited, of Tokyo, Japan, allegedly for the use of the Japanese Navy.

Please be advised that the Kansas City, Missouri, office of this Bureau is now in receipt of information obtained from Mr. W. E. Logan, tax attorney, Scarritt Building, Kansas City, Missouri, the original informant in this matter, to the effect that a letter of credit in the amount of \$500,000 and in the favor of the Taiyo Sekiyu Kaisha, Limited, was transferred from the Yokohama Specie Bank, Los Angeles, California, to the Bank of America, Los Angeles Branch, Los Angeles, California, on June 21, 1940, at the request of the Gulf Oil Company.

Mr. Logan also advises that he intends to file a suit against the Gulf Oil Company within the next few days in an attempt to recover his broker's commission and that the letter of credit will be attached by his attorney.

Additional data concerning this matter will be furnished you subsequently.

Sincerely yours,

J. E. Hoover

BY SPECIAL MESSENGER

JOHN EDGAR HOOVER
DIRECTOR

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

June 28, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest, a copy of a statement dated June 27, 1940, pertaining to a reported attempt to dynamite the Duluth, Mesabi, and Iron Range Railroad, in northern Minnesota.

An investigation has been instituted by Special Agents of this Bureau, and I will be pleased to keep you informed.

Sincerely yours,

J. E. Hoover

Enclosure

June 27, 1940

M E M O R A N D U M

Information has been received from Sheriff Sam M. Owens, St. Louis County, Duluth, Minnesota, that dynamite had been found attached to the railroad tracks of the Duluth, Mesabi, and Iron Range Railroad in the iron mining region of northern Minnesota. Apparently a train had passed over the dynamite without causing an explosion.

The Mesabi Range is the chief source of supply of iron ore in the United States. The Duluth, Mesabi, and Iron Range Railroad is the only means of transporting iron ore from the mines to Duluth, Minnesota, where it is placed on lake boats for shipment to the steel mills in the east.

Sheriff Owens and the officials of the railroad company are endeavoring to prevent any publicity of the above circumstances.

JOHN EDGAR HOOVER
DIRECTOR

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

June 29, 1940

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith, as of possible interest to you, a copy of a memorandum dated June 28, 1940, which contains information obtained from a confidential source with regard to alleged sabotage at the Mitchell Metal Products Company at Cleveland, Ohio.

Sincerely yours,

J. E. Hoover

Enclosure

Federal Bureau of Investigation

United States Department of Justice

Washington, D. C.

June 28, 1940

MEMORANDUM

Information has been received from a confidential source concerning alleged acts of sabotage at the Mitchell Metal Products Company, Cleveland, Ohio. This company has two contracts with the Government at the present time for the manufacture of practice bombs for the United States Army. It also has a contract with the E. I. du Pont de Nemours & Company for manufacturing powder boxes. The company also has another contract to manufacture bomb crates for the United States Army.

For several months, employees at the plant have been demanding an increase in wages which has been declined by the management. On May 27, 1940, Leo Leonard Allen, a shop steward of the Architectural Metal Trades Union, an affiliate of the American Federation of Labor, approached one of the members of the union operating a welding machine and suggested to him that he throw a monkey wrench in this machine in order to hold up production. Allen explained that the Mitchell Company had a large bond guaranteeing shipments to the Government and the bonding company would bring pressure to bear upon the company if production were held up, and in that manner the company would be obliged to meet their demands for an increase.

On June 3, 1940, shop steward Leo Leonard Allen called a strike and all members of the union ceased working. Two union officials are reported to have attempted to prevent the strike but without success, and the plant at the present time is being piloted. The owner of the plant insists that the pickets have prevented employees from entering the plant and protecting the plant's machinery with the result that valuable machinery has been disabled.

Mr. George Mitchell has indicated that he is going to

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proceed to Washington, D. C., to interview Government officials as it is his contention that the action of the union is in the nature of sabotage. No indication was given by Mr. Mitchell as to the officials he intends to interview in Washington.

JOHN EDGAR HOOVER
DIRECTOR

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

June 29, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting herewith one copy
of a memorandum dated June 28, 1940, concerning
Mexican matters, in which I thought you would
find some interest.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

June 28, 1940

Re: MEXICAN MATTERS

Information has been confidentially obtained that during recent weeks several Mexican newspapers, principally El Popular, the official organ of the Confederation of Mexican Workers (C.T.M.), have engaged in bitter anti-American agitation. El Popular is edited by Alejandro Carillo, an assistant to Lombardo Vicente Teledano. Teledano is the head of the Confederation of Mexican Workers. He has been referred to as the prototype of John L. Lewis in Mexico. The Confederation of Mexican Workers has been likened unto the Congress of Industrial Organizations in the United States.

El Popular has bitterly attacked the preparedness program of the United States. It has taken the lead in advocating the expulsion from Mexico of correspondents of the United Press, and the New York Times. The correspondents for these publications have been cited to appear before the Attorney General of the Republic of Mexico with the thought in mind of compelling them to divulge their source of information concerning the stories relative to "5th column" activities in Mexico.

It is strongly intimated that there is on foot in Mexico a rigid campaign to muzzle the foreign press. Information has also been obtained from a confidential, but very reliable source, to the effect that secret war department orders of the Mexican Government have been issued for seven regiments of cavalry to proceed to the states of Chihuahua, Durango and certain border points. Two such regiments departed for stations at Jimenez, Chihuahua, Gomez Palacio, and Durango.

General Juan Andres Almanan, a presidential aspirant, has issued a statement to the effect that a "5th column" is actively at work in Mexico; that Nazi and Russian agents are at work with the protection of the Mexican Government, with the backing and aid of Lombardo Teledano, and with the knowledge of President Cardenas.

A confidential source has opined that the Government of Mexico is confident that a revolution will follow the election on July 7, 1940, as evidenced by the secret movement of cavalry troops into the north and along the border.

July 3, 1940

I gave Mr. Jones my memorandum from Bell on R. F. C. financing. He took the original copy.

I asked Harry White to give me a memorandum, on the 900 tons of tin, in time for me to give to Jesse Jones at lunch today. I did not get it. I remembered it, however, and asked Mr. Jones to take the matter up with the Universal Trading Corporation and to buy it from them and he said he would.

Good Journal to the year
at June Today by the 7/3/40

July 3, 1940

MEMORANDUM FOR THE SECRETARY

Reconstruction Finance Corporation Finance

So far as I have been able to determine, the Reconstruction Finance Corporation will need no money for its own account for the next few months. It has just created two companies which will purchase strategic war materials, with a capital of \$5,000,000 apiece, and commitments from the Reconstruction Finance Corporation for a loan of \$65,000,000 to the rubber corporation and a loan of \$100,000,000 to the metals corporation. I understand there is a possibility that one-half of the capital to the rubber corporation may be subscribed by industry.

The Reconstruction Finance Corporation owes the Treasury only \$7,000,000 and is committed under the President's budget program to return an aggregate of \$300,000,000 either by the payment of dividends, the return of its capital, or the purchase of Federal Reserve Bank stock in the amount of \$125,000,000 held by the Treasury. Under the act approved June 25, 1940, you are to determine when the \$300,000,000 is to be paid to the Treasury. The Federal Loan Administrator determines as to whether the payments shall take the form of return of capital, payment of dividends, or purchase of the Reserve Bank stock, or a combination of all three.

Orig. to Secy 7-3-40

- 2 -

In addition to the \$300,000,000 mentioned above, it is contemplated under the President's budget program, that the Reconstruction Finance Corporation will purchase securities of the Public Works Administration involving a payment of approximately \$50,000,000, which also will be paid to the Treasury.

In all, the Reconstruction Finance Corporation is to pay over to the Treasury during the fiscal year 1941 \$350,000,000, and in accordance with letters which I understand are going out to the various credit agencies over the President's signature, they are being requested to return their funds to the Treasury by not later than November 1st.

In our submission to Congress of the fiscal situation up to January 1st, it was contemplated that the \$700,000,000 capital funds would be returned by that date. I had contemplated that we would raise some time during the month of July, through Reconstruction Finance Corporation borrowing, the \$350,000,000 which that Corporation is required to pay to the Treasury. I thought we could announce the offering either next Wednesday or Thursday, for payment on the 17th or 18th of July.

I believe Mr. Jones would prefer to put this financing off as long as possible in order to save interest to the Corporation. I believe, however, that we should do some financing in July, either for the Reconstruction Finance Corporation or for the Treasury, as our balance by the middle of the month will be less than \$300,000,000, and by the end of July will probably be reduced further to \$200,000,000.

(Initialed) D.W.B.

DWB:ce



TREASURY DEPARTMENT

WASHINGTON

July 3, 1940.

MEMORANDUM FOR THE SECRETARY:

Attached is a statement covering vessels approved by the Maritime Commission for transfer to alien ownership and/or registry, covering the period from June 1 to June 30, 1940, inclusive.

Baril Harris

Assistant to Secretary.

Enclosure.

July 3, 1940.

MEMORANDUM FOR THE SECRETARY:

Attached is a statement covering vessels approved by the Maritime Commission for transfer to alien ownership and/or registry, covering the period from June 1 to June 30, 1940, inclusive.

(Signed) Basil Harris

Assistant to Secretary.

Enclosure.

<u>VESSEL</u>	<u>OWNER</u>	<u>TYPE</u>	<u>TONS</u>	<u>REGISTRY</u>	<u>TRANSFEREE</u>	<u>SALES PRICE</u>
VINCENTE	Pacific Atlantic SS. Co., Portland, Ore.	Cargo St. Se.	5597	Philippine	North Negroes Sugar Co., Inc. Manila, P. I.	\$ 536,000.
MAKAWAO	Matson Naviga- tion Co., San Fran- cisco, Calif.	"	3253	Nicaraguan	(No Sale)	
MANA	"	"	3283	"	"	
SOUTHERN SEAS	Panama Airways, Inc. (Del. corp)	Yacht Oil Se.	819	Panamaian	"	
ORION	Executors of Will of Julius Forst- mann, New York.	"	3015	Panamaian	Orion, S. A., Panama City, Panama	300,000.
AMERICAN ORIOLE	American Foreign SS. Corp., N.Y.	Cargo St. Se.	5169	British	Newsprint Supplies Co. Ltd., London, England	600,000.
WEST EDDON	J.H. Winchester & Co., N. Y.	"	5620	"	Douglas & Ramsey, Glasgow, Scotland	221,600.
WESTERN QUEEN	Lykes Bros. SS. Co.	"	5853	"	The Bank Line Ltd., Glasgow, Scotland	516,840. (sale was cancelled)
WEST HARGHAN	"	"	5756	"	"	517,440.
WEST QUECHES	"	"	5711	"	"	517,440.
WEST COBALT	"	"	6055	"	"	517,400.
CONDOR	Grace Line Inc.	"	4744	"	Larrinaga SS Co., Ltd. Liverpool, England	384,500.
LOUISIANA	The Texas Co.,	Tanker	2849	Panamaian	The Texas Co. (Panama) Inc.	4,000.

<u>VESSEL</u>	<u>OWNER</u>	<u>TYPE</u>	<u>TONS</u>	<u>REGISTRY</u>	<u>TRANSFeree</u>	<u>SALES PRICE</u>
MARTIN SIVERTSEN	Martin Sivertsen SS. Co., Seattle	Cargo St. Co.	3285	Thailand (formerly Siamese)	Thai Niyom Panich Co. Ltd. Bangkok, Thailand (formerly Siam)	\$ 325,000.00
ADMIRAL LAWS	Admiral Oriental Line, San Francisco	"	3268	"	Govt. of Thailand (formerly Siam)	325,000.00
ADMIRAL SEHN	"	"	3260	"	"	325,000.00
T. J. WILLIAMS	Standard Oil Co. of N. J.	Tanker	8211	Panamaian	Panama Transport Co., Panama City, Panama	133,435.86 *
GEORGE G. HENRY	"	"	6265	"	"	136,714.39 *
JOHN WORTHINGTON	"	"	5155	"	"	170,345.47 *
PHILOSOPHER	Arthur H. Terry, III New York, N.Y.	Schooner	67	Colombian	Dolda Whittaker (a Colombian citizen)	3,600.00 (140% interest)
SAN RAFAEL	Pacific Atlantic S. S. Co., Portland, Oregon.	Cargo St. Co.	5402	Panamaian	Wallem & Co., Shanghai, China	525,000.00
JOANNE	Martha May Rogers	Yacht Oil Co.	50	Mexican	Victor Angulo Ensenada, Baja Calif., Mexico	27,000.00
DICKSADEE	Howard Bond Miami, Fla.	Yacht (gas co)	45	Bahamian	Walter Bartholomew	6,500.00
WEST COHAS	Lykes Bros. SS. Co. New Orleans, La.	Cargo St. Co.	5647	British	The Bank Line Ltd. Glasgow, Scotland	513,240.00

* Represents book value as of December 31, 1939.

TREASURY DEPT. Sections 1, 2, and 3

MA

PLAIN

Manila via N.R.

Dated July 3, 1940

Rec'd 5:25 a.m. 5th

Secretary of State

Washington

Third.

FOR COMMERCE.

Monthly Government Finance (SECTION ONE).

Internal Revenue collections in the city of Manila during May reached new high for recent years gaining three naught five percent over corresponding month of nineteen thirty nine. Cumulative total first five months shows gain sixty four percent. Internal revenue collections throughout islands during May showed increase one five three percent over same month nineteen thirty nine. This remarkable increase may be attributed primarily to fact that under revised internal revenue tax code income tax collections payable in installments on May fifteenth and August fifteenth whereas formerly they were collected on June fifteenth. Higher rates under new law contributes to the increase. Practically entire gain during May attributed to this particular item since other sources of revenue showed fairly considerable

- 2 -

considerable declines. This being particularly true of license and business taxes and domestic excise taxes. Total internal revenue collections first five months nineteen forty show gain thirty four percent over last year. Anticipated total for first half year will show much smaller increase since heavy income tax collections in June nineteen thirty nine will not appear during same month of present year. Steintorf.

HICKOK

ROW

MA

PLAIN

Manila via N.R.

Dated July 3, 1940

Rec'd 6:05 a.m. 5th

Secretary of State

Washington

Third

FOR COMMERCE. Monthly Government Finance (SECTION TWO).

May collections thousand pesos, domestic excise taxes six eight two, licence and business taxes eight three three, compensating tax forty, franchise tax five one, documentary stamp tax one naught three, income tax five seven five nine, inheritance tax four seven, internal revenue allotment four nine two, total from taxation seven naught two three, incidental revenue three three six, earnings and other credits seven, refunds previous years collections four, total collections four, total collections seven three six three.

May collections Bureau of Customs reached new high for current year gaining three percent over April and also increasing by same percentage over May last year. Substantial part of gain during present month was in customs internal revenue which is entirely contrary to expectations since it had been anticipated curtailed imports from Europe and other foreign countries would cause corresponding drop in customs revenue. Special fund collections showed expected improvements over same months last year with sole exception highways special fund collections which recorded rather marked decline. Cumulative total first five months shows increase four percent. Steintorf.

HICKOK

TFV

AC

PLAIN

Manila via N.R.

Dated July 3, 1940

Rec'd 6 a.m., 5th

Secretary of State

Washington

Third.

FOR COMMERCE.

Monthly Government finance (SECTION THREE, last).

May collections thousand pesos customs collections
two two thirty Internal Revenue collections on imports
seven six four highways special fund collections seven
forty port works fund three fifth total four naught
eight four. Omitting special fund collections receipts
bureaus customs and Internal Revenue during first five
months this year totaled three six naught nine naught
thousand pesos against two nine nine seven four thousand
pesos for last year or increase twenty per cent. Special
fund collections amounted six two two naught thousand
pesos for five months period compared five six seven
four thousand pesos for last year. End. Steintorf.

HICKOK

DLM

C O P Y

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE July 3, 1940.

TO Secretary Morgenthau
FROM Mr. Haag *HA*
Subject: Railroad freight movement for export.

Receipts of freight for export at New York last week held close to the high level of the previous week, while receipts for export at 9 other North Atlantic ports showed a moderate decline from the previous week's high figure. (See Chart 1 and table attached.)

Freight exported from New York last week rose sharply to a new high volume for the period covered by our records, according to figures derived from reported data. (See Chart 2.) The total of 5,148 carloads, however, is still not equal to the volume of receipts, which totalled 5,323 carloads for the week. Hence, some further increase has occurred in export freight awaiting shipment in New York harbor, as indicated by data on lighterage freight in storage and on hand for unloading at that port. (See Chart 3.)

