

DIARY

Book 308

September 24 and 25, 1940

- A -

Allison Engineering Company
 See War Conditions: Airplanes (Engines)
 Argentina
 See Latin America

Book Page

- B -

Brazil
 See Latin America

- C -

Canada
 For complaint registered by Mrs. Howe, wife of
 Canadian Minister of Munitions and Supply,
 see Customs, Bureau of
 China
 See War Conditions: U.S.S.R.
 Customs, Bureau of
 Complaint against Customs Inspector Tigner at
 Montreal registered by Mrs. Howe, wife of
 Canadian Minister of Munitions and Supply,
 discussed by HMJr, Gaston, Johnson, Thompson,
 Foley, and Tigner - 9/24/40.....

308 59

- E -

Export Control
 See War Conditions

- F -

Fifth Column
 See War Conditions: Military Planning
 Financing, Government
 Open Market Committee meeting - 9/24/40..... 13
 Offering of 2% Treasury bonds, 1953-55, in exchange
 for 1 1/2% Treasury notes, Series C-1940, maturing
 December 15, 1940 - 9/25/40..... 150,150-A
 a) Press clippings sent to FDR - 9/25/40..... 226
 b) Subscription and allotment figures. - 10/1/40:
 See Book 317, page 83
 Foreign Funds Control
 See War Conditions
 France
 See War Conditions
 French Indo-China
 See War Conditions: France

- G -

Germany

See War Conditions: Foreign Funds Control

Book Page

- H -

Howe, C. D. (Canadian Minister of Munitions and Supply)
For complaint registered by Mrs. Howe,
see Customs, Bureau of

- I -

Indo-China, French

See War Conditions: France

Italy

See War Conditions: Foreign Funds Control

- J -

Jacemy, Colonel

See War Conditions: Export Control (Iron and Steel Scrap Embargo)

Japan

See War Conditions: Export Control; Japan

- L -

Latin America

State Department chided for delay in transmittal of
vital information on financial transactions -

9/24/40..... 308 40
a) Situation corrected - 10/3/40:
See Book 318, page 237

Argentina:

State Department chided for delay in transmittal
of vital information on financial transactions -

9/24/40..... 40

a) Treasury had no information with regard to
contemplated action on refusal of foreign
exchange for imports from United States
when Ambassador Armour and the Argentine
Ambassador called at Treasury

b) Situation corrected - 10/3/40: See Book 318, page 237

Financial Mission: Personnel named by Minister of

Finance - 9/24/40..... 71

a) Prebisch (General Manager, Central Bank)
consults American Embassy about mission -

9/24/40..... 76

Exchange Control Office: To resume granting prior
permits for American merchandise in deference to
views of Pierson (Export-Import Bank) - 9/24/40....

72

Brazil: German plans for purchasing products to be
stored in Brazil until end of war reported by

American Embassy, Rio de Janeiro - 9/24/40..... 85

- P -

Packard Motor Company	Book	Page
See War Conditions: Airplanes (Engines)		
Philippine Islands		
Banking conditions reported on as of 8/24/40.....	308	88
Prebisch, Raul (Dr.)		
See Latin America: Argentina		

- U -

United Kingdom		
See War Conditions: Military Planning		

- W -

War Conditions		
Airplanes:		
Balfour-PBY-Pan American deal: Young memorandum - 9/24/40.....		76
Engines:		
Allison Engineering Company shows marked increase in production, September 1-21, 1940 - FDR so informed - 9/25/40.....		139
Packard Motor Company: Up-to-date report on unfilled orders, new orders, deliveries, etc., requested, - 9/25/40.....		232
Exchange market resumed - 9/24-25/40.....		107,178
Export Control:		
Iron and Steel Scrap Embargo:		
Proposed Proclamation:		
Attorney General's reply - 9/24/40.....		1
Secretary of Interior's reply.....		8
Final draft discussed by Maxwell and HMJr.....		49
Interdepartmental Advisory Committee meets with Maxwell to discuss - 9/25/40.....		220,229
a) Treasury draft preferred		
Japan: Complete embargo approved by Hull and Henderson so informs HMJr - 9/24/40.....		42
a) HMJr thinks pressure should have been put on Japan <u>before</u> invasion of Indo-China; thinks oil should be embargoed now before they go into Dutch East Indies		
b) Henderson asks HMJr to see Colonel Jacomy (French Indo-China group).....		42,47
Foreign Funds Control:		
Conference; present: HMJr, Chamberlain, and Pehle - 9/24/40.....		32
a) Memorandum: "Policy to date" and "recommendations for disposal of pending remittance cases"		
1) Applications held by Remittance Section as of September 20, 1940		
German transactions with Chase National Bank - 9/25/40..	177	
Italian transactions with Chase National Bank - 9/24/40.....		92

- W - (Continued)

War Conditions (Continued)

Book Page

France:

French Indo-China: Report on conditions provided
by Nicholson, in China, after conversations
with French Indo-China officials..... 308 239
a) Copies sent to FDR and Hull..... 235

Japan:

Liukungtao: Plans to seize - 9/24/40..... 118

Military Planning:

Tentative Lessons from the Recent Active Campaign
in Europe: War Department bulletin
Fifth Column Activities - 9/24/40..... 98
Reports from London transmitted by Lothian -
9/24/40..... 127, 131

Purchasing Mission:

British balances discussed by HMJr, Bell, White,
Haas, Viner, and Cochran - 9/24/40..... 15, 187
a) Tables attached..... 205

Strategic Materials:

Iron and Steel Scrap:
See War Conditions: Export Control

U.S.S.R.:

Russia-China-United States agreement: Conference;
present: HMJr, Oumansky, Jones, Henderson,
Atherton (State Department), and White - 9/25/40.. 166
a) Discussion of FDR's suggestion: United States
will buy strategic materials (manganese, mica,
platinum, etc.) from Russia and in turn
Russia will sell additional munitions to China
b) Oumansky suggests using Trans-Iranian Railroad
thus avoiding Suez and Gibraltar..... 168
(See map, page 168)
c) U.S.S.R. prefers not to link this transaction
with Soviet-Chinese trade
d) Flax also discussed
e) Oumansky leaves HMJr; HMJr suggests that Hull
now be consulted..... 164

War Department

Military Intelligence Division bulletins:
See War Conditions: Military Planning

1
SEP 24 1940

My dear Mr. Attorney General:

Acknowledgment is made to your letter of September 18, 1940, in which you stated you found no legal objection to the proposed amendment to the regulations governing the exportation of iron and steel scrap.

I concur in the changes you made in the form of the proposed order. I appreciate your cooperation in this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

By Messenger 4⁰⁰

MEH:mjb

Typed 9-24-40/r

SEP 24 1940

My dear Mr. Attorney General:

Acknowledgment is made to your letter of September 15, 1940, in which you stated you found no legal objection to the proposed amendment to the regulations governing the exportation of iron and steel scrap.

I concur in the changes you made in the form of the proposed order. I appreciate your cooperation in this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

HEM:jsb
Typed 9-24-40

By Messenger

SEP 24 1940

My dear Mr. Attorney General:

Acknowledgment is made to your letter of September 15, 1940, in which you stated you found no legal objection to the proposed amendment to the regulations governing the exportation of iron and steel scrap.

I concur in the changes you made in the form of the proposed order. I appreciate your cooperation in this matter.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

REH:mjb
Typed 9-24-40

By Messenger

SEP 24 1940

My dear Mr. Attorney General:

Acknowledgment is made to your letter of September 15, 1940, in which you stated you found no legal objection to the proposed amendment to the regulations governing the exportation of iron and steel scrap.

I concur in the changes you made in the form of the proposed order. I appreciate your cooperation in this matter.

Very truly yours,

(signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General of the United States.

NH:mjb
Typed 9-24-40

By Messenger



Office of the Attorney General
Washington, D.C.

September 18, 1940.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Reference is made to your letter of September 11, 1940, enclosing a draft of an amendment to the regulations governing the exportation of iron and steel scrap.

The regulations of July 26, 1940, now in force, define iron and steel scrap as "Number 1 heavy melting scrap." (5 F.R. 2682) The proposed regulations change the definition to read--"All iron and steel scrap of every kind and description, classified and unclassified", and also make applicable to the exportation of such scrap regulations 2 to 12, inclusive, of the regulations issued on July 2, 1940. (5 F.R. 2469)

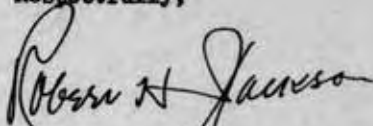
I find no legal objection to the proposed order. It merely places all iron and steel scrap under the same restrictions that are now applicable to the exportation of aviation motor fuel, tetraethyl lead, and aviation lubricating oil. I am not advised as to what policy has been adopted with respect to the exportation of aviation motor fuel and the other products mentioned above. The question whether the order, if issued, should

- 2 -

be administered in the manner suggested seems to be one of policy to be determined by the President, who may desire to discuss the matter with the Secretary of State. It is possible that there may be treaties which would prevent the suggested application.

I have changed the form but not the substance of the proposed order and enclose herewith three copies of the order embodying suggested changes.

Respectfully,



Attorney General.

RECEIVED DEPARTMENT OF JUSTICE

SEP 25 1941

RECEIVED DEPARTMENT OF JUSTICE

AMENDING REGULATIONS OF JULY 26, 1940, GOVERNING THE
EXPORTATION OF CERTAIN ARTICLES AND MATERIALS

Pursuant to the authority vested in me by the provisions of section 6 of the act of Congress approved July 2, 1940, entitled "An Act to expedite the strengthening of the national defense", I hereby amend sections 1C and 2 of the regulations issued by me under date of July 26, 1940, entitled "Regulations governing the exportation of articles and materials designated in the President's proclamation of July 2, 1940, issued pursuant to the provisions of section 6 of the act of Congress approved July 2, 1940", to read as follows:

"C. Iron and Steel Scrap.--All iron and steel scrap of every kind and description, classified or unclassified.

"2. Regulations Nos. 2 to 12, inclusive, of the regulations issued on July 2, 1940, pursuant to the Act of July 2, 1940, are applicable to the exportation of aviation motor fuel, tetra-ethyl lead, aviation lubricating oil, and iron and steel scrap."

THE WHITE HOUSE,

September , 1940.

SEP 24 1940

My dear Mr. Secretary:

Receipt is acknowledged of your letter, dated September 20, 1940, with regard to a draft of an amendment to the existing regulations controlling the export of iron and steel scrap.

A copy of the same draft which was forwarded to you with my letter of September 11, 1940, was referred to the Attorney General for his consideration. In a letter, under date of September 18, 1940, the Attorney General replied that he found no legal objection to the proposed order. However, he made several formal changes which incorporate those suggested in your letter to me. Enclosed is a copy of the amendment as drafted by the Attorney General.

May I thank you for your cooperation and consideration in this matter?

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Interior.

Enclosure ✓

WTF/k
HMF/avp
Typed: 9/24/40. *in 76*

By Messenger 4⁰⁰

SEP 24 1940

My dear Mr. Secretary:

Receipt is acknowledged of your letter, dated September 20, 1940, with regard to a draft of an amendment to the existing regulations controlling the export of iron and steel scrap.

A copy of the same draft which was forwarded to you with my letter of September 11, 1940, was referred to the Attorney General for his consideration. In a letter, under date of September 18, 1940, the Attorney General replied that he found no legal objection to the proposed order. However, he made several formal changes which incorporate those suggested in your letter to me. Enclosed is a copy of the amendment as drafted by the Attorney General.

May I thank you for your cooperation and consideration in this matter?

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Interior.

Enclosure

HRP/avp
Typed: 9/24/40.

By Messenger

SEP 24 1940

My dear Mr. Secretary:

Receipt is acknowledged of your letter, dated September 20, 1940, with regard to a draft of an amendment to the existing regulations controlling the export of iron and steel scrap.

A copy of the same draft which was forwarded to you with my letter of September 11, 1940, was referred to the Attorney General for his consideration. In a letter, under date of September 18, 1940, the Attorney General replied that he found no legal objection to the proposed order. However, he made several formal changes which incorporate those suggested in your letter to me. Enclosed is a copy of the amendment as drafted by the Attorney General.

May I thank you for your cooperation and consideration in this matter?

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Interior.

Enclosure

HT/avp
Typed: 9/24/40.

By Messenger

SEP 24 1940

My dear Mr. Secretary:

Receipt is acknowledged of your letter, dated September 20, 1940, with regard to a draft of an amendment to the existing regulations controlling the export of iron and steel scrap.

A copy of the same draft which was forwarded to you with my letter of September 11, 1940, was referred to the Attorney General for his consideration. In a letter, under date of September 18, 1940, the Attorney General replied that he found no legal objection to the proposed order. However, he made several formal changes which incorporate those suggested in your letter to me. Enclosed is a copy of the amendment as drafted by the Attorney General.

May I thank you for your cooperation and consideration in this matter?

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Interior.

Enclosure ✓

HRF/avp
Typed: 9/24/40.

By Messenger



THE SECRETARY OF THE INTERIOR
WASHINGTON

SEP 20 1940

CONFIDENTIAL

The Honorable

The Secretary of the Treasury.

My dear Mr. Secretary:

I have considered the draft of amendment to the existing regulations controlling the export of iron and steel scrap which you have prepared for submission to the President. It appears that the definition of iron and steel scrap is all-inclusive and will be effective for the purpose for which it is intended.

The only changes which I have to suggest are formal ones. It seems to me that the amendment should not be promulgated as a proclamation but merely as a regulation. This would be consistent with the practice followed in the regulations of July 2 and July 26. It appears also that the reference in the title should be to the proclamation of July 26, 1940, instead of July 2, 1940, inasmuch as it is the former proclamation which designates iron and steel scrap. I think that this would be proper even though the existing regulations of July 26 make reference to the proclamation of July 2.

I agree with you that if the regulation is to cover all iron and steel scrap it is preferable to frame the definition as you have done, rather than to attempt a detailed classification which might not, even though carefully prepared, be all-inclusive.

Sincerely yours,

Harold Z. Peters

Secretary of the Interior.

September 24, 1940
10:45 a.m.

RE OPEN MARKET

Present: Mr. Hadley
Mr. Haas
Mr. Murphy
Mr. Bell
Mr. Ransom
Mr. Draper
Mr. Thompson
Mr. Piser

H.M.Jr: Have you agreed among yourselves which one it ought to be?

Bell: Your rights have gone way up this morning, about 10/32nds. They are back now about 8, aren't they?

Hadley: Yes. They have gone way up, which indicates to me that they are expecting this market to go up after this announcement, that it is going to be a 2-1/4. I don't know whether Haas and Murphy agree on that or not. The last two issues, right after we have announced it, the market has gone up and they expect to get what they are paying for their rights back on this after the market goes up. I would be inclined to give consideration to a September instead of a June. It would make this about one par, 28/32nds, to 1, 4/32nds.

H.M.Jr: You don't want a three year?

Bell: I wouldn't make it three years unless you want to reopen it. Seven hundred million is a lot of money. I can tell you what some of the dealers think. I haven't gotten Bob's quarter of eleven report.

Levy wants more of the 2-1/4's, '54-'56 and 102.

- 2 -

Mills said 2%. He said '52-'50 and came back and said '53-'55, which jibes with that. Mills said a 2% '53-'55 and then he added that possibly the Treasury, for safety's sake, and true to your tradition, would want a note. He wouldn't object to that.

H.M.Jr: A bond and a note?

Bell: Yes. He was just thinking the Treasury mind might be working that way.

The bankers said 2-1/4%, '57-'60 and possibly also a note, but there again, more Treasury tradition, but they said they had 10 million of the rights which they would exchange, but they doubted if they would keep them.

H.M.Jr: Who was this?

Bell: Bankers.

Rich, of the Hanseatic - and this fellow is a recent addition to the conferees up there in the last year, and he is really good. He is one of the best, I think. He says 2%, '53-'55 is the first choice.

H.M.Jr: He agrees with us, so he is good.

Bell: No, he has been right along the line all the time. He has really got good reason behind it.

Murphy: He agrees all the time.

H.M.Jr: Oh, really? We had better have him come down and work for the Treasury.

Bell: Well, he is one of the best up there.

H.M.Jr: Really?

Bell: Have him come down sometime and talk to him.

2-1/4 he said, '57-'59, is a second choice.

That is all I have got a report on.

- 3 -

H.M.Jr: Where is George Harrison?

Bell: Atlantic City.

H.M.Jr: Who is coming over here, anyway?

Bell: Just the three members of the board, Ransom, Szymozak, and Chester Davis, I think, and they will have talked to Harrison and Sinclair.

H.M.Jr: Well, amongst ourselves, I mean, inasmuch as I would like a 2%, which one do you fellows want?

Bell: Well, I would favor the '53-'55, and I am inclined to go over to September instead of June on this issue. It would be a difference of 4/32nds premium.

H.M.Jr: Less?

Bell: Less.

Hadley: I favor the June, but I would do the September if you wanted to cut the premium a little more. On just a two year call - I don't think it is large enough for three years.

H.M.Jr: George?

Haas: I favor the 2% '53-'55, and I wouldn't argue much if you wanted to cut it, but I would be inclined not to. I think Dan, as it works out, will probably be right, and if you take the other, you will think it is too sweet, but I would rather have it too sweet than take the chance of anything happening the other way.

H.M.Jr: You mean you would have the 6/15/'53.

Haas: It would be 14-3/4, rather than a 13, stretching it out. I think it will probably work out where Dan's analysis is perfectly right, but under these conditions, I am a little scared.

Bell: Well, I won't quarrel about it.

H.M.Jr: We are arguing about three months, aren't we?

- 4 -

Bell: That is right. It doesn't mean much either way.

H.M.Jr: Henry?

Murphy: I agree with Mr. Haas.

H.M.Jr: What is that, the 6-'50.

Murphy: Yes, prefer the June.

H.M.Jr: Well, we have got to give these fellows something.

Bell: That is right.

H.M.Jr: I always lean a little bit on the sweet side.

Bell: Well, the June would have been all right with me until they ran those rights up 10/32nds.

H.M.Jr: That has scared you?

Bell: No, it didn't scare me, I didn't like it.

H.M.Jr: What is the price of the bonds themselves?

Hadley: The long bonds are off, but they are moving them down on a mark-down without any activity. It looks like they are going to move them down until the announcement and then move them back up again.

Bell: Well, they are only off about 3/32nds.

H.M.Jr: Is that all?

Bell: Yes. It is practically dead.

H.M.Jr: Is the rest of the market dead?

Hadley: Today, yes. They had a pretty good rise yesterday in the stock market, and it took a little profit this morning.

Bell: Some of these times we ought to consider adding a little premium to an offer of this kind on the second day.

- 5 -

H.M.Jr: What do you mean?

Bell: Well, we offer the 2% bond at par if they exchange it on the first day, and if they wait until the second day, it costs them a quarter. That forces the big boys in and then you can leave it open to a third day if you have a bond issue.

H.M.Jr: I see.

Bell: These big New York banks won't turn them in until the last hour.

H.M.Jr: What is the matter with the Federal Reserve crowd?

(Mr. Ransom, Mr. Draper, Mr. Thompson, and Mr. Piser entered the conference.)

H.M.Jr: Well, we thought it would be a good time to do a little refunding.

Ransom: Seems so.

H.M.Jr: It seems to me about as high as it has been, and we have got lots to do. We thought we would try to get this behind us.

Ransom: Seems reasonable.

H.M.Jr: The market is off a little bit this morning, not much.

Ransom: Any particular reason for that?

H.M.Jr: Well, I am glad to see it go off a little bit. It will go back up again. Does the Fed have many of these notes?

Ransom: 92 million 500 thousand. Is that right?

Piser: That is right.

H.M.Jr: Had you people been thinking about what you would like to see?

- 6 -

Ransom: We had been doing a good deal of talking among ourselves, and have also been talking to Rouse, who is in New York. You have probably heard from him.

H.M.Jr: Bell has.

Ransom: We talked to Chester Davis this morning and to Mr. George Harrison and to Mr. John Sinclair, those two gentlemen being in Atlantic City, as you know. There seems to be, according to Mr. Rouse, some division of opinion in the market as between the 2% new bond and the re-opening of the 2-1/4. The market seems to be about divided equally in regard to that. I rather get the opinion, Mr. Secretary, that Mr. Rouse and Mr. Piser, who are our experts, would prefer a 2%, which would seem to us all right. I find no difference of opinion on that.

As to where it would fall, there seems to be, so far as I can find it, consensus of about 13 years, somewhere in that range, or perhaps March - that would be March '53, wouldn't it?

Piser: March '53, I think, would be the best.

Ransom: And it would become merely a question of pricing on that basis.

H.M.Jr: Well, I think we are nearer together at the start than we have ever been before.

Ransom: It seems to be a reasonably simple problem.

H.M.Jr: After having dissuaded some of them, I didn't want to reopen it.

Ransom: You did?

H.M.Jr: I did not. So then it gets down to 2% and the boys here are leaning between a June and September '53 and you (Piser) were talking March?

Ransom: We were talking March.

- 7 -

Piser: That is taking account of the drop in the market this morning.

H.M.Jr: So for once you are on the sweeter side and we are on the lower side.

Ransom: We probably would have said September rather than March if the market hadn't eased off a little bit today, but that is not a very material difference.

H.M.Jr: Well, they sort of lean here toward June.

Ransom: Does that fit in pretty well with your existing issues?

H.M.Jr: Perfectly.

Bell: Yes.

H.M.Jr: There is nothing in there, is there?

Bell: Nothing in that year at all, March, June, September, any time would fit in there as the call date.

Ransom: Yes.

H.M.Jr: Why do you - how much do you figure, Piser?

Piser: Last night I figured March at 101.17, but the market in that section is down 5 or 6/32nds now and now I figure that March would be about 101.11.

Ransom: I would like to report to you that Mr. Sinclair said that he discussed it in a general way with the market in Philadelphia and that so far as he could find out there was unanimity there for reopening 2-1/4's.

H.M.Jr: Well --

Ransom: He said he thought that --

H.M.Jr: I don't say I won't do it some day --

- 8 -

Ransom: He thought the coupon and putting it out as far as possible would be attractive to the Philadelphia market and there obviously is some sentiment to that effect in New York, which, of course, has been reported to you before.

There is one other question I would like you gentlemen to consider while we are discussing it, whether or not it would be advisable for us in the light of the strength of the market to be selling some rights in order to help the general market situation out. Now, we have never done that, as you know, and we would not want to do it without the Treasury's feeling that that was the thing to do, but Rouse particularly thinks that it might be helpful to the general market if we did.

H.M.Jr: I would hate to see you do it.

Ransom: You would?

H.M.Jr: I think you misunderstood.

Ransom: We have in mind the possibility that it is contrary to what, as I recall, we have done since I have been over there.

H.M.Jr: You have never done it. You have always waited and I think you have always converted.

Ransom: Have we always converted? As far as I know - it wasn't with the idea of taking a profit, as you well know on that, but merely for us it is the idea that that is a method of equalizing the situation.

Bell: If it were not misunderstood, it would have been a good thing this morning in the first hour to have let a few million go.

H.M.Jr: But they haven't sold off, Dan, up to the rights.

Bell: They jumped 11/32nds up to 26, and they are now back to 22 or 24. They are still about 8/32nds above last night.

- 9 -

Draper: I am afraid it would be misunderstood and cause a lot of difficulties.

Bell: But it would have been a good thing this morning from the standpoint of the market.

Draper: Technically, yes, but I am thinking now psychologically.

Ransom: You can't tell what would be the market reaction to it. It is unprecedented and the market might have construed it one way or the other. You never know. You can't explain.

Bell: Well, so long as they didn't construe it that the Treasury was trying to rig the market, that is all that would worry me.

Draper: That is probably what they would do.

Ransom: That is doubtless what they would do.

Bell: If you are selling, you have a hard time rigging it.

H.M.Jr: Well, it seems like a fairly easy transaction and for once I find myself differing with Piser. Piser usually thinks we price them a little too rich, but you are three months better off than we are this time.

Piser: Yes.

Ransom: I am not expressing this as my own idea, Mr. Secretary, but Rouse had in mind the possibility that war news being very unsafe these days, something might happen just exactly at the wrong moment that would complicate the situation. I told him that would be true, in my opinion, for many months, so that you can't base your conclusions on that possibility, which may occur at any time.

Bell: War news becomes routine now.

Ransom: War news has become routine.

- 10 -

Bell: Even the Japs going into Indo-China didn't excite comment.

Draper: Didn't he also, Ronald, say that in connection with the longer bond?

Ransom: Yes, he said the longer bond the more possibility of repercussions from particularly disturbing war news of some kind. I think that would be obviously the situation.

H.M.Jr: You are talking about a 12¹/₂ year bond, aren't you?

Piser: Yes, sir.

H.M.Jr: What margin do you give the March 15?

Piser: On last night's close, I would make it 1-17/32nds and on this morning's market, 1-11/32nds.

Bell: It has recovered a little, hasn't it, since those lows of this morning?

Ransom: Perhaps they have gotten a report since we left.

Hadley: It has come back slightly from the low. It hit a low about half or three quarters of an hour ago, and then it has come back.

Ransom: That puts you back just about where you were.

H.M.Jr: Some of my people even talked about a September. They thought that June was too rich.

Ransom: We considered September, too.

Draper: Yes, we considered that.

Ransom: We had that in mind.

Bell: Well, I thought September was all right in view of the underlying strength in this market. I think the market will go right up as soon as this is announced.

Ransom: I think so.

- 11 -

Bell: Just like the 2-1/4 did in July. We couldn't hold that.

Ransom: I see no reason for questioning that.

H.M.Jr: How strong do you feel, Piser, on the March?

Piser: I think the September will go all right. I have no --

H.M.Jr: I wouldn't do it September. It is either March or June.

Piser: I would just as soon see June. I think you would be certainly safe.

Draper: That is a pretty good compromise, isn't it, right in the middle?

Ransom: We have got no difference of opinion.

H.M.Jr: It doesn't give as much gravy as usually, though, does it, Dan?

Bell: Yes, it is not far off. In the Julys, we figured 101-1/4, 8/32nds. Of course, the market went out of bounds the minute it was announced, but it is about the same level we figured the 2-1/4's. This is a lower coupon.

H.M.Jr: George, would you be perfectly happy, it was your suggestion, wasn't it, the June?

Haas: Yes, that is what I would favor.

Ransom: All right.

H.M.Jr: What do you think?

Ransom: Suits me. How about you, Ernest?

Draper: Absolutely, I am in favor of it.

Hadley: The last three bonds that we have offered, we have had them offered at a premium before announcement of about 1 point to 1.8/32nds.

- 12 -

H.M.Jr: How about Thompson, he hasn't said anything.

Thompson: June suits me.

H.M.Jr: Make it June?

Ransom: Suits me.

Draper: If we never have anything more difficult than that, we will be pretty lucky.

RE BRITISH BALANCES

September 24, 1940
3:00 p.m.

Present: Mr. Bell
Mr. White
Mr. Haas
Mr. Viner
Mr. Cochran

H.M.Jr: All right, what is the story?

Cochran: I just mentioned to you yesterday morning that we were getting some statistics in from Pinsent. He gave that statement about the decline in the Exchange in August, which amounted to 228 million dollars. Then he has given us another statement which is sort of a summary of a series of tables which was given to Mr. Haas. He didn't know whether you would be interested in that or not, but he submitted it at one time and I circulated it to the other officers.

H.M.Jr: Can I put it this way? Can somebody out of this group give me in three or four minutes a thumbnail - I don't know what the cut-off date is - since the first of July or the first of January, how much has England been spending and how much they have raised their money and so on, and how they have raised it. Have you got that, George?

Haas: I can give it to you on the spending side, but not on how they raised it.

H.M.Jr: Let's see what you have, because Mr. Stimson at lunch told me today in confidence that Churchill told Beaverbrook and told this General Strong that they are down to 750 million pounds of gold.

Viner: Dollars.

White: Pounds?

- 2 -

H.M.Jr: Yes.

Viner: No, dollars.

H.M.Jr: Well, anyway, let's see this.

Haas: Here is from the beginning until the first of August and then during the month of August, that much. The balance unpaid is this figure here and here is a statement as to how it is going to be paid on the British contracts and assumed French contracts.

H.M.Jr: Let's see. They have spent 643 and 507?

Haas: That is what is still due.

H.M.Jr: Oh, this is how much they have spent?

Haas: Those two added together.

H.M.Jr: Oh, I see.

Haas: It is the difference between that figure, and that figure is what has been paid, and this remains to be paid.

H.M.Jr: Total orders placed is a billion seven and they have paid 396 plus 82, so those two would be added together, and this is how much they owe?

Haas: That is right. It is estimated they will pay it out this way.

H.M.Jr: What is this you slipped on my desk, Harry?

White: That is what they have. I thought you asked for that, too.

H.M.Jr: Well now, as of September first, what were their assets?

- 3 -

White: Well, that has it. The total is on the back.

H.M.Jr: Probably about a billion.

White: We have no recent information on that.

Bell: How much have they spent, George, all told, in July?

Haas: They spent during August 182 million, and up to the first of August, from the beginning, 396.

Viner: That is Government.

Bell: That is 500 million.

Haas: That is more than 500, isn't it?

White: That would not be the - that would only be one of the significant figures. The real significant figure is their total expenditures as far as their foreign exchange assets are concerned.

Cochran: During this period, Mr. Secretary, they have sold us gold of 681 million dollars. Somebody --

H.M.Jr: Jake, look, here is something you can do for me. Pull this together. Everybody has got a little piece. I ought to be able to get - everybody is giving me something else. Can't you take a couple of hours for me and pull this together?

Viner: Sure.

H.M.Jr: I mean so that - George has got what I want on this spending but - I mean, I haven't got the assets. I ought to have it all on one page.

- 4 -

White: Sure. We haven't collected all the information that everybody has and put it together.

H.M.Jr: Well now, all right, Bell ought to - he has got my financing. I suggest that you (White) go down to Dr. Viner's room now. Have you got anything else for the rest of the afternoon?

White: No.

Cochran: I have a freezing meeting.

H.M.Jr: Let it go. What time is it?

White: It is on now.

H.M.Jr: Well, I want to get the benefit of Dr. Viner's time. Why don't the four of you go and pull this together for me in a kind of a form that we can do this once a month, Harry.

White: All right.

H.M.Jr: Again I say, I want something which is comparable to this.

Bell: All you need right under there is a line, "Method of Financing."

H.M.Jr: That is right.

Viner: That is Government. You want balance of payments; you want private transactions.

White: There are several different questions we can ask and give the answers to.

H.M.Jr: Oh, I want the over-all picture, sure. I want the whole thing, and then sub-divide it into as many sub-divisions as necessary.

- 5 -

George, I just looked at this thing. Come here. I wonder if you couldn't improve this a little bit. I think it would be important to get the trend by months, if you have it, beginning with July. Could you get it, beginning with January first? You only give me the orders.

Haas: We can get it. We haven't got it now.

