

DIARY

Book 319

October 4 - 7, 1940

- A -

Book Page

Argentina
See Latin America

- B -

Bond, Miles W. (Vice Consul, Yokohama)
See Japan (Customs courtesies)
Brasil
See Latin America
Bullitt, William C.
See War Conditions: Foreign Funds Control (France)
Business Conditions
Haas memorandum on situation for week ending
October 5, 1940..... 319 240

- C -

China
See War Conditions
Consolidated Aircraft
See War Conditions: Airplanes
Crane, J. E.
See Latin America: Argentina
Curtiss-Wright Corporation
See War Conditions: Airplanes

- D -

Defense, National
Requisitioning bill discussed in Young memorandum -
10/4/40..... 90, 91, 93

- F -

Financing, Government
Receipts: Preliminary tentative estimate for fiscal
year 1942 and revisions for fiscal year 1941 sent
to Budget Bureau - 10/4/40..... 116
France
See War Conditions: Foreign Funds Control; France
French Indo-China
See War Conditions

- G -

Gold
See War Conditions: France (Dakar)
Greenbaum, Edward E.
Appointment Lieutenant-Colonel in Army; possibility of
working on contracts discussed at 9:30 meeting -
10/4/40..... 29

- H -

	Book	Page
Housing		
Defense Housing: Straus memorandum as given to HMJr - 10/7/40.....	319	302
Howe, Louis		
Job for son in Treasury discussed at 9:30 meeting - 10/4/40.....		13

- I -

Indiana	
See Tax Evasion (McNutt, Paul V.)	
Indo-China, French	
See War Conditions: French Indo-China	

- J -

Japan	
See also War Conditions: Export Control	
Customs courtesies in Yokohama in connection with Vice Consul and Mrs. Niles W. Bond - 10/4/40...	157

- L -

Latin America	
Pearson-Allen radio program "Knowing Our Neighbors" complimented by HMJr - 10/4/40.....	17,191
Argentina:	
Agenda for proposed meeting - "shuttling back and forth" from State to Treasury discussed at 9:30 meeting - 10/4/40.....	20
Jones suggests to Welles that any further loans be discussed with Treasury when representatives come to Washington - 10/4/40.....	30
Crane (J.E.) memorandum on Argentine exchange acknowledged - 10/4/40.....	34
Argentina-Brasil trade negotiations: Report on progress - 10/5/40.....	187,188,189
a) Agreement signed - 10/6/40.....	218
Brasil:	
Argentina-Brasil trade negotiations: Report on progress - 10/5/40.....	187,188,189
a) Agreement signed - 10/6/40.....	218
Mexico:	
Reputed loan through Export-Import Bank: Inquiry made in view of expropriation of Standard Oil Company's properties - 10/7/40.....	238

- M -

Book Page

McNutt, Paul V.
See Tax Evasion: Indiana
Mexico
See Latin America

- N -

Netherlands
See War Conditions: Foreign Funds Control;
Netherlands

- P -

PANAMANIAN, SS
See War Conditions: Ship Movements
Pearson and Allen
Radio program "Knowing Our Neighbors" complimented
by HMJr - 10/4/40..... 319 17,191

- R -

Republic Aircraft
See War Conditions: Airplanes (Sweden)
Requisitioning Bill
See Defense, National

- S -

Scalise, George
See Tax Evasion
Standard Oil Company
See Mexico
Sweden
See War Conditions: Airplanes; Sweden
Switzerland
See War Conditions: Foreign Funds Control
Syria
See War Conditions: Foreign Funds Control

- T -

Tax Evasion
Indiana: McNutt Paul V.
Resume of case in answer to memorandum from
FDR - 10/4/40..... 144
Scalise, George: True bill returned against -
10/4/40..... 136

- U -

	Book	Page
Unemployment Relief		
Work Projects Administration report for week ending September 25, 1940.....	319	234
U.S.S.R.		
See War Conditions: Foreign Funds Control		
United Kingdom		
See War Conditions: Airplanes; Military Planning; United Kingdom		

- W -

War Conditions

Airplanes:

Beaverbrook resume' of needs provided for FDR, HMJr, Stimson, and Knox only - 10/4/40.....	126
a) Beaverbrook thanked by HMJr - 10/5/40....	174
Consolidated Aircraft: Conference in San Diego; present: representatives of Army; Navy; Foley, Kades, and Buckley, of Treasury - 10/7/40.....	282
Curtiss-Wright Corporation: British contracts - 10/7/40.....	298

Engines:

Allison situation discussed by Sloan and HMJr - 10/4/40.....	98
a) Increase to 14- or 1500 horsepower discussed by Purvis and HMJr - 10/4/40..	130
b) Buick plan to build 5000 air-cooled engines also discussed	

Allison Engineering Company:

Schedule of deliveries - 10/7/40.....	297
Shipments - 10/7/40.....	299

Order fulfillments of various plane companies:

Young memorandum - 10/7/40.....	294
---------------------------------	-----

Sweden:

HMJr-Patterson conversation concerning Republic planes - 10/4/40.....	24
a) Discussion at 9:30 meeting.....	26
Purvis memorandum relinquishing Republic planes to Sweden - 10/5/40.....	214

China:

Burma Road: Statement of monthly transit trade in war materials - 10/4/40.....	141
Exchange market resume' - 10/4/40, etc.....	155, 193, 252

Export Control:

Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, as shown by departure permits granted for week ending October 5, 1940..	216
--	-----

War Conditions (Continued)

Export Control (Continued):

Japan:

Embargo against in 1918 - article by Henry H. Douglas sent to HMJr by Stimson - 10/4/40.....	319	1
a) Stimson and HMJr discuss embargo on 50,000 barrels of 86.9 octane gas lifted on instructions from FDR (at Hull's request).....		40,41
1) Subsequent explosion and beaching discussed at Cabinet - 10/8/40: See Book 320, page 18		
2) Ickes-HMJr conversation - 10/10/40: Book 320, page 311		
Tetraethyl Lead: No licenses granted - Maxwell memorandum - 10/4/40.....		103

Foreign Funds Control:

France:

Diplomatic funds for Central America, South America, and Europe discussed by Ambassador with HMJr - 10/4/40.....		44
a) State Department must pass on this, in HMJr's opinion		
1) Hull-HMJr conversation.....		51
2) Bullitt-HMJr conversation.....		56
3) FDR denies having given permission for release of funds; opposed to release for diplomatic and consular service and for using French dollar balances in United States to purchase Argentine beef for French prisoners in Germany - 10/7/40.....		296
(See also Book 320, page 219)		
Bullitt request to send funds to Charge d'Affaires Matthews for de la Chambre discussed by HMJr and Bullitt - 10/4/40.....		53
a) Pehle and HMJr discuss.....		76
b) Conference; present: HMJr, Pehle, Bernstein, Cochran, White, Upham, and Cairns.....		80
1) State Department may transmit funds under authority already given by Treasury and Bullitt's secretary so informed by Pehle.....		88
a) Not inclined to grant request: See Book 320, page 14		

Netherlands: Resume of funds on deposit with Federal Reserve Bank of New York - 10/7/40.....		308
Switzerland: Further inquiry as to possibility of freeing funds - 10/7/40.....		309
Syria: American Consul General asks for rules bearing on release of frozen funds - 10/5/40.....		186

War Conditions (Continued)

Book Page

Foreign Funds Control (Continued):

U.S.S.R.: Ambassador informed by HMJr of approval for financial transactions involving shipments of rubber from Indo-China and sisal from Java to Russia - 10/5/40.....319 179

France:

Argentine canned goods for French prisoners in Germany: State Department transmits special memorandum on subject - 10/4/40..... 119

a) FDR opposed to using French dollar balances in United States to purchase Argentine beef for French prisoners in Germany - 10/7/40..... 296

Bank of France operations as reported by Cariguel to Matthews - 10/5/40..... 175

Henri-Haye depression and American attitude discussed in Cochran memorandum - 10/5/40..... 184

Dakar: Gold arrivals discussed in cable to State Department - 10/6/40..... 217

French Indo-China:

Chinese troops to move into within next few days - so Nicholson informs HMJr who in turn notifies FDR - 10/4/40..... 110

Military Planning:

Reports from London transmitted by Lothian - 10/4/40, etc..... 163,168,270,274

Tentative Lessons from the Recent Active

Campaign in Europe (War Department bulletins): Battle of France: Further comments on - 10/7/40.. 254

Infantry Division, Motorized Territorial: Training of - 10/7/40..... 258

Netherlands: Summary of purchases, 7/1-10/1/40, report sent to Secretary of State (no copy attached to this letter of transmittal) - 10/4/40..... 11

Ship Movements:

SS PANAMANIAN: Beached at Galveston; was headed for Japan - 10/4/40..... 89

Strategic Materials:

Iron and Steel Scrap: If Reconstruction Finance Corporation is to buy, they must be declared critical materials; price to be paid by Reconstruction Finance Corporation for supplies apparently in Mexico also discussed - 10/4/40..... 19

Sweden: Kreuger Loan: Present status of German 6% loan of 1930 - 10/5/40..... 182

United Kingdom:

Exports: Extension of to United States to be discussed by member of British Export Council who will be sent to United States (D'Arcy Cooper suggested) - 10/5/40..... 180
See also Book 320, page 307

World War:

Commodity price movements and related price factors: Haas memorandum - 10/7/40..... 224

War Department

Military Intelligence Division bulletins:

See War Conditions: Military Planning

Work Projects Administration

See Unemployment Relief

World War

See War Conditions

WAR DEPARTMENT
WASHINGTON

1

October 4, 1940.

Dear Henry:

I have had mimeographed the article on the 1918
Embargo against Japan and I send you herewith three
copies.

Faithfully yours,



Secretary of War.

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

EMBARGO AGAINST JAPAN IN 1918

By Henry H. Douglas

Reprint from AMERASIA, August 1940

During the past three years of Japanese aggression in China, officials, private individuals and groups in the United States have consistently advocated an embargo on the sale of war supplies to Japan. All their efforts have foundered on the rock of public apathy and the unreasoning but widespread fear that such action would provoke immediate retaliation which the United States was not prepared to combat. Advocates of the embargo have repeatedly pointed out that if Japan, with large-scale American aid, is unable to conquer a country far weaker than herself, she is not likely to challenge a strong power like the United States once that aid has been removed. Still the fear remains and ties the hands of those in official circles who recognize the inconsistency of America's present behavior towards Japan.

In view of the widespread debate which has been carried on over the question of the probable effectiveness and the possible risk of an embargo, it is of the utmost importance to discover that the United States already has behind it the history of an economic embargo against Japan which proved so effective that within three months Japanese policy was altered to suit American wishes, and in conformance with previous agreements. The details of this almost unknown event in American-Japanese history were recently disclosed in State Department records* and are summarized herewith.

In August 1918, the United States and Japan jointly agreed to a plan of intervention in Eastern Siberia, under which each country was to send 7,000 troops to that area. Japan's brazen violation of this agreement, by dispatching to Siberia, with no word to the United States, 72,500 troops instead of the agreed 7,000, is well known. Also well known is the fact that they withdrew a large number of these troops by the end of 1918, but how American economic pressure was used to bring this about has not previously come to light.

Japan's desire for territorial expansion and domination, nourished for generations, found expression, after her declaration of war on Germany in 1914, in her seizure of the German holdings in Shantung, which had been leased by China to Germany. This was followed shortly after by the presentation of the Twenty-One Demands which, if accepted, would have made a virtual protectorate of China. In Russia's exhaustion due to the war, her military collapse, and the Revolution, Japan saw another opportunity for aggrandizement. The Japanese not only saw the opportunity for succeeding to Russia's position in Manchuria and Mongolia, but also for bringing all of Siberia, east of Lake Baikal, under Japanese domination. They did everything possible to prevent the establishment of any kind of stable government in Siberia following the Russian collapse, and immediately began acquiring mining, railway, shipping and fishing rights, power plants, flour mills, etc., all over Eastern Siberia. A host of Japanese surveyors swarmed into the Maritime Provinces and beyond. Subsidized colonization, on a large scale, also took place during this period. In whatever direction the situation developed, this economic penetration and colonization promised to be of enormous strategic value and importance. The possible possession of Eastern Siberia became a fixed part of Japan's foreign policy.

Japanese merchants poured vast quantities of inferior and often worthless goods into Siberia. All this was shipped free of charge as military stores, and was sold at exorbitant prices.

The idea of intervention in Eastern Siberia, in 1918, originated with the Japanese. By this means they saw a golden opportunity for gaining political control of this area. During the last days of the Kerensky regime they disseminated propaganda in all the Allied nations, pointing out that Japanese intervention in Siberia would save it from falling into the hands of the Germans. Later Japan made specific proposals to this effect to the United States and the other principal Allies. British and French opinion were inclined to accept the Japanese plan of intervention, but only on condition that the United States would also assent. The United States refused, and it was this refusal that killed the plan for exclusive Japanese intervention.

*Foreign Relations of the United States, 1918 Russia, v. II, pp. 270-465; 1919 Russia, p. 247 (Here is to be found the reference to file no. 694, 119/245, in the Division of Research and Publication in the State Department, which was consulted, by special permission, by the author); 1921, v. II; 1922, v. I, pp. 363-371, 701-733.

As a result of Japan's overtures to General D. M. Morvahn, the Russian commander in the Far East, it was definitely revealed that Japan was not interested in restoring Siberia but was interested only in that portion east of Lake Baikal which, once under her control, she would be able to hold indefinitely.

The United States did not relax her opposition to exclusive intervention by the Japanese, but finally agreed to a plan of joint intervention under which the United States and Japan were each to send 7,000 troops to Siberia. This announcement was made on August 3, 1918. A few days later it was tacitly agreed that Japan might send 12,000 troops instead of the original 7,000. The force dispatched by the United States totalled 7,649 fighting men and officers. Within the next few weeks, to send a force of 72,500 troops to Siberia. This was more than all the other forces of the Allied intervention, east and west, combined.

It was Japan's intention to do in Siberia at that time what she later did in Manchuria in 1931. It had been agreed that the army of the intervention should be under the supreme command of the Japanese, and they always saw to it that a Japanese officer of higher rank was present whenever any important action of any kind was either taken or contemplated. Every harbor and every river in Siberia was dominated by the Japanese. Every bridge and road was guarded by Japanese troops and every railway station flew the Japanese flag only. No one of any nationality, military or civilian, could come or go but the Japanese General Staff was informed, though the American and European staffs were never informed of Japanese movements. Nothing moved without Japanese permission.

The situation became so bad that the commanders of the troops of the Western nations made a formal protest, and on November 2, 1918, Secretary of State Lansing told Viscount Ishii, Ambassador to the United States, that Japan had gone too far. Japanese action had produced serious tension. President Wilson, disappointed and displeased with Japan's failure to observe the agreement, made the most vigorous diplomatic protest and authorized the strongest kind of economic pressure. On November 18, the War Trade Board issued an order stopping the further granting of all licenses for the export of cotton to Japan and the import of silk from that country. Outstanding licenses were not revoked, but would have been had this been found necessary. Iron and steel and their products were considered for such action, but as the feeling seemed to be that Japan would be able to obtain these products elsewhere, cotton and silk were chosen as the commodities that would make the embargo most practically effective.

At that time we were buying from Japan about fifteen million dollars worth of silk and were selling that country roughly thirteen million dollars worth of cotton per month. This trade was vital to Japan's economy. The action taken by the United States, together with the effect of the collapse of Germany, brought an immediate favorable response from the Japanese. Over 50,000 troops were removed from Siberia by the end of December 1918. This was so gratifying to the United States that the granting of licenses was shortly restored. In fact, the response to the embargo had been so immediate that the only eventual effect on the trade statistics for cotton and silk was the reduction of silk imports by about one-third during the first three months of 1919.

In this incident we have a concrete example of the effectiveness of American economic pressure. This action resulted in the removal of over two-thirds of the troops Japan had sent to Siberia. The Washington Conference of 1922 continued the process begun in November 1918, with the result that the last Japanese troops left the Siberian mainland in October 1922.

The situation today is, of course, very different from that of the autumn of 1918. Japan is a far stronger military power and her ruling class, both military and civilian, are thoroughly committed to a program of forceful expansion on the continent. Moreover, Japanese confidence and morale have been strengthened by the successes of her fellow-aggressors in Europe. But the United States, too, is far stronger than in 1918 and, which is even more important, Japan is today far more dependant upon American supplies for the continued functioning of her war industries. She no longer has alternative sources from which to secure sufficient quantities of iron and steel products, machine tools, oil, etc. In half a dozen key commodities Japan is dependant upon the United States for the greater portion of her imports.

There is every reason to believe that if Japan had been able to do so, she would have used the same sort of "blitzkrieg" tactics against China as Hitler used against Holland, Belgium and France. It is logical to conclude that Japan did not do so because she could not. This fact alone is a measure of Japan's weakness and of her vital dependence upon supplies she has been securing chiefly from the United States. Viewed in this light, the example of the 1918 embargo should provide a strong argument for the effectiveness of an embargo today. In 1918 the United States Government was not afraid to make its displeasure felt by measures which were easily understood by the militarists of Japan. Diplomatic protests were backed by economic pressure and the desired results achieved. Today

the issues at stake are of more vital importance to the United States, the weapons at hand of equal if not greater effectiveness. This bit of history should do much to encourage the American people to demand a repeat performance on the part of the United States.

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A BIT OF AMERICAN HISTORY—SUCCESSFUL

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As a result of Japan's overtures to General D. M. Horvath, the Russian commander in the Far East, it was definitely revealed that Japan was not interested in restoring Siberia but was interested only in that portion east of Lake Balkal which, once under her control, she would be able to hold indefinitely.

The United States did not relax her opposition to exclusive intervention by the Japanese, but finally agreed to a plan of joint intervention under which the United States and Japan were each to send 7,000 troops to Siberia. This announcement was made on August 3, 1918. A few days later it was tacitly agreed that Japan might send 12,000 troops instead of the original 7,000. The force dispatched by the United States totalled 7,649 fighting men and officers. With no further word of any kind to the United States, Japan proceeded, within the next few weeks, to send a force of 72,500 troops to Siberia. This was more than all the other forces of the Allied intervention, east and west, combined.

It was Japan's intention to do in Siberia at that time what she later did in Manchuria in 1931. It had been agreed that the army of the intervention should be under the supreme command of the Japanese, and they always saw to it that a Japanese officer of higher rank was present whenever any important action of any kind was either taken or contemplated. Every harbor and every river in Siberia was dominated by the Japanese. Every bridge and road was guarded by Japanese troops and every railway station flew the Japanese flag only. No one of any nationality, military or civilian, could come or go but the Japanese General Staff was informed, though the American and European staffs were never informed of Japanese movements. Nothing moved without Japanese permission.

The situation became so bad that the commanders of the troops of the Western nations made a formal protest, and on November 2, 1918, Secretary of State Lansing told Viscount Ishii, Ambassador to the United States, that Japan had gone too far. Japanese action had produced serious tension. President Wilson, disappointed and displeased with Japan's failure to observe the agreement, made the most vigorous diplomatic protest and authorized the strongest kind of economic pressure. On November 18, the War Trade Board issued an order stopping the further granting of all licenses for the export of cotton to Japan and the import of silk from that country. Outstanding licenses were not revoked, but would have been had this been found necessary. Iron and steel and their products were considered for such action, but as the feeling seemed to be that Japan would be able to obtain these products elsewhere, cotton and silk were chosen as the commodities that would make the embargo most practically effective.

At that time we were buying from Japan about fifteen million bales worth of silk and were selling that country roughly thirteen million dollars worth of cotton per month. This trade was vital to Japan's economy. The action taken by the United States, together with the effect of the collapse of Germany, brought an immediate favorable response from the Japanese. Over 50,000 troops were removed from Siberia by the end of December 1918. This was so gratifying to the United States that the granting of licenses was shortly restored. In fact, the response to the embargo had been so immediate that the only eventual effect on the trade statistics for cotton and silk was the reduction of silk imports by about one-third during the first three months of 1919.

In this incident we have a concrete example of the effectiveness of American economic pressure. This action resulted in the removal of over two-thirds of the troops Japan had sent to Siberia. The Washington Conference of 1922 continued the process begun in November 1918, with the result that the last Japanese troops left the Siberian mainland in October 1922.

The situation today is, of course, very different from that of the autumn of 1918. Japan is a far stronger military power and her ruling class, both military and civilian, are thoroughly committed to a program of forceful expansion on the continent. Moreover, Japanese confidence and morale have been strengthened by the successes of her fellow-aggressors in Europe. But the United States, too, is far stronger than in 1918 and, which is even more important, Japan is today far more dependent upon American supplies for the continued functioning of her war industries. She no longer has alternative sources from which to secure sufficient quantities of iron and steel products, machine tools, oil, etc. In half a dozen key commodities Japan is dependent upon the United States for the greater portion of her imports.

There is every reason to believe that if Japan had been able to do so, she would have used the same sort of "blitzkrieg" tactics against China as Hitler used against Holland, Belgium and France. It is logical to conclude that Japan did not do so because she could not. This fact alone is a measure of Japan's weakness and of her vital dependence upon supplies she has been securing chiefly from the United States. Viewed in this light, the example of the 1918 embargo should provide a strong argument for the effectiveness of an embargo today. In 1918 the United States Government was not afraid to make its displeasure felt by measures which were easily understood by the militarists of Japan. Diplomatic protests were backed by economic pressure and the desired results achieved. Today

the issues at stake are of more vital importance to the United States, the weapons at hand of equal if not greater effectiveness. This bit of history should do much to encourage the American people to demand a repeat performance on the part of the United States.

OCT 4 1940

My dear Mr. Secretary:

I attach herewith a summary of Netherlands purchasing activities in the United States as reflected by the records of the President's Liaison Committee. This summary contains the information which you requested of Mr. Philip Young concerning the status of Netherlands orders.

Concerning the newspaper articles which appeared recently in which it was stated that certain Netherlands contracts had been cancelled by United States manufacturers, I have been advised by the Liaison Committee that it has no knowledge of any such cancellations. In addition, the representatives of the Royal Netherlands Navy Purchasing Commission, the Royal Netherlands Arsenal, the Royal Netherlands Indies Ordnance Commission, and the Royal Netherlands Legation have stated that they have no knowledge of any cancellations of Netherlands contracts in the United States. However, certain purchasing activities for the account of the Netherlands have been carried on through independent brokers and agents and it is conceivable that some orders placed through these channels may have been cancelled. No contracts have been cancelled which have come to the attention of the Liaison Committee and received clearance from the interested departments of the United States Government.

Sincerely,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

Enc:

Summary of Netherlands purchasing activities, which is incorporated in report of President's Liaison Committee, from July 1 to October 1, 1940, which Secy. has.

Enc.
PI/jm

10/4/40

By Messenger 2 35

OCT 4 1940

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(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

Enc.
FI/jm

10/4/40

By Messenger

October 4, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Thompson
Mr. Cairns
Mr. Cochran
Mr. Young
Mr. Fehle
Mr. Bell
Mr. Haas
Mrs. Klotz
Mr. White

H.M.Jr: We seem to be very exclusive, don't we?

Bell: Yes. It is a nice week-end, I guess.

H.M.Jr: Norman?

Thompson: Marvin McIntyre called over and asked if he could get a job for Louis Howe's son.

H.M.Jr: No.

Thompson: He said the President was interested in him.

H.M.Jr: Why, he had one with the State Department.

Thompson: Yes, he was in the State Department in 1934. Later he has been a free-lance magazine writer.

H.M.Jr: Wait until the President of the United States asks me.

I remember the President years and years ago had this little place down on the beach which you could only get to at low tide, or rather Howe had it. You could drive down at high tide and you couldn't get there. The President went down there before he was Governor to spend a week with Louis Howe in this little cottage in the summer in Massachusetts. They could only get there, you see, at low tide. They

- 2 -

had a song, something about - yes, "It ain't gonna rain no more," and this boy used to sing that song and the President said to me, "You know, I came nearer committing murder than at any time in my life by murdering this boy because from the time I woke up until the time I went to sleep the boy would sing, 'It ain't gonna rain no more.'" He should have been murdered."

On that basis, I don't want him in the Treasury. I do say he was only 3 or 4 then, but the President said, "Oh, if I could only lay my hands on his throat." But he had all these things. You will remember those things.

Q: Till then, then.

A: Well, yes. He was working until 1934 or 1935, and that was it.

Q: And then he was in the Treasury?

A: Yes, he was in the Treasury. I don't know when he was in the Treasury.

Q: And then he was in the Treasury?

A: Yes, he was in the Treasury. I don't know when he was in the Treasury.

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- 3 -

compared with the 6, 3, so that would be 6, 5 and that is an increase of about a billion and a half.

H.M.Jr: Now, I don't get it, Dan. As of the last time that you raised it as his request - are we all right on that or is there going to be more?

Haas: Since then, Mr. Secretary, there have been two tax bills added on.

Bell: Mr. Pehle has prepared a letter to Mr. Bullitt and you can sign it or I can sign it. You can overrule me.

H.M.Jr: I can sign it.

Bell: He turned him down.

H.M.Jr: I don't see Merle's initials here.

Cochran: I offered to sign it, Mr. Secretary.

Bell: I think he ought to.

H.M.Jr: Okay, Merle, that is one for you. Marvelous.

White: If he doesn't have to disapprove any now for the rest of the year, he feels he has done his part.

Bell: There appeared in last night's paper a statement to the effect that the Processing Tax Board over here spent some \$800,000.

H.M.Jr: Yes, I just buzzed for Chick - where is Chick Schwarz?

Bell: He isn't here today, he is ill.

H.M.Jr: I had that on my list.

Bell: That fellow telephoned a few minutes ago.

H.M.Jr: Well now, what would be the best way to get this out, this statement?

- 4 -

Bell: Well, shouldn't we wait until the full written statement comes over?

H.M.Jr: Yes, and I will give it out for tomorrow morning's papers.

Bell: It was in last night's paper, although this says it is a Sunday story.

H.M.Jr: I would give it out for tomorrow morning's paper, but be sure to get it in. I would get it out --

Bell: A day ahead of time.

H.M.Jr: And let me have it for Cabinet.

Bell: All right.

H.M.Jr: Now, who got on top of that? How did you happen to get on top of that?

Bell: Shaeffer gave it to me.

H.M.Jr: Who is he?

Bell: He is one of Chick's men.

Here is a little statement on receipts and expenditures up to date. I don't know whether you want it for Cabinet. It shows that we have collected 22% of our anticipated revenue for the year and we spent until May, 19% of our anticipated expenditures, so that leaves 14%. It shows that we have financed out of revenue more of our debts in the first three months than we will in the next nine months, large debts.

The national defense expenditures, you notice the War Department has only spent 8% of its anticipated expenditures and the Navy has made 17% of its anticipated, or there is a total of 12%.

H.M.Jr: I might take that to Cabinet.

- 5 -

Bell: Here is a carbon copy.

H.M.Jr: Thank you.

Bell: That is all I have.

H.M.Jr: Who prepared that for you?

Bell: I prepared that myself last night.

H.M.Jr: Just interested?

Bell: Yes.

H.M.Jr: Good.

Bell: That ordinarily would be prepared by Heffelfinger.

H.M.Jr: Harry, if you will stay behind a minute, I want to talk to you.

White: Here is what you asked for.

H.M.Jr: What is this?

White: You asked for it.

H.M.Jr: Oh. Let me read this out loud. This is on the South American program?

White: Yes.

H.M.Jr: "It was with pleasure that I learned that my old friends Drew Pearson and Bob Allen were initiating a new radio program. Whatever their subject was going to be, it was bound to be interesting. It was with even greater pleasure that I learned the subject was 'Knowing Our Neighbors'. At a time when the American people are becoming preoccupied with the problems of national defense, it is important to remember that the more friends a country has, the stronger it is. This Administration has made good neighborliness the motto of its program in the Western Hemisphere. Accordingly, we have fostered and are fostering closer political and economic relations with our Latin American

- 6 -

neighbors. Good neighborliness also involves a decent respect for the people next door, respect for their way of living, their rights, their opinions. And the basis of respect is knowledge. Therefore I welcome all efforts to promote interchange of culture, to increase our knowledge of our friends and neighbors and their knowledge of the United States. The founders of this new program are to be congratulated for their patriotic efforts to give the American people a better knowledge of the other republics of the Western Hemisphere."

It is all right, but just use half as many words. Who gets it to them?

White: You want to cut it in half?

H.M.Jr: I would cut it in half. Can you get it to them?

White: Yes.

H.M.Jr: See it through. Cut it in half.

White: And I will send it in.

H.M.Jr: Yes, and let Mrs. Klotz have a copy of it, but cut it in half. I think you could cut it down. You could cut it down to 100 words.

White: Yes.

Bell: By the way, you had a request from the White House for a statement not later than tomorrow on the anniversary of that colored bank.

H.M.Jr: That is in your lap.

Bell: I will have that before you go to Cabinet.

H.M.Jr: Just see it through.

Bell: I expect maybe you ought to talk to the President, because he is liable to say something about this bank and it is a pretty rotten bank.

H.M.Jr: Okay.

- 7 -

Bell: If he wants to laud the colored race, that is one thing, but not the bank.

H.M.Jr: In other words, you are drawing the color line?

Bell: No, the banking line. I have a draft in there.

H.M.Jr: Okay.

Bell: It is a little flowery at the moment.

H.M.Jr: Okay, water it down.

White: Yesterday afternoon Mr. Purvis was in Mr. Young's office and called me about this iron and steel scrap. Do you know about it?

H.M.Jr: I only know that I told him to see Jesse Jones.

White: Yes. Well, there are some developments since then.

H.M.Jr: Go ahead.

White: Jesse Jones called Mr. Elliott, who is Mr. Purvis' assistant.

H.M.Jr: He does the steel buying.

White: And two questions were raised which will have to be answered and today is the last day. One, in order for the RFC to offer to acquire these materials, iron and steel will have to be declared by the President to be a critical material. He has that power and he can do so. We can have the things prepared if you want to do that.

Secondly, apparently the price, delivered, according to Jones, is going to be \$5.00 more than they can buy it here. He wants to know, will the British accept the loss, will they make good the loss. He indicated they might participate, but that is the status.

H.M.Jr: Well, Harry, do the best you can about it. It is rather hopeless.

- 8 -

White: Then supposing I throw it back into Henderson's lap and let him follow it through.

H.M.Jr: That is right, because after all it is silly. We are letting them take everything they want out of Baltimore and other places and why get worried about 150,000 tons down in Mexico?

White: All right.

H.M.Jr: What else?

White: That is is all.

Oh, Mr. Collado called up to say that agenda which you sent over had apparently been passed to Welles. Welles gave it to him with the instructions, I gather, that that appeared to be a matter for Treasury decision, since it was Treasury discussions, and it was a matter for Secretary Morgenthau's approval. I asked him whether he wouldn't send me something in writing.

H.M.Jr: Well, which one? I mean, there are so many things happened.

White: That is that Argentine agenda.

H.M.Jr: That hasn't gone forward yet?

White: No.

Bell: There is some indication that their trip was delayed, isn't there?

White: Yes.

Bell: United Press has got hold of the story. They called me last night and I told them I didn't know anything about it.

White: I think action can be postponed until I get something in writing.

Bell: They went to the State Department and the State Department referred them to the Treasury.

- 9 -

H.M.Jr: It is the old Army game.

Bell: Well, unfortunately I referred them back before they told me that.

H.M.Jr: All right. Anything else, gents?

White: No.

H.M.Jr: George?

Haas: You might want to take a look at this British report.

H.M.Jr: George, that confuses me.

Haas: Does it?

H.M.Jr: When I study that, why don't I get all of that?

Haas: Because this is more detailed, but if it confuses you --

H.M.Jr: Well, let me ask you this. In this last report it showed to our amazement, and also Purvis', that they have got over 700 engines, but 100 of them were classified as miscellaneous. Does that show what the miscellaneous was?

Haas: I will see.

H.M.Jr: There were over 100.

Haas: Delivered?

H.M.Jr: Yes, in the last two weeks.

Haas: These are all classified.

H.M.Jr: They are?

Haas: Yes.

H.M.Jr: Well, unless something comes up --

Haas: Well, the only thing here, Mr. Secretary, that I thought might be of interest to you, is this:

- 10 -

There is a cumulative total carried forward each week which shows the total amount of planes and engines which are in, which the Allies have received, and the planes are classified by bombers, pursuits, and so on.

H.M.Jr: Let me see it.

Haas:which is not in that other report.

H.M.Jr: Here it shows the total deliveries to date to the Allies, 3,000. There are that many bombers and that many pursuits and that many trainers. How many of those went to France?

Haas: That is what we are going to take out next week.

H.M.Jr: It is no good, then.

Haas: Well, the first time we did the cumulative total. I am taking the France one next week.

H.M.Jr: Get what went to England.

Haas: Yes, I am going to do that next week.

H.M.Jr: And also what goes to Canada. Break it down to Canada and Australia and so forth, will you?

Haas: All right. There is also a sheet in here, Mr. Secretary, showing the second hand deliveries, all in one place.

H.M.Jr: I will look at it next week.

I have got a call from Patterson. Should I know anything before I take it?

Young: There is nothing new so far as I know.

H.M.Jr: Was he in touch with you last night?

Young: No, I didn't hear anything from him.

H.M.Jr: Anything you want to tell me?

Young: No.

- 11 -

Cairns: Are you satisfied with the memorandum on the French paintings?

H.M.Jr: I haven't read it. I will have to read it over the week-end. I just couldn't get to it.

Cairns: I think the vessel arrives tomorrow.

H.M.Jr: Foley told me verbally what the situation was and his description seemed all right to me, but what I suggest is that you and - when do you have another committee meeting?

Pehle: This afternoon.

H.M.Jr: Well, bring it up at the committee meeting. Do you sit in on it, Huntington?

Cairns: No, I don't.

H.M.Jr: You had better sit in on it and have a discussion and if there is any argument, you can call me up on the phone.

(Telephone conversation with Mr. Patterson follows:)

October 4, 1940
9:51 a.m.

H.M.Jr: Hello.

Operator: Judge Patterson.

H.M.Jr: Hello.

Robert
Patterson: Henry, Bob. On that Republic deal, Arnold says - or Brett says that they want to go up there and see those planes in order to figure out what is the equivalent, and they say they can do that within 24 hours - they'll give me the answer.

H.M.Jr: Well, that sounds intelligent.

P: I think so. They said they're not familiar with the plane and they want to send a man up and fly one

H.M.Jr: Well, you heard what they said about - something about its stalling, but they have a way of overcoming that.

P: Yes, I heard them say that. I'll pass that on to Arnold. I hadn't passed it on to him - I will.

H.M.Jr: You remember, they said there was some way that possibly if he was going up the English Purchasing Mission could have somebody over there to explain how they've overcome that - how would that be?

P: Yeah. Fine. Shall I ask Young to do that?

H.M.Jr: I'll tell Young.

P: Fine.

H.M.Jr: I'll tell Young - do you know when Arnold will be up there?

P: He's going to send a man right up now.

H.M.Jr: Right up now.

- 2 -

P: Yeah.

H.M.Jr: Well, I tell you what I think I'll do, I'll have them write out a memorandum describing how to correct that stalling and get it into your hands and then you can do what you want with it. How's that?

P: That's fine.

H.M.Jr: I'll tell Phil to have them write it out.

P: Fine. I'll tell Arnold to send him man up if you'll tell our friends over there that we'll give them the answer tomorrow instead of today.

H.M.Jr: Good. Let me ask you a question. You land at that field back of Newburgh don't you?

P: Yes.

H.M.Jr: Is that a pretty good field?

P: Yes.

H.M.Jr: I mean, is it - the ground hard?

P: Yes, perfectly good.

H.M.Jr: Because I've been landing at New Hackensack but the change in time - I'm afraid it's going to be too dark tonight.

P: How much further is that?

H.M.Jr: What - New Hackensack?

P: Yeah.

H.M.Jr: Oh, I suppose, as the crow flies, it's 10 miles further, but there are trees there and my man is afraid of those trees up there.

P: No, the Newburgh Field is good.

H.M.Jr: It's good.

P: It's a regular West Point field you know.

H.M.Jr: I see.

P: Military field - Stewart Field it's called.

H.M.Jr: Right.

P: Well, it's a good field. They're extending it now - it's not a very large one but it's plenty large enough.

H.M.Jr: Well, it has no trees - that's the point.

P: No, it's all right.

H.M.Jr: Well, whenever you hear - if I'm not here, would you either call Philip Young or me and let me know what the answer is on this?

P: Yes, I'll do that tomorrow without fail.

H.M.Jr: Thank you so much.

P: Fine. Good-bye.

- 12 -

H.M.Jr: I think they ought to write that thing out and feed it into his hands right away, Phil.

Young: Yes, sir.

H.M.Jr: Otherwise, they will go up there and they - you know. Do you suppose the British Purchasing Commission might be able to get a thing like that out this morning?

Young: I can urge them.

H.M.Jr: Apply a little heat, if they want the thing to go through. I would do it as soon as you get out of here.

Young: I think we probably ought to call Republic, too.

H.M.Jr: Will you handle it from now on?

Young: Yes.

H.M.Jr: If you could attend this meeting this afternoon and submit your memorandum to the group, Huntington, you see, and if there isn't satisfaction then, complete satisfaction with the group, you can call me up tonight.

Cairns: If there is, we will go ahead.

H.M.Jr: If there is, you go ahead. From what Foley told me about the legislation and everything else, that sounded all right; but if it is all right - I mean, I don't like to be called unless it is really terribly important.

Cairns: We have word from a purportedly reliable source that there are eight French vessels at New Orleans.

H.M.Jr: I have got that.

Cairns: The last thing is, I spent the evening with Morris Cohen, and he asked me to tell you that he had seen your son in Cleveland, who attended a lecture on the meaning of history that Morris delivered,

- 13 -

that he was in good health, good spirits, and very bright, since he understood his lecture.

H.M.Jr: Thank you.

White: How could he tell?

Cairns: He talked to him afterward.

White: I see.

H.M.Jr: What else?

Cairns: That is all I have.

H.M.Jr: John?

Pehle: Nothing.

Cochran: We have these two notes from the State Department yesterday giving copies of communications to the French Ambassador. Did you see those last night?

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

Cochran: Well, it just summarized --

H.M.Jr: I made a very complete analytical study of the movie called "Strike Up The Band."

Cochran: Anyway, these are just a repeat.

H.M.Jr: I recommend you all study it. It is a grand show. There is no plot, nothing, but just very good amusement, my idea of what a movie should be.

Cochran: There is nothing new in there. It just repeated those requests. I asked the State Department if they had anything more for us before this morning's meeting to let us have. They have nothing at the moment.

H.M.Jr: You are going to be here?

Cochran: Yes.

- 14 -

H.M.Jr: Bell, I think you had better be here at this 10:15 meeting, you see. This fellow was going to see you afterward, wasn't he?

Bell: See me at 12:00, I think.

H.M.Jr: You might as well be here.

Cochran: The only other thing I had, in that envelope were two letters on that Greenbaum matter.

H.M.Jr: In the envelope?

Cochran: Yes, sir.

H.M.Jr: Well, it takes a long time, you know, to study that picture.

Well now, if she writes this letter to this Consul at Montreal, will the thing be all right, do you think?

Cochran: Yes, sir.

H.M.Jr: Does he --

Cochran: I have written him a letter there which is appended.

H.M.Jr: This is grand. That is very prompt.

Cochran: She was afraid she would have to go to some foreign land, but she can get the shortcut through Montreal.

H.M.Jr: Through Montreal? This woman is the leading cellist in the world. What is her nationality?

Cochran: She is Russian. She can't get any papers now.

H.M.Jr: I see.

Klotz: She can't even identify where she was born and when she was born.

H.M.Jr: And you are writing the letter and you are sending

- 15 -

a copy of that letter - well, that is grand. They say she is perfectly marvelous. That is very nice. Much obliged. It is so seldom Eddie Greenbaum asks anything and we ask so much of him.

Incidentally, I don't know how much of a secret this is, but he offered his services to Patterson and Patterson has commissioned him a Lieutenant Colonel. He is going to work on contracts and just as soon as he is there, I thought you might tell Cox and Philip Young if we could have a man like Greenbaum over there doing contracts, we will work with him direct. I told that to Patterson. Stimson says, "Ah ha, a Morgenthau spy in my office!" so I said, "Well, if he is, he is a damn good one," but having him over there working on the contracts will be perfectly swell. Tell Cox about it, will you?

Cairns: Yes, I will.

H.M.Jr: And anything, you know - I mean, if you want something, he is there.

Young: How soon? I've got one coming up.

H.M.Jr: He may be there today, I don't know, but I would tell you - well, I think I would let him get his uniform on at first. Which one have you got?

Young: A new one coming up on machine guns.

H.M.Jr: If he is calling you (Klotz) and if he has been sworn in, let Philip Young know, but I would wait until he takes his oath. All right.

October 4, 1940.

Dear Jesse:

I have read your suggested message to our Embassy at Buenos Aires in connection with additional financial assistance to Argentina and feel that it is an eminently satisfactory way of handling the situation.

I appreciate very much your cooperation and good will in this matter.

Sincerely,

Henry

Honorable Jesse Jones,
Administrator,
Federal Loan Agency,
Washington, D. C.

By Messenger 2 35

October 4, 1940.

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Administrator,
Federal Loan Agency,
Washington, D. C.

By Messenger



THE SECRETARY OF COMMERCE
WASHINGTON

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9
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October 3, 1940

Dear Henry:

Enclosed is a draft which I suggested to Sumner Welles that he send to the Embassy at Buenos Aires in connection with additional financial assistance to Argentina. Mr. Welles said he would send the cable today.