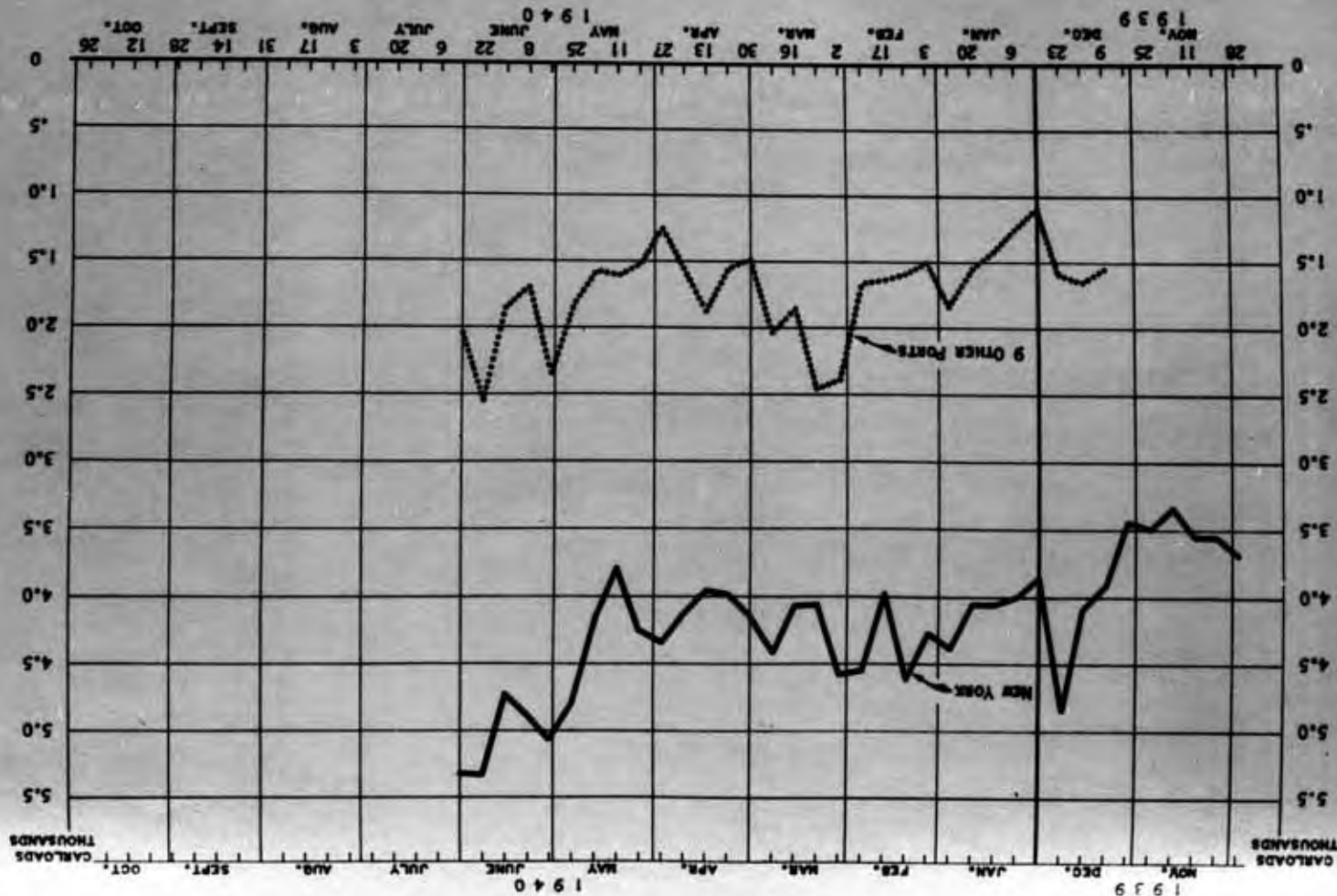
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1940	New York <u>1/</u>	9 other North Atlantic ports <u>2/</u> (----- In carloads -----)	Total
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620
June 1	5,071	2,361	7,432
June 8	4,888	1,698	6,586
June 15	4,726	1,852	6,578
June 22	5,334	2,557	7,891
June 29	5,323	2,022	7,345

1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Searsport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

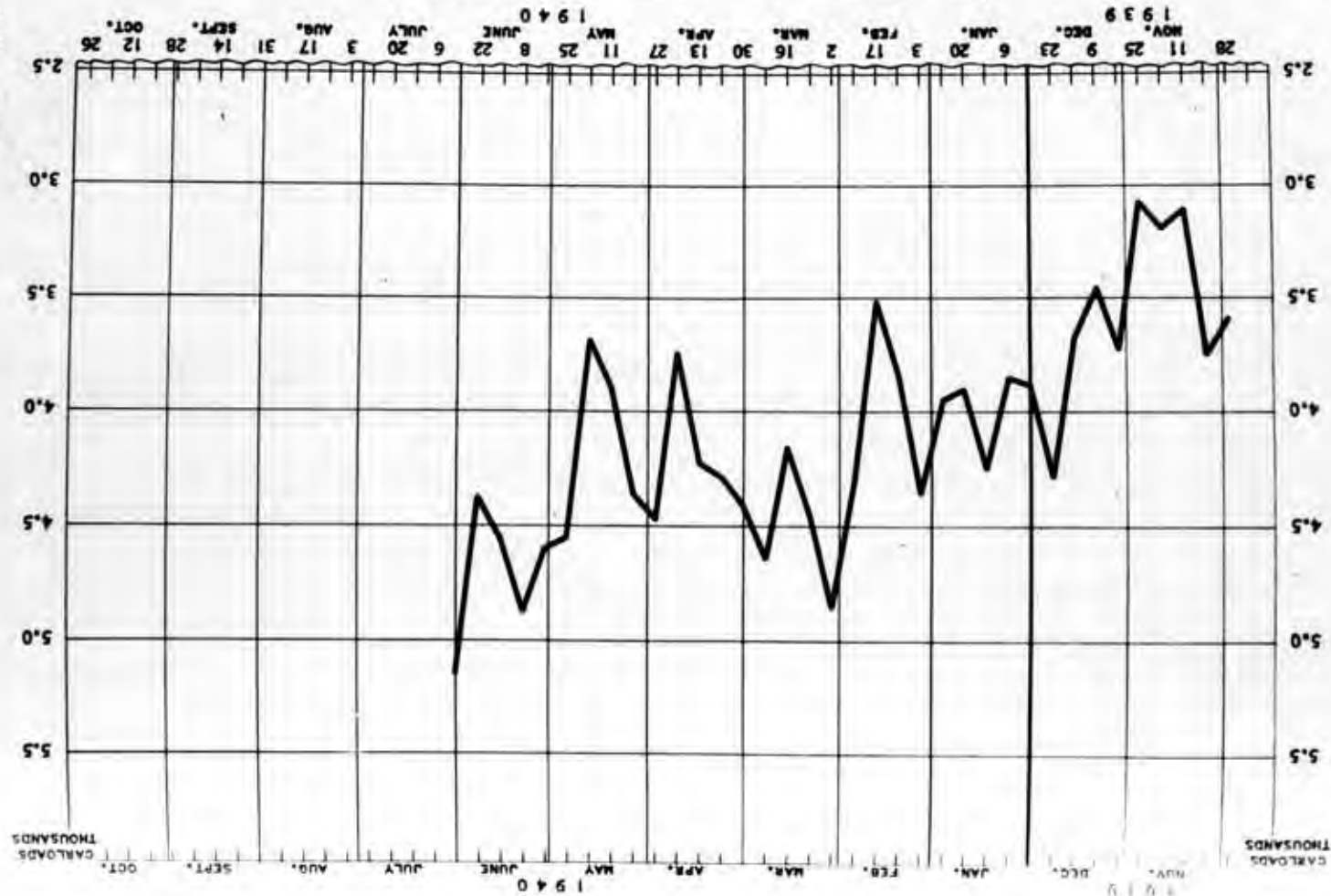
AND 11 OTHER NORTH ATLANTIC PORTS



270 Chart 1

C - 304 - 1

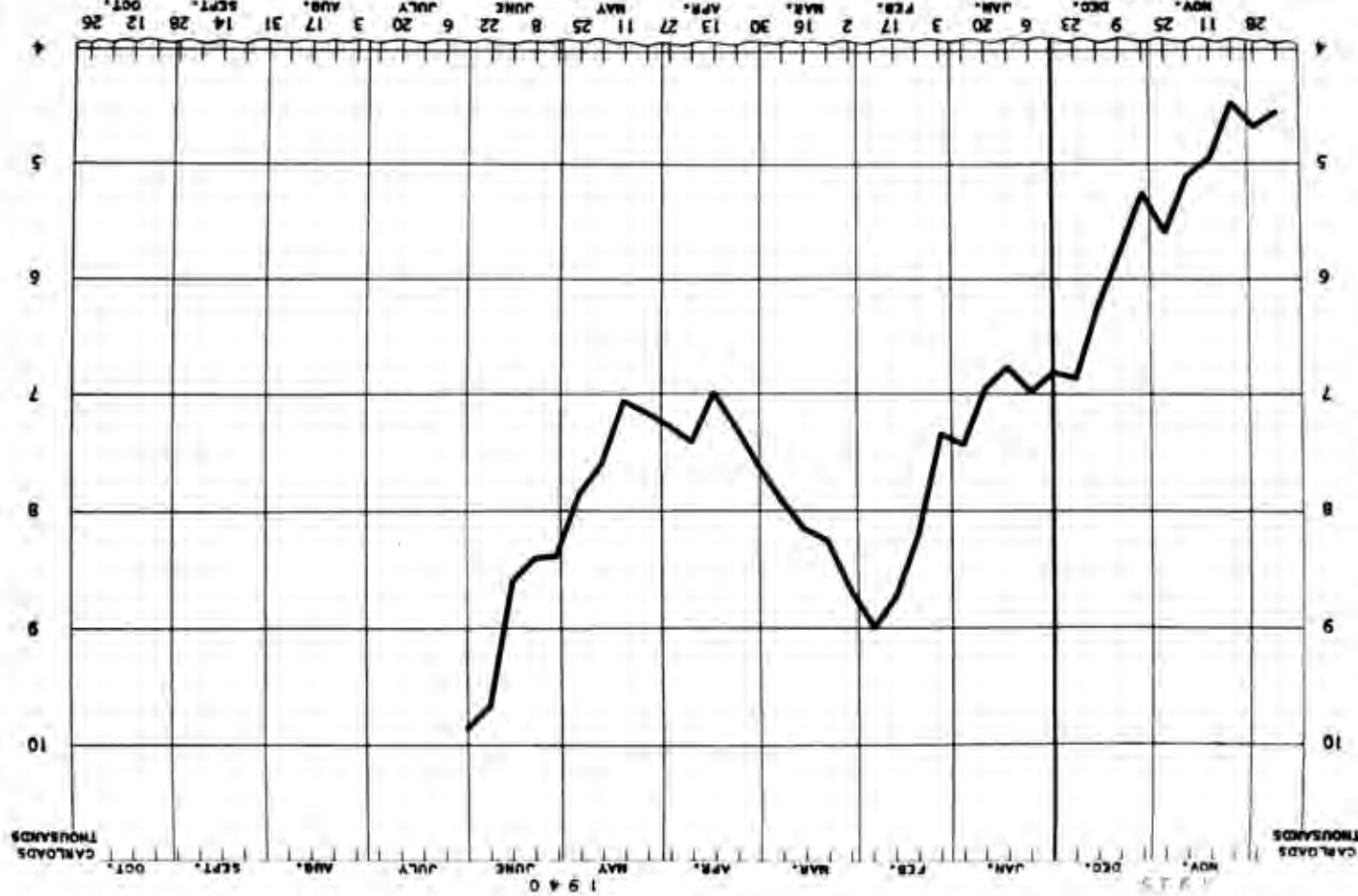
Office of the Secretary of the Treasury
Division of Economic and Statistics



Office of the Secretary of the Treasury

LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE REARM.

6 E 6 1



AND ON HAND FOR UNLOADING IN NEW YORK HARBOR.

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The foreign exchange market was quiet today. Sterling advanced from an opening of 3.79-3/4 to 3.83 at noon. During the afternoon, it had an easier tone, and the closing rate was 3.81-1/2, as compared with yesterday's final quotation of 3.80.

Sales of spot sterling by the six reporting banks totaled £320,000 from the following sources:

By commercial concerns.....	£171,000
By foreign banks (Europe, Far East and South America).....	£149,000
Total.....	£320,000

Purchases of spot sterling amounted to £218,000, as indicated below:

By commercial concerns.....	£149,000
By foreign banks (Europe, Near East and South America).....	£ 69,000
Total.....	£218,000

The following reporting banks sold cotton bills totaling £22,000 to the British Control on the basis of the official rate of 4.02-1/2.

£ 9,000 by the National City Bank
7,000 by the Irving Trust Company
6,000 by the Guaranty Trust Company
<u>£22,000 Total</u>

The Guaranty Trust Company stated that it had purchased £18,000 from the British Control at the official rate of 4.03-1/2, the funds to be used to pay for shipments of whisky and jute.

The Swiss franc had a slightly firmer tone this morning. By noontime, it was quoted at .2268-1/2, as against a closing rate of .2265 last night. The final rate was .2267.

In a very thin market, the Canadian dollar improved from 15-3/8% discount at the opening to 15-3/8% at the close.

The reichsmark, which has been offered at .4000 since trading in that currency was resumed after the outbreak of war last fall, could only be purchased from New York banks today at .4004. The banks state that the official Berlin quotation for dollars has been altered so as to place a slightly higher value on the reichsmark in terms of

our currency. The volume of business transacted in reichsmarks here is reported to be extremely small.

Closing rates for the other currencies were as follows:

Lira	.0605
Cuban peso	9-15/16% discount
Mexican peso	.1980 bid, .2012 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the following shipments of gold:

\$49,915,000 from England, representing two shipments by the Bank of England to the Federal Reserve Bank, to be earmarked for its own account.
1,950,000 from Spain, shipped by the Spanish Institute of Foreign Exchange to the National City Bank, New York, for sale to the U.S. Assay office.
\$51,865,000 Total

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

\$1,361,000 from Sweden, shipped by the Bank of Sweden for its own account to the Federal Reserve Bank of New York, disposition unknown.
581,000 from England, shipped by the Midland Bank, London, to the Bank of Manhattan, New York.
209,000 from England, shipped by Sharps and Wilkins, London, to J. P. Morgan, New York.
189,000 from England, shipped by the Midland Bank, London, to the Royal Bank of Canada, New York.
43,000 from England, shipped by Lazard Brothers, London, to the Chase National Bank, New York.
\$2,403,000 Total

The shipments coming from England will be sold to the U.S. Assay office at New York.

We received a report that the bullion markets in Bombay were closed today, and no quotations were received from that center.

In London, spot silver moved off 1/16d to 21-3/4d. The forward quotation was unchanged at 21-11/16d. The U.S. equivalents were 39.54¢ and 39.43¢ respectively.

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

There were no purchases of silver made by us today.

CONFIDENTIAL

B.M.F.

275
[Handwritten signature]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By telephone today, Mr. Livesey of the State Department told me that his Department had received from the American Consul at Bordeaux two messages from the National Bank of Belgium destined to the Federal Reserve Bank of New York, and one to "Fidelitas", which I understand is the Guaranty Trust Company. It was agreed with Mr. Livesey that the Department of State should forward such messages directly to their destination, as has been the practice with respect to many such communications which pass through the Department of State, but that copies of messages from central banks should be provided the Treasury Department, with an indication thereon as to the State Department's action. When desirable, the Treasury will telephone the Federal Reserve Bank at New York to give pertinent information, whether this may be the full text of the message, or simply an indication that a message along certain lines should be awaited from the State Department. When the three messages in question were received by me this afternoon, I telephoned Mr. Knoke and gave him the wording thereof. He agreed to the arrangement above indicated, and said he would appreciate our advising the Federal Reserve Bank promptly of such messages when they come to our attention. He will depend upon the State Department, however, for the official transmission.

B. M. J.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned me at 3:00 p.m. today. He said that he wanted to let us know that he had received information from London to the effect that Sir Otto Niemeyer was coming out to Canada to do some liaison work for the Bank of England with the Bank of Canada. Niemeyer will sail on the same ship with Sir Frederick Phillips, but his destination is Ottawa, and he has no connection with Sir Frederick's trip to the United States.

I read to Mr. Pinsent the following suggested draft of a statement to be given to the press on July 9, provided it meets with British approval:

"The Secretary of the Treasury has announced that, upon his invitation, Sir Frederick Phillips, British Under Secretary of the Treasury, will shortly arrive in Washington for a visit. This meeting will provide the occasion for discussion of technical and other questions of the American and British Treasuries. It will be recalled that Sir Frederick Phillips visited Secretary Morgenthau in Washington during the Autumn of 1937."

Pinsent seemed quite pleased with this text, but said he would consult his Ambassador thereon, and would then cable it to London for approval.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Hugh Cumming, of the European Division of the Department of State, telephoned me today at 1:00 p.m. He stated that Mr. Berle had referred to him the draft letter which the Treasury had sent to the State Department, to be used in transmitting officially the cablegram which had been received from London in regard to transforming the Bank of England accounts with the Federal Reserve Bank of New York into British Government accounts.

Cumming explained that a delay had resulted from Mr. Berle misplacing this draft. Now, however, the State Department has cabled to our Embassy in London for confirmation that the authenticated copy of the message has been deposited with the Embassy for transmission by pouch to Washington. If, as expected, a reply comes back today or tomorrow, Mr. Cumming promised to have the letter in our hands on Friday.

Mr. Cumming volunteered the information that, unless the Treasury objected, he was going to transmit formally to Mr. Pinsent of the British Embassy, a copy of the cable which was received from Ambassador Kennedy, containing instructions of the British Government on the transformation of the accounts. It was understood that in his acknowledgment, Pinsent would confirm that this cable was in accordance with the British Embassy's understanding of its Government's instructions.

I have given this information by telephone to Mr. Knoke and to Mr. Bernstein.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

On July 1, Mr. Livesey telephoned me from the Department of State to learn whether the Treasury would have any objection to the institution of a suit by the Attorney General of the United States against the Credit Suisse, with view to obtaining judgment against the New York agency of this bank, in connection with the old case of the American Metals Company. It is recalled that judgment has been given against the bank in Switzerland, but that it has not yet been possible to realize on this judgment.

I told Mr. Livesey that officers from the Credit Suisse and the corporation which was set up in New York by that concern last fall have visited the Treasury on at least two occasions. I stated that, however, we had told these gentlemen that the setting up of their organization in New York was a matter for consideration by the banking authorities of the State of New York, and that the Treasury did not pass thereon.

I mentioned this matter to Mr. Bernstein. He stated that the Department of Justice had already been in touch with the General Counsel's office and that the latter had asked that the Department of Justice provide the Treasury with a memorandum giving background of the litigation. This has not yet been received.

After talking with the Secretary, I telephoned Mr. Livesey yesterday evening. I told him that from the information which I had obtained, the Treasury was not disposed to take any position against the contemplated suit. I asked, however, that the Department of Justice provide the requested memorandum before our Legal Department pass finally on the Treasury's position. Mr. Livesey promised to write a letter to the Department of Justice, indicating that the State Department saw no objection to the proposed suit, but recommending that the Treasury's views be obtained directly by Justice.

Since dictating the above paragraphs, Mr. Bernstein has forwarded to me for initialing, a letter addressed to the Department of Justice, in answer to an inquiry from that Department, indicating the Treasury's position in the premises. The Swiss Bank Corporation, rather than the Credit Suisse, is mentioned therein. Whichever is the correct bank, the above statements stand, since representatives from both the Swiss Bank Corporation and the Credit Suisse visited Washington last autumn before opening their establishments in New York, and were given the same information by the Treasury.

