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## GROUP MEETING

September 19, 1940  
11:15 a.m.

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

H.M.Jr: I have got several memoranda that I would like to get rid of. Archie Lochhead has got too much powder.

Young: What kind of powder?

H.M.Jr: Gunpowder. He is worrying about it and I thought that you could get the English to buy it, with an agreement that if they want some later, they will let them have it, but if he has got too much powder and they are short, why not sell it to the English with the arrangement they can have it later on, you see. Get the idea?

Young: Yes, sir.

H.M.Jr: They are worrying about storage. The best place to store it is in an English gun.

I never saw so much fussing in my life about Mr. Baruch and this man Butler.

Gaston: Is anything more coming to you on that?

H.M.Jr: Well, it is just a memorandum from Merle Cochran.

Gaston: Oh well, that is all taken care of.

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H.M.Jr: I would like to know about it in writing.

Gaston: I will give you a memorandum on it.

H.M.Jr: Would you? I have to know something about this. Could I have the facts?

Gaston: Yes.

H.M.Jr: Is this fellow Butler coming back?

Gaston: No, he is staying in Paris. The only man we have left over there is him, but Johnson ordered him to get rid of this Chinese servant who had been in a scandal and after some demurrer and protest, he finally did it.

H.M.Jr: And he cabled to Baruch about that?

Gaston: Yes, through the State Department.

H.M.Jr: Well, why do we keep a man like that?

Gaston: Well, up to that point, there didn't seem to be any good reason for getting rid of Butler. He is a good man, but of course that going outside of the Department is quite a reprehensive thing.

H.M.Jr: I think it is terrible. Could you give me a report on it, Herbert?

Gaston: Yes.

H.M.Jr: Customs is under you.

Where is Merle Cochran?

This cable which you wrote, Harry, to go to the Argentine, I have no objection to sending it out.

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White: All right, because we just got another cable. It was cleared with Merle and Dan.

H.M.Jr: Well, this man is coming in at 11:30 to talk to me. Supposing I ask him about this?

White: All right; I think it would be a good idea.

H.M.Jr: If he says okay, I will give it to you.

Merle, on this fellow they are sending down to South America, the British, before he goes, I would like to talk to him.

Cochran: You mean someone from here? There is no one --

H.M.Jr: This memo that you wrote me. Is he going from here?

Cochran: No, they are sending a mission out from England, you see, a trade mission.

H.M.Jr: Do you know about this, Harry?

White: Yes, I do.

H.M.Jr: All right. That is all.

Thompson: You might be interested sometime, Mr. Secretary, in seeing how we have housed the Foreign Funds Control Unit.

H.M.Jr: Oh, yes.

Thompson: We have quite a force there. There are 135 employees.

H.M.Jr: Are they in the middle of that corner there?

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Thompson: Yes.

Bell: It is very nice.

H.M.Jr: All right, I will go down there.

On that, I have taken this recommendation now, of this group. Bell, did you report that back?

Bell: No, I did not. I haven't seen them.

H.M.Jr: Just the way Bell wrote it to me on Mr. Pehle.

Bell: Just like we agreed on it the other day.

H.M.Jr: I take it that was unanimous.

Bell: Yes.

H.M.Jr: Professor Chamberlain was in on that meeting, wasn't he?

Bell: No, he was not, because you asked us to consider that.

H.M.Jr: He was not?

Bell: No. I will be glad to tell him about it, though.

H.M.Jr: Before I decide, I would like to ask him whether he thinks that is wise. I thought he was in on it.

Bell: No, he wasn't. You asked Gaston and I and Dr. White and Foley to consider it.

H.M.Jr: Then I will talk to Professor Chamberlain myself. I didn't realize that. Tell him it is my mistake. It is on me.

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Harry?

White: I have nothing.

Cochran: Yesterday, Archie Lochhead phoned me about this Chinese powder, getting some facilities for storage, and I want to speak to Phil about it, if you have no objection.

H.M.Jr: While you weren't in the room, I told him to buy it for the English.

Cochran: Is that so? Because the State Department mentioned it to Colonel Burns, who is in the Ordnance Department, and he said if it is the right fineness, the right quality, that the Army would be willing to take it over.

H.M.Jr: It is sold, sold to the English.

Cochran: All right, if the Chinese are willing. I am not sure about that.

H.M.Jr: Oh, sure they will be willing.

White: Maybe it is wet.

H.M.Jr: They have got a new system now between the lawyers for taking the stuff, on those Swedish planes. The deal was signed last night, you know, with Vultee.

Foley: I knew they had the contract. I didn't know the contract had been signed.

Young: It will be signed this morning.

H.M.Jr: All right.

Professor Chamberlain?

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Chamberlain: May I see you for just a minute, Mr. Secretary?

H.M.Jr: Right after this, sure.

Chamberlain: It won't take long.

H.M.Jr: Take as much time as you want.

Chamberlain: I won't take much.

H.M.Jr: Phil?

Young: We are working out the Swedish machine guns on the same basis as the Swedish planes.

H.M.Jr: Okay.  
Chick?

Sullivan: I have nothing.

H.M.Jr: What about tonight?

Foley: I don't know whether they will drive me down or not.

H.M.Jr: Let me know at 7:00 o'clock. How is that?

Foley: I will let you know before 7:00.

Gaston: The British Purchasing Commission want to know if they can use our shooting range down here in the basement for training 15 or 16 guards that they are employing here in Washington. I just don't know.

H.M.Jr: The answer is no.

Gaston: All right.

H.M. Jr: The answer is no.

Gaston: I have some --

H.M. Jr: There is enough shooting going on now.

White: Who are they going to protect themselves against, the Americans?

Gaston: There are other kinds here, Harry.

White: We have got an adequate police force.

Gaston: I have a recommendation for purchasing airplanes. Do you want to look at it?

H.M. Jr: For what?

Gaston: Funds we have now. We have a half a million dollars for airplanes. This is a recommendation for the purchase of three Grumman twin motors. It is about the only thing we can get and it is about the most suitable of anything that we have had up to date.

H.M. Jr: Can you get delivery?

Gaston: We can get delivery. The planes are in construction now. If it is all right with you, I would approve it.

H.M. Jr: All right.

Gaston: We are also in the market for the new Grumman called the Widgeon. I don't know whether you have seen anything about it or not. It is an in line six cylinder motor on each side. It only costs half as much as these other twin-motor Grummans. It carries about four men. I will bring you in a picture of it, if you would like.

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H.M.Jr: I would like to see it.

Gaston: We have money enough to buy ten of those.

H.M.Jr: Well, buy those three.

Gaston: This is just for these three, yes.

H.M.Jr: Okay. All right?

Gaston: That is all I have. I talked to Ed Flynn.

H.M.Jr: What are you going to do about it?

Gaston: Well, I suppose it will be what Ed Flynn wants. His proposal is to come on here and go with Bowen to the White House. When they come out of the White House, Bowen will announce that he is going out to campaign in the State of Washington for the President. He will tell who is going to direct the campaign in Washington. The man has resigned as Collector of Customs.

H.M.Jr: All right, gentlemen.

*Do take to West 9-19*

September 18, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

You may wish to discuss either or both of the following political situations with the President:

(1) Collector of Internal Revenue at Toledo, Ohio. Charles H. Graves, former Collector, died August 15th. General Watson phoned on August 24th that the President had just been talking to Charles Sawyer of Cincinnati, National Committeeman, and that nothing was to be done toward filling this vacancy until the President had had a chance to talk to you. I don't believe the President will wish to make any appointment before election but I should like to confirm this so we can be guided accordingly.

On August 23rd Senator Donahay wrote to the President recommending the immediate appointment of Ralph O. Snyder, Secretary to Representative John Hunter, and also stating that the appointment of one Frazier Reams, a lawyer of Toledo, would likewise meet with his approval. We received this letter August 26th. Both Donahay's and Hunter's offices have called us up frequently pressing for action. I finally told Hunter yesterday that nothing would be done until we got further directions, which seemed to stump him. Three persons have written or wired advising that no appointment be made until after the election. They are: Samuel E. Young, an attorney of Toledo; I. W. Gotschall of Toledo, who gives John Biggers as reference, and Tell Thompson, County Chairman of Hancock County.

(2) Frank Duffy, National Committeeman from Vermont, wants to have his son, Frank Duffy, Jr., appointed to succeed the late Stephen M. Driscoll, formerly Collector of Customs at St. Albans, Vermont, who died several months ago. Duffy was in to see you shortly after Driscoll's death and you introduced him to me. He asked that nothing be done about the appointment until after the conventions, but he brought in and introduced his son at that time and told me that he hoped his son could be appointed. Duffy, Jr., is an engineer, formerly employed by the New York State Highway Department and more recently on P.W.A. bridge projects in Vermont. Duffy can, of course, produce an adequate number of letters of recommendation for his son, but doesn't wish to do so unless he gets the go sign. One John Fisher, a member of the French-Canadian colony at Winooski, near Burlington, has been energetically advocated by residents of that town. Duffy says they are not an important element of the Democratic Party of Vermont.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy Berlin, via Bern

DATE: September 19, 1940, noon.

Rec'd: September 23, 1:08 p.m.

NO.: 4062

The following telegram is for the Treasury from Heath, and for the information of the Department.

There are two recurrent themes in the economic press in Berlin and in conversations with German officials, now that the first year of war has ended. They are: (1) The wartime performance of the German economy has triumphed. (2) Germany has been strengthened to the point of economic invulnerability through victories and territorial acquisitions, however ~~short~~<sup>long</sup> the war may be. The last point, however, usually is accompanied by a statement of the prescribed official point of view that the war will soon come to an end with complete victory for the German Government.

In connection with the first point, it must be admitted that the German economy did come through the first year of war without breaking down, and also without serious difficulties, with the exception of the tie-up in transportation which resulted from the unusually severe winter of 1939-40, defects in rolling stock, and personnel which was inexperienced, causing a temporary shortage in the larger cities of certain essential foodstuffs. The German  
people

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people as a whole were adequately fed with the exception of this period. Fuel shortage was the main result of the difficulties of transportation, which caused vocal discontent as well as physical distress and illness. The warmer weather and German victories, however, brought to an end the vocal discontent.

In connection with the second point, it must also be admitted that Germany in general is much stronger economically for another year of war than the country was last September. The fiscal policy of Germany, first of all, is much more sound than it was in the First World War. Through efficient control over consumption and distribution, Germany has avoided price and monetary disturbances of wartime. It is true that only 1/2 of the expenditures of the Government are met by Germany's present tax collection of about 2 billion marks a month, but only 1/10 of the outlays of the Government were met by taxes in the first World War. It has been necessary for the Government to borrow at the monthly rate of 2 billion marks, but there has been no difficulty in accomplishing this, and the present national debt is not inordinate. The disclosed debt of the Reich on the last day of June was 60 billion marks. This figure has probably gone up to 65 billion marks now, compared with the figure at the outbreak of the war of 37 billion marks.

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The undisclosed debt of the Reich must be added to this figure - an amount probably greater than 10,000,000,000 marks - which was accumulated during the first years of rearmament under the National Socialist Party. The war has been financed for the most part by taxation and genuine savings resulting from enforced consumption curtailment rather than by recourse to currency and credit inflation. There was an increase in note circulation of the Reichsbank to 12.1 billion marks on August 23, 1940, as compared with 8.7 billion marks on August 23, 1939. To a large extent this expansion can be explained by the introduction of the mark into western territories in Poland which were incorporated into the Reich, and by the cash reserves which German military units carried and the decreased velocity of note circulation because of the difficulties and restrictions on purchases. Currency circulation increase was accompanied by an almost negligible rise in the prices of goods and services essential to the population due to the strict controls over prices, wages and rations which Germany now has over almost all economic goods and services. There was a rise in the cost of living index - using 1913 as 100 - to only 133.1 in August 1940 as compared with 127.3 in August 1939. Leaving out rents, which were static,

the

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the food and clothing increase was the largest. For clothing the increase was from 133. to 140, and for food from 124.9 to 133.0. Approximately the maximum has been reached for revenues under war conditions and at present rates of taxes. However, the cost of maintaining the German military forces is to a large extent now being borne by the countries occupied by Germany. This is a help to the monetary position of Germany as well as to the fiscal burden of the Reich; troops abroad are being paid either in a special mark scrip which the occupied territories must accept, or in currencies of the occupied countries.

There is as yet no information available here concerning the stocks of raw materials which Germany acquired in the countries occupied by the military. It is understood that these stocks include substantial amounts of textile materials, non-ferrous metals and copper, and oil. New sources of raw materials have been acquired by Germany in addition to the stocks; she now has access to the French (omission) iron ore, the Silesian zinc mines, Norwegian molybdenum, and important manufacturing facilities. In view of Germany's military domination of the whole continent of Europe, she is in a position to force increased deliveries of supplies of various commodities from European neutrals. The position of iron ore has changed to one of surplus over present needs, where heretofore it was one of potential shortage in a long

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war. In addition to the oil stocks which Germany acquired by occupation, it should be possible for her to import from Rumania in a short time petroleum products at least at the annual rate of 3,000,000 tons, as contrasted with the quota conceded by Rumania in the early part of the war of 1.5 million tons. I can perceive no evidence that there is any great concern on the part of German military authorities over the supply of petroleum in the war's present phase and scale. If there should be a shortage of the petroleum supply, Germany would not permit operation of the considerable number of passenger cars and trucks which are still operating and which are not performing vitally essential services.

There are certain potential economic weak spots, as contrasted with the foregoing economic gains and elements of strength. One gains the impression from talks with German officials that behind the officially optimistic facade there is some concern over the fact that practically the whole continent of Europe is now under blockade - and Europe neither feeds nor clothes its people nor can it meet its minimum needs in most non-ferrous metals and in oil. It is known, specifically, that the problem of coal production and transportation is of some concern to the economic authorities. During the summer efforts have been made to transport to German cities a sufficient supply of coal

to

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to avoid the shortages which occurred last winter. However, if this winter should be as severe as the last one, according to informed sources, these stocks will not be sufficient. The outlook is far more serious in the countries under occupation and in the neutral countries. This Embassy has authoritative information that the Netherlands is the only country outside of Germany which is secure from severe shortage by reason of its considerable domestic output. The coal industry of Germany is one in which the Third Reich has not been able to obtain any important enlargement of output during the past two years, and it is hardly likely that there will be an early increase which would at all make up for the 30,000,000 tons which Britain ships to Europe normally. A point of significance is that Dr. Ley in a speech he made recently promised to place the pay of the miners at the peak of wages in Germany.

The supply of petroleum, as previously stated, does not present a serious problem in the present stage of the war. However, note should be taken of the fact that the synthetic gasoline plants present identifiable aerial targets as do the overburdened systems of rails and canals - and the air force of Germany and part of her motorized land forces now depend on the synthetic gasoline plants. It is to be noted particularly that despite the fact that Germany has been drawing on the rolling stock of the countries under

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occupation, it has been necessary for the German State Railways to advise German shippers to use freight cars as sparingly and as promptly as possible.

In the event of a long war, Germany cannot count with certainty upon imports from Russia, which imports have been a comparatively important factor in the war economy of Germany. Germany at war would definitely have added troubles should there be elimination or even substantial reduction of imports from Russia of manganese and oil, which it is claimed by German officials are being received now at an annual rate of more than 1,000,000 tons, plus feed grains, and the 500,000 tons of Russian phosphate fertilizer.

It would seem that the German food supply is assured for another year of war. However, thereafter German observers believe it likely that the rations of fats and eventually meats will have to be decreased because of an insufficient supply of fodder. There have taken place already greater than normal slaughterings of livestock in Holland, Denmark, Germany and Belgium. It is the hope of agricultural authorities in Germany to raise French agricultural production in 1941 through ordering increased use of fertilizer and labor, but it is uncertain to what extent this can be achieved. Aside from the fats and meat question, an eventual grain shortage can be envisaged due to the insufficient supply of phosphatic fertilizers - although  
shipments

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shipments from the northern part of Africa may remedy this situation. A contributing factor to eventual grain shortage would be the exhaustion of reserve stocks which in Germany will be drawn upon relatively lightly but which in states under German military occupation would be drawn upon heavily since they are grain deficit countries with the exception of France.

There is still another question of which account must be taken, i.e., the effect of the prospect of prolonged warfare - accompanied by air raids - on morale, which latter has been an important factor to date in the economic productivity of Germany. The efficiency of the consumption restrictions and controls has not been solely responsible for Germany's success in avoiding inflationary results from its tremendous financial operations; the acceptance of all this by the German people has been partly responsible. The German people have been instilled with the belief that their sacrifices would be brought to an end by an early decisive military victory by Germany.

Should the European war continue to be limited as it is now to an aerial and naval attack against the British Isles with relatively unimportant aerial counterattack being suffered by Germany, these potential weaknesses in the future food supply and in transportation, the eventual deficiency of non-ferrous metals and alloys, the European coal

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coal supply problem and the cumulative effect of restrictions and shortage on Germany's civil population and on the civil populations in occupied countries should present to Germany no critical economic difficulties. Should the area and the participation in the war increase and Germany, instead of being in the position of attacker, also be the object of a continued attack genuinely destructive without the compensation of continued successes, then the military ~~weak~~ scales might eventually be tipped by the aggregation of these weak places, strains and deficiencies with their material and also psychological effects and consequences. (END OF MESSAGE)

KIRK

EA:LWW/msg

21524

GRAY

Buenos Aires

Dated September 19, 1940

Rec'd 11:55 a.m.

SECRETARY OF STATE  
WASHINGTON

423, September 19, 1 p.m.

Embassy's 422, September 19, noon.

This noon the Director of the Exchange Control office informed the Embassy that the suspension applies to all (repeat all) applications for prior permits to import American merchandise including prospective purchases of such goods by Argentine Government departments. Thus the embargo is temporarily complete.

TUCK

WVC

COPY

imc

PARAPHRASE OF TELEGRAM

No. 422, dated September 19, 1940  
Noon, from Buenos Aires.

The Embassy was requested this morning by the Minister of Finance to inform the Department that the suspension of prior import permits for American merchandise was not intended in any way to put Argentina in a bargaining position in connection with the visit of Warren Lee Pierson. He said that the measure became necessary due entirely to the fact that Argentina's supply of exchange had been seriously depleted.

The Minister of Finance referred again to the problem of an exchange and monetary agreement and asked if it were possible to do anything to have the United States act more quickly on this matter. He expressed the hope that it might be possible to arrange some form of a triangular agreement in connection with the current Anglo-Argentine negotiations regarding the proposed British purchase of 40 million pounds sterling of Argentine products.

The Minister stressed the fact that the present economic and financial situation in Argentina is desperate and that help is urgently needed from the United States.

RA:AED:CET


C O P Y

bj

September 19, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston



In view of your conversation with Assistant Secretary of State Breckenridge Long on September 3rd, you will be interested to know that the State Department has approved the request of Herbert L. May on behalf of the Permanent Central Opium Board and the Opium Supervisory Board under the 1931 Convention, both of Geneva, Switzerland, to establish temporary so-called branch offices in the United States. May, a rich American who has made control of the opium traffic his main interest, is a member of both boards. The State Department has accorded diplomatic visas to the five permanent members of the staffs of the two organizations who are to come from Geneva. One of the staff, Leon Steinig, Secretary of the Supervisory Board, is already in the United States.

This action came about in a rather odd way. Various indirect approaches had been made and early last week May called up Harry Anslinger to ask if he could suggest any way in which they could get action. Anslinger said: "I suggest you make formal application to the State Department for permission to establish these offices." May did it and the application was granted. Long receded from his objections in view of Secretary Hull's strong interest.

The offices will probably be housed at Rockefeller Center, New York. While they will be called branch offices, they will actually transact all the business of gathering statistics and regulating the international narcotics trade for the duration of the war in Europe. Operation from Switzerland has become impossible because of the great delays even in diplomatic mail.

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HSG/mah

September 19, 1940

10:50 a.m.

Present:

Mr. Helvering  
Mr. Gaston  
Mr. Thompson (for latter part)

HM, Jr: Good morning, gentlemen. Will you sit  
down? This is the memorandum which the President gave  
me. Pa Watson.

(Reading) "Memorandum for General Watson.

"Senator Tydings and Senator Radcliffe handed me the enclosed list of the Maryland appointments in which they are interested. Three of the four are re-appointments.

"The Collector of Internal Revenue, Wm. S. Gordy is a splendid selection. He is from the Eastern Shore, and was a candidate for Governor about four years ago polling a large vote.

"After the President told me that he would make these appointments, I talked with Helvering suggesting to him to appoint Magruder, the present Collector, to some place in the Washington office. This would leave no bad feeling on the part of Magruder or his friends. I have not yet heard from Helvering about the appointment.

"Tydings tells me that if I can assure him that the President will make these appointments, he will comply with my request to issue a statement supporting the ticket without waiting for the appointments to be sent to the Senate. I think it should be done today. Some one should advise Morgenthau to immediately appoint Magruder to come place in the Treasury Department."

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HM, Jr: You know you (Helvering) and I talked about this. What can you do?

Mr. Gaston: The point is we are asked to find another job in the Treasury for Magruder.

HM, Jr: He (Helvering) knows about it.

Mr. Helvering: Yes. Byrnes talked to me at length about it.

HM, Jr: Jimmie Byrnes. Got a job?

Mr. Helvering: We haven't anything in the Bureau.

HM, Jr: How much do you pay on that Tax Board?

Mr. Helvering: That Tax Board is \$10,000.

HM, Jr: Does Charlie West get \$10,000?

Mr. Helvering: Yes. Is he on the Tax Board? Oh, yes! Yes. \$10,000.

HM, Jr: There is a vacancy there. I think there is.

Mr. Helvering: You mean the Board of Tax Appeals?

Mr. Gaston: You are talking about the Processing Tax Board of Review that Charlie West is on.

Mr. Helvering: I am not sure of their salaries.

HM, Jr: It's \$7,000 or \$7,500.

Mr. Gaston: There isn't any salary. I think the man is an employe of the Treasury Department and he's designated by you to be a member and he can be appointed out of that to a job in the Treasury Department.

HM, Jr: They want an answer right today on this thing.

Mr. Helvering: The way they put it up to me, as I

explained to you -- I don't know that you recall -- that we find a place in Internal Revenue to advance him to it. But of course we can't advance anybody by reducing the salary and the only places we have that pays more than Magruder, or as much, are all filled by excellent men now. Only myself and the Deputy Commissioner and the Special Commissioner and Assistant and the Head of the Technical Staff.

HM,Jr: Is it the fellow who formerly ran for Governor they want to take care of?

Mr. Helvering: Oh, yes! He was Comptroller of Maryland.

HM,Jr: Why wouldn't it be easy to take care of him and leave Magruder where he is?

Mr. Helvering: What they want is to show they have enough influence to put Magruder out.

Mr. Gaston: Magruder turned against Tydings.

Mr. Helvering: Tydings will not have any objection, but he wants to show Maryland ....

Mr. Gaston: Magruder supported Lewis.

(Mr. Thompson came into the Secretary's office at this point.)

HM,Jr: Will you handle this and let me know today what you can do?

Mr. Helvering: There isn't anything we can do in the Bureau.

HM,Jr: Talk it over with Norman Thompson. I won't go over it again, but go in and see Norman and sometime tomorrow morning I will see you if you two can work out something on that.

(HM,Jr then read Gaston's memo of Sept. 18th, the first two paragraphs of which referred to the position of Collector of Internal Revenue at Toledo.)

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HM, Jr: What the President said was this. You two fellows can handle this between you. I don't care how you do it. Call Charles Sawyer, of Cincinnati, and tell him what these fellows want and get his advice and after you know what Charles Sawyer wants I am to again talk to the President, but in order to save my time, Herbert, I am going to ask you to call up Pa Watson and tell him what Charles Sawyer said.

Mr. Gaston: Yes. Yes.

HM, Jr: You call up Charles Sawyer and give him this rigamarole and say the President wants to know what he thinks of it, what is his advice, and after you get it report back to Pa Watson.

Mr. Gaston: Sawyer is a pretty week sister.

HM, Jr: Well.....

(The Secretary then read the last paragraph of Gaston's memorandum of Sept. 18th which referred to the desire of Frank Duffy, National Committeeman from Vermont, to have his son, Frank Duffy, Jr., appointed to the vacant position of Collector of Customs at St. Albans, Vermont.)

HM, Jr: The answer to Frank Duffy is this: The President remembers Frank Duffy, Jr., very well. He can't do anything just now, but the chances are very good that after election he will take care of his son.

Mr. Gaston: In other words, we will leave this thing alone for the present just as it has been.

HM, Jr: That's the story. Does that clean up the politic?

Mr. Gaston: Yes. I was going to mention that Pa Watson called me a minutes ago and Donahey and Hunter were in his office and he wanted to know what to say to them. I told him there was nothing to say to them except no decision had been reached as to whether there would be an immediate appointment.

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HM,Jr: Anything on your (Helvering) mind?

Mr. Helvering: One matter I want to speak to you about.

HM,Jr: Now?

Mr. Helvering: Yes.

About a year ago I made a recommendation that we take all these bank cases where they had disassociated their facilities under the Act of 1934 and set them on a certain basis. There was some opposition to it and I wrote up a memorandum distinguishing between the two cases which the Supreme Court had decided and settled, the ones under -- one case as having the divorcement provision in there that told us very clearly, showed us very clearly, that there had been divorcement of the affiliate in the bank stock and there was a possibility of avocation of values. The Department of Justice, however, has some cases pending and they don't want that done.

I want to state to you that recommendation over here to you and Mr. Hanes O. K'd it. Since Hanes went out this situation in the Department of Justice has come up. Now, Hanes has written us a letter in which he demands us, under that provision in the recommendation, that we made and he O. K'd, that we go ahead and settle certain cases under these affiliates.

HM,Jr: Hanes!

Mr. Helvering: Yes, because that was the ruling and we should follow it. We discussed with the Department of Justice yesterday and they think they can now overrule the so-called Hageman case, which was the one we were getting the act under, but if we think administratively all these 400 - 500 cases could be settled better under the provision of that recommendation they will withdraw, but I know they don't like to. They think they can reverse the Hageman case. That is the quandary presented to us.

HM,Jr: What is Hanes' interest in it?

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Mr. Helvering: He has a friend who has a big tax case.

HM,Jr: Who did he address the letter to?

Mr. Helvering: Me. Of course, he remembered about this recommendation of mine that he O. K'd. So he is contending there was a proposition passed by the Treasury and should have been acted on.

HM,Jr: I will have to have -- could you bring Foley up to date and I will talk to the two of you tomorrow?

Mr. Helvering: I would like to bring Wenchell.

HM,Jr: Bring Wenchell along and bring the letter from Hanes.

oOo-oOo

September 18, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
 FROM: Mr. Gaston

You may wish to discuss either or both of the following political situations with the President:

(1) Collector of Internal Revenue at Toledo, Ohio. Charles H. Graves, former Collector, died August 15th. General Watson phoned on August 24th that the President had just been talking to Charles Sawyer of Cincinnati, National Committeeman, and that nothing was to be done toward filling this vacancy until the President had had a chance to talk to you. I don't believe the President will wish to make any appointment before election but I should like to confirm this so we can be guided accordingly.

On August 23rd Senator Donahey wrote to the President recommending the immediate appointment of Ralph O. Snyder, Secretary to Representative John Hunter, and also stating that the appointment of one Frasier Reams, a lawyer of Toledo, would likewise meet with his approval. We received this letter August 26th. Both Donahey's and Hunter's offices have called us up frequently pressing for action. I finally told Hunter yesterday that nothing would be done until we got further directions, which seemed to stump him. Three persons have written or wired advising that no appointment be made until after the election. They are: Samuel R. Young, an attorney of Toledo; I. W. Gotschall of Toledo, who gives John Biggers as reference, and Tell Thompson, County Chairman of Hancock County.