Sincerely,

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

RECEIVED
OCT 10 1940
U.S. DEPT. OF COMMERCE
WASHINGTON

DRAFT

Inasmuch as Dr. Prepitsch and Dr. Grumbach are coming to Washington to confer with the Secretary of the Treasury, it seems advisable that any loans by the bank should be considered in connection with whatever discussions may be had with the Secretary of the Treasury. The directors of the bank agree that assistance should be given, but it would be more satisfactory to consider the entire matter with Dr. Prepitsch and Dr. Grumbach in Washington.

October 4, 1940

My dear Mr. Grane:

I am writing to acknowledge receipt of your letter of September 28th with the inclosed memorandum on Argentine exchange, which was promptly given to the Secretary for his consideration.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz
Private Secretary

Mr. J. E. Grane,
30 Rockefeller Plaza,
New York, N. Y.

October 4, 1940

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30 Rockefeller Plaza,
New York, N. Y.

30 ROCKEFELLER PLAZA
NEW YORK

J. E. CRANE

37

White
n 6
E-1147

September 28, 1940

Dear Mrs. Klotz,

Will you be kind enough to give the enclosed memorandum to the Secretary. He suggested last night on the telephone that I should send it to you so that it would go directly into his hands.

Thanking you, I am

Faithfully yours,

J. E. Crane

encl.

September 28, 1940

Memorandum for Secretary MorgenthauArgentine Exchange

About the middle of June we received word from our people in Buenos Aires that the Exchange Control Board had placed in suspense exchange permits for the remittance of dollars to New York in payment of four cargoes which were then enroute to the Argentine. The authorities advised our representatives that there was a serious shortage of dollars and subsequently proposed that we should take payment 50% in dollars and 50% in sterling. We were also advised that Shell had accepted the Government's proposal for payment on that basis. Prior to the war Shell was paid in sterling, which was then a free currency, but after war began Shell arranged to get 75% in dollars and 25% in sterling. Subsequently this proportion was changed, as indicated above, to 50-50.

We explained to our people in Buenos Aires that we had no use for sterling and could not accept it in payment of supplies. As an alternative, we authorized them to propose to the Government prompt payment of 50% in dollars and the balance in dollars in six months with the proviso that we receive the definite obligation of the Argentine Government in the form of notes to pay dollars at the end of six months. We also indicated that in order to secure full dollar payment we would be willing to extend credit over a longer period of time.

Owing to the disturbed political situation in the Argentine, we heard nothing further about the matter until the middle of this month when the newly appointed Minister of Finance, Dr. Pinedo, advised our representative that it would be impossible for the Government to accept any future obligations for delayed dollar exchange in the form of notes and that the only possible solution of our exchange situation would be 50% in dollars and 50% in sterling.

At the end of August there was owing to us from the Argentine about \$2,500,000 representing c.i.f. cost of oil supplies from the U.S., Aruba, Venezuela, Peru and Colombia delivered to our subsidiaries and customers in Argentina but not paid for. By the end of the year it is estimated that this unpaid indebtedness will be increased by almost \$5,750,000 or an aggregate of \$8,250,000.

J.E.C.
S.O.Co.
N.J.

October 4, 1940
10:07 a.m.

H.M.Jr: Hello.

Operator: Stimson.

Secretary
Stimson: Hello.

H.M.Jr: Hello. Henry talking.

S: Yes. I just wanted to say first that I think that paper that you sent me last night, which I got up at 6 o'clock this morning so as to get a chance to read it before getting into the whirl here, is a magnificent state paper.

H.M.Jr: You mean the one from Walter Layton.

S: Yes.

H.M.Jr: It's a good paper, isn't it?

S: It's a very good paper. It's the first time they've presented the whole sheet and I'm making my vital people read it.

H.M.Jr: Good. I'm delighted.

S: And Patterson has it now and Palmer went through it and I'm going down to the military

H.M.Jr: Well, I'm glad. I thought it was important so I sent it over to you immediately as soon as I got it.

S: This isn't your only copy is it? No, it's a mimeographed copy.

H.M.Jr: No. Do you want some more copies?

S: It would help.

H.M.Jr: How many would you like to have?

S: One or two more

- 2 -

H.M.Jr: Three copies.

S: Three copies would help.

H.M.Jr: I'll send them over by messenger.

S: All right. Now, one further thing. I, myself, have dug up something that is useful. It's helpful in regard to that little matter - I sent you a short memorandum I had made myself just from memory on the Japanese.

H.M.Jr: Yes.

S: I took the precaution to look up the corroborations on that earlier embargo and I've got them now.

H.M.Jr: Oh.

S: And it was very effective. I was just writing from memory then and I was right in substance but the figures make it even more

H.M.Jr: Well, if you have it if you want to give it to

S: I'm having it mimeographed. I had to get it from the State Department - (laughs) - and there's just one copy there in their own papers - their records. I went through my set yesterday that I had up at the house on foreign affairs and that's so badly indexed for such a thing as that that it is impossible for me to find it.

H.M.Jr: I see.

S: It was an embargo put on by the War Trade Board. They put it on cotton exports and on silk imports.....

H.M.Jr: Well, isn't that interesting.

S: and the Japs had sent 72,000 men into Siberia where they had been allotted 7,000 and they had started right on for Lake Baikal

- 3 -

to realize their long - old ambition of occupying Siberia, you know, up that far, and this embargo was put on in the summer of 1918 and by December those troops were out.

H.M.Jr: Well, I'm tremendously interested.

S: They had been very arrogant before; this brought them around just like that.

H.M.Jr: Well, that's very interesting. Well, you'll be interested to know that Mr. Hull called the President twice on Wednesday and Thursday asking him please to tell me to release that ship with that 50,000 barrels of 86.9 octane gas.

S: I hope you haven't.

H.M.Jr: Yes, I did.

S: You did, eh.

H.M.Jr: Well, the Commander-in-Chief instructed me to do it.

S: Oh, hell! That went to Japan, did it?

H.M.Jr: Oh, yeah.

S: What was the octane?

H.M.Jr: Well, just under 87 - 86 and a fraction.

S: How in thunder do we ever expect to get on
Does the embargo on
scrap still hold? I mean, it doesn't take
effect until the 16th.

H.M.Jr: That's right.

S: Have you heard anything about them going down below - to 67 on the octane?

H.M.Jr: No, they won't do that. They won't do it until - Hull isn't going to do anything until the Japanese have concluded their negotiations in the Dutch East Indies. See?

S: Oh, that's so short-sighted. They'll string that out ad infinitum.

H.M.Jr: I know. I know.

S: Well, now, look here. Frank Knox is solid on all of this. I've sent a memorandum on the same thing to him. He came around here to see me and I gave it to him and he read it and he said I'm for that every word.

H.M.Jr: Well, he hasn't backed me up on this gasoline business.

S: Knox.

H.M.Jr: No, he has not.

S: How did it come up between you?

H.M.Jr: Well, I mean, several times he's dropped this remark that his Admirals tell him we're not ready.

OK, I know that and that's a very serious question, but I found day before yesterday that he was knocking the heads of all of them and even much more drastic stuff than embargoes.

Well, then you've been doing some good spare work out it hasn't got to do yet.

But of course I know that's Richardson. He came all the way out here to relief hell on that point. It's nothing to what I have here.

Well, that must be something new because the last time I saw him he was very rigid about doing anything.

Well, I was surprised. I was afraid he would be. I've asked for the interview. He came around and he was telling him a lot.

Wonderful.

But I don't know. I don't know.

I haven't talked to him in two weeks.

- 5 -

S: Well, I hadn't talked to him since he went away, but the embargo is perfectly absurd because that's just the one thing that they won't go to war on.

H.M.Jr: Well, the only thing we can do is to keep digging and maybe we'll get some

S: Well, is there anything I can do with the President?

H.M.Jr: I don't think so. I went pretty far the other day and when I called up Hull, Hull told me he called the President twice to get him to instruct me to let this ship go and Hull is absolutely adamant on this thing. But let's see how the conversation goes at Cabinet, we may get in a couple of licks there.

S: Well, of course, it's very hard because that's the worst place to do it.

H.M.Jr: I know. It's the only place and time I get a chance.

S: Yes, it's about all that I get a chance.

H.M.Jr: Well, thank you.

S: All right.

H.M.Jr: Thank you.

October 4, 1940
10:15 a.m.

Present: French Ambassador
Mr. Alphand
Mr. Bell
Mr. Cochran

Ambassador: I was very anxious to meet you, sir, as I have heard so much about you. I might add, as I just said to Mr. Cochran, I am very much interested to see you. You may imagine for what reason.

Mr. Alphand saw you about the difficulty we have, and I spoke about these difficulties to Mr. Cordell Hull, Mr. Sumner Welles, and to the President the last time I saw him, and the President understood that the situation was all settled about the funds that we need for our diplomatic service in Central America, South America, and Europe.

HM Jr: Settled which way?

Ambassador: According to our wishes - according to the desire we have expressed to you, Mr. Secretary.

(At this point Mr. Bell joined the meeting.)

HM Jr: I want Mr. Bell to hear this last statement.

Ambassador: I was telling Mr. Secretary that I understood after a conversation I had with President Roosevelt three days ago that the viewpoint expressed by Mr. Alphand about the need of funds for the service of our diplomats in Central America, South America, and service of Europe was settled according to the wishes expressed by Mr. Alphand to Mr. Secretary Morgenthau. As a matter of fact, the President himself, we were speaking about other subjects, said, "It is all fixed about your diplomatic service." I said, "No, Mr. President, I have not been informed of the fact and, as a matter of fact, we are now in need of these funds for these services because our posts in Central America and South America are clamoring for funds," but not mentioning the services of Europe.

- 2 -

HM Jr: Well, Mr. Ambassador, I never was a diplomat and I never will be a diplomat but I will tell you what the facts are. Of course, they may have changed and the President may have given other instructions, but I will tell you what our instructions are. My instructions were, and this was taken up at Cabinet . . . Two weeks ago?

Cochran: Two weeks ago. Yes, sir.

HM Jr: . . . that the money for your diplomatic work in the United States should go forward on a monthly basis. For Central and South America, that matter was placed in the hands of the Secretary of State, and he was to advise me when it was his opinion that we should or should not do anything. And from that day to this, I have not heard a word, not one single word.

Ambassador: Well, Mr. Secretary, when you said you were not a diplomat, I am no diplomat at all and I don't think I will become one because I like too much direct language. And when I mentioned the fact to Mr. Cordell Hull his answer was not as precise as the one I got from the President three days ago, and I mentioned the fact to Mr. Sumner Welles and to Berle about the diplomatic service and about also the second part of our plan, the war prisoners, funds necessary to buy meat for the war prisoners. But about the diplomatic service, as I said to Mr. Cordell Hull, we do understand the measures that you have taken and we thank you for it because we don't want to have this money collected by the Germans in a direct way or in an indirect way, but as far as the diplomatic services are concerned than the question would be put up - are we able to use the services as a nation or don't you consider us any more as a nation?

HM Jr: What did he answer? Have you seen him since you saw the President?

Ambassador: Mr. Cordell Hull - no, I did not see him again. I saw him when I called to present my credentials. And so you see we would just like to know . . .

- 3 -

HM Jr: Where you stand.

Ambassador: . . . on what foot we stand.

HM Jr: So would I.

Ambassador: Because I have to report to my government, and, despite our disaster, we intend to have and to keep the national spirit and to go as far as we can, and if we have not a possibility of paying our diplomatic service, we have got to know the decision of the American Government.

HM Jr: Immediately on your leaving here, I am going to ask Mr. Cochran to go over to see Mr. Hull and tell him of this conversation at once.

Ambassador: If you please, Mr. Secretary.

HM Jr: Just as soon as we get through here, because I told Mr. Alphand that this was a diplomatic matter and as soon as I get any instructions I would act, and I have had no instructions of any kind. None. And this matter of the, roughly, one and a half million dollars, which matter is also not in my hands. I did clear the three and a half million or the \$3,750,000 transfer of your funds to the Central Bank of Argentina to pay for certain purchases which your government made. That was cleared. We cleared it about a week or ten days ago, and then there was some delay, but it was cleared.

Cochran: Yes, sir. Cleared last week.

HM Jr: The matter of your diplomatic services in Central America and South America and Europe - none of those are in my hands.

Ambassador: Up to Mr. Cordell Hull to decide?

- 4 -

HM Jr: Absolutely. And just as soon as you leave, Mr. Cochran, who is a diplomatic officer as you know on leave, will go to Mr. Hull's office, tell him what has transpired here, and ask him please to advise me what the foreign policy is in this matter. I am not a foreign policy man. We have the mechanics, the machinery, and if Mr. Hull will say yes or no to me, within 30 seconds we will carry it out.

Ambassador: That's very precise.

HM Jr: Within 30 seconds. But there is absolutely - it is two weeks from today.

Cochran: I gave you that memorandum summarizing it on the 27th.

HM Jr: It was two weeks ago today that the matter was put in Mr. Cordell Hull's lap, and from that day to this, I have had no advice from him.

Ambassador: I am going to use the American expression. It is very uncomfortable for us to have the sensation that we are just passing the bucks organization. The French Administration is very strong on that.

HM Jr: My reputation with your government has been such that I think you know when I tell you something it is 100% so.

Ambassador: Yes.

HM Jr: I am very careful in my statements, so just as soon as you leave Mr. Cochran will go across the street and find out. I am sorry but I don't happen to be at fault.

Ambassador: Well, Mr. Morgenthau, I know you for a long time by reputation, and I was afraid to see you because you have the reputation of being a man very strong about your decision. I just wanted to know what decision is taken because I can't . . .

- 5 -

HM Jr: Mr. Ambassador, the minute the decision is made it will happen like that (snaps fingers).

Ambassador: All right. It is yes or no.

HM Jr: If he will tell me yes or no, and I am not passing the buck, and I can't do any more than that when the President tells the Secretary of State that it is a matter he should advise me on. I realize perfectly, to use another expression, they are giving you what looks like a run around, if you know that expression.

Ambassador: Yes.

HM Jr: But I am very sorry.

Ambassador: I spoke to Mr. Cordell Hull and also to Mr. President about the political side. If the Administration of the United States does not consider the French Government as it is as commanding a nation which likes to survive and make all efforts to keep the French spirit against all ends, or you do not consider it that way, that is what I should like to know and especially about this amount . . .

HM Jr: If I can get you an answer today - I will try to get you an answer today.

Ambassador: About the two points, diplomatic service and prisoners.

Alphand: Red Cross.

Ambassador: I understand the war prisoners are dying every day from lack of care, a very serious proposition.

HM Jr: I filed a memorandum on the whole question one week ago today and asked for advice. One week ago today I asked on money for meats. Two weeks ago I asked to be advised on the other matter. I have been advised on neither.

- 6 -

Cochran: You had me send a copy of the memorandum to Mr. Hull.

HM Jr: Yes, but I have been advised on neither. But we move very promptly here and, as I say, we filed on the meat thing a memorandum one week ago, and two weeks ago we filed a memorandum on Central and South American funds.

Ambassador: I am going to see - I have an appointment to see Mr. Sumner Welles at four o'clock, and maybe Mr. Welles will be able to tell me what the decision of the Department is.

HM Jr: You have to take my word for it - the decision is theirs.

Ambassador: I understand it perfectly, but three days ago President Roosevelt, with a very nice conversation and smile, said, "Well, I am glad to see that your problems are solved." I said, "Well, Mr. President, I am still waiting for a decision."

HM Jr: Maybe we will get you a yes or no today.

Ambassador: Well, I do hope so.

HM Jr: I will bring it immediately to Mr. Hull's attention.

Ambassador: There is another item. This is not as important as the two others. The French Navy has inquired of the Netherlands Attache here to have the possibility of keeping the crew of all the boats now being in Alexandria, with the British in Alexandria, and they need large sums, to me a very important sum, \$100,000 a month for this crew of one - two - five - seven - nine boats.

HM Jr: Could you give something to Merle Cochran more formal?

Alphand: Yes.

- 7 -

Bell: Has the application been filed?

Alphand: No, no.

HM Jr: If you will give Merle Cochran something formal, we will do the same thing.

Ambassador: But this is not as important as the other two.

HM Jr: I understand. We will ask on all three. We wouldn't pass on that either.

Ambassador: But you will understand, Mr. Secretary, I want to find out whether your government does consider us - it is a matter of principle, of sovereignty. About the funds being kept here, I told Cordell Hull and Welles we were very glad you took this measure to protect us against our own selves, but the normal function of the French Government, I would like to have fixed. Thank you very much for your very cordial greeting.

HM Jr: I hope you get an answer one way or the other.

(The Ambassador and Mr. Alphand left the Secretary's office, and HM Jr spoke on the telephone to Mr. Cordell Hull. Copy of their conversation is attached hereto.)

October 4, 1940
10:34 a.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Hello.

Cordell
Hull: Hello.

H.M.Jr: Cordell.

H: Good morning, Henry.

H.M.Jr: How are you?

H: All right.

H.M.Jr: Do you want a good laugh?

H: Well, I haven't had any lately.

H.M.Jr: Well, the French Ambassador and the Financial Attache just left here, and he said he saw the President three days ago and the President seemed very much surprised that he hadn't gotten the money to run his Embassies and Consulates in Central and South America and Europe and that he hadn't also been given the money to buy \$1½ million worth of beef in the Argentine for the prisoners of war in Germany.

H: Yeah.

H.M.Jr: So I told him that two weeks ago the matter had been placed in your hands - I didn't tell him that there was to be a deal on in the Martinique, you know, and that one week ago I filed a memorandum on this Argentinian beef.

H: Yeah.

H.M.Jr: He said, well, the President said with a smile, he said it was all settled three days ago. So I told him, I said, well, this was a matter of foreign policy and until you people advised me that we were going to sit tight.

Well, he couldn't understand how the President could tell him this. So he seems - he has an appointment with Sumner Welles at 4, and I just wanted to let you know that I told him that I was waiting to hear from you.

H: Yes.

H.M.Jr: Maybe you know that the President told him this and maybe the President did tell him.

H: I didn't know a thing about it. You see, this Ambassador goes to everybody from the doorkeeper here to the President and I told my fellows the other day not to make any appointment for him except with some coordination. I said this is absurd for him to be talking to everybody and it's all right to talk to the President or whoever should be talked to but not to just everybody without anybody else knowing about it.

H.M.Jr: Well, would you do me a favor because I, at the moment, seem to be the goat as usual, bring it up at Cabinet and let's see where - just what the President did or didn't tell him?

H: Yes, I'll be glad to.

H.M.Jr: Because it's really quite embarrassing to me to have him told that I'm to do this thing
.....

H: Yes, I'll be glad to.

H.M.Jr: Well, it would be helpful to me if you would. Because I'm not going to move until you tell me, Henry, that

H: Well, I think that the French are playing the German game 100% over there at Vichy and I'm not concerned about helping them do it.

H.M.Jr: Right. Well, I'm not going to move until I get word from you.

H: All right, Henry. Thank you very much.

October 4, 1940
10:57 a.m.

H.M.Jr: Hello.

Bill
Bullitt: Hello.

H.M.Jr: Hello, Bill.

B: Hello, Henry.

H.M.Jr: How are you?

B: Fine. I got a shock from you this morning.

H.M.Jr: A shock?

B: Yeah. Did you know it? You probably signed it without looking at it and I'd like to tell you what it was.

H.M.Jr: No, I know I signed it. We discussed it at great length.

B: Well, do you know what it was for?

H.M.Jr: Yeah.

B: The legal expenses of certain gentlemen.

H.M.Jr: We can't do it, Bill.

B: Why not?

H.M.Jr: Because it's - we're turning those things down every single day.

B: You mean for a thing like that?

H.M.Jr: Absolutely.

B: Well, can somebody over there tell me how it can be done?

H.M.Jr: I'll be glad to have Mr. Pehle, who is in charge, call on you and explain the whole thing to you personally.

- 2 -

B: Yeah, but Henry, what I mean is this. Here's the simple facts. I got a telegram from Vichy stating that this chap who is here was in desperate need of funds for the preparation of his defense.

H.M.Jr: I know.

B: Now he was over here and, as you know, when the President saw him the President said, well, if you go back and do this thing you can count on our Embassy and everything else. Well, I wanted to send him personally to our Embassy there for the use in supporting his case there \$5,000 of my own cash.

H.M.Jr: Well, when Offie called Mrs. Klotz, I knowing it was for you - I personally handled it and if there were anyway of doing it, I would have done it.

B: Well, I understand that, Henry, that's why it surprised me so much. I didn't know that you had handled it personally, I mean, I knew you would do it if you could.

H.M.Jr: No, I handled it. When we got that call from Offie, I handled it personally and it, it was just break down - well, we'd have to let thousands of other applications go also and we just don't let money go.

B: Well, you mean even if it's to the Embassy to handle in a matter of that kind?

H.M.Jr: To the Embassy?

B: Yes, I wanted to send it to the Embassy. That was my request. It wasn't to send it to that person at all. My request was this. When I got this telegram from the Embassy from Matthews in Vichy, I telegraphed back immediately and said, "Please make available from your personal funds any amount of money that is needed up to \$5,000 and I will reimburse you." You see? Well, now he doesn't happen to have personal funds there and therefore I asked I asked him to - and

- 3 -

therefore he telegraphed back and he said he wanted - whatever this kind of draft is, so I was told that the proper way to get that to him was to ask for a permit. But this money is to go to Freeman Matthews, Chargé d'Affaires of the United States in Vichy - that's to whom it is to go - it's not to go to any Frenchman. It's from me to him, but that's the purpose of it. I'm not trying to do something behind anybody's back.

H.M.Jr: Well, you wouldn't.

B: Yeah.

H.M.Jr: No, I - that wasn't made clear.

B: That was not made clear.

H.M.Jr: No, it was not. I thought it was going directly to de la Chambre.

B: Oh, not at all. It's to go to Freeman Matthews, Chargé d'Affaires of the United States from me and after all I'm - that seems to me perfectly legitimate and to put it out of the category entirely of sending funds direct to a Frenchman.

H.M.Jr: It was not made clear, Bill.

B: Well, that's fine. I'm glad of it.

H.M.Jr: I'm going to send for Pehle within the hour and I'll talk to him again.

B: It may be that the papers have been drawn up in the wrong manner, but so far as I noticed when I signed them - I signed all those applications, you see, they were drawn up - it's from me to the Chargé d'Affaires. See? Well, Henry, you just get him, I don't want to bother you about it

H.M.Jr: Now, wait a minute.

B: but I feel terribly strongly about it. The man is one of the finest persons in the world and I don't want to see him railroaded.

- 4 -

H.M.Jr: Well, now, while I've got you on the phone let me tell you what's happened here this morning. I'll personally send for Pehle within the hour.

B: Thank you very much.

H.M.Jr: The French Ambassador came in here today and told me he saw the President and the President told him he could have the money for Central and South America and Europe to run his Embassies with. Well, of course, it has been in Cordell Hull's lap for over two weeks. Also the President said he could have the money, a million and a half, to go to the Argentine to buy food for the prisoners of war.

B: That's a crazy one I think.

H.M.Jr: Well, I simply - I couldn't let the President down in front of him, but I called up Cordell and I said, you know, the President placed it in your hands two weeks ago and you were to make a deal to get the airplanes out of Martinique, also which I didn't tell the Ambassador, and I said I wish you'd bring it up in Cabinet because I am not going to move until the Secretary of State formally tells me to do it.

B: Yes.

H.M.Jr: And this man is going to see Sumner Welles at 4 and wants to know and he says he's being - he said the bucks are being passed, as he put it, and it's very disagreeable for me.

B: Yeah, I should think so.

H.M.Jr: Because he thinks, according to his story - I don't know what the President told him - but he thinks that I'm holding this thing up, personally, which I'm not.

B: Well, Henry, I should think you'd have to speak to the President about it.

- 5 -

H.M.Jr: Well, I'm going to bring it up in Cabinet, but as our Ambassador to France I wanted you to know about it.

B: Yeah, well, thank you very much, Henry.

H.M.Jr: But I will send for Pehle and whatever the answer is I'll let you know.

B: And do, for heaven sake, if it's simply the papers are drawn up the wrong way, do have Pehle tell Offie how they ought to be done because I cannot conceive that it's impossible for me to transmit money to the Charge d'Affaires there.

H.M.Jr: Well, it's

B: What?

H.M.Jr: Let me talk to Pehle. I don't understand it.

B: Fine.

H.M.Jr: Thank you.

B: Good luck, Henry.

RE BRITISH PURCHASING PROGRAM

October 4, 1940
11:00 a.m.

Present: Mr. Purvis
Mr. Layton
Mr. Young
Mrs Klotz

*See Layton's memo
filed under date of
10/9/40*

H.M.Jr: How are you?

Purvis: Very well, thank you. And you?

H.M.Jr: I'm all right. I am ready for my week-end.

Purvis: That is an institution in life --

H.M.Jr: That you don't enjoy?

Purvis: Very much, but not just now.

H.M.Jr: Well, I read your memorandum with great interest and I sent copies of it yesterday to the President and the Secretary of War and the Secretary of Navy and Secretary of State. Secretary Stimson called up very enthusiastically about it and wanted three more copies, which I am sending.

Purvis: Good.

Layton: You are not asking for more at the moment?

H.M.Jr: No, I have photostated it.

On page two, you talk about, "This does not apply to 30-calibre ammunition." Now, how are you going to take that up?

Purvis: Well, it is merely a statement of fact. I talked with the Secretary yesterday about the release of the ten million rounds under the fifty million that are due us, and frankly realized that there was nothing there. It was really a comment, wasn't it, Sir Walter?

Layton: Yes. Well, the position there, of course, is

- 2 -

linked up with the question of whether we place - we buy in the program over next year more machine guns or more small arms of any kind, thinking of the point of ammunition, and that links up again with the request we put forward for rifles, as to what kind of rifles they will be and the calibre, but if we are taken care of on the rifle end of it and the machine guns for the Army and the machine guns for the Air Force, which takes 30-calibre, we are probably taking a long route, but we are very short on the short route.

If, on the other hand, we can get the ammunition, that must be revised.

H.M.Jr: On a lot of these things, Purvis will have to take you (Layton) to see the proper people whom he already has contacts with and sit down with General Wesson or whoever the man is.

Layton: I have already seen in London, General Strong, and I have seen the Chief of Staff since and I have got a number of little details from the war office about the program, which I want to bring to your attention. If you think that is the right thing, I can at the same time now take up these points of our program, the Ordnance program.

H.M.Jr: Well, I think the thing to do is for Purvis to arrange for you to see whoever he is seeing over there, and they have these various people set up. I mean, if they want to start with Mr. Stimson, ask Mr. Stimson whether he will arrange for you to see General Marshall.

Layton: I dined with Mr. Stimson.

H.M.Jr: He told me.

- 3 -

Layton: There are two classes of things, you see.

H.M.Jr: If you don't mind my saying so, I think you had better keep the lines that Mr. Purvis has arranged, so that you don't make it impossible for him to continue after you go back.

Layton: No, I am very conscious of that.

H.M.Jr: Because he has very definite lines here that have been worked up after months, and I think, if I may say so, that you had better stick to those. Otherwise, it is going to make it even more difficult for him than it is now.

Layton: I quite appreciate that. Of course, the whole of the supply side and points leading to supply considerations are fully in his hands.

H.M.Jr: I want to run through these things and make certain remarks. On page 8 - you haven't got an extra copy of that, have you?

Young: I can get one.

Purvis: I have one here, the one I have.

H.M.Jr: No, I want you (Klotz) to make some notes for me.

Purvis: I am going to sit near Sir Walter.

H.M.Jr: You see, where you talk about that in-line Sabre engine, you have got 200 horse. Don't you mean 2,000?

Layton: Yes, 2,000 horse.

H.M.Jr: Mrs. Klotz, it is right in the middle of page 6. I think you had better send a little

- 4 -

note over to these people that we have sent this to and draw their attention to the fact that that is a mistake.

Layton: It is a mistake in copying.

H.M.Jr: Well, I want to send a note to correct that. I don't know anything about this Tornado fighter and I don't know what the Sabre engine is.

Purvis: It is very new to me, but it is, I understand, an extremely successful one.

Layton: Yes, it is the engine, of course - there have been several experiments with the approximately 2,000 horsepower engines, and this has been very successful of them and it has come into production now.

Purvis: Is this the one that has been in the newspapers here, called the Bolton Defiant? Is that the same engine?

Layton: I don't know of its being called the Defiant.

Purvis: I see.

H.M.Jr: I don't want to throw cold water, but I don't see where they are going to build a new engine and get any production under a year and a half.

Young: George Mead is interested in that engine. Fairey had already spoken to me about it, as to whether or not they have yet seriously considered going into production on that. Mead merely wanted to find out about it.

H.M.Jr: Well, don't leave a stone unturned.

Layton: No, no. It is a great point if you have got any trouble. You have got to take all that into account.

- 5 -

H.M.Jr: If they don't want to do it here, maybe they might want to do it in Canada for you.

Layton: Yes.

H.M.Jr: I don't know where they would build it today, but maybe Knudsen or Mead or somebody would have an idea.

Purvis: The point really is that it fills a niche in the fighting thing which doesn't look as if it can be replaced from any other kind of product that is around. It is one of the - there is a genuine gap, as I understand it.

H.M.Jr: If they have got something better - if they have, we will beat a path to it, but as I say, I don't - that is the Napier?

Young: The Napier, 2,000 horsepower, liquid-cooled engine, which has been, according to Fairey, going through about five years of development now and is about ready to go into production. We have no liquid-cooled engine here which has gone through five years' developmental work already of that calibre.

H.M.Jr: That is right. Is it too late to get Packard on this if they wanted to?

Young: I would hate to start that over again.

H.M.Jr: All right.

Young: I think Fairey was also going to investigate the Canadian possibilities.

H.M.Jr: Well, the next thing I checked was, on motor torpedo boats and marine engines, they can be gotten and they are available. I am looking still on page 6. Those things are available.

- 6 -

Layton: They are available?

H.M.Jr: Oh, yes. Let me put it this way: you have to build them as rescue boats, and you will have to swear that they are rescue boats.

Purvis: That they will not be used for fighting?

H.M.Jr: Yes.

Layton: It is legal?

H.M.Jr: Right.

Purvis: Does it look to you that a more profitable line of attack would or would not be to consider assembly in Canada and getting the parts here?

H.M.Jr: I wouldn't know.

Purvis: From the legal view, I thought that might be a problem.

H.M.Jr: I don't know.

Purvis: You (Young) might pursue that, perhaps.

Young: Yes.

H.M.Jr: Now, of course when you get to page 8 and you give us that table in paragraph four, that is very, very important and I wanted Mr. Stimson to have it so I sent it right over there. I marked - stamped each page "Strictly Confidential," and he has that information for study and --

Layton: That is the background of the case.

H.M.Jr: Now, page 11 where you talk about the 25-pounder, you are just raising - waving a red flag because

- 7 -

our people have been using the 25-pounder as an example that - if you don't mind my saying it - you can't teach the English anything. That is what our Army officers say. I mean, they keep using that over and over again as the example. I mean, our people, as I understand it, are absolutely adamant that that was a good gun 25 years ago and if you want something better than what the Germans have got, you have got to go to the 105 millimeter.

Layton: Well, the case --

H.M.Jr: But again you are a new broom and you can try your luck.

Layton: The case here is not based on the qualities, the comparative qualities of the twenty-five pound and the hundred and five. It is the same as with many other munitions. If they are in production and we can get them in quantity, we are interested.

H.M.Jr: But we are not in production.

Layton: Oh, no, but I meant this is not a case at all for suggesting any reconsideration of the American Army.

Purvis: In other words, this is not a suggestion that this be the only line. It is suggested that a certain amount of productive capacity be used for the things to be used on the other side.

H.M.Jr: If it was my decision, I would say no. But it isn't my decision. All I am is just an avenue of approach and I am not going to say a word, if you can convince the Army, but I think you are going to find that they will say just what I have said to you bluntly,

- 8 -

but have a try at it because the whole thing here is, which we have said again and again and I have told these people, that I won't back anything that you people want, that after being given a fair opportunity, that we feel is not up to the best. Now, in the case of the tank, they listened and they learned and they adopted a lot of the things. But on this particular thing, using this as an example, they are convinced they don't want a 25-pounder and they don't want any of our productive capacity glutted up with it.

Layton: The second point, we are not suggesting - the question is, can we get any assistance in the field of artillery?

H.M.Jr: I am sure that you can if you will take what the Army officers think is best for our needs.

Layton: Yes, but when you have 6,000 of the standard type of gun and you have them distributed through every theatre of war, Gibraltar, Egypt, wherever you have got conflict, you have got to feed their ammunition supply and it is organized in that, and the whole thing on that footing - it is extremely complicated to fight in another - get another type of gun.

H.M.Jr: All I can say is, God bless you, have a try at it. I am not going to call up anybody on the telephone and say, "Now look, don't do this," because I have never done that in my life, so I simply say, "Have a try at it," but I am sorry to see it crop up.

Purvis: One point that is new to me might be interesting to you. That is, in any type of gun of that kind, there is a stage of the gun forging, the machine capacity, which is common to all types, and therefore there may be less productive

- 9 -

capacity really taken up in getting to the 25-pounder at the end of the gun forging and machining work than would appear.

H.M.Jr: That may be possible.

Purvis: That is the new thought that has come to me in this picture.

H.M.Jr: And the Army and Navy fellows can tell you that very quickly, whether it would or would not fit in.

Purvis: Yes.

H.M.Jr: Well, the thing boils down - I say, I haven't - this thing has been given, I say, to the President, Secretary Hull, Stimson and Knox, and they can all have it. It was in their hands yesterday afternoon. The rest is up to you and Purvis to make the best of your time, and Young and I here, if you have any troubles getting your appointments or anything, will be glad to help you. Purvis knows his way around town now.

Purvis: There are many of these instances, of course, in which Mr. Young could be very valuable.

H.M.Jr: He is willing. He always is willing.

Purvis: Of course, on the covering letter, I would like to make one point here. I think Sir Walter has always recognized that you have moved up quite considerably in advance in specific instances on point one, especially in the sub-paragraph there. Though this asks the assistance, it is fully recognized that you have made a very good start on it.

H.M.Jr: I felt pleased to think I was moving along

- 10 -

as many similar fronts as this letter expressed. It seems as though - looking at the thing as a whole, what we are trying to do here - I have done the things, by and large, that you are asking for.

Layton: I really appreciate that, but I felt that perhaps this statement might help.

H.M.Jr: Oh, it does, it helps a lot. It clarifies the thing and it is just a question of going up against these Army and Navy officials and seeing what they want. I think the plane thing seems to be in the best shape, as to what you can get, and these other things that you are asking for, I am not as familiar with. I mean, it is a question of field artillery and that sort of thing. I just don't know. I think the beauty of this memorandum is that you are taking a look at the whole picture instead of just trying to fight over ten planes or twenty planes.

Purvis: That is right, that is the essential thing.

Layton: We could, if necessary, supplement this for each section in more detail.

H.M.Jr: Well, I think you will have to --

Layton: I thought that perhaps was not wise to make that heavy load.

Purvis: He didn't want to load it down as the original document.

H.M.Jr: No, you will want to do that as you go along.

Purvis: On item 3 in the letter, we are going to look very especially to your help, if you can.

- 11 -

Of course, that has already been given. On item 3, I was saying we were hoping that you were very especially - of the letter itself, that you would perhaps be willing to give some thought as to how we might take advantage of the pattern that you have been good enough to father for us originally, especially in the plane program.

H.M.Jr: Well, they are ordering two lots of 5,000 engines in each, and if we can apply the so-called "Continental motor pattern" to that, I think you are all set. I don't think you will have any trouble.

Purvis: Then it comes to a question of getting as much as we can together, integrating those things, so that as many of those instances come out as possible.

H.M.Jr: I suppose you explained to Sir Walter that it took about three or four months to get that down?

Layton: I realized that from seeing the cables come in.

H.M.Jr: I think that spade work is done and I don't see - I think the Army and Mr. Jones are set on that and I don't know whether Knudsen is, but the Army and Jones are set.

Purvis: Well, I worked on Knudsen the other night when you suggested that I go over and see him, because I can see that he is further afield and has some other form of contract in his mind than the one we want to work with.

H.M.Jr: I think that thing is set. These next contracts for Studebaker and Buick --

Purvis: It will give us another working model.

- 12 -

H.M.Jr: I would simply take the attitude, "Well, let's just use the Continental motor contract."

Purvis: Go right ahead and then assume it could be done?

H.M.Jr: Yes, just take it perfectly for granted.

Purvis: That would entail in the airplane program, Sir Walter, getting our airplane people together with the war people, and getting them to say this amount of increased capacity is essential for defense.

Layton: It means agreement on the types.

H.M.Jr: Of planes?

Layton: Yes, as well as everything else.

H.M.Jr: And everything else. Well now, you are getting down to really - in this country, to three types of pursuit ships. You are getting one made by the Bell Company, one made by the Curtiss, and one made by the Lockheed. If you get three types, that is plenty of types, and then the same thing holds true for the bombers, and so on.

Layton: The position here, in the case of Sabre, for instance, is that we attempted to sell the Sabre to the war office, and then you can get the --

H.M.Jr: Fine. Have you got more than one?

Layton: Oh, I think so.

H.M.Jr: Then there is a possibility of sending one over.

Layton: Yes.

- 13 -

H.M.Jr: Send one to Dayton.

Purvis: That is the best way to get it across.

H.M.Jr: I was just thinking that the best way to do if you can get one over here to be sent to the experimental field at Dayton, that would save more argument.

Purvis: Yes.

H.M.Jr: You see, they wouldn't move on the Rolls Royce engine until they took it down and ran the tests, until they practically broke it up.

Purvis: . That is right.

H.M.Jr: They ran the thing until they broke it up, and if you had one of these planes over and could send it right to Dayton, I think you would get further - you might get somewhere.

Layton: Yes.

H.M.Jr: But just talking about it, it would be very difficult. That would be my recommendation. If your Government is serious, put one on the next boat.

Purvis: May I ask a question as to what is your reaction, apart from that, to the chances of getting the financing arrangement applied where the article is a British type? Take, for instance, the 25-pounder. Supposing it was agreed that we should have a certain section. I would just like to get your estimation.

H.M.Jr: My answer would be no.

- 14 -

- Layton: To anything. Now, for instance, rifles. Supposing - if we got all the rifles --
- H.M.Jr: And they are not the American type?
- Purvis: No, the American type is .30.
- H.M.Jr: If Jones called me up, I would say definitely no.
- Layton: Well, you could defend it - at least, my suggestion is, on the ground that - as a matter of fact, all your rifles, Enfield rifles, have been made in a British plant you built in 1917.
- H.M.Jr: But the point is this, you see. If somebody said, "Well, how can we do it this way," well, we are building up the production so any time we want to we are taking it over, and it is something the general staff say they want. Now, the general staff says emphatically they don't want a 25-pounder, and if we finance that thing, the man says, "How come?" I couldn't defend it.
- Layton: Well, the argument is that America gets thereby a very much bigger munition outlet and it can be changed to any type of rifle in a comparatively short time.
- H.M.Jr: I am sorry, you couldn't sell me on it. I couldn't be sold. If anybody asks my advice, I will tell them I am against it. I am absolutely opposed to it.
- Young: I think there is going to be some difficulty where they apply that program.
- H.M.Jr: I don't think you can say that. I hope you don't think I am too blunt, but I am trying

- 15 -

to save you time, and I don't think I am saving you any time to act as though I had a frock coat on, and so forth and so on, but I could take hours to say no, but I think it is much easier just to say no and let you know where I stand. My whole purpose is to be helpful.

Layton: Yes. Well, we have got to know what the need is, and we, so far as America is concerned, have that on one side and your general situation of getting production going in the situation on the other.

H.M.Jr: The only suggestion I have on what I would call the English type of munitions would be to move those to Canada. If you want something that we don't want, well then, make it in Canada.

Layton: The difficulty is, you can't get the volume of production there that you can here, and in the volume of time.

H.M.Jr: I don't think - well, I don't want to discourage you. You have a try.

Layton: I will see what can be done.

H.M.Jr: You have a try, but I want to make my own position perfectly clear. If Jones or Stimson call me up and ask me where I stand on financing through the RFC on the Continental motor plan, the English product which isn't to American standards, I would say no.

Layton: Yes. Well, then the second stage is to get - to be able to place the order without those funds.

H.M.Jr: That is a decision which - they wouldn't ask me that.

- 16 -

Layton: No.

H.M.Jr: It would have nothing to do with financing. They wouldn't ask me that. It would be something that our own people in the War Department would pass on. I mean, they wouldn't ask my advice. The other one is a financial matter.

Layton: Yes.

H.M.Jr: I mean, we put all the influence of Treasury behind the Continental deal to get it across.

Purvis: Yes.

Layton: Yes.

Purvis: Every ounce.

H.M.Jr: Everything that we have, but that was being financed. We got behind it. This other thing is a matter of production. We wouldn't come into it. They wouldn't call me up and ask me, other than to scold me.

Purvis: That is good.

H.M.Jr: They would call me up and say, "I thought you agreed that we were going to standardize. What is all this we see? Now you have run out on us." They might call me up on that.

Well, I am here, and don't hesitate to drop in any time. I would like to be helpful. That is what I am trying to do.

Layton: We will try that again. You have been a most helpful person.

Purvis: Smoothing out our difficulties.

- 17 -

H.M.Jr: Don't hesitate to drop in any time.

Layton: Yes.

H.M.Jr: Well, I am certainly glad to have seen you again. Arthur, the latest word on Republic is that they couldn't give me the answer today because they are sending an Army aviator up there to try the plane out.

Purvis: That is a pretty sensible approach.

H.M.Jr: He is on his way up there, and they hope to have an answer tomorrow. They wanted to look at the horse.