A. M. F.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

From Mr. Livesey of Department of State, I learned yesterday that the American Minister at Belgrade has taken up at some extent in recent months the question of the State Mortgage Bank of Yugoslavia establishing an agency in New York. The Minister of Yugoslavia in Washington has also made representations to the Department of State toward this end. Upon getting in touch with the Banking Commission of the State of New York, the Department of State has learned that the Commission did not favor the idea of opening such an agency. In the first place, the Commission thought that an embarrassing situation might immediately arise if such an agency were opened, since the holders of American dollar bonds of this institution might immediately attach the assets of the agency to obtain service on these defaulted securities. Furthermore, the Commission has not been convinced that the bank in question, which does not engage in international business as its principal function, would be active in extending American trade, which is considered one of the basic reasons for approving the opening of agencies of foreign banks in our country.

After obtaining this information, I telephoned Mr. Pinsent and referred to his recent request of us, based upon representations made to him by Minister Fotitch of Yugoslavia. I told him why the Banking Commission was not favorably disposed to the proposition. He agreed that he would not approach Minister Fotitch to give an answer, but that if the Minister should ask Pinsent the result of his visit to the Treasury Department, Pinsent would state that he had learned from the Treasury Department that the State Department was already familiar with and handling the question, and that the Treasury Department preferred that the matter be left with the State Department. I also let Pinsent know that the State Department is not likely to press the matter pending the receipt of word of a more favorable character from the New York Banking Commission, or in the absence of pressure from the Yugoslav Legation. Mr. Pinsent agreed that this was not the opportune time to raise a question of this sort.

B.M.P.

MA

PLAIN

Berlin ,

Dated July 3, 1940

Rec'd 11:11 a.m.

Secretary of State

Washington

2308, Third.

FROM BRUSSELS.

182, Twenty eighth.

Department's 1560, June 10, 5 p.m., to Berlin concerning financial interests of American citizens in Belgium.

In pursuance of ministerial decree of May 13 bank deposits in Belgian currency made before May 10 are subject to partial moratorium permitting withdrawals from 5,000 to 50,000 francs each fifteen days exception is made for justifiable payroll requirements. Deposits made after May 10 not subject to moratorium.

Brussels Stock Exchange closed by ministerial decision of May 10 and therefore no cash can be realized from sale of securities. Belgian securities may be withdrawn from safety deposit boxes or safe custody accounts but German authorities have blocked foreign securities, Belgian securities in foreign currencies and German securities. Gold and foreign currencies safe deposit boxes and

sealed

- 2 -

sealed packages on deposit at bank also blocked. The decree of May 13 provides for moratorium of bills.

No local funds in belgas or Belgian francs owned by American citizens can be transferred to the United States, executive decree of May 14 prohibits transfer of funds or securities to foreign states without government authorization.

Payments on insurance policies subject to Belgian moratorium but in practice insurance companies are paying to the best of their ability.

Accounts receivable and proceeds of estates are probably covered by moratorium. Cudahy.

HEATH

KLP

C O P Y

Paraphrase of telegram No. 113 from Tientsin, July 4, 1940

Secretary of State,
Washington.

The new import regulations on petroleum products have been devised obviously so that the needs of importers who buy in individual lots and settle exchange usually on confirmed letter of credit basis or telegraphic transfer basis through banks may be met. The Japanese have made no provision in these regulations, or apparently considered a provision, for imports on consignment, the method which large distributors of petroleum products, chemicals, dyes, and a few minor lines use.

The suggestion was made by the Chief of the Economics Department of the China Affairs Board to an American oil company that when it is desired to take stocks from bond an "application for indent" be submitted to the Federal Reserve Bank, and when the Bank's approval is received, to remit the value of the withdrawn stocks at the current "link rate" through the Bank. The other American oil company received the same suggestion from the Bank itself.

One of these companies was told by a China Affairs Board representative, as well as by the Japanese Administrative Customs Commissioner that petroleum products imports are considered necessary to North China by the Japanese and that the Japanese do not intend to interfere with this trade. It is apparent according to my informant, that the
fast

-2-

fact that business will be made almost impossible by insistence upon the settlement of exchange before these products are sold, is not fully understood by the Japanese. The suggestion has been made by the Japanese that the China Affairs Board be provided by the interested companies with data with respect to the amount of foreign exchange which will probably be required for three months' or six months' periods, and also with estimates of amount of imports needed to carry on normal business, by customs categories; and in writing to ask the Board to consider an arrangement which will permit the continuation of business by these firms on a consignment basis. It is not thought advisable by this office for the oil companies to give information which the authorities could use in setting up a quota system.

It is believed here by informed American trade circles that it might help to avoid or reduce some of the hardships of these restrictions if prompt representations were made to the Japanese Government. The basis of this belief is that as yet neither the Federal Reserve Bank or the China Affairs Board knows how the regulations are to be administered, and there have been no final commitments on a number of points. Otherwise irreparable damage might be caused to American trade interests.

FLETCHER

DCA:OHR:NEK

RDS

PLAIN

London

Dated July 4, 1940

Rec'd 7:40 a.m.

Secretary of State,
Washington. ,

TRIPLE PRIORITY.

1969, Fourth.

FOR THE SECRETARY OF THE TREASURY.

Beaverbrook wants to know if you will ship him one or two Wright Duplex Cyclone aircraft engines, 18 cylinder 2 row radial. He wants to fit it into his Tornado airplane and if it will work he would like to buy some if he can. He has been most cooperative on everything we want and I think definitely we should do this for him at once if at all possible.

KENNEDY

EMB

JIL

GRAY

Tientsin via N. R.

Dated July 4, 1940

Rec'd 11:10 a.m.

Secretary of State

Washington

NOT FOR PUBLICATION

112, July 4, 10 a.m.

My 106, July 1, 10 a.m. Import restrictions on
petroleum production.

Tientsin managers of Standard Vacuum and Texas
companies report that:

(1) Yokohama Specie Bank on instructions from Federal Reserve Bank rejected on July 2 applications for "link" contracts to liquidate proceeds from anticipated sales of gold bullion paid petroleum stocks now at Tientsin.

(2) Federal Reserve Bank will probably not repeat not "link exchange" contracts to cover duty paid stocks landed prior to June 28th, exchange for which will have to be bought in the Tientsin open market, if any, for Chinese national currency.

(3) No permit is required to transfer bonded goods to duty paid status but "link exchange" will not repeat not be provided in that case unless a permit is applied for and granted; otherwise, exchange will have to be
liquidated

-3- #112, July 4, 10 a.m., from Tientsin

liquidated by the importer in the open market.

(4) If link exchange is desired for bonded goods, the importer must file "application for indent" which probably will be approved by the Federal Reserve Bank, but unless importer purchases requisite "link exchange" (if he can) and duly imports "within two months from date such permits are issued, the permits become null and void.

(5) Special consideration will probably be made for goods already ordered or now in transit provided evidence is furnished the bank proving payment, and orders with supporting evidence are registered with the bank within one month.

(6) The Federal Reserve Bank has intimated that "applications for indent without exchange" are applicable only to merchandise imported from yen bloc areas and that permits for imports from other countries and interport imports will not repeat not be issued except when exchange is settled on "link basis".

(7) When an "application for indent" has been approved, which for large imports will have to be referred to the China Affairs Board in Peiping for return within a two months period, an importer may arrange to "link" at current link exchange rates with an exporter, but the actual link rate must be disclosed and the Federal Reserve Bank

-3- #113, July 4, 10 a.m., from Tientsin

Bank will insist that selling prices for imported merchandise are in line with the link rate approved. An exporter repeat exporter cannot do business until link exchange can be arranged with an importer in possession of an approved import permit.

(8) Under present regulations, oil companies may ship abroad bonded goods without restriction, but since there are no assurances that such shipments will be permitted indefinitely, they are apprehensive that this privilege would be canceled should they attempt to remove cargo from Tientsin in large quantities.

(9) At present, any petroleum products may be imported in bond repeat in bond without permit and in any quantity for storage during the usual bonding period of twelve months.

(10) If reshipment of bonded cargo to central or south China ports is required, the "application for indent" will have to be filed and approved, duty paid and exchange settled before stocks can be shipped, but no repeat no permit will be required for shipment to Hong Kong Dairen or other foreign countries.

Sent to the Department, repeated to Chunking, Peiping, Shanghai, Chefoo, Tsingtao, air mail to Toyko.

FLETCHER

CSB

Copy of paraphrase to TREASURY

15851 288

Paraphrase of telegram No. 115 from Tientsin, July 4, 1940.

Secretary of State,

Washington.

Confidential.

In reference to my No. 114 of today I give below the Consulate General's comments on the new import restrictions embodied in a notice of the Superintendent of Customs which was transmitted with my despatch of June 28, No. 1096, to the Embassy.

Apparently it is the intention of the Japanese to limit imports to this area to the amount at which visible exports are valued minus ten percent so that exports from Third Powers and South and Central China and imports may be balanced, which would do away with the open exchange market in Tientsin and the circulation of old notes in North China. An estimate is contained in a Domei despatch of June 20th under a Peiping dateline that about half, or two hundred twenty million yuan of imports which North China gets from Third Powers is financed in the open market. Our opinion, however, is that there will probably be a substantially higher trade curtailment as a result of the new import restrictions than the Japanese estimate would indicate.

We assume an intention on the part of the Federal Reserve Bank to furnish exchange when it is needed from its reserves of foreign currency for the buying of cereals, as well as from the Tientsin silver which the recent British-Japanese Agreement has allocated for relief purposes, and in addition that private firms will be permitted to import cereals.

It is believed that it will be made as easy as possible for large Japanese firms which handle imports of cereals and other commodities
from

- 2 -

from overseas to carry on under the new order. They may be given all of the exchange from exports which they handle and it is also likely that they will get preferential treatment in handling export commodities to a degree which would permit them to monopolize the trade in dried egg products, walnut kernels, bristles and miscellaneous items other than furs, carpets and hooked rugs (see my despatch of May 15th, No. 475 and my telegrams Nos. 84 and 85, dated May 30 and June 1, respectively).

It is anticipated that there will be violent and unforeseen variations in the current Japanese imports exchange rates from time to time as the demand for import exchanges is in excess of the export cover and vice versa. The looked-for operations in exchange by Japanese firms are expected to result in such fluctuations with results extremely unfavorable to non-Japanese traders. Judging from the past the market will be thin and highly unstable.

It is expected that certain invisible export credits, the proceeds of Inner-Mongolian opium sales for example will be used by the Japanese for their own purposes and that Shanghai dollar sales in the Tientsin open market to such firms as the Kailan Mining Administration or the Yee Tsong Tobacco Company will be reduced or cease entirely.

Even though cooperation with the Federal Reserve Bank on the part of non-Japanese foreign exchange banks would be agreed upon or compelled, it is doubtful whether that bank would tolerate (?) the Tientsin based on its currency (in place of the present fapi dividends (?)) by issuing for necessities from third countries "permits for imports without exchange".

FLETCHER

DCA:GHE:MMK

C O P Y

BJS

PLAIN

TIENTSIN via NR

Dated July 4, 1940

Rec'd 11:02 a. m.

Secretary of State,
Washington

114, July 4, noon.

My 106, July 1, 11 a.m.

The following is a summary of a printed but undated notice of the Superintendent of Customs relating the new import restrictions:

Importers and firms handling inter-port/^{imports}will, on and after June 28, be required as prerequisite to entry of merchandise to produce to the customs one of three forms, namely (one) "application for buying exchange" obtained from a foreign exchange bank (the Yokohama Specie Bank) with the "confirmation" of the Federal Reserve Bank, (two) "application for indent" approved by the Federal Reserve Bank or (three) "permission for import or interport import without exchange" to be issued by or produced to the Superintendent of Customs (the text of the notice is conflicting on this point).

An application for buying exchange must be presented for the import or inter-port import of wheat, flour, rice, millet, kaoliang and corn from countries other than Japan and "Manchukuo" (and possible other yen bloc areas) when paid for with exchange sold

-2- 114 dated July 4, 1940 from Tientsin via NR

sold by the Federal Reserve Bank through the Yokohama Specie Bank. Apparently this form will be used only for cereal imports which do not have to be "linked" and for which the Federal Reserve Bank will provide full exchange cover.

For the importation of merchandise other than cereals "from countries except Japan and 'Manchukuo' and in case payments are effected by exchange sold by the Federal Reserve Bank of China through exchange banks", importers must present an application for indent approved by that bank and such imports will have "link privilege".. When such applications are not approved within two months, they are automatically rejected. No provision for importation on consignment is made in these regulations.

Importers of all other merchandise except "(one) travellers baggage and furniture for removal samples and (three) newspapers and periodicals" will have to obtain the "permission for import or inter-port import without exchange" which does not convey "link privileges", but reliable importers have been informed that the bank intends to grant such permits only for imports origination from Japan and "Manchukuo". Sent to the Department. Repeated to Peiping, Chungking, Shanghai, Chefoo, Tsingtao. Airmail to Tokyo.

FLETCHER

PEG

BRITISH EMBASSY,
WASHINGTON, D.C.

July 4th, 1940

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurin

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 2nd, 1940.

Yesterday enemy aircraft displayed some reconnaissance activity over our coasts and dropped bombs on Wick resulting in nine civilians killed, fifteen injured, also at Hull setting fire to oil tanks. Four enemy aircraft, reported shot down. During the night smaller number of bombers than July 1st were in area of Bristol and South Wales. No serious damage reported, four people reported injured. Mine laying suspected off East Coast.

2. During day Blenheim and Coastal Command aircraft carried out numerous photographic reconnaissances over French Coast and aerodromes. Fighter escort were provided but no enemy aircraft encountered, all our aircraft returned. Promising air attack carried out on Moselle east of Larne. Another submarine destroyed by Sunderland in Western approaches, survivors rescued. Last night 73 heavy bombers continued attacks on marshalling yards, air frame factory, inland docks and oil targets. Satisfactory explosions and fires reported particularly at Hamm. Heavy attack also directed against Sehornhorst in dry dock. Reports highly satisfactory, many hits claimed and huge fire started, two aircraft missing. Eighteen

Swordfish/

Swordfish were detailed to attack large concentration of barges east of Rotterdam, results not yet known. Mine laying operations also carried out.

3. Reported increase in German air transport activity. Flights were made from North-East Germany along Baltic Coast. Some special form of training continues in Baltic but exact nature not yet ascertained.

4. Reports received of two British ships torpedoed also one Greek and one Dutch.

5. No change reported in Mediterranean and African disposition of French fleet. Unsatisfactory reports of French in China (sic), Algeria and Morocco, although Consul at Aleppo has been inundated with French officers offering their services. Strong lead by virile Government with clear cut policy might still achieve success.

6. Small Sudanese force from Gallabat together with Abyssinian rebel band, attacked Italian colonial battalions inflicting approximately 30 casualties including three white officers. Our casualties one killed, ten wounded. Sidi Azeiz and Fort Capuzzo in Libya recaptured by Italian forces on June 28th. Supported by artillery and A.F.Vs. June 20th bombers attacked troop concentrations East of Kassala scoring hits and two Italian naval vessels near Comowa. Also bombed dump at Macaan resulting in heavy explosions. One aircraft missing. Enemy aircraft bombed Berbers resulting in 42 native casualties, also His Majesty's

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ship in Perim without result. Royal West
African Frontier Force consisting of two
brigade groups arrived.....

BRITISH EMBASSY,
WASHINGTON, D.C.

July 4th, 1940

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Sturges

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London on
the evening of July 3rd, 1940.

German aircraft bombed Newcastle and Bristol areas yesterday afternoon. Casualties twelve killed, one hundred and twenty three injured. No damage to war factories reported but warehouses seriously damaged at Newcastle. Bombs were dropped last night in Bournemouth area, Glamorganhire, Hereford and at Shapton Mallet. No reports yet available. One oil tanker at Hull set on fire in attacks July 1st.

2. Fifty heavy bombers attacked marshalling yards and oil targets in western Germany and aerodrome at Brussels last night. All aircraft returned. Daylight operations hampered by lack of cloud cover but mine laying operations and routine anti-invasion, anti-submarine and convoy patrols and minor attacks on enemy shipping were carried out. One DO 17 was set on fire over England. Attack on "Scharnhorst" on night of July 1st-July 2nd was carried out under ideal conditions and was very successful, considerable damage being done to ship and floating dock. Attacks same night on other targets were also successful.

3. Ship carrying twelve hundred and thirteen German and Italian male internees and eighty-six prisoners of war, with British armed guards, was sunk by enemy torpedo in western approaches/

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approaches yesterday. Canadian destroyer has picked up eight hundred survivors. Two other British ships also sunk by torpedo yesterday. Four Italian submarines sunk in Mediterranean between June 27th and June 30th, three by destroyers and one by flying boat.

4. Support for Bordeaux Government among units of French navy appears to be increasing, and in North African ports anti-British feeling appears marked. It is possible that individual officers and men may join us if they can get away, and also individual ships, especially small craft.

5. Italian reinforcements drawn from troops in reserve behind French frontier now reported on Yugoslav frontier. Fifty German airmen reported to have arrived in Libya.

6. Oil targets in Sicily successfully attacked by Swordfish aircraft on June 30th. Further successful attacks on Sicilian aerodrome yesterday. Two enemy fighters shot down and two destroyed on the ground. One Blenheim forced landed on return journey. Aircraft from Sudan bombed aerodromes in Gondarr area on July 1st seriously damaging six aircraft on the ground. All our aircraft returned.

RAW

PLAIN

London

Dated July 4, 1940.

Rec'd. 9:20 a.m.

Secretary of State,
Washington.

1977, fourth.

FOR THE SECRETARY OF STATE AND THE SECRETARY OF THE
TREASURY.