H.M.Jr: Well, I think we ought to have it.

Haas: From the beginning of the year?

H.M.Jr: Yes. Don't you think so, Jake?

Viner: Yes, if they have it arranged that way.

H.M.Jr: Well, ask for it, and then whatever it is, you see --

Haas: You ought to have a cumulative total there.

H.M.Jr: Yes, that is what I want. I mean the cumulative total payments plus balance due would give that, and that ought to be - I mean, it is the cumulative payments plus balance due, and then as you run along, you would reach that figure. Do you agree with me?

Haas: Yes, I agree with you.

H.M.Jr: But I do like to get the best out of Viner and the rest of you, and I think if you all go in and say, "Here is what we have got," and then I would like to meet with you again tomorrow. This isn't what I want, gentlemen. I am not blaming you because I didn't ask for it.

White: This doesn't pretend to be what I thought you would want. I thought this meeting was going to be to indicate what you wanted.

- 6 -

H.M.Jr: Well, I am indicating.

White: Yes.

H.M.Jr: How about 11:15 tomorrow? Will you be here?

Viner: Yes.

H.M.Jr: Does that interfere with any meetings?

White: No important meetings.

H.M.Jr: I am going to say 11:15. That ought to be time enough, oughtn't it?

Viner: Yes.

H.M.Jr: Do I make myself plain?

White: Perfectly.

Viner: It is up to us to work out something to answer your questions.

White: You ask the questions you are interested in and we will answer them.

H.M.Jr: When I got this fellow down here - now, I want two pieces of paper, debit and balance. Now, Stimson is a little worried about payment. I know the Navy is. They have asked me twice and as they go in for more and more orders - I think once a month we ought to have a sheet which I can show the President.

White: We can do it.

H.M.Jr: And I think once we get it on England, I think these other countries that are buying so heavily here, like Canada, whatever other ones there are will go along.

- 7 -

Phil Young informed me that the Dutch are the second biggest buyers. What is their financial position? I don't know. Where do they get their money from? Once a month is not too often to do this.

But I think if you would all go now and just skip your freezing meeting.

Cochran: You might be interested in knowing, Mr. Secretary, that Stimson told me a couple of days ago that he thought Lord Lothian was going to ask permission to go to England very shortly and he said one of the things he would talk about was the need for financial assistance.

White: However, they still have several billion dollars.

H.M.Jr: Well, again I say there is no use of wasting everybody's time. I am going to put 11:15 to 12:00 tomorrow. I don't know anything you (Viner) could do that would be more important.

Viner: No.

H.M.Jr: Thank you very much.

RE FOREIGN FUNDS CONTROL

September 24, 1940
10:30 a.m.Present: Mr. Chamberlain
Mr. PehleH.M.Jr: Under two, you say the persons in France.
You don't distinguish between occupied and
unoccupied?

Chamberlain: We do under your - under this --

Pehle: We do in the charity group cases, but we did
not in the individual cases.

Chamberlain: No.

H.M.Jr: Well now, the 486 cases under (a), what part
of France are they in?Pehle: They are not in France at all, Mr. Secretary.
Those are cases outside of France.

H.M.Jr: But they are free dollars?

Pehle: They are free dollars. That is this whole
group of cases here. There are none in France.

H.M.Jr: This is the group here?

Pehle: Yes, sir.

H.M.Jr: 138 in Belgium and Netherlands and Norway.
I don't see any reason why not let them go.

Pehle: The amounts seem small.

Chamberlain: You will be interested in this, perhaps,
Mr. Secretary. Dr. Royce has been hired by
the Department of Justice in connection with
the Administration to watch the foreign language
newspapers. I saw him the other day. He is an
old student of ours. He told me that so far
there had been only a little complaint in

- 2 -

foreign language newspapers against the Foreign Funds Control, but that the Norwegian had been more.

H.M.Jr: In this country?

Chamberlain: Yes, this is strictly in this country. And he told me that the feeling in the Norwegian newspapers was very strong anti-British, very strongly. I can get a report on that, perhaps, if you would like to see it; also, the Italian.

H.M.Jr: Will you? I would like to see that.

Chamberlain: I thought you would, because it was - it also would indicate an anti-Administration feeling.

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

Chamberlain: And I thought it would be very useful to get a report. I will get that for you. And this, I think, would have a very salutary effect in inquiring minds of the Norwegians in this country.

H.M.Jr: Now, in the case of (b) --

Pehle: Those cases are distinguishable from (a) in that the person who is sending the funds - or whose funds are being sent - are themselves a national, usually the person over there. In other words, we get cables trying to draw against their own accounts where the possibilities of duress, of course, are much greater than when Americans are freely sending their own funds.

H.M.Jr: And you people recommend disapproval?

Pehle: Disapproval.

- 3 -

H.M.Jr: All right. Now, what is (c)?

Pehle: (c) are cases in which a Latin American, for example, wants to send funds to a Latin American citizen in France. We are holding the cases up. We could either treat them as if the Latin American in France is a non-American or an American. Our feeling was that because of the small amount of cases and the good-neighbor policy, the amount is almost insignificant. It is better to treat a Mexican in France as well as we treat an American in France, up to \$250 a month.

H.M.Jr: I see. In other words, you are going to treat a Mexican or an Argentinian just as though he were a U. S. citizen?

Pehle: That is right. If there is a Mexican citizen in France and a Mexican wants to send him money, we feel he ought to be able to send him \$250 a month.

H.M.Jr: Where will the money come from?

Pehle: From Mexico.

H.M.Jr: How do we get in on it?

Pehle: Because they usually want to go through dollars. They could send it directly anyhow.

H.M.Jr: You are in agreement on that, are you?

Chamberlain: Oh, very much, Mr. Secretary. For one thing, it gives us a little line on it and I think it helps the good-neighbor policy.

H.M.Jr: That is all right.

- 4 -

Chamberlain: Before you finish, Mr. Secretary, I want to say that of course Mr. Pehle is going to keep close watch on these cases. This is only good for a month and at the end - every two weeks, you (Pehle) are going to get a record of the amount of money involved, aren't you? And he (Pehle) will submit that to you (H.M.Jr) at the end of every month or every two weeks, whichever you wish.

H.M.Jr: Now, how do we let the State Department know about this?

Chamberlain: We have taken it up with them particularly in regard to the question of the Latin American countries.

H.M.Jr: Can't a copy of this go to Berle?

Chamberlain: A copy can go to Berle, yes.

H.M.Jr: I think a copy of this ought to go.

Chamberlain: I think Berle is included.

Pehle: You mean for his information?

H.M.Jr: Just for his information, not for his approval.

Chamberlain: Mr. Secretary, it is a good thing to let you know of the outside comments. Mr. Ward of the National City Bank was in and he took occasion to say that he thought the work of this Foreign Funds Control had been very well done. He was surprised at the accuracy in which it had been done, in view of the great number of difficulties. I told him, as I wanted to tell you, that it is due to the work Mr. Pehle has done, and he has done very good work and he has done a lot to keep his force up. It has been a terrific job. We get nearly 500 a day, I think, largely on

- 5 -

account of this remittance question. We had - how many, 485,000 cases held up?

Pehle: I wanted to tell the Secretary where we stood on that. As of the opening of business Monday morning, we had only 1761 cases. Of those, 1200 were remittance cases which we can now dispose of, and 225 are cases in which we asked for additional information and which were not pending with us, leaving only 336 cases left of the backlog, so we are on a current basis and we are going to stay that way.

H.M.Jr: Good.

Chamberlain: I think that is quite a piece of work, in view of the fact that we have so much --

Pehle: We had to put on a little extra steam.

Policy To Date

We are approving the following types of remittances:

- A. Under General Licenses - which do not allow any funds to be remitted from blocked accounts but do allow free dollars to be made available.
 1. Up to \$250 per month for American citizens.
 2. Up to \$50 per person and not in excess of \$100 per family per month where the remitter has resided in the United States for at least a year and has been making similar remittances to the same payees for at least 6 months.
- B. Under Specific Licenses.
 1. To American citizens in reasonable amounts even if in excess of \$250 and even where the blocked accounts of such Americans are being debited.
 2. To persons in France in amounts of up to \$50 per person and not in excess of \$100 per family per month where blocked accounts are not being debited and where no free dollars are being made available. These cases represent items which do not fall within the General Licenses usually because the money has not been sent for at least a 6-month period in the past.

Recommendations for Disposal of Pending
Remittance Cases

- A. We are now holding 486 items involving remittances from free accounts which do not fall under a General License usually because remittances have not been made in the past. These cases do not fall within the rule which permitted similar remittances to France because local currency is not obtainable against blocked dollars. If we were to handle such cases on a similar \$50 basis, approximately \$25,000 in free dollars would be made available in the 486 cases. It is recommended that such applications be approved and the cases continued to be handled on an individual basis. If such action is taken,

- 2 -

we will set up a control so as to keep careful check on the amounts of such cases handled each month.

- B. We are holding 380 cases of remittances from blocked accounts, the great bulk of which, 340 cases, relates to remittances to France. While it is true that the French remittances could be approved without making free dollars available so long as the Bank of France is willing to furnish francs against blocked dollars, it is nevertheless recommended that all applications covering remittances to non-Americans from blocked accounts be disapproved, since it is felt that the approval thereof would set a dangerous precedent.
- C. We are holding approximately 77 cases of remittances from persons in other countries in the Western Hemisphere to persons in the blocked areas. It is our recommendation that such cases be handled on the same basis as remittances from the United States, i. e., that remittances to citizens of countries in this hemisphere be treated the same as remittances to citizens of the United States.
- D. We are holding 13 cases involving remittances from the Eastern Hemisphere through the United States. Our recommendation is that these applications be denied. Persons in such areas can remit funds directly through Switzerland and other countries and there is no reason why dollars have to be used as a medium.

APPLICATIONS FILED BY REMITTANCE SECTION

AS OF SEPTEMBER 30, 1940

	Baltics	Belgium	Denmark	France	Luxembourg	Netherlands	Norway	TOTALS
	ALL COUNTRIES							
A. Remittances from free accounts:								
1. \$50 and under	124	43	30	-	1	55	48	301
2. \$51 to \$100	7	21	13	-	1	35	18	95
3. \$101 to \$250	3	10	15	-	-	16	7	51
4. \$251 to \$500	3	4	6	-	-	12	6	31
5. \$501 and over	2	-	1	-	-	4	1	8
Sub-Total remittances from free accounts	139	78	65	-	2	122	80	446
B. Remittances from blocked accounts:								
6. \$50 and under	1	1	2	26	-	4	3	37
7. \$51 to \$100	-	1	1	38	-	11	1	45
8. \$101 to \$250	-	3	1	98	-	4	2	108
9. \$251 to \$500	-	-	1	89	-	2	4	96
10. \$501 and over	-	2	2	89	-	1	-	94
Sub-Total remittances from blocked accounts	1	7	7	340	-	15	10	380
C. Remittances from other Western Hemisphere countries through the United States:								
11. \$500 and under	3	-	1	51	-	4	1	60
12. \$501 and over	-	-	-	17	-	-	-	17
Remittances from Eastern Hemisphere through the United States:								
13. \$500 and under	1	-	-	11	-	1	-	13
14. \$501 and over	-	-	-	-	-	-	-	-
Sub-Total	4	-	1	79	-	5	1	90
GRAND TOTAL REMITTANCES BY BLOCKED COUNTRIES.	144	85	73	419	2	142	91	956

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Following the Group Meeting yesterday afternoon, I telephoned Mr. Collado in the Department of State. I pointed out to him that copies of cablegrams No. 420 of September 18, 422 of September 19 and 423 of September 19, all emanating from the Embassy at Buenos Aires, were received by the Treasury in one lot on the late afternoon of September 20. I told Mr. Collado that we regretted very much the delay in the receipt of the message of September 18 in particular. Had this been delivered to the Treasury on the forenoon of September 19, as might have been expected, we would have had the information contained therein before us when receiving the Argentine Ambassador that afternoon on the matter of an important transfer of French funds from New York to Buenos Aires.

Mr. Collado endeavored to explain the system in the Department of State which resulted in such a delay. I told him that irrespective of the system which his division followed it was essential that the Treasury Department, which is now in daily contact with representatives of Latin American countries who are seeking financial assistance here, should have promptly copies of all incoming and outgoing cablegrams of the Department of State pertaining to Latin American finances. I reminded Mr. Collado that I had not yet seen a copy of the latest State Department message to our Embassy at Buenos Aires on the subject of financial negotiations between the two countries. I told him that my office was required to have copies of all messages of this type which concern the Treasury Department, since I supply the Secretary's files, as well as being responsible for the Stabilization Fund file.

It will be recalled that Ambassador Armour called on us on the morning of September 19, and that then we had no information in regard to contemplated Argentine action on refusing foreign exchange for imports from the United States. When the Argentine Ambassador called on the Secretary of the Treasury later on the afternoon of September 19, we likewise did not have this information. The first report which we saw was in the press of September 20. On that day Mr. Jay Crane visited us and talked of the Argentine situation. The three messages from Buenos Aires above mentioned would have been of much assistance had we received them promptly.

I have also spoken with Mr. Livesey of the Department of State this morning requesting his cooperation in expediting messages to this Department which are handled by the Division of American Republics in the Department of State.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:15 on Friday, September 20, I received Mr. Alphand, Financial Counselor of the French Embassy, and we immediately proceeded to Mr. Fehle's office. Mr. Alphand had just visited Mr. Berle in the Department of State. His Ambassador was to see Under Secretary Welles the same day. Mr. Alphand had nothing new to take up with us. Reference was made to letters which he had addressed to Professor Chamberlain. Mr. Fehle explained that we were working out certain further arrangements, based on the information he had given, and awaiting additional data before taking certain other decisions. We made it plain to Mr. Alphand that the matter of releasing funds for the payment of French diplomatic and consular officers outside of the United States was in the hands of the Department of State, and that the Treasury could do nothing further until some word was received from that Department.

Mr. Alphand telephoned me at 9 this morning from New York to see if I had heard anything from the State Department on the matter of expense money for French diplomatic and consular establishments in Latin America. He reminded me that he had found Mr. Berle very sympathetic when he saw him last. Furthermore, Mr. Welles had let his Ambassador know that he was quite surprised that the matter had not already been settled. Mr. Alphand stressed the urgency of immediate action, since payrolls must be met for the end of the month.

At 9:15 I called Mr. Atherton in the Department of State who had endeavored to reach me yesterday evening. Mr. Atherton stated that the French Embassy people had come in yesterday and had wanted to know from him any news in regard to arrangements for their Latin American establishments. I told Atherton of Alphand's visits as above set forth, and also of my conversation of this morning with Mr. Alphand. I let Atherton know that the Treasury was simply awaiting word from the State Department in the premises.

J. M. R.

42
52

September 24, 1940
12:43 p.m.

H.M.Jr: Hello.

Operator: I have Mr. Henderson.

H.M.Jr: Hello, Leon.

Leon
Henderson: Hello. We had a very satisfactory conference on that scrap the net result being that the Secretary approved a complete embargo for Japan and he's got his question of timing as to - to take up - as to whether he wants the China loan matter first or this one, you see, and it went along very adequately.

H.M.Jr: Not on a quota basis but a complete embargo.

H: That's right. He wants to make them feel that it is in reprisal for the pressure they've been putting on us.

H.M.Jr: Uh-huh.

H: Now then another thing - I don't know whether you know that the French Indo-China group have the military mission here.

H.M.Jr: Well, I did know it, yeah.

H: And that fellow, Jacemy - head of it is about to go back tomorrow - hasn't been able to see anybody - and he was just desperate. Now I talked to Sumner this morning, Sumner is going to see him - that wasn't on account of my talking to him - but what Jacemy told me was that if he could even say that he - when he went back - that high officials had been interested in their case why it would be helpful, that he has trouble with

H.M.Jr: Well, now, wait a minute. Did he try to see anybody in the Treasury?

H: He saw Young, but his difficulty as I assess it is, Henry, is this -- he's been here when that - the French group has been very reluctant to do anything, you see, and he hasn't known his way around.

- 2 -

H.M.Jr: When he says he's going back, where's he going back to?

H: To Indo-China.

H.M.Jr: Oh.

H: Now, he's going to see Sumner - I was wondering if you wanted to just talk to him a minute or so.

H.M.Jr: Not unless the State Department arranges it.

H: I see.

H.M.Jr: Not unless they arrange it. I mean, if Mr. Hull wants to have me see him

H: Well, this was entirely on my part, I mean, I just thought

H.M.Jr: No, if Hull wants me to see him that's one thing, but if you don't mind I don't

H: Well, that's all right. I knew how at times you've had to in order to get things done. I think, frankly, - I sat there this morning and Hull was telling me about the Chinese loan and I remembered how hard the thing had been some months ago and what kind of a situation we'd had today if you hadn't gone to bat on it.

H.M.Jr: Well, Leon, the horse has been stolen out of the stable now, see, and all of this hurrying around kind of makes me smile.

H: Yeah.

H.M.Jr: I mean, the time to put the pressure on Japan was months ago. Now, they've got in Indo-China and what the hell do they care if we put this or that or the other thing on, I mean, the horse is gone

H: It's too late - do you think it is?

- 3 -

H.M.Jr: Oh, sure! But Hull - that's his responsibility but I can still say my mind and I say it's too late. The time to have done it was months ago when it was as plain as the nose on my face, when everybody wanted to do it, but what the hell is the use of doing it now.

H: Well, after that first loan to China - that went over very well and, my, the whole sentiment in this country no matter what test they made was entirely agreeable.

H.M.Jr: Well, we had to wait until Cordell Hull was half way between New York and Lima, Peru and then we put that one through. Well, but I'm - it's O. K. Will they do anything about - the one thing that would stop them - will they do anything about oil - no, they won't touch it.

H: They won't.

H.M.Jr: No, sir! Not until he's taken Indo-China and then they're going to do it the next day. That's what I say, see.

H: Uh-huh.

H.M.Jr: You wait and see.

H: Well, do you think - well, of course, I can't get in on that one, if it were a matter where I could get in on - we'd write a memo

H.M.Jr: Don't misunderstand - I'm glad to see them do it, but the time to have done it was several months ago before they walked into Indo-China.

H: Yeah.

H.M.Jr: And now they won't do anything on oil for fear that they're going to walk into Indo-China - I mean, the Dutch East Indies, and after they've walked into the Dutch East Indies then they'll want to slap a thing on oil.

H: Well, they're down there already in the Dutch East Indies with the strongest mission they ever sent.

- 4 -

H.M.Jr: I know, but they won't do anything about oil until that thing is settled, then you'll see a lot of hurry calls go out.

H: Well, I may have to try a little ingenuity. I don't know - we wrote a pretty strong report on steel scrap that they couldn't ignore.

H.M.Jr: Well, I was just blowing off.

H: You don't still feel that you wouldn't just like to say hello to a very interesting fellow

H.M.Jr: No, let him see Sumner, then he'll have the time of his life.

H: All, well, now Henry, I didn't - (laughs) -

H.M.Jr: (Laughs). I'll see you sometime and buy you a drink.

H: I know.

H.M.Jr: I need one right now.

H: Well, are you going away - what are you doing

H.M.Jr: No, no, I'm working.

H: What are you doing now?

H.M.Jr: I'm waiting for Mr. Stimson. He's coming over here, who is a good guy incidentally.

H: I've found him so what little I've had with him.

H.M.Jr: Well, be good, Leon.

H: All right. I still wish you'd say hello to

H.M.Jr: No, I'm just not

- 5 -

H: If you change your mind call me, will you?

H.M.Jr: I'll do that.

H: And you may - you have.

H.M.Jr: What's the fellow's name?

H: Colonel Jacemy - Phil Young knows him

H.M.Jr: I'll ask Phil about him.

H: And 3 minutes with him - it may or it may not - but it might be just the thing.

H.M.Jr: I'll send for Phil and ask him.

H: All right.

H.M.Jr: O. K.

September 24, 1940
12:55 p.m.

H.M.Jr: Hello.

Operator: Mr. Henderson.

H.M.Jr: Hello, Leon.

Leon
Henderson: Yeah.

H.M.Jr: Phil is sitting across the desk from me and he tells me that this fellow Jacemy has refused to come and see him although the State Department had told him several times to come over here. I guess the shoe is on the other foot, and that both Joe Green and Berle told him to come over and so forth but for reasons we don't know he's refused to do business with this Coordinating Committee. Under those circumstances I certainly wouldn't see him.

H: I see.

H.M.Jr: But Philip Young is here from 9 in the morning until 6 at night or later, I think he says 7 - he says 8 now. He says he just - you know.

H: Yeah.

H.M.Jr: But he was at my house at 8 this morning, I'll say that for him.

H: Well, I was at my desk at 10 minutes of 4, too.

H.M.Jr: 10 minutes of 4 p.m.

H: A. m.

H.M.Jr: What was the matter - couldn't you sleep?

H: My conscience bothered me, Henry.

H.M.Jr: Oh, God! (Laughs).

H: (Laughs).

- 2 -

H.M.Jr: Well, anyway tell Jacemy that Philip Young is a nice fellow and that he's here from 9 to 7.

H: All right. I'll tell him.

H.M.Jr: Right. He'll be glad to see him.

H: All right.

H.M.Jr: Thank you.

September 24, 1940
4:56 p.m.

H.M.Jr: Hello.

Colonel Maxwell: This is Colonel Maxwell, Mr. Secretary.

H.M.Jr: Go ahead.

M: I've just broken up a meeting of my advisory committee at which your Department was represented and we passed on the final draft of the regulation on iron and steel scrap.

H.M.Jr: Who represented us?

M: Mr. Fiedler and Mr. Buckley.

H.M.Jr: Who?

M: Mr. Buckley and Mr. Fiedler.

H.M.Jr: I don't know who they are.

M: And they were here this morning on a preliminary session at the same time.

H.M.Jr: Fiedler and Buckley.

M: That's right.

H.M.Jr: I see.

M: And the regulation - the substance of it is the same as the draft that you sent me some time ago.

H.M.Jr: Right.

M: And the date that it's to be effective is October 16th.

H.M.Jr: October 16th.

M: Yes, sir.

H.M.Jr: When are they going to announce it?

- 2 -

M: I expect an announcement will be made on Thursday.

H.M.Jr: I see. Well, now, when I sent that to you I also sent a copy to the Attorney General and he made a couple of changes.

M: Yes.

H.M.Jr: Have you had the benefit of his changes?

M: Well, of course, this draft that we have will go through the Attorney General on its way to the White House.

H.M.Jr: I see, and what does this do, Colonel?

M: This places all scrap of any kind under the control of the licensing system. Now the announcement that Secretary Hull is recommending be made will cover the question of limitations on who shall get scrap.

H.M.Jr: I see. Well, thank you very much for calling me.

M: And I am confirming this. I am sending you over a copy of this in its present form.

H.M.Jr: Well, thank you so much.

M: Well, I appreciate your assistance, Mr. Secretary, I'm sorry to have taken so long but I couldn't very well move any better.

H.M.Jr: Well, all these things are slow.

M: Well, there're so many people interested that it takes quite a while. Now there's one thing more, if you have a minute to talk to me.

H.M.Jr: I have lots of time. I was interrupted before by the White House.

M: Well, I asked my committee this afternoon, now that we had swallowed the iron and steel scrap morsel, to be thinking about the other metals that we ought to put on our control list.

-3-

H.M.Jr: I see.

M: It seems to me that's where we ought to apply our brain power in the next few days and get down to brass tacks on other metals.

H.M.Jr: Well, I hope some day they'll also include all petroleum.

M: Well, I think that's another bite that we're going to have to take.

H.M.Jr: Right.

M: But the urgent thing seems to me is in metals because the minute this restriction goes out on scrap, anybody who can't get it will immediately jump to pig iron and steel and so on and go right up the list.

H.M.Jr: I see.

M: So I think that - and if we can keep the sequence that we have on this now - the White House announcement, followed in a few days by official action with a few more days in which to get set to put the control in effect, I think that we can do a whole lot more than we have been able to do in the past.

H.M.Jr: O. K.

M: And I appreciate your help. Your young staff over there come in and out at will and I enjoy seeing them because you've got some fine people there.

H.M.Jr: Thank you.

M: Yes, sir.

H.M.Jr: Good-night.

M: Good-night.

GROUP MEETING

September 24, 1940
9:45 a.m.

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

H.M.Jr: Dan?

Bell: Did you get a chance to read that article by Davenport?

H.M.Jr: Yes, I did, and I gave it to Sullivan. There was only one page where I had any impressions, and Sullivan said he would see Davenport this afternoon.

Bell: He is going to see him with me.

H.M.Jr: Eleven or twelve is the only thing I question.

Gaston: I think that is the same page we all questioned.

H.M.Jr: It was this episode about - that we had the legal right to do it.

Gaston: Yes, that is all.

H.M.Jr: It is either page 11 or 12. But that is the only thing.

Bell: I might advance my work on a circular as to whether or not you are willing to consider a refunding.

- 2 -

H.M.Jr: I would like you and the men that work with me on this thing to come in at a quarter of 11:00, fifteen minutes ahead.

Anything else?

Bell: That is all.

H.M.Jr: Harry?

White: Nothing.

Young: On this question of the Dutch purchasing program, I think it would be very helpful to everybody, inasmuch as that is, next to the British, the largest foreign program in this country, if it could be handled in a similar manner, but so great detail as the British. If it would be possible for George to do a little undercover work on it --

H.M.Jr: Can you do a job for us, George, on statistics?

Haas: I think so.

H.M.Jr: They are evidently doing a lot of stuff. If you could get your man up there - Young says there are four different groups buying, so if you could get on the statistical end.

Haas: Yes, we will get right on it.

H.M.Jr: Where do they get the money to pay for this?

Cochran: They still have some in the Netherlands Government account.

H.M.Jr: With the Fed?

Cochran: With the Federal, yes, sir.

- 3 -

H.M.Jr: Do we get any reports?

Cochran: Not from them on that, no, sir.

H.M.Jr: Would you start that going, so we get it the way we do with the English?

Cochran: Yes. We would have to take it up with the Dutch officials.

H.M.Jr: I wish you would. I want the same kind of thing from them - according to Young, they are the second in importance. I would like the same kind of stuff I get from the English and the Canadians.

Cochran: Yes, sir.

H.M.Jr: You know what I mean?

Cochran: Oh, yes, I know. Their big problem now is to see whether they can get the gold from the Netherlands bank account into the Government account. That is the legal question they are working on now.

Haas: I have nothing this morning.

Chamberlain: I was going to see you, Mr. Secretary, after the meeting.

H.M.Jr: I am going to need about five minutes.

Chamberlain: All right, sir.

H.M.Jr: Have you any meeting - could you come back at 10:30? Then I will be --

Chamberlain: We could come back at 10:30.

H.M.Jr: Then I won't keep you waiting. Is that all right?

- 4 -

Chamberlain: That is all right.

H.M.Jr: Let's say 10:30, because I got off to a bad start.

Chamberlain: Mr. Pehle was coming at 10:00. We could wait until you got through.

H.M.Jr: It would be better for me if you came in at 10:30, and I would be ready right on the dot then.

Chamberlain: All right.

Schwarz: Have you had a chance to see the Merry-Go-Round this morning?

H.M.Jr: No. What is the matter?

Schwarz: They have a piece about your meeting with the retiring French Ambassador.

H.M.Jr: That is all right.

Schwarz: All right.

Cochran: I have nothing, sir.

Foley: I called Leon. He is going over to Hull's office at 10:00 o'clock. He has our point now about the description and he is going to support our position. He seems a little vague about when this proclamation should be issued. He says he thinks now it ought to wait until after election. He is going to let me know what happens.

We have this tax ruling now on this Plan No. 2. Would you like to see it before it goes out?

H.M.Jr: No.

- 5 -

Foley: We will clear it. It has been signed by the Commission. We will clear it with John and send it over to Knudsen.

H.M.Jr: All right.

Foley: He went overboard on the No. 2 plan in his speech in Boston last night and said almost the same thing he said before. He didn't think the Government should be a landlord and have all this property all over the United States.

H.M.Jr: Herbert?

Gaston: Nothing.

H.M.Jr: Well, Dr. Viner, which one of these meetings are you sitting in with me on?

Viner: 3:00 o'clock.

H.M.Jr: Okay.

September 24, 1940

4:50 p.m.

HM, Jr spoke on the telephone with General Watson and the following is HM, Jr's end of the conversation:

"Hello.

"That was my hope.

"That is what I am aiming for.

"This is HM, Jr broadcasting.

"Well, what I want

"The B. A.?"

"Oh!

"What I wanted to say is -- you would like to hear me and it would only take one second and only a one-way conversation.....

"Before he sees the British?

"Oh! You can't squeeze me in?

"Well, you do all the difficult things around here.

"Say! He went around to see Sumner Welles and Sumner Welles called the President -- this is what Sumner told me -- and said all bets are off.

"What?

"No. I am just repeating what Welles told me. That Welles said he called the President Saturday, I understood him to say, said the thing was impossible and it could not happen and the President o. K'd to forget it.

"No! No! I am sorry, old man.

"Yeah.

-2-

"Didn't have to what?

"Yes.

"Have to do what?

"Well, according to Welles, he talked with the President and said he should leave Magruder alone and leave him where he is.

"Within the last 30 minutes. He was in my office.

"Well, now, listen feller! I am just the errand boy and I am not trying to run Maryland and I leave Virginia to you.

"Well, I want to keep out of this and just see that the President tells me what he wants. That's all I want to know.

"Will you, please. Thank you.

"What?

"O. K. Thank you."

* * *

At the conclusion of the conversation, HM, Jr said that Watson says he knew nothing about it and the President still wants this change in Magruder. Told him so this morning. Watson said I should call the President and I said I would do no such thing.

RE COMPLAINT AGAINST
CUSTOMS INSPECTOR

September 24, 1940
3:30 p.m.

Present: Mr. Gaston
Mr. Johnson
Mr. Tigner
Mr. Thompson
Mr. Foley

H.M.Jr: Johnson, do you want to tell me what the story is?

Johnson: About 8:00 o'clock on the evening of the 18th of September, Mrs. Howe, the wife of the Canadian Minister of Munitions and Supply, came into the baggage room of the railway station at Montreal and asked the railway employee handling baggage how to get her baggage cleared for entry into the United States. This railway employee called our Customs inspector on duty at the time, Tigner, and told him that the lady had some baggage. She handed him her two passports, telling him they were diplomatic passports.

He looked them over and to him they appeared to be the ordinary citizens' passports. After reading them through carefully and examining them but apparently without questioning Mrs. Howe, he finally discovered a diplomatic visa on one of the blank pages in the back of the passport. He then told Mrs. Howe he would have to register the numbers of the passport. She said, "Then I will have to get another." She had two children with her.

H.M.Jr: Another --

Johnson: Another passport. She then said in a rather impatient voice, "No, I won't," and Tigner then said, "Well, I will be back in a minute," and started to enter the room furnished by

- 2 -

the railway people for Customs use, just off the baggage room.