Purvis: Yes. I found myself looking at one the other day and he turned out to be better on the second look than the first, on that scrap iron thing that came out. Has anybody talked to you about it?

H.M.Jr: Yes.

Purvis: Elliott tells me that is the only big body of scrap iron. Is it in the wood or is it not?

H.M.Jr: I don't think so. All I have to do is to go to the President of the United States and get the Council of National Defense to put scrap iron on the strategic list, which it isn't. Now, there are about 5,000 Army and Navy officers, and about four different Boards who have to pass on that thing.

Purvis: To do that before the option expires tonight would be a little difficult.

H.M.Jr: It is impossible.

- 18 -

Purvis: I see, it is just the machinery.

H.M.Jr: I mean, I am not going to kid you about it.

Purvis: No.

H.M.Jr: And the other thing which was - Jones says this costs five dollars more than we can buy it here for and he wants you to make up the difference of the five dollars. And the third and last thing, we are letting huge quantities of stuff between now and the 16th go out of the country anyway.

Purvis: Yes. The difference between the hundred thousand and the other hundred and fifty thousand which this makes --

H.M.Jr: And if the story is correct in the New York Times, the Japanese are getting a million tons of iron ore a year out of the Philippines.

Purvis: Are they?

Layton: Really?

H.M.Jr: Yes. The energy it would take to get this thing through would be almost impossible, and then when you get it through, so what?

Purvis: That gives me more information. It is, as usual, very clear. Thank you very much.

October 4, 1940
11:03 a.m.

H.M.Jr: Ambassador Bullitt just called me up with his voice trembling with excitement and he says that he's been completely honest with us in telling us that this money goes to Matthews at the Embassy but that Matthews will use it to employ attorneys or paying whatever is necessary in the interests of this man de la Chambre. Now, I don't know - how were the papers drawn up?

Mr. Pehle: The application that he filed indicated almost nothing. It just said to pay the expenses of a legal matter

H.M.Jr: But supposing the papers were drawn over again that he wants to send \$5,000 to Matthews - just that he wants to send \$5,000 to Matthews.

P: And have it handled as an ordinary case?

H.M.Jr: Yeah.

P: Well, we wouldn't approve that.

H.M.Jr: You would not?

P: No, sir.

H.M.Jr: Why not?

P: You mean he just wants to send \$5,000 over there without telling us what it is for?

H.M.Jr: No, it's going to be used for this purpose.

P: Well, that was the case we considered at the Committee meeting. He says we were advised what it was to be used for although it wasn't in the application and we considered the case from that angle. If we hadn't been advised and he had filed the application in the form that he did, we would have gone back to him and told him that we couldn't pass on it without knowing more about it, if it were treated as an ordinary case, but we did know more about it and we considered it in the light of that knowledge.

- 2 -

H.M.Jr: But, I mean - he's told us what it's for

P: That's right.

H.M.Jr: and that kind of funds can't go.

P: We haven't been doing that, no.

H.M.Jr: What?

P: We haven't been doing that. We haven't been permitting funds to go under that type of circumstance.

H.M.Jr: Could he get blocked funds?

P: Well, I don't think we'd allow that either although the way he proposed to do it they'd be free.

H.M.Jr: They'd be free funds.

P: That's right.

H.M.Jr: Well, that's out. How about it if he got blocked funds?

P: Well, we could take it up and discuss it again. I don't think that the Committee would feel they ought to approve that type of transaction.

H.M.Jr: I see. What would be the objections?

P: Well, we've turned down people that wanted to send funds over there even if they were blocked to carry on their enterprise. There was one - the Shaeffer Tie people who wanted to send some money over there to keep on manufacturing silk.

H.M.Jr: Well, that's a little different.

P: That's right. This case is a little different in that we haven't had many like it and

H.M.Jr: Well, it's - the life of a man is at stake.

P: Well, it's easy enough to prove it if you want to say this is a diplomatic matter and

- 3 -

H.M.Jr: Well, could you get - how about if they could get it with blocked funds?

P: Well, it could be approved.

H.M.Jr: Could you tell them how they could get blocked funds?

P: I think so.

H.M.Jr: What?

P: I think so, yes, sir.

H.M.Jr: Well, if they could get blocked funds, see, explain to Offie how he could do it, and have - how does the application read?

P: The application just says to send these funds to Matthews to be used for the expenses of a legal matter.

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

P: Uh-huh.

H.M.Jr: If you can get blocked funds, I'd let it go - make an exception.

P: It can't be done through the State Department then.

H.M.Jr: How would it be done.

P: It has to be done by a bank in New York buying francs from the Bank of France or having some francs on hand - this isn't a very large amount.

H.M.Jr: Well, that's all right. Send for Offie to come over to see you.

P: Right.

H.M.Jr: See?

P: Yes, sir.

- 4 -

H.M.Jr: After all - here's, the chances are, what's going to happen. If we don't meet him, he'll go to the President and the President will tell me to do it anyway, so I might as well

P: Uh-huh. There's no point in doing that.

H.M.Jr: What?

P: There's no point in doing that.

H.M.Jr: But I'd do it with blocked funds. I don't want to do it with free funds.

P: Did Mr. Cochran tell you his slant on this thing?

H.M.Jr: No. What was his slant?

P: Well, I'd rather have him tell you.

H.M.Jr: Well, I haven't got time - you'd better tell me.

P: Well, he just felt that these two people were pretty closely connected and that it wouldn't make a very good record for the Treasury Department to approve this type of transaction, because you never know what is going to come out at that type of trial.

H.M.Jr: (Pause). Just a minute. (Pause). I tell you what I'll do - when I get through with this meeting I'll have the two of you come up

P: Yes, sir.

H.M.Jr: You might acquaint Huntington Cairns with this thing. I'd like Huntington to know about it.

P: I will right away.

H.M.Jr: And get Huntington Cairns' advice.

P: I will.

October 4, 1940
11:50 a.m.

Present: Mr. Pehle
Mr. Bernstein
Mr. Cochran
Mr. White
Mr. Upham
Mr. Cairns
Mrs. Klotz

HM Jr: Mr. Bullitt called me up, as I expected he would, on this matter of sending \$5,000 to Matthews to hire an attorney to defend de la Chambre. Now I realize that the transaction would normally be turned down. I raised the point whether we could do it by using blocked currency. Then somebody raises the point - well, let's see - let's say you do it this way just for argument's sake. If Chambre is found guilty and we do it through a commercial bank everybody knows we have made an exception. They will say, "Here is the United States Treasury making an exception for one particular person." Let's say on assumption that they would find out. What do you think, Huntington?

Cairns: I think it is very dangerous.

HM Jr: What do you recommend?

Cairns: I recommend that you don't do it.

HM Jr: Does anybody want to say that I do do it?

White: I don't know that it is any more important to have this man freed from whatever charges he may have against him than it is to have a starving man resuscitated, and it seems to me that it would be quite difficult to defend this exception particularly in view of the fact that it is an official of the government who is requesting it.

(HM Jr placed a call for Mr. Hull at this point.)

- 2 -

White: Moreover, can't he get some friends in France who would give him legal assistance?

HM Jr: Well, he didn't get it, but I got the impression that Bullitt said legal assistance or whatever else it takes. You (Mrs. Klotz) might look up that record. That might mean . . .

Mrs. Klotz: Anything.

HM Jr: . . . bribery.

Cochran: Yes. He was a wealthy man. I don't know whether his property is all tied up or not, but he was from a wealthy family.

HM Jr: But I am an old softy. I can pass on cases on merit or principle, but when I get it on an individual basis, I'm just an old softy.

(At this time the operator reported that Mr. Hull was busy, and HM Jr asked her to try to get Mr. Welles.)

White: I think we are a little vulnerable because of the position we have taken with respect to the use of money for foods, etc. I think you ought to be a little adamant on this.

Pehle: You mean we would be vulnerable if we went ahead.

White: Yes. It may hurt Bullitt's prestige.

Mrs. Klotz: He is putting it on a personal basis. It is his friendship for this man.

HM Jr: What would have happened if the application had been submitted to send \$5,000 to Matthews without saying what it was for?

- 3 -

Pehle: We would have, in an ordinary case, asked what it was for or else just turned it down.

HM Jr: It reminds me a little bit of the French novel when the English tried to go over there to get nobles out of France who were scheduled to be beheaded. What was the name of that?

Bernstein: The Scarlet Pimpernel.

HM Jr: Yes, the Scarlet Pimpernel. As far as I know it was a true story. At least I saw it in the movies and read it.

Pehle: If we wanted a way out here we would be justified in saying that since the State Department does transmit some funds in limited areas, we wouldn't object if they decided to do it in this case.

(At this time HM Jr spoke to Sumner Welles' office and was informed that Mr. Welles was in conference with the British Ambassador and, therefore, it would be impossible for him to take the call. HM Jr told Welles' secretary to cancel the call.)

HM Jr: The British Ambassador is with him.

Mrs. Klotz: Did you (HM Jr) hear what Mr. Pehle said?

HM Jr: No, I didn't hear it. What did you (Pehle) say?

Pehle: If we wanted an out, I think we would be justified in telling the State Department that if they wanted to decide the matter themselves, quite apart from the Treasury, that we wouldn't object.

- 4 -

White: But Huntington's point would come in there. The application would come in a different way.

Cairns: You should get your letter back from Bullitt . . .

HM Jr: Let's do it this way. Call up Offie, Bullitt's secretary, and tell him I have reconsidered the thing, and I am very sorry but I can't make an exception, but if the Secretary of State wants to write me a letter and ask me to do it I will do it but only under those circumstances.

White: I am wondering whether it wouldn't be better to put it as John said. It would seem that you are putting Secretary Hull on the spot. You could avoid that by letting John or Merle handle that orally.

Mrs. Klotz: Yes.

HM Jr: No. I have been doing a lot of kidding and I don't want Merle in on this. You see I've been doing a lot of kidding.

What is the difference between what I said and his idea? Let me hear that again, will you?

Pehle: Well, as an out - just that we tell Offie that the Treasury Department isn't in a position to approve this transaction, but if he wants to take it up with the State Department and they decide they want to do it we won't object.

White: I thought there was a difference. There is a small difference.

HM Jr: The only difference is that I wanted it in writing.

Bernstein: You see we have a system whereby we have licensed the State Department to send funds to diplomatic officers and other American citizens abroad and if, on that authority, they wish to go ahead and permit this transaction, we would let them go ahead and do it.

- 5 -

HM Jr: Oh, I see. I didn't know that.

Pehle: It wouldn't actually come within the terms of the license, but if they want to consider it that way we won't object.

HM Jr: What you are suggesting is that we tell Offie that the Treasury can't approve the transaction, but if the State Department wants to do it on their own under the general license, that's their concern.

Mrs. Klotz: It's all right with us.

White: It's their responsibility and it doesn't come to us in the form of a license at all.

HM Jr: Splendid. You can win the case without even packing the jury.

Bernstein: It's fine because they will have to cut down the Secretary of State before they get to you because he will be taking the responsibility for remitting the money.

HM Jr: What do you mean - cut down the Secretary of State?

Bernstein: Well, if the transaction is criticized or attacked, the Secretary of State will come first because he is the one who will actually approve sending the money.

HM Jr: I get you.

Cyril Wilcox Upham?

Upham: You have got my middle name wrong. He calls me Bruce.

HM Jr: That's a nice name.

Upham: It's a nice name but it isn't mine.

- 6 -

HM Jr: What is yours?

Upham: Mine is Bryce. Probably worse.

HM Jr: Well, what about it, Bryce?

Upham: Well, I agree with them. I think you ought to go ahead and get rid of the application.

Cairns: It has been denied.

Bernstein: That makes it tougher for the Secretary of State.

HM Jr: Now, Papa Bernstein.

Well, I think this is a very good meeting.

White: Lots of fly paper here but no flies.

HM Jr: Are you (Pehle) perfectly willing to call up Offie?

Pehle: Yes, sir.

Mrs. Klotz: That isn't the end to it, Mr. Morgenthau.

Pehle: Well, the State Department is probably going to tell Mr. Offie that it isn't within the limits of the license which they have.

Cairns: Would you have any knowledge of it?

Pehle: They report to us in a general way.

White: And that would be after it is all over.

HM Jr: I think that's very nice. I like it as of the moment, and I appreciate the attitude of everybody involved, including Bryce.

- 7 -

Upham: I never should have let that one out.

(Attached is phone conversation between
Mr. Pehle and Mr. Offie.)

October 4, 1940
12:00 p.m.

H.M.Jr: Hello.

Operator: She says she can't get to Mr. Welles right now.

H.M.Jr: Who says so.

Operator: His secretary.

H.M.Jr: Well, let me talk to her.

Operator: All right.

H.M.Jr: Hello. (Pause).

Operator: His secretary will be right on.

H.M.Jr: (Pause). Hello.

Operator: I think they went back in to get Mr. Welles.

H.M.Jr: (Pause). Hello.

Mr. Welles' Secretary: Hello.

H.M.Jr: This is the Secretary of the Treasury speaking.

S: Yes, Mr. Secretary.

H.M.Jr: Mr. Hull is busy and I would like to talk to Mr. Welles.

S: The British Ambassador is with him. He was told that you wished to speak with him and he said that he could not at the moment, Mr. Secretary.

H.M.Jr: (Pause). All right. Cancel the call.

S: Oh, I'm sorry.

H.M.Jr: Cancel it.

Memorandum of conversation between Mr. Offie
and Mr. Fehle - 12:17 P. M., October 4, 1940.

MR. FEHLE:

"I have just been discussing this matter. The Department feels that as a matter of policy it is not in a position to approve this transaction, but it did want to advise you that if the Department of State wished to transmit these funds under the authority we have already given to it to transmit funds in certain cases and it wanted to construe its authority as being broad enough to cover this case the Treasury would have no objection."

MR. OFFIE:

"Thank you very much."

October 4, 1940.

Memorandum

To: Secretary Morgenthau

From: Lieutenant Commander Richmond.

Assistant Collector Zinn at Galveston, Texas, just called long distance and informed me that a condenser on the SS PANAMANIAN is alleged to have bursted and flooded the vessel so that it was necessary to beach her. She is now beached on the north bank of the roadstead at Galveston with a thirty degree starboard list. Mr. Zinn went aboard and interviewed the master. The latter's story was apparently incoherent but Mr. Zinn is of the opinion that the master suspects sabotage. As reported, the vessel has had labor trouble and seventeen new crew members had just been signed on. The vessel had cleared and was preparing to depart for Japan via west coast ports. Mr. Zinn states that in his opinion it will be some time before the vessel will be able to proceed. He is forwarding pictures and a more detailed report as soon as they are available.

U. C. Richmond

October 4, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a memorandum prepared by Mr. Ernest Feidler, of the General Counsel's Office, reporting on a meeting of Colonel Maxwell's Advisory Committee this morning at 11 o'clock. Although I was invited to attend, there was a conflict with the conference in your office at which Sir Walter Layton and Mr. Purvis were present.

This meeting of Colonel Maxwell's Committee discussed the procedure to be followed after the so-called "Requisitioning Bill" has been passed. The principal purpose of this bill is to give the President power to commandeer in the interest of national defense any war equipment, tools, machinery, materials, supplies, etc., pertaining to war equipment. The President could then sell the stuff or do anything else he wishes with it.

The President also decides what is a fair price to be paid although the original purchaser has some chance to sue if not satisfied. Colonel Maxwell proposes that the President delegate this power to the Secretary of War and the Secretary of the Navy who, in turn, are to exercise it through the Army and Navy Munitions Board. Thus, it is the latter that would have the say as to what war supplies, etc., could be taken over by the Government. This proposed proclamation also provides that the determination of fair compensation should rest with the Administrator of Export Control.

Therefore, I raise the question as to whether the Treasury, either through the Secretary of the Treasury, or through the Liaison Committee, or through Customs, might not have sufficient interest in this business to raise the question as to the propriety of this proposed proclamation. There would seem to be a little time for thought as the bill has not yet been passed and the proclamation will not be considered until that time. It might be more equitable if control over such requisitioning were lodged outside of the War and Navy Department, but subject to definite recommendation.

Al.

October 4, 1940

91

MEMORANDUM FOR THE FILE

Re: Meeting of Inter-departmental Committee on Export Control at Munitions Building on October 4, 1940.

At the request of Mr. Calms, Assistant General Counsel, Mr. Felder, of the General Counsel's Office, attended the above-mentioned meeting on behalf of the Department of the Treasury. The meeting was under the chairmanship of Lt. Col. Maxwell, and there were various representatives present from the United States Tariff Commission, Department of Agriculture, Department of War, Department of the Navy, and the National Defense Council. Mr. Joseph Green represented the Department of State.

1. The first matter considered was a proposed draft of a proclamation to be issued under the authority of H. R. 10839 (a bill to authorize the President to regulation certain articles and materials for the use of the United States) which has passed the House of Representatives and the Senate. H. R. 10839 has not yet been signed by the President. A copy of the draft of the proposed proclamation is attached. The proposed proclamation quotes H. R. 10839.

It will be noted that the authority, granted to the President in the bill, is delegated by the proposed proclamation to the Secretaries of War and Navy acting jointly through the Army and Navy Munitions Board. The administration of the Act, which the drafters, Major Zeigler, said would be entirely ministerial, is vested by the proposed proclamation in Lt. Col. Maxwell, Administrator of Export Control. The proposed proclamation will have the effect of putting the regulation of articles and the disposal thereof almost completely under the control of the War Department, the Navy Department, and the Administrator of Export Control.

It appears that the War Department approved the proposed proclamation.

The proclamation was turned over to Mr. Green for the ordinary processing through the various interested departments. Mr. Green stated that he would do nothing about the proclamation until the President has signed H. R. 10839.

2. Lt. Col. Maxwell pointed out that the Army Industries College has, for some time, had a section on economic defense. He stated that he had asked the Secretary of War to transfer that unit to the Export Control Administration and that the transfer would be

- 2 -

made on December 15th. Col. Lewis of the Army Industries College, head of that section, was present and he explained the activities of his section. It appears that the section studies methods of economic warfare and matters related thereto. It collects information on techniques of economic warfare and methods of economic strangulation. It has prepared so-called commodity books which show the current status of various countries so far as certain strategic materials are concerned. Lt. Col. Maxwell asked that the other departments give thought to methods in which they could aid the unit.

3. Lt. Col. Maxwell said that considerable thought had been given in several departments with regard to economic warfare and some studies had been made. He stated that those studies were based on the assumption that we are now at war. He pointed out, however, that so far work had been done under peace-time limitations. He said that he had, therefore, called upon Major Zeigler and his committee for additional legislation which might be needed. A copy of such legislation, which is attached, was presented to the meeting. Lt. Col. Maxwell asked that that legislation be given study and that any comments or suggestions be forwarded to Major Zeigler. That legislation provides for the prohibition of all exports and imports of any articles which the President names. The legislation also provides for an administrator to whom the President may delegate the authority vested in him by the legislation.

Est

ADMINISTRATION OF THE ACT ENTITLED "AN ACT TO AUTHORIZE
THE PRESIDENT TO REQUISITION CERTAIN ARTICLES
AND MATERIALS FOR THE USE OF THE
UNITED STATES AND FOR
OTHER PURPOSES"

Approved

1940

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, the Act of Congress entitled "An Act to authorize the President to requisition certain articles and materials for the use of the United States and for other purposes", approved 1940, provides as follows:

"That whenever the President determines that it is necessary in the interest of national defense to requisition and take over for the use or operation by the United States or in its interest any military or naval equipment or munitions or component parts thereof, or machinery, tools, or materials or supplies necessary for the manufacture, servicing, or operation thereof, ordered, manufactured, procured, or possessed for export purposes, the exportation of which has been denied in accordance with the provisions of section 6 of the Act approved July 2, 1940 (Public, Numbered 703, Seventy-sixth Congress), he is hereby authorized and empowered to requisition and take over for the said use or operation by the United States, or in its interest, any of the foregoing articles or materials, and to sell or otherwise dispose of any such articles or materials, or any portion thereof, whenever he shall determine such action to be in the public interest. Any moneys received by the United States as the proceeds of any such sale or other disposition of any such articles or materials or any portion thereof shall be deposited to the credit of that appropriation out of which was paid the cost to the Government of the property thus sold or disposed of, and the same shall immediately become available for the purposes named in the original appropriation.

Sec. 2. Whenever the President shall requisition and take over any article or material pursuant to the provisions of this Act, the owner thereof shall be paid as compensation therefor such sum as the President shall determine to be fair and just. If any such owner is unwilling to accept, as full and complete compensation for such article or material, the sum so determined by the President, such owner shall be paid 50 per centum of the sum so determined by the President

and shall be entitled to sue the United States for such additional sum as, when added to the sum already received by such owner, such owner may consider fair and just compensation for such article or material, in the manner provided by sections 41 (20) and 250, title 28, of the Code of Laws of the United States of America: Provided, That recovery shall be confined to the fair market value of such article or material, without any allowance for prospective profits, punitive or other damages.

Sec. 3. The authority granted in this Act shall terminate June 30, 1942, unless the Congress shall otherwise provide."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority vested in me by the said Act of Congress, do hereby delegate to the Secretary of War and the Secretary of the Navy, acting jointly through the agency of the Army and Navy Munitions Board, the power to make determination as to the necessity of requisitioning and taking over in the interest of national defense for the use or operation by the United States or in its interest, any military or naval equipment or munitions, or component parts thereof, or machinery, tools, or materials or supplies necessary for the manufacture, servicing, or operation thereof, within the purview of the said Act.

AND I do further proclaim that the administration of the provisions of the said Act other than the provisions relating to the sale or other disposition of any articles or materials requisitioned pursuant to the said Act is vested in the Administrator of Export Control who shall administer such provisions under such regulations as I shall from time to time prescribe in the interest of national defense.

AND I hereby further proclaim that the administration of the provisions of the said Act relating to the sale or other disposition of any articles or materials requisitioned pursuant to the said Act and taken over by the War or Navy Departments is vested in the Secretary of War and the Secretary of the Navy acting jointly through the agency of the Army and Navy Munitions Board.

AND I further delegate to the Secretary of War and the Secretary of the Navy, acting jointly through the agency of the Army and Navy Munitions Board, the power to determine whether or not the sale or disposition of any such articles or materials taken over by the War or Navy Departments is in the public interest, and I do hereby so proclaim.

AN ACT

To authorize the regulation for a limited time, of exports and imports of articles and materials in the public interest.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever, during the national emergency declared by the President on September 3, 1939 to exist, the President shall find that the public interest so requires, the President shall by proclamation prohibit the exportation from the United States, its territories and possessions, including the Philippine Islands, or the importation into the United States, its territories or possessions, including the Philippine Islands, of any article or material specified in such proclamation during such period or periods and under such conditions or restrictions as the President may by regulation prescribe.

Sec. 2. Following any proclamation issued by the President pursuant to Section 1 of this Act it shall be unlawful to export from or import into, or to conspire to export from or import into, the United States, its possessions and territories, including the Philippine Islands, any article or material specified in such proclamation, except as provided in said proclamation or in regulations issued pursuant to this Act.

Sec. 3. The President may from time to time promulgate such regulations not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this Act. The President is authorized to appoint and fix the compensation of at a

rate not to exceed \$10,000 per annum an Administrator to carry out the provisions of this Act, who shall be directly responsible to the President and to authorize the appointment of and fix the compensation of such other officers, agents and employees as he may deem necessary to carry out the provisions of this Act. The President may exercise any power or authority conferred on him by this Act through such Administrator, officers or agents. The President is authorized to delegate to the Administrator such of the powers conferred by this Act as he may deem necessary and proper.

Sec. 4. Any officer on the active or retired list of the Army, Navy, Marine Corps or Coast Guard or of any reserve component thereof or any officer or employee of any department or agency of the United States who may be assigned or detailed to any office or position to carry out the provisions of this Act may serve in and perform the functions of such office or position without loss or prejudice to his status as such officer in the Army, Navy, Marine Corps, or Coast Guard or reserve component thereof or as such officer or employee in any department or agency of the United States.

Sec. 5. The President is empowered to direct the Secretary of the Treasury through the medium of the Procurement Division of the Treasury Department and from funds authorized by the provisions of this Act to purchase or otherwise acquire with or without competition such articles or materials as the President may deem necessary in the public interest and to use, sell, exchange, or otherwise dispose of any of the articles or

materials so acquired. Any moneys received by the United States as the proceeds of any such sale or other disposition of any such articles or materials or any portion thereof shall be deposited to the credit of that appropriation out of which was paid the cost to the Government of the property thus sold or disposed of, and the same shall immediately become available for the purposes named in the original appropriation.

Sec. 6. Out of the funds authorized in this Act, the Secretary of the Treasury is empowered to meet such expenses as are necessary to accomplish the purposes of this Act, in the amount and as directed by the President.

Sec. 7. For the purpose of carrying out the provisions of this Act there is hereby authorized to be appropriated the sum of \$500,000,000 out of any money in the Treasury not otherwise appropriated.

Sec. 8. In every case of the violation of any of the provisions of this Act or any proclamation or any regulation issued pursuant thereto, each violator upon conviction shall be fined not more than \$10,000 or imprisoned not more than two years or both. Any article or material which is exported from the United States, its territories or possessions, including the Philippine Islands, or which is imported into the United States, its territories or possessions, including the Philippine Islands in violation of or which is the subject of a conspiracy to violate, this Act or any proclamation or any regulation issued pursuant thereto, and the vessel or vehicle containing the same, shall be subject to seizure and forfeiture as for a violation of the customs laws.

Sec. 9. The authority conferred upon the President by this Act shall terminate upon the expiration of three years from date of the approval of this Act.

October 4, 1940
12:10 p.m.

H.M.Jr: Hello.

Operator: Mr. Sloan.

H.M.Jr: Hello.

Alfred
Sloan: Yes, Mr. Secretary.

H.M.Jr: How are you?

S: Yes.

H.M.Jr: I'm calling up to tell you how delighted
I am on the progress you're making at
Allison.

S: Well, I'm delighted to have you tell me that,
Mr. Secretary. Really I can't tell you how
much I appreciate it because I felt there -
I was really for a while in the dog house.

H.M.Jr: Well, - (laughs) - I think the Allison engine
was in the dog house.

S: (Laughs). Well, that was true in a way.

H.M.Jr: As you know I've really been terribly worried
and so has the President and I advised him
last week of the progress you were making and
he was simply delighted.

S: Well, I appreciate having you say so - telling
me, Mr. Secretary, and I think really that
your having me down there as you did at that
time and Mr. Mead's observations have -
were really a contributing factor in intensifying
our effort there.

H.M.Jr: Well, I think it brought it to your attention.

S: Yes, I think that was right. I think we were
looking at it too much as a matter of organi-
zation and anyway as long as - I think we are
doing - you know, of course, how much we
turned out last month.

- 2 -

H.M.Jr: Well, I get the figures every Monday.

S: Yes, I know you do, Mr. Secretary. I think there's another phase to it too, Mr. Secretary, that's very important and that is this - that although there has been - the rating of the engine, as you will recall perhaps, is something around 1100 horse power, and I am very much convinced in following it through technically as I am, that we can tremendously raise that horse power without making any fundamental changes in the prime size of the engine itself.

H.M.Jr: Well, that would be a tremendous

S: I don't want to make any promises but I wouldn't be surprised if we couldn't get that engine up to 1400 or 1500 horse power.

H.M.Jr: You don't mean it!

S: And that simply means by eliminating through careful research work the weaknesses and putting up every part to the - as near as we can every other part.

H.M.Jr: Well, that would be simply immense.

S: I'm quite certain we can. Now while you're on the phone let me say this to you, Mr. Secretary, just to give you a little - we've been asked - General Motors has been asked to set up a separate plant to build the air-cooled engine.

H.M.Jr: Is that Buick?

S: Yes, that's right.

H.M.Jr: A man by the name of Knudsen told me about it.

S: Yeah.

H.M.Jr: Have you heard of him? Do you know Knudsen?

S: (Laughs). I've heard of him.

- 3 -

H.M.Jr:

Yeah.

S:

Well, now let me tell you. Since this isn't a question of what we're asked to do, because we want to do what we're asked to do but we want to do it intelligently as we can and - I rather regret that because I can't help but feel that the opportunities to make a contribution to the cause are much greater if we'd be permitted to make that many more Allison engines and to develop the capacity of the engine which we can do over a period of time.

H.M.Jr:

Well, now look

S:

In other words, it's much better, Mr. Secretary, to make a whole lot more of the thing you are making than to start all over again.

H.M.Jr:

Well, I agree with you 100%.

S:

And it means that I've got to set up two very highly technical organizations, I've got to go through to some extent but not to the full extent the things that we went through that caused the very natural apprehension on your part.

H.M.Jr:

Well, now look, have you talked to Bill Knudsen about it?

S:

I haven't, Mr. Secretary. I was in conference on it in Chicago yesterday with some of my associates and I had planned that we would do that very thing.

H.M.Jr:

Because I have reason to believe that this is his own brain child.

S:

Yeah.

H.M.Jr:

I think it's his own idea and it goes contrary to what - well, you know what I did to keep them - to let you make this C engine until you got going on the next one. You know I worked very hard on that.

- 4 -

S: Yes, I know you did.

H.M.Jr: to leave you alone and get this thing going until you got the bugs out of the next one, and now Curtiss up at Buffalo hoped to go up to, if they get the engines, maybe even make 10 planes a day.

S: Well, I think maybe I don't probably know the whole thing, there's no reason why I should, but it looks to me as if the engine bottleneck would soon be eliminated and that the next bottleneck would be the making of planes.

H.M.Jr: Well, just off-hand also, you see, if they want more radial engines and they've got Ford started on that, why don't they give Ford a bigger order.

S: I would think so too. In other words, these things - you haven't any conception - perhaps I shouldn't say that, but I don't think anybody could unless they go through the mill - what it means to set up an organization to make such a highly technical thing and it is much easier, Mr. Secretary, to develop second and third line men to expand the thing than it is to develop an entirely new organization with fresh line men.

H.M.Jr: Well, I can understand it and I am in entire sympathy and I do hope that you will talk to Bill Knudsen about it.

S: All right, Mr. Secretary, I'll certainly do that as aggressively as I can.

H.M.Jr: Well, will you do one other thing?

S: Anything you ask that is in my power.

H.M.Jr: Tell Mr. Evans how pleased I am.

S: All right I'll do that and also Mr. Hunt too if I may add him.

H.M.Jr: Will you?

- 5 -

S: Mr. Hunt has made an important contribution - well, I can't tell you how much I appreciate this because there is nothing that worried me more than this particular thing because I know just how you feel about it and I know how the President feels about it and there is nobody more anxious than I am to help with this thing that we're all concerned with than I am.

H.M.Jr: Now, may I ask you one other thing?

S: Yes, Mr. Secretary.

H.M.Jr: The next engine which is coming along - do you know how they are coming on that?

S: The F engine?

H.M.Jr: The F engine.

S: They're getting along very nicely. I think in another week or two we'll have a completely satisfactory test on that.

H.M.Jr: Well, would you make a note when you feel satisfied you'd call me on the phone.

S: And let you know. I certainly will, Mr. Secretary.

H.M.Jr: When you're satisfied yourself that you'll give me a ring.

S: I certainly will do so.

H.M.Jr: And tell Hunt and Evans how delighted we are.

S: I will, Mr. Secretary, and I can't begin to tell you how much I appreciate this ring you've given me.

H.M.Jr: Thank you.

S: Thank you.

Confidential

October 4, 1940.

MEMORANDUM FOR ASSISTANT CHIEF OF STAFF, G-2:**Subject: Reserve Stock of
Tetraethyl Lead
in Japan.**

1. Receipt is acknowledged of your memorandum of October 1, 1940, above subject.

2. No licenses authorizing the export of tetraethyl lead to Japan have been granted, and, under current instructions, none will be issued.

R. L. Maxwell
R. L. MAXWELL,
Lt. Col. (OD), G.S.C.
Administrator.

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

Confidential

Receipts and Expenditures and Public Debt
(In millions of dollars)

	July 1940	August 1940	September 1940	Total 3 mos	Budget estimates	
					Fiscal year 1941 (Aug. 5, 1940)	Percent 3 mos. actual bears to total estimated for year
Receipts	331	447	711	1,489	6,367	23.4%
Expenditures	830	708	761	2,299	12,058	19.3
Deficit	499	261	50	810	5,691	14.2
National Defense						
War	79	91	82	252	3,000	8.4
Navy	98	108	137	343	2,000	17.1
Total	177	199	219	595	5,000	11.9
Gross Public Debt	43,770	43,905	44,073	44,073	49,000	90.0

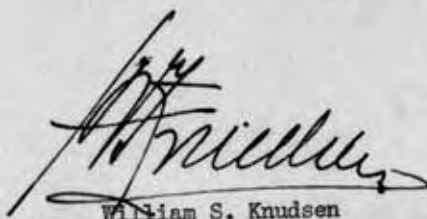
THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

October 4, 1940

Dear Secretary Morgenthau:

I am returning herewith the cartoon which you sent over, with the thought that you may want to pass it along to someone else. I enjoyed seeing it.

Sincerely,



William S. Knudsen

The Honorable
The Secretary of the Treasury



THE NEW YORK PUBLIC LIBRARY ASTOR LENOX TILDEN FOUNDATION



THE SECRETARY OF STATE
WASHINGTON

October 4, 1940.

My dear Mr. Secretary:

I wish to thank you for your letter of October third, in which you send me a copy of Sir Walter Layton's letter to you of October second and its accompaniment.

I look forward to examining the report with keen interest and greatly appreciate your kindness in sending it to me.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Secret

108

10 - Tuesday

BRITISH EMBASSY,
WASHINGTON.

4

Fridy. 4. Olden
Geo

Dear Mr. Kennedy,

I am probably flying
home next week for a brief
visit to re-establish contact.
I would like to see you for
a few minutes on Monday
or Tuesday in case there is
any message for me. I will
then be able to talk to Phillips or
anybody else.

V. Holman

October 4, 1940.

My dear Mr. Secretary:

In accordance with your request, I enclose herewith three copies 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,

The Honorable

The Secretary of War.

FI/3a

24-

October 4, 1940

My dear Mr. President:

I am sending you herewith the following cable which has just been received from Mr. Nicholson, Treasury Special Agent at Shanghai:

"French leaders expect Chinese troops to move into Indo-China within the next few days."

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

STRICTLY CONFIDENTIAL

By Messenger 12 10

SECRET

111

Memo to the President

The following information
was received from Mr
Nicholson, Treasury Special
agent at Shanghai:-

"French leaders expect
Chinese troops to move
into Indo China within
the next few days."

Copies to
State
War
Navy



HEADQUARTERS

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

112

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

4 October, 1940.

SECRET

*copy to
Pike
State
Mr
Navy*

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

French leaders expect Chinese troops to move
into Indo-China within the next few days.

SECRET

October 4, 1940

My dear Mr. Secretary:

I am sending you herewith the following cable which has just been received from Mr. Nicholson, Treasury Special Agent at Shanghai:

"French leaders expect Chinese troops to move into Indo-China within the next few days."

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Cordell Hull,
Secretary of State,
Washington, D.C.

STRICTLY CONFIDENTIAL

By Messenger /2'

October 4, 1940

My dear Mr. Secretary:

I am sending you herewith the following cable which has just been received from Mr. Nicholson, Treasury Special Agent at Shanghai:

"French leaders expect Chinese troops to move into Indo-China within the next few days."

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry Stimson,
Secretary of War,
Washington, D.C.

STRICTLY CONFIDENTIAL

By Messenger /2 10

October 4, 1940

My dear Mr. Secretary:

I am sending you herewith the following cable which has just been received from Mr. Nicholson, Treasury Special Agent at Shanghai:

"French leaders expect Chinese troops to move into Indo-China within the next few days."

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy,
Washington, D.C.

STRICTLY CONFIDENTIAL

By Messenger 12/12

OCT 4 1940

Dear Mr. Smith:

We have prepared estimates in response to your letter of September 7, 1940, requesting "a preliminary tentative estimate of receipts for the fiscal year 1942, as well as any revisions in the 1941 estimates."

It is estimated that total receipts to general and special accounts in the fiscal years 1942 and 1941 will amount to about \$6.6 billions and \$7.2 billions, respectively. The fiscal year 1942 estimate is a rough provisional one and as is usual a detailed estimate for the President's Budget Message will be submitted to you in December. These estimates include the revenue effects of the Second Revenue Act of 1940 as it passed the Congress.

The tax under the Bituminous Coal Act of 1937 expires April 26, 1941 but should the Act be reenacted in its present form estimated receipts for fiscal year 1941 will be increased by 2.5 million and the estimated receipts for fiscal year 1942 by \$4.7 millions. The tax under the Sugar Act of 1937 expires June 30, 1941. Should the legislation be reenacted in its present form the estimated receipts for fiscal year 1942 would be increased by \$62.4 millions over the estimates shown above.

The detailed estimates which you have requested with reference to the employment taxes are as follows:

	Estimated receipts for fiscal year	
	1942	1941
	(millions of dollars)	
Federal Insurance Contributions Act	671.0	661.0
Federal Unemployment Tax Act	89.5	88.7
Tax on carriers and their employees	148.0	138.0
Railroad Unemployment Insurance Act	7.8	8.9

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. Harold D. Smith,
Director of the Budget,
Executive Office of the President,
Washington, D. C.

cc to Frederick J. Layton

File to Mr. Thompson

By Messenger / 55

AFD:Div 10-5-40

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D. C.

23959

SIR:

My dear Mr. Secretary:

Following the customary procedure, it is my expectation to discuss with the President the general budgetary situation with respect to the fiscal year 1942 about October first.

It will be necessary, as has been the case in past years, to have preliminary estimates of receipts furnished by your Department in order to give the President a picture of the prospects for the 1942 Budget. I shall appreciate it if you will furnish me with a preliminary tentative estimate of receipts for the fiscal year 1942, as well as any revisions in the 1941 estimates. I do not believe it will be necessary to go into detail on the figures except that the employment taxes should be broken down between the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, and taxes on carriers and their employees.

I would like to get the estimates sometime between September 25th and 30th.

Sincerely,



Harold G. Smith

The Honorable,

The Secretary of the Treasury.

In reply refer to Initials
and No.

NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

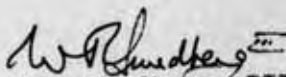
4 October 1940

Dear Mr. Morgenthau:

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

Your courtesy in continuing to furnish these reports is much appreciated.

Sincerely,



W.R. Smedberg, III,
Lt. Comdr., USN,
Aide to Chief of Naval Operations.

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

RECEIVED OCT 10 1940

OCT 10 1940

RECEIVED OCT 10 1940

DEPARTMENT OF STATE
WASHINGTON

October 4, 1940.

My dear Professor Chamberlain:

Referring to my letter to you dated September 25, 1940, enclosing copy of a letter from the French Financial Attache asking release of some money for use in buying canned goods in the Argentine to send to French prisoners in Germany, there is enclosed herewith a further copy of a memorandum on the subject.

Sincerely yours,

(Sgd.) Adolf A. Berle, Jr.

Adolf A. Berle, Jr.
Assistant Secretary.

Enclosure.

The Honorable

Joseph Chamberlain,

Assistant to the Secretary,

Treasury Department.

Copy

MEMORANDUM

To Mr. Berlin
From Mr. Davies

Subject: Letter of the Financial Attache of the French Embassy with reference to releasing \$1,500,000 blocked French credits for use in buying canned meat in the Argentine market for use in feeding of prisoners of war in Germany.

Dear Adolf:

With reference to the above-entitled matter, it occurred to me that you or the Department of the Treasury might wish to have such information as we have here in the Special Division concerning the facts with reference to the allegations of Mr. Alphonse (which you very appropriately say in your letter of the 25th to Secretary Chamberlain that it might be desirable to verify), so that this Government, as you suggest in your letter, may be "convinced that what Alphonse says is true."

This Division, together with the staff of the American Embassy in Berlin, is charged with the responsibility of inspections of prisoner of war camps in Germany under the Geneva Convention. Attached hereto is a memorandum on reports dated August 17th and August 28th and a despatch of August 26 which

-2-

which the Department has received from its Embassy in Berlin. You will note that these reports indicate in several instances that there was "food in abundance" and, again, in a camp in which 4,500 white French prisoners were confined, "There appeared to be a plentiful supply of food, even eggs; sides of beef and pork were seen arriving in trucks."

You doubtless have already considered the fact that this request, if granted, would operate to relieve the German Government of the obligation which attaches to it to provide food for prisoners of war; and that the release of these blocked credits provides for their expenditure not in the United States but in the Argentine.

In view of the contradictions with reference to the facts which appear in the situation, the suggestion is made that it might be advisable to obtain a report from the American Embassy in Berlin as to the necessity for such additional food as is made the basis of this request from the French Government.

SD:JED:IMF:KRM

10/2/40

CCFY

pf

MEMORANDUM

Subject: Food supply in German prisoner
of war camps as revealed by in-
spection reports from the Amer-
ican Embassy, Berlin

The following excerpts are taken from recent reports on file in the Special Division of inspections made of prisoner of war camps in Germany by members of the staff of the American Embassy at Berlin who, together with the Special Division, are charged with the responsibility of seeing that the provisions of the Geneva Convention are observed.

Report

-3-

Report dated August 17 of camp in which 215 of the prisoners are French.

"The food served at the camp at the time of the inspection was even better than might be expected during an inspection. Although the prisoners reported that the food exhibited was considerably better than usual, there were no complaints about the quality and quantity ordinarily served, except the standing complaint among French prisoners that the bread ration is not enough. The amount of bread served appears to be the standard amount served the other camps, and the same as that issued to German troops. In the hospital compound is a large and well tended vegetable garden, the produce of which is available to the prisoners.