The notice to banks and bankers referred to in my
No. 1967 of July 3, 7 p.m., reads as follows:

"With reference to the export notices of March 8 and
June 8 regarding regulation 5B and especially to the pro-
visions in the second notice regarding 'pre-zero' contracts,
it appears that in certain cases customers have been advised
that contracts entered into before March 8 for the purchase
of commodities covered by the first notice must be met with
sterling obtained at official rates from the control. Banks
and bankers are asked to report to the Bank of England in
cases in which payment was actually made at the official
rate because permission had been refused for the settle-
ment of a pre-March/⁸ contract with sterling otherwise ob-
tained. Customers wishing to avail themselves of the con-
cession whereby pre-March 8 contracts for the purchase of
the

RAW -2- # 1977, fourth, London.

the specified commodities may be met with sterling however acquired, should be warned, where necessary, that further measures may be taken at any time which will have the effect of limiting the volume of sterling obtainable otherwise than from the control. Paragraph 6 of the notice to banks and bankers (exports No. 2) remains in full force. Incidentally, there is a note to paragraph 6 referred to above which reads as follows: "Paragraph 6 above regarding pre-zero contracts, does not, of course, apply to exports of any goods which were, since 25th March, 1940, subject to regulation 5 B." As you know the Bank of England is negotiating with the New York banks regarding the establishment of an official sterling market in New York. When these negotiations are successfully concluded the axe will automatically fall on the free market and consequently the considerations of the United States Rubber Trade Association as explained in your No. 1572 of June 3 will go by the board. In order to avoid further misunderstanding the British Treasury is instructing Pinsent to inquire of our Treasury whether they will have all the information they require about these negotiations which means in effect whether we acquiesce in the steps they propose to take. Accordingly, I suggest that if you wish to protect such American interests as are described in your No. 1572 of June 3 it can be done by

preventing

RAW -3- #1977, fourth, London.

preventing the completion of these negotiations pending the arrival of Phillips and Bewley and then have this subject form part of your discussions with them. I personally don't see why, if the British want to wind up the unofficial sterling market, they should not continue to allow American importers of these pre-zero contracts of 5 B products to buy sterling from the British stabilization fund at, say the closing rate in the New York market on the day before the June 8 regulations were made.

KENNEDY

PEG

July 5, 1940

MEMORANDUM FOR THE SECRETARY:

There are attached the following memoranda:

I. Approximate Prices and Yield Bases for Proposed Treasury Bond Issues with Coupons Ranging from 2 per cent to 2 1/2 per cent.
You will note that a 2 per cent coupon bond maturing June 15, 1953, and callable June 15, 1951, will probably sell on a basis of market prices at the close of business on Wednesday at 101 3/32nds. This may not be quite sweet enough, if not, we could issue a maturity for December 15, 1950-52. In other words, six months shorter.

II. Statement showing the Treasury bonds callable and maturing within the period of 1950-55. You will note that some of the first four bonds in this series, while maturing within this period, are callable on an earlier date. In all probability the first series of 2 1/2's 1948-51's and the third series of 3 1/8's 1949-52's will, because of their rather high coupon values, be out of the picture before the 1950.

III. Statement showing the amounts callable on the major financing dates indicated and the vacant places which may be used by the Treasury for further maturities. I have marked the area covered by Statement II above which will readily indicate to you the vacant dates within this period.

Mc Hugh for French
MAILED 3:10 P.M. 7-5 1940
BY SPEC. MESSENGER _____
FILE TO _____
COPY TO _____

DWB:ce

I

**Approximate Prices and Yield Bases for
Proposed Treasury Bond Issues**

(Based on Closing Over-the-Counter Quotations
Wednesday, July 3, 1940)

Proposed Rate	Call and Maturity Dates	Number of years to call and to maturity	Probable Yield on Market	Probable Market Quotation
2%	June 15/51-53	11-13	1.89%	101 3/32
2 1/8%	Sept 15/51-54	11½-14½	2.02	101 2/32
2 1/4%	Sept 15/53-56	13½-16½	2.15	101 5/32
2 3/8%	June 15/57-62	17-22	2.29	101 6/32
2 1/2%	June 15/63-68	23-28	2.43	101 8/32

July 5, 1940

TREASURY BONDS IN AREA OF 1930 TO 1971

Callable	Year	Maturity	Month	Rate	Amount Outstanding
1948	-	51	Mar. 15	2-3/4	\$ 1,223 M
1948	-	50	Dec. 15	2	571
1949	-	52	Dec. 15	3-1/8	491
1949	-	53	Dec. 15	2-1/2	1,706
1950	-	52	Sept. 15	2-1/2	1,186
1951	-	54	June 15	2-3/4	1,627
1951	-	55	Sept. 15	3	795
1951	-	53	Dec. 15	2-1/4	1,118

Note. High coupon bonds callable earlier but maturing later than 1948 not included on the assumption that they will be called for payment on first call date. These include 4% of 1944-54, 3-3/4% of 1946-56, and 4-1/4% of 1947-52.

July 5, 1940

III

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TREASURY FINANCING

(Exclusive of regular Treasury Bills and special obligations issued directly to trust funds)

(In Millions of Dollars)

		MARCH 15	JUNE 15	SEPTEMBER 15	DECEMBER 15	TOTAL
1940	Notes Bonds	- -	- -	- -	737 -	737
1941	Notes Bonds	677 545	904 834 (8/1)	- -	204 -	2,764
1942	All Notes	426	-	342	232	1,000
1943	Notes Bonds	- -	629 454	278 1,401 (10/15)	421 -	3,183
1944	Notes Bonds	515 1,519 (4/15)	416 -	283 -	- 1,037	3,770
1945	Notes Bonds	718 -	- -	- 1,214	- 541	2,473
1946	All Bonds	489	819 1,036	-	-	2,344
1947	" "	-	-	799 (10/15)	701	1,460
1948	" "	1,223	-	451	571	2,245
1949	" "	-	-	-	491 1,786	2,277
1950	" "	-	-	1,186	-	1,186
1951	" "	-	1,627	755	1,118	3,500
1952	" "	-	-	-	-	-
1953	" "	-	-	-	-	-
1954	" "	-	-	-	-	-
1955	" "	2,611	-	-	-	2,611
1956	" "	-	-	982	-	982
1957	" "	-	-	-	-	-
1958	" "	-	919	-	-	919
1959	" "	-	-	-	-	-
1960	" "	-	-	-	1,485	1,485
		6,723	7,238	7,651	9,324	32,936

OFFICE OF THE UNITED SECRETARY

July 1, 1960

[Handwritten signature]
July 5, 1940

Mr. Felt

Mr. Cushman

Will you kindly send the following cablegram:

"American Embassy.

London.

From the Secretary of the Treasury.

Reference your No. 1969, July 4. Working on Beveridge's request. Hope to have answer in day or two."

HHS:leg-7.5.40

DEPARTMENT OF STATE
THE SECRETARY

Paraphrase of certain parts of telegram No. 2001, from
Ambassador Kennedy, London, dated July 5, 9 p.m.

"Lord Halifax remarked that they were very much
upset over the battle of yesterday.....That
the question of the French units at Alexandria appears
to be settled. It is agreed that (1) the ships shall be
made incapable of fighting (2) the fuel oil shall be
discharged and (3) that there shall be further negotiation
as concerns the ships's personnel. The French, however,
say that they will repatriate all the crews.

"The RICHELIEU and ST JEAN BART, now on the west
coast of Africa are being watched, but there may be
a battle for them.

"This accounts for practically all the French ships
except those at Toulon at which place the British do
not expect to take action in view of the believed strength
of the shore batteries.

"This horrible mix-up with the French has brought
forth terrific of currency, ships, trade, et cetera.

S/ WDM

CONFIDENTIALFOR YOUR INFORMATION

July 5, 1940

To: The Secretary

From: Mr. Young

Attached is a preliminary survey of Dutch, Belgian, Swedish, Norwegian, and Finnish orders compiled by Major Lyons on airplanes, and by Colonel MacMorland on munitions and other implements of war.

I notice that considerable information is lacking with respect to delivery schedules, and I shall attempt to check this on the more important items before Monday morning.

P.Y.

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*Am y. has not
seen - I have
copy 7/5/40
F. J.*

ARMY AND NAVY MUNITIONS BOARD
MUNITIONS BUILDING
WASHINGTON, D. C.

July 5, 1940.

*3 photographs
to Mr Young
July 8, 1940*

MEMORANDUM TO: Mr. Philip Young,
Member, President's Liaison Committee,
Room 294 Treasury Department.

1. In compliance with your request for information on foreign orders for certain countries, I am attaching hereto -

- a. Undelivered aircraft for Belgium, Netherlands, Norway and Sweden. This information was obtained from the Chief of the Air Corps and is based on reports from inspectors in aircraft plants;
- b. Orders for items other than aircraft for Belgium, Netherlands, Norway, Sweden and Finland. This information was obtained from Legations and other sources, and because of the various sources is not uniform. Deliveries in general are not available and it is suggested that if any item becomes important, delivery schedules can be obtained very quickly by our office from the company supplying the materiel. A good many of the orders on the sheets attached have already been delivered, but this office has no information on this score because most of them are not licensed and reports are not available in the State Department. Omitted are some strictly commercial orders of small money value.

2. With reference to aircraft for Finland, this country has nothing on order at the present time. Delivery was obtained on 48 Brewster F2A-1 pursuit airplanes.

3. My office is preparing such information as is available on countries other than those reported above and omitting England and France. We will furnish this information to you as soon as it is available.

For the Clearance Committee, Army & Navy Munitions Board:

E. E. MacMorland
E. E. MacMORLAND,
Lt. Colonel, Ordnance Department,
Secretary.

2 Incls.

7-3-40

ESTIMATE OF UNDELIVERED AIRPLANES AND ENGINES
BELGIUM, NETHERLANDS, NORWAY, AND SWEDEN.

AIRPLANES

<u>Country</u>	<u>Type and Manufacturer</u>	<u>Undelivered</u>	<u>Date of Completion</u>	<u>Maximum Production Rate</u>	<u>Reached on Date</u>
Belgium	Brewster 339***	35	August 1940	8	7-40
Netherlands	Curtiss H-75A	2	Sept. 1941		
	Brewster 339	72	Sept. 1941	15	12-40
Norway	Northrop N-3PB	24	January 1941	9	1-41
	Curtiss H-75A	36	December 1940	22	12-40
	Douglas B-A5	41	December 1940	12	11-40
Sweden	Republic EP-1	67	December 1940	10	7-40
	Republic 2-PA	86	April 1941	8	7-40
	Vultee P-48C	156	June 1941	22	2-41

ENGINES

att & Whitney*	360	December 1941	40	4-41
ight**	325	June 1941	30	10-40

* This figure includes the R-1535 and R-1830 engines.

** This figure includes the R-975, R-1820 and R-2600 engines.

*** 26 Scheduled to be delivered in June 1940 for which there is no confirming report at this time.

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FOREIGN ORDERS RECEIVED FROM BELGIUM

<u>DATE</u>	<u>ITEM</u>	<u>FIRM</u>	<u>QUANTITY</u>	<u>VALUE</u>	<u>DELIVERY SCHEDULE</u>
26-40	Colt aircraft machine guns, Model MG-53A, caliber .50	Colt's Patent Fire Arms Mfg. Co.	94	101,050.00	
20-40	Gaertner inhalers w/flow meter	Aviation Equipment & Export, Inc., 25 Beaver Street, New York, N. Y.	280		
	Vitrified flasks(containers)	" " " "	840		
"	Tubes, high pressure	" " " "	280		
"	" low pressure	" " " "	280		
"	Mouthpieces(wood)	" " " "	280		
"	Oxygen purifiers	" " " "	3		

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CONFIDENTIAL

FOREIGN ORDERS RECEIVED FROM FINLAND

ARMS, AMMUNITION & IMPLEMENTS OF WAR

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
10-7-39	Machine tools	Kearney Trocker Corp.	16	45,849.50	August 1940
12-18-39	Machine tools	Landis Tool Co.	2	3,636.87	
	Machine tools	Gorton Machine Co.	1		
11-24-39	Mine cases(submarine)	Pressed Steel Tank Co.	2,000	24,406.00	
10-12-39	Gas Masks(horse)	Acme Protective Equipment Co.	1,000	9,200.00	Delivered
12-14-39	Boots, Gas-Proof, horse	" " "	4,000	16,400.00	"
12-14-39	Gas suits	Seal Sac, Inc.	1,000	7,500.00	"
12-26-39	Cartridges, Cal. .30 & .50	Okura & Co.	1,790,000	125,150.00	"
1-3-40	Cartridges 7.62 mm	Western Cartridge Co.	50,000,000	2,125,000.00	July 1940
1-3-40	Signal lights	Triumph Explosives Co.	600,000		
	Signal pistols	" " "	2,000	105,000.00	Delivered
2-10-40	Links, belt, cal. .50	Colt's PFA Mfg. Co.	800,000	25,600.00	July 1940
3-17-40	Cartridges, Cal. .30 & .50	Remington Arms Co.	800,000	180,450.00	June 1940
2-17-40	Shell 81 mm.	Reynolds Metals Co.	150,000	1,063,000.00	July 1940
1-3-40	Binoculars	Bausch & Lomb Optical Co.	1,000	50,000.00	May 1940
12-15-40	Cups, brass, 7.62 mm(tons)	Revere Copper & Brass Co.	300	161,800.00	May 1940
3-15-40	Nitrocellulose (lbs.)	Hercules Powder Co.	2,204,000	318,000.00	
4-4-40	TNT (lbs.)	Trojan Powder Co.	507,035	142,000.00	
1-9-40	Cartridges, Cal. .30 & .50	Western Cartridge Co.	845,000	153,421.00	Delivered
2-29-40	Guns, Machine, M53-2	Colt's PFA Mfg. Co.	132		"
4-3-40	Guns, 75 m, M1917	U. S. Government	200	305,520.00	"
	Howitzers 8" Mk IV	"	32	233,049.00	"
	Projectiles for 8" Howitzers	"	9,200	122,176.00	"
	Charges for 8" Howitzers	"	11,200	35,056.00	"
5-23-40	TNT (lbs.)	E. I. duPont de Nemours	1,150,000	207,000.00	Being delivered
1-22-40	Wire field (km)	Anaconda Wire & Cable Corp.	10,000	170,000.00	May 1940
1-24-40	" " "	General Cable Corp.	5,000	85,000.00	April 1940
1-4-40	Cartridges, Cal. .30 & Cal..50	Western Cartridge Co.	60,000		Delivered

CONFIDENTIAL

CONFIDENTIAL

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FOREIGN ORDERS RECEIVED FROM
NETHERLANDS

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
6-20-40	Galvanized steel wire	American Steel & Wire Co.	500 tons		
4-25-40	Brass discs	The American Brass Co.	7,500		
1-25-40	American tin, Wollamar Brand		1,170 cases	\$15,600.00	Feb. 1940
3-2-40	Brass discs	American Brass Corporation	265,000	69,700.00	May 1940
1-8-40	Universal grinding machine	Cincinnati Milling Machine Co.	1	4,788.00glds.	June 1940
	Copperbands	American Brass Co.	10,000 (33,354 lbs.)		
	Brass cups	" " "	103,040 lbs.		
	Brass discs	" " "	265,000 (387,695 lbs.)		
Feb. '40	Discs for helmets	U. S. Steel Export Co.	40,000		
	Copperbands	American Brass Co.	18,200 (36,254 lbs.)		
	Brass cups	" " "	103,040 lbs.		
	Brass discs	" " "	265,000 (387,695 lbs.)		
3-15-40	Steel bars	Pittsburgh Crucible Steel Co.	505,000 kgs.		
"	Copperbands	Revere Copper & Brass Co., Inc.	300,000		
"	"	" " " " "	142,000		
1-29-39	Brass caps for small arms ammunition	American Brass Co.	690 metric tons		
"	Brass caps for small arms ammunition	" " "	550 " "		
"	Copperbands for projectiles	" " "	74,600 lbs.		
"	Brass discs for cartridge cases	" " "	300,000 lbs.		
"	Cupro-nickel strip for coins	" " "	110,000 lbs.		
"	Brass cups for small arms ammunition	Revere Copper & Brass Co., Inc.	550 metric tons		
"	Copperbands for projectiles	" " " " "	120,000 lbs.		
Dec. '39	Gilding metal bullet jackets cups (30 Cal.)	" " " " "	25,000 kgs.		
"	Gilding metal bullet jackets cups (50 cal.)	" " " " "	12,000 kgs.		
	Manganese bronze		150 tons		
	Dodge trucks	Dodge Co.	30		
	Vistanex like B.200	Aldan Rubber Co.	200 lbs.		
	" " B.100	" " "	2,000 lbs.		
	Steel products	U. S. Steel Company	151 tons		
March 15	Forgings for gun barrels	Crucible Steel Co. of America,	210		
to	length 3650 mm weight per	New York			
April 15	forging 710 lbs.				