(2) Frank Duffy, National Committeeman from Vermont, wants to have his son, Frank Duffy, Jr., appointed to succeed the late Stephen M. Driscoll, formerly Collector of Customs at St. Albans, Vermont, who died several months ago. Duffy was in to see you shortly after Driscoll's death and you introduced him to me. He asked that nothing be done about the appointment until after the conventions, but he brought in and introduced his son at that time and told me that he hoped his son could be appointed. Duffy, Jr., is an engineer, formerly employed by the New York State Highway Department and more recently on P.W.A. bridge projects in Vermont. Duffy can, of course, produce an adequate number of letters of recommendation for his son, but doesn't wish to do so unless he gets the go sign. One John Picher, a member of the French-Canadian colony at Winooski, near Burlington, has been energetically advocated by residents of that town. Duffy says they are not an important element of the Democratic Party of Vermont.

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Originals returned to General Watson  
9/19/40

THE WHITE HOUSE  
WASHINGTON

September 19, 1940.

MEMORANDUM FOR GENERAL WATSON:

Senator Tydings and Senator Radcliffe handed me the enclosed list of the Maryland appointments in which they are interested. Three of the four are re-appointments.

The Collector of Internal Revenue, Wm. S. Gordy, is a splendid selection. He is from the Eastern Shore, and was a candidate for Governor about four years ago polling a large vote.

After the President told me that he would make these appointments, I talked with Helvering suggesting to him to appoint Magruder, the present Collector, to some place in the Washington office. This would leave no bad feeling on the part of Magruder or his friends. I have not yet heard from Helvering about the appointment.

Tydings tells me that if I can assure him that the President will make these appointments, he will comply with my request to issue a statement supporting the ticket without waiting for the appointments to be sent to the Senate. I think it should be done today. Some one should advise Morgenthau to immediately appoint Magruder to some place in the Treasury Department.

JAMES V. BYRNES

Collector of Customs to be held until after election.

United States Senate

WASHINGTON, D.C.

Collector of Internal Revenue -

was S. Gordy, jr. Salisbury, Md  
was for 15 years State Comptroller of  
Maryland

J. Bernard Flynn, Baltimore, Md  
U. S. District Atty -  
(incumbent)

August Fleck, Baltimore  
U. S. Marshall  
(incumbent)

S. Scott Beck - Chestertown, Md  
Comptroller of Customs  
(incumbent)

THE WHITE HOUSE  
WASHINGTON

*HMC*  
9-12-40

*Talk down about it*

MEMORANDUM FOR THE PRESIDENT:

Henry Morgenthau 'phoned me that Guy Helvering was told by Senator Byrnes that the President wanted to promote Collector Magruder in Baltimore, to make a vacancy so that the two Senators could make a new appointment. Helvering is in a quandary as to how he could be promoted.

*EMW*  
E. M. W.

September 19, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston



I talked to Charles Sawyer, National Committeeman of Ohio, on the telephone this afternoon. He said he would regard it as very unfortunate if any appointment of Internal Revenue Collector at Toledo were made before the election. He strongly urged that the appointment be delayed until after the election. As to Snyder, Secretary to Congressman Hunter, whom Hunter and Senator Donahay have recommended, Sawyer said he was "no good"; that he was for Lemke in 1936 and before that a Republican. He added that John Hunter, the Congressman, "has never been with the President." I reported the substance of this to General Watson's secretary, General Watson being out of the office at the time.

Soon after I had made this report to Pa Watson, Jim Rowe called me and said that the President wants to do all that he can to fill vacancies in Presidential offices immediately. He would like to have us start the ball rolling right away. Rowe had a list of vacancies in various departments and said the President would like some action on all of them except the Collectorship of Customs at Savannah, as to which he said no, and the Collectorship of Internal Revenue at Little Rock, as to which he had a question mark. He added that the President wanted us to consult Ed Flynn before sending any of the nominations over. I told Rowe I would give him a list of our vacancies and explain the situation on each. It was Rowe's impression that Flynn might be in town this afternoon and would probably talk to us.

At my request Johnson sent a telegram to Saul Haas today, suggesting that he telegraph a request for permission to come to Washington on Customs business.

In talking to Ed Flynn today I told him that I was here nearly all the time and that he could reach me directly on matters affecting Treasury employees or appointments.

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HEG/mah

*Journal of the American Chamber of Commerce in Buenos Aires*  
*Sept 14, 1936*

**Dr. Federico Pinedo, Minister of Finance  
in the new Argentine Cabinet**

With the appointment of Dr. Federico Pinedo as Minister of Finance in the new Argentine Cabinet, there has been a decided change both in personality and in the general outlook of the occupant of this position.

Dr. Pinedo, who is about forty-five years of age, possesses one of the outstanding financial minds in Argentina. While he was educated as a lawyer, he is also an economist of note and is highly respected in both fields. After obtaining his doctorate in jurisprudence in 1915, he practiced law and served three terms as National Deputy for the Federal District. From 1933 to 1935 he was Minister of Finance under President Justo and is a member of the Board of Directors of a number of prominent financial and business houses in Buenos Aires.

Dr. Pinedo was instrumental in the reorganization of the administration of Argentina's finances, including the creation of the machinery for the Central Bank and the unification of taxes. Although Dr. Pinedo, with the Minister of Agriculture, inaugurated the bilateral system of trade balances in Argentina which was detrimental to American interests, he has not been unsympathetic towards this country and during intervening years his opinions have changed so that they are no longer in direct conflict with the principles of freedom of trade supported by Mr. Hull. He is a man of broad outlook and experience and in numerous recent conversations with members of the American Embassy staff at Buenos Aires has expressed

himself

himself emphatically in favor of greater continental solidarity and in particular in favor of a Pan-American Customs Union and cooperation with the United States both economically and in continental defense. In a telegram of June 10, 1940 from the Embassy at Buenos Aires, it was reported that an article which had appeared in the local press signed by Dr. Pinedo in which he took a firm stand against the Nazis and asserted that the future well-being of Argentina would be threatened should they win the war. He urged closer cooperation with this country in continental defense and by inference warned against the peril of "fifth column" activities, calling upon Argentina not to make the mistake of delivering over its Government, through fear of a possible enemy, into the hands of sympathizers with this enemy. It is reported that he maintains a very close touch on all the problems of the Ministry of Finance doing a great deal of the work himself and taking the responsibility of initiating and conducting negotiations. Dr. Pinedo is a close friend of Julio Roca, the new Foreign Minister, and they are reported to be in complete accord on political and economic questions. This fact, coupled with the fact that Roca is not in good health, makes it inevitable that Pinedo will take a leading part in Argentine negotiations with the United States. In a recent conversation with a member of the Embassy staff Pinedo stated that the Argentine Government has decided to do everything possible to cooperate fully with the United States in matters pertaining to further inter-American cooperation and solidarity. He added that Argentina is now in a position somewhat similar to that of

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Great Britain with respect to the necessity for looking to the United States for aid in working out its problems. He continued that while Argentina formerly considered Great Britain as its chief interest, it is now felt that Argentina's future lies in developing closer relations with the United States.

CONFIDENTIAL

G-2/2657-235

M.I.D., W.D.  
Tentative Lessons  
Bulletin No. 51  
September 19, 1940TENTATIVE LESSONS FROM THE RECENT  
ACTIVE CAMPAIGN IN EUROPENOTICE

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. Its reproduction in whole or in part is subject to the provisions of letter TAG, November 15, 1939, AG 350.05 (11-1-39) M-B-M, "Dissemination of Military Information by the Military Intelligence Division and by Recipients of M.I.D. Information".

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 are in no sense mature studies.

BRITISH COMMENT ON DIVISIONAL ARTILLERYSOURCE

The information in this bulletin came from a high British authority through an official American source. Reports were made in mid-August, 1940.

CONTENTS

- I. BRITISH DOCTRINE ON COMMAND OF DIVISIONAL ARTILLERY.
- II. CHANGES IN ORGANIZATION

CONFIDENTIAL

CONFIDENTIAL

## I. BRITISH DOCTRINE ON COMMAND OF DIVISIONAL ARTILLERY.

After study of operations in Flanders and France, the British have not changed their doctrine of command and methods of control of the Divisional Artillery.

Perfect cooperation between all Artillery commanders and the Infantry commanders they support is emphasized more than ever, as is the necessity for instant and automatic change from "supporting" to "attached" whenever communications to the higher echelon are broken. The British also stress the change from "attached" to "supporting" whenever divisional control is possible.

The doctrine of employment of Infantry tends more and more towards rapid movement in the opening stages of an engagement, with Infantry brigades<sup>1</sup> and their normally supporting Artillery operating more or less independently as a brigade group<sup>2</sup>. Naturally there will be many occasions during rapid movement when Divisional Field Artillery regiments will be "attached", under command of the Infantry brigade commander.

However, when enemy resistance is met in forward movement, or when it is decided in withdrawal to establish resistance and the divisional commander is in a position to control his Infantry brigades, the Field Artillery regiments must at once revert to divisional control. The commander of the Divisional Artillery must therefore be able to establish his own communication with his regiments.

As set up in the British divisional organization, one section<sup>3</sup> of the Divisional Signals<sup>4</sup> is permanently designated, organized, and trained to provide communications for the commander of the Royal Artillery. He does not share the Infantry net nor depend upon others to exercise his command functions.

According to a recent War Office letter:

"The divisional commander controls the employment of Divisional Artillery.

"The commander of the Royal Artillery is in command of the Divisional Artillery and prepares detailed Artillery plans to implement the plans of the divisional commander.

- 
1. The British Infantry brigade is the equivalent of our regiment.G-2
  2. The British brigade group is the equivalent of our combat team.G-2
  3. i.e., one company. G-2
  4. i.e., a signal battalion under command of a lieutenant-colonel.G-3

CONFIDENTIAL

CONFIDENTIAL

"The staff consists of a brigade major, a staff captain, a lieutenant for Artillery intelligence duties, three clerks from the Royal Artillery, 1 draughtsman from the Royal Engineers and 20 other ranks. Two Royal Air Force radio operators join on arrival in the theatre of operations and remain permanently attached to the staff.

"Communications are provided by the Divisional Signals. Three motorcycles are assigned to the brigade for employment by orderlies acting as dispatch riders. The attached Royal Air Force personnel are provided with one radio set."

II. CHANGES IN ORGANIZATION.

As a result of a thorough study of operations in Flanders and France, the General Staff Artillery Committee has recommended that, for the creation of a more flexible and more easily handled Artillery regiment, the battery should consist of only two troops of four guns each. The regiment will have three batteries instead of two, but the number of guns in the regiment, 24, will remain as before. It is authoritatively stated that this recommendation will be approved and put into effect.

The British unit designated as a troop is a captain's command of four guns similar to our battery, but lacking certain elements of the maintenance platoon which are concentrated for economy of men and road space in the next higher echelon under a staff officer. The British unit designated as a battery is similar to our battalion and is a major's command.

Another advantage of this reorganization should be pointed out. As the British division is triangular throughout, the contemplated change in the Field Artillery regiment will greatly facilitate Artillery support. A regiment of Field Artillery (24 guns) will support the Infantry brigade, and a battery of Field Artillery (8 guns) will support each of the three battalions of the Infantry brigade.

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G-2/2657-220

RESTRICTEDM.I.D., W.D.  
September 19, 1940.  
12:00 M.

No. 198

SITUATION REPORT

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

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I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

Apparently German daylight attacks on the London area on the 18th were successfully intercepted. German night attacks over London followed the usual pattern and caused widespread damage. The air alert lasted 9½ hours. The Germans state they attacked numerous docks and port facilities in London. Elsewhere in England, Liverpool, Newcastle, the Billingham chemical works and an airdrome were attacked.

The British made some daylight attacks on the Channel ports on the 18th and renewed them more heavily that night. There was limited British activity over Germany. The R.A.F. is now employing up to 200 bombers during each 24 hours in offensive operations.

II. Mediterranean and African Theaters of War.

1. The Italians are consolidating their hold on Sidi Barrani. There is still no reliable information concerning activity farther south.

2. The Italians claim air attacks on Mersa Matruh and on naval units off Sidi Barrani. The British claim to have bombed Italian forces between Buqbuq and Sidi Barrani. There were also widespread raids, presumably by small elements of the R.A.F., over East Africa, the Sudan and the Dodecanese Islands.

RESTRICTED

## CONFIDENTIAL

Paraphrase of Code Cablegram Received at the  
War Department 1146 p.m., Sept. 19, 1940

London, Filed 13:06, September 19, 1940

During the night of September 18-19 182 planes of the Royal Air Force attacked enemy ports and communications across the English Channel. Six planes were lost. The Coastal Command carried out their usual reconnaissance and photographic mission, losing two planes out of the 77 employed.

During the daylight hours of the 18th the German Air Force operated about 800 aircraft, the attack centering generally along the Thames River and the southeast part of London. Little damage was done to important targets. Houses were demolished here and there, one oil tank was hit and there were some civilian casualties.

German attacks during the night of September 18-19 lasted all night and were concentrated on London, with some raids on northeast England that did little damage. There was considerable random damage done to houses in the West End of London, many streets were blocked with debris, and five good sized fires were started. Fire in the plant of the Plessey Company, Ilford, Essex, did extensive damage. A fire in the gunpowder factory at the Imperial Chemical Industries at Ralthan was soon under control, production in the Royal Small Arms Factory, Enfield, was affected by an unexploded delay action bomb, and there was a fire at the plant of Beeton and Sons, Acton.

German aircraft losses were 46 confirmed, 16 probable and 19 damaged. The Royal Air Force lost 12 planes and 3 pilots. Estimated

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## CONFIDENTIAL

stallion casualties in the London area were 90 killed and 350 injured.

Three British ships totalling 13,500 tons were sunk.

There are no changes in the information of plans for invasion.

Yesterday I made a visit to the Army on the coast. All ranks were very anxious for the Germans to attempt an invasion. Lord Beaverbrook stated that there is no question but that Germany meant business as hits on some barges indicate that they were loaded with ammunition. The Royal Air Force is holding considerable air power in reserve, including some powerful new bombers, for use against enemy sea-borne forces.

From the night bombardments of London recently it seems to be proved conclusively that both searchlights and sound locators are ineffective, at least obsolescent. Enemy bombing planes during the last few nights have been almost unopposed. In the near future the British expect to equip their night fighters with a new detection device that will enable them to locate and destroy bombers at night.

German planes have been dropping parachute-borne mines on London. These result in extremely severe blasts but so far casualties have been moderate. They are reported to be about three feet in diameter, with a torpedo wall and a time fuse.

It has been found necessary to send all women out of town at night. Coventry Park (?) is bombed out and all are sleepless.

We are all well here.

CONFIDENTIAL

LMB

Copies to: Military Aide to President  
Secretary of War  
State Department  
Secretary of Treasury -2-

Asst. Secretary of War  
Chief of Staff  
ONI  
WPD

CONFIDENTIAL

45

Paraphrase of Code Radiogram  
Received at the War Department  
at 8:52 P.M., September 19, 1940.

Berlin, filed 19:29, September 19, 1940.

The missions of the present German Air Activity appear to be:

1. The obtainment of air supremacy.
2. The destruction of vital British industries and other objectives.
3. The undermining of public morale with the ultimate forcing of capitulation or bringing about a change of government and the establishment of a cabinet amenable to negotiation.

The Germans continue preparations for an attack by all arms, thus containing England while preparing to conduct operations in other theatres. It is my opinion that Germany is apprehensive as to the success of an offensive against England at the present time.

PHYTON

**Distribution:**

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

CONFIDENTIAL

CABLE

FROM: Commercial Attache, Nicholson  
Shanghai, China.

DATE: September 19, 1940

For the Secretary of the Treasury.

Current situation Shanghai for week ending September 14th  
STOP Exchange market was dull and steady throughout week with  
chief interest centered on Europe but no definite trend apparent  
STOP Market uncertain during most of period turning easy at  
close but still maintaining good volume with prices only moderately  
off STOP Sugar monopoly STOP Reported that Japanese military  
about to place in hands of four Japanese first exclusive privilege  
of importing all sugar destined for interior of China that a  
guarantee will be required that none of such imports go into  
unoccupied territory STOP Local cotton mills now operating at  
about 50% capacity but are considered likely to reduce to 30%  
either October or November STOP Prospects not bright as transport  
to interior is virtually cut off while local yarn stocks estimated  
at 350,000 bales and increasing STOP Of local spindle capacity  
about 70% is Japanese mostly associated with Osaka interests  
and while operating in China is more profitable than in Japan  
apparently an effort will be made for Japanese domestic political  
reasons to give Osaka mills an increased share of China business  
which remains STOP Only bright aspect for China as that domestic  
supplies of raw cotton should for some time be adequate to meet  
requirements with substantial termination of foreign imports  
which during past year had such adverse effect on exchange STOP  
Japanese military however, apparently preparing to fix price of  
Chinese raw cotton so that industry proper will apparently gain  
little or no advantage.

NICHOLSON

"The Department has discussed with the Treasury the possibility of sending to Buenos Aires an important Treasury official who would be capable of and authorized to discuss and conclude a monetary and exchange arrangement with the Argentine authorities. After giving careful and sympathetic consideration to all of the points raised by Dr. Pinedo 1/ the Secretary of the Treasury believes that considering all the circumstances such a negotiation could more appropriately take place in Washington. Please discuss the situation with Dr. Pinedo and inform him that the Secretary of the Treasury would be glad to discuss in Washington the possibility of such arrangements with him personally or any representative which he may choose to name.

O.K. V.M.J.

9-19-40.

September 13, 1940

Mr. White:

Mr. Collado called and dictated the following, which it is proposed to include in a cable to Argentina. (He wanted you to understand that we have already given the Argentines an opportunity tell us that they would like to have the discussions, so the Treasury is not inviting the discussions.)

*During the meeting*

"The Department has discussed with the Treasury the possibility of sending to Buenos Aires an important Treasury official who would be capable of and authorized to discuss and conclude a monetary and exchange arrangement with the Argentine authorities. After giving careful and sympathetic consideration to all of the points raised by Dr. Pinedo the Secretary of the Treasury believes that <sup>1/</sup> such a negotiation could take place ~~only~~ *more appropriate* in Washington ~~because he is extremely desirous of playing an active role in it.~~ Please discuss the situation with Dr. Pinedo and inform him that the Secretary of the Treasury would ~~greatly~~ *be glad to discuss* welcome the opportunity of discussing in Washington the possibility of such arrangements with him personally or any representative which he may choose to name.

"Please also inform Dr. Pinedo that the Department and the Treasury ~~consider~~ *study* such discussions would deal with basic monetary and exchange ~~relationships~~ *stabilization* of a long term character ~~and~~ *as* such would not greatly conflict with the discussions of Mr. Pierson which will consist of commercial banking arrangements, the financing of long term development projects and similar matters."

<sup>1/</sup> The new Minister of Finance.

Buenos Aires, Argentina,  
September 8, 1940.

No. 1208

A SUGGESTED MONETARY AND EXCHANGE  
ARRANGEMENT BETWEEN THE UNITED STATES  
AND ARGENTINA

The Honorable  
The Secretary of State,  
Washington.

Sir:

With reference to the Embassy's telegram no. 391 of September 4, 7 p.m., I have the honor to enclose a copy of a memorandum of the conversation in which Dr. Federico Pinedo, the Minister of Finance, inquired whether the Treasury Department would attach an appropriate official to Mr. Pierson's staff so that the matter of a monetary and exchange arrangement might be looked into during the course of Mr. Pierson's visit to Buenos Aires.

Respectfully yours,

For the Chargé d'Affaires

Monnett B. Davis  
First Secretary

Enclosure: as stated.  
CMR:jk

A true copy of  
the signed origi-  
nal.

*JK*

MEMORANDUM OF CONVERSATION

Buenos Aires, September 5, 1940.

Messrs. Tuck, Davis and Raymond called on Dr. Federico Pinedo this afternoon, at the latter's request, to discuss the Embassy's memorandum of August 19 which indicated that if the Argentine Government should be interested in effecting a monetary and exchange arrangement with the United States, the Treasury Department would be prepared to discuss the matter in Washington. Dr. Pinedo said that Dr. Roca, the Minister for Foreign Affairs, had drawn the question to his attention last night and had asked him to draft an appropriate reply to the Embassy's communication. He added that before making an official reply he wanted to discuss the matter informally with a view to obtaining a fuller understanding of the background of the question. The Chargé d'Affaires explained that members of the Argentine Delegation to the Habana Conference had discussed the Argentine economic situation in great detail with members of the United States Delegation and had emphasized the desirability of taking up the questions of a trade agreement, monetary arrangements, Export Import Bank credits, a corn agreement and possible purchases of surplus commodities. The Chargé d'Affaires went on to say that it was felt that the question of a trade agreement could not be raised at this time, that we had already proposed a corn agreement which we understood was being studied by competent officials of the Argentine Government, and that matters such as monetary arrangements fell within the province of the Treasury which had indicated that if the Argentine Government wished to take the initiative Treasury officials were prepared to discuss a monetary and exchange arrangement in Washington. (The question of the possible purchase of hides and skins specifically was at no time mentioned).

Dr. Pinedo then remarked that both he and Dr. Roca were of the opinion that since he is to take an active personal part in endeavoring to work out satisfactory agreements with the United States it would be very helpful if the Treasury Department would be willing to send someone to Buenos Aires. He recognized that the Department might have the same objections to the visit of a Treasury official as had led it to withhold the Hawkins mission, but suggested that perhaps these objections might be met if the Treasury expert were attached to Mr. Pierson, ostensibly in connection with business relating to the Export Import Bank. He pointed out that Mr. Pierson had been here before and that his coming at this time would be regarded as perfectly natural in the light of publicity given the granting of the twenty million dollar Export Import Bank credit to the Central Bank. Accordingly, he felt that if a Treasury official should come with

Mr.

Mr. Pierson there would be no publicity which might be construed as suggesting that trade agreement negotiations were being reopened.

Dr. Pinedo also pointed out that there is a connection between a monetary and exchange agreement and the matters which Mr. Pierson is to discuss and that it would therefore seem to be reasonable to have the conversations held in the same place rather than to have one part of related matter handled at Washington while the greater part was being considered in Buenos Aires. However, he went on to say, if the Treasury Department should not be disposed to send an official to Argentina at this time, or to authorize Mr. Pierson's mission to handle the matter, the Argentine Government would send a competent representative to the United States at an early date. He added that he earnestly hoped that if the Argentine Government should send someone to the States, the Department would not use the same reasons he had used and suggest that the Argentine mission also discuss the matters which it is now planned will be considered during Mr. Pierson's visit. In other words, it is hoped that any arrangement made with regard to the monetary and exchange question will not be permitted to obviate the Pierson mission.

Dr. Pinedo stated that the Argentine Government is decided to do everything possible fully to cooperate with the Government of the United States in matters tending to further inter-American solidarity, adding that Argentina is now in a position somewhat similar to that of Great Britain with respect to the necessity of looking to the United States for aid in working out its problems. He went on to say in this regard that while Argentina formerly considered Great Britain as its chief concern, it is now felt that Argentina's future interests lie in developing closer relations with the United States.

Dr. Pinedo was informed that the Embassy had for some time been considering making a recommendation to the Department that the United States Government, purely as a political measure, purchase some of Argentina's export surpluses as a symbolic gesture of its firm intention to assist Argentina out of its difficulties. Dr. Pinedo thought the idea an excellent one but hoped that the purchases would not be made until it could be announced that negotiations looking towards closer relations between the two countries were in progress. He said it would be most unfortunate to dissipate any of the political credit which might be obtained from such purchases.

With regard to the matter of having a Treasury official included in Mr. Pierson's mission for the purpose of working out a monetary and exchange arrangement, the Chargé d'Affaires, just before leaving, again drew Dr. Pinedo's attention to the fact that matters such as monetary arrangements fall within the province of the Treasury, but added that he would be glad immediately to submit the Minister's views to the Department and inform him in the premises as soon as possible.

## DEPARTMENT OF STATE

WASHINGTON

September 19, 1940

In reply refer to  
EA 840.51 Frozen Credits/581

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for such reply as he may consider appropriate a copy of a letter from Mr. Jack Gross of Brooklyn, New York requesting information concerning the bearing of Executive Order No. 8389 on commissions owed to him by a firm in Cognac, France. Mr. Gross has been informed of this reference.

## Enclosure:

From Mr. Jack Gross,  
September 16, 1940.

dm

1162 East 13th St.  
Brooklyn, New York  
Sept. 16, 1940

State Department,  
Washington, D. C.

Gentlemen:-

This letter has to do with FROZEN BANK CREDITS held here by a New York bank, to the order, however frozen, of a French firm, in Cognac, France, - and by whom I was employed as a commission merchant, and salesman.

For several months prior the capitulation of France, this firm in Cognac, France advised me that they had applied to the Exchange Control for the right to send my commissions to me-and nothing was forthcoming.

After the Order was issued from Washington, freezing funds here, for credit to French Nationals, at least one draft was presented here in behalf of a shipment made by my firm of Cognac, - and paid by the consignee. Therefore, this money must be held frozen here.

I doubt very much that the firm in France, under strict surveillance as it is, would write me to-day, to help; although after the capitulation I did receive a letter from France, mentioning that they hope my commissions may be paid when matters become right.

In order to establish my right to a claim on funds held here-please advise whether it is necessary for me to sue my French principals at law, and recover a judgment? If perchance, I could receive a letter from France, authorizing the bank holding the funds here, to release to me-would that suffice? However, I fear there is little likelihood of such permission coming from France, - due to restrictions imposed.

Will you refer this letter to the proper governmental department, in event I have mis-directed it?

Respectfully yours,

JACK GROSS

je/h

mg

Washington, September 19th, 1940.

54

D. 8187

No. 3749

Dear Mr. Cochran,

Referring to my letter of August 28th, No. 3378, may I take the liberty of calling again to your kind attention, the question of the "Banque Italo Belge". I am informed that the "Banque Belge pour l'Etranger" in New York, which has on deposit one of the accounts of the "Banque Italo Belge" in the United States" has requested, in connection with the license which expires on September 30th, that the United States Treasury consider the possibility of the total release of this account. You will recall that in my letter abovementioned, I had inquired whether it would be possible to release the accounts of the "Banque Italo Belge" up to 50%, and as an experiment. If the Treasury Department is unable to follow this suggestion, could it not at least, release in its entirety, one of the accounts of the "Banque Italo Belge", for example, that on deposit at the Banque Belge pour l'Etranger in New York, while still maintaining the restrictions on the others, where the amounts on deposit, as you are aware, are quite large.

Yours sincerely,

The Counselor of the Embassy  
(s) Baron de Gruben

Mr. H. Merle Cochran  
Technical Assistant to the Secretary  
Department of the Treasury  
Washington, D. C.

C O P Y

bj

Treasury Department  
Division of Monetary Research

55

Date..... September 19, ..... 1940.

To: Secretary Morgenthau

Below are a few suggestions that might be worth thinking about as possible concessions that might be made to the Russians if any inducement is necessary to get them to cooperate.

1. Informal assurance that gold sent here by Russia which does not come from Germany, or from occupied territories, shall receive the same treatment as that accorded gold coming from any other country. (She has asked for something like that in a recent cable which has doubtless come to your attention.)
2. Informal permission for Russia to buy any materials she needs here, such as machine tools, possibly molybdenum or anything else that does not constitute a violation of any existing law here.
3. We might see what can be done about relinquishing the Baltic ships in our ports which are now being tied up with legal and foreign fund obstacles so that they shall not fall in Russian hands.
4. Possibly American technicians who were recalled at the time of the Finnish episode might be permitted to return.