"Prisoners receive two full meals a day, at noon and in the evening. In the morning they are served coffee but no bread. This is the source of the bread complaint, although most prisoners state that they save some of the bread issued during the day for breakfast next morning."

Report dated August 28, of camp in which 824 are colored French and 573 are white French.

"...There seemed to be an abundance of food. The camp was designed to expand to accommodate many more prisoners at a moment's notice. The commandant had different nationalities as cooks in various kitchens in Hauptlager and had the prisoners fed at one time in one, and another time in another kitchen so that there would be less tendency to favoritism or complaints."

Report dated August 28, of a camp in which 17,000 of the prisoners were French.

"The kitchen building stood in the middle of the camp. It had 3 chimneys with 3 steam kettles each.

-3-

"The various ingredients were cooked (meat, grits, potatoes, tomatoes) in different kettles from which some of each was put in a big mixing kettle and sent out to 2 serving sheds on the east and west sides of the cook house. These serving sheds had kettles from which the stew was ladled to the prisoners, a little at a time.

"Potatoes were also served in the skins, and soup 'powders', one with tomatoes and the other with cauliflower and meat, were sampled.

"The food was the usual ration in all German prison camps according to the 10 days menu which is then repeated."

Report dated August 28, of camp in which 17,730 were white French and 2,483 were colored French.

"...There was food in abundance. At present cooking is done in a large hollow square of 25 kettles and more than 100 cooks. It is only necessary to cook once a day to supply the whole camp. Potatoes are often served in their skins to preserve the vitamins. ...The camp has supplies of food on hand for 14 days."

Report dated August 28, of camp in which 4,504 are white French.

"There appeared to be a plentiful supply of food, even eggs; sides of beef and pork were seen arriving in trucks. There was a large kitchen barrack with steam kettles for the whites, with the usual menu for 10 days enclosed in other reports. For those in the tents there was a kitchen in a wooden shack and a large steam kettle and oven on a railroad truck which had served at the National Socialist rallies at Nuremberg. The food served here was the same as in the white barrack section."

Report dated August 28, of camp in which 4,500 are French.

"The amount (of food) is one litre of stew
per

-4-

per man and the diet is the standard prescribed at all camps. 'Coffee' (Ersatz) may be had at all times."

In a despatch dated August 26 enclosing reports of inspections covering thirteen camps in which British, Belgian and French nationals are confined, there appears the following comment respecting food:

"No expectation of immediately increased supplies of food for the prisoners can be entertained despite the frequent attempts made in this respect, and despite the fact that deficient food, particularly deficient bread, has been and remains the major complaint of the prisoners. The statement that each prisoner receives 2,400 calories daily, that the prisoners receive the weight in grams of rationed foods identical with that of the civil population and depot troops, and that the British blockade prevents more quantity and greater variety of food, have become the adamant responses of the appropriate officials whose attention was called to this question.

"...In general the provisions of the International Convention for the Treatment of Prisoners of War, Geneva, July 27, 1929, are observed, although deficiencies in foodstuffs and in the supply of clothing were noted."

SD:JHK:LFS:KRM

10/2/40



BRITISH PURCHASING COMMISSION

October 4, 1940.

Dear Henry,

I had hoped to call upon you for a moment to give you the attached important message which came in response to a joint message we sent to the Prime Minister, Lord Beaverbrook, Sir Archibald Sinclair and Sir Arthur Salter a few days ago.

I have kept the original and two other copies in case you wish them sent to the others concerned, but we shall await to hear from you.

Sincerely

Arthur

I have put the "key" in a separate cover. If you think your plane is about to crash please swallow it.

Arthur

127

A..... 3,209
B..... 3,735
C..... 3,101
D..... 4,149
E..... 1,874

J

Following for Morgenthau from Beaverbrook

MOST 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 B, showing increase of just over 500.

This statement excludes all aircraft in C.R.O. which await repair and inspection including B.

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.

Regraded Unclassified

-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 considerably 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.

October 4, 1940
12:20 p.m.

H.M.Jr: Hello.

Operator: Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello.

H.M.Jr: Arthur, I just had an intensely interesting conversation with Sloan.

P: With who?

H.M.Jr: Sloan. I called him up to tell him how pleased we were on the Allison engine and he was very appreciative of my calling him, and then he said, well, now, let me tell you something. He said, I'm very much disturbed that you people down in Washington have asked Buick to make 5,000 of these air-cooled engines and have us get started into something we don't know anything about and we've got to go through all of these troubles over again.

P: Ah, ha!

H.M.Jr: And he said, now, I don't want to make any promises but I think that without changing the body of the engine but through strengthening the materials we're going to be able to raise this engine to 14 or 1500 horse power.

P: Really?

H.M.Jr: And he said, why not leave us on this, if you want more engines give us an order on Allison but for God's sake don't start us on something that we know nothing about.

P: Sounds to me very sensible, doesn't it you?

H.M.Jr: I told him so and I said, well, have you talked to Knudsen because I think that this is his brain child.

- 2 -

P: That's right - (laughs).

H.M.Jr: So he said, no, he hadn't and I said, well, I wish you would. I said, jokingly, you know him don't you.

P: (Laughs).

H.M.Jr: And he said he did. But, I mean, if Allison can go to 1400 or 1500 horse power in a reasonable time and they can turn it out, why give them a radial engine which they frankly say they know nothing about and, as I said, if they want more radial engines give it to Ford.

P: Yes.

H.M.Jr: He said, absolutely.

P: I think it's very sensible.

H.M.Jr: And I wanted to pass it along to you and I'm going to call up the War Department and tell them of my conversation because just because Knudsen suddenly wants Buick and Studebaker to go into something doesn't mean necessarily that it's right. See?

P: No, quite.

H.M.Jr: So I'm passing it along to you.

P: Well, I'm very glad to get it - very interested in it.

H.M.Jr: And he also told me he hoped that in not too many days that he would put his stamp of approval on the so-called F engine.

P: Oh, good!

H.M.Jr: And as soon as he does he's going to call me up and let me know.

P: That's very good. I think he's working at it, don't you?

- 3 -

H.M.Jr: Well, I tell you, he was sport enough to thank me for having him come down here to see us because he said that's what brought the thing to a head and from then on things went forward. Now that was very sportsmanlike.

P: Yes, well you know, I told you I think a lot of that

H.M.Jr: Well, he thanked me for having him down here.

P: Good. Now, I have a feeling that if that were adequately steered with Knudsen and the British end of this were not shot down Ford's throat, should he happen to be the one who does this, that if it were put on the basis of essential to U.S. defense, that that would take care of any dangerous break-away with him again, don't you.

H.M.Jr: Well, look, if Allison is coming so beautifully and you've got plenty of radial engines on order, why fuss with it. Why not give Allison another - a bigger order.

P: Yes. Well, actually with the new program probably we'd need both.

H.M.Jr: Well, anyway, think about it.

P: I will. I think it's excellent.

H.M.Jr: Look, was I too tough with this fellow?

P: Not a bit. Not a bit.

H.M.Jr: Could he take it?

P: Oh, yes.

H.M.Jr: Was he - was his feelings hurt?

P: No. No, no. Fine.

H.M.Jr: What?

P: Fine. A-l.

H.M.Jr: All right. Fine. Thank you.

P: Right. Good-bye.

October 4, 1940
12:25 p.m.

H.M.Jr: Hello.

Operator: Judge Patterson.

H.M.Jr: Hello, Henry talking.

Robert
Patterson: Yeah, Henry.

H.M.Jr: I thought you'd be interested in this.
I just called up Alfred Sloan, Jr. of
General Motors to congratulate him on their
success with the Allison engine, because
I originally contacted him.

P: Yeah.

H.M.Jr: And then he said, now, may I say something
to you? He said, we think and we're not
going to make any promises but with the same
engine by simply strengthening the materials
we have hopes that we can raise that horse
power to 1400 or 1500 from the 1050.

P: Yeah.

H.M.Jr: Now, he said, along comes Washington and tells
us that Buick - that we should make 5,000 of
these radial engines. He said we don't know
a damn thing about them, we have to start all
over again and learn the business and, he said,
we'll have the same trouble that we had with
Allison.

P: Buick?

H.M.Jr: Yes. You know that Knudsen wants to get
Buick to build 5,000 either Pratt Whitney or
Curtiss Wright and he's giving Studebaker an
order for 5,000.

P: Yeah, I knew of the Studebaker.

H.M.Jr: Well, Buick was the other. So he said, if
you people down there want more engines,
why not let us build an engine that we know
something about. And I said, well, it sounds
like sense to me.

- 2 -

P: Yeah. Well, of course, this other engine though is a proven engine.

H.M.Jr: Well, he says that they'll go through all the troubles and he said that it'll take them just as long to turn that one out as it did the Allison. I'm just repeating what he said.

P: Yeah.

H.M.Jr: And he said, we'll have all the difficulties, and if the head of General Motors feels that way, it certainly is serious enough that we should consider it.

P: Yeah, I'll be glad to.

H.M.Jr: What?

P: Yeah.

H.M.Jr: And he said, we can do the other job and we're going to, we hope, we won't make any promises, that we can raise the horse power to 1400 or 1500 hundred.

P: Yeah.

H.M.Jr: So I'm passing it along to you for what it's worth.

P: Yeah, I'll talk

H.M.Jr: You can't laugh it off.

P: No, no. Fine. I'll talk to Mead about it.

H.M.Jr: And to get back to the question of standardization again, you see, if Allison gets going on this and they get going strong, why let's give them more orders - that's what I'd do if it was my responsibility, rather than get them started on an entirely new thing.

P: Well, it's very wise. I'd understood though that they were going to take up - Buick would take up Pratt and Whitney or Wright.

- 3 -

H.M.Jr: That's it.

P: That would be all right, but that was a proven engine. That's like the Ford deal.

H.M.Jr: Well, Mr. Sloan says no. He says he'll have all the troubles, all the headaches again and he's - he said to me, I'm scared of it.

P: Yeah.

H.M.Jr: Now if that is the way he feels, I think he ought to be listened to.

P: Yeah, I do too.

H.M.Jr: Thank you.

P: Thanks.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 4, 1940

TO Secretary Mergenthau
FROM Mr. Cairns

Mr. Wenchel advised me at 12:25 p.m. that the Department of Justice advised that a true bill was returned against Scalise in the tax evasion case. The United States Attorney will be unable to deliver the bill to the Judge until Tuesday. This information is confidential and anyone giving it out would be liable to be cited for contempt of court.

/tc

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

October 4, 1940

My dear Mr. Secretary:

I want to thank you for the very pleasant luncheon yesterday. I have been anxious to meet you and was greatly interested in your discussion of the hemispheric economic problem.

I am looking forward to the opportunity of meeting with you for a few minutes each week in order to get the benefit of your counsel and advice concerning these matters. Such an arrangement will be most helpful to us. I will take the liberty of communicating with your secretary regarding a time which will be convenient to you.

May I take this opportunity to express my appreciation for the invaluable cooperation and assistance which we have received from both Mr. Foley and Mr. White. It has meant a great deal to me personally.

With best wishes.

Sincerely yours,

Sincerely yours,
William A. Rockefeller
J. Morganthau, Jr.,

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

WASHINGTON, D.C.
OCT 12 1962

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PARAPHRASE OF TELEGRAM

RECEIVED FROM: American Embassy, Rio de Janeiro

DATE: October 4, 1940. 2 p.m.

NO. : 504

With reference to the Brazilian steel plant agreement, which was recently signed, the President of Brazil on October 3 referred to it in very favorable terms. According to President Vargas, congratulatory telegrams were coming in from all parts of the country. He spoke very highly of the cooperation of the President of the United States concerning the matter.

TO THE SECRETARY OF THE ARMY
FROM THE AMERICAN EMBASSY
RIO DE JANEIRO
OCT 10 1940
RECEIVED

RA:Walmsley:MJC

eh

COPY



139

TREASURY DEPARTMENT

WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA

CAA

October 4, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, the developments during the week were as follows:

Wright Aeronautical Corporation:

Closing agreement (executed by contractor) in re ruling letter dated August 21, 1940, received and is now under usual review procedure in the office of the Chief Counsel.


Acting Commissioner.

Copy of Letter from Y. Santiago, October 4, 1940

There is nothing new of great importance to report. The general political situation is going from bad to worse and it is being rumored that the Minister of Defense, Duhalde, is attempting to establish a dictatorship backed by the armed forces. On the other hand the Communists, who are surprisingly well organized and seem to be well supplied with funds, are apparently on the same road to try to establish a dictatorship. The fact is that the economical situation is becoming worse so that a change is due in view of the widespread dissatisfaction. It is difficult to predict what this change may mean for the future of the country and we all are hoping for the best.

Admiration for the British is increasing in Chile on account of their splendid resistance and if this resistance can be maintained the effect on public opinion and foreign politics will be beneficial.

COMPLIMENTS
OF
MR. H. K. HOCHSCHILD

COPY

141

No. 365

AMERICAN CONSULATE GENERAL

Rangoon, Burma, Oct. 4, 1940

STRICTLY CONFIDENTIAL

SUBJECT: Statement of the Monthly Transit Trade in War Materials
of the principal firms engaged in this trade between
Burma and China.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to my strictly confidential despatch No. 355 of September 7, 1940 entitled "Statement of the monthly transit trade in war materials of the principal firms engaged in this trade between Burma and China" and to forward enclosed certain further statistics on the same subject.

The enclosed statement is a continuation of the statement previously submitted and is not complete in itself.

Respectfully yours,

W. Leonard Parker
American Vice Consul

800
JO

In triplicate to the Department

a true copy of the
signed original
(1) J.O.

bfn

-2-

STATEMENT OF THE MONTHLY TRANSIT TRADE IN
WAR MATERIALS BETWEEN BURMA AND CHINA OF THE PRINCIPAL FIRMS
ENGAGED IN THE TRADE.

June (continued)

3. Intercontinent Corporation

Classification	No. & kind of pkgs	Weight	Arrived on steamship	From	Date Shipped to China
Tube cutter, Surface & shaper machinery, Ferru- les, etc.	—	—	Knoxville City	U.S.A.	6-13-40
Steel wool	1 carton	5 lbs.	Winkfield	India	6-16-40
Steel structures, Hand beam trolley	894 pkgs	219,934 lbs	Knoxville City	U.S.A.	6-15-40
Rubber boots	8 cases	990 lbs	Soudan	China	6-24-40
Soldering irons, Welding equip., Radio parts, Machine access., Trac- tor parts, etc.	27 boxes	5,446 lbs	Knoxville City	U.S.A.	6-13-40
Welding equipment	11 cases	2,140 lbs	Exporter	U.S.A.	6-21-40
Nitrate dope	8 drums	3,346 lbs	Hai Hing	Hongkong	6-1-40
Rubber sponge, Flux, etc.	5 cases	80 lbs	Santhia	Hongkong	6-29-40

August

1. South West Transportation Company

Classification	On hand last month	Arrived this month		Despatched this month	Balance
		Tons	Port		
*Arms & Access.	55 tons	—	—	—	55
Ammunition	12 tons	16	New York	—	28
Explosives	—	—	—	—	—
Gasolene	317 "	1,969	Singapore	—	2,286
General Cargo	25,591 "	17,670	Batavia	6,958	36,303 **
totals	25,975 tons	19,655		6,958	38,672

*This item includes 36 units of Limbers
weighing 52 tons

**This item includes 12,916 tons of steel
rails

G-2/2657-220

RESTRICTED

No. 211

SITUATION REPORTM.I.D., W.D.
October 4, 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.

The air action on October 3rd was less than at any time since the bad weather period at the end of August.

The Germans attacked by day over southern England and the Midlands and operated over London at night. Strength of the raids was apparently well below normal.

During daylight of the 3rd the R.A.F. made a few raids over Germany and over German-occupied territory.

II. Mediterranean and African Theaters of War.

No ground operations reported. Air force operations on both sides were executed by small forces against widely separated objectives.

RESTRICTED

These papers came off of the Secretary's desk before he left for his vacation in Jamaica in November. When he returned, Miss Chauncey gave them back to him and asked him whether the matter had been taken care of. HM Jr told her that it had been taken care of. 144

145

THE WHITE HOUSE
WASHINGTON

October 4, 1940.

PERSONAL AND CONFIDENTIAL.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY:

Will you, some day next week, speak to me about the McNutt personal matter. It seems to me that a fellow should either be tried successfully or unsuccessfully, or be given some kind of a clearance.

F. D. R.

TO: MRS. KLOTZ

146

In accordance with your request yesterday, I hand you herewith memorandums on the following subjects:

- (1) Basis of the McNutt Tax Case;
and
- (2) Law and Policy Regarding
Publicity in Income Tax
Matters.

From: MR. GRAVES 10/9/40

BASIS OF THE McNUTT TAX CASE

The income tax case against Paul V. McNutt, among others, was the outgrowth of a routine investigation, made early in 1939, of one Pleas Greenlee, who had been recommended by the Indiana Senators for appointment as Collector of Internal Revenue at Indianapolis. During McNutt's term as Governor of Indiana, Greenlee had served as his patronage secretary, and the investigation referred to produced information not only disqualifying Greenlee for the position of Collector of Internal Revenue, but also pointing strongly to the possibility of tax irregularities on the part of McNutt and certain of his political associates.

Subsequent investigation brought out that the Hoosier Democratic (Two Per Cent) Club, a political organization formed by associates of McNutt in August, 1933, had, in the period from 1933 to 1938, inclusive, accumulated approximately a quarter of a million dollars, by assessments or contributions from State employees, breweries, liquor dealers, etc., in excess of the funds regularly collected and disbursed according to the Club's records, and that officers of the Club had paid this amount over to unknown persons for what were alleged to be general political purposes. The officers of the Club declined to disclose the identity of these persons, and ultimately the Treasurer of the Club, in order to avoid such a disclosure, personally paid the sum of \$83,781.62 in satisfaction of the income-tax liability (including interest) on the amount in question.

Direct investigation brought to light that for the period from 1933 to 1938, inclusive, McNutt had derived certain taxable income which he had failed to report, in the form of revenue from speaking engagements, dividends, gambling winnings, etc., and that in addition he had made substantial cash deposits during this period in a number of bank accounts. He filed no tax returns for the years 1933 to 1936, inclusive (his salary as Governor of Indiana and the salary paid him in the Philippines as High Commissioner, were not taxable). Following a number of interviews, McNutt filed delinquent tax returns for the years 1933, 1934, 1935, and 1936, and amended returns for the years 1937 and 1938, upon which he reported taxable income for the years in question amounting to \$52,541.84 by comparison with the sum of \$5,448.89 which he had regularly reported, an increase of \$47,092.95. He paid the tax, together with interest and delinquency penalties, on this additional income, in the total amount of \$2,997.61. The tax previously paid was \$117.89. A tabulation is attached which states these matters in detail, by years.

Corrected Net Income and Additional Taxes

<u>Item</u>	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Income from speeches.....	\$1,480.86	\$2,341.77	\$1,213.25	\$1,319.50	\$640.00	----
Dividends:						
K.V.B. Corporation.....	----	2,518.05	1,810.49	1,449.38	2,710.98	\$1,373.66
Others.....	119.33	86.77	114.11	274.97	491.88	411.71
Other income:						
Poker winnings.....	650.00	300.00	200.00	473.00	398.00	----
Unidentified deposits.....	4,312.13	709.39	10,772.42	8,062.15	1,249.78	222.13
Interest received.....	----	12.50	255.83	544.87	754.16	717.52
Rents.....	----	----	----	120.00	----	100.89
Profit on sales of stocks.....	----	----	----	2,512.69	1,284.92	(37.25)
Taxable Salary as High Commissioner.....	----	----	----	----	1,400.00	1,500.00
Total income.....	6,562.32	5,968.48	14,366.10	14,756.56	8,929.72	4,288.66
Deductions.....	400.00	450.00	450.00	450.00	290.00	290.00
Net income.....	6,162.32	5,518.48	13,916.10	14,306.56	8,639.72	3,998.66
Net income reported.....	None	None	None	None	3,432.67	2,016.22
Taxes paid.....	None	None	None	None	85.31	32.58
Additional taxes due.....	127.34	None	722.79	842.72	370.27	75.37
Penalties.....	31.84	None	180.70	210.68	None	None
Interest.....	46.79	None	178.86	157.98	47.19	5.08
Total additional.....	205.97	None	1,082.35	1,211.38	417.46	80.45

Summary

Additional taxes.....	\$2,138.49
Penalty.....	423.22
Interest.....	435.90

Total..... 2,997.61

BASIS OF THE McNUTT TAX CASE

The income tax case against Paul V. McNutt, among others, was the outgrowth of a routine investigation, made early in 1939, of one Elias Greenlee, who had been recommended by the Indiana Senators for appointment as Collector of Internal Revenue at Indianapolis. During McNutt's term as Governor of Indiana, Greenlee had served as his patronage secretary, and the investigation referred to produced information not only disqualifying Greenlee for the position of Collector of Internal Revenue, but also pointing strongly to the possibility of tax irregularities on the part of McNutt and certain of his political associates.

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ENC/mcc

Corrected Net Income and Additional Taxes

Item	1933	1934	1935	1936	1937	1938
Income from speeches.....	\$1,400.00	\$2,341.77	\$1,213.85	\$1,219.00	\$640.00	—
Dividends:						
K.V.B. Corporation.....	—	2,513.63	1,210.40	1,400.30	2,710.50	\$1,977.00
Others.....	119.30	68.77	114.11	274.97	481.00	411.71
Other income:						
Poker winnings.....	500.00	300.00	300.00	473.00	300.00	—
Unidentified deposits.....	4,212.12	700.00	10,772.42	8,000.15	1,240.70	202.12
Interest received.....	—	12.50	226.05	244.07	734.15	717.22
Rents.....	—	—	—	120.00	—	100.00
Profit on sales of stocks.....	—	—	—	2,212.69	1,204.00	(87.25)
Taxable Salary as High Commissioner.....	—	—	—	—	1,400.00	1,200.00
Total income.....	6,512.32	5,943.40	14,236.10	14,786.56	6,280.70	4,202.10
Deductions.....	400.00	400.00	400.00	400.00	290.00	220.00
Net income.....	6,112.32	5,543.40	13,836.10	14,386.56	5,990.70	3,982.10
Net income reported.....	None	None	None	None	5,430.07	2,015.22
Taxes paid.....	None	None	None	None	65.21	22.22
Additional taxes due.....	127.24	None	722.70	842.72	270.27	70.27
Penalties.....	21.24	None	120.70	210.00	None	None
Interest.....	62.72	None	172.22	127.22	47.12	1.22
Total additional.....	209.77	None	1,022.22	1,211.22	417.42	71.22

S U M M A R Y

Additional taxes.....	\$2,122.40
Penalty.....	422.22
Interest.....	420.70
Total.....	<u>2,965.32</u>

LAW AND POLICY
REGARDING PUBLICITY IN INCOME TAX MATTERS

The income tax laws make it a criminal offense for any officer or employee of the Government to make public information about the tax liability of particular individuals. The basic statutory provision is as follows:

"It shall be unlawful for any collector, deputy collector, agent, clerk, or other officer or employee of the United States to divulge or to make known in any manner whatever not provided by law to any person the amount or source of income, profits, losses, expenditures, or any particular thereof, set forth or disclosed in any income return, or to permit any income return or copy thereof or any book containing any abstract or particulars thereof to be seen or examined by any person except as provided by law; and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; and if the offender be an officer or employee of the United States he shall be dismissed from office or discharged from employment." (Sec. 55(f)(1), Internal Revenue Code.)

The exceptions referred to in the foregoing provision have relation to the rights of certain classes of interested persons to inspect particular returns, under rules and regulations prescribed by the Secretary of the Treasury and approved by the President. These classes include shareholders, administrators, executors, trustees, guardians, beneficiaries, attorneys in fact, husbands or wives, partners, heirs at law, next of kin, etc. No legal provision exists which would permit any Government officer to make disclosures about individual tax cases except to such intimately interested parties as those here enumerated, and, under certain conditions, to State officers, Committees of Congress, the Heads of the Executive Departments, Federal prosecuting officers, etc.

The administrative policy of the Treasury Department with regard to publicity in income tax matters has, of course, followed the law. The Department has consistently forbidden

officers or employees of the Internal Revenue Service to divulge information about particular cases. The following regulation of January 2, 1912, is still in effect:

"No person connected with this bureau shall, in any manner not expressly authorized by law, communicate, divulge, or make known in any way facts or circumstances relating to any case reported to or pending in the bureau, or business transacted therein." (T. D. 1745. Com.-Mimeograph, Coll. No. 2832.)

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-2-

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HNG/mff

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 4, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£49,000
Purchased from commercial concerns	£14,000

The Federal Reserve Bank sold £3,000 in registered sterling to a non-reporting bank.

In the open market, sterling was first quoted at 4.03-1/2. It moved to 4.04 around noontime and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£31,000
Purchased from commercial concerns	£4,000

There was little movement in the Swiss franc rate. That currency closed at .2304, equaling yesterday's high.

Continuing its improvement, the Cuban peso moved to a discount of 7-7/16%, as compared with 7-7/8% yesterday.

New York's free rate for the Argentine peso has moved steadily upward this week. Today's closing quotation was .2355, as against .2320 last Monday.

The other currencies closed as follows:

Canadian dollar	14-5/8% discount
Swedish krona	.2385
Reichsmark	.4005
Mexican peso	.2066
Brazilian milreis (free)	.0505
Lira	.0505

There were no gold transactions consummated by us today.

The Federal Reserve Bank informed us that it had made another three-months loan of \$50,000 to the Central Bank of El Salvador. As collateral, the Federal set aside gold valued at \$56,769, from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$460,000, secured by \$521,503 in gold.

- 2 -

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

272,000 from Portugal, representing two shipments by the Bank of Portugal, to be earmarked for its account.
108,000 from El Salvador, representing two shipments by the Central Bank of El Salvador, to be earmarked for its account.
380,000 Total

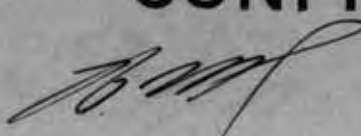
The Bombay gold price declined the equivalent of 5¢ to \$33.91. Silver was changed at the equivalent of 44.56¢.

In London, spot silver remained at 23-7/16d while the forward price was fixed 23-5/16d, off 1/16d. The dollar equivalents were 42.56¢ and 42.32¢.

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

We made only one purchase of silver, amounting to 25,000 ounces, under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL



Yokohama, Japan, October 4, 1940.

Subject: CUSTOMS COURTESIES

The Honorable

The Secretary of State

Washington.

Sir:

I have the honor to refer to this Consulate's despatch No. 635 of March 5, 1940, concerning customs courtesies in Yokohama and to report as follows concerning the action of the customs authorities in connection with the arrival of Vice Consul and Mrs. Niles W. Bond at Yokohama.

When Mr. and Mrs. Bond arrived on the S.S. PRESIDENT PIERCE on August 16, 1940, they brought with them, in addition to their luggage, about thirty cases of grocery supplies. As these supplies were carried as baggage they were not entered on the freight manifest of the ship nor in any customs records. The customs officials at Yokohama did not assess any duty on these supplies.

Subsequent to the arrival of Mr. and Mrs. Bond they received two small shipments of additional groceries and other supplies. These effects were shipped as freight and were, therefore, included in the customs records. I have to enclose herewith a memorandum prepared by Vice Consul Bond concerning the customs treatment of these freight shipments. It will be noted that duty was collected on a relatively small portion of the total shipment and that such duty was at a rate considerably favorable to Mr. Bond. It was necessary, however, for Mr. Bond and an employee of the Consulate to discuss the matter personally with the Japanese customs officials in order to get the favorable treatment which was accorded them.

This is the first occasion in my knowledge where any duty has been assessed on effects or supplies brought by a consular officer on detail in Yokohama on his first assignment. On the other hand, in times past, consular officers arriving in Yokohama have not brought with them special supplies of groceries and other expendable supplies.

Mr. and Mrs. Bond did not bring any furniture with them. They brought a 1937 Chevrolet coupe which had been run about 26,000 miles. The car was carried as baggage and was, therefore, not documented on the customs records. The customs officials said that since it was not on the customs records and since it was obviously a used car no duty would be charged.

Duty on Parcel Post Shipment

The customs authorities at the Yokohama post office assessed duty at the rate of 110% on a package containing table silverware which was sent from the

United States to Mr. and Mrs. Bond as a wedding present. The silver was worth approximately \$36. An employee of the Consulate endeavored unsuccessfully to have the customs authorities at the post office waive the collection of duty. The customs officials apparently did not consider the package as part of Mr. Bond's household effects. The package was returned to the United States without collection of duty. Other parcels, less than \$10 in value, have been delivered to Mr. Bond without payment of duty.

Respectfully yours,

Richard F. Boyce,
American Consul.

Enclosure:

Memorandum of Vice Consul Miles W. Bond,
dated October 2, 1940.

702

RFB/rk

Distribution:

Original and 4 copies Department of State, Washington, D. C.
1 copy American Embassy, Tokyo.
1 copy American Consulate General, Tokyo.
1 copy Files.

A true copy of the
signed original.

COPY

OFFICE MEMORANDUM

DATE: October 2, 1940
TO: Mr. Boyce
FROM: Mr. Bond
SUBJECT: Entry of shipment of household and other effects of Vice Consul Bond and wife.

Attached hereto is a statement from the express agents as to the amount of duty which was assessed on a shipment of household and other effects, destined solely for our personal use, which arrived at Yokohama on the M.S.HIE MAHU on September 25, 1940. The goods were shipped from New York on August 8 by the U.S. Government Despatch Agent, and were transhipped from Kobe on the above mentioned vessel.

It will be noted from the statement that duty was assessed on 47 tins of coffee beans, 48 cakes of soap (P & G laundry) and two new automobile tires, which items constitute a relatively small proportion of the total shipment.

On September 30, prior to the release of the shipment on the following day, Patrick and I called at the Customs office to try to expedite matters, and learned from the head appraiser that, in addition to the articles enumerated above, several articles such as used clothing and shoes, a used hat, one dozen new tennis balls, one dozen jars of jams and jellies and a new set of flat silverware were also on the dutiable list. After being convinced that they were for our personal use, however, the appraiser struck from the list all except the items on which duty was finally paid, and promised to assess the duty on them at as low a rate as possible. Patrick says that the rates as they appear are, in fact, favorable.

At the rate that Helm Brothers Ltd. was working on the release of the shipment, it would probably not have been through before Christmas if left entirely in their hands.

(Signed) Niles W. Bond
Niles W. Bond,
American Vice Consul.

A true copy of the signed original.

eh

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(Signed) Niles W. Bond
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American Vice Consul.

A true copy of the
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eh.

COPY

C O P Y

160

HELM BROTHERS, LIMITED

Ref.

9905

Mr. Miles W. Bond

53 Yokohama, October 1st, 1940.

Mr. S.S. "Hie Maru"

25/9/40

TELEPHONE NOS. (2) 4731-4735.

Kindly be advised that Customs have levied duty on your shipment as follows:

ARTICLES	Quantity	Invoice Value & Charges	Tariff No.	Rate of Duty	Amount
Coffee Bean in tin	47 tins 35.53 kin	Yen 40.00	34-1	100 kin ¥20.38	¥ 7.24
Special Tax for above		Yen 47.24		10%	4.72
Not perfumed Soap	48 pos. 21.-kin	5.00	117-2	55.9%	2.54
Auto. Tyre	2 pos. 25.-kin	55.00	564-10	50%	27.50
					¥42.00

Marks: - AMERICAN CONSULATE 1 case
1 crate
1 case

Received payment
(Signed)

If in order kindly favour us with your cheque and delivery instructions if not already given.

Duty once paid to the Customs cannot be refunded.

HELM BROTHERS, LIMITED

(Signed)

COPY

CONFIDENTIAL

161

Paraphrase of Code Cablegram
Received at the War Department
at 12:30 P.M., October 4, 1940.

London, filed 11:50, October 4, 1940.

During daylight hours of October 3 German bombing activity was confined to random raids by single planes in thick fog and rain over the London area. Damage reported: hits on or near 15 airfields or depots with three airplanes destroyed and four slightly damaged; one broadcasting station damaged; hits received by six factories, which will result in suspension of production for some days in one, shorter periods in the remainder.

British activities during daylight of October 3 included 15 convoys and 37 other missions involving 55 planes. British Fighter Command activities included 80 missions by a total of 138 planes. All bombing by British planes was cancelled last night.

Losses reported were as follows: Germans two, British one.

Shipping losses reported included two vessels, totalling 5,260 tons, sunk by submarines and two trawlers sunk by mines. The northwest approach was cleared by a convoy of 50 outbound ships.

In the Mediterranean 30 bombs were directed at British cruisers by three Italian planes but without damage. One British battleship successfully escaped attack by four torpedo planes. Another British battleship was bracketed by 20 bombs resulting in no damage beyond minor casualties. Army and Air Force reinforcements were successfully landed at Malta.

CONFIDENTIAL

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British activities during daylight of October 3 included 15 convoys and 57 other missions involving 65 planes. British Fighter Command activities included 80 missions by a total of 130 planes. All bombing by British planes was cancelled last night.

Losses reported were as follows: Germans two, British one.

Shipping losses reported included two vessels, totalling 5,200 tons, sunk by submarines and two trawlers sunk by mines. The northwest approach was cleared by a convoy of 50 outbound ships.

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CONFIDENTIAL

CONFIDENTIAL

Evacuation from Berlin and other large German cities continues.

That the Germans have renewed their attempt to wear down the British Fighter Command is indicated by their use, during the last few days, of numerous pursuit planes and relatively few bombers. Reports indicate that the small size of the bombs being used by the British is resulting in comparatively little damage in spite of the great accuracy of the bombings.

LEE

Distributions:

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

CONFIDENTIAL

163

BRITISH EMBASSY,
WASHINGTON, D.C.

October 4th 1940.

Personal &
Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. M. L.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated October 2nd 1940.

Secret.

Naval.

H.M. Battleship "King George V" was commissioned on October 1st.

On October 1st a British submarine attacked 4 small enemy destroyers near Cherbourg and believes one hit by torpedo.

2. Royal Air Force.

Weather conditions hampered observations of the results of Royal Air Force attacks on the night of September 30th - October 1st but the Air Ministry at Berlin was located and bombed; also railway yards, power stations and three factories in the same city. Fires were started at Leuna oil plant. Ammunition train probably hit at Mannheim and fires caused by bombing at Calais, Havre, and Rotterdam. Other objectives were oil targets, railway targets, docks and aerodromes. Mine laying also carried out. Two aircraft from the Coastal Command missing in addition to the five bombers already reported.

One/

- 3 -

One enemy aircraft shot down in the Channel by a Blenheim.

During the night of October 1st - 2nd 91 aircraft attacked an electrical equipment factory in Berlin, oil targets and marshalling yards in Germany, shipping and barges in Channel ports and mine laying continued. Results not yet known but three heavy bombers are missing.

3. German Air Force.

On morning of October 1st 100 enemy aircraft operated in south Dorset before being dispersed by our fighters; in the afternoon three waves of approximately 50, 50 and 90 aircraft crossed the Kent coast and some reached within 15 miles of London before turning away. Other activity consisted of raids by single aircraft. Although some casualties caused by these raids material damage in London and home counties was slight. Note:- more than 75% of enemy aircraft engaged in day raids over this country on September 30th were fighters. During the night of October 1st - 2nd the main attack was again directed against London and bombing was widespread though enemy activity was on a reduced scale. Attacks also made on Liverpool, Manchester, North Midlands, East Anglia and south west England. From preliminary reports it appears that little damage was done to key points and that casualties were slight.

Westminster/

Regraded Unclassified

- 3 -

Westminster Abbey was damaged on the night of September 26 - 27th by an enemy bomb but damage is not serious and can be repaired.

4. Summary of Air Casualties.

Enemy: all by our fighters.

	<u>destroyed.</u>	<u>probable.</u>	<u>damaged.</u>
bomber	-	-	1
fighters	4	2	4
totals	<u>4</u>	<u>2</u>	<u>5</u>

British 5 aircraft (1 pilot safe), 5 bombers, 2 Coastal Command aircraft.

5. Shipping Casualties.

Spanish s.s. "Monte Roncayo" 4,000 tons torpedoed and probably sunk off Sardinia on September 28th.

On October 1st British s.s. "Highland Patriot" 14,000 tons. was torpedoed and sunk in the Atlantic. Crew saved except three men.

6. Middle East.

Baqbug and Sidi Barrani appear to have been evacuated. Garrisons are located at camps inland of these centres. No repairs appear to be in progress on Sidi Barrani road, but air

- 4 -

reconnaissance of September 29th revealed considerable mechanical transport movements south and south east of Sidi Barrani.

Note: It is estimated that there are now in Libya 350 Italian light tanks and 70 to 90 medium tanks. On September 30th Blenheims damaged several Italian aircraft on the ground 85 miles east of Benghazi, and on their return were intercepted by 15 enemy fighters, three of which were shot down. One Blenheim missing.

On the same day, Blenheims started large fires in Tobruk Harbour.

BRITISH EMBASSY

WASHINGTON, D.C.

Bulington from London dated October 3rd.

Naval.

1. An air reconnaissance on the morning of October 1st showed the "Michellieu" still in the inner harbour at Dakar. Three destroyers and a ship were also in the harbour.

H. M. Trawler "Verfeilt" fired 3 rounds at coming tower of a U-boat off the east Scottish coast on October 2nd and claims one hit; she afterwards dropped 2 depth charges.

2. **Naval Air Force.**

During the night of October 1st-2nd an electrical equipment factory at Berlin was bombed and 4 very large explosions resulted. Four synthetic oil plants in Germany were attacked and a lighter weight attack was made on 2 electrical power stations. Exact observation of results was impossible but there were many bursts on targets. Fires were seen after an attack on marshalling yards and also at some of the channel ports though at others which were attacked the results could not be observed. The Fokker factory at Amsterdam and a number of enemy aerodromes also bombed and some minelaying was carried out.

During the night of October 2nd-3rd 100 aircraft were sent to attack the following targets. Three synthetic oil plants, the power station near Frankfurt/Oder, 4 marshalling yards, shipping in 3 channel ports and mine laying. Two aircraft are missing.

3. German Air Force.

Casualties from London area are reported as 57 killed and 223 wounded during the night of October 1st-2nd. Three bombs fell on the Tower of London; there were no casualties and little damage. Only other items of note were damage to water works in one London suburb, minor interruption to production by an unexploded bomb at an aircraft works and one factory damaged by H. E. and outside London 10 persons killed and 60 wounded at Birkenhead.

Daylight October 2nd.

There was considerable enemy activity over the Channel and enemy raiders frequently penetrated East Kent. Six larger raids each totalling about 50 to 60 aircraft approached London and on 4 occasions a few enemy aircraft reached London area. These raids were of short duration and were composed almost entirely of fighters. Some single bomber reconnaissance flights penetrated further inland; 2 of these aircraft were shot down and 1 landed intact. About 250 aircraft are thought to have been operating during the day. Bombing was of a minor nature and little damage was done to work shops

pré d'ailleurs... les aéroports
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In the evening of October 2nd a convoy was attacked by two torpedoes carrying aircraft off the east Scottish coast. The torpedoes missed and one aircraft was shot down by a fighter.

A convoy of 25 ships which has arrived in Canada included one tanker and 8 cargoes of iron and steel.

6. Haifa Bomb.

Reference paragraph 6 of my telegram No. 2456 of October 2nd, the report of evacuation of Haq Haq and Hidi Bannai is incorrect and should be cancelled.

On October 2nd 5 Blenheim carried out a air raid on Amos. Direct hits were scored on sheds in docks and on buildings in the vicinity.

An Italian bomber which was hit by anti-aircraft fire whilst raiding Haifa on September 29th eventually forced landed at Beirut. It was then found that the pilot was a German and the remainder of the crew of four were Italians.

October 5, 1940

(Dictated October 8, 1940)

The Secretary suggested to Arthur Purvis on Saturday, October 5th, that their new Air Marshal, Poetal, come over here. The Secretary thought it would be very worthwhile and Mr. Purvis said that he would cable over immediately.

COPY

Washington,
October 5, 1940.

To: Salter
From: Purvis

Following for Beaverbrook from Morgenthau.

Your prompt message and exposition of your situation is most helpful and is much appreciated. You can depend on us to keep the information secret. Warm regards.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: October 5, 1940, 3 p.m.

NO.: 694

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Cariguel spent two weeks in Paris, and has just returned to Clermont-Ferrand. He said that for the moment Commissioner Schaeffer has adopted a "reasonable attitude" and is not exercising undue interference with the Bank of France's operations. The authorities are now negotiating an agreement whereunder the Bank of France would be empowered to effect any transaction which does not involve more than 50,000,000 francs without referring it to the Commissioner in advance.

Approximately 200,000,000 francs in French bank notes are still in circulation. Once the Paris Bourse is in operation again, Cariguel believes the circulation will decline somewhat since he anticipates there will be a considerable movement toward investment in variable revenue securities as an inflation hedge. He thought that in the next two weeks the Paris Bourse might be permitted to reopen.

Reference: Telegram of September 23, 5 p.m., from the Embassy, No. 609 - Cariguel, like Rueff, felt that the daily allowance of 400,000,000 francs which the Germans are getting to pay for costs of the occupation army is far in excess of the actual needs of this army. However, up to the

- 2 -

the present there is no evidence that these balances are being utilized for purchasing French factories, securities or other resources. As a matter of fact the Germans have as yet not shown any interest at all in French securities found in safe deposit boxes. Cariguel believes that if the Germans should find things going badly for them, it is quite possible the balances may be used as an instrument for monetary inflation in France.

Cariguel told me that originally the Germans had asked that instead of francs, gold be used in paying these "pre-peace treaty reparations". The Germans remarked, when told that the gold supply of France was abroad and its release could not be obtained, that the failure to repatriate that gold would postpone "by several years" the departure of German troops from France.