CONFIDENTIAL

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DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
	Steel blocks for making dies, total estimated weight 2145#	Hepperstall Company, Bridgeport, Conn.	290		
	Steel blocks for making dies, total estimated weight 36,620#	ditto	90		
	Pull broaches	Colonial Broach Co., Detroit, Mich.	16		
11-23-39	Thread cutting tools	Greenfield Tap & Die Co., Greenfield, Mass.	20 cases	903.25	April 1940
1-19-40	Adaptors for howitzers 15L17 and caissons	Martin Perry Co., York, Penna.	80	1,167.00	
1-12-40	Shell-press	National Machinery Co., Tiffin, O.	1	\$159,575.00	Within 9 mos.
2-21-40	Hydraulic press, 40 tons	American Chain & Cable Co., New York	1		April 1940
2- 2-40	Electrolytic copper in wirebars	Mineralia Metal & Ore Corp., N. Y.	200 tons	111,600 guilders	As soon as possible
2-2-40	Heald inside grinding machine type 72AB sizeratic	Heald Machine Co., Worcester, Mass.	1	22,625. "	May 1940
2-2-40	Milwaukee universal horizontal milling machine	Kearney & Trecker Corp., Milwaukee, Wis.	1	\$4,575.00	Feb. 1940
2-17-40	Helmet disc steel plates	U. S. Steel Corp., New York	40,000	\$12,768.00	April 1940
2-17-40	Virgin aluminum	Mineralia Metal & Ore Co., New York, New York	75 tons	38,400.00	within 1 month
9-17-39	Shell-forging machine	National Machinery Co., Tiffin, O.	1	74,625.00 glds.	March 1940
	Sets for shell 7.5 mm		2	13,572.00 "	
10-31-39	Brass cups No. 2 weighing 1,540,000 lbs.	American Brass Corp., Waterbury, Conn.	55,000,000	\$313,390.00	Feb. 1940
11-22-39	Copperbands 147.9 plus	" " " "	40,400	20,416.00	"
"	Brass cups No. 2	" " " "	550,000 kgs.	257,050.00	Feb.-Mar. 1940
"	" " " "	Revere Copper & Brass, Inc.	550,000 kgs.	257,050.00	Mar.-April, 1940
11-28-39	Copperbands for shells	" " " "	379,000	32,850.00	Jan. & Feb. 1940
7-12-39	Tombak cups for bullet jackets	" " " "	3,737 tons	20,500.00	April 1940
12-28-39	Coleman P H Electrometer, Model 3D	Coleman Electric Co., Haywood, Ill.	1	419.25 glds.	as soon as can
12-14-39	Welding helms No. 131	Wilson Products, Inc.,	4	86.00 "	12-21-39 to
	Safety Spectacles	Reading, Penna.	24	46.80 "	2-8-40
	Wilson welding glasses No. 3		12	14.10 "	
	White glasses		24	2.88 "	

CONFIDENTIAL

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CONFIDENTIAL

FOREIGN ORDERS RECEIVED FROM NETHERLANDS INDIES
ARMS, AMMUNITION & IMPLEMENTS OF WAR

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
6-18-40	1100-pound demolition bombs, completely loaded with T.N.T.	U. S. Ordnance Engineers, Inc.,	540)		
	600-pound demolition bombs, completely loaded with T.N.T.	" " " "	2,160)	\$825,000.00	License 1307
5-11-40	Scatter type 100-pound incendiary bombs, complete, loaded with white phosphorus and thermite	" " " "	550)		
"	Intensive type, 100-lb. incendiary bombs, completely loaded with white phosphorus and thermite	" " " "	550)	92,000.00	License 1468
11-2-39	T.N.T.	" " " "	400,000 lbs.	120,000.00	License 3614
11-28-39	1100-pound demolition bombs	" " " "	400	260,000.00	License 3990
10-9-39	T.N.T.	" " " "	200,000 lbs.	56,000.00	License 3485

CONFIDENTIAL

CONFIDENTIAL

FOREIGN ORDERS RECEIVED FROM NORWAY

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
6-20-40	500-pound demolition bombs, loaded w/fuzes	Federal Laboratories, Inc.	200)		
	500-pound demolition bombs, empty	" " "	)	56,400.00	License 2026
	Machine guns for Hawk 75A-fixed, Cal. .30		12)		
	Machine guns for Hawk 75A-fixed, Cal. .50	Colt's PFA Mfg. Co.	144		
	Machine guns for Douglas 8A, flexible Cal. .30	Sub-orders from Curtiss Airplane Co., and Douglas Aircraft Corporation for planes on order for Norway.	72		
	Machine guns for Douglas 8A, fixed, Cal. .30		36		
	Machine guns for Douglas 8A, fixed, Cal. .50		72		
	Machine guns for Northrup/N-3, flexible, Cal. .30	ditto	36		
	Machine guns for Northrup/N-3, fixed, Cal. .30	ditto	48		
	Spares, complete guns, flexible, Cal. .30	ditto	48		
	Spares, complete guns, fixed Cal. .30 ; spares, complete guns, fixed, cal. .50		100		
8-2-40	Cartridges, caliber .50	Remington Arms Co.	290 ; 120		
8-13-40	Colt automatic machine guns, Model MG-52, water cooled, caliber .50	Colt's PFA Mfg. Co.	120,000	36,000.00	Delivered
			47	51,606.00	License 794

Licensed orders

CONFIDENTIAL

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FOREIGN ORDERS RECEIVED FROM SWEDEN

(PURCHASES BY SWEDISH TRADE DELEGATION)

DATE	ITEM	FIRM	QUANTITY	VALUE-	DELIVERY SCHEDULE
6-7-40	Cartridges, caliber 9 mm, Parabellum	Western Cartridge Co.	12,600,000	\$ 269,640.00	License 1810
	Binoculars	Bausch & Lomb Optical Co.	150		
	Submarine Escop. Apparatus opt.	Mine Safety Appliances Co.	300		30, Feb.; 120, Mar.
	Eye & Nose Protectors opt.	" " " "	50		
	Carbon Monoxide Canisters for lungs	" " " "			
	1A1 Cable	Anaconda Wire & Cable Co.	25		May 16, 1940
	1A2 "	" " " "	500 km		June 1940
	1A4 "	" " " "	4,000 km		May 15, 1940
	1A5 "	" " " "	750 km		May 15, 1940
	1B2 "	" " " "	1,750 km		May 15, 1940
	1B3 "	U. S. Steel Export Co.	50 km		April 1, 1940
	Portable transmitter & receiver sets	" " " "	40 km		April 1, 1940
	Toluol	RCA Mfg. Co.	2		
	Motor Benzol	Davis & Co., Inc.	500 tons		April 20, 1940
	1A3 Cable	" " " "	2,500 tons		
	1B1 "	Phelps Dodge Copper Products Corp.	2,012 km		March 31, 1940
	Gas Masks	" " " "	150 km		April 15, 1940
	1B4 Cable	General Tire & Rubber Co.	100,000		April 25, 1940
	Depth charges	General Cable Corp.	20 km		August 5, 1940
5-40	9 mm sub-machine guns	York Safe & Lock Co.	1,000		April 20, 1940
		Smith & Wesson, Inc.	2,000		August 31, 1940
					within 3 months (7-18-40)
	Magnesium powder	American Magnesium Corp.	10 tons		
29-40	Surplus depth charge detonators, loaded to fit depth charge Mk III	U. S. Government	1,010	1,262.50	Delivered
5-40	Model 28A Thompson submachine guns	Auto-Ordnance Corp.	500	100,000.00	Delivered
27-40	Cartridges, caliber .45	Remington Arms Co., Inc.	5,200,000	127,400	
21-40	Cartridges, caliber 9 mm, Parabellum	Western Cartridge Co.	10,500,000	233,625.00	July 1940

-1-

CONFIDENTIAL

Charge to the account of

318

WESTERN UNION

1206-B

CLASS OF SERVICE DESIRED	
DOMESTIC	CABLE
TELEGRAM	ORDINARY
DAY LETTER	URGENT
NIGHT LETTER	DEFERRED
SPECIAL SERVICE	NIGHT LETTER
	DAY RADIOGRAM

R. B. WHITE
PRESIDENT

NEWCOMB CARLTON
CHAIRMAN OF THE BOARD

J. C. WILLEVER
FIRST VICE-PRESIDENT

CHECK

ACCOUNTING INFORMATION

TIME FILED

Send the following message, subject to the terms on back hereof, which are hereby agreed to

Los Angeles
July 5, 1940

RAYMOND CLAPPER
C/O SCRIPPS HOWARD,
WASHINGTON, D. C.

HAVE JUST READ YOUR COLUMN JULY 4 IN LOS ANGELES NEWS AND WANT TO CORRECT MISSTATEMENT OF FACT. SECRETARY OF TREASURY MORGENTHAU RAISED NO OBJECTION AT ALL TO JOB OF COORDINATOR BEING SET UP TO WORK WITH DEFENSE COMMISSION. TO MY KNOWLEDGE SECRETARY MORGENTHAU MADE NO ATTEMPT TO CHANGE IN ANY PARTICULAR REPORT TO PRESIDENT MADE BY COMMISSIONER STETTINIUS, GENERAL HARRIS, ADMIRAL SPEAR AND MYSELF. I SHOWED THE REPORT TO SECRETARY MORGENTHAU BEFORE IT WAS COMPLETED AND SENT TO THE PRESIDENT. NOT ONLY DID HE RAISE NO OBJECTION BUT DID NOT SUGGEST ONE SINGLE CHANGE IN THE REPORT. AM POSITIVE THERE WAS NO ATTEMPT MADE BY SECRETARY MORGENTHAU TO CENTRALIZE PROCUREMENT IN THE TREASURY. RESPECTFULLY SUGGEST THAT YOU CORRECT THIS STATEMENT.

D. M. NELSON

dmg-dt

3 positive 313
photostats to
Mr. Young
8/8/40

July 5, 1940.

MEMORANDUM TO: Mr. Philip Young,
Member, President's Liaison Committee,
Room 294 Treasury Department.

1. In compliance with your request for information on foreign orders for certain countries, I am attaching hereto -

- a. Undelivered aircraft for Belgium, Netherlands, Norway and Sweden. This information was obtained from the Chief of the Air Corps and is based on reports from inspectors in aircraft plants;
- b. Orders for items other than aircraft for Belgium, Netherlands, Norway, Sweden and Finland. This information was obtained from Legations and other sources, and because of the various sources is not uniform. Deliveries in general are not available and it is suggested that if any item becomes important delivery schedules can be obtained very quickly by our office from the company supplying the material. A good many of the orders on the sheets attached have already been delivered, but this office has no information on this score because most of them are not licensed and reports are not available in the State Department. Omitted are some strictly commercial orders of small money value.

2. With reference to aircraft for Finland, this country has nothing on order at the present time. Delivery was obtained on 48 Brewster F2A-1 pursuit airplanes.

3. My office is preparing such information as is available on countries other than those reported above and omitting England and France. We will furnish this information to you as soon as it is available.

For the Clearance Committee, Army & Navy Munitions Board:

E. E. MacMORLAND,
Lt. Colonel, Ordnance Department,
Secretary.

2 incls.

7-3-40

**ESTIMATE OF UNDELIVERED AIRPLANES AND ENGINES
BELGIUM, NETHERLANDS, NORWAY, AND SWEDEN.**

AIRPLANES

<u>Country</u>	<u>Type and Manufacturer</u>	<u>Undelivered</u>	<u>Date of Completion</u>	<u>Maximum Production Rate</u>	<u>Reached on Date</u>
Belgium	Brewster 339***	35	August 1940	8	7-40
Netherlands	Curtiss H-75A	2	Sept. 1941		
	Brewster 339	72	Sept. 1941	15	12-40
	Northrop H-3PB	24	January 1941	9	1-41
	Curtiss H-75A	36	December 1940	22	12-40
	Douglas C-45	41	December 1940	12	11-40
	Republic HP-1	67	December 1940	10	7-40
	Republic 2-PA	86	April 1941	8	7-40
	Vultee P-48C	156	June 1941	22	2-41

ENGINES

Pratt & Whitney*	360	December 1941	40	4-41
Wright**	325	June 1941	30	10-40

* This figure includes the R-1535 and R-1830 engines.

** This figure includes the R-975, R-1820 and R-2600 engines.

*** 26 Scheduled to be delivered in June 1940 for which there is no confirming reports at this time.

CONFIDENTIAL

FOREIGN ORDERS RECEIVED FROM BELGIUM

<u>DATE</u>	<u>ITEM</u>	<u>FIRM</u>	<u>QUANTITY</u>	<u>VALUE</u>	<u>DELIVERY SCHEDULE</u>
4-25-40	Colt aircraft machine guns, Model M3-AMA, caliber .50	Colt's Patent Fire Arms Mfg. Co.	94	101,080.00	
1-20-40	Quarter inhalers w/flow meter	Aviation Equipment & Export, Inc., 25 Beaver Street, New York, N. Y.	280		
"	Vitrified flasks(containers)	" " " "	240		
"	Eden, high pressure	" " " "	280		
"	" low pressure	" " " "	280		
"	Neologians(wood)	" " " "	280		
"	Oxygen purifiers	" " " "	3		

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Regraded Unclassified

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FOREIGN ORDERS RECEIVED FROM FINLAND

ARMS, AMMUNITION & IMPLEMENTS OF WAR

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
10-7-39	Machine tools	Kearney Trucking Corp.	16	45,849.50	August 1940
9-16-39	Machine tools	Landis Tool Co.	2	5,638.87	
	Machine tools	Gorton Machine Co.	1		
11-24-39	Mine cases(submarine)	Pressed Steel Tank Co.	2,000	24,406.00	
10-15-39	Gas Masks(hamm)	Arm Protective Equipment Co.	1,000	9,200.00	Delivered
12-14-39	Boots, Gas-Proof, horse	"	4,000	16,400.00	"
12-14-39	Gas suits	Seal Sac, Inc.	1,000	7,500.00	"
12-26-39	Cartridges, Cal. .30 & .50	Okura & Co.	1,790,000	125,150.00	"
1-3-40	Cartridges 7.62 mm	Western Cartridge Co.	50,000,000	2,125,000.00	July 1940
1-3-40	Signal lights	Triumph Explosives Co.	600,000		
	Signal pistols	"	2,000	105,000.00	Delivered
3-10-40	Links, belt, cal. .50	Colt's PFA Mfg. Co.	800,000	25,600.00	July 1940
5-17-40	Cartridges, Cal. .30 & .50	Remington Arms Co.	800,000	180,450.00	June 1940
2-17-40	Shell 81 mm.	Reynolds Metals Co.	150,000	1,053,000.00	July 1940
1-3-40	Binoculars	Bausch & Lomb Optical Co.	1,000	50,000.00	May 1940
12-15-40	Cups, brass, 7.62 mm(tons)	Revere Copper & Brass Co.	200	151,800.00	May 1940
3-15-40	Nitrocellulose (lbs.)	Hercules Powder Co.	2,204,000	318,000.00	
4-4-40	TNT (lbs.)	Trojan Powder Co.	507,035	142,000.00	
1-8-40	Cartridges, Cal. .30 & .50	Western Cartridge Co.	845,000	153,121.30	Delivered
2-29-40	Guns, Machine, M53-E	Colt's PFA Mfg. Co.	132		"
4-3-40	Guns, 75 mm, M1917	U. S. Government	200	306,520.00	"
	Howitzers 8" M4 IV	"	22	233,049.00	"
	Projectiles for 8" Howitzers	"	9,200	122,176.00	"
	Charges for 8" Howitzers	"	11,200	35,056.00	"
5-23-40	TNT (lbs.)	E. I. duPont de Nemours	1,150,000	207,000.00	Being delivered
1-22-40	Wire field (km)	Armco Wire & Cable Corp.	10,000	170,000.00	May 1940
1-24-40	"	General Cable Corp.	5,000	65,000.00	April 1940
1-4-40	Cartridges, Cal. .30 & Cal..50	Western Cartridge Co.	50,000		Delivered

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 FOREIGN ORDERS RECEIVED FROM
 ESTABLISHMENTS

<u>DATE</u>	<u>ITEM</u>	<u>FIRM</u>	<u>QUANTITY</u>	<u>VALUE</u>	<u>EXPIRY DATE</u>
6-30-40	Galvanized steel wire	American Steel & Wire Co.	800 tons		
4-25-40	Brass discs	The American Brass Co.	7,500		
1-25-40	American tin, Yellow Sea		1,170 cases	\$15,800.00	Feb. 1940
2-2-40	Brass discs	American Brass Corporation	265,000	69,700.00	May 1940
1-9-40	Universal grading machine	Cincinnati Milling Machine Co.	1	4,788.00	June 1940
Feb. '40	Plates for boiler	U. S. Steel Export Co.	40,000		
	Copperheads	American Brass Co.	18,500 (20,554 lbs.)		
	Brass discs	"	103,040 lbs.		
	Steel bars	"	285,000 (327,696 lbs.)		
	Copperheads	"	506,000 kgs.		
2-15-40	Brass discs for small arms ammunition	Pittsburgh Crucible Steel Co.	500,000		
	Copperheads	Bureau Copper & Brass Co., Inc.	142,000		
11-25-39	Brass discs for small arms ammunition	American Brass Co.	690 metric tons		
"	Brass discs for small arms ammunition	"	550 "		
"	Copperheads for projectiles	"	74,600 lbs.		
"	Brass discs for cartridge cases	"	800,000 lbs.		
"	Copperheads ready for coils	"	110,000 lbs.		
"	Brass discs for small arms ammunition	Bureau Copper & Brass Co., Inc.	690 metric tons		
Dec. '39	Copperheads for projectiles	"	120,000 lbs.		
"	Galvanized metal bullet jackets	"	25,000 kgs.		
"	Galvanized metal bullet jackets	"	15,000 kgs.		
"	Brass discs	"	150 tons		
March 15	Steel products	Dodge Co.	30		
	Portages for gun barrels	Alden Rubber Co.	200 lbs.		
		U. S. Steel Company	2,000 lbs.		
		Crescent Steel Co. of America	151 tons		
			210		

CONFIDENTIAL

DATE	ITEM	FIRM	QUANTITY	VALUE	DELIVERY SCHEDULE
	Steel blocks for making dies, total estimated weight 2148½	Hepperstall Company, Bridgeport, Conn.	290		
	Steel blocks for making dies, total estimated weight 38,620½	ditto	20		
	Full broaches	Colonial Branch Co., Detroit, Mich.	16		
11-23-39	Thread cutting tools	Greenfield Tap & Die Co., Greenfield, Mass.	20 cases	903.25	April 1940
1-19-40	Adaptors for lathes 15L17 and caissons	Martin Perry Co., York, Penna.	80	1,167.00	
1-12-40	Shell-press	National Machinery Co., Tiffin, O.	1	\$199,575.00	Within 9 mos.
2-21-40	Hydraulic press, 40 tons	American Chain & Cable Co., New York	1		April 1940
2- 2-40	Electrolytic copper in wirebars	Mineralia Metal & Ore Corp., N. Y.	200 tons	111,800 gilders	As soon as possible
2-3-40	Heald inside grinding machine type 72A3 automatic	Heald Machine Co., Worcester, Mass.	1	22,635. "	May 1940
2-4-40	Milwaukee universal horizontal milling machine	Learney & Trecker Corp., Milwaukee, Wis.	1	\$4,875.00	Feb. 1940
2-17-40	Half set steel plates	U. S. Steel Corp., New York	40,000	\$12,768.00	April 1940
2-17-40	Virgin aluminum	Mineralia Metal & Ore Co., New York, New York	75 tons	32,400.00	within 1 month
9-17-39	Shell-forging machine	National Machinery Co., Tiffin, O.	1	74,625.00 glds.	March 1940
10-31-39	Sets for shell 7.5 mm	"	2	12,572.00 "	
	Brass cups No. 2 weighing 1,540,000 lbs.	American Brass Corp., Waterbury, Conn.	55,000,000	\$223,390.00	Feb. 1940
11-23-39	Copperbands 147.9 plus	" " " "	40,400	20,416.00	"
"	Brass cups No. 2	" " " "	550,000 kgs.	257,050.00	Feb.-Mar. 1940
11-23-39	Copperbands for shells	Revere Copper & Brass, Inc.	550,000 kgs.	257,050.00	Mar.-April, 1940
7-12-39	Tombak cups for bullet jackets	" " " "	379,000	32,880.00	Jan. & Feb. 1940
12-28-39	Coleman P H Electrometer, Model 30	Coleman Electric Co., Haywood, Ill.	37 tons	20,600.00	April 1940
12-14-39	Welding helms No. 131	Wilson Products, Inc., Reading, Penna.	1	419.25 glds.	as soon as man
	Safety Spectacles	"	4	86.00 "	12-21-39 to
	Wilson welding glasses No. 3	"	24	46.80 "	2-3-40
	White glasses	"	12	14.10 "	
		"	24	2.86 "	