MR. WHITE

Branch 2058 - Room 208

Treasury Department  
Division of Monetary Research

56

Date Sept. 19, 1940.

To: Secretary Morgenthau

From:

Appended is the report of  
the consummation of the trade  
agreement with Russia. You will  
be interested in the date, which  
is August 6, 1940.

MR. WHITE  
Branch 2058 - Room 210

## Commercial Policy

### AGREEMENT WITH THE UNION OF SOVIET SOCIALIST REPUBLICS

*[Released to the press August 7]*

The Acting Secretary of State, Mr. Sumner Welles, made the following statement regarding the commercial agreement with the Union of Soviet Socialist Republics:

It may be noted that notes were exchanged August 8, 1940, between this Government and the Soviet Government extending until August 6, 1941, the commercial agreement which in its present form was first concluded between the two countries on August 4, 1937. The present agreement is similar to those in effect during the previous three years in all respects except that there has been added a proviso to the note referring to the minimum amount of purchases (\$40,000,000) to be made in the United States by the Soviet economic organizations. This proviso takes into account the possibility that various export restrictions imposed by the United States in the course of its national-defense program may make it impossible for these organizations to carry out their intentions.

It is a source of deep gratification that we are able by means of this agreement to continue our commercial relations with the Union of Soviet Socialist Republics on the present basis, and it is to be hoped that during the coming year they will develop in a manner advantageous to both parties.

*[Released to the press August 6]*

The commercial agreement between the United States of America and the Union of Soviet Socialist Republics which was proclaimed and became effective on August 6, 1937, and which was renewed for successive periods of one year on August 5, 1938, and August 2, 1939, was continued in force for another year, that is until August 6, 1941, by an exchange of identical notes at Moscow on August 6, 1940, between the American Chargé d'Affaires ad interim, Mr. Walter C. Thurston, and the People's Commissar for Foreign Trade of the Soviet Union, Mr. A. I. Mikoyan.

As in the previous three agreements, the Soviet Government has informed the American Government that the Soviet economic organizations intend to purchase during the next 12 months American goods to the value of at least \$40,000,000. The agreement takes into account the possibility that various export restrictions imposed by the United States in carrying out its national-defense program may make it impossible for these organizations to carry out their intentions.

The Government of the United States undertakes in the agreement to continue to accord to the commerce of the Soviet Union unconditional most-favored-nation treatment, with a reservation in respect of coal, deemed necessary because of the nature of the coal-tax provisions of the Revenue Act of 1932. Under this agreement, therefore, the Soviet Union will continue to receive the benefits of concessions granted by the United States in trade agreements with countries other than Cuba entered into under the authority of the Trade Agreements Act.

The Soviet Government has renewed in a note accompanying the agreement its commitment to export to the United States in the next 12 months not more than 400,000 tons of Soviet coal which was approximately the quantity of Soviet coal exported to the United States in the calendar year 1936. While there were imports of coal during each of the first three agreement years, such imports did not in any such year amount to as much as one half the 400,000-ton limitation. Since October 1939 there have been no imports of Soviet coal.

The following table gives the value in dollars of United States exports to and imports from the Soviet Union in the agreement years:

## DEPARTMENT OF STATE BULLETIN

Agreement Year (A.M.—T.O.T.)	U. S. imports to U. S. S. R. (thousands of U. S. dollars)	U. S. imports for consumption in U. S. S. R. (thousands of U. S. dollars)
1935-36	25,290	6,250
1936-37	31,010	21,000
1937-38	33,200	20,070
1938-39	36,300	24,700
1939-40 (April 11 months)	47,770	25,910

\* Preliminary.

The text of the identic notes exchanged at Moscow between the American Charge, Mr. Walter C. Thurston, and the People's Commissar for Foreign Trade of the Union of Soviet Socialist Republics, Mr. A. I. Mikoyan, is as follows:

Moscow, August 6, 1940.

## EXCELLENZY:

In accordance with the conversations which have taken place, I have the honor to confirm on behalf of my Government the agreement which has been reached between the Governments of our respective countries that the agreement regarding commercial relations between the United States of America and the Union of Soviet Socialist Republics concluded in the exchange of notes of August 4, 1937, between the Ambassador of the United States of America and the People's Commissar for Foreign Affairs of the Union of Soviet Socialist Republics, which came into force on August 6, 1937 on the date of proclamation thereof by the President of the United States of America and approval thereof by the Council of People's Commissars of the Union of Soviet Socialist Republics, and which was renewed on August 5, 1936, and August 2, 1935, shall continue in force until August 6, 1941. The present agreement should be proclaimed by the President of the United States of America and approved by the Council of People's Commissars of the Union of Soviet Socialist Republics.

Accept (etc.)

WALTER C. THURSTON

The following text is that of the agreement of August 4, 1937:<sup>1</sup>

With reference to recent conversations which have taken place in regard to commerce between the United States of America and the Union of Soviet Socialist Republics, I have the honor to confirm and to make of

<sup>1</sup> Executive Agreement Series No. 100.

record by this note the following agreement which has been reached between the Governments of our respective countries:

One. The United States of America will grant to the Union of Soviet Socialist Republics unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and charges of every kind and in the method of levying duties, and, tolls, in all matters concerning the rules, formalities and charges imposed in connection with the clearing of goods through the customs, and with respect to all laws or regulations affecting the sale or use of imported goods within the country.

Accordingly, natural or manufactured products having their origin in the Union of Soviet Socialist Republics shall in no case be subject, in regard to the matters referred to above, to any duties, taxes or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products having their origin in any third country are or may hereafter be subject.

Similarly, natural or manufactured products exported from the territory of the United States of America and consigned to the territory of the Union of Soviet Socialist Republics shall in no case be subject with respect to exportation and in regard to the above-mentioned matters, to any duties, taxes, or charges other or higher, or to any rules or formalities other or more burdensome, than those to which the like products when consigned to the territory of any third country are or may hereafter be subject.

Any advantages, favor, privilege or immunity which has been or may hereafter be granted by the United States of America in regard to the above-mentioned matters, to a natural or manufactured product originating in any third country or consigned to the territory of any third country shall be accorded immediately and without compensation to the like product originating in or consigned to the territory of the Union of Soviet Socialist Republics.

It is understood that so long as and in so far as existing law of the United States of America may otherwise require, the foregoing provisions, in so far as they would otherwise relate to duties, taxes or charges on coal, coke, manufactured iron-ore, or coal or coke briquettes, shall not apply to such products imported into the United States of America. If the law of the United States of America shall not permit the complete operation of the foregoing provisions with respect to the above-mentioned products, the Union of Soviet Socialist Republics reserves the right within 30 days after January 1, 1938, to terminate this agreement in its entirety or thirty days' written notice.

It is understood, furthermore, that the advantages not accorded or which may hereafter be accorded by

AUGUST 16, 1940

the United States of America, its territories or possessions, the Philippine Islands, or the Panama Canal Zone to one another or to the Republic of Cuba shall be exempted from the operation of this agreement.

Nothing in this agreement shall be construed to prevent the adoption of measures prohibiting or restricting the exportation or importation of gold or silver, or to prevent the adoption of such measures as the Government of the United States of America may see fit with respect to the control of the export or sale for export of arms, ammunition, or implements of war, and, in exceptional cases, all other military supplies. It is understood that any action which may be taken by the President of the United States of America under the authority of Section 2 (b) of the Neutrality Act of 1937 in regard to the passage of bills to goods shall not be considered as contravening any of the provisions of this agreement relating to the exportation of natural or manufactured products from the territory of the United States of America.

Subject to the requirement that no arbitrary discrimination shall be effected by the United States of America against importations from the Union of Soviet Socialist Republics and in favor of those from any third country, the foregoing provisions shall not extend to prohibitions or restrictions (1) imposed on moral or humanitarian grounds, (2) designed to protect human, animal, or plant life, (3) relating to prison-made goods, or (4) relating to the enforcement of justice or revenue laws.

Two. On its part the Government of the Union of Soviet Socialist Republics will take steps to increase substantially the amount of purchases in the United States of America for export to the Union of Soviet Socialist Republics of articles the growth, produce, or manufacture of the United States of America.

Three. This agreement shall come into force on the day of proclamation thereof by the President of the United States of America and of approval thereof by the Soviet of People's Commissars of the Union of Soviet Socialist Republics, which proclamation and approval shall take place on the same day. It shall continue in effect for twelve months. Both parties agree that not less than thirty days prior to the expiration of the aforesaid period of twelve months they shall start negotiations regarding the extension of the period during which the present agreement shall continue in force.

The following communications, exchanged between the American Charge and the People's Commissar for Foreign Trade, concern the amount of purchases which the Government of

the Union of Soviet Socialist Republics intends to make in the United States during the next 12 months in connection with the commercial agreement entered into between the United States and the Soviet Union on August 4, 1940:

Moscow, August 6, 1940.

## EXCELLENZY:

I have the honor to refer to our recent conversations in regard to the commerce between the United States of America and the Union of Soviet Socialist Republics and to ask you to let me know the value of articles, the growth, produce or manufacture of the United States of America, which the Government of the Union of Soviet Socialist Republics intends to purchase in the United States of America during the next twelve months for export to the Union of Soviet Socialist Republics.

Accept (etc.)

WALTER C. THURSTON

(Translation)

Moscow, August 5, 1940.

## MR. CHAMBERLAIN:

In reply to your inquiry regarding the intended purchases by the Union of Soviet Socialist Republics in the United States of America in the course of the next twelve months, I have the honor to inform you that the economic organizations of the Union of Soviet Socialist Republics intend to buy in the United States of America in the course of the next twelve months American goods to the value of at least \$40,000,000.

If, however, restrictions imposed on exports by the Government of the United States should render it difficult for Soviet economic organizations to satisfy their needs in the United States, it may be impossible for these organizations to carry out their intentions. The Government of the Union of Soviet Socialist Republics is therefore not in a position at the present time to guarantee the above-mentioned value of the purchases in the United States.

Accept (etc.)

WALTER C. THURSTON

(Released to the press August 19)

The commercial agreement between the United States and the Union of Soviet Socialist Republics, signed on August 6, 1940, was proclaimed by the President on August 7. On the same day, the agreement was approved by the Council of People's Commissars of the Union of Soviet Socialist Republics.

## The Foreign Service

### PRESS INTERVIEW BY THE AMERICAN AMBASSADOR TO BELGIUM

Statement of the Acting Secretary of State, Mr. Welles

(Released to the press August 3)

I have now received from the American Embassy in London a transcript of the notes of the press interview given by Ambassador Cudahy in London on Tuesday, August 6, last.

From the transcript it would appear that Ambassador Cudahy received at an informal gathering some American correspondents and representatives of the British press who had requested interviews with him.

As I previously stated, the Ambassador's interview was given without prior authorization from, or without prior notification to, the Department of State.

I am sure that no one will question the sincerity of the Ambassador's sympathetic interest in the future well-being of the Belgian peo-

ple, an interest which is shared by the people of the United States. Nevertheless, the interview given was in violation of standing instructions of the Department of State, and certain of the views expressed by the Ambassador are not to be construed as representing the views of this Government.

The incident illustrates once again the importance which must be attributed by American representatives abroad to the Department's instructions to refrain at this critical time from making public statements other than those made in accordance with the instructions of the Department of State.

By direction of the President, Ambassador Cudahy has been requested to return to the United States immediately for consultation.

### PERSONNEL CHANGES

(Released to the press August 19)

The following changes have occurred in the Foreign Service since August 3, 1940:

Leland B. Morris, of Philadelphia, Pa., Consul General at Vienna, Germany, has been designated Counselor of Embassy and Consul General at Berlin, Germany, and will serve in dual capacity.

The assignment of James J. Murphy, Jr., of Pennsylvania, as Consul General at Rotterdam, Netherlands, has been canceled. Mr. Murphy has now been assigned as Consul General at Hamburg, Germany.

Hugh S. Fullerton, of Springfield, Ohio, First Secretary of Embassy and Consul at Paris,

France, has been assigned as Consul at Marseille, France.

Samuel H. Wiley, of Salisbury, N. C., Consul at Havre, France, has been assigned as Consul at Lisbon, Portugal.

George J. Haering, of Huntington Station, N. Y., has been assigned as Consul at Vigo, Spain.

The assignment of Joseph F. Burt, of Fairfield, Ill., as Consul at Prague, Bohemia, has been canceled. Mr. Burt has now been assigned as Consul at Valparaiso, Chile.

Thomas C. Wasson, of Newark, N. J., Consul at Vigo, Spain, has been assigned as Consul at Dakar, French West Africa, where an American Consulate will be established.

AUGUST 10, 1940

Jacob D. Baum, of Princeton, N. J., Third Secretary of Embassy at Berlin, Germany, has been assigned for duty in the Department of State.

Maurice Pasquet, of New York, N. Y., Vice Consul at Dairen, Manchuria, has been assigned as Vice Consul at St. Pierre-Miquelon, where an American Consulate will be reopened.

## Treaty Information

Compiled in the Treaty Division

### OPIUM

#### International Opium Convention (1925)

##### Switzerland

With reference to the circular letter from the League of Nations dated October 25, 1939,<sup>1</sup> communicating for information the text of a letter addressed to the states parties to the International Opium Convention of February 14, 1925, concerning the acceptance by certain states, including Switzerland, of a new resolution of the Health Committee applicable to the preparations based on Indian hemp extract or tincture, the Secretary General of the League transmitted to the Secretary of State with a circular letter dated May 27, 1940, the following letter from the Swiss Federal Political Department dated November 18, 1939:

In a circular letter dated October 25th last, the Secretariat of the League of Nations informed the Federal Political Department that, several countries, including Switzerland, having accepted the Health Committee's resolution of May 1939 concerning the application of Article 10 of the Convention of February 14th, 1925, to preparations based on Indian hemp extract or tincture, the provisions of that agreement had become immediately applicable to the preparations referred to by the said resolution in relations between States. This communication was immediately transmitted to the Federal Public Health Service.

In agreement with this Service and referring to its note of August 7th, 1939, the Political Department has the honor to draw the Secretariat's attention to the fact that, as Indian hemp extract and tincture are not

<sup>1</sup> See the Bulletin of December 8, 1939 (vol. 1, no. 28), pp. 681-681.

yet subject to the supervision instituted under the Swiss legislation on narcotics now undergoing revision, the acceptance by the competent Federal authorities of the Health Committee's resolution cannot take effect within Switzerland until the new Federal law comes into force.

Requesting the Secretariat to bring the foregoing to the attention of the Governments concerned, the Department has the honor, etc.

Berne, November 18th, 1939.

To the Secretariat of the  
League of Nations, Geneva.

### COMMERCE

#### Agreement With the Union of Soviet Socialist Republics

An announcement regarding the commercial agreement between the United States and the Union of Soviet Socialist Republics, signed August 6, 1940, appears in this *Bulletin* under the heading "Commercial Policy".

### INTERNATIONAL LAW

#### International Institute for the Unification of Private Law

The American Ambassador to Italy transmitted to the Secretary of State with a despatch dated May 16, 1940, a copy of the new Fundamental Statute of the International Institute for the Unification of Private Law. The Institute which is now established in Rome was formerly a part of the League of Nations with headquarters in Geneva.

According to information furnished by the Italian Foreign Office the statute, which is dated

March 15, 1940, entered into force on April 21, 1940. The following countries have adhered to the statute: Belgium, Bolivia, Colombia, Finland, Germany, Greece, Hungary, Ireland, Italy, Lithuania, the Netherlands, Nicaragua, Rumania, Spain, Sweden, Switzerland, and Uruguay.

### Legislation

Two Supplemental Estimates of Appropriations for State Department, 1941: Communication from the President of the United States transmitting two supplemental estimates of appropriations for the Department of State, for the fiscal year 1941, amounting to \$306,500. (H. Doc. 802, 76th Cong., 3d sess.) 2 pp. 5f.

### Publications

#### DEPARTMENT OF STATE

Reciprocal Recognition of Load Line Regulations for Vessels Engaged in International Voyages on the Great Lakes: Arrangement between the United States of America and Canada.—Effectuated by exchange of notes signed April 29, 1938, August 24, 1938, October 22, 1938, September 2, 1939, October 18, 1939, January 10, 1940, and March 4, 1940. Executive Agreement Series No. 172. Publication 1482. 9 pp. 5f.

Achievements of the Second Meeting of the Foreign Ministers of the American Republics: Statement of the Honorable Cordell Hull, Secretary of State, at the close of the Meeting, Habana, July 30, 1940. Conference Series 47. Publication 1488. 8 pp. 5f.

# THE DEPARTMENT OF STATE BULLETIN

AUGUST 10, 1940

Vol. III: No. 59—Publication 1493

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## General

### STATEMENT BY THE SECRETARY OF STATE

(Released to the press August 6)

The strong belief of the representatives of the 21 American nations at the recent Habana Meeting was that the military and other sinister activities on the part of some nations in other large areas of the world present real possibilities of danger to the American republics. It was universally recognized that a threat to any important part of the Americas means a threat to each and all of the American nations. It was, therefore, agreed that full and adequate preparations for continental defense could not be taken too soon if the threatened danger from abroad was to be checked and terminated. It was also the unanimous view at Habana that the prompt strengthening of unity and solidarity for the purpose of continental defense and for its implementation by concrete programs supported by the 21 nations was indispensable to the safety, security, peace, and welfare of this hemisphere.

There was general agreement that if the peaceful nations of Europe had thus promptly organized themselves for self-defense on the most effective cooperative basis, the chances are that their situation and that of Europe would be vastly different today. Instead, many of those countries complacently relied upon utterances of peaceful purpose and upon their own neutrality to safeguard them against the mighty forces of invasion, conquest, and destruction. Some of them have been overrun and destroyed by the ruthless invader. Their fate should be a tragic lesson to us.

The vast forces of lawlessness, conquest, and destruction are still moving across the earth like a savage and dangerous animal at large. By their very nature, those forces will not stop

unless and until they recognize that there exists unbreakable resistance.

At Habana we forged new instrumentalities of continental defense. These will be of vast importance to our Nation and to every American nation. But there are other and immense tasks still before us.

I would greatly prefer to say that we are safe in this country and in this hemisphere from outside danger. But I am firmly convinced that what is taking place today in many areas of the earth is a relentless attempt to transform the civilized world as we have known it into a world in which lawlessness, violence, and force will reign supreme, as they did a thousand years ago. The people of this country cannot recognize too soon this fact and its overwhelming significance for our national safety and for the maintenance of our national institutions.

The one and only sure way for our Nation to avoid being drawn into serious trouble or actual war by the wild and destructive forces now abroad elsewhere in the world and to command respect for its rights and interests abroad is for our people to become thoroughly conscious of the possibilities of danger, to make up their minds that we must continue to arm, and to arm to such an extent that the forces of conquest and ruin will not dare make an attack on us or on any part of this hemisphere. To this end, each citizen must be ready and willing for real sacrifice of time and of substance and for hard personal service. In the face of terrific problems and conditions, and until the present serious threats and dangers have disappeared, we cannot pursue complacently the course of our customary normal life.

I feel constrained thus to offer my views in the light of what is already a dangerously widespread movement for world conquest and for the destruction of most of the worthwhile things which civilization has given the human race.

### LICENSES UNDER THE EXPORT-CONTROL ACT

(Released to the press August 9)

During the period July 5-31, 1940, inclusive, the Division of Controls received 6,242 applications for license to export articles or materials listed in the President's proclamation of July 2, 1940, establishing export restrictions under the authority of section 6 of the act of Congress approved the same day. Of this number, 5,397 applications were disposed of on or before July 31, and 845 remained pending at the end of the month. Of the applications disposed of, 4,361 were granted, 236 were rejected on the ground that the articles or materials in question were essential to the national defense, 104 were returned with the request that further data be submitted, and 696 were returned with the statement that no license was required for the contemplated exportation.

### American Republics

#### DINNERS IN HONOR OF DELEGATIONS TO THE HABANA MEETING OF THE MINISTERS OF FOREIGN AFFAIRS

##### Brazilian Delegation

(Released to the press August 6)

The following guests attended the dinner given on August 6, 1940, by the Acting Secretary of State, the Honorable Sumner Welles, at his home, Oxon Hill, Md., in honor of the Brazilian delegation to the Habana Meeting of the Ministers of Foreign Affairs:

His Excellency Carlos Martins, Ambassador of Brazil  
His Excellency Dr. Mauricio Nabuco, Chairman of the Brazilian Delegation and Undersecretary of State for Foreign Affairs of Brazil

\* See the *Bulletin* of July 6, 1940 (vol. III, no. 84), pp. 12-13.

The Honorable Dr. Antonio Camillo de Oliveira, Member of Brazilian Delegation  
Dr. Abelardo Bueno do Prado, Member of Brazilian Delegation  
The Honorable Henry A. Wallace, Secretary of Agriculture  
The Honorable Key Pittman, United States Senate  
The Honorable Sol Bloom, House of Representatives  
The Honorable Charles A. Eaton, House of Representatives  
The Honorable James A. Shanley, House of Representatives  
The Honorable Jesse Jones, Federal Loan Administrator  
Mr. Drew Pearson

##### Argentine and Uruguayan Delegations

(Released to the press August 7)

The following guests attended the dinner given at the Mayflower Hotel, Washington, August 7, 1940, by the Acting Secretary of State, the Honorable Sumner Welles, in honor of the Argentine and Uruguayan delegations to the Habana Meeting of the Ministers of Foreign Affairs:

His Excellency Señor Don Felipe A. Espil, Ambassador of Argentina  
His Excellency Dr. Leopoldo Melo, Chairman of the Argentine Delegation to the Habana Conference  
The Honorable J. Riebling, Minister of Uruguay  
His Excellency Dr. Pedro Manuel Blos, Chairman of the Uruguayan Delegation to the Habana Conference  
The Honorable Dr. José A. Mora Otero, Member of the Uruguayan Delegation to the Habana Conference  
The Honorable Frank Knox, Secretary of the Navy  
The Honorable Tom Connally, United States Senate  
The Honorable Elbert D. Thomas, United States Senate  
The Honorable Guy M. Gillette, United States Senate  
The Honorable Luther Johnson, House of Representatives  
The Honorable Ed. V. Izac, House of Representatives  
The Honorable Foster Stearns, House of Representatives  
General George C. Marshall, Chief of Staff  
Admiral Harold R. Stark, Chief of Naval Operations  
The Honorable Henry F. Grady, Assistant Secretary of State  
The Honorable Breckinridge Long, Assistant Secretary of State  
Mr. Felix Belair, Jr.  
Mr. Constantine Brown  
Mr. Ernest Lindley  
Mr. Phillip W. Bousal, Department of State  
Mr. H. Charles Spruiks, Department of State

## DEPARTMENT OF STATE

Washington

In reply refer to  
EA 840.51 Frozen Credits/592

September 19, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses herewith copies of the paraphrase of a telegram received from the American Consulate General at Beirut regarding funds of the Banque de Syrie which are deposited with the French-American Banking Corporation and the Chase National Bank.

**Enclosure:**

Copies of paraphrase  
of telegram no. 91,  
from Beirut,  
September 18, 1940.

COPY

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Beirut.

DATE: September 18, 1940, 6 p.m.

NO. : 91.

This is in reference to my telegrams numbered 46, 74, 76 and 83, concerning frozen French credits.

I have been informed by the Banque de Syrie that its license permitting partial release of its funds deposited with the French-American Banking Corporation will expire on September 20, and that a similar license concerning their funds in the Chase National Bank will expire on September 27. The Banque de Syrie has communicated with these American banks by telegraph, requesting that these licenses be renewed. Because of the essential requirements of this mandated territory, the importance of this was stressed by the High Commissioner in a conversation which I had with him today.

PALMER

RECEIVED  
THE AMERICAN CONSULATE  
BEIRUT

SEP 20 1940  
U.S. & M. 05 438 DMG

HPD

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE  
COMMISSIONER

EA;VCL

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

The six reporting banks executed the following transactions in registered sterling:

Sold to commercial concerns	£55,000
Purchased from commercial concerns	£ 4,000

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

Sold to commercial concerns	£6,000
Sold to foreign banks (Venezuela)	£5,000
Total	£11,000

Purchased from commercial concerns	-0-
------------------------------------	-----

Continuing its improvement, the Canadian dollar reached a discount of 15-7/8% at the close today. It will be recalled that this currency reached a current low of 17-1/2% on September 14.

The other currencies closed as follows:

Swiss franc	.2279
Swedish krona	.2385
Lira	.0505
Reichsmark	.3992
Mexican peso	.1996 bid, .2016 offered
Cuban peso	8-7/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank informed us that it had made another three-months loan of \$50,000 to the Central Bank of El Salvador. As collateral, the Federal set aside gold valued at \$56,988 from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$350,000, secured by \$397,753 in gold.

## CONFIDENTIAL

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

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 September 11, showed that such deposits totaled \$85,301,000, a rise of \$40,719,000 since the last report as of September 4. Included in this total were \$34,210,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, up \$5,130,000 from September 4, and \$42,110,000 in deposits made by Japanese banks in Japan and Manchuria, up \$34,795,000. Loans made to Japanese banks by Yokohama's New York agency totaled \$14,791,000, showing no change from the September 4 figure. We understand that the Federal Reserve Bank is investigating the above-mentioned deposit increases, in the belief that other unreported cash balances may be involved. It will be recalled that, in its investigation of changes in reports of Yokohama's New York agency for the two weeks ended August 7, the Federal learned of the existence of a custody account held for the Bank of Japan. The results of this investigation were summarized in our daily report of August 14.

The Bombay gold price was slightly higher at the equivalent of \$33.91, while the silver quotation was unchanged at 44.56¢.

In London, the price fixed for spot silver was unchanged at 23-7/16d. The forward price moved off 1/8d to 23-5/16d. The dollar equivalents were 42.56¢ and 42.33¢ 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 made two purchases of silver totaling 161,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL


Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding transactions in the account of the State Bank of the U.S.S.R. maintained with the Chase National Bank.

Principal changes in the account during the period September 12 to September 18, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
September 12			\$106,000	Commercial Letter of Credit Account
	\$ 137,000	National City Bank		
September 14	200,000	Skandinaviaska Banka, Stockholm	500,000	Antorg Trading Co.
	100,000	Swiss Bank Corp. by order Reichsbank	136,000	Commercial Letter of Credit Account
September 16	300,000	Hungarian General Bank, Budapest		
	95,000	Bank of Sweden		
	63,000	Commercial Letter of Credit - Import		
	54,000	Hungarian Commercial Bank, Budapest		
September 17	294,000	Commercial Letter of Credit - Import	950,000	Antorg Trading Co.
	98,000	Narodni Bank, Prague	418,000	Commercial Letter of Credit Account
			69,000	Mellon National Bk.

- 2 -

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
September 18	\$10,951,000	Advance against gold shipment by U. S. Mint, San Francisco	\$119,000	Commercial Letter of Credit Account
	304,000	Finlands Bank		
	183,000	Narodni Bank, Prague		
	175,000	Commercial Letter of Credit - Import		
	118,000	J. Henry Schroeder Banking Corporation		



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 19, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from Italian and German accounts.

ItalianNational City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 9	\$ 60,000	Bank of Naples Trust Company	Chase National Bank
September 10	150,000	Credito Italiano, New York	Cash withdrawal

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 16	\$ 463,000	Credito Italiano, New York	The Bank of Italy, Rio de Janeiro
September 17	\$1,122,000	"	Post and Flagg
September 17	500,000	Banca Commerciale Italiano, New York	"
September 18	920,000	Credito Italiano, New York	"

GermanChase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 17	\$ 80,000	Reichsbank	Narodni Bank, Prague

September 19, 1940  
3:45 p.m.