Cariguel understands that the Germans are not putting into circulation any new kreditkassenschein.

During the coming winter, Cariguel intends to divide his time between Clermont-Ferrand, Marseille and Lyon, as well as Paris "if the Germans permit". There is a marked contrast to Cariguel's previous activity in the present relative and forced somnolence of his office; it is sad evidence of the change which has come about since last June.

END MESSAGE.

MATTHEWS.

EA:LWV

By hand copy
10-5-40
by

Aide-Memoire for Mr. Morgenthau

Scrap

The following cable has just been received from
London:

"There is some anxiety here as to whether the interval of the next fortnight before refusal of the licenses for export of iron and steel scrap to Japan may be used to import heavy quantities either direct or through other countries such as Central and South America. This apart from impairing the effect of intended embargo might also prejudice supply elsewhere including to us. Please explore with Mr. Morgenthau possibility of effective steps to secure that there are no abnormal shipments in the next fortnight."

An illustration of exactly what London has in mind came to our notice an hour before their cable came in (I mentioned this to you at the end of this morning's meeting). Mexico has available for sale 150,000 tons of scrap iron. Mr. Elliot of our Iron and Steel Section has an option on this quantity until tomorrow at \$17 per ton. The U. K. cannot take advantage of the option owing to lack of the right shipping schedules. They have been trying to get Canada to take up the option; in general Canada wants scrap, but she also finds it difficult to handle the particular parcel. It was suggested to the Bethlehem Steel Company they might be willing to take the parcel off the market, but they are not enthusiastic since the price is \$2 per ton higher than they expect to have to pay when the embargo is in effect.

I do not know whether anything can be done in getting this particular parcel from Mexico taken off the market, but the matter does seem both important and urgent: this apart from the general question raised in London's cable.

A B P
Washington
October 1 1940



BRITISH PURCHASING COMMISSION

October 5, 1940.

*(Layton
second
memo)*

Philip Young, Esq.
President's Liaison Committee
Treasury Department
Washington, D.C.

Dear Mr. Young,

In conversation with the Secretary this morning, he asked me to hand you the attached sealed envelope which contains a very secret document of which he has a copy at the farm.

He asked that you might put this in the safe so that it would be available to him on his return Monday evening or Tuesday morning.

Sincerely yours,

Ar. Thos. B. Purvis,

per K.D.V.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 5, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

At 5:30 yesterday evening the private secretary of the Soviet Ambassador telephoned me that when the Ambassador had returned she had informed him of the message which I had given, on behalf of the Secretary, the preceding day. The Ambassador had instructed her to call us back and to thank Secretary Morgenthau for the interesting information. (This was in regard to our approving financial transactions involving shipments of rubber from Indo-China and of sisal from Java to Russia.)



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Pinsent telephoned me at 12:15 today. He stated that during Sir Frederick Phillips' visit to this country the suggestion had been made, in connection with the extension of British exports to the United States, that some member of the British Export Council be sent out to the United States in this connection. I told Pinsent that I did not recall that such a suggestion had emanated from Secretary Morgenthau. Pinsent thought the idea may have been developed to this point in the conversations at the White House. Pinsent stated that his Government was ready to send Mr. d'Arcy Cooper, a member of the Export Council, to the United States toward the middle or end of this month if arrangements can be made with you. This man is now available and, according to Pinsent, very capable. He made his mark as a business man in renovating the Unilever concern with which he is still connected. Mr. Pinsent thought that the British would be more comfortable if an invitation might be extended to them by our Government to have Mr. Cooper come over. He presumed that such an invitation should emanate from the State Department, but hoped that Mr. Morgenthau might see fit to make the suggestion to that Department.

October 7, 1940.

Mr. Pinsent asked to come and see me at 11:35 this morning. When he arrived he told me that he desired to correct certain points made on his visit the other day, as reported in the above paragraphs. He stated that he and Chalkley had checked over their records of Sir Frederick Phillips' conversations with Secretary Morgenthau this summer, and had found no report that Phillips had actually mentioned to Secretary Morgenthau the idea of sending a representative of the British Export Council to the United States with the view to increasing British exports to this country. It had been indicated in a memorandum that Phillips was to raise this subject with the Secretary, but there is no evidence that he actually did.

Consequently the Embassy feels that it should alter its approach to us. London would like to know that it is agreeable to the United States Government that d'Arcy Cooper, as senior member of the Export Council, should come to the United States to discuss British exports to this country with us. Chalkley has been talking about British-American trade problems with the Department of State. It is now planned that Chalkley should raise the above question directly with the State Department and see whether the State Department will express its willingness to have d'Arcy Cooper come over and inaugurate conversations with the State Department toward the above end. The British Embassy hopes that Secretary Morgenthau, as "patron" of Anglo-American economic and financial cooperation, will be willing to see Mr. Cooper if the occasion arises. The British are not asking Secretary Morgenthau, however, to take the initiative in recommending this visit to the Department of State, for reasons explained above.

- 2 -

Incidentally Mr. Pinsent expressed his regret that the report upon British resources which had been expected for October 3 has not yet arrived. Consequently Pinsent has cabled Sir Frederick Phillips urging the early provision of the statistical data as promised to the Secretary of the Treasury.

* * * * *

Late this afternoon Mr. Pinsent telephoned me that he had just received two cablegrams from Phillips which contained quite a bit of the information which he has been seeking. Pinsent is now endeavoring to tabulate these data. He would like, however, to have the privilege of presenting this material personally to the Secretary in order that he may make some oral comment thereon.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

In his cablegram No. 931 of October 1, American Minister Sterling at Stockholm gave certain information in regard to a Swedish loan which he stated would be amplified by the Swedish Minister in Washington.

The Swedish Minister called on me this morning and handed me the attached memorandum, a copy whereof was also given by him to Mr. Dunn in the Department of State. The Minister desired that we have this accurate information, lest there might be some false report of the situation in the press.



LEGATION OF SWEDEN
WASHINGTON, D. C.

Strictly Confidential

In the year 1934 nominally \$104,000,000 of the German six percent loan of 1930, generally called the Kreuger loan, were in Swedish possession. During 1935 and 1936 Germany bought back nominally \$14,000,000 thereof. By a recent agreement, German banks have repurchased bonds for nominally \$40,100,000 of that same loan at a rate of forty percent. The total purchase money is consequently about 68,000,000 crowns. Payment is to be effected with \$8,000,000, 4,400,000 crowns, and the remainder in gold in Stockholm, Berlin, or Bern. A considerable part of this gold will be used for payment next year of the free quota accorded to the German Reichsbank in the Swedish German Clearing Agreement of 1934.

Washington, D. C., October 5, 1940.

Copy

pf

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 5, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:15 yesterday morning the Secretary received the new French Ambassador, Mr. Henri-Raye, accompanied by Mr. Alphand, the Financial Counselor. Messrs. Bell and Cochran were present. Miss Chauncey took notes of the conversation, which dealt principally with the blocking of French official balances in this country.

At 12 o'clock Mr. Alphand returned to Under Secretary Bell's office, where a brief conversation, in which Mr. Cochran also participated, was had with respect to Alphand's problems on obtaining the release of blocked funds. Since these matters were primarily within Mr. Fehle's jurisdiction, Mr. Fehle was asked to come up to Mr. Cochran's office where answers to Mr. Alphand's questions were given. The principal question posed by Mr. Alphand, both in Mr. Bell's office and Mr. Cochran's room, was that as to whether French exporters to the United States would be permitted to transfer their balances in private banks in New York, representing proceeds of sales on this market, to the account of the Bank of France with the Federal Reserve Bank of New York. Mr. Alphand did not seem entirely sure of the purpose of such transactions, but thought this was to make francs available to the exporters in France. Mr. Fehle informed Mr. Alphand that there was no general rule which permitted this type of transfer and reminded Mr. Alphand that certain applications of this type had been refused. It would be necessary, therefore, for each case to be considered on its own merits.

In company with Mr. Alphand, I went to the French Embassy yesterday noon for luncheon, upon an invitation which had been extended to me by the Ambassador earlier in the week. The luncheon was a very quiet and informal affair. The Ambassador's guests, other than Mr. Alphand and myself, were Colonel (?) , the new Military Attache; Mr. Truelle, the Counselor of Embassy who is being promoted to Minister to Rumania; and Mr. Montague, the French oil man. The conversation at luncheon was principally with respect to developments in France, with the Ambassador recounting his first-hand observations of Germans in Versailles, etc. Incidentally the Ambassador mentioned that the home of former Governor Labeyrie of the Bank of France, who had a beautiful place in Versailles, was the first home to be destroyed by German bombs. The Frenchmen were obviously much depressed over the fate of their country. The Ambassador is especially unhappy over the lack of enthusiasm with which he has been received in this country. He stressed the genuine friendship for America which he has felt for many years, including the time which he has spent in this country, and emphasized that he had been known in Versailles as the "American candidate" for Mayor. Now to come to this country and find sentiment so changed toward France and its representatives has been to him quite a shock. Bringing me back to the Treasury after luncheon Counselor Truelle stated that he hoped to keep the Ambassador, in his present unhappy state of mind, from making too big issues of the problems which confront him. Truelle is confident that such problems can be worked out with patience and does not want any unpleasant incidents to arise.

The Ambassador did question me upon my arrival at the Embassy as to whether Secretary Morgenthau, following our meeting earlier in the forenoon, had been able to obtain any decision from Secretary of State Hull in regard to the problems which the French Embassy had earlier presented in regard to using funds blocked in the United States, and which had been referred by the Treasury Department to the State Department for an opinion. I told the Ambassador that Secretary Morgenthau had talked directly on the telephone with Secretary Hull, and that it was understood that they would discuss the matter further when they were to meet at the White House later in the day.

On Friday evening Alphand telephoned me from the Embassy to the effect that he was departing shortly for New York and would like to be able to tell his Ambassador what the results had been of Secretary Morgenthau's afternoon conversation with Secretary Hull. I told Alphand that Secretary Morgenthau had returned to the Treasury very late after an extremely long Cabinet meeting, and had been obliged to take his plane immediately for his country home, without seeing Under Secretary Bell or any of the other members of his staff. Consequently I was unaware as to the result of the conversations which the Secretary planned to have with Mr. Hull.

B. M. S.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Beirut.

DATE: October 5, 1940, 2 p.m.

NO.: 104.

Several local concerns, as well as the Banque de Syrie, have asked me for data on the general requirements bearing on the release of funds belonging to or which originated in Lebanon (Syria) and which are ~~fax~~ frozen in the United States. My understanding is that in some cases such funds have been unfrozen by the United States Treasury for special purposes, and that in another case the Treasury Department refused to authorize the transfer of certain funds from the United States to Greece.

This Consulate General would be interested in being informed as to the circumstances under which a release of such funds might be expected. I would also like to know how much of the information it would be wise for me to disclose to individuals or firms in Lebanon possessing ~~fax~~ frozen funds and who may be desirous of making use of a part of them in order to settle outstanding debts or to make purchases either in specified neutral countries or in the United States.

PALMER

EA:MSG

RDS

GRAY

RIO DE JANEIRO

Dated October 5, 1940

Rec'd 9:05 p.m.

Secretary of State,
Washington.

RUSH.

510, October 5, 9 p.m.

My October 5, 2 p.m.

Souza Costa tells me that the Brazilians and the
Argentinians have expedited negotiations and that an agree-
ment will be signed on Sunday at 5:00 p.m. Detailed in-
formation will be telegraphed later.

Repeated to Buenos Aires.

CAFFERY

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brasil.

DATE: October 5, 2 p.m.

NO: 509

Trade negotiations entered into by Brazil and Argentina are progressing in a satisfactory manner and are expected to be concluded next week.

It is reported that Brazil would reduce gradually the amount of mandioca flour which is mixed with wheat flour and make certain other guaranties for products exported from Argentina. Argentina on the other hand would eliminate gradually import permits for Brazilian exports and increase purchases of Brazilian textiles and other manufactured products.

Mutual purchases of surplus commodities are being discussed. There is a possibility that Brazil may purchase Argentine wheat and Argentina 200,000 to 300,000 bags of Brazilian coffee. Long term credits would be used to make such purchases and stocks of these commodities would remain in the country producing them.

An agreement between the Argentine Central Bank and the Bank of Brazil to facilitate exchange operations between the two countries is contemplated.

RA:Hooker:MJC

COPY

lap

AS

GRAY

Rio de Janeiro

Dated October 5, 1940

Rec'd 8:35 a.m., 6th

Secretary of State,
Washington.

511, October 5, midnight.

My 510, October 5, 9 p.m.

CONFIDENTIAL.

Although there are several points still to be settled I am informed that the agreement to be ratified on Sunday will include the following provisions:

One. Argentina will establish a quota of 40,000,000 pesos for Brazilian cotton textiles for the year 1941. The quotas in subsequent years will correspond to Brazil's share of Argentina's imports of cotton textiles in 1941.

Two. The Bank of Brazil and the Central Bank of Argentina will each open a credit of 50,000,000 pesos (Brazil's will approximate 250,000 contos) for the purchase of surplus non-competitive commodities of each country. The credits will be amortized in five years at the rate of 20 per cent annually.

Three.

AS-2 No.511, Oct. 5, midnight, from Rio de Janeiro.

Three. Each country will gradually eliminate over a period of three years mixing regulations such as the mandioca wheat flour mixture in Brazil.

Four. Each country will give sympathetic consideration to the adoption of special facilities for products of new industries to be established in either country. (This provision--still subject to negotiation--is as far as the Brazilians care to go just now in that direction of pinedo's customs union proposal).

Five. An exchange of letters to liberate Brazilian products now in Argentine customs warehouses awaiting import permits.

The Bank of Brazil and the Central Bank of Argentina will conclude a separate agreement to accept 180 day bills for payment of imports from both countries. The purpose of this is to spread out the demands of the free exchange positions of the banks.

The Argentine delegates (*) Buenos Aires on Monday, October 7. Argentine technical experts will remain here a few days to arrange details of the agreement.

Aranha tells me that other countries will be invited to conclude similar agreements.

Repeated to Buenos Aires.

TFV

GAFFERY

(*) Apparent omission.

STANDARD FORM NO. 14A
 PROVIDED BY THE PRESIDENT
 MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

DAY LETTER

MR. DREW PEARSON,
 1513 - 29th STREET, N. W.,
 WASHINGTON, D. C.

TREASURY DEPARTMENT

WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

SECRETARY'S OFFICE

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

2-11117

10-5-40

IT WAS WITH GREAT PLEASURE THAT I LEARNED THAT MY OLD FRIENDS DREW PEARSON AND BOB ALLEN ARE INITIATING A NEW RADIO PROGRAM ON "KNOWING OUR NEIGHBORS". AT A TIME WHEN THE AMERICAN PEOPLE ARE OCCUPIED WITH THE PROBLEMS OF NATIONAL DEFENSE, IT IS IMPORTANT TO REMEMBER THAT THE MORE FRIENDS A COUNTRY HAS, THE STRONGER IT IS. THE GOOD NEIGHBOR POLICY OF THIS ADMINISTRATION HAS FOSTERED CLOSER POLITICAL AND ECONOMIC RELATIONS WITH OUR LATIN AMERICAN NEIGHBORS. BEING A GOOD NEIGHBOR INVOLVES HAVING A DECENT RESPECT FOR THE PEOPLE NEXT DOOR, RESPECT FOR THEIR WAY OF LIVING, THEIR RIGHTS, THEIR OPINIONS. AND THE BASIS OF RESPECT IS UNDERSTANDING. THEREFORE, I CONGRATULATE DREW PEARSON AND BOB ALLEN FOR THEIR PATRIOTIC EFFORTS TO GIVE THE AMERICAN PEOPLE A BETTER UNDERSTANDING OF OUR NEIGHBORING REPUBLICS.

HENRY MORGENTHAU, JR.

1940. May 2

long
in

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Schwarz *ES*

Drew Pearson and Bob Allen Sunday night will start a new radio program devoted to "Knowing Our Neighbors". It will be sponsored by the Government of Brazil. Drew telephoned today to request a telegram of endorsement from you which the boys may wish to read on some Sunday night as the series progresses. They have messages from the President, Henry Wallace, Sumner Welles and others and this Sunday night plan on reading the President's telegram of congratulations on their effort better to inform the American people about their neighbors in South and Central America. I think this is sufficiently non-commercial and integrated with Administration policy to lift it from the usual sponsored programs in which we do not wish to participate. However, Drew says that, should you have any qualms about providing such a message, he will not want to press his request.

For Miss Chambers

TREASURY DEPARTMENT

193

INTER OFFICE COMMUNICATION

DATE October 5, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£100,000
Purchased from commercial concerns	£ 5,000

Of the sterling sold, £50,000 were taken by steel companies, and most of the remainder is being used to pay for the importation of rubber.

The Federal Reserve Bank sold £15,000 in registered sterling to a non-reporting bank.

In the open market, sterling opened and closed at 4.03-3/4. The only transaction reported consisted of the purchase of £1,000 from a commercial concern.

In quiet trading, the Swiss franc reached a new current high of .2305, where it closed.

The other currencies closed as follows:

Canadian dollar	14-5/8% discount
Swedish krona	.2385
Reichsmark	.4005
Mexican peso	.2066
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Cuban peso	7-7/16% discount
Lira	.0505

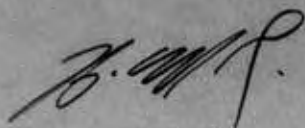
We purchased \$37,000 in gold from the earmarked account of the Central Bank of Nicaragua.

The Federal Reserve Bank made a three-months loan of \$20,000 to the Central Bank of El Salvador. Only \$14,293 in gold was set aside as collateral from the Salvadorean bank's earmarked account, since the amount of gold already held as collateral for previous loans to Salvador was well over the required 114% margin above the value of the loans. The total of such loans now outstanding amounts to \$480,000, secured by \$535,796 in gold.

There were no new gold engagements reported to us today.

- 2 - CONFIDENTIAL

The Bombay gold price was slightly lower at the equivalent of \$33.92.
Silver in Bombay was priced at the equivalent of 44.66¢, a gain of 1/8¢.

A handwritten signature in dark ink, appearing to be 'J. M. R.' with a stylized flourish at the end.

RESTRICTED

No. 212

SITUATION REPORTM.I.D., W.D.
October 9, 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.

Bad weather prevailed in the theater.

The German Air Force operated by day over southeastern England and the Midlands. Single planes and small formations were used. Night bombing again centered over the London area. Scale of activity again was relatively low.

The R.A.F. made some daylight attacks on the 4th against objectives on the Dutch coast. Apparently no night operations were conducted.

According to the press heavy air fighting is in progress over southeastern Ireland today.

II. Mediterranean and African Theaters of War.

No ground operations reported. The R.A.F. attacked Italian communications along the Mediterranean coast, notably at Benghazi, and conducted sporadic operations in East Africa. No Italian aerial operations were reported.

RESTRICTED

RESTRICTED

SPECIAL BULLETIN
No. 19
G-2/2657-231

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 5, 1940.

NOTICE

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

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

CONTENTS OF SPECIAL BULLETINS AND TENTATIVE LESSONS BULLETINS
OCTOBER 6, 1939 - OCTOBER 3, 1940.

CONTENTS

1. LIST OF BULLETINS
 - a. Special. Nos. 1-19
 - b. Tentative Lessons. Nos. 1-54
2. CLASSIFIED TABLE OF CONTENTS, ALL BULLETINS
 - a. Belgium
 - b. Finland
 - c. France
 - d. Germany
 - e. Great Britain
 - f. Holland
 - g. Italy
 - h. Poland
 - i. Russia

NOTE

The abbreviations TL and SB are used to indicate Tentative Lessons Bulletin and Special Bulletin, respectively.

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1. LIST OF BULLETINS

a. Special, Nos. 1-19

- (1) The German Campaign in Poland, September 1-17, 1939
- (2) Soviet-Finnish War, November 30, 1939-January 7, 1940
- (3) The German Campaign in Poland, September 1-October 5, 1939
- (4) Royal Air Force Empire Training Scheme
- (5) Soviet-Finnish War, January 8-31, 1940
- (6) Soviet-Finnish War, February 1-March 13, 1940
- (7) The Cuban Plan of the Communist Party
- (8) Construction of a German Field Army
- (9) The German Attempt to Capture the Hague
- (10) Major Military Operations in the German Invasion of Holland
- (11) British Tank Operations in the Vicinity of Arras, May 19-23, 1940.
- (12) French Tanks and Armored Cars
- (13) German Chemical Warfare and Smoke
- (14) Captured German Regulations on Recognition and Communication Between Ground and Air
- (15) Rhine Crossing and Penetration of the Maginot Line; The German Colmar Operation of June 15-16, 1940
- (16) Forms of Fifth Column Activity
- (17) French Artillery, Antitank, and Antiaircraft Weapons
- (18) Miscellaneous French Equipment
- (19) Contents of Special and Tentative Lessons Bulletins, October 6, 1939-October 3, 1940

b. Tentative Lessons, Nos. 1-54

- (1) - (5) Miscellaneous
- (6) German Fifth Column Activities
- (7) Improvised Antitank Defense in the Finnish Army
- (8) German Air Infantry and Parachute Troops
- (9) Extracts From a Preliminary Report on West Front Operations
- (10) Recommendations of a British Officer Based Upon Experience in the Belgian Campaign
- (11) Miscellaneous
- (12) Notes on German Antiaircraft
- (13) Miscellaneous
- (14) Preliminary Observations on German Operations in Scandinavia
- (15) Miscellaneous
- (16) Tactics of Antitank Units in the German Army

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- (17) Miscellaneous
- (18) German Air Force Command and Signal
Coordination
- (19) Winter Warfare
- (20) The German Artillery
- (21) Miscellaneous
- (22) Miscellaneous
- (23) Characteristics of German Tanks and Armored
Cars
- (24) Miscellaneous
- (25) Organization of the Medical Service of the
German Army and its Employment in the
Campaign Against Poland
- (26) Miscellaneous
- (27) German Reconnaissance Units and Mobile Troops
- (28) German Attacks Upon Modern Permanent Fortifi-
cations
- (29) Some Aspects of Training in the British Army
- (30) Some Aspects of Training in the German Army
- (31) Observations of a French Army Commander
- (32) Types of Tanks Employed by the Italian Army
- (33) British and French Defense Against Tanks
- (34) Miscellaneous
- (35) Notes on German Armored Divisions
- (36) German Principles of Employment of Armored
Units
- (37) Informal Notes on Organization and Training
of the British Conscript Forces
- (38) A German Reconnaissance Car Platoon in Action
- (39) German Methods of Crossing Antitank Obstacles
- (40) Further Notes on German Attacks Upon Fortifi-
cations
- (41) Further Notes on Basic Training in the British
Army
- (42) German Infantry Battalion in the Attack
- (43) German Method of Organizing a Defensive Position
- (44) The British Infantry Training Center
- (45) Training at British Machine Gun Centers
- (46) Infantry in the Blitzkrieg
- (47) German Regulations on Antiaircraft Defense
- (48) British Recommendations on Armored Vehicles
- (49) German Antitank and Anti-Personnel Mine Fields
- (50) German Instructions for Ground Defense Against
Air-Borne Troops
- (51) British Comment on Divisional Artillery
- (52) Notes on German Tactics and Training Methods
- (53) Notes on River Crossing by German Armored and
Motorized Units
- (54) Training of a British Motorized Infantry Division.

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2. CLASSIFIED TABLE OF CONTENTS, ALL BULLETINS

a. Belgium(1) Equipment

Antitank, TL17-5.

Eben Emael, Fort, TL4-4; TL28-2a(1).

(2) OperationsEben Emael, Fort, TL1-2; TL4-4; TL28-2a(1), 2b(1)(a)
2b(3)(a); 2d(1), 2e(1).

Fifth Column, counter measures to German, TL6-1c.

German advance, general, SB11-1.

Holland, part in defense of, SB10-IIA2, IIB3.

RESTRICTED

RESTRICTEDb. Finland(1) Organization

Antitank defense units, TL7-1j, 1k.
Russia, for war with, SB2-1; SB5-1a; SB6-2a.

(2) Equipment

Antitank, TL7-1.
Ski troops, TL19.

(3) Training

Ski troops, TL19-1b(1).
Winter warfare, SB2-10b.

(4) Tactics

Antitank defense, improvised, TL7-1i, 1j, 1k.
Russia, in war with, SB2-10.
Winter warfare, TL19.

(5) Operations

Russia, war with, TL19; SB2; SB5; SB6.

RESTRICTED

RESTRICTEDc. France(1) Organization

Armored and motorized units, defense against, TL31-V.

(2) Equipment

Antiaircraft, TL2-1c; SB17-II.

Antitank, TL2-1b; TL3-1; TL17-5; TL33-II; TL38-IX,X;
TL39-II; SB17.

Artillery, general, SB17-I.

Maginot Line, Colmar Section, SB15-1.

Maginot Line, Fort 505, TL28-2a(2).

Miscellaneous, including mortars, small arms, etc.
SB18.

Tanks and armored cars, TL2-1a; TL21-3,6; TL31-II;
SB12.

Transport, TL10-4a.

(3) Training

General, TL24-1.

(4) Tactics

Armored units, TL21-6.

Artillery, deployment of light, TL15-4.

Counter-attacks, TL31-IV.

General, TL31.

Precedent and tradition overemphasized, TL9-2.

(5) Operations

Arras, vicinity of, TL36-IIE; SB11-II.

Belgium, general, TL36-IIC.

Champagne Area, TL36-III.

General, TL38-VII,X,XII; SB11-I.

Holland, general, SB10-IB3,II.

Maginot Line, Fort 505, TL28-2a(2); 2b(1)(b), 2b(3)(b),
2d(2), 2e(2).

Maginot Line, penetration of an German Colmar operation,
SB15.

Meuse, south of Namur, TL35-VIIH.

Rhine near Breisach, SB15.

Sambre, forests south of, TL36-IIF.

Sedan, TL1-3a; TL9-2; TL28-2c, 2f.

Soissons, east of, TL34-IV.

Somme, TL11-2; TL31; TL36-IID.

Western Front, general, TL9; TL11-3,4.

RESTRICTED

RESTRICTEDd. Germany(1) Organization

Air-borne troops, defense against, TL50-II.
 Air force, Battle of Flanders, TL18.
 Air Infantry, TL5-1, 5b; TL8-1.
 Antiaircraft units, TL9-18.
 Antitank units, TL5-3; TL9-14; TL16-1.
 Armored units, TL5-6c; TL9-16; TL27-2;
 TL35-I, II, III.
 Army, field, SB8.
 Artillery, general, TL20.
 Assault detachments (see Pioneers).
 Battalion in the attack, fire support for, TL42-1.
 Chemical warfare and smoke units, SB13-II, IIIA,
 IVA, IVB, VIIA.
 Defensive position, TL43.
 Division, 22d, for attack on the Hague, SB9.
 Division, landing, TL5-6d.
 Division, mountain, TL5-6a.
 Division, Panzer, SB1-A; SB3-IB.
 Engineers (see Pioneers).
 Flanders, Battle of, SB8; TL18.
 Flexibility, TL14-1c(4).
 General, TL3-2; TL9-2,3,4,6; TL27-2.
 Holland, for invasion of, SB10-IB2a.
 Information service, TL17-1.
 Medical service, TL25.
 Mobilization, TL4-2; TL9-9.
 Parachute troops, TL5-1; TL8-1.
 Pioneers, TL28-1b, 2b(1); TL40-IIB.
 Poland, for invasion of, SB1-A; SB3-IB, IIB, IV.
 Propaganda companies, TL17-1.
 Reconnaissance units, TL27-1; TL38-I.
 Specialized units, TL11-1.
 Team, four-arm, TL9-3,16.

(2) Equipment

Air Infantry, TL8-1,2; TL26-2.
 Antiaircraft, TL3-3; TL5-4; TL9-18; TL12.
 Antitank, TL1-1b; TL5-3; TL13-3; TL15-5; TL16-1;
 TL21-3; TL26-3g; TL49.
 Artillery, general, TL10-2b; TL13-2; TL20; TL21-1.
 Assault detachments (see Pioneers).
 Balloons, observation, TL17-4.
 Chemical warfare, smoke, incendiary, bacteria,
 SB13-IVB, IVC, VIIB, VIIC, VIII.

RESTRICTED

RESTRICTEDd. Germany(2) Equipment (continued)

Chemical warfare and smoke, defense against, TL17-2,3;
SB13-IIIB.
Communications, air-ground, SB14.
Communications, photo-electric telephone, TL13-6.
Communications, radio telephone, TL9-20.
Detector, land mine, TL6-2.
General, TL21-3,4.
Hague, The, for attack on, SB9-1.
Holland, materiel and supplies taken over, SB10-IIIC.
Infantry weapons used in training, TL30-IIICb.
Medical, used in Poland, TL25.
Net, explosive, for destruction of land mines, TL34-II.
Noise devices for use on bombs, TL6-3.
Obstacles and barrages, destroying and bridging, TL39.
Paint used on vehicles, TL9-21; TL34-I.
Parachutists, TL8-1,2; TL26-2,3.
Pioneers, TL28-1c, 2b(2); TL30-IIIB3, IIIB4; TL40-IIB.
Poland, for campaign in, SB3-IA, IV.
Reconnaissance units, TL27-1; TL38.
Tanks and armored cars, TL1-1a; TL2-1a; TL13-3;
TL15-6,7; TL31-2,3,6; TL22-2; TL23; TL26-1; TL35-I,II.
Transport, TL8-1; TL9-20; TL11-3; TL26-2.

(3) Espionage and Propaganda

Fifth Column, use of, TL6-1; TL9-11; TL14-1a(3);
SB10-1a; SB16.
Propaganda, use of, TL9-10; TL17-1; TL36-II.

(4) Training

Advance guard exercises, TL30-III.
Air Infantry, TL8.
Bridging exercises, TL30-III.
Divisional exercises, TL30-III.
General, TL1-5; TL9-6; TL13-1; TL30; TL52-3.
Infantry battalion in the attack, TL42.
Medical service, TL25.
Norway, for campaign in, TL5-6d; TL14-1a(1).
Open warfare, TL9-22.
Pioneers, TL28-2b(3).
Propaganda companies, TL17-1.
Specialized units, TL11-1.

RESTRICTED

RESTRICTEDd. Germany(5) Tactics

Antiaircraft, TL9-18; TL12; TL47; TL50-3.
 Air-borne troops, defense against, TL50.
 Air force, TL6-3; TL9-13; TL24-2; TL34-IV.
 Air Infantry, TL1-4; TL2-4; TL5-1; TL8-1.
 Air Infantry, counter measures, TL8-1.
 Antitank mine fields, establishing and crossing, TL49.
 Antitank obstacles, crossing, TL39.
 Antitank units, TL3-3; TL16.
 Armored units, TL5-2; TL9-14; TL11-2; TL21-6;
 TL26-1; TL35; TL36; TL52; SB11-II.
 Artillery, General, TL20.
 Balloons, TL17-4.
 Belgium, invasion of, TL10.
 Break-through, TL2-2.
 Chemical warfare, smoke, incendiary, bacteria, SB13.
 Communications, air-ground, SB14.
 Defensive position, organization of, TL43.
 Engineers (see Pioneers and Fortifications).
 Flanders, Battle of, SB8; TL18; TL21-3; TL24-2.
 Fortifications, attacks upon, TL1-2,3; TL4-4;
 TL5-4,5; TL9-12; TL12-1; TL25-1, TL28; TL30-IIIB3,
 IIIB4; TL40.
 France, general, TL52-1,2.
 Hague, The, attack upon, SB9.
 Holland, invasion of, SB10.
 Infantry battalion in the attack, TL42.
 Infantry, continued supremacy of, TL3-2; TL46.
 Infantry, motorized, TL9-15; TL35-V.
 Maginot Line, penetration of in Colmar operation,
 SB15-II,IV.
 Norway, invasion of, TL14.
 Open warfare, use of radio in, TL13-4.
 Parachute troops, TL1-4; TL2-4; TL5-1; TL8-1;
 TL15-3; TL26-2.
 Parachute troops, counter measures, TL8-1.
 Pioneers, TL9-12, (see also Fortifications).
 Poland, invasion of SB1-A; SB3-IIB, IV.
 Reconnaissance units, TL38.
 Rhine crossing in Colmar operation, SB15-II,IV.
 Strategy, note on, TL21-4.
 Transportation, TL11-3.
 Western Front, general, TL9; TL11-3.

RESTRICTED

RESTRICTEDd. Germany(6) Operations

Amiens, south of, TL36-IIB.
 Amsterdam, TL9-11.
 Arras, vicinity of, TL36-IIE, SB11.
 Belgium, general, TL10; TL12; TL36-IIC; SB11-I.
 Brussels, TL12.
 Champagne area, TL36-III.
 Denmark, general, SB10-IA.
 Dunkirk area, TL24-3.
 Eben Emael, Fort, TL1-2; TL4-4; TL28-2a(1), 2b(3)(a),
 2d(1), 2e(1).
 Flanders, TL11-2; TL18; TL21-3; TL24-2; TL26-1; SB8.
 France, general, TL1-3b; TL9-15; TL38; SB11-I.
 Hague, The, SB9.
 Holland, general, TL8-3; TL12; TL15-3; SB10; SB11-I.
 Loire, TL52-1.
 Lys, TL52-3.
 Maginot Line, Fort 505, TL5-5; TL28-2a(2); 2b(3)(b).
 Maginot Line, Colmar operation, SB15.
 Meuse, TL52-1.
 Meuse, south of Namur, TL35-VIIH.
 Norway, general, TL14; TL24-5; SB10-IA.
 Paris, vicinity of, TL36-IIB, IIF.
 Poland, general, TL4-3; SB1-A; SB3-3.
 Rhine, near Breisach, crossing in Colmar operation,
 SB15.
 Sambre, forests south of, TL36-IIF.
 Sedan, TL1-3a; TL9-2,15; TL28-2c, 2f.
 Soissons, east of, TL34-IV.
 Somme, TL11-2; TL31; TL36-IID.
 Western Front, general, TL9; TL11-3,4.

RESTRICTED

RESTRICTEDc. Great Britain(1) Organization

Artillery, divisional, TL51.

(2) Equipment

Aircraft, TL10-2f.
 Antiaircraft, TL10-4c.
 Antitank, TL3-1; TL10-3; TL15-5; TL17-5; TL33-II.
 Artillery, TL10-2.
 Belgium, used in, TL10.
 General, TL29-2.
 Mortars, TL10-4b.
 Radio, TL10-4d; TL13-4.
 Tanks and armored cars, TL13-3,5; TL21-6; TL48.

(3) Espionage and Propaganda

Propaganda, TL9-10.

(4) Training

General, TL15-2; TL22-3.
 Militia, TL37.
 Royal Air Force, SB4.
 Territorial Army, general, TL15-1; TL29-1; TL41-III.
 Territorial Army, motorized Infantry division, TL54.
 Training centers, Infantry, TL29; TL37; TL41; TL44.
 Training centers, machine gun, TL45.

(5) Tactics

Antitank, TL10-3.
 Armored units, Arras, SB11-II.
 Artillery, deployment of light, TL15-4.
 Artillery, divisional, TL51-I.
 Belgium, used in, TL10.
 Defense in depth, theory of, TL22-3; TL29-2.
 Defense, scheme for British Isles, TL29-II.

(6) Operations

Arras, vicinity of, SB11.
 Belgium, general, TL10.
 France, general, TL22-3.
 Holland, general, SB10.
 Norway, general, TL24-5; SB10-IA.

RESTRICTED

RESTRICTEDf. Holland(1) Organization

German invasion, for defense against, SB9-I;
SB10-IB2b.

(2) Tactics

Air Infantry and parachutists, defense against,
TL8-3.
German invasion, used in defense against, SB10.

(3) Operations

Fifth Column, counter measures to German, TL6-lm.
German invasion, general, TL8-3; SB10; SB11-I.
Hague, The, attempt of 22d German Division to
capture, SB9.

RESTRICTED

RESTRICTEDc. Italy(1) Equipment

Aircraft, TL22-1.

Tanks and armored cars, TL32.

Telephone, photo-electric, TL13-6.

(2) Espionage and Propaganda

Fifth Column, use of, SB15-2d, 2e, 2g, 2k.

(3) Training

Chemical service, TL2-3.

RESTRICTED

RESTRICTEDh. Poland(1) Organization

German invasion, for defense against, SB3-IA, IIA.

(2) Equipment

German invasion, used in, SB3-IA.

(3) Training

General, SB3-IA.

(4) Tactics

German invasion, used in defense against, SB1-A;
SB3-IIA, IV.

(5) Operations

German invasion, general, SB1; SB3-III.
Russian invasion, general, SB3-IIID, IIIE.

RESTRICTED

RESTRICTED1. Russia(1) Organization

Finland, for campaign in, SB2-1,7; SB5-1b; SB6-2b.

(2) Equipment

Finland, used against, SB2-7, 10b.
Tanks, TL19-1d; TL34-III.

(3) Espionage and Propaganda

Cuban Plan of Communist Party, SB7.
Fifth Column, use of, SB7; SB16-1,2

(4) Training

Winter warfare, SB2-10a.

(5) Tactics

Finland, used against, SB2-10.
Tanks, TL19-1d.

(6) Operations

Finland, general, TL19; SB2; SB5; SB6.
Poland, SB3-IIID, IIIE.

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Paraphrase of Code Radiogram Received at the
War Department 3:45 p.m., October 5, 1940.

London, filed 14:39, October 5, 1940.

1. The operations of the Bomber Command during Friday, October 4th, were considerably restricted due to foggy and rainy weather and considerable trouble with icing. A total of 36 sorties were dispatched during daylight hours, all returning safely. Due to adverse weather conditions all night missions were cancelled. During daylight hours 35 coastal reconnaissance planes executed 28 missions, including the escort of 12 convoys. All operations after 9:00 p.m. were cancelled. One plane crashed on landing. The Fleet Air Arm dispatched three missions against shipping in harbors in Norway with some success.

2. The operations of the German Air Force during daylight hours of the 4th were confined to raids by single aircraft or very small formations mostly over Southeast England, with a few reconnaissances elsewhere. About 75 planes carried out fairly extensive bombing in Surrey, Sussex, Kent and in the environs of London. The Fighter Command dispatched 171 planes on 61 patrols during the day, but all planes were grounded after 5:30 p.m. by the weather. Attacks during the night that followed were intense, a total of 196 large and small raids against London from bases in France and Holland being plotted between 7:00 p.m. and 3:00 a.m.

3. German plane losses were two confirmed, three probable and four damaged. The British lost three planes and one pilot.

4. The most serious damage was done to a branch telephone exchange in London. In the attack on an airdrome the office was

destroyed. Minor damage only resulted from a fire set in a factory manufacturing fighter aircraft. High explosive bombs caused major damage to a rolling mill. The tracks of a railroad sustained major damage, with an engine and two trains derailed and blocking traffic. The bombing of a dock caused small fires only. German guns shelled Dover at 6:00 a.m., October 4th, but the shells fell in the harbor without damage.

5. Since German planes now cruise around in an impenetrable fog dropping bombs at random, they can hardly claim to be concentrating on military objectives.

6. One convoy of 13 ships from Halifax and another of 16 from the south have arrived safely. No shipping losses were reported.

7. There is no new information of a possible invasion. However, it is believed that some change in the enemy organization will result from the Bremer conference.

8. The British have now identified 194 infantry and 12 armored German divisions. There are indications that certain divisions are being demobilized so that this number may soon be reduced.

9. There have been no air attacks against Malta since September 29.

10. The appointment of Air Vice-Marshal, C. F. A. Portal, commanding the Bomber Command, as Chief of the Air Staff indicates (a) that Lord Beaverbrook has forced out those who would not agree

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with him and (b) that bombing operations against Germany will be intensified.

LEE

Copies to: Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
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*Ref. has copy
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REPUBLIC TYPE AIRCRAFT

1. The U. K. Government will gladly accept a diversion of the Republic Aircraft order for the Swedish Government, if that can be arranged.
2. If legal or other difficulties preclude this course and the aircraft have to be retained by the U. S. Army Department, we would accept, in lieu of these, all Republic P 44 aircraft which can be delivered before April 1941, complete with engines. It is hoped that such aircraft would be fitted with the turbo-supercharger.
3. Republic have offered additional capacity for production of P 44 aircraft from May, 1941, onwards. The United Kingdom Government cannot take up this offer because the type will then not be sufficiently modern for conditions which will develop into 1942. The position is different as between aircraft offered complete with engines for delivery prior to April 1941, as against those offered for delivery by December, 1941, and for which engines would have to be provided.
4. The United Kingdom Government could not envisage employment of this type in war into 1942, and cannot contemplate release of engines for such late deliveries inasmuch

- 2 -

as all available engines are required for types of
higher performance.

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(Please destroy copy previously sent you.)

Corrected Table

216

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

Week ended October 5, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	123,000 Bbls.	---	121,000 Bbls.	3,700 Bbls.
Crude -				
Blended or California High Octane Crude *	243,808 Bbls.	---	---	---
All Other Crude	160,713 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	166,831 Bbls.	75,000 Bbls.	---	549 Bbls.
All Other Gasoline	---	---	---	24 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil ***	31 Bbls.	---	---	3,739 Bbls.
All Other Lubricating Oil	24,982 Bbls.	---	4,875 Bbls.	3,051 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	19,700 Tons	---	---	614 Tons
All Other Scrap	27,386 Tons	---	---	7,502 Tons

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

Source: Office of Merchant Ship Control, Treasury Department.

October 23, 1940

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

Aviation Gasoline.

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

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington

From: Dakar

Dated: October 6, 1940, noon

Rec'd: 11:22 a.m.

No. 17

Your telegram no. 11, 6 p.m., October 3.