Mrs. Howe called him back and said, "I want those passports." He said, "Then I will have to examine your baggage." She said, "All right, examine the baggage. I want the passports."

I believe it was at that time that he noticed the name of the passport was Howe.

Gaston: No, prior to that, Bill.

Johnson: It was prior to that?

Tigner: Yes, sir.

Johnson: When the passports were handed to him, he noticed the name was Howe and said, "Oh, I thought the name was Hull." She said, "Well, I pronounced it very plainly."

Then when she said she would take the baggage examination, he turned to the railroad baggage man and said, "Will you open up the baggage?" Mrs. Howe produced the key, unlocked the two trunks and one wardrobe bag. The railway employee lifted the lids and Tigner proceeded with the examination of the baggage, apparently making a rather casual examination, rather than a complete and thorough one because of his satisfaction that the lady did have diplomatic passports.

During the course of the examination, he was handling a basket and Mrs. Howe said, "That contains --" What did she say?

Tigner: Sewing material.

- 3 -

Johnson: Sewing material. That apparently was the only conversation during the examination. When it was finished, he said, "I am through now." The baggage man closed up the trunks. Tigner went back to the Customs office and was told shortly after by the baggage man that Mrs. Howe had stated to the baggage man that she would soon be in Washington and would register a complaint about her treatment.

The next Tigner heard was from our Deputy Collector, that the Deputy had received word through the American Consul that Mrs. Howe had filed a complaint at Ottawa. That is the story as I get it.

H.M.Jr: Let me ask you a question. If a Canadian is traveling on a diplomatic passport, is it customary to examine their baggage, a diplomatic visa?

Johnson: It is not customary at Montreal. It is a matter that is not covered precisely by the regulations.

H.M.Jr: Wasn't this at Montreal?

Johnson: It was there. It is not customary, but it is required by practice there that the inspector who passes baggage without examination will make a record in a Customs book kept in the Customs office, stating the name of the person, the destination, the number of diplomatic passports, and I believe the number of pieces of baggage.

Tigner: That is right, yes, sir.

Johnson: In the book. I believe that is the complete record.

- 4 -

Tigner: That is right, sir.

Johnson: And it was for the purpose of making that record that Tigner had started to take passports from the place where Mrs. Howe stood to the Customs room a few feet away.

Tigner: That is right.

Gaston: I think she misunderstood his purpose, and I don't think he ever made it clear to her what his purpose was in taking them.

H.M.Jr: Well, I mean, wouldn't it have been very easy to say, "Now look, Mrs. Howe, if you want them back, I have got to go in there to register those things."

Gaston: Yes, I think so. I think where Mr. Tigner was at fault was in not being at more pains to explain to her, although he said he did tell her that he was taking them in to record them. Is that right, Mr. Tigner?

Tigner: Yes, sir.

Gaston: Apparently she didn't understand that.

H.M.Jr: When she wouldn't let you keep the passport, what did you do, immediately examine her baggage?

Tigner: Well, when I - when she said for me to examine it, said it was all right for me to examine it, I asked the baggage man to open it and then I examined it right there.

Johnson: Our inspectors are forbidden to open baggage.

Gaston: According to the report we got through by way of Ottawa and the State Department here, Mr. Tigner threw the passports at her.

- 5 -

He says he handed them.

Tigner: That isn't true.

H.M.Jr: What does the baggage man say, whether he threw them or not?

Gaston: We haven't the story of the baggage man.

H.M.Jr: The baggage man, I take it, would be a Canadian, wouldn't he?

Johnson: An employee of the railway.

H.M.Jr: Couldn't we get his story?

Johnson: By investigation. We have our agents at Montreal. That wasn't done, because Mr. Tigner proceeded here.

H.M.Jr: How about getting his story and seeing whether it checks with what Tigner tells us?

Johnson: Yes.

H.M.Jr: The baggage man would know.

Johnson: That is the customary thing to do on all complaints.

H.M.Jr: They accused him of throwing these things at her?

Gaston: Yes, and they said he threw the contents of the trunks around, I think.

Johnson: This is the statement.

"The Assistant Customs Inspector had not only been rude, but had publicly humiliated her. He had thrown her passports at her,

- 6 -

lost any pretense of manners, and made her publicly unpack two trunks, spreading undergarments, and so forth, around the station."

H.M.Jr: Who else was there beside the baggage man. Who was present? Anybody else?

Tigner: Just - there were two baggage men there on the floor that I remember seeing cross to the baggage at that time, and I noticed it especially, and that is all, other than Mrs. Howe and myself.

H.M.Jr: But there were two baggage men?

Tigner: Yes.

H.M.Jr: Could you identify them?

Tigner: Yes, sir. I don't think one of them heard any of the conversation, not much, if any.

H.M.Jr: But he might have seen you if you threw something at her.

Tigner: Yes, sir.

H.M.Jr: Do you think you have been falsely accused?

Tigner: Yes, sir, I do.

H.M.Jr: Were you polite with her?

Tigner: Yes, sir, I was.

H.M.Jr: All through?

Tigner: Yes, sir, I was.

H.M.Jr: Have you got anything else in writing?

- 7 -

Johnson: Tigner is what we call a seasonal inspector. He is employed for about four months of the year in Florida, ordinarily, and about two months in Montreal during the present year and last year. He has no complaints in his record.

Gaston: He has been three seasons in Florida, isn't it, Bill?

Johnson: Four seasons in Florida, two in one year and one in the current year and one last year. Two in 1938.

H.M.Jr: Where did he work in Florida?

Johnson: At Miami on some of them. Was that all of them?

Tigner: Yes, sir.

H.M.Jr: And he handled the boats there?

Tigner: Yes, sir.

H.M.Jr: Well, you can find out who his superiors were in Florida.

Johnson: Mr. Watson is here today.

Gaston: He was the superior Collector.

H.M.Jr: Did you talk to him?

Gaston: Yes, sir. He speaks very highly of Mr. Tigner.

H.M.Jr: He does?

Gaston: Yes.

H.M.Jr: Are you married?

- 8 -

Tigner: No, sir.

H.M.Jr: How old are you?

Tigner: 30.

Johnson: Born in 1910; 30 this year.

H.M.Jr: It gets down to the question of whether he can get his story corroborated by this baggage man.

Gaston: Yes, I think so.

H.M.Jr: Do you agree, Herbert?

Gaston: I agree. I think this woman was greatly incensed at an unnecessary examination of her baggage. I think that much is plain and I think that arose through a misunderstanding. I don't think she understood what his purpose was in wanting to take those passports into the other room. She thought that Tigner was initiating some sort of complaint, apparently, that she didn't have all her passports or something of that sort. I don't think he made it clear to her that it was part of the routine that he had to take those in to record them.

Foley: Was there some question, Bill that there weren't enough diplomatic passports?

Gaston: She didn't present all three. She had three passports, but she didn't need three.

Johnson: This, I believe is not a true diplomatic passport. It is more like our official passports in this country.

H.M.Jr: It is like the kind that I get when I go over?

- 9 -

Gaston: Special passports.

Johnson: Neither this woman nor her husband is a representative to any foreign country. She is merely the wife of a high official in her own country. I say "merely" in the diplomatic sense.

Gaston: It was either a regular passport with a diplomatic visa or a special passport with a diplomatic visa. Was it a regular or a special? Do you know, Mr. Tigner?

Tigner: It looked like a regular passport to me with a diplomatic visa.

H.M.Jr: Well now, I tell you what we will do. You will get a fair break, but I want you to stay here for a day or two until we get a chance to investigate that thing, and you (Johnson) can get the names of those people. Have you got a teletype up there?

Johnson: I will telephone.

H.M.Jr: Telephone and have both of these men interviewed up there, and if I may make the suggestion, I would have them interviewed with a Canadian Customs man present.

Johnson: I don't believe there was a Canadian Customs man --

H.M.Jr: No, but I would have a Customs man present. I would have some representative of Canada present. We do our own, but have a responsible Canadian official present when they interview these two baggage men. I would have a responsible Canadian fellow and I would have the Consul General in Montreal present.

Johnson: American Consul General?

- 10 -

H.M.Jr: I would have the American Consul General present, a responsible Canadian official, and our own man. I would have them interviewed tomorrow and keep Tigner here until you get an answer. Is that all right?

Gaston: Yes, I think that is perfect.

H.M.Jr: A responsible Canadian official, an American Consul General, plus one of the Customs fellows, and interview one of these two fellows and get their story. Will you let me know when you hear?

Johnson: Yes.

H.M.Jr: (To Tigner) Don't worry. If you are all right in your own conscience, you have nothing to worry about. If you were rude to this woman and did do these things, then you have something to worry about. Let your conscience be your guide.

Johnson: I will have this thing done the first thing tomorrow morning. I will talk to him on the telephone.

H.M.Jr: All right.

That is all, Tigner. Just wait outside. I will see you before you go back.

(Mr. Tigner left the conference)

The boy is so scared, you can't tell.

Gaston: He is a quiet, diffident sort of fellow, anyway. I am inclined to believe his story. He doesn't talk very much and I don't think he made himself quite plain and what seemed to her casual and offhand and an insulting manner,

- 11 -

which I don't think he meant to be insulting or aggravating at all --

H.M.Jr: Well, if the boy did this - anybody can make a mistake, but if he actually threw this stuff at her, that is something else again, but certainly if you have our own Consul General plus our own Customs people plus somebody from the Canadian Government present when these two people are questioned, you will get the story.

Gaston: Watson thinks enough of this boy so that when he heard of what was up, he just learned it accidentally, he telephoned over and had Mrs. Herbert bring a note in, saying that he knew this boy and he was a good boy.

Johnson: He said he wouldn't be able to say anything here because he would be scared to death.

H.M.Jr: Certainly - today is Tuesday - by Wednesday we will know.

Johnson: I may say his period of appointment ends this month.

H.M.Jr: Well, I don't want the boy --

Johnson: That is the reason for pushing the thing along, because he looks forward to further employment in the Customs service.

H.M.Jr: I didn't know he was just temporary. That is a new one to me.

Johnson: Well, we have got to have seasonal employees and we need training for this kind of work, so by using the same men in Florida and again in Montreal --

- 12 -

H.M.Jr: It is all right.

Foley: Bill, what do they do the rest of the time?

Johnson: They do the best they can, in hopes of getting permanent employment.

Gaston: This boy works at the trade of electrician.
He lives in Orlando, Florida.

H.M.Jr: Okay.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires.

DATE: September 24, 6 p.m.

NO: 437

Embassy's 433, September 23, 5 p.m.

I was today informed by the Minister of Finance that it is his intention to appoint as his representatives in Washington for discussion and conclusion of exchange and monetary arrangements, the General Manager of the Central Bank, Dr. Raul Prebisch, and the head of the Bank's Exchange Department, Dr. Edgardo Grumbach. He intends to name the Bank's number two official, Dr. Edmundo Gangeux in case Prebisch can not go.

In order to maintain secrecy regarding the mission the Minister will take Grumbach and Prebisch to Rio de Janeiro with him in connection with Brazilian trade negotiations, and they will proceed to Washington from there. It is expected that Dr. Pinedo will leave by plane, October 2 for Rio de Janeiro and will stay two days.

TUCK

PA:MJC

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

DND SEP 25 11 23 AM

RECEIVED
TECHNICAL ASSISTANT
OFFICE OF THE

PARAPHRASE OF TELEGRAM NO. 438 OF SEPTEMBER 24,
7 P.M., FROM BUENOS AIRES

The Minister of Finance assured me this afternoon that, in deference to Mr. Warren Lee Pierson's views and the views expressed by members of the staff of the Embassy, he would instruct the Exchange Control Office to resume granting prior permits for American merchandise and inform the newspapers of the order without implying in any way that it had been done with a view to obtaining credits from the Export-Import Bank.

TO THE DIRECTOR
TECHNICAL STAFF
OFFICE OF THE

SEP 25 1946

RECEIVED
TECHNICAL STAFF

RA:Donovan:GMB

C O P Y

BJ

Pages 73 through 75 (Sept. 20, 1940)
placed in Book 307, pages 246A-C

AMERICAN EMBASSY, BUENOS AIRES

76

Strictly Confidential

September 24, 1940.

MEMORANDUM FOR THE FILE

This afternoon Dr. Raul Prebisch, General Manager of the Central Bank, wanted to ask certain questions about his forthcoming trip to Washington. He said he had just been informed by the Minister of Finance that he had been delegated to go to Washington, leaving here by airplane next Wednesday, October 2nd, to discuss and conclude a monetary and exchange arrangement with the Secretary of the Treasury. He added that he would like to know what is meant by a monetary and exchange arrangement and what the Secretary of the Treasury might expect from him in the premises.

I told him that the question had first been raised by C. Alonso Irigoyen in conversation with members of our delegation at Habana, that in deference to his interest we were instructed by the Department to inform the Foreign Office here that if the Argentine Government wished to take the initiative the Secretary of the Treasury was prepared to discuss the matter in Washington, that subsequently the Argentine Minister of Finance inquired whether the Treasury Department, in view of reasons which he advanced, would attach one of its officials to Mr. Pierson's staff so that the question could be discussed in Buenos Aires, and that finally the Minister was advised that his views had been given careful and sympathetic consideration and that the Secretary of the Treasury believed the subject could be more appropriately handled in Washington.

Dr.

Dr. Prebisch expressed regret that the initiative had come from an Argentine source, since had it come from the United States Government he would know that concrete proposals had been worked out, a condition which has not been true in so far as the Argentine Government has been concerned. He went on to say in this connection that Irigoyen "loves big conferences" and is prone to take steps to have them called without considering whether Argentina is prepared to make any constructive proposal. He added that he himself was unprepared and was unhappy about going to Washington and being expected upon his arrival there to make definite proposals.

I recalled that the Embassy had informed the Minister of Finance that Irigoyen's idea envisaged a new departure for the United States Treasury, but that the Treasury had indicated it was ready to consider such a departure, and that it appeared that a possible arrangement contemplated making dollars available, under certain conditions, to maintain the dollar exchange value of the peso.

Dr. Prebisch then inquired whether there was any connection between his and Mr. Pierson's missions. I replied that I understood that Mr. Pierson has in mind short term commercial banking credits and long term development projects, while the possible monetary and exchange arrangement would assist in the maintenance of the exchange value of the peso.

Prior to leaving I took occasion vigorously to repeat what Mr. Pierson had said earlier in the afternoon to Dr. Pinedo regarding the suspension in the issue of prior permits for imports of American merchandise.

C.M.R.

CMR:rm

September 24, 1940

MEMORANDUM

To: The Secretary
From: Mr. Young

To supplement the oral explanation which I gave you concerning the Balfour-Pel-Pan American deal, the following is submitted for the record and purposes of clarification.

The source of this information is a confidential letter from Air Comodore Piele, of the British Embassy, to Mr. Arthur Purvis, dated September 12, 1940.

The British requested six B24 aircraft from the Army in exchange for six of the same due for delivery in the spring of 1941. These aircraft would be used for the north Atlantic air route this winter as within three or four weeks the flying boat service will probably be blocked due to ice conditions. Thus landplanes with a range of at least 3,000 miles are necessary. In this connection, the British will be glad to get three instead of six if all of the latter could not be released.

Quite apart from the foregoing, the British Air Ministry has purchased from Pan American Airways three Boeing 314A flying boats. These aircraft were urgently required for operations on the United Kingdom-West Africa air route for the purpose of ferrying 100 pilots a month as reinforcements for the R.A.F. in Egypt, the Sudan and Kenya. At the present time such reinforcements are being sent by water. These three flying boats will be fully employed on this West Africa air route. They will not be diverted to the north Atlantic route where in fact they could not be used in any event until next June.

24.

September 24, 1940
5:20 p.m.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good afternoon, Henry. Arthur Purvis.

H.M.Jr: Not having heard from you I took it for granted that you're getting everything that you want and a little more beside.

P: Oh, no, nothing like that. I tell you, I've been up until 3 a.m. the last two nights receiving my new guest and that has really thrown me back rather.

H.M.Jr: Guest or - singular or plural.

P: It's a single guest - oh, well, as a matter of fact, there are three with him, but I regard it as one. Layton arrived after - thanks to your kindness.

H.M.Jr: Who? Layton?

P: Sir Walter Layton.

H.M.Jr: Do you still thank me now that he's here?

P: Yes, yes, yes! As a matter of fact, the last two days have been very interesting. I tell you what he brings and what I would like, therefore, to bring him down to have a word with you about.

H.M.Jr: Yeah.

P: He brings a conception of the strategy in this thing on the other side which I think has a fundamental bearing on the situation from the supply view and of course it's rather a relief to me to hear something broadly from the other side. I wondered whether - not to take up too much of your time - but I think really a little later on there should be a real talk, but I wondered whether I could just bring him in for a few minutes to shake hands with you tomorrow. Would that be possible? He arrived here last night and we've been sitting talking machine tools this morning and other things this afternoon on the supply end and I would

- 2 -

rush him out if he'd start taking too much time, but I'd just like to bring him in - not for perhaps a long talk I'd like to have later but just to sort of break the ice.

H.M.Jr: Yeah. Well, now, who is bringing in Mr. Howe?

P: Well, now Howe - I asked Howe whether he wouldn't come down this week sometime and I heard this afternoon that he's coming down tomorrow morning.

H.M.Jr: Yeah.

P: I tried to postpone it and get him to come down on Thursday and Friday, as a matter of fact, because I've been so up to my eyes as a result of the new arrival. However, I believe that he's coming down tomorrow and he has various things to talk about.

H.M.Jr: Now look, I've got a half an hour from 2:30 to 3:00

P: Tomorrow afternoon.

H.M.Jr: Yes.

P: That will be splendid.

H.M.Jr: And you can use it for whatever purpose that you want.

P: Well, of course, what I'd like more than anything else would be to use it to use it to get planes - (laughs). It's been rather - getting down to the last few days - two days - planes, and yet it remains of course the fundamental difficulty. I may say that Winston Churchill telephoned on Sunday and asked me, very urgently, to get these rifles over, - I mean, the intense personal interest in the day the boat sails and the fact that each day there has to go out a daily report to him now as to when they are leaving - and also spoke very strongly about the possibilities in regard to planes. I told him that you were working on a scheme which I thought might mean - I took the liberty of

- 3 -

doing something we agreed in a way that we wouldn't do - but I said that you had been working on the possibility of accelerating combat plane deliveries, that I couldn't say anything more than that at this time because it was going to be Wednesday, next, I had understood before you could make any clear - have any clear conception whether it was possible.

H.M.Jr: Yeah.

P: He was extremely interested and very insistent that I shouldn't leave any stones unturned in the matter. I said, well, I felt that you were the one who would turn over the stones so far as I had experienced so far.

H.M.Jr: You talked to him direct?

P: He telephoned me out of a clear sky on Sunday.

H.M.Jr: You're coming up in the world.

P: Well, I tell you - (laughs) - I think it's due to the fact that the rifles had pleased him very much. You know I told you I thought they were terribly important from the cables I got.

H.M.Jr: Yes.

P: But I only really finally realized what it meant when I found him begging me to get a boat that went at 12 knots not one that went at 8 or 10.

H.M.Jr: Really.

P: Yes, and he spoke particularly of these planes mentioning by name, showing an intimate knowledge of the thing, the P-40, which they call the Hawk, and the flying boats and the flying fortresses.

H.M.Jr: Well, the P-40's are rolling off the line now. I don't know how many you have gotten.

- 4 -

P: Well, I told him that the whole situation had been taken care of thanks to your - the Allison engine thing.

H.M.Jr: Well, you must have some of those by now.

P: Well, I was able to refer him to a cable on that.

H.M.Jr: How many have you gotten of those?

P: Well, I don't know how many we have at this minute because as a matter of fact I find with all these things it's difficult for me to keep them at my finger's end, but I saw from the cables going through that our people had posted a very - posted the crowd over there very definitely as to what was possible, and I think - that's what we've done - as much as we can do, I think.

H.M.Jr: You're supposed to get 25 this month.

P: Yes.

H.M.Jr: Now, the Allison engine thing has been coming along very well.

P: Yes, I feel very much more relieved about that, don't you?

H.M.Jr: On the Allison?

P: Yes.

H.M.Jr: Oh, I think that worry is behind us. I think that's a worry that is behind us.

P: Yes.

H.M.Jr: And as I remember it - just a second, I've got the thing here somewhere - the Army is - oh, I think they only need about - owe them 10 more this month, and then they were to have their complement. But you see this is the way the Allison thing is: they produced 61 last week and 52 the week before.

P: Yes, that's a very different picture.

- 4 -

H.M.Jr: and 28 the week before that, so that's coming along very well. Just a second - I'll see if I have anything here. (Pause) Airplanes with engines shipped September 15th to 21 - 24.

P: 24.

H.M.Jr: Yeah, that's from the 15th to 21st.

P: Yes. That's pretty good.

H.M.Jr: Yes.

P: Do you think there's a fair hope on that thing that I mentioned to the B.M. that you were working on?

H.M.Jr: On which?

P: The idea - the one-for-one - where it would benefit them.

H.M.Jr: Oh, yes, and I'm having a meeting tomorrow morning at 8:30 with the Army and Navy and Knudsen.

P: Oh, good.

H.M.Jr: 8:30 tomorrow in my office on that.

P: Well, there's only one other thing that I've got that worries me a good deal. On this trainer thing I find that the only advance trainers in any quantity - of moment, I mean - are the ones that come due prior to the first of July of next year to Canada - that's 533. The relatively small orders that U.K. has on order, I mean, they are relatively small - now I find a cable from the High Commissioner which I really wanted to show you - it came into my hands yesterday - in which they have lodged an extremely strong protest about some situation where England took 15 planes, or 20 planes, I've forgotten the exact number, advanced Harvards, which they say practically-- I mean, they served notice - the Canadians served notice that the Empire training scheme is going to fail unless these planes come along.

- 5 -

H.M.Jr: Well, I wish I knew more about this thing.

P: Look here, would it by any chance be of interest if I were to - I mean, have you 5 minutes if I ran down and showed you that cable? I'm at the Embassy now having been, as I say, in these darn meetings the whole day.

H.M.Jr: Well, here's the thing that's happening - I'm going down the river with Colonel Knox and if - I understand that Lothian is going down also - and he told me Lothian is going to talk to them about some trainer program.

P: Well, now, that's the other cable that I was shown by the Ambassador ten minutes ago in regard to the thing that Balfour talked to you about.

H.M.Jr: Well, maybe you'd better come down

P: Might I just come down and show you both?

H.M.Jr: I think you had better.

P: I'll just hop a taxi straight away.

H.M.Jr: Right-o.

P: Thank you.

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 632.6231/404

September 24, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 475 dated September 21, 1940, from the American Embassy, Rio de Janeiro, regarding negotiations between the Brazilian Government and the German Ambassador for the purchase of certain Brazilian products.

Enclosure:

From Rio de Janeiro,
September 21, 1940,
no. 475.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: September 21, 1940, 1 p.m.

NO. : 475.

Negotiations are in progress here between the Brazilian Government and the German Ambassador for purchasing products of Brazil, which are to be kept in storage in Brazil till the war is over and then shipped to Germany. It is the desire of the Government of Brazil to confine the negotiations to products which the war has affected adversely (e.g., cotton, hides, tobacco and coffee). The Germans, however, wish to buy other things also (e.g., vegetable oils, mica, rubber, manganese and rock crystal).

I was informed in strict confidence by the Director of Exchange that approximately 8,000,000 compensation marks are owed to Germany by the Government of Brazil for armament purchases. While the Director of Exchange is amenable to accepting this sum for the purchase of certain of the products, he does not want to take it to pay for products which can now be sold freely for dollar exchange.

CAFFERY

EA:MSG

C
O
P
Y

bj

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 24, 1940, 4 p.m.

Rec'd 12:30 a.m., 25th.

NO.: 4119

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

It would appear that the saddling of a share of war costs of Germany on countries under military occupation has not diminished the expenditures of the Government nor the rate of increase of the public debt. As of July 31, according to an official statement of the Reich's indebtedness, during the month there were net governmental borrowings of 2767 million Reichsmarks, bringing to 62,911 the total disclosed debt. There is no letup indicated in Government borrowing operations, either in press reports of transactions on the money and bond markets or in the Reichsbank's weekly statements, but no later debt figures are available. For the increase in debt in July, long term indebtedness accounted for 354 million Reichsmarks and short term debt for 2413 million Reichsmarks.

KIRK.

EA:LWW

TO THE SECRETARY
TECHNICAL ASSISTANT
THESE ON THE
SEP 25 1940
RECEIVED
INVESTIGATION DIVISION

MP

PLAIN

Manila via N.R.

Dated September 24, 1940

Rec'd. 2:35 p.m., 25th

Secretary of State,
Washington

Twenty-fourth.

For Commerce. Banking and credit. Section one.

Consolidated statement of banks throughout Philippines excluding agricultural and industrial bank as of August 24, 1940 shows only minor changes during four weeks ended that date. Upward tendency of loans discounts and overdrafts resume after declining in previous month but net gain only a little more than one million pesos. Deposits continued declined by one three eight eight thousand pesos during current period with total at lowest level in past four years. Believed much of decline resulted from withdrawal of deposits of public funds. Cash on hand declined some five one nine three thousand pesos owing further heavy purchases by banks of demand drafts from insular treasurer. Current cash figure smallest reported for any corresponding period since February 1937 but probably adequate meet all requirements. Further decline three two seven eight thousand pesos occurred in net amount due to foreign banks or foreign head offices of local branch banks. Believed probable cause was financing of exchange commitments. Further moderate increase in capital surplus and reserves current figure representing new all time high. Steintorf.

HICKOK

CSB

MF

PLAIN

Manila via N.R.

Dated September 24, 1940

Rec'd 2:35 p.m., 25th

Secretary of State,

Washington

Twenty-fourth, For Commerce. Banking and credit, section two.

Average weekly debits to individual accounts during current four weeks again fell to new low for current year although figure nearly nine hundred thousand pesos above same period last year. Total Government reserve advanced about eight hundred thousand pesos during current four weeks. Report of insular treasurer principally in treasury certificate fund held in New York while slight drop in exchange standard fund in Manila balanced by corresponding gain in New York.

Consolidated figures million pesos loans discounts overdrafts two three two thirty due from banks in Philippines one one due from foreign held offices three due from banks outside Philippines three one cash on hand three seven other resources one six ten circulation one point six total deposits two one six due to banks in Philippines eight due to foreign head offices four one due to banks outside Philippines ten capital surplus and reserves five six other liabilities two nine average weekly debts three seven total government reserves two naught five. Steintorf.

HICKOK

CSB

JT

PLAIN

MANILA VIA N.R.

Dated September 24, 1940

Rec'd 7 p.m., 25th

Secretary of State,

Washington.

Twenty-fourth.

FOR COMMERCE, BANKING AND CREDIT SECTION. - THREE

3. Bank clearings Manila during August two five one six four thousand pesos, drop two two twenty thousand pesos compared July but gain two forty thousand pesos over August last year. Cumulative total first eight months this year two one six eight five four thousand pesos slightly above figure of two one four five two one thousand pesos for sapely.

Insular treasurer's report of net currency circulation including amount of treasury vaults available for circulation shows drop seven three nine thousand pesos during August. Current figure lowest reported for any month since September 1937. Major portion of decline was in treasurer certificates.

Import bills for collection during August ten nine five seven thousand pesos, drop four seven two nine thousand pesos from high point reached previous month and also one five eight seven thousand pesos smaller than same month last year. Letters of credit issued two nine fifty thousand pesos, smallest monthly total recorded since February 1936 and considerable more than fifty percent below same month last year. Cumulative totals first eight months this year import bills one one three point three million pesos, letters of credit four three point three million pesos.

KLP

UNSIGNED

EH

PLAIN

Manila via N. R.

Dated September 24, 1940

Rec'd 8:05 p.m. 25th.

Secretary of State,

Washington.

Twenty-fourth.

FOR COMMERCE, BANKING AND CREDIT

(SECTION FOUR LAST)

Statistics dishonored bills and extensions for August reflect unsatisfactory credit situation although some improvement compared previous month. One seven three bills dishonored during month aggregate value two seven two thousand pesos drop in value two two one thousand pesos from high point reached in July. Extension during month three three five aggregate value nine eight five thousand pesos. This also three one four thousand pesos below record high reached in previous month. Although there were declines in value both dishonored bills and extension ration of these bills to total import bills for collection reached new all time high of one one point five per cent against previous record one one point four per cent in July. End. Steintorf.

HICKOK

EMB

C
O
P
Y

bj

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 24, 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 following transfer from an Italian account maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 23	\$3,000,000	Banca Commerciale Italiana, New York	Post and Flagg



G-2/2657-220

RESTRICTED

No. 202

SITUATION REPORTM.I.D., W.D.,
September 24, 1940.
12:00 M.

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

I. Western Theater of War.

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

In daylight of the 23rd the British report the repulse of large formations of German bombers which were attempting to reach London. The Germans characterize these operations as attacks on southern England, and the British admit attacks on coastal towns in this region. During the night the Germans operated almost entirely by single planes, with the weight of the attack on the London area. Intensity of attack was higher than on the immediately preceding nights. Port facilities appeared to be the principal objectives. Liverpool was also attacked.

The R.A.F. made unusually heavy night attacks on the "invasion ports". The Berlin area was subject to a night raid of more than 3 hours duration.

German attacks on London and in northwest and south-east England are in progress today.

II. Mediterranean and East African Theaters of War.

1. Ground operations apparently limited to the maintenance of contact.
2. The Italian Air Force renewed its attacks on Mersa Matruh. Port Sudan and Malta were also bombed. The R.A.F. operated extensively against Italian communications along the Mediterranean coast and also conducted widespread bombing in Ethiopia.

III. West Africa.

Dakar, Senegal, was bombarded by British naval units on the 23rd. It is reported that a mixed force of British and "Free French" troops is attempting to land in the vicinity of the town.

RESTRICTED

September 24, 1940

Dear Jesse:

I am sending you herewith a strictly confidential stenographic transcript of the conference held in my office on Friday, September 20th, at which you and the Russian Ambassador were present.

I would greatly appreciate it if you would let nobody have access to this report.

Yours sincerely,

Hon. Jesse Jones,
Federal Loan Administrator,
Washington, D. C.

September 24, 1940

Dear Jesse:

I am sending you herewith a strictly confidential stenographic transcript of the conference held in my office on Friday, September 20th, at which you and the Russian Ambassador were present.

I would greatly appreciate it if you would let nobody have access to this report.

Yours sincerely,

Hon. Jesse Jones,
Federal Loan Administrator,
Washington, D. C.

September 24, 1940

Dear Jesse:

I am sending you herewith a strictly confidential stenographic transcript of the conference held in my office on Friday, September 20th, at which you and the Russian Ambassador were present.

I would greatly appreciate it if you would let nobody have access to this report.

