

DIARY

Book 318

October 2 and 3, 1940

- A -

Book Page

Argentina
See Latin America

- B -

Ballinger, E. R.
See Personnel, Division of
Bank for International Settlements
See War Conditions: Foreign Funds Control
Beaverbrook, Lord
See War Conditions: Airplanes

- C -

Chile
See Latin America
China
See War Conditions
Coast Guard
See also War Conditions: Ship Movements (Water Pollution)
Reserve: FDR's approval urged by HMJr - 10/3/40.....318 216
a) Correspondence returned to FDR - 10/10/40:
See Book 320, page 431
b) Bill (approved by FDR) sent to Speaker for
presentation before House of Representatives -
10/11/40: See Book 321, page 144
Three new cutters: FDR urged by HMJr to authorize
construction - 10/3/40..... 233
Consolidated Aircraft
See War Conditions: Airplanes (Defense Housing)

- D -

Dutch East Indies
See War Conditions: Export Control

- F -

Financing, Government
Public Debt: Absorption of increases since
June 30, 1933: Haas memorandum - 10/3/40..... 245
a) Chart..... 258
Savings Bonds: Haas memorandum - 10/3/40..... 266
a) Charts..... 270
France
See War Conditions: Foreign Funds Control

- G -

Book Page

Germany

See War Conditions: Foreign Funds Control

Gold

See War Conditions

- H -

Housing

See War Conditions: Airplanes (Consolidated
Aircraft - San Diego, California)

- I -

Italy

See War Conditions: Foreign Funds Control

- J -

Japan

See War Conditions: Export Control; Japan

- L -

Latin America

Priority to products for defense program
authorized by FDR; HMJr's acknowledgment -
10/3/40.....

318 283

Argentina:

Economic and financial mission: Status
discussed by Cochran, Collado, and
State Department - 10/2/40.....

44

a) Collado feels Stabilization Fund
should be utilized rather than
Export-Import Bank

Gold: Price stability discussed by Argentine
Minister of Finance and Pierson
(Export-Import Bank) - 10/2/40.....

40,41

a) Current gold movement from Argentina
to United States.....

45

Chile:

Financial and economic assistance discussed by
HMJr and Chilean representatives - 10/2/40..

37

Layton, Sir Walter

Memorandum reviewing needs: See War Conditions
(Purchasing Mission)

- M -

	Book	Page
Morgenthau, Robert		
Frankfurter and HMJr discuss - 10/2/40.....	318	70

- N -

Netherlands
See War Conditions: Foreign Funds Control

- O -

Oil
See War Conditions: Export Control

- P -

Personnel, Division of
HMJr discusses with Graves and Thompson his
concern over situation; points out that
he never approved appointment of Ballinger;
asks for investigation - 10/2/40..... 36

Portugal
See War Conditions: Gold

- R -

Republic Aircraft
See War Conditions: Airplanes (Sweden)
Revenue Revision
1940 bill: Resume' provided for Budget Bureau - 176
10/2/40.....

- S -

San Diego, California
See War Conditions: Airplanes (Housing situation
at Consolidated Aircraft also discussed)
Ship Movements
See War Conditions
Sweden
See War Conditions: Airplanes
Switzerland
See War Conditions: Foreign Funds Control

- T -

Taxation
See Revenue Revision

U.S.S.R.

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

See War Conditions: Military Planning; Foreign
Funds Control; United Kingdom

United States Savings Bonds

See Financing, Government

- V -

War Conditions

Airplanes:

Beaverbrook memorandum on six principal
operational types and pilots available -
10/3/40..... 318 262

a) Beaverbrook thanks HMJr for help,
past and future - 10/3/40..... 306

Consolidated Aircraft: Expansion of plant and
housing of employees in San Diego discussed
by HMJr, Foley, Young, and Buckley - 10/2/40.. 30

a) Buckley and Foley to go to San Diego
with Fairey (British Purchasing Commission)
and representatives of Army and Navy..... 62

PBY-5 Flying Boats; B-24 Bombers: Increase in
deliveries to Great Britain discussed by HMJr,
Knox, Purvis, Young, Ballantyne, Captain Ramsey,
and Lieutenant Anderson - 10/2/40..... 1

a) "Historical document" showing increased
delivery by Consolidated Aircraft attached... 13
1) HMJr and Knox discuss report - 10/3/40.. 180
2) " " Purvis discuss report..... 187
3) " discusses at 9:30 meeting..... 195

Sweden: Republic Aircraft contract discussed by
HMJr and Patterson - 10/2/40..... 83

a) Discussed at conference with representatives
of British Purchasing Commission and
War Department - 10/3/40..... 218

China:

China-U.S.S.R.-United States deal discussed by Soong
and Jones; Jones reports conversation to HMJr -
10/2/40..... 73
Exchange market resume: - 10/2/40, 10/3/40..... 60,243

Export Control:

Knox discusses with HMJr State Department's
apparent OK for Japan for contract for three
million tons of oil from Dutch East Indies -
10/2/40..... 64

a) Standard Oil memorandum on recent developments
in Dutch East Indies - 10/2/40..... 151

Gasoline; Oil: Exports to Japan covered in Navy
Department memorandum..... 313

Scrap: President's Proclamation and regulations -
10/2/40..... 157

- W - (Continued)

War Conditions (Continued)

Foreign Funds Control:

Extension of control beyond "blocking orders"
discussed in Hull memorandum to HMJr -

10/2/40..... 318 163

a) Conference on situation arranged by
HMJr with Hull..... 201

Bank for International Settlements and Bank of
France account discussed by HMJr, Pehle,
Chamberlain, and Cochran - 10/2/40..... 103

British negotiations with U.S.S.R. to relinquish
blocked Baltic states' funds discussed at
9:30 meeting - 10/2/40..... 15,172

a) Hull must request this before HMJr
will act

France: Paintings being sent to United States
and payment therefor discussed in Foley
memoranda - 10/2/40..... 169,281

German and Italian transactions with Chase
National Bank - 10/3/40..... 239,242

Netherlands: Situation discussed by Cochran and
Federal Reserve Bank of New York - 10/2/40.... 173

Switzerland: Transactions reported by Federal
Reserve Bank of New York - 10/2/40..... 43

U.S.S.R. transactions with Chase National Bank -
10/3/40..... 238

Gold:

Bank of Portugal shipments to United States
reported by American Legation, Lisbon -
10/3/40..... 308

Japan:

Stimson's memorandum giving historical summary
on relations with United States which may
have bearing on present situation - 10/2/40... 148

Military Planning:

Reports from London transmitted by Lothian -
10/2/40..... 51,56

German air attacks on England, etc. - 10/3/40... 323

Purchasing Mission:

Needs reviewed for HMJr by Layton - 10/2/40..... 86

a) Copy sent to FDR..... 284

b) Stimson-HMJr discussion: See Book 319, page 39

c) Discussion between HMJr, Purvis, Layton, and
Young: Book 319, page 58

Ship Movements:

Waesche (Coast Guard) reports on water pollution
on certain vessels - 10/2/40..... 138

- W - (Continued)

	Book	Page
War Conditions (Continued)		
U.S.S.R.:		
China-U.S.S.R.-United States deal discussed by Soong and Jones; Jones reports conversation to HMJr - 10/2/40.....	318	73
United Kingdom:		
Chancellor of Exchequer becomes Minister of War Cabinet - 10/3/40.....		315
Water Pollution		
See War Conditions: Ship Movements		

- Y -

Yahuda, A. S. (Professor)		
Received by HMJr - 10/3/40.....		326

RE BRITISH PURCHASING PROGRAM

October 2, 1940
9:00 a.m.

Present: Mr. Knox
Mr. Young
Captain Ramsey
Lieutenant Anderson
Mr. Purvis
Mr. Ballantyne
Mrs Klotz

H.M.Jr: While we are waiting, one thing that the English have not got and which is scheduled on the PBV-5's, showing just month by month how many they are going to get. They would like to have that to send to Beaverbrook.

Purvis: To send to the Prime Minister. It is of that much importance.

Ramsey: Here, Mr. Morgenthau, is the last memorandum we had from Admiral Towers.

Knox: By the way, did Towers go to Jacksonville?

Ramsey: No, he left today for Bethpage with Knudsen.

H.M.Jr: This is the one I had originally. Does this still stand?

Ramsey: Yes, sir.

H.M.Jr: The Joint Defense Board is recommending six PBV-5's by next spring. Well, that would be something that you would want to --

Purvis: I can imagine Mr. Churchill perhaps wanting to have a say on that.

H.M.Jr: Could I have a copy of this made and give it to you? See if that is what you wanted, Arthur, will you? I will have it copied if that is what you want.

- 2 -

Purvis: Well, it is not one and one, but we are very grateful.

Knox: You will get one and one, because I promised the President that, and Towers approved it. Don't let them change it.

H.M.Jr: I think you looked at the wrong column there.

Purvis: Have I?

H.M.Jr: Here, this is proposed.

Purvis: For the United States.

H.M.Jr: Here for them are three, and you people get four. Where is my ruler? I am glad to have you take a look at the horse's teeth. I think you are all right on that. You see, here is proposed, U. S. Navy, six; proposed British, five; proposed Navy, nine; proposed British, ten. February: proposed Navy, twelve; proposed British, twelve. That is all right. You see, you would get one more in November and one less --

Purvis: Our deliveries are a little faster than I thought they were.

H.M.Jr: The pick-up is - you get the increase up until February, anyway. Take a look at it now. I think it is all right.

Purvis: Thank you very much. Sorry if I looked at the figures backside to. That gives us three more in November, one more in December, one more in January, two more in February. Very good. The same in March and one less in April. As a matter of fact, that gives them to us in the months that we want them. I think perhaps that we have a little

- 3 -

exaggerated idea as to what deliveries you were going to get. In the back of my mind, I thought the deliveries were rather stouter than that from your end, and that is what struck me on the figures as I looked at them the first time.

Knox: Are those all four-engine ships?

Ramsey: No, sir, that is a two-engine.

Knox: Fleet told me they were going to be able to turn those out in two weeks. Is that right?

(Mr. Ballantyne entered the conference)

H.M.Jr: Good morning. Do you know where the rest of the British Commission is?

Ballantyne: I don't know about the rest of them, but I have been hitchhiking. I couldn't get a taxi.

H.M.Jr: Before you came in, I suggested to Colonel Knox the possibility of sending somebody at once to Consolidated to see if the thing couldn't be stepped up for both the Navy and the British. He said he would be willing to send Mr. Forrestal there from Florida direct.

Purvis: In that case, we might perhaps join somebody with him, somebody of good weight, somebody like Fairey. Don't you think Fairey would be the man? I think that would be an excellent thing.

Knox: I would like to have him finish his present inspection, which will take today and tomorrow. He might be able to start to San Diego Friday. When could Fairey start?

Purvis: Fairey? I would have to ask his exact day, because --

Knox: He is perfectly willing to fly, isn't he?

Purvis: He has been in the industry for 28 years. I would be very regretful if he weren't. Perhaps he knows his product too well. I am sure that could be arranged. What date would suit you, roughly?

Knox: He is down in Florida now on an inspection trip. There are a couple of big training camps down there. He was getting back here Friday, but I can divert him and send him to Los Angeles first and have him fly right out there.

Purvis: So that Fairey ought to go straightaway?

Knox: Yes, he ought to go straightaway. It is shorter from Florida to San Diego than from here, isn't it?

Ramsey: Yes.

Purvis: That is right, I think you would have to leave straightaway.

Knox: And you want to be sure Fleet is going to be there before we start either of them. Fleet is the only fellow to talk with there.

Purvis: Yes. He does some of the talking himself.

Knox: He is a ball of fire, isn't he? I never saw such a fast worker in my life. Do you know him, Captain?

Ramsey: Very well, yes, sir.

Knox: He had me breathless.

H.M.Jr: Could somebody during the day contact Mr. Purvis and let him know what day --

- 5 -

Knox: What I think we had better do is, I will go back and get Fleet on the phone and --

Purvis: See what suggestions he has.

Knox: He may say not to come at all or something.

Purvis: Well, I don't think he will say that.

Knox: He has just doubled the size of his plants, you know, and he has got orders out for another doubling.

H.M.Jr: He is short of help and there are certain things the Navy has to do in San Diego.

Knox: Well, I know what goes out, without going there.

Purvis: If schedules can be increased, can we apply the one and one up to that period just the same?

Knox: We have it applied up to the first of July.

Purvis: Thank you very much. So that would apply to any acceleration?

Knox: Sure.

H.M.Jr: Sure, if he can turn out two more ships, the English can get one.

Knox: I will talk with him and find out and send these men out to talk with him. I won't put it up to him over the phone, but I will tell him why we are coming. It may be we can work some other things. What is he doing besides making the flying boats?

- 6 -

Ramsey: He has two orders for us now, Mr. Secretary, the PBY-5 and then a small order of four-engine planes.

Knox: Both types are Boeings?

Ramsey: Both types.

Knox: And both are boats, are they?

Ramsey: They are flying boats, and then he also has a small order for amphibians for us.

Knox: We couldn't defer that amphibian order and have them concentrate on the other?

Ramsey: That is deferred, and it comes at the end of the PBY-5 schedules.

Young: As I understand the situation, there may be some chance for speeding up production in that the LB-30 which the British have on order is not quite the same ship as the PBY - I mean as the four-engine bomber.

Knox: Mr. Morgenthau suggested a single type, if we could get them to do that.

H.M.Jr: That is what I am talking about.

Knox: Who ordered this other ship?

Young: The British have this LB-30 on order, which is the British version of the four-engine bomber, which they have on order for the Army. Those two types are very, very close and they should be --

Knox: Identical.

Purvis: I think the only difference is that our fighting experience taught us the necessity for a slightly

- 7 -

heavier armor or something of that kind. I think there is a certain armor requirement that would be very dangerous for us to give up.

Knox: Why don't we take it?

Purvis: I was going to say, if it can be approached from the point of view of our fighting experience along with your requirements and just get it down to common sense.

Knox: Perhaps you had better send somebody from --

Young: Perhaps an Army man ought to go out there.

H.M.Jr: When I suggested yesterday to Stimson and Patterson about this, they said Consolidated was under the Navy sponsorship, but if you want an Army man --

Knox: No, I am talking about a man from my own Aeronautical Department who can talk intelligently about the change of type.

Purvis: It would merely be that type of thing.

H.M.Jr: I want you (Young) to go.

Knox: Could you go out there?

Ramsey: Yes, sir.

H.M.Jr: Would it upset your other work too much?

Ramsey: Well, I am sure we could get somebody who would represent us.

H.M.Jr: I don't think the man could be too good.

Knox: Neither do I. We have got nothing but good men over there.

- 8 -

H.M.Jr: Then it should be easy to spare one.

Knox: I will canvass that when I get back.

H.M.Jr: You see what a dream I had here, though. If they can get down to turning out one flying boat for you and the English, just one type, and one four-engine bomber for the Navy and the English, and get them to concentrate on two types.

Purvis: That would be bound to help, without question.

Knox: I think perhaps we will send Jim Forrestal. He is an expert air man. It would be a question of getting labor.

H.M.Jr: He wants housing. He has no training shops.

Knox: Yes, he has a training shop.

H.M.Jr: Well, it is on the list that he asked us.

Young: He wanted an increase in vocational schools.

Knox: He had an apprentice school.

Ramsey: Most of the big men have.

Knox: What he wants out there, chiefly, Henry, is water supply, which of course will cost millions of dollars. He wants a sewage disposal plant; he wants a lot of frills. It went in one ear and out the other when he was talking about it. I was only interested in making an airport. They are trying to build up San Diego.

Purvis: He is just the man to sell the idea to, isn't he?

- 9 -

Ramsey: I understood him to say, sir, that a lot of his people were living in trailers.

Knox: They are. It is terribly overcrowded. Well, here is a plant that has doubled in size in the last year already with five or ten thousand people.

H.M.Jr: The thing he told Phil Young, if my memory serves me right, he has got 10,000 employees and he wants to go to 30,000 but he can't do it on account of these certain situations which really are largely up to the Navy.

Knox: No, it is more than the Navy.

H.M.Jr: They say you own the City.

Knox: The Navy does own it.

H.M.Jr: Yes, I think you pay 45% of the taxes.

Young: Fifty-four.

Knox: And we support the whole town. Well, I didn't shed any tears over the municipal problem. I had other problems to worry about. I am kind of hard-boiled on these fellows who want to live off the Government and then have the Government provide the public utilities, too.

H.M.Jr: Well anyway, during the day, could Philip Young call up your office and find out from your secretary when you can get Forrestal and who is going? I am sending Philip Young, too. He is going out to represent me.

Knox: Good.

Purvis: We will tie in accordingly.

- 10 -

Knox: Do you want me to talk to Fleet, or do you want to?

H.M.Jr: No, I would much rather you would. I have never met the gentleman.

Knox: He is quite a boy. He will give you a sales talk over the telephone.

Purvis: I remember him sitting on the radiator in my office in New York, getting closer and closer and closer every second.

H.M.Jr: Do you want to make use of this opportunity to ask anything of the Secretary of the Navy?

Purvis: The first thing I would like to make use of the opportunity for is to express my very real thanks for this. I know this is going to be very welcome news to the Prime Minister. I will cable it over. Thank you very much indeed.

I don't think there is anything on the Navy end at the moment, Mr. Secretary.

H.M.Jr: I don't think you will be wasting your time.

Purvis: It might be of interest to know that I was going to say to you this morning, a merchant shipping committee is on its way over. Merchant ships are going to be a much bigger problem than we thought, looking ahead, not just now.

Knox: Have you bought those old ships of ours?

Purvis: We have bought a lot of old ships, but that is only the immediate problem. The situation in this regard we have to look to is a really serious one about 18 months to two years from now.

- 11 -

- Knox: Yes. Well, we are going to have another thing there. We have got an awful lot of auxiliary ships we have got to supply the Navy with. It is going to take a lot of these ships now being built for tankers and transports and oil and ammunitions ships and all kinds of facilities.
- Purvis: I have a cable just yesterday asking whether help could be given now - the Admiralty has an urgent need for fast tankers for special Naval use. I suppose that is the very thing you are talking about. I understand that there are tankers wanted under the American flag, but that the United States Government paid the difference between their cost and that of ordinary tankers and therefore has hold on them for eventual Government requirements. Tankers required are generally of the Cimarron class, Standard Oil, of 18 knots. Would you inquire as to the possibility of the Government being willing to release one or two of these tankers and helping us to secure their use under reasonable conditions?
- Knox: Has anybody ever made a study of the fleet of tankers owned by the oil companies? Have you, Phil?
- Young: No, I don't think anybody has, Mr. Secretary.
- H.M.Jr: I happen to have a personal friend in Pure Oil and I know they have been building tankers and very considerable fleets of them and they are pretty fast ships and they won't build with any aid from the Government, so they have no strings on them.
- Purvis: I see. It is just one or two, apparently, that are in question at this time that they

- 12 -

asked for. With whom could we discuss that in greater detail?

Knox: Where is your friend Saddler? He would know all about that.

H.M.Jr: He would, and Admiral Land would know.

Knox: Yes, Jerry Land would know about it. Do you know him?

Purvis: No, I don't know him.

Knox: You ought to meet him. He is a very swell fellow.

H.M.Jr: I think he would be the best man to talk with.

Knox: Well, I will put you in touch with him. Is that all on your mind, Henry?

H.M.Jr: Yes, sir. Thank you very much. I am sorry Mr. Fairey isn't here.

Purvis: I apologize for that. I don't understand.

13

HM Jr was very pleased with
his accomplishment on getting
more bombers and PBX 5s for the
Br and said he considered this
an historical document

CONSOLIDATED AIRCRAFT CO.

Month	PBX-5 Flying boat Scheduled deliveries					B-24 Bomber Scheduled deliveries					Total	
	United States	British	British	Gain		United States	British	British	Gain		British	Gain
October	0		0			X 0	Q 3		3		3	
November	6 3		1 4	3		X 2	Q 5		5		8	
December	7 6 5		4 5 6	1 + 1		6 3	Q 3		3		4	
January	10 9		9 10	1		X 4	Q 3		3		4	
February	12		10 12	2		X 4	X 5		4		6	
March	12		12			X 4	X 7		4		4	
April	12		13 12 13	- 1 + 0		X 4	X 11		4		3	
May	26 21		15 20	+ 5		10	14					
June	24 17		20 17	+ 7		10	16					
Total	109 91		74 94	14 20		67	41		26		32	

October 2, 1940.

October 2, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Haas
Mr. Graves
Mr. Thompson
Mr. Pehle
Mr. Foley
Mr. Chamberlain
Mr. Bell
Mr. Cox
Mr. Cochran
Mr. White
Mr. Young
Mrs. Klotz

H.M.Jr: I haven't read everything you sent up, but I did read this from Cochran. It has to do - that the British Embassy has informed the State Department that the British Government is negotiating with Soviet Russia to relinquish its blocked Baltic States funds as a concession on the part of Great Britain to Russia in these negotiations. Livesey told me the State Department would not oppose such unblocking, but desired to use the Treasury. If my memory serves me right, it was the State Department that asked us to move in in a hurry on those three Baltic countries, didn't they?

Cochran: We were in consultation with them, yes, sir, and they have phoned me just a moment ago, also from the State Department and Jimmie Dunn said he didn't see any reason for us standing against this and that the British were pressing. They wanted to cable to London today or tomorrow on this.

H.M.Jr: Well, you can tell Mr. Jimmie Dunn that I will say nothing unless Mr. Hull either telephones me or sends me a communication to let me know how he personally feels on this thing. I will

see Cochran memo of 9/2

- 2 -

do nothing about it unless Mr. Hull personally calls me up or sends me a written communication.

Cochran: All right.

H.M.Jr: Will you get that message to him?

Cochran: Yes, sir.

H.M.Jr: Because after all, if the British release the situation, immediately the Russians can say, "Well, why don't we do the same thing?" And if we released the - if there is any place where we are justified that they were under duress, it is on those three Baltic countries. I don't know of a better case. If you just send that message back to Dunn, I won't - the Treasury won't express any opinion unless I hear verbally or in writing from Mr. Hull how he feels on this. Okay?

Cochran: Yes, sir.

H.M.Jr: What do you think about it?

Chamberlain: I think you are entirely right, Mr. Secretary. Would this decision include in any way the unblocking of private accounts or the turning over of ships to the Russians? We have had several cases in which efforts were made by the Russian Government to get hold of ships of those countries. I think it is a question that would require more consideration.

H.M.Jr: Well, I am sure that the State Department's wisdom has looked at every angle of this situation.

Chamberlain: I am sure so, too, but I would like to have the result of their thought.

H.M.Jr: That is what I want, and I want to make sure that somebody has told Mr. Hull about it, because if the English do this, then certainly the Russians are going to ask us to do it and

- 3 -

if they ask us to do it, it doesn't leave us a leg to stand on on the other countries.

Cochran: You see, they came back to that long telegram which the State Department sent with our assistance insisting we were wrong.

H.M.Jr: Who insisted we were wrong?

Cochran: The Russian Government.

H.M.Jr: And we did nothing on it?

Cochran: No, we continued to sit tight.

H.M.Jr: Do you disagree, Harry?

White: No, I thoroughly agree.

H.M.Jr: Bell?

Bell: No, it is all right.

White: I am just not sure whether the emphasis should be on your hearing from Mr. Hull personally or whether it should be a written communication from the State Department. I don't know whether there is a difference between the two.

H.M.Jr: Well, I will simply say I will do nothing until I hear from Mr. Hull. I won't have to say written or verbal. Until I hear from Mr. Hull. Is that the point that you are making?

White: Well, it was the opposite I meant, until you received something written from the State Department I am not sure - but if you --

H.M.Jr: I think just to hear from Mr. Hull is all right.

Chamberlain: I think so.

White: I would emphasize the State Department and you are emphasizing Hull. That was the only difference.

- 4 -

H.M.Jr: Well, I'm emphasizing Hull.

White: Okay.

H.M.Jr: Pehle, want to say anything?

Pehle: No, I am entirely in agreement that we would be in a much weaker position if the British let it go. We would undoubtedly get intensified demands from the Russians.

H.M.Jr: I think you can say we don't want to express an opinion until I hear from Mr. Hull.

Cochran: I have the long legal opinion that the B.I.S. got before they took the same position, which they are maintaining.

H.M.Jr: I see.

Norman?

Thompson: I have nothing this morning.

H.M.Jr: Bell?

Bell: You recall that back in May, 1936, you sent a letter to the Federal Reserve Banks to be distributed to the banking institutions and others in the country in regard to subscriptions to Government securities. We have been working over that letter for some time, and got it now to the point where the banks and the rest have agreed upon it. I wonder if you would like to take it and read it. There is no hurry about sending it out. I would like to put it out just before the next issue.

H.M.Jr: You do it.

Bell: We are pretty well satisfied with it now. We have got some things in it that I would like to talk with you about at the time you sign it.

H.M.Jr: Okay.

- 5 -

Bell: That is all I have.

H.M.Jr: Harold?

Harry?

White: There is a cable that you may have seen.
If not, I would suggest you read it. It
is from Heath on September 23rd.

H.M.Jr: I didn't read it.

White: I have only got a carbon. I will see that
you get the original of it.

Cochran: He has it.

H.M.Jr: Where?

Cochran: In the group last night.

H.M.Jr: Okay.

White: There is also a cable from Rueff.

H.M.Jr: From whom?

White: Rueff. I don't know how to pronounce it.
Since the Germans occupied France, I am
having trouble with my French.

H.M.Jr: A nice doggie.

White: Well, this is quotes.

"The Bank of France, it was answered, would
be happy to do this provided American authorities
would approve the dollar transit."

This was interpreted by Rueff to mean that
the Germans have found or hoped to find a
way of getting around the United States
system of blocking currencies. They are
asking the Bank of France to do something,
so that they apparently are interested in
getting around the control.

- 6 -

You asked for something on Layton, and I think that these memoranda will take care of that.

H.M.Jr: Thank you.

White: The British have sent us a cable that Merle may have told you about in which they are going to give us many more figures of their holdings, gold, et cetera, and the first is supposed to come in on the third of September and we are going to get it twice a month, all the figures that you asked for.

H.M.Jr: Fine.

White: Here is something on the - all the oil. Do you want to leave it until you take it up along with the Panamanian case?

H.M.Jr: Yes. We will have another meeting on the Panamanian case today. Supposing we say we meet again on that thing at 3:30.

White: Three thirty?

H.M.Jr: Yes.

White: I understand that the Chileans are pressing for --

H.M.Jr: You be here while they do it at 11:30 today.

White: Then I will tell you now about the status of the nitrate that you will have to tell them.

H.M.Jr: Well, come in a few minutes before. Come in five minutes before.

White: That is about Soviet gold production.

This is the first year's --

H.M.Jr: What?

White: Just a --

- 7 -

H.M.Jr: Oh yes, this is the only copy I have. This was sent up to the house last night. Oh, I've got the wrong thing.

There was a memorandum came to the house last night. This was given to me yesterday. The point of it is - we will see if I can find it - you get another copy, Phil, for them today. Give it to Harry White this morning. There are 150,000 tons, I think that is what it amounts to, of scrap iron down in Mexico which is going to Japan and the English want to know if there isn't something we can do about buying it. I thought you might talk to Leon Henderson about it.

White: I will do that.

H.M.Jr: You can tell him, so as not to lose time - the 150,000 figure is right in Mexico, which they are afraid will go to Japan and would the National Defense Council be interested in it for the stock pile, you see.

White: All right.

H.M.Jr: Will you ask Leon?

White: I will do that right away. There was a cable came in stating that the men had left Argentine en route to the United States after they stopped at Brazil. I don't know whether that was prior to the discussions or not.

H.M.Jr: Well, supposing somebody, either you or Cochran, find out whether they sent a cable yesterday.

White: Well, we will let Cochran find out.

H.M.Jr: Will you, Merle?

Cochran: Yes, sir.

H.M.Jr: Find out whether the State Department did send a cable or any instructions that have to do with the Argentine.

- 8 -

Anything else?

White:

That is all.

Bell:

On that scrap iron, is anything being done to stop these boats that are loading?

H.M.Jr:

Not a thing. I saw a story in the New York Times today on it, that they get a million tons a year out of the Philippines, of Eastern ore, the Japanese do, a million tons a year.

White:

The public has interpreted that move as imposing an embargo. They don't realize that it merely requires licensing, which need not necessarily be withheld.

H.M.Jr:

George?

Haas:

I have nothing except - do you want me to take a few minutes out to tell you about that development in connection with those airplane statistics?

H.M.Jr:

Not now. Are you handling it all right?

Haas:

No, they are - you will probably hear from them later on.

H.M.Jr:

What do they want to do, have the Treasury get out of it?

Haas:

That is right, very briefly. The Air Corps wants to handle it themselves and they are - well, in a debate they brought up some things which sort of indicate their motives. They said the President gets one set of figures and they have another set and he gets the figures before theirs.

H.M.Jr:

The President gets some before theirs?

Haas:

That is right, and the Byrd mess, you know, Senator Byrd, the story on that is the publicity man on the Defense Council straightened that out by using our figures.

- 9 -

H.M.Jr: That is right. Well, it said so in the paper.

Haas: Yes, so - but you know, I can understand their feeling about it.

H.M.Jr: Well, who is worrying about it over there?

Haas: I don't know how high up it goes. There are some Colonels there.

H.M.Jr: You tell them to sit tight, and when Mr. Stimson wants to talk to me about it, I am available.

Haas: Mr. who?

H.M.Jr: Mr. Patterson, either Mr. Stimson or Mr. Patterson. When they want to talk to me about it - in the meantime, we are going on just as we are, because the President does want to get the figures.

Haas: Well, I practically told them that. I didn't use those names, but I told them if somebody responsible wanted to make a proposition and would guarantee delivery of a figure satisfactory to you --

H.M.Jr: No, I am not going to give this up unless Mr. Stimson says, or Patterson - unless they ask me to give it up.

Haas: That is what they are trying to do now, trying to get a letter signed by the Secretaries of War and Navy to you, and the timing of it would be - you see, we get a report to you Wednesday morning as of the figures of Saturday. They said the best they could do was - would be ten days after and on the first and the 15th. That is the proposition they are going to make.

H.M.Jr: Let them stew. Anything else?

Haas: That is all. I noticed in the morning paper

- 10 -

that Leonard Ayres is coming back to be Chief Statistician in the War Department.

H.M.Jr: Really?

Bell: Called to active duty. He is a Colonel.

H.M.Jr: To do statistics?

Bell: He will be in charge of statistics in the Assistant Secretary's office.

H.M.Jr: Was he ever right in his life?

Bell: Not very often, I don't believe. He has been worse in the last five years. He is getting old.

Haas: I will just let that go, then.

H.M.Jr: Yes, just say you won't discuss it.

Haas: Yes.

Pehle: I have nothing now. Will you be able to see Professor Chamberlain and me later on?

H.M.Jr: You are down for three o'clock this afternoon.

Chamberlain: Yes.

H.M.Jr: That is a standing appointment. Anybody else that you want to bring in with you?

Pehle: I have nothing else.

H.M.Jr: Philip?

Young: Nothing.

Schwarz: I understand from Harry that what Edgar Mowrer would like to talk about is the aviation picture, aircraft. He is going to do a book.

White: If he was talking to you about what he was talking to me about.

- 11 -

H.M.Jr: I don't want to talk to him about it.

Schwarz: He has asked you for tomorrow afternoon. He is out of town today.

H.M.Jr: Edgar Mowrer?

Schwarz: Yes.

H.M.Jr: Three o'clock tomorrow.

Schwarz: Tomorrow?

H.M.Jr: Yes. What else?

Schwarz: That is all.

H.M.Jr: Professor Chamberlain?

Chamberlain: I haven't anything.

H.M.Jr: Do they give you a place to sit when you are here?

Chamberlain: Oh yes, I am pretty well taken care of, Mr. Secretary. I talked that over with Mr. Thompson.

H.M.Jr: That is good. See you at three, then.

Chamberlain: Yes.

Cochran: Mr. Stopford gave me a memorandum yesterday which I am circulating this morning and giving to Customs also. He said there is a shipment of 500 French paintings and drawings which would be in on the Excalibur. We had a report before that there were two New York firms negotiating with Germans for works of art from France.

White: Are they going to sell them here?

Cochran: Evidently they were purchased by New Yorkers.

H.M.Jr: That is nice. What else?

- 12 -

Cochran: That is all.

White: That will raise the question of blocking the proceeds, won't it?

Cochran: Yes.

Bell: Does the Secretary know that the French approved that Argentine --

H.M.Jr: Last night. Does the Argentinian Ambassador know that?

Cochran: I haven't told him. If you wish, I will tell him.

H.M.Jr: Oh, sure, I would tell him. Did he come through with his information, Pehle?

Pehle: Yes, he did, sir.

Cochran: Alphand is coming down, as you might know. He wanted to see Mr. Bell.

H.M.Jr: Yes, Alphand and the Ambassador. Ten fifteen on Friday. You can be here and translate.

Cochran: Fortunately, he speaks English pretty well.

H.M.Jr: I still say you can be here and translate. What else?

Cochran: That is all, sir.

Bell: Do I have to see him if he is going to see the Secretary?

H.M.Jr: Are you seeing the Ambassador, too?

Bell: No, I am seeing the Financial Attache. I don't know what for.

H.M.Jr: He thinks you are easier.

Bell: He has got me after he sees you, then.

H.M.Jr: Ed, have you got the tax bill written up for the President?

-13 -

Foley: I am working on it.

H.M.Jr: Factual?

Foley: Factual.

H.M.Jr: Good. What else?

Foley: I spoke to Sam Klaus about this Scalise case yesterday. It isn't in John Cahill's district. It is in the Eastern district, over in Brooklyn, Kennedy's district. He has already sent a man up there with the case with instructions to present it to the Grand Jury just as early this morning as it is possible to do it.

H.M.Jr: Is Kennedy the fellow who made the case against Murder, Inc.?

Foley: I don't know.

H.M.Jr: I think he is.

Foley: He is a new man, appointed by this Administration, in the last year.

H.M.Jr: If he is the man who has made that case, he is good.

Schwarz: That was O'Dwyer, former policeman who studied law and worked his way up.

H.M.Jr: I see. He must be good.

Graves: O'Dwyer?

H.M.Jr: Yes.

Graves: He has certainly gone to town on Murder, Inc.

H.M.Jr: Anything else?

Foley: Tietjens was coming down to have lunch with us and if you could see him --

H.M.Jr: Right after lunch.

- 14 -

Foley: I think it would be very nice.

Here is a little note I meant to show you that I got from Nelson Rockefeller about not being able to come over that day and hoping you could give him some other time to come.

H.M.Jr: Well, I could do it tomorrow.

Foley: All right. Lunch tomorrow?

H.M.Jr: Yes. Will you please let Mrs. Klotz know?

Foley: I will call him up.

H.M.Jr: And let Dr. White know.

Foley: Yes, sir.

H.M.Jr: What else?

Foley: I have nothing else.

H.M.Jr: Okay, gents.

October 2, 1940

Present:

Mr. Foley
Mr. Young
Mr. Buckley
Mrs. Klotz

S. H. Landis

HM, Jr: The purpose of this meeting is this: This is mostly directed at you (Foley). It will take me a couple of minutes.

I have had a theory, or hobby, or idea, whatever you want to call it, that if the Army and Navy and the English will show that we want one model and give people enough orders that they can look ahead a year, that they can turn these things out in pretty good order -- airplanes -- and it has been demonstrated in Buffalo that they can do it because in Buffalo they are going to turn out the first 10 Curtiss P-40 pursuit planes per day when they get themselves straightened around. Cost them \$190,000, changes, on the \$6,200,000 investment.

In this thing I have been able to do this week -- it has taken a long long time -- with the Consolidated Aircraft, of which Major Fleet is the head, the Army, on the four-engine bombers, are giving away 26 so that the English will get them sooner and they both have orders -- the English and the Army -- for 4-engine bombers. May be slight differences. We also have gotten the Army to release the Sperry bomb sight, 40-odd of which they have on the shelf; are not using it.

Mr. Foley: The Army has them, or Sperry?

HM, Jr: Army. Which are going to go into these particular bombers. Now, Consolidated also makes a flying boat which the English and the Navy have on order and on that, from now on, each one gets one as they come off the line.

-2-

Now, I would like to go out there myself and see the thing, but I can't do it and I think you can see more on the ground than any other way. Colonel Knox was here this morning and he is sending Forrestal himself there, at my request, and the English are going to send Fairey, who has been in the airplane business for 28 years and is here now in charge of airplanes, and Phil can't go because he does not fly, so I am going to send Buckley and I am going to ask you (Foley) to go, in the first place because I think it's fun and, second, I want to be represented as much as I can personally and the place where you (Foley) would come in, where you can supply the brains, their problems, as I get it, are municipal. They need water works, sewage and they need housing.

Mr. Buckley: The City of San Diego.

HM, Jr: 54% of the city is owned or controlled by the Navy. As a side line -- and before you go you can post yourself -- they want training schools and the man who can give you that is our mutual friend, labor statistics, Lubin. He can get it for you. To bring you up to date, all the mix-up is between Madame Perkins and Studebaker and the labor leader who is on the National Defense, Hillman, all that rigamarole.

With your past experience, not as an attorney, but from what you have known since you have been here -- Knox said, "I have heard all this. It went in one ear and out the other". This naval officer spoke up and said, "Well, Mr. Secretary, these people are living in trailers." "Oh," Knox said, "that Fleet is a big talker, a big mouth." These things which he has asked for are reasonable things and you, Ed, knowing -- well, maybe we can get PWA or WPA

Mr. Foley: U.S.H.A., combination of both.

HM, Jr: A combination. I begged on my knees for the National Defense to do this kind of thing and I can't get them interested. I cannot get Knudsen interested, so, by God!, I am going to do it. What they should do is do this for each plant, but this thing, particularly the thing they are asking for, are public works things which you (Foley) know and, if the girls don't mind, it's God damned nonsense

-3-

that somebody does not do this. We did do it in Buffalo, - a beautiful job, but it wasn't a municipal thing.

Mr. Buckley: This has been studied by FHA. We can check on that.

HM, Jr: But nobody does anything!

Mr. Buckley: They have a plan.

HM, Jr: But if Mr. Foley goes out and sees the water end, the sewage end, the housing end, with his experience he can come back and give me a report and we can just turn this thing inside out so they give this fellow -- and he says given these things he can go from 10,000 to 30,000 employees. It's all very nice to talk about they have let \$7,000,000,000 in contracts, but every contract they place on the other one delays the present contract and nobody has tried to find out how to get more production between now and next spring when this war will at least be fought if not settled and he makes the thing that Churchill wants more than anything else. They are making the four-engine bomber and long distance flying boat. That's what he wants and this fellow has got it and I want to increase his production by 50%, not a year from now, but now. And where he's being slowed up through models being different, either the Army or Navy and English will have to give way.

Just to show you what I have done, the Army put up this big fight for Boeing flying fortresses. O. K. Because they are no good and they can keep them, we are giving them 120 engines. But this is the big fight Stimson made. But in return for that, we get Consolidated which are marvelous. These boys are doing the fighting. It's like with the tank -- the English have certain things which they know stand up under fire. We ought to adopt them. And out of that, what I envisage coming off the line is one flying boat which is the best in the world and one four-engine bomber, which is the best in the world, that they can grind out in three months, but make one a day of each of these things. Half of the production, it has been agreed, half of the production goes to the English and half to the Army. That work has all been done.

I am not asking you to do something out of your line. I am only asking you to do something that you have lived

-4-

with here for 8 years and the thing that Buckley and Young don't know anything about, but Buckley will go with you.

Mr. Foley: When do we go?

HM,Jr: That's the spirit! But you get the idea, Ed?

Mr. Foley: Yes.

HM,Jr: And this thing of Knox who does not -- in this thing FHA has a plan. Straus told me that he has \$100,000,000 that he can start and have houses finished in 4-1/2 months. Then I hear from somebody else that Carmody says its illegal. Palmer is doing something else. If they won't do it, you come home and if the President lets me I will just tell the story right out in the papers and we will blow these fellows out of the ocean.

But I want it just the way we got it up in Buffalo. I want two machines coming out of there click, click, click. And if this fellow -- they say he has not produced. He has built more flying boats than all the rest of the United States put together and there will be enough technical fellows along so they will know what's what and, I say, both Forrestal and whoever is his best technical man, and Fairey will be going so you will have enough technical men.

Mr. Foley: Forrestal is away.

HM,Jr: He's being ordered from Florida out there. Do you get the picture?

Mr. Foley: Yes.

Mr. Young: Why not cover the other West Coast plants while you are out there?

HM,Jr: No, I can't spare Foley. He's too valuable, but if I can sit back and say, "Mr. President, we have done Curtiss. We helped Curtiss. We have done this thing. Here's another one. Please, this is not

-5-

Treasury business. Won't you get somebody, somewhere in the United States, to keep doing that?"

The reason I don't want to do Douglas is there is a big row on. You heard Patterson has written a show cause letter to Douglas why he shouldn't cancel contracts, and so on. I don't want you (Foley) to get mixed up on that.

Mr. Young: He has done the same thing on Lockheed.

HM,Jr: I am not putting you into anything, as you know by now, but what is O. K., but I would not want you to get into that mix-up. But this is purely a municipal problem and Phil has a memo on it. It's a training program and this fellow says, "I can't spend all my time in Washington running from one damn Bureau to another trying to get these people to do it. It's outrageous." Now, we will have to go out there and help him and there is the Council of National Defense -- I can do this because these two things are stuck and I can make a monkey out of the Council in a very nice way and then come back and say, "We can do this thing, but why don't you do it?"

Another reason this is a break, I feel that Knox will go to town much more than the Army or Navy will, and Forrestal and you get along well. So the whole set-up -- I have been thinking about this overnight and all day -- this is an ideal thing to make another thing -- and this happens to be the two things that Churchill says he wants more than anything else and if you do it for Fleet this will spread like wildfire. There is no more gossip crowd than the airplane people and they will come in and say "Can't you do it for us?"

Mr. Young: Or a more gossip fellow than Fleet.

HM,Jr: That's all right.

Mr. Foley: When do we go?

HM,Jr: It would not be until Friday. You might be looking into who is Mayor of San Diego.

-6-

Mr. Foley: I know that crowd. I have been out there. I don't know whether they are still in power. Byers used to be the Corporation Counsel.

HM, Jr.: And check around town are there any plans lying around, etc., in FHA and the various things. It's a little change.

Mr. Foley: Sure! I would love it.

HM, Jr.: I may end up by going myself.

Mr. Buckley: Along the same line, I understand Palmer did not know about this problem until he was told about it by FHA.

HM, Jr.: Bill Bullitt's favorite expression is -- again pardon me ladies -- "it makes me vomit". It does. If I could do this thing and go out there myself, take the time to stay with one plant after another, but all these people are so busy with all their satellites that they just haven't got the time to hit and cut through this thing and and get it. We have permission to do this thing. O. K. We will help this fellow Fleet produce on the things which are possible to get more employees.

Mr. Foley: Any problem insofar as financing his plant expansion?

HM, Jr.: I don't know about that. There does not seem to be.

Mr. Young: It's primarily a municipal problem. He has four municipal problems. The Navy has 54% of the city which leaves it impossible for the other 46% to pay the taxation.

Mr. Foley: That is a PWA airport out there and he leased the land from the city for a long time for a nominal fee.

HM, Jr.: I think this fellow has a grievance and I think he has a good alibi.

-7-

Mr. Young: Perfectly possible that Ed and the others will want to talk to Ryan who is the other manufacturer in San Diego.

HM, Jr: That's something different, but I don't want him to get into the Lockheed-Douglas situation.

And if you want a letter to Joe Schenck while you are out there or Shirley Temple (Laughter.)

oOo-oOo

October 2, 1940.

36

Memorandum of Meeting in the Secretary's Office,
Wednesday morning, October 2, at 11:15,
regarding the work of the Division of Personnel.

Present: The Secretary
Mr. Thompson
Mr. Graves

The Secretary expressed himself as concerned about the activities of the Division of Personnel. He called attention to the fact that he had not personally approved the appointment of Mr. Ballinger as Director of Personnel, and indicated that he had misgivings about Mr. Ballinger's qualifications for the work.