The RICHELIEU seemingly did not bring any gold to Dakar but I was informed in strict confidence that French auxiliary vessels during June brought 1250 metric tons of gold from Brest and Bordeaux. The largest part of this was stored at Thies. Now, however, it is deposited inland farther. It is reported that the British Consul General said that part of it belonged to the Polish Government and the Belgian Government owned a small quantity of it. All of it is regarded by Government officials as belonging to France because advances made to Poland were many times greater than the value of the gold holdings of Poland.

(Copy)

ek

JR

GRAY

Rio de Janeiro

Dated October 6, 1940

Rec'd 9 a.m., 7th.

Secretary of State,

Washington.

513, October 6, 8 p.m.

My telegram No. 511, October 5, midnight.

The Brazilian and Argentine Ministers of Finance signed the following agreement tonight at seven o'clock:

"The Minister of Finance of the United States of Brazil and the Minister of Finance of the Republic of Argentina, considering (***) (preamble) (***) resolve to submit the following recommendations for the approval of their respective governments:

(1). Understandings between the governments of the two countries for beginning as soon as possible the production of articles that are not now manufactured in either of them, under a guarantee that during a period of ten years the trade in these articles shall not be subjected to customs duties established for protectionist purposes nor affected by dispositions of either an internal or external nature that diminish in one country the imports coming from the other, except measures taken by common agreement in accordance with the provisions of article 2.

Study and recommendation by the delegations of the two countries of means for applying similar provisions to:

(a) Articles now produced in a single one of the two countries, except

- 2 -

those subject to duties that are not of a protectionist nature;

(b) Articles which, in one of the two countries, are at present of minor economic importance.

In the case of industries that are already of economic importance, the possibility will be examined of gradually eliminating or reducing duties without disturbing existing production and without damaging the national economy.

(2). Working out uniform processes for recording exactly the volume of their reciprocal trade and the balances of this exchange.

When a persistent deficit is observed, over a period of not less than six months, the country with an excess of exports over imports should, at the request of the other, take the necessary measures to bring a prompt reestablishment of equilibrium, preferably using measures tending towards an increase of its imports rather than the restriction of its exports.

(3). (a) Reduction by both countries of the use of other ingredients in the foodstuffs imported from one country by the other—coffee, mate and wheat—in such proportion that within three years such products may be delivered for consumption in accordance with the types and specifications of the country of origin;

(b) Ample facilities for the entry and sale in the Argentine market of textiles and other Brazilian industrial products, provision being made immediately that while there are restrictions on imports in the Argentine Republic the annual quota for Brazilian textiles shall not be less than 30 million pesos, national money, in quantities to be determined by the commission now sitting;

- 3 -

(c) The recommendation under letter (a) is to become effective only after the understanding referred to under letter (b) has reached a definitive conclusion.

(4) Concession by the Argentine Republic to Brazil of credits up to 50 million pesos national money to be used for the purchases of surplus noncompetitive Argentine products. Similarly concession by Brazil of credits of equivalent value in Brazilian money for the purchase by the Argentine Republic of Brazilian products in the same way. These products will remain in storage in one country or the other, their reexportation being prohibited. The form and utilization of these reciprocal credits as well as the execution of this article will be determined through the Bank of Brazil and the Central Bank of the Argentine Republic.

(5) Understandings between the Central Bank of the Argentine Republic and the Bank of Brazil regarding the manner of facilitating payments between the two countries and assuring prompt liquidation of exchange balances, the two banks exchanging between them information, make it possible to foresee or solve difficulties that may arise in the credit or exchange relations between the two countries.

(6) The inauguration of similar agreements with the other American countries, considering that these measures will facilitate trade, improve the economic situation, and strengthen the solidarity of the nations of this continent.

The delegations of both countries will suggest to their governments the best means for the most prompt and effective execution of the foregoing recommendations.

- 4 -

(7) And finally that both governments avoid any measures that might indirectly run contrary to the stipulations recommended here".

Repeated to Buenos Aires.

CAFFERY

CSB

copy

pf

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222

Paraphrase of Code Radiogram Received at the
War Department 11:34 a.m., October 6, 1940.

London, filed 10:46, October 6, 1940.

1. Prior to 9:00 p.m., Saturday, October 5th, the Coastal Command dispatched 72 planes against enemy ports. Operations of the Bomber Command were limited because of weather, only 34 planes being sent out.

2. During daylight hours of October 5th the German Air Force made six attacks in formation. Four of these, consisting of 30, 150, 120, and 40 planes, respectively, operated over Southeast England. Two attacks, one of 50 and one of 80 planes, were made over the Southampton-Portsmouth area. In addition, a number of reconnaissance missions were flown during the forenoon. A total of 60 planes reached London. During the night that followed a few raids were directed against London between 7:00 p.m. and 6:00 a.m., the number of planes being 40, 48, 36, and 26, respectively.

3. One power station and two airfields were reported to be severely damaged. Major damage was done to one railroad yard and the service of another railroad was suspended because of an unexploded bomb. There was a serious fire in one London dock. Two bombs hit the Tower of London. The naval dockyards at Portland were attacked but the damage is stated to be very slight. Damages elsewhere were scattering and of minor importance.

4. German plane losses were five confirmed and 16 probable. The British lost nine planes and two pilots.

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223

5. One 2,800-ton merchant ship was sunk. An estimated convoy of 47 ships cleared Northwest Ireland.

6. There is no change in the situation in Egypt or in evidence of an invasion.

LEE

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

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TREASURY DEPARTMENT

224

INTER-OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Movements of commodity prices and related price factors during the World War.

I am attaching herewith a detailed study of price trends during the World War period, with a chart showing the movements of prices and related price factors from 1913 through 1922. Developments in the price situation each year are discussed as separate sections.

The significance of this study, as it relates to the present situation, seems to lie particularly in its demonstration of the leading parts played by (1) capacity limitations, and (2) the method adopted for financing the war, in the price inflation which occurred during that period. It will be noted that commodity prices in general did not begin to rise until the index of production had practically reached its upper limit.

Attachments

COMMODITY PRICE TRENDS, 1913 to 1922,
AND RELATED PRICE FACTORS

Note: Numbers in circles refer to points on
attached chart.

January 1913 to August 1914

Commodity prices were generally stable during this period, but a gradual decline was under way when the World War began, largely due to world-wide business depression and credit stringency associated with the Balkan War, which ended in 1913.

August to December 1914

The outbreak of the war in August 1914 was immediately followed by a speculative upturn in commodity prices lasting about two months ①, which brought a rise of 2.3 points during August in the all-commodities index (1926 = 100). Sugar, grains, and chemicals were among the products having greatest price increases.

Quoting a report of the War Industries Board: "Many of the rather panicky apprehensions proved to be mistaken or at least premature, so that the prices which had bounded up so suddenly subsided again in September or October." After this flurry, the index dropped back to its pre-war level and remained there until the last quarter of 1915.

Increased war demand for certain commodities during this period was offset by the depressing effects of (a) a curtailment of export demand for many products, notably cotton, resulting from the blockade of the Central Powers; (b) severe monetary stringency in the United States, due in large part to repatriation of foreign funds, which resulted in high exchange rates for sterling ② and other European currencies, with sterling temporarily reaching as high as \$7.00, and caused heavy exports of gold from the United States; (c) general unsettlement in trade and industry, accompanied by a sharp decline in industrial production ③, by the closing of the Stock Exchange and some commodity exchanges, by the unsettlement of international trade, and by a general moratorium on debts abroad, which prevented payments on foreign commercial obligations owed in this country.

- 2 -

The year 1915

Several factors that contributed toward starting a general rise in commodity prices, which got well under way in 1916, became increasingly important in 1915:

(a) Exports, which began to expand within a month after the outbreak of war ⁽⁴⁾, rose still higher in 1915 as war orders rapidly mounted. The demand for new tools and machinery to equip plants for munitions manufacture, in itself, created a great volume of industrial orders. The increase in exports at first was primarily in foodstuffs and textiles, but later in the year exports of munitions increased, with no restrictions imposed on their sale to belligerents.

(b) The demand for industrial raw materials increased rapidly under a phenomenal expansion in industrial production ⁽⁵⁾, induced both by the increased demand from abroad and by a rapid revival of domestic demand. The index of industrial production nearly doubled during the year, with the iron and steel industry experiencing the greatest revival in its history.

While the commodity price level was held down most of the year by continued large supplies of agricultural products, by increased output of mines, and by increased available supplies of manufactured products, a point was shortly reached where productive capacity became inadequate and labor costs began to increase, contributing toward a general mark-up of prices that began in the last quarter of the year ⁽⁶⁾.

(c) Monetary conditions became increasingly inflationary. Extremely easy money rates ⁽⁷⁾, accompanying a huge expansion in excess bank reserves under the newly-established Federal Reserve System, were caused principally by heavy imports of gold from Europe. More than \$400,000,000 in gold was shipped to this country in 1915. In addition, the velocity of turnover of bank deposits increased sharply during the year, partly because of increased speculation in the stock market, and bank loans began a general expansion that did not end until 1920.

- 3 -

Sterling declined gradually during 1915, averaging below \$4.70 during the last quarter (8). The allied governments floated a bond issue of \$500,000,000 in the United States in the fall of 1915, by far the largest flotation of this kind on record. This followed the resignation of Secretary of State Bryan, who had opposed loans to belligerents as contrary to a policy of neutrality.

The year 1916

The rise in commodity prices which began late in the previous year developed in 1916 into an upswing of inflationary proportions (9). Industrial production had reached its practical limit of capacity under prevailing conditions (10), and no significant further increase occurred in the general production index during the remainder of the war period. Unprecedented advances in wages, together with increases in material costs as manufacturers bid against each other for purchases of supplies, contributed to the extensive price advance. Semi-finished products took the lead on the rise, and prices of raw materials turned exceptionally strong near the end of the year (11).

The monetary situation continued inflationary. Net gold imports of \$530,000,000 during the year kept the money market easy, despite a broad expansion in loans, though some tightness developed at the close of the year. The velocity of turnover of bank deposits continued to increase, and bank clearings gained 39 per cent over the previous year.

Exports continued to expand (12), and our "favorable" balance of foreign trade for the year exceeded \$3,000,000,000. During this period, sterling was "pegged" around \$4.75 by means of stabilization operations financed by funds borrowed in the United States. This rate made the dollar relatively undervalued, and to that extent was an inflationary influence. In the early part of 1916, foreign securities held by British investors were taken over by their government, in exchange for British government securities, and the proceeds from sales of the foreign securities were used for purchasing supplies in the United States. Upwards of \$750,000,000 in various foreign loans were floated in the United States in this year. This country also became a depository for immense sums of foreign capital formerly placed in London, as New York superseded London in the short-term financing of international trade.

The year 1917

Commodity prices continued their steep advance during the first half of this year (13), stimulated in part by events which foreshadowed the entry of the United States into the war early in April. Prices of raw materials and semi-finished products continued to lead.

Our entry into the war, however, was followed initially by certain deflationary influences. The flow of gold into the United States ceased, and was succeeded by rather heavy gold exports. Stock prices during the year suffered the most abrupt decline since the panic of 1907, due to prospects of reduced earnings owing to high labor costs and the probability of drastic profits taxation and price fixing. Industrial production and exports levelled off, with activity in some lines hampered by war priority rulings, and by transportation shortages.

These influences prevented a further rise in prices during the second half of the year. On the other hand, prices were kept from declining by new inflationary influences that were beginning to develop as a result of our war activities. Bank loans expanded far beyond any previous record, with loans of New York Clearing House banks rising 85 per cent during the year. The new Federal Reserve Banks began active rediscounting operations (14), the flotation of the first Liberty Loan (\$2.0 billions) in May and the Second Liberty Loan (\$3.8 billions) in October, marking the beginning of a huge increase in rediscounts with Government security collateral. By December 1917 the amount of Federal Reserve Notes had increased to \$1,251 millions, as compared with \$273 millions at the beginning of the year.

Industrial production had apparently reached the limit of capacity under existing conditions, making the increased war demand reflect itself more directly in prices of goods and materials. The use of United States funds to stabilize sterling may also have provided an impetus toward raising commodity prices in this country, since the rate chosen was apparently high for sterling and low for the dollar.

The beginning of a tightening in credit conditions was reflected in a firming of interest rates during 1917, which was followed by an increase in the Federal Reserve rediscount rate near the end of the year (15).

- 5 -

The year 1918

Prices in this year renewed their rise (16), as various inflationary influences began to take effect, but Government price fixing regulations on a substantial list of important commodities, which were put into effect over a period beginning in July 1917, together with priorities on Government orders, tempered the rise and made it much more gradual than the broad upswing of 1916 and 1917.

Industrial production averaged lower than in the previous year, despite attempts to speed up the production of war materials, and was sharply depressed in the first quarter (17) by shutdowns of factories which were unable to secure materials because of a serious freight car shortage and an unusually severe winter.

Monetary expansion arising from war financing continued an outstanding inflationary influence. The flotation of the Third Liberty Loan (\$4.2 billions) in April 1918, and the Fourth Liberty Loan (\$7.0 billions) in September was followed by a huge expansion in the volume of rediscounts by the Federal Reserve Banks on Government security collateral (18), incidental to the public distribution of these issues on the installment plan through banks. Some volume of commercial rediscounts doubtless also is included in these figures, since banks were encouraged to use Government securities as collateral by preferential rediscount rates. Increased commercial borrowing is also indicated by an enlarged volume of "all other" rediscounts in 1918.

The year 1919

The ending of the war in November 1918 was followed by some setback in commodity prices, stock prices, and industrial activity during the first quarter of 1919, as war orders were cancelled and a general bearish sentiment swept over the country. This proved to be short-lived. Inflationary influences had been accumulating, and the removal of Government price restrictions by March (on all commodities except sugar and wheat) was followed by a wave of commodity speculation that carried prices to excessive heights (19). The removal of restraints on production for civilian purposes, combined with a general wave of reckless extravagance, brought a pronounced rise in industrial production during the latter part of the year (20).

- 6 -

The floating of the Victory Loan (\$4.5 billions) during the early part of 1919 marked a peak in the volume of Federal Reserve Bank rediscounts on Government security collateral ⁽²¹⁾. The removal of preferential rates on such collateral near the end of the year was followed by a declining volume in these rediscounts over the next several years. On the other hand, the wave of commodity speculation which set in at that time, accompanied by heavy borrowing from the banks, was reflected in an increased amount of rediscounts on other types of collateral ⁽²²⁾. This carried total rediscounts to a new high level at the end of 1919.

While the demand for credit was expanding, the gold supply of the country was being reduced by heavy exports of gold, which continued without interruption for nearly a year after the embargo on gold was removed in June. In a 12-month period, a record total of \$466,500,000 in gold was shipped out of the country. Meanwhile, a severe decline in sterling ⁽²³⁾, following a withdrawal of credits to England for supporting the currency, was a further deflationary price influence.

The increasing strain on the credit structure became strongly evident late in 1919, when call money rates soared in November to a monthly average of 10.4 per cent ⁽²⁴⁾, and temporarily reached as high as 30 per cent. The stock market, which had shared in the general wave of speculation, was first to foreshadow the coming deflation. Stock prices began to decline in December, after reaching a new peak the previous month.

The year 1920

The momentum of the speculative movement carried prices upward until the early summer of 1920, despite evidences that the situation was becoming increasingly critical. Industrial production reached a new peak in January and February, and manufacturers, though heavily stocked with raw materials, were booked far ahead and felt secure in the industrial outlook. Prices of finished products, however were raised more rapidly than consumer incomes would support, and a "buyers' strike" movement set in.

Stock prices continued to decline sharply throughout the year. Large stocks of goods were piling up in this country; European demand fell off as factories abroad resumed operations, and imports began to increase heavily. Industrial production dropped sharply in April 25, initiating a decline that became more pronounced as the year progressed.

- 7 -

Money conditions became increasingly tighter during the first half of 1920 as bank loans mounted to new high levels, and a severe strain on the reserve position of member banks developed. Commercial paper rates rose steadily, reaching 8 per cent during the summer. In this contingency the Federal Reserve Board decided to discourage speculation in commodities by a sharp increase in rediscount rates early in 1920. This was done in two steps. The first, on January 23, was an increase in the rate of the Federal Reserve Bank of New York from $4\frac{3}{4}$ per cent to 6 per cent (26), which was followed by the banks in all other districts.

Stock prices in February suffered a severe decline. The silk market was among the first of the commodity markets to break, bringing on a panic in Japan in April 1920. In May, the Commercial and Financial Chronicle mentioned that "deflation seems to be gathering momentum; liquidation of stocks and bonds is extending to commodities; there are further cancellations of goods."

The second increase in the rediscount rate, to 7 per cent, went into effect on June 1, with four other Reserve Banks following the example of the New York Bank (27). Average prices of commodities, which had reached a peak in May, began to fall in June, and by the end of the year the downturn had developed into a precipitous break (28). The price level in December, according to the BLS all-commodities index, had dropped to a level 28 per cent lower than in May.

While rediscounts by the Federal Reserve Banks on Government security collateral declined steadily during 1920, this was more than offset by a sharp increase in "all other" rediscounts (29), which lasted until near the end of the year.

The years 1921 and 1922

The price decline continued until the summer of 1921, when raw material prices, which had suffered most severely, reversed their trend and started a gradual improvement (30). Prices of finished goods continued down for some months longer, and the final low for the all-commodities index was reached in January of the following year, 45 per cent down from its 1920 peak. This compares with an extreme decline of 51 per cent for the raw materials group.

- 8 -

The high rediscount rates were kept in effect by the Federal Reserve Banks for nearly a year, throughout practically the entire price decline. On May 5, 1921, the Federal Reserve Bank of New York initiated a series of cautious reductions (31) which by the following year carried the rate back to its 1917 level of 4 per cent.

The evidence of a change in Federal Reserve policy given by the first reduction in rediscount rates doubtless played a part in stopping the decline in raw material prices in the following month. While the deflationary effect of a declining trend of bank loans (and rediscounts) continued into the following year, certain strengthening price factors were coming into play:

(a) Gold began to come into the country in heavy volume near the end of 1920, and the heavy import movement continued through the following two years.

(b) Industrial production (32) started to rise during the second half of 1921, and gained at an accelerated rate during 1922.

(c) Industrial stock prices began a substantial rise in the latter half of 1921.

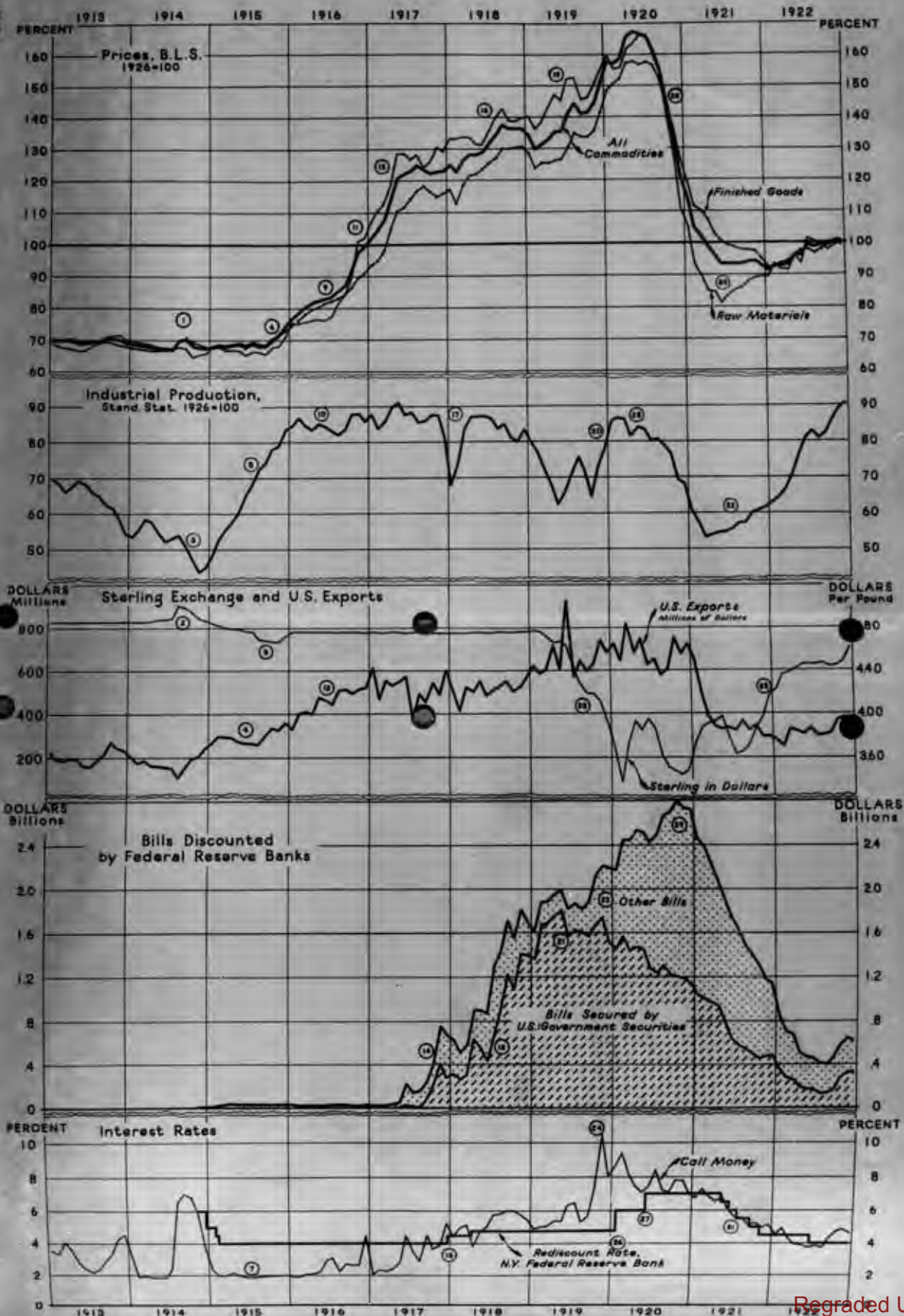
(d) Sterling exchange (33) recovered rapidly in 1921 and 1922.

(e) The excessive supplies of various goods and materials had been substantially liquidated, and the production of some commodities was drastically curtailed. The cotton crop in 1921 was the smallest since 1895.

(f) The pent-up demand for new building construction which could not be satisfied in earlier years because of war priorities and high costs, provided a powerful business impetus when costs were lowered. In 1922 there was the largest amount of new building ever recorded in a single year.

COMMODITY PRICES AND PRICE FACTORS 1913-1922

233



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau
FROM Mr. Haas 

After holding at a dead level for four weeks, Work Projects Administration employment increased to 1,703,000 persons during the week ended September 25, 1940. This figure represents a gain of 14,000 persons over the previous week and 11,000 persons over the number reported at the end of August.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1940	Number of Workers (In thousands)
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611
July 10	1,619
July 17	1,659
July 24	1,689
July 31	1,700
August 7	1,709
August 14	1,708
August 21	1,699
August 28	1,692
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,703

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

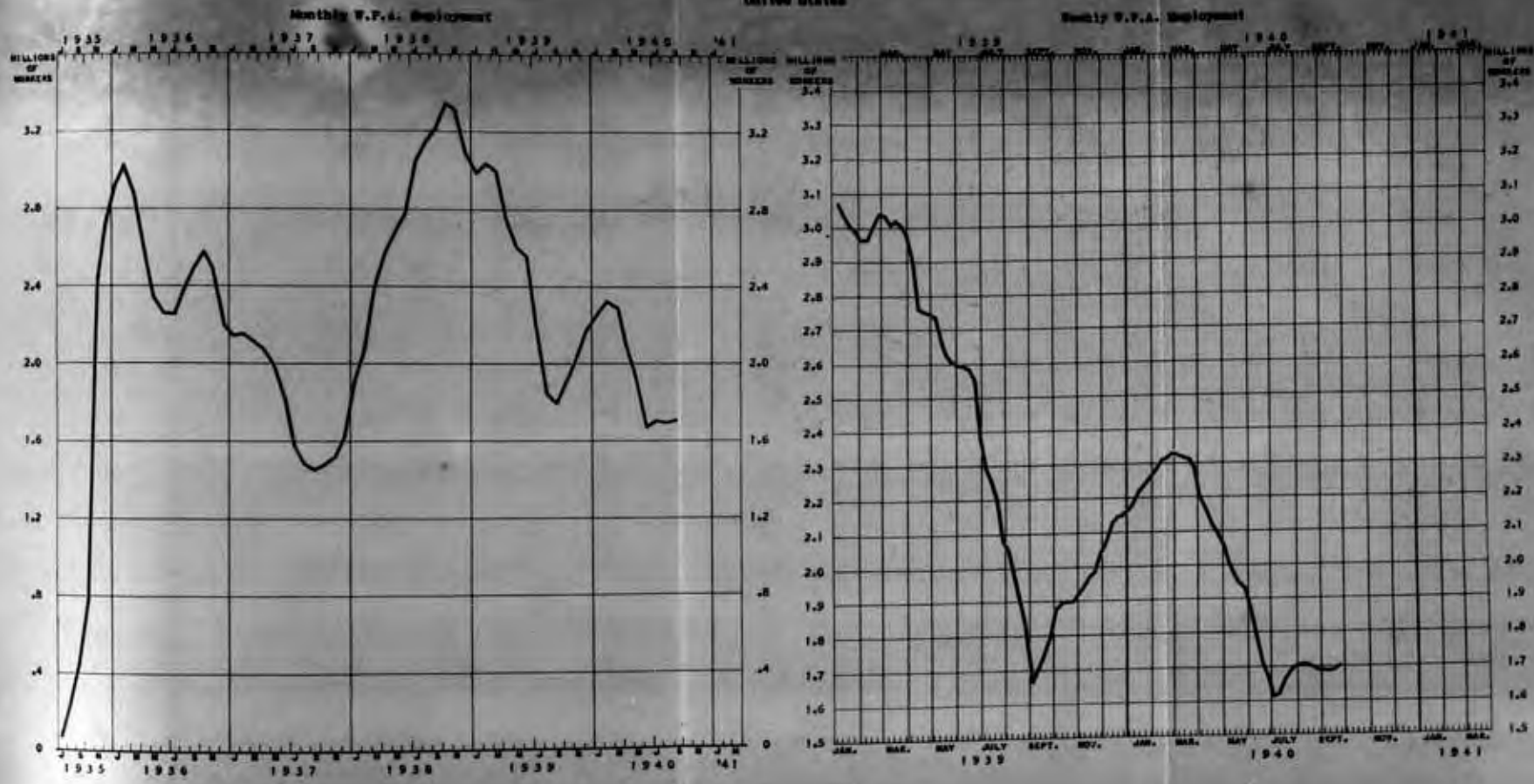
	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666
July	1,700
August	1,692
September	1,703

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Jay Crane telephoned me at 2:45 this afternoon from New York. He was particularly anxious, in view of the Standard Oil Company's unhappy experience with expropriation of their properties in Mexico to learn whether there is any truth to the report that Mexico will shortly obtain a loan of \$50,000,000 from the Export-Import Bank, and that the Under Secretary of Finance of Mexico is now in Washington to negotiate this transaction. I told Mr. Crane that I knew nothing whatever of such negotiations.

JMP

EG

PLAIN

Stockholm

Dated October 7, 1940

Rec'd 9:12 a.m., 8th

Secretary of State,
Washington.

950, seventh.

All pork products rationed October 6 present allowance 200 grams weekly per person subject revision end October and private hog slaughter prohibited. Retail price motor kerosene increased by 5 point 5 oere liter and lighting kerosene 2 point 4 oere liter October 6. Further 25 percent cut in diplomatic gasoline allowances. September check clearances million crowns Stockholm 2596 Gothenburg 243. 25 million 2 months Treasury notes sold at discount rate 2 point 6 percent. Decrees governing payments to Baltic states rescinded due to signing of Swedish-Russian payments agreement. Government probably presenting to Riksdag this week proposals for turnover tax.

Inform Treasury, Agriculture, Commerce.

STERLING

HSM

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE October 7, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending October 5, 1940.

Summary

(1) As the armament program, with its heavy demand for many basic materials, strikes an accelerated pace, interest will become more and more centered on the problem of preventing excessive price increases. Prices of the non-ferrous metals, which in the World War were among the leaders of the general price advance, have already shown substantial increases. Only a prompt enlargement of production capacity for some of these urgently-needed materials will prevent further price advances. But, according to present indications, there is a real danger that capacity expansion may be delayed, as it was during the World War, until after the prices of these materials have reached excessive heights.

(2) General commodity prices, as measured by the BLS all-commodity index, have risen gradually since early August when the year's low was reached. The cost of living, according to the Conference Board monthly index, declined in August for the second consecutive month, although it remains slightly above last year's pre-war level.

(3) With a more general belief that the danger of an invasion of Britain this fall is probably past, a further increase in business confidence is noticeable. Purchasing agents have extended their forward buying well into next year, and our "index of confidence" has shown a further rise.

(4) New orders in the heavy industries have been increasing during the past few weeks. Reported steel orders have improved for the second successive week, railway equipment orders are being placed in heavy volume, and structural steel awards have reached a new high for the year.

- - - - -

Secretary Morgenthau - 2

Price situation assuming greater importance

The prospective requirements of the defense program, which will call for huge quantities of basic industrial materials, direct increased attention to the need of assuring an ample supply of each of these basic materials, not only to avoid hampering armament production, but also to prevent an increase in costs to the Government, and to guard against establishing the first step of an inflation spiral.

During the World War period, the non-ferrous metals were among the first to reflect inflationary influences, since the heavy demand for such materials soon exceeded production capacity. (See Chart 1.) This was particularly true of zinc prices, which soon rose to extreme levels. The demand for iron and steel began to exceed industry capacity about a year later, initiating a steep rise in steel prices. When the heavy demand at rising prices became an obvious fact, the metal industries began to enlarge their capacities, but although new plants were rushed to completion they did not come into production until prices had risen far above their pre-war levels.

A detailed report on price movements during the World War period, and related price factors, is contained in a separate memorandum which I am sending you today.

A somewhat similar situation is again developing, although only a minor part of the orders for such materials as zinc, copper, pig iron, and steel ingots, which will be urgently required for the defense program, has as yet been received by producers. With zinc smelters operating close to capacity, zinc prices have already reached the levels established during the speculative boom of early 1937. Proposals that the Government take the initiative in establishing new zinc smelters to remedy a serious bottleneck have already been made in the metals industry, in recognition of the fact that the industry itself will obviously be unwilling to build new capacity to meet what appears to them as a purely temporary emergency.

A heavy demand for pig iron, with output close to practical capacity, together with rising prices for steel scrap, indicate to the trade that pig iron prices may be advanced before the end of the year. Under these conditions it would doubtless be only a short time before steel prices were raised, which would bring price increases throughout a large section of industry.

Secretary Morgenthau - 3

General price level remains low

Commodity prices, as measured by the ELS all-commodities index, reached a new low for the year in August, and the cost of living in recent months has shown no evidence of a rising tendency. (See Chart 2, upper section.) Lower prices for food and clothing were responsible for a decline in the cost of living index during August. The index of 86.0 for that month was 1.5 points higher than the pre-war level of August 1939, all major components of the cost of living index having advanced slightly.

In recent weeks, the all-commodity index (863 commodities) has improved gradually from the low point reached early in August. (Lower section of Chart 2.) Evidence of a developing price rise appears more strongly in the weekly index of 28 sensitive commodities (shown on the same chart), in which a rising trend has been under way for a number of weeks.

Industrial material prices higher

A breakdown of the price index of 28 sensitive commodities (Chart 3) shows that the upturn during the latter part of September was almost entirely in prices of industrial materials, while foodstuff prices remained relatively stable. A slight downturn in industrial material prices occurred last week.

Causes of the increased buying which has lifted prices of industrial materials (especially the non-ferrous metals) may be traced to (1) an increased confidence in the ability of Great Britain to hold off the enemy, which reduces the hazards of inventory accumulation, and (2) a desire on the part of those receiving defense orders to assure adequate supplies of the materials needed in filling their contracts.

Reflecting these influences, purchases are being made well into the early part of next year, according to various trade reports. The National Association of Purchasing Agents now recommends that "as numerous materials are becoming more difficult to procure, companies having assured production schedules in prospect should have four to six months' operations protected from a supply standpoint." The Association reports that a policy of assuring supplies well into the first months of next year is now being widely followed.

Secretary Morgenthau - 4

Increased confidence among investors has been indicated in recent weeks by a distinctly greater tendency to buy speculative bonds in place of the safer high grades. This has raised our "index of confidence" to the highest figures since last November. (See Chart 4.)

Prices of woolen goods increased

Prices on wool piece goods were marked up 5 to 7½ cents a yard last week, reflecting recent heavy Government orders and higher raw wool prices. Wool tops increased from \$1.15 a pound in the preceding week to \$1.21 last week; in the last four weeks they have registered an advance of 11 cents. Although Government orders for woolen goods, according to one estimate, will require something like 16 per cent of the amount consumed in the United States last year, the non-military demand is now an important market element. In the week before last, civilian demand for woolen clothes was reported the largest in more than a year.

The wool supply situation is somewhat improved. Stocks of foreign wools, which have entered this country over the 34-cent duty, are 20 per cent larger than a year ago. Purchases of South American wools will doubtless increase this season, in spite of the coarser quality of wool from Argentina and Uruguay. For finer quality, importing purchasers must depend on supplies from South Africa, Australia, and New Zealand, all of which have been purchased by Great Britain. Domestic prices will therefore be dependent in some degree on the policies of the British Wool Control. Market observers believe that if the plan to store 200,000,000 pounds of Australian wool in this country is carried out, it may have a downward influence on prices.

Heavy industry orders increasing

Orders for construction steel, railway equipment, and other products of the steel industry have been increasing over the past several weeks. An expansion for the second successive week in the volume of new orders reported by the U. S. Steel Corporation to 98 per cent of capacity, was responsible for an improvement in our composite index of new orders in the last week of September. (See Chart 5.)

Secretary Morgenthau - 5

Orders for construction steel are being received in heavy volume. In the week ended October 1, the volume of structural steel awards climbed to 85,000 tons, a new high for recent years. (See Chart 6, lower section.) While the largest single orders were for steel for elevated highways in Brooklyn and a Long Island Railroad grade elimination, numerous orders for national defense purposes were placed. These included among others 22,000 tons of sheet piling for the Philadelphia and Norfolk Navy Yards, 8,500 tons of fabricated structural steel for the Ford aircraft plant and 4,000 tons for a Vultee Aircraft plant.

Engineering construction awards in the week ended October 3 (upper section of chart) declined slightly from the previous week, but were still more than 74 per cent above the corresponding week in 1939.

Railroad equipment purchases rise

Following the rise which occurred in railroad equipment purchases during August, a further gain in freight car orders last month carried the September monthly total to 9,470 cars, or to the best levels since October 1939. Although locomotive purchases were a trifle under the relatively high August figure, and passenger car orders were markedly lower, orders for rails stepped up sharply to 115,000 tons. During the past week the Iron Age reported that pending rail inquiries amounted to about 110,000 tons, and that the total rail buying movement was expected to approximate 1,000,000 tons. After an upsurge of orders which resulted in the purchase of nearly 800,000 tons of rails last fall, rail buying has been very light until the past month.

The seasonal peak in railroad traffic is normally reached in early October, and if loadings this year show the usual October trend, this year's peak will be about 35,000 cars under last year's. On the other hand, it now appears likely that traffic will hold up better after the seasonal peak is reached than was the case a year ago. The Shippers' Advisory Board has estimated that this year's fourth-quarter carloadings will rise about 7 per cent above the same period in 1939. As a result, particularly in view of the defense program, traffic requirements are not likely to ease off from the seasonal peak as rapidly as a year ago.

Secretary Morgenthau - 6

In the important factor of railroad earnings, the current year has shown marked improvement over 1939. Net railway operating income of Class I railroads in August was 21 per cent above August 1939, while the gain for the first eight months of 1940 over year-earlier levels was a little more than 36 per cent. However, for at least a short period this fall, earnings will probably drop below year-earlier levels due to the sharp bulge which occurred in railroad traffic at this time last year. Nevertheless, if the present trend of earnings continues, total earnings this year may prove the best since 1930.

Weekly business indexes

The pace of the recent rise in the New York Times business index slowed down considerably during the week ended September 28, moving ahead only 0.1 to 108.6.

The principal factors in the slight rise were greater than seasonal gains in electric power and automobile production. Electric power output for the week was the highest on record. "All other" freight car loadings rose slightly more than seasonally, but total freight car loadings fell below year-earlier levels. All other components of the index declined, with the widest decreases occurring in the adjusted indexes of cotton mill activity and steel ingot production.

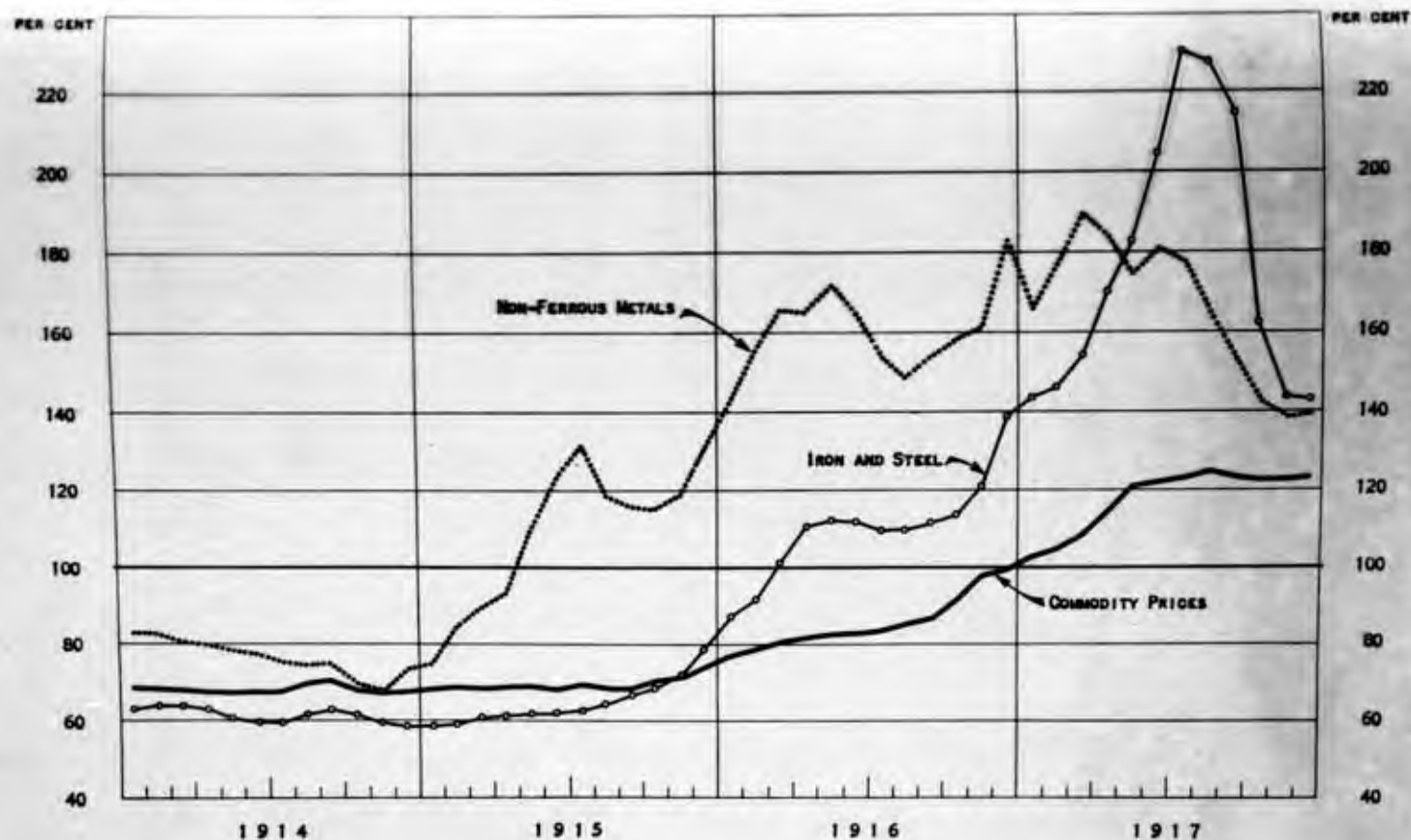
Barron's index of business activity, which has been lagging behind the Times index, moved ahead substantially during the week ended September 28, a gain of 1.4 carrying the index to 114.0.

Preliminary data for the week ended October 5 reveal a further moderate decline in the adjusted index of steel ingot production and a decline of nearly 10 points in the adjusted index of automobile production. This latter decline came in the face of a rise in actual automobile production of more than 9,000 units which carried the week's total output up to 105,153. Thus the decline in the adjusted index of automobile production, commented upon in our memorandum a week ago, has already started, despite the very satisfactory level of operations in the industry.