Yours sincerely,

Hon. Jesse Jones,
Federal Loan Administrator,
Washington, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: September 24, 1940, 5 p.m.

NO.: 484.

The Bank of Brazil has been asked by Rene Berger (who was the representative of the bondholders of France in the debt negotiations) whether it would care to obtain one million pounds sterling from the Argentine Republic on terms that would be very favorable. Berger said that the Argentine interests would perhaps be willing to be paid in Brazilian products to be delivered within a three-year period. The Bank of Brazil is studying the proposal.

This telegram has been repeated to the American Embassy at Buenos Aires.

CAFFERY

EA:MSG

TO THE SECRETARY
OF THE TREASURY
WASHINGTON
D. C.

OCT 2 1940

RECEIVED
TREASURY DEPARTMENT

CONFIDENTIAL

SPECIAL BULLETIN
No. 16
G-2/2657-231

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, September 24, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 321.19 M.I.D. (8-16-40) M-B-M.

FORMS OF FIFTH COLUMN ACTIVITYSOURCE

This bulletin has been prepared upon a basis of information from a number of official American sources.

CONTENTS

1. INTRODUCTION
2. FORMS OF ACTIVITY BEFORE REVOLUTION OR HOSTILITIES
3. FORMS OF ACTIVITY UPON THE OUTBREAK OF HOSTILITIES

* * * * *

CONFIDENTIAL

CONFIDENTIAL1. INTRODUCTION

Fifth Column activities are certain activities which take place within a given nation although instigated abroad. They are designed to weaken the nation's military strength and its moral and political structure before and during an overturn of its government by force or by military operations directed against the nation by a foreign power. These activities fall naturally into two general phases--operations prior to the outbreak of revolution or hostilities, and armed assistance after the beginning of revolution or hostilities.

Both foreigners and citizens of the country to be penetrated are employed in the creation of a Fifth Column. All human frailties are exploited in the process. Individuals are flattered, persuaded, bribed, threatened, blackmailed, or subjected to economic pressure as circumstances dictate.

2. FORMS OF ACTIVITY BEFORE REVOLUTION OR HOSTILITIESa. Political Parties

Openly organized political parties are a somewhat unsatisfactory medium for activity of the type under consideration. There are, however, a number of such parties now functioning. Before invasion of the Netherlands by Germany, the Dutch Nazi party, National Socialistische Beweging, openly espoused the cause of national socialism in Holland and was extremely helpful in assisting the Germans to prepare for the conquest of the nation. Other examples may be found in South America. The Integralista party in Brazil is a Brazilian Nazi party ready to seize any opportunity to overthrow the present government with European connivance and align Brazil with Germany. The Vanguardia Popular Socialista party in Chile is also built along Nazi lines. Still another example is the Herrerista party of Uruguay, which is backed by the Nazi element in that country.

As the Communist party has been outlawed in most foreign countries, the Comintern has adopted the effective policy of working through "Popular Fronts". Communists have been ordered to infiltrate into other political parties in order to destroy them from within. No country in Europe other than the U.S.S.R. is known to have a legal Communist party. Formerly the party was fairly strong in northern Norway and Sweden, but it has recently been repressed. There is a small Communist party in Mexico. In Chile the party is openly organized as an element of the "Popular Front" government, and there is also an organization in Uruguay, although it is very weak. As far as is known, all Communist parties are under the direct control of Moscow.

CONFIDENTIAL

b. "Front" Organizations of Political Parties

The Comintern has been able to establish "Popular Front" governments in several countries, notably in Chile and in France, where the best example was the Blum government. In accomplishing this object, the party often works through specially created local organizations, not avowedly Communist, but nevertheless controlled by the Communist party.

Another example of a "Front" organization with Nazi leanings is the Accion Nacional of Uruguay. This society is reported to be in close touch with the Integralistas in Brazil and with the Chilean National Socialist movement.

c. Cultural Societies

Effective penetration can frequently be obtained through the medium of organizations whose members generally are innocent of any subversive purpose. They are organized for the legitimate and honest purpose of promoting cultural development between two countries to their mutual cultural advantage, usually in fields of literature, art, and music. Many of these societies have existed for a long time and have enjoyed a wide reputation for professional international cultural exchange. Control is subsequently gained through political maneuvering within the society itself, and the organization may then be used to further the eventual overthrow of the existing regime. Examples of such societies are the German-Peruvian Cultural Institute of Peru and the German-Argentine Cultural Associations in the various provinces of the Argentine. Efforts are being made now by the Soviet to establish a similar society in Finland. Such a society is likely to be suppressed, and this action would give the U.S.S.R. a casus belli.

d. Press, Radio, and Theatre

The foreign language press is an obvious medium for influencing the thought of alien minorities, but its very obviousness probably keeps it from being as effective as the subsidized or controlled national press. Germany maintains the Transocean News Service, which furnishes free copy to the Latin American press. Many newspapers in Latin America have been purchased outright by German capital or placed under other forms of subsidy. La Razon and El Pampero of Buenos Aires are examples, as are El Universo of Guayaquil, Ecuador, and Trotajo of Santiago, Chile. Where control of the entire paper is not practicable for any reason, one page of it may be bought. It is not uncommon in some South American countries to find one page of a paper devoted to German propaganda stories and another to those published by the Allies.

CONFIDENTIAL

The Comintern has been fairly successful in the use of this medium. It has published, among many others, the Daily Worker in London, L'Humanite in Paris, Nordlands Arbeiderblad in Norway, and El Frente Popular in Chile.

Foreign language radio broadcasts have been even more effective in preparing the ground work for eventual military operations. Germany, France, England, Italy, and the U.S.S.R. broadcast constantly in many foreign languages. Very entertaining programs are interspersed from time to time, with particular national versions of news. The Italian broadcasts in Arabic from the Bari station have been especially effective in stirring up the Arabs against Great Britain and have often been the cause of British diplomatic protest. Some of the short wave broadcasts from Berlin and Rome in Spanish find outlets throughout Latin America, either directly from high-powered European stations or by rebroadcast from the station Belgrano in Argentina. The U.S.S.R. even broadcasts in Esperanto. The broadcasts are usually crude and mendacious, but they owe whatever success they may have to repetition.

Both motion pictures and the legitimate theatre have been employed for the propaganda purposes. Films of the German successes in Poland and elsewhere are shown to selected audiences throughout Latin America. Soviet plays and motion pictures, most of which are pure propaganda, were often shown in other countries before the war. They painted a rosy picture of life in the U.S.S.R. but probably had little effect abroad. The really excellent Soviet theatre and ballet occasionally send some of their artists abroad.

e. Diplomatic and Consular Representatives and Military and Economic Missions

There seems to be no uniform practice in use of diplomatic and other legally accredited representatives for preparation from within for foreign invasion. Use of these representatives is, of course, the crudest way of carrying out such activities. It seems to have been the general practice of the Soviet to make use of them, and the results have not been good, for they have frequently been detected.

Germany and Italy certainly utilize their official representatives in weak or unimportant countries. It is known that Italy made use of these representatives in preparation for her occupation of Ethiopia and that Germany did the same thing in Norway and Holland. The secretary of the German embassy in Argentina is thought to be the Nazi leader for Argentina and Uruguay. The Italian police mission in Peru and the German instructors and members of the Italian military mission in Bolivia are thought to be engaging in subversive activity.

CONFIDENTIAL

CONFIDENTIAL

Within stronger nations, the Axis powers are much more circumspect about using their official representatives. Intimidation of the government is likely, for detection is easy. Whenever it is possible for representations to further Fifth Column activities—for example, through use of codes, diplomatic pouches, and transfer of funds—they undoubtedly do so. In addition, they are most active in talking with leading nationals and in emphasizing the views and ideologies of their respective governments.

f. Banking and Commercial Organizations

It is difficult to follow ramifications of the influence of international banking and commercial firms. This influence, which is very considerable, is one of the most usual ways of promoting Fifth Column activity. The Soviet, for example, has long used the tourist agency, Intourist, and the government commercial organization Amtorg, as a means of collecting and forwarding information. The Germans have used their shipping firms for the same purpose, and, according to reports, they have also used the Bayer Aspirin Company in South America. The company employs a large number of travelling salesmen who are organized as couriers for the transmission of information. It has been found that a number of American firms with South American branches employ Germans for important executive positions in these branches.

g. Exploitation of Racial and Religious Problems

The existence of racial and religious minorities, especially in Europe, has offered opportunity for stirring up intense feeling against existing governments. Germany has made a practice of organizing all Germans and persons of German extraction throughout the world, regardless of nationality, with a view to using them when the occasion warrants. German minorities in Poland were openly rioting before the Nazi invasion. Italy has appealed to the Arabs with offers of protection against the reputed injustices of British rule, and this appeal has been genuinely effective in stirring up trouble in Palestine. It may be expected to have still further effect throughout the Near and Middle East. Russia has cleverly used "oppressed" races for espionage and sabotage and has given encouragement to pro-Slav movements abroad, especially in the Balkans.

h. Infiltration into Positions of Influence in Governments

The American Consul General in Amsterdam states that the Dutch Army was literally sold out according to a carefully pre-arranged plan involving high ranking military men and civilian officials, including members of the Dutch Nazi party, many of whom were of the old Dutch aristocracy. For example, it is suspected that the supreme commander of the armed forces was removed for the sole pur-

CONFIDENTIAL

CONFIDENTIAL

pose of making way for someone known to have strong Nazi leanings and connections. The same situation is said to have existed in Norway, where prominent officers of the army, strongly pro-German in sympathy, gave active assistance to the Germans before and during invasion.

The Soviets have also had some success in introducing their own people into government positions in foreign countries, especially in the Baltic states. Communist sympathizers and members of the Communist party have succeeded in obtaining positions of importance in "Popular Front" and "Liberal" governments.

i. Infiltration into Educational Systems

German influence in the educational systems of foreign countries has usually been through German language schools and through German educators, especially in the sciences. There are German language schools throughout South America.

The Soviet, using a number of different forms, has been much more active and successful in this type of operation. It has controlled the subject matter of textbooks prescribed for public schools, has organized teachers in elementary schools, and, to a lesser extent, has organized members of staffs and faculties of colleges and universities for the purpose of implanting Communist ideas and of gaining support of Communist doctrine.

j. Subornation of Government Officials and Members of Armed Forces

Actual examples of the subornation of officials are not numerous. Many reports indicate strongly, however, that German invasion of Norway, Belgium, and Holland was facilitated through treason on the part of nationals of those countries. Similarly, the Soviet resorted to this type of activity in the Balkan states and in Poland. The best known instance was that of Major Peter Demkowski, assistant chief of the communications section, IV Bureau, Polish General Staff. After being accused of turning over to the Soviet military attache the secret mobilization plans of the Polish Army, he was convicted by court martial and executed. In many countries of Europe and South America, the prestige of the German army is so great that it has commanded marked admiration on the part of army officers of those countries. This admiration has been carefully fostered in some cases by permanent or temporary German military missions. While there may be no treason immediately involved, this feeling towards the German army prepares the ground for possible later subornation of officials.

k. Aliens and Nationals of Alien Extraction

Nationals of the Axis powers are not permitted to travel

CONFIDENTIAL

CONFIDENTIAL

or reside abroad unless they have been carefully investigated and approved by party authorities. While in residence outside their own country, they are controlled by enrollment in the party organization abroad, by issuance of short-term passports only, by direct control of the amount of money they are permitted to take out of the country, by indirect control of their property within the country, and by threat of reprisals against their families and friends. Some of the countries in the Axis or under its control consider citizenship a matter of birth rather than of residence and do not recognize citizenship obtained in foreign countries by their nationals. They continue to exercise very strict control over citizens of other countries who are of their national extraction in much the same manner as they control their own nationals residing abroad.

1. Crews of Ships and Aircraft

Crews of German ships in foreign ports are always a source of potential danger. In Norway, they actively assisted invasion. The crew of the scuttled German battleship, Graf Spee, which is now interned in the Argentine, is reported to be giving a great deal of trouble to the Argentine government. Before the outbreak of war members of the crews of German ships and airlines were used as couriers for collecting and transmitting military information to Germany. Crews of commercial airliners are also used for active reconnaissance over their routes. German airlines are now operating in Brazil, Ecuador, Bolivia, and Peru, and it is expected that transatlantic service via Dakar will soon be re-established.

m. Refugees

One of the most dangerous elements in Fifth Column activity is the refugee. Before the German invasion, Holland was full of German Jews, each a potential Fifth Columnist. Many of these had been sent in by the German government to pose as refugees; others took part in Fifth Column activities either because they were Germans first and Jews second, although not in sympathy with the existing government, or because they feared that German reprisals against their families or their property in Germany would result from their failure to take orders from Nazi agents in Holland.

Many of the countries of Latin America have the same problem to face today, and it may be expected that the German government will take full advantage of the refugee situation to introduce German agents—Jews, or Aryans passing as Jews—and to control by threat of reprisal the bona fide refugees. Thus, any refugee from Germany, Jewish or Aryan, must be suspected as a German agent. This is particularly true if he has relatives re-

CONFIDENTIAL

CONFIDENTIAL

maining in Germany.

n. Tourists and Travelers

Before the occupation of Norway, Germany had secured complete information as to the topography of the country, including exceedingly accurate maps. She had sent naval officers to pose as tourists spending the summer yachting in the Norwegian fjords; these officers knew their way perfectly into every Norwegian harbor, even without navigation lights. German "business men" filled the hotels a few days before the occupation; they were all in uniform the morning of the occupation. German vice consuls, press attaches, commercial attaches, and others, were everywhere. All were military men with definite military missions, and they used legation communication facilities until the time of the occupation.

During the critical period last winter when the continued supply of Rumanian oil to the Reich was in doubt, Rumania was filled with thousands of German "tourists". The same was true in Yugoslavia and is true today in Spain and Portugal.

3. FORMS OF ACTIVITY UPON THE OUTBREAK OF HOSTILITIES

Successful use of the Fifth Column after the outbreak of hostilities necessitates extremely careful and thorough preparation before the outbreak of war or the beginning of active operations. When the fighting actually starts, the Fifth Column may perform many functions. Among these are:

- a. Effecting sabotage on a well ordered plan.
- b. Demoralizing and confusing the population and the armed forces by spreading false information, by issuing false orders, and by creating alarms and diversions to draw defending troops away from points of attack.
- c. Seizing critical points by force of arms and holding them until air landing troops or ground troops arrive.
- d. Guiding air landing troops by signalling before they land and by providing guides at landing points to conduct troops rapidly to previously selected objectives, such as telephone exchanges, radio stations, power stations, transportation centers, important bridges, essential factories, and government offices.

CONFIDENTIAL

CONFIDENTIAL

e. Seizing transportation for use of air landing troops, and supplying those troops with food, shelter, and other necessities.

According to the sworn statements of Dutch officers, German Fifth Columnists in the uniform of the Dutch gendarmes prevented destruction of the Maas railroad bridge at Gennet. A German armored train, followed by other troops, crossed this bridge and contributed to the early break-through of the Peel defense position. Destruction of many other bridges of lesser importance near the frontier was prevented through use of similar methods. Organized groups of armed Germans in civilian clothes, identified by green arm bands, seized and held the bridge over the Maas-Waal Canal just before the German attack of May 10. Fifth Columnists cooperated with the air landing troops in the attack on The Hague and Rotterdam. Besides rendering effective assistance to landing troops, they interfered with the Dutch troops who were attempting to meet these attacks by diversion and firing in their rear. Near Rotterdam, they succeeded in seizing and holding the important bridge over the Maas River. The Dutch system of defense by inundation failed to function at many strategic points because of the activities of German Fifth Columnist agencies within Holland.

In Norway, on the day of the attack, agents within the country isolated a large part of the country by seizing the government radio station and telegraph and telephone exchanges. They caused complete confusion by disseminated false orders. Norway, although it realized that the presence of these men was dangerous to its neutrality, had made no serious effort to forestall them for fear of antagonizing her strong German neighbor.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£22,000

The Federal Reserve Bank sold £3,500 in registered sterling to three non-reporting banks, and purchased £733 from one non-reporting bank.

Open market sterling was first quoted at 4.03-3/4. Around noontime the rate advanced to 4.04, where it remained for the rest of the day. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£ 9,000
Sold to foreign bank (Honduras)	£ 1,000
Total	£10,000

Purchased from commercial concerns	£ 4,000
------------------------------------	---------

Developments in the other currencies were as follows:

The Canadian dollar had a firm tone. As against last night's closing discount of 15-13/16%, it moved to 14-1/2% by mid-afternoon; a reaction took place late in the day, however, and the final rate was 15-1/4%.

Continuing its improvement, the Swiss franc advanced to close at .2284-1/2. Yesterday's closing rate was .2282.

The Swedish krona regained most of the ground lost yesterday and closed at .2384.

The Lira and Reichsmark were unchanged at .0505 and .3995 respectively.

The Mexican peso, which closed at an offered rate of .2020 last night, improved to .2080 today. The improvement was attributed to the circulation of rumors that Mexico may receive an Export-Import Bank credit. The Cuban peso was quoted at a discount of 9-5/8%, representing a slight gain.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

- 2 - CONFIDENTIAL

The Federal Reserve Bank informed us that it had made two additional three-months loans of \$30,000 each to the Central Bank of El Salvador. As collateral, the Federal set aside gold valued at \$56,981 from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$410,000, secured by \$464,734 in gold.

The report of September 18, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position in the currencies of all countries was short the equivalent of \$12,188,000, an increase of \$1,576,000 in the short position. This rise mainly reflects a change in the Guaranty Trust Company's method of reporting its position in guilders (included under "Europe"). On the advice of its lawyers, the Guaranty now includes outstanding past-due contracts in its guilder position. As a result, this bank reported a short guilder position of \$877,000 on September 18, as against a long position of \$100,000 on September 11. The net changes were as follows:

Country	Short Position September 11	Short Position September 18	Increase in Short Position
England*	\$ 1,082,000	\$ 1,275,000	\$ 193,000
Europe	4,642,000	5,647,000	1,005,000
India	278,000 (Long)	229,000 (Long)	49,000 (Decrease in Long Position)
Latin America	457,000	488,000	31,000
Japan	3,777,000	3,958,000	181,000
Other Asia	1,025,000	1,037,000	12,000
All Others	93,000 (Long)	12,000	105,000
	<u>\$10,612,000</u>	<u>\$12,188,000</u>	<u>\$1,576,000</u>

* Combined position in registered and open market sterling.

The Bombay gold price was unchanged at the equivalent of \$33.91. The silver equivalent was 44.67¢, off 1/16¢.

In London, the prices fixed for spot and forward silver were both off 1/16d, at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made three purchases of silver totaling 300,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and the remaining 175,000 ounces consisted of new production from foreign countries, for forward delivery.

J.M.P.

September 24, 1940
9:42 a.m.

H.M.Jr: Hello.

Frank
Knox: Hello, Henry.

H.M.Jr: Yes, Frank.

K: You haven't forgotten you've got a date tonight.

H.M.Jr: No, I was counting on it. Do you want to get out of it?

K: I do not; I just wanted to remind you of it, but I want to make this suggestion. You know the Canadian Minister?

H.M.Jr: Yeah.

K: What kind of a fellow is he? Will he add to the party any?

H.M.Jr: Well, I tell you what I had in mind unless it would bore you - I thought maybe you could tell me something about the fleet.

K: Well, I'll be glad to do that but I've got Lothian coming.

H.M.Jr: Oh, you have Lothian.

K: Yeah, we want to talk about this matter of training of aviators and I thought the Canadian Minister was very much interested in that.

H.M.Jr: Oh, he's a grand fellow - the Canadian Minister.

K: What's his name - well, I'll find it out. I think I'll call up and ask him to come if it's all right with you.

H.M.Jr: Oh, sure. He's a grand fellow. Well, what time do you want me?

K: Well, we're tied up there - you can come aboard any time.

- 2 -

H.M.Jr: What time did you invite Lothian?
K: About 6:30.
H.M.Jr: 6:30. Christie is the man's name. The Canadian Minister's name is Christie.
K: Christie.
H.M.Jr: Yeah.
K: O. K.
H.M.Jr: He's swell.
K: All right. I'll be looking forward to seeing you at 6:30 or thereabouts, Henry.
H.M.Jr: Right-o.
K: O. K.

September 24, 1940
10:05 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones.

H.M.Jr: Hello, Jesse.

Jesse Jones: Good morning.

H.M.Jr: How are you?

J: All right, and you?

H.M.Jr: I'm all right. Jesse you called me last night about this loan to China and I'd like to make this suggestion - you most likely have already thought of it.

J: Yeah.

H.M.Jr: I take it that that loan will also be through the Universal Trading.

J: I assume that it will be through there although I'm working it out on a little different basis. I'm trying to tie it in someway. As a matter of fact, I'm doing it - this is a case where they want money, see, for their - which they ought to be getting from you and you say you won't let them have it.

H.M.Jr: You mean for stabilization purposes.

J: Yeah.

H.M.Jr: Is that what this is going for?

J: Yeah. That's very confidential.

H.M.Jr: Well that's a rat-hole, Jesse.

J: I know but that's the thing they're begging for.

H.M.Jr: Well, that's a horse of a different color.

J: I'll call you back.

H.M.Jr: O. K.

September 24, 1940
10:57 a.m.

H.M.Jr: Hello.

Henry
Stimson: Hello, Henry.

H.M.Jr: How are you?

S: I've heard of an invitation going around for me to come to lunch but I want to know what it's about.

H.M.Jr: Well, I want the pleasure of your company and just a little gossip.

S: (Laughs). I'm afraid that isn't enough.

H.M.Jr: I have no ax to grind particularly.

S: No, I'm not - what do you mean by talking about axes to grind?

H.M.Jr: Me - I have no ax to grind, I mean, I have nothing particular

S: You talk as if I suspected you. I didn't that but I wanted in all honesty and sincerity to know what the subject was so I could be a little bit prepared.

H.M.Jr: Oh, we can always talk about more planes for England and

S: Well, I thought that might be

H.M.Jr: I want to talk to you about the Far Eastern situation.

S: Who're going to be there?

H.M.Jr: Nobody but you and I. Nobody.

S: Oh, that changes it. I thought you might have a

H.M.Jr: No, no. I haven't seen you in several weeks and I wanted the pleasure of seeing you.

- 2 -

S: What time do you want me?
H.M.Jr: Is 1 o'clock all right?
S: Fine.
H.M.Jr: No, there'll be nobody but just you and I.
S: Well, that's all right then. That'll be helpful.
H.M.Jr: So you and I can both make statements and
-(laughs) - there'll be nobody to check us up.
S: (Laughs). We'll have the two best conversationalists in the world for that purpose.
H.M.Jr: All right.
S: All right, I'll be there.

September 24, 1940
12:40 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello.

Jesse Jones. Hello, Henry.

H.M.Jr: Hello, Jesse.

J: About that loan, I expect what they really want to do is to buy something that we can't lend them the money to buy.

H.M.Jr: You mean munitions.

J: The Chinese - you see we still can't lend money for certain purposes and they want to borrow money for some things that we can't lend to them for - that's the reason for that.

H.M.Jr: Well, I needn't tell you that I'd be awfully sure about it.

J: Well, that's - I don't know how to be sure.

H.M.Jr: Well, let's put it if they're going to buy - how shall I say - materials of regular commerce - commercial things, you see, then I think they ought to buy it here and through the Universal.

J: Well, absolutely.

H.M.Jr: And not through this fellow, K. C. Lee.

J: That's right.

H.M.Jr: Because this Universal Trading crowd is on the level.

J: Yeah. Well, I'm for that and I'm - that's the - I wanted to explain this other business and I was trying to find how to - it's perfectly

- 2 -

all right with Soong to handle it anyway that we want to handle it so that he's not trying to cut corners or anything like that.

H.M.Jr:

But you see they came over originally to see me on the stabilization loan and this fellow Arthur Young, who is financial adviser to them, and all that. Well, I just didn't feel like they'd make it.

J:

Yeah, I know. I understood about that - they told me about it.

H.M.Jr:

Well, I tell you, if you feel so inclined when you get a little further along

J:

I'm going to, when I get further along, I'll have a visit with you. I'll call you up.

H.M.Jr:

Either way.

J:

O. K. Good-bye.

H.M.Jr:

Thank you.

September 24, 1940
12:57 a.m.

H.M.Jr: Hello.

Operator: Ben Cohen calling you.

H.M.Jr: Hello, Ben.

Ben
Cohen: Hello, Henry.

H.M.Jr: How are you.

C: All right. How are you? I was a little embarrassed, Henry, because I was afraid I didn't understand you Friday, you see, when we were talking about the William-Allen-White Committee. I said I'd bring Eichelberger down and have a little talk.

H.M.Jr: That's right.

C: Then you said you wouldn't be here Monday but you'd be back Tuesday, and while I didn't make any fixed appointment, I knew he would make it at your convenience. He came down here today and he'll be here today and tomorrow, and you wouldn't have to spend much time with him but I was just a little embarrassed

H.M.Jr: Well, I want to see him, maybe there was a crossing up - it's just that it was difficult for me today, but I'm all right tomorrow.

C: Well, he's going to be here tomorrow.

H.M.Jr: Well, I got the message he could only do it today - maybe I misunderstood.

C: No, I'm sorry, I may have said nothing about tomorrow, that is, I think I asked you to make it any time today at your convenience.

H.M.Jr: Well, how about 3 o'clock tomorrow.

C: I'm sure that'll be all right. I hope you don't misunderstand - I only wanted to help.

- 2 -

H.M.Jr: No.....

C: I was a little embarrassed when he was here to say that you couldn't see him.

H.M.Jr: Ben, I asked for it.

C: Yes, I know.

H.M.Jr: How do you spell it?

C: Eichelberger, E-i-c-h-e-l-b-e-r-g-e-r.

H.M.Jr: I'm delighted you called me.

C: All right, Henry, and I'll tell him 3 o'clock tomorrow.

H.M.Jr: If you please, and he's doing me a favor by coming.

C: All right. Thanks so much.

CONFIDENTIAL

118

G-2
JM/228

G-2/2657-H-507

September 24, 1940.

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: Japanese Plans to Seize Liukungtao.

1. The British have certain treaty rights with the Chinese Government on the island of Liukungtao, Weihaiwei Bay, Shantung, China. The treaty expires on September 30, 1940, though the British have the option of renewal.

2. This Division has information from a thoroughly reliable source to the effect that the Japanese plan to take over the British rights on this island on October 1, and will notify the British of their intention to do so on or about September 27. By way of emphasizing their interest in that locality they plan to increase their garrison at Weihaiwei and if necessary send a part of their fleet there.

SHERMAN MILES,
Brigadier General, U. S. Army,
Acting Assistant Chief of Staff, G-2.

td

Copies to: Military Aide to the President
Secretary of War
Secretary of Treasury
State Department
ONI

CONFIDENTIAL

CONFIDENTIAL

119

Paraphrase of Code Cables
Received at the War Department
at 3:58 P.M., September 24, 1940

London, filed September 24, 1940.

1. During the night of September 23-24 the Royal Air Force dispatched 128 bombers against power plants in Berlin and 73 against four invasion ports on the continent. During daylight hours of the 23d the Fighter Command dispatched 116 patrols and 720 sorties. During the day and night the Coastal Command operated 91 planes on 55 missions and also carried out escort patrol missions for convoys.

2. During daylight hours of the 23d the German Air Force, from bases in Holland, Belgium and France, operated about 300 planes over England. The principal attacks were on the Southeast Coast, those units attempting to approach London being intercepted. During the night that followed there were light raids over the Midlands, London and Liverpool.

3. There were light or no damages to five of the six airfields attacked, with no report received of the sixth. In London 16 objectives were hit. Three railroad lines and one subway are blocked. Woolwich Arsenal was hit again. Production was stopped in a mill equipment factory. One gasoline storage plant is leaking. Other damages were minor. In Eastbourne gas and water mains were broken and there were 24 casualties. In other areas outside London bombs of various types were scattered at random with minor results.

CONFIDENTIAL

CONFIDENTIAL

possibly for use during misty nights, German planes are experimenting with incendiary bombs burning orange or green.

4. German plane losses were 12 confirmed, seven probable and seven damaged. The British lost 11 planes and three pilots. The total civilian casualties have not yet been determined, but more than 350 are known to have been killed and wounded in widespread localities.

5. Yesterday I inspected the results of a torpedo that fell in the Battersea district. According to eyewitnesses, it descended slowly by parachute. Its explosion wrecked about 300 poorly built old houses, leaving about 1,500 homeless. The concussion did not flatten the buildings, but dislocated walls and blew windows crooked. No persons were killed as all the inhabitants were in shelters which gave protection only up to 75 feet. It is reported that the torpedo contained 1,750 pounds of explosives.

6. Two merchant vessels, one of 10,500 tons in convoy and the other of 555 tons, were reported sunk.

7. With respects to a possible invasion, there are known to be about 280 ships, with a total tonnage of about 460,000, and about 750,000 tons of barges between Brest and Emden. About 200,000 tons of these barges have been added during the past four days. South of Brest there are about 300,000 tons of shipping available for use against Ireland and West England. Ships for the transport of one division are available in Norway. There is much shipping and military activity in the Baltic Sea. At present the weather is too rough for small boats. Otherwise the situation remains unchanged.

CONFIDENTIAL

CONFIDENTIAL

8. There have been no forward movements of the Italian forces in Egypt, but they are reported to be accumulating motor transport in the vicinity of Sollum.

9. It is believed that Japan and Germany have come to an agreement in the Far East regarding loot and common policy, and that this may be announced shortly.

10. In Dakar the ships and the land defenses have offered resistance, but there is little air defense. It is reported that fog has hampered offensive operations. An ultimatum expiring at dawn of the 24th was issued and if it is not accepted the port will be reduced by the British warships assisted by the de Gaulle forces.

11. The increased German press and radio bluster combined with the activities of the polecats Ciano, Sauer and Ribbentrop make me believe that plans for the invasion are being modified and that winter military operations will be transferred to the Mediterranean area. If Germany was at all confident of conquering Britain she would be giving orders to Spain and Italy rather than negotiating with them.

END.

Distributions:

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

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

September 24th, 1940.

Dear Mr. Secretary,

I enclose herein for your personal
and secret information copies of the latest
reports received from London on the military
situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram despatched from London
on the morning of September 22nd, 1940.

1. Naval.

It is now reported that on the afternoon of the fourteenth, an aircraft of the fleet airarm almost certainly destroyed a U-boat off North Scotland.

On the 19th, a French ship (ten thousand tons) was fired on by a raider one thousand miles south east of Mauritius.

2. Royal Air Forces.

On the night of the 19th-20th, our bombing attacks on shipping were made extremely difficult on account of low cloud, rain and sleet. Ostend and Flushing Harbours were however attacked, and explosions and fires caused. A direct hit was made on a railway bridge at Trier and one burst was obtained on Ems Canal Aqueduct. Two Railway marshalling yards were also located and attacked, and some aircraft carried out intensive fire raising attacks in various localities.