He indicated further that he doubted whether Mr. Ballinger's assistants were properly qualified for their duties.

He instructed Mr. Graves to make a thorough investigation of these matters and to report to him concerning the qualifications of Mr. Ballinger and his assistants.

He specifically instructed that this inquiry should include, among other things, an exploration of the income tax history of the persons involved.

At Mr. Graves's suggestion, he directed also that Mr. Graves should formulate and submit a statement completely and accurately defining the duties, responsibilities, and authority which should properly devolve upon, and be exercised by, the Personnel Division.

Meeting in the Secretary's Office, October 2, 1940, 11:30 a.m.

Present: Secretary Morgenthau
The Minister from Chile, Mr. Schnake
Mr. Maschje (interpreter)
Mr. Gazitua
Mr. White

The Minister, through his interpreter Mr. Maschje, stated that he came to inquire what was the status of the consideration which was being given by the Treasury on economic assistance to Chile. He stated that they had submitted all memoranda and data which the Treasury had asked for and had also given copies of the material to the State Department.

The Secretary replied that an analysis of the very excellent memoranda and comprehensive material which was submitted indicated that other measures to be taken by other branches of the government would be necessary before the Treasury could give further consideration to the problem. Chile's need was for increasing her exports and he suggested that the State Department and the Export-Import Bank were the appropriate agencies to see to help them with that problem. The State Department might be able to help them get the Council of Defense to consider nitrate purchases for a stock pile and they should talk with Mr. Jones to see if the Export-Import Bank might be able to make a loan of a character similar to that which was advanced to Brazil last year. The Secretary went on to state that the Treasury's Stabilization Fund was not for the purpose of making loans but rather for the purpose of helping to stabilize currencies.

The Secretary said that in a conversation with Mr. Jones the matter of Chile had come up and Mr. Jones said that he didn't know very much about the Chilean situation. The Minister replied that before Mr. Pierson had left they had spent some time going over the situation and that he had taken him to Mr. Jones and they had discussed the problem with him. But that they had assumed that the Export-Import Bank confined itself to productive long-term loans and that the Treasury was the place to go for the consideration of providing foreign exchange to meet short term difficulties.

The Minister explained that the export situation is getting steadily worse and that they were in need of foreign exchange to maintain their imports. The Secretary assured the Minister that he was still interested in Chile and would be glad to see them after they had made what arrangements they could with the Export-Import Bank and the State Department.

The Minister thanked him and said that he would get in touch with Mr. Jones and the State Department.

HSM

PLAIN

London

Dated October 2, 1940

Rec'd 2 p. m.

Secretary of State,

Washington.

3290, October 2.

FOR TREASURY FROM BUTTERWORTH.

The Exchequer returns for the first half of the fiscal year show revenue at £452.5 million, an increase of £114 million on the corresponding period of last year and expenditure at £1,610.1 million, an increase of £1,048 million. The deficit of £1,157.6 million is a little more than half the deficit for the full year as estimated at £2,107 million in the July supplementary budget but taxation will yield considerably heavier totals in the second half year because direct tax collections come in heavily towards the end of the year, and because the higher direct tax rates imposed in the July budget will then be more evident. HOWEVER, expenditure will doubtless also increase.

The total expenditure of £1,610.1 million was financed as follows: £452.5 million or 28 percent from

REVENUE;

hsm -2- No. 3290, October 2, from London

REVENUE; £421.6 million or 26 percent from savings certificates, baby bonds and on-tap war bonds; £203 million from 3 percent war loan, while £405.7 million of 4-1/2 percent conversion loan was repaid and doubtless largely reinvested in the other securities mentioned above: the total net from savings and public loans was £520.6 million or 32 percent of total expenditure. The remainder was financed by an increase in the floating debt of £647.1 million or 40 percent of expenditure.

The proportion of the weekly expenditure being financed by the floating debt is increasing, while total savings are decreasing, a trend which is giving rise to official efforts to increase the weekly savings rate that dropped from a weekly average in August of £17 million to £14 million in September. For example, following Stamp's speech reported in my No. 3230 of September 26, Crookshank, Parliamentary Secretary of the Treasury, in a speech on September 30 said that "not until we are saving at the rate of £40 million a week, shall we be on a really good wicket". Such a figure is obviously a desirable goal not only from the budgetary point of view but as a check on consumption spending.

KENNEDY

TFV

PARAPHRASE

No. 459, October 2, 6 p.m. from Buenos Aires

Last night the Minister of Finance inquired whether Mr. Pierson could assure him that the Government of the United States has no present intention of lowering the price of gold. This might be of interest to the Secretary of the Treasury. In reply Mr. Pierson said that he had no official information regarding the subject but gave as his personal opinion that such action was not likely.

It is possible that the real explanation for recent shipments of gold from Argentina to the Federal Reserve Bank which have up to the present amounted to some \$26,000,000 is to have it readily available for conversion into dollars. It may be recalled in this connection that the Central Bank's General Manager told Mr. Pierson that their present plans called for shipment to the United States of 230,000,000 pesos of gold prior to the end of 1940.

RA:AND

eh

COPY

PARAPHRASE

No. 460, October 2, 8 p.m. from Buenos Aires

Mr. Pierson informed the Minister of Finance last night, who showed great disappointment, that he was not yet in a position to present definite proposals regarding dollar exchange credits and other economic cooperation matters. The Minister appeared relieved when he was told that within a few days a decision would be forthcoming.

An offer of additional credits in any sum of less than \$50,000,000 will accomplish little in Mr. Pierson's opinion and he believes that prompt action with reference to purchases should be taken, and that there should be no delay in this connection in the case of Argentina.

TUCK

RA:AED

eh

COPY

TO THE PLANTIVA
RECEIVED OCTOBER 11 1955
CHIEF OF THE

OCTOBER 11 1955

RECEIVED
OCTOBER 11 1955

HSM

PLAIN

Stockholm

Dated October 2, 1940

Rec'd 5:40 a.m., 3rd

Secretary of State,

Washington.

938, Second.

Retail prices coal coke increased October first by approximately coke 24% coal 11-1/2% this will up rentals all of which have fuel cost clause. Tallow and lard probably rationed soon. Final regulation lubricant trade effective September 29 licenses all luboils, fats, regulates retail sales, expropriates all stocks waste oil. All stocks binder twine over 25 kilos expropriated. Riksbank September 30 million crowns metallic reserve 638 foreign exchange 753 loans discount 709 note circulation 1470. Inform Commerce, Agriculture, Treasury.

STERLING

RR

sh

COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon called and stated that the following amounts were transferred to the account of the Swiss National Bank with the Federal today.

Amount ReceivedFrom

\$3,000,000	Guaranty Trust Company
3,000,000	Swiss Bank Corporation, N. Y.
2,000,000	National City Bank
1,000,000	Chase National Bank
1,000,000	Credit Suisse, N. Y.
<u>\$10,000,000</u>	

Total

All of these payments were transferred from the banks indicated by order of the Swiss National Bank.

Including these transfers there has now been a total of \$28,000,000 transferred to the Swiss account at the Federal during the last few days.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with instructions given me by the Secretary at this morning's Staff meeting, I telephoned Mr. Collado in the State Department at 10:15, finding Mr. Collado in Assistant Secretary Grady's office. I told Mr. Collado that we had noted from our Embassy cablegrams from Buenos Aires, dated prior to the date of the telephone conversation between Mr. Duggan and Mr. Pierson, that Mr. Fredsieh had fixed his definite itinerary and schedule for proceeding to the United States, via Rio de Janeiro, accompanied by Mr. Grumbach. I asked Collado just what the exact situation is now, and particularly as to whether the State Department sent any message to our Embassy in Buenos Aires or to Mr. Pierson following the conference held in the Treasury Department yesterday, in which Messrs. Grady and Berle participated.

Mr. Collado stated that no formal message had been sent yesterday to Buenos Aires. Mr. Pierson had telephoned Mr. Duggan twice and they had talked briefly. Mr. Duggan had told Pierson that nothing had been decided.

Mr. Collado said that there was still uncertainty as to whether the Argentine visitors would come on to Washington. The State Department has been in touch with Ambassador Espil and the future plans are still vague. Collado renewed the argument which he had made to me earlier in the week, namely, that the Treasury Department should be in on the Argentine business, this being, in his opinion, a case for a utilization of the Stabilization Fund rather than Export-Import Bank money. I told Collado that there was nothing I could add to the conversation on this point held yesterday between Secretary Morgenthau and the two State Department officials. I stated that our interest was in knowing what had been sent to Buenos Aires following that conversation. Mr. Collado thought that the State Department was in touch, or would be in touch with Mr. Jones, and that we would hear from the State Department further in regard to possible conversations between the State, Treasury and Mr. Jones.

At 10:30 this morning I telephoned Ambassador Espil of Argentina to let him know that the Bank of France official in New York had received the necessary instructions and that the transfer of \$3,751,000 from the account of the Bank of France with the Federal Reserve Bank to the account of the Bank of Argentina with the Federal had been made yesterday. He was delighted to have this information. The Ambassador then immediately raised the question of the Argentine visit to the United States on financial matters. I told him that we had been in touch with the State Department officials and that he should look to them for a clarification of the situation.

TREASURY DEPARTMENT

45

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO ~~Mr. Cochran~~ *The Secretary*
FROM Mr. Hawkey

Subject: Current Gold Movement from Argentina to this Country

A steady inflow of gold from Argentina has been taking place since September 3; the gold has been shipped by The Central Bank of the Argentine Republic to the Federal Reserve Bank of New York. The approximate value of the gold already arrived and still in transit is as follows:

- | | |
|--|---------------------|
| 1. Arrivals between September 3 and October 1..... | \$17,750,000 |
| (All of this gold was sold to the U.S. Assay Office.) | |
| 2. Still in transit..... | \$28,250,000 |
| (Of this amount, \$11,750,000 is for sale to the
U. S. Assay Office; disposition of the balance of
\$16,500,000 is still unknown.) | |
| Total for current movement..... | <u>\$46,000,000</u> |

Most of the proceeds received from the gold already imported and sold have apparently been used to meet Argentina's current requirements here. That country's official and private short-term balances in New York rose only \$5,000,000 between August 28 and September 25, as against a gold inflow of \$13,000,000 in the same period. The Argentine gold account at the Federal experienced no change in the interval.

B.M.S.

PH

October 2, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Niskola, Secretary of the Legation of Finland, called on me yesterday in regard to a transfer of funds matter. Incidentally, he stated that his Legation had recently written to Helsinki in regard to a conversation had by the Legation with Mr. Livesey in the State Department concerning the Vandenberg resolution on payment of the debt owed the United States by the Republic of Finland. Mr. Livesey evidently desired to know what the present attitude of the Finnish Government was toward this resolution. To assist in their study of the matter, Mr. Niskola asked if we could let him know whether the Treasury Department considered the resolution still applicable to the installment which the Finnish Government has already paid in June of this year.



HMC:dm:10.2.40

October 2, 1940

Mr. Fehle

Mr. Cochran

While in the Control Group Meeting this afternoon Mr. Luthringer, Assistant to Mr. Fehle, telephoned me. He stated that the inquiry which I had passed to Mr. Fehle, seeking State Department views on an application for the transfer of dollars out of the Russian State Bank account with the Chase Bank in New York to pay for rubber to be shipped from Indo China to Vladivostok, had been circulated and that the decision was that the State Department does not desire to express any opinion in the premises. I told Mr. Luthringer that we had submitted this case to the State Department since we thought it had political angles in which the State Department might be interested.

BMP

HMC:dm:10.2.40

G-2/2657-220

RESTRICTED

No. 209

SITUATION REPORTM.I.D., W.D.
October 2, 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. European Theater of War.

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

The British admitted heavy German raids at scattered points all over Great Britain during daylight of the 1st, and last night. According to the German communique points attacked included port facilities at London, Liverpool and elsewhere, and industrial plants in the Midlands.

British night operations were directed against the Channel ports, Berlin and numerous communications centers in western Germany.

II. Mediterranean and African Theaters of War.

1. No ground operations reported.
2. The R.A.F. raided Italian communications along the Mediterranean, notably Tobruk. Massawa and Berbera in East Africa were also bombed. The Italians claim to have raided the seaplane base at Aden and to have bombed two cruisers in the eastern Mediterranean.

RESTRICTED

Paraphrase of Code Radiogram
Received at the War Department
at 12:49 p.m., October 2, 1940.

CONFIDENTIAL

London, filed 12:05, October 2, 1940.

1. During daylight hours of Tuesday, October 1st, six Bristol Blenheim bombers made a routine sweep over the North Sea. During that night the Bomber Command dispatched 83 bombers against German and French synthetic oil plants, railroad yards, barges, and other shipping. Two bombers were lost and one crashed on landing.

2. German daylight attacks on the 1st were directed against London, Biggin Hill, Swanscombe, Maidstone and Kenley. A single plane machine gunned and bombed the Croydon airport but none reached London. Several reconnaissance flights by small numbers of German planes were made over the eastern, northern, and southern coasts. About 450 planes operated during the day. German activities during the night that followed were on a reduced scale but over a wide area that included Liverpool, Manchester, South Wales, the West Midlands, Leicester and London.

3. Considerable damage was done to buildings and two airplanes were burned in an attack on a Royal Air Force station but the field is still serviceable. There were some damages to the plants of the Sussex Rubber Company and the Standard Motor Company in Acton. In the London suburbs seven railroad lines and small stations were temporarily blocked. In London proper there were serious damages to the electric station at Wandsworth, a warehouse in Woolwich,

CONFIDENTIAL

CONFIDENTIAL

a railroad at Hampstead, and to the Grand Union Canal. In addition, there were industrial damages to the Tulsa Hill Tunnel, the docks in Rirkhead, the Anglo-American Oil Company at Purfleet and a telephone exchange.

4. German plane losses were four confirmed, one probable and five damaged. The British lost five planes and four pilots.

5. The sinking of a 14,000-ton merchant vessel by a torpedo was reported.

6. There is no increased evidence of an invasion.

LXX

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

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

October 2nd, 1940.

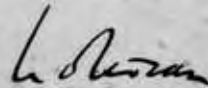
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated September 30th 1940.

1. Naval.

H.M.S. "Resolution" which was damaged by torpedo during operations off Dakar has arrived in port.

During the night of September 29th - 30th a British unit with two destroyers in company bombarded the Calais area.

On the evening of September 28th 6 naval aircraft were attacked by Curtiss fighters off Dakar. 3 of them are missing.

During the 29th three separate attacks on U-Boats were carried out by our aircraft but no definite results were obtained.

2. Royal Air Force.

During the night of the 28th - 29th unfavourable weather prevented most of our machines reaching targets but 2 dropped bombs near transformer station and a railway station. The remaining aircraft attacked railway targets and Wilhelmshaven naval base where fires and explosions were caused. A highly successful attack was made on nickel works near Frankfurt. Tremendous fires were

caused/

- 2 -

83

caused and the whole target area was set alight. The attacks on shipping were difficult to observe but it is thought that 2 hits were scored on a merchant ship at Le Havre and fires were started in docks. Five large fires were also caused at Lorient.

Night of September 29th - 30th.

115 aircraft were sent to the following objectives:

Shipping in Channel ports. Bitterfeld Aluminium Works. Synthetic oil plant at Magdeburg. Bosch factory at Stuttgart. railway targets in north west Germany and gun emplacements opposite Dover. Five aircraft were also sent to lay mines. Three heavy bombers are missing.

3. German Air Force.

Daylight September 29th.

German bomber formations mentioned in the summary of the 29th were escorted by fighters in the average of about 5 to 1 and, although raids were unsuccessful, the enemy sustained considerably fewer losses than usual.

Night September 29th - 30th.

Casualties in London area appear to have been below the average, being about 40 killed and 100 injured; at Barnet hospital one nurse and 17 patients were killed and two nurses seriously wounded. In a southern and south west district of the suburbs of London damage to water mains is causing a temporary shortage of water in the areas.

Daylight/

- 3 -

Daylight 29th. During the morning and afternoon enemy activity was limited to bomber reconnaissances, chiefly by single aircraft one of which was shot down by an infantry Lewis gun. Lowestoft Harbour was bombed and some damage to property and casualties were caused. Other minor bombing was reported from East Anglia, Kent and Sussex. About 4.30 an enemy formation of about 100 aircraft crossed the south coast. All appeared to be fighters and were flying at a great height.

The formation split up part flying towards central London and others as far as Reading before turning back.

Night of September 29th - 30th. From 8 p.m. onward enemy raiders operated throughout the night chiefly in the London area, though considerable activity also took place in south and south east England, south Wales and Liverpool. The scale of the attack on the London area was the same as usual, although bombing was slightly less intense and there were fewer fires. The principal damage occurred at Acton where the railway, an aero-engine factory and another factory engaged in aircraft work were amongst

industrial/

- 4 -

industrial targets hit.

A serious fire was also caused in the City. Outside London large fires, some of which were still burning this morning, were caused in Liverpool docks but the position is improving and little damage is reported outside the dock area where casualties were few. Numerous incidents of minor bombing are reported from various parts of the country. Damage was slight and casualties were small.

4. Summary of Air Casualties.

	<u>Destroyed.</u>	<u>Probable.</u>	<u>Damaged.</u>
<u>Enemy:</u>			
<u>By our fighters:</u>			
Bombers	2	1	1
Fighters	1	2	1
<u>By Lewis Gun:</u>	1(bomber)--	--	--
<u>By anti-aircraft:</u>	2(unidentified)	--	--
night 28th - 29th			
night 29th - 30th	1(bomber)--	--	--
Totals:	<u>7</u>	<u>3</u>	<u>2</u>

British: 5 aircraft (2 pilots safe) 3 bombers missing.

5. Shipping Casualties.

One British ship (5,300 tons) homeward bound in convoy was attacked by aircraft and sunk off the east Scottish coast on 28th.

A convoy of 14 British ships has safely arrived in home waters; cargoes included oil, meat and wheat



BRITISH EMBASSY,
WASHINGTON, D.C.

October 2nd, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

A handwritten signature in dark ink, appearing to read "L. Moran", is written below the typed name.

The Honourable

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

Telegram from London, dated October 1st, 1940.

1. Naval.

September 30th His Majesty's Australian ship STUART in cooperation with flying boat sunk Italian submarine off Alexandria.

Coastal battery at GRIS NEE shelled Dover morning of September 30th. One civilian killed and seven wounded.

2. R.A.F.

In spite of unfavourable weather conditions successful attacks were carried out on the night of September 29th - 30th on six railway marshalling yards, oil plant at MAGDEBURG, BOSCH factory and gas works at STUTTGART, oil refinery at HANOVER, power station near ANTWERP, aircraft factory at AMSTERDAM, nine aerodromes in Germany and Holland and the Channel ports. The crew of one of the bombers reported missing, now safe.

September 30th 2 enemy flying boats were shot down off northeast Scotland and one JU.88 off LINCOLN-SHIRE coast.

During the night of September 30th - October 1st, 132 aircraft attacked shipping and docks in the Channel ports, aerodrome at Berlin and marshalling yards and a synthetic oil plant in Germany. Results not yet known. Five bombers not yet returned.

3. German Air Force. Night of September 29th - 30th.

Fewer fires caused than usual in London. Bad temporary damage to railways and public utilities. Unexploded bomb fell in ST. PAUL'S Churchyard but has been disposed of without damage to the Cathedral. Damage caused to house and property and approximately 55 killed and 100 injured.

Two formations each of about 50 aircraft crossed the south coast during the morning of September 30th, but did not reach London. Third raid was over DORSET and the fourth raid comprising 150 aircraft crossed the coast near Dover during the afternoon. Nine aircraft reached the inner artillery zone. The fifth raid of 150 aircraft reached WEYBRIDGE and READING and at the same time another 150 aircraft approached PORTLAND. All the above raids intercepted by our fighter squadrons. Some bombs dropped in OUTSKIRTS of London, home counties and DORSET. No damage to War industry is reported.

During the night of September 30th - October 1st, about 275 enemy aircraft operated over this country of which about 175 penetrated to central London. Raiders operated over London, the Midlands, MERSEYSIDE and the southern part of England. No serious fires caused in London area and damage to industrial premises and communications was not serious.

4. Summary of Air Casualties.

Enemy	destroyed	probably	damaged.
<u>By our fighters.</u>			
Bombers	14		
Fighters	31		
By anti-aircraft fire.	1		
Night of Sept. 29th - 30th.		1	
Bombers	8		15
By our fighters	24		14

British/

-3-

British 20 Aircraft 12 pilots safe. Five bombers not yet returned.

5. Shipping Casualties.

S.S. "SUSSEX" (12,000 tons) attacked by bomb and machine gunned in western approaches on September 30th. Fire started but has been extinguished. Some minor casualties. Two other air attacks on British ships in western approaches and home waters on same day causing no casualties.

Convoy of 11 ships has arrived safely in home ports; cargoes included 2 iron and 3 grain.

6. Middle East.

No enemy activity reported from Egypt.

Some enemy air activity in KASSALA area.

HAIFA bombed by 10 unidentified aircraft on September 29th; factory damage negligible, one person injured.

7. Projected invasion against United Kingdom.

Situation with regard to invasion is being very closely watched. Although there have been minor alterations in concentrations of ships and barges in various ports, general situation remains substantially unaltered. Further indications have, however, been received of continuation of preparations for invasion.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£147,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank sold £2,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-3/4 until late in the afternoon. It closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 12,000
Purchased from commercial concerns	£ 19,000

Continuing its upward movement, the Swiss franc reached a high of .2303-1/2 this morning. The final quotation was .2301-1/2, as compared with .2301 yesterday. The Swiss National Bank was reported to have raised its selling rate for Swiss francs to .2304.

The Canadian dollar had a weaker tone. As against yesterday's final discount of 14-1/8%, that currency closed at 15% today. Other closing rates were:

Swedish krona	.2383
Reichsmark	.4000
Mexican peso	.2049
Argentine peso (free)	.2330
Brazilian milreis (free)	.0505
Cuban peso	8-7/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

No new gold engagements were reported.

Since there was a holiday in India, the Bombay bullion markets were closed.

In London, the price fixed for spot silver was unchanged at 23-7/16d. The forward quotation was also 23-7/16d, representing a gain of 1/16d. The dollar equivalent of this price is 42.56¢.

- 2 -

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

We made four purchases of silver totaling 250,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces consisted of new production from foreign countries, for forward delivery. The remaining 50,000 ounces represented a purchase from the Central Bank of China.

A handwritten signature in dark ink, appearing to be 'J. M. S.', is centered on the page.

CONFIDENTIAL

October 2, 1940
2:13 p.m.

Secretary
Frank Knox:

Henry, just to bring you up to date.

H.M.Jr:

Yeah.

K:

I brought Purvis over here and I got an engineer down in the Aeronautical Department - he's starting tomorrow morning for San Diego and I've got ahold of Forrestal on the phone and he's leaving Florida tomorrow for San Diego. I've seen Henry Stimson and he's delegated a man from the War Department and he's starting tomorrow for San Diego and the only fellow I haven't checked on since I saw you was Purvis's man Fairey and on that I was a little disturbed because a second man up in the Aeronautical Department called up Fairey and Fairey said he didn't know anything about it.

H.M.Jr:

Well, I tell you. Fairey came in here at 9:25 this morning and told my man McKay that nobody had told him about the meeting.

K:

(Laughs).

H.M.Jr:

So just where the slip-up was I don't know, but between us, I personally told Purvis so somebody forgot about it.

K:

Well, I called you not only to bring you up to date but to suggest you call Purvis and tell him that all these arrangements are made, our people will be there Friday and he mustn't fail to have his man Fairey there.

H.M.Jr:

I will tell him to get Fairey on a plane tomorrow to be there Friday. Right?

K:

That's right. If he can get a morning plane tomorrow he can be there by Thursday night and everybody else will be there Friday.

H.M.Jr:

And then from my office I'm sending Ed Foley.

K:

You're sending who?

H.M.Jr: Foley.

K: Good.

H.M.Jr: And Buckley.

K: Well, will they start tomorrow morning?

H.M.Jr: They'll start tomorrow and be there Friday.

K: Well, I think the set-up is complete. I've also talked with Marshall and Stimson about the change in minor modifications in type so as to get a uniform model.

H.M.Jr: The reason I'm sending Foley is because, you know, he was with Ickes for about 5 years so inasmuch as so much of this is municipal stuff, he'd know his way around on what Government agency could help on the financing, you see.

K: Well, I wouldn't let Mr. Fleet, who is a pretty/83821 get you into a discussion about municipal necessities out there. What I'd do if I were - at least this is my advice, I'd confine it to just the matter of making uniform types and getting increased production. He's not going to be able to build any additional plants to do this, he's got to do this in his present plant and what we want him to do is to step up his production by giving them a uniform model.

H.M.Jr: You're right.

K: See?

H.M.Jr: Now as I understand it, there'll be a Naval officer, an Army officer

K: And Forrestal.

H.M.Jr: and Forrestal. Now when do they get there?

K: Get there Thursday night and be ready for business Friday morning.

H.M.Jr: Well, I'll immediately get Purvis on the wire and tell him that Fairey should go not later than tomorrow morning.

- 3 -

K: All right, and while I've got you on the phone - I've forgotten whether you were going to call up Fleet or I was.

H.M.Jr: You were.

K: I'll call him right away.

H.M.Jr: You were and make sure that he was going to be there.

K: Now another question while I've got you on the phone. I'll call Fleet right away. I just got a confidential tip from my man who is liaison with the State Department that Hornbeck over there was disposed to say that it would be O.K. from our point of view - not officially - if the Japanese made a contract for a lot of 3 million some odd tons of oil from the Dutch East Indies, and I told my man who is over there to not consent to that one minute. Now, do you know about it?

H.M.Jr: I didn't - what I knew about it was this, that the total production as I get it of oil in the Dutch East Indies is in the neighborhood of 3 million tons and the Standard Oil have been asked to sign a contract for about 750,000 tons and the Shell Company to supply the rest. See?

K: Yeah.

H.M.Jr: And that was the status late last week, but what the State Department's attitude was I didn't know.

K: Well, did we decide to let them sell it?

H.M.Jr: Well, there was no decision made as far as the Administration went as far as I knew.

K: Yeah. Well, what is our

H.M.Jr: What is the attitude?

K: Yeah.

H.M.Jr: It's one, as near as I can make out, purely that Cordell Hull is dictating, I mean, he's never asked me.

- 4 -

K: What?

H.M.Jr: He's never asked me about it.

K: Well, I'm kind of - both worried and somewhat mystified. Are we going to let this English and American oil be sold to Japan? That's owned by the English and the Americans.

H.M.Jr: Well, are you asking me so to speak off the record?

K: Yes, off the record.

H.M.Jr: Well, I think that Cordell Hull is going to say yes.

K: I know he is. Now, are we going to let him do it? Got any objection?

H.M.Jr: Well - I don't - well, I mean - (laughs) - you've got me on the spot.

K: (Laughs). Well, you and I talk frankly to each other.

H.M.Jr: Well, you've heard me at Cabinet and I certainly talk up don't I?

K: Of course I have. Sure.

H.M.Jr: And I certainly get knocked down.

K: Well, that's all right. That doesn't make any difference, I do too.

H.M.Jr: But you and I - let's just talk about a concrete case. I've got that God-damn Panamanian boat down in Texas. The President turned to Cordell and said make it 65 octane. Cordell won't do it and I'm holding it and I may end up in jail.

K: You may end up in what?

H.M.Jr: In jail.

K: Oh, to hell with that! You may end up in the Cabinet room making an argument for your point of view.

- 5 -

H.M.Jr: But, anyway, the President turns to me and tells me to do something and I either do it or I go home. That's what my attitude is. When I don't want to carry out his orders, I go home.

K: Yeah.

H.M.Jr: But I've still got that boat and that boat has 50,000 barrels of 86.9 octane gas on it, and so I don't know. Now while we're on this thing let me give you a little tip.

K: Yeah.

H.M.Jr: Somebody from your office sent me over a report on how much oil the Japanese are supposed to have.

K: Right and at my request.

H.M.Jr: Well, it showed 72 million

K: Or something like that. I thought it was 59 million but

H.M.Jr: No, it was up in the 70's.

K: Yeah.

H.M.Jr: Now this is the tip that I get and if you can look at the date that that report was made at the instigation of the State Department

K: Yeah.

H.M.Jr:and maintain the position that Welles took and Hull took that the Japanese had so much oil that it was no use trying to stop them - see - do you get what I'm saying?

K: Yes, I do. I get you.

H.M.Jr: And that report has been shown, not by me but by somebody else because when you send me something I don't let it out of the shop, but somebody else has shown it to the Standard Oil crowd and they just say it's crazy.

- 6 -

K: Well, I heard Saddler say that myself - fantastic.

H.M.Jr: So I have shown it to nobody except in the Treasury, but I just thought you might look into it - how come that this officer suddenly makes a report showing that there are 70, which is just twice what the Standard Oil and the English say that the Japanese have.

K: Well, I can answer that partially. I went after them in exactly that spirit and I got from my own Intelligence that this was the most accurate report they could get.

H.M.Jr: Well, it's purely a hypothetical one.

K: I think it's based on certain information that came from the Naval Attache out there.

H.M.Jr: But you see this - again you ask - it's right at the point, because Cordell is going to refer to that report of the Navy to discredit the report which I have just circulated.

K: Yeah.

H.M.Jr: And he'll say what difference does it make whether we sell the oil from the Dutch East Indies because the Navy says there's a 72 million barrel reserve anyway.

K: Well, as far as I

H.M.Jr: I'm kind of curious how that officer happened to make it just at this time, whether this thing that I was told that he did it at the instigation of the State Department, whether there's any truth to that.

K: Well, I'll look into that again.

H.M.Jr: See.

K: Yeah.

H.M.Jr: But to switch back, on what you did on this Consolidated, may I say thank you.

October 2, 1940
2:23 p.m.

H.M.Jr: Hello Felix.

Justice
Frankfurter: Hello. How are you.

H.M.Jr: Wonderful. How are you?

F: Very well. Did you have a good summer?

H.M.Jr: Oh -

F: So-so.

H.M.Jr: So-so.

F: Henry, do you ever lunch?

H.M.Jr: Do I ever lunch - (Laughs).

F: Do you ever have a full luncheon.

H.M.Jr: Oh, yes.

F: How would you like to lunch with me one of these days.

H.M.Jr: I'd love it, or vice versa, or anyway.

F: Well, you look at your calendar right there and see if next Monday is a bad day for you.

H.M.Jr: Well, I don't think I'll be here next Monday but I will be here next Tuesday.

F: No, because we've got a - you see our judicial hours are the rottenest in the world. We begin at 12, we go to - so on. How about Wednesday?

H.M.Jr: Well, next week?

F: Yeah.

H.M.Jr: Oh, surely.

F: Well, put that down. Will you come here?

- 2 -

H.M.Jr: Either - I'll do whatever is best for you.

F: You come here, will you?

H.M.Jr: To your office?

F: Yes, down at the Court.

H.M.Jr: I've never been in the Court House.

F: Well, you come here at 1 o'clock.

H.M.Jr: 1 o'clock.

F: Un-un - I don't care what hour because - is 1 o'clock

H.M.Jr: 1 o'clock will be fine.

F: Now, Henry. Did you hear from Arthur?

H.M.Jr: Arthur who?

F: Goodheart?

H.M.Jr: No.

F: Well, there is a letter for you - I had an airmail thing from him and he tells me that he's written you and wants me to get in touch with you and confer with you.

H.M.Jr: Good.

F: Now, I'll do nothing until I hear from you.

H.M.Jr: Well, unless it's in the mail that came in this morning

F: Well, when you get around to it, because he's written a document that I think is very good and I think should be published. That's my view.

H.M.Jr: Fine.

F: Tell me about your son, Bob, with whom I had the great pleasure of talking.

- 3 -

- Q-1 Well, he's getting along fine and he's very busy
 Q-2 What's he doing?
 Q-3 Well, he's a Senior at Adelphi
 Q-4 Well, I mean, he's still is running his paper, is he?
 Q-5 He's editor of the paper and his Fraternity at the same time. Being the most scholarly Fraternity in the college, having the biggest membership
 Q-6 I like him very much. I had a talk with him.
 Q-7 And he enlisted in the Navy this summer and went on the Wyoming
 Q-8 I see that, yes.
 Q-9 And he's getting along fine, of course, I don't know what'll happen next summer on account of his wanting to take the 36-month course to complete his studies to get an on Broad, but he wants to be a lawyer.
 Q-10 Well, I talked with him about that. I disagreed with the Chief Judge of New York.
 Q-11 I see.
 Q-12 But if I were his father I tell you what I would do.
 Q-13 What would you do?
 Q-14 I'd take him off my mind and keep him in my heart. I wouldn't worry about him at all.
 Q-15 Well, I think you're right.
 Q-16 He's one of these kids that you just don't have to worry about.
 Q-17 Yeah. Well, I like to hear you say it anyway.

- 4 -

F: Oh, there isn't any doubt about it. He's got maturity and good sense - you know, some boys are like that and some aren't, and he is.

H.M.Jr: Well, he enjoyed tremendously talking to you and he got quite a thrill out of it.

F: Well, it was a great pleasure to talk with him, really. He's a superior article.

H.M.Jr: Well, he got a real thrill out of meeting you.

F: And when he comes down here I would very much like to see him.

H.M.Jr: I'll tell him that.

F: Give my best to your lady.

H.M.Jr: And mine to yours.

F: Fine.

H.M.Jr: And I'll look forward - Wednesday at 1 o'clock up at the Court.

F: Fine. And when you get that letter

H.M.Jr: I'll read it and call you.

F: Will you?

H.M.Jr: Right.

F: Thank you.

October 2, 1940
2:27 p.m.

H.M.Jr: Hello.

Jesse Jones: Hello, Henry.

H.M.Jr: Good morning-good afternoon. How are you?

J: All right. How are you?

H.M.Jr: Oh, I'm still one jump ahead of the sheriff.

J: Good.

H.M.Jr: How're things with you?

J: Pretty good. I had rather a long visit late yesterday evening - yesterday afternoon with T. V. Soong.

H.M.Jr: Oh, yes. How'd it go?

J: Well, I'll just tell you just about everything that was said.

H.M.Jr: Yeah.

J: First he came in and we were discussing the closing up of the other transaction, drawing the papers and things of that kind, and he mentioned before I got to it something about Russia and then that opened the subject perfectly.

H.M.Jr: Yeah.

J: And I told him that we were all - the President and you and Secretary Hull and I and everybody else wanted to be of any help that we could be to them and that if he could work out a deal, but he would have to do it - we couldn't, whereby we could buy to their advantage - manganese or other things in Russia, that we'd be very glad to do it.

H.M.Jr: I see.

- 2 -

- J: That we didn't care very much about the amount, I mean, that it was stuff that wouldn't decay and we could pile it up and keep it indefinitely, use it as a part of our stock pile, that we didn't need it, that I wanted him to make that clear to Oumansky or to Chiang Kai-shek or whoever, that we had already bought about 1,400,000 tons of manganese, about half of it domestic, and that we were developing our own resources and so forth and so on - getting it from other parts of the country - Cuba, Brazil and so forth, so we didn't need it. I wanted to get that over if I could that it isn't something we need.
- H.M.Jr: I think that's a good point.
- J: And I was afraid that Oumansky got the impression that we needed it badly, you see.
- H.M.Jr: Well, after all, he's not doing us any favor.
- J: No, and I told this fellow, I said, now, we don't need it at all and our natural inclination would be to buy in preference in South America and our own stuff, and Cuba, but that we are very, very friendly to Russia and want to be friends with them and want to be helpful to China and if they could work out a deal, why we'd be very glad to buy this stuff.
- H.M.Jr: Well, I don't see how you could have put it any better.
- J: Then I'll go a little further.
- H.M.Jr: I'm sorry.
- J: That's all right. I said, now maybe you can't do anything - he looked as though maybe nothing could be done. I said, I don't think you can do anything with Oumansky at all, I think you've got to do it with Chiang Kai-shek - he's the only man that can do it I would think, but that's for you to determine and maybe you won't even undertake it, and talked along and I found this - that Oumansky had told him everything that we had said

- 3 -

and so I - in fact, he enumerated everything. Not only that, Oumansky told him everything that he had been getting at the State Department.

H.M.Jr: He did.

J: Yeah.

H.M.Jr: Did he elaborate on that?

J: No, but he just mentioned it.

H.M.Jr: What did he tell them?

J: Well, about the differences you know about - oh, yes. Oumansky had impressed him with the fact that - the very strained relations - very strained relations, and enumerated five or six things that were irritating and so forth and so on, which show that they've been

H.M.Jr: Did he enumerate them to you?

J: Yeah.

H.M.Jr: I see.

J: I made a little penciled memorandum I haven't got with me.

H.M.Jr: Well, some time when I see you I'd like really to know.

J: I'll give it to you in detail because I wrote it down purposely in my own handwriting on a piece of paper and I'll show it to you.

H.M.Jr: I really would like to know.

J: But it did convince me of this that they're pretty close together, at least, they're visiting and frank in talking and so forth and so on.

H.M.Jr: Yeah.

- 4 -

J: Now, he indicated that - I inferred - that this fellow was showing him, trying to convince him how friendly they were to China
.....

H.M.Jr: I see.

J: that any business that they had with us would be on its own and anything and anything that they did with China would be on its own.

H.M.Jr: I see.

J: So up to that time I got the impression that he didn't think he could do anything, so when the meeting was at an end, I said, well, I just thought I'd mention that to you and I guess you can't do anything about it. Oh, he said, I'd like very much to submit it to Chiang Kai-shek. So he is going to try.

H.M.Jr: Well, I personally think it's all to the good.

J: I think, Henry, at least we've done all we can do.

H.M.Jr: Well, I think the significant thing is that the Russians and Chinese are close, that the Russians want to stay close to China, which means that they don't want to stay close to Japan, that you've made the move at the right time and from what you tell me I think you handled it beautifully.

J: Well, I don't think it did any harm anyway.

H.M.Jr: No, I think you did some good.

J: I think so.

H.M.Jr: And I hope at the earliest possible time you'll tell it all to the President.....

J: I'll be glad to.

H.M.Jr: particularly the troubles that Oumansky is having with State. I think the President

- 5 -

ought to know it because from my conversation with the President I don't think he knew. I'm almost positive he didn't know.

J: I'll be glad to do that.

H.M.Jr: I know that you feel the way I do, on a ticklish thing like this he ought to have all the cards.

J: Absolutely. Now, may I open another subject?

H.M.Jr: If you please.

J: I saw the Secretary and Welles and Berle and Duggan this morning a few minutes about Argentine. Pierson - I had promised to call Pierson today. He's kind of hot down there and so I would like to talk with you about that. I don't know whether we can do it on the telephone, but maybe we can. I think I'd enjoy it more if I could have a little visit with you on it.

H.M.Jr: Well, when do you want to do it?

J: Would any time today suit you?

H.M.Jr: Yes, I'm free at 3:45.

J: Well, I've got a 4 o'clock appointment - just a minute.

H.M.Jr: Got a 4 o'clock?

J: Yeah.

H.M.Jr: Well, I can switch mine. Do you want to make it at 3:30?

J: (What have I got at 3:30 - aside). Just a second, Henry. Yes, I could come over there at 3:30, Henry.

H.M.Jr: I'll switch mine.

J: O. K. Thanks.

H.M.Jr: Hello. Bring that little memo with you.

J: I'll do that.

October 2, 1940
2:45 p.m.

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

Mr. C. R.
Fairey: Yes.

H.M.Jr: We seem to have nothing but a succession of misunderstandings today. Colonel Knox called up and said he'd asked about your going out to Los Angeles. He understood that you knew nothing about it.

F: Oh, no. I've heard about it since. I didn't know about the meeting this morning. I wasn't told but when I heard about it I said yes.

H.M.Jr: Well, Colonel Knox called about your going to San Diego today.

F: Yes.

H.M.Jr: He just called me and said wouldn't I please get in touch with you because you didn't seem to know anything about it.

F: Yes, I've been told all about it and I said yes.

H.M.Jr: Well, I don't know. I'm just repeating what I was told.

F: Yes, I'm terribly sorry you've been troubled with it.

H.M.Jr: I mean, he just called me. Now the point is that Army and Navy officials and Treasury officials will all be in San Diego Thursday night.

F: Yes.

H.M.Jr: Will you be able to go?

F: I will, yes.

H.M.Jr: Right. Mr. Edward Foley, my General Counsel

- 2 -

for the Treasury, I'm sending him out, and I thought you might like to know because he's trying to go this evening.

F: Yes, well, I shall have to go this evening to get there in time, shan't I.

H.M.Jr: Yes, if you can get - weather permitting. He's trying to go on American Airlines tonight, and I thought you might like to know. He's a very charming fellow, and I'm sending him because so many Consolidated troubles have to do with the city of San Diego and he's an expert on municipal financing, you see.

F: I see.

H.M.Jr: So I'm sending him out for that reason, but the Army and Navy are sending their top people and sending the Under Secretary of the Navy, Mr. Forrestal. He'll be there also.

F: Oh, well, that's fine. No, I thought Mr. Purvis had let you know. I didn't know about the meeting this morning. There was some hitch there and I arrived too late.

H.M.Jr: Well, I'm sorry.

F: But directly I was told when I got back what it was you wanted, I said yes, of course.

H.M.Jr: Well, I told Mr. Purvis myself on the telephone that I expected him and you this morning, but that's water over the dam. Colonel Knox just called and he seemed sort of surprised because he'd gone to all this trouble and then he said wouldn't I please get Purvis or you to say whether you would or wouldn't go.

F: Well, there's the answer. I'm coming, yes.

H.M.Jr: Good. Well, then I'm very hopeful that we get results.

F: I'll do my best.

H.M.Jr: And when you get back I'd like very much to see you.

- 3 -

F: I'll come straight to see you, Mr. Morgenthau, directly I'm back.

H.M.Jr: Thank you. Will you tell Mr. Purvis of this conversation, please?

F: I will, yes.

H.M.Jr: Thank you.

F: I'm sorry this has been a misunderstanding.

H.M.Jr: Yes, it's too bad.

F: It's just a hitch-up, but there it is, I'm standing by to go.

H.M.Jr: All right. Well, then you'll make an effort to go tonight, won't you.

F: I certainly will.

H.M.Jr: Thank you.

F: Good-bye.

October 2, 1940
3:57 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello, Henry.

H.M.Jr: Arthur, Jesse Jones is sitting at my side here and he says that if you can get an extension of 48 hours on that steel scrap in Mexico, he'll be glad to see Mr. Elliot tomorrow and talk to him about it.

P: Oh, excellent. We'll try and get that straight away.

H.M.Jr: And then if you'd call up Mr. Jones' office, he'll give Mr. Elliot an appointment tomorrow morning.

P: I'm ever so much obliged.

H.M.Jr: O. K.?

P: Thank you very much. Go right to work on it.

H.M.Jr: Thank you.

October 2, 1940
4:30 p.m.

H.M.Jr: Hello.
Operator: General Watson.
H.M.Jr: Hello.
General Watson: E.M.W. speaking.
H.M.Jr: H.M.Jr. broadcast. I just talked to a man by the name of Roosevelt on this ship.....
W: You're down for 10:30.
H.M.Jr: Do you know that already?
W: Yeah. We work fast around here.
H.M.Jr: My, God! You certainly do in the daytime.
W: Yes, sir.
H.M.Jr: I'm not saying anything about dark. (Laughs).
W: (Laughs).
H.M.Jr: What a man!
W: 10:30.
H.M.Jr: Yes, sir. Good-bye.
W: H.M.Jr., 10:30.
H.M.Jr: Signing off.
W: All right. (Laughs).

October 2, 1940
4:42 p.m.

H.M.Jr: Hello.

Operator: Judge Patterson.

H.M.Jr: Hello.

Robert
Patterson: Hello, Henry.

H.M.Jr: How are you?

P: Fine.

H.M.Jr: Bob, I wonder if you and I can't get together and straighten out this mess with the Republic Airplane Company Swedish plane contract.

P: Yes.

H.M.Jr: We did the Vultee one.

P: Oh, the Vultee's done?

H.M.Jr: The Vultee's done. Republic will not sign a similar contract to the one signed by Vultee.

P: What did Vultee take - the Canadians?

H.M.Jr: No, they deal straight with the British Purchasing Mission.