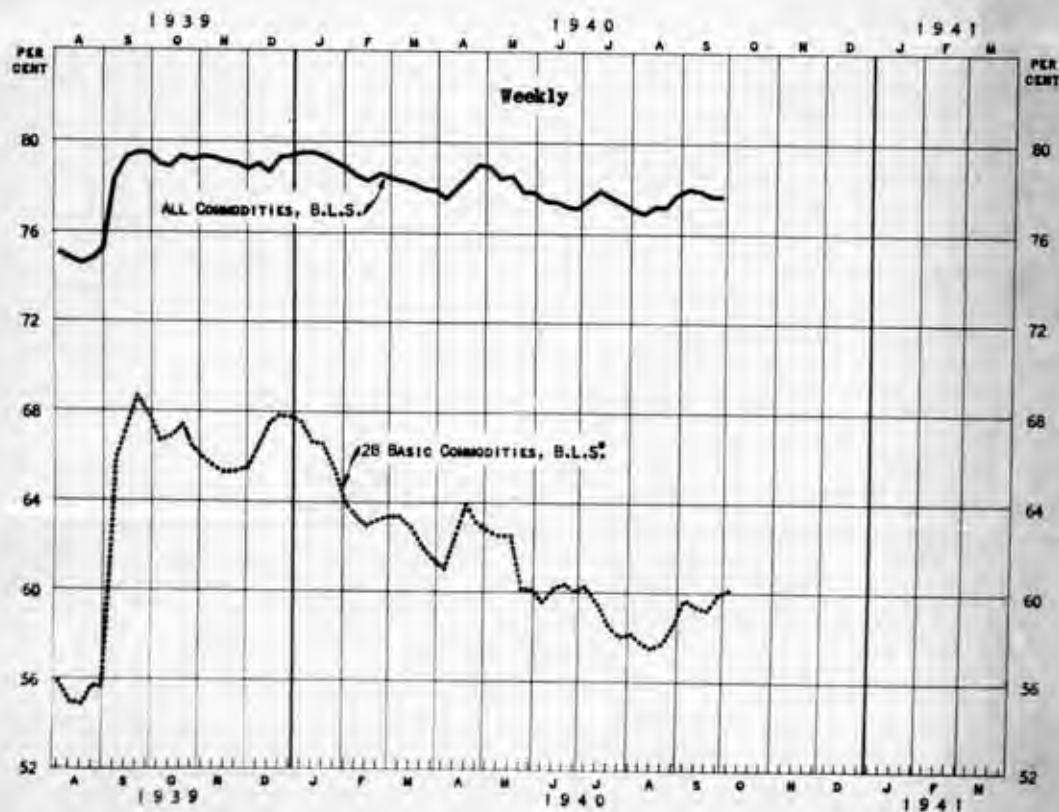
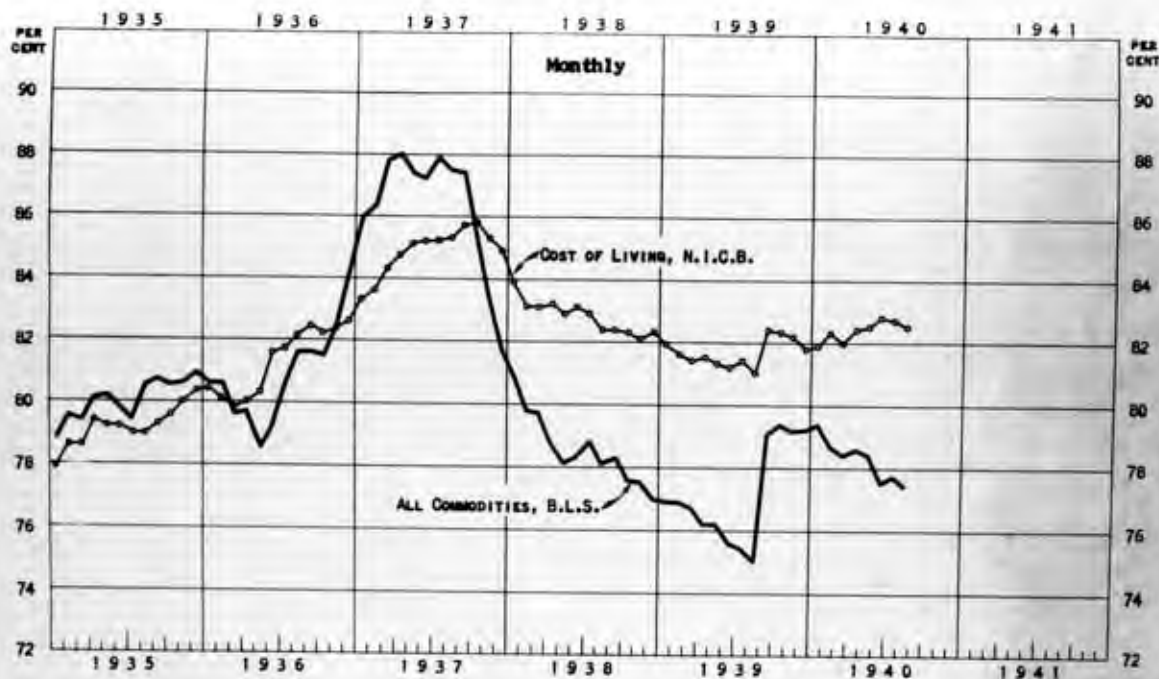
Steel operations for the current week, as announced this morning, are scheduled at 94.2 per cent of capacity, 1.6 points higher than last week and only 0.2 below the record rate of last November.

MOVEMENT OF METAL PRICES COMPARED WITH ALL COMMODITIES, 1914-1917

1926 = 100

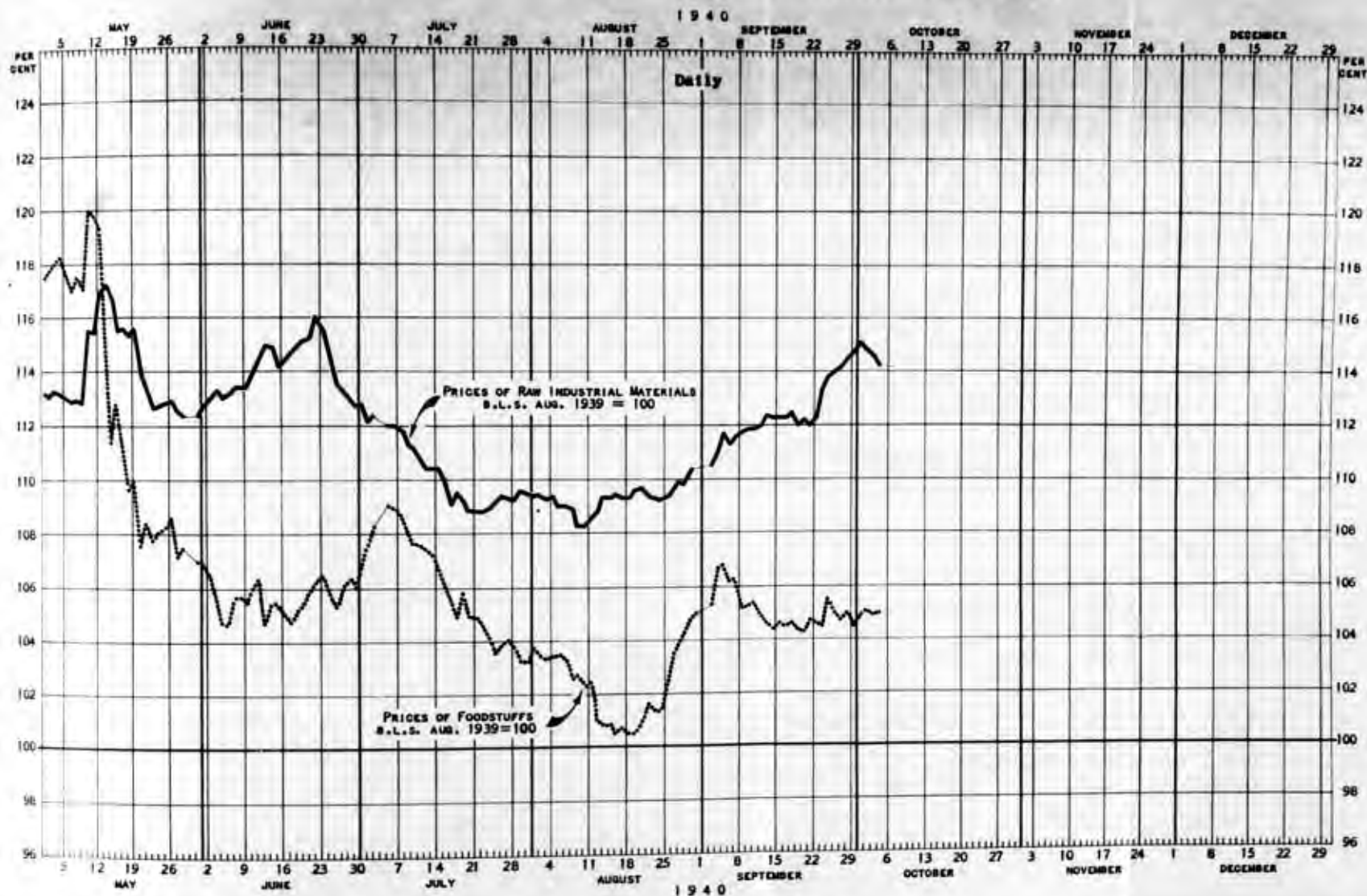


COMMODITY PRICES AND COST OF LIVING
1926 = 100

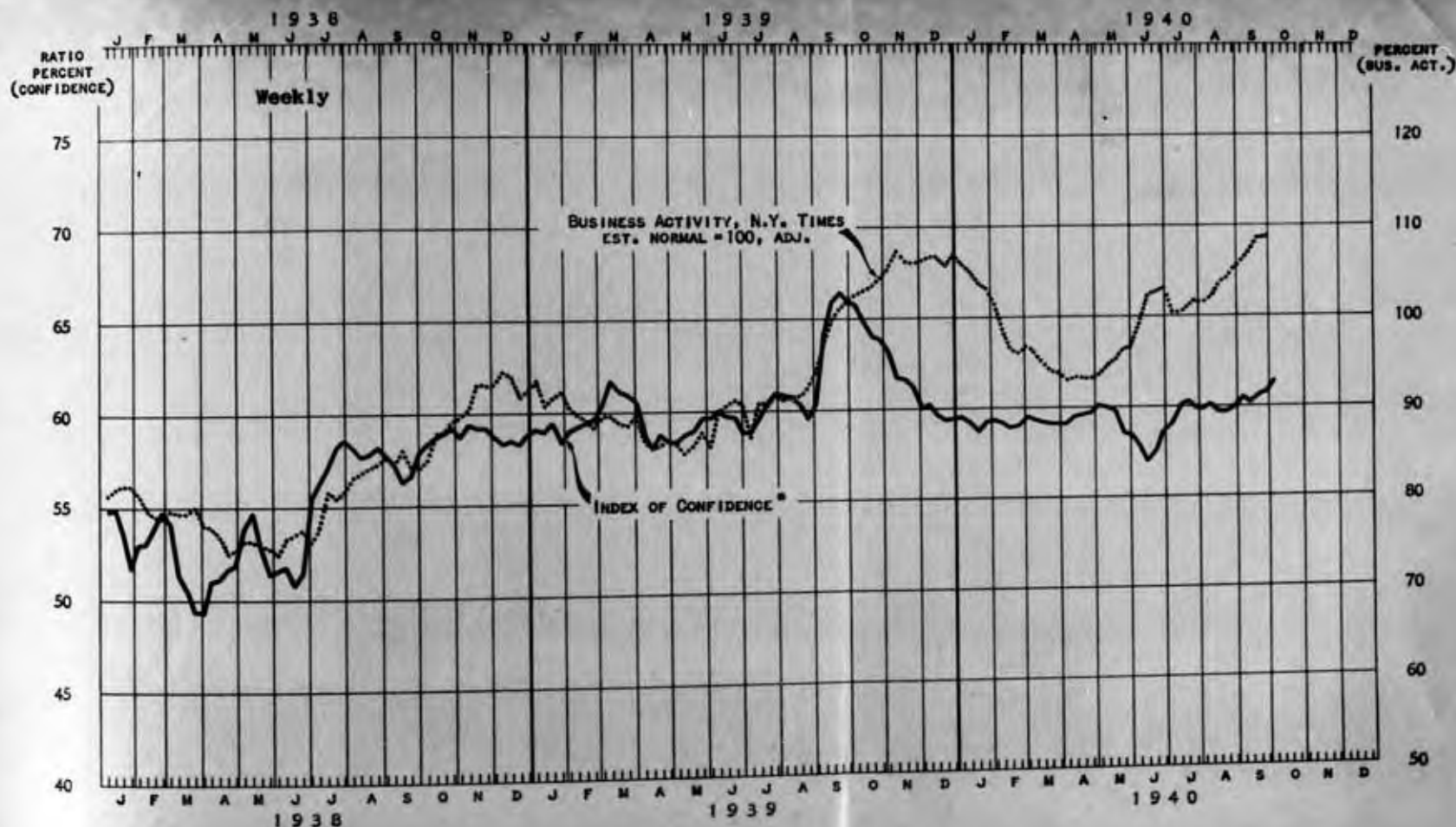


*30 COMMODITIES PRIOR TO JANUARY 1940

PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS

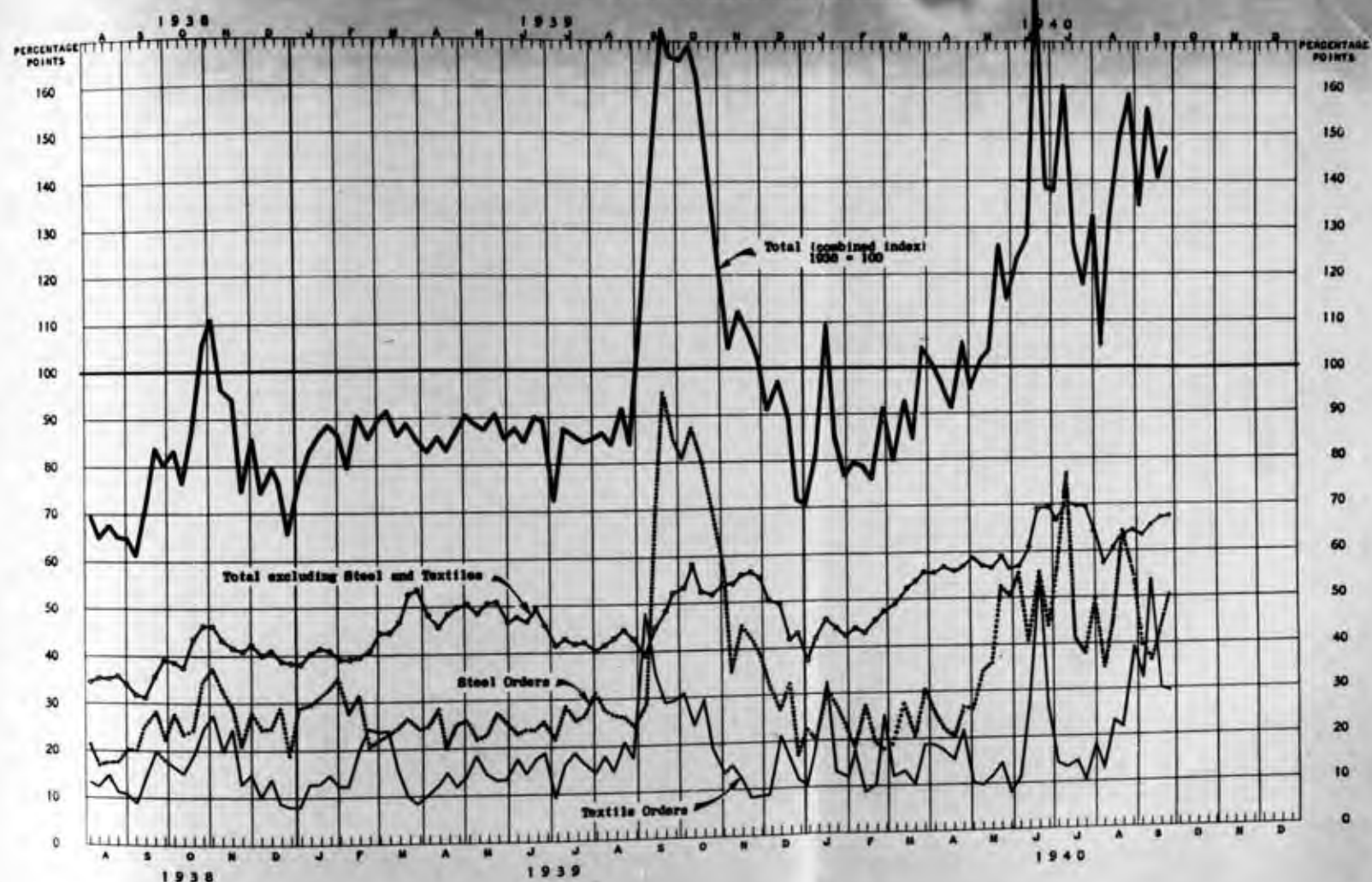


INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY

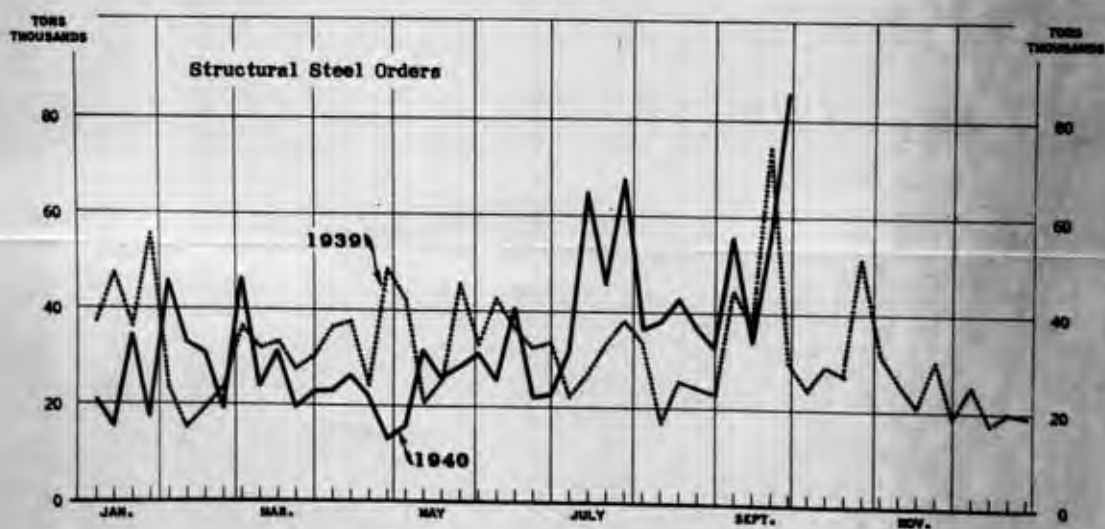
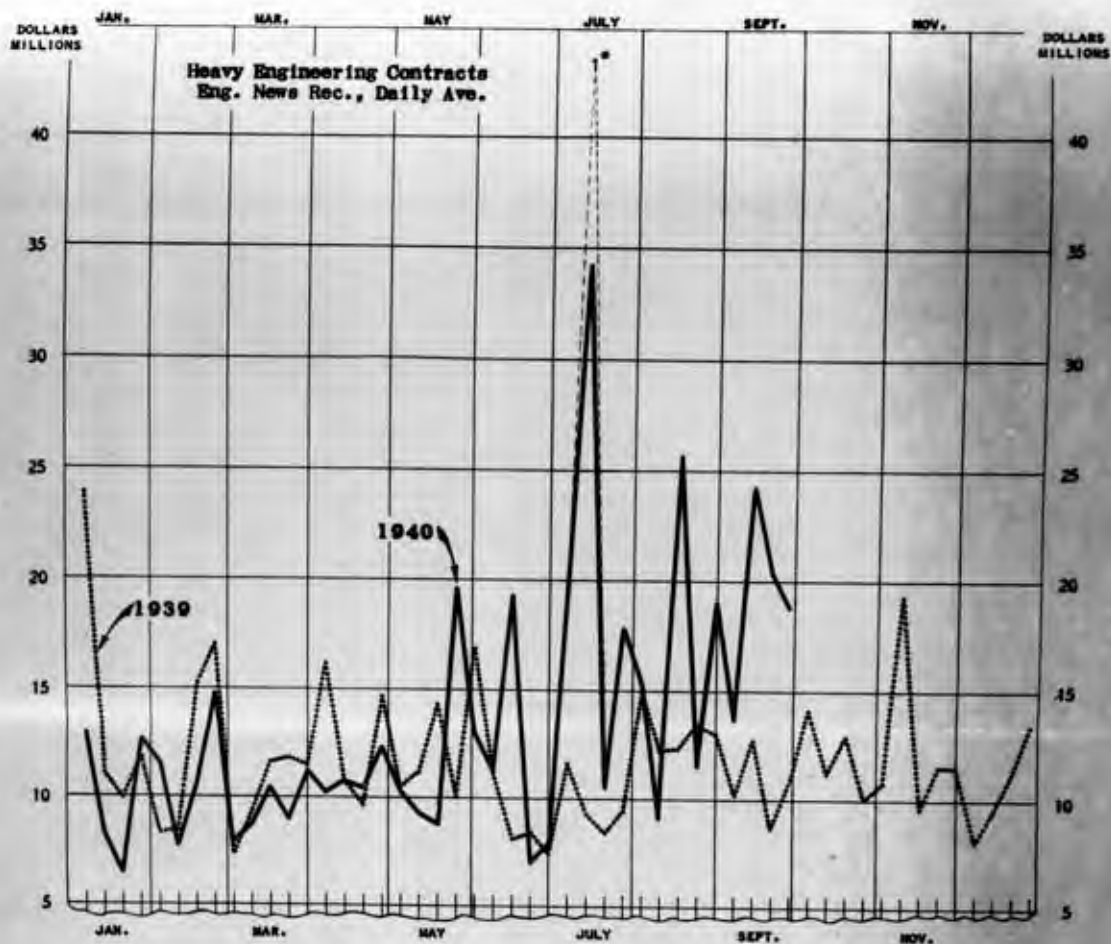


* RATIO OF YIELD ON MOODY'S AAA BONDS TO YIELD ON BAA BONDS.

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



CONSTRUCTION AND STRUCTURAL STEEL ORDERS



* INCLUDING OUTLYING POSSESSIONS OF THE U.S.

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

C - 280 - A

251

Regraded Unclassified

TREASURY DEPARTMENT

252

INTER OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£51,000
Purchased from commercial concerns	£36,000

The Federal Reserve Bank purchased £50,000 in registered sterling from the New York agency of the Bank of Taiwan, Ltd., and sold £7,000 to another non-reporting bank.

Open market sterling was first quoted at 4.03-3/4. It moved to 4.04 around noon and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 1,000
Sold to foreign banks (Venezuela)	£10,000
Total	£11,000

Purchased from commercial concerns	£ 7,000
------------------------------------	---------

Today's rise in the Swiss franc rate was greater than that of any previous day since the current upward movement began on September 27. Prior to our opening, the quotation advanced to .2309-1/2 in Zurich, and it was reported that the Swiss National Bank supplied the market with Swiss francs at that level. In New York, the opening rate was .2310. A high of .2313 was reached at the close, as against Saturday's final rate of .2305.

The Canadian dollar discount, which has remained in the vicinity of 14-5/8% during the past few days, narrowed to 13-1/2% at the close today. It was reported that American firms have recently been making small offerings of Canadian dollars received from October 1st bond redemptions, and that such offerings are now coming to a halt.

The Cuban peso improved to 7-3/16% discount, the best rate quoted for that currency in more than a year. Prospects of an Export-Import bank loan are still believed to be influencing the quotation.

The other currencies closed as follows:

Swedish krona	.2385
Reichsmark	.4005
Mexican peso	.2060
Argentine peso (free)	.2345
Brazilian milreis (free)	.0505
Lira	.0505

We purchased \$50,419,000 in gold from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank reported the following gold shipments:

\$50,000,000	from Canada, shipped by the Bank of Canada to the Federal Reserve Bank of New York, to be earmarked for account of His Britannic Majesty's Government.
2,023,000	from Canada, shipped by the Bank of Canada, Ottawa, to the Irving Trust Company, New York, for account of the National Bank of Iran, Tehran, Iran, for sale to the U.S. Assay Office. The Irving Trust Company believes that the National Bank formerly held this gold in London.
1,332,000	from Portugal, shipped by the Bank of Portugal to the Federal Reserve Bank of New York, to be earmarked for its account.
215,000	from El Salvador, representing four shipments by the Central Bank of El Salvador to the Federal Reserve Bank of New York, to be earmarked for its account.
<u>\$53,571,000</u>	Total

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on October 2, showed that such deposits totaled \$99,012,000, an increase of \$10,991,000 since the last report as of September 25. Included in this total were \$35,882,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, up \$424,000 from September 25, and \$52,373,000 in deposits made by Japanese banks in Japan and Manchuria, up \$10,561,000. The latter increase was no doubt associated with sales to the San Francisco mint of \$9,147,000 in gold imported from Japan during the week of October 2. It was also reported that the Japanese sold \$3,100,000 of American bonds in this period. A third factor tending to expand deposits was an increase of \$2,530,000 in loans to Japanese banks made by Yokohama's New York agency; these totaled \$15,976,000 as of October 2.

The Bombay gold price was equivalent to \$33.88, off 4¢. Bombay silver was priced at the equivalent of 44.61¢, off 1/16¢.

The London spot silver price was unchanged at 23-7/16d. Forward silver was fixed at 23-3/8d, up 1/16d. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made three purchases of silver totaling 365,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory, and the other 265,000 ounces consisted of new production from foreign countries, for forward delivery.

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B. M. F.

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TENTATIVE LESSONS BULLETIN
No. 55
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 7, 1940.

NOTICE

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

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FURTHER COMMENTS OF GENERAL REQUIN ON THE
BATTLE OF FRANCE

SOURCE

The information contained in this bulletin was obtained from General Requin, commander of the French Fourth Army, by an official American observer, whose report was made on August 7, 1940. Attention is invited to a previous interview with General Requin in TENTATIVE LESSONS BULLETIN No. 31, Observations of a French Army Commander.

CONTENTS

1. THE BREAK-THROUGH AT SEDAN
2. FRENCH NEED FOR COMMUNICATIONS
3. VIEWS ON LOSSES IN PERSONNEL
4. GERMAN TACTICS
5. FRENCH LOSSES
6. GERMAN AIR-GROUND COOPERATION
7. GERMAN USE OF AIRPLANES
8. ALLIED COMMUNICATIONS IN BELGIUM
9. OPERATIONS NEAR LILLE
10. FRENCH MATERIEL

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CONFIDENTIAL1. THE BREAK-THROUGH AT SEDAN

"In commenting upon various phases of the Battle for France, General Requin stated that the first German break-through near Sedan occurred because General Corap's Ninth Army, composed largely of reservists, was spread over a too widely extended front. In addition, although officers and men had been given information in school as to the number of tanks to a kilometer front, this information was purely theoretical. When the Army actually saw some 500 tanks approaching on a two kilometer front, they were so amazed and frightened that they broke before an attack was really delivered. There was also a break-down of communications.

2. FRENCH NEED FOR COMMUNICATIONS

"General Requin stated that from the beginning of the war in September he had importuned the Ministry of War to provide portable field radio, telephone and telegraph sets. The usual answer from the Ministry, however, had been that, with the French network of telephone and telegraph lines supplemented by motorcycle couriers, field radio sets for the Army were unnecessary. This view was proved entirely false.

3. VIEWS ON LOSSES IN PERSONNEL

"One reason for the German victory, the General said, was that the Germans did not hesitate to incur losses in personnel, whereas the French, from the time the war started, endeavored insofar as possible to avoid losing a man. This idea was expressed by General Gamelin in September 1939, when he stated, 'I would like to win this war without expending the life of a single French soldier.'

4. GERMAN TACTICS

a. General Plan. "General Requin said that the main German plan had been the same since 1870—the use of both a single and a double flanking movement around the ends of a strong position.

b. Establishing a Bridgehead. "According to the commander, The German infantry, aided by planes, did not hesitate to pour men into a bridgehead. Almost the moment a bridgehead was occupied, the armored divisions came out and spread in all directions to enlarge it, and even at night such a bridgehead must be reduced within two hours if a catastrophe was to be avoided. If one waited until morning the damage was done. The French never learned this until after the Loire.

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c. Armored Vehicles in the Break-Through. "Tanks and armored cars, on breaking through, kept going and pierced well behind actual combat lines. Their usual tactics were to go into a village, rush to the telephone and telegraph offices, break the switchboards, and then continue to the next village. Consequently, orders from Army headquarters could not be transmitted to the Armies themselves except by motorcycle courier, and often these were captured before delivering their messages. Many times during the battle German tanks and armored cars pierced between the army headquarters of General Requin and his army troops.

5. FRENCH LOSSES

"General Requin started out from Morhange, his headquarters near Nancy, with an army of about 280,000 men. ¹ He ended up at St. Flour, in the south central part of France, when the armistice was signed, with 20,000 men. He estimated the total French losses in personnel at approximately 200,000 killed, 800,000 wounded, and 1,500,000 captured, ² and gave as his opinion that the German losses were much less and even surprisingly small.

6. GERMAN AIR-GROUND COOPERATION

"The General said one of the most striking things was the close liaison and cooperation between German ground troops and planes. If German ground troops—infantry or tanks—came up against resistance, they immediately communicated by radio telephone in plain language with their planes, which arrived on the spot within a very short time and bombed out any resistance. Conversely, planes frequently reported centers of resistance to the infantry and armored divisions, which, as a result, went down other roads to turn these French points of resistance.

7. GERMAN USE OF AIRPLANES

"In German operations, planes performed most valuable service. They were at all times under control of the general commanding ground troops. This was a decided departure from the French system, in which the independence of the air force was almost a fetish.

8. ALLIED COMMUNICATIONS IN BELGIUM

"General Requin stated that the Allied move into Belgium had a considerable element of weakness in that lines of communication,

1. General Requin was quoted in TENTATIVE LESSONS BULLETIN NO. 31 as stating that he started out with 200,000 men. G-2.
2. In TENTATIVE LESSONS BULLETIN NO. 31, General Requin was quoted as estimating the number of French soldiers captured at 1,600,000. G-2.

CONFIDENTIAL

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lengthened and exposed, facilitated the enveloping movement by separate German armies and even smaller units.

9. OPERATIONS NEAR LILLE

"In the most crucial days just before Dunkirk, he said, the British promised one morning to arrange for a counterattack to the southwest from the neighborhood of Lille. In the afternoon, however, the British Expeditionary Force pulled out for Dunkirk without notifying the French command, leaving the French First Army in that vicinity to defend the British evacuation and then to evacuate themselves.

10. FRENCH MATERIEL

"General Requin added that French materiel, particularly in quantity but also in quality, was inferior to that of the Germans. Much of the French materiel, especially artillery, was out of date and had not been renewed since 1918."

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TESTATIVE LESSONS BULLETIN
No. 54
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
War Department
Washington, October 7, 1940.

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TRAINING OF A MOTORIZED
TERRITORIAL INFANTRY DIVISION

SOURCE

The following is a condensed report of a visit made by two official American observers to the 23d Northumbrian Division, which was training in the northeast of England, early in 1940.

CONTENTS

1. INTRODUCTION
2. THE DIVISION SCHOOL
3. FILLER REPLACEMENTS
4. TRAINING OF RIFLE COMPANIES
5. BRIGADE MOTOR TRANSPORT SCHOOL
6. BRIGADE N.C.O. SCHOOL
7. TRAINING OF SCOUTS AND SNIPERS
8. TRAINING OF SIGNAL PLATOON
9. TRAINING OF ANTIAIRCRAFT PLATOON
10. INDOOR TRAINING OF FIELD ARTILLERY BATTERY

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CONFIDENTIAL1. INTRODUCTION

The 23d Division is one of the second line Territorial divisions formed by doubling the Territorial Army as ordered on April 1, 1939. It was organized and being trained as a motorized division.

The Territorial divisions, of which there were originally thirteen, had two missions: (1) to bring themselves to war strength; and (2) to recruit, organize, and then split off a second line war strength division.

During the period April 1-September 3, 1939, the 23rd Division did no training of its own units as such, and its personnel received only recruit training, physical training, and some close order drill. It started its own schools, made its own training schedules, and began to function as a division on September 3, 1939.

Troops of the division were billeted over an area extending some 150 miles along the coast and 15 to 20 miles in depth from the coast. Schools, Territorial drill halls corresponding to National Guard armories, and warehouses in towns on or near the coast were used for billets, messes, and indoor instruction. In only a few cases was it possible to accommodate more than one company in one building, and in only one town were there more than two companies. This wide dispersion was a handicap to combined training, but it was required by the division's mission, which was the defense of a sector of the North Sea Coast.

The division was not up to war strength and was short in most items of equipment, but these shortages in men and materiel were in process of being filled. In spite of lack of equipment, the division was carrying through a very thorough training program, details of which follow.

2. THE DIVISION SCHOOL

The division school was established in a modern country hotel with about 100 bedrooms and a number of large public rooms suitable for use as lecture rooms. The student body numbered about 45 and was made up of newly appointed second lieutenants and selected N.C.O.'s. The course was two weeks for each class, and every lieutenant without previous military training, as well as every candidate for appointment as warrant officer, was required to take the course. The instructional staff consisted of one colonel, one major, and three captains.

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The course consisted of lectures on platoon and company combat problems, illustrated by blackboard sketches, sand table, and tactical walks. The students themselves were required to deliver ten-minute talks on subjects assigned as follows:

- a. Three times each week, a list of 12 subjects was issued to the class;
- b. Members of the class were divided by lot into groups of three or four men;
- c. Each group was assigned, by lot, three of the subjects;
- d. On each subject thus assigned, members of the group had to prepare ten-minute talks to be delivered the following day;
- e. When the class assembled the next afternoon, the instructor drew a subject by lot; then he drew by lot the name of one man in the group to which the subject had been assigned; this man gave the talk;
- f. The lecturer was questioned by the other students and the instructor for five minutes after his talk;
- g. The chief instructor made a few remarks on the subject and stressed or corrected points made by the student.

The drawing of lots was so arranged that each student had to deliver at least one talk during his two-weeks course. This system was found superior to the usual method of assigning all subjects to the whole class and testing by recitations and questions. The instructors made a point of the fact that the system brought into close contact the men who would command platoons in combat.

A sample list of assignments follows:

- a. Your platoon is going into billets for the first time. Give them a ten-minute talk on the subject.
- b. Your platoon is to take up map reading. Give a ten-minute talk on what is meant by contour.

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- c. You are to lecture to Artillery M.C.O.'s on Infantry weapons and elementary tactics. What will you tell them about the Bren gun?
- d. You are going to teach your platoon how to live in the field. Start with a ten-minute lecture on the subject.
- e. You are going to give a demonstration of a road block to men of another company. Give a ten-minute talk stating the principles you are going to illustrate.
- f. What is meant by battle procedure and why is it necessary?
- g. You are going to talk to recruits about the organization of the battalion. Give a ten-minute talk on the headquarters company.
- h. Your platoon is about to start training in defense. Give ten-minute talk on the subject of locating and preparing weapons emplacements, as a preliminary to practical work.
- i. You are going to start training your platoon in scouting and patrolling. Give a ten-minute talk on the different sorts of patrols.
- j. You are going to teach your men elementary map reading. You start with orienting your map. Why is this necessary and how do you do it?
- k. What is meant by map references and how do you describe positions on the map in this way?
- l. Explain to your men the rates of pay in the Army, the allowances they receive, and the allotments they can make to their dependents.

3. FILLER REPLACEMENTS

Each Infantry battalion received an additional company of about 150 Militiamen after the Militiamen had completed preliminary training at a Militia training center. These recruits remained in the battalion Militia company for four weeks before assignment to regular companies. Their training consisted of physical exercise and hardening work; extended order drills by sections and platoons;

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scouting and patrolling by sections and half-sections, including transmission of verbal messages and reporting of information; care and cleaning of arms and equipment, and a short period daily of quick close order drill. During this training the men were closely observed for aptitude or qualifications as specialists.

4. TRAINING OF RIFLE COMPANIES

a. Outdoor Exercises

Practically all training was by platoon or section. Most of it was routine extended order drill, with emphasis placed upon immediate and precise response to arm and whistle signals by platoon and section commanders.

Small combat problems were given. The following is an example:

An attack was made on a blockhouse defended by one section with one Bren gun. The attack was made by one section with one Bren gun. The blockhouse was located on a high point in the center of some rough terrain about 250 yards square. The attackers used their riflemen to cover the placing in position of the Bren. This gun was very successfully located to command the entrance to the blockhouse. It then covered the advance of the riflemen over the broken ground until they came up close to the blockhouse. The umpire decided that the result was a stalemate between defenders and attackers and stated that the purpose of the exercise was to train the men in the use of ground for attacking a strong point and in the use of the Bren gun for covering the advance of the riflemen. It was explained that, in actual warfare, the Artillery would have destroyed the blockhouse before the Infantry came up, or the battalion would have sent forward a 3-inch mortar to deal with it.

Training by section and platoon was carried out on large town lots where there were piles of debris, old foundations, and excavations. Here the men practiced advances by riflemen and Bren gunners, under simulated fire, learning to use the piles of debris, old foundations, and excavations as cover from hostile fire, and to organize them as strong points. Drivers and Bren gunners also used them as practice grounds for small tractors, or Bren carriers. This exercise gave practice in moving the carriers over ground simulating a battlefield.

b. Indoor Exercises

Because of the weather and the limited open country available, much of the training had to be done indoors, in schools

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or under simulated field conditions.

There were daily sessions of dry shooting with large painted landscape targets. Some of this was done with dummy ammunition, for loading practice. No equipment was available for small caliber shooting.

The men were practiced under cover in loading and unloading the platoon truck. This four-wheeled vehicle has a 1500-pound capacity, and the body has sides. It transported for each platoon the spare ammunition for rifles and Bren guns; four anti-aircraft mounts for Brens; the platoon's intrenching tools--picks and shovels; six oil lanterns; twelve nested G.I. water buckets; several small gasoline "Swedish" stoves for re-heating food delivered to the front line, or for emergency cooking; a first-aid and anti-gas emergency medical chest; several coils of $\frac{1}{2}$ -inch rope; cord-tied bundles, one for each man, containing blankets, spare clothing, small barracks bag, and an overcoat, if this was not being worn; and the bedding roll and valise of the platoon commander. The total weight was about 1250 pounds. Loading and unloading of the truck was carried out in prescribed order and by the numbers. The truck was brought broadside to the piled-up equipment; the man detailed to load formed in column of two's. Two men mounted into the truck body and the others worked by two's on heavy pieces, lifting them into the truck, where they were placed by the men inside. The bundles of clothes were loaded last at the tail of the truck. Ammunition chests were loaded first in the fore end of the truck body, in such manner that ammunition might be issued from the truck without unloading the chests. With the equipment all collected and in one dump, loading took three minutes; unloading about the same time.

Another exercise practiced indoors was the use of the Bren gun for antiaircraft fire from a truck. The 23d Division, being completely motorized, believed that when on the march, it would be a frequent target for low-flying planes. Some of the trucks are equipped with a special gunner's chair which has an antiaircraft mount for the Bren gun attached to it. The tubular steel chair is bolted to the truck floor and can be rotated completely or tilted back at 45 degrees. It can be locked in any position by means of a hand lever. The gunner is strapped in the chair and has his feet in toe pockets on a foot-rest attached to the chair. The gun mount is attached to the right side and arm of the chair and moves with the chair. Once the gunner is strapped in the chair, the gun is swung, on its swivel joint, in front of him, the butt is strapped against his shoulder, and the gun mount is clamped. The chair is then adjusted to the proper position and clamped. Without further change in the chair, the gunner can obtain practically any necessary elevation or traverse with the gun mount. The chair can, however, be quickly adjusted to a new position if required.

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For indoor practice the following method was used:

(1) Under the barrel of the gun at the muzzle, a small spot flash light was attached and exactly lined up with the point-blank sight setting;

(2) At the opposite end of the room, a number of small model airplanes were suspended by wires at different heights and intervals;

(3) For simulated daylight firing, a flood light was turned on the planes; for night firing, the room was darkened and the instructor, without warning, turned a small spot light on first one and then another of the model planes;

(4) The gunner, if in daylight, aimed at a designated plane; if at night, he aimed at the plane being spot-lighted; when on the target, he pulled the trigger and the spot light attached to his gun lighted up and showed where his shot would have struck.

5. BRIGADE MOTOR TRANSPORT SCHOOL

Training of drivers and mechanics was carried out in the brigade motor transport school. As the division had not yet received its vehicles, training was done on commercial vehicles, several types of which were constantly being torn down and rebuilt for practice.

Vehicles belonging to members of the organization were repaired without cost except for spare parts required. This was done for the benefit of the practice.

6. BRIGADE N.C.O. SCHOOL

The course at the brigade N.C.O. school was for two weeks, and every N.C.O. in the brigade was required to take it. The method of instruction was similar to that described for the division school.

Problems were given for one or several sections or, in some cases, for an entire platoon. The problems were assigned for study over-night, and the next day the class was gathered around the sand table on which the problem had been laid out in detail and to scale.

The problem was read by the instructor, and an N.C.O. was called upon at random to consider the class as his command and to explain what his job was, what he considered necessary to accomplish

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it, the exact duties of all numbers, etc.

At any point in the explanation, the N.C.O. was stopped and another was called upon to carry on from where his predecessor had left off. The men were frequently cautioned to ask questions the moment any part of the explanation was not clear.

Periodically the class was taken into a room where a problem which had not been studied was laid out on a sand table, and the various men were called upon for solutions off-hand.

7. TRAINING OF SCOUTS AND SNIPERS

Scouts and snipers constituted the headquarters section of the battalion headquarters company. In one of their exercises, advantage was taken of a heavy snowfall of the night before.

Snipers were provided with white smocks, white overalls, white covers for steel helmets, etc., and were sent out to post themselves for sniping in a designated area. The scouts were then sent out in ordinary uniform, with instructions to locate the snipers and to fire a blank round each time a sniper was located. The snipers in turn, were instructed to fire a blank round each time a scout approached to within 50 yards without having located the sniper. The order was then reversed and the scouts and snipers changed places. The men of this section, which operated directly under the battalion commander, were also instructed in gathering and transmitting combat intelligence.