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FOREIGN ORDERS RECEIVED FROM NETHERLANDS INDIES
ARMS, AMMUNITION & IMPLEMENTS OF WAR

<u>DATE</u>	<u>ITEM</u>	<u>FIRM</u>	<u>QUANTITY</u>	<u>VALUE</u>	<u>DELIVERY SCHEDULE</u>
6-18-40	1100-pound demolition bombs, completely loaded with T.N.T.	U. S. Ordnance Engineers, Inc.,	540	\$825,000.00	License 1397
	600-pound demolition bombs, completely loaded with T.N.T.	" " " "	2,160		
5-11-40	Scatter type 100-pound incendiary bombs, complete, loaded with white phosphorus and thermite	" " " "	550	92,000.00	License 1463
"	Intensive type, 100-lb. incendiary bombs, completely loaded with white phosphorus and thermite	" " " "	550		
11-2-39	T.N.T.	" " " "	400,000 lbs.	120,000.00	License 3614
11-29-39	1100-pound demolition bombs	" " " "	400	280,000.00	License 3996
10-9-39	T.N.T.	" " " "	200,000 lbs.	56,000.00	License 3485

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FOREIGN ORDERS RECEIVED FROM NORWAY

<u>DATE</u>	<u>ITEM</u>	<u>FIRM</u>	<u>QUANTITY</u>	<u>VALUE</u>	<u>DELIVERY SCHEDULE</u>
*6-20-40	500-pound demolition bombs, loaded w/fuses	Federal Laboratories, Inc.	200)	56,400.00	License 2026
	500-pound demolition bombs, empty	" " "	12)		
	Machine guns for Hawk 75A- fixed, Cal. .30	Colt's PPA Mfg. Co.	144		
	Machine guns for Hawk 75A- fixed, Cal. .50		72		
	Machine guns for Douglas SA, flexible Cal. .30	Sub-orders from Curtiss Airplane Co., and Douglas Aircraft Corporation for planes on order for Norway.	36		
	Machine guns for Douglas SA, fixed, Cal. .30		72		
	Machine guns for Douglas SA, fixed, Cal. .50	ditto	36		
	Machine guns for Northrup/N-S, flexible, Cal. .30	ditto	48		
	Machine guns for Northrup/N-S, fixed, Cal. .30	ditto	48		
	Spares, complete guns, flexible, Cal. .30		100		
	Spares, complete guns, fixed Cal. .30, spares, complete guns, fixed, cal. .50		290, 120		
2-2-40	Cartridges, caliber .30	Remington Arms Co.	120,000	36,000.00	Delivered
5-13-40	Colt automatic machine guns, Model MG-52, water cooled, caliber .50	Colt's PPA Mfg. Co.	47	51,606.00	License 794

* Licensed orders

Messrs. Magill, Sullivan, Tarleau, Blough, Shoup and Paul conferred today and evolved the following general agreement:

(1) There was a good deal of discussion about whether the proposed tax should be exclusively on the war profits principle or exclusively on the excess profits principle. The basic theory of the war profits principle is to tax all profits exceeding those of a pre-emergency period, which excess may roughly be considered as attributable to the increased activities of the emergency period. The basic principle of the excess profits tax is to tax all profits over a certain return on invested capital. Obviously the latter tax does not take in some war profits but may take in some profits wholly unconnected with the emergency.

The consensus was that a combination or compromise between these two schools of thought should be adopted. The compromise tentatively agreed upon was:

(a) Using 8% as a fair return on invested capital for the average case. It was decided that concerns which made less than 8% in a representative pre-emergency period from 1935 to 1939 should pay some excess profits tax because such concerns were profiting by reason of the emergency activity.

(b) Concerns making below 8% on their invested capital should, however, have some protection when their return on invested capital was too low, and it was decided that there

should be no tax on any profits below 4% of invested capital even though some of these profits might be attributable to emergency activities.

(c) On the other hand, concerns which made in excess of 8% on invested capital should have some benefit from the fact that their rate of profit previous to the emergency period was in excess of 8% because there should be some recognition of high profits in the pre-emergency period. It was, therefore, decided that concerns making in excess of 8% should have the benefit of such excess up to 12%. The reason for stopping at 12% was that this represents a very high return upon invested capital and a reasonable limitation upon exemption of high ordinary pre-emergency profits.

(d) The above formula requires adjustments between pre-emergency invested capital of the taxable year. The principle underlying these adjustments was that there should be for increased invested capital an assumed rate of return of 8%, and for decreases in invested capital the somewhat more favorable basis of the reduction of pre-emergency profits in accordance with a reduction of invested capital.

2. The consensus was that invested capital should not exclude borrowed capital as did the 1917 and 1918 Acts, but should include borrowed capital with a consequent disallowance of interest on such capital as a deduction. However, certain safeguards were

suggested here limiting the amount of borrowed capital to be included in invested capital in order to prevent escape from tax of corporations borrowing capital at a low current rate of interest. The generally agreed mechanism of limitation was an arbitrary limitation of 50% of borrowed capital, the theory being that this percentage reflected a general borrowing cost of 4% or half the standard profits exempt percentage of 8%. It was suggested that leased property and equipment should have substantially the same treatment as leased money. This principle was agreed to, but it was also agreed that there would have to be a reduction of rent liabilities to present worth for purposes of determining amounts to be included in invested capital. The general feeling was that this aspect of the problem needed further study.

3. There was a great deal of discussion about the difficult problem of consolidated returns. There was a general agreement that such returns should be permitted if some method could be worked out to take account of differences in size, types of activity and other economic differentials between large consolidated units and other corporations. In the absence of ability to work out such a differential the majority agreed that the filing of consolidated returns should be a privilege extended to affiliated groups which accepted protective Treasury regulations; the minority group felt that this might be going too far.

4. Everyone definitely agreed that individuals should not be subjected to the excess profits tax. It was felt that it would be possible administratively to impose such a tax but that the complexities and administrative difficulties would be far out of proportion to the benefits accruing. It was felt that the taxation of individuals might be safely left, at least for the moment, to the high prevailing surtaxes.

7/5/40

Example I

Pre-emergency invested capital	\$1,000,000
Invested capital in taxable year	1,000,000
Average pre-emergency profits, Loss	20,000
Profits for taxable year	150,000
Exempt profits (4% of \$1,000,000)	40,000
Profits subject to excess profits tax	110,000

Example II

Pre-emergency invested capital	1,000,000
Invested capital in taxable year	1,000,000
Average pre-emergency profits	60,000
Profits for taxable year	150,000
Exempt profits (6% of \$1,000,000)	60,000
Profits subject to excess profits tax	90,000

Example III

Pre-emergency invested capital	1,000,000
Invested capital in taxable year	1,000,000
Average preemergency profits	130,000
Profits for taxable year	150,000
Exempt profits (12% of \$1,000,000)	120,000
Profits subject to excess profits tax	30,000

Example IV

Invested capital in preemergency year	750,000
Invested capital in taxable year	1,000,000
Increase in capital	250,000
Average pre-emergency profits	30,000
Profits for taxable year	150,000
<u>Exempt profits</u>	
a. 4% x \$750,000	\$30,000
b. <u>Add</u> 8% x \$250,000	<u>20,000</u>
Total exempt profits	50,000
Profits subject to excess profits tax	100,000

Example V

Invested capital in pre-emergency year	1,250,000
Invested capital in taxable year	1,000,000
Decrease in capital	250,000
Average pre-emergency profits	75,000
Profits for taxable year	150,000
<u>Exempt profits</u>	
a. 6% x \$1,250,000	\$75,000
b. <u>Less</u> 6% x 250,000	<u>15,000</u>
Total exempt profits	60,000
Profits subject to excess profits tax	90,000

Copenhagen, July 5, 1940

No. 163

Subject: Transmission of Letter Received From
Danmarks Nationalbank.

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to transmit herewith a letter dated July 4, 1940 received from Danmarks Nationalbank in which they request this Legation to submit to the proper American authorities certain questions in regard to possible modifications of the blocking of Danish assets in the United States.

The desire of the National Bank to have the request transmitted to the Department of State was first made orally by the Under-Director of the Bank, Mr. Hude who stated that the matter had already been placed before the Federal Reserve Board, but that he felt that the case had perhaps not been adequately presented and therefore not fully understood. The Legation pointed out that in these circumstances the appropriate procedure would be for the bank to discuss its difficulties with the Ministry of Foreign Affairs with a view to the further presentation of their proposals through the medium of the Danish Minister in Washington. At the same time Mr. Hude was informed that, if

- 2 -

so desired, the Legation would, as a matter of courtesy, simply transmit without supporting comment a statement of the modifications in which the bank was interested. This course apparently was preferred by the bank, which submitted the letter above mentioned under the signature of Mr. C. V. Brammnaes, "Governor of the Danmarks Nationalbank".

In view of the possibility that, under the various existing difficulties, the National Bank may not have been, and does not feel otherwise able to make an adequate statement of its wishes in this matter, it is respectfully suggested that its letter be submitted to the appropriate American authorities if no cogent objection thereto is perceived.

Respectfully yours,

Mahlon F. Perkins
Charge d'Affaires a.i.

Enclosure:

Letter, dated July 4, 1940
from Danmarks Nationalbank.

File 851
MFP/RBR/DD

In triplicate to the Department

Enclosure to Despatch No. 163, July 5, 1940, from the
American Legation at Copenhagen.

(COPY)

DANMARKS NATIONALBANK

København
H/VR

Copenhagen, July 4th 1940

Mr. F. Mahlon Perkins,
Charge d'Affaires,
American Legation,
Amaliegade 12,
K.-

Sir:

On earlier occasions I have taken the liberty to ask the American Legation to assist us to remove difficulties which have arisen in connection with the blocking of the Danish assets in the United States.

In connection herewith I should like to request the American Legation in Copenhagen to consider whether they would be able to submit to the American authorities concerned some further questions of modifications of the embargo which I should like to mention below.

I am specially interested in three questions of such a limited character that it is my hope that the Legation will be able to forward my request to Washington.

The contracts of the various loans which the Danish Government and Danish institutions have taken up in the United States normally contain the clause providing for regular redemption by means of the repurchase of bonds in the open market. The National Bank has of late experienced that it is very difficult to obtain a permit for the use of blocked Danish assets for the repurchase of Danish Dollar bonds for redemption. Before permission is granted, so many questions are asked in each case that the transactions are being delayed. This delay entails unnecessary costs for the buyer and also the inconvenience that the purchases cannot be made before expiration of the term normally fixed in the contract.

I should appreciate very much if a general permission to use the blocked Danish balances for redemption could be granted and I should have no objections if the permit should be limited to purchases made either through the fiscal agent of the loan or through the Federal Reserve Bank of New York, or if it should be made a condition that the repurchased bonds should remain deposited with the purchasing bank.

The second matter is the difficulty which we now meet in the question of transfer of money from one blocked account to another. As these transfers always take place between blocked accounts to which uniform rules apply, it is very difficult to see the reason against the abolition of the restrictions which prevent us from transferring assets from one account to another. The removal of this hindrance would give us some freedom of action which would benefit us without contravening American interests.

Finally it would be of importance if an arrangement could be made whereby Dollar cheques which are sent to Denmark or which already are in Denmark, could be credited to the accounts of the Danish banks which forward such cheques to the United States for collection. As an instance I may mention that cheques drawn by the United States Treasury Department on themselves to a Danish citizen living in Denmark, in payment of old age pension from the United States, cannot be cashed in a Danish bank, because it has not been possible for the Danish bank to have the amount credited to its account in the United States. A number of instances shows that it has not been possible to have cheques sent for collection credited to the accounts of Danish banks, although that transaction only involves a transfer of Dollars from a person resident in Denmark to a Danish bank as mentioned above.

I should be much obliged to you if you would be able to place these questions before the competent authorities in the United States, and thanking you in advance for the troubles you may have in this matter.

I am,

Yours very truly,

C. V. BRAMNSAAS

C. V. Bramnsaas
Governor of the Danmarks Nationalbank

JIL

PLAIN

London

Dated July 5, 1940

Rec'd 3 p.m.

Secretary of State

Washington

1992, 5th.

FOR TREASURY FROM BUTTERWORTH

1. A new supplementary vote of credit of £1,000 million was presented to Parliament, for the supply services' expenses "beyond those provided for in the ordinary grants of Parliament, arising out of the existence of a state of war". This follows the vote of credit for £700 million passed on March 14.

2. Replying to a question in the Commons the Chancellor of the Exchequer announced that to supplement subscriptions to "on tap" war bonds, savings certificates and baby defence bonds, on which he relies for current requirements and in view of the present volume of Treasury bills and the uneven spread of revenue receipts accentuated by high rates of direct taxation, he had arranged an additional means of meeting weekly needs by taking deposits from the London clearing and Scottish banks of amounts to be fixed weekly. These deposits will be repayable after six months, the banks however having the right to request repayment

-2- #1992, 5th, from London

repayment (a) for investment in national war loans issues or (b) to cover emergency currency needs; repayments under (b) will be discounted at bank rate. The rate of interest on these six-months non-negotiable deposits will be fixed on considerations of prevailing conditions, being at the moment $1\frac{1}{8}$ percent which is notably cheaper than borrowing by $2\frac{1}{2}$ percent on tap war bonds and slightly dearer than by Treasury bills which is suitable in view of their longer maturity. Deposits are in units of £500,000. Though similar in purpose (namely to tap banks' surplus funds) to the special deposits of the last war mentioned in seventh paragraph of my 2068 of October 17, 1939, 6 p.m. This addition to the floating debt of six-months non-negotiable deposits, normally recallable only at a loss, should prove less inflationary since the 1916-19 special deposits were included in the clearing bank's call-money item and were in fact regarded as supplementary to cash balances. Bank of England ways and means advances to the Exchequer (now standing at £20 million, a figure small in comparison with the astronomical figures reached in the last war) will be used to make up any balance not offered weekly by the banks, who will be told each Friday the amounts required. Though the deposits are non-compulsory the Central Bank will certainly have a good

idea

-3- #1992, 5th, from London

idea of each bank's capacity from week to week. The deposits are expected not to show in the Bank of England weekly returns, probably only quarterly in the Exchequer returns but perhaps as a new item in clearing banks' month-end returns. Apparently the discount market's weekly takings of £65 million of treasury bills represents the extent of its powers on its capital structure; mounting expenditure increases the deficit faster than voluntary savings during the months of lean direct tax receipts; the Indian summer of war finance described in my 2068 of October 17 is thus now definitely at an end.

3. With the note issue again up by £6 million and the new steps for garnering surplus funds for the British Government's use the question of inflation again comes to the fore. Though many and varied steps have been taken to prevent an inflationary price rise, each sound in itself - (such as intensive propaganda for savings, control of prices of many products and even subsidies to keep down prices of foods important in the cost of living) the crux of the matter boils down to the question - are the restraints on consumer spending sufficient to counteract the persistent influences making for inflationary price increases, namely the increase in spending power arising from wage increases, overtime, absorption of the unemployed, increased pensions and unemployment insurance, which the
coincident

-4- #1992, 5th, from London

coincident with a contraction in the supply of consumable goods. Even the Government's curtailment of imports and raw materials which directly reduces the supplies of consumable goods, accentuate the inflationary trend unless price control is more comprehensive or rationing is on a wider scale than at present which includes only sugar, butter, certain types of meats and gasoline. For, curtailing the goods available does not necessarily drive all the surplus spending power into savings, some undoubtedly being diverted into uncontrolled fields where price rises may be sharp and may result in attracting man-power and speculative capital needed for the war effort. Further the Government has made many moves which have increased the cost of living. Indirect taxes and postage rates have been increased. While the index has lately been held steady there are many products outside it which form essentials of life - railway and bus fares, tobacco, beer and many types of clothing and household goods not included in an index constructed in 1914 and long since rendered artificial. The new methods of tapping banks' deposits and the excess profits duty will admittedly act as a final net to force into the Government's coffers traders' profits from an inflationary price rise but neither will prevent such a rise with all its social injustices.

-5- #1992, 5th, from London

injustices. The relative force of the counteracting trends of savings and heavier taxation on the one hand and the growing discrepancy between spending and goods to buy on the other hand cannot be measured quantitatively. Only by results can the question be answered as to which current is the stronger. Retail trade turnover though quantitatively reduced, is in value not declining. Prices generally are rising despite the recent relative steadiness of the Ministry of Labor's absolute index. These are visible results. Another will be the year's yield of excess profits duty, when the final figure is available. If the yield of this duty and of the purchase tax when it finally becomes operative, are high the revenue results may be hailed as satisfactory but success in this respect will be proof that the inflationary spiral has not been held in check. The new budget is doubtless being created. Much will depend upon the boldness with which it is framed.

KENNEDY

WWC

JIL

PLAIN

Shanghai via N.R.

Dated July 5, 1940

Rec'd 1:15 p.m.

Secretary of State

Washington

593, July 5.