On the night of the 20th-21st, 195 aircraft were despatched. Their targets were:- Shipping in the Channel and Dutch Ports (one hundred and sixty aircraft), Railway targets and the Ems Canal Aqueduct. In addition 8

aircraft were sent to lay mines and one to drop leaflets in Northend France. From these operations one heavy and two medium bombers are missing.

8. S. A. P.

During the night of 19th-20th one major fire, one serious and other small fires were caused. A food factory was set alight and somes were caused in the docks. Casualties are reported as 70 killed and 150 wounded, plus 170 at present unspecified. Several temporary interruptions in Railway and public services have been remedied. Repairs to watermains are proceeding satisfactorily and the level of water in reservoirs is maintained. A main drain system, which has been damaged, is now working again. Some parachute mines have exploded and caused damage to property; five have been successfully dismantled, and others remain to be dealt with. Outside London damage to house property at Reigate, minor interruptions of local railways in the South East of England, and reduction of production to forty per cent at one artificial silk factory are the only further items of importance.

On September 20th at about 11 a.m. a raid by two hundred aircraft consisting almost entirely of fighters was plotted over Kent and the Thames estuary; they appeared to be converging/

converging on East London and docks but by noon all had recrossed the coast. Minor bombing was reported in a south east London area, and 11 people were killed 45 wounded at Brighton.

Summary of air casualties:

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
By our fighters			
Reconnaissance			
Aircraft	1		
Fighters	<u>3</u>	<u>1</u>	<u>2</u>
Totals	<u>4</u>	<u>1</u>	<u>2</u>

British:

Seven aircraft (pilots safe)

2 enemy bombers were shot down by anti-aircraft fire on the night of 19th-20th.

During the night of 20th-21st activity was on a smaller scale than recently, and consisted of the usual succession of single aircraft flying over London and East Anglia. Apart from mine laying off the East Coast, no activity is reported elsewhere. In London area, damage to Railways was less than on recent nights but 15 factory, dock and food storage key points were hit, though in no case has vital damage been reported.

A Yorkshire ironworks damaged 2 days ago has already resumed full production.

4. Shipping Casualties.

By U-boat: the Norwegian ship "Lotos" (1300 tons) from Canada was torpedoed in the North Western approaches on the 16th. 8 of the crew were saved. Last night an outward bound convoy was twice attacked in the North Western approaches; full details not yet received.

Early this morning an inward bound convoy was attacked also in the North Western approaches and 2 British ships of 5100 and 4400 tons were torpedoed.

By Mine: Yesterday, 1 British ship (1000 tons) was sunk in channel.

5. Military Operations.

Egypt. Air reconnaissance no movement in Sollum area on September 19th but 1600 mechanical transport were dispersed between there and Caplizzo. A column of 200 mechanical transport had its head on Sidi Barrani. A small party of Italian A.F.V's crossed the frontier at Maddramna and Egyptian frontier patrol opposite withdrew. Although no movement was seen in Giarabub there are indications from other sources of impending activity in Giarabub-Siwa area. Italian forces in Libyan theatre of operations are estimated as follows:-

Advanced troops: 1st Blackshirt division, Sidi Barrani, protected by an armoured group of medium and light tanks. Supported by a mixed force from the 1st and 2nd Libyan divisions amounting probably to 1 strong Libyan division.

Main Body: 62nd and 63rd Italian workman divisions.

On September 19th our medium bombers made a continuous attack of 4 hours duration on a convoy of 1200 mechanical transports at Sidi Barrani. On the same day heavy bombers attacked shipping at Benghazi scoring 4 hits.

Sudan. Kassala area 19th no enemy movement reported on the west bank of the river Gash. 6 more enemy guns reported arrived. Enemy did not reply to our shelling of his west bank position 18th.

6. Following new methods of employment of Italian aircraft in Libyan operations have recently been improvised. Fighters, about 100 in all, have been used in endless protection of advancing columns and to attack British concentrations.

Bombers are being used for offensive reconnaissance operations for which they are well suited owing to range and speed.

Telegram despatched from London
on Evening of September 21st 1940.

Following information on aircraft attacks against this country may be of value as a background and for talking points.

The German Air Force commenced a full scale air offensive against this country on August 8th. Until recently heaviest attacks took place by day. Recently however large-scale day attacks have been more spasmodic while night bombing raids particularly directed at London have become more intensive. This change of policy on the part of the German Air Force may be attributable to the heavy losses which they have sustained by day both to bombers and fighter escorts. On September 16th the relative casualties since August 8th were as follows:-

German.	Destroyed in combat;	1,799.
	Probably destroyed;	628.
	Damaged;	785.

Our Own. (including a small number of bombers lost in our extensive day and night bombing of Germany and German occupied countries and our Coastal reconnaissance) aircraft 638, from which 292 pilots are safe.

A large number of German losses have been to bombers, with resultant heavy losses to crews which average from three to five per aircraft. Further, except in the case of

damaged/

Regraded Unclassified

damaged aeroplanes, few German pilots are able to bale out over their own territory and be saved.

Indications are that the Germans have been drawing on their reserves to make good fighter aircraft losses and on more than one occasion recently attacking formations by day have deliberately refrained from pressing home their attacks when faced with heavy fighter and anti-aircraft defenses.

Although inevitably the enemy bombing has caused widespread damage to property, damage to military targets has on the whole been small and production of aircraft and of naval and military supplies has been very little interfered with. Attempts by enemy to paralyze shipping in the North Sea and the Channel by air attack have failed.

Aircraft production has now overtaken that of Germany. Although our fighter defenses have been continuously employed for many weeks now the morale is high and strength is relatively greater than it was at the beginning of August.

During the recent raids the enemy has suffered casualties from anti-aircraft fire which with experience is steadily improving in performance. Civilian morale remains high and certain destruction on Sunday the 15th of 186 aircraft plus a further 42 probable, some within sight of watching crowds in London, has greatly enhanced this. Our own losses for that day were as low as 25 aircraft from which 12 pilots were saved. It is significant that

proportion of enemy fighters to bombers on this day was five to six whereas formerly it had been in the proportion of five to two. This may be another indication of the necessity of the Germans to conserve their fighter force in view of recent losses.

Our bombing raids against military targets in Germany and occupied territory continue and reports received indicate that very satisfactory results are being achieved. The concentrations of shipping in enemy ports facing this country have been primary targets recently and undoubtedly plans for invasion of this country, if they exist, must have been interfered with thereby.

With the benefit of the increased production and importation of bomber aircraft from America we shall be in a position to increase the scale and area of attack and to reinforce Africa and West Africa with both defensive and offensive aircraft. Reinforcements to the Middle East have already commenced.

We will endeavour to send similar telegrams on a quarterly or occasional basis. You will no doubt see daily telegrams on air activities received by your Air Attaché from Air Ministry and make use of this in consultation with him.

131

BRITISH EMBASSY,
WASHINGTON, D.C.

September 24th, 1940.

Personal and secret.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the two latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Horan

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated
September 23rd, 1940.

Naval.

Further report on recent attack made by our aircraft on Genghaza states that subsequent air reconnaissances show two ships on fire and two large and two largely destroyed out of action.

Yesterday morning a British corvette reported heavy under water explosion in position of attack on homeward bound convoy mentioned yesterday. Seemed to indicate that a U-boat had been destroyed.

2. Royal Air Force.

Night bombing operations on the 20th/21st were particularly successful excellent results being obtained in heavy scale attack on Channel and Dutch ports visited at all of which large fires and explosions were caused by accurate bombing.

At Boulogne eight bursts were seen across a concentration of twenty ships and at Flushing a very large fire was started. Lighter scale attacks on marshalling yards were carried out and a factory east of Maastricht received direct hits causing fires visible from a considerable distance.

One Fleet air arm aircraft registered direct hits with incendiary bombs on two vessels of 6000 and 1000 tons respectively off the Dutch coast. One aircraft previously reported missing has now returned.

Yesterday 21 Blenheims carried out offensive

reconnaisances/

-2-

reconnaissances in the Channel ports area. Shipping and docks were attacked with considerable success and also two aerodromes. All our aircraft returned. Last night 92 bombers were sent to attack shipping and barges in the Dutch and Channel ports. All returned safely. Reports are awaited.

3. German Air Force.

Further reports of damage caused during the night of September 20th/21st state that all fires in London Dock area were under control by morning. A fire at the Royal Small Arms Factory, Enfield has caused extensive damage to buildings. Parachute mines destroyed a block of flats in South East London causing temporary evacuation of one telephone exchange.

Similar mines were also dropped in the areas of Kent and Essex which did appreciable damage to property but caused no casualties. Approximate total casualties in London area of this night 70 killed and 250 injured.

September 21st. Enemy reconnaissances mostly by single aircraft were active during the day. About 6 p.m. a concentration of about 200 enemy aircraft approached the London area.

Enemy formations which consisted largely of fighters were quickly dispersed. Two enemy bombers were shot down. We had no casualties. During the morning three enemy aircraft attacked an aircraft works at Weybridge; minor damage resulted causing a small delay in production.

Last night London was again the main target and bombing is reported from most districts of Greater London. Number of medium fires were started most of which were quickly under control.

Outside/

Regraded Unclassified

-3-

Outside London fires were started in timber yards and warehouses in the docks area of Warrayside where damage to house property and some interruption to railway services was caused.

In London damage is reported to two flour mills, an electrical power station and gasometers in South East London. There is also some minor interruption of suburban lines and roads chiefly in South East London.

4. Shipping Casualties.

As a result of attack on outward bound convoy mentioned in yesterday's summary two British ships "City of Simla" (10,000 tons) and "New Sevilla" (13,000 tons) were sunk. Panamanian tanker (11,200 tons) inward bound has also been sunk in the North Western approaches at a time and date unknown.

5. Middle East.

Egypt. On September 20th and 21st our medium bombers in Libyan area attacked mechanical transport columns and in conjunction with military action maintained a sustained attack on mechanical transport concentrations.

September 20th 60 enemy bombers escorted by 12 fighters attacked Matruh. Army petrol dump was set on fire and damage caused to mechanical transport and railway lines. One enemy bomber was shot down by anti-aircraft fire.

Italian East Africa. Air attack on Dire Dawa September 17th 17th damaged Bren aircraft workshops. This may add to the present maintenance difficulties.

Dodecanese. Report from Rhodes states that there is a shortage of food stuffs and that recent naval and air bombardments have affected the morale of the people who feel that worse is to come.

Telegram from London dated September 23rd, 1940

1. Naval.

A British trawler engaged two E. boats on the night of the 21/22 and claims to have hit one of them.

Aircraft of fleet air arm attacked shipping at Trondheim yesterday. Bad visibility hampered operations and checking of results. Six aircraft are missing.

On night of 21/22, one British gunboat and four destroyers bombarded the enemy positions at Sidi Barrani.

2. Royal Air Force

During night of 21/22, 91 aircraft attacked shipping and docks at Calais, Dunkirk and Boulogne, and, on a lighter scale, Ostend. Weather over the target areas was favourable for accurate bombing and very successful results are reported.

Yesterday owing to lack of cloud cover only four of the fifteen Blenheims despatched could carry out their tasks and no definite results were observed.

Last night 130 bombers were despatched, the vast majority again against shipping targets in the Channel ports. One heavy bomber succeeded in attacking its objective, and

aluminium/

aluminium works near Bredden, in spite of very bad weather. Five aircraft successfully laid mines. All returned safely.

3. Summary

Yesterday enemy activity was confined to reconnaissance flights of single aircraft or small formations and continued without intermission until merged into the night bombing. In the afternoon and again in the evening three or four machines entered the inner artillery zone and caused an air raid warning in the London area. A few bombs were dropped in London suburbs and upon the sea side towns on the South East and East Coasts where some casualties and considerable damage of property resulted. A 10,000 ton tanker standing off a jetty in Thames estuary received a direct hit followed by a shower of petrol filled glass bottles. The fires caused are under control.

Last night, considerable enemy activity concentrated on London area was maintained until dawn. Outside this area minor raids occurred and bombs were dropped on three R.A.F. stations but no damage is reported. Damage in London area so far reported is as follows. One warehouse fired in London docks; some minor interruption to rail and road services; two serious fires at Woolwich Arsenal; [? soap] factory severely damaged by H.E. No complete report of casualties is yet available but those which occurred were chiefly in [? ? South / East London]

London. A parachute mine which exploded at Ilford caused severe damage to houses but only twelve casualties.

Our enemy bomber was shot down by our fighters. We sustained no fighter losses during this period.

4. Shipping casualties.

Reference to attack on inward bound convoy reported in summary of September 21. Three additional British ships totalling 22,500 tons and 1 Norwegian ship (6,000 tons) are believed sunk. One British ship (5,000 tons) is afloat with volunteer crew on board and another British tanker (9,000) is beyond salvage.

British ship "Collegian" (7,800 tons) in the same convoy was attacked by gun fire but drove off the submarine and escaped.

A British ship (6,300 tons) was sunk by a raider of about (9,000 tons) about 500 miles West of Canaries on September 2. The Captain and three of the officers were picked up by a Panama ship and remaining crew by the raider.

5. Middle East

Egypt. Early morning report of September 22 states that no further forward enemy movement and the situation unchanged. All quiet Sudan, 300 enemy troops, white and native, reported killed as result of one bombing of Gensale on the 18th.

On the 21st three medium bombers attacked enemy positions at Sidi Barrani; a

group of three fighters and a supply of dump are believed to have been hit.

Palentino. During the afternoon of the 21, 5 enemy aircraft attacked Haifa setting on fire a benzine cistern in the port area and three cisterns at refinery. A power station was also hit but not seriously damaged. About thirty Arabs were killed.

Syrte. During an attack on Amara aerodrome September 21st, bombs fell among the aircraft and a fire was started at a petrol dump.

Kyrenia. On September 20th, aircraft of the S.A.A.F. made three dive-bombing attacks on an Italian encampment. Severe damage was done and all buildings including possibly the Trinity wireless telegraphy station, were probably destroyed.

Malta. Yesterday, a French seaplane from Malta dropped leaflets over the towns and aerodrome in Tunisia.

Libya. Bombs are being transported by air from Rome to Libya. This is a most uneconomical way of delivering bombs and it is thought that they may be a new or special type required for some particular operations.

Algeria. There are indications that the Italians are showing considerable activity regarding safeguarding against possible sabotage by rebels.

September 25, 1940

My dear Mr. President:

I think you will be pleased to learn that the Allison Engineering Company now seems to be on a good production basis for their Class "C" engines. Their production for the period September 1 to September 21 has been as follows:

Sept. 1 to 7		28
Sept. 8 to 14		52
Sept. 15 to 21		61

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger //40

September 25, 1940

My dear Mr. President:

I think you will be pleased to learn that the Allison Engineering Company now seems to be on a good production basis for their Class "C" engines. Their production for the period September 1 to September 21 has been as follows:

Sept. 1 to 7	28
Sept. 8 to 14	52
Sept. 15 to 21....	61

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

September 25, 1940
9:23 a.m.

H.M.Jr: Hello.

Operator: Mr. Schram.

H.M.Jr: Hello, Morgenthau.

Emil Schram: Hello. How are you this morning, Mr. Secretary.

H.M.Jr: Fine. I just want to tell you I hear awfully nice things about what you're doing, like on Continental Engine and

S: Well, thank you, sir.

H.M.Jr: I'm awfully pleased the way the thing has been going and I don't know what we would have done without your help and sympathy.

S: Well, I haven't done a great deal, but I'm a little bit bothered at the moment. We seem to be going around in circles on this proposed contract the Defense Commission is working on.

H.M.Jr: Plan 2?

S: Well, I don't know what the number is. There's been a new draft every day

H.M.Jr: Yeah, you and I both.

S: and we've got people over here - the North American people have been here I guess for a month or six weeks. They're wanting to start and we've got to re-write the Curtiss Wright deal and the Wright deal and we are just clear up in the air about it.

H.M.Jr: Well, we are also - I think we've given them the 5th ruling or something like that on that Curtiss Wright one and our people here all think it's a stupid plan and they keep asking for what they call a hypothetical ruling about what we call a hypothetical plan.

- 2 -

S: Yeah, that's right.

H.M.Jr: But I don't see what's the matter with the one that you put through.

S: Well, now, we're told that nobody likes this lease arrangement, that that's just out, that they don't want that and it doesn't make sense to me because - and it certainly is not a very good deal for the R.F.C., but I'm not considering it from the angle of trying to make a good deal for the R.F.C., I'm trying to get a job done.

H.M.Jr: Right.

S: And I can't understand why they don't like the leasing plan. Now, they're trying to set this thing up so that - borrow this money from banks but I think we know the banks pretty well and they're just not going to lend money unless you give them an out-right Government guarantee, ironclad, and the chances are they'll want to do that at too high an interest rate.

H.M.Jr: Well, I guess some of these fellows want - say they want to give private capital a chance. Well, they've had that chance for the last seven and a half years.

S: We've always given them a chance. Every one of these fellows that come in here, at least, I've had a number of calls from all these big banks in Chicago and New York last week, and I was very frank with them and I told them - I says any commitment you - they said, well, we don't hear of the commitment until after you've made it. Well, I said, all right, you come in and when you hear about it, you come in and look about it and if you want it we'll back away from it with absolutely no charge at all.

H.M.Jr: Well, if you want any help from the Treasury we're entirely in sympathy with you on this.

S: Well, what I have in mind, Mr. Secretary, I think that - see what you think of it - I'd like to know what you think of it -

- 3 -

I don't see why it wouldn't be a good idea to get the Secretary of War and Navy and Mr. Knudsen and yourself and Mr. Jones together and see if we can't talk this thing out and find out which way we're going to go.

H.M.Jr: Suits me.

S: What do you think about it?

H.M.Jr: I'd be delighted to attend a meeting.

S: Well, I'll see if I can't work up something like that.

H.M.Jr: O. K.

S: I'm awfully anxious to get it going.

H.M.Jr: Fine. If I'm going to come why I'd want to bring Foley and Young with me.

S: Oh, well, you bring - yes. I expect they'd all want some help but what I meant was I don't think it's gotten to - this whole story has gotten to the right people yet.

H.M.Jr: Well, I understand Stimson doesn't like it at all.

S: Yes. Well, on the other hand, Proctor - I think it's Proctor - told our - our boys were told yesterday by the Proctor side that it's approved all the way around and this contract is satisfactory with Treasury and

H.M.Jr: Well, who's Proctor?

S: Proctor is with the War Department.

H.M.Jr: Oh. I don't know him.

S: And now then you say that Stimson don't like it

H.M.Jr: I understand that Stimson doesn't like it at all.

- 4 -

S: Well, for that reason I think those of us that have got to formulate the program and guide it should get together and decide what to do and then we can get something done.

H.M.Jr: If a meeting is called, I'll be glad to come.

S: Well, that's fine. I appreciate your calling and I'll get busy on it this morning.

H.M.Jr: Right.

S: Thank you.

September 25, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Haas
Mr. Graves
Mr. Sullivan
Mr. Chamberlain
Mr. Foley
Mr. Cochran
Mr. Viner
Mr. White
Mr. Schwarz
Mr. Young
Miss Chauncey

H.M.Jr: Good morning, everybody, Have you had time --

Thompson: Yes. I talked to Mr. Gaston and Mr. Foley. Young was tied up.

H.M.Jr: Want to give me a report?

Thompson: I wondered whether you wanted it after 9:30. Apparently everything is in good shape. The reports are coming up through Mr. Gaston. He had the full report.

Gaston: This is one of those meetings of this Advisory Committee with Maxwell. He usually calls up during the day, somewhere around noon. He called up yesterday and said he would have a meeting. He never says what the meeting is to consider, and I wasn't able to go because I had an appointment with you and I spoke to Mr. Cairns about it and I asked if either he or Fiedler could go. Cairns himself was ill and asked Fiedler. Fiedler had been working on this scrap matter, so it seemed quite appropriate for him to go and he

- 2 -

went to represent me. Maxwell has been calling on his own motion, Mr. Young, or someone from his office to go to the meetings. I think that started at the time - when I was absent for a couple of weeks, Young had some talk with Maxwell and he has since been calling him to those meetings, and he also calls independently Nugent of Customs, who has worked with him on a lot of technical matters. The meeting - one of the subjects that was to be considered was this embargo on iron and steel scrap and they accepted in substance the Treasury order.

- H.M.Jr: Yes, but the point is, you see, during the day I mentioned the fact that the meeting was going to be at Mr. Hull's at 10 yesterday morning and told about Leon Henderson calling me up and all that.
- Foley: Well, I called Leon, and I explained to Leon the difference between the State Department and ourselves insofar as the description is concerned. Leon didn't understand it. When he understood it, he said he agreed 100% with us and he would see nothing was signed unless we got a chance to see it. At this meeting in the afternoon --
- H.M.Jr: I notified some of you fellows that I knew there was going to be a meeting in Hull's office at 10, but nobody told me about the meeting in Maxwell's.
- Foley: That is something, Mr. Secretary, that we would normally report this morning at 9:30.
- Gaston: Maxwell's group is the group that normally handles these export control matters. That is where the final action has to be taken. I have been attending those meetings regularly since before the organization was formed, at the time the order was being considered.
- H.M.Jr: Maxwell calls me up at 5:00 and tells me two Treasury people are there and what they have

- 3 -

done and I thanked him vociferously for his cooperation and he thanked me, but I didn't know anything about it.

White: One of my men said that Cairns' office, the man who had been helping along with us, said that Cairns' office had asked him to go along to this meeting for his technical assistance and he went. That was the second man.

Foley: He came to me as soon as he got back from the building and I had a note here to tell you this morning that the language we suggested insofar as the definition was concerned, had been accepted by the meeting and that Joe Green was processing the order now through the different departments and that the order was to be effective on the 16th of October.

H.M.Jr: Well, just for my - Herbert, are you --

Gaston: When they were first considering this export control matter, you sent me in the documents, the President's, naming Maxwell as Export Control Administrator. A meeting was called for that day. You asked me to attend, and I have been attending all those meetings since then as the representative of the Treasury, and I have made a report on all those meetings. I don't know why Maxwell called you up yesterday except that he knew you had been interested in the matter of scrap, but I just don't know what his purpose was in calling you, but I didn't know about this meeting yesterday morning. He called during the day and said the meeting was to be held of this Advisory Committee. There was nothing about the subject of the meeting. I assumed they might take up the scrap matter. For that reason, I wanted either Cairns or Fiedler, who had been on the scrap matter, to go down there. Maxwell had called me up two or three days ago and asked me what was our objections to their definition, and Fiedler has talked with him - with one of his men about it and went to a meeting yesterday morning at which the question of definition was discussed. I didn't know about that meeting, however, until this morning.

- 4 -

Foley: There was one day before.

Gaston: Yes.

Young: Those Advisory Committee meetings of Maxwell's are pretty much of a farce, anyway.

H.M.Jr: Well, on the Maxwell meeting, Herbert, reports on what takes place will come from you to me?

Gaston: Yes.

H.M.Jr: On the Maxwell meetings?

Gaston: Yes, if you wish it that way.

Thompson: It all heads up under Mr. Gaston.

Gaston: I have given you written reports on all those meetings.

H.M.Jr: Anything else?

Gaston: No, nothing else.

H.M.Jr: You let me know when you get the report from Canada on that fellow.

Gaston: Yes, indeed. I have this full written report from Fiedler on this meeting yesterday. I don't think there is anything else of real importance in connection with the meeting. The export control was agreed upon.

H.M.Jr: Ed?

Foley: I called Knudsen yesterday afternoon and sent to him the proposed Commissioner's ruling on contributions and he said he would like - it was pretty late in the afternoon and he would like a chance to go over it, so I told him we intended to release it, but I would hold it until we heard from him.

H.M.Jr: Well now, I just called up Emil Schram on a tip from Philip Young to thank him

- 5 -

for his cooperation and he says he wants to call a meeting of War, Navy, Knudsen and ourselves on so-called Plan 2. He thinks it is lousy.

Foley: I have got a memorandum here, a blank memorandum, pointing out the defects in Plan No. 2, but I think we ought to give informally to Knudsen this - say, "This isn't our business, this is your plan, but from a perusal of it, I think you ought to give your consideration to these different items."

H.M.Jr: Why not let's do it this way? If Sohrum gets such a meeting together, why not circulate that and say, "This is what the Treasury is going to say." And send it to those who are going to attend the meeting. "This is our position." How would that be?

Foley: All right. The only objection that I can see to that is that we might be making a little too much of our opposition to the plan, whereas we might do it a little more informally.

H.M.Jr: All right. You want to give it to Knudsen?

Foley: Yes.

H.M.Jr: Okay.

Foley: So we don't get him into the position where he thinks we are shooting at him.

H.M.Jr: And send a copy up to the house so I can read it.

Foley: Yes, sir.

H.M.Jr: What else?

Cochran: I have nothing, sir.

H.M.Jr: We have a Consulate at Dakar?

- 6 -

Cochran: He sailed just a few days ago. I am not sure whether he has arrived yet.

H.M.Jr: Would you find out if there are any cables over in Mr. Hull's office, anything to let us know what is going on in Dakar, because the British Ambassador doesn't know. Would you go over this morning?

Cochran: Surely.

Schwarz: I thought those stories on the financing this morning were all very --

H.M.Jr: Yes, I loved the way the New York Times plays them down. We get a good break from the Tribune. I hear it has gone through the roof already.

Bell: One twenty-three.

H.M.Jr: It is the best contribution I can make at this time, you know, with equinoctial storms. Did I say this was the cheapest bond issue? Did I use that word?

Schwarz: Cheapest money.

H.M.Jr: But I don't know anything better that I can do right now as a contribution.

Bell: They printed it and liked it.

H.M.Jr: Yes. I kidded Bell. I said I wanted to do this myself, because I wanted to use up all the adjectives I could before my successor came along and Bell said I didn't leave him one good adjective and the papers ran them, too. Free time in the press instead of on the radio.

Bell: The Post had it wrong in the heading. They said the Treasury would bear $1\frac{1}{2}$ percent. The article was all right, but the heading was wrong.

H.M.Jr: Philip?

150A

TREASURY DEPARTMENT
WashingtonFOR RELEASE, MORNING NEWSPAPERS
Wednesday, September 25, 1940.
9/24/40Press Service
No. 22-15

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of 2 percent Treasury Bonds of 1953-55, in exchange for 1-1/2 percent Treasury Notes of Series C-1940, maturing December 15, 1940. Exchanges will be made par for par, and accrued interest on the notes exchanged will be paid to October 7, 1940. The offering of the new bonds will be limited to the amount of maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Bonds of 1953-55, now offered only in exchange for Treasury notes maturing December 15, 1940, will be dated October 7, 1940, and will bear interest from that date at the rate of 2 percent per annum, payable semi-annually on June 15 and December 15, with the first coupon, however, covering the fractional period to December 15, 1940. The bonds will mature June 15, 1955, but may be redeemed at the option of the United States on and after June 15, 1953. They will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000.

The new Treasury bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular released today.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, and should be accompanied by a like face amount of 1-1/2 percent Treasury Notes of Series C-1940, maturing December 15, 1940, with final coupon due December 15, 1940, attached. The notes will be accepted at par, and accrued interest on such notes from June 15 to October 7, 1940, (\$4.672 per \$1,000 face amount) will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

Treasury Notes of Series C-1940, maturing December 15, 1940, are now outstanding in the amount of \$737,161,600. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The text of the official circular follows:

150C

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1953-55

Dated and bearing interest from October 7, 1940 Due June 15, 1955

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER JUNE 15, 1953

Interest payable June 15 and December 15

1940
Department Circular No. 641

TREASURY DEPARTMENT,
Office of the Secretary,
Washington,
September 25, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1953-55, in payment of which only Treasury Notes of Series C-1940, maturing December 15, 1940, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series C-1940 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated October 7, 1940, and will bear interest from that date at the rate of 2 percent per annum, payable on a semiannual basis on December 15, 1940, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1955, but may be redeemed at the option of the United States on and after June 15, 1953, in whole or in part, at par and accrued interest, on any interest day or days,

on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different

- 3 -

denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before October 7, 1940, or on later allotment, and may be made only in Treasury Notes of Series C-1940, maturing December 15, 1940, which will be accepted at par, and should accompany the subscription. Coupons dated December 15, 1940, must be attached to the notes when surrendered, and accrued interest from June 15, 1940 to October 7, 1940 (\$4.67213 per \$1,000) will be paid following acceptance of the notes.

- 4 -

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

- 7 -

Professor Chamberlain?

Chamberlain: No, nothing.

H.M.Jr: Got a good farmer for me?

Chamberlain: I haven't found one yet, but I will try to have a report on it shortly.

H.M.Jr: All right. Let's see, we are all clear, aren't we, I mean, you and I, Professor Chamberlain?

Chamberlain: Yes, I think we are, Mr. Secretary.

H.M.Jr: Professor Viner, are you going to have something for me this afternoon?

Viner: I think so, if Harry comes up to scratch.

White: Eleven thirty was it, or this afternoon?

Viner: Eleven forty-five.

H.M.Jr: Eleven fifteen for this group.

Viner: I will have together everything that Harry has done.

White: He will have something.

H.M.Jr: All together?

Viner: Yes.

H.M.Jr: One page?

White: Yes.

Viner: Yes.

White: I will carry out his instructions and he will have it. He outlined it last night and we are working on it now.

H.M.Jr: You have still got an hour and a half. Anything else?

- 8 -

Viner: No.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: White, just as a matter of interest, I see that the Maritime Commission has chartered two American freighters to go to Russia carrying wheat and general cargo. Is that something new?

White: From the West Coast?

Gaston: They have to get permits for charters.

H.M.Jr: From Seattle to Vladivostok. Is that something new?

White: No, they have been getting wheat right along.

Gaston: You mean - this particular transaction, I suppose, is new, but they have been granting those permits for charters before. You remember there was one to carry oil to Japan and Russia a few weeks ago.

White: And they have been purchasing wheat from the West Coast.

H.M.Jr: Then you are all set for your 11:15 meeting?

White: We will be set at 11:15.

I attended a meeting which I was asked to appear at of this Nitrate Subcommittee of the National Council of Defense. There were about a dozen men there and I think about 7 or 8 of them represented all the biggest nitrate industries in the United States. I think they are regular members of the Committee; I am not sure. We put the proposal before them and made it as strong as we could, but I don't know what success they will have. They are going to report back to us. A couple of them didn't approve of our South American policy.

- 9 -

H.M.Jr:

I see. We had a meeting this morning, strictly confidentially, at 8:30 of Army and Navy and Knudsen and Young, and I attended, and I think we have a very good chance of getting an additional thousand fighting planes by taking them away from the Army and Navy and giving them to the English immediately. They will be long-distance bombers. I am quite hopeful about it.