P: For the Canadian account?

H.M.Jr: I don't know. I don't think so. I think they just sold them to the British Purchasing Mission.

P: And took indemnity?

H.M.Jr: Yes, took indemnity.

P: Against planes by the Swedes.

H.M.Jr: That's right.

P: And let them have it.

- 2 -

H.M.Jr: That's right. Now, that's Vultee.

P: Well, that's sensible.

H.M.Jr: But the Republic won't do it and I wondered if you and I couldn't sit down and try to work something out with Purvis and with the Army.

P: Well, the Army is out of it, isn't it?

H.M.Jr: No, you've got to get into it now.

P: Oh.

H.M.Jr: You've got to get into it. There's got to be some kind of a swap.

P: Well, how can we do that - we take it over and then release it again.

H.M.Jr: Well, you can take it over or give them something else.

P: Well, these are planes that I understand are old combat planes that are fit for training and that there was some people over here in the Air Corps wanted to use them for training.

H.M.Jr: That's what my understanding is.

P: Although they're not designed as trainers.

H.M.Jr: You've got it correct.

P: Yeah.

H.M.Jr: You've got it correct.

P: Well, let me talk it over with the people here first. How many are there, do you know?

H.M.Jr: Oh, my guess is - I think it's less than a hundred but that's just a guess.

P: Are those people going

H.M.Jr: No, there's 120 - something in a lot of 100 - but there's 60 of them which are finished and all boxed and lying on the ground.

- 3 -

P: And the deal relates particularly to those 60.

H.M.Jr: Well, the whole lot.

P: Well, I know.

H.M.Jr: With the whole lot, but there are 60 which are completed and I think it's around 120.

P: Well, for that matter, we can find that out easy enough.

H.M.Jr: Yeah.

P: I'll talk it over here.

H.M.Jr: Well, here's the point. If you've got it straight I thought we might get together with Purvis sometime tomorrow at your convenience.

P: And yours - your convenience too.

H.M.Jr: Well, could I make it tentatively, say, for 3:30 tomorrow?

P: Yes.

H.M.Jr: And that would give you a chance to see where you are.

P: Yes.

H.M.Jr: Supposing I make it tentatively for 3:30.

P: All right, 3:30 at your place.

H.M.Jr: Tomorrow.

P: Yes.

H.M.Jr: Because I'd like to go to town on it.

P: Yes. I'll try to clear it before that and see where I stand.

H.M.Jr: Thank you.

P: That's right. Thank you. Good-bye.



BRITISH PURCHASING COMMISSION

October 2nd, 1940.

*see also
10-14 for
second
report.*

Dear Mr Secretary

I have been instructed by the British War Cabinet to give to the American Administration a general picture of our supply position and to supplement by way of explanation in detail the orders that have been transmitted to the British Purchasing Commission.

Many detailed lists of proposed orders have already been submitted to the appropriate authorities. In many cases programmes have been agreed and many orders have been placed. Little progress has, however, been made in the case of weapons for the army.

In the attached memorandum, therefore, which puts forward considerations affecting the supply position as a whole, I have included a statement about the scale and character of the Army programme towards which our orders in America are designed to make a contribution.

2.

Arising out of the considerations in the memorandum, I venture to submit as matters of outstanding importance the three following requests, the granting of which would very greatly assist us in our war effort:-

1. We invite the assistance of the Administration in accelerating and treating as a matter of special urgency the delivery of armaments on British order which can be produced before the spring and early summer of 1941. Priority in production should apply in particular to the output of aeroplanes and aero-engines.

It is also urgent that the extended programme of aeroplanes and engines should be ordered as soon as possible.

2. Permission is sought to place orders for an extended aircraft programme and for guns, small arms and various weapons included in the Army programme; and it is common ground that as far as possible these orders should be for material of the same type as that on order for the American Army. But we ask that the rule barring the placing of orders for planes or weapons of types which are not standard in the American Army should be relaxed in cases where the ordering of alternative types is needed to make good specific deficiencies in the British programme, to provide insurance against a severe loss of British output as the result of enemy action, or to increase fighting efficiency at the earliest possible date.

3. In July the President approved the principle that where the orders of our two countries are complementary the initial capital expenditure would be advanced in the first instance from the funds of the United States Administration. In view of the large volume of British orders in the United States and the need for conserving British financial resources, we ask that this principle should be applied to all British war orders in the United States. This course we suggest would be justified

3.

on the double ground that the manufacturing capacity created by such capital expenditure is a permanent addition to America's own war potential which can be adapted at comparatively short notice to America's needs and that the goods produced therefrom in aid of British armament are, in the present world situation, a definite contribution to America's security.

Yours sincerely
W. T. Layton

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

SECRETMEMORANDUM ON BRITISH SUPPLY PROGRAMME

I

The military position of Great Britain has greatly improved since the month of June.

On the sea the partial destruction or immobilisation of the French fleet has removed the fear that a large increment of naval strength might be immediately available for the Axis powers. The addition of the American destroyers to our fleet will enable us to carry out more efficiently the work of convoy and blockade and will release modern destroyers now employed in these tasks for more specifically belligerent action.

In the air the output of our factories has been stepped up substantially. In May last the production of planes was gradually rising in accordance with previous plans. But under the new Minister of Aircraft Production a considerable increase in deliveries was achieved - by more vigorous direction at the centre; by the response of managers and workers throughout the munition industry to the Government's appeal and the pressure of the war situation and by the instruction to British industry to give I.A. priority to all work related to aircraft production or anti-aircraft defence. Two months of comparative calm enabled this increase of output to be converted into terms of increased squadron strength and stronger reserves.

The greatest improvement has, however, taken place in the state of our land forces. When the British Expeditionary Force - which had lost all its equipment save some of its rifles - returned to England there were available

- 2 -

in the country for issue to units for training some 800 field guns of all calibres, 120 anti-tank guns, 8,000 Bren guns and 4,000 anti-tank rifles. By August the total available had risen to some 2,500 field pieces as a result of the speeding up of output from the factories, the refurbishing of 18-pounder 4.5 in. howitzers and other survivors of the last war, and the timely release of 75 mm. guns by the American Army. The number of anti-tank equipments in the hands of the Army had risen by the end of August to over 600 while the stock of Bren guns and anti-tank rifles had doubled.

Finally, the release of American rifles and machine guns provided weapons for the new large force of Local Defence Volunteers (Home Guard).

The supply of standard .303 small arms ammunition was not planned on a sufficient scale to meet, in the first year of war, the battle needs of such large forces as those now under arms. But the fact that there has been no land fighting for nearly four months has enabled a stock to be accumulated sufficient to take care of any foreseeable expenditure either on land or in the air during the rest of this year. This, however, does not apply to .30 calibre ammunition.

II

The improvement in our position still leaves us far behind Germany both in the air and on land.

The air strength of Germany, with her great advantage of early planning of large scale production, is already greatly in excess of ours. It is now reinforced by the resources of France to the extent that we must reckon on having to face an output of combat planes of between 2,500

- 3 -

and 3,000 a month next summer.

It is a factor also of considerable importance that as Germany's aerodromes are much nearer to London than ours are to Berlin, the wear and tear on Germany's bomber engines is much less than that of our own.

Yet, thanks to the quality of our machines, our pilots and our petrol, and to the increased output of planes, the disparity in the total number of machines has not been sufficient to give Germany command of the air. On the contrary the British Air Force has carried the offensive not only into France and Belgium but to Berlin and the vital spots of Germany.

German preponderance, however, remains overwhelming in land armaments. Our present stock of weapons is trifling compared with the 15,000 - 20,000 field guns and equivalent other arms of Germany. Italian equipment and the captures from France, Belgium and Britain make the disproportion still greater. Fortunately these resources cannot be effectively used against England without command of the sea and air; nor can they be transported overseas to other theatres of war without hindrance. But the existence of such powerful land forces makes the situation in the Middle East and in Africa a cause for anxiety.

Taking a longer view, a rough idea of Germany's war potential for all purposes is suggested by her capacity for steel production. Before the war, Germany's output reached about 22 million ingot tons a year. That of France and England was 23 million ingot tons. Today Germany has at her disposal the output of France, Belgium, Luxemburg, Czecho-Slovakia, Italy and Poland. This, with her own production, amounts to 42 million ingot tons against the

- 4 -

15 million ingot tons of Great Britain to which should be added the 3½ million tons of the Empire. This great disparity can only be balanced if we add in the 50 million ingot tons of the United States of America.

But this is only a partial picture. German industry has certain weaknesses. The steel figures, for examples, must be qualified by such considerations as the supply of ferro alloys, forging plant, lubricating oil and many other things. Nor can a purely industrial comparison be converted into terms of military force or regarded as a measure of the prospect of victory without taking account of many factors that will affect the issue of the war. Such influences include:- the extent to which Germany can utilise the full resources of conquered countries; the effect of hunger and the steady influence of sea power on the economic life of Europe and its morale; the prospect of securing ascendancy in the air through the quality and quantity of the pilots and aircraft that can be thrown into the conflict; and finally the possibility which is open to the British Empire of choosing fields and conditions of battle in which the strength of the German army cannot be fully deployed.

Nevertheless, Germany's war potential remains a very formidable menace. We cannot do less than organise to the utmost limit of our strength.

III

One conclusion to be drawn is that for some time to come Germany has no need to devote much of her industrial capacity to land armaments but is free to devise

- 5 -

other weapons. In particular, she can concentrate on increasing her air force and on making the ships for transporting an expeditionary force overseas. The fact that she is removing machine tools from occupied countries into Germany itself suggests that she is in fact doing something of this kind.

We must assume, therefore, that the efforts we have made to overhaul the monthly rate of German aircraft production and training of pilots will have to be redoubled and that the air attack on Great Britain in the Spring will recommence on a still larger scale. The whole course of the war has emphasized the dominating role played by air power and it is vital that we should maintain our effective control of the air over Britain and around our coasts.

Moreover, as we are greatly outnumbered in land armaments, it is the more essential that we force the decision with the weapon of our own choice. Great Britain, therefore, puts in the forefront of her requirements in the United States the speeding up of the programme of aircraft and aircraft engine production that was launched last Spring and is now coming into effect. Among other measures this means that production of 1941 types should not be interrupted by the introduction of new types until the critical period of the Spring and early Summer is over.

Our training of pilots is already on a scale which - in spite of inevitable losses - is planned to permit an appreciable increase in our squadron strength by the Spring and to ensure a sharp rise thereafter. Steps are now being taken to make yet a further acceleration of the supply of pilots available in the early months of 1941. As the wastage of machines in the present air battle is appreciably greater than that of pilots, and as we must be

- 6 -

prepared for the possibility that losses of British factory production through enemy action may be worse than our present experience, the speed-up of plane deliveries from America is of first importance if we are to develop our maximum fighting strength next Spring.

Germany's great lead in the air means also that aircraft production in both England and the United States must be planned on an increasingly large scale if we are to establish air supremacy over Germany within measurable time; and that as a first step arrangements should be made by which the increased production programme which has been discussed with the Defence Advisory Board be put into execution immediately.

In this connection it is of vital importance that the types to be manufactured under this programme should embody the experience that we are daily acquiring of actual fighting conditions, since a quantitative superiority will be of no avail against a superiority in quality. For example, it is suggested that it would be of great advantage, both to England and to the United States, if the new British Tornado Fighter, equipped with the 2000h.p. in-line Sabre engine, were put into production in this country. This machine is now flying in England, and there is no parallel in this country that could be ready in the same time. If this were done, this plane would be flying and fighting within a year and in quantities which might have a decisive effect.

We also attach great importance to being able to lay down in North America for delivery in the Winter and Spring a substantial number of motor torpedo boats and marine engines.

As regards land forces the preceding figures mean that we cannot hope to compete with Germany in sheer weight of metal in the near future.

- 7 -

Yet expeditionary forces in various parts of the world already play an important role in the war as a whole and when air superiority has been definitely established we must assume that action on land will be both necessary and possible even in Europe. What precise form land action may take is difficult to foresee at this stage. When Britain's defence has been assured, Africa and the Middle East will make a heavy call on our military forces. The opportunity may occur to make local raids in Europe, lend assistance to countries which may be in revolt or even, with the aid of local air mastery, recapture and hold a bridge head across the Channel in order to drive back the air menace against Great Britain.

The equipment of the Empire's Army must, therefore, go vigorously ahead. From the point of view of munition-producing capacity we must also not forget that arms may have to be provided for countries which may eventually be in a position to come over to our side.

To provide arms on a sufficient scale requires the creation in England and the United States of armament-making capacity which will turn out planes, armoured vehicles and mobile guns in many thousands a year and small arms or rifles in millions.

It is therefore clear that while the situation must be sustained in the meantime by United Kingdom weapons a final decision must be based on the full development of the great industrial potential of the United States. If the foundations are laid on a wide enough basis and every step is taken to preserve intact the war potential of Britain, the combined strength of America and the British Empire can certainly surpass and outlast that of Germany and her Allies.

America's potential is now being mobilised for the equipment of a rapidly expanding United States

- 8 -

Defence Force. It is essential that the programme of United States and British requirements be as much as possible co-ordinated so as to prevent competition arising in the industrial field. To this end we must seek a common programme agreed and adjusted to the conflicting requirements of immediate and of ultimate needs.

IV

After the French collapse the British Army's munition programme was stepped up by more than 50% to figures which were designed to equip by the end of 1941 the number of divisions which on the previous programme would only have been ready by the end of 1942.

Our forecasts of production of the main forms of army equipment anticipate that the following will be the situation at the end of 1941:

	Stock on 1st August (Home and Abroad)	Output - August 1940 to end 1941.
Field Artillery	2,650	4,850
Medium Artillery	400	700
Anti-tank equipments	600	6,000
Tanks: Light	730	1,260
Light Cruiser	250	1,300
Heavy	230	4,330
Anti-aircraft Guns: Heavy	1,775	1,660
Light	650	3,760
Bren Guns	22,000	54,000
Rifles	2 million (approx)	600,000
Anti-tank Rifles	12,000	28,000

Stocks exclude Indian and Dominion stocks and stocks with Indian or Dominion divisions taking their own equipment to theatres overseas. Machine gun output for aircraft is considerably in excess of figure for Bren Guns. The only overseas deliveries included are 500 37 mm. anti-tank equipments from the United States.

This production has to meet the needs of the British Field Forces both at home and overseas as well as the Air Defence of Great Britain and the Home Guard.

- 9 -

The equipment of the Army at the end of 1941 is not to be regarded as the total of the above columns; from the combined figure we must deduct (a) wastage from wear and losses in the field and (b) obsolete weapons (particularly in the case of field artillery) which will be replaced in due course by modern weapons. I can, however, if necessary, give further information as to the military formations to which the figures are related.

From the production point of view I make the following comments upon ~~them~~ *this table*.

The forecasts on which these total figures are based anticipate that at the end of next year our output will be nearly equal to the peak output of the last war in field artillery (1918). It will be much less in medium and heavy artillery - the demand for which is expected to be relatively small under present-day conditions of warfare. But it will be much greater in heavy and light anti-aircraft guns - the former of which compares in manufacturing capacity to medium artillery and the latter to field guns. The production of tanks and of anti-tank and tank guns will also be on a far higher scale than before. In other words, we expect in two years to reach an output of ordnance equal to that of 1918 in spite of the fact that we are devoting to aircraft production more than four times the labour force that was used on the production of aircraft at the end of the last war.

The chief reason why this is possible is that we expect to have to produce much less artillery ammunition than in the last war. In the siege conditions of 1914-1918 the outpouring of ammunition production on a stupendous scale drained the resources of all belligerents in steel

- 10 -

explosive, machinery and labour power. We may have to provide for a large ammunition expenditure at some stage in the present war; but in the near future this is unlikely, and, in fact, we have an immediate problem of providing storage for the ammunition we are making. We therefore intend to produce a moderate but sufficient flow of ammunition while providing a big reserve capacity of shell and fuse manufacture, filling, etc. But at its maximum the call upon our resources for ammunition will be by comparison with 1914-1918 a moderate one.

The munitions problem of this war is to produce as many weapons of all kinds as possible with an adequate supply of ammunition - not to produce shells in unlimited quantities.

V

British orders in the United States have two aspects. On the one hand they are needed to fill deficiencies - which in some cases amount to a high proportion of our total needs. On the other they are an insurance against loss of British production as a result of enemy action. This insurance aspect has influenced the scale and nature of the orders we have sought to place in North America in every branch of war production. *

The case of raw materials or explosive is straightforward. But in finished munitions the problem

* The rate of insurance needed to make good losses from enemy action is at best a guess and in any case must vary with the nature of the product. It is for example not needed for clothing and engineering stores. But in the case of important armaments produced from a few vulnerable sources of supply it would not be excessive for the percentage to run as high as 25 or 35%. In the most important items of production we have assumed a rate of 20 to 25%. Experience up to the present has shown this margin is ample for the loss of output on the whole is less than 10%. Of this 10% far the greater part is due to the effect of lost time through air raid warnings and only a small part to actual bombing losses. But we have been lucky. Prudence suggests that 20% is not an unreasonable basis for planning.

is complicated by the question of types. Clearly it is desirable from the production point of view that types should as far as possible be standardised. But the recent decisions as to the types to be manufactured for the American Army taken in conjunction with the advanced state of the manufacturing programme in the United Kingdom mean that this standardisation is not possible in all cases if American orders are to serve as a real insurance and reinforcement of our own war output.

To illustrate this I will take the case of the 25-pounder. The field gun is one of the most important weapons which determine the number of divisions that can be organised; and in fact the above figures of the production of 25-pounder guns closely corresponds to the growth in the British Army which is contemplated next year. But our forecast may be falsified by enemy bombing and the effect of air raids on the output of our factories. In order to be sure that the military timetable should not be thrown out, we should like to place orders which would ensure that a supply of 25-pounder guns was coming forward from America in the second half of next year.

Since the United States Army has adopted as standard the 105 mm. gun there is undoubtedly a disadvantage from the production point of view in manufacturing a different type of field gun. Nevertheless it is suggested that in the circumstances this argument might be overridden on the following grounds:-

(a) It would not be an effective insurance of our field artillery and ammunition programme to arrange a supply to Great Britain of 105 mm. guns late in 1941. To do this would introduce a new type into the army at a time when a large number of 25-pounders would be in being - probably in various theatres of war. It would moreover be necessary to replace not a single item only of our production but the whole complex of ammunition and other ancillaries of

- 12 -

artillery equipment. Real insurance means that each separate item of a composite programme should be available from some alternative source of supply.

(b) The development of new capacity to make an alternative type of gun is not to be regarded as a competitive form of production but as a means of broadening the capacity of American gun production in general. In particular, forging plant and machining capacity would be created which would be available in due course for other types of gun. Experience of the last war in England showed that the creation of basic capacity is the essential step. In a prolonged war this capacity will certainly not continue to be used only for the production for which it is originally planned but will be adjusted from time to time to the products which the experience of the campaign dictates.

I should welcome the opportunity of putting forward in the appropriate quarter detailed suggestions which would make possible the release of orders for ordnance (anti-aircraft guns, anti-tank guns, field guns and medium guns) and other Army weapons which would involve the production of common types to the greatest practical extent consistent with military considerations and the state of the British programme.

The argument for making exceptions to the rule that common types only should be ordered in this country is even stronger in the case of certain fighting aircraft (to which I have already referred) whose output from British factories cannot be sufficient for war purposes, but which, if put into production in the United States, could be flying and fighting within a year.

VI

It is common ground that the integration of the British programme with that of American defence is necessary in order to prevent competition and lead to the speediest development of America's war potential. A successful start in this direction has already been made in the matter of tank production.

- 13 -

I recognise also with gratitude that the complementary programme worked out in the case of tanks has been the occasion for putting into effect financial arrangements for easing the burden of initial capital payments. It will greatly ease the financial problem involved in launching the large volume of orders which Great Britain needs to place in this country if the same facilities can be made available in respect of all other types of war purchases.

The joining up of the two programmes in the United States should result in a more efficient production planning; a speedier output, a lighter immediate financing burden for the British Government and a greater capacity of production always available for United States national defence.

VII

Finally, ^{if} a substantial proportion of America's munition production is to be shipped overseas, and if we have to contemplate one or more British expeditionary forces on a substantial scale, a very large shipping tonnage will be required. At the moment we have a sufficient supply of ships at our disposal. But the losses from submarine action are running far ahead of our output of new ships which is less than at the peak of the last war and cannot readily be increased if the Admiralty programme of warships has to be reinstated. The British Government is anxious to acquire a substantial number of ships as soon as possible.

But this is to meet a short-term need. The transportation problem needs to be studied from a very wide angle if a large war potential is to be brought to bear against the totalitarian powers in 1942.

2/10/40

W.T. Layton

CONFIDENTIALFOR YOUR INFORMATION

October 2, 1940

To: The Secretary

From: Mr. Young

Re: Shipment of P-40 Airplanes.

Mr. Ballantyne advised me late this afternoon that 24 P-40's had been shipped from New York up to the end of last week; 18 are now at New York awaiting shipment, and that the British were receiving them at the rate of approximately five per day.

P.Y.

RE FOREIGN FUNDS CONTROL

October 2, 1940
3:00 p.m.

Present: Mr. Pehle
Mr. Chamberlain
Mr. Cochran

H.M.Jr: Okay, at your pleasure.

Pehle: The things we want to mention are, one, B.I.S. transaction that we have still pending.

H.M.Jr: I knew I needed Cochran. He is the unofficial ambassador for the B.I.S.

Pehle: He will have a chance to state his position. He wrote a long memorandum on it.

H.M.Jr: You can move those flowers to one side.

Pehle: The transaction involving the payment to the B.I.S. It is some \$28,000 in all. It involves the payment in dollars of a loan, French loan, out of the French account, which is due in Swiss francs. It is the transaction we turned down in the committee at the same time we turned down for the first time those two Swiss payments which ultimately were made. The B.I.S. protested, cabled back and said they didn't understand why it couldn't be paid to them, and the question was taken up with the committee again in Professor Chamberlain's absence. The committee's feeling was --

H.M.Jr: Excuse me a minute.

(Telephone conversation with Mr. Purvis follows:)

October 2, 1940
3:03 p.m.

Arthur
Purvis:

Hello, Henry.

H.M.Jr:

Arthur, are you where you can talk?

P:

Yes, I am.

H.M.Jr:

(Laughs). You know, I don't know what's the matter with this fellow Fairey - I mean

P:

What has happened?

H.M.Jr:

Well, Colonel Knox calls me up and says he went to all this trouble getting Army and Navy and Forrestal and everybody and I'm sending Ed Foley and Buckley out

P:

You're sending Foley too, are you?

H.M.Jr:

Yes, because it's largely a municipal matter, I mean, it's a question of getting the City of San Diego straightened around and Foley knows as much about that as anybody in Washington, I mean, housing, water supply and sewage, you see.

P:

Oh, yes. Excellent.

H.M.Jr:

And that's one of the things, you see, and he knows that thing inside out. And Knox calls me up and said he'd been in touch with Fairey, he said everything was ready but Fairey said he hadn't heard anything about it, and knew nothing about it. So I call up Fairey and he said, oh yes

P:

Well, that's the damndest nonsense because I sat with Fairey when I got back this morning. You see, I went right over to Knox and then I came back and sat with Fairey for quite a time with Maurice Wilson, who came in later, and with Layton and Fairey had said that he was a little sorry that he had to go so soon but we were unanimously of the opinion that it was a wonderful opportunity and that he should go immediately.

H.M.Jr: Well, Knox called me up after 2

P: After 2.

H.M.Jr: and Knox said he had been in touch with Fairrey and Fairrey said he didn't know a thing about it.

P: Well, I'll call Fairrey hard on that.

H.M.Jr: Because - (laughs) - after he worked so hard to turn

P: My gosh! and I've just been ringing Knox and found that everything was beautifully arranged and he's released the tankers for me - I mean, it's perfectly childish, it makes me so angry I can hardly see.

H.M.Jr: Well, I'm not angry but I'm just a little bit upset.

P: Well, let me just take care of that. He did know all about it, he agreed to go, he was a little sorry that it came so soon but everybody recognized that it was the right thing to do.

H.M.Jr: Well, look, if he's going in bad spirits wouldn't it be better to let Maurice Wilson go as well?

P: Well, I mean, I'll just ventilate this thing - fortunately Maurice got into town at 10:30 this morning and joined us while we were talking about this very subject and I'll just find out what the story is.

H.M.Jr: Well, don't you think Maurice Wilson ought to go also?

P: Well, the only thing about it is that I think what we need for certain discussions that Layton has got here - we need some of them here and I think actually on the production end I know Fairrey is excellent because I've watched him in meetings. But I tell you what is happening, Henry, if you could go on supporting for just a little

longer - there is a little disposition to pull away if we give them a chance. Otherwise

H.M.Jr: Pull away from

P: Pull away from me a little. Otherwise, you see, anything - what happened was this. Fairey had full notice of this meeting

H.M.Jr: This morning?

P: Last night.

H.M.Jr: You told him last night.

P: Last night I got hold of his man Gray who spent all the night until midnight last night trying to reach him, then made sure by leaving messages at his hotel, and then to check called him at 8:30 a.m. this morning, so that he still had time to get down. Now, I think what is happening is that there's a little disposition to pull away and to try and get it so that you communicate direct with them. Now it only will take another few days and we shall have that comfortably arranged, but I think that may be at the heart of it. It's very stupid if it is, but I think it may be at the heart of it. It's a little problem of mine. Now, he knew all about this and I'll take care of this. There won't be any question

H.M.Jr: Well, I don't want to seem - you know. I am upset because really - but I'll leave it - you don't have to tell him anything unless you want to but the point is

P: Well, but I mean, it's the one thing we're going to - we've just been preparing a memorandum to ask you to do this thing that you've started on an even larger scale. The thing is perfectly ridiculous.

H.M.Jr: Well, the point is, both Churchill and Beaverbrook want these two types of planes.

P: Yes, exactly.

- 4 -

H.M.Jr:

Now, we've got them. Now, I'm trying to get them faster even, and Knox goes over and sees Stimson, drops everything, turns himself inside out, I'm sending my General Counsel out

P:

Well, after I left your office this morning when I went over to his office, he just turned the whole place upside down, he got after everybody, and he talked to Stimson while I was there and, therefore, when I came back and saw Fairey and Maurice Wilson, I was able to give them - to impress them with the importance of this thing and there's no question of that. I'll find out

H.M.Jr:

Then Knox calls me up and he evidently had been in direct touch with Fairey and Fairey said, I don't know what it's all about, I haven't heard a thing.

P:

Well, that's curious. I spoke with Knox 15 minutes ago, as soon as I got his message. I was delayed because I was talking with Morris and I got his message 15 minutes ago, called you, then him, got onto him, he gave me the details of the arrangement and I was tickled pink, I mean, everything - he'll be there Friday morning, that's all.

H.M.Jr:

Well, I told him to be there Thursday night.

P:

Oh, well. Knox gave me Thursday night or Friday morning.

H.M.Jr:

Right.

P:

Well, that's all right, he can be there one or the other.

H.M.Jr:

Well, you had better tell him Thursday night and maybe he'll get there Friday morning.

P:

Yes, in view of this morning. (Laughs).

H.M.Jr:

Well, you and I understand each other anyway.

P: Oh, this to my mind - I put this thing in the same category as the R.F.C. financing situation, the various bigger moves that have been made from time to time. I mean, I regard this as of absolute paramount importance and so do our people here. Please don't worry anything more about it, I'll take care of this thing.

H.M.Jr: And then I'm seeing you tonight.

P: Thank you very much. May I ask you one thing before you go off? On that scrap iron, did you get that option that expired today, is there anything

H.M.Jr: I sent the people over this morning to see the Council of National Defense to find out whether they'd be interested. I did it as soon as I got in.

P: Fine. Thank you so much.

H.M.Jr: I sent them over to Leon Henderson who has been handling that because, on account of its being steel, Stettinius didn't want to handle it.

P: Oh, I see.

H.M.Jr: And he has kept out of that. And the man who has been handling it is Leon Henderson. He had your memo this morning.

P: Good.

H.M.Jr: And I asked them whether they wanted to buy it, so that was done. What the answer is I'll know tonight when I see you.

P: Thank you very much.

H.M.Jr: Right.

P: Much obliged.

- 2 -

H.M.Jr: Make a note that Dr. White should see me before I go home tonight or certainly by 7:30, what was the answer from Leon Henderson on scrap steel, Mexico.

Okay, gents.

Pehle: We took the thing up in committee again. The committee felt that we were right in the first place in turning it down, with the exception of Mr. Cochran, who can state his own views better than I can, that we ought to approve it.

H.M.Jr: Give it to me very simply. I don't get that transaction.

Pehle: It is a payment out of the Bank of France account of the Federal of \$28,000 --

H.M.Jr: Of frozen money?

Pehle: Of frozen money.

H.M.Jr: Not blocked accounts?

Chamberlain: Yes, blocked.

Pehle: It is the blocked Bank of France account, \$28,000 to the B.I.S., which itself is technically blocked.

H.M.Jr: For what purpose?

Pehle: For the payment of a loan, part of a loan that the B.I.S. is holding. It is a French '39 loan which is payable itself in Swiss francs. The committee's feeling was in the first place --

H.M.Jr: Part of a loan that the B.I.S. made or did they buy some French bonds?

- 3 -

Cochran: They bought some French bonds issued in Switzerland.

H.M.Jr: And this is the coupon on them?

Cochran: Yes, it is really the - it is a note, you see.

H.M.Jr: Well, this is the interest on it?

Cochran: This is the interest, yes.

Chamberlain: Is this the whole of the issue?

Cochran: No, it is not the whole of the issue.

Chamberlain: A small piece of the issue.

Pehle: The committee's feeling can be summarized this way: they don't feel the action taken in the Swiss case can be a precedent. In the first place, they told the Swiss Minister it wasn't a precedent even in its own case. We did that to help Switzerland in difficult times.

Secondly, the loan is payable in Swiss francs, not in dollars. We feel that France has Swiss francs for \$28,000. The amount is insignificant, of course. As a matter of fact, Switzerland blocked French assets, so obviously France has Swiss francs in Switzerland.

H.M.Jr: Swiss blocked --

Pehle: French assets, according to newspaper reports. In any event, it is too much to assume that the French haven't got \$28,000 of the Swiss francs that they can get hold of, so the issue comes down to, do we want to let France pay her Swiss franc obligations to the B.I.S.

- 4 -

in dollars out of blocked dollars, and we think that would be a bad precedent.

The committee, as you know, in the first place thought the Swiss case ought not to be allowed and now they agree in order to help Switzerland those are special cases, but they don't think that special circumstance exists in regard to B.I.S. I think that is the summary of their feeling.

H.M.Jr: Have you any idea on that?

Chamberlain: I agree it probably shouldn't be done, partly because this is only a very small part of a considerable loan, and I can't quite see why we should pay a small amount to the B.I.S. and not pay the others. I am afraid we would get ourselves into trouble. That is my reason. I am very friendly to B.I.S., as you know.

H.M.Jr: What is your idea?

Cochran: I thought we should go ahead. I didn't mean that the two accounts for the Swiss National Bank should be construed as precedents. I have been unhappy ever since the B.I.S. account was blocked. I think it shouldn't have been done in the first place, and now that we have them there, we are trying to make a go of it. We are having quite a lot of difficulties. We have been embarrassed by this blocking, not so much that it inconveniences them as it does if you hurt the prestige of the Bank. I thought we ought to go as far as we could on this. It is true that the French might have Swiss francs. We don't know it at all. They have kept most of their reserves in dollars and the fact that they have blocked francs isn't a sign that the French might have Swiss francs.

- 5 -

The Swiss have blocked the assets of all the countries invaded just as we have. There is no separate action there. The B.I.S. has been the paying agent for one of these loans where we had permitted to be paid across, and the eventual beneficiaries are the Swiss banks, private banks, in fact, so when the B.I.S. sees this payment go through, I think they will feel rather badly if they don't get the dollars if they ask for them.

There is nothing obligatory about it at all. It is just a question as to whether we should facilitate the B.I.S. in taking care of investments this way, and furthermore, their account for us is blocked. These dollars are blocked. It is just a transfer from one blocked account to another.

Pehle: Technically, we have blocked the B.I.S. account. As a matter of fact, two things have happened. One is, we gave the Federal authority to license any transaction it thought was normal. Secondly, we have licensed every transaction they have asked us to pay, including payments directly to the Germans, so that - because the Germans have money with them, so if this amount were put in the Swiss - the B.I.S. account, it could go right out tomorrow. It really isn't blocked in the real sense, although we do have some --

H.M.Jr: Well, this one is thumbs down. Would you mind, so I will surely get it - the Bullitt-Offie case?

Pehle: Yes. After you called me, I had a thorough search made in the office, and we haven't any information. Mr. Cochran hasn't heard about it. We called the New York Federal and they knew nothing about it.

- 6 -

H.M.Jr:

Well, let me state it as he gave it to Mrs. Klotz, and then you can call up Offie. He is Bullitt's secretary. He is over at the State Department.

I gather Mr. Bullitt personally wants to send \$5,000 to Vichy to pay the expenses for lawyers to defend Lachambre. I gather it is his own money and it is to pay French lawyers in Vichy to defend Lachambre.

Pehle:

Do you know anything about this?

Cochran:

I know the man, and I know he was Minister of Air. He is the one who came over here and then returned to stand trial. I presume he would have funds of his own.

H.M.Jr:

Let's put it this way. Supposing Mr. Smith wants to send \$5,000 to any Frenchman for any purpose, to pay his rent or anything. What would you do?

Pehle:

No.

H.M.Jr:

That is what I thought.

Pehle:

The amount would have to be very much smaller. The only case where we have gone very far is the case where they can convince us it is to get the man out. If the man is in southern France and he needs \$500 to give to Portugal - but that is not this case at all, as I see it.

H.M.Jr:

I want you to call up Mr. Offie, but just remember this: no matter how nasty they get over there, keep your shirt on. I would tell them this, that you have no application, and if the application is made, that you will give them an answer - you will take it up before the Treasury Committee on Foreign Funds, which meets this afternoon, but that

- 7 -

there is no application here - but you want to tell them in advance that these are the kind of cases where we do not permit the money to go. I would just be very courteous, but just tell them. Will you?

Pehle: Yes.

Cochran: May I ask one question? When Lachambre was here, he didn't indicate anything about his dollar holdings, did he?

H.M.Jr: Never mentioned his own funds. Has he any money?

Cochran: I don't know, but the last Frenchman we had in had two million two hundred thousand.

H.M.Jr: Two million two hundred thousand what?

Pehle: Dollars.

H.M.Jr: A Frenchman?

Pehle: That is not necessarily an unusual case.

H.M.Jr: Who is he?

Cochran: Mr. Stern.

Pehle: Jacques Stern.

Cochran: He is a member of the Chamber of Deputies who brought out an early resolution in favor of paying off the war debt.

Pehle: That is his argument for funds which he gives at three minute intervals, that he voted once to pay the war debt.

H.M.Jr: And he has two million two hundred thousand dollars?

- 8 -

Pehle: In cash and securities, part of which was in London with Stern Brothers, who are his cousins.

H.M.Jr: How would a man make that much money?

Pehle: I don't know.

H.M.Jr: If you ever run across any money belonging to Mr. Bonnet over here, I would like to know about it - the former Prime Minister. Also the head of the Indo-China Bank. What is his name?

Cochran: Baudoin.

H.M.Jr: If you run across any of his money, I would like to know about it. They had their money with Guaranty, didn't they?

Cochran: I am not sure.

H.M.Jr: If you hear about either of them, I would like to know about their money.

Pehle: One thing I want to mention, that I thought you might be interested in, Swift of the Red Cross called me yesterday and said that they were going to do some active work in China. You may already know it.

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

Pehle: They wanted immediately to be able to pay \$300,000 through the Guaranty Trust to Indo-China - beg your pardon, the Dutch East Indies, to take into China through the Burma Road.

H.M.Jr: I am glad to hear that.

- 9 -

Pehle: The only other problem I wanted to mention was this group charitable remittance thing. The remittance problem itself, individual cases, is all under control and so far we haven't received a lot of protest from our attorneys down - that group of cases where it was blocked dollars. You know, we decided not to grant those and took affirmative action in turning them down and so far we haven't received anything in protest, to speak of. We did have one man that called us on the phone and was upset about it. He wanted to send \$500 and it was cut down to \$80, and he felt that with the purchasing power of the franc - whether he had any accurate information or not, I don't know - that wouldn't amount to an awful lot. That is the only case of that type that we have had, but this is a group problem.

What we are doing now is this: we have blanket licenses for the Red Cross. We let them send funds to France freely. We get reports, but we are not supervising their operations under the theory that they are a separate Government, semi-governmental institution. They have their own access to the President and we are not responsible for their actions.

H.M.Jr: Who?

Pehle: Red Cross.

H.M.Jr: And Mr. Bell is treasurer.

Chamberlain: And through the Procurement Division of the Treasury, Mr. Secretary, you are up with that situation.

H.M.Jr: I know. I had John R. Motley here today. He wanted to know how he could buy stuff,

- 10 -

books and various things for the prisoners of war, so I told him - I checked with Bell - that the place to go was see Norman Davis. He says that there are at present three million prisoners of war, counting the Poles. He had the man with him who has been visiting the prison camps and he said the Germans were still treating them very well; that was his report.

Chamberlain: You see, the responsibilities of keeping prisoners in France are on the French.

Pehle: Feeding them?

H.M.Jr: You had better not cross-examine me. He said the prison camps that he had been to, the prisons that he had seen, they were well treated, but I don't know whether it was in France, but he did have this man with him.

Pehle: In addition to the Red Cross problem, we have been, pursuant to your decision, allowing organizations that were well run American organizations to send funds to unoccupied France where they have been sending them in the past and against blocked dollars, so that the free dollars aren't made available. We haven't gone any further than that.

One question that is immediately before us is the Ort group. They run both technical trade schools in unoccupied France and farm colonies and they have about 20,000 people that they are trying to get in such shape that they can possibly get them out of France and into particularly South America, and they feel that unless they are skilled workers or farm laborers, they are not going to have any chance.

- 11 -

The thing runs a little different from what we have done in the past; in other words, it isn't food or medical supplies, but they feel, and I feel the same way, that one of their big problems is rehabilitation. It doesn't do any good to feed these people if there is going to be this problem going on. What they are trying to do is work with the French Red Cross, and they want to take about 20,000 people and go on rehabilitating them, running these farm colonies and the trade schools. They feel it will take about \$50,000 or more, not any more, for all the plans they have. All the dollars would be blocked. After that they hope to be able to set up a procedure whereby they can borrow francs, and people over there think they ultimately will be confiscated anyhow, with an understanding they will pay them after the war is over or if their people get out.

H.M.Jr: This is unoccupied?

Pehle: This is unoccupied.

Chamberlain: I may be prejudiced, but I am interested in this question. I think from that point of view, this is quite an important angle. I would be in favor of it, realizing that it does go beyond the decision before. It isn't just feeding the people, but it is a relief measure that seems important. Personally, I would be in favor of it, but I think I should call your attention, as Mr. Pehle did, to the fact that it is a little outside --

Pehle: A little different case.

Chamberlain: A little different case, but I should - I have always been in favor of granting this if you have no objection.

- 12 -

H.M.Jr: What kind of money is it they are going to use?

Pehle: It is blocked money, and they will obtain their francs from the Bank of France. The dollars will stay in the Federal in the Bank of France account.

H.M.Jr: Oh, it is still that kind of money?

Pehle: Still that kind of money. As long as the Germans will let them do it --

H.M.Jr: If it stays here, I think as long as it is that, I would do it. As long as they will continue to let us do that - but you remember just as soon as they won't let us block it here.--

Pehle: We are issuing it under that condition.

(Mr. White entered the conference)

White: Mr. Secretary, I need to tell you about it now or it will be too late.

H.M.Jr: Then it will be too late. I am running on a very tight schedule.

Pehle: I just have one thing more. The Y.W.C.A. wants to contribute some money to the Belgian Y.W.C.A. for rehabilitation generally. The amount was not large, but we turned them down. Free dollars was involved. The Y.W.C.A. here wants to give some money to the Belgian Y.W.C.A. for rehabilitation. Professor Chamberlain has talked to the Red Cross about Belgium, and the Red Cross isn't doing anything up there. Nobody seems to know anything about what is going on. Free dollars would be

- 13 -

involved, and it was our feeling that we ought not to go into that field at this time.

H.M.Jr: I agree with you.

Chamberlain: I agree.

H.M.Jr: I agree. Is that your --

Pehle: That's right, that was our recommendation.

October 2, 1940
4:00 p.m.

RE SHIP MOVEMENTS CONTROL

Present: Mr. Foley
Mr. Young
Mr. White
Mr. Cairns

H.M.Jr: This memorandum from Purvis on scrap, I let Mr. Jones read it and asked him whether he would discuss this matter of Mexican scrap with the Allied Purchasing Mission if they could get a 48-hour extension and he said he would. I called up Mr. Purvis and told him Mr. Jones was sitting next to me and that Mr. Jones would be very glad to see Mr. Elliott tomorrow morning and discuss it with him. Mr. Purvis said he would go to work and try to get a 48-hour extension. I also told Jones that White had been over to see Leon Henderson at the National Defense Council.

What the hell are you (Young) in here for?
What have you got to do with oil?

Young: Not a thing.

H.M.Jr: Do you just want to be sociable?

Young: Mr. Stimson wants to send you a memorandum on the stuff for the British, on the procedure involved, asking you to get a ruling from the Attorney General.

H.M.Jr: Listen, Mr. Stimson came over here and told me that this was his proposal and all I did was to accept.

Young: But you told him you would help him with the Attorney General.

- 2 -

H.M.Jr: No.

Young: You told Brett that when I was here.

H.M.Jr: No, I told him I would lend him Cox.

Young: You told him you would help him with the Attorney General.

Foley: What?

H.M.Jr: I told him I would lend him Cox to work with him.

Foley: With him (Young)?

H.M.Jr: With him. I said Cox would work with Philip Young.

Foley: Sure.

Young: They worked out a procedure. What he is going to do is refer it to this aircraft standardization and say it is just a deferment. Therefore, it doesn't have to be released.

H.M.Jr: But I mean, Mr. Stimson, ex-Secretary of State, ex-this and ex-that, needs poor little me to help him with the Attorney General.

Young: That is what he says.

H.M.Jr: Do you tell me I should do it?

Young: Well, he wanted to know if you were sympathetic.

H.M.Jr: Yes. This was an afterthought. You see, he came over here and made a grandstand play and so forth and so on and then - and I understood that this was Marshall's memorandum. At lunch he said to me, "Marshall is sorry he couldn't come," and he asked Stimson to give me Marshall's memorandum and at the discussion at lunch - you check me - there was no question about Marshall having to sign anything, only when Brett brought it up.

- 3 -

Young: That is right.

H.M.Jr: That was an afterthought.

Young: That is right, and Brett said he is having trouble with the procedure.

H.M.Jr: Well, it's just too damn bad, and I told him when you were here that if he wanted you and Cox to help him, he could have you.

Young: That is right.

H.M.Jr: Is that right?

Young: That is right.

H.M.Jr: Now, what do you want me to do?

Young: You also said something about the Attorney General.

H.M.Jr: I don't remember it. Do you say I did?

Young: I think so. I don't remember exactly, but I would like to see the record on it.

H.M.Jr: You (Reporter) take a look at it. I will bet you a package of gum on it.

Young: What kind?

H.M.Jr: Beech-Nut. Did you ever have a Beech-Nut Ham?

Young: Sure. We never buy them.

H.M.Jr: Did they give them to you?

Young: They don't make those where we trade.

H.M.Jr: All right. Now, as long as you are here and crashed this meeting, what about --

Young: I am adopting Harry's tactics.

H.M.Jr: Did you hear about Harry, what happened in here?

- 4 -

Young: Yes.

H.M.Jr: We had to bring in a mop.

Young: I didn't hear about the mop.

White: I told him this morning. They have got a story on Ed that he is going to run away to get married. They are waiting for you (Foley) out there. I can give you an advance tip. Dorothy Thompson is coming out for the President, Monday. Maybe it isn't advance to you.

H.M.Jr: It isn't. I have known it for two weeks. I have kept it a secret for two weeks. That is what she came down here for.