RE RUSSIA-CHINA-U. S. AGREEMENT

Present: Mr. Bell  
Mr. Gaston  
Mr. Foley  
Mr. White  
Mrs. Klotz

H.M.Jr: Just sit down, everybody, and I will reserve the right of getting my chest clean first.

I had a chance at Cabinet to talk about refunding next week, and if my memory serves me right, I said we could go out 14 or 15 years on a 2% bond.

Bell: Well, a little far.

H.M.Jr: You said '53-'55?

Bell: That is right. That is 12-3/4. That is about right. On that sheet, as I recall --

H.M.Jr: From 1940 to 1955 makes 14 years.

Bell: Well, the callable period is a little shorter than the maturity.

H.M.Jr: Well, I think I got across today the most important thing I have done this year. In the usual discussion at Cabinet - of course, this is in the family - Hull said, "Now, within a day or two the Japanese are going to walk into China," and we would have to do something on scrap iron and loan 20 or 25 million dollars to China.

(Unrecorded telephone conversation.)

H.M.Jr: Welles is calling now to try to block this thing. At least I am going to make a record of it all.

- 2 -

After Mr. Hull said that he wanted to do something, then he went on to say there is no use doing anything on oil. So I said, "Well, if they really want to do something to set Japan back on our heels, take the President's suggestion of a couple of months ago of a three-cornered deal with Russia, China, and ourselves. That would really mean something to Japan," and they said, "How," and I said, "Well, for example, if you bought some manganese from Russia and had the understanding that Russia would sell some arms, with that money, we would give credit for arms and China could pay them with Tungsten or something like that--!" They went on and on and on discussing it.

Of course, Stimson is always very helpful. I was going to say something again to make my point again and I didn't, because I thought - I was playing it down. I drove it pretty hard. This went on for about 20 minutes to a half hour, and then the conversation ceased.

During the thing I said that if the President would direct me to do this, I said with the help of Jesse Jones I would like to do it, if the President wanted me to. That was all. Then they went on and on and on. The conversation stopped and the President said, "Henry, I guess you had better get hold of the Russians and start your talk." So Jones spoke up - or Hull spoke up and said, "Well, before you have the final arrangement and give it out to the press, I would like to be consulted," and I said, "Well, absolutely," and I said, "If it is agreeable to Mr. Jones, I would like to have Mr. Henderson, who looks after Russia, sit in and listen to the discussion." He said that was fine. So at 11:30 tomorrow we are on our way. Now we will get Welles.

Klotz: He may surprise you.

- 3 -

- H.M.Jr: I am going to tell him to do his arguing with Mr. Hull.
- Bell: Is Hull in favor of this suggestion?
- H.M.Jr: He never said a word. He never said yes or no and he said that I must have misunderstood Welles because he didn't know anything about it. I said it was Welles that said I couldn't do this and mustn't do this thing until he gets through with this trade treaty with Russia.
- So somebody said, "Well, how is this going to hurt the trade treaty?" Hull said he didn't know and he showed he didn't know anything about this thing and I kept stressing the point that this was the President's suggestion. There is no question that if you want to set Japan back, this is the way to do it.
- White: Sure. If they think they are forcing us into an arrangement with Russia by their steps in Indo-China, they would be more worried by that than anything else. They might reverse their position entirely.
- H.M.Jr: Hull is out on the end of the limb. He has twice scolded Japan if she goes into Indo-China. According to Hull, she is going into Indo-China and he is going to say, "Boys, I am going to lend some money to Indo-China," which they know they can't buy arms with. I pointed that out at the meeting. He is going to do something about scrap iron, but he won't touch oil, and I made a big talk on oil.
- White: Did you notice the figures --
- H.M.Jr: But I thought it was one of the most important things I have sat in and Mr. Welles can just - I don't give a hoot what he says, I am going ahead with it.
- Bell: What is the reason for not touching oil?

- 4 -

H.M.Jr: What Hull said was that if we shut down on oil here, they would go down to Indo-China and could get all they want.

Bell: Indo-China?

H.M.Jr: Dutch East Indies. So the President said, "Well, I am kind of dumb, but I don't see why you want us to stop giving the oil to Japan if she can get all she wants from the Dutch East Indies." So I said, "The answer is, she can't," and Hull said, "Yes, that is right."

White: The answer is she can't?

H.M.Jr: She cannot get all the oil she needs in the Dutch East Indies.

White: She can if they will give it to them unless it is destroyed.

H.M.Jr: I know.

Foley: That is what he means.

H.M.Jr: I read the report.

White: Two and two makes six.

H.M.Jr: Stimson covered me up nicely by saying what it makes - I threw a little bluff and Hull, who didn't have his figures, agreed with me, but Stimson covered up nicely for me.

(Telephone conversation with Sumner Welles follows:)

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- 5 -

H.M.Jr: I am willing to be shaken hands with by anybody. Champ for one minute. How much is that worth to you, Harry?

White: It sounds good to me right away. He is mad as hell.

H.M.Jr: Well, did you hear? I said it was too bad --

White: That last crack set him back.

H.M.Jr: What was that?

White: That his own Secretary doesn't know what he is doing.

H.M.Jr: Well, it is too bad.

White: Well, there is something peculiar. I thought that trade agreement was already arranged in the first place. In the second place, apparently there are other things. What did he say about our citizens there?

H.M.Jr: Sure, Singer Sewing Machine and everything like that.

Klotz: If it goes back to the German Embassy --

White: Did you tell Oumansky anything that you wouldn't want the Germans to know?

H.M.Jr: I haven't seen Oumansky. He is coming here tomorrow. The meeting hasn't taken place yet. Cabinet is just over.

White: Oh, he has reference to what he told Oumansky?

H.M.Jr: Evidently. I haven't seen Oumansky.

Klotz: Well, this will help. I said that is all to the good.

White: You are taking on a fight.

H.M.Jr: Did you hear what Mrs. Klotz said? She said

- 6 -

we should tap Oumansky's wire and I said no, Welles's.

Didn't I sound perfectly pleasant?

- White: I mean, you are taking a fight on your hands. There is no question about that in my mind, and I think you ought to proceed very cautiously, because he will exploit any failure to the fullest opportunity.
- H.M.Jr: That is all right, Harry, and I have got to a point - I have got to a point where people like Mr. Welles and the rest of them, I am going to fight him tooth and nail up to the point that this place gets too hot for one of us. I have reached that point.
- White: There is a question of being careful so --
- H.M.Jr: That is all right. I am not any more going to be careful with people like Mr. Welles. I am through. I crossed that bridge on the planes and look where I have got. I am going to have a stenographer sitting here and Jesse Jones here and Mr. Henderson and you and if the President of the United States - I have a direct order from him on this thing and so has the Secretary of Commerce. Now, if Mr. Welles wants to go up against Jesse Jones and me and the President, okay, let's see what happens. I appreciate your personal friendship in warning me, but I am not going any more just the way I did. Just the way I decided, I am going to put in this young fellow Pehle and give the young fellows a chance whose hearts are in the right place. I am not going to fool around with any more appeasements.
- White: It does do the - I mean, make the best possible step by step that you can, because it would be well to be successful in this particular event.
- H.M.Jr: Look, Mr. Welles and the rest of them have made a complete failure with our negotiations from the day we recognized Russia, from the

- 7 -

day we recognized Russia. And the whole peace of the Pacific is at stake, and it is worth my taking on a fight with Mr. Welles. The whole peace of the Pacific. And this damned nonsense of Cordell Hull saying he is going to tell them he is going to make a loan to China and that way slow them up - the minute the word leaks out that the United States is talking with Russia and China, that is something, and I hope it leaks. I can take on Mr. Welles as long as I have got the President with me.

White: Well, you don't want to make any false steps.

H.M.Jr: Well, I have been pretty lucky without being over-confident, but, Harry, I am through with the Welleses.

Now, on the train, between two and three o'clock in the morning, after continuous drinking from eight o'clock on, Welles began to talk and he told Wallace, who was my informer, and who doesn't drink, what a great guy Mussolini is and how we must do so and so and so and so. He still thinks that Mussolini is a great guy and so forth. The sooner the people get onto it, the better.

White: Do you have - are you going to have something specific for tomorrow, or is it just going to be first --

H.M.Jr: Talk. Where is that memorandum of yours? Right here on top. What do you want me to do with Sumner Welles?

White: No, I am glad to see you take him on, but having taken him on, I don't want to miss any bets, that is all.

H.M.Jr: Well, I have taken --

White: He is a --

- 8 -

H.M.Jr: He is a what?

White: He is a tough adversary, and you want to watch each move.

H.M.Jr: All right, he had better watch out. I am tough, too, and as I say, I went far more dangerously in this airplane thing a year and a half ago, and we have come to the position now - this is also in the room - where I go to the President of the United States and want additional planes for England, and you know what his answer was this morning? They can have anything they want. That is the answer I got today, and they are going to get it, too.

Of course, the Gallup Poll has nothing to do with my policies.

Klotz: That is wonderful.

H.M.Jr: My God, when Harry begins to want to slow me up - where is that memorandum that you have been needling me with?

White: I don't want to slow you up. I just want to put a brick in your glove.

H.M.Jr: All right.

Gaston: Gallup gives 38 states to Roosevelt in a private poll.

H.M.Jr: I made a note. Someplace or other, there is a list which came through - you will have to get together with Miss Chauncy - someplace, a list of war material which Russia had sold to China. Now, one of these many things that come my way, so many guns --

White: Did we get it from China?

H.M.Jr: I think it came from Nicholson, but you will have to go through with it.

- 9 -

Gaston: Archie may know something about it.

White: Do you have any idea --

H.M.Jr: It is within the last month.

White: I see. That will be easier to find, then.

H.M.Jr: Good night, everybody. I will read anything you will send to the house, Harry, on Russia, and don't go around and make a deal with Sumner Welles tonight, either, see.

September 19, 1940  
9:17 a.m.

H.M.Jr: ..... Paul Appleby was asking about.

Herbert  
Gaston: Yes.

H.M.Jr: Why don't you call up Ed Flynn yourself?

G: Well, I thought of doing that.

H.M.Jr: And ask him what it's all about. You've got the background.

G: Yes, I know all about this situation.

H.M.Jr: Just see it through for me will you?

G: Yes, yes, I'll call him.

H.M.Jr: Will you do that? And just ask him what he has in mind about Saul Haas and all the rest of it, please.

G: Yeah. I'll do it.

H.M.Jr: Thank you.

September 19, 1940  
3:50 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis just went out to keep an appointment and she doesn't know how long he'll be. She said Mr. Young arranged the appointment with Mr. Vance.

H.M.Jr: Oh. Well, does she know whether he's leaving town tonight?

Operator: I'll ask her. Just a second. (Pause) She says she doesn't think he knows yet, but she doesn't.

H.M.Jr: Well, I'd like to talk to him in the morning.

Operator: All right, and Mr. Welles is calling you.

H.M.Jr: Who?

Operator: Welles.

H.M.Jr: Welles?

Operator: Yes.

H.M.Jr: Well, I can't take it just now.

Operator: All right.

3:53 p.m.

H.M.Jr: Hello.

Operator: Mr. Welles said he'd like to call you back.

H.M.Jr: Well, tell them he'll have to do it in the next three or four minutes, if he wants to talk to me.

Operator: Right.

September 19, 1940  
3:55 p.m.

H.M.Jr: Hello.

Sumner  
Welles: Sorry to bother you again, Henry.

H.M.Jr: That's all right.

W: I wanted to ask you, because Mr. Hull told me that he wasn't sure what it was about, what the meeting is that you're going to have Cumanisky at with one of our people and Jesse tomorrow.

H.M.Jr: Well, I don't know why Mr. Hull didn't understand it. We went over it three times.

W: Well, he told me that he didn't.

H.M.Jr: Well, the question came up about what Mr. Hull could do to Japan if she walked into Indo-China and I reminded the President of his suggestion of a 3-cornered deal between the United States, Russia and Japan and China, and if he directed Jesse Jones and me to go ahead I'd be willing to, and after the discussion ran along twenty minutes he said he wanted Jones and me to do it.

W: Uh-huh.

H.M.Jr: And Hull said that before any final arrangement was made he'd like to see it and I said well I'd like whoever watched Russia for him to sit in at all of the meetings and he said the man was Henderson.

W: Yes. Does this - what you have in mind - does this involve the loan to China?

H.M.Jr: It might and it might not, but I also said, so that you have the whole story, that when I broached it to you that you said that you definitely didn't want me to do anything about it because it might hamper you on your trade deal with Russia.

W: Well, that's the reason that I wanted to have the chance of talking to you. I'm just in the middle of these conversations with Oumansky and the Russians have taken the most completely uncooperative attitude after the first two conversations and we haven't gotten anywhere with the treatment of our own citizens in Russia and on many other things that we consider necessary.

H.M.Jr: Well, maybe this will help you.

W: Well, I wanted to give you this background so that you'd know it.

H.M.Jr: Right.

W: In addition to that I want to tell you that we have positive information that everything that is told to Oumansky here in the Department of State is immediately communicated by him to the German Embassy.

H.M.Jr: I see.

W: And I have no doubt that the German Embassy would inform the Japanese Government of anything that you might say in regard to that problem.

H.M.Jr: Well, that would be helpful wouldn't it?

W: Possibly; possibly not. In any event, Henderson will be there at your meeting and I wanted to tell you personally what the situation here was with regard to my negotiations with him.

H.M.Jr: Well, it's too bad that Mr. Hull didn't seem to be familiar with your negotiations. He didn't seem to know anything about it.

W: Well, they've been going <sup>on</sup> as you know for two months. Of course he was away for three weeks out of that time.

H.M.Jr: Yeah.

W: All right, Henry, I just wanted to let you have that dope.

H.M.Jr: Thank you.

September 19, 1940.

Dear Captain Balfour:

I was very glad to have your letter of September 8th, and to learn that you had reached home safely. I appreciate your writing me as you did about our discussions here, and I am glad to have the information you sent me.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Captain Harold H. Balfour,  
Parliamentary Undersecretary of State  
for Air,  
Air Ministry, Department O.A.,  
King Charles Street,  
Whitehall, S. W. 1,  
England.

*Sent to State Dept. 9/20  
to go by Diplomatic Pouch*

GEF/dbs

September 18, 1940.

Dear Captain Holford:

I was very glad to have your letter of September 8th, and to learn that you had reached home safely. I appreciate your writing me as you did about our discussions here, and I am glad to have the information you sent me.

With cordial regards,

Sincerely,

(Signed) H. Morganthau, Jr.

Captain Harold H. Holford,  
Parliamentary Undersecretary of State  
for Air,  
Air Ministry, Department C.A.,  
King Charles Street,  
Whitehall, S. W. 1,  
England.

Sent to State Dept 9/20  
to go by Diplomatic pouch

GEF/dbs

September 19, 1940.

Dear Captain Balfour:

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With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Captain Harold H. Balfour,  
Parliamentary Undersecretary of State  
for Air,  
Air Ministry, Department C.A.,  
King Charles Street,  
Whitehall, S. W. 1,  
England.

Sent to State Dept 9/20  
to go by Diplomatic pouch

GET/dbs

Dept. O.A.

6th September, 1940.

Dear Mr. Morgenthau

I am so sorry that before leaving the American Continent I could not send you a personal letter of thanks for your hospitality on Sunday, and also to express my appreciation of the opportunity of meeting you. I left Montreal early yesterday morning and we got in safely this afternoon - so I lose no time in making up for my deficiency.

When I went to New York I took up the question of the secret aircraft about which you spoke to me. I find that your words of three weeks ago did not fall upon barren ground, in that we have been making enquiries in a discreet way as to what is the position. I gather that the aircraft is not very far advanced as the prototype has not yet flown, and it may be 1942 before production can get into swing. We are, however, vitally interested.

As regards your suggestion of connecting up the supply of the particular fitment you mentioned with the ordering of this type of aircraft; if, of course, the 1942 date is anywhere near correct this would make it an unduly long time. I think you know that Sir Henry Tizard is at Washington dealing with these very matters, and I have taken steps to see that he has been made acquainted with our conversation.

With kind regards - and may I be allowed to add an expression of the sentiment which all of us feel, of gratitude to you for your personal help in what I believe is our common cause.

Yours sincerely  
James B. Baggot

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

September 19, 1940

8:55 a. m.

Present:

Mr. Bell  
Mrs. Klotz

HM, Jr: On this thing, your memorandum of Sept. 17th, on the recommendation of who should work on the German, Russian and Italian payments, I accept that recommendation.

Number 2. Your recommendation about Professor Chamberlain -- in regard to Pehle, I accept that.

Mr. Bell: He ought to understand that is tentative.

HM, Jr: If you will tell somebody, I would like to see Pehle myself.

He ought to get a little more money.

Mr. Bell: We thought not for the moment. Maybe on January 1, if he is still in charge, you would give him more money, but he has been promoted pretty fast in the last four months.



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

September 17, 1940

MEMORANDUM TO THE SECRETARY:

Messrs. Gaston, Foley, White, Thompson, Cochran, and I have considered the following matters suggested by you at yesterday's conferences and make the recommendations indicated herein:

1. German, Russian, and Italian payments in the United States

We discussed this at some length and feel that all of the material which we have in our possession should be studied by one of Dr. White's employees and Mr. Klaus, who should report thereon to Mr. Gaston and Mr. Cochran, making whatever suggestions they care to regarding further procedures to obtain additional information. We suggest that, for the time being, they confine their studies to the material already in possession of the Treasury. If, after discussing it with Mr. Gaston and Mr. Cochran, it is decided that further information is needed from either the Federal Bureau of Investigation or the Federal Reserve Bank of New York, Mr. Gaston and Mr. Cochran will make those contacts and request whatever is necessary.

If it is later decided that there is sufficient work to require the full time services of an employee in addition to Mr. Klaus, we will then undertake to secure the services of such an employee.

2. Recommendation concerning Professor Chamberlain's position

After some discussion of this matter we recommend that Mr. Pehle temporarily be given the title of "Assistant to the Secretary" and be authorized to administer the Foreign Funds Control section in the same manner that Professor Chamberlain has administered it, except ~~that~~ *it might* ~~be~~ be understood with Mr. Pehle that this is a tentative arrangement and that after election you may want to bring in some one from the outside to handle this matter.

The committee arrangement should continue, but every effort should be made to reduce the number of cases to be submitted to the committee and also to reduce the length of its meetings. It might even be possible to meet three times a week instead of every day.

*AWB*

September 19, 1940

His Majesty's Government  
In Right of the Dominion of Canada  
c/o British Purchasing Commission  
37 Wall Street,  
New York, New York.

Dear Sirs:

We submit this proposal to enter into a contract with you for the construction and delivery of 144 Vultee Model #48-C Single-Engine Pursuit airplanes, in accordance with Vultee Specification #544-6 Change C, dated January 31, 1940, except as modified herein, plus 15 additional Pratt & Whitney Twin Wasp two speed engines, Model R-1830-S204-G, plus 15 Hamilton Hydromatic Standard propellers, plus spare parts for the above Model #48-C Vultee airplanes to be selected by you within forty-five days after your acceptance of this proposal, which, however, must include such spare parts for said airplanes as are now in process of manufacture at our factories or have been heretofore ordered by us from the purveyors thereof.

The terms and conditions of this proposal are as follows:

1. This proposal is subject to acceptance within twenty-four hours from the delivery thereof, and if accepted, a definitive contract is to be executed and delivered within ten days thereafter.

2. The price of each of said airplanes completed in accordance with the specifications and including engine, propeller and accessories, and automatic manifold and optical gun-sights not covered by said specifications, but exclusive of charges for boxing and crating or delivery charges shall be \$61,045. The price of each of said additional engines shall be \$17,508. The price of each of said additional Hamilton Hydromatic Standard propellers shall be \$3,764, and your order for spare parts shall aggregate a total amount of not less than \$1,758,054.81 United States dollars. The total price of all of the aircraft, engines, propellers and aircraft spare parts to be manufactured, sold and delivered hereunder shall be \$10,867,422.39, unless said aggregate total price is increased by reason of your having ordered aircraft spare parts in excess of the minimum of \$1,758,054.81, and the down payment of

His Majesty's Government  
In Right of the Dominion of Canada

- 2 -

September 19, 1940

50% of said total contract price, or \$5,433,711.19 is to be made by depositing said sum in United States dollars to our credit at The Chase National Bank of the City of New York, contemporaneously with your acceptance of this proposal. The remaining portion of the contract price of each item to be delivered hereunder is to be paid to us when said items respectively are ready for delivery at one of our plants or at the plants of purveyors thereof, in the case of spare engines and propellers and such other articles as we may mutually agree are to be shipped direct by such purveyors to you. The foregoing prices are exclusive of boxing and crating charges, sales, use and processing taxes imposed upon the manufacturer, if any, insurance and delivery charges which are in every case to be added to the contract price and paid by you, and at your risk and expense we agree to make delivery of all of the aircraft, engines, propellers and aircraft spare parts covered by this contract at such place outside the State of California but within the United States of America as you may designate. Your obligation to accept delivery of said airplanes and to make payment of the balance of the purchase price thereof shall not be dependent upon the procurement of a license to export same from the United States, but we agree to cooperate with you in endeavoring to obtain an export license.

3. The airplanes and materials to be manufactured and sold hereunder are to be ready for inspection as follows:

As to airplanes -

- 2 airplanes not later than October 31, 1940;
- 3 airplanes not later than November 30, 1940;
- 7 airplanes not later than December 31, 1940;
- 10 airplanes not later than January 31, 1941;
- 15 airplanes not later than February 28, 1941;
- 20 airplanes not later than March 31, 1941;
- 22 airplanes not later than April 30, 1941;
- 22 airplanes not later than May 31, 1941;
- 23 airplanes not later than June 30, 1941;
- 20 airplanes not later than July 31, 1941.

As to spare engines, spare propellers and spare parts, delivery will be made of seven spare engines and spare propellers not later than June, 1941, and of the remaining 8 spare engines and spare propellers not later than July, 1941. Our spare parts price list and recommendations as to the airplane parts you should purchase will be delivered to you within two weeks after your acceptance of this proposal. Your complete order for spare parts is to be given to us

His Majesty's Government  
In Right of the Dominion of Canada

- 3 -

September 19, 1940

as soon as practicable thereafter, and in any event not later than 45 days after the receipt of said price list and recommendations. Having so received said order, we agree promptly to order from our own purveyors such materials and supplies as are required to complete the same, and to commence deliveries thereunder within sixty days after the receipt of said order and complete the same in monthly installments in substantially the same proportions as deliveries of the balance of the airplanes hereunder with final delivery not later than August 31, 1941.

All obligations with respect to delivery are subject to force majeure and other excusable causes of delay as set forth in Article X of the agreement between the undersigned and His Majesty's Government in the United Kingdom, dated as of July 3, 1940, and are also to be excused without payment of loss or damage by us if consummation of the contract contemplated by this proposal is enjoined by final decree of a court of competent jurisdiction, or if we are required by government order or final decree of any court to make delivery of said airplanes and material elsewhere than to you, and upon the happening of any such event so preventing performance of our contract by reason of government order or final decree of a court of competent jurisdiction, we agree to repay to you all moneys advanced by you to us pursuant to this proposal, less the contract price of any airplanes or material actually delivered to you hereunder, and after deducting an amount equal to all costs, damage and expense not otherwise paid by you which we have sustained by reason of the making and acceptance of this proposal.

4. The definitive contract to be executed if this proposal is accepted is to contain the same guarantees and warranties with respect to the construction and performance of the airplanes to be manufactured and delivered hereunder based upon the specifications applicable thereto as are contained in the contract between this corporation and His Majesty's Government in the United Kingdom, dated as of July 3, 1940, and in general, substantially the same provisions with reference to taxes, insurance, representation of purchaser at seller's plant, inspection and tests, change orders, Neutrality Act, labor standards, patents, copyrights and

His Majesty's Government  
In Right of the Dominion of Canada

- 4 -

September 19, 1940

trademarks, contingent fees, corrupt gifts to persons in His Majesty's service, confidential treatment and other applicable provisions.

VULTEE AIRCRAFT, INC.

By V. C. Schorlemmer,  
Vice President

The foregoing proposal is hereby accepted this  
17th day of September, 1940.

HIS MAJESTY'S GOVERNMENT  
IN RIGHT OF THE DOMINION OF  
CANADA ACTING THROUGH THE DIRECTOR  
GENERAL OF THE BRITISH PURCHASING  
By A. C. Boddie COMMISSION

FOR AND IN BEHALF OF THE  
DIRECTOR GENERAL

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

September 19, 1940.

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

Dear Mr. Morgenthau:

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

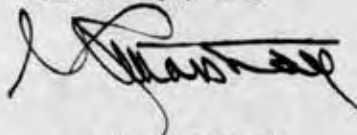
Part I - Airplanes

Deliveries of and New Orders for Airplanes,  
June 9 - September 14, 1940; Unfilled Orders  
and Estimated Deliveries on September 14, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane  
Engines, June 9 - September 14, 1940; Un-  
filled Orders and Estimated Deliveries on  
September 14, 1940.

Faithfully yours,



Chief of Staff.

OCS 17840-203

September 19, 1940.

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

Dear Mr. Morgenthau:

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

**Part I - Airplanes**

Deliveries of and New Orders for Airplanes,  
June 9 - September 14, 1940; Unfilled Orders  
and Estimated Deliveries on September 14, 1940.

**Part II - Airplane Engines**

Deliveries of and New Orders for Airplane  
Engines June 9 - September 14, 1940; Un-  
filled Orders and Estimated Deliveries on  
September 14, 1940.

Faithfully yours,

*(Sgd) G. C. MARSHALL*

Chief of Staff.

DISPATCHED  
SEP 19 1940  
FROM A C C

In reply refer to Initials  
and No.

NAVY DEPARTMENT  
OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
WASHINGTON

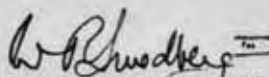
19 September 1940

Dear Mr. Morgenthau:

Receipt is acknowledged of Parts I  
and II of the latest confidential reports furnished  
by the Treasury Department on airplane and airplane  
engine deliveries.

Your courtesy in continuing to fur-  
nish these reports is much appreciated.

Sincerely,



W.R. Smedberg, III,  
Lt. Comdr., U.S. Navy,  
Aide to Chief of Naval Operations.

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

RECEIVED

SEP 20 1940

OFFICE OF THE CHIEF OF NAVAL OPERATIONS

MEMORANDUM

September 19, 1940.

TO: Secretary Morgenthau  
FROM: Mr. Sullivan

On November 24, 1939, in a conference with Under Secretary Hanes which was attended by Mr. Foley, Mr. Kades and myself, Mr. Hanes showed us a photostatic copy of a memorandum of November 9, 1939, initialed by the President directing you to work out a policy of depreciation allowance by which the abnormal investment in plant expansion that will be required by the airplane motors manufacturers will be absorbed over the life of the contracts or during the emergency period. At that conference Mr. Hanes asked me to furnish him with a memorandum indicating the extent to which closing agreements might be used to expedite erection of additional facilities for National Defense.

That afternoon Messrs. Lauchlin Currie, Kades, Burrus, Appel and Reiling met with me at the Bureau of Internal Revenue and on November 25, 1939, we completed a memorandum which I submitted to Mr. Hanes. This memorandum stated that the objective of the President's memorandum might be more effectively approached by revising regulations relating to obsolescence than by any attempt to expand the functions of a closing agreement.

On November 28, 1939, in a conference in Mr. Hanes' office which was attended by Mr. Wenchel and Mr. Kades, Mr. Hanes approved the memorandum of November 25th and suggested that the regulations relating to obsolescence might be clarified insofar as the Vinson-Trammell Act was concerned.