Last night it was interesting. I didn't have a chance to tell you this, Phil. I was on the boat with Colonel Knox and I got fed up all the way down with Lothian saying that this is our war. This is his new angle. This is our war. We decide what they can have and what they can't have and we make the policy, so it is our war, talking very blue and very hopeless about the whole thing, so somebody said about this meeting, "What is this meeting?" Well, the meeting is to try to get them another thousand bombers between now and spring and for the first time his face all lit up. "Oh, if you do that," he said, "There is a chance of our winning, we might win." I am having General Strong for supper tonight alone.

White:

That cable you gave me from Nicholson the other night, had you read it?

H.M.Jr:

No, I did not read it.

White:

Oh, you should. I will bring it right in.

H.M.Jr:

Give it to Miss Chauncey.

White:

It is worth reading. I assumed you had.

H.M.Jr:

I wanted to know whether it was worth reading.

White:

Yes, definitely. Particularly right now. It is a good exposition of what is happening in China.

- 10 -

H.M.Jr: Bell? Another good issue.

Bell: I think so, too.

H.M.Jr: Did the stuff get out to the bank?

Bell: Oh, I think so. I don't know, but they have got plenty of time. It isn't like a cash issue where they only have one day.

H.M.Jr: Any comments from the street on it.

Bell: No. There was one in the Tribune that was lukewarm, but I think most of the dealers expected a 2-1/4, either a reopening or a new issue 2-1/4.

H.M.Jr: There were no leaks this time?

Bell: No. It really didn't get up there until after the market closed. I talked to Rouse about 4:30 and he said he hadn't heard any comments from any dealer up to that hour.

H.M.Jr: No leaks. Will you be here at 11:15?

Bell: Yes, sir.

H.M.Jr: When we get the Viner report.

Thompson: Here are the papers for Mr. Pehle.

H.M.Jr: All right. Is that the same salary?

Thompson: Yes, same salary.

H.M.Jr: Tell Bell what I did to Pehle. Who is Pehle responsible to after he starts that?

Thompson: I suppose to Mr. Bell.

Bell: Well, up to this time I think it has been responsible directly to you.

H.M.Jr: Well, he becomes now Assistant to the Secretary.

Bell: Well, he would be responsible to you. I have

- 11 -

been signing most of the stuff that is going out as Acting Secretary. That is about all I have had to do with it.

September 25, 1940

4 p. m.

Present:

Mr. Henderson, of State Department
Mr. Atherton, of State Department
Dr. White

The Russian Ambassador } Arrived a few minutes
Mr. Jesse Jones } later

HM, Jr: Did you (Atherton) read our memorandum of the conversation we had last week?

Mr. Atherton: No. It has never come to me.

HM, Jr: You know? Mr. Welles has told you about it?

Mr. Atherton: Yes. I know roughly. What he told me this morning.

HM, Jr: And they called up and said they had an answer. I don't know what the answer is, so I am just going to listen.

Mr. Atherton: Well, you have someone who can do a great deal of talking.

HM, Jr: Well, he is smart.

Mr. Henderson: I wonder if you would outline it so we can be sure of what our proposal was, because we got it in a rather vague way.

HM, Jr: The proposal was -- you check me, Harry -- what we -- put it this way, that T. V. Soong had an idea

-2-

(that was Mr. Jones' contribution), that T. V. Soong had an idea (and when I looked back over my record, the President made that original suggestion to Soong and Soong told it to me when he had luncheon) that possibly if we bought some strategic materials -- we mentioned manganese, mica, platinum, some of those things -- from Russia for stock piles or other purposes that they, in turn, might furnish -- they, in turn, might sell additional munitions to China.

Mr. Henderson: With the exchange?

HM, Jr: With the money that we furnished to Russia. So they said how would they get paid for it from China? I said I take it they would be paid for it just the way they are being paid now.

Mr. Henderson: Mr. Oumansky wanted to know how we could pay for it? How China would pay the Soviet Union?

Dr. White: The Secretary said, "Well, those are matters that will be discussed."

HM, Jr: His answer was, "I don't think it is immodest for us to say that if it had not been for all the munitions we have furnished China, China would have to have stopped fighting a long time ago." And he also said, "I am not sure that money is the limiting factor as to how much munitions we furnish them." So we answered, "We have no idea whether it is or isn't" and I went on to say, "We have a mutual friend and we would like to help and I think we are both interested also in peace in the Pacific" and he said, "Well, of course, this is a three-corner triangle; between Russia and China there is very good friendship; I understand between China and the United States are coming along nicely, "but not too well," he said, "between the other two points of the triangle, a complete blank between Russia and the United States; things are going very badly."

Mr. Atherton. Did he say in the conversations which have been taking place that he had no instructions to continue?

-3-

HM, Jr: No. He did say, however, that he had offered to the State Department to sell them 800,000 tons of manganese during the past year and had been turned down.

That he had instruction to discontinue his conversations?

Mr. Atherton: In the conversations taking place in the State Department, we were waiting until Mr. Oumansky had instructions to continue the conversations.

HM, Jr: No.

Mr. Atherton: Was there any mention made as to any control or check on the deliveries from Russia to China?

HM, Jr: We said, "All we are doing is suggesting something which T. V. Soong has brought up. Does this interest your Government?" When he tried to press we were sort of vague. Had to be! Had to be!

Mr. Atherton: I have a feeling today he will tell us his Government cannot enter into an arrangement of that kind until we make certain steps.

HM, Jr: If he says that, then it is out of my hands and it's in the hands of the State Department.

Mr. Atherton: He may not say it. I think you have put him in a very good spot, myself, there; in a position where they show their hands or not.

HM, Jr: I personally can't see -- the way I feel, "Nothing ventured, nothing gained". I am not familiar with the details of your troubles with them, which I think is all to the good, but this idea is several months old, dating back to the time that T. V. Soong first came here and saw the President and it could go along without settling a lot of other things.

Mr. Atherton: Oh, yes. If the Russians are willing.

-4-

HM, Jr: And still the other differences could be up in the air.

Mr. Atherton: Yes. I think the barrier might be that the Soviet agreement with Germany and Germany's agreement with Japan, I think it puts the Russians into a rather difficult position to enter into an arrangement with us whereby they are taking a step which would be very badly considered in Tokio.

HM, Jr: Well, I am not supposed to think in terms of international policies, but I did have in the back of my mind that this is something that they might want to use against their arch enemy, Japan. After all, it might be timely.

(At this point, Mr. Oumansky and Mr. Jones came into the Secretary's office.)

HM, Jr: How do you do, Mr. Oumansky. You know these gentlemen.

Mr. Oumansky: Certainly! Certainly!

HM, Jr: I hope you don't mind the odds, but you are used to them.

Mr. Oumansky: Very glad to see all the gentlemen.

Mr. Jones: It's still unequal. Not enough of us.

Mr. Oumansky: I already made one statement on the record -- the supply of caviar is coming.

Mr. Jones: He has ordered that.

HM, Jr: Only for Mr. Jones?

Mr. Oumansky: Only for Mr. Jones.

HM, Jr: Wonderful! Well, that's fine! He also gets all the vodka?

-5-

Mr. Oumansky: This we have right here.

Now, Mr. Secretary, perhaps the statement I will make here will be in disproportion to this large conference.

Mr. Jones: (moving to the left side of Mr. Oumansky) I want to get my good ear next to you, because you may say something I want to hear.

Mr. Oumansky: I say, perhaps the statement I will make will be in disproportion to this large gathering, but here it is.

I have the authority to have the following answer on behalf of the Soviet Government to you. The Soviet Government is prepared to deliver to the Government of the United States the following raw materials: manganese, asbestos, platinum, chrome. Paranthetically on my behalf, it seems to coincide with the list you mentioned the last time with the exception of mica.

I come now to the questions which we discussed last time how, under the present circumstances, can you ship those goods avoiding the Suez and Gibraltar.

Mr. Jones: Avoiding

Mr. Oumansky: ... Suez and Gibraltar. The Soviet Government thinks there is a feasible route, having its difficulties but still it exists. We think that the Trans-Iranian Railroad can be used. I brought you a map.

HM, Jr: Oh, good!

Mr. Oumansky: Yours would cover it too, but I have it in more details on the map. At the same time, it should be taken into consideration that this route, which will be something rather new, has limited facilities. I will show you on the map the port of Bender-shah on the Caspian Sea, which has limited capacity, but still with trans-loading of the goods about 10 miles off shore to boats which are then being taken to the railway, this shipment can proceed.

-6-

HM, Jr: You would have to lighter them out?

Mr. Oumansky: That's right.

HM, Jr: Ten miles?

Mr. Oumansky: Ten miles off shore. The capacity of the Trans-Iranian Railway, linking the Caspian Sea with the Persian Gulf, from where a ship can go to San Francisco or Los Angeles, the capacity of that railway is limited, but the railway is a straight, straight line from sea to sea.

The Soviet Government, finally, does not link its preparedness to supply the American Government with those strategic raw materials, does not link it with, Soviet-Chinese trade; does not establish a connection.

HM, Jr: You use the word "preparedness".

Mr. Oumansky: Our preparedness to deliver to you.

Mr. Jones: "Willingness".

Mr. Oumansky: Willingness -- that's correct -- to deliver to you those strategic raw materials. We do not establish any connection between this and the Soviet-Chinese trade.

If you desire, Mr. Secretary, to see that on the map now

HM, Jr: I do, very much.

Mr. Oumansky: As a matter of fact, a month ago, in a private talk with the Iranian Minister here, very privately, very academically, we discussed the same matter and at that time I thought it might be practical.

(Pointing to the map) Baku - Bender-shah - railway - Persian Gulf. Distances are very short. This, of course, is main manganese deposit - Porti. These facilities are simple. This is simple.

HM, Jr: What's the name of this port?

-7-

Mr. Oumansky: B-e-n-d-a-r -- s-h-a-h.

This is a newly completed railroad. In distance, not so long; in capacity, limited.

Mr. Jones: How long? What is the mileage?

Mr. Oumansky: I would hesitate to tell you that correctly. Roughly, 550 miles. 600 miles, perhaps.

This is my message, Mr. Secretary.

Mr. Jones: Where would the other materials be?

Mr. Oumansky: Raw materials? Asbestos comes from Urals and platinum, the same region. The closest port is Mariople, which is here. Chromium, I don't know. Perhaps Mr. Henderson, who knows my country so well

Mr. Henderson: Most of it comes from Urals.

Mr. Oumansky: Then most of it from Urals, which would make shipment then rather simple. Going the same southern direction.

HM,Jr: Well, I think it is very interesting.

Mr. Oumansky: Some further investigation by yourself about the state of this railway, which is probably easily available, will complete the picture.

So, Mr. Secretary, as you see, I was wrong in being skeptical about the possibility to deliver to you, or rather not to you, about all those raw materials being available. I was not wrong in assuming that we would prefer to treat this deal independently from the normal course of the Soviet-Chinese trade. So in one thing I was wrong and in the other, relatively right, but what I said on my own behalf is not so important than what I say to you now officially on behalf of the Government.

HM,Jr: Well, what I would like to say, unless Mr. Jones has some other idea, is I would like to have

-8-

time to consider this and to give your message and have these gentlemen report this conversation to the Secretary of State, and after we have had a chance to talk it over, we will get in touch with you further.

Mr. Oumansky: Very good!

HM, Jr.: Is that all right with you, Jesse?

Mr. Jones: Yes. As I see it, it resolves itself down to the point of your being in position to sell us these raw materials.....

Mr. Oumansky: That's correct.

Mr. Jones: if we want to buy them.

Mr. Oumansky: That's correct.

Mr. Jones: It would have no connection with any other trade.

Mr. Oumansky: That's correct.

Mr. Jones: Simply a question of buying and selling.

Mr. Oumansky: Emphatically!

HM, Jr.: One thing, Mr. Ambassador. Mr. Henderson just gave me a note that we might also be interested in flax. If you could add that to your list.

Mr. Oumansky: Very good.

HM, Jr.: I did not know about that. Flax, which you grow in your country.

Mr. Oumansky: Yes, we do.

Mr. Jones: You grow flax?

Mr. Oumansky: Yes, sir.

Mr. Jones: In large quantities?

-9-

Mr. Oumansky: Yes, sir.

HM,Jr: Would you want to ask any questions?

Mr. Henderson: No.

Mr. Atherton: No.

HM,Jr: Harry?

Dr. White: No.

Mr. Jones: Except how much of these materials would be available of each different material?

Mr. Oumansky: This information I do not possess and I think that question will come from there right away and that is, how much you need. So if you have this information I will convey it.

HM,Jr: Thank you very much, Mr. Oumansky.

(At this point, Mr. Oumansky left the conference.)

HM,Jr: Well, they always do the surprising thing, don't they? I don't know how Mr. Jones feels, but you might, in view of my conversation with Mr. Hull yesterday and talking for myself, I wish you gentlemen would report this back and if Mr. Hull would advise me what he thinks the next move is, why I will simply bide my time until I hear from him.

Mr. Jones: Whether or not we would be interested in buying this material from Russia.

HM,Jr: That's right. I would like Mr. Hull to advise me.

Mr. Jones: That's right.

HM,Jr: Here is Mr. Hull, who is Secretary of State, and here's a chance to buy the thing with no strings. I

-10-

mean, he did not bring up a lot of misunderstanding -- I did not know they had broken off conversations; that I did not know. Now they come back, all the differences that they had they don't raise them and they say "we will do business" and I think it is perfect.

Mr. Jones: It's all right.

HM,Jr: If Mr. Hull wants to do business. I don't know how you feel, Henderson, but I think it's perfect.

Mr. Henderson: I have some doubt that when we start negotiating, they will then start laying down certain conditions under which they will sell. I don't want to be a pessimist, but my experience teaches me that they will make this broad gesture and when we start details of the negotiations they will say, "of course we will sell this to you, but the conditions are as follows" and hand us the conditions. They may be reasonable, such as we can accept; on the other hand, they might not.

Mr. Jones: That is not serious.

Dr. White: When you mention quantities it will give them an opportunity.

HM,Jr: I am quite bucked up.

Mr. Henderson: I think it is very interesting to know they have taken this very definite position.

HM,Jr: And everything you have said before and the fact they are willing to do this at this time would be very encouraging. I should think Mr. Hull would be tickled to pieces at this time to be able to draw closer to Russia, but he has to decide that.

Mr. Jones: That's correct.

I should like a little memo of the different materials they said they would have.

HM,Jr: I gave it to you, Jesse.

-11-

Mr. Henderson: He laid his stress on manganese.

HM, Jr: And asbestos.

Mr. Henderson: But manganese was obviously the thing he felt

Mr. Jones: That's the one they have the biggest supply of. Easiest thing they can sell.

Mr. Atherton: Manganese, they ought to be able to get rid of because they have more than they can get rid of in Europe and it means credit.

Mr. Jones: That's the thing we need the least of.

Mr. Atherton: We need manganese very badly.

Mr. Jones: We are getting it.

HM, Jr: Henderson, let me ask you a question which you do not need to answer if you do not want to. If you feel at all embarrassed, you need not answer. If the decision rested with you at this time, you know all the background; I don't -- do you think it would be good business if we simply overlooked everything and said, "all right, we will overlook everything and do business"?

Mr. Henderson: This is my personal opinion. I think if we need something from them that they have to sell, I don't see any reason why we should not go ahead and buy it if they will sell it. It seems perfectly good business and I think Mr. Hull and the State Department will agree, but I can't speak for them.

HM, Jr: You answered my question.

Mr. Jones: May I ask one. Is there any reason why we would rather buy from them or some other source?

Mr. Henderson: No. Not that I am aware of.

Mr. Atherton: I very definitely agree with you on that more particularly than the first question.

-12-

Mr. Henderson: The first is personal.

Mr. Atherton: The first one, there is no reason why we should not buy from them.

Mr. Jones: No diplomatic reason?

Dr. White: No diplomatic disadvantages?

Mr. Henderson: No diplomatic disadvantages in buying from them and as far as purchasing from them I can see no harm.

Mr. Atherton: We agree perfectly.

HM, Jr: Let me ask you one, just as the man in the street, and this is what is going on in my head. If it came out in the next day or two that Mr. Jones had just closed a deal with Russia for raw materials, when Mr. Hull was moving heaven and earth to do things to make Japan stop, look and listen -- he has these various things that he is doing that I know of -- and if in the next few days it should come out that Mr. Jones has closed a deal with Russia for raw materials, wouldn't the reaction be what Mr. Hull desires -- to make Japan hesitate if they thought Russia and ourselves were getting closer together?

Mr. Henderson: May I answer that on my own belief?

HM, Jr: Please.

Mr. Henderson: I think you will find that Soviet Russia -- and I should like this to be off the record.

(All further remarks were not recorded.)

oOo-oOo



Regraded Unclassified

Rio de Janeiro, Brazil, September 25, 1940

No. 3637

Subject: Dollar Account Of The Italian Government In
The Bank Of Brasil.

(C O N F I D E N T I A L)

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Embassy's despatch No. 3420
of August 14, 1940, regarding the dollar account of the
Italian Government in the Bank of Brazil, I have the
honor to report that the deposit now exceeds \$6,200,000.
No withdrawals have yet been made.

Respectfully yours,
For the Ambassador:

File 851.6
WJD:KF.

William C. Burdett,
Counselor of Embassy.

A true copy
of the signed
original.

eh

COPY

PARAPHRASE

439. September 25, noon, from Buenos Aires.

The Minister of Finance yesterday afternoon asked Pierson whether the Export-Import Bank would be interested in taking over pound sterling and Pierson replied in the negative.

TUCK

STRICTLY CONFIDENTIAL

RA:AED:CZS

eh

COPY

TO THE SECRETARY
OF THE ARMY
WASHINGTON
SEP 26 1945
RECEIVED

PARAPHRASE

440, September 25, 1 p.m., from Buenos Aires.

From Pierson.

I would appreciate being informed whether arrangements have been completed to acquire South American wool and Hides and whether, if so, I am authorized to inform the Minister of Finance at this point.

TUCK

TO THE SECRETARY
LEGATION WASHINGTON
FROM THE
OFFICE OF THE

SEP 26 1940

RECEIVED
THE LEGATION OF THE
UNITED STATES

September 25, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

V.S.

I succeeded in getting General Watson on the phone today and reported to him what we had heard from Magruder. He said he hadn't any definite instructions but he understood that Sumner Welles had talked to the President. He agreed that it would be all right for us to drop the matter unless we heard from him further. He said he understood that it wasn't practical to give Magruder a promotion and I said yes, that was the case, that Magruder had his business connections in Baltimore and that it wouldn't be possible to offer him anything in Washington which would be attractive.

September 23, 1940.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

I succeeded in getting General Watson on the phone today and reported to him what we had heard from Magruder. He said he hadn't any definite instructions but he understood that Sumner Welles had talked to the President. He agreed that it would be all right for us to drop the matter unless we heard from him further. He said he understood that it wasn't practical to give Magruder a promotion and I said yes, that was the case, that Magruder had his business connections in Baltimore and that it wouldn't be possible to offer him anything in Washington which would be attractive.

HEG/mah

G-2/2657-220

RESTRICTED

No. 203

SITUATION REPORTM.I.D., W.D.
September 25, 1940.
12:00 M.

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

I. Western Theater of War.

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

German planes were active in large formations over southeast England during daylight of the 24th, attacking ports and communications. The London area was relatively quiet. Liverpool and Cardiff were also attacked. Cambridge was also bombed, perhaps in retaliation for the bombing of Heidelberg.

During the night of the 24th-25th the Germans again concentrated on the London area. The raids, by single planes and small formations, were reported as the heaviest to date. Extensive use was made of aerial torpedoes, large, thin-walled, instantaneous-fuzed bombs, acting primarily by blast effect.

The R.A.F. made night attacks on the Channel ports and conducted a prolonged raid on Berlin. All these attacks were unusually heavy.

II. Mediterranean and East African Theaters of War.

1. No ground operations reported.
2. The R.A.F. raided Italian communications along the Mediterranean, a particularly heavy attack being launched against Tobruk. The Italians did not mention their own air activity in Egypt but reported sporadic raids in East Africa.

III. Dakar.

The British fleet again bombarded Dakar on the 24th and apparently attempted a landing which seems to have been repulsed.

RESTRICTED

RESTRICTEDIV. Far East.

Fighting around Lang Son, on the Chinese-Indo Chinese border, which broke out between Japanese and French forces on the 22nd-23rd and lapsed on the night of the 23rd-24th, was resumed on the 24th. The Japanese have not yet attempted to land on the coast of Indo-China. Negotiations are continuing concurrently with the fighting. The situation is confused by the tenuousness of the control exercised by the Vichy and Tokyo Governments over their commanders on the spot. It is still possible that an agreement covering the introduction of Japanese forces into Indo-China may be reached, but the chances of such an outcome are diminishing.

RESTRICTED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In talking with Mr. Lochhead by telephone today, the question came up as to a possible further loan to China by the Export-Import Bank against tungsten. After the experience of some weeks ago in which metals were purchased from China through agencies other than the Universal Trading Corporation, Lochhead is concerned lest there might be some new arrangement under present negotiations. He hopes the Secretary may see fit to suggest to Mr. Jesse Jones that the new transaction be made through the Universal, as preceding ones have been made. Mr. Lochhead and Mr. Ren are coming to Washington tomorrow.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 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 German accounts maintained with the Chase National Bank.

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 24	\$1,000,000	Deutsche Gold Discount Bank	Stockholms Enskilda Bank, Stockholm
September 24	550,000	Reichsbank	"



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Today's transactions in registered sterling by the six reporting banks were as follows:

Sold to commercial concerns	£122,000
Purchased from commercial concerns	£ 6,000

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

In the open market, sterling advanced steadily from 4.04 at the opening to 4.05 at the close. It was reported that a few £10,000 transactions were executed between banks at the higher levels. One New York bank, which owed sterling to another bank on a maturing forward contract, explained that it was reluctant to obtain free sterling at 4.03-1/2 from the British authorities in view of the difficulty in procuring or guaranteeing the name of the ultimate beneficiary. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£46,000
Purchased from commercial concerns	£21,000

The Canadian dollar continued to improve and closed at a discount of 14-3/8%, as against 15-1/4% yesterday.

The New York market quotes actual rates for the "free" Argentine peso, although the volume of business transacted here is very small. About mid-September, the rate was .2365. Since that time, it has moved downward and yesterday, the rate was .2288. Today, it recovered to .2315. There is no peso rate in New York which approximates the official dollar-peso level quoted in Buenos Aires. Similarly, New York quotes only the free rate for the Brazilian milreis, and this has remained at .0505 for some time. Practically no milreis business is transacted here.

The other currencies closed as follows:

Swiss franc	.2284
Swedish krona	.2383
Lira	.0505
Reichsmark	.3995
Mexican peso	.2040 bid, .2083 offered

We purchased \$52,228,000 in gold from the earmarked account of His Britannic Majesty's Government.

- 2 - CONFIDENTIAL

The Federal Reserve Bank of New York reported that the Bank of Canada was shipping the following amounts of gold to it from Canada:

\$50,000,000 to be earmarked for account of His Britannic Majesty's Government.
5,117,000 for account of the Bank of Canada, for sale to the U. S. Assay
Office at New York.
\$55,117,000 Total

The State Department forwarded to us a cable stating that the Yokohama Specie Bank, Osaka, shipped \$3,049,000 in gold from Japan to its San Francisco Agency, for sale to the U. S. Mint there.

The Bombay gold price advanced the equivalent of 5¢ to \$33.96. Silver was 1/8¢ lower at the equivalent of 44.56¢.

The prices fixed in London for spot and forward silver were both unchanged at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made three purchases of silver totaling 359,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and the remaining 234,000 ounces consisted of new production from foreign countries, for forward delivery.

B. M. K.

September 25, 1940
10:08 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull is coming on.

Cordell Hull: Hello.

H.M.Jr: Cordell, Henry talking.

H: Yes.

H.M.Jr: Now, I've just got a message from the Russian Embassy that the Ambassador wanted to come in and see me this afternoon and I wanted to ask your advice - what you think I ought to do.

H: Well, I would like to - I asked Sumner to work with you on any of those things.

H.M.Jr: I'll do anything that you suggest.

H: Well, suppose I speak to Sumner and ask him to work with you on anything that way.

H.M.Jr: Fine.

H: All right. I'll get in touch with you.

H.M.Jr: And then I'll hear from either you or Sumner?

H: Yes, you'll hear from him right soon.

H.M.Jr: All right, then. Well, whatever you advise me I'd like to do.

H: Well, thank you so much.

H.M.Jr: All right.

September 25, 1940
10:31 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello, Sumner.

Sumner
Welles: Good morning, Henry. Mr. Hull gave me a message and asked me to call you.

H.M.Jr: Yes.

W: What is there that I can do to be of any help?

H.M.Jr: Well, what I called up about was this - I have a message from the Russian Embassy that they want to come down. As I told Mr. Hull, I'd like the State Department to advise me what they'd like me to do about it.

W: Well, I think that'll depend, don't you, Henry, on the nature of the reply that he has to make to you.

H.M.Jr: Yeah, but I mean, do you people want me to see him?

W: Oh, I think of course you have to see him in view of the developments. Would you like me to send someone over there to be there when you're talking with him?

H.M.Jr: I would.

W: I tell you what I'll do, I'll ask the Chief of the European Division, Ray Atherton, to go.

H.M.Jr: Right.

W: He's been sitting in at all of the conferences I've had with Oumansky and thoroughly familiar with all that side of it and while there's no need for him to say anything, I think he probably could be helpful to you after the meeting if there is any question you want to ask.

- 2 -

H.M.Jr: But - I mean, so that I don't misunderstand - the State Department would like me to see him.

W: Certainly, Henry, in view of the fact that the matter has been taken up and that he's to give you a reply. I don't see where there's any question about it.

H.M.Jr: O. K.

W: What time will you fix.

H.M.Jr: Well, I was going to fix 4 o'clock.

W: 4 o'clock. Well, I'll tell Ray Atherton to be present in your office at 4 unless he hears to the contrary.

H.M.Jr: And if he could be here a few minutes earlier

W: About 10 until four.

H.M.Jr: Oh, I mean two or three minutes ahead.

W: Yes, indeed. All right.

H.M.Jr: And then we'll see what he has to say.

W: All right, Henry.

H.M.Jr: And I'm getting ahold of Jones and asking him to be here also.

W: Fine.

H.M.Jr: Thank you.

W: Not a bit. Thank you. Good-bye.

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 6:55 a. m., September 25, 1940

Belgrade, filed 20:15, September 24, 1940.

It is the belief of the Chief of Intelligence, Yugoslav Army that little if any resistance to an Italian invasion would be offered by Greece. It is believed that the main deterrents to Italian action are:

Non-acquiescence by Hitler.

Fear that strategic points in Greece might be seized by England.

With reference to this I am reliably told that this country has organized a southern group of armies. It is composed of the 3d and 5th armies. It is commanded by the brother of the present Secretary of War, Gen. Milan Nedie. Its headquarters is now at Belgrade but it will move to Skoplje. It has a dual mission: (1) To prevent junction of Italian and Bulgarian forces in the event of war; and (2) to attack towards the south if Saloniki is threatened by an Italian offensive.

The above data on the southern group of armies has been confirmed, with the exception of the second mission, which seems ambitious.

The foregoing has reference to the final two sentences of paragraph 2, telegram No. 998 from the Legation.

FOURTE

Distribution:

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

CONFIDENTIAL

154

CONFIDENTIAL

Paraphrase of Code Radiogram Received at the
War Department 3:34 p.m., Sept. 25, 1940

London, Filed 18:06, September 25, 1940

1. During the night of September 24-25 the Royal Air Force dispatched 120 bombers against four enemy harbors and neighboring railroad yards on the Continent and against two power plants, one of which was in Berlin. One plane was lost. The Coastal Command carried out its usual activities with no losses.

2. During daylight hours of the 24th Germany carried out two large scale raids on Southeastern England, the first with about 200 and the second with about 180 bombers; and two attacks of about 50 planes each on Southampton and areas to the north thereof. The principal targets were in Kent and Sussex. The main night attack, which lasted all night, was against London.

3. In London four fires were started that did considerable civilian but no military damage; there were 30 casualties on the platform of a railway station, and a motor works was hit but production was not affected. In Ilford the factory of Plessey and Co., manufacturing airplane fabric, was somewhat damaged. In Southampton an air raid shelter was hit, as was an aviation plant (possibly that of the Supermarine Aviation Co., manufacturing Spitfire fighters - G-2), resulting in casualties but not interrupting production. Railroad lines in the vicinity were blocked. In Brighton 100 houses were destroyed or damaged, utility mains were broken, and 50 casualties resulted. In Luton unexploded high explosive bombs fell in the grounds of an aircraft factory. In addition, there was the usual sprinkling of bombs all over England.

CONFIDENTIAL

CONFIDENTIAL

4. German plane losses were seven confirmed, eight probable and 13 damaged. The British lost five planes and two pilots. During the night of September 23-24 civilian casualties in London were 140 killed, 350 seriously and 200 slightly injured.

5. Bombardment at Dakar was resumed on the afternoon of the 24th with no apparent effects. French aerial bombardment of British warships is increasing. At Gibraltar 55 out of a total of 150 bombs struck ashore. The power plant has been crippled temporarily. There is no change in the situation in Egypt.

6. There is no new information of enemy plans of invasion.

7. Three merchant ships totalling 19,200 tons were reported lost. In a public speech the Minister of Shipping stated that British shipping losses during the fiscal year amounted to only eight per cent of the pre-war British merchant fleet; and that these losses have been made up by new construction, purchases, and captures of enemy vessels. He claims that in spite of the slow speed of convoys and the longer routes the British can meet all cargo needs.

8. The following is from an authoritative source: The Admiralty is very much disturbed over the sinking of ships in convoy. The concentration of naval vessels to repel the threatened invasion results in a less effective protection of convoys than desirable. The need for long range flying boats for anti-submarine patrol in the North Atlantic is becoming increasingly acute. General de Gaulle commands the French elements only and not the entire force operating at Dakar. Due to poor communications the situation there is obscure but it is known that the 10,000-ton cruiser CUMBERLAND was badly hit.

CONFIDENTIAL

9. Colonel Scanlon, Assistant Military Attache for Air, concurs with me in the recommendation that the previously accepted estimate of the strength of the German Air Force be reconsidered. We have been skeptical all along of the vast air armada credited to Germany but it certainly seems that the intensity of the enemy operations during the past month would have been doubled or tripled if such a force was available. Is Germany's rate of aircraft production paralleled by production of instruments and engines? If this large number of German planes actually exists there must be a shortage of pilots or of oil and gasoline. It is suggested that we have been the victim of a big German fairy tale.

LWS

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

CONFIDENTIAL

→

RE BRITISH BALANCES

September 25, 1940
11:15 a.m.

Present: Mr. White
Mr. Viner
Mr. Haas
Mr. Cochran
Mr. Bell

H.M.Jr: What is the matter? You all look down.

White: I didn't know they looked down. I approached this with great trepidation.

H.M.Jr: Are you afraid you are going to catch hell?

White: Yes.

H.M.Jr: Do you deserve it?