FROM COMMERCIAL ATTACHE. Weekly financial. Shanghai open market foreign exchange rates continued steady past week (July first and second being bank holiday hence no exchange market). Despite disquieting Hong Kong and local developments, rates unaffected by substantial Hong Kong buying orders for United States dollars and cover by shorts. Interbank spot selling this morning around six five-sixteenths cents and three fifteen-sixteenths pence being high for the week with a low of six one-sixteenths and three thirteen-sixteenths, July delivery one-thirty-second cent and one-thirty-second penny lower. Chinese financial circles point out unwillingness of speculators to make commitments at present due to apprehensions of unexpected world developments similar to those affecting sentiment of late on New York stock market. They believe that technical position of market tending toward firmer rates for near future as many importers have liquidated exchange
COVER

-2- #593, July 5, from Shanghai

cover booked previously in cases in which shipments were uncertain or orders cancelled thus reducing foreign currency requirements. However necessity for large food imports next few months by north and central China may cause lower rates. Other quotations this morning: gold bars down around yuan five thousand with high during week of yuan five four three naught and low of yuan four nine eight naught, wei wah cash discount rate around five percent, Bank Japan notes yen one for Chinese yuan one point fourteen, military scrip yen one for Chinese yuan one point two four, hua hsing notes yuan one for Chinese yuan one point five five, customs gold unit yuan two point seven naught seven or United States dollars naught point six two five, Tientsin exchange rates five three quarters cents and three one-half pence, Tientsin Shanghai remittance charge ten percent, Tientsin Federal Reserve Bank notes yuan nine six for Chinese yuan one hundred. Yesterday's closing quotations: Chinese domestic bonds average five two point eight one, Shanghai general stocks lower due local and Hong Kong developments average two one seven point four nine, Shanghai rubber shares one six naught point seven one. China Stock Exchanges Company Limited capitalized at yuan six hundred thousand opened Shanghai July third trading in stocks and debentures of Chinese banking industrial and business enterprises, company formed by several prominent

Shanghai

-3- #593, July 5, from Shanghai

Shanghai Chinese leaders. Transactions so far are limited in extent as principal holders of shares and debentures of Chinese enterprises are either government or banks or original promoters hence general public is unable to buy or sell large blocks of shares, the present quotations involving therefore only small numbers of shares. Nevertheless represents significant development in Chinese financial system because lack of modern capital market has been one of principal causes of China's slow development in industry mining and other modern enterprises. Banks have hitherto acted as principal investors using depositors funds in most cases. Present attempt is to build foundation for increased public interest in direct investment and to enable enterprises to obtain capital at cheaper interest rates and to relieve banks of direct financing burdens. Shanghai general stock exchange is British enterprise dealing exclusively in stocks and debentures of Shanghai foreign enterprises as well as rubber company shares. Chinese Merchants Stock Exchange prior outbreak hostilities dealt almost exclusively in Chinese Government bonds. Yesterday's quotations on New China Stock Exchange in Chinese yuan Bank of China seven three Bank Communications six eight Tatung Coal Mine thirty Chung Hwa Book Company two nine point fifty Sun Sun Department Store ten point fifty

-4- #593, July 5, from Shanghai

fifty Commercial Press seven three A B C Underware
Manufacturing Company nine Dah Chung Hwa Match Company
two one point fifty. Hua Hsing Commercial Bank note issues
end June totalled H.H.yuan five point six million repre-
senting increase H H yuan one million over issued outstand-
ing June fifteenth. Inform Commerce.

BUTRICK

OSB

CONFIDENTIALFOR YOUR INFORMATION

July 5, 1940

To: The Secretary

From: Mr. Young

Re: Request for two Wright Duplex
Cyclone Engines.

Attached is a copy of the message addressed to you, received from Ambassador Kennedy, and telephoned to me at 10:22 A.M., July 4th. Also attached is a copy of the acknowledgment in accordance with your instructions this morning.

A few experimental engines of this type, and designated as Model A, have been produced or are in production. Model A is equipped with special mountings and develops 2000 horsepower. Experimentation with Model A has developed what is known as Model B, which is equipped with standard mountings and develops 2200 horsepower. Production of Model A is being discontinued due to dissatisfaction with the mounting arrangements, and due to the fact that both the Army and Navy wish the increased power.

The Army ordered 10 and the Navy ordered 10 of the Model A engines. Of these, 6 have been delivered to the Army, and 2 have been delivered to the Navy. 4 of the 6 delivered to the Army are being installed in the new Boeing B-19 bomber which will be completed before the end of the month. The remaining 2 Army engines are being held for spares. The Navy has received 2 Model A engines, one of which is being used for experimental and testing purposes, and the other is a spare.

Neither Admiral Towers nor General Brett wish to release any of these Model A engines which have been delivered, due to the fact that in both cases there would be serious delay in their experimental programs. In addition, Captain Kraus strongly emphasizes the fact that the Model A, with its lower rate of horsepower and its special mountings, is being discontinued and,

- 2 -

therefore, would be of little service to Lord Beaverbrook as a sample for testing or fitting into other planes.

Two additional Model A engines will be delivered to the Navy, one about August first, and the second about August 15th. These will be used for experimental purposes, and Admiral Towers has told Captain Kraus that he would not release them unless compelled to do so, because an experimental plane has been built to take that particular engine with its special mountings. Further, if these Model A engines were commandeered, Wright would have to replace this model which is being discontinued for the Navy; a factor which would upset the Wright production schedule.

The first two of the Model B engines, equipped with standard mountings and developing 2200 horsepower, will be ready for delivery between September 5th and 10th. These engines are on order for Pan American and Lockheed and could probably be diverted for other purposes.

If Lord Beaverbrook, as his cablegram would seem to indicate, is intending to use these engines as samples both for power and for the ease with which they could be fitted to English planes, it is my suggestion that only the Model B engines be made available.

Ry.

DEPARTMENT OF STATE
WASHINGTON

July 5, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of telegram no. 1969 of July 4, 1940 from the American Embassy at London, regarding aircraft engines.

Enclosure:

From London, no. 1969,
July 4, 1940.

(Copy)

RDS

PLAIN

London

Dated July 4, 1940

Rec'd 7:40 a.m.

Secretary of State,

Washington.

TRIPLE PRIORITY.

1969. Fourth.

FOR THE SECRETARY OF THE TREASURY.

Beaverbrook wants to know if you will ship him one or two Wright Duplex Cyclone aircraft engines, 18 cylinder 2 row radial. He wants to fit it into his Tornado airplane and if it will work he would like to buy some if he can. He has been most cooperative on everything we want and I think definitely we should do this for him at once if at all possible.

RECEIVED

JUL 2 1940

Office of Philip Young
Treasury Department

RECEIVED

(Copy)

TO THE SECRETARY OF THE
OFFICE OF THE
TREASURY
JUL 2 1940

DEPT OF THE
TREASURY
JUL 2 1940

RECEIVED
TREASURY DEPARTMENT
JUL 2 1940

C O P Y

July 5, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cabelgram:

"American Embassy,

London.

From the Secretary of the Treasury.

Reference your No. 1969, July 4. Working on Beaverbrook's request. Hope to have answer in day or two."

HMC:lap-7.5.40

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 6, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Although the foreign exchange market was quiet today nevertheless the rate for sterling was very weak, moving off about 15%. The lower quotation was reported to be due to two factors: (1) the breaking off of relations with Great Britain by France due to the attacks upon the French Navy by the British Navy and, (2) the rumors of additional exchange regulations by the British. After opening at 3.82-1/2 the rate for the pound moved down to a low of 3.67-1/4 shortly before the close. The final quotation was 3.67-1/2.

Of the reported turnover figures listed below £116,000 of the £320,000 purchased by commercial concerns were to cover sales of sterling previously made. Although the reported purchases and sales offset it should be pointed out that sterling transactions by the reporting banks for their own account as well as the sterling turnover of non-reporting banks are not included in these figures. These unreported operations, in all probability, were factors contributing to the decline in the sterling rate.

Sales of spot sterling by the six reporting banks totaled £363,000 from the following sources:

By commercial concerns.....	£187,000
By foreign banks (South America, Europe and Far East).....	£152,000
By Federal Reserve Bank of New York (for Yugoslavia).....	£ 14,000
Total.....	£353,000
Purchases of spot sterling amounted to £353,000, as indicated below:	
By commercial concerns.....	£320,000
By foreign banks (Europe and Far East).....	£ 33,000
Total.....	£353,000

The Irving Trust Company sold cotton bills totaling \$6,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Canadian dollar improved from a discount of 15% at the opening to 12-1/2% at the close. The stronger rate was attributed to the demand for Canadian currency by tourists.

- 2 -

Closing rates for the other currencies were as follows:

Swiss franc	.2268
Lira	.0505
Reichsmark	.4000
Cuban peso	9-15/16% discount
Mexican peso	.2008 bid, 2040 offered

In addition to the sterling operation mentioned above, the Federal Reserve Bank of New York also executed the following orders:

Purchased 140,000 Argentine pesos for the National Bank of Denmark.
Purchased 350,000 Swiss francs for the Bank of Latvia.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the following shipments of gold:

From England, shipped by the Bank of England to the
Federal Reserve Bank of New York.

\$41,125,000 to be earmarked for account of the Bank of England.
6,969,000 to be earmarked for the account of the National Bank of Yugoslavia.
2,092,000 for account of the Royal Norwegian Government, disposition unknown.
2,079,000 to be earmarked for account of the Swiss National Bank.
507,000 for account of Finland's Bank, disposition unknown.

From Canada

\$24,280,000 shipped by the Bank of Canada to the Federal Reserve Bank of New York for sale to the U.S. Assay Office.
4,321,000 shipped by the Bank of Canada, Vancouver, for account of the Bank of England to the Federal Reserve Bank of San Francisco, for sale to the U.S. Mint.
\$81,373,000 Total

The equivalent of the Bombay gold price was \$33.86 up 68¢ from Tuesday.

Spot silver in Bombay worked out to the equivalent of 44.25¢, up about 1/2¢ from Tuesday.

In London, the price fixed for spot silver was 21-11/16d and for forward silver 21-9/16d, both off 1/16d. The U.S. equivalents were 39.43¢ and 39.20¢ respectively.

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

We purchased 400,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

BMF **CONFIDENTIAL**

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Calcutta

DATE: July 5, 1940, noon.

The following message from Bombay is a reflection of the general situation throughout the country. This situation is especially pronounced in Bombay.

"CONFIDENTIAL. July 4, 1940, 11 a.m. During the last three days the hoarding of silver coin which I mentioned in the telegrams which I sent to the Department on June 22 and June 29 has reached serious proportions in this city. At the Reserve Bank it has been necessary to have special police to regulate the crowds. In spite of action by the Government to prevent such a practice, rupee coins are being quoted in the Bazaar at a premium over currency notes. A shortage of change has seriously embarrassed the post office, retail shops and railways. Instructions have been issued to banks that unless they are satisfied that the demand is legitimate, they are not to pay out more than 50 rupees in silver. I was informed yesterday by the Governor of the Reserve Bank that an important factor in the origin of rumors to the effect that Indian paper currency would soon not be worth anything had been German radio broadcasts. He is prepared to meet all reasonable requests for silver coins; it is his belief that this is the only way to deal with the situation

-2-

situation which exists at the present time.

I was told in strict confidence by the Governor that although the question had still not been decided officially, dies for the printing of one-rupee bank notes had been ordered. It is his hope that when these notes are printed the demand for silver coin will be alleviated.

It is the feeling of banking circles in Bombay that there has been remissness on the part of the Government of India in attempting to offset the propaganda put out by Germany and other false reports which have made the present situation worse.

Please pass this information on to the Treasury."

WHITE

EA:EB

MacD

GRAY

ROME

Dated July 5, 1940

Rec'd 9:00 a.m.

Secretary of State

Washington

682, July 5, noon.

The Treasury agent at Milan reports that he has been advised that his office expenses would be paid by the Embassy and that he now needs five thousand lire. Request instructions.

PHILLIPS

RR

CONFIDENTIAL

G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 9
July 5, 1940.

PRELIMINARY MILITARY ATTACHE REPORT
FROM BERLIN ON WEST FRONT OPERATIONS
MAY, 1940.

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

1. Summary.

This report is a brief review of some of the important changes and recent developments in the German Army. The report has been divided into the following sections:

1. Summary.
2. Evaluation.
3. State of Mind.
4. Cooperation.
5. Under-estimation.
6. Morale.
7. Leadership.
8. German Tactical Doctrines.
9. Principle of Annihilation.
10. Surprise.
11. Mobilization.
12. Propaganda.
13. Fifth Column.
14. Engineers.
15. Air Force.
16. Mechanized and Anti-Mechanized Employment.
17. Motorized Infantry.
18. Mechanized Corps.
19. Artillery and Infantry Cooperation.
20. Anti-Aircraft Artillery.
21. Communications.
22. Camouflage.
23. Supply.
24. Training.
25. Conclusions and Recommendations.

CONFIDENTIAL

CONFIDENTIAL2. Evaluation.

The purpose of this report is to outline the impressions of the army officers on duty in Germany as caused by the war up to the present date. Much of the information transmitted in this report has been discussed in the daily conferences held in the office of the Military Attache in Berlin. It is with the thought that the Assistant Chief of Staff G-2 would like to know the opinions of the officers and observers on duty in Berlin that this preliminary report of lessons is prepared and sent forward.

This report is based on information obtained from the German Combat Estimate, the German Combat Digest, previous reports in the files, conversations with colleagues in the Corps of Attaches, conversations with and impressions gained from German officers, soldiers, and other officials, from studying newsreels, newspapers and magazines, from the study of photographs, and from listening to the radio reports.

It is emphasized that for some of the statements in this report there is no direct proof. The subject matter has been carefully considered and discussed and it represents the best judgment and opinion of the War Department personnel stationed in Berlin.

3. State of Mind.

It is believed that present weapons and their method of employment are changing warfare. We should now visualize how various situations should be handled under the war conditions of today with the means that are now available and the methods now being used or capable of being used.

To illustrate the point, following the last war, France built the Maginot Line, an impregnable barrier against future assaults from the East. The idea was good except the French built it to defend against World War materiel and apparently did not recognize the situation after the line became obsolete. A high German General Staff officer stated recently in speaking of the break-through at Sedan that the French over-estimated the defensive strength of their fortification and under-estimated the ability of the German Army to break it. He mentioned particularly that the German High Command was itself surprised at the ease with which certain mechanized units negotiated the Ardennes Forest, described by our instructions in the United States as an impenetrable mass of vegetation crossed by only a few trails capable of easy defense.

In over-estimating the strength of the Maginot Line

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the French discarded one of the great defensive principles evolved by Marshal Foch of defense in depth. There were some defenses behind the Maginot Line extension but they were hit so hard and so quickly by mechanized and motorized units that poured through the break, that they never were capable of slowing down the attacking force. The march performance of the foot elements from the Eifel area to the Channel coast is a real military accomplishment in itself.

In making preparations for possible commitment against a modern army on a modern battlefield we must not be shackled by precedent or tradition. The lessons being proven today must be accepted fearlessly and applied in spite of difficulties which will be pointed out by many leaders. For example, many of our officers have been heard to state that the use of parachute troops was impractical.

Germany started to build her present military machine in 1934. The German High Command decided on the objectives, prescribed the directives, and furnished the means. New ideas were accepted gladly and tried. Initiative has been encouraged and many of the young officers who have suggested progressive military ideas are today members of that group: "The finest lot of young generals in the world" (von Brauchitsch). As an example of the German Army's willingness to experiment, note the many different kinds of the same type of organization that have existed in the German Army. This is particularly true of signal battalions. Many divisions had different types of signal battalions, that is different strengths and with different equipment. Many ideas were given service tests until a standard unit was developed to meet all types of combat conditions.

4. Cooperation.

German Communiques frequently mention that some difficult task has been achieved through the close cooperation of different arms, particularly between elements of the Air Force and ground units. That is true. The different branches of the German Army work together in close harmony. There is no rivalry between branches, it simply does not exist. The existence of a four-arm advance team consisting of armored units, motorized infantry, motorized engineers, and air force, was mentioned in the final report on the Polish Campaign (see Report No. 17,011, November 29, 1939). There has never been any question since that time as to which element contributed the most to accomplish the result.

In Germany the Air Force is a separate department, but it is very closely coordinated with the naval and military forces. Air units attached to certain ground units, division observa-

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tion squadrons for example, wear the same uniform and insignia as the unit to which they are attached. They are an integral part of the combat team to which they are assigned.

In these days of highly technical warfare when time is a more important element than ever, when so many complicated implements of war must function in smooth cohesion to produce a powerful striking unit, branch rivalries must be forgotten. If the Germans feel that a certain weapon can be handled more effectively by one arm than another, they experiment and if the results are satisfactory, they arbitrarily make the change. This is one reason why the coast defense forces are a part of the Navy and the antiaircraft units are a part of the Air Force. Training is thereby enhanced and these branches complement each other.

In passing, and on the subject of certain arms or weapons complementing each other, it should be pointed out that the ~~large~~ quantities of anti-mechanized armament in the hands of all echelons in the German Army give the mechanized units a freedom of employment and action to such an extent that they can almost ignore enemy mechanized units.

5. Under-estimation.

During the last World War the impression was gained, particularly in America, that the German soldier was slow mentally and was inclined to think along rigidly grooved narrow lines. Nothing could be farther from the truth. Initiative to the highest degree is encouraged and rewarded. Many of our soldiers and young officers were children when the erroneous impression of the German soldier was made and they still hold this false belief. A great deal of harm can be done by expecting that a German unit or individual will do a certain thing a certain way under certain conditions. The German soldiers strive to do the unexpected to capitalize to the utmost on the element of surprise.

6. Morale.

The morale in the German Army is high. The troops are well led, well trained fighting men capable of great performances. They are supremely confident in their own ability to accomplish any mission assigned them.

The morale of the people, particularly among the upper classes, is not as high as in the armed forces, but it is good nevertheless. This is a military nation from every child on up to the older people. They have responded greatly as a result of the military successes this spring. There are dissatisfied

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elements in Germany but they are not necessarily disloyal. In 1940 there is no danger of an internal upheaval. The ability of the German people to endure privation must also be reckoned with.

7. Leadership.

As a result of the rapidity with which offensive power can be launched in a decisive direction, some attention should be devoted to reducing the time and procedure necessary to make an estimate and announce the decision. Then further, the time required to formulate and transmit the orders and to set the command in movement must be reduced to the absolute minimum. Simplicity must be keynote. Prior indoctrination in the form of instruction should be practiced so that in action, only essential information and the mission need be issued. A good analogy is the difference between the command procedure in seacoast artillery and antiaircraft artillery.

The essence of German leadership is that leaders must always be well forward so they can "feel" the situation, make their estimate, announce their decision, and issue their orders personally to the subordinate commanders. In battle, there are no written orders in units below the division and more often than not oral orders are issued by division and corps commanders. No attempt is made to write orders to fix responsibility in case of failure or for historical reference. In the interest of the time element, orders are issued simply, clearly, and orally and the junior commanders repeat them back using the first person: "I will do so and so; the unit on my right will do so and so; the artillery will do so and so, etc." In the regiment in battle exercises with practice ammunition, a decision is announced, orders issued and repeated and junior commanders depart in a few minutes time.