Mr. Hanes asked me to bring everything I had on Consolidated Aircraft to a meeting the following day to be held with the Secretary. At the conference with the Secretary on November 29, 1939, Mr. Hanes submitted the memorandum dated November 30th stating that Congressional action was required and outlining the two methods which Congress could use to solve the problem: (1) direct appropriations to the Army and to the Navy for the construction of additional facilities and (2) a statute authorizing the Treasury Department to provide for special deductions for amortization.

The Secretary disapproved the last part of this memorandum and Mr. Kades and I prepared a new memorandum which was approved by Mr. Foley, and which on December 1, 1939, the Secretary took to give to the

- 2 -

President at the Cabinet Meeting. On December 2, 1939, Mr. Kades prepared a memorandum developing in detail the scope of the Treasury authority to assist in the program for National Defense by exercising powers conferred upon it by the Internal Revenue laws in respect to closing agreements, obsolescence allowances and remedies of taxpayers. On December 11, 1939, Mr. Kades prepared drafts of identical letters to the Secretary of War and the Secretary of the Navy, outlining the scope of the Treasury authority and summarizing the applicable laws and regulations. On this same day Mr. Foley submitted to the Secretary a draft of a memorandum for the President which had attached a copy of the letters to the Secretary of War and the Secretary of the Navy, which memorandum stated that the only two solutions of the problem were: (1) the erection of the Federal Government of shadow factories to be leased to private industry, and (2) the construction or financing of construction of such plants by the Federal Public Works.

JLS

## Merry-Go-Round

(Trade Mark Registered)

By DREW PEARSON and ROBERT S. ALLEN

The most disastrous news that has escaped the British recently is the fact that the Bristol arms factory in southwest England has been severely damaged by German bombs. This news has come back to Washington via the diplomatic and military cables.

The Bristol plant is one of the most important munitions factories in England, and apparently it has been virtually put out of business. Coming on top of damage to the Rolls-Royce airplane motor plant, this is devastating information.

Furthermore, the Germans have been causing a lot more damage than gets on the press wires and on the whole the British situation has worsened considerably in the past week.

British morale is still high, in fact better than during the last World War, and British workers still are putting up an amazing battle, far surpassing the Germans in individual skill and bravery. However, bravery and morale alone will not win a war and when the output of their factories such as the Bristol arms plant is stopped, it means that the British may lose any morale and bravery

on the optimistic side, however, Royal Air Force aviators have been wreaking terrific damage on German gasoline plants and other factories. The damage to German plants is greater than that to the British. Only trouble is that the British don't have as many planes as the Germans to perform bombing raids of this kind.

There is a lot of talk in British bombing circles that three ago was 12 British bombers—each with a carrying capacity of 10,000 lbs—will be in the air by now but not a word.

#### Germany Builds Bombers

The British have been struggling for years on national defense. They agree with the allies, and they are adjusting their defense programs to one of the most important developments in the world. This is the

it is a mixed story. Some business firms have been 100 per cent patriotic in their attempt to aid national defense. On the other hand, a great many have not. Some have been very much like British and French munitions firms in their procrastination over vital war orders.

The story goes back to November 8, 1939, when John Hanes, then Undersecretary of the Treasury, submitted a confidential memorandum to the President advising that industry would have to be given tax concessions if it was to expand for national defense. Specifically, Hanes pointed out that airplane manufacturers could not be expected to build new plants to speed up production if, after a year or two, the war would be over and they would be left with empty plants on their hands.

So Hanes proposed that the cost of these new plants be amortized in a relatively short time so that industry would not have to pay taxes on them after the war emergency was over.

#### Morgenthau's Idea

Roosevelt approved this proposal. But when the Hanes memorandum went back to Secretary of the Treasury Morgenthau, it ran into stormy weather. In fact, this memo was one of the things over which Morgenthau and his Undersecretary quarreled.

Hanes and Morgenthau both are millionaires, both able men. But Hanes, a director of the Glenn Martin Aircraft Corporation, looks at taxes more from the businessman's viewpoint while Morgenthau looks at taxes from the viewpoint of collecting money to run the Government.

Therefore, Morgenthau told Roosevelt that he would secure enough factory expansion from the airplane companies, but instead of taking it out of government tax revenue, he would make the French and British pay for it. He pointed out that the Allies were placing large airplane orders, and that they could pay American factories a higher price in order to finance plant enlargement and new machine tools.

This seemed a good idea to

Roosevelt, and on November 10 he decided to make Morgenthau co-ordinator for the sale of air planes to France and Great Britain. Later, on December 6, Undersecretary of State Sumner Welles approved a plan whereby the Treasury, rather than the State Department, passed on the shipment of airplanes to the Allies.

#### Hitler Gums the Works

The Morgenthau idea seemed to work all right during the winter, and the Allies laid plans for spending about \$7,000,000 on U. S. factory expansion. They didn't do this very willingly, but Louis Johnson, hard-boiled Assistant Secretary of War, saw so it that they didn't get the latest types of planes unless they paid extra for plant expansion, and Morgenthau backed him up.

Thus the British paid \$739,000 to the Curtiss Aircraft Company for putting in new tools, not only for British, but for new U. S. planes.

One factor upset this program—namely, Adolf Hitler. For by the time he had gone into Norway, Belgium and Holland it became apparent that the United States was going to need airplanes a great deal faster than either the British or the United States could finance plant expansion—in fact, much faster than anyone could build new plants.

#### Companies Fear Taxes

Shortly after the invasion of the Low Countries, the British entered into a deal with the War Department and—they thought—with Ford to manufacture 1,000 Rolls-Royce airplane motors, 6,000 for Britain and 2,000 for the United States. The price was increased somewhat in order to take care of the extra expense to be incurred by Ford in equipping his plant, and Congress rushed through a special appropriation of \$43,500,000 to pay for the order.

Then Ford reneged on the British, and of the order and the offer was made to Packard, which immediately raised the question of tax amortization. In other words, Packard said that if they were to enlarge their plant they didn't want to have to pay taxes on it after the emergency was over.

This was agreeable to the Treasury and the White House. But about this time the Treasury and the congressional committee considering new taxes proposed a limit of 6 per cent profit on all Army orders. This is the same profit limitation enforced on Navy orders under the Vinson-Trammell Act, which was inserted in the 1935 naval bill through an amendment by Senator Tobey of New Hampshire. However, the Army escaped any profit restriction by its contracts except for airplanes, on which manufacturers can make a profit of 13 per cent.



BRITISH EMBASSY,  
WASHINGTON, D. C.

September 19th, 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. Hurai*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated  
September 19th, 1940

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Royal Air Force

During September 17th Blenheim aircraft attacked cargo boats at Zeebrugge and barges at Ostend, Antwerp, and Stalburg.

During September 17th/18th, 208 aircraft attacked barges and shipping in French, Belgian, Dutch and German ports, and railway marshalling yards. Mine laying was also carried out. 2 aircraft missing.

2. German Air Force

Considering widespread nature of attacks on London during the night of September 16th/17th, comparatively little major damage was done. Several railway stations and lines were damaged, but not in a manner to affect main line traffic which is now normal from many termini. Some damage was done to electric power stations, but this is not serious. There were no casualties in hospitals reported damaged in my telegram of September 17th. Certain main roads in London were blocked and traffic has been temporarily diverted. Preliminary reports indicate that 20 to 30 were killed and 250 to 350 injured, but these figures may be increased when final reports are received. Slight damage and no casualties are reported from Midlands, except Coventry where 14 people were killed and 21 seriously injured. House property damaged at Liverpool and one person killed and 9 injured.

The/

The principal enemy activity yesterday was attack by approximately 300 aircraft during the afternoon. Leading 110 aircraft reached Maidstone, remainder spreading out over East Kent. Our fighters obtained interceptions before the enemy aircraft withdrew, and Thames Estuary was not crossed. Single enemy aircraft attacked many places in South East England and Portsmouth but only slight damage and few casualties resulted.

Last night London was frequently bombed, and in the provinces chief areas of attack were Liverpool, South Wales and Glasgow. Extensive use was made of incendiary bombs. What are believed to be magnetic mines were dropped in London suburbs and at Tunbridge Wells. Some fires caused in London docks but no serious damage resulted. Southern Railway again suffered damage, but not to main lines. Large number of fires reported in London area, but all are under control. Figures of casualties not yet available. In Liverpool property was damaged and 24 fires started. Dock in Glasgow damaged by fire. Incendiary bombs dropped at Swansea - no serious damage. Bombing caused considerable damage to house property in Exeter.

3. Summary of air casualties.

<u>Enemy by day</u>	Destroyed	probable	damaged
by fighters			
bomber	1	-	1
fighters	4	4	1
by anti-aircraft fire			
fighters	2	-	-
<u>by night</u>			
by fighters			
bomber	1	-	-
by anti-aircraft fire			
unknown	2	-	-
Totals	<u>10</u>	<u>4</u>	<u>2</u>

British: 5 aircraft (1 pilot killed or missing).

4. Shipping

Casualties. One British ship (5,300 tons) sunk by torpedos on September 14th while homeward bound.

Convoy of 39 ships, including 19 Allied and 3 neutral, has arrived in home waters. Cargoes include 8 of pit-props, 15 of lumber, and 8 of steel.

5. Middle East

Italian advance from Libya reported to be led by 2 motorized metropolitan divisions extended between Sidi Barrani and Sollum, while Libyan division is dispersed between Sidi Omar and Halfaya preparing defensive positions.

On September 16th Blenheims attacked mechanical transport concentrations East of Suq-Suq, and fleet air arm aircraft made successful attack on shipping in Derna harbour. Hangars and aircraft also destroyed by British air attack on Benina aerodrome.

Sudan. Our positions at Bora and Gallebat bombed September 15th. No casualties.

Situation on Kenya front reported all quiet.

5. Projected action against the United Kingdom.

There is no material change in the situation regarding invasion.



BRITISH EMBASSY,  
WASHINGTON, D.C.

Personal & Secret

September 20th, 1940.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of a supplementary resumé from London for the period September 5th to 12th.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*L. Morison*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated September 18th.

The following is a supplementary record of operational events covering the period September 5th to September 12th.

1. Naval.

German attack on London docks has caused appreciable casualties to merchant vessels. Sinkings by U-boat have decreased. Reports of raiders in the South Atlantic and Indian Ocean have been received.

There has been a very marked movement of enemy merchant ships and barges westward along the southern shores of the North Sea and the English Channel.

Our light forces have been carrying out sweeps off the French, Belgian, and Dutch coasts, during which they have encountered and sunk several enemy vessels.

Sweeps have also been carried out towards Iceland and the Norwegian coast by heavy forces, but, apart from a few merchant vessels near the coast, nothing was encountered.

2. Military.

In Italian East Africa there are indications that an attack may soon be launched against the Sudan along Asmara-Kassala axis.

This/

This offensive may be accompanied by a thrust southward towards Kenya, although no abnormal troop concentrations have yet been reported in this region.

There is further evidence in Italy of a lack of enthusiasm for the war; of a desire to preserve intact as long as possible the Italian armed forces in the hope that German offensive against Great Britain will bring victory at little cost in Italian blood; and of serious effects on the morale and industry of R.A.F. attacks on Northern Italy.

### 3. Royal Air Force.

Our bombing operations against Germany were on a similar scale to those of the previous week, but, in addition to continuing our offensive against the usual targets, a considerable augmentation of series of attacks was directed against concentrations of barges and shipping along the coasts of France and Holland. A number of varied targets in Berlin were bombed with satisfactory results. Attacks against Italy were restricted to a night raid on Turin.

The enemy's tactics at first consisted of renewed and unsuccessful attempts to break down our fighter defense by further attacks on British aerodromes. Later a new phase developed and attacks were directed with the object of disrupting communications and creating chaos in London dock area. A third phase followed which seemed to have as its aim the demoralisation

of/

of the civilian population by indiscriminate night bombing. Although general damage has been considerable no serious dislocation of the country's war effort was caused.

It is satisfactory to note that in spite of the enemy's attacks on our aerodromes no aircraft were lost on the ground during this period.

Our aircraft successfully attacked a number of enemy aerodromes on Libyan ..... In East Africa several Italian aircraft were destroyed or damaged on the ground by bombers of the South African Air Force.

The most destructive raid took place on the afternoon of September 7th against London docks area by about 250 aircraft, and continued throughout the night. Bombing was accurate and considerable damage resulted. Eighty of the enemy were destroyed by our fighters, and large scale daylight attacks were not repeated until the 11th, when equally heavy losses were sustained by the attackers, this time without any compensating success. A feature of the enemy's daylight attacks has been the very heavy fighter protection provided for his bombers.

4. German Air Force.

The dispositions of the German Air Force remain substantially unchanged. The two long range bomber formations from Norway are now stationed in Belgium. The short range dive bomber force, which was withdrawn from operations against this country on August 18th, has not been concentrated in the Calais area.

The examination of over 100 prisoners shows that the morale of the German Air Force is still high. This is specially so amongst fighter pilots - high morale of heavy bomber crews being not quite so outstanding. A report by a medical officer says however that many of the prisoners show signs of nervous exhaustion. There is no apparent shortage of trained pilots.

Italy.

The 200 Italian pilots who were undergoing dive bombing instruction in Germany were recalled to Italy before the completion of their training. The reason for this curtailment was stated to be that the physique of the Italians was unequal to the strain.

5. Switzerland.

There is reason to believe that the Swiss Government under German and Italian pressure may be forced to take more serious measures to secure interception of belligerent aircraft. It is reported that an order has been given to station anti-aircraft batteries high in the Swiss mountains.

#### 6. Home Security.

Damage caused by enemy bombing has been regularly reported in daily telegrams during the week as it occurred.

Nearly all of those factories in Birmingham and Coventry, which in the last few weeks have sustained damage, are now on full production.

None of the damage caused to electric power stations has caused more than a temporary failure of electric light or power; but a large area of East London has been out of gas supplies for at least a week, owing to damage caused at a gas works.

Casualties for the week ended September 11th were 1,211 killed and 5,547 wounded. These figures include 976 killed and 4,149 injured in the London area.

#### Unexploded Bombs.

Arrangements have been made not only to strengthen bombs disposal sections, but to add to them a number of trained men, who can carry out reconnaissance of the site of reported unexploded bombs. It is hoped that this procedure will save a considerable waste of effort on the part of the sections themselves, who are frequently called to places unnecessarily.

Although/

Although there have been many cases of direct hits and near misses on shelters of all types, public confidence in them remains high. Large number of people take their beds to a public shelter every night.

One shelter had a direct hit while some thousand people were inside, 162 casualties resulted, whereas of 600 refugees in a school which was hit in West Ham over 200 people were killed and many more severely injured.

The civil defence services have been very heavily engaged and have endured long hours of very heavy duty with efficiency and cheerfulness. Remarkable examples of skill and determination have been reported from all services, and in at least one area they have been officially thanked for their work by a deputation of members of the public.

#### 7. Operational Aircraft Casualties.

<u>British</u>	<u>In the Air</u>	<u>On the ground</u>
Bombers	25	-
Fighters	114	-
Coastal	<u>4</u>	<u>-</u>
Total	143	-

At least 69 of the fighter pilots are known to be safe.

<u>Series</u>	<u>Destroyed</u>	<u>Probably</u>	<u>Damaged</u>
Bombers	114	51	62
Fighters	153	44	51
Miscellaneous	<u>32</u>	<u>2</u>	<u>21</u>
Total	299	97	134

H.B./

N.B. Included in the above are 15 destroyed, 2 probable and 10 damaged by anti-aircraft fire. No account is taken of German aircraft destroyed on the ground.

Middle East.

<u>British</u>	<u>In the air</u>	<u>On the ground</u>
	3	-

<u>Italian</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged.</u>
	17	11	14

8. No. 1 Canadian Squadron Hurricanes has been in action on most days during the period September 1st to 15th. This squadron has destroyed 8 enemy aircraft (and probably a further 6) and damaged 16 others. During this period the squadron has lost 11 aircraft, 4 of the pilots of which were killed.

During the same period the Natal Squadron (Spitfires) has also been heavily engaged. They have destroyed 26 enemy aircraft and probably a further 15, while they have damaged 16 others. During these engagements they lost 8 aircraft, although some of the pilots were saved.

September 19, 1940

MEMORANDUM

To: The Secretary

From: Mr. Young

Re: Possible Increase in Production Rate  
of Sperry Bomb Sights.

At the present time Sperry Gyroscope Company has an order for 100 Sperry O-1 bomb sights for the Air Corps. These will be produced at a rate of 20 per month and 15 have been delivered already. The Air Corps has planned to start production on a slightly improved bomb sight (Sperry F-1) in April thus losing any advantage which might be secured in price and in quantity by increasing the rate of production of the O-1 bomb sight now being delivered.

If Sperry could secure an order of 1,000 of these O-1 bomb sights, 500 for the Air Corps and 500 for the British, the production rate would be increased to 100 per month in approximately six months and the cost would be cut by 30 to 40 percent. The additional expense necessary to bring about this increased rate of production would be relatively negligible and represented solely by some additional tooling.

FY.

September 19, 1940

MEMORANDUM

To: The Secretary

From: Mr. Young

Re: Increase in P-40 Production.

The production rate of Curtiss P-40's will be stepped up by 33% because the Advisory Commission, the Air Corps and the British Purchasing Commission have agreed to build this one type for a definite period and so take advantage of mass production methods. Specifically, the production rate of increase is from 6 planes per day to 8 per day, or from 132 per month to 176 per month. The approximate cost of this production increase is only \$190,000 (\$150,000 for tooling and \$40,000 for building) as against the initial cost value of the plant of \$6,200,000.

This specific instance of the P-40 demonstrates how the production rate can be increased from 20 to 40% at little additional cost where there is a sufficiently large order for a standardized product over a period of time long enough to take advantage of modern production methods.

*Ry.*

September 19, 1940  
4:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur  
Purvis: Hello. Good afternoon, Henry.

H.M.Jr: Hello, Arthur.

P: Yes, Henry.

H.M.Jr: Where are you?

P: I'm over with Mr. Vance for a few minutes on machine tools.

H.M.Jr: Oh.

P: I'd like to see you too - could I? Would ten minutes from now be all right? We're in rather an important meeting on that machine tool .....

H.M.Jr: No. I can't do it just now, I just wanted to tell you that the mission I undertook which I told you I was going to .....

P: Yes.

H.M.Jr: You've heard about it?

P: No, but you told me you were going to.

H.M.Jr: Well, I met with even more favorable reception than I possibly could have hoped for.

P: Oh, really.

H.M.Jr: Yes. And if you think that that word would be encouraging .....

P: I think it would be, very.

H.M.Jr: I think you might send that along.

- 2 -

P: Can I translate it into any practical issue.

H.M.Jr: No, I think we'll have to wait. They hope to get it down in black and white and get his formal okay on it by the middle of next week.

P: By the middle of next week.

H.M.Jr: Yes.

P: But it might be better than one-for-one, do you think?

H.M.Jr: Pardon?

P: Do you think it might be better than one-for-one?

H.M.Jr: No, just what I said yesterday.

P: Just what you said.

H.M.Jr: No, but through until the first of July.

P: Uh-huh. Oh, yes, I mean, that could be very valuable.

H.M.Jr: Oh, yes. You saw the figures.

P: Yes. Oh, yes, I think that's simply wonderful.

H.M.Jr: Right. No, I think that you'd better go through with your machine tool thing and if you're in town tomorrow and still want to see me why maybe we can fix it up.

P: I think I'll stay over in the hope of having a word with you tomorrow because I think I'd like to sit down and ask your - just advice on the other question of the financing thing - just to sit with you for three or four minutes and get your central thought.

H.M.Jr: Oh, that's fine. Are you going to stay over just for that?

P: I think I shall stay over just for that.

H.M.Jr: Good heavens!

- 3 -

P: Well, after all, these are the important things.

H.M.Jr: Well, will you call up McKay in the morning?

P: I will.

H.M.Jr: Right.

P: Thank you very much.

H.M.Jr: Good-bye.

P: Good-bye.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

At the Staff meeting yesterday forenoon I brought up the question posed to me on the preceding day by Mr. Lochhead in regard to Chinese contracts for powder in the United States. The Secretary told me that this powder should go to the British and that I should, with the assistance of Mr. Philip Young, work toward such an arrangement between Mr. Lochhead and the British.

After coming out from the meeting I telephoned Mr. Lochhead in New York. I told him that I had spoken with Mr. Adams of the Far Eastern Division of the State Department the preceding evening. Mr. Adams had called me back this morning, stating that he had discussed the matter with Dr. Hornbeck and Mr. Hamilton of the Department of State, and also with Mr. Green of that Department. There was no objection on the part of the Department of State to the Chinese obtaining storage facilities from Government departments in this country. The State Department was, in fact, desirous of rendering any appropriate assistance to the Chinese. With this in mind, the State Department had talked with Colonel Burns of the Ordnance Department of the Army. The latter had stated that if the powder contracted for by the Chinese is of suitable granulation, the United States Army would be willing to take this over and then repay the Chinese with a similar amount at such time as the Chinese may desire delivery.

I also told Mr. Lochhead of the Secretary's views on this proposition. Lochhead stated that there were plenty of opportunities to sell the powder, but that China was particularly interested in having the facility for immediate delivery of a similar amount of powder whenever shipment into China may be feasible. He promised to talk over the question further with his associates, and to get directly in touch with Mr. Young whenever their study in New York is completed.

At 10:15 this morning Mr. Young telephoned to ask me if I had heard from Mr. Lochhead. I replied that I had spoken with Mr. Lochhead yesterday after the meeting, and that it was my understanding that Mr. Lochhead would call Mr. Young as soon as he was ready to talk on the matter. Mr. Young told me that Mr. Purvis was in his office, and had shown him a memorandum of the Chinese powder situation, giving details along the same lines of those which Mr. Lochhead had provided me. In response to my inquiry, Mr. Young stated that the DuPont people had given this information to Mr. Purvis. Mr. Young stated that Mr. Purvis thought an arrangement could be made whereby the British, if permitted to take over the Chinese powder deliveries now, would allot from their own deliveries such repayment as and when the Chinese desired.

After this conversation, I again telephoned Mr. Lochhead and reported that Mr. Purvis was here, with full information on the Chinese powder contracts, and

- 2 -

interested in making some sort of a deal. Lochhead stated that his people had not yet taken a decision, but that he would get in touch with Mr. Young as soon as practicable, with the possible view to a meeting with Mr. Purvis or one of his assistants. Lochhead still has certain reservations about selling to the British, especially considering the fact that it is the British blocking of the Burma Road which makes impossible the delivery of this powder to the Chinese. I told Mr. Young of this last conversation with Mr. Lochhead.

*M. W. P.*

September 20, 1940  
9:00 a.m.

HM Jr: I am a little under pressure this morning so I will let you talk.

Purvis: Fine. I won't bring anything - the first thing I wanted to ask your advice on was this RFC situation. We have now got them with a couple of letters which I think put the issue on the real basis; namely, that U.S. defense needs are 20 per day, and whereas the appropriation only enables them to order 10 per day, and we, of course have the advantage that if our order goes in - the U.S. has the advantage that skilled labor and executive talent is trained on a larger basis, and they don't lose but are taking the products in the meantime. That has been put crystal clear to the RFC, and we are terribly anxious to get this patent established even if it is only this once. And, of course, it all depends now as to what is the way to crystallize it with the RFC. I have hesitated to go to them because both Young and myself feel, I think, that to go over there introduces and emphasizes too much the British angle to the situation which Jesse Jones does not want in the picture. He has said and Schram has said in a meeting that if it is a fact that the Army and the Defense Advisory Commission want a capacity of 20 per day as being essential to U.S. defense needs they would go ahead and do the thing. Now he said that to me you see in a way, but I know he was rather sheering off for the time being. Nevertheless to hold up the defense program, because that is what it comes to almost, must be a rather difficult thing from his view, and it was just a question of how it could be brought home to him.

HM Jr: What do you think, Phil?

Young: I think if it does not jell this week I don't know when it will, and it is ready for the final pushover the top. I think this is the strategic time to have it done because if it is not done in this instance I don't know when it ever will be.

- 2 -

HM Jr: Why don't you do this, Phil - there are so many personalities in this thing - go over and see Schram and say now look, the English Purchasing Mission are on your neck; when can we get an answer; what if anything can they do to accelerate it? Ask Schram, "Will you, Schram, advise Phil Young what to do?" See? I think I would try that this morning.

Young: No, I don't think it will do any good. Schram is going to talk to Jones this morning, I know, on that.

HM Jr: Didn't Schram tell you?

Young: He told me the other day he couldn't do anything except present it to Jones which he is doing.

HM Jr: Well, Jones is coming in this morning. Supposing I ask him point blank?

Purvis: For it is on the basis of U.S. defense needs with the British not there at all.

HM Jr: The last time I talked to him they were waiting for something from you.

Purvis: We have given him two letters. We haven't, but both the Defense Advisory and the Army have given him specific four-line bald letters that this is required essentially for U.S. defense.

HM Jr: This is just the Continental thing?

Purvis: Yes, but it is the patent for the whole thing.

HM Jr: Supposing I call him up on the phone and ask him?

Purvis: I think it is a good idea because it is based purely on U.S. defense. We can keep the British end out.

- 3 -

Young: It has nothing to do with the British.

Purvis: It is really on the U.S. basis now.

HM Jr: This is the Continental engine?

Young: Yes.

Purvis: Yes. They have gone so far - I mean the Army has burned its boats completely and with full approval of Patterson and Stimson.

HM Jr: Supposing I do it another way? Supposing I ask Stimson to ask Jones?

Young: I thought of that yesterday and almost suggested it to him last night. I think that's much better. If Stimson would call Jones and say, "I told you I wanted a production capacity of 20 tanks a day."

Purvis: "What are you going to do about it?"

HM Jr: I think that's better.

Young: And remember - Stimson called in Patterson to write the letter, and Stimson is going to be after you to follow this through because Stimson brought in Patterson to get the letter written, and Patterson got Gen. Harris and Colonel Lewis very enthusiastic about it.

(At this point HM Jr tried to reach Secretary Stimson on the phone but he was not available.)

HM Jr: I think that's the best way.

Young: The stage is completely set.

Purvis: The job has been done well.

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HM Jr: Do you (Young) think that's the best way?

Young: Yes. If you can get Mr. Stimson to call up Jesse Jones and say, "Look here" - and say nothing about the British . . .

Purvis: That's the point.

Young: . . . "I want my tank engines."

Purvis: And that fits in with what Mr. Jones said to me, "If they come to me at the top and don't get it too far down and put it on that basis, I am prepared to do it."

HM Jr: Is that what you had in mind?

Purvis: That was the chief thing. The other thing Mr. Jones would probably say he is waiting on the British. That is not so on this purely national defense basis.

HM Jr: If that is so then I would say to Stimson that if they say they are waiting on the British, could he suggest to Jones that Jones send for Purvis at once?

Young: No.

HM Jr: Why not?

Young: Because that brings the British into the picture and you don't want them in the picture.

Purvis: Could you in that case get Patterson to work it with Young? Put them together on it.

HM Jr: I will just ask Stimson to get the low-down on it and see if he could push the thing through, and if there is anything I can do let me know.

Purvis: I think this is very vital because with that patent established we have something which I think could be used as a spearhead of a very important move.

- 5 -

HM Jr: I think the thing to do is to do it through Stimson.

Purvis: I suppose the President himself would not take a part just now.

HM Jr: No.

Young: Did Jones talk to the President?

HM Jr: I don't know. Anything else?

Purvis: The only other thing is whether you had any particulars you could give me in a general way so I could indicate what it might mean . . .

HM Jr: No. I don't want to make the mistake - I never have - of making any half-forecasts and then disappointing you.