White: Well, I have got alibis.

H.M.Jr: Why, are you introducing the Einstein theory?

White: Well, it is a problem. Of course, investments will never reach --

H.M.Jr: Are you going to give Professor Bell a copy?

White: I am looking for one now.

H.M.Jr: Now, they lost 456 of gold from June 30, '40 to July 31 - they lost 184. In the next month they lost 262, is that right? Official dollar balances. Plus 68, minus 26, plus 34. Private dollar balances.

Bell: The balance might be part of the 262?

White: What was that?

Bell: The dollar balances are plus in, say, August?

White: That is this last month. The next time - this is a preliminary table. We will improve

- 2 -

it. We will make cumulative changes from that date, and that 34 means they have got 34 more dollars - they have sold some gold.

Bell: That is what I mean, it is part of the 262, it could be, because it went down and they sold the gold and increased their dollar balances.

White: That is right.

H.M.Jr: But the plus 34 is plus from when?

White: July 31. The next time we do this table over - this is just a sample - we will make it cumulative.

Viner: Show the month to month changes and cumulative change.

H.M.Jr: Now, American securities. This is what they have taken over?

White: This is what they are supposed to have, yes. Face value.

H.M.Jr: You mean to say that the market value is only about 50% of the face value?

White: That is what they estimated. They say they have about 100 million that aren't salable at all and --

H.M.Jr: Well, now the thing that I am missing here is this: What are their net assets as of August 31?

White: Well, if we want a total of the class one assets, which we will have - in the next column there will be a total of that - it is about a billion four hundred million.

- 3 -

H.M.Jr: Now, what do you add, 998 --

White: 998, 116 - I think the 286 ought to go over into the class two, because they claim they can't liquidate those assets, at least --

Bell: Well, you have got a --

H.M.Jr: Well, anyway, 998, 116, 286 and 605?

White: 605, yes, that is the market securities.

Bell: A billion eight.

White: About two billion --

Viner: Subject to reduction.

Bell: They said they had only sold 70 million dollars worth of securities. It is more than that, isn't it?

Cochran: No, in July and August it has been down pretty low.

H.M.Jr: About two billion dollars?

White: That is minus what they feel they can't get along in the dollar balances, which is 286, minus what they feel they can't get along in gold, 600 million. They said they had to have 600 million. And minus on the American securities what they can't sell. I think that figure is pretty low, since George says the value went up probably ten points or moved up.

Bell: There is about half of the two billion that they claim they need or can't sell or dispose of.

- 4 -

White: That is right; that would be approximately right. Now, they have in addition to that some gold in hoards, private hoards, and some gold hoarded by individuals of foreign countries, and of course the gold which is on earmark with them by France and others. The private hoards, in my opinion, probably amount to a few hundred million, one way or the other. Whether they will be able to get it all, I don't know. In addition to that, they have these direct investments in the United States, which we will have a complete study of.

H.M.Jr: When?

White: Within a week.

H.M.Jr: Oh, Harry.

White: Well, those figures aren't --

Viner: They are probably on thousands or hundreds of cards over at Commerce.

H.M.Jr: I just thought you could press a button and have it.

White: Well, you can press a button and I will give you a book, but it isn't in the book. We thought we had about everything, but we didn't go into any details on that.

H.M.Jr: Gentlemen, look at that rain!

White: And we didn't go into any details on the specific holdings of the British investments abroad, although we have got some of them in Latin America. They have somewhere around 15 billion dollars face value, or value as of pre-war securities.

- 5 -

H.M.Jr: Just a second. Let me get this thing here. As of September first - you see, I would like to really have two figures. Just make a note. I would like to have two figures; one, I would like to run my eye - I will put it this way. Their total assets as of September first are two billion dollars, of which --

White: No --

H.M.Jr: Wait a minute; let me finish my sentence.of which they say they can spend "X" amount.

White: Right.

H.M.Jr: So, I mean, you would have two billion dollars, of which so much of it is expendable.

White: Except I would call them class one assets, because they have other assets.

H.M.Jr: All right, but what I would like to get is - I would like to have it this simple, if you can. Here is two billion dollars that you tell me they have, of which they say they can let it run down to an irreducible minimum of - I don't know, of what?

White: They say 600 million on gold, 200 million on private balances, or 800 million, and if they can sell all the securities, American-held securities, then that is the minimum, 800 million.

H.M.Jr: What do you mean? Then they have got a billion two hundred million dollars.

White: In my estimate, they have got a billion three.

- 6 -

- H.M.Jr: That is unimportant. All right, now just for the purposes today, they have a billion two hundred million dollars that they can still spend.
- White: Of the quickest assets.
- Bell: Oh, no. Of gold?
- Viner: That includes securities and they are not salable.
- White: But they don't need a billion two tomorrow. They are salable over a year or two. They can't spend that much money. Sure, they are not salable tomorrow. Neither is --
- Bell: I wonder if there could be two additional columns under one and two?
- Viner: That would be 25 million dollars of sales in the New York market a week.
- H.M.Jr: Well, I still, for this purpose, am saying in my mind - I want to carry these figures - they have got about a billion two hundred million of gold, and what other assets now?
- White: Now, shall I enumerate the assets which they have? They have investments in plants, direct plants here and companies which the Department of Commerce estimated at the beginning of the war as being about 800 million, 850 million. How much those are worth - they had to sell them - some of them are excellent. I would judge they could raise half a billion on that without much trouble, given a year, but that is not included in this figure.
- Bell: Well, it is not in the billion two. It is in the billion three.

- 7 -

H.M.Jr: That is all right, but the point - you see, they have done nothing about that.

White: No, they haven't.

H.M.Jr: Now, what else have they got?

White: Now, the next thing that they have are security holdings of Latin American countries. They had about five billion par value. Some of them are very good. A few of them are very good in the Argentine. The bulk of them are poor. How much they could sell them for is - they think for a negligible amount. How much they could borrow on it depends on what kind of an arrangement you would set up. They say, and Jake says here, that they are not worth anything. I don't agree with that at all. If you offered them - I think they would be very reluctant to sell all their Latin American holdings for a billion dollars or half a billion dollars to a billion.

Viner: When I say that, I say their liquidation value is practically zero.

White: I think you are right in saying if you dump any amount of large securities on the market --

H.M.Jr: I would like - do you mind - I am getting off the track. Let's use round figures. A billion two hundred million dollars are fairly liquid.

White: Yes.

H.M.Jr: Five or six hundred in American plants?

White: American investments.

- 8 -

Viner: Participation in shares, and so on.

White: Real estate.

H.M.Jr: I would say a half a billion - a billion seven, and then what other things have they got? South America?

White: They have got five billion par value of Latin American securities. How much those are worth --

Bell: You didn't include in that, Mr. Secretary, half a billion of American securities.

H.M.Jr: Yes, I did.

White: Yes, he did. Now, are you all through with Latin America?

H.M.Jr: Yes, but I mean this oughtn't to be so complicated. I keep pushing you fellows.

White: Give me another couple of days and I will have it.

H.M.Jr: How much are they spending a month, George?

White: Before that, can I give you their other assets?

H.M.Jr: Yes, go ahead.

White: They have over three billion dollars worth of securities and direct investments in Canada.

H.M.Jr: All right.

White: Almost four billion, as a matter of fact. They have, over the rest of the world, gold mining stocks, oil stocks, and things of

- 9 -

that sort. They have got what was valued at, in 1938, outside of the Western Hemisphere, almost ten billion dollars.

H.M.Jr: Of --

White: Of securities and direct investments. Mostly securities. Some of those, of course, are worth nothing in the Near East.

H.M.Jr: Are you through?

White: Just one more. Then they have got the real property islands in the Western Hemisphere.

H.M.Jr: Well, which comes back to what I have been trying to get for their sake and our own sake, is to have them place more of their orders in Canada, and I can't get that across. I mean, if they build up there, then let them pay for the stuff up there. They have got to get more engines up there and throw more of the business up there.

White: And let them pay Canada in their investments in Canada.

H.M.Jr: Yes, and it is good for Canada.

Viner: The question is whether there is whether there is any more unused capacity up there.

H.M.Jr: I have been there, Jake. For instance, it is a case in point. It all moves slowly. They want to sign a contract with Pratt & Whitney to build airplane engines in Canada. Now, I would be for it. Well, some of the machine tools would have to go up there. All right, they will pay us the cash. Let them go up there and build the engines and build them another plant and then they are

- 10 -

not all the time on our necks, but you see they have got nothing up there, I mean, to speak of, and I think it is a mistake that we don't let some of these machine tools that they are fighting over, instead of going to England, say we will let them go to Canada.

Viner: What is their capacity, including skilled labor, available? On any such thing, from 30 to 45% of the Canadian cost would have to be spent on imports from here and then the Canadians would have the problem of their balance in the United States.

White: The Canadians have additional assets. These are only English assets.

H.M.Jr: I think as a policy we ought to be able to shove some of the stuff up there. I want to get this figure in my mind. Just don't show me the figures. What are they spending a month?

Haas: In August, they spent 182 million, and in September, they are estimating 184; October, 156; November, 142; December, 108. For the ten months including September, I just made a rough calculation here. It will average about 100 million a month. Evidently toward the end, in the spring and summer of next year, their expenditure estimates are lower than they are at the moment.

White: What he is giving you is just Government expenditures. The total are here.

H.M.Jr: Let me have those.

White: Those are just Government. These are the totals and Government. The first column is the total.

- 11 -

H.M.Jr: The first column is what?

White: Total expenditures.

H.M.Jr: How do you get those?

White: Well --

H.M.Jr: I see. Well now, wait a minute. This 40 and 183 - I see.

White: Now, they are going to give us some additional information this month which will enable us to keep up part of that column. They have already given us some. They are going to give us what everybody else but the Government spends here. We've had estimates. They said they were going to give them to us in the last cable.

H.M.Jr: Well now, the 223 is a figure that - when I am talking about a billion eight or something like that --

White: Yes.

H.M.Jr: That is all included?

White: That is the foreign exchange they have to have.

H.M.Jr: Well, at this rate they can - they will have to send somebody over here to talk about this thing.

Viner: Pretty soon.

White: And that is this table here, which I haven't completely filled out, is how much they need and how they are going to get it.

- 12 -

Viner: I would count also on this air attack eliminating supplies over there which they will have to quickly replace by imports, that it will increase their needs.

H.M.Jr: Well, 225 a month, ten months.

Bell: Include the two and a half billion there.

H.M.Jr: Sir Frederick Phillips didn't lead us astray any, did he?

Cochran: No, he was too conservative, almost, wasn't he?

Bell: He said a billion six, didn't he, by June 30?

Viner: You see against this two and a quarter they have some --

White: They get gold --

Viner: And some American imports, not much, exports to the United States.

White: That will be that last table that will show how much they will need and where they can get it and how much they will have to borrow if you want to let them --

Bell: I should think these government expenditures would increase rather than decrease over here because --

Haas: You see --

Bell: Aren't their plants being destroyed over there?

Haas: That table is based upon contracts now placed in the United States.

- 13 -

Viner: They will be giving new orders.

Bell: That is the trouble. It is the contracts now that are being liquidated out at the end. When they get out here, they are going to enter into more contracts.

White: We have their estimate on how much they are going to need next year. It will unquestionably be greater next year.

Cochran: They are selling us gold, Mr. Secretary, at the rate of about 225 million dollars a month, and at the present rate in the first week of November they will be down to 600 million, considering their minimum.

H.M.Jr: If that is what they are doing, that checks exactly - I have got a figure here of August, 223, total payments to the U. S. Is that an accident that that is the same as the gold?

Cochran: No.

Viner: It is an accident.

Cochran: It is an accident, yes.

White: Are you allowing for the gold they are going to get, too?

Cochran: Yes.

H.M.Jr: What do you mean they are going to get?

Viner: From South Africa.

Cochran: 40 million dollars a month.

H.M.Jr: That is an accident, then?

- 14 -

Viner: It is a coincidence.

White: What did you say, 40 million a month?

Cochran: Yes.

Bell: They ought to come out pretty well.

H.M.Jr: The gold --

Bell: The gold is the balancing item there. It ought to come out pretty close if the figures are correct.

White: Yes, I have got a very good idea of what you want on a couple of tables. If I get just a couple of more days, I can get it.

H.M.Jr: I'm not giving you hell. I'm disappointed that the stuff wasn't done for me, but there is no use crying about it. I think we have made a start, don't you, Jake?

Viner: Yes, surely. I think that this sort of thing, the form in which the question is put, is what will have to determine the form in which the statement is made to you, and next week you will want it, or next month you will want it, and rightly, in some other form, and then it will take a few days to get that arranged, but I think it is important that the data be centralized here and that there be current material kept up from now on, because this is going to be one of your major problems for the next few months and every figure ought to be - somebody ought to be put at work just to keep on watching these figures, seeing if they can improve them and get more data.

White: Well, that is what we have been doing.

- 15 -

H.M.Jr: Have you got enough help, Harry?

White: Yes, we have been doing that, but the fellow who is keeping this work up left us about three weeks ago and I didn't put anybody else on.

H.M.Jr: Who was that?

White: Hooker went to the State Department.

H.M.Jr: He went to the State Department? Have you got anybody to take his place?

White: He got more money and they offered him Civil Service.

Viner: He wasn't a great loss.

H.M.Jr: He wasn't?

Viner: He was a good man, but not spectacular.

H.M.Jr: I'm asking now, have you got enough help?

White: Oh yes. There is no alibi, at least no good alibi. Of course, this is also true, that we got all the data, most of the data. The data that I haven't got is the data they wouldn't give me at the time, and we didn't want to press them. What we give you in tables depends upon what question you ask.

H.M.Jr: It is very simple. The only thing that you seem to have left out, what about French gold in Canada?

White: We have got the figures, but we haven't included it in their assets.

Viner: Is it available to them?

- 16 -

Bell: If they keep on firing down there at Dakar, I should think they might take it.

White: The answer is, in my opinion, that if the British Government were up with their back against the wall and if they wanted to fight and if they - the only thing that stood between them and continued fighting was assets, I believe they could put their hands within a year on something like six or seven billion dollars of assets, but I can't get anybody to agree with me.

Viner: In American Dollars?

White: Yes, sir.

Viner: No.

Bell: They could get that gold down in Martinique.

White: If they could get that, they could get the gold at Canada, the gold in Dakar, they could get the Dutch gold. I mean, they could cooperate with the Dutch and use their gold.

Bell: Why couldn't they borrow from the Dutch Government? It is right there in England.

White: Well, their technique will simply be to make as rigid a case from their point of view as they can and confront us with alternatives that they can't keep fighting unless they know where they can get resources, and the only country where they can get resources is the United States. I am willing to bet a dollar to a doughnut that that is the story you will hear after he comes back.

H.M.Jr: Listen, it is much simpler than that, the story last night of Lothian. United States has all the munitions. It has all the money.

- 17 -

"You tell us where you want us to fight and when you want us to fight, and what kind of a fight you want us to put up." He says they can hang on until April. I still think, though, and I have said it in Canada, if we could direct some of the stuff up there - they are hungry for it, you know. They want it. There is this big fight on on machine tools. Well, I think this is a start, don't you? Now, keep it going. Any suggestions you have, Merle?

Cochran: No, sir.

Viner: It is going to be your most important item of business.

H.M.Jr: Have you got anything to contribute, Dan?

Bell: No.

H.M.Jr: Okay.

Bell: It might be simpler for you if you had two columns under 1 and 2, giving the total and the amount available.

White: What?

Bell: The total of each one of the classes, break that total down, total and amount available. Your available amount will be something less than your total, probably about half of your total, so the Secretary could see it at a glance.

H.M.Jr: Well, we will bring this up again next week. I would like to take another look at it.

Viner: I think that somebody in Harry's shop could start thinking and working on a memorandum

- 18 -

as to possible liquidating agencies that might be set up here, just in general theory, theorizing in advance, because in looking into the experience during the last war on how they handled the Germans' - perhaps it is a lesson as to how not to handle them - they may say here we have assets. They cannot be sold on the New York Stock Exchange. They will collateralize them and we will handle them for them.

White: They have already said that.

Viner: Somebody here ought to be studying this problem of the sort of administrative set-up you want here and what possible procedures there would be.

White: That would be the answer that I think we will have to have when they feel they haven't got any more and say that we can't dump this stuff on the markets, that they don't get anything for it.

H.M.Jr: They ought to begin now. Okay, gents.

Table I

Foreign Exchange Assets of the United Kingdom Classified According to Speed of Liquidity

(In millions of dollars)

As Of	I			II			III			IV		
				American Securities			Direct Investments in U.S.			U.K. Investments Outside U.S.		
	Official	Private		Face	Market	Estimated	Face	Market	Estimated	Face Value	Estimated	
	dollar	dollar		Value	value	value as	value	value	value as	Value	value	as collateral
	balances	balances		Value	1/	collateral	value	value	collateral			
Sept. 1, 1939	\$1,900 4/	\$ 50	\$544	\$1,385	\$781		\$833 2/			\$16,000 to		
June 30, 1940	1,444 1/	108 1/	318	1,231	615		\$500			20,000		
Net change	- 456	+ 58	- 226	- 154	- 166							
July 31, 1940	1,260 1/	82 1/	289	1,229	610							
Net change	- 184	- 26	- 29	- 2	- 5							
Aug. 31, 1940	998 1/	116 1/	286 3/	1,227	605							
Net change	- 262	+ 34	- 3	- 2	- 5							

998
 116
 286
 605
 2005

FOOTNOTES TO TABLE I

- 1/ As reported to us by the British authorities. The total reduction in gold holdings and dollar balances is British figure; the allocation between the two items is made on the basis of our capital movement figures.
- 2/ Estimate of Department of Commerce as of August 31, 1939. We have no information to indicate a change since.
- 3/ August 28 figure as reported by the Federal Reserve Bank of New York plus \$20 million, the sum of the private dollar balances in banks outside New York Federal Reserve District on August 21, 1940.
- 4/ Excludes private gold hoards, estimated by the British authorities to have been \$850 million in March 1939.

Table II

United Kingdom Expenditures in United States

(In millions of dollars)

	: Total : Payments : in : U. S.	: Payments by : British : Purchasing : Commission	: All : Other : Expenditures	: U. S. : Exports to : U. K.	: U. S. : Imports : from : U. K.	: Value of : orders as of : date	: Balances due : on orders
Sept. 1, 1939 through July 1, 1940	1,300	179	1,121	662	153		
July 1940	208	168	40	108	20		
August	223	183	40			1,728	1,150
September							
October							
November							
December							

How much free foreign exchange will United Kingdom need
during the next 6 months and how it may be raised
(In millions of dollars)

Date of estimate	How much United Kingdom will need				How it may be raised				
	Total	Net	Net imports	Gold	Net		Sale	Remainder	
		imports	from all other	production	in-payments	Reduction	of	presumably	
		from	areas payable	of the	on service	in gold	British	to be	
		United	in free	British	and capital	holdings	Health	borrowed	
	States	exchange	Empire	account		Securities			

As of
Sept. 1, 1940

\$900

\$400

\$50

BRITISH PAYMENTS IN THE UNITED STATES

Estimated Future Payments on Balances
Due as of August 31, 1940

(In millions of dollars)

	Payments made			Value of orders to August 31, 1940	Balance due August 31, 1940	Estimated payments on balances due							
	Through	During	Through			1940				1941			After June 1941
	July 31	August 31	August 31			Sept.	Oct.	Nov.	Dec.	Jan.	Apr.	May	
										Mar.	June		
British contracts ^{1/}	324	121	445	1,088	643	88	77	70	46	122	107		133
French contracts assumed	72	61	133	640	507 ^{2/}	96	79	72	62	75	57		66
Total	396	182	578	1,728	1,150	184	156	142	108	197	164		199

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

SOURCE: British Purchasing Commission.

^{1/} Comprises British Statement A orders and British Statement B orders which the British Purchasing Commission handles payments for, such as iron and steel purchases.

^{2/} Includes approximately \$190 millions of advance payments to be repaid by the British Government to the French Government concurrently with deliveries.

EH

PLAIN

London

Dated September 25, 1940

Rec'd 4:15 a.m.

Secretary of State,
Washington.

3201, Twenty-fifth.

FOR TREASURY FROM BUTTERWORTH

(1) Keynes' broadcast on the British financial position after a year of war was doubtless heard in the United States but for purposes of reference the main points are summarized.

Incidentally Keynes as a member of the Advisory Council to the Chancellor of the Exchequer (my No. 1937 of July 2) has gradually become a regular adviser to the Treasury while the Council has for all practical purposes passed into innocuous desuetude. His advice is of course not always acted on but his opinions are having a more effective opportunity; perhaps in turn the views he has now publicly expressed have also been seasoned by his Treasury contact.

After commenting optimistically on the war damage to date and Britain's capacity to rebuild and restore material losses Keynes stated that stocks of commodities have
probably

ES -2- 3201, Twenty-fifth from London.

probably increased during the first year of war. He calculated that with all the material losses the total reduction of wealth is not greater than the amount by which it had increased in the two or three years before the war which, he said, meant that Great Britain after a year of war was richer than at the beginning of 1937. However Keynes apparently did not take into consideration the unseen damage to the economic structure caused by the transfer of a major portion of the nation's productive capacity from peace-time to a war-time basis.

He estimated that, taking the country as a whole, consumption has been reduced by 4%. Though still convinced that drastic action along the lines of his plan will be necessary when production is in full flood, Keynes declared that his investigations lead him to conclude that there has been no significant degree of budgetary inflation as yet; that taxation now in force accounts for half the total expenditure at home and capital sources make a considerable further contribution.

He concluded by stating that "in the financial field nothing has happened up to date to give us excessive anxiety so it is well worth while to have a policy, however drastic, about taxes and savings, wages and prices, which will keep
the

EH -3- 3201, Twenty-fifth from London.

the position as sound and good as it is now".

(2) Under a Treasury notice only now received due to air raid delay the Bank of England will receive applications as from September 20 "to open registered accounts in the names of firms and companies (but not individuals) resident in the U.S.A. (or in the Philippine Islands or U.S. dependencies) and in Switzerland." Such accounts can be maintained only with a banker appointed to approve form A3 (defined in July 18 notice on this subject) and not be opened without the prior consent in writing of the Bank of England. Once an account is opened, procedure is identical with that prescribed by July 18 notice for registered accounts in the names of Banks.

KENNEDY

EME

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Roselle of the Federal Reserve Bank at New York spoke with me by telephone today. He stated that the Federal in New York had received directly from the Advisory Committee to the Council for National Defense a request for information in regard to British expenditures and resources, and British policy in using their gold. The Federal has compiled certain figures on this subject, showing total debits and credits to French and British accounts. Such figures have not been submitted separately to the Treasury in the past. Such data include information with respect to official gold sales to the Federal.

Mr. Roselle had consulted Mr. Knoke and they felt that they should have some clearance from the Treasury, since they obtain certain of the information under reference while acting as fiscal agent of the Treasury, before providing any figures or information to Mr. Leon Henderson's committee. Mr. Roselle inquires whether he should advise the committee that the figures of the Federal Reserve Bank have been given to the Treasury, which should be consulted in regard thereto. If we approve this suggestion, the data under reference will be forwarded to us tomorrow afternoon as an accompaniment to the usual weekly letter which Mr. Roselle prepares. Such letter ordinarily goes to the Federal Reserve Board. Should such an enclosure also go to the Board?

Mr. Roselle would like very much for me to inform him the first thing tomorrow morning as to what reply he should make to the Advisory Committee, and what he should do with the data which have been compiled.

JMP

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Wednesday, September 25, 1940.
9/24/40

Press Service
No. 22-15

Secretary of the Treasury Morgenthau today announced the offering, through the Federal Reserve Banks, of 2 percent Treasury Bonds of 1953-55, in exchange for 1-1/2 percent Treasury Notes of Series C-1940, maturing December 15, 1940. Exchanges will be made par for par, and accrued interest on the notes exchanged will be paid to October 7, 1940. The offering of the new bonds will be limited to the amount of maturing notes tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury Bonds of 1953-55, now offered only in exchange for Treasury notes maturing December 15, 1940, will be dated October 7, 1940, and will bear interest from that date at the rate of 2 percent per annum, payable semi-annually on June 15 and December 15, with the first coupon, however, covering the fractional period to December 15, 1940. The bonds will mature June 15, 1955, but may be redeemed at the option of the United States on and after June 15, 1953. They will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered both as to principal and interest. Both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000.

The new Treasury bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding. These provisions are specifically set forth in the official circular released today.

- 2 -

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, and should be accompanied by a like face amount of 1-1/2 percent Treasury Notes of Series C-1940, maturing December 15, 1940, with final coupon due December 15, 1940, attached. The notes will be accepted at par, and accrued interest on such notes from June 15 to October 7, 1940, (\$4.672 per \$1,000 face amount) will be paid following their acceptance.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

Treasury Notes of Series C-1940, maturing December 15, 1940, are now outstanding in the amount of \$737,161,600. The present offering will be the only opportunity afforded the holders of these maturing notes to exchange them for other interest-bearing obligations of the United States. Any maturing notes not so exchanged at this time will be paid in cash when they mature.

The text of the official circular follows:

UNITED STATES OF AMERICA

2 PERCENT TREASURY BONDS OF 1953-55

Dated and bearing interest from October 7, 1940 Due June 15, 1955

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER JUNE 15, 1953

Interest payable June 15 and December 15

1940
Department Circular No. 641

TREASURY DEPARTMENT,
Office of the Secretary,
Washington,
September 25, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2 percent bonds of the United States, designated Treasury Bonds of 1953-55, in payment of which only Treasury Notes of Series C-1940, maturing December 15, 1940, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series C-1940 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated October 7, 1940, and will bear interest from that date at the rate of 2 percent per annum, payable on a semiannual basis on December 15, 1940, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1955, but may be redeemed at the option of the United States on and after June 15, 1953, in whole or in part, at par and accrued interest, on any interest day or days,

on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different

- 3 -

denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before October 7, 1940, or on later allotment, and may be made only in Treasury Notes of Series C-1940, maturing December 15, 1940, which will be accepted at par, and should accompany the subscription. Coupons dated December 15, 1940, must be attached to the notes when surrendered, and accrued interest from June 15, 1940 to October 7, 1940 (\$4.67213 per \$1,000) will be paid following acceptance of the notes.

- 4 -

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

September 25, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



There was a meeting at 3:00 p.m. Tuesday, September 24, in the Munitions Building, of the Interdepartmental Advisory Committee to the Administrator of Export Controls. I received a call during the morning notifying me of the meeting, but in view of my appointment with you at 3:30 p.m., I asked Mr. Cairns to represent me, or have Mr. Feidler go if he could not. Mr. Feidler attended. I am attaching a copy of his report to me.

The only two actions of importance were:

(1) The Committee approved draft of new regulations placing all scrap iron and scrap steel under the controls. These are substantially in the form drafted by the Treasury Department instead of the form which Colonel Maxwell's office drafted. Approval of the Treasury form was given at a meeting yesterday morning in the Munitions Building attended by representatives of the Iron and Steel Institute, technical advisers to Colonel Maxwell and also by Mr. Feidler and Mr. Ullmann of the Division of Monetary Research of the Treasury. This morning meeting was the result of conversations that had been going on for several days past with Colonel Maxwell as to our reasons for objecting to the form of his draft of the regulations. All concerned finally agreed that our draft was better.

(2) A draft of a proclamation which would place fire control instruments, searchlights, aerial cameras and other optical equipment under the controls was discussed.

Mr. Buckley, of Phil Young's office, was also present. Colonel Maxwell has been including Mr. Young in these meetings for several weeks past, since you sent Mr. Young to Colonel Maxwell to discuss with him a phase of the export controls.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Sept. 25, 1940

TO Mr. Gaston
FROM Mr. Feidler

On September 24, 1940, at your request through Mr. Rose, I attended a meeting of the committee for the consideration of problems of export control. Also present at the meeting on behalf of the Treasury Department was Mr. Buckley from Mr. Philip Young's office. Mr. Green and Mr. Yost attended the meeting on behalf of the Department of State. Lt. Col. Maxwell acted as chairman, and there were several of his assistants as well as representatives of the National Defense Advisory Commission and the Army and Navy Munitions Board present.

Of the various matters discussed at the meeting, the most important from the viewpoint of this Department was the discussion with regard to iron and steel scrap. Lt. Col. Maxwell stated that the iron and steel scrap problem had received study by a subcommittee in his office for a period of three months. That committee had consulted with the Institute of Scrap Iron and Steel with respect to the matter. Lt. Col. Maxwell called upon his assistant, Col. Trunk, to advise the committee with respect to the report of the Institute. It appears that the Institute felt that iron and steel scrap should be exported only under a quota system and that it was desirable that no steel scrap should be exported. I noticed, however, that the

- 2 -

report of the Institute called for a quota of iron scrap for Japan. Lt. Col. Maxwell said that the report was accepted as such and that the committee would not indicate whether it approved or disapproved the report.

Lt. Col. Maxwell then stated that a draft of an executive order which would amend the regulations governing the exportation of articles and materials issued on July 26, 1940, had been prepared by the subcommittee. He stated that a similar draft had been prepared by the Department of the Treasury looking towards the same end, to wit, the control of all iron and steel scrap exports. He pointed out that the definition of iron and steel scrap in the Treasury draft and in the Export Control draft differed. He pointed out that the majority of the draft committee, after considering the matter, had concluded that the Treasury draft was preferable and that the Institute of Scrap Iron and Steel had thought likewise. Lt. Col. Maxwell said that under those circumstances, it would seem proper to adopt the Treasury Department definition. He distributed copies of the proposed amendment to the regulations and I have attached such a copy. I noted that while the operative part of the regulation was identical with that drafted by the Treasury, certain matters of form had been changed. Also I noted that the proposed regulation was not to become effective until October 16, 1940. In the meeting on the morning of September 24, I had pointed out to the Export Control people that the Attorney General

- 3 -

had approved the form of our draft. If, in the light of that information, they nevertheless saw fit to change the form, I felt that it would do no good to mention the Attorney General's approval again at this meeting.

Lt. Col. Maxwell stated that he would turn the draft of the executive order for amending the regulations over to Mr. Green for "processing through the various departments". He said that he hoped to take care of his statistical problems by a directive to Mr. Green under which applications for licenses would have to show classification of the iron or steel scrap, if any.

Also considered at this meeting was a draft of a proclamation which would add to the list of articles which could not be exported without licenses fire control instruments, military searchlights, aerial cameras, and other types of military equipment containing optical elements. It was pointed out that the reason these articles had not been added a long time ago was that the industry for making those articles is a small one and has been dependent for its existence on orders from the Allies. A copy of the proposed proclamation is attached.

Lt. Col. Maxwell stated that he did not intend to issue regulations defining the articles referred to in the proclamation as has been done in the past. He stated that he intended to have them defined in a directive signed by him at the direction of the President.