Some reconsideration might well be given to the use of officers who are not physically able to stand the pressure of field conditions. As mentioned in the mobilization study in Report No. 17,263, May 10, 1940, the German Army uses this class of officers in deputy positions in the administrative and mobilization machine. It would do no harm at all to have deputy commanders for each of our Corps Areas, the deputy to run the Corps headquarters organization and to specialize in its efficiency while the regular Corps Commander supervises the tactical training of the command and conducts field exercises which should be in progress incessantly under present conditions. Then in case of emergency, the regular officers could move out with the combat units, the deputy organization to continue the efficient operation of the Corps Area establishment without any noticeable change of operation.

The use of limited performance officers makes avail-

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able just that many more physically able line officers for combat units.

8. German Tactical Doctrine.

The subject of German tactical doctrine has been ably covered by former students of the German Kriegsakademie. See the following reports:

Major H.W. Hartness, No. 15,260, April 26, 1937.

Captain A.C. Wedemeyer, No. 15,999, July 11, 1938.

Lt. Col. H.F. Kramer, No. 16,833, August 16, 1939.

Essentially, the German tactical doctrine is to attack. The German commander usually makes his estimate to determine how he can attack, issues his orders and launches the assault often before the situation is fully clarified. This procedure has been repeatedly followed since this war commenced, even in the face of overwhelming odds.

German tactical doctrines as taught at the Kriegsakademie have been spread throughout the entire German Army. Every graduate is an instructor. Absolute simplicity of plan combined with speed of execution with every possible means is the keynote of the German tactical system. The results obtained with the material available speak for themselves.

9. Principle of Annihilation.

Von Schlieffen's principle of Cannae is taught in our Army as well as in the German Army. The teachings in our schools emphasize how the enemy is trapped, but there is no instruction given as to how he is to be destroyed. In the German Army, trapping the enemy is merely the first phase. Following Clausewitz' principle of annihilation, German officers devote considerable time to decide the most effective means of destroying the enemy military force. The Battle of the Brera in Poland in September, 1939, and the battle now raging in northern France and western Belgium are examples. The subject is mentioned here to point out examples of the application of the German principle of annihilation.

10. Surprise.

The principle of surprise has often been considered by many as the most important of the nine principles of war. The German military machine utilizes the principle of surprise to the utmost to accomplish the unexpected when it is unexpected. German leadership capitalizes on surprise by secrecy and deception largely through

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propaganda means, by flexible organization and disposition, and, finally, by speed and power in execution. The strategic plan and its accomplishment for the encirclement and destruction of the Allied armies in northern France in May, 1940, is an example.

11. Mobilization.

It is difficult to describe completely in convincing language the extent to which Germany has mobilized for this great effort. The personal, political, economic and military resources of this entire nation have been coordinated and molded into a gigantic war machine committed to the accomplishment of a definite mission and dedicated to a common cause under a single leader who commands the utmost loyalty and respect.

The military phases of the mobilization have been studied and reports submitted thereon (see reports Nos. 17,074 and 17,263). All available manpower has been called to the colors, but the economic functions essential to the prosecution of the war have not been crippled. Labor has been arbitrarily drafted and transferred where needed. Women and children, all combined into organizations for control and equalization and unity of effort, are used. Even prostitutes have been rounded up and put to work in munitions factories. The police have an accurate check on every person residing in Germany, because all persons are registered at the nearest police headquarters and must carry an Ausweis (identification card).

The general impression in Berlin is that Germany has mobilized for the maximum effort this year. The people are confident they shall win the war by Christmas and all are prepared to make the sacrifice in blood, money, inconvenience and effort.

12. Propaganda.

The propaganda system is a part of the political organization. The propaganda campaign is as carefully planned and is coordinated with the military effort. It is used to preserve secrecy, create deception abroad, and to bolster the morale, confidence, and loyalty of the people. In these days of excellent communication, it is an effective weapon against the enemy and a material aid to the friendly force.

German military reports (Wehrmacht-Berichte) have been reliable in regard to positions and operations. This is particularly true with regard to the ground army (Heer). The results claimed by the air and naval forces are believed to be exaggerated.

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Perhaps the following is an incorrect use of propaganda. British news in German transmitted toward Germany contains items not included in the English language broadcasts. An example: On the evening of May 27th, the English short wave radio announced that 400 Austrian soldiers in the German Army in Oslo committed treason and were shot. This was not mentioned in the English language broadcast which followed a few moments later. Also, there were numerous reports last fall that British planes had flown over Berlin and had dropped flares and pamphlets. No one here has ever been able to substantiate these claims.

13. Fifth Column.

This is a new method of war used by Germany to reduce resistance by undermining an enemy's will to resist. It is an organized effort through intelligence agents to spread dissatisfaction and discontentment through organized minorities and propaganda, to lower morale, to commit sabotage, and even to actively assist the military forces at the critical time.

The experience in Norway is too well known to bear repetition.

In Amsterdam, SS troops were the first to enter the city and they were guided by signs or designs in windows made of adhesive tape placed there by fifth column agents ostensibly to prevent glass shatter, but really to give directions and guide units.

14. Engineers.

The results of the two recent major campaigns, Poland and the West Front, are eloquent testimonials to the importance of combat engineers. Formerly it was the infantry and the artillery team that was all important, but in the light of recent operations the combat engineers take their place beside the artillery, so essential are their functions to the success of the ground forces.

In general, the German Army has reduced the scope of activities of the combat engineer so that he could be more efficient in the vital functions. The German Army emphasizes his importance in combat so much so that it avoids the term "engineer" and uses the more expressive combat term "pioneer".

In brief, German pioneers are always well forward to provide for the unretarded advance of the wheeled and foot elements, to disrupt and slow down the movement of the enemy, and to provide protection of flanks, rear, and gaps by the efficient use of demoli-

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tions and obstacles. In this latter function in the attack, they provide protection to such an extent that a smaller reserve than normal is required, thus permitting the application of greater strength in the main effort.

The work of the German pioneers against modern land fortifications has been covered in recent reports on the subject. See reports No. 17,262, May 13, 1940, and No. 17,290, May 24, 1940, on the "Capture of Fort Eben-Emael"; report No. 17,284, May 24, 1940, "Attack against Fortified Zone", and report No. 17,291, May 24, 1940, "Capture of Armored Fortification 505".

To take over the duties that were formerly performed by engineers such as mapping, map reproduction, rear communications, etc., special labor and technical units have been organized.

Report No. 16,053, September 1, 1938, "The German Engineers", is an excellent treatise on this subject. The evaluation of German Engineer leadership, although probably correct at the time the report was written and under those conditions of observation, is obsolete in view of the results achieved.

In regard to weapons, flame throwers have been used effectively against fortifications. Land mines, used by retreating Allied forces, have caused advancing German units to proceed with great caution, thus slowing down the advance.

15. Air Force.

Elements of the German Air Force have been used quite extensively for direct cooperation on the battlefield. During the Spanish War it was felt that it was a waste of air power to use it on the battlefield and under those conditions, it was believed that its employment was forced by a shortage of artillery.

No major military operation is now possible without at least local superiority in the air.

The Air Force in the Western Offensive has had the general mission:

1. Destruction of enemy air force and establishment of control of the air.
2. Direct cooperation with land and naval forces.

Under the direct cooperation with land forces, the following sub-missions may be outlined:

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- a. Distant observation and reconnaissance for ground units.
- b. Direct support, that is direct attack on bunkers, fortifications, strong points and enemy artillery in zone of action of ground forces.
- c. Neutralization of counterattacks especially by mechanized units.
- d. Cover and protect special operations such as bridge crossings. (Over the Meuse at Dinant and Givet.)
- e. Direct support of advancing mechanized and motorized elements by observation and assault.
- f. Supply of ground elements when no land communications are available. Especially mechanized and motorized elements preceding the advance of infantry.
- g. To land parachute troops and air infantry at strategic points behind enemy lines, to protect these while they are being landed, to support them in gaining control of and holding the position, and to supply them until the advancing ground elements make contact with the air infantry.
- h. To hold an enemy force in a trap until ground elements can complete the encirclement and begin the annihilation.
- i. To attack all rear communications and disrupt enemy's rear areas and supply system.

It is significant that the bulk of the German Air Force used in the West has been employed in direct cooperation.

It is not a waste of air power to use aviation on the battlefield as the results to be gained are worth the loss of material and the risk involved.

16. Employment of Mechanized and Anti-Mechanized Units.

The morale and esprit of the personnel in mechanized

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units are perhaps the highest of any in the German Army. Such units are employed in accordance with the fundamental principles of mass, surprise and maneuver. Their action is characterized by a boldness and daring that borders on recklessness. There are indications that the shock action, crushing power and fire power of the tanks are exploited to the maximum. It is believed that the defense capabilities of the hostile anti-tank weapon to be encountered are carefully calculated and that a sufficient number of tanks are launched against the selected objective so that a sufficient number of tanks will arrive thereon to accomplish the mission. Tanks are employed cleverly and in numbers beyond the destruction capacity of the hostile anti-tank guns encountered.

As is well known, German divisions are liberally supplied with organic anti-tank units.

The division has an anti-tank battalion and the regiment an anti-tank company comprising a total of seventy-two 37 mm anti-tank guns. In addition, three high-powered shoulder anti-tank rifles (Panzer Buchse) are found in each infantry company. According to newsreel motion pictures of action in Holland and Belgium these anti-mechanized units are placed well forward, some are actually with the leading elements. Where the terrain is such that they cannot be towed by their trucks, they are pulled by their crews, and are always ready to participate in action against hostile tanks. The armor piercing and high velocity characteristics of their projectiles are also used against the vulnerable parts of enemy bunkers when the occasion demands.

The failure, or the meager success, of the Allied tank attacks may be attributed to the liberal supply of anti-tank weapons in the German Army organization. No effort or expense should be spared to provide such protection.

17. Motorized Infantry.

Motorized infantry is the backbone of the mechanized attack. Infantry in personnel carriers, supported by artillery and motorized engineers, are essential to hold the gains made by deep thrusts into enemy territory and eventually to protect the armored elements which have to withdraw periodically to refuel and reorganize to continue the attack. Personnel carriers with a high degree of cross-country mobility and some armored protection are necessary.

Motorcycle units have been used to seize and hold advanced positions in order to protect the development of the motorized units as well as to protect the flanks and rear. An adverse

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report was received on the performance of motorcycles in Poland, but the Germans still continue to use these units.

A German officer described the advance into France from Sedan by stating that wave after wave of tanks covered by Air Force elements came first, then came the motorcycle units, then the motorized infantry, followed by fast elements making forced marches. Motorized engineers were with all echelons from the forward wall of tanks to the fast elements.

18. The Mechanized Corps.

The German mechanized corps is a tactical organization composed of one or more armored divisions, one or more motorized divisions and attached aviation. Its actual composition depends on the nature of the particular task at hand.

The mechanized corps is the organization framework for the four-arm team which operates in advance of modern fast armies. The four arms involved are tank or armored units, motorized infantry, motorized engineers (organic in all echelons of units of two previously mentioned arms), and Air Force.

19. Artillery and Infantry Cooperation.

The effective functioning of the infantry-artillery team depends on the liaison between them. The results obtained by German units in combat indicates they have developed a highly satisfactory solution for this problem. This liaison is effected in part by short wave radio communication between artillery observers and batteries. The methods used to secure infantry-artillery teamwork are outlined in report No. 17,099, January 27, 1940, "Infantry Battalion in Attack", and report No. 17,111, February 16, 1940, "The Infantry Regiment".

It is a basic German doctrine to assign a commander a mission, give him the means to accomplish it, and coordinate the operation with other units. Corps artillery, tanks, and probably some aviation are attached directly to divisions. This procedure simplifies the liaison problem materially.

20. Anti-Aircraft Artillery.

Based on the employment of the German Air Force in the West Front offensive, there must be antiaircraft artillery weapons available to all echelons. There should be an organic anti-aircraft artillery unit in all the higher organizations including the division.

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When control of the air has been obtained, or rather when the enemy air power has been greatly decreased, anti-aircraft weapons can be used effectively for other purposes, particularly against hostile mechanized formations by the substitution of armor piercing ammunition of similar ballistic characteristics with delay fuses. The German Air Force has already proven the efficacy of this procedure. See report No. 17,270, May 28, 1940, "Employment of Anti-Aircraft Artillery".

The fire control equipment of anti-aircraft artillery is admirably suited for the calculation of firing data against fast moving land targets, or even against important point targets.

21. Communications.

The close cooperation that has been accomplished between highly mobile elements, especially between mechanized units and the air force, testify to the widespread successful use of radio communications in battle.

Infantry-artillery liaison is maintained by radio, telephone, and runner in that priority.

There is good reason to believe that German units are using a directional beam infra-red radio telephone of two types, one with a range of from 3 to 5 kilometers and the other with a range of from 8 to 10 kilometers.

Artillery batteries are using short wave radio, small sets with fishing pole antenna, for communication between the O.P. and the battery.

22. Supply.

Recent visits to areas behind the west front disclosed that the Germans are using huge six-ton Diesel-powered trucks pulling one and sometimes two four-ton trailers. These huge vehicles operate at night over the highways in sections of three to seven in each group. Traffic has been observed to be moving in two and even three lanes in the same direction at the same time.

German units moving through Belgium, Holland and northern France are being supplied entirely by motor. Railway lines were thoroughly destroyed at many key points by the German Air Force on the first and succeeding days of the offensive. Three columns of these heavy vehicles have been moving over the roads in

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in the area mentioned by day and night. Allied air forces have failed to stop these movements or even to delay their progress.

23. Camouflage.

German motor vehicles and airplanes are not camouflaged. The vehicles are painted a dark grey color and airplanes are colored with a dark olive drab. Vehicles carry a bright colored canvas identification cover over the engine hood. These colors are changed at intervals. Airplanes have the familiar black and white iron cross painted on the fuselage and wings with straight vertical and horizontal lines.

24. Training.

German units are trained exclusively for open warfare. During the trip to the West Front to inspect the West Wall, April 7 - 9, 1940, units engaged in training exercises behind the fortifications were following the principles of open warfare.

25. Recommendations.

The following recommendations are submitted for the consideration of the War Department:

1. By means of films and lectures, every regular and national guard officer and as many reserve officers as possible should be acquainted with the conditions and weapons of the present war. All should be impressed with the increasing importance of the speed of execution. Officers should be encouraged to devise means to save time and to facilitate action.
2. Practice ammunition should be adopted at once. It may be a little dangerous but its use will result in saving lives on the battlefield.
3. The role and function of combat engineers should include close cooperation with attack troops in their assault mission.
4. Governmental agencies should be organized to take prompt action against "fifth column" activities.
5. The Air Force should be trained to cooperate more closely with ground elements. Normal attachments should be made permanent to facilitate combined training.
6. The air infantry should be developed at once.

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7. At least one mechanized corps should be organized and a series of field exercises should be conducted to perfect its organization and employment. It should be trained to operate in conjunction with infantry.

8. An armored or partially armored personnel carrier with great cross-country characteristics should be developed.

9. Anti-aircraft artillery organizations should be provided for all units down to and including the division. Effective anti-aircraft weapons should be provided for all echelons.

10. The caliber .50 machine gun should be discarded as a possible anti-tank weapon. We should be prepared to put into mass production an anti-tank weapon larger than the 37 mm should it prove necessary.

11. The number of anti-tank weapons should be increased in all echelons.

12. Consideration should be given the subject of organically equipping the infantry with artillery weapons for close support.

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BRITISH EMBASSY,
WASHINGTON, D.C.
July 5th, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurin

The Honourable

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

..... Telegram despatched from London
on the evening of July 4th.

1. French Fleet.

Certain demands were delivered to French Admiral at Oran yesterday morning. After waiting for some hours for reply British Naval force opened fire during the afternoon on French fleet at Oran and an engagement ensued. Damage to French warships reported as follows:-

1 Battleship sunk, one battleship hit, one battle-cruiser hit and on shore, aircraft carrier on fire, two destroyers sunk.

Warship, battle cruiser "Dunkerque" was undamaged and escaped to sea. Dunkerque subsequently attacked by aircraft. One hit by torpedo. Certain measures also have been taken at Alexandria, Malta and in United Kingdom to secure French naval vessels in these ports. French Government have issued orders that all British ships and aircraft are forbidden to approach within 20 sea miles of French harbours at home or overseas; under penalty of being fired on without warning. British destroyer on patrol off Casablanca reported yesterday evening being fired at by French shore batteries.

2. Yesterday morning enemy bombed areas near Newbury, Godalming and in Sussex and Kent.

Some/

Some damage caused to ordinance sheds but little other damage reported. Further attacks were made yesterday evening principally on East and West Coast areas. Only serious damage was at Saltburn Iron Works where 33 persons injured and work may have to stop for 24 hours. Intensive raids took place last night in Central England but very little damage done. British fighters yesterday destroyed six enemy aircraft (confirmed) and four enemy aircraft (unconfirmed). Two aircraft missing. No interceptions reported last night. Activities of German bomber reconnaissance aircraft and transport aircraft continued on same level.

3. Yesterday Blenheims attacked air frame factories, marshalling yards and oil targets in western Germany and aerodromes and barges in Low Countries. One Messerschmidt 109 shot down and five Junker 52's destroyed on the ground. One Blenheim missing. Attacks on similar targets and further mine-laying carried out last night.

One Hampden missing. Further reports of attacks on night of July 2nd-3rd indicate that direct hits were obtained on many targets attacked.

4. Following is latest information regarding survivors from "Arandora Star" referred to in paragraph 3 of my immediately preceding telegram. 868 survivors have been landed in United Kingdom from Canadian Destroyer. Of these, 586 were German and Italian internees or prisoners.

5. No attacks on shipping reported. Attack

on/

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on enemy submarine in western approaches with promising results.

6. Considerable transportation by train of fast motor boats, probably M.T.B.'s, is understood to be taking place from Italy to Germany. Large Italian practices in disembarkations in Germany also reported, procedure being for ships to run close in shore and hoist out lighters, each containing two tanks. Lighters towed ashore and run up the beach, lowering specially fitted prows to enable tanks to drive ashore.

7. One Italian aircraft shot down off Malta yesterday.

8. Four aircraft of South African Air Force bombed Moyaie on July 1st, obtaining direct hits on two gun positions.

9. 3,000 Polish troops and 300 French and Czech troops arrived in Palestine up to July 2nd.