Purvis: No. Quite.

HM Jr: But what I am going after for your information, . . .

Purvis: Quite.

HM Jr: . . . is wherever the Army has an excess - not excess - has deliveries in excess of what you people are getting between now and the first of July on fighting planes . . .

Purvis: Fighting planes?

HM Jr: I am going to go for everyother one . . .

Purvis: And it looks as if it might happen?

HM Jr: . . . on every manufacturer, and where it is necessary to supplement the orders, I'm going to make a commitment on your behalf.

Purvis: Yes. Quite.

- 8 -

HM Jr: You can always throw me down.

Purvis: We have not been in the habit of doing that very strongly.

HM Jr: I am going after - and I will give you a little indication - I have a memo here where they have worked out on the PEY 5s - it's all worked out but it only went for 50. I said, "That's very nice but it's no good." "What do you mean?" I want to do it to the first of July. This only ran through April.

Purvis: Yes. I see.

HM Jr: So I said, "Run it through to the first of July."

Purvis: Yes. I see.

HM Jr: What I am crowding for is that the Army and Navy have this thing so they can put it on the President's desk the middle of the week so he can say yes or no, and I think he is going to say yes. And I haven't figured it up but it ought to be good for 500 or a thousand battle planes between now and the first of July. And with this thing - these are all bombers - should go the new bombsight, but I am meeting - both Patterson and Forrestal are coming at 10:30 this morning - on this. I haven't lost any ground. I have got my clearance from the President, but I think it is much better to play it down.

Purvis: I think that's right.

HM Jr: Play it down and be able to say, "Now, we have got this," particularly in view of this whole destroyer mess.

Purvis: By the way, I have got Lothian to hold off anything except those four items which originally came in, and he has written his letter to Secretary Hull along the lines of what his understanding was from the President in regard to those four items, and he has cleaned out the balance.

- 7 -

HM Jr: And another thing - by not sending messages on this it won't mix the two deals up. No ground is lost. I am pushing for all I am worth. You are not losing anything, and if another message came that might mix the two things up.

Purvis: Could very easily happen.

HM Jr: So I think you have everything to gain. And if you would make a mental note - for Heaven's sake, whoever is handling publicity - on the radio this morning - you don't want the Nile to ask for any submarines for the next day or two.

Purvis: Is there something?

HM Jr: I have heard of it. But I think what happens - Louis Beal feeds this stuff to the White Committee and the White Committee gets it . . .

Purvis: Submarines is an entirely new thing.

HM Jr: Anything in the next few days, I think if they just lay off.

Purvis: Yes.

HM Jr: And I sent word to the White Committee, "For Heaven's sake, lay off," because I gather somebody is pushing on the old flying fortresses.

Purvis: Which frankly I think is a great mistake.

HM Jr: You don't want it if you can get this stuff, so put a bee in somebody, "For Heaven's sake, pipe down."

Purvis: Absurd. I must see. I don't know about that or where it is coming from.

HM Jr: I imagine Beal is using this other committee as a front. Ike Bergen - whatever his name is of the White Committee . . .

- 8 -

Purvis: I have never met any of them. If there is anything coming out of ours, we will stop it.

HM Jr: Because I don't want - the other thing - are you catching a plane?

Purvis: No. No.

HM Jr: The other thing - I am not saying anything to them at this time about any training planes.

Purvis: No.

HM Jr: See? But over the weekend and not later than Monday have in my hands - I say Monday, if I could have it Monday afternoon - what your minimum needs are on training planes from now until the first of July.

Purvis: Yes.

HM Jr: Because if you could squeeze out some - I'm not saying anything to anybody about this - but if you could squeeze some out between now and the first of July, it would leave a much better taste.

Purvis: Quite.

HM Jr: Because I had Knudsen last night and Knudsen said, "Well, you know you need not sell me on anything for the British. They can have it all as far as I am concerned." But he said, "What we need is training planes." If it is something you could squeeze out . . .

Purvis: On the training end?

HM Jr: If you could squeeze out something on the training planes and say, "We are doing the fighting and you are doing the training," it would leave a much sweeter taste.

Purvis: I can see that.

- 9 -

HM Jr: Tell them to take all the padding out and get down to bed-rock - what's the minimum they could get along with between now and the first of July? And you could say in view of what is coming you could forego this if there is something. It would make a much better aftermath.

Purvis: It is a good approach if we can do it.

HM Jr: Say to the fellows in Canada who have the training program, "Look, boys, no kidding. You have so many on order and this is what you want. What do you really need?" One of the things - I don't know if it is at all practical - if they bring these fellows down to train them in these commercial schools, haven't these commercial schools got planes?

Purvis: I don't believe so. We are always up against the need for advanced trainers.

HM Jr: You have sufficient confidence in me so I can put it in my vest pocket so at the right moment I could say, "Look, gentlemen, in view of what you have done . . .

Purvis: Yes.

HM Jr: " . . . I am going to do this," but I will only do it as a last resort.

Purvis: Quite. Fine.

I don't want to bother you about anything else. I have one or two minor things but I won't bother you.

I am terribly anxious about this RFC thing. That weighs on my mind.

\*\*\*\*\*

Paraphrase of Code Radiogram  
Received at the War Department  
at 8:40 A.M., September 20, 1940

CONFIDENTIAL

Chungking, filed 05:15, September 20, 1940.

Japanese expected shortly to enter Indo-China according to the American Consul at Hanoi. Informed opinion here is that there will be little if any French resistance. While Chinese military headquarters has restated the Chinese intention to enter Indo-China regardless of French action, the recent destruction by the Chinese of the railroad bridge spanning the Red River at Laokay (on the border) and their reported intention to destroy the southern 70 kilometers of the rail line through Yunnan province cause most observers here to think that Chinese action will probably be confined to taking up positions along the border, with possible limited penetrations at some points.

Chinese military leaders feel that Admiral Decoux and the Vichy Government have both been attempting to mutually shift responsibility for the French decision. They likewise state that they (the Chinese) have from the beginning expected the French to eventually capitulate.

BARRETT

Distribution:

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

CONFIDENTIAL

September 20, 1940  
9:00 a.m.

H.K.Jr: Hello.

Operator: Drew Pearson.

H.K.Jr: Hello.

Drew Pearson: Good morning, sir.

H.K.Jr: Hello, Drew.

P: Sorry to bother you. I wanted to warn you that my - our friend Bob Doughton is on the warpath and I think he's coming down to see you.

H.K.Jr: Well, this is what I know about it. I told Johnny Sullivan to keep his shirt on yesterday and do nothing, which he did.

P: Yeah.

H.K.Jr: Yesterday afternoon publicly Doughton was very affable. Then after the meeting he again got hold of Sullivan and gave him hell and he is demanding to see me, so in a little while I was going to call him up on the phone and find out what it was all about, see.

P: Yeah.

H.K.Jr: But my attitude is - well, I'm not responsible for what you fellows write.

P: Well, absolutely, or you would have changed some of the things we wrote about you.

H.K.Jr: And how often.

P: (Laughs).

H.K.Jr: As a matter of fact, I can't remember whether I did or didn't tell you about this president of the tobacco company.

- 2 -

- P: Well, you gave me a tip on it but naturally I haven't divulged that to anyone. He called me up and raised hell first with me and then he said, well, where did this come from - the Treasury? And I said Congressman you know that I can't divulge any sources as to where I get stories and as a matter of fact, I said, the Treasury in the past has always been singing your praises, said you were cooperating very excellently with them. I said, I don't think they feel quite the same way about you this time but I said they didn't inspire this story if that's what you mean.
- H.M.Jr: Yeah. I appreciate your calling me up. He also - I gathered that he hoped to see you.
- P: Well, I have an engagement with him at 12:30 this morning and I thought I'd try to soft-soap him and calm him down, but he's threatening to go on the floor of the House, which I don't give a damn if he wants to do that, and denounce us. That's all right, but I just didn't want to get you into any trouble about it because he's on the warpath against you.
- H.M.Jr: Well, we are right now in hot water on it, but we've been there before and as far as the tax bill is concerned, I've got a clear conscience and I don't think that he has.
- P: Well, I don't think that he has either. I told him - the nearest hint that I gave about the story, I said, well, I'd talked to some of the members of the Committee - your Committee - and I indicated, I didn't exactly say it, that that was the chief source of the story.
- H.M.Jr: (Laughs). Good for you.
- P: But when he tried to pin me down on the Treasury I said, well, I can't tell you anything about that. I said the Treasury has been fine in singing your praises in the past. I sort of let it go at that.

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H.M.Jr: Well, did some of the members of the Committee help you out?

P: Well, we did a little - I didn't do it personally, but we did a little checking up there and I think Jere Cooper feels pretty much as the story indicates.

H.M.Jr: Well, the Committee is a big Committee, they're 26 members.

P: Yeah.

H.M.Jr: Well, I appreciate - we are in a hot spot, and I gather he's angrier than he's ever been before.

P: Well, I may have to write something just to kid him along and make him feel better. I'm going to try to soft-soap him if I can. When are you going to talk to him?

H.M.Jr: I'm going to talk to him in the next fifteen or twenty minutes. Foley and Sullivan are coming in here.

P: All right.

H.M.Jr: I'm going to talk to him while they're here.

P: All right, swell, and if anything happens that I ought to know before 12:30, let me know.

H.M.Jr: I'll have one of the boys call you. I may not be able to do it myself.

P: All right. Thanks ever so much.

H.M.Jr: Thank you.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:30 this morning Mr. Collado called me from the Department of State. He inquired as to what information the Treasury Department was receiving in regard to financial transactions with foreign countries which might be of interest in connection with our national defense. Collado was familiar with the reports of capital movements which the Treasury requires from the Federal Reserve Banks.

I reminded Collado that the Treasury's Secret Service was not in the field of gathering information of this type, which had been left to the F. B. I. I did tell him, however, that through the Federal Reserve Bank in New York we are currently receiving data with respect to important transactions carried out by the leading banks in New York for Italian, German and Russian account. Furthermore, the F. B. I. gives us certain information on transactions of this character and has been requested by us to amplify its reporting on international financial transactions.

Mr. Collado informed me that he was making this inquiry since the question was up with a group in the Department of State as to whether some system should be created for obtaining information of the type under reference for the benefit of this Government. Collado thought the Treasury was the proper agency for assembling such data. I confirmed that the Treasury was doing as much as it thought could wisely be undertaken in the circumstances, but would endeavor to improve its system, with the cooperation of the F. B. I. and the New York banks. To avoid duplication and possible embarrassment to the Government, I suggested to Mr. Collado that no new investigations should be started. I told him that such information as we obtained would naturally be made available by us to the State Department if the latter is interested. I stressed, however, the fact that the various reports reaching us required a lot of sifting and analyzing and that it would be of little use to the State Department to give it the material as received. Mr. Collado agreed to inform the State Department committee along the above lines and to keep in touch with me on the subject.



September 20, 1940  
9:40 a.m.

Secretary  
Stimson:

..... on that kitty for South America -  
you know - you know the project?

H.M.Jr:

Yeah.

S:

Now apparently Pan America wants to borrow money from Jesse first for the first three months or after, and Jesse wants me to write a letter virtually guaranteeing that out of the kitty - in case - that it'll come out of that in case of any trouble with Pan America. Well, now it seemed to me all right as it all comes out of Uncle Sam and it's just a question of whether it comes - if there's any loss whether it comes out of Uncle Sam's 12 million kitty or his R.F.C. Now, I thought that Jesse was entitled to the - he wants to keep it in the form of - which would be regular under commercial banking and I thought he was entitled to that, but I don't know what your custom has been in regard to that kitty. I ran into a block from -- my Judge Advocate General presented me with a block based, as I think, upon a false premise, that I couldn't spend that money from an appropriation - I couldn't make the guarantee - but it isn't a War Department appropriation. I retaliated by pointing out that I was not speaking as Secretary of War; I was speaking as the President's agent - it was his money.

H.M.Jr:

Yeah.

S:

Now, has that come up before?

H.M.Jr:

No. It's something brand new.

S:

Well, do you think I'm right or wrong?

H.M.Jr:

I don't know. I'd have to have something a little bit more. Would you want one of my attorneys to go over there and take a look at it?

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- S: Well, I'll wait until I hear what my Judge Advocate says to my retort.
- H.M.Jr: I see. Well, if you want any .....
- S: I'll see.
- H.M.Jr: I wouldn't - I just don't know enough about it.
- S: I mean, I don't know how - the principle - I have a good opinion of Jesse, as I think we all have, and I've been trying to help him in his efforts to keep the R.F.C. on sound banking principles.
- H.M.Jr: That's right.
- S: And as this is really - in substance, this is really a payment by the U. S. from the kitty for certain expenditures and Jesse comes in simply as an interim banker and why he shouldn't be allowed to shape up on that .....
- H.M.Jr: Well, I wouldn't know. Of course, my feeling - if you ask me my feeling on it .....
- S: Yes, I do.
- H.M.Jr: ..... as between the R.F.C. and a kitty of the regular appropriation, when this thing is over it's all going to come out of the Treasury anyway because if the R.F.C. has a loss, we've got to make it up; if this fund is lost, we have to make it up so it's six of one and seven of the other and of course let Jesse .....
- S: We have to make it up. What do you mean?
- H.M.Jr: The Treasury. I mean, let's say .....
- S: You mean you have to make it up out of taxation.
- H.M.Jr: That's what I mean.
- S: Well, that I understand, but I mean the kitty fund was made for just these purposes.

- 3 -

H.M.Jr: Well, from what you tell me and if it's legal and it makes Jesse happy, I think I'd do it.

S: Yes, that was my opinion.

H.M.Jr: I think I'd do it.

S: That was just my opinion. It seemed to me that it didn't make a bit of difference as far as Uncle Sam was concerned .....

H.M.Jr: I don't think it does.

S: ..... and it kept Jesse's banking methods above suspicion.

H.M.Jr: And I know how he feels about those things. No, I think from what you tell me I would be inclined to go along with him.

S: Well, that's what I thought.

H.M.Jr: If after you've talked to him on this Continental engine thing for these tanks you could give me a word why I could pass it on to Purvis .....

S: Well, I'll try to pass it on. I'll try to do it, Henry.

H.M.Jr: Thank you so much.

S: All right.

H.M.Jr: Thank you.

RE CENTRAL REPUBLIC TRUST COMPANY

September 20, 1940  
10:00 a.m.

Present: Mr. Helvering  
Mr. Wenchel  
Mr. Foley

H.M.Jr: All right, let's go.

Helvering: These cases all have arisen, a great many of them, as a result of the legislation passed in 1933, effective June 3 of 1933, which divorced the trust affiliates from national banks and caused them to disassociate themselves from the national banks. Those were accomplished during the latter part of 1936. A great many of these banks had weak affiliates. In some of them, the banks were weak and in some of them, they were rearranged. That is what caused it.

Now we come up to the place where these people commenced to adjust their taxes in '34 as a result of these various actions taken. The Central Republic Bank of Chicago was one of them among a great many cases.

Foley: That is the Dawes bank.

Helvering: I would like to have Mr. Wenchel give you the detail as to what happened there in that bank. Go ahead.

H.M.Jr: Go ahead. My time is limited today.

Wenchel: I will make it very short.

The Central Republic Trust Company, an affiliate - the Central Republic Trust Company went sour and that left only the stock --

H.M.Jr: Excuse me a minute. I have a telephone call.

(Unrecorded telephone conversation)

- 2 -

Wenchel: That left the owners of the stock with just the investment company, which was the affiliate. There never was any stock issued. It was simply endorsed on the shares of the bank stock and gave them a beneficial interest in the investment trust. Then the owners wanted to take the losses on the basis of the stock bank.

We will take one particular case. They wanted to deduct \$300,000 for losses sustained by reason of the bank stock going sour, and then put a value of \$38 on the rest of it, and we said no, they couldn't do that. You can't tell what the value is until you have sold both. We lost the case when we - the first case we tried, the Hagerman Case. Then we tried another case, the DeCoppet Case, and we won that. Then came along a third case and we won that. However, a number of people thought that we should follow the Hagerman Case.

H.M.Jr: Which you lost?

Wenchel: Which we lost, and there is, of course, something to the argument that you can't differentiate them. However, we think - that is, I thought that under the DeCoppet decision the language used was sufficient to overrule the Hagerman Case if we ever got another case up before the Supreme Court.

H.M.Jr: Have you one now?

Wenchel: Well, we won the DeCoppet Case in this way.

H.M.Jr: What is that?

Foley: That is the one that held you couldn't make a severance and that you had to sell both fully before you could determine the value

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and establish a loss. We had conflicting rulings of the Third Circuit in Philadelphia and the Second Circuit in New York, and we appealed from the decision in the Second Circuit to the Supreme Court, and they won. Certiorari was denied. This case, as I understand it, is before the Board that Clark wants to settle now, and there is also another case involving the same shares of stock, or stock in the same investment company, in the District Court out in Chicago. So I don't see as we can settle this case at all. I think we have to let the Board decide, and if they want to appeal from the Board's ruling, we will let the case go on up. Otherwise, it seems to me we will just have the administration of the Bureau in a hodgepodge. We won't know what to follow.

- H.M.Jr: What is this memorandum that Hanes refers to?
- Helvering: Well, I don't know whether you recall or not. We were in and talked to you on that and you told us to go out there and get together and you told Sullivan to go with us and get together on this and work out something.
- H.M.Jr: Was Hanes here at that time?
- Foley: Yes, and Sullivan was still over in the Bureau.
- H.M.Jr: I couldn't remember.
- Helvering: Oh, you don't --
- Foley: I didn't remember that, either. I talked to John last night and he said that at first he agreed with Sullivan - or I mean, with Hanes, and then when he talked with Philip afterwards, Philip showed him that John was wrong, and he agreed, after he talked with Philip, with Phil's position, and he agrees now that we shouldn't

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settle the Clark Case, and apparently John Hanes had told the taxpayer that he would have the thing settled, and he was quite annoyed with Phil, Phil tells me now, and I remember him mentioning it to me at the time, because Phil refused to go along with his interpretation of the law and what he thought ought to be done.

Helvering: Well, it was perfectly natural for Hanes to tell this fellow that, because I made a recommendation that we, in those cases where it was clearly a divorcement, go ahead and settle it. I sent this memorandum over here and Hanes endorsed it, or I mean he signed it.

Wenchel: Then the Commissioner talked to me and I told him I thought it was wrong, and then he told John that I said it was wrong, and then another conference was called and it was decided not to do anything about it.

H.M.Jr: It was decided not to do anything?

Wenchel: That is right.

H.M.Jr: Then your record is all right.

Helvering: Hanes, though, had told this fellow that that was all settled; he remembered signing the memorandum. And Clark told him it wasn't settled. So that is a --

Foley: I think we have to let the case go to the Board, Mr. Secretary, and let the Board decide.

H.M.Jr: Are you all in agreement on that.

Helvering: Well, I have always looked at it like this: Basically, these men had losses, there is

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no question about that, and we were in a way taking advantage of a technicality about the losses; that is, he was not getting the benefit of losses which he actually had, but at the same time if we - we understand now that the Department of Justice has a case which they say they can absolutely overrule --

- H.M.Jr: Well, the point is, after this memorandum came over and after Hanes signed it, there was a subsequent meeting in which Philip Wenchel --
- Foley: The lawyers wouldn't go along with the administrative determination.
- H.M.Jr: Did you make a record of it?
- Wenchel: No, there was no record made.
- Foley: Well, you had a memorandum.
- H.M.Jr: Did you write any record in your office?
- Wenchel: That memorandum came afterward.
- Foley: After the meeting with Hanes?
- Wenchel: No, that was after the meeting with - in which Hanes talked about the specific case, but not - there was no memorandum made after this meeting in Mr. Hanes' office where he and I had this little difference. What really happened was this, Mr. Secretary. The Commissioner said, "Well, you heard what my lawyer tells me. What can I do?" He said, "Well, I would fire my lawyer."
- H.M.Jr: Who said that?
- Helvering: Hanes.

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Wenchel: To the Commissioner.

H.M.Jr: Fire your lawyer?

Helvering: You see, Hanes was really tromping on me because I had agreed to do something. I told him I had submitted it to my lawyer and he said no. I said if that was the case, what would I do. He said, "Well, I would fire the lawyer."

H.M.Jr: I don't see that this is such a difficult problem. You fellows want to let this case go to the Board of Tax Appeals.

Foley: And let the Supreme Court decide.

H.M.Jr: Let it go.

Foley: If we don't do it, we are going to upset a theory of law that the Department of Justice is pursuing in a case involving stock of the same affiliate, and there are lots of these stockholders, Mr. Secretary, holding shares of the same company that don't want to take losses in '34. They want to take their losses at the time they sell the stock when their income is high, so you are not going to satisfy all the people if you follow what Mr. Clark wants.

Mr. Clark wants to take his loss in '34 because Mr. Dawes tore up a note of his for \$330,000 in '34. He wants to establish this loss.

H.M.Jr: Wouldn't you establish the principle everybody has to go back?

Foley: Everybody has to go back.

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- H.M.Jr: How many stockholders are there?
- Wenchel: 169, I think.
- Helvering: In this particular bank, we have 8,000 cases all over the country.
- H.M.Jr: I have always had a rule, when in doubt let the Court decide.
- Foley: That is right, and if we don't, we wouldn't have any theories --
- H.M.Jr: Meeting is adjourned.

September 20, 1940

Files

Mr. Cochran

At 10:00 this morning Mr. Knake told me by telephone that the Chase Bank had informed him that it was expecting 1,122,000 ounces of silver to arrive on the American steamship President Adams, which is completing a world cruise. This silver, consisting of coins etc., is being handled by the Shanghai and Hong Kong Banking Corporation, but is supposed to come from the Central Bank of China. It is to be melted up into bars and then offered for sale in the United States. Mr. Knake is sending me a memorandum on this subject.



September 20, 1940

Mr. Jones called to speak to the Secretary on the phone at 10:20, but the Secretary was at a meeting.

When the meeting was over, HM, Jr asked Lieut. McKay to call Mr. Jones and ask him if it could wait until he came over to the Secretary's office for the 11:30 conference with the Russian Ambassador. The answer from Mr. Jones office was yes.

Later, Mr. Jones office phoned again and said Mr. Jones would like to come in at 11:25 in order to see the Secretary alone before the conference with the Russian Ambassador and the State Department representative, Mr. Henderson, at 11:30. Following this call, Mr. Jones office again phoned and said he was on his way to the Secretary's office but would be a little late for the 11:30 meeting.

CONFIDENTIAL

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Paraphrase of Code Radiogram  
Received at the War Department  
at 10:46 A.M., September 20, 1940.

London, September 20, 1940.

During the night of September 19-20 the Bomber Command of the Royal Air Force dispatched 53 planes against Channel ports and railroads leading thereto, and to lay magnetic mines. Eight planes of the Coastal Command attacked shipping.

German daylight activities on the 19th were on a reduced scale, with about 70 planes participating, mostly operating singly. There were no major attacks.

London was attacked again during the night of the 19-20th, with bombs falling in 39 different areas. Some streets are blocked by unexploded bombs or mines. Production in one munitions factory was partially, and in another entirely, stopped.

German plane losses were six confirmed and one probable. The British had no losses. Civilian casualties have not been reported, but are probably small.

One 1,035 ton ship was sunk.

There has been no further advance in Libya. An increase in the amount of shipping at Frensham has been observed. The French cruisers that passed into the Atlantic are being shadowed by British warships.

The general situation remains unchanged.

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**Distribution:**

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

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CONFIDENTIAL

September 20, 1940  
11:05 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull.

Cordell  
Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: Why, that Russian-Chinese matter yesterday, I'd never heard of it before naturally and I didn't have a minute's time to think. Now, what we've got in mind here is to give you anything we've got as sidelights and background with reference to the whole Chinese loan - their whole idea of helping China.

H.M.Jr: Right.

H: In the first place it's this Russian outfit - I don't think you could depend on them a split second to do anything for China more than what they are doing or would be disposed to do anyhow. They are supposed to be even more interested in helping her than we are and yet in Welles' conversations they've tried to strike up a bargain with him to allow a few planes to fly over a little strip of Russian territory to get into China.

H.M.Jr: Yeah.

H: It's that kind of a spirit that they've got. Well, now on the question of getting away from Brazil and others here that we do need to give every attention to, and buying large of manganese over there, to hire them in effect to do what they are more interested and more obligated to do than we, and when they are utterly as unreliable as Jesse James -- now that's the -- then here's the other side now.

H.M.Jr: Yeah.

- 2 -

- H: Suppose you people should - suppose we should - the Government - let them have tungsten ore to be paid for in tungsten and we give them cash or credit facilities. They can buy anything then they want in the way of munitions or other things and have the fullest latitude. In other words, we'd try to give them the fullest encouragement. Now that doesn't include the question that you had primarily in mind and that's actual delivery of armaments.
- H.M.Jr: That's right.
- H: Well, now I have this morning a pretty strong report from Grew at Tokyo to the effect that the Japs have had a 3-hour conference with the king - or whatever they call it - and they have decided to go into an open alliance - military defensive alliance they call it - with Germany.
- H.M.Jr: I see.
- H: That's like Jesse James and Colt Young were going into an alliance for self-defense. At any rate that means that they are - that Germany is probably telling the Vichy Government to let Japan into Indo-China.
- H.M.Jr: I see.
- H: And so on and so on. Now, we want to go as far as possible on a loan and on an iron scrap embargo as quickly as Japan settles in Indo-China, and it's a question of how far we can go without running too much risk of a military crash. Now this sort of a loan to China would obviate that. They couldn't make serious complaint about a purchasing loan like we made before if the Chinamen are disposed. So I thought - there are some other phases connected with the situation - but from the standpoint of getting - of helping China actually that we could very well - and from avoiding possibly two brash acts with Japan all at once - the iron scrap and everything - embargo - and we might consider this other method than the Russian method if you and the President, after we talk a little further, should .....

- 3 -

- H.M.Jr: Well, this Russian Ambassador is coming in here at 11:30 this morning.
- H: Yes, I know and you can be sure that the German Embassy and the Italian Embassy here in Washington will know everything that takes place between you and him in one hour. That's what he's been doing with Welles' conversation.
- H.M.Jr: Well, there's one thing I don't understand that Welles said. He called me up right afterward about - I got the impression that this trade treaty with Russia had not been consummated and I see it was consummated on August 6th.
- H: No, that was that annual arrangement we have with them.
- H.M.Jr: Yes, and so there's nothing pending with Russia.
- H: Nothing except that Welles has been having two and three hour conversations at a time on the whole situation between Russia and the United States to see whether anything could be finally worked out.
- H.M.Jr: Well, they couldn't have been very effective.
- H: No, I haven't - I was away you know at Havana and the Springs and so on and I haven't kept up with that.
- H.M.Jr: Well, Cordell, unless you tell me definitely you object - this fellow will be here in twenty minutes - and I thought I'd very diplomatically just throw out a hint along the line that the President asked me to.
- H: Well, that's your business. I'm just giving you my views if they're worth anything to you.
- H.M.Jr: Well, they're worth a lot and I only wish that you had said them yesterday at Cabinet.
- H: Well, if you had given me notice that you were going to spring that thing .....

- 4 -

H.M.Jr: Well, I couldn't give you notice because I didn't know that you were going to bring it up.

H: You mean bring up the .....

H.M.Jr: Doing something for China.

H: Well, of course we've had that up at every session nearly.

H.M.Jr: Well, I brought this up .....

H: And that was something new as to the method. I didn't have time to think it out, but anyhow I just wanted you to know that what you say to him will be repeated by him to the German Embassy and to ours.

H.M.Jr: Well, it may make them think twice.

H: Well, that's all right then.