Young: I would like to check this procedure with Ed. It seems silly that they need to go to the Attorney General.

H.M.Jr: Will you talk to Ed, if you can, before he hops off for San Diego and places West, and talk to Ed now. The only other thing - I have really got to do oil. Do I or don't I see Patterson on the Brewster plant?

Young: Republic planes.

H.M.Jr: Yes.

Young: Yes, I think so.

H.M.Jr: You were going to let me know. You were going to this ten o'clock meeting this morning and find out where Republic stood.

Young: I sent you a memorandum on it.

H.M.Jr: I haven't got it.

Young: Maybe I didn't bring it in. I wrote it this morning.

H.M.Jr: What does it say? Do you want me to see Republic about it?

- 5 -

Young: Yes, I think you ought to talk to Patterson about it and let's do something with the planes. They are just sitting there on the docks. Tell Patterson I would be delighted to release them provided he gives us something.

H.M.Jr: We will have a little meeting tomorrow. All right? On your way. Thank you.

(Mr. Young left the conference.)

H.M.Jr: Will you gentlemen come closer? I can't see the whites of your eyes.

Did they tell you (Foley) I offered them Cox and Philip Young?

Foley: No. That is all right. I didn't know whether you were loaning him for an indefinite period or just this job.

H.M.Jr: That is what he does, isn't it?

Foley: Sure, absolutely.

H.M.Jr: The Army makes this gesture. They come over and we thank him and I call up Stimson and we thank him and then suddenly somebody remembers that they have to work out the procedure. I am not going to worry about it. They have passed their word on it.

All right, let's go. Where do we stand? Did you get that message from Joe Green? I referred him to you.

Cairns: Yes.

H.M.Jr: Isn't he just about 48 hours behind time?

Cairns: A little further. We have tried to find out, pursuant to your suggestion yesterday, how many vessels are situated similarly to the Panamanian. There is one at Port Arthur. There is the Panamanian at Galveston. There is another at Los Angeles.

- 6 -

H.M.Jr: Have they all got the same thing?

Cairns: Carrying gasoline to Japan.

H.M.Jr: Now, the Florence Luchenbach, No. 1, she has got 60,000 barrels of Gulf oil, which is under \$7?

Cairns: It is all under \$7.

H.M.Jr: Has that been settled?

Cairns: No.

H.M.Jr: Then there is the Panamanian, a Japanese tanker, of 31,000 barrels.

Cairns: That has not been issued.

H.M.Jr: And 105,000 drums of outstanding licenses. What does that mean?

Cairns: See this note for Galveston? Licenses have been filed with the Collectors.

H.M.Jr: Well, for my purposes, that doesn't make any difference.

Cairns: No.

H.M.Jr: What about this?

Cairns: That is another vessel to sail October 5th. That is for your purposes.

H.M.Jr: What is this?

Cairns: That is for your purposes. The LaFayette sailed today.

H.M.Jr: You lost that? Which sailed today?

Cairns: The second one.

H.M.Jr: The Maru?

Cairns: Yes.

- 7 -

H.M.Jr: She has gone?

Cairns: That is a telegram that just came in after I came in this office. We are still getting reports. There are three ports not heard from.

H.M.Jr: But for my purposes, I am going to cross that off.

Cairns: Yes.

White: And last week, you know, there were 220,000 barrels left for Japan, of that type of gasoline.

H.M.Jr: 220,000 - how much left last week?

White: These figures say 223,000.

Cairns: 250,000.

H.M.Jr: 250,000?

Cairns: Yes.

H.M.Jr: Gallons or barrels?

Cairns: Barrels.

H.M.Jr: And the Panamanian, do you know what has happened?

Cairns: Yes, the lawyer is sitting up in the Mayflower waiting to hear one way or the other.

(Unrecorded telephone conversation with the President.)

H.M.Jr: What he said was, "I am still President of the United States and the State Department is handling foreign affairs." I said, "Granted," and he laughed. It is all right with me. I don't give a damn.

I said to the President, "May I be 'carsestic',"

- 8 -

and he said, "Yes." I said, "Well, as soon as the Japanese have got everything that they want, I suppose then we will stop the gasoline from going," and then he answered, "Well, I am still President of the United States and the State Department is handling foreign affairs and you are Secretary of the Treasury." I said, "Granted." It is okay. That is all right. That clears the thing up. The President said, "If they can give a bond that the ship will return so it won't be scrapped, that is all right."

Foley: We can exact that as a condition, can't we? We will let them go if they come back. If they won't come back, they don't go.

H.M.Jr: What about a bond?

Cairns: That is present only in the Panamanian case. I doubt it, but I don't want to say no.

H.M.Jr: We can take a bond if we think they are supplying a vessel on the high seas, that they won't supply the vessel.

Foley: I know, but let's say, "If you don't post a bond that you are coming back, you can't go."

(Telephone conversation with Secretary Hull follows:)

October 2, 1940
4:18 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull is coming right on.

H.M.Jr: Hello.

Cordell Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: What's going on?

H.M.Jr: Well, I just was talking to the President about the Panamanian, and I pointed out to him that 250,000 barrels left last week and that the Panamanian was only one of a half a dozen ships which would leave this week and what did he want me to do. So he said he had been talking to you and that you felt that she ought to go in view of the situation in the Dutch East Indies.

H: What happened, Hornbeck and Hamilton and those fellows up there sent word down to me that they were in conference then with these oil people in the Dutch East Indies and I knew myself that we had been urging them for some weeks to stand as firm as possible and that they - Hornbeck's fellows said they were standing up excellently so far. But the Japs are making every effort to push them into long-term agreements for a maximum amount of oil, and that they felt - they ran into this case and they felt that this, with the Japanese so cocky over there right now, that they would take advantage of this and force those people into any kind of a contract nearly and since we didn't have within the prohibition of our licensing system this kind of oil, it was difficult to hold it without Japan having some kind of pretty plausible ground to use as her reason for grabbing the oil in these other places. So that's what they said and I laid it before the President, and that's the whole thing.

- 2 -

H.M.Jr:

Well, I'm glad you did. Now he made this suggestion, which I don't know whether it's his or yours, but

H:

I asked him to confer with you - whatever you and he wanted to do about it.

H.M.Jr:

Well, I called him up because I'm on the spot, and he said that we should exact a bond from them that the ship would return to this port, but our boys aren't at all sure that we can do that legally.

H:

Well, he and I talked about that. I was trying to get the facts before him so he could discuss them with you and you people decide it, and he said he would, that's what he told me.

H.M.Jr:

Well, I just called him on my own initiative because I'm - I mean, I have no legal status

H:

I see your position and if you want - well, I may say first that Green looked up the ownership as he understood it, got it from you people or somebody.

H.M.Jr:

He called up here. We got that message.

H:

It's owned by Japanese interests.

H.M.Jr:

I think he's wrong. We think it's part of the Alfred Bernstein outfit, the thing that the Germans took over.

H:

Oh, I see.

H.M.Jr:

And I got that message to Green and I understand that when he got that that he agreed with us. He had the same information that I had yesterday and then we got more recent information which we've given to Green, and now I understand that Green agrees that the more recent information is correct but we're not definitely certain. But anyway

H:

I'd be glad, Henry, just to - so you'd have the thing all first-hand - if you'd have

- 3 -

somebody to call Hamilton or Hornbeck either one. They're the heads of the Far Eastern Division, and let them give you the exact facts about the

H.M.Jr: Well, I'll do that, but let me just ask this. Supposing our boys say that legally we have no right to exact a bond from these fellows, what would you like us to do then?

H: Well, I think that - you see, these Japs are watching that thing - the Government is, and this thing here is independent-owned ship loaded with oil that no law and no license of the United States Government affects and we have - they are holding it up and we will retaliate in this way or that way and so on, so I think right for the moment, unless you get something from Hornbeck about the details, that I would consider letting the thing go until - at least until we get a little further with those

H.M.Jr: Well, that's all right with me, but did you remember the President turned to me at Cabinet Friday and ordered me to hold this ship.

H: Well, I've told the President that I wouldn't - it was up to him - what he wanted done about it and he has promised me twice he would talk with you.

H.M.Jr: Well, I called him, I didn't know

H: That is what I'd want you to do, Henry. I'd like for him to handle it.

H.M.Jr: Well, now, may I - well, here's the point, in order not to bother him again, let's say that we cannot get a bond from them. You still would like the boat to go, wouldn't you?

H: That's - of course, I feel like you do about not wanting it to go and yet right now we could get up complications, that's what our Far Eastern fellows all think.

H.M.Jr: Well, I tell you then what I'm going to do - there's no use my calling Hornbeck - I may want to have Huntington Cairns call your attorney - what's his name?

H: Hackworth.

H.M.Jr: Hackworth, and if you could just get word to Hackworth if he gets a call from the Treasury on this on the bond, would he please drop what he's doing and just try to work it out so that we can still clear this tonight.

H: Yes, I'll be glad

H.M.Jr: But there's no use my talking to Hornbeck because you've told me how you felt and

H: Now, that's the message he sent down by Green.

H.M.Jr: I understand. Well, I'm going to do this one way or the other - if we can't get a bond, I'm going to give word and let this ship go tonight.

H: The reason I called the President, I heard him give you that instruction and I said here's a new development that you should have and you do what you think is wise.

H.M.Jr: Well, Cordell, I'm delighted that you called him because it made it easier for me.

H: All right, Henry.

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

H: Good-bye.

- 9 -

- H.M.Jr: Well, I am not - I mean, I am just not going to fuss around with this thing. Either you can or you can't.
- Foley: And if we can't, we let her go anyway.
- H.M.Jr: Right. Don't you fellows agree?
- White: Yes.
- H.M.Jr: The President tells me he is President of the United States and that Cordell Hull is Secretary of State and I am Secretary of the Treasury, which means that I take care of the Treasury and let the President and the others do the others. He asked me to do something, and if I can do it, I will, and if I can't, we will let the boat go.
- Cairns: And we will let the others go, too, without a bond.
- Foley: The bond has only to do with the use of the boat as scrap and we don't know anything about the other boats being used for scrap.
- H.M.Jr: No. Just a second until we get the thing straight. It always ends up this way.
- (To Commander McKay.)
- McKay, I have changed my position on the Panamanian and so there is no misunderstanding, I delegate full power to Huntington Cairns to decide whether the boat should or should not sail.
- McKay: All right. That is to go to - any further word will go to Cairns?
- H.M.Jr: Yes. In this case he has full power to decide on this and on all other matters until further notice. On any ship movement until Mr. Gaston gets back. I just put a mark on the Panamanian.
- McKay: I think they understand that, but I will make sure.

- 10 -

Cairns: You have a signed order to that effect on all vessels.

H.M.Jr: I am telling McKay to just lift that stop order on the Panamanian.

McKay: All right.

H.M.Jr: Well, it is the usual thing. I don't blame Cordell. He is doing this thing. I disagree with him.

White: It is absurd to say that the Japanese will --

Cairns: You are just about a month ahead of what is happening. You went forward on the scrap iron and then a month later they caught up with you.

H.M.Jr: A month ahead?

Foley: That was in July.

H.M.Jr: I am two or three months ahead on it.

Cairns: I was being conservative.

H.M.Jr: I am two or three months ahead. I said, "May I be 'carsastic'?" and he said, "Yes," and I said, "We will just wait until they get the stuff and then they will say-" after they have got everything they want- "they will say, 'Let's stop it.'"

White: What hurts is, that is true. The truth always hurts.

H.M.Jr: Well, I laughed, and then I made him laugh, but for the minute it made him a little angry. I asked him. I said, "Can I -" it made him a little angry, which is good. I will remind him of it.

Foley: Can I bring up one other thing?

H.M.Jr: Yes.

Foley:

Huntington has a friend over in Justice who reads the South American papers, and other foreign language newspapers, and he picked up in his perusal of a Brazilian paper an account that a mission was coming over from Japan to wait on Brazilians --

(Unrecorded telephone conversation with "Pa" Watson.)

H.M.Jr:

"Hello, H.M.Jr. broadcasting. I just talked to a man by the name of Roosevelt. Do you know that already?

"My God.

"That is the regular procedure we go through.

"All right," H.M.Jr. signing off.

He had already heard it.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: October 2, 1940, 5 p.m.

NO.: 235

I refer to telegram of September 30, 7 p.m., No. 230 from the Legation.

The information with regard to the ultimatum was confirmed by the General Manager of the National Bank. The General Manager said that Germany was insisting upon central European economic hegemony, and the sooner Hungary fell in line with this the better it would be for Hungary.

Quandt said that as yet no decision had been reached by Hungary as to the new premiums for the new currencies, but before taking formal action he promised he would let me know. On Saturday he leaves for Zurich to attend a creditors meeting.

No decision has been reached ^{by the National Bank}/regarding policy, he asserted. However, consideration would be given to American standstill loans, and on the matter of the interests in Transylvania of the International Telephone and Telegraph I would be kept informed. It is Quandt's opinion that the principals should be quite satisfied if this claim should be settled in two years. It is his belief that the claim of this company is against the Rumanian Government rather than against the Hungarian Government. He could

- 2 -

could not envisage an immediate solution, since the authorities in Rumania were doing all they could to delay a settlement. He said that should it be decided by the commission that indemnity must be paid to the American company by Hungary, he did not consider that free devisen would be used.

MONTGOMERY.

EA:LWW

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

2 October, 1940.



HEADQUARTERS

CONFIDENTIAL.MEMORANDUM TO THE SECRETARY OF THE TREASURY.Via Assistant Secretary Gaston.

Subject: Water pollution.

Reference: (a) Headquarters memorandum, 30 September, 1940.

1. With further reference to my memorandum of September 30th, there is attached a complete list of vessels whose fresh water tanks showed signs of pollution.

2. The Medical Officer attached to Coast Guard Headquarters states that upon inquiry of the Public Health Service he finds that the fresh water supply of Baltimore and Norfolk is pure and safe.

R. R. WAESCHE
Rear Admiral, U. S. Coast Guard,
Commandant.

Inclosure

From Commander, New York District, U. S. Coast Guard, 30 September, 1940.

<u>Vessel</u>	<u>Last port of call before assembling for convoy</u>	<u>Remarks</u>
LANGLEEBROOK	Norfolk	9 of 10 samples.
ELAKAHOIM	Norfolk	10 of 10 samples.
KALANI	Baltimore	High bacteria count.
EKNAREN	Baltimore	5 of 10 samples.
ONOMEA	Baltimore	6 of 10 samples.
EMMA FLEIN	Baltimore	8 of 10 samples.
MANCHESTER SPINNER	Norfolk	10 of 10 samples.
NOLISEMENT	Baltimore	10 of 10 samples.
OAKCREST	Norfolk	5 of 10 samples.
BEECHWOOD	Norfolk	Crew stomach trouble.
TREVORLAC	Baltimore	10 of 10 samples.
MIGUEL DE LARRINAGA	Norfolk (Scrap Pier, Army Base)	Water yellowish, dirty.
MARIPOSA	Norfolk	Case of typhoid; claims due to crew swimming in harbor at Baltimore.

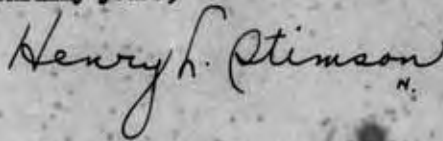
WAR DEPARTMENT
WASHINGTON

October 2, 1940.

Dear Henry:

Here is a copy of a news reel address by Rear Admiral Yarnell, former Commander of the Asiatic Squadron, which I have just received and in which you may be interested; also a memorandum on "American Initiative in the Far East", which I have received from Roger S. Greene.

Faithfully yours,

A handwritten signature in cursive script that reads "Henry L. Stimson". There is a small "H." or similar mark at the end of the signature.

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

NEWS REEL, ADDRESS BY REAR ADMIRAL H. E. YARNELL,
U.S.N. Retired. New York City.
September 18, 1940

For three years war on a vast scale has been waged in China. China is fighting to preserve her freedom and her national integrity. Japan is fighting to make China a vassal state. In recent announcements she has stated her intention of dominating the entire Far East, driving out all Western trade and influence.

In this war she has destroyed our trade with China, bombed our citizens and property, violated our treaty rights, and ignored our protests.

Few of our people realize the importance of this area to the United States.

One fourth of our foreign trade is with the Far East. We are almost entirely dependent on that part of the world for our rubber, tin, hemp, quinine, tea, and to a lesser extent, for many other products necessary in peace and in war.

We are responsible for the safety and welfare of the 16 million people of the Philippine Islands. Our trade with these Islands stands fifth on the list. It is greater than our trade with any South American country.

In China we have great commercial and cultural interests built up during the past 100 years. Through our fair dealings we have the friendship of the Chinese people. This is a great asset in these days of international hatreds.

Withdrawal from the Far East and from other parts of the world means isolation for us, and isolation is impossible in this much shrunken world. We are a great nation and must assume our responsibilities and defend our rights.

There is a feeling on the part of some that we can take no action until our great re-armament program is completed. They forget the fact that we have now a powerful navy, vast resources, and a just cause. That cause is the defense of democracy and the rights of our citizens.

The aggressor nations are moving rapidly. It is far more dangerous for us to remain inactive in the face of what is happening day by day, than to follow a policy of action.

We should make a joint agreement with Great Britain, the Netherlands and France for the protection of our mutual interests in the Far East. We should strengthen our Asiatic Fleet, basing it at Singapore. We should insist on the opening of the Burma Road. We should aid China in every way possible with loans and munitions, and we should stop sending war material to Japan.

Unless we are willing to defend our rights, we soon will have no rights to defend.

The wars in Europe and in Asia are one and the same war. It is crass folly to believe that this country can live in peace with Germany and Japan if they win in the present struggle. A future war with one or both is inevitable.

There can be no peace in the world until the rule of the military element in both Germany and Japan is broken, and men who recognize and practice honesty and decency in international relations are placed in power.

AN AMERICAN INITIATIVE IN THE FAR EAST AND ITS
RELATION TO THE EUROPEAN WAR

1. The American Government and the great majority of our people have made it clear by word and deed that they think it will be to our advantage if both Britain and China defeat the aggressors against whom they are now fighting. Additional measures are here suggested which may contribute to the desired end and at the same time protect important American interests in the Far East.

2. While Japan has no formal alliance with Germany and Italy, she has helped them by threatening British interests in Asia and the South Pacific. The same principles are involved in both wars.

3. Since Japan and Italy are the weaker members of the aggressive combination, measures directed against them may prove the most effective solution of the world problem.

4. The British position in the Mediterranean and in the Near East has been gravely impaired by the French surrender. It is now difficult for Britain to send badly needed reinforcements to her eastern armies from the United Kingdom. Australia, New Zealand and India would be the natural sources of reinforcements.

5. In the face of the hostile attitude of Japan towards British interests in Asia, the British dominions cannot make such large contributions to imperial defense as they made in the last war. If they were relieved of fear of a possible Japanese attack they could do much more and might turn the scale against Italy in Egypt.

6. The Japanese threat to British communications in the South Seas is a disturbing factor in British calculations, affecting both troop movements and the transport of military and civilian supplies.

7. If we accept the hypothesis that Russian policy is dictated mainly by fear for her own security, the Japanese threat to the Russian Far East tends to make Russia more cautious in the West and consequently less disposed to a rapprochement with Britain.

8. China is now in such^a critical position, with her most important transport routes for military supplies closed at the Indo-China and Burma frontiers, that it is now uncertain how long she can maintain effective resistance to Japan.

9. The continuance and strengthening of Chinese resistance is essential to prevent the concentration of Japanese resources for an attack upon British and Dutch interests, and possibly American interests, in Asia. So long as China resists, Japan cannot afford to undertake any other extensive operations.

10. The stiffening of Chinese resistance by the re-opening of the Burma road for military transport would greatly strengthen the British position in southeastern Asia; but Britain, though anxious to re-open the road, is unlikely to do so unless she receives substantial encouragement to resist Japanese demands.

11. The Japanese advance threatens American trade interests in China, the Philippines, the Dutch East Indies and Malaya, from which we receive essential materials.

12. The United States is morally committed to the defense of the Philippine Islands. If Japan should seize a base in the British or Dutch East Indies it would be practically impossible for us to discharge that obligation.

13. A Japanese base in the East Indies would greatly intensify the threat to British communications with India and Australasia, and thereby still further weaken the British position in the eastern Mediterranean.

14. The dangers enumerated could almost certainly be forestalled if the United States would seize the initiative by:

(a) securing from Britain the privilege of using the Singapore base, and

(b) sending out a naval force of moderate strength to be based on Singapore and Manila.

Japan in her present condition would be unable to use armed force effectively in that area, so far from her own fully equipped naval bases. The Japanese threat to that part of the world would be neutralized and almost certainly without war. Competent American naval opinion supports this view, and the Japanese press suggests that it is shared in Japan. An editorial from the Hochi Shimbun of Tokyo, quoted in the New York Times of August 27, 1940, (late City Edition, page 5) contains the following statement:

"If the United States secures the base at Singapore and thus gains a foothold on the Asiatic continent, Japan's development plans for the Netherlands Indies and Indo-China will become a dream." Hochi goes on to say that American and Japanese strength in the

Pacific is evenly balanced but that the acquisition of Singapore would tip the scale in America's favor.

15. Simultaneously economic pressure should be brought to bear upon Japan. The supply of essential war materials which are used to equip forces threatening our own interests should be ended, and imports from Japan which supply the Japanese treasury with indispensable foreign exchange should be severely restricted. The success of such measures in bringing Japan to terms in the Siberian affair in 1918 shows their usefulness. Financial aid should be given to China.

16. The advantages believed certain to accrue from a strong American initiative at this time may be summarized as follows:

Direct advantages to the United States:

- a. The securing of the defense of the Philippines.
- b. The maintenance of our trade with the Dutch East Indies and Malaya.
- c. The re-opening of our trade with "free China."

Indirect advantages to the United States:

- a. Strengthening of the British position in the Near East which would open the possibility of preventing the Axis Powers from extending their control to that region and the Suez Canal. This might produce eventually the collapse of Italy.
- b. Strengthening the Chinese position in southwestern China by re-establishing transport of military and civilian goods to and from those regions.
- c. Creating favorable condition for a Chinese advance against the invaders, with the prospect for the recovery of China as a strong independent state, and the setting up of a balance of power between China, Russia and Japan which would conduce to peace in the Far East and the restoration of our valuable trade there.
- d. The relief of Russia from anxiety for her Far Eastern territory, which would result from a vigorous Chinese offensive against Japan, would enable her to act more independently of Germany in Europe; a Russo-British rapprochement should then become less difficult, and Germany might no longer be free to devote so much of her energies to the attack upon Britain. This might have far-reaching results for good from the standpoint of American interests.

17. Considering the enormous advantages of the initiative in war and in situations threatening war, it is believed that the course of action here proposed should receive serious consideration without delay. If we leave the most important initiatives to Japan, the dangers in the Mediterranean and in Asia are likely to become constantly more grave.

September 18, 1940.

WAR DEPARTMENT
WASHINGTON

148

October 2, 1940.

Dear Henry:

Here is a rough historical memorandum which I have just dictated as to Japan's relations with the United States which you may be interested in reading. While there may be some slight inaccuracies in detail, I feel sure that the statements are all substantially accurate.

Very sincerely yours,

Henry L. Stimson

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

HLS
Oct. 2/40

HISTORICAL MEMORANDUM AS TO JAPAN'S RELATIONS WITH
THE UNITED STATES WHICH MAY HAVE A BEARING UPON THE
PRESENT SITUATION

1. 1914-17. Europe was preoccupied by the Great War and the United States was taking the position of aloofness which was generally attributed to pacifism. The Japan press indicated that she so appraised it.

In 1915 she made the Twenty-one Demands upon China which was a direct and avowed blow at the Open Door Policy of John Hay and Lord Salisbury looking towards the integrity of China.

During the same period she ousted the Germans from Shantung and moved in there herself intending to stay there.

Somewhat later she moved into Siberia with a force exceeding that allotted to her by the Allied Council and by going deeper than the other Allies into Siberia indicated that she intended to stay there.

2. In 1917 the supposed pacifistic United States mobilized 4,000,000 men, transmitted 2,000,000 to France and became the outstanding factor in the victory of the Allies.

In 1919 the United States demanded that Japan should get out of Shantung and should get out of Siberia and, to enforce the demand, put into effect an embargo upon both exports and imports from Japan.

In 1921 the United States demanded that the Japo-British treaty of mutual defense should be abrogated by Britain and this was done.

3. Japan evacuated Shantung, evacuated Siberia, consented to the abrogation of the British Treaty and came to the Washington Conference in 1921 and consented to a naval ratio of inferiority to the American and British fleets.

4. For ten years after 1921 Japan lived the life of a model international citizen.

She put up with indefensible provocation from the United States with respect to immigration.

She put up with great provocation from the Chinese during the disturbances of the Chinese civil war during the 1920's.

Not until the great depression of 1930 had simultaneously distressed Great Britain, the United States, and most of the rest of the world and had incidentally played internally into the hands of the militaristic extremists of Japan, at the expense of the Japanese moderate party, did Japan again set out upon her long planned program of aggression upon China.

MORAL: Japan has historically shown that she can misinterpret a pacifistic policy of the United States for weakness. She has also historically shown that when the United States indicates by clear language and bold actions that she intends to carry out a clear and affirmative policy in the Far East, Japan will yield to that policy even though it conflicts with her own Asiatic policy and conceived interests. For the United States now to indicate either by soft words or inconsistent actions that she has no such clear and definite policy towards the Far East will only encourage Japan to bolder action.

NZS.

October 2, 1940.

Dear Mr. Crane:

I want to thank you for your letter of September 27th, and for the report prepared by the Chairman of the Standard-Vacuum Oil Company, in regard to recent developments in the Dutch East Indies. I read this material with interest and appreciate your courtesy in sending it to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. E. Crane,
50 Rockefeller Plaza,
New York, New York.

GEF/dbs

October 2, 1940.

Dear Mr. Grasso:

I want to thank you for your letter of September 27th, and for the report prepared by the Chairman of the Standard-Vacuum Oil Company, in regard to recent developments in the Dutch East Indies. I read this material with interest and appreciate your courtesy in sending it to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. M. Grasso,
20 Rockefeller Plaza,
New York, New York.

GEY/dbs

October 2, 1940.

Dear Mr. Cramo:

I want to thank you for your letter of September 27th, and for the report prepared by the Chairman of the Standard-Vacuum Oil Company, in regard to recent developments in the Dutch East Indies. I read this material with interest and appreciate your courtesy in sending it to me.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. E. Cramo,
80 Rockefeller Plaza,
New York, New York.

GHF/dbs

30 ROCKEFELLER PLAZA
NEW YORK

J. E. CRANE

September 27, 1940.

Honorable Henry Morgenthau, Jr.,
Hopewell Junction,
N. Y.

Dear Mr. Secretary:

In response to your request of yesterday,
I take pleasure in sending you herewith copy of a memorandum which was prepared by the Chairman of the Standard-Vacuum Oil Company dealing with recent developments in the Dutch East Indies. As you know, the Standard-Vacuum is our affiliate doing business in the Far East.

Faithfully yours,

A handwritten signature in cursive script, appearing to read "J. E. Crane". The signature is written in dark ink and is positioned below the typed name "J. E. Crane".

September 7, 1940.

MEMORANDUM FOR MR. J. C. COCHRAN IN REPLY TO
MR. WOOD HENRI'S INQUIRY
RE THE NEGOTIATIONS IN THE NEPA OIL FIELD.

The Economic Mission, in conference with the Dutch East Indian Economic Affairs, have requested:

1. 150,000 tons of crude and products per annum. This is in addition to the normal distribution quota in the region of 400,000 tons which is now being supplied by the Dutch and Standard-Vacuum's subsidiaries in the Netherlands Indies.

Economic Affairs understand that the request of Japan is for a guarantee of availability of this volume of products for the next five years without Japan undertaking to pay, at least in the short term, by the U.S.I. Department of Economic Affairs.

It may be given in consideration for oil development, which is being dealt with through the U.S.I. (Main) Committee.

Cooperation in existing developments with other oil companies may be desirable.

The present of Economic Affairs in the Indies have explained the situation to the Japanese as follows:

1. The U.S.I. has no objection to any facilities in the way of shipments of oil to Japan.
2. The sale of oil is a matter of negotiation between the buyer and seller, and it is essential to Economic Affairs where conditions are such.
3. Similar difficulties under (1) arise, the Government of Economic Affairs is desirous that the matter be referred to them.

The U. S. I. Department of Economic Affairs asked the oil companies to state to them what is the maximum of crude and products both companies could make available during the next twelve months, keeping in mind that if they could state a fixed amount to be

- 2 -

available, which they hoped could be 2,000,000 tons from both companies for the next twelve months, this would give them a definite base and at the same time strengthen their position vis-a-vis request for concessions. The Department of Economic Affairs then stated to the oil companies:

1. That they agree refinery should operate at full capacity before selling any more crude oil.
2. That they appreciate aviation gasoline commitments made in other directions.
3. That they appreciate the importance of the companies maintaining the present outlets as far as these can be considered natural markets of the F.R.I.

The Standard-Oil Company has indicated the limit they would have available as follows:

Crude	100,000 tons (contains no aviation
Gasoline, 63 Octane	100,000 " gasoline)
Kerosene	50,000 "
Regular Import quota into Japan	110,000 "
Total:	360,000 tons

The Shell are likely to	
indicate	1,000,000 "
Grand Total:	1,360,000 tons

The matter is under discussion in the Indies, but no definite decisions have yet been reached.



OFFICE OF THE COMMISSIONER

ADDRESS REPLY TO
COMMISSIONER OF CUSTOMS

Miss Chauncey
TREASURY DEPARTMENT

BUREAU OF CUSTOMS

WASHINGTON

IN REPLY REFER TO

157

741

October 2, 1940.

BUREAU OF CUSTOMS
CIRCULAR LETTER NO. 2128.

Re: Export Control Act of July 2, 1940.

TO COLLECTORS OF CUSTOMS:

Copies of the following, which are self-explanatory, are transmitted herewith:

President's proclamation of September 30, 1940, issued under the Export Control Act of July 2, 1940, sent to you under Bureau Circular Letter No. 2096, dated July 3, 1940;

Regulations, dated September 30, 1940, governing the exportation of articles and materials designated in the President's proclamation of July 26, 1940, issued pursuant to the provisions of section 6 of the Act of Congress approved July 2, 1940, sent to you under Bureau Circular Letter No. 2109, dated July 27, 1940; and

Press release of the White House, dated September 26, 1940, relative to the control of iron and steel scrap exports, issued in connection with, and in advance of, the regulations of September 30, 1940, above referred to.

These documents are subject to the second and third paragraphs of Bureau Circular Letter No. 2096.

W. R. Johnson
Commissioner of Customs.

3 inclosures.

FOR IMMEDIATE RELEASE

THE WHITE HOUSE

FOR THE PRESS

SEPTEMBER 26, 1940

CONTROL OF IRON AND STEEL SCRAP EXPORTS

The President has approved the early establishment of additional controls of the exportation of iron and steel scrap with a view to conserving the available supply to meet the rapidly expanding requirements of the defense program in this country.

Effective October 15, 1940, all outstanding balances of licenses which have been granted pursuant to the existing regulations of July 26, 1940, for the exportation of No. 1 heavy melting steel scrap will be revoked. On October 16, 1940, the exportation of all grades of iron and steel scrap will be placed under the licensing system.

Under the new regulations which will be made effective on October 16, 1940, licenses will be issued to permit shipments to the countries of the Western Hemisphere and Great Britain only.

- - - - -

REGULATIONS GOVERNING THE EXPORTATION OF
ARTICLES AND MATERIALS DESIGNATED IN
THE PRESIDENT'S PROCLAMATION OF
JULY 26, 1940, ISSUED PURSUANT TO THE
PROVISIONS OF SECTION 6 OF THE ACT OF CONGRESS
APPROVED JULY 2, 1940.

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 prescribe the following additional regulations governing the exportation of:

Iron and Steel Scrap

1. As used in my proclamation of July 26, 1940, issued pursuant to the provisions of section 6 of the Act of Congress approved July 2, 1940, and in the regulations of July 26, 1940, issued in accordance with that proclamation, the construction and definition of the term "iron and steel scrap", is hereby amended to read:

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

2. Regulations 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 iron and steel scrap.

3. This regulation shall become effective October 16, 1940.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

September 30, 1940.

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

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
A PROCLAMATION

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

"Sec. 6. Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe. Any such proclamation shall describe the articles or materials included in the prohibition or curtailment contained therein. In case of the violation of any provision of any proclamation, or of any rule or regulation, issued hereunder, such violator or violators, upon conviction, shall be punished by a fine of not more than \$10,000.00 or by imprisonment for not more than two years, or by both such fine and imprisonment. The authority granted in this section shall terminate June 30, 1942, unless the Congress shall otherwise provide."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT,
President of the United States of America, acting
under and by virtue of the authority vested in me

-2-

by the aforesaid act of Congress, do hereby proclaim that upon the recommendation of the Administrator of Export Control I have determined that it is necessary in the interest of the national defense that on and after October 15, 1940, the following-described articles and materials shall not be exported from the United States except when authorized in each case by a license as provided for in Proclamation No. 2413 of July 2, 1940, entitled "Administration of section 6 of the act entitled 'An Act to expedite the strengthening of the national defense' approved July 2, 1940," and in the regulations issued pursuant thereto:

Fire Control Instruments, Military Searchlights, Aerial Cameras and other types of Military Equipment containing optical elements.

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

-3-

DONE at the City of Washington this 30th day
of September, in the
year of our Lord
nineteen hundred
and forty,
and of the
Independence
of the United
States of America
the one hundred and
sixty-fifth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

5
5

*arranged
meeting at
State Dept
Oct 8 - 3 PM*



DEPARTMENT OF STATE
WASHINGTON

My dear Mr. Secretary:

October 2, 1940

It seems to me that the time is now opportune to consider whether additional measures of exchange control should not be promptly imposed.

Heretofore measures of exchange control have been confined to so-called "blocking orders" affecting assets within the United States of countries invaded or occupied as a result of the European war; and affecting assets belonging to nationals of such countries resident therein. It would now seem appropriate to consider whether more general exchange controls may not be both practicable and useful in the interest of accelerated national defense.

Since the formulation and execution of any such measures, though intimately connected with foreign policy, are primarily within the province of the Treasury, I suggest that you may find it appropriate to call

The Honorable

Henry Morgenthau,

Secretary of the Treasury.

-2-

to call a meeting of the Cabinet officers who may have an interest in such measures, to the end that appropriate recommendations may be made to the President.

Sincerely yours,

Cordell Hull

October 2, 1940

MEMORANDUM

To: The Secretary

From: Mr. Young

Re: Republic Planes on Order for Sweden

I talked with Colonel Flickinger of Republic Aircraft this morning and he advised me that there had been no change in the Swedish plane situation.

A.Y.

RDS

GRAY

LONDON

DATED October 2, 1940

Rec'd 4:13 p.m.

Secretary of State,

Washington.

.3291, October 2, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Supplementing the information contained in my No. 2959 of August 30, the British Treasury summarized the payments agreement position as follows:

As previously reported agreements have been concluded with the Argentine, Brazil and Uruguay, a de facto arrangement is working with Peru and in due course will be made de jure. As regards Chile there is an agreement with the Nitrate Corporation but difficulty is experienced with Chile itself because there is "in fact no real monetary authority with which to deal". Furthermore while the Nitrate Corporation is long of pounds Chile itself is short. Difficulties are being experienced with Bolivia due to the tin interests which the British Treasury is aware are in the nature of complicated rackets. There has been an exchange of drafts with Colombia and conversations are proceeding with both Paraguay and Venezuela and in due course the Cuban position will come up for treatment but

-2- #3291, October 2, 6 p.m., from London

but probably after informal consultation with us. As far as Ecuador and Central America are concerned the problem is of such small dimensions that the British Treasury intends to do nothing about it until the more important South American countries are out of the way and then to deal with the former on a dollar basis. The British Treasury has very much in mind the idea of multilateral arrangements and plans for instance to work something out of the fact that Bolivia will be long of sterling and in turn short of adverse balances with Peru, Chile, and Uruguay which in turn tend to be short of sterling.

As regards Europe the agreement with Portugal is the shining example of friendly cooperation by a neutral, Salazar having taken "a long range view of Portugal's best interests". Discussions involving modifications of the Anglo-Spanish arrangements proceed continuously and the British Treasury is hopeful that Spain will realize that a bird in the hand is worth two in the Axis. The Rumanian agreement of course is quiescent and the Greek agreement functions. The British Treasury is both surprised and pleased that an arrangement is on the point of being reached with Yugoslavia.

As regards Japan the question of imposing a unilateral clearing has been passed on by the British Treasury to

the

-3- #3291, October 2, 6 p.m., from London.

the Foreign Office. From the purely Treasury point of view the problem is simple, namely, that Japan is buying virtually nothing from the United Kingdom and the United Kingdom is only buying from Japan that which it absolutely needs but the position as regards the Empire and enters into the realm of diplomatic policy,

KENNEDY

NPL

IN REPLY TO
TELETYPE
OCT 2 1940
600 OCT 2 10 10 AM
RECEIVED
DEPT. OF STATE

Secretary Morgenthau

Mr. Foley

OCT - 2 1940

We have been informed that a number of paintings of famous French painters are being shipped to this country on the SS Excalibur which will arrive in New York from Lisbon on Saturday, October 5, 1940.

Under our existing freezing control licenses are required for any transactions involving evidences of ownership of property in which a national of France has had an interest at any time on or since June 17, 1940. Under this provision of the Executive Order it would appear that a license would be required before bills of lading or other shipping documents covering the above-described French paintings could be presented to the shipping company by the consignee. Accordingly, it is believed that before such shipping documents are delivered to the shipping company and the French paintings delivered to the consignee the shipping company should be notified that a license will be necessary before they may receive the shipping documents in question. The effect of this requirement, of course, is that the French paintings may not be delivered to the consignee until a license is obtained.

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

JBF:ldh 10-2-40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940.

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Jay Crane telephoned me from New York at 11:00 this morning. He referred to the helpful assistance the Secretary had given him in regard to the problem of receiving dollars rather than sterling for oil sold to Great Britain. Crane mentioned that he had sent a memorandum to the Secretary in regard to the Standard's situation with respect to Argentina, and particularly the request of Finance Minister Pinedo that the Standard accept fifty percent of their payment for oil in sterling. Crane asked if this memorandum was sufficient, or if the Secretary desired anything further from the Standard Oil people. I told Mr. Crane that I would mention this to the Secretary and let him know if he should submit any further data. If Crane did not hear from us I told him it simply meant that we were holding the memorandum for future consideration.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Stopford of the British Embassy called on me at 12:30 yesterday noon to deliver certain messages to me, he asked the very direct question as to whether the Treasury was doing anything with respect to Japan, on the financial side. I simply replied that nothing had been done. He volunteered that if the Japanese question did come up, the British would be happy to give us information as to their practices with respect to Japanese funds "in order that we may keep in step". Stopford then stated that he understood the State Department was studying the question of French gold and French ships. I professed ignorance of any such study.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:25 this morning Mr. Liversy telephoned me from the Department of State. He said that Mr. James Dunn had just called him about the matter which we had discussed yesterday, involving the desire of the British to use as a bargaining point in their negotiations with the Soviet the release of Baltic States funds blocked in England. Dunn stated that the British Embassy was pressing the State Department for an answer, since the Embassy desired to cable London today or tomorrow. Dunn saw no reason for objections on the part of our Government to the British proposal. I told Mr. Liversy that I had submitted this question to the Secretary by memorandum last night, and that I would raise the question at the 9:30 Group Meeting to which I was proceeding.

In the Staff meeting this morning the Secretary himself raised the above question, reading to our Group parts of my memorandum of last night. It was the Secretary's decision, which had the full support of Messrs. Bell, White, Peble, Chamberlain and Cochran, whose opinion he requested, that Mr. Dunn should be informed that Mr. Morgenthau desired not to indicate any position of the Treasury on this point until he might hear directly from Secretary of State Hull.

Upon coming out from the meeting I telephoned this message to Mr. Liversy.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In the absence of Mr. Knoks, I talked yesterday with Mr. Cameron in the Federal Reserve Bank at New York in regard to the accounts of the Netherlands Government with the Federal. It will be recalled that at the outbreak of the war the Netherlands Bank carried two gold accounts and two dollar accounts with the Federal. The Netherlands Bank informed the Federal when the Netherlands was being invaded that the "F" accounts, one for gold and one for dollars, were the property of the Netherlands Government. The Netherlands Bank gave instructions which constituted freezing of their own ordinary accounts with the Federal. Arrangements were made whereby the Netherlands Government transferred to London should have control of the "F" accounts. There has been some change in the identity of the Netherlands officials in London authorized to sign the "F" accounts, but the procedure is still being followed of these accounts being controlled from London. I asked Cameron how payments were made out of the Netherlands Government accounts for munitions purchased in this country. He stated that the Royal Netherlands Government sends orders by cablegram from London to the Federal Reserve Bank to hold certain funds at the disposal of the Minister of the Netherlands in Washington. The latter, in turn, instructs the Federal Reserve Bank by letter to open credits in favor of certain banks. Presumably these are the banks financing the exports.

The central bank of Java, that is, the Javasche Bank, has a separate account with the Federal Reserve Bank and makes payments therefrom by telegraphic orders from Batavia.

Mr. Philip Young tells me that there are two or three separate purchasing groups in this country for the Netherlands. According to Mr. Cameron, there is no official in this country, outside of the Netherlands Legation, who has any authority to draw on the Netherlands accounts with the Federal. As described above the Netherlands Minister does not himself draw except to the extent of ordering payments out of the funds which are allocated to him by cabled instructions from London.

It is my suggestion that the munitions business of the Netherlands Government is not perhaps sufficient to warrant asking them to set up a system entirely analogous to that established by the British and French for paying for their war supplies out of a special account with the Federal. There might be serious legal complications, considering the involved status of the accounts. Just now the problem is up to us to whether the Netherlands Government in London can obtain control of the funds held in this country in the ordinary accounts of the Bank of the Netherlands with the Federal Reserve Bank. It should be possible, however, for us to obtain from the Minister of the Netherlands specific information as to the disbursements which he makes in this country for munitions. His figures could be checked against the totals allocated to his account with the Federal Reserve Bank at New York.

October 2, 1940

Mr. Fahle

Mr. Cochran

Mr. Mikkola, Secretary of the Legation of Finland, called on me yesterday afternoon at 2:45 and left the attached memorandum, which we discussed at our Group Meeting later in the evening.

In accordance with the decision reached at the meeting, I have telephoned Mr. Mikkola this morning, advising him to have the National City Bank or the Chase National Bank, or both, make formal application for licenses to transfer the funds in question. When Mikkola asked whether we desired indication of the wishes of the Belgian banks in the circumstances, I explained that the New York banks could only make the payments if the Belgian banks in whose names the funds are now held gave them the usual instructions to pay. That is, our license approved the transfer of the funds, but constituted no authority to a bank to make payment of a depositor's funds.



BNC:dm:10.2.40

C O P Y

LEGATION OF FINLAND

WASHINGTON, D.C.

MEMORANDUM

During the last winter the Finnish Government placed a number of orders for different goods with certain Belgian manufacturers. The funds in dollars intended to cover these orders were put on accounts held by Belgian banks and firms in New York banks, mainly in the National City Bank and the Chase National Bank. Because of later developments these orders were abandoned and the funds, amounting to \$2,150,000:- approximately, are now blockaded on the accounts in question.

In view of the fact that these dollar funds are very badly needed in Finland, the Finnish Legation is instructed by the Finnish Ministry for Foreign Affairs to enquire whether the Department of Treasury could in principle agree to release the dollar funds in question. Any details in this matter will be gladly given if so desired.

Washington, D. C., October 1st, 1940.

My dear Mr. Smith:

Reference is made to H. R. 10413 (76th Cong., 3d Sess.), entitled "An Act to provide revenue, and for other purposes".