- 4 -

I asked if the directive would be made public. Col. Maxwell said no, but that copies would be sent to collectors of customs and to leaders in the industry. I ask if there was to be anything in the directive, the enforcement of which might depend upon the criminal penalty provided in the July 2 Act. I said if there was, the directive plan might not function since the penalty is applicable only to violations of proclamations or rules and regulations, not to directives. Lt. Col. Maxwell said there would be nothing in the directive that would have to be enforced by criminal penalties.

Lt. Col. Maxwell stated that the committee might give consideration to restrictions that could be placed on other metals.

Mr. Buckley brought up the question whether machine dies, tools, and jigs could be placed on the prohibited list. He said that he knew of a case where certain dies, tools, and jigs were being shipped to a country where they would be used in the manufacture of airplanes, which airplanes would not be put to the best use. Mr. Green said that this problem was almost impossible administratively. He pointed out that collectors of customs couldn't possible have the technical knowledge to know whether component parts were parts of military equipment or otherwise. He said that collectors of customs could hardly be expected to tell whether certain parts that might be on docks were for machine guns or typewriters. He said that if you ran into that situation/ ^{with component} ~~machine~~ parts, the situation would be ten times as bad with dies, tools, and jigs for those parts. Everyone

- 5 -

seemed to agree that Mr. Green's point was well taken. Col. Hines suggested that the situation brought up by Mr. Buckley and similar situations could be taken care of by the United States placing preferential orders against such dies, jigs, and tools. Col. Hines said that he felt that that plan could be followed wherever a bottleneck industry was concerned.

EPT

September 25, 1940

My dear Mr. President:

Considering everything, I thought that we got a very good press on our Treasury bond offering today, and I am sending you herewith some of the newspaper clippings on this subject.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,
The White House.

Encs.

Clippings from:

Wall St. Journal, Sept. 25

New York Times, Sept. 25

N.Y.H.T., Sept. 25

Washington Times Herald, Sept. 25.

N.Y. Journal of Commerce, Sept. 25.

By Messenger 2 '5

September 25, 1940

My dear Mr. President:

Considering everything, I thought that we got a very good press on our treasury bond offering today, and I am sending you herewith some of the newspaper clippings on this subject.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

September 25, 1940

My dear Mr. President:

Considering everything, I thought that we got a very good press on our Treasury bond offering today, and I am sending you herewith some of the newspaper clippings on this subject.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1940

TO The Secretary

FROM Mr. Young

Re: Export Control Meeting

At my request, Mr. Buckley attended a meeting of Colonel Maxwell's Advisory Committee at 3:00 P.M. on September 24, 1940.

Colonel Maxwell distributed a proposed new proclamation adding fire control instruments, military searchlights, aerial cameras, and other types of military equipment containing optical elements to the list of items for which an export license would be required. There was little discussion, and Colonel Maxwell said that he would take the sense of the meeting to be that the proclamation was satisfactory, and that he proposed to process it for issuance very shortly.

Colonel Maxwell then said that he proposed to issue a directive defining the items to be covered by the new proclamation rather than issuing a formal regulation. He read this directive, which included a great many items, some of which seemed to Mr. Buckley not to fall within the language of the proclamation. Accordingly, he pointed out:

1. That the directive seemed broader than the proclamation.
2. That there would be no publicity of the directive and all manufacturers might not be advised.

Colonel Maxwell said that he thought there would be no difficulty about the directive, since there were only a few manufacturers and they would be advised

directly by the State Department as to the items included in the directive. Practically, he may be right, although the procedure does not look particularly well devised and certainly is not consistent with that used in administering other sections of the Proclamation of July 2, 1940. Colonel Maxwell indicated, however, that he was going to adopt the procedure as he had lined it up and Mr. Buckley made no further comment. The Treasury, however, is on record in case it does not work.

There was then a discussion of iron and steel scrap in which a sub-committee, which Colonel Maxwell had appointed, recommended that no iron and steel scrap be exported, but that if any were exported, a quota system should be established and that the quotas should be kept very low. Colonel Maxwell said he wanted no discussion of the report, but wished only to have it appear on the record of the meeting.

Colonel Maxwell then distributed a new regulation which will place all types of iron and steel scrap under export control, as of October 16, 1940. This was in line with the recommendation made by the Treasury and there was no objection. Colonel Maxwell indicated that this regulation would be issued in the regular manner.

There was no discussion, however, of the directive which would be issued to the State Department in connection with iron and steel scrap. This is the most important aspect of the problem, for it is the directive on which approval or disapproval of the application is based. Obviously, there will be no advantage in having all iron and steel scrap under export control unless directives implementing the policies which have been discussed are issued simultaneously.

There was a brief discussion of the Requisition Bill, Colonel Maxwell stating that it had been passed by the House and will shortly be passed by the Senate with amendments. He expects that the House will accept the Senate bill so that there will not have to be a conference committee.

There was then a brief discussion of machine tool problems, particularly of the problem of reimbursing manufacturers for machines for which export licenses are denied, but which cannot be taken by domestic manufacturers immediately. Mr. Buckley pointed out that the Reconstruction Finance Corporation had \$10,000,000 available which could be used in situations of this kind, but which had not yet been called upon in any case.

Mr. Buckley then suggested to Colonel Maxwell that he might want to consider the problem of extending export control to cover jigs, dies, and fixtures under the terms of the Proclamation of July 2, 1940, relating to machine tools. Colonel Maxwell said that he would be glad to consider any recommendation that the Treasury would make, but he took no action on it at the meeting. In a brief discussion on this point, Mr. Green was rather emphatic in his view that the administrative problem would be very great. Mr. Buckley suggested that it might be advisable to have experts in the field consider the problem so that Colonel Maxwell could get definite information on the administrative problems, but no action was taken on this suggestion.

The meeting adjourned at 4:05 P.M.

Ry.

September 25, 1940.

Dear Mr. Gilman:

In connection with reports I am receiving from the airplane and airplane engine industry, I should like to secure certain information regarding unfilled orders, new orders, and deliveries of airplane engines for your company. I am enclosing a table which has been prepared for your company from various data available at the War Department showing the number of airplane engines on order on September 14, 1940. Will you please revise this table in accordance with the procedure outlined below.

Bring forward to September 26 the estimated deliveries of the unfilled orders on September 14 by (1) inserting new orders received during the period September 14 through September 26 in their proper place, combining new orders with orders now shown on the table where the type of airplane engine and class of purchaser are the same, and using a new line for any type of airplane engine or class of purchaser not already included in the schedule, and (2) indicating any revisions you have made in the estimated deliveries of the remaining orders now shown on the schedule. After these revisions have been made, the schedule should show estimated deliveries of all orders unfilled on September 26, including new orders received during the period. (When deliveries start, of course, a further adjustment of the figures to reflect such deliveries would have to be made.)

All data should include spares in terms of complete units, with fractions rounded to the nearest whole number.

FILE COPY

Mr. Gilman - 2

Please forward the table to Mr. George G. Hans, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date. I shall appreciate it if you will send your reply by air mail special delivery so that it will reach him on Monday, September 30.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Max W. Gilman, President,
Packard Motor Company,
Detroit, Michigan.

Enclosure ✓

Mailed in Mr. Hans' office

STRICTLY CONFIDENTIAL

Unfilled Orders*

1940, and Estimated Deliveries, by Months

Class of purchaser	Unfilled orders*	Estimated deliveries																									
		1940				1941												1942									
		Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Total U. S. Army.....																											
Total U. S. Navy.....																											
Total U. S. Army and Navy.....																											
Total British Empire and France..																											
Total South America.....																											
Total Other Foreign.....																											
Total Foreign.....																											
Total U. S. Commercial.....																											
Total Unclassified.....																											
GRAND TOTAL.....																											

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

* Including Spares

Source: Reports from Individual Companies.

Date:



September 25, 1940

My dear Mr. Secretary:

I am inclosing herewith, for your information, copies of a letter and enclosure which I sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of State.

2 Encls. ✓

By Messenger 4²⁰

September 25, 1940

My dear Mr. Secretary:

I am inclosing herewith, for your information, copies of a letter and enclosure which I sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,
The Secretary of War.

By Messenger 420

2 Encls. ✓

September 25, 1940

My dear Mr. Secretary:

I am inclosing herewith, for your information, copies of a letter and enclosure which I sent to the President today.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

By Messenger 4²⁰

2 Encl. ✓

September 25, 1940

My dear Mr. President:

I am inclosing herewith copy of a confidential message from Mr. Nicholson, Customs Agent at Shanghai.

I thought this message was so interesting that you would find it worth while reading.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Copies to: Secretary of State,
Secretary of War,
Secretary of Navy.

By Messenger 4²⁰

Enc. ✓



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

21 September, 1940

SECRET

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

Through the courtesy of the French Intelligence Officer in Hongkong informal personal talks were arranged with the following Indo-China officials: Governor General Decoux; Secretary General Pierre Delcalle; Inspector General of Police Georges Nadaud; General Martin, commanding troops relative to French-Japanese situation in Indo-China from September 21st. It was understood that data given would not be quoted outside American government administrative circles, especially to Vichy government. Details are intended for your private information and not to conflict with American consular representation in Hanoi.

Interview with Delcalle who gave the background of the situation as follows: When France signed armistice, the Japanese actively renewed diplomatic pressure on the Indo-China government on the pretext of the latter pursuing antagonistic course by allowing the transit of arms and ammunition through French territory to China. The Indo-China government rejected the assertions as contrary to fact, claiming only goods necessary for Chinese economic life were permitted transit. The Indo-China government in good faith, after repeated protests, invited the Japanese government to see for themselves what was passing through. The Japanese took advantage of this, but instead of

SECRET

- 2 -

sending six to ten civilian observers, much to French surprise, a Japanese Inspectors Commission of ninety military officers and staff headed by General Nishihara, and including Colonel Sato, the head of the Japanese military intelligence service in South China and one of the most vicious Japanese leaders in China. A small group of commission members were distributed at all ports and at Sino-French frontier points. Continued strong pressure was exerted on Indo-China and Vichy governments by the French ambassador at Tokyo who was and still is most anxious about Japanese demands. Vichy, meanwhile, reserved a moderate attitude and inclined toward telling the Indo-China government to act as it thought expedient. The Japanese continued pressure. The Indo-China government, under former General Catroux, gave in and stopped all transit of goods through French territory. The Japanese continued to press demands on Vichy, unfortunately aided by the French ambassador at Tokyo to such an extent that Vichy concluded it necessary to agree in principle, allowing Japanese troops to pass through Indo-China territory. The demands were incorporated into agreements signed by the French and Japanese at Tokyo on August 30th, and covered: first, Japanese troops permitted to land in Indo-China; second, such troops to use train facilities from Haiphong to Sino-French borders of Kwangsi Kwangtung in order to engage Chinese troops; third, Japan to use all military and certain air fields to facilitate action against Chinese. It was intimated by the Japanese, but unincorporated in the agreement that the question of naval bases, principally at Camranh Bay, would be

- 5 -

SECRET

taken up later. The preliminary agreement in principle between the parties was subject to a working agreement based on the conclusion of a military commission of French and Japanese officers who were to study at once modus operandi facilities in order that Indo-China rights would not be unduly prejudicated. It was understood by both parties that the Japanese would refrain from military naval action during the talks. The talks started at Hanoi, progressing slowly, due to the French plan of gaining time. Meanwhile the Indo-China army took defense measures: first, a French buying commission was sent to the United States to purchase fighting planes; second, incidents occurred which changed the situation. On September 4th, ten Japanese planes flew over Tonkin. On the 5th, two companies of Japanese troops fully equipped crossed the Sino-French border at Dong-Dang, North Tonking, but were stopped by French troops and withdrew without fighting. Nishihara visited Decoux and apologized for the incidents. Decoux took advantage of this error and told Nishihara inasmuch as Japanese had broken their promises, the preliminary agreement was voided and the French terminated discussions.

September 6th Nishihara presented an ultimatum to Decoux demanding immediate freedom of transit to Japanese military in Tonking. This was flatly rejected. The ultimatum was to end at midnight, September 8th, and the Japanese reserved appropriate military action as from that date. General mobilization in Indo-China took place. State-of-war dispositions were taken. Free rail traffic was resumed with Yunnan. Japanese members of the commission prepared to leave. On September 8th, Nishihara withdrew the ultimatum on Tokyo

SECRET

- 4 -

advice. On September 15th, French-Japanese military talks were resumed. French now endeavored to delay reaching a conclusion on the matter. The French ambassador in Tokyo continued to express his anxiety and advocated appeasing the Japanese at once, daily sending such messages to Vichy and Indo-China. The French ambassador in Washington requested by Decoux to inform the United States government of the present situation. In the event of invasion, some help would be expected from Chinese troops in Kwangsi Kwangtung, but not much faith or hope from that source. The present relationship with the Chinese government was embarrassing. In regard to British help, that could not be counted on, despite the danger to Singapore, where they are on the defensive. Hongkong could easily be taken. Looking at things in cold reality, the French decided they must defend themselves with little outside help. If Vichy orders them to give in, they will have to decide whether or not to obey at the time, and after a careful analysis of definite help they cannot count on.

Decoux reviewed the details discussed in the Delcalle talk. He deplored the progress already made by the Japanese when he took over the government from Catroux, and thought the latter gave in too easily and the Vichy government overestimated the Japanese strength, due to the French ambassador in Tokyo trying to induce Vichy to capitulate. The Japanese were also pressing the German influence on Vichy. If the Japanese succeed in obtaining military use of Tonkin railways, roads, aviation fields, it will be no time at all before they are in full control of the country with its wealth and strategic position near the Netherland Indies and the Philippines. When the first agreement was signed on August 30th

SECRET

- 5 -

243

At Tokyo, Nishihara asked Decoux to give instructions at once to allow the Japanese to land in French territory. Decoux refused sending the receipt of full text of the agreement. September 2nd, Nishihara and six Japanese officers called on Decoux. They were insolent, haughty, angry, and demanded talks be started forthwith. Decoux explained the text just decoded and must take time to study same. Nishihara told Decoux to stop sleeping, to get busy, or take the consequences. He was asked if this was his own or Tokyo orders. Nishihara replied Tokyos. The talk closed with mutual bad feeling. Decoux studied the text and instructed the military to commence talks. The incident of Japanese planes over Tonkin and Japanese troops crossing French border gave Decoux a good excuse to halt talks, resulting in the ultimatum of September 5th, which Tokyo rejected in view that no military or naval incident would take place during the conference. Decoux cannot evade coming to a conclusion of a working agreement with Japanese military unless something intervenes. September 25th or thereabouts would seem to be a deadline. Decoux expressed an opinion that if the President could make some kind of strong protest to Japan, stating that landing of troops in Indo-China will violate status quo, the Japanese would back down. He stated it would help greatly if the American government could exert a little pressure on the Vichy government at the same time. Decoux is between two fires -- from Vichy and the Japanese. Decoux has a definite impression that some pressure from the United States would facilitate Vichy's attitude. Vichy needs American aid and Decoux believes Vichy now realizes it

- 6 -

SECRET

has already given too much to the Japanese. At any rate, the situation is soon reaching a crisis. Only the United States can prevail on the Japanese to give up the idea of sending troops through Indo-China. Decoux hopes this plane buying commission will be successful. The American purchase price, he understands, is about ten million dollars. Of this he can give two million in cash and suggests the balance in commodity, such as rubber. Decoux suggested some twenty government used pursuit planes could be flown from Manila at once, should the air deal be successful. An Indo-China decision to defend the country despite Vichy orders to contrary depends on sufficient air force. He states they urgently need diplomatic aid from the United States at once. He does not wish this discussion be made known to Vichy under any circumstances.

General Martin gave the following military position in Indo-China. Total French and Annamite troops number 90,000 composed of six divisions, three allocated to Tonkin Province which borders Kwangsi Kwangtung Yunnan, one division to coast of Annam Province, two divisions to Cochinchina Province. Troops in the north have a fair supply of six-inch heavy artillery guns with sufficient light artillery. Coast defenses consist of a fair supply of long range guns, six-inch, with three ten-inch coast defense guns at Cacba Fort, located at the entrance of Haiphong Harbor. Southern troops have sufficient light artillery and six-inch heavy guns; forty light field tanks with some twenty old armored cars. Planes consist of twenty light bombers and forty pursuit planes in north and some sixty obsolete training planes in the south. Three hundred

SECRET

airmen trained in various specialties. Total Japanese troops now in Chinese provinces of Kwangtung Kwangsi estimated at eighty thousand but are not well organized. Of this number thirty thousand Japanese are close to Tonkin fighting the Chinese. Japanese troops are said to be badly organized and suffering from disease and their food supply is not good. The Japanese have no heavy artillery but have a good quantity of light units. The Japanese could, however, obtain the necessary reinforcements within a short period. French troops are in a fair position to resist invasion providing army secures at least fifty additional bombers and pursuits. In the event of a Japanese invasion, it is difficult to ascertain at what coastal point troops would land. Local French naval strength negative, consisting of one light cruiser, four submarines, a few sloops at Saigon. At Haiphong, three river gunboats. The Japanese keep one destroyer in Haiphong Harbor. The Japanese naval strength in French waters is not known due to frequent changes. Japanese military aviation in the south number three hundred planes maximum.

Nadand states the internal situation in Indo-China remains calm, the French and native feeling strongly anti-Japanese. The number of Japanese residents in all of Indo-China is about two hundred with a yearly transit of about sixty. Japanese military commission composed of one hundred persons. There has been a number of small incipients started by the Japanese attached to the commission which were settled on the spot. Expected incidents will increase if and when Japanese demands are granted.

SECRET

- 8 -

The ultimatum issued on September 19th was refused by Decoux on the basis that it was not in accord with the Vichy-Tokyo preliminary agreement.

C O P Y C O N F I D E N T I A L

TREASURY DEPARTMENT

United States Coast Guard

WASHINGTON

247

From: Spagent, Shanghai, China.
To: Secretary of the Treasury.

Message from Mr. Nicholson.

Through the courtesy of the French Intelligence Officer in Hongkong informal personal talks were arranged with the following Indo-China officials: Governor General Decoux; Secretary General Pierre Delcalle; Inspector General of Police Georges Nadaud; General Martin, commanding troops relative to French-Japanese situation in Indo-China from September 21st. It was understood that data given would not be quoted outside American government administrative circles, especially to Vichy government. Details are intended for your private information and not to conflict with American consular representation in Hanoi.

Interview with Delcalle who gave the background of the situation as follows: When France signed armistice, the Japanese actively renewed diplomatic pressure on the Indo-China government on the pretext of the latter pursuing antagonistic course by allowing the transit of arms and ammunition through French territory to China. The Indo-China government rejected the assertions as contrary to fact, claiming only goods necessary for Chinese economic life were permitted transit.

CONFIDENTIAL

248

- 2 -

The Indo-China government in good faith, after repeated protests, invited the Japanese government to see for themselves what was passing through. The Japanese took advantage of this, but instead of sending six to ten civilian observers, much to French surprise, a Japanese Inspectors Commission of ninety military officers and staff headed by General Nishihara, and including Colonel Sato, the head of the Japanese military intelligence service in South China and one of the most vicious Japanese leaders in China. A small group of commission members were distributed at all ports and at Sino-French frontier points. Continued strong pressure was exerted on Indo-China and Vichy governments by the French ambassador at Tokyo who was and still is most anxious about Japanese demands. Vichy, meanwhile, reserved a moderate attitude and inclined toward telling the Indo-China government to act as it thought expedient. The Japanese continued pressure. The Indo-China government, under former General Catroux, gave in and stopped all transit of goods through French territory. The Japanese continued to press demands on Vichy, unfortunately aided by the French ambassador at Tokyo to such an extent that Vichy concluded it necessary to agree in principle, allowing Japanese troops to pass through Indo-China territory. The demands were incor-

CONFIDENTIAL

249

- 8 -

porated into agreements signed by the French and Japanese at Tokyo on August 30th, and covered: first, Japanese troops permitted to land in Indo-China; second, such troops to use train facilities from Haiphong to Sino-French borders of Kwangsi Kwangtung in order to engage Chinese troops; third, Japan to use all military and certain air fields to facilitate action against Chinese. It was intimated by the Japanese, but unincorporated in the agreement that the question of naval bases, principally at Camranh Bay, would be taken up later. The preliminary agreement in principle between the parties was subject to a working agreement based on the conclusion of a military commission of French and Japanese officers who were to study at once modus operandi facilities in order that Indo-China rights would not be unduly prejudicated. It was understood by both parties that the Japanese would refrain from military naval action during the talks. The talks started at Hanoi, progressing slowly, due to the French plan of gaining time. Meanwhile the Indo-China army took defense measures; first, a French buying commission was sent to the United States to purchase fighting planes; second, incidents occurred which changed the situation. On September 4th, ten Japanese planes flew over Tonkin. On the 5th, two companies of Japanese troops fully equipped crossed the Sino-French border

CONFIDENTIAL

250

- 4 -

at Dong-Dang, North Tonking, but were stopped by French troops and withdrew without fighting. Nishihara visited Decoux and apologized for the incidents. Decoux took advantage of this error and told Nishihara inasmuch as Japanese had broken their promises, the preliminary agreement was voided and the French terminated discussions.

September 6th Nishihara presented an ultimatum to Decoux demanding immediate freedom of transit to Japanese military in Tonking. This was flatly rejected. The ultimatum was to end at midnight, September 8th, and the Japanese reserved appropriate military action as from that date. General mobilization in Indo-China took place. State-of-war dispositions were taken. Free rail traffic was resumed with Yunnan. Japanese members of the commission prepared to leave. On September 8th, Nishihara withdrew the ultimatum on Tokyo advice. On September 13th, French-Japanese military talks were resumed. French now endeavored to delay reaching a conclusion on the matter. The French ambassador in Tokyo continued to express his anxiety and advocated appeasing the Japanese at once, daily sending such messages to Vichy and Indo-China. The French ambassador in Washington requested by Decoux to inform the United States government of the present situation. In the event of invasion,

CONFIDENTIAL

251

- 5 -

some help would be expected from Chinese troops in Kwangai Kwangtung, but not much faith or hope from that source. The present relationship with the Chinese government was embarrassing. In regard to British help, that could not be counted on, despite the danger to Singapore, where they are on the defensive. Hongkong could easily be taken. Looking at things in cold reality, the French decided they must defend themselves with little outside help. If Vichy orders them to give in, they will have to decide whether or not to obey at the time, and after a careful analysis of definite help they cannot count on.

Decoux reviewed the details discussed in the Delealle talk. He deplored the progress already made by the Japanese when he took over the government from Catroux, and thought the latter gave in too easily and the Vichy government overestimated the Japanese strength, due to the French ambassador in Tokyo trying to induce Vichy to capitulate. The Japanese were also pressing the German influence on Vichy. If the Japanese succeed in obtaining military use of Tonkin railways, roads, aviation fields, it will be no time at all before they are in full control of the country with its wealth and strategic position near the Netherland Indies and the Philippines. When the first agreement was signed on August 30th at Tokyo,

CONFIDENTIAL

252

- 6 -

Nishihara asked Decoux to give instructions at once to allow the Japanese to land in French territory. Decoux refused sending the receipt of full text of the agreement. September 2nd, Nishihara and six Japanese officers called on Decoux. They were insolent, haughty, angry, and demanded talks be started forthwith. Decoux explained the text just decoded and must take time to study same. Nishihara told Decoux to stop sleeping, to get busy, or take the consequences. He was asked if this was his own or Tokyo orders. Nishihara replied Tokyos. The talk closed with mutual bad feeling. Decoux studied the text and instructed the military to commence talks. The incident of Japanese planes over Tonkin and Japanese troops crossing French border gave Decoux a good excuse to halt talks, resulting in the ultimatum of September 5th, which Tokyo rejected in view that no military or naval incident would take place during the conference. Decoux cannot evade coming to a conclusion of a working agreement with Japanese military unless something intervenes. September 25th or thereabouts would seem to be a deadline. Decoux expressed an opinion that if the President could make some kind of strong protest to Japan, stating that landing of troops in Indo-China will violate status quo, the Japanese would back down. He stated it would help greatly

CONFIDENTIAL

253

- 7 -

if the American government could exert a little pressure on the Vichy government at the same time. Decoux is between two fires -- from Vichy and the Japanese. Decoux has a definite impression that some pressure from the United States would facilitate Vichy's attitude. Vichy needs American aid and Decoux believes Vichy now realizes it has already given too much to the Japanese. At any rate, the situation is soon reaching a crisis. Only the United States can prevail on the Japanese to give up the idea of sending troops through Indo-China. Decoux hopes this plane buying commission will be successful. The American purchase price, he understands, is about ten million dollars. Of this he can give two million in cash and suggests the balance in commodity, such as rubber. Decoux suggested some twenty government used pursuit planes could be flown from Manila at once, should the air deal be successful. An Indo-China decision to defend the country despite Vichy orders to contrary depends on sufficient air force. He states they urgently need diplomatic aid from the United States at once. He does not wish this discussion be made known to Vichy under any circumstances.

General Martin gave the following military position in Indo-China. Total French and Annamite troops number 90,000

CONFIDENTIAL

254

- 8 -

composed of six divisions, three allocated to Tonkin Province which borders Kwangsi Kwangtung Yunnan, one division to coast of Annam Province, two divisions to Cochin China Province. Troops in the north have a fair supply of six-inch heavy artillery guns with sufficient light artillery. Coast defenses consist of a fair supply of long range guns, six-inch, with three ten-inch coast defense guns at Caoba Fort, located at the entrance of Haiphong Harbor. Southern troops have sufficient light artillery and six-inch heavy guns; forty light field tanks with some twenty old armored cars. Planes consist of twenty light bombers and forty pursuit planes in north and some sixty obsolete training planes in the south. Three hundred airmen trained in various specialities. Total Japanese troops now in Chinese provinces of Kwangtung Kwangsi estimated at eighty thousand but are not well organized. Of this number thirty thousand Japanese are close to Tonkin fighting the Chinese. Japanese troops are said to be badly organized and suffering from disease and their food supply is not good. The Japanese have no heavy artillery but have a good quantity of light units. The Japanese could, however, obtain the necessary reinforcements within a short period. French troops are in

CONFIDENTIAL

255

- 9 -

a fair position to resist invasion providing army secures at least fifty additional bombers and pursuits. In the event of a Japanese invasion, it is difficult to ascertain at what coastal point troops would land. Local French naval strength negative, consisting of one light cruiser, four submarines, a few sloops at Saigon. At Haiphong, three river gunboats. The Japanese keep one destroyer in Haiphong Harbor. The Japanese naval strength in French waters is not known due to frequent changes. Japanese military aviation in the south number three hundred planes maximum.

Nadaud states the internal situation in Indo-China remains calm, the French and native feeling strongly anti-Japanese. The number of Japanese residents in all of Indo-China is about two hundred with a yearly transit of about sixty. Japanese military commission composed of one hundred persons. There has been a number of small incipients started by the Japanese attached to the commission which were settled on the spot. Expected incidents will increase if and when Japanese demands are granted.

The ultimatum issued on September 19th was refused by Decoux on the basis that it was not in accord with the Vichy-Tokyo preliminary agreement.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Crane called from the Standard Oil Company in New York today wanting to know what advice the Treasury can give him in regard to the memorandum left with the Secretary last week in regard to British payment for American oil. Mr. Crane has asked me to call him back as soon as possible.

see 9-20-40
see phone conversation
with Crane 9-26.

J.M.P.

September 25, 1940
10:20 a.m.

H.M.Jr: Hello.

Col. Robert
Patterson: Hello, Henry.

H.M.Jr: Yeah.

P: I've been talking to General Marshall. He is very anxious that the conferences spoken of for tomorrow be postponed one more day because he's getting up a lot of stuff. Is that possible?

H.M.Jr: Well, I asked General Watson for an appointment, see, and if the President sees us tomorrow I think we'd better take it. There's no promise that he would.

P: I see.

H.M.Jr: But I wouldn't ask him to postpone it.

P: What?

H.M.Jr: I'd hate to ask them for a postponement.

P: Even one day?

H.M.Jr: Well, the chances are he won't see us.

P: Oh. You mean he's just got to take what time he can get to

H.M.Jr: Well

P: I guess that's right.

H.M.Jr: I mean, I hate to call up and say, well, the Army isn't ready, they want it postponed. I'll do it if you ask me to.

P: No, I won't ask you to.

H.M.Jr: What?

P: I won't ask you to.

- 2 -

H.M.Jr: Well, what do you think yourself?

P: Well, Arnold in the Navy - I don't mean Arnold - Marshall, of course I mean - did I say Arnold before?

H.M.Jr: I really don't remember.

P: Well, I mean Marshall - whenever I speak of the General here - he and the Navy have been discussing the thing, they're deeply concerned

H.M.Jr: I'll call up. I don't want to

P: And they're getting up - they're trying to be fundamental about it - and they think they need another day to get their ideas in order for an orderly presentation and of course I'd like Marshall to be there.

H.M.Jr: Well, I'll call up Watson and tell him just what you said that you people need another day and I think you ought to have it.

P: All right.

H.M.Jr: How's that?

P: Fine. Thank you.

H.M.Jr: And that you want Marshall there.

P: Oh, yes.

H.M.Jr: O. K. I'll talk to Watson my

P: It's really a matter of military policy which he is so much more capable of discussing than either the Secretary or me.

H.M.Jr: O. K. Yeah, I'll do it gladly and cheerfully.

P: Thank you very much.

H.M.Jr: Right.

P: Good-bye.

It will be remembered that one of the reasons for the rather sudden introduction by the U.S.G. of export license regulations covering certain petroleum products in July was the desire of the U.S.G. to stop the large shipments on order by Japan for aviation spirits, reported to exceed 1,000,000 barrels. It is, therefore, of interest to see how the same suppliers, who previously had the orders, have been able to overcome the difficulties of the licensing regulations.

2. The U.S. regulations provided that gasoline which, with the addition of 3 c.c's of lead or less, would come up to 87 octane rating would have to be licensed and it was indicated that no licenses would be given for such spirits for Japan.

3. We have on record precise details of over 400,000 barrels of high grade gasolines which have left U.S.A. ports since August 1st. Some of these which, in fact, reached 92 octane without any lead, were loaded on the Gulf Coast before August 1st but did not leave the Pacific Coast until after August 1st. The others, however, are of a quality which will reach 86 or even 86½ octane rating with the addition of 3 c.c's of lead and, therefore, technically do not come within the licensing provisions. Obviously, however, this is aviation gasoline, and the embargo is therefore only theoretical. We are informed that licenses were applied for and granted for these shipments. We are also informed that a shipment of over 600,000 barrels has been approved and that many freight bookings are made for early shipment, it being stated that the Japanese are insisting upon delivery by October 15th.

4. It is also of interest to note that the American regulations provided that licenses would be required for shipments of material from which more than 3% of such aviation gasoline can be obtained by commercial distillation. Such licenses are being refused for "doctored crudes" but appear to be issued freely for natural crudes which fall within this definition.

September 26th, 1940