H.M.Jr: Well, I'll be just as careful as I know how. Henderson is here and he can report back to you what I said. I realize that it's a very, very ticklish thing and if the President hadn't specifically said to go ahead, I wouldn't have dreamed of doing it.

H: Yes. Well, of course, we are here trying to help him from this angle and sometimes we see something that's very patent, and we hold it up until we can get to see him and that's with you on that.

H.M.Jr: Well, I'll try my best not to make it more difficult and I hope that I can make it.

September 20, 1940  
11:38 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull has a newspaper man with him and he'd like to call you back.

H.M.Jr: Well, let me talk to his - Gray.

Operator: Gray? All right.

H.M.Jr: Gray, is that his name?

Operator: Mr. Gray.

Cecil  
Gray: Hello, Mr. Secretary.

H.M.Jr: Yes. Mr. Henderson, in charge of the Russian desk of the State Department, was supposed to be here at 11:30. He's not here. I wondered if there was a change in the orders.

G: I haven't heard a thing .....

H.M.Jr: Well, I wish you'd find out because - well, it's very embarrassing to me that Mr. Henderson isn't here. The appointment was made yesterday and if he isn't going to be here, I think that the least the State Department could have done is to extend me the courtesy of telling me he wasn't coming.

G: I'll look into this matter immediately, sir.

H.M.Jr: I mean, it seems I'm entitled to the courtesy if Mr. Henderson has been ordered not to come.

G: Yes, I feel that he must be on his way or something, sir.

H.M.Jr: Well, I'd like to know.

G: I'll report right away, Mr. Secretary.

H.M.Jr: And let Mr. McKay know, please.

G: I'll do it sir.

Sept. 20, 1940

11:40 a.m.

Mr. Gray phoned Lieut. McKay and told him that Secretary Hull said he thought the meeting had been or should be cancelled.

September 20, 1940

11: 45 a. m.

Present:

The Russian Ambassador, Mr. Cuzansky  
Mr. Jesse Jones  
Dr. White

HM, Jr: Mr. Ambassador, I am sorry to have delayed you.

Mr. Ambassador, Mr. Jones and I asked you to come down to see us because we have had an idea. You most likely know Mr. T. V. Soong has been here for some time on the question of getting a loan and in the discussions which we have had -- as you most likely know, with the money that we lend them they cannot buy munitions -- and the suggestion is made that they could get more help from Russia.

Mr. Jones: I said to him, "Suppose we don't do this. Who's going to help you?"

"Russia. The only people we can get. And they can only help so much."

HM, Jr: Now, the thing that we had in mind .....

Mr. Jones: I think he suggested, Henry, that "if you people in buying your defense supplies could buy more from Russia, more metals, manganese and some other things that they have got to sell, they might be able to do more for us" or something of that kind.

Ambassador: If the United States buys more manganese from Russia?

Mr. Jones: That was his suggestion. I guess he was floundering around looking for something. Probably been talking to you about it?

-2-

Ambassador: I had several talks with Mr. T. V. Soong, but not quite along this line and the suggestion of an increase in South American trade was not advanced by him.

Mr. Jones: South American?

Ambassador: I mean Soviet-American trade. This suggestion he did not advance.

Mr. Jones: The last time I saw him was two or three days ago. Probably you have not seen him since that.

Ambassador: No; I have not.

Mr. Jones: And he indicated -- maybe it was his own idea; maybe he thought if we would do something more in the way of the things we are doing already, buying these metals, accumulating for stock piles, which we are doing on a large scale now and expect to continue to do.

Ambassador: One thing I noticed with Mr. T. V. Soong. I had several talks with him since he arrived here. He has been in very friendly contact with me all the time. I did notice his general worry, I would say, and disappointment about the rather lamentable state of affairs in Russian-American relations. He was very much discouraged to see our relations, far from getting better, are getting worse between our two countries.

Mr. Jones: You mean our relations ....

Ambassador: Economic and political relations between the United States and my country. And this, of course, disappointed him very much. Exactly by the same reasons you just mentioned.

Mr. Jones: Maybe he was acting in the role of good Samaritan talking to me. Maybe he thought he could do some good.

Ambassador: I think he has these intentions.

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Mr. Jones: Yes. Undoubtedly.

Ambassador: And I understand his motives perfectly and they are very good motives, but of course the reality in our relations right now is very gloomy. This I want to make clear at once. And his approach to this is that exactly along the lines you are talking, that such a triangle requires good relations between every two angles of that triangle. Our relations with China are very close, very friendly. Your relations with China are very close, very friendly. Sorry that we cannot qualify in the same relations between my country and your country. But that's a general remark.

HM, Jr.: I understand, but I think we can both make the assumption we are both friendly disposed to China.

Ambassador: This is a common denominator which does exist.

HM, Jr.: I think we are both interested in peace in the Pacific.

Ambassador: Certainly!

HM, Jr.: And with those two common denominators and possibly in the interest of both of those worthy causes, the question comes up of either manganese or chromite, quicksilver, mica, things that we need and things that you may or may not have a surplus of and want to sell.

Mr. Jones: Are you helping China a great deal now?

Ambassador: Oh, yes!

Mr. Jones: What do you sell them?

Ambassador: Munitions.

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Mr. Jones: Munitions.

Ambassador: Well, according to the information which the same Dr. T. V. Soong gave me, I don't think they could have resisted as long as they do if they had not had ....

Mr. Jones: .... your help.

Ambassador: Yes; help. Without wanting to discourage any scheme of the kind you mention, I just think of a few factual questions I would like to raise.

HM, Jr.: Please.

Ambassador: A few practical questions. My first question being, how could you get our manganese which, as you well know, is concentrated on the Black Sea coast?

Mr. Jones: That's very difficult. Very difficult to get out.

Ambassador: Not only is it difficult, but as a matter of fact, the situation has changed very much. A year ago we sat at this same table, a year ago, and I complained about you not buying enough of our manganese which you could have received, at that time, in great quantities. Unfortunately, I did not succeed. The Secretary of State promised to consider our suggestion that about 800,000 tons of our manganese be bought within four years, but nothing came of this. At that time, the communications were free. Today this manganese, as you will see, I can point to you, if you want, the particular spot. (The Ambassador referred to the world map hanging in the Secretary's office.) The greatest deposit in the world is here.

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HM, Jr: That's not far from

Ambassador: And this, Poti Port, all the deposits are very close to the Coast and the other is Mariupol, here. This route is out of the question now. So is this. To transport manganese ore by rail is commercially unthinkable. Physically possible, but commercially .....

Mr. Jones: How far is it across here?

Ambassador: About 9,000 miles, at least. So this is the first practical question which occurs to me. After Italy went into the war, I understand some American boats which were on their way to Poti just had time enough, in late May, to slip out and bring the last shipments. I don't think there have been any since.

Mr. Jones: No way to get up here, huh?

Ambassador: Well, that, of course, is shorter, but by reasons not known to me this zone here, where not a single combat has ever taken place, has been proclaimed by your Executive to be combat zone, so American ships cannot enter.

Mr. Jones: Mr. Soong's idea does not seem to be very practical then.

Ambassador: This is my first doubt about it. Now, whether manganese is the only thing, I don't know. You mentioned other commodities.

HM, Jr: I mentioned others.

Ambassador: What did you mention?

HM, Jr: The ones I jotted down, just as possibilities -- asbestos, mica, mercury ....

Ambassador: Platinum?

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HM, Jr: Yes. Chromium. That's the whole group.

Ambassador: Gold is not a commodity?

HM, Jr: We buy that. I just bought 10 million from you the other day.

Mr. Jones: Do you produce all those things?

Ambassador: Asbestos, yes. Mica, yes. About mercury, I must check. Platinum, yes. Chromium, yes.

HM, Jr: (To Mr. Jones) We just bought 10 million.

Mr. Jones: Where did you get the gold?

Ambassador: Plenty!

Mr. Jones: Dig it out of the ground?

Ambassador: (Laughed but made no reply.)

HM, Jr: They have lots of it.

Ambassador: That was my first question.

HM, Jr: We don't consider it a commodity. The Ambassador and I had this discussion a couple of years ago -- lot of gold coming out -- as to whether gold was a commodity or not and he and I came to a very good understanding and from that day we have seen eye to eye on this gold question.

Ambassador: That's correct.

HM, Jr: And the working agreement is good today.

Ambassador: With one exception, just departing as you did for one moment from our discussion. In my conversations with Mr. Sumner Welles I had quite some difficulty in obtaining a very simple statement. We took that up about three or four times among other questions, a very modest request of ours, of being given a general assurance

-7-

that there would be no discrimination toward Russia in the question of importation of gold; that we realized you cannot give us a specific statement that you always will buy it and always at the same price. We know your laws. But we asked one very modest and very reasonable thing: That your fixed policy in the gold question be applied without discrimination to Russian gold. Sorry to say that this question, which I considered as being of third or fourth importance, as a very subsidiary question which I raised only because I had my instructions, I was surprised to see that on this question I did not obtain the necessary assurances. We have not finished our conversations yet. Perhaps I will obtain it. But even on this technicality, which unfortunately does characterize the gloomy situation to which I was referring before.... That's just being nasty for a moment.

HM, Jr: Well, Mr. Jones and I are neither of us diplomats. He's a newspaper publisher and I am a farmer. Is that right?

Mr. Jones: Yes.

HM, Jr: So we don't know anything about diplomacy.

Ambassador: I have not known recently anything about diplomacy. I have been a newspaper man myself for 18 years.

HM, Jr: Well, you are talking to a newspaper man and a farmer, so we don't know anything about diplomacy.

Ambassador: My second question, coming back to Mr. T. V. Soong's scheme is ...

Mr. Jones: Call that "suggestion" instead of "scheme".

Ambassador: Suggestion.

Mr. Jones: Would you mind?

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Ambassador: No. I don't mind at all. My second question is he or anybody who has brought forward that suggestion assumes that the amount of help we are giving our Chinese friends is limited by our financial resources; that we give only as much as we can afford financially. I don't know enough about the matter, but as a first reaction to what you told me I would say I am not sure of this. I think we are giving China that amount of help which we can afford from the point of view of available ....

Mr. Jones: Materials?

Ambassador: .... materials. And, as far as I know, financial difficulties between ourselves and China have not arisen, but this is my private reaction to a suggestion which is new to me and which, of course, I will refer to my Government.

Mr. Jones: These talks or suggestions were more or less vague on his part; were not specific; to be reduced down to a definite suggestion.

HM.Jr.: You know by now in our previous discussions we have either agreed or not agreed. There has never been .....

Ambassador: That's correct.

HM.Jr.: It's either black or white. There has never been any grey, and I think I never have talked to you on a matter like that unless I had full authority.

Ambassador: I realize that perfectly.

HM.Jr.: You appreciate that, because I don't take up your time talking about ....

Ambassador: I realize that perfectly.

Mr. Jones: How about your trade balance with this country?

-2-

Ambassador: It remains chronically passive.

Mr. Jones: You have not been able to correct that?

Ambassador: No. As to our trade in general between our two countries, if things continue as they are going on now, the moral embargoes, the retention of goods which we have bought two years ago and which now in a retroactive way are being retained (they allegedly are necessary for National defense) and so on, if these measures continue I don't think that our trade relations or any relations will develop in a satisfactory way. So far I cannot boast about any achievements in my conversations with your Government.

Mr. Jones: I wish you would import more caviar than you do.

Ambassador: I share your desire very much. I am getting short of it.

HM, Jr.: That's one thing -- I like it, but I could perfectly well get along without it the rest of my life.

Mr. Jones: He taught me to drink vodka and like it and to eat caviar and that other fish ....

Ambassador: (?) sturgeon, from which caviar comes.

Might I ask you, Mr. Secretary, to repeat ....

HM, Jr.: We have two Secretaries. Mr. Jones is a Secretary since yesterday.

Mr. Jones: My feathers are still pin feathers.

HM, Jr.: But you are drybehind the ears.

Ambassador: Mr. Morgenthau, I don't quite understand. Imagine the situation is a practical one, just for the sake of this conversation. How would that manganese be purchased? It would have to be purchased by

our two customers, U. S. Steel and Bethlehem Steel or would it be the Federal Government?

HM, Jr: You (Mr. Jones) would buy it, wouldn't you?

Mr. Jones: I suppose so. I think that would be a practical matter to work out.

HM, Jr: You see, Mr. Jones in his many capacities, also has a -- what do you call the corporation that buys these raw materials? Do you buy manganese or do IT

Mr. Jones: We bought manganese. We have what we call the "Metal Reserve Company" and we have already bought over 1,000,000 tons.

Ambassador: Imagine this is gold. Is credit open in this country here or what? How would that triangular arrangement work, speaking abstractly?

HM, Jr: First we want to find out whether the will is there.

Ambassador: I understand.

HM, Jr: But the idea ....

Mr. Jones: If the will is there and the desire, we would have to work out the mechanics.

HM, Jr: We have to work out some way, if we bought that we call strategic materials and paid you cash that you, in turn, would find some way to get our Chinese friends in an even bigger way than you have in the past.

Ambassador: I understand.

HM, Jr: Financial protection or whatever it is. We have no way of knowing, but we do know they are in great need. We also know that today Russia is the only place left, practically, that they can get supplies and,

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as I say, as you put it, very much better than I can, there are three points to a triangle and from Russia to China is friendly and from the United States to China is friendly.

Ambassador: That's right. The rest is blank.

HM.Jr: I am an optimist and I always have hopes.

Ambassador: I tried to be for a long time.

HM.Jr: And if and when you hear from your Government ....

Ambassador: ... I will let you know.....

HM.Jr:...let me know and Mr. Jones and I will be delighted to see you.

Ambassador: Mr. Secretary (Mr. Jones) I would be glad to come to you without any practical thing on my mind should you be interested in knowing what Russian-American trade looks like now.

Mr. Jones: I will be glad to see you.

Ambassador: I will be glad to come and see you and tell you about the very bad condition it is in now.

Mr. Jones: I will be very glad to see you.

cOo-cOo

G-2/2657-220

RESTRICTEDM.I.D., W.D.  
September 20, 1940.  
12:00 M.

No. 199

SITUATION REPORT

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

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I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

All operations in the vicinity of England were hampered by rainy weather.

In daylight of the 19th there was German bombing in the London area, in Essex, Sussex, and in the west of England but no large-scale attacks. During the night raids were steadily conducted over the London area but apparently this activity was less intensive than the night before.

The British bombed along the Channel and in Western Germany on the night of September 19-20.

According to news reports, large-scale German raids are in progress today, focussing on main junction points of the Southern Railway.

II. Mediterranean and African Theaters of War.

1. No apparent Italian movements beyond Sidi Barrani, where consolidation continues.

2. The R.A.F. operated intensively against communications and concentrations west of Sidi Barrani. Italian planes continued their bombing of British forces in Egypt and also bombed a camp at Galladat, Anglo-Egyptian Sudan.

RESTRICTED

HSM

GRAY

Berlin

Dated September 20, 1940

Rec'd 12:06 p. m.

Secretary of State,  
Washington.

4072, September 20, 10 a. m. (SECTION ONE)

My 4036 of September 17, 5 p. m.

The decree of the Reich Finance Minister relating to the incorporation of the protectorate into the customs territory of the Reich dated September 16 has now been published in the REICHS GESETZBLATT of September 18, 1940. It provides for the abolishment of the customs frontier between the Reich and the protectorate Bohemia and Moravia on October 1, 1940 at which time the German customs regulations will be introduced in the protectorate. Customs revenues and consumption taxes will thereafter be collected and administered by the Reichs administration. A separate decree issued by the Reich Finance Minister also dated September 16 provides for the creation of a Reich revenue office for the district (Oberfinanzbezirk) of Bohemia and Moravia for administering customs excises and monopolies.

Effective

hsm -2- No. 4072, September 20, 10 p.m. from Berlin (Sec. 1)

Effective October 1, the Reich tax laws relative to tobacco, sugar, salt, beer, brandy, electrical bulbs, playing cards, sacharin, mineral oils and fats are to be introduced in the protectorate. The Reich turnover and slaughter taxes will also be introduced in the protectorate on the same date.

According to an editorial appearing in the ESSENER NATIONAL ZEITUNG of September 18, the competency of the Reichs Stellen or Reich monopoly boards for the various agricultural products will also be extended to the protectorate. Therefore, in the future these boards will also compute purchases for the protectorate on a centralized basis.

Although considerable progress has been made in adjusting the price and wage levels to those of the Reich during the one one-half years of German occupation of the protectorate certain transitory measures are still deemed necessary to ensure a smooth incorporation of the protectorate into the Reichs customs territory. Important among these measures are agreements between the industries of the protectorate and the Reich which have been worked out lately to reduce the evil effects which might arise on both sides from free competition after the removal of tariff barriers between the two territories.

KIRK

DDH

RDS

GRAY

BERLIN

Dated September 20, 1940

Rec'd 4:05 p.m.

Secretary of State,  
Washington.

4072, September 20, 10 a.m. (SECTION TWO)

The details of these agreements vary considerably for the different industries. Doctor Bernhard Adolf, the Reich protector's special commissioner with the association of Bohemian and Moravian industries, has summarized their general characteristics however in an article published in the Prague newspaper NEJERTAG on September 16 as follows:

One. The markets of the Protectorate and of Slovakia are reserved for the Protectorate's manufacturers and those of the old Reich for German manufacturers.

Two. The Austrian market is to be supplied in common by both industries in respect to certain goods.

Three. The Sudetenland market is in some instances reserved for Sudeten factories and in others for those of the Protectorate.

Four. Some of the agreements provide for unilateral or reciprocal sales quotas, fixed for a certain period of time,

-2- #4072, September 20, 10 a.m. (SECTION TWO) from Berlin.

time, and based on percentages of 1937 deliveries.

Five. In some instances, the Protectorate manufacturers have agreed to join the respective Reich cartels which make special measures for market protection superfluous.

Six. In some branches of industry, Protectorate manufacturers are forbidden to produce certain goods "in order to save raw materials", according to the official explanation.

Many agreements contain provisions in regard to prices: Protectorate manufacturers undertake to adjust their offers to prices prevailing in the old Reich and vice versa. The agreements in some industries are limited to a reciprocal undertaking to abstain from sales propaganda and advertising in the other territory.

In regard to the compensation for exchange losses on foreign balances in Czech crowns referred to in telegram No. 4036, Doctor Friedrich Mueller, the Reich's commissioner with the National Bank for Bohemia and Moravia, states in an article appearing in yesterday's NEUER TAG that all holders of such balances abroad who wish to take advantage of higher rate must offer such foreign holdings to the National Bank not later than October 1, 1940. However,  
persons

-3- #4072, September 20, 10 a.m. (SECTION TWO) from Berlin.

persons who have claims in foreign currency which result from the sale of merchandise and cannot be collected before October 1, may obtain compensation at the higher rate after that date.

INFORM TREASURY

(END OF MESSAGE)

KIRK

RECEIVED  
U.S. DEPARTMENT OF THE TREASURY

SEP 21 11 15 35

TO THE DIRECTOR  
OF THE BUREAU OF  
INTERNAL SECURITY  
U.S. DEPARTMENT OF JUSTICE

September 20, 1940  
12:40 p.m.

H.M.Jr: Hello.

Operator: Mr. Wallace calling.

H.M.Jr: Who?

Operator: Wallace.

H.M.Jr: Wallace?

Operator: Yes.

H.M.Jr: All right. Hello.

Henry  
Wallace: Hello, Henry.

H.M.Jr: Hello, Mr. Vice President.

W: Henry, I have no intention of making a speech on taxation on this Western trip which I'm starting, but I notice however Willkie dealt with it quite at length yesterday - I didn't know whether any of your people would care to fix up any information for me or not so that .....

H.M.Jr: Sure, if you'd give us an inkling of what you'd like.

W: Well, I'd say it would be the natural things that would come to their mind in defense of your taxation policy in view of what Willkie has said about it.

H.M.Jr: My own thing that went through my mind - but I'll be guided by you - is, I thought I'd give him a little more rope.

W: Well, I had no intention of saying anything but .....

H.M.Jr: You see Johnny Hanes is there advising him .....

W: I get you.

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H.M.Jr: ..... and I thought if he went out a little bit further and really put his foot in it, then we might haul him up short.

W: Yeah.

H.M.Jr: My own hunch after reading it was just to sit back and see whether Johnny Hanes didn't get him to say some more.

W: Yeah. You know Johnny Hanes and know what he'll likely do, huh?

H.M.Jr: Pardon?

W: You know what Johnny would likely get him to do.

H.M.Jr: Yeah, and I thought we could wait a little bit.

W: Yeah.

H.M.Jr: And if something happens - I'll keep it in mind - I can telegraph it to you or give it to Paul Appleby and he can get it to you.

W: Yeah. Well, I have no intention whatever of making a speech on taxation but I thought perhaps it's conceivable that the information might come in handy in an emergency of some kind.

H.M.Jr: Well, Sullivan is coming in now and I'll mention it to him when he comes in.

W: Well, it would be good education for me anyway to know the - a little bit about the .....

H.M.Jr: Well, we'll get something out for you.

W: No tremendous rush on it - if you could have somebody slop it together and you can give it to Paul to mail it to me.

H.M.Jr: R-r-right! O. K.

W: I talked with my brother-in-law and find

- 3 -

that it's the - in the other Department  
and not in yours.

H.M.Jr: Oh.

W: It is what you suspected. I got the thing  
twisted from - Mrs. Wallace had got it twisted  
when she wrote me, and when I talked to him  
about it why he said he didn't have any idea  
(laughs)

H.M.Jr: Well, wasn't he pleased the way we had taken  
care of it?

W: Yes, yes.

H.M.Jr: What?

W: Yes.

H.M.Jr: Because we had stretched a point to do it.

W: Yes, he felt that your folks had been most  
cooperative.

H.M.Jr: Good.

W: Yes, I got it all twisted. You see, it was  
one of those things that came in a conversational  
letter from my wife and she got it twisted.

H.M.Jr: O. K.

W: I just thought I'd let you know that he  
seemed to be greatly pleased at what you folks  
had done.

H.M.Jr: Thank you, Henry.

W: Yes.

H.M.Jr: Good-bye.

## GROUP MEETING

September 20, 1940  
2:30 p.m.

Present: Mr. Gaston  
Mr. Foley  
Mr. Cochran  
Mr. Schwarz  
Mr. Young  
Mr. White  
Mr. Graves  
Mr. Thompson  
Mrs Klotz

H.M.Jr: Has this gone through?

Cochran: We were working on that yesterday.

White: I thought we agreed on it.

H.M.Jr: It is all right with me. Anybody object?  
Sold. Who will inform the Committee?

Cochran: I can do that.

H.M.Jr: I will keep this. It is blocked dollars,  
Harry.

White: This was my understanding, that it was  
limited to that, although the discussion --

H.M.Jr: And in unoccupied France.

White: Well now --

H.M.Jr: What?

White: Is that stated so limited there?

H.M.Jr: The majority of the - a number of refugees  
in unoccupied France.

White: Oh.

H.M.Jr: Unoccupied.

- 2 -

- Cochran: But there was one operation which they had under consideration yesterday. That was Miss Ann Morgan's \$10,000. I think that was to help her get out of occupied France.
- H.M.Jr: I am so sick and tired of hearing of Ann Morgan. I had Mrs. Bliss here for half an hour and we told them we would give them enough money to get her out of France and she should get out. Chamberlain sat here. I was willing to give her some money, and he said no, only give her the money to help her get out.
- Cochran: My only point was that part of this --
- H.M.Jr: She will get out of France, yes, but I was willing to give her the money for the time being and he said no, Chamberlain did.
- Cochran: We referred this case specifically to him yesterday.
- H.M.Jr: And what did he say?
- Cochran: I thought they were putting that through, didn't you, Harry?
- White: Well, I think that would be an exceptional case and this is a general case and therefore it is not included in there.
- H.M.Jr: I would give her \$10,000 if she would come home. Chamberlain was handling it and he knew all about it. I don't have to get in on it, do I?
- Cochran: No. I mean, that is the general rule.
- H.M.Jr: Herbert?

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Gaston: You got my brief report on the status of this recruiting thing?

H.M.Jr: Yes, and I sent a telegram to Pa Watson from what you told me, and I have sent a copy of it in to you. I said as soon as we heard anything further we would advise him. That was the easiest way.

Gaston: Yes. You haven't any objection to my giving out a list of the Presidential appointees and their statuses to this man?

H.M.Jr: He is entitled to them.

Gaston: I am terribly afraid the first thing we are going to get is a nomination for Appraiser of Customs in New York and Comptroller of Customs in San Francisco. It might do some good.

H.M.Jr: If he wants it, he can have it.

Gaston: Yes. I will give it to him today.

H.M.Jr: Anything else?

Gaston: No, I don't think so. I wrote you a memorandum on Butler, Homer Butler, Attache in Paris.

H.M.Jr: I haven't got it yet.

Gaston: I signed it today.

H.M.Jr: When?

Gaston: Just a little while ago.

H.M.Jr: It just hasn't come yet. It will come.

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Gaston: I will see that you get a copy.

H.M.Jr: What else?

Gaston: I haven't anything else.

H.M.Jr: I am trying to hurry so as not to spoil anybody's golf.

Gaston: Are you flying?

H.M.Jr: Right. I am taking the second best plane.

Gaston: What is the matter with the other?

H.M.Jr: They sent a message the plane would be grounded until their personal representative could come in to look at something. Maybe something has gone wrong. They have grounded all those models pending putting in something in the tail.

Gaston: All of them?

H.M.Jr: I guess so; certainly this one.

Gaston: Well, there was something, you know, about that speed.

H.M.Jr: That was changed.

Gaston: For a time, you know, they wouldn't let them land under 75 miles.

H.M.Jr: Then we sent the plane out there and it was fixed, and now it is something else.

Edward?

Foley: I haven't gotten Nelson Rockefeller yet. He is in New York.

H.M.Jr: Anything further on the Doughton thing?

- 5 -

- Foley: No. John had some funny statement from Doughton. He didn't have the letter, but John told him he would sign it and bring it up to him. He went up there this afternoon. He said something that didn't make any sense to me or to John, about he was going to indemnify Pearson against suit, and then he was out and the matter was between the Treasury and Pearson, which I don't understand at all. It didn't make any sense to John, either.
- Cochran: Do you want to take along this statement of Jay Crane?
- H.M.Jr: Yes.
- Cochran: He didn't get to sign it, but he dictated it.
- H.M.Jr: I would like White and Bell to each have a copy of that. Anything else?
- Cochran: No, sir.
- Schwarz: I wanted to ask if we would be able to give out this decision about the remittances for the charitable organizations. The Associated Press has gotten a story in which they say that a lot of Americans are complaining about their difficulties.
- H.M.Jr: I never give you those stories. I don't know how you get them.
- Schwarz: We get them through the Legal Division. Is this going to be a general license?
- H.M.Jr: I don't know.
- Cochran: I don't think it is a general license.

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White: Just general policy here, but not in the form of a general order.

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

Schwarz: We ought to do something so as to counteract it. They say there are many people there complaining that our Consulates are allowed to pay out ten pounds to any Britisher who comes in there acting as representative of the British Government.

Bell: Is this a new order or the one that we gave out about two weeks ago?

H.M.Jr: This is the one we talked about just before you came in.

White: Why don't we see if something can be drafted?

Schwarz: All right. We will see if we can't draft that into something.

H.M.Jr: Who do you see when you get one of these statements?

Schwarz: Pehle, usually.

H.M.Jr: You know, I'm giving Pehle a chance to run this show on a make-good basis after Chamberlain leaves.

Schwarz: He always explains them well and translates it.

H.M.Jr: Maybe you can get it out of him.

Schwarz: I will try, sir. I think it is worth doing.

Young: No difficulties.