Title I of such bill increases the normal corporate tax rate of corporations having a normal tax net income in excess of \$25,000. Such increase amounts to 3.1 percent, except in the case of a corporation which, because its normal-tax net income is only slightly in excess of \$25,000, is subject to the alternative tax imposed by section 13 of the Internal Revenue Code. The rates applicable to corporations with normal-tax net incomes of \$25,000 or less are not increased. Coupled with both the permanent and temporary rate increases made by the First Revenue Act of 1940, title I of the bill will produce a total rate of 24 percent.

Title II of the bill imposes an excess-profits tax on corporations at graduated rates running from 25 to 50 percent. Such rates are to be applied against so much of the taxpayer's normal tax net income (with certain adjustments) as exceeds the sum of a specific exemption of \$5,000 and an excess-profits credit (plus the unused excess-profits credit of the preceding year, in the case of corporations having a normal-tax net income of \$25,000 or less). In general, the excess-profits credit may be computed on the basis of either one of two widely differing methods. At the taxpayer's election, such credit may consist of either (1) 95 percent of the taxpayer's average income for 1936, 1937, 1938, and 1939, plus 5 percent of any net capital addition or minus 5 percent of any net capital reduction since the beginning of 1940, or of (2) 5 percent of the taxpayer's invested capital for the taxable year. Borrowed capital is included in invested capital to the extent of 50 percent of such borrowed capital.

The bill provides for abnormal situations in general as follows: by excluding what might be termed nonrecurring items of income or deductions in the computation of excess-profits net income; by authorizing allocations to more than one year of certain specifically described types of income which, in the light of the taxpayer's business experience, are abnormal in kind or amount; and by authorizing the Commissioner to make necessary adjustments to remove abnormalities in income or capital, subject to review by the Board of Tax Appeals.

177

The bill permits consolidated returns to be filed by affiliated groups of corporations for purposes of excess-profits tax. Corporations filing such consolidated returns must consent to the Commissioner's regulations with respect thereto.

Personal service corporations, as defined in the bill, are given the option of being subject to excess-profits tax like any other corporation or, in lieu thereof, of having their income taxed to their shareholders.

Title III of the bill provides for the amortization of the cost of emergency facilities over a five-year period. An emergency facility is any facility, land, building, machinery, or equipment, or part thereof, the construction, reconstruction, erection, or installation of which was completed after June 10, 1940, or which was acquired after such date, and with respect to which a certificate is issued by the Advisory Commission to the Council of National Defense and either the Secretary of War or the Secretary of the Navy, specifying that the construction, etc., of such facility is necessary in the interest of national defense during the present emergency. Provision is also made for a shorter amortization period in cases where the need for such facility disappears prior to the end of the five-year period. Amortization is denied in cases where, pursuant to a Government contract, the taxpayer is reimbursed by the United States in whole or in part for the cost of the facility, unless the Advisory Commission and either the Secretary of War or the Secretary of the Navy certify to the Commissioner of Internal Revenue that the contract makes adequate provision for the protection of the Government's interest in such facility. The terms and conditions of any contract with respect to payment or reimbursement of the cost of facilities and the protecting of the Government's interest therein are to be made available to the public.

Title IV of the bill suspends the profit-limiting provisions of the Winson-Trammell Act with respect to contracts or subcontracts for naval vessels of Army or Navy aircraft which are entered into in any taxable year to which the excess-profits tax is applicable (or would be applicable if the contractor or subcontractor were a corporation), or which were entered into, but not completed, prior to 1940. Title IV also suspends the profit-limiting provisions of the Warrent Marine Act of 1936 as to subcontracts entered into between corporations while the excess-profits tax is in effect, provided the contractor and subcontractor are not affiliated corporations.

Title V of the bill contains certain technical amendments of the Internal Revenue Code, chiefly with regard to the computation of corporate earnings and profits, and also contains provisions covering taxation of the income of a personal service corporation to its shareholders in cases where the corporation has elected not to be subject to the excess-profits tax for the taxable year.

-3-

Title VI of the bill establishes a new system of insurance, called "National Service Life Insurance", for persons in the active service of the land or naval forces (including the Coast Guard) of the United States, and also contains provisions preventing loss of annuity credit under the Railroad Retirement Acts occasioned by interruption of service in the railroad industry by military service under certain described circumstances.

Title VII extends the time within which contributions must have been paid into an unemployment fund under a State law, in order that a credit may be obtained against Federal unemployment taxes, and provides for refunds in certain cases.

The Division of Research and Statistics of this Department has made an estimate of the revenue yield under the bill as follows:

Estimated yield at estimated calendar year 1940 income levels and under arbitrary assumptions as to increase in net income over the lower estimates for calendar year 1940

[Millions of dollars]

	1940 levels*	Assuming arbitrary income increase				
		10 per- cent	15 per- cent	20 per- cent	25 per- cent	30 per- cent
Gross yield:						
Excess-profits tax.....	185-295	400	505	610	725	840
Increase in normal tax...	220-230	240	250	260	270	280
Total.....	405-525	640	755	870	995	1,120
Net yield:†						
Excess-profits tax.....	155-245	330	410	490	560	675
Increase in normal tax...	185-190	195	205	210	220	225
Total.....	340-435	525	615	700	800	900

*Probable range of revenue yields.

†Allows for decrease in income tax collections.

-4-

The rate increase contained in title I and the excess-profits tax contained in title II are effective as to taxable years beginning after December 31, 1939, and are therefore applicable to 1940.

Very truly yours,

Secretary of the Treasury.

Hon. Harold D. Smith,
Director, Bureau of the Budget,
Washington, D. C.

CRP/MEW 10-2-40

October 3, 1940
9:16 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox is coming on.

Frank
Knox: Hello, Henry.

H.M.Jr: Hello, Frank. Say, listen - hello?

K: I'm always listening to you, Henry.

H.M.Jr: (Laughs). Don't get tired of me.

K: No, I won't.

H.M.Jr: I'm looking at this paper this morning

K: So am I and I'm admiring your nerve.

H.M.Jr: Well, listen fellow, you skipped the months of May and June and as you told them the other day - you promised the President to do this up until the 1st of July.

K: Well, I know but you're only making a change of one there and to give us one the best of it, but you take four away from us.

H.M.Jr: Well, in May

K: Well, you started in in November. We had - no, in December. We had six and five to even up the three and four the month before and here you go giving us five and giving them six. Well, that's all right. I don't care.

H.M.Jr: Yeah, well, I thought the same thing.

K: Now, who is this other side - this B-24 bomber. Is that Army?

H.M.Jr: I just wanted to show you how generous the Army had been.

K: (Laughs).

H.M.Jr: See?

- 2 -

K: Well, but I haven't added it up. Two, five, nine, thirteen, seventeen, twenty-one.

H.M.Jr: They gain - well, the British gain 32.

K: Yeah, but they didn't have any on order, you see. Aw, you see, they didn't have any delivery coming until February and then they only had one.

H.M.Jr: Well, are you looking on the B-24

K: Yeah, that's what I'm looking at.

H.M.Jr: Well, I mean, they've given them three

K: Yeah, I know they did.

H.M.Jr: and if you notice, they gained 32 and you were only going to let them gain 6.

K: Well, on the total we're giving 94 with only 41 over there. Wait a minute. Eight, eleven, fourteen, nineteen, twenty-six - they're getting 37 altogether and we're giving them 94. I'd say that was pretty generous. (Laughs).

H.M.Jr: Well, not too generous. (Laughs).

K: Well, I'm certainly making good my promise one-and-one. I'm taking 91 myself and giving them 94 - that's the measure heaped up and running over.

H.M.Jr: Well

K: All right. It's O.K.

H.M.Jr: Will you go along on that?

K: Sure. Sure.

H.M.Jr: Can I tell the President at 10:30?

K: What?

H.M.Jr: Can I tell him at 10:30 the deal is closed?

K: Yeah, as far as I'm concerned.

- 3 -

H.M.Jr: And the way it is on this piece of paper.

K: Yeah.

H.M.Jr: That's 94 to 91.

K: So far as I can see there's only one change between now and April and that's in December.

H.M.Jr: That's right.

K: And then the next one is not until next April and then you only increase them one.

H.M.Jr: That's right.

K: So I don't think

H.M.Jr: And in May - a change in May and June.

K: Yeah. Somehow I was considering more than two. Yeah, the 26 to 15.

H.M.Jr: Well, we make it 20, I mean, we give you one more in May - 21 in May and the English 20.

K: Yeah, that's taking 5 away from us and giving them 5.

H.M.Jr: Yeah.

K: And then the next month you're giving them - taking 7 away from us and giving them 7.

H.M.Jr: Makes 17 and 17.

K: Uh-huh. All right.

H.M.Jr: Is it a deal?

K: Yeah.

H.M.Jr: Sold

K: Listen, Henry, why don't we - I talked with this Consolidated boat people and told them this crowd was coming out there and why they were coming, and they're tickled pink. They say it'll help immensely in getting deliveries so we may get more than this. Now, why don't

- 4 -

we go after this whole damned production - airplane production problem one after another and see if we can't do the same damned thing on a lot of other models?

H.M.Jr: Well, I've been down on my knees praying for this for months but nobody'll listen to me.

K: Well, now you're beginning to talk to a guy who does. Pick out another good big one and let's go to work on that.

H.M.Jr: Well, the only reason that I didn't go beyond that was because the Army are in trouble with both Lockheed and Douglas.

K: Well, what about Douglas? There's a hell of a big plant.

H.M.Jr: Well, the Army is in a jam with them.

K: What about?

H.M.Jr: Well, they've written them a show-cause order why they shouldn't cancel.

K: Why what?

H.M.Jr: Why the Army shouldn't cancel their order?

K: What for, what's the idea?

H.M.Jr: Well, because they say - I don't know - Patterson tells me they are about a year behind and he's got that whole story. He's very angry at both Lockheed and Douglas so I thought I'd let that blow over.....

K: Who's angry - the Army is or

H.M.Jr: No, the Army.

K: The Army is, huh.

H.M.Jr: So if you'll tell me - which other companies have you got beside Consolidated?

K: Well, I'd have to get that list, I can't remember them.

- 5 -

H.M.Jr: Well, if you'll tell me which companies, so to speak, have been allocated to you, I'll go over it with the English and see where they have heavy orders and then we'll take another one and do it again with the Navy and give the Army a chance to get straightened out on their legal difficulties.

K: You see out of this thing comes only benefit for both because what we do is to increase production without having to spend a hell of a lot of money and we get ships quicker. There's every advantage in this for both of us - for the British and for ourselves.

H.M.Jr: Instead of squabbling over one or two planes maybe we can get 100 more planes

K: That's right. That's exactly what's in my mind, and clear 100 planes more in the same length of time.

H.M.Jr: Well, that's what I hoped to come out of this.

K: Well, I'll get hold of that list right away - I sent it back upstairs - and I'll tell you about it after I've studied it.

H.M.Jr: But this thing that I talked to you about, now, this is the deal - 91 and 94.

K: That's right.

H.M.Jr: Thank you so much.

K: All right, Henry.

CONSOLIDATED AIRCRAFT CO.

Month	PBV-5 Flying boat Scheduled deliveries					B-24 Bomber Scheduled deliveries					Total British Gain
	United States	British	British	Gain		United States	British	British	Gain		
October	0		0			X 0	Q 3		3		3
November	X 3		X 4		3	X 2	Q 5		5		8
December	X 5		X 6		2	X 3	Q 3		3		5
January	X 9		X 10		1	X 4	Q 3		3		4
February	12		X 12		2	X 4	X 5		4		6
March	12		12			X 4	X 7		4		4
April	12		13			X 4	X 11		4		4
May	X 21		X 20		5	10	14				5
June	X 17		X 17		7	10	16				7
Total	<u>X 91</u>		<u>X 94</u>		20	<u>X 41</u>	<u>X 67</u>		26		46

October 3, 1940.

CONSOLIDATED AIRCRAFT CO.

Month	PBY-5 Flying boat Scheduled deliveries			B-24 Bomber Scheduled deliveries			Total British Gain
	United States	British	British Gain	United States	British	British Gain	
October	0	0		3 0	2 3	3	3
November	6 3	2 4	3	7 2	2 5	5	8
December	7 5	4 6	2	6 3	2 3	3	5
January	10 9	2 10	1	7 4	2 3	3	4
February	12	10 12	2	2 4	2 5	4	6
March	12	12		2 4	3 7	4	4
April	12	13		2 4	7 11	4	4
May	26 21	25 20	5	10	14		5
June	<u>24</u> 17	<u>10</u> 17	7	<u>10</u>	<u>16</u>		7
Total	<u>102</u> 91	<u>74</u> 94	20	<u>67</u> 41	<u>43</u> 67	26	46

October 3, 1940.

October 3, 1940
9:27 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. I reached him at the Embassy.

H.M.Jr: Arthur?

Arthur Purvis: Yes.

H.M.Jr: Have you got a pencil and paper?

P: Yes - I've got to get the paper - just a second. (Pause). All right, sorry.

H.M.Jr: Hello.

P: Yes.

H.M.Jr: I've got good news for you.

P: Good.

H.M.Jr: At 6 o'clock this morning I started to study that sheet of the flying boats that you are getting and when I saw there was only six I knew there was a fly in the ointment somewhere.

P: Well, that was at the back of my mind yesterday.

H.M.Jr: Right. Well, I revised it, sent it over to Knox by hand, I just got through talking, and he's accepted my revision in toto, which is quite different than what you had.

P: Oh, I'm delighted to hear that because that was really the most important almost of all.

H.M.Jr: Well, if you'll put down on a column the months - November, December, etc., you see.

P: I've done that.

H.M.Jr: And then up at the top of the page - United States and then British.

P: I've done that.

H.M.Jr: Now, I'm going to give it to you the way it is now - not the way it was before.

P: Exactly.

H.M.Jr: In November Navy gets 3, U.K. gets 4; December, Navy gets 5, you get 6. Well, just let's go back to November. You gain 3 in November.

P: Yes, that's right, we do.

H.M.Jr: You gain 1 in December.

P: That's right.

H.M.Jr: In January Navy gets 9, you get 10, your gain is 1. February, 12 and 12, you gain 2. March, 12 and 12. Now here's where it begins to change. April, Navy 12, you get 13. May, Navy gets 21, you get 20, you gain 5. June, Navy gets 17, you get 17, gain of 7, or the total should be Navy gets 91, you get 94.

P: That's it.

H.M.Jr: And you gain on this 20.

P: Well, you know that's excellent. And that was really in a way more what you had in the original figures.

H.M.Jr: Yeah.

P: Oh, that's simply excellent, I mean, that's going to be very pleasing to them.

H.M.Jr: Now what you would have gotten was 74 and you now get 94, and you get a gain of 20.

P: That's simply grand.

H.M.Jr: Now that's something to cable home about.

P: You bet it is. That'll go out in half an hour.

H.M.Jr: And Knox has accepted it.

P: He has accepted it so that I can go right ahead.

H.M.Jr: I said I was going to tell the President at 10:30. He said O.K.

P: Oh, I see, it'll be advised to him so I'm O.K.

H.M.Jr: Pardon?

P: It will be advised to him so I'm safe all right.

H.M.Jr: It's safe. Now, the other thing, he talked to Fleet and Fleet is wildly enthusiastic about this group coming out.

P: Oh, that's splendid.

H.M.Jr: And here's the thing. Knox said, well, you know, Henry, why can't we do this with other companies?

P: Oh, my heavens, you've started something!

H.M.Jr: So I said, my dear Frank, I've been on my knees for months begging various ones.

P: (Laughs).

H.M.Jr: So he said, well, how about some of the other big ones. I said, well, we can't touch Douglas or Lockheed because the Army is in a jam with them just now.

P: I see.

H.M.Jr: But if you'll give me the list of the ones which, so to speak, have been allocated to the Navy - you know they've divided up the companies - and let me know which so-called companies are Navy companies, I will check with the English and we can find a second one, but for the time being, I said, I don't want to do either Douglas or Lockheed because

- 4 -

P: No, there's a complication.

H.M.Jr: there's a complication with the Army.

P: Yes, and frankly, Douglas are a little difficult. They've got to be tackled rather carefully.

H.M.Jr: So he's going to call me back.

P: Well, you know, that's really in my opinion almost as good news as the other. In fact, in the long-run it's very much better. I mean, if Knox can be brought to that point of enthusiasm by you in that short time, I think we're going to get tremendous results all around.

H.M.Jr: So I said something - well, of course, the thing that we'd like to do is to get another 100 flying boats for both the Navy and the English in the next six months.

P: That's splendid.

H.M.Jr: So he said, well, of course. He said, wouldn't it be marvelous.

P: (Laughs). That's the way to go at it. I mean, there's no doubt about it

H.M.Jr: He's all steamed up.

P: Oh, that's splendid. Well, now we must keep him there - I know you will - but we shall have to play our part in keeping him there.

H.M.Jr: Right. Now the other thing - during the day look over that Republic situation, you see,

P: Oh, yes, I've got that to

H.M.Jr: and if you could give me a ring before you come over and let me know which way you're going to go

P: Yes, exactly. I'll see that you're posted before hand.

- 5 -

H.M.Jr: And I just had this in mind. I just wonder - you people have on order now three different kind of pursuit ships. You've got your Curtiss P-40, your Lockheed Interceptor and another one

P: Bell.

H.M.Jr: and a Bell. Now, I just wondered if you want to take on a fourth model with a small company, you see. I mean, I just wondered whether you want to take on another pursuit ship - if we're going to go to standardization, whether three models aren't enough.

P: No,

Now how would the engine situation fit into that?

H.M.Jr: That I don't know.

P: That would be the immediate thing which would have to be figured.

H.M.Jr: That I don't know. I mean, if you were going to buy another pursuit ship - well, now Curtiss Wright told me, for instance, that they're working now on what they call a 400-mile-an-hour ship and if, when you get through with the Curtiss P-40, I just wondered if you wouldn't want to jump to the ship which the Curtiss still have in the experimental stage and get something which would be really up to the minute.

P: You mean by placing orders for it now.

H.M.Jr: Well, just as soon as - Yes.

P: Yes, because - I mean, we're quite eager as you know

H.M.Jr: Well, I mean, rather than go to this Republic which

P: Yes.

- 6 -

- H.M.Jr: I'm just raising this point - whether you don't want to think in terms of a 1000 or 2000 pursuit ships and give it to some company that has a ship which is really, let's say, a year ahead of anybody else.
- P: Yes. Well, now, were you thinking of their farming out that ship in the same way that the engines are being farmed out?
- H.M.Jr: Well, I was just thinking in terms - if Curtiss has a 400-mile-an-hour ship, which they think is better than anybody else's, whether you wouldn't want to be thinking as your next big order, to give them an order to succeed - whenever they wind up with the Curtiss P-40.
- P: Exactly. Now, I - yes, I agree, I mean, it's just a question of how long ahead we have our orders placed for the P-40 and they ought to be making them faster than fast for that. I quite agree.
- H.M.Jr: Well, I mean, you ought to give them another order six months in advance - whatever time this order expires.
- P: I quite agree and, you know, if we can work this thing now along the line of the point which I was making last night, we could really get - fit in this whole 1300 or 1400 additional ships into the situation where they will best go. I mean, it gives - in addition to the acceleration work you are doing on the existing
.....
- H.M.Jr: Oh, yes.
- P: gives a great feeling to be able to back it up all the time with other orders in order to bring about that acceleration
- H.M.Jr: Yes, because unquestionably when your people are out there, they'll want to give Consolidated an additional order on the 4-engine bomber.

- 7 -

P: Yes, I don't know - yes, that of course is what Mansell, who went out before Fairey - to look it over from the viewpoint of the future, so I think that will be taken care of without question.

H.M.Jr: Well, it wasn't - I'm thinking of what the chances are - I don't know - that Fleet will say, well, if I'm going to speed up on the 4-engine bomber I need enough orders to add to my plant and have a decent-sized lay-out.

P: That's right.

H.M.Jr: Now, if I can get a really decent-sized order, well, maybe I can turn out one a day.

P: Well, I mean under those - I'm perfectly sure that we shall be able to fit in anything of that kind for good type machines either there or in other factories, which was your suggestion, and as you say the natural time for the question to arise is when one is discussing the acceleration of deliveries.

H.M.Jr: And to get back to this Republic thing, possibly the Army will say, I understand that there are two types of ships there - one is a single-seater and the other is a 2-seater, and maybe one or the other might do for Canada for training purposes.

P: Oh, those are the ones - you mean the P-44's?

H.M.Jr: No, the ones which were on order for Sweden.

P: The P-35's.

H.M.Jr: Yeah.

P: Yes, I see. Kind of a trainer.

H.M.Jr: Yes. One is a 2-seater; the other is a single seater.

P: Ah, that that is the difference. I see.

H.M.Jr: There are two different ships there.

- 8 -

P: Is it still open for us to do something along the line you thought of yesterday in regard to - if these Swedish planes have to go the other way? Well, I see what you mean - you mean switch it on a sort of round-about

H.M.Jr: Well, the whole thing is open and won't be settled until 3:30.

P: No, so it's really up to - there's a thought. Of course, as you say if those older ones - yes, all right, I think I see the picture.

H.M.Jr: Have you got it?

P: Yeah.

H.M.Jr: Thank you.

P: Thank you. Thank you very much.

GROUP MEETING

October 3, 1940
9:30 a.m.

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

H.M.Jr: Philip, Colonel Knox has accepted my revised figures on Consolidated. I got up at 6:00 this morning and began to study this thing and it seemed to me that they hadn't done what they had agreed to do, so instead of the English making a gain of six, they now get twenty more between now and - Knox is taking them.

Do you (Foley) want the story? Buckley has it.

Foley: I can get it from Buckley.

H.M.Jr: Buckley was here this morning. But now on the flying boats, between now and the first of July, the Navy gets 91 and the English get 94, where they only were going to get 74, so they gained 20. That deal is through.

Also, in the room, we get - who did these figures? I don't understand the 26 and 32.

Young: The 26 is just for the B-24, and the 32 is the boats, plus bombers, total.

H.M.Jr: Oh, that is out. Well, they gained 26 bombers.

- 2 -

Young: Yes, the total comes up to 46 instead of 32.

H.M.Jr: And the other amusing thing was, Knox said, "You know, Henry, this is a great idea." You know, he spilled it all in the papers last night.

Foley: I saw it. He didn't mention the Treasury.

H.M.Jr: Not a word. And he included the job we did up in Buffalo as though it was all his. That is what I am going to call from now on "pulling a Beaverbrook," and he said, "Now, this is swell. You know, why can't we do this for a lot of other companies?" I said, "My God, Frank, I have been on my knees begging you and the Army to do this." "Why," he says, "this is the way to get things done." All I could do was to say, "So I see by the papers," but I didn't. He said, "Why can't we do it with some other companies," and I said, "Well, if you will tell me which other companies are so-called Navy companies --" I don't want to trust the Army ones, because they are in legal difficulties with Douglas and Lockheed.

I said, "If you will call me back and say which of those so-called Navy companies besides Consolidated - which of them are Navy companies, the English being willing, we will go to work." He says, "Now, that is the idea. This is wonderful."

Great work. Well, you see what is going to happen. We have got Buffalo now turning out eight or nine planes a day, pursuit ships, eight or nine a day, and they may go to ten.

- 3 -

When the boys go out to Consolidated, instead of their turning out three or four a month, maybe we can get them to turn out one a day.

Don't forget when you (Foley) are out there at Consolidated, if they say they can't increase their production unless they get an additional order, the English are willing to place orders for both the flying boat and the four-engine bomber if they can, by doing that, get more deliveries. They are ready and he has the authority to place additional orders if he can get the deliveries reasonably soon.

The other thing that Knox said, he talked to Fleet and Fleet is very enthusiastic.

Foley: He is always enthusiastic.

H.M.Jr: And I told Phil to call him up on the phone and let him know that the Treasury had a little something to do with this and explain why you were coming out, you see.

Thompson: I have a report on this Customs case, where you had that inspector here the other day. The baggage man's testimony is virtually the same as the inspector's.

H.M.Jr: I see.

Thompson: Johnson recommends that the case be closed without any disciplinary action.

H.M.Jr: Well, would you let the State Department know?

Thompson: Yes.

- 4 -

H.M.Jr: What would you do, let them have a copy of the report?

Thompson: Yes, I would say they could have one.

H.M.Jr: Incidentally, and you might tell the State Department - tell Johnson to tell the State Department, C. D. Howe begged me to drop the whole thing. His wife had never mentioned it to him and he was terribly embarrassed about it.

Thompson: Johnson said that he had a confidential report that this is the third time that she had had trouble in Customs.

H.M.Jr: Oh, she is a red-headed lady, is she?

Thompson: Yes.

H.M.Jr: Well, would you tell Johnson that he might go over and see - who is the fellow on that?

Cochran: Jack Hickerson.

H.M.Jr: Yes, let him go over and see Hickerson and explain the whole thing to him and tell him also that Howe was in here and begged me to drop the whole matter.

Mr. Bell?

Bell: I have a number of things. Shall I take the time now or come in later?

H.M.Jr: Later. When this meeting breaks up, you can stay.

Graves?

White?

- 5 -

- White: There is an unusual letter here signed by about 50 economists on "Why Gold is Good."
- H.M.Jr: You mean it is unusual because of the title?
- White: It is unusual for 50 economists to be right.
- Bell: We will agree.
- White: There is a letter here that you asked me to bring up at the 9:30 meeting. I would suggest if you can set aside a half hour or an hour today or tomorrow, and we will have an agenda prepared. That is a very important discussion.
- H.M.Jr: Well, what I thought I would do is call up Mr. Hull and tell him in answer to this thing that - Hull comes back and says he would like to have me call the meeting, but I want to say that I would like him to call it.
- White: I would suggest if you could have time to have a meeting in the Treasury before you meet with the State Department.
- H.M.Jr: That is possible. What else?
- White: The legislation which had been suggested to provide the Administration - or the Government with the power to control import quotas and so on, in order to implement the coffee agreement, was presented to the President, and he said it was very interesting, but he felt that the time was not appropriate --
- H.M.Jr: For what?
- White: To present the bill to Congress now.

- 6 -

H.M.Jr: What bill?

White: To control import quotas.

Bell: Is that the one we had up the other day?

White: No, it is the coffee one.

(Telephone conversation with Secretary Hull follows:)

October 3, 1940
9:46 a.m.

H.M.Jr: Hello.

Cordell
Hull: Hello, Henry.

H.M.Jr: How are you?

H: I'm pretty fair.

H.M.Jr: Cordell

H: I appreciated your note.

H.M.Jr: (Laughs). All right. How are things today?

H: Well, things look bad enough everywhere.

H.M.Jr: I see. I'm sorry. I'm calling you in reply to your letter that we get together on this so-called blocking orders - you know?

H: Yes. I want you to know that all I had in mind was - people kept bringing up the subject around and I said why can't the Treasury-- it's got the technical jurisdiction over all this--why can't the Treasury and one or two of you fellows here get together and talk out this thing and see what is needed, and that is really what I was driving at.

H.M.Jr: Well, what I was going to suggest is this - this is a very important subject and it's going to take me a couple of days to study it.

H: Well, take your time. I just brought it up for study.

H.M.Jr: And I thought if Tuesday afternoon is convenient, I'd like to come over to your office and sit down and have a half an hour talk about it.

H: Yeah, sure. All right.

H.M.Jr: Is 3 o'clock a good time for you?

H: 3 o'clock is all right.

- 2 -

H.M.Jr: On Tuesday?

H: Yeah.

H.M.Jr: At your office. I don't think any other Department is involved.

H: Well, I hadn't

H.M.Jr: Did you have anybody else in mind?

H: No, I hadn't anything except just the - Berle and Fels among them kept bringing up the subject

H.M.Jr: Well, I'll bring a couple of my boys with me and if I know in advance the points we're going to discuss, I'll send you over a little note in advance.

H: Well, I'll do the same thing for you.

H.M.Jr: All right. And incidentally, that Panamanian boat, we gave her a release last night.

H: Well, that's - of course, we hate awfully to see any kind of oil going that way

H.M.Jr: Well

H: I called down my fellows and checked that and they felt that in a few days they'd get that other thing closed up and then we'd be more footloose.

H.M.Jr: O. K.

H: Good-bye.

H.M.Jr: Good-bye.

- 7 -

H.M.Jr: That is the first time that he ever got on the telephone before I did. It is highly significant.

White: There is something wrong with his secretary.

H.M.Jr: No, I have been making every effort to meet him 75% of the way.

Well, what I thought we could do was this, Harry. If we are going to do this, I won't be able to hit this thing. I am going to tell you now. I will give you 10:30 Tuesday morning. I will give you an hour, and I would like Mr. Bell and Mr. Cochran and Mr. Foley. It is up to you to --

White: 10:30?

H.M.Jr: Tuesday.

White: And you will leave an hour?

H.M.Jr: One hour.

White: I think that will be all right.

H.M.Jr: An hour alone with you.

White: I think that will be enough.

H.M.Jr: All right. Are you all through?

White: No. I notice this imports of manganese from Russia - there were more in August than any previous month, which is interesting in the light of the presumed difficulties of getting manganese, and the Council of Defense made a statement in a report that came to us that Russia cannot ship any manganese by sea. That is what made us look it up.

- 8 -

H.M.Jr: Right. Thank you.
George?

Haas: I have nothing.

H.M.Jr: Did you call up Mr. Offie?

Pehle: I called him, yes.

H.M.Jr: And you are alive to tell the tale?

Pehle: Yes.

H.M.Jr: What happened?

Pehle: I told him we didn't have any application, but he said he would file one if I would send him the blanks, which we did by special messenger, and I told him that this isn't the type of transaction we had been approving and he said he realized it was a special case. I told him we would consider it when it got over here.

H.M.Jr: Didn't he say --

Klotz: That is what I understood, the State Department couldn't proceed until they got orders from the Treasury to go ahead.

Pehle: The State Department said they would transmit the funds once the Treasury had issued a license, but the Treasury hasn't issued a license.

H.M.Jr: But there was no request over here.

Klotz: He probably was making the request when he talked to me.

Pehle: That is what I understood.

- 9 -

H.M.Jr: But you are not going to give it to him, are you?

Pehle: No.

H.M.Jr: I don't see how we can.

Pehle: I thought what we would do was prepare a letter either for your signature or Mr. Bell's signature as Acting Secretary, seeing that Mr. Bullitt will probably sign the application, saying that it was not in accordance with out policy to grant that type of application.

H.M.Jr: Well --

(Discussion off the record)

Pehle: No, I was just mentioning the vehicle of disapproval if we were going to disapprove.

H.M.Jr: I think it ought to come up through the regular way, whatever the regular channel is.

Pehle: I had one transaction I wanted to mention involving a shipment of rubber from Indo-China to Russia. The Foreign Funds Control is involved only because the dollars are to be paid to persons in Indo-China, but they are coming out of the Russian account, which, of course, is not blocked. Mr. Cochran took the thing up with the State Department --

H.M.Jr: Now, wait a minute. Go a little slower. I have got to go back again. You live with this stuff and I only get it on split seconds. Describe the transaction again.

Pehle: Russia wants the Chase Bank to take funds in its account, Russia's account, and pay to banks in Indo-China, to persons in Indo-China, for rubber which is in Indo-China

- 10 -

and is being shipped to Russia. It is about 800 tons.

H.M.Jr: To Russia?

Pehle: To Russia.

H.M.Jr: I get it.

Pehle: We discussed it in the committee and we asked Mr. Cochran to consult the State Department to see whether there is some attitude there that might be helpful. They considered it all around the table, apparently, and came back with the very helpful suggestion that they didn't want to express any opinion whatsoever.

H.M.Jr: Pehle, you can keep that up. We will be very glad to have you as a permanent member. You are catching on.

Pehle: So it is back on our doorstep. I don't think the committee - the majority of the committee feels one way or the other about it. We can discuss it here if you want.

H.M.Jr: All right. Have you any feelings?

Pehle: Yes, I have. I feel that we ought to allow this transaction because --

H.M.Jr: Well, the judge rules yes, so stop arguing.

Pehle: That is all I have.

H.M.Jr: And do it promptly.

Pehle: All right.

H.M.Jr: Now, on your (Pehle's) recommendation that it should go through, I say yes.

- 11 -

White: It is a good thing he didn't say no.

H.M.Jr: You said yes, didn't you?

Pehle: Yes, sir.

H.M.Jr: And don't let Harry White - do you know him?

Pehle: I have heard of him.

H.M.Jr: Can you take him on all right?

White: He is worthy of my mettle - "said he, very modestly."

H.M.Jr: Now, don't spoil it. That is a compliment.

While we are on Russia, where does this thing stand, where the State Department asked us, as I understand it, how we feel - or somebody asked us how would we feel if the English would release the frozen funds that are up in Latvia, Esthonia and Lithuania. Is that right?

Cochran: Yes, sir.

H.M.Jr: Who has asked that?

Cochran: We have asked them to put it over --

H.M.Jr: Where does that stand this morning?

Cochran: I will have to look at the memorandum on that.

Pehle: Wasn't it left that you were to hear personally from Secretary Hull?

Cochran: That is it, yes.

- 12 -

Bell: You were to hear personally from Secretary Hull before you indicate an attitude on it.

H.M.Jr: Would you (Cochran) when you leave here call up Mr. Gray and say could we hear this morning?

Cochran: All right, fine.

H.M.Jr: Could we hear this morning.

White: You might be interested, Mr. Secretary, in the fact that one of my boys said yesterday afternoon on the radio it was stated that the British wanted to release Russian blocked funds, and have requested the American Government to state their attitude before so doing and that Secretary Hull was opposed.

H.M.Jr: Do you consider Secretary Hull worthy of your mettle?

White: I can't think of one fast enough for that.

H.M.Jr: All right. If you think of one during the day, give me a ring.

White: I will do that.

H.M.Jr: I think when you (Cochran) call up Gray, tell him of this transaction that we have passed on in connection with the 800 tons of rubber, that we have done it, and as long as you are doing it, I think I would also call up Mr. Jones' office and tell him we have done it also.

Cochran: We have done that.

H.M.Jr: Yes, on the rubber, because he is buying rubber all the time, so I would get word

- 13 -

both to the Secretary of Commerce and the Secretary of State that we have done it. I would like them to know it. And then also ask Mr. Gray whether he can't get an answer on the other. What is that - do you suppose that was in a press conference, Chick?

Schwarz: I don't believe so. It wasn't on the ticker.

H.M.Jr: Isn't that amazing?

Schwarz: It sounds like one of the boys got it from somebody down the line there.

H.M.Jr: Is that all?

Pehle: Well, we have another transaction on sisel which is exactly the same facts as the other except we haven't gone to the State Department yet. It involves about half a million dollars. This sisel is to be purchased in the East Indies and shipped to Russia. Whether it has a strategic importance, we haven't had time to check.

H.M.Jr: Also from their funds here?

Pehle: Also from Russian funds here.

H.M.Jr: I would handle it the same way.

Haas: They can make rope out of it.

Bell: Maybe they will hang themselves.

H.M.Jr: Okay. You (Cochran) might tell them about that also.

Philip?

Young: I received a note from Burdette Wright expressing thanks for his audience the other

- 14 -

day, and he attached to it a copy of a very super-super-cablegram that he received from Beaverbrook congratulating him upon getting out this stuff for the first Hawk squadron.

H.M.Jr: What is a super-super-cablegram?

Young: Would you like me to read it?

H.M.Jr: You don't complete your sentence. Super-super-what?

Young: Cable.

H.M.Jr: Yes, please.

Young: It is addressed to Burdette Wright. It is from London, September 29.

"I learn with joy and gratitude and with admiration of the delivery at the promised hour of the complete Hawk squadron. This faithful performance of an onerous production task is a magnificent testimony to the energy, drive and efficiency developed by you, your staff, and your workpeople. The Prime Minister, to whom I have reported the achievement, asked me to convey his personal thanks for a precious contribution to the battlefront of our people. I am most happy to know of the even better prospects for next month. To Pete Jansen, I send my special gratitude for his share in the triumph."

Jansen is the factory manager up there. Would you like to send a copy of that to Mr. Knox?

H.M.Jr: I don't think it is necessary, but I would like it to go to my files. It is very

interesting. Anything else?

Young: That is all.

H.M.Jr: Chick?

Schwarz: I have nothing.

H.M.Jr: The reason I called, I am going to the White House at 10:30.

Schwarz: The boys hadn't arrived yet at 9:30 to check for tomorrow.

H.M.Jr: If you would let me know, because Purvis wants to bring in tomorrow Sir Walter Layton and depending upon - well, I will have to give him some time tomorrow.

Schwarz: They may ask for it. I will know very shortly.

H.M.Jr: All right.

Cochran: There is quite a story in the New York Times this morning from Buenos Aires on Pierson's visit.

H.M.Jr: I read that. It is very interesting.

To bring you all up to date, when Jesse Jones was here, he had been over to see the State Department and he had everybody there, I gather, to discuss this, and Jones said several interesting things. In the first place, he said he had not been consulted about Pierson going down to South America. Pierson had gone without any instructions from him. They told him over at the State Department that I was all keen for making a stabilization loan and I wanted these people to come up from the Argentine.

I got out the Havana cable and let him read that and stressed the point, knowing how close Jones is to Hull, that when Hull had his back up against the wall in Havana and it looked as though the thing was going to be a failure, I came through a hundred percent, and that the thing which we gave him down there was very useful. Am I right?

White: A slight exaggeration, but still :-

H.M.Jr: Well, I was just quoting you.

White: You mean your memory of what I said.

H.M.Jr: Well, I understood from you that they shook this around under all their noses.

White: That is still - I don't know whether they said that, but I still think that statement probably - I don't know whether he had his back up against the wall.

H.M.Jr: Well, did they use this statement?

White: Oh, it was useful and they were glad to get it and it doubtless was a help. I merely don't feel that their backs were against the wall without it, but I don't know.

H.M.Jr: Maybe it was against the floor.

White: I am just getting even for that remark on the telephone.

H.M.Jr: Well, you can use your judgment whether you should tell it to me in private or not. Look to your bell-wether. Look to your bell-wether here (Foley). Anyway - and then I got this over to Jones, that whatever they did in the Argentine, I wanted them to move

- 17 -

first, and Jones said no, couldn't we move simultaneously, that they would be willing to make a loan if we would move together, so I explained to him what we could or couldn't do, and we would very much like to move together if they come up, and I understand from Jones that the State Department has invited these people to come up here.

White: Has?

H.M.Jr: Has.

White: The last thing was a cable that I heard of yesterday that they were not coming up until they had received further instructions, but this may be later.

H.M.Jr: He also told Warren Pierson to keep his mouth shut, so we will wait and here.

Cochran: I have nothing.

Foley: Forrestal doesn't expect to be in San Diego until about half past ten tomorrow morning, so we will be there by the time he gets there.

H.M.Jr: Good. Were you able to reach his secretary?

Foley: Yes. That wire was very helpful. He sent it down to Pensacola last night. He got the reply back last night.

Green called up this morning and said there is a Dutch vessel in New York loading five Fairchild 24's for Siam. They have already granted the export license, but they are reconsidering the matter now, and they would like to have a few hours. He asked me if we could stall the crates on the docks so if they changed their minds and revoked

- 18 -

the license, they wouldn't have to be taken off the ships again. I think we won't have any trouble giving them a few hours. I just mentioned it.

H.M.Jr: Well - because I like to do everything in the way that is regular. You are handling it through Cairns?

Foley: Cairns told me about it, yes.

H.M.Jr: Okay.

Foley: The other thing is, those 500 French paintings that are coming over on the Excalibur, she left from Lisbon, I think, on the 25th of September. Those shipping documents that will be necessary for the shipping company to release the paintings to the consignee are evidences of ownership of property and a license under the regulations would be required before the company, the shipping company, can turn the paintings over to the consignee, so if it is all right with you, we will proceed that way.

H.M.Jr: Is that - you treat it just like money?

Foley: Just like money. It is evidence of ownership.

H.M.Jr: Do you know to whom the pictures are consigned?

Foley: No, I don't know. Do you, John?

Fahle: No.

Foley: The consignee hasn't been divulged. Of course, we will get all the information

- 19 -

when they request the license. We will notify the shipping company that they have to have a license before the paintings may be released.

H.M.Jr: Okay.

Foley: That is all.

H.M.Jr: Well, you will be here for lunch today, won't you?

Foley: If it is all right with you, I would like to come to lunch.

H.M.Jr: I will change the order. And you are coming, Harry.

White: If it is still okay.

H.M.Jr: Okay.

TREASURY DEPARTMENT

216

WASHINGTON

2 October 1940.

MEMORANDUM FOR - The President

I urgently request your approval of a proposed Bill for the establishment of a Coast Guard Reserve. The enactment of this proposed legislation is essential for me, through the Coast Guard, to carry out the duties resulting from your Proclamation of June 27, 1940, placing upon the Secretary of the Treasury the responsibility for the control of all merchant shipping and the security of the harbors and waters of the United States including the movements and anchorages of vessels and the lading and unlading of explosives, inflammables and other dangerous cargo. The Coast Guard needs approximately 270 additional small craft immediately to carry out these duties. Even though time did permit, it is more economical to use Coast Guard Reserve craft for these duties than to build or buy these vessels and use regular Service men to man them. It will cost to operate these boats, including the personnel to man them, about \$525 per month per boat.

The final draft of this proposed Bill was drawn up by the Navy Department with minor changes being made by the Coast Guard. The Bill as submitted by me to the Bureau of the Budget had the official approval of Admiral Stark in writing. It does not conflict with Naval Reserve legislation. It permits the nation to use to best advantage trained yachtsmen and small boat men.

The Chief of Naval Operations is interested in the Bill and has recommended favorable action for the reason that it will permit the Coast Guard to organize for the use of the Navy in time of war small yachts and other motorboats of the country. There are other minor advantages such as permitting the federal government to keep close supervision over a large percentage of the several hundred thousand motorboats of the country and obtain information regarding possible subversive activities on the part of some of these craft.

This proposed Bill was submitted by me to the Bureau of the Budget on August 20, 1940 and was returned to me by the Director of the Bureau of the Budget on September 11, 1940 with an unfavorable report. If you will approve this Bill, and I urgently recommend that you do so, I feel confident we can have it enacted by the Congress in the near future.

/s/ H. M. MORGENTHAU, Jr.,
Secretary of the Treasury.

*Copy**cc to Mr. Thompson**Delivered by Lt. McKay*

RDS

GRAY

BERLIN

Dated October 3, 1940

Rec'd 3 p.m.

Secretary of State,
Washington.

4219, October 3, 3 p.m.

My 4186, September 28, 1 p.m.

FOR TREASURY FROM HEATH, AND FOR DEPARTMENT'S INFORMATION

The Berlin press announces that the Yugoslavian authorities have agreed to raise the clearing rate of the reichsmark from 14.80 dinars to 17.82 dinars effective October 1.

KIRK

NPL

RE BRITISH PURCHASING PROGRAM

October 3, 1940
3:30 p.m.

Present: Mr. Young
Mr. Buckley
Mr. Purvis
Mr. Fairey
Mr. Patterson
Mr. Self
Mr. Gray
Mr. Cox
Mr. Wilson
Mr. Childs
Mrs Klotz

H.M.Jr: Well, Mr. Patterson, the purpose of this meeting is, we find ourselves in the position where we have been trying to negotiate with the Republic Company for the sale of these planes which they have on order and delivered in part to the Swedish Government, and we have reached the position now where the Republic just won't do anything, but we hope that they will follow the course which we have laid down in connection with the Vultee. But that seems impossible, so I communicated with you yesterday and asked whether you would think it over, what suggestion you have which might be worked out for your advantage --

Patterson: What is the size of the lot?

Gray: 110, all together.

H.M.Jr: 110. How many are completed?

Young: About 60. About 30 of each type. There are two types of these planes, what is known as the 2-P-A, which is the two-seated training and reconnaissance plane, and the EP-1, which is a pursuit plane.

H.M.Jr: This is what Phil Young prepared for me.

- 2 -

Patterson: I understand that these were the same type of planes that were certified as obsolete by the War Department some months ago, planes which were returned to the manufacturer and eventually found their way to Britain. Isn't that right?

H.M.Jr: Philip?

Young: I didn't know that there were any Republic planes which had been so certified.

Patterson: I am not certain that they were Republic planes.

Young: I am perfectly sure it is an Army plane of about three years ago, the model, which definitely makes it more than obsolete at the present time, at least for combat purposes.

Patterson: Well, our course, you see, is not very easy in view of that fact. Some people in the Air Corps say that these planes are available for training. Is it felt that the Army can take them over from the Republic people without any embarrassment to the Republic people?

H.M.Jr: Would you like to talk with me for a couple of minutes alone? I can go in the other room.

Patterson: No, I just - is it the idea that the Army can take them without any trouble from the Republic people?

H.M.Jr: Well, who can talk on that? Cox?

Cox: Yes. As I understand it, the Swedish Government is perfectly willing to consent to

- 3 -

release these planes to the Army and they don't care what the Army does with them afterward. Now, both Bostrom and the other man made that statement, and Flickinger of Republic has gotten that same statement out of them. I also understand that he is perfectly willing and wants to turn them over to the Army if he gets that kind of consent from the Swedish trade delegation so there won't be any legal set-to.

The next problem is what you do with them once you get them into the hands of the Army, and the Swedish Government, as I understand it, isn't concerned with what the Army does with them.

H.M.Jr: Well then, if you are correct, and I am sure you are, and the Army gets them, it is just a question of how generous they feel about what disposition they will make of them, I mean whether they feel they can use them themselves or whether they want to turn them back to the company or trade them or what. Is that about the situation?

Cox: Yes.

Patterson: Of course, that was the design, originally, I think, as to both lots, the Vultee and the Republic. I think it was at the Army's suggestion that it was left out of the matter.

Cox: That is right.

Patterson: We saw no reason for taking them in and then feeding them out again. That course has succeeded in the case of the Vultee, but now in the Republic we are back again to the initial plan.

H.M.Jr: That is right. That is where we are.

- 4 -

Patterson: And evidently can't go forward.

H.M.Jr: Can't go forward unless the Army will take the first step. Am I right, Cox?

Cox: That is right.

Young: The greatest difficulty with Republic is Republic does not take the same position that Vultee did and they won't do business on that basis.

Patterson: I suppose the Republic will still have to get a release in view of the attitude they take. They will still have to get a release from the Swedes.

Young: Yes, the Swedish Government is quite --

Patterson: They think they can get such a release in favor of the Army?

Young: Yes, the Swedish Minister has taken the stand all the time that if the planes are disposed of by the Swedish Government, they will only be disposed of to the Air Corps or under the orders of the Air Corps.

H.M.Jr: The original plan was that the Army would take them and turn them back to the Swedes, I mean to the Republic, and the Republic would sell them to Canada and you would get a credit with Republic for additional planes, new planes. That was the original plan. Then it has gone round and round and round and now we are back to where the only way we can do this thing is for the Army to take them, and then it is up to the Army to say what disposition they would like to make of them.

Patterson: Does the Army, by taking them, imply, so far

- 5 -

as the Swedes are concerned, that we shall keep them?

Young: I don't think so, necessarily. I don't believe that the Swedish Minister would consider looking beyond the fact that the Air Corps had taken over the planes. I don't see how he could.

Patterson: Well, I would be glad to see what kind of a certificate I could get out of the Air Corps on these planes, or out of General Marshall.

H.M.Jr: Well, let me ask you --

Patterson: There are only two embarrassments that might come up. One is the one I mentioned a moment ago, it seemed to me that if we take them over on release of the Swedes from the Republic, I don't want any implication in there that we keep them.

H.M.Jr: Well, wouldn't the best --

Patterson: The other is the question of a certification from the Chief of Staff.

H.M.Jr: Well, Bob, wouldn't the best way be to have you satisfy yourselves or let some Army officer see the Swedes and get it direct?

Patterson: You might get it where you didn't like it if you asked the question.

H.M.Jr: Well, let's just jump two hurdles. Let's say that the Chief of Staff will certify it, and let's say that the Army owns them. Have you crossed the next hurdle, that is, the British Purchasing Commission being willing, would you be willing to turn these over to them for whatever use they might want to make of them?

- 6 -

Young: You would have to turn them back to the Republic.

H.M.Jr: Let's forget the mechanics of it.

Patterson: If we take these, there may be some slacks - they may release some spot and allow some slack or something equivalent. I think that is suggested in your paper, isn't it?

Young: Yes. I thought the other might look just a little bit crude.

Purvis: It would relieve that point you were saying, as to whether there is a permanent ownership, or not permanent, but an ownership certificate.

H.M.Jr: As I read this memorandum which was handed to me at the start of this meeting, I take it the English Purchasing Commission will be glad to take the Republic P-44's which they now have on order for you, and anything they can deliver before April '41. Is that right?

Purvis: On such an exchange, I think that is right, isn't it?

H.M.Jr: You have 60-odd of these Republic P-44's on order.

Purvis: It might take the curse off.

Patterson: How good are these things?

Fairey: Your guess is as good as ours. They are not as good as the Moulton type. They are just about good enough. They are about three years old, I believe. They are not as heavily armored or as well armed as the Moulton type. There is the 43, 44, and the 47 coming. That is the one that we are

- 7 -

the most interested in.

H.M.Jr: The 44?

Fairey: The 44 immediately, and the 47 in the future.

Purvis: The 44 comes into production when?

Fairey: About next summer.

Buckley: These planes have protected gas tanks. They would have to sacrifice about 15 miles an hour speed.

Patterson: What would you deem the equivalent of these, the nearest thing to an equivalent we have in stock?

Fairey: Have you got any 44's in stock?

Patterson: I don't --

Purvis: No, their deliveries just started.

Fairey: I don't know what you have in stock.

Young: You mean something approximately the same age, three years?

Purvis: No, something, please, more modern.

Fairey: I know what I would like, but that is not the same thing.

Young: Well, P-40's.

Patterson: Well, I was wondering whether the acquisition of these would relieve us - not long, because that is impossible, but not acutely short in some item.

Fairey: Well, I imagine. I don't know what you have got, because the item that we want and want

- 8 -

badly is P-40's. That is opening my mouth rather wide. That is in exchange for a much older machine.

Patterson: It involves some 60 units immediately, doesn't it?

Fairey: Yes.

Purvis: Would you be willing to trade off a rather lesser number of P-40's?

Fairey: Certainly.

Patterson: Well, I know, except you will have some difficulty on certification there, I am quite sure. I was trying to achieve the substance of the plan we had to be carried out in the case of the Vultee.

Young: How does that compare with the Northrops, older Northrops?

Fairey: No, I think these are rather preferable to the older Northrup. I haven't anything in mind besides that at the moment.

Self: The P-40's --

Purvis: We had a request for 200 of those for two months.

Self: We might even suggest the P-39. It sounds a little bit anterior.

Fairey: 36, you mean.

Self: No, Bell P-39.

Patterson: I know that the design of the Air Corps, if they had these planes, would be to use them

- 9 -

for training planes.

Purvis: Yes.

Patterson: And I have hope that we can whack up some bargain.

H.M.Jr: No one has suggested this, but I will raise this, just to be knocked down. I think if it was forced on them, they might take a few of these North American Harvard trainers.

Purvis: That is a thought.

Fairey: Yes, that is a thought.

H.M.Jr: They might resist terrifically, but they might be willing to take them.

Purvis: Properly weighted.

H.M.Jr: Wouldn't you be willing to accept some of those?

Fairey: Yes.

Patterson: What do you call them?

H.M.Jr: Harvard trainers, made by North American.

Purvis: They are the advanced trainer.

H.M.Jr: You have them on order.

Purvis: There is somewhat of a shortage in the advanced trainer class, but if they were going to use these as trainers, then it would make --

Wilson: It would be a trainer for a trainer.

H.M.Jr: That is what I had in mind.

Purvis: It does make a simpler approach.

- 10 -

Fairey: It has the advantage from our point of view of being the type we already have a great many of, instead of introducing another one with all the complications of spares and new equipment.

Patterson: It conforms to your standards?

Fairey: Oh, absolutely, yes.

Purvis: It is the advanced trainer.

Fairey: There is a slight difference between the American pattern and the British pattern of the Harvard, but not enough to disturb me.

H.M.Jr: According to my figures --

Patterson: I think the most promising of these three alternatives Mr. Young has here is the second.

H.M.Jr: Which is that?

Patterson: That is the one we are discussing now.

Young: Releasing something else. Isn't that the one you mean?

Patterson: Yes.

H.M.Jr: You have on order with North American a little over 700 of these trainers which begin to come through in a goodly number, beginning in November.

Patterson: Well, I think I had better let it go at that. I will go and discuss it with the Air Corps people and try to take these over and try to give you an equivalent.

- 11 -

Self: May I mention that when you are considering it, our test pilot tried these Republic aircraft and they have a vicious stall characteristic. They have worked out quite a simple device which can easily be adapted to the aircraft, so if they say anything about trouble with the aircraft, it has been rectified.

Purvis: You can demonstrate that, can't you?

Fairey: It was modified entirely to our satisfaction.

Purvis: That is a good thing to have on the table.

H.M.Jr: What would be a reasonable time to expect an answer from you on this?

Patterson: Tonight or tomorrow morning.

H.M.Jr: Wonderful.

Patterson: If I can catch them now, I will take it up at once.

H.M.Jr: Do you think we could do it before Cabinet?

Patterson: Yes, I think so.

Fairey: I am going away tonight, or I was going to say I would offer to come around and see you. I must leave shortly, and if there are any other alternatives you want to suggest.

Patterson: Shall we use Mr. Young as a clearing house?

Fairey: He could get in touch with Sir Henry. I am going away.

Self: I shall be here, Mr. Young.

Patterson: I will put it up to you (Mr. Young), then.

- 12 -

Young: I am quite hardened to it.

Patterson: You can act as the central.

H.M.Jr: That is what he is here for.

Patterson: For the central, yes.

H.M.Jr: "Information Please".

Fairey: He has done his part very well.

Purvis: We are always saying, "Information Please."

Patterson: All right.

CONFIDENTIALFOR YOUR INFORMATION

September 30, 1940

To: The Secretary

From: Mr. Young

Re: Republic Planes on Order for Sweden.

Last Friday morning, Colonel Flickinger of Republic Aircraft dropped in to see Oscar Cox and me at my request. Colonel Flickinger stated that 172 planes had been ordered originally by the Swedish Government, of which 120 were HF-1's (single pursuits) and 52 were 2-PA's (two-seater training and reconnaissance planes). Of these, 60 HF-1's and 20 2-PA's have been shipped, leaving a balance of 110. Of this balance, 30 of each type have been completed leaving about 80 to be produced at an approximate rate of one plane per day.

The planes which have been completed are already boxed for export shipment and are stored at the Republic plant at Long Island City. These planes are all bought and paid for and the Swedish Government has title. Colonel Flickinger stated that Republic could not break its contract with the Swedish Government for two reasons: first, because the Swedes already had title to the planes and Republic had no claim on them, and, second, because the finished planes include accessory equipment, radio, camera, etc., which had been furnished by the Swedes and was not part of Republic contract.

Thus, the Republic situation is distinct from the Vultee situation where planes had not been completed and did not include any extra equipment. As Republic stated point-blank that it would not cancel its contract, and as the Swedish Government is taking the stand that it wants delivery of the planes, if it cannot sell them to the Air Corps, there would seem to be three possible courses of action: first, let the Air Corps take over the planes from the Swedish Government and then trade back part of them to Republic for sale to Canada (it is assumed that the Air Corps would be interested in single pursuits only); or, second, let the Air Corps take over the planes and release a different batch of planes for ultimate sale to Canada; or, third, to take over the Republic planes in exchange for flying fortresses.

FY:bj

H.M.Jr: Philip, Colonel Knox has accepted my revised figures on Consolidated. I got up at 6:00 this morning and began to study this thing and it seemed to me that they hadn't done what they had agreed to do, so instead of the English making a gain of six, they now get twenty more between now and - Knox is taking them.

Do you (Foley) want the story? Buckley has it.

Foley: I can get it from Buckley.

H.M.Jr: Buckley was here this morning. But now on the flying boats, between now and the first of July, the Navy gets 91 and the English get 94, where they only were going to get 74, so they gained 20. That deal is through.

Also, in the room, we get - who did these figures? I don't understand the 26 and 32.

Young: The 26 is just for the B-24, and the 32 is the boats, plus bombers, total.

H.M.Jr: Oh, that is out. Well, they gained 26 bombers.

Young: Yes, the total comes up to 46 instead of 32.

H.M.Jr: And the other amusing thing was, Knox said, "You know, Henry, this is a great idea." You know, he spilled it all in the papers last night.

Foley: I saw it. He didn't mention the Treasury.

H.M.Jr: Not a word. And he included the job we did up in Buffalo as though it was all his. That is what I am going to call from now on "pulling a Beaverbrook," and he said, "Now, this is swell. You know, why can't we do this for a lot of other companies?" I said, "My God, Frank, I have been on my knees begging you and the Army to do this." "Why," he says, "this is the way to get things done." All I could do was to say, "So I see by the papers," but I didn't. He said, "Why can't we do it with some other companies," and I said, "Well, if you will tell me which other companies are so-called Navy companies --" I don't want to trust the Army ones, because they are in legal difficulties with Douglas and Lockheed.

I said, "If you will call me back and say which of

217
503

3 October 1940.

My dear Mr. President:

I cannot too strongly urge you to make available immediately from the \$100,000,000 emergency fund the sum of \$1,500,000 to begin construction of three Coast Guard cutters of the 327-foot - 20-knot type (CAMPBELL class) the total cost of which will be \$11,370,000, with authority to let contracts immediately for these vessels. The remaining \$9,870,000 will be included in the regular 1942 estimates for appropriations for the Coast Guard.

These three cutters will replace three cutters from twenty-seven to thirty years old, with a speed of ten knots or less which are not capable of performing efficiently the duties of the Coast Guard.

The plans and specifications are ready for immediate distribution to prospective builders and contracts can be entered into immediately. The Coordinator of Shipbuilding has given me the names of five firms that should be in a position to commence construction of these vessels immediately. Telegraphic reply has already been received from four of these companies that they are ready to commence the construction of these three cutters immediately.

There is now an acute shortage of the larger type of Coast Guard cutter caused by the demands made upon the Coast Guard by the enforcement of the Neutrality laws, by special missions necessitated by the present international situation, by additional duties pursuant to your Proclamation of June 27, 1940, charging the Secretary of the Treasury with the supervision and control of merchant shipping and other responsibilities during the present emergency period. I have every reason to expect that the need for this type of cutter will increase in the near future. The 327-foot - 20-knot cutter has already demonstrated its value as a national defense unit.

There are but seven modern cutters of the 327-foot - 20-knot type in the Coast Guard, ten cutters of the 250-foot - 16-knot type, built in 1928, and four cutters of the 240-foot - 12-knot type, built in 1922. All other cutters are small vessels less than 200 feet long except the 216-foot NORTHLAND, built for Arctic work and now in Greenland. Four of these larger cutters are engaged in the mid-Atlantic Weather Observation Patrol, in accordance with your direction. Two of these vessels have been engaged in special missions to Greenland since last May, and another cutter, the CAMPBELL, has sailed for duty overseas under the direction of the Chief of Naval Operations. Only recently I have been asked informally by the Navy Department of the practicability of assigning a 327-foot cutter to duty as flagship for submarines. The pressure of additional duties on the Atlantic seaboard, such as described, has necessitated practically stripping the West Coast and Alaska of the larger type of cutter for duty on the East Coast. The Alaskan work of the Coast Guard is of necessity being neglected, particularly the patrol of the Aleutian chain of islands stretching nearly a thousand miles to the westward and within a few hundred miles from the northern end of the Japanese Archipelago, as is the surveillance of Japanese fishermen in the Bering Sea. And this at a time when recent international developments in connection with agreements among the totalitarian nations make the Alaskan patrol more necessary and urgent than it has ever been before.

May I urge your immediate consideration of this request?

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Delivered by Lt. McKay

RDS

GRAY

BERLIN

Dated October 3, 1940

Rec'd 5:15 p.m.

Secretary of State,
Washington.

4220, October 3, 4 p.m.

My 253, January 31, 4 p.m.

The VOLK of October 2 reports that summer time has proven of such great advantage that it will be continued for an indefinite period. It is further stated that a decree of the Council of Ministers for National Defense to this effect will be published within the next few days in the Reich Law Gazette. It was originally planned to revert to Standard Time during the night between October 5 and October 6.

KIRK

NPL

Copy

pf

G-2/2657-220

RESTRICTED

No. 210

SITUATION REPORTM.I.D., W.D.
October 3, 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.

On the 2nd the German Air Force was active over England by day and night. Satisfactory details are not available, except that the weight of the attacks was apparently directed against southeast England and the London area. The British state officially that little damage was inflicted, while the Germans claim that heavy damage was done to communications and port facilities.

II. Mediterranean and African Theaters of War.

No information available.

III. Miscellaneous.

A report from an American official source at a European capital outside the U.S.S.R. gives the following distribution of the Red Army as of August 15, 1940:

FAR EAST	40	Divisions
CAUCASUS REGION	20	"
ODESSA-LWOW	20	"
WESTERN UKRAINE	10	"
WESTERN WHITE RUSSIA	6	"
BALTIC STATES	13	"
FINNISH BORDER	20	"
STRATEGIC RESERVE	35	"
TOTAL STRENGTH	164	"

RESTRICTED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Some days ago I took up with Mr. Collado the question of our failure to receive, or only after delay, messages from American diplomatic and consular officers in Latin America upon financial matters. I also discussed this with Mr. Livesey. Mr. Collado has told me this morning that a system is now being worked out whereby the officers in his division in charge of various Latin American countries will be charged personally with preparing paraphrases of communications with our officers in those countries, and sending them promptly to Mr. Collado's own office, for retransmission to my office in the Treasury. We discussed the question of copies, paraphrases, mail despatches etc. It is hoped that this new system will keep us more promptly and fully informed on Latin American developments.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

Principal changes in the account during the period September 26 to October 2, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
September 26	\$246,000	U.S. Mint, San Francisco - final payment against gold shipment.	\$ 750,000	Amtorg Trading Co.
	98,000	Jord Brukarbanken, Stockholm	123,000	Commercial Letter of Credit Account
			80,000	Bohemian Union Bank, Prague
September 27	250,000	Skandinaviska Banken, Stockholm	750,000	Amtorg Trading Co.
			98,000	Commercial Letter of Credit Account
September 28	162,000	Jord Brukarbanken, Stockholm	60,000	Amtorg Trading Co.
September 30	178,000	Commercial Letter of Credit Account - cancellation	329,000	Commercial Letter of Credit Account
	93,000	Leonard J. Buck, Jersey City, N. J.		
October 1			469,000	Amtorg Trading Co.
			420,000	Commercial Letter of Credit Account
October 2			541,000	Commercial Letter of Credit Account
			278,000	Payment of bill drawn by American Society for Jewish Farm Settlements in the U.S.S.R.

BMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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

German

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 1	\$ 67,000	Deutsche Asiatic Bank, Shanghai	Hideo Itcha, Manager, Showa Tsusho Kaisha, 1775 Broadway, N. Y.
October 2	150,000	Reichsbank, Berlin (by order of Dresdner Bank, Berlin)	Swiss Bank Corporation, N. Y. for account of Swiss Bank Corporation, Zurich

Italian

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 1	\$100,000	Credito Italiano, New York.	Post and Flagg
October 2	54,000	Credito Italiano, New York.	Guaranty Trust Company of N. Y., for account of Banco de Lisboa y Acores, Lisbon

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

At 11:00 this morning the Argentine Ambassador telephoned me. He stated that he had talked with Mr. Duggan in the Department of State yesterday in regard to the prospective visit of Argentine officials to the United States. He had been informed that Secretaries Morgenthau and Jones were to consult on this matter yesterday afternoon. Since Mr. Duggan is absent in Philadelphia today, the Ambassador asked me whether I could inform him as to the outcome of this conversation. I told him that I had not been present and had only a general idea of the matter. I suggested that he speak with someone else in the State Department, particularly Mr. Collado. The Ambassador said he had been trying all morning but had failed to reach Collado. When he asked if anyone in the Treasury could give him some information in the premises, I said he might try Dr. White, and I transferred the call.

B.M.R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At this morning's Staff meeting Secretary Morgenthau approved the recommendation of Mr. Pehle that applications for licenses be approved for two transactions, one involving the payment by Soviet Russia from its account with the Chase Bank in New York for rubber to be shipped from Saigon, Indo China, to Vladivostok, and another for sisal to be shipped from Batavia, Java, to Russia. The Secretary asked that I inform the offices of Secretary of State Hull and Secretary of Commerce Jones of our action on these two applications. After the meeting, the Secretary asked me by telephone to give the same information to the secretary of the Russian Ambassador.

I have this forenoon communicated the messages to Mr. Stone in Secretary Hull's office, to the private secretary of Mr. Jones in the Department of Commerce and to the private secretary of the Russian Ambassador.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

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.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 2	\$ 153,000	Reichsbank, Berlin (by order of Dresdner Bank, Berlin)	Santierle Nabale Galati, Bucharest
October 3	250,000	Reichsbank, Berlin	Stockholms Enskilda Bank, Stockholm
October 3	200,000	Reichsbank, Berlin	First National Bank of Boston for account of Reichsbank, Berlin
October 3	1,132,000	Deutsche Gold Dis- count Bank, Berlin	Marine Midland Trust Co., N. Y., for account of Topken and Farley (lawyers) 17 Battery Pl., New York
October 3	250,000	Reichsbank, Berlin	Brown Bros. Harriman Co., N.Y. for account of Deutsche Ausland Schulden

TREASURY DEPARTMENT

213

INTER OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£6,000
Purchased from commercial concerns	£4,000

Open market sterling remained at 4.03-1/2 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£2,000
Purchased from commercial concerns	£6,000

The Swiss franc touched a new current high of .2304 this afternoon, and closed at .2303. It was believed that the volume of Swiss franco-dollar business diminished today in both New York and Zurich.

The Cuban peso discount narrowed to 7-7/8%, as against 8-7/16% yesterday. The improvement in that currency was probably associated with a press report that an official Cuban delegation had left for Washington today to negotiate an Import-Export Bank loan of \$50,000,000. The Mexican peso advanced to .2083; it was quoted at .2049 yesterday.

The other currencies closed as follows:

Canadian dollar	14-3/4% discount
Swedish krona	.2383
Reichsmark	.4000
Argentine peso (free)	.2340
Brazilian milreis (free)	.0505
Lira	.0505

We purchased \$410,000 in gold from the earmarked account of the Central Bank of Chile.

The Federal Reserve Bank of New York reported that \$2,900,000 in gold had been shipped from Japan to the Chase National Bank in San Francisco for account of the State Bank of the U.S.S.R. This shipment, due to arrive here around October 8 on the President Taft, will be sold to the San Francisco Mint. The New York office of the Chase National Bank stated that the gold was originally dispatched from Vladivostok and transhipped in Yokohama, probably by the Yokohama Specie Bank. It will be recalled that a similar gold shipment of \$10,500,000 arrived in San Francisco on September 3, description of which was

CONFIDENTIAL

- 2 -

contained in my memorandum to the Secretary dated September 14.

The Bombay gold and silver prices were equivalent to \$33.96 and 44.56¢ respectively, both slightly lower than yesterday's quotations.

The London price for spot silver was unchanged at 23-7/16d, while the forward quotation moved off 1/16d to 23-3/8d. 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 four purchases of silver totaling 275,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented sales from inventory, 50,000 ounces were purchased from the Central Bank of China, and the remaining 25,000 ounces consisted of new production from foreign countries for forward delivery.



TREASURY DEPARTMENT

245

INTER-OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Absorption of Increases in the Public Debt Since
June 30, 1933

Outline

- I. The Fiscal Year 1940
- II. The Period June 30, 1933 to June 30, 1940
 - A. The Period as a Whole
 - B. Trends During the Period
- III. The Distribution of Government Security Holdings as of June 30, 1933 and as of June 30, 1940
- IV. Details of Absorption by Banks

I. The Fiscal Year 1940

During the fiscal year 1940, the total direct and guaranteed public debt increased by slightly more than \$2.5 billions, of which all but about \$50 millions consisted of direct obligations. Only about \$500 millions of the increase in direct obligations reflected growth in the volume of market issues, the remainder of the increase being about equally divided between special issues and restricted issues (United States savings bonds and Adjusted Service bonds).

The largest single block of this increase was absorbed by Federal agencies and trust funds (\$1.2 billions) as may be seen in Table I and in Chart I.^{*} All banks, other than Federal

^{*} The data underlying Charts I and II will be found in Table A, and those underlying Charts III and IV will be found in Table B, attached to this memorandum.

Secretary Morgenthau - 2

Reserve Banks, increased their holdings of direct and guaranteed obligations by \$900 millions. Weekly reporting member banks in New York City, together with J. P. Morgan and Company,* accounted for the entire increase. Small increases in the holdings of weekly reporting member banks in leading cities, other than New York City, and of mutual savings banks were offset by decreases in the holdings of banks in the remaining two categories (chiefly country banks and banks in small cities).

Insurance companies absorbed about \$300 millions of Government securities in the fiscal year 1940. When this amount is added to the increase in bank holdings, the absorption of Government obligations by the principal financial institutions of the country is brought to a par with that of Federal agencies and trust funds. Each group absorbed 48 percent of the increase in total debt during fiscal 1940. This is shown in Table II. The \$1.2 billions increase in the holdings of financial institutions, however, was 2.4 times the \$500 millions increase in the privately held marketable supply of Government securities.**

"Other holders", principally individuals and non-financial corporations, reduced their holdings of market issues by \$700 millions in the last complete fiscal year. Thus, more than half of the increase in the holdings of financial institutions consisted of securities already outstanding which had been held previously by individuals and non-financial corporations.

"Other holders" absorbed \$900 millions, or somewhat more than 90 percent of the increase in United States savings bonds outstanding. Up to April 1, 1940, when revised regulations governing sales of savings bonds became effective, banks had purchased about 10 percent of all bonds issued.

* J. P. Morgan and Company, although not a member bank, was included in this category because its size and type of business is more closely analogous to that of weekly reporting member banks than to that of "non-member" banks.

** The privately held marketable supply does not include special or restricted issues, or the holdings of Federal agencies including Federal Reserve Banks.

Table I

Absorption of Increase in Direct and
Guaranteed Public Debt Outstanding
Fiscal Year 1940

	(Billions of dollars)
Absorbed by:	
Weekly reporting member banks in New York City <u>1/</u>	.9
Weekly reporting member banks outside New York City	.1
Other member banks	- .1
Non-member banks <u>2/</u>	- .1
Mutual savings banks	<u>.1</u>
All banks <u>3/</u>	.9
Insurance companies	.3
Federal Reserve Banks	- .1
Federal agencies and trust funds	1.2
Other holders:	
Restricted issues	.9
Market issues	<u>-.7</u>
	2.5

1/ Including J. P. Morgan and Company.

2/ Excluding mutual savings banks and J. P. Morgan and Company.

3/ Excluding Federal Reserve Banks.

Table II

Percent of Debt Increases Absorbed by
Various Classes of Holders
Fiscal Year 1940

	Total Debt	Privately Held Debt 1/	Privately Held Marketable Supply 2/
(Percent of Total)			
Absorbed by:			
Federal agencies and trust funds	48	-	-
Federal Reserve Banks	- 4	-	-
Banks other than Federal Reserve Banks	36	64	180
Insurance companies	12	22	60
Other holders:			
Restricted issues	36	64	-
Market issues	- 28	- 50	- 140
	100	100	100

1/ Excludes holdings of Federal agencies and trust funds and Federal Reserve Banks.

2/ Excludes United States savings bonds and Adjusted Service bonds, and holdings of Federal agencies and trust funds, and Federal Reserve Banks.

Secretary Morgenthau - 5

II. The Period June 30, 1933, to June 30, 1940

A. The Period as a Whole

In the seven fiscal years since June 30, 1933, the total direct and guaranteed public debt has increased by \$25.7 billions, of which \$20.2 billions represents direct obligations and \$5.5 billions, guaranteed securities. The increase in market issues of direct obligations amounted to \$12.6 billions, while special issues amounted to \$4.5 billions, and restricted issues (United States savings bonds and Adjusted Service bonds), to \$3.2 billions.

Private financial institutions have constituted the principal market for this increase in the public debt. Banks other than Federal Reserve Banks absorbed \$11.7 billions, or nearly 46 percent of the total increase, while insurance companies absorbed \$5.1 billions, or 20 percent of the total. These two classes of institutions, however, between them absorbed more than the whole increase in the privately held marketable supply -- the banks accounting for 74 percent and the insurance companies, for 33 percent. This is shown in Chart II and in Tables III and IV.

Individuals and non-financial corporations, although they absorbed about 90 percent of the net increase in United States savings bonds and, of course, the whole increase in Adjusted Service bonds, actually reduced their holdings of market issues by \$1 billion. A glance at Charts I and II will reveal that at no time in the seven-year period has this class of investors played an important part in the market for Government securities, other than restricted issues.

It should be noted that while Federal agencies and trust funds absorbed \$6.5 billions, or about one-fourth of the increase in total debt, about two-thirds of this sum consisted of special issues.

Table III

Absorption of Increase in Direct and
Guaranteed Public Debt Outstanding
June 30, 1933 - June 30, 1940

		(Billions of dollars)
Absorbed by:		
Weekly reporting member banks in New York City <u>1/</u>	3.0	
Weekly reporting member banks outside New York City	3.3	
Other member banks	1.7	
Non-member banks <u>2/</u>	1.1	
Mutual savings banks	<u>2.6</u>	
All banks <u>3/</u>		11.7
Insurance companies		5.1
Federal Reserve Banks		.5
Federal agencies and trust funds		6.5
Other holders:		
Restricted issues		2.9
Market issues		- <u>1.0</u>
		25.7

1/ Including J. P. Morgan and Company.
2/ Excluding mutual savings banks and J. P. Morgan and Company.
3/ Excluding Federal Reserve Banks.

Secretary Morgenthau - 7

Table IV

Percent of Debt Increases Absorbed by
Various Classes of Holders
June 30, 1933 - June 30, 1940

	Total Debt	Privately Held Debt <u>1/</u>	Privately Held Marketable Supply <u>2/</u>
(Percent of Total)			
Absorbed by:			
Federal agencies and trust funds	25	-	-
Federal Reserve Banks	2	-	-
Banks other than Federal Reserve Banks	46	63	74
Insurance companies	20	27	33
Other holders:			
Restricted issues	11	15	-
Market issues	<u>- 4</u>	<u>- 5</u>	<u>- 7</u>
	100	100	100

1/ Excludes holdings of Federal agencies and trust funds and Federal Reserve Banks.

2/ Excludes United States savings bonds and Adjusted Service bonds, and holdings of Federal agencies and trust funds, and Federal Reserve Banks.

Secretary Morgenthau - 8

B. Trends During the Period

Chart I shows the increase in total debt and the absorption of the increase by principal classes of holders for each fiscal year since June 30, 1933. It will be seen that the period of greatest debt increase covered the fiscal years 1934-1936. In fiscal 1938, the increase was only \$1 billion, the smallest in the seven-year period. Banks, other than Federal Reserve Banks, were the principal absorbers in the first three years of the period, but decreased their holdings in the fiscal years 1937 and 1938. Insurance companies also were more important, in terms of absolute amounts absorbed, during the earlier years of the period than they were later.

Federal agencies and trust funds have furnished a fairly stable market in terms of amounts, but not in terms of percent of total, during the past four fiscal years. In the fiscal year 1938, they absorbed an amount equal to the whole debt increase of that year and \$200 millions more -- enough to offset the reduction in bank holdings -- while in the fiscal year 1940 an increase in the holdings of the agencies and trust funds of the same amount as in 1938 was equal to only 48 percent of the increase in total debt.

III. The Distribution of Government Security Holdings as of June 30, 1933 and as of June 30, 1940

The trends in absorption of increases in the public debt described in the foregoing section have resulted in marked changes in the distribution of holdings of United States Government obligations. Table V, below, shows in part "A" the distribution of holdings of the total debt, including both direct and guaranteed obligations, on June 30, 1933, and on June 30, 1940, in absolute amounts and as percentages of the total debt.

It will be seen that private financial institutions (banks and insurance companies) increased their share of the total debt from 40 percent in 1933 to 54 percent in 1940. Federal agencies and trust funds likewise increased their share from 3 percent in 1933 to 15 percent in 1940. Restricted issues, of which none were outstanding in 1933, constituted about 6 percent of the total debt in 1940. "Other holders" of market issues, however, decreased their holdings from 48 percent in 1933 to 20 percent in 1940.

Table V shows in part "B" the change between June 30, 1933 and June 30, 1940, in the distribution of the privately held marketable supply only. Here, the changes are much more striking -- banks and insurance companies combined increasing their holdings from 45 percent to 72 percent of the total marketable debt, while the holdings of "all others" decreased from 55 percent to 28 percent.

Secretary Morgenthau - 9

Table V

Distribution of Holdings of the Public Debt
June 30, 1933 and June 30, 1940

Class of holder	June 30, 1933		June 30, 1940	
	Amount in billions	Percent of total	Amount in billions	Percent of total
A. Total Debt				
Federal agencies and trust funds	\$.6	3	\$ 7.1	15
Federal Reserve Banks	2.0	9	2.5	5
Banks other than Federal Reserve Banks	7.9	36	19.6	41
Insurance companies	1.0	4	6.1	13
Other holders:				
Restricted issues	-	-	2.9	6
Market issues	<u>10.7</u>	<u>48</u>	<u>9.7</u>	<u>20</u>
Total	<u>22.2</u>	<u>100</u>	<u>47.9</u>	<u>100</u>
B. Marketable Debt				
Banks other than Federal Reserve Banks	\$ 7.9	40	\$19.3 ^{1/}	55
Insurance companies	1.0	5	6.1	17
Other holders	<u>10.7</u>	<u>55</u>	<u>9.7</u>	<u>28</u>
Total	<u>19.6</u>	<u>100</u>	<u>35.1</u>	<u>100</u>

^{1/} Estimated holdings of United States savings bonds have been deducted.

Secretary Morgenthau - 10

IV. Details of Absorption by Banks

Charts III and IV show the absorption of Government securities during the seven fiscal years 1934 to 1940 by various classes of banks. Chart III shows the data for individual years and Chart IV shows the data cumulatively from June 30, 1933.

Principal bank markets for Government securities were banks in the larger cities. Weekly reporting member banks in New York City and J. P. Morgan and Company accounted for \$3.0 billions during the entire period, and weekly reporting member banks outside New York City, for another \$3.3 billions out of an \$11.7 billions increase in the holdings of all banks. This is nearly 54 percent of the total increase in bank holdings, and, as is shown in Table VI, about 25 percent of the increase in the total debt and about 40 percent of the increase in the privately held marketable supply.

Next in importance to the commercial banks in the larger cities just referred to, were the mutual savings banks which absorbed 10 percent of the total debt increase, and 16 percent of the increase in the privately held marketable supply. This group of banks constitutes only about 4 percent of the total number of banks, but holds about 16 percent of all deposits in the banking system. Their absorption of Government securities equaled about 22 percent of the total increase in bank holdings of Governments between June 30, 1933 and June 30, 1940.

Only mutual savings banks have consistently increased their holdings of direct and guaranteed Government obligations in every year of the seven-year period (Chart III). During the first three fiscal years, 1934 to 1936, weekly reporting banks in New York City became increasingly important buyers of Governments, while reporting banks in other cities purchased smaller amounts in successive years.

In fiscal 1937, when there was a net reduction in the direct and guaranteed obligations held by all banks, there was also a shift of holdings from weekly reporting member banks in leading cities to other classes of banks. In the following fiscal year, during which bank holdings again declined, most of the decline is to be attributed to member banks outside of New York City. New York City banks increased their holdings slightly in that year.

In the last two fiscal years, weekly reporting banks in New York City have furnished the principal bank market for Governments, accounting for almost half in 1939, and in 1940, for practically all of the increase of bank holdings.

Secretary Morgenthau - 11

Table VI

Percent of Debt Increases Absorbed by
Various Classes of Banks
June 30, 1933 - June 30, 1940

	Total Debt	Privately Held Debt <u>1/</u>	Privately Held Marketable Supply <u>2/</u>
(Percent of Total)			

Absorbed by:

Weekly reporting member banks in New York City <u>3/</u>	12	16	19
Weekly reporting member banks outside New York City	13	18	21
Other member banks	7	9	11
Non-member banks <u>4/</u>	4	6	7
Mutual savings banks	<u>10</u>	<u>14</u>	<u>16</u>
All banks <u>5/</u>	46	63	74

1/ Excludes holdings of Federal agencies and trust funds and Federal Reserve Banks.

2/ Excludes United States savings bonds and Adjusted Service bonds, and holdings of Federal agencies and trust funds, and Federal Reserve Banks.

3/ Includes J. P. Morgan and Company.

4/ Excludes mutual savings banks and J. P. Morgan and Company.

5/ Excludes Federal Reserve Banks.

Absorption of Increase in Direct and Guaranteed
Public Debt Outstanding by Classes of Holders
Since June 30, 1933

Fiscal Year	Absorption by:												
	Increase in Total Debt	All Banks <u>a/</u>			Insurance Companies		Federal Reserve Banks		Federal Agencies and trust Funds		Other Holders		
		Annual	Cumula- tive from 1933	Annual	Cumula- tive from 1933	Annual	Cumula- tive from 1933	Annual	Cumula- tive from 1933	Annual	Cumula- tive from 1933	Restricted issues <u>b/</u>	Market issues

(Billions of Dollars)

1934	5.6	5.6	3.7	3.7	.5	.5	.4	.4	.7	.7	0	0	.2	.2
1935	4.0	9.6	2.6	6.3	1.1	1.6	0	.4	.7	1.4	.1	.1	-.5	-.3
1936	5.7	15.3	3.1	9.4	1.3	2.9	0	.4	.3	1.7	.9	1.0	.1	-.2
1937	3.0	18.3	-.4	9.0	1.1	4.0	.1	.5	1.3	3.0	.1	1.1	.8	.6
1938	1.0	19.3	-.2	8.8	.2	4.2	<u>c/</u>	.6	1.2	4.2	.3	1.4	-.6	0
1939	3.9	23.2	2.0	10.8	.6	4.8	<u>c/</u>	.6	1.1	5.3	.5	1.9	-.3	-.3
1940	2.5	25.7	.9	11.7	.3	5.1	-.1	.5	1.2	6.5	.9	2.8	-.7	-1.0

a/ Excluding Federal Reserve Banks. Absorption figure for the fiscal year 1934 gives effect to adjustment for the apparent omission of J. P. Morgan and Company from the published data for 1933.

b/ United States savings bonds and Adjusted Service bonds.

c/ Less than \$50 millions; increase in 1938, decrease in 1939.

Absorption by Banks of Increase in
Direct and Guaranteed Public Debt Outstanding
Since June 30, 1933

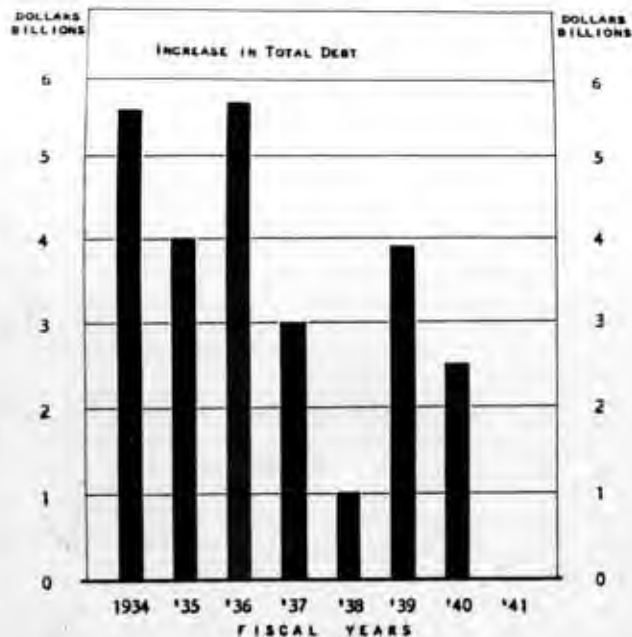
Fiscal Year	All Banks <u>a/</u>		Weekly Reporting Member Banks in New York City <u>b/</u>		Weekly Reporting Member Banks out- side New York City		Other Member Banks		Non-Member Banks <u>c/</u>		Mutual Savings Banks	
	Cumula-		Cumula-		Cumula-		Cumula-		Cumula-		Cumula-	
	Annual	tive from 1933	Annual	tive from 1933	Annual	tive from 1933	Annual	tive from 1933	Annual	tive from 1933	Annual	tive from 1933
(Billions of Dollars)												
1934	3.7	3.7	.6	.6	1.3	1.3	.9	.9	.4	.4	.5	.5
1935	2.6	6.3	.7	1.3	1.0	2.3	.2	1.1	.2	.6	.5	1.0
1936	3.1	9.4	1.0	2.3	.9	3.2	.4	1.5	.2	.8	.5	1.5
1937	-.4	9.0	-1.1	1.2	-.2	3.0	.4	1.9	.3	1.1	.3	1.8
1938	-.2	8.8	.1	1.3	-.3	2.7	-.2	1.7	-.1	1.0	.3	2.1
1939	2.0	10.8	.8	2.1	.6	3.3	.1	1.8	.1	1.1	.4	2.5
1940	.9	11.7	.9	3.0	.1	3.4	-.1	1.7	-.1	1.0	.1	2.6

a/ Excluding Federal Reserve Banks. Absorption figure for the fiscal year 1934 in this column and in the column for weekly reporting banks in New York City gives effect to adjustment for apparent omission of J. P. Morgan and Company from the published data for 1933.

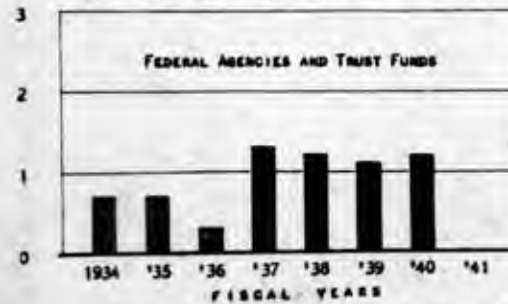
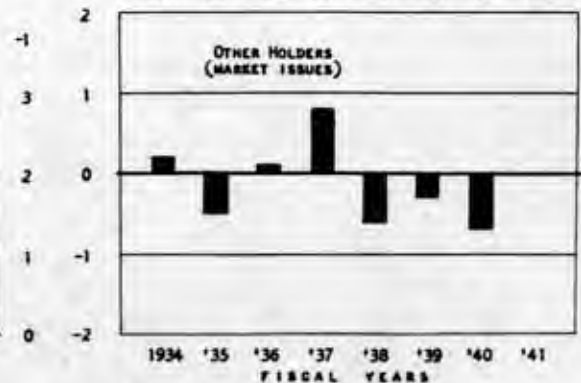
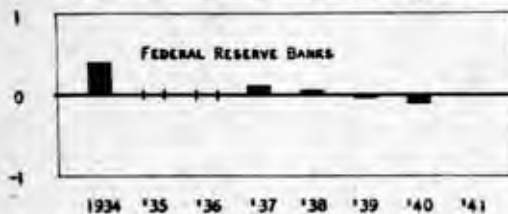
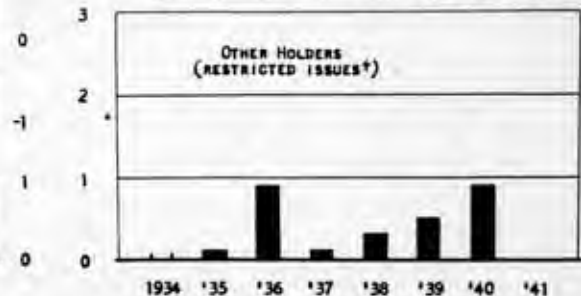
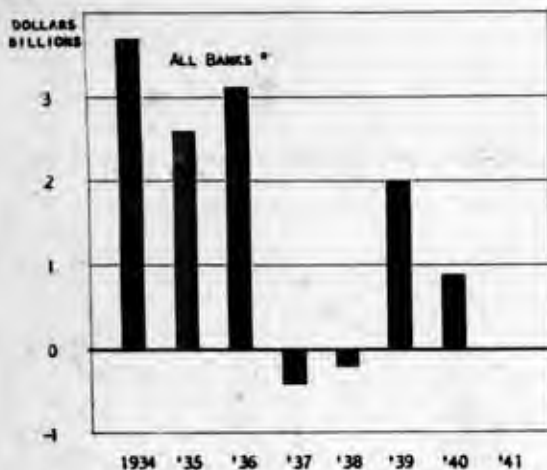
b/ Including J. P. Morgan and Company.

c/ Excluding mutual savings banks and J. P. Morgan and Company.