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H.M.Jr: Will you compliment Cox on the work that he did on those Vultee contracts for me, Ed? According to Philip Young, he was very good.

Foley: Yes, sir.

H.M.Jr: Send him my compliments. Is he Assistant General Counsel?

Foley: Assistant to the General Counsel.

H.M.Jr: Are you one of those, also? Assistant to, and Assistant General Counsel?

Foley: His title is Assistant to the General Counsel. He has the job that Jack Harlan had when he was here.

H.M.Jr: Which pays more?

Foley: He gets eight thousand.

Bell: The same grade.

Foley: It is in the same grade. We could give him eighty-five hundred.

H.M.Jr: I think I would.

Foley: All right.

H.M.Jr: It is a cumulative thing.

Thompson: If he is on your regular roll, you couldn't promote him because there is a prohibition on Administrative promotions.

Foley: We will find a roll.

H.M.Jr: He will give you a legal opinion, Norman.

- 8 -

If necessary, Cox will write it. Well, the boy is doing good work and I think he has earned it. I would like to give a letter to him myself Tuesday.

Foley: I will have it ready for you.

H.M.Jr: Provided the President doesn't come down Sunday night.

White: I have here a letter that needs to be signed before you go, if possible, and it has an agenda there. This is on the Latin-American meeting. The agenda I had a chance to clear with Gaston, and I would like to show it to Dan Bell.

H.M.Jr: I am surprised you fool around with South America. I thought your middle name was Soong.

White: It is not going so well in that direction. I am looking for new fields.

H.M.Jr: What do you mean, after this morning?

Anything else, Harry?

White: No, that is all. Oh, yes, something else. Mr. Jones called up and wanted some information and a suggestion with regard to Costa Rica, and I said that if it would be all right with him, we would send him a memorandum Monday and prepare something for him.

H.M.Jr: He was going to give me a memorandum on Costa Rica.

Young: That is going to be the one.

White: He didn't ask for a memorandum. He asked for some - he wanted to know whether I

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thought something would be all right that they had contemplated doing, and I said --

- H.M.Jr: Three for one on the money? Taking the money deposit out of the issued currency against it?
- White: Yes.
- H.M.Jr: He asked me about that and I said I couldn't give him an offhand opinion and he said, "I will give you a memorandum on it."
- White: Well.
- H.M.Jr: I am going to get one, all right.
- White: I suppose it will be all right if I send him that?
- H.M.Jr: Sure. If he would like the financial reports that Ambassador Kennedy gets out, they are written by Butterworth. What else?
- White: That is all.
- H.M.Jr: Harold?
- Graves: I just received from Mr. Helvering a report on the activities of the Bureau of Internal Revenue in Chicago in connection with this labor union.
- H.M.Jr: I saw it in the paper this morning.
- Graves: Yes. I can give you Mr. Helvering's memorandum or I can tell you.
- H.M.Jr: Tell me, please.
- Graves: Well, as I understand the situation, the

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State's attorney in Chicago, that is, the prosecuting officer for Cook County, has for a long time been investigating the activities of various unions which, according to this report, and evidently the newspapers have it, have to some extent been taken over by the hoodlum racketeer element. Now, as disclosures appear in the press, the Collector of Internal Revenue in Chicago has been following those inquiries to see whether the money that apparently has changed hands in these racketeering operations has been properly accounted for for tax purposes, and they have gone from one union to another, following more or less the activities of the State's attorney.

Now, no statement was sent out yesterday by the Revenue people in Chicago. There are reporters who are stationed at all times in the Customhouse Building in Chicago and they have been in touch with this situation. They see people coming into the Collector's office and their story is sort of a rehash of what has been happening there for a long time when these investigations have been going on. That is roughly the picture.

- H.M.Jr: I see by the papers that Tom Dewey is starting an investigation of the State tax of Scalise, you know. We gave Tom Dewey some help on that.
- Gaston: We couldn't give him what he wanted. He wanted a very unreasonable thing.
- Foley: He wanted our investigation, which we couldn't give him.
- H.M.Jr: Oh.

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- Foley: He didn't protest, and he got the conviction without it.
- H.M.Jr: I see.
- Foley: Our investigation isn't completed, as you know.
- H.M.Jr: No, I don't know.
- Foley: It has been going on for several months.
- H.M.Jr: On Scalise?
- Gaston: Yes, entirely independent of his.
- H.M.Jr: When are you going to finish it, after he is in jail?
- Foley: Well, he put him in jail for a violation of the State law. We have an income tax --
- H.M.Jr: But when are you going to break it?
- Foley: I don't know. That is up to Herbert.
- Gaston: No, no, that is up to Elmer and --
- Foley: Well, he is under you.
- Gaston: No, he isn't. I didn't know about the tax investigation, but I did know something about this Tom Dewey thing, because that went through me. They just haven't completed their case, that is all.
- Schwarz: This story, Mr. Secretary, was undoubtedly requested by Pegler's United Feature Syndicate of the United Press in order to keep his stories lively and newsworthy. He has been pushing along on this subject.

- 12 -

- H.M.Jr: If you (Graves) could give our income tax investigation a push. Is it Scal-ee-se or Scal-i-ce? Probably Scalouse.
- Everything else all right?
- Daniel, are you going to rip those people back from Atlantic City?
- Bell: It is a little difficult to get one of them. Sinclair has arranged for a dinner on Monday evening at which he is the host. It will be a little difficult for him to get here before 1:00.
- H.M.Jr: 11:00 o'clock, Tuesday. Have you told McKay?
- Bell: Yes. How about doing it, so far as they are concerned, by telephone?
- H.M.Jr: Marvelous.
- Bell: Let Ransom and Chester Davis and Szymczak come over here. Bob Rouse can do a little scouting around on Monday if you want to make any announcement about whether its going to be just refunding or --
- H.M.Jr: We will see.
- Bell: Well, I think it might be well to give that out Monday before he starts the conferences. That will help. We will do that after I talk to you on the phone Monday.
- H.M.Jr: All right.
- Bell: Swell.
- H.M.Jr: Going to get a little golf in tomorrow?

- 13 -

Bell: I don't think so.

H.M.Jr: Who is on duty tomorrow?

Bell: I will be here. Sullivan, I think, is going away.

H.M.Jr: Hope you all have a good week-end.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

2:30 Staff meeting

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DATE September 20, 1940

TO Secretary Morgenthau  
FROM J. P. Chamberlain

The majority of the Foreign Funds Control Committee authorized the sending of francs to France against blocked dollars by charitable organizations which give satisfactory guarantees that the funds will be disbursed in France solely for relief purposes, and under control of agents of the American organization sending the funds.

This authorization will only apply so long as francs are made available in France against dollars blocked in the United States.

The large number of refugees in unoccupied France, both of French and of other nationalities, including Spaniards, Poles, Germans and Russians, creates a difficult relief problem, and the importance of permitting relief to go especially to the foreign refugees has been persuasively urged.

In accordance with your instructions the licenses will only be given to unoccupied France. No license will be granted for more than one month, and it is understood that this authorization applies only so long as francs are available in France against blocked dollars deposited in the United States.

J. P. Chamberlain

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Buenos Aires.

DATE: September 20, 1940, 4 p.m.

NO.: 219.

CONFIDENTIAL.

The possibility of sending an important officer of the Treasury Department to Buenos Aires who would be capable of and have the authorization to discuss a monetary and exchange agreement with authorities of the Argentine Government and bring it to a conclusion has been discussed with the Treasury by the Department. The Secretary of the Treasury, after carefully and sympathetically considering all the points which Dr. Pinedo raised, believes that in view of all the circumstances Washington would be a more appropriate place for such a negotiation. You are requested to talk this over with Dr. Pinedo. Inform Dr. Pinedo that the Secretary of the Treasury will gladly discuss the possibilities of such an agreement in Washington with Dr. Pinedo personally or with any representative Dr. Pinedo desires to send.

HULL  
(SW)

EA:EGG:CMS EA

EA:MSG

SEP 20 1940

My dear Mr. Under Secretary:

This is in reply to your letter of September 16, 1940, your reference IC, inquiring as to whether December 9, 1940 is satisfactory to the Treasury as the date for convening the Second Meeting of Treasury Representatives at Quito, Ecuador, and asking that any suggestions for the agenda of the Meeting be submitted to you by September 21, 1940.

December 9, 1940, the date suggested by the Ecuadoran Government for convening the Second Meeting of the Treasury Representatives, is satisfactory to this Department. In accordance with your request the suggestions being submitted by this Department for the agenda of the Meeting are appended hereto.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Sumner Welles,  
Under Secretary of State.

Attachments ✓

cc to Mr. Thompson

MSH

HRS:dln

HR 9/18/40 VC

FILE COPY

By Messenger 32

### **Suggested Agenda for the Coming Inter-American Treasury Conference**

The following suggestions for an agenda for the Second Inter-American Treasury Conference are submitted for consideration by American Republics:

It would seem that effective work could be accomplished at the conference by having a series of round table discussions. Each round table would be presided over by the Treasury representative of a selected country which possibly has a more than ordinary interest in the problem, and the representative of another country that also has had some special experience or special interest would contribute the leading paper for discussion. The representative of the country designated in charge of the round table would have the duty not only of acting as chairman during the discussion, but would have the responsibility of preparing in advance an agenda of questions and topics relating to the subject. It is thought that the Inter-American Committee holding its meeting in Washington might select the country whose Treasury representative might act as Chairman for a particular round table discussion, as well as the countries assigned to prepare particular papers.

In view of the fact that the working period will probably only be five or six days, and in order to provide for the usual exchange of amenities, etc., it would probably be found desirable to limit the number of round table discussions to eight or ten. The following dozen topics are suggested out of which a final selection might be made:

1. **Standardization of budgetary and accounting practices in the Federal Government.**

(In view of Brazil's recent conferences to consider standardization of budgetary and accounting practices of states and municipalities she might wish to contribute an interesting paper on this topic.)

2. **Unification of taxes.**

(Argentina might wish to report on her experience since 1936 with the Federal collection of provincial taxes.)

3. **A bulletin of American Treasuries.**

(Proposal by the United States, with a formal outline of the suggested bulletin.)

4. **Smuggling and counterfeiting as Treasury problems.**

- 2 -

5. The handling of the exchange problems arising out of compensation and clearing agreements.
6. The internal organization of American Treasuries.
7. The work of the General Accounting Office.
8. Administrative experience with the income tax.
9. Training personnel for Treasury work.
10. Problems in improving customs administration.
11. A comparison of budgetary procedure in American countries.
12. Short-term financing policies and procedures of American Treasuries.

HDW:lrs  
9/20/40



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
IC

September 16, 1940

My dear Mr. Secretary:

Dr. L. S. Rowe, Director General of the Pan American Union, informs me that he has received a request from the Government of Ecuador that the Pan American Union designate the date for the Second Meeting of Treasury Representatives which will be held in Quito, Ecuador. The Organizing Committee appointed by the Government of Ecuador has suggested December 9, 1940 as the date for the convening of the Second Meeting, and Dr. Rowe has inquired informally whether that date would be convenient for this Government. In view of the fact that this will be a Meeting of Treasury Representatives to discuss technical problems, this Department perceives no objection to the suggested date. I shall appreciate it very much if you will let me know not later than September 21, 1940 whether this suggested date is agreeable to you.

It

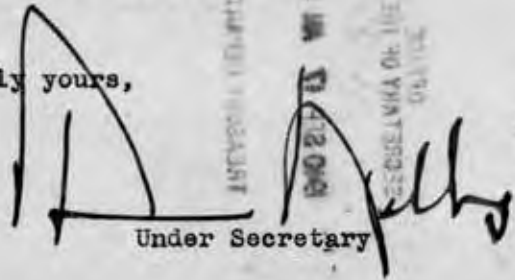
The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

It is important that the agenda for the Meeting be formulated at the earliest possible date and I therefore suggested to Dr. Rowe that the Governing Board of the Pan American Union consider suggestions for the agenda at the same time that it sets the date for the Meeting. I shall therefore appreciate it if you will submit any suggestions which you may have for the agenda so that I may receive them not later than September 21. The suggestions for the agenda will then be communicated to the governments of the twenty-one American republics for their comments, after which the definitive agenda will be formulated.

Sincerely yours,



Under Secretary

RECEIVED  
 SEP 18 1949  
 DEPARTMENT OF STATE

9/20/40

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HM, Jr gave Mr. Jesse Jones the original ribbon copy of this after their conference with the Russian Ambassador today.

COPY

July 15, 1940

## MEMORANDUM FOR THE SECRETARY:

Proposal for a possible three-way arrangement between the United States, Russia and China to give assistance to China

The following tentative plan is put forward as a possible feasible method of carrying out the President's suggestion of giving aid to China through an arrangement which would include Russia.

A. We would purchase from \$100 to \$200 million of strategic and critical commodities from Russia for delivery as rapidly as possible but probably extending over several years. We would make advance payments for part of the purchase, preferably in proportion as Russia extends effective equivalent credits to China.

According to an estimate based on the available data, which are neither comprehensive nor up to date, Russia can supply us with about \$25 million per annum of manganese ore, asbestos, platinum, chromite, etc. (In addition to her normal exports to the United States). (See Exhibits A and B.) Further information from the Soviet Government would be needed to ascertain the volume of such exports that could be made.

B. Russia on her part would agree to extend to the Government of China credits equivalent to our advance payments for Russian strategic materials. Russia's equivalent credits to China would be in addition to the \$50 million or so of Russian credits reported by Mr. Soong in the middle of July to be still outstanding which China is using up as rapidly as Russia will permit. Russia's equivalent credits to China would become effective simultaneously with our advance payments to Russia.

C. To eliminate the risk of Russian non-delivery of goods for which we have made advance payment, Russia could be requested to agree to leave gold on earmark with the United States to an amount equivalent to the sums we pay in advance. The gold would be unblocked, and if desired withdrawn, concomitantly with our receipt of Russian goods already paid for.

- 2 -

D. As a possible quid pro quo to the Russians we might allow them to use our advance payments to them for the purchase of such American goods as can be exported without detriment to our national defense.

Advantages of plan:

1. It would make possible increased aid to China at a time when no other means -- except perhaps a currency stabilization loan -- is open, and thus by strengthening Chinese resistance to Japanese aggression improves the United States' defensive position in the Pacific.
2. The aid to China would be made without our incurring any risk and only at the cost of payment in advance for strategic and critical materials which we need anyhow.
3. We would increase our foreign trade by making possible larger exports to Russia.
4. If the international situation develops in such a way as to make it to our advantage to improve our relations with Russia, this three-way agreement would constitute a convenient opening wedge for this purpose.

HDW:WLU:SA:lrs  
9/12/40

## EXHIBIT A

September 12, 1940

The U.S.S.R. As a Source of Strategic and Critical Materials<sup>1/</sup>

The United States may be able to purchase strategic and critical materials from the U.S.S.R. to the extent of from \$100 million to \$200 million for delivery over a four-year period. (This sum is in addition to our normal trade with the Soviet Union, which amounted to \$24.5 million in 1939.)

According to this estimate, the following materials might be annually obtainable in the following quantities and values:

<u>Material</u>	<u>Quantity</u>	<u>Value</u>
Manganese (ore)	450,000 long tons	\$10,000,000
Chromite (ore)	100,000 long tons	2,000,000
Mercury	7,000 flasks (76 lbs.)	1,400,000
Asbestos (unmanufactured)	100,000 tons	5,000,000
Platinum (ingots)	60,000 troy ounces	3,000,000
Fluorspar (ore)	30,000 tons	1,000,000
Tin (ore or metal)	2,000 tons (metal content)	2,000,000
Mica (strategic - unmanufactured)	10,000 tons	500,000
Graphite (natural)	10,000 tons	<u>250,000</u>
<b>Total</b>		<b>\$25,150,000</b>

The above estimates are based on published data available to us, but the data is not up to date, nor is it comprehensive. There are many strategic materials which are known to be produced in the U.S.S.R., but for which no adequate statistical information is readily accessible. Before any definite conclusion can be reached as to the extent of possible purchases, it would be desirable to obtain the necessary information from the Soviet Government as a basis for a more detailed survey.

<sup>1/</sup> Prepared by Mr. Ullmann

Division of Monetary Research

Manganese

**Use:** Manganese is a strategic material, used in the manufacture of steel. It is considered of "first priority".

United States Consumption: 1937

Produced in the United States		73,000 long tons ore
Imported - from U.S.S.R.	384,000	
Imported - from other countries	<u>539,000</u>	
Total imports		<u>923,000</u> long tons ore
Apparent consumption		996,000 long tons ore

Imports from "other countries" came principally from the Gold Coast, Cuba, Brazil. Russian ore has a higher manganese content than Western Hemisphere ore.

United States Emergency Requirements: 12 months (Army estimate)

Domestic Production	185,000 long tons ore
Imports	<u>417,000</u> long tons ore
Total requirements	602,000 long tons ore

(Deficiency to be made up from inventories)

This appears to be an underestimate of import tonnage requirements.

Estimated cost of imports: \$6,000,000.

Soviet Manganese Production

1936 U.S.S.R. production	2,273,000 metric tons ore
Known U.S.S.R. resources	785,000,000 metric tons

Conclusion

The United States can probably obtain a large part of its manganese import requirements from the U.S.S.R. The War Department estimates of manganese requirements appear low, especially in view of the 1937 volume. If, however, the United States were to import half the total 1937 quantity, the cost of imported manganese would amount to about \$10 million per year (using the Army estimates of emergency prices.)

Asbestos

Raw Asbestos is a critical material, used in the automotive industries for brake linings and gaskets. It is also important for heat insulation in various types of construction and equipment.

United States Consumption 1937

The United States has been largely dependent on imports for asbestos, with Canada the principal supplier (supplying about 90 percent). The Soviet Union was second with 3 percent. United States consumption in 1937 was as follows:

Domestic production		12,000 tons (unmanufactured)
Imports from U.S.S.R.	10,000	
Imports from other countries	<u>287,000</u>	
Total imports		<u>297,000</u> tons
Less exports		<u>3,000</u> tons
Apparent consumption		315,000 tons

Soviet Asbestos Production

The U.S.S.R., in 1936, produced 125,117 metric tons of unmanufactured asbestos, which was a rise of 30 percent from 1934. If Soviet production continued to increase at the same rate, it probably will reach over 200,000 tons this year.

The Soviet Union, in 1937, exported 27,000 metric tons.

Conclusion

The United States, faced with an emergency, might have to import more asbestos from the U.S.S.R. If that country were able and willing, it might be able to sell the United States 100,000 tons of raw asbestos at, perhaps, \$50 per ton (The 1936 value of our imports from the U.S.S.R.) or \$5,000,000.

WLD:dlm/lem  
9/12/40

## Mica

Uses: Mica is a strategic material used in the electric and radio industries. A large part of the world's mica production is of non-strategic mica, ground and pulverized for many purposes, including roofing.

### United States Emergency Requirements: 12 months (U.S. Army estimate)

The War Department has estimated that the United States would need 2,600 short tons of strategic mica annually during an emergency (this appears low in view of peace-time consumption). It estimated that our production plus normal stocks could more than supply this demand. However, this conclusion was based on "contemplated exploitation of all domestic resources at unrestricted costs".

In the past, the United States has imported chiefly from British India. If anything should cut off the Indian supply, the United States might find it practical to import mica from the U.S.S.R. in order to curtail too sharp a price rise.

### Soviet Mica Production

In 1935, the U.S.S.R. produced over 8,000 tons of mica, twice the 1934 output and exceeding British India's output. If the U.S.S.R. production expanded as rapidly as India's, Soviet production in 1938 would amount to over 14,000 tons.

The United States has imported no Soviet mica, nor is it known that the Soviet Union has exported any.

### Conclusion

The United States might find it practical to import 1,000 tons of unmanufactured mica from the Soviet Union, which might cost \$500 per ton or \$500,000.

MERCURY

Use: Mercury is a strategic material, used in manufacturing fulminate for detonating high explosives and fixed ammunition. It is used also in drugs (calomel, corrosive sublimate, etc.) in paints for ship bottoms, in electrical apparatus, and instruments (barometers, thermometers, etc.)

United States Consumption: 1937

The United States has in the past imported a substantial portion of its consumption: approximately half in years of high consumption and less in other years, with domestic consumption remaining relatively steady. Imports have come principally from Spain and Italy, with lesser amounts from Mexico. 1937 consumption was as follows:

Domestic production	16,508 flasks (76 pounds)
Imports from U.S.S.R.	None
Imports from other countries	18,917 flasks (76 pounds)
Less exports	454 flasks (76 pounds)
Apparent consumption	35,000 flasks (76 pounds)

United States Emergency Requirements: 12 months (Army estimates)

The War Department has estimated that requirements in an emergency would rise. The Bureau of Mines has recently (1939) estimated that the emergency requirements would amount to 36,000 flasks annually. Since domestic production has fallen prices, it has been estimated that the United States output might reach 30,000 flasks under conditions of high emergency prices, to which can be added 2,200 flasks from Mexico. This would leave a deficit of approximately 14,000 flasks which could be supplied only by imports.

Since Spanish and Italian mercury might be cut off from a rising American market, the price might readily reach \$100 per flask (it was \$96.55 in June 1937). The cost of importing 14,000 flasks would be \$1,400,000.

Soviet Mercury Production

Reliable information about Soviet production is not available. The Minerals Yearbook (quoting the Imperial Institute) places Soviet production at exactly 8,700 flasks in 1935, 1936, and 1937 (the latest year reported),

**Mercury**  
**(Continued)**

which appears to be inaccurate in view of the rapid expansion of Soviet production in all other fields. This figure, however, would place the U.S.S.R. fourth in the world's mercury-producing countries.

It is probable that Soviet production has expanded rapidly in recent years. As far as can be determined, the U.S.S.R. has exported no mercury.

Conclusion

The United States is faced with a deficiency in mercury, since requirements are rising and since its two most important foreign sources of supply may be cut off. The U.S.S.R. may be able and willing to supply us with perhaps 7,000 flasks annually, which would cost approximately \$700,000.

### Chromium

Use: Chromium is a strategic material (of "first priority"), used in alloy steels, in refractories, in pigments, and in chromium plating (e.g., machine gun barrels).

#### United States Consumption: 1937

The United States depends almost entirely on imports for its supply of chromite, importing chiefly from British Africa, from the Phillipine Islands, Cuba, and Turkey. The Cuban ore is of low grade, and is therefore used in refractories. It is understood that Turkey has agreed to sell chromite to Germany, a factor which (together with shipping difficulties) makes Turkey a doubtful source of supply. 1937 consumption was as follows:

Domestic Production	2,000 long tons ore
Imports from U.S.S.R.	None
Imports from other countries	<u>554,000 long tons ore</u>
Apparent consumption	556,000 long tons ore

#### United States Emergency Requirements: 12 months (Army estimate)

The War Department has estimated that in an emergency, the United States would need 285,000 tons of chromite per year, using all possible substitutes. It estimated that domestic mines could produce 64,000 tons annually, which appears high in view of actual production (812 tons in 1936). Assuming its estimates to be correct, however, the United States would need to import approximately 200,000 tons per year.

#### Soviet Chromite Production

Soviet production data are not available for years since 1936, when their output was 217,000 metric tons. Production is probably appreciably higher at present, since it is known to have risen sharply through 1936;

1934	-	127,400 tons
1935	-	177,900 tons
1936	-	217,000 tons

Furthermore, Soviet publications claimed an inadequacy of chromite in 1936, while they claimed requirements to be 100 percent satisfied in 1938, when Soviet industry had expanded appreciably from 1936 levels.

**Chromium  
(Continued)**

Soviet production now, it is felt, is probably well over 300,000 tons per year, a part of which the U.S.S.R. might be willing to export, especially since sales of the ore would in no way tax her refining facilities.

The United States has imported no chromite from the U.S.S.R. since 1936. As far as can be determined, the Soviet Union has exported none since that time.

**Conclusions:**

If the United States, under an emergency and using substitutes, were to import half its 1937 importations, it would need to purchase abroad 277,000 tons of chromite per year, which would involve an approximate cost of \$7,000,000 (using Army estimates of emergency prices). If the Soviet Union were willing to sell us 100,000 tons annually, the cost involved would amount to, roughly, \$2,000,000.

## Platinum

**Re:** Platinum is a critical material, used in making sulfuric and nitric acids, as well as in many laboratory instruments, electrical contacts, and manufacturing processes.

### United States Consumption 1977

The United States is largely dependent on imports for platinum, although a large part of the imports are in crude form which are refined domestically.

U.S. Production (from imported materials)	87,000 troy ounces
U.S. Production (from domestic materials)	5,000 troy ounces
Imports of ingots, bars, sheets, etc.	
From U.S.S.R.	15,000 troy ounces
From other countries	<u>47,000</u> troy ounces
Less exports (estimated)	<u>50,000</u> troy ounces
Apparent consumption	104,000 troy ounces

Imports of refined metal have come largely from the United Kingdom. Columbia has supplied a large part of our crude platinum imports.

### U.S.S.R. production

The U.S.S.R. is known to produce annually between 100,000 and 200,000 troy ounces of platinum, probably nearer the latter figures.

### Conclusion

The United States, in an emergency, would necessarily increase those industries which use platinum. However, the sale of platinum in consumers' goods (jewelry) would probably decline, possibly enough to offset the industrial increase. Nevertheless, we will have to import considerable quantities. The U.S.S.R., already on an export basis, might be willing to sell us 60,000 troy ounces annually, which would cost approximately \$3,000,000.

## Exhibit B

## United States Trade with the U.S.S.R., 1937 - June, 1940

(Thousands of Dollars)

	1937	1938	1939	1940 (6 months)
<b>U.S. Exports (including reexports)</b>				
Vegetable food products	\$ 3	\$ 1/	\$ 1,719	\$ 2,351
Crude rubber	-	-	2,521	37
Other inedible vegetable products	711	59	35	47
Non-metallic minerals	6,362	5,844	3,020	186
Copper	437	13	6,940	10,898
Molybdenum and ferro alloys	3,776	3,268	6,984	241
Tin	-	-	1,012	1,852
Iron and steel products and other metals and manufactures	9,535	8,961	5,092	5,289
Metal working machinery	6,954	35,163	18,655	10,082
Aircraft and parts	3,213	5,171	2,905	-
Other machinery and vehicles	10,028	9,108	6,942	4,075
Chemicals and related products	424	846	213	-
Other articles	<u>1,449</u>	<u>1,258</u>	<u>592</u>	<u>7,044</u>
Total Exports	\$42,892	\$69,691	\$56,637	\$42,102 2/

1/ Less than \$500

2/ Preliminary and not yet classified

## Exhibit B - Continued

United States Trade with the U.S.S.R., 1937 - June, 1940

(Thousands of Dollars)

	1937	1938	1939	1940 (6 months)
<b>U.S. Imports</b>				
Edible animal products	\$ 2,176	\$ 1,328	\$ 1,610	\$ 77
Furs	11,698	12,397	12,454	6,095
Other inedible animal products	1,399	760	1,176	260
Inedible vegetable products	635	779	1,229	544
Textile fibers and manufactures	1,854	1,566	960	331
Food and paper	1,939	511	317	-
Asbestos	458	261	110	-
Other non-metallic minerals	1,185	1,199	1,359	-
Manganese ore	3,960	2,662	2,204	2,698
Platinum	695	964	540	-
Other metals	258	13	565	-
Chemicals	838	752	1,163	-
Other products	245	310	807	1,443 1/2
<b>Total Imports</b>	<b>\$27,240</b>	<b>\$23,502</b>	<b>\$24,494</b>	<b>\$11,448</b>

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

1/ Preliminary and unclassified

Source: U.S. Department of Commerce

WLU:lrs  
9/12/40