**ANNUAL ABSORPTION OF INCREASE IN DIRECT AND
GUARANTEED PUBLIC DEBT OUTSTANDING BY CLASSES OF HOLDERS**

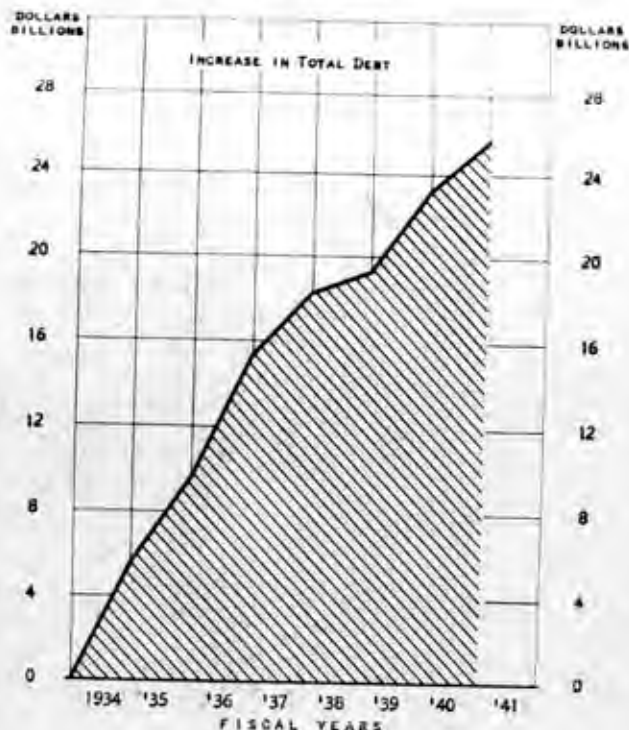


Classes of Holders

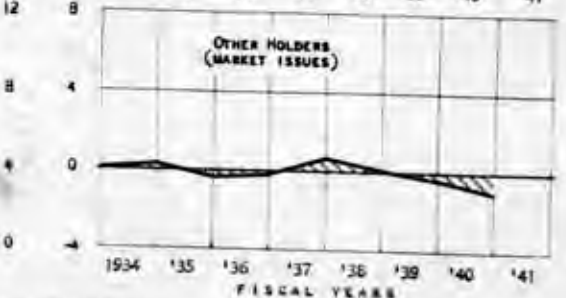
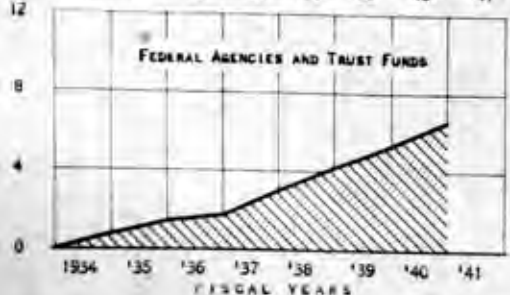
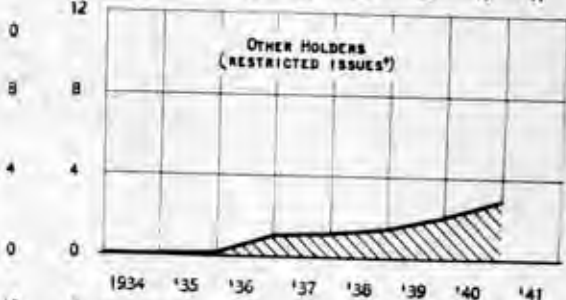
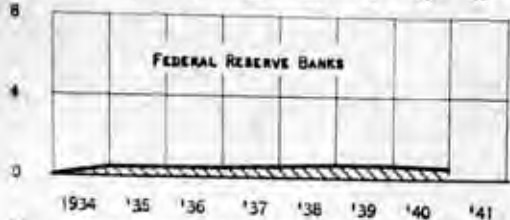
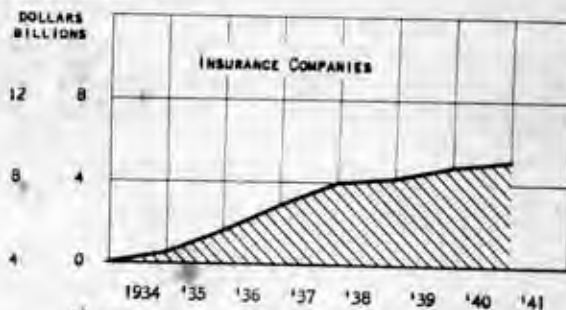
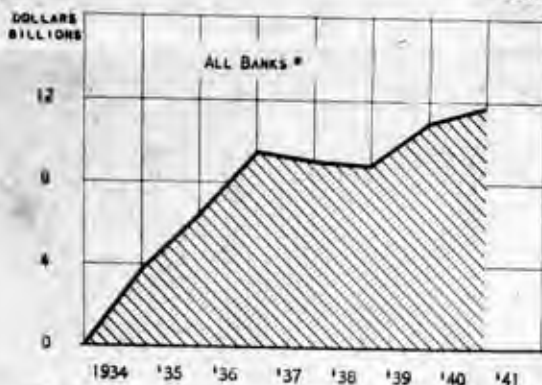


*EXCLUDING FEDERAL RESERVE BANKS
†U.S. SAVINGS BONDS AND ADJUSTED SERVICE BONDS

**CUMULATIVE ABSORPTION OF INCREASE IN DIRECT AND
GUARANTEED PUBLIC DEBT OUTSTANDING BY CLASSES OF HOLDERS**
Since June 30, 1933

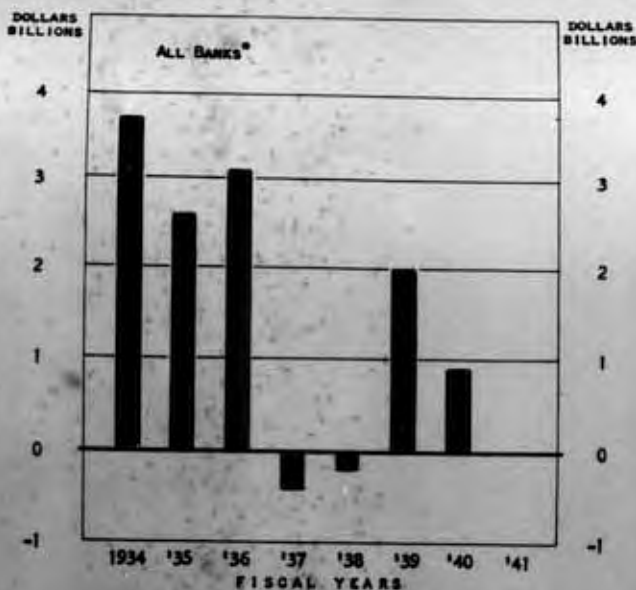


Classes of Holders

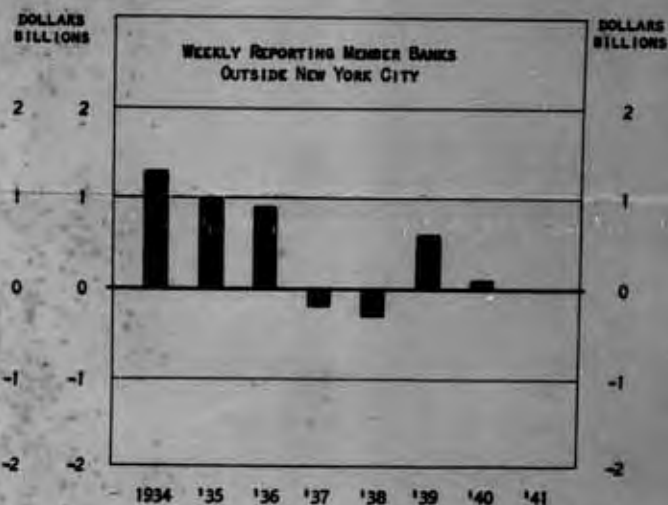
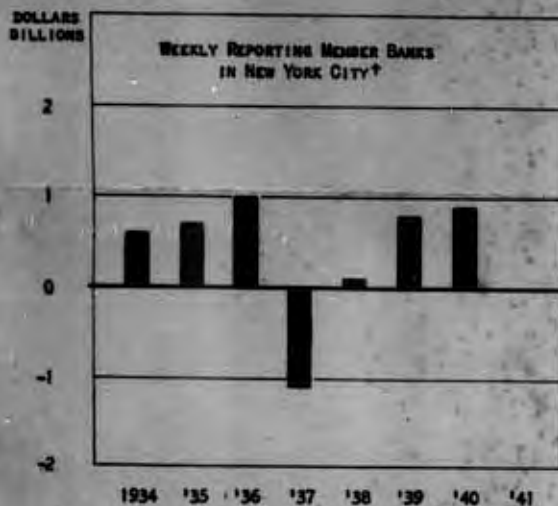


*EXCLUDING FEDERAL RESERVE BANKS
*U.S. SAVINGS BONDS AND REGISTERED SERVICE BONDS

**ANNUAL ABSORPTION BY BANKS OF INCREASE
IN DIRECT AND GUARANTEED PUBLIC DEBT OUTSTANDING**

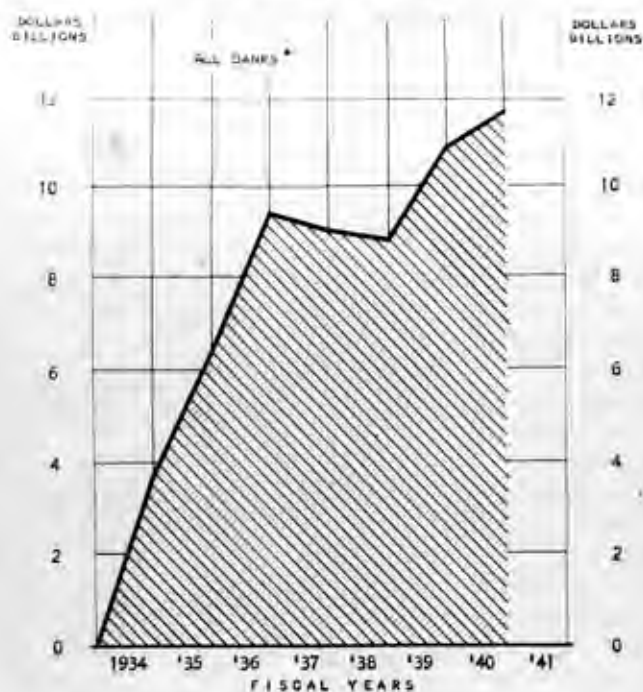


Classes of Banks

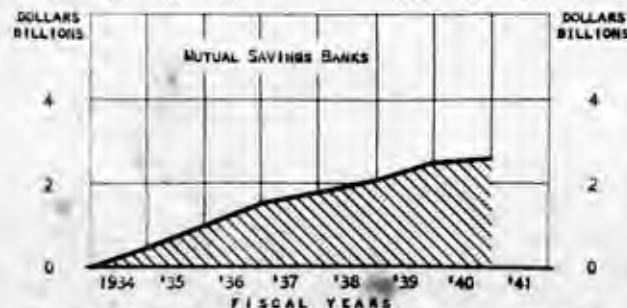
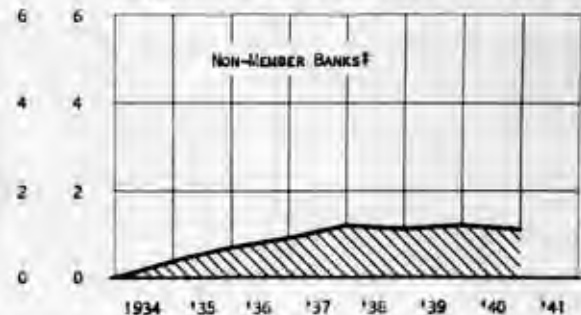
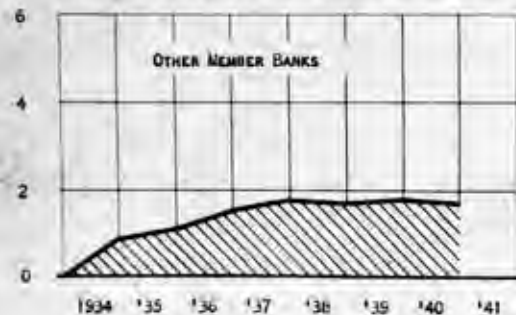
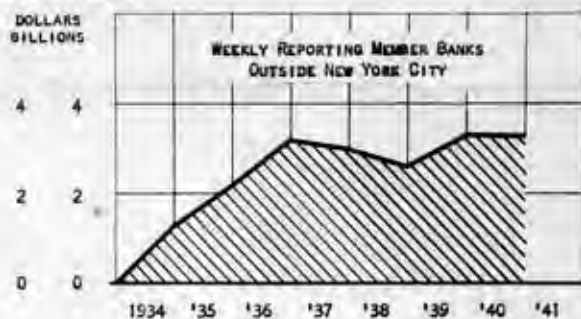


*EXCLUDING FEDERAL RESERVE BANKS †INCLUDING J.P.MORGAN AND COMPANY
‡EXCLUDING MUTUAL SAVINGS BANKS AND J.P.MORGAN AND COMPANY.

**CUMULATIVE ABSORPTION BY BANKS OF INCREASE
IN DIRECT AND GUARANTEED PUBLIC DEBT OUTSTANDING
Since June 30, 1933**



Classes of Banks



* EXCLUDING FEDERAL RESERVE BANKS † INCLUDING J.P. MORGAN AND COMPANY
‡ EXCLUDING MUTUAL SAVINGS BANKS AND J.P. MORGAN AND COMPANY

262
 Revision copy of
 att. is filed
 10/14/40
 7 Pages
 1 Lt. B
 transmitted

Aircraft 6 principal operational types

Fighters { Hurricane
 Spitfire

Bombers { Wellington
 Blenheim
 Whitley
 Hampden

	May 10	June 15	Sept. 27	Nov. 29
Dec. 3, 1940 Report	3209		3735	
Dec. 7, 1940 Report	3209		3735	4185

Pilots Available

Dec. 3, 1940 Report	3101	4149	
Dec. 7, 1940 Report	3101	4149	4398

263

A..... 3,209

B..... 3,735

C..... 3,101

D..... 4,149

E..... 1,874

Following for Morgenthau from Beaverbrook

NOSE SECRET

To be disclosed only to President
Morgenthau ✓
Stimson
Knox

On May 10th last, 6 principal operational aircraft that is, Hurricane, Spitfire, Wellington, Blenheim, Whitley, Hampden A. Same types on September 27th after continuous air battle numbered 8, showing increase of just over 500.

This statement excludes all aircraft in C.R.O. which await repair and inspection including E.

Pilots available for these airplanes on June 15th were C. On September 27th D.

During the next nine months production must show considerable decline: for instance at Vickers, Weybridge, 65 Wellingtons were being produced monthly. After enemy bombing on September 3rd production fell to 18 monthly. Bombing attacks on Bristol destroyed output of Beauforts for the last week in the month.

Bristol dispersal and reconstruction making rapid progress but losses in October must be about 25 aircraft and 100 engines.

At Supermarine which supplies 100 Spitfires monthly, 2 factories out of 3 were destroyed on September 25th. Estimated loss 50 for October and uncertain quantity after.

Therefore it will be seen that continuing and increasing flow of aircraft from U.S.A. is completely essential to pilot programme in Great Britain. Machine tools urgently required to replace aircraft tools lost in bombing operations.

No danger of losing tools from U.S.A. in the future as wide schemes of dispersal and underground factories now in operation protecting us against enemy attacks. We promise that all new machine tools received in future from U.S.A. will be dispersed or assembled underground.

As compared with output in May 1940 output of pilots from our service schools increased rapidly and in August and September show immense gains. Output of pilots will be more than doubled in the first four months of 1941 and more than trebled in the second four months.

Output of Empire Training Scheme will be 70 pilots in November and will rise to 300 in March when the total output from all sources will be 1350 in that month, thereafter rising steeply to 2300 in July and 2700 in October 1941.

A large part of our training organization is already established overseas secure from enemy attacks. The aircraft which we expect to receive during the next 12 months are not only required to match increased output of pilots, but fighters are wanted to supplement the production of British types, reserves of which are now dangerously low.

-2-

Twin engine bomber types are now required to replace our obsolescent Battles and Blenheims.

Dive Bombers are wanted to replace Lysanders and Hudsons to replace Ansons.

Moreover it must be remembered that the wastage in aircraft is considerable in excess of that of pilots, many of whom on operations over this country escape by parachute.

There is also destruction of aircraft on the ground.

Sir Archibald Sinclair has seen this message and approves of it.

October 3, 1940.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 3, 1940

TO Secretary Morgenthau
FROM Mr. Haaa
Subject: United States Savings Bonds

I.

In accordance with Mr. D. W. Bell's request for proposed schedules of redemption values for United States savings bonds with ultimate maturity yields of 2-1/2 percent, 2-3/8 percent, and 2-1/4 percent, respectively, there are attached hereto a series of tables and charts analyzing the present position of savings bonds relative to the yield of market securities, and presenting and analyzing schedules of the character requested.

Chart I compares the yield on United States savings bonds with that on Treasury bonds and notes on March 1, 1935, and on September 14, 1940, respectively. It shows that during the period of about 5-1/2 years since the sale of savings bonds was first commenced, the yield on Treasury bonds with an effective maturity of 10 years has declined by about 0.9 percent, and that the yield afforded by market securities is now far below that afforded by savings bonds, whether held to final maturity or to any intermediate redemption date.

Table I shows the issue price and redemption values for savings bonds issued under the present plan and for two proposed plans for each of the lower rates specified in Mr. Bell's request. (The 2 percent plan appearing in the last column of this and each of the succeeding tables is discussed in the second part of this memorandum.) All increments in redemption values in all plans are in even multiples of 20 cents per \$100 bond. Table II shows for each of the plans listed in Table I the "Yield During Period Held", while Table III shows "Yield During Remainder of Ten-Year Period If Held to Maturity", and Table IV shows "Yield During Next Six Months If Held One Additional Period".

The 2-1/2 percent plans require that 33 be taken from the aggregate increment in value enjoyed by the bonds between the issue price and the final maturity value, while the 2-3/8 percent

Secretary Morgenthau - 2

and 2-1/4 percent plans require that the aggregate amount of increment be reduced by \$4 and \$5, respectively. In the case of the 2-1/2 percent plan, labeled "A", the entire \$3 is taken out of the step-ups at present occurring in the redemption value during the first 4 years. At the end of this period, the redemption value for bonds under plan "A 2-1/2" would be \$32, the same as under the present plan, and after that date redemption values under the plan would be identical with those at present obtaining. Plans "A 2-3/8" and "A 2-1/4", which require a total reduction in increment of \$4 and \$5, respectively, follow plan "A 2-1/2" during the first 4 years and secure the additional reduction by postponing the increase from \$1 to \$2 in semiannual increments (first occurring under the present plan between the fourteenth and fifteenth semiannual periods) for one and two semiannual periods, respectively. The effect of all these changes is to cut yields to intermediate redemption dates much more sharply than final maturity yields. This is brought out clearly in Chart II, which compares the present plan with the three proposed "A" plans.

The proposed "B" plans involve both a sharper depression in intermediate redemption values and a greater departure from the scheme of increments of the present plan than do the "A" plans. The thought underlying plan "B 2-1/2" is that the cumulative yield to each intermediate redemption date should be 0.25 percent per annum for each year held -- e.g., if the bond is redeemed at the end of 2 years, the yield for the period held would be 0.50 percent per annum; if redeemed at the end of 5 years, the yield for the period held would be 1.25 percent per annum; and so on, until a yield of 2.50 percent per annum would be realized if held until final maturity. The actual plan departs slightly from this ideal scale due to exigencies of rounding. Proposed plans "B 2-3/8" and "B 2-1/4" are modifications of this plan with the indicated final yields to maturity -- the additional reduction in aggregate increment occurring in each case during the second half of the ten-year period. Such plans naturally give a much smoother progression of increase in yield with period held than either the present plan or the proposed "A" plans. This is shown in Chart III, which compares the present plan and the proposed "B" plans on the basis of yield during the period held.

One of the principal disadvantages of the issuance of securities of the type of savings bonds is the large amount of demand indebtedness which they build up. The reality of this danger would soon appear if at any future date the

interest rate should rise to a level sufficiently high to make it attractive for holders of outstanding savings bonds to cash them and devote the proceeds to alternative forms of investment. This danger is best minimized by building up as rapidly as possible their yield during the remainder of the 10-year period if held to maturity, as it is this yield, and not the yield for the period held, which determines the decision of holders under such circumstances either to hold their bonds or to cash them in.

In general, the "A" plans proposed in this memorandum are more effective, relative to their total return, in building up such "Yield if Held to Maturity" than is the present plan, and the "B" plans are more effective than the "A" plans. This is shown in Chart IV, which compares the "Yield During Remainder of 10 Year Period If Held to Maturity" of the present plan and of the "A" and "B" plans yielding 2-1/2 percent. As may be seen from the chart, the "A" plan, despite its reduction, as compared with the present plan, of 0.4 percent in yield over the whole period has the same "Yield if Held to Maturity" as the present plan from the end of the fourth year onward; while the 2-1/2 percent "B" plan has a greater "Yield if Held to Maturity" than does the present plan from the third year onward, except at the end of the seventh year when the present plan attains a maximum from which it subsequently recedes.

II.

As has been previously noted, the last column of each of the four tables contains a 2 percent plan for which the same data are presented as for the 2-1/2, 2-3/8 and 2-1/4 percent plans discussed in the first section of this memorandum. The plan is of the "B" type and is based on the underlying thought that the cumulative return for the period held should be equal to 0.20 percent for each year held, working out to an even 2 percent yield if held for the full 10-year period. As in the case of the other plans, this ideal has had to be departed from slightly, due to rounding. The issue price, as worked out, is \$82.00 and the yield if held to maturity, 1.99 percent.

Chart V compares this 2 percent "special" plan on the basis of "Yield During Period Held" with the present plan

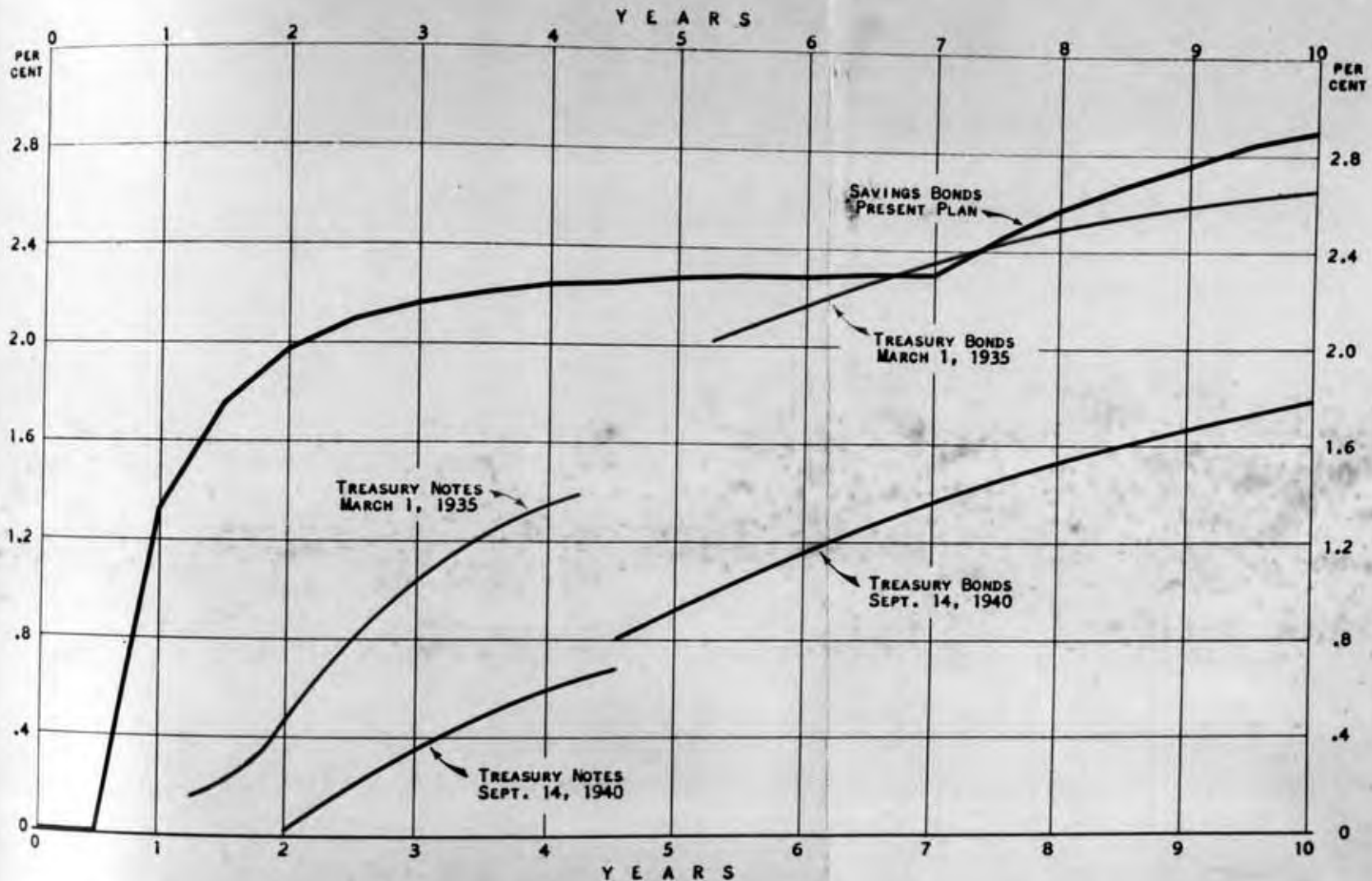
Secretary Morgenthau - 4

and with the yields of outstanding Treasury bonds and notes as of September 14, 1940.

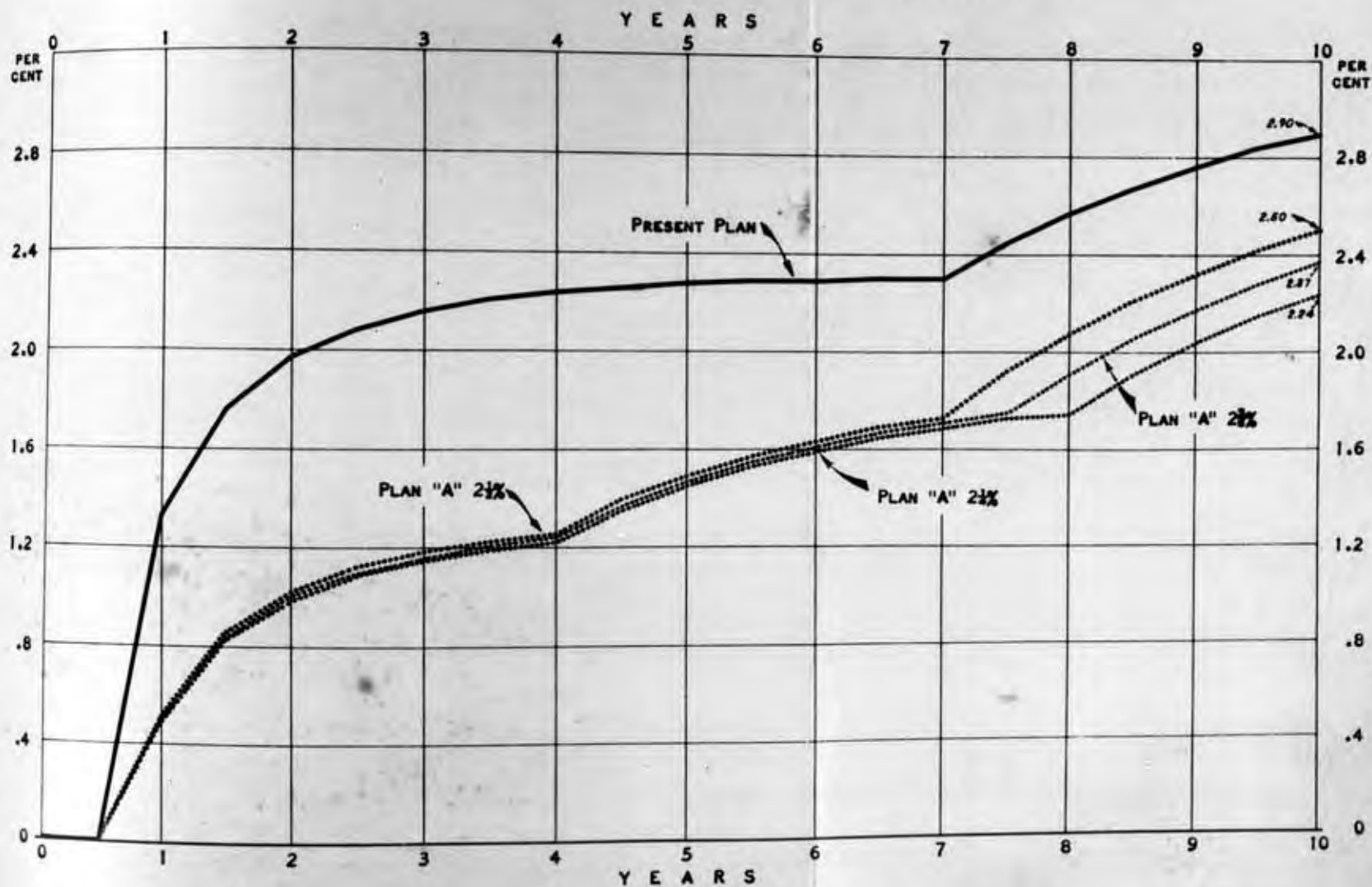
It is suggested, in view of the desirability of placing as large a proportion as possible of the increase of the public debt in the hands of private investors and of doing this with a minimum of fiscal diseconomy, that a special series of savings bonds be offered with a lower ultimate interest return and more rigorous terms of intermediate redemption than the regular series, such special series to be open to individuals who desire to purchase a larger amount of savings bonds in any year than the maximum amount permissible under the regular plan. The 2 percent "special" plan is presented for consideration in this connection and it is suggested that individuals might be permitted to subscribe up to an amount of perhaps \$50,000 a year of this series, in addition to whatever amount may be permitted of the regular series. It is recognized, of course, that this would require additional legislation.

Attachments.

YIELD ON UNITED STATES SAVINGS BONDS COMPARED WITH THAT ON TREASURY BONDS AND NOTES



UNITED STATES SAVINGS BONDS Yield During Period Held, Present Plan and Proposed "A" Plans



272

Chart III

UNITED STATES SAVINGS BONDS Yield During Period Held, Present Plan and Proposed "B" Plans

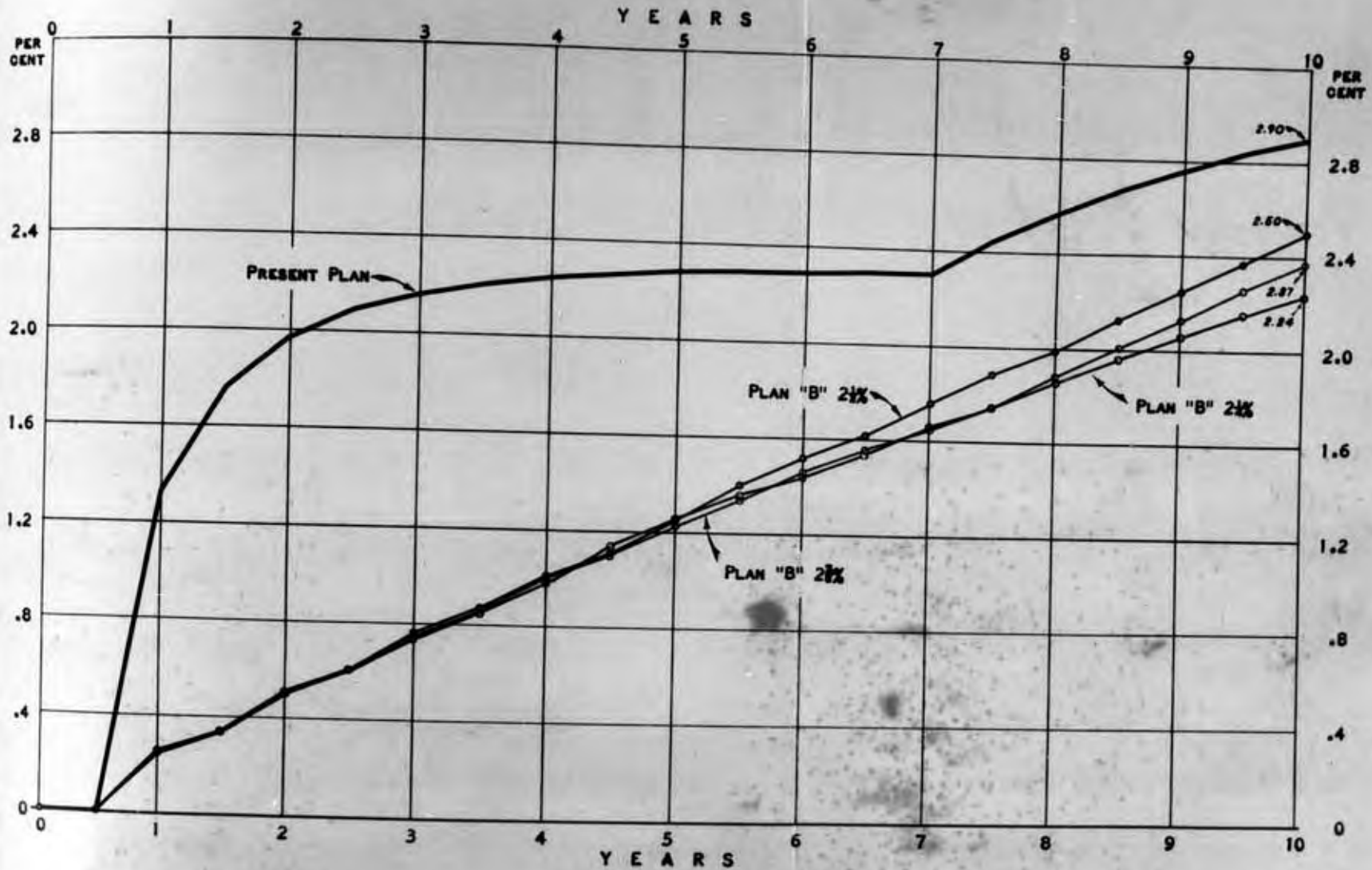


Chart IV

UNITED STATES SAVINGS BONDS Yield During Remainder of 10 Year Period if Held to Maturity, Present Plan and 2½% Plans

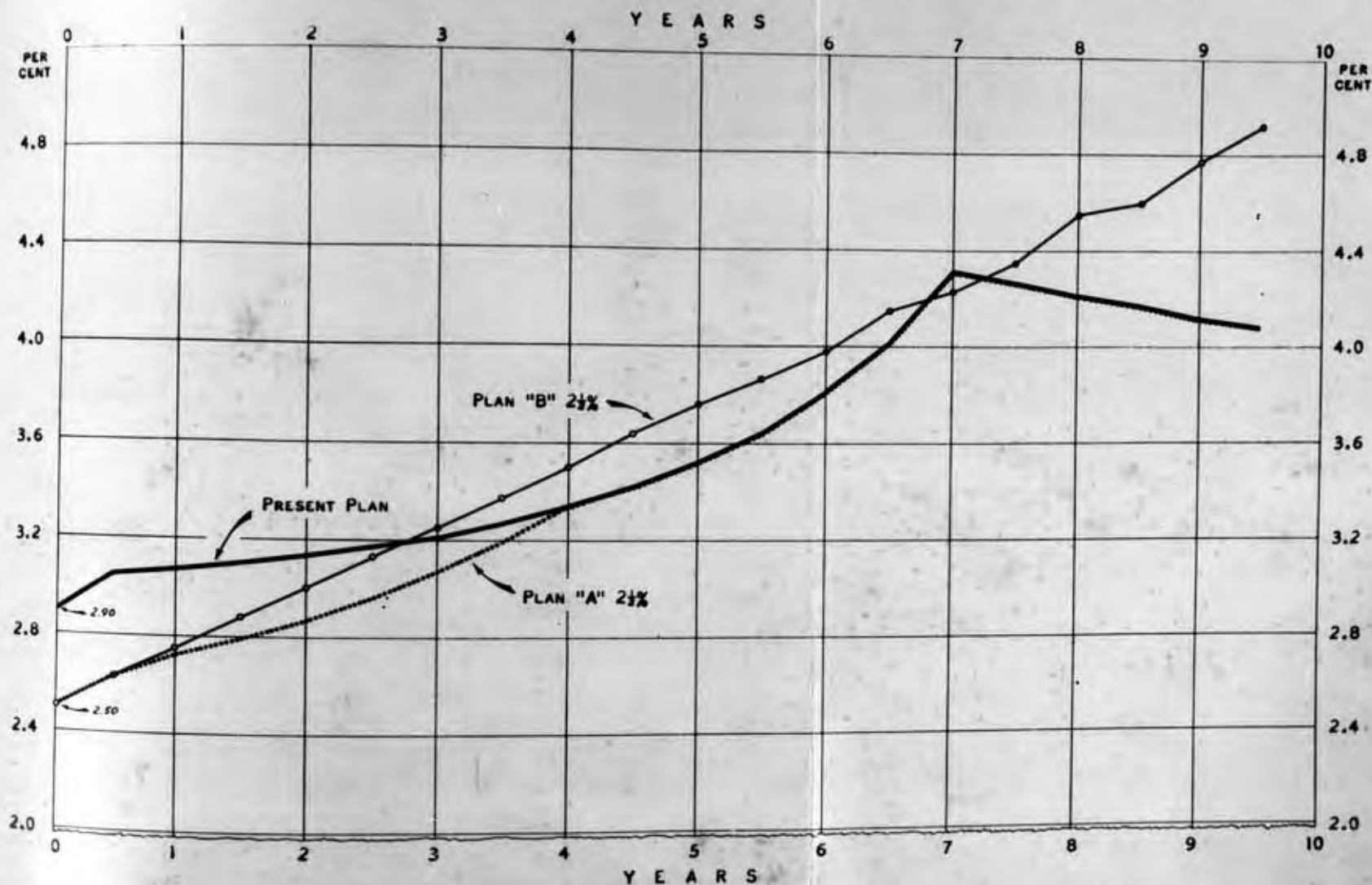


Chart V

UNITED STATES SAVINGS BONDS Yield During Period Held, Proposed 2% Special Plan Compared to Present Plan and Yields of Treasury Bonds and Notes

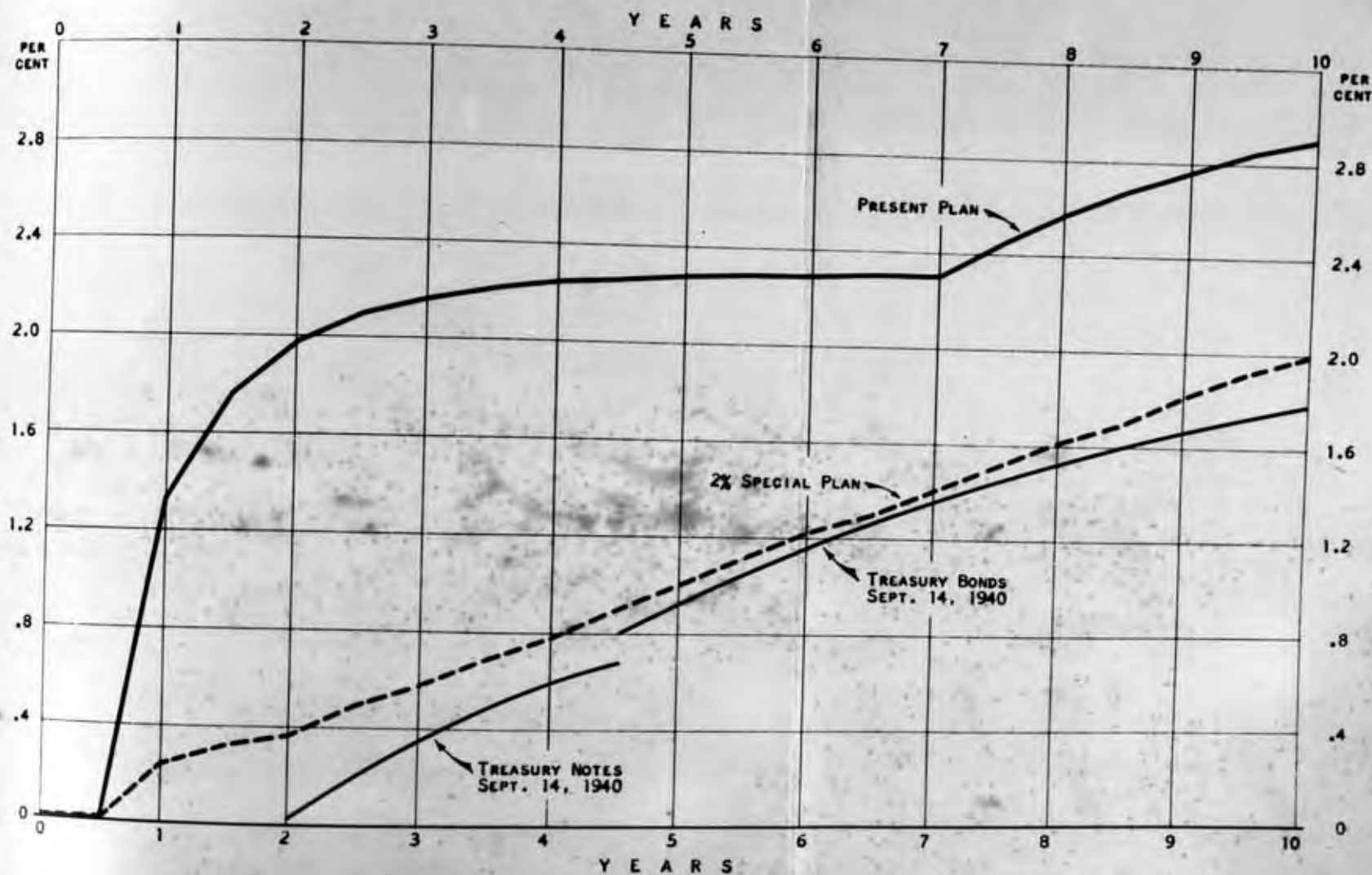


Table I
United States Savings Bonds
Redemption Values

Number of semi- annual periods held	Present plan 2.9%	Proposed Plans						
		2-1/2%		2-3/8%		2-1/4%		2%
		A	B	A	B	A	B	
Issue Price	\$75.00	\$78.00	\$78.00	\$79.00	\$79.00	\$80.00	\$80.00	\$82.00
1	75.00	78.00	78.00	79.00	79.00	80.00	80.00	82.00
2	76.00	78.40	78.20	79.40	79.20	80.40	80.20	82.20
3	77.00	79.00	78.40	80.00	79.40	81.00	80.40	82.40
4	78.00	79.60	78.80	80.60	79.80	81.60	80.80	82.60
5	79.00	80.20	79.20	81.20	80.20	82.20	81.20	83.00
6	80.00	80.80	79.80	81.80	80.80	82.80	81.80	83.40
7	81.00	81.40	80.40	82.40	81.40	83.40	82.40	84.00
8	82.00	82.00	81.20	83.00	82.20	84.00	83.20	84.60
9	83.00	83.00	82.00	84.00	83.00	85.00	84.20	85.40
10	84.00	84.00	83.00	85.00	84.00	86.00	85.20	86.20
11	85.00	85.00	84.20	86.00	85.00	87.00	86.20	87.20
12	86.00	86.00	85.40	87.00	86.20	88.00	87.20	88.20
13	87.00	87.00	86.60	88.00	87.40	89.00	88.40	89.20
14	88.00	88.00	88.20	89.00	88.60	90.00	89.80	90.40
15	90.00	90.00	89.80	90.00	90.00	91.00	91.20	91.80
16	92.00	92.00	91.40	92.00	91.80	92.00	92.80	93.20
17	94.00	94.00	93.40	94.00	93.60	94.00	94.40	94.60
18	96.00	96.00	95.40	96.00	95.60	96.00	96.20	96.40
19	98.00	98.00	97.60	98.00	97.80	98.00	98.00	98.20
20	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Division of Research and Statistics.

September 18, 1940.

6315

Table II

United States Savings Bonds
Yield During Period Held

Number of semi- annual periods held	Present plan 2.9%	Proposed Plans						
		2-1/2%		2-3/8%		2-1/4%		2%
		A	B	A	B	A	B	
0	.00%	.00%	.00%	.00%	.00%	.00%	.00%	.00%
1	.00	.00	.00	.00	.00	.00	.00	.00
2	1.33	.51	.26	.51	.25	.50	.25	.24
3	1.76	.85	.34	.84	.34	.83	.33	.32
4	1.97	1.02	.51	1.01	.50	.99	.50	.36
5	2.09	1.12	.61	1.10	.60	1.09	.60	.49
6	2.16	1.18	.76	1.16	.75	1.15	.74	.57
7	2.21	1.22	.87	1.21	.86	1.19	.85	.69
8	2.24	1.25	1.01	1.24	1.00	1.22	.98	.78
9	2.26	1.39	1.11	1.37	1.10	1.35	1.14	.90
10	2.28	1.49	1.25	1.47	1.23	1.45	1.26	1.00
11	2.29	1.57	1.40	1.55	1.34	1.53	1.36	1.12
12	2.29	1.63	1.52	1.61	1.46	1.59	1.44	1.22
13	2.30	1.69	1.62	1.67	1.56	1.65	1.54	1.30
14	2.30	1.73	1.76	1.71	1.65	1.69	1.66	1.40
15	2.45	1.92	1.89	1.75	1.75	1.73	1.75	1.51
16	2.57	2.07	1.99	1.91	1.89	1.75	1.86	1.61
17	2.67	2.21	2.13	2.06	2.01	1.91	1.96	1.69
18	2.76	2.32	2.25	2.18	2.13	2.04	2.06	1.81
19	2.84	2.42	2.37	2.28	2.26	2.15	2.15	1.91
20	2.90	2.50	2.50	2.37	2.37	2.24	2.24	1.99

Division of Research and Statistics.

September 18, 1940.

Yields are nominal annual rates compounded semiannually.

Table III
United States Savings Bonds
Yield During Remainder of Ten-Year Period
If Held to Maturity

Number of semi- annual periods held	Present plan 2.9%	Proposed Plans						2%
		2-1/2%		2-3/8%		2-1/4%		
		A	B	A	B	A	B	
0	2.90%	2.50%	2.50%	2.37%	2.37%	2.24%	2.24%	1.99%
1	3.05	2.63	2.63	2.50	2.50	2.36	2.36	2.10
2	3.07	2.72	2.75	2.58	2.61	2.44	2.47	2.19
3	3.10	2.79	2.88	2.64	2.73	2.49	2.58	2.29
4	3.13	2.87	3.00	2.71	2.84	2.56	2.68	2.40
5	3.17	2.96	3.13	2.80	2.96	2.63	2.80	2.50
6	3.21	3.07	3.25	2.89	3.07	2.71	2.89	2.61
7	3.27	3.19	3.38	3.00	3.19	2.81	3.00	2.70
8	3.34	3.34	3.50	3.13	3.29	2.93	3.09	2.81
9	3.42	3.42	3.64	3.20	3.42	2.98	3.15	2.89
10	3.52	3.52	3.76	3.28	3.52	3.04	3.23	2.99
11	3.64	3.64	3.86	3.38	3.64	3.12	3.33	3.07
12	3.81	3.81	3.98	3.51	3.75	3.22	3.45	3.16
13	4.02	4.02	4.15	3.69	3.89	3.36	3.55	3.29
14	4.31	4.31	4.23	3.92	4.08	3.54	3.62	3.39
15	4.26	4.26	4.35	4.26	4.26	3.81	3.72	3.45
16	4.21	4.21	4.55	4.21	4.32	4.21	3.77	3.55
17	4.17	4.17	4.60	4.17	4.46	4.17	3.88	3.74
18	4.12	4.12	4.77	4.12	4.55	4.12	3.91	3.70
19	4.08	4.08	4.92	4.08	4.50	4.08	4.08	3.67
20	-	-	-	-	-	-	-	-

Division of Research and Statistics.

September 18, 1940.

Yields are nominal annual rates compounded semiannually.

277

Table IV

United States Savings Bonds

Yield During Next Six Months If Held
One Additional Period

Number of semi- annual periods held	Present plan 2.9%	Proposed Plans						2%
		2-1/2%		2-3/8%		2-1/4%		
		A	B	A	B	A	B	
0	.00%	.00%	.00%	.00%	.00%	.00%	.00%	.00%
1	2.67	1.03	.51	1.01	.51	1.00	.50	.49
2	2.63	1.53	.51	1.51	.51	1.49	.50	.49
3	2.60	1.52	1.02	1.50	1.01	1.48	1.00	.49
4	2.56	1.51	1.02	1.49	1.00	1.47	.99	.97
5	2.53	1.50	1.52	1.48	1.50	1.46	1.48	.96
6	2.50	1.49	1.50	1.47	1.49	1.45	1.47	1.44
7	2.47	1.47	1.99	1.46	1.97	1.44	1.94	1.43
8	2.44	2.44	1.97	2.41	1.95	2.38	2.40	1.89
9	2.41	2.41	2.44	2.38	2.41	2.35	2.38	1.87
10	2.38	2.38	2.89	2.35	2.38	2.33	2.35	2.32
11	2.35	2.35	2.85	2.33	2.82	2.30	2.32	2.29
12	2.33	2.33	2.81	2.30	2.78	2.27	2.75	2.27
13	2.30	2.30	3.70	2.27	2.75	2.25	3.17	2.69
14	4.55	4.55	3.63	2.25	3.16	2.22	3.12	3.10
15	4.44	4.44	3.56	4.44	4.00	2.20	3.51	3.05
16	4.35	4.35	4.38	4.35	3.92	4.35	3.45	3.00
17	4.26	4.26	4.28	4.26	4.27	4.26	3.81	3.81
18	4.17	4.17	4.61	4.17	4.60	4.17	3.74	3.73
19	4.08	4.08	4.92	4.08	4.50	4.08	4.08	3.67
20	-	-	-	-	-	-	-	-

Division of Research and Statistics.

September 18, 1940.

Yields are nominal annual rates compounded semiannually.

278

October 3, 1940
10:24 a.m.

H.M.Jr: Hello.

Operator: Cochran.

Merle
Cochran: Yes.

H.M.Jr: Merle.

C: Yes, Mr. Secretary.

H.M.Jr: I thought after you've noticed my statement to Commerce on these two rather unusual transactions where I'm releasing the money for the Russians for - sisol and for rubber that you might call up the Russian Embassy and ask for Mr. Oumansky's secretary and say, as a matter of interest, we thought we'd let him know that we've licensed these two transactions.

C: All right, sir, fine.

H.M.Jr: Don't you think it'd be a good idea?

C: Yes, I think it would be very nice.

H.M.Jr: Just say as a matter of interest you might like to know that we've licensed these two transactions.

C: All right, sir. I tried to get Gray, but he'll be back in 5 minutes.....

H.M.Jr: Well, I think I would do those two.

C: All right.

H.M.Jr: I'd wait until you do the State and Commerce and then I would call up Mr. Oumansky.

C: All right, sir. Fine. Oh, there's just one point - may I mention it - I didn't bring it out in the meeting because I knew you were rushed, on that picture business, you know - French pictures coming in, this is the first

instance in which you've put on any restrictions on the importation of merchandise.

H.M.Jr: I didn't know that.

C: It is, and there was some legislation up in Congress which was turned down in the House of Representatives yesterday or day before where there had been a bill to bar imports of goods which might have been taken by invaders. So - I mean, I brought this up in the committee yesterday.

H.M.Jr: Well, please mention it to Pehle.

C: I did mention it in the meeting yesterday, you see.

H.M.Jr: Well, tell Pehle - Foley brought this up didn't he?

C: Yes, Bernstein brought it up yesterday and I said, well, look, Bernie, this is the first instance in which we've used this

H.M.Jr: Call up Foley, tell him of your conversation and tell Foley I'd like him to talk to me about it.

C: All right, fine.

H.M.Jr: Will you do that?

C: Yes, sir. But I thought you ought to know it

TREASURY DEPARTMENT

281

INTER OFFICE COMMUNICATION

DATE October 3, 1940.

TO Secretary Morgenthau

FROM Mr. Foley

We have been informed that about 500 paintings and drawings by famous French painters have been sent from Paris to New York via the SS EXCALIBUR which left Lisbon on September 25 and is due to arrive in New York on October 5.

Under the existing freezing control licenses are required for transactions involving transfers or other dealings in "evidences of the ownership of property" in which France or a national thereof has had an interest at any time on or since June 17, 1940. A bill of lading or other document entitling the consignee of the paintings to obtain possession of the same from the shipping company is clearly an evidence of the ownership of property within the meaning of the Executive Order, and accordingly there is clear legal authority to require that a license be obtained before the bill of lading covering the French paintings could be presented to the shipping company by the consignee. This does not, of course, mean that the import of such paintings will be prohibited, but only that such paintings will come under the freezing control in the same manner as other property in this country which is now under the freezing control.

We have had a great number of cases involving bills of lading and comparable shipping documents in which we have taken the position that they are evidences of ownership of property within the meaning of the Executive Order and that a license is needed in order to transfer such documents. Some of these cases involve the export of merchandise where we have required that a license be obtained before the bills of lading, etc., covering such merchandise could be transferred. I am told that at the present time there is a large amount of aluminum and machine tools in which the French have an interest, the export or transfer of which can not take place until the Treasury issues an appropriate license. There have also been cases involving millions of dollars' worth of tin and sisal coming to this country from the Dutch East Indies where we have required that licenses be issued covering the transfer of the bills of lading from a bank in this country to the American importer of the goods.

Of course, large amounts of funds and gold have come to this country from blocked areas after the freezing control was applied. Such funds, or the money which we have paid for such gold, have also been put under our freezing control.

On October 1, 1940 the House of Representatives, on a vote of 129 to 123 (175 not voting) rejected a bill which, upon the making of certain findings by the President, prohibited the importation into this country of property which had been confiscated by a foreign country without payment of just compensation. The purpose of the bill was stated to be the protection of American business men and American markets from the unfair competition of foreign dumping, particularly with respect to oil confiscated by Mexico which was stated to be flooding our markets. An examination of the debate in the House indicates no intention to modify the freezing control law or policies of the Government as applied in Executive Order No. 8389, which Order had been ratified and approved by Congress in the Act of May 7, 1940. You will recall that it was the Act of May 7, 1940 which expressly made the freezing control applicable to "evidences of ownership of property".

The Treasury was not consulted with respect to the bill recently rejected by the House and surely if Congress had intended in any way to affect the freezing control this Department would have been asked for a report or otherwise consulted in connection with the bill. It is also interesting to note that the Senate, without any debate, enacted the bill in the form much more comprehensive in scope than the bill rejected by the House. Nothing in the action taken by the House affects the licensing requirements under the Executive Order for the transfer of evidences of the ownership of the French paintings.

E. H. H.

OCT 8th 1940

My dear Mr. President:

I have received your letter of September 27, requesting that priority of consideration be given to Latin American products in the procurement in foreign markets of strategic and critical materials for the defense program. The policy which you have outlined will be strictly adhered to by this Department.

Faithfully yours,

(signed) H. Morgenthau, Jr.

The President,

The White House.

HMG/mff:dm

File to Mr. Thompson

By Messenger 3⁰⁰

*Original ltr. signed
by Pres. in Lins. office*

October 3, 1940

My dear Mr. President:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

enc.
FI:bj

Ry.

By Messenger 3³⁰

October 3, 1940

My dear Mr. President:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

Enc.
FY:bj

By Messenger

October 3, 1940

Dear Mr. McReynolds:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable William H. McReynolds,
Secretary, The Advisory Commission to
the Council of National Defense,
Room 2344, State Department,
Washington, D. C.

PT:bj
6/11/41

P.L.

By Messenger 3³⁰

October 8, 1940

My dear Mr. Secretary:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of War.

Encs.
Fibj

P.Y.

By Messenger 3¹²

October 3, 1940

My dear Mr. Secretary:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of State.

Encs.
FYbj

124

By Messenger 3³⁰

October 5, 1940

My dear Mr. Secretary:

I attach herewith a copy of a report and covering letter dated October 2, 1940, prepared by Sir Walter Layton at the direction of the British War Cabinet.

It is the purpose of this report to present to the United States Government a general picture of the British supply position and to supplement in detail the orders that have been transmitted to the British Purchasing Commission.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable,

The Secretary of the Navy.

Enc.
PT:bj

Py.

By Messenger 3¹⁰



BRITISH PURCHASING COMMISSION

October 2nd, 1940.*Dear Mr. Secretary*

I have been instructed by the British War Cabinet to give to the American Administration a general picture of our supply position and to supplement by way of explanation in detail the orders that have been transmitted to the British Purchasing Commission.

Many detailed lists of proposed orders have already been submitted to the appropriate authorities. In many cases programmes have been agreed and many orders have been placed. Little progress has, however, been made in the case of weapons for the army.

In the attached memorandum, therefore, which puts forward considerations affecting the supply position as a whole, I have included a statement about the scale and character of the Army programme towards which our orders in America are designed to make a contribution.

Arising out of the considerations in the memorandum, I venture to submit as matters of outstanding importance the three following requests, the granting of which would very greatly assist us in our war efforts:-

1. We invite the assistance of the Administration in accelerating and treating as a matter of special urgency the delivery of armaments on British order which can be produced before the spring and early summer of 1941. Priority in production should apply in particular to the output of aeroplanes and aero-engines.

It is also urgent that the extended programme of aeroplanes and engines should be ordered as soon as possible.

2. Permission is sought to place orders for an extended aircraft programme and for guns, small arms and various weapons included in the Army programme; and it is common ground that as far as possible these orders should be for material of the same type as that on order for the American Army. But we ask that the rule barring the placing of orders for planes or weapons of types which are not standard in the American Army should be relaxed in cases where the ordering of alternative types is needed to make good specific deficiencies in the British programme, to provide insurance against a severe loss of British output as the result of enemy action, or to increase fighting efficiency at the earliest possible date.

3. In July the President approved the principle that where the orders of our two countries are complementary the initial capital expenditure would be advanced in the first instance from the funds of the United States Administration. In view of the large volume of British orders in the United States and the need for conserving British financial resources, we ask that this principle should be applied to all British war orders in the United States. This course we suggest would be justified

on the double ground that the manufacturing capacity created by such capital expenditure is a permanent addition to America's own war potential which can be adapted at comparatively short notice to America's needs and that the goods produced therefrom in aid of British armament are, in the present world situation, a definite contribution to America's security.

Yours sincerely

W. T. Layton

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

SECRET

MEMORANDUM ON BRITISH SUPPLY PROGRAMME

I

The military position of Great Britain has greatly improved since the month of June.

On the sea the partial destruction or immobilisation of the French fleet has removed the fear that a large increment of naval strength might be immediately available for the Axis powers. The addition of the American destroyers to our fleet will enable us to carry out more efficiently the work of convoy and blockade and will release modern destroyers now employed in these tasks for more specifically belligerent action.

In the air the output of our factories has been stepped up substantially. In May last the production of planes was gradually rising in accordance with previous plans. But under the new Minister of Aircraft Production a considerable increase in deliveries was achieved - by more vigorous direction at the centre; by the response of managers and workers throughout the munition industry to the Government's appeal and the pressure of the war situation, and by the instruction to British industry to give I.A. priority to all work related to aircraft production or anti-aircraft defence. Two months of comparative calm enabled this increase of output to be converted into terms of increased squadron strength and stronger reserves.

The greatest improvement has, however, taken place in the state of our land forces. When the British Expeditionary Force - which had lost all its equipment save some of its rifles - returned to England there were available

in the country for issue to units for training some 800 field guns of all calibres, 120 anti-tank guns, 8,000 Bren guns and 4,000 anti-tank rifles. By August the total available had risen to some 2,500 field pieces as a result of the speeding up of output from the factories, the refurbishing of 18-pounder 4.5 in. howitzers and other survivors of the last war, and the timely release of 75 mm. guns by the American Army. The number of anti-tank equipments in the hands of the Army had risen by the end of August to over 600 while the stock of Bren guns and anti-tank rifles had doubled.

Finally, the release of American rifles and machine guns provided weapons for the new large force of Local Defence Volunteers (Home Guard).

The supply of standard .303 small arms ammunition was not planned on a sufficient scale to meet, in the first year of war, the battle needs of such large forces as those now under arms. But the fact that there has been no land fighting for nearly four months has enabled a stock to be accumulated sufficient to take care of any foreseeable expenditure either on land or in the air during the rest of this year. This, however, does not apply to .30 calibre ammunition.

II

The improvement in our position still leaves us far behind Germany both in the air and on land.

The air strength of Germany, with her great advantage of early planning of large scale production, is already greatly in excess of ours. It is now reinforced by the resources of France to the extent that we must reckon on having to face an output of combat planes of between 2,500

and 3,000 a month next summer.

It is a factor also of considerable importance that as Germany's aerodromes are much nearer to London than ours are to Berlin, the wear and tear on Germany's bomber engines is much less than that of our own.

Yet, thanks to the quality of our machines, our pilots and our petrol, and to the increased output of planes, the disparity in the total number of machines has not been sufficient to give Germany command of the air. On the contrary the British Air Force has carried the offensive not only into France and Belgium but to Berlin and the vital spots of Germany.

German preponderance, however, remains overwhelming in land armaments. Our present stock of weapons is trifling compared with the 15,000 - 20,000 field guns and equivalent other arms of Germany. Italian equipment and the captures from France, Belgium and Britain make the disproportion still greater. Fortunately these resources cannot be effectively used against England without command of the sea and air; nor can they be transported overseas to other theatres of war without hindrance. But the existence of such powerful land forces makes the situation in the Middle East and in Africa a cause for anxiety.

Taking a longer view, a rough idea of Germany's war potential for all purposes is suggested by her capacity for steel production. Before the war, Germany's output reached about 22 million ingot tons a year. That of France and England was 23 million ingot tons. Today Germany has at her disposal the output of France, Belgium, Luxemburg, Czecho-Slovakia, Italy and Poland. This, with her own production, amounts to 42 million ingot tons against the

- 4 -

15 million ingot tons of Great Britain to which should be added the 3½ million tons of the Empire. This great disparity can only be balanced if we add in the 50 million ingot tons of the United States of America.

But this is only a partial picture. German industry has certain weaknesses. The steel figures, for examples, must be qualified by such considerations as the supply of ferro alloys, forging plant, lubricating oil and many other things. Nor can a purely industrial comparison be converted into terms of military force or regarded as a measure of the prospect of victory without taking account of many factors that will affect the issue of the war. Such influences include:- the extent to which Germany can utilise the full resources of conquered countries; the effect of hunger and the steady influence of sea power on the economic life of Europe and its morale; the prospect of securing ascendancy in the air through the quality and quantity of the pilots and aircraft that can be thrown into the conflict; and finally the possibility which is open to the British Empire of choosing fields and conditions of battle in which the strength of the German army cannot be fully deployed.

Nevertheless, Germany's war potential remains a very formidable menace. We cannot do less than organise to the utmost limit of our strength.

III

One conclusion to be drawn is that for some time to come Germany has no need to devote much of her industrial capacity to land armaments but is free to devise

other weapons. In particular, she can concentrate on increasing her air force and on making the ships for transporting an expeditionary force overseas. The fact that she is removing machine tools from occupied countries into Germany itself suggests that she is in fact doing something of this kind.

We must assume, therefore, that the efforts we have made to overhaul the monthly rate of German aircraft production and training of pilots will have to be redoubled and that the air attack on Great Britain in the Spring will recommence on a still larger scale. The whole course of the war has emphasized the dominating role played by air power and it is vital that we should maintain our effective control of the air over Britain and around our coasts.

Moreover, as we are greatly outnumbered in land armaments, it is the more essential that we force the decision with the weapon of our own choice. Great Britain, therefore, puts in the forefront of her requirements in the United States the speeding up of the programme of aircraft and aircraft engine production that was launched last Spring and is now coming into effect. Among other measures this means that production of 1941 types should not be interrupted by the introduction of new types until the critical period of the Spring and early Summer is over.

Our training of pilots is already on a scale which - in spite of inevitable losses - is planned to permit an appreciable increase in our squadron strength by the Spring and to ensure a sharp rise thereafter. Steps are now being taken to make yet a further acceleration of the supply of pilots available in the early months of 1941. As the wastage of machines in the present air battle is appreciably greater than that of pilots, and as we must be

prepared for the possibility that losses of British factory production through enemy action may be worse than our present experience, the speed-up of plane deliveries from America is of first importance if we are to develop our maximum fighting strength next Spring.

Germany's great lead in the air means also that aircraft production in both England and the United States must be planned on an increasingly large scale if we are to establish air supremacy over Germany within measurable time; and that as a first step arrangements should be made by which the increased production programme which has been discussed with the Defence Advisory Board be put into execution immediately.

In this connection it is of vital importance that the types to be manufactured under this programme should embody the experience that we are daily acquiring of actual fighting conditions, since a quantitative superiority will be of no avail against a superiority in quality. For example it is suggested that it would be of great advantage, both to England and to the United States, if the new British Tornado Fighter, equipped with the 2000h.p. in-line Sabre engine, were put into production in this country. This machine is now flying in England, and there is no parallel in this country that could be ready in the same time. If this were done, this plane would be flying and fighting within a year and in quantities which might have a decisive effect.

We also attach great importance to being able to lay down in North America for delivery in the Winter and Spring a substantial number of motor torpedo boats and marine engines.

As regards land forces the preceding figures mean that we cannot hope to compete with Germany in sheer weight of metal in the near future.

Yet expeditionary forces in various parts of the world already play an important role in the war as a whole and when air superiority has been definitely established we must assume that action on land will be both necessary and possible even in Europe. What precise form land action may take is difficult to foresee at this stage. When Britain's defence has been assured, Africa and the Middle East will make a heavy call on our military forces. The opportunity may occur to make local raids in Europe, lend assistance to countries which may be in revolt or even, with the aid of local air mastery, recapture and hold a bridge head across the Channel in order to drive back the air menace against Great Britain.

The equipment of the Empire's Army must, therefore, go vigorously ahead. From the point of view of munition-producing capacity we must also not forget that arms may have to be provided for countries which may eventually be in a position to come over to our side.

To provide arms on a sufficient scale requires the creation in England and the United States of armament-making capacity which will turn out planes, armoured vehicles and mobile guns in many thousands a year and small arms or rifles in millions.

It is therefore clear that while the situation must be sustained in the meantime by United Kingdom weapons a final decision must be based on the full development of the great industrial potential of the United States. If the foundations are laid on a wide enough basis and every step is taken to preserve intact the war potential of Britain, the combined strength of America and the British Empire can certainly surpass and outlast that of Germany and her Allies.

America's potential is now being mobilised for the equipment of a rapidly expanding United States

Defence Force. It is essential that the programme of United States and British requirements be as much as possible co-ordinated so as to prevent competition arising in the industrial field. To this end we must seek a common programme agreed and adjusted to the conflicting requirements of immediate and of ultimate needs.

IV

After the French collapse the British Army's munition programme was stepped up by more than 50% to figures which were designed to equip by the end of 1941 the number of divisions which on the previous programme would only have been ready by the end of 1942.

Our forecasts of production of the main forms of army equipment anticipate that the following will be the situation at the end of 1941:

	Stock on 1st August (Home and Abroad)	Output - August 1940 to end 1941
Field Artillery	2,650	4,850
Medium Artillery	400	700
Anti-tank equipments	600	6,000
Tanks: Light	730	1,260
Light Cruiser	250	1,300
Heavy	230	4,330
Anti-aircraft Guns: Heavy	1,775	1,660
Light	650	3,760
Bren Guns	22,000	54,000
Rifles	2 million (approx)	600,000
Anti-tank Rifles	12,000	28,000

Stocks exclude Indian and Dominion stocks and stocks with Indian or Dominion divisions taking their own equipment to theatres overseas. Machine gun output for aircraft is considerably in excess of figure for Bren Guns. The only overseas deliveries included are 500 37 mm. anti-tank equipments from the United States.

This production has to meet the needs of the British Field Forces both at home and overseas as well as the Air Defence of Great Britain and the Home Guard.

The equipment of the Army at the end of 1941 is not to be regarded as the total of the above columns; from the combined figure we must deduct (a) wastage from wear and losses in the field and (b) obsolete weapons (particularly in the case of field artillery) which will be replaced in due course by modern weapons. I can, however, if necessary, give further information as to the military formations to which the figures are related.

From the production point of view I make the following comments upon ~~these~~ *this table*.

The forecasts on which these total figures are based anticipate that at the end of next year our output will be nearly equal to the peak output of the last war in field artillery (1918). It will be much less in medium and heavy artillery - the demand for which is expected to be relatively small under present-day conditions of warfare. But it will be much greater in heavy and light anti-aircraft guns - the former of which compares in manufacturing capacity to medium artillery and the latter to field guns. The production of tanks and of anti-tank and tank guns will also be on a far higher scale than before. In other words, we expect in two years to reach an output of ordnance equal to that of 1918 in spite of the fact that we are devoting to aircraft production more than four times the labour force that was used on the production of aircraft at the end of the last war.

The chief reason why this is possible is that we expect to have to produce much less artillery ammunition than in the last war. In the siege conditions of 1914-1918 the outpouring of ammunition production on a stupendous scale drained the resources of all belligerents in steel.

explosive, machinery and labour power. We may have to provide for a large ammunition expenditure at some stage in the present war; but in the near future this is unlikely, and, in fact, we have an immediate problem of providing storage for the ammunition we are making. We therefore intend to produce a moderate but sufficient flow of ammunition while providing a big reserve capacity of shell and fuse manufacture, filling, etc. But at its maximum the call upon our resources for ammunition will be by comparison with 1914-1918 a moderate one.

The munitions problem of this war is to produce as many weapons of all kinds as possible with an adequate supply of ammunition - not to produce shells in unlimited quantities.

Y

British orders in the United States have two aspects. On the one hand they are needed to fill deficiencies - which in some cases amount to a high proportion of our total needs. On the other they are an insurance against loss of British production as a result of enemy action. This insurance aspect has influenced the scale and nature of the orders we have sought to place in North America in every branch of war production. *

The case of raw materials or explosive is straightforward. But in finished munitions the problem

* The rate of insurance needed to make good losses from enemy action is at best a guess and in any case must vary with the nature of the product. It is for example not needed for clothing and engineering stores. But in the case of important armaments produced from a few vulnerable sources of supply it would not be excessive for the percentage to run as high as 25 or 35%. In the most important items of production we have assumed a rate of 20 to 25%. Experience up to the present has shown this margin is ample for the loss of output on the whole is less than 10%. Of this 10% far the greater part is due to the effect of lost time through air raid warnings and only a small part to actual bombing losses. But we have been lucky. Providence suggests that 20% is not an unreasonable basis for planning.

is complicated by the question of types. Clearly it is desirable from the production point of view that types should as far as possible be standardised. But the recent decisions as to the types to be manufactured for the American Army taken in conjunction with the advanced state of the manufacturing programme in the United Kingdom mean that this standardisation is not possible in all cases if American orders are to serve as a real insurance and reinforcement of our own war output.

To illustrate this I will take the case of the 25-pounder. The field gun is one of the most important weapons which determine the number of divisions that can be organised; and in fact the above figures of the production of 25-pounder guns closely corresponds to the growth in the British Army which is contemplated next year. But our forecast may be falsified by enemy bombing and the effect of air raids on the output of our factories. In order to be sure that the military timetable should not be thrown out, we should like to place orders which would ensure that a supply of 25-pounder guns was coming forward from America in the second half of next year.

Since the United States Army has adopted as standard the 105 mm. gun there is undoubtedly a disadvantage from the production point of view in manufacturing a different type of field gun. Nevertheless it is suggested that in the circumstances this argument might be overridden on the following grounds:-

(a) It would not be an effective insurance of our field artillery and ammunition programme to arrange a supply to Great Britain of 105 mm. guns late in 1941. To do this would introduce a new type into the army at a time when a large number of 25-pounders would be in being - probably in various theatres of war. It would moreover be necessary to replace not a single item only of our production but the whole complex of ammunition and other ancillaries of

artillery equipment. Real insurance means that each separate item of a composite programme should be available from some alternative source of supply.

(b) The development of new capacity to make an alternative type of gun is not to be regarded as a competitive form of production but as a means of broadening the capacity of American gun production in general. In particular, forging plant and machining capacity would be created which would be available in due course for other types of gun. Experience of the last war in England showed that the creation of basic capacity is the essential step. In a prolonged war this capacity will certainly not continue to be used only for the production for which it is originally planned but will be adjusted from time to time to the products which the experience of the campaign dictates.

I should welcome the opportunity of putting forward in the appropriate quarter detailed suggestions which would make possible the release of orders for ordnance (anti-aircraft guns, anti-tank guns, field guns and medium guns) and other Army weapons which would involve the production of common types to the greatest practical extent consistent with military considerations and the state of the British programme.

The argument for making exceptions to the rule that common types only should be ordered in this country is even stronger in the case of certain fighting aircraft (to which I have already referred) whose output from British factories cannot be sufficient for war purposes, but which, if put into production in the United States, could be flying and fighting within a year.

VI

It is common ground that the integration of the British programme with that of American defence is necessary in order to prevent competition and lead to the speediest development of America's war potential. A successful start in this direction has already been made in the matter of tank production.

I recognise also with gratitude that the complementary programme worked out in the case of tanks has been the occasion for putting into effect financial arrangements for easing the burden of initial capital payments. It will greatly ease the financial problem involved in launching the large volume of orders which Great Britain needs to place in this country if the same facilities can be made available in respect of all other types of war purchases.

The joining up of the two programmes in the United States should result in a more efficient production planning; a speedier output, a lighter immediate financing burden for the British Government and a greater capacity of production always available for United States national defence.

VII

Finally, ^{if} a substantial proportion of America's munition production is to be shipped overseas, and if we have to contemplate one or more British expeditionary forces on a substantial scale, a very large shipping tonnage will be required. At the moment we have a sufficient supply of ships at our disposal. But the losses from submarine action are running far ahead of our output of new ships which is less than at the peak of the last war and cannot readily be increased if the Admiralty programme of warships has to be reinstated. The British Government is anxious to acquire a substantial number of ships as soon as possible.

But this is to meet a short-term need. The transportation problem needs to be studied from a very wide angle if a large war potential is to be brought to bear against the totalitarian powers in 1942.

2/10/40

W.S. Layton

Regraded Unclassified

306

Secretary had the original of this framed
and taken to the Secretary's house.

BRITISH EMBASSY,
WASHINGTON, D.C.

October 3rd 1940.

My dear Mr. Secretary,

Lord Beaverbrook has cabled asking me to convey to you the following message from him:

"It is with gratitude for your understanding of our problems in past and with confidence in your goodwill for the future that Aircraft Ministry gives its pledge to pilots of a flow of aeroplanes sufficient to carry them through battle to victory. This pledge is only possible owing to help we derive from you. We cannot publicly acknowledge your assistance but we hope the day will come when you will visit us and receive from our lads the thanks we owe you."

It gives me great pleasure to pass this on.

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

L. Moran

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Lisbon.

DATE: October 3, 1940, 5 p.m.

NO.: 211.

On October 2nd the Bank of Portugal sent approximately five million dollars in gold bullion to New York on the Spanish ship Magallanes and the S. S. Excambion. On September 28 (?) 3,000,000 was sent on the Japanese vessel Akosaki Maru. Shipments totalled about 10,500,000 this week, greatly exceeding usual requirements or exchange needs.

WILSON

EA:MSG

TO THE SECRETARY
LEGATION OF THE
UNITED STATES
ON OCT 5 1940

OCT 5 1940

RECEIVED

OCT 3 1940

My dear Admiral Anderson:

I want to thank you for your letter of September 17, 1940 and the enclosed memorandum, pertaining to the export of gasoline and oil to Japan.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Dear Admiral W. S. Anderson,
Director of Naval Intelligence,
Navy Department,
Washington, D. C.

WJ:rech

9/24/40

FILE COPY

OCT 3 1940

My dear Admiral Anderson:

I want to thank you for your letter of September 17, 1940 and the enclosed memorandum, pertaining to the export of gasoline and oil to Japan.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hear Admiral W. S. Anderson,
Director of Naval Intelligence,
Navy Department,
Washington, D. C.

WLU:ech
9/24/40

Treasury Department
Division of Monetary Research

311

Date... September 27, 1940. 19

To: Secretary Morgenthau

The Navy material sent to us and referred to in the attached letter contains nothing new. It consists of a digest of the Japanese Consul General's (San Francisco) communications to his Government, as follows:

1. The Japanese have no difficulty in arranging shipments of ordinary gasoline and crude petroleum.
2. Export permits are being left in the hands of American agencies.
3. There appears to be no chance of obtaining licenses to ship aviation gasoline contracted for prior to the export control.
4. Recent shipments of ordinary gasoline have been loaded on Mitsui and Mitsubishi vessels.
5. American dealers feel that there will be no difficulty in shipping ordinary gasoline.

MR. WHITE
Branch 2058 - Room 208

NAVY DEPARTMENT
OFFICE OF NAVAL INTELLIGENCE
WASHINGTON

312

In reply refer to No.

Op-16

17 September 1940

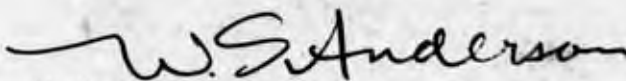
Confidential

Dear Mr. Secretary:

With reference to my letters of 29 and 30 August 1940, enclosing copies of memoranda relative to the export of gasoline and oil to Japan, I am enclosing, herewith, for your information, a memorandum dated 16 September containing additional information on the subject.

With best wishes,

Very sincerely yours,


W. S. Anderson,
Rear Admiral, U. S. Navy,
Director of Naval Intelligence.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

Confidential

NAVY DEPARTMENT
Office of the Chief of Naval Operations
OFFICE OF NAVAL INTELLIGENCE
WASHINGTON

In reply refer to No.
Op-16-F-2

CONFIDENTIAL

16 September 1940.

Memorandum for the Chief of Naval Operations

SUBJECT: Gasoline and Oil Exports to Japan.

1. Highly reliable information has been received that on 20 August 1940 the Japanese Consul General at San Francisco informed his government that in spite of the restrictions on exports of petroleum products from the United States, no difficulty had been experienced in arranging for shipments of ordinary gasoline and of crude petroleum.

2. The Consul General at San Francisco informed his government in detail as follows:

(a) All the details connected with applications for export permits for petroleum products are being left in the hands of American agents by the Mitsui and Mitsubishi companies of San Francisco. These American agencies from whom the oil is bought go ahead and make suitable arrangements with the government authorities at Washington.

(b) The Mitsubishi agency at San Francisco has been notified by the local office of the Associated Oil Company that of the applications for export permits already filed in Washington by the Associated Oil Company export licenses have been granted for about 22,000 tons of Kettleman Hill crude oil and for a similar amount of other California crude oil. This material was applied for as "special blend" crude oil.

(c) Considering results so far, there would appear to be no chance of securing export licenses for aviation gasoline contracted for prior to 1 August nor that export permits will be issued for this material on the basis that exports should be permitted because the companies were under contract prior to the application of the export license system.

(d) Recently ordinary gasoline was loaded on board vessels of the Mitsui and Mitsubishi companies in the amount of some 85,000 barrels. Permits for the export of this gasoline were granted on application for the export of ordinary freight.

CONFIDENTIAL

CONFIDENTIAL

314

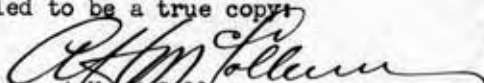
-2-

(e) American oil dealers in the San Francisco area selling to Mitsui and Mitsubishi, of which the principal one is the Associated Oil Company, feel that there will be no difficulty about continuing the shipment of ordinary gasoline to Japan.

W.S. Anderson.

Original to Aide to the President
CC - C.N.O.
M.I.D.
State
File (2)

Certified to be a true copy:


A.H. McCollum,
Lieut. Comdr., USN.

CONFIDENTIAL

AG

PLAIN

London

Dated October 3, 1940

Rec'd 12:30 p.m.

Secretary of State

Washington

3307, third.

FOR TREASURY FROM BUTTERWORTH.

As a result of today's Cabinet changes the
Chancellor of the Exchequer becomes a Minister of
the War Cabinet.

KENNEDY

RR

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

October 3, 1940.

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

Dear Mr. Morgenthau:

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

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
June 9 - September 28, 1940; Unfilled Orders
and Estimated Deliveries on September 28,
1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, June 9 - September 28, 1940; Unfilled
Orders and Estimated Deliveries on September
28, 1940.

Faithfully yours,



Chief of Staff.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Co

October 3, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for Mr. Morgenthau's information several copies of the President's proclamation of September 30, 1940, with respect to the administration of section 6 of the Act entitled "An Act to Expedite the Strengthening of the National Defense", approved July 2, 1940, and also several copies of the regulations issued by the President on the same date governing the exportation of articles and materials designated in the President's proclamation of July 26, 1940.

Enclosures:

1. Proclamation.
2. Regulations.

RECEIVED OCT 10 1940

RECEIVED OCT 10 1940

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

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
A PROCLAMATION

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

"Sec. 6. Whenever the President determines that it is necessary in the interest of national defense to prohibit or curtail the exportation of any military equipment or munitions, or component parts thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, he may by proclamation prohibit or curtail such exportation, except under such rules and regulations as he shall prescribe. Any such proclamation shall describe the articles or materials included in the prohibition or curtailment contained therein. In case of the violation of any provision of any proclamation, or of any rule or regulation, issued hereunder, such violator or violators, upon conviction, shall be punished by a fine of not more than \$10,000.00 or by imprisonment for not more than two years, or by both such fine and imprisonment. The authority granted in this section shall terminate June 30, 1942, unless the Congress shall otherwise provide."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT,
President of the United States of America, acting
under and by virtue of the authority vested in me

-2-

by the aforesaid act of Congress, do hereby proclaim that upon the recommendation of the Administrator of Export Control I have determined that it is necessary in the interest of the national defense that on and after October 15, 1940, the following-described articles and materials shall not be exported from the United States except when authorized in each case by a license as provided for in Proclamation No. 2413 of July 2, 1940, entitled "Administration of section 6 of the act entitled 'An Act to expedite the strengthening of the national defense' approved July 2, 1940," and in the regulations issued pursuant thereto:

Fire Control Instruments, Military Searchlights, Aerial Cameras and other types of Military Equipment containing optical elements.

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

-3-

DONE at the City of Washington this 30th day
of September, in the
year of our Lord
nineteen hundred
and forty,
and of the
Independence
of the United
States of America
the one hundred and
sixty-fifth.

FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

5
5

COPY

DISPATCH

RNL PT Z MUSK 022340 NRDC Q F5L G1Z P5Z QUAH ZONA P GR 103

FROM: RESTRICTED : : : : : CHIEF NAVAL OPERATIONS

ACTION: CAMPBELL

INFORM: COMDT 3RD NAVDIST = CINC US FLEET
 COMMON 40-T
 (PRIORITY MSG) COMATRON US FLEET
 COMDT USCG

WHEN FUELED PROVISIONED AND IN ALL RESPECTS READY FOR SEA
 INCLUDING NAVY COMMUNICATIONS PUBLICATIONS ABOARD PROCEED VIA
 PONTA DELGADA AZORES FOR REFUELLING TO LISBON PORTUGAL REPORTING
 TO OPNAV YOUR RESPECTIVE ITINERARY PRIOR DEPARTURE YOUR NOON
 POSITIONS ENROUTE AND TIME OF ARRIVAL ALSO INFORM AMERICAN
 MINISTER LISBON OF YOUR ARRIVAL X CULTIVATE FRIENDLY RELATIONS
 AND PROTECT AMERICAN INTERESTS X KEEP CLEAR OF PROCLAIMED COMBAT
 ZONES X OBTAIN PRIOR APPROVAL FROM NAVY DEPARTMENT BEFORE
 VISITING ANY SPANISH OR PORTUGUESE PORT OTHER THAN LISBON AND
 REPORT ALL SUCH MOVEMENTS BY DISPATCH X

NOTE:: THIS IS PLAIN LANGUAGE OF RESTRICTED SO GR COUNT MAY
 NOT CHECK - JUST USE YOUR OWN CHECK

TOD 0016 3 OCT 40/NM WR

THE SECRETARY OF STATE
WASHINGTON

October 3, 1940

Dear Mr. Secretary:

Thank you very much for your note of September twenty-fifth enclosing the interesting message from Mr. Nicholson, which I was very glad for the opportunity to read.

Sincerely yours,

A large, elegant handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned centrally below the "Sincerely yours," line.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

CONFIDENTIAL

323



Paraphrase of Code Cablegram
Received at the War Department
at 1:48 P.M., October 3, 1940.

London, filed October 3, 1940.

During daylight hours of October 2 German bomber operations resolved themselves into six attacks over Southeast England. While the total number of planes involved was estimated at 250, all formations were small. In only one of the six attacks were formations of as many as six bombers seen. Operations give the impression of being half-hearted. Bombing activity last night was likewise on a reduced scale and caused little disturbance in London.

Reports of the damage caused by the bombing included the following: temporary blockage of five railroads. In this connection railroad blockages are apparently repaired very rapidly. A statement yesterday indicates that the maximum duration of any rail blockages to date has been nine hours, with the majority of blockages being cleared in much shorter time. One air depot and five airdromes were attacked with little damage. Production in one chemical factory halted for two days. Production in one radio company was suspended for one week. One aircraft parts and sound locator factory was forced to suspend operations due to unexploded bombs. One electric light bulb factory was forced to slow up production due to low gas pressure. One section of a metal works in Glasgow suspended production for several days. One paper mill was damaged.

CONFIDENTIAL

CONFIDENTIAL

324

British Coastal Command operations yesterday reported as 40 missions, involving 96 planes, in addition to the escort of 18 convoys, all without casualties. Last night British operations involving 96 bombers were directed against two synthetic oil plants, two oil refineries, and rail shipping and port facilities.

The situation in regard to invasion is considered unchanged.

German losses were 10 confirmed, 1 probable, and 2 damaged.

The British lost one plane and no pilots.

One convoy of 25 ships arrived safely from Canada. New shipping losses reported, all due to submarines, were two ships of a total of 10,300 tons and a third ship of unknown tonnage.

Casualties for the night of October 1-2 were: London, 57 killed, 223 injured; Liverpool, 10 killed, 60 injured; other areas, 10 killed, 40 injured.

Important dispatches left here by air today with Studlar.

LHM.

Distribution:

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

CONFIDENTIAL

-2-



HEADQUARTERS

325
ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO. IOP-64

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 3 October, 1940.

CONFIDENTIAL

Subject: Reported departure of French vessels from the Port of New Orleans.

Summary of Information:

The Commander, New Orleans District, has received reliable confidential information advising that the following French vessels will attempt to depart from the Port of New Orleans in the near future, either by compliance with clearance and departure regulations or otherwise, with ultimate destination Germany:

SS MICHIGAN
SS WYOMING
SS ANGOULEME
MS TOURAINE
MS SHEHERAZADE
MS OREGON
SS WINNIPEG
SS INDIANA (due New Orleans
in the near future)

The Collector of Customs at New Orleans has requested the Coast Guard not to permit these vessels to pass the head of the Mississippi River Passes, even though they present a clearance, until issuance of clearance has been verified by the Commander, New Orleans District, U. S. Coast Guard.

The Commander, New Orleans District Patrol Force has been directed to station an offshore cutter armed with 3-inch or larger guns at the head of the Mississippi River Passes until further orders, so that if an illegal departure is attempted it can be prevented.

Source of Information: Reliable

Distribution:

Treasury Department
Bureau of Customs
State Department
Naval Intelligence

October 3, 1940

Professor A. S. Yahuda.

*25 Elsworth Road,
London, N. W. 3*

Received by HM, Jr at 11:30 a. m.