8. TRAINING OF SIGNAL PLATOON

The signal platoon was a part of the battalion headquarters company. The men were instructed in code message sending and receiving, wire laying, instrument installation, and sending and receiving messages with electric signal lamp. For reading signals under conditions of poor visibility, six-power field glasses on tripod mount were used.

9. TRAINING OF ANTI-AIRCRAFT PLATOON

The battalion headquarters company also included an anti-aircraft platoon. Men were instructed in going into action against low-flying planes. The procedure was as follows:

- a. The Bren carrier, with crew, ammunition, and anti-aircraft mount would proceed along a road until a signal was given;

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- b. On signal of approaching planes, the crew would dismount almost before carrier had stopped;
- c. The carrier would go off the road under the shadow of a tree;
- d. The crew, with gun, mount, and ammunition, would run off into a field and mount the gun, setting the sighting device for proper lead, aim the gun, and fire bursts of blanks.

The men were trained to select positions which were in shadow or which were otherwise well concealed from air observation but which nevertheless allowed an all-around field of fire. After each exercise in firing, the men were practiced in dismounting the gun, repacking the equipment on the carrier, and moving off again.

The exercises were carried out at night also. In such a case, the crew employed a hooded small flash light for adjusting the sighting device. It was suggested that good practice might be had by the use of kites and live ammunition, provided necessary safety measures were taken.

An interesting and valuable variation of blindfolded stripping and assembly was provided by stopping the man who was working at some point in the operation and quickly substituting another blindfolded man who had to carry on where the first had left off.

10. INDOOR TRAINING OF FIELD ARTILLERY BATTERY

Battery training was conducted in a three-story building. The O.P.'s were set up on the third floor, the battery fire direction center was installed on the second floor, and the guns and C.P. were on the first floor. The battery was put through the mechanics of several different types of gunnery problems, including use of plotting boards and maps.

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G-2/2657-220

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No. 213

SITUATION REPORTM.I.D., W.D.
October 7, 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.

Bad weather prevailed on the 5th and 6th.

During daylight of the 5th at least 4 German formations operated over southeast England. On the 6th these operations were more limited. On the night of the 5th-6th the London area was bombed at reduced intensity. Apparently only a few bombs were dropped on the south coast last night.

The R.A.F. conducted limited operations against coastal ports and targets in western Germany on the night of the 5th-6th. No raids were undertaken last night.

According to news reports German formations are active over the south coast of England today.

II. Mediterranean and African Theaters of War.

There has been minor activity by mechanized units south of Sidi Barrani. On the 5th the Italians launched a strong air attack against the Mersa Matruh railhead on the Mediterranean coast. Other air activity on both sides has been minor.

RESTRICTED

Paraphrase of Code Radiogram Received at the
War Department 3:09 p.m., October 7, 1940.

London, Filed 18:15, October 7, 1940.

1. During the night of October 5-6th only about one-fourth of the bombers dispatched reached their primary objectives. Three planes found no targets and the remainder bombed secondary objectives. Due to icing conditions and a southwest gale all bombing missions were cancelled during the night of October 6-7th. During daylight hours of Sunday, October 6th, the Fighter Command dispatched 181 planes on 67 patrols. The Coastal Command operated 30 planes on 23 missions and escorted 14 convoys. One Lockheed Hudson was lost.

2. Operations of the German Air Force during October 6th were minor, consisting mostly of single planes, with a total of about 130 plotted. Three threatened attacks degenerated into patrols. Enemy operations during the night were very small. During the entire night there was but one short air raid warning in London and almost no raids elsewhere.

3. German plane losses were one confirmed, none probable and one damaged. The British lost one fighter with its pilot and four bombers during the night of October 5-6th.

4. Little damage resulted from attacks on ten airfields, except that one bomber and three fighters were damaged. There were slight damages to each of four munition plants attacked. One of these plants builds fighter aircraft. A telephone factory was slightly damaged. An oil storage depot was set on fire and nine tanks were destroyed. There was a serious fire in an asbestos works. Woolwich arsenal was

bombed again on the night of October 5-6th. The only damage was the blocking of railroad lines and the burning of a bombing room. The Germans have resorted to the new tactics of machine gunning small villages with little results.

5. There is no new information of a possible invasion.
6. The sinking of two ships, totalling 7,361 tons, was reported.
7. Nothing definite is known here of the results of the Brunner conference.

8. About 160 bombs were dropped in Marsa Matruh, Egypt, with damage to motor transportation and the headquarters building.

END

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

270

BRITISH EMBASSY,

WASHINGTON, D.C.

October 7th, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurian

The Honourable

Henry Morgenthau, Jr.,

. United States Treasury,

Washington, D. C.

Telegram from London dated October 4th.

1. Naval.

During operations in the eastern Mediterranean between September 29th and October 2nd our fleet was attacked by enemy aircraft. One battleship was straddled by bombs causing 3 slight casualties from splinters; about 30 bombs fell near a cruiser and 4 torpedo-carrying aircraft unsuccessfully attacked an aircraft carrier. No damage was caused to any of His Majesty's Ships. 4 enemy aircraft were shot down, and 2 naval aircraft which failed to return are believed to have been force-landed in Greece.

On September 30th our naval aircraft sighted 7 cruisers and 7 destroyers and later 11 cruisers and 17 destroyers, but they were too far off for fleet to make contact.

The reinforcement of the Malta garrison by troops and Royal Air Force personnel was successfully carried out. 2 destroyers sank an enemy U-boat off Libyan Coast on October 2nd, 2 naval trawlers were mined and sunk in Western Approaches on September 3th and October 3rd respectively.

2. Royal Air Force.

On the night of October 2nd/3rd thick clouds and poor visibility made location of targets very

difficult/

-3-

difficult and exact observation of bombing almost impossible. The following results, however, were seen. Fires at oil refinery and docks at Hamburg, also at Wilhelmshaven Naval base and at three aerodromes. A large explosion was seen at Amsterdam and at Antwerp barges occurred in docks. Mine-laying was successful. Daylight October 3rd. 4 Heinkel dropped bombs on Rotterdam harbours, barges in Holland and at an iron works at Cherbourg. All returned safely. Night of October 3rd/4th. All operations were cancelled owing to unfavourable weather.

3. German Air Force.

Night of October 2nd/3rd. Casualties in London area were approximately 11 killed and 30 seriously injured. No important damage of a military or industrial nature was reported.

Daylight October 3rd. During the morning there was intermittent activity, chiefly by single aircraft over southern part of England. An aerodrome was attacked by a Messerschmidt and two Spitfires and a medium bomber destroyed; at another Fleet Air Arm station 3 aircraft were damaged. A single enemy machine dive bombed an aircraft works north of London; 15 persons were killed and a serious fire was started, but was extinguished in the afternoon. This aircraft was shot down by anti-aircraft fire. In the afternoon the sky was completely covered with low thick clouds and single aircraft maintained constant activity of a nuisance-causing type employing similar tactics to those used at night. Several H.E. bombs were dropped in Worcester where 7 persons were killed and

-3-

56 wounded, and minor industrial damage was caused in Northamptonshire where 10 people were killed and about 40 wounded.

During the night of the 3rd/4th activity was on a much reduced scale and only about 40 enemy aircraft operated over the country. All activity ceased at 2 a.m. No cases of major damage were reported in the London area, and only minor bombing occurred elsewhere, with no important military damage.

4. Summary of Air Casualties.

Enemy: 1 bomber shot down by anti-aircraft fire.

Our losses: Nil (except 3 aircraft on the ground).

5. Middle East.

East Africa. On October 2nd our medium bombers attacked an Italian aerodrome in Eritrea. 1 Blenheim was lost and 1 Italian fighter is believed destroyed.

On October 3rd 3 Blenheims attacked the Jibuti railway in Abyssinia, a direct hit was registered on a train causing considerable damage and probably blocking the lines.

Libya. Italian water delivery systems at Buq Buq have been successfully bombed by the Royal Air Force.



BRITISH EMBASSY,
WASHINGTON, D.C.
October 7th, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. Brown

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated October 6th.

1. Naval.

Six ex-American destroyers were taken over by the Royal Canadian Navy on September 24th.

Two new 5,500 ton cruisers have gone into service since October 1st.

A search has been made for a naval trawler reported torpedoed off southwest coast of Spain on 5th, but no trace has been found. Two of our cruisers carried out a night bombardment of Naval and Air bases on an island of the Dodecanese on the 2nd-3rd October.

2. Royal Air Force.

During the night of the 5th-6th, 36 aircraft were despatched to attack the following targets. Shipping at Brest and in one channel port, a synthetic oil plant, 4 marshalling yards and shipping at Rotterdam. Ten aircraft were also sent to lay mines. Three machines have not yet reported back.

3. German Air Force.

During the night of the 4th-5th, except for damage to the contents of 1 factory producing scientific apparatus, there are only minor incidents of damage to report, both in the London area and outside London. No military damage was caused.

Daylight 5th.

During the morning two formations of enemy aircraft/

-2-

aircraft crossed the southeast coast; small elements of the second, consisting almost entirely of fighters, penetrated to the London area about 11.00 o'clock while about 50 bombers remained over the Kent coast. In the afternoon about 150 crossed the southeast coast and about half reached London area at a height of over 20 thousand feet. About 100 more were reported off Portland and some cruised for a short time about 30 miles inland before turning back. In the evening a further formation of about 60 aircraft was reported over the Portsmouth area. Twenty-two enemy aircraft were shot down during these raids. The bombing carried out by them was not serious and was scattered over seaside towns in Kent and Sussex, the southern and southeastern London suburbs, and a few bombs fell in London docks causing neither casualties nor damage. Two Royal Air Force stations in Sussex were attacked, but there was little or no damage.

During the night of the 5th-6th enemy activity, though considerable, was on a lighter scale than the previous night. London was the main objective, but raiders also penetrated to East Anglia, home counties and east midlands. Mine-laying was suspected off east coast. Some factory fires were caused in Woolwich district, but they were quickly under control and no important factory has reported serious damage. Bombing was general over the London boroughs though more on the outskirts than central area, and no major damage is reported. Outside London, bombing was heavy in the country districts of Kent, Essex and Sussex, but without corresponding results. Some bombs/

bombs fell in Portland dockyard area, but damage was very slight.

4. Summary of air casualties.

	Destroyed	Probable	Damaged
<u>Enemy:</u>			
By our fighters.			
Bombers.	2	-	2
Fighters.	20	5	14
Totals.	22	5	16

An additional enemy aircraft is reported burnt out near Bedford, cause unknown.

British: nine aircraft (7 pilots safe).

Three bombers not yet reported back.

5. Shipping casualties.

On October 5th, the Dutch ship "Ottoland" (2200 tons) was sunk in convoy off the east coast, due to explosion, possibly from torpedo. The ship was inward bound from Canada; all the crew were saved.

6. Middle East.

Albania. Approximately 6 Italian divisions are thought to be in position opposite the Greco-Albanian frontier.

Kenya. Three Italian fighter aircraft were intercepted by Gladiators of South African Air Force on October 5th; one was shot down, and probably a second.

Telegram from London dated
October 5th, 1940.

1. Fleet Air Arm.

During the afternoon of October 3rd, naval aircraft, operating off South-West Norwegian coast, scored at least two hits on a merchant ship of about 4,500 tons in harbour. The ship was seen to be heavily on fire fore and aft. Another ship of about 2,000 tons in a fjord was hit and probably sunk. Our aircraft were attacked by 5 enemy fighters and one was lost.

2. Royal Air Force.

During the daylight of October 4th, 30 medium bombers were despatched to attack railway, industrial and oil targets in North-West Germany. Conditions were unfavourable, and icing trouble was experienced. Nevertheless shipping and barges were attacked in the morning and although results could not be observed, photographs were taken. Amongst targets attacked were a large merchant vessel, railway junction and an oil refinery. Blenheim from Coastal Command also successfully attacked one aerodrome and an airship hanger near Cherbourg. All aircraft except one returned safely.

During the night of October 4th/5th, operations were cancelled owing to unfavourable weather.

3. RAF Coastal Command

Night of October 3rd/4th. Later reports indicate/

-3-

indicated that an aircraft works in West London airfield area was hit and a hangar and some aircraft damaged. Production will not be affected.

Daylight of October 4th. During the morning, enemy bomber reconnaissance flights by single machines were made over Southern Counties. Soon after mid-day enemy activity increased and his aircraft tended to penetrate further inland, and in the afternoon, a succession of single enemy aircraft crossed the coast in direction of London, adopting tactics similar to those employed at night. Owing to low clouds, conditions were very unfavourable for interception by our fighters. Almost all enemy attention was directed to London area and East and South-East Counties. Later minor bombing took place in several areas, but no serious damage is reported and casualties were few.

During the night of October 4th/5th, enemy activity started at seven p.m. on the most intense scale yet observed after dark. This was not maintained and information so far received indicates that number of bombs dropped was less than usual, both in London and the provinces. In London area bombing was mostly confined to the outer suburbs, and no serious damage is reported.

3. Summary of Air Casualties.

Destroyed probable Damaged

Enemy
By our fighters
Bombers

2

3

4

British: 3 aircraft (2 pilots safe), 1 bomber missing.

-3-

4. ENEMY ATTACKS ON TONK

An Eastbound Channel convoy was fired on by Orie Wes battery on the morning of October 4th, but was not hit.

Convoy. Two convoys, totalling 59 ships have arrived safely and included several cargoes of iron and steel.

6. Middle East.

Italian East Africa. Two enemy columns were reported on September 29th to be moving west from Gondar towards Gallabat. Our aircraft are watching their moves.

Eritrea. On October 3rd, six medium bombers carried out a low-level attack on a railway station and petrol dump in Italian territory and scored direct hits.

Malta. On October 4th a formation of about 10 Macchi fighters was attacked by three Hurricanes and 3 Gladiators. One enemy fighter was shot down.

7. Assessment of effect of British bombing over enemy and occupied territories.

The following information has been received recently from sources other than air reports:-
Evacuation of civilian population from Berlin, Hamburg and Rhineland, etc. to such areas as Bohemia, Moravia, Prague and Basque coast taking place regularly.

Berlin. Reported that morale is badly affected, and sarcastic jokes are frequently heard about German anti-aircraft protection.

Railways. Sometimes it has taken three or four days to go from Berlin to the Rhineland and been necessary to change trains at several points.

Incendiary/

→

In incendiary leaves are apparently an effective weapon and have created considerable havoc where they had been dropped.

Louva. The large and modern synthetic oil plant has received direct hits. The Polite synthetic oil plant has been damaged.

Rheinfelden. The new aluminium works, just about to begin operations, have been badly damaged; and, as power house and furnaces were hit, production was stopped at the old factory also for a week.

Le Havre. The top story of a barracks has been burnt out, and considerable damage has been done to sheds and docks.

Dunkirk. Photographs disclose extensive damage to docks and railway sidings.

Lorient. A barracks was hit and severe casualties caused amongst troops quartered there. Several ships have been sunk by mines in the estuary.

Flushing. The paraffin cisterns have been hit and town is being evacuated each night, although Germans thinking that presence of Dutch will deter attack, do not wish for total evacuation.

Reports from Amsterdam state that the Dutch are particularly impressed by the accuracy of Royal Air Force bombing, although a general impression, derived from various sources, exists amongst them that material effect is comparatively slight owing to small size of the bombs used.

October 7, 1940

MEMORANDUM

To: The Secretary
From: Mr. Buckley

Re: Conferences at Consolidated Aircraft
On October 4 and 5

We arrived at San Diego at 9:00 Friday morning to find conferees converging upon Major Fleet from all directions. Mr. Forrestal came with several Navy men from Washington and San Diego including Commander Pennoyer, Chief Engineer of the Bureau of Aeronautics. The Army Air Corps was represented by Major Lyons from Washington, as well as by several men from the West Coast. Mr. Fairey had Mr. Gray with him from Washington and also brought four of his aviation men who were on the West Coast. When we all convened in Major Fleet's office to get under way, it was quite a party.

Apparently Major Fleet was somewhat nonplussed by the size of the conference. He soon warmed up, however, and gave us an emphatic outline of his problems, which was substantially the same as that given to you previously. He has approximately \$225,000,000 of orders on his books, and at least \$75,000,000 more in prospect. He now has 11,700 employees and expects this figure to increase to 18,000 by May 31, 1941. He needs housing, water supply, sewage disposal, trade schools, and financing for his plant expansion.

It was suggested that the work of the conferees fell broadly into two divisions:

1. The housing and other problems related to plant expansion.
2. The production problem with particular reference to the benefits to be derived from standardization.

Accordingly, two groups were formed, with Major Fleet leading a group which included Messrs. Foley and Kades to discuss the first problem, and the Works Manager and the Chief Engineer leading a group which included Mr. Fairey and me to discuss the production problem. From that point on I worked solely on the production problem, since conferences of both groups were occurring more or less simultaneously.

The first act by the production group was to go through the plant. In many respects it looks like a movie set. Everything is spick-and-span inside and out, freshly painted, and with smartly uniformed special police always about. But every building and almost every bit of vacant space outside was crowded with flying boats and bombers in various stages of completion. There are probably more than 150 airplanes in process at the plant, with material commitments out for possibly another 125. In contrast to this, our records show only 2 planes delivered since May 1, 1940. On June 1, 1940 the company gave us its first estimate of future deliveries. This estimate compares with actual deliveries between June 1 and October 1 as follows:

	<u>June</u>	<u>July</u>	<u>August</u>	<u>Sept.</u>	<u>Total</u>
Deliveries as estimated at June 1	1	1	6	11	19
Actual deliveries	0	0	1	1	2

With the situation in the plant fully in mind, it was decided to spend the remainder of Friday going into the flying boat situation in detail, and to spend Saturday on the bombers.

Flying Boat Situation

The agreement with Secretary Knox contemplated delivery of 185 of these boats between November 1, 1940 and June 30, 1941, with 91 going to the Navy, and 94 to the British. At the opening of our discussion Consolidated submitted a new proposed delivery schedule which deviates considerably from the one-to-one plan, and which shows deliveries of only 170 in the same period, with 89 going to the Navy, and 81 to the British. The two schedules compare as follows:

Estimated Deliveries

<u>Month</u>	<u>As per your agreement with Secretary Knox</u>		<u>As per Consolidated's later estimate</u>	
	<u>Navy</u>	<u>British</u>	<u>Navy</u>	<u>British</u>
1940				
Oct.	0	0	0	0
Nov.	3	4	6	1
Dec.	5	6	7	4
1941				
Jan.	9	10	10	9
Feb.	12	12	12	10
March	12	12	12	12
April	12	13	12	15
May	21	20	14	15
June	17	17	16	15
<u>Total</u>	<u>91</u>	<u>94</u>	<u>89</u>	<u>81</u>

With this table before us we began an intensive discussion of ways and means of increasing total production and of approaching more closely the one-to-one ratio between Navy and British deliveries.. The significant points which were brought out are as follows:

1. Standardization is not the answer so far as increasing deliveries between now and June 30, 1941, because ships of this type are in production at least six months and practically all which will be delivered by that time have already been started. Changes at this time aiming at greater standardization in those planes would result in a substantial amount of tearing down and rebuilding and would delay rather than expedite production. Also, the Navy and British versions of this ship are now much the same. They both take the same engine and they have the same over-all dimensions.

2. Over-all production can be increased between now and June 30, 1941, by,

- a. Expediting delivery of wing tips, all of which are made by Brewster Aeronautical Corporation. This is the most serious obstacle to increased production on boats. As of October 5, Consolidated needed the following wings:

- (1) 15 sets at once
- (2) 4 sets per week through November 16
- (3) 6 sets per week from November 16 through December 31
- (4) 8 sets per week beginning January 1, 1941.

- b. Expediting delivery of various fabricated parts which are being procured from the Aluminum Company of America. Apparently Consolidated did not originally schedule these deliveries at a rapid enough rate to take care of requirements of Navy and British deliveries. Be that as it may, however, Aluminum Co. deliveries to Consolidated must be expedited if delivery of complete ships is to be improved.

- c. Expediting deliveries from various small suppliers of finished items necessary for installation in the ships. Here, too, deliveries originally requested by Consolidated will not meet

Navy and British desires. Consolidated is contacting all these suppliers, but I have asked them to send us a list, airmail special delivery, today showing every supplier from whom deliveries must be expedited, the items desired, and the delivery requested.

3. A closer approximation of the one-to-one delivery schedule can be secured by,

a. Increasing total deliveries as brought out above.

b. Having the Navy give Consolidated definite formal authority to use equipment manufactured for the Navy in British planes, if it be identical with British requirements, to the end that deliveries to the Navy and the British be maintained approximately in balance. Although Consolidated now has an informal letter which might be construed so as to give them this authority, they insist upon definite formal authorization to that effect before they are willing to go ahead on it.

c. Diverting to the British a coast guard ship, which is just about ready for delivery.

d. Diverting to the British a half-dozen or so Navy ships. These ships do not have the armor, the bomb rack, or the guns required for British combat purposes, but Mr. Fairey said that they would probably be glad to get them for use on their airplanes from England to the Cape. Such diversion, however, will involve a substantial delay if the Norden bomb sight installation, which is now in the ships, has to be torn out and replaced with Sperry equipment. Estimates on the time of this changeover vary from 30 to 60 days, which means that any Navy ships so diverted could be delivered to the British only 30 to 60 days later than indicated in the schedule.

An alternative suggestion was that the "sight" portion of the Norden equipment be removed, leaving the Norden automatic pilot, which is all the British will need for the use to which they would put such ships. It was brought out at the meeting that the Norden sight can be so divided, and Mr. Forrestal

indicated that the Navy would be willing to consider the possibility of releasing this much of the Norden sight to the British. It is now considered as secret as the remainder, and some men at the meeting felt that it would not be a very difficult job to reconstruct the sight, if the automatic pilot portion were released. Only by such release, however, could Navy planes be diverted to the British without delay.

Major Lyons of the Army Air Corps felt that it might be possible to have Sperry send men to the Consolidated plant who could install the Sperry automatic pilot while the planes were still in production, thus reducing the delay to a minimum. He is remaining on the coast and proposes to check this point with the Sperry West Coast representative, and let General Arnold know by telephone. It would seem that this would be much faster than to fly a completed plane to the Sperry works and have the change made there. The Consolidated people could, of course, make the change, but they insist that they should not be asked to do it, since it will mean even further delay in getting out additional ships, and I am inclined to agree with this position.

4. Future production for both the Navy and the British can be increased by,

a. Holding regular meetings of a permanent planning committee so that standardization can be achieved before the plant tools up and goes into production on particular models. The principal difference between these ships which should be considered by such a committee as promptly as possible are the following:

- (1) The bomb sight and related items, including the automatic pilot.
- (2) Radio and navigation equipment.
- (3) Armor.
- (4) Armament and related items.
- (5) Bomb racks, bombs, and related equipment.

b. Making changes in models effective six months from the date of the decision wherever possible, so as to eliminate the necessity for tearing down work already begun in order to accommodate new ideas. On this point both the Navy and the British felt that substantial benefits could be gained, and that such a policy could be followed through the permanent standardization committee, except where combat experience indicated the necessity for immediate changes. In such cases, however, it was agreed that changes should be made for both services at the same time.

The Bomber Situation

The agreement with Secretary Stimson contemplated delivery of 108 of these ships between November 1, 1940 and June 30, 1941, with 41 going to the Army and 67 to the British. Consolidated had prepared a revised delivery schedule for these ships, which deviated considerably from our earlier understanding, for it showed possible deliveries of only 64 in the same period, with 14 going to the Army and 50 to the British. The two schedules compare as follows:

Estimated deliveries

<u>Month</u>	<u>As per your agreement with Secretary Stimson</u>		<u>As per Consolidated's later estimate</u>	
	<u>Army</u>	<u>British</u>	<u>Army</u>	<u>British</u>
1940				
Oct.	0	3	0	1
Nov.	2	5	0	3
Dec.	3	3	1	3
1941				
Jan.	4	3	0	5
Feb.	4	5	0	7
March	4	7	1	8
April	4	11	8	3
May	10	14	1	7
June	10	16	3	13
Total	41	67	14	50

In this table it is assumed that the British will receive the first six deliveries, after which one will go to the Army, after which twenty more will go to the British, which arrangement was agreeable to the Air Corps representatives at the

meeting. With this table before us we had an intensive discussion of ways and means of increasing total production and of stepping up the early deliveries to the British. The significant points which were brought out are as follows:

1. Standardization will not increase deliveries between now and June 30, 1941. Ships of this type are in production eight months, and all orders which will be delivered by that time have already been started.
2. Total deliveries can be increased between now and June 30, 1941, by,
 - a. Expediting delivery of various fabricated parts, which are being procured from the Aluminum Company of America.
 - b. Expediting deliveries from various small suppliers of finished items necessary for installation in the ships.
3. Faster delivery to the British between now and June 30, 1941 may be secured by,
 - a. Increasing total deliveries, as brought out above.
 - b. Having the Army give Consolidated definite formal authority to use equipment manufactured for the Army in British planes if it be identical with British requirements, to the end that deliveries to the British be expedited.
 - c. Releasing ships to the British with the automatic pilot section of the Norden bomb sight. As it stands now, the first 26 ships scheduled for delivery to the British in the table given above have the Norden bomb sight and automatic pilot installation. Just as in the flying boats, this sight will have to be taken out and replaced by a Sperry installation, which may mean a considerable delay. Since the British do not propose to use the first six for combat purposes, they will be entirely satisfied to have no bomb sight, but to have in them only an automatic pilot. If the ones which are now

installed in these ships have to be changed to a Sperry installation, it will mean, according to present indications, an additional delay of from 30 to 60 days. As indicated in my discussion of the flying boat situation, Major Lyons of the Army Air Corps is checking with Sperry to find out what they can promise in the way of installation time for their equipment.

On the 20 ships which the British propose to use for combat, Sperry equipment will probably have to be installed in any event, for the Sperry bomb sight cannot be used even manually with the Norden automatic pilot because of space limitation. Thus, in the case of these ships, the ability of Sperry to send some men out to the coast to change the installations while the planes are still in process is of tremendous importance.

4. Increased deliveries to the British between now and June 30, 1941 can be secured by,

a. Increasing total deliveries, as brought out above.

b. Diverting to the British additional Army bombers to be produced in this period. This suggestion is made advisedly, after discussing it with representatives of the Air Corps who were at the meeting. It seems that of the 14 ships indicated for delivery to the Army in this period, 1 will be Type B-24, 9 will be Type B-24-A, and 4 will be Type B-24-C. The one B-24 is urgently needed by the Army for experimental purposes, but the 9 B-24-A's will be slightly different than anything else they will have or will get, and apparently they would just as soon have them diverted to the British. These 9 ships are the same as the 20 which the British are scheduled to get, in addition to the first 6. The British representatives went over in considerable detail the specifications of these planes and agreed that if the automatic pilot and bomb sight questions were worked out, they would be glad to get the 9 additional of the same type as the 20. If this could be done, it would give them a total of 59 instead of 50, as is now contemplated by Consolidated.

5. Future production for both the Army and the British can be increased by,

a. Holding regular meetings of a permanent planning committee so that standardization can be achieved before the plant tools up and goes into production. The principal differences between Army and British bombers which should be considered by such a committee as promptly as possible are as follows:

- (1) Bomb sight and related items, including the automatic pilot.
- (2) Radio and navigation equipment.
- (3) Armor.
- (4) Armament and related items.
- (5) Bomb racks, bombs, and related equipment.
- (6) Turret location.
- (7) Turbine installation on the engines.

b. Making changes in models effective eight months from the date of the decision wherever possible, so as to eliminate the necessity for tearing down work already done in order to accomodate new ideas, and, when changes were made, having both services make them at the same time.

Conclusions

To accomplish, so far as is possible with the present production program of Consolidated, the objectives which you are after, the following action is required:

1. A decision from the Navy as to release of automatic pilot portion of Norden sight.
2. An estimate by Sperry of minimum time required to substitute their equipment for Norden.

3. A decision from the British as to their willingness to take flying boats and bombers with only the automatic pilot portion of the Norden sight, or, in the alternative, with the delay occasioned by the substitution of the Sperry automatic pilot and sight.
4. A decision by the Army as to release of nine more bombers to the British.
5. Formal notification of Consolidated by the Army and the Navy that they may divert to British planes parts manufactured for Army and Navy planes which are identical with those needed for British planes in order to meet the desired deliveries.
6. A decision from the Treasury as to its willingness to release to the British a flying boat just about ready for delivery to the Coast Guard.
7. Immediate expediting of deliveries of wing-tips by Brewster.
8. Immediate expediting of deliveries of various parts by the Aluminum Company of America.
9. Immediate expediting of deliveries of miscellaneous items by various small producers.

In addition to the above, there is the underlying problem of the efficiency of Consolidated's manufacturing technique. The new facilities will do no good if material for 50 to 100 machines continues to go into the plant each month, and only a few completed airplanes come out. So long as this continues, we are merely financing an expanding warehouse for airplane parts. I understand that Major Fleet proposes to add a lawyer and a financial man to his staff. This undoubtedly will do some good, but I do not feel that it will have significant effect on production. In my brief visit, it was impossible to come to any definite conclusions but I feel that the cleanliness and orderliness of the plant give a spurious impression of efficiency which will not be borne out by close inspection. Even plant utilization is open to serious question for they now use 8,000 men on 1 10-hour shift, and 3,700 on another, with much of the plant idle on the second shift and almost all of it idle on Saturday and Sunday. Accordingly, I suggest that:

1. This problem be discussed informally with Mr. Fairey whose background in the industry gives him a basis for judgment.
2. Arrangements be made for having a production survey made by an independent consultant, or by the Army or Navy, or both.
3. Effect be given to the findings of such a survey through pressure brought to bear by those interested U. S. Government agencies which are in a position to do so.

Let's
7

CONFIDENTIALFOR YOUR INFORMATION

October 7, 1940

To: The Secretary

From: Mr. Young

Re: Martin B-26 and Lockheed P-38 specifications.

Formal release of these specifications has not yet been secured due to the mechanical clearances involved rather than to any other difficulties. It seems to be well understood all the way around that these specifications will be released, and the British are already in possession of complete performance data.

George Mead advises me that the two best medium bombers are the Martin B-26 and the North American B-25. The best light bomber is the Douglas A-20. All three types take two engines each; the Martin B-26 requiring two Pratt and Whitney 2800 (1850-2000 horsepower); the North American B-25 requiring two Wright 2600 (1700 horsepower); and the Douglas A-20 requiring two Wright 2600 (1700 horsepower).

It is probably that the Martin B-26 might be made to take a larger engine, but it would only be with a definite sacrifice in load. The North American B-25 has already been expanded on paper to what is known as the B-28 which is designed to take two Pratt and Whitney 2800 engines. The Douglas A-20 probably cannot be expanded to take a larger engine at the present time. George Mead pointed out that none of these bombers have been proven.

R.Y.

CONFIDENTIALFOR YOUR INFORMATION

October 7, 1940

To: The Secretary

From: Mr. Young

P-40 Airplanes

Mr. Ballantyne advised me this afternoon that 64 P-40's had left the Buffalo plant and 28 had actually been shipped from New York City as of last Saturday night, October 5, 1940.

Ford of Canada and Pratt & Whitney of Canada.

The British have been notified that the Advisory Commission has talked with Pratt & Whitney in the United States and that Pratt & Whitney of Canada has the right to license Ford of Canada to build the 1830 engine. It has been suggested to the British that Mr. C. D. Howe get in touch with Ford of Canada, and it is understood that these negotiations are actively progressing.

Sperry Bomb Sight

The British have filed a request for the release of the forty OI Sperry bomb sights from United States Army stocks as well as for the ninety-seven OI sights left to be produced on the Army contract. The Advisory Commission has cleared this request. The various underlying divisions of the War Department have also cleared it and it is now awaiting formal approval by the Chief of Staff. Sperry is getting together costs and estimates for a new production plant, and both the British and the Army are attempting to obtain satisfactory figures showing the quantity of bomb sights desired.

- 2 -

Republic Planes for Sweden

Representatives of the Air Corps looked over the Republic planes and came to the conclusion that they could be used for training purposes, but it was pointed out by General Arnold that the Air Corps was not very desirous of taking over these planes because of the difference in type from those already in use. In addition, it was also pointed out by General Arnold that the Air Corps had no money with which to buy the planes.

Discussion is still going on as to whether Harvard trainers could be released provided proper financial arrangements could be made for the purchase of the Republic planes.

As the Air Corps has not got the money, and as it is not anxious to take the planes, I might again make the suggestion that the planes be taken over by the Air Corps and turned back to the Republic factory as a credit against the P-44 contracts, leaving Republic free to sell these particular planes. This still leaves the question as to whether General Marshall can certify that they are not essential to the national defense.

P.Y.

TREASURY DEPARTMENT

296

INTER OFFICE COMMUNICATION

DATE October 7, 1940

TO Mrs. Klotz
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When the Secretary spoke with me at 12:45 this noon, he asked me to give you a memorandum on the following points.

Under Secretary of State Sumner Welles called the Secretary at the farm. Welles stated that he had postponed until this, Monday, afternoon the appointment which the French Ambassador had with him for last Friday afternoon. Mr. Welles had spoken with Secretary Hull following Friday's Cabinet Meeting, but still was a little in doubt as to just what should be said to the French Ambassador when he calls this afternoon in regard to the standing question of France being allowed to utilize dollar resources blocked in New York.

The Secretary told me that he had informed Welles that at the Cabinet Meeting the President had branded as untrue the statement which the French Ambassador had attributed to him. The President desires that Secretary Morgenthau send him the stenographic notes of the meeting wherein the French Ambassador attributed certain remarks to the President. The Secretary asks that Mrs. Klotz get this. Furthermore, the President was not disposed to release any French funds for payment of diplomatic and consular services outside of those maintained in the United States. Likewise the President opposed the use of French dollar balances in this country for purchasing beef from the Argentine to be shipped to Europe for French prisoners of war in Germany.

I told the Secretary briefly of my luncheon at the French Embassy on Friday and of my conversation later that afternoon with Alphand. It is understood that I am not to give the French Embassy the above information, this being the responsibility of the State Department.

J. M. P.

*W. decided not to
send the transcript
to the President
10-8-40*

STRICTLY CONFIDENTIAL

ALLISON ENGINEERING COMPANY
Deliveries of Airplane Engines

297

: Actual : Estimated deliveries on
: deliveries : existing orders

1940

January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 6.....	6	
July 7 - 13.....	18	
July 14 - 20.....	11	
July 21 - 27.....	15	
July 28 - August 3.....	30	
August 4 - 10.....	1	
August 11 - 17.....	1	
August 18 - 24.....	14	
August 25 - 31.....	45	
September 1 - 7.....	28	
September 8 - 14.....	52	
September 15 - 21.....	61	
September 22 - 28.....	80	
September 29 - October 5....	49	
October 6 - 31.....		239
November.....		336
December.....		364

1941

January.....	400	
February.....	416	
March.....	433	
April.....	454	
May.....	448	
June.....	437	
July.....	400	
August.....	369	
September.....	431	
October.....	45	
November.....	45	
December.....	45	

1942

January.....	25	
February.....	21	

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

October 7, 1940.

STRICTLY CONFIDENTIAL

CURTISS AEROPLANE DIVISION OF CURTISS-WRIGHT CORP.

British Contracts

	: P-40
	: (Allison)
Airframes on hand September 28	78
Airframes completed September 29 -- October 5	<u>29</u>
Total airframes needing engines	107
Airplanes with engines shipped September 29 - October 5	<u>76*</u>
Airframes on hand October 5	31

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

October 7, 1940.

* Including this week's shipments, the British have received 128 Curtiss P-40's since September 15.

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	: Sept. : : 1-28 :	Sept. 29- Oct. 5 :	: Total
British	164	43	207
Army	56	6	62
Navy	<u>1</u>	<u>-</u>	<u>1</u>
Total	<u>221</u>	<u>49</u>	<u>270</u>

Office of the Secretary of the Treasury,
Division of Research and Statistics. October 7, 1940.

THE SECRETARY OF THE NAVY
WASHINGTON

October 7, 1940

My dear Mr. Secretary:

Thank you for your letter of the Third
with the enclosure. I have read the letter over
carefully and was glad to have it.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Frank Knox". The signature is written in dark ink and is positioned to the right of the typed name.

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



THE SECRETARY OF STATE
WASHINGTON

October 7, 1940.

Dear Mr. Secretary:

Thank you very much for your note of October fourth, quoting the interesting cable from Mr. Nicholson. I greatly appreciate your thoughtfulness in sending it to me.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

NOV 8 1940

RECEIVED
U.S. DEPT. OF STATE
OCT 10 1940

302

MR. STRAUS GAVE THIS TO HM JR
APPROXIMATELY OCTOBER 7th

Under Title II of Public 671, USHA has invested \$31,369,000 in 25 defense housing projects. Twenty-one of these projects, or 6,408 new homes for defense workers, are being built by Local Housing Authorities.

The remaining four projects, representing \$7,225,000 and providing 1,725 new homes, will be built directly by the Army and Navy. The USHA retains title to these projects.

The construction period for USHA-aided defense projects averages 120 days. The average net construction cost for these projects is \$2,433.

During the emergency, in general, an annual rent subsidy will not be required except in the cases of projects serving families of enlisted men. Rents in these projects will be set to meet the demands of the workers who will live in them. These rents will not compete with those charged in defense housing being supplied by private enterprise.

USHA-AIDED DEFENSE PROJECTS

(100% Loans to Local Housing Authorities)

<u>Locality</u>	<u>No. of Units</u>	<u>Occupancy</u>	<u>Shelter Rent During Emergency</u>	<u>Construction to be Completed</u>	<u>Net Construc- tion Cost Per D.U.</u>	<u>USHA Loan</u>
<u>ALABAMA</u>						
Montgomery (Army Airfield)	424	Army Enlisted Civilian	\$ 18.88	Dec. 2, 1940	\$ 2,327	\$1,573,835
Selma (Army Airfield)	112	Army Enlisted & Civilian	20.00	Mar. 25, 1941	2,251	406,000
Selma (Army Airfield)	96	Army Enlisted & Civilian	20.00	May 24, 1941	2,357	373,000
<u>CONNECTICUT</u>						
Hertford	1000	Industrial Civilian	30.00	Mar. 29, 1941 (100 D.U.)	2,790	4,307,000
<u>FLORIDA</u>						
Pensacola	200	Navy (& Army) Enlisted (& Civilian)	16.40	Dec. 4, 1940	2,176	648,000
<u>GEORGIA</u>						
Columbus (Infantry Post)	612	Army Enlisted	Not yet determined	Mar. 10, 1941	2,272	2,067,449

USHA-AIDED DEFENSE PROJECTS (Continued)

<u>Locality</u>	<u>No. of Units</u>	<u>Occupancy</u>	<u>(100% Loans to Local Housing Authorities) Shelter Rent During Emergency</u>	<u>Construction to be Completed</u>	<u>Net Construc- tion Cost Per D.U.</u>	<u>USHA Loan</u>
<u>ILLINOIS</u>						
East Moline (U. S. Arsenal)	100	Army- Civilian	\$ 30.00	Mar. 20, 1941	\$ 3,130	\$ 456,000
Moline (U. S. Arsenal)	200	Army Civilian	30.00	Mar. 12, 1941	2,730	886,000
Rantoul	100	Army Enlisted (& possible Civilian)	11.58	Jan. 15, 1941	2,516	465,000
Rock Island City (U. S. Arsenal)	305	Army Civilian	30.00	Apr. 12, 1941	2,785	1,260,000
<u>RHODE ISLAND</u>						
Newport	262	Navy Enlisted Civilian	30.00	May 3, 1941	2,680	1,105,000
<u>SOUTH CAROLINA</u>						
Charleston	400	Navy Enlisted Civilian	20.27	Mar. 24, 1941	2,524	1,426,422
<u>TEXAS</u>						
Corpus Christi (Naval Air Base)	250	Navy Civilian & Enlisted	---	Jan. 15, 1941	2,603	989,947

USHA-AIDED DEFENSE PROJECTS (Continued)

(100% Loans to Local Housing Authorities)

<u>Locality</u>	<u>No. of Units</u>	<u>Occupancy</u>	<u>Shelter Rent During Emergency</u>	<u>Construction to be Completed</u>	<u>Net Construc- tion Cost Per D.U.</u>	<u>USHA Loan</u>
<u>VIRGINIA</u>						
Newport News (White Shipyard Workers)	350	Industrial Civilian	---	Feb. 2, 1941	\$ 2,737	\$1,351,75
Newport News (Negro Shipyard Workers)	150	Industrial Civilian	---	Mar. 12, 1941	2,515	531,000
Norfolk (Operating Base)	500	Navy Enlisted	\$ 16.50	Mar. 12, 1941	2,342	1,800,000
Portsmouth	300	Navy Civilian	---	Dec. 20, 1940	2,630	1,114,748
Portsmouth	200	Navy Civilian	---	Mar. 1, 1941	2,379	742,000
<u>WASHINGTON</u>						
Bremerton	450	Navy Civilian	31.00	July 11, 1941	2,100	1,485,000
Bremerton	150	Navy Civilian	31.00	July 11, 1941	2,100	518,000
Sand Point (Seattle) (Naval Air Station)	150	Navy Enlisted	17.00	May 1, 1941	2,080	564,000

ARMY-DIRECT DEFENSE PROJECTS

(Transfer of Funds from USHA)

<u>Locality</u>	<u>No. of Units</u>	<u>Occupancy</u>	<u>Shelter Rent During Emergency</u>	<u>Construc- tion to be Completed</u>	<u>USHA Loan</u>
<u>ALASKA</u> Anchorage	325	(Direct allocation to the War Department)			\$ 1,625,000

NAVY-DIRECT DEFENSE PROJECTS

<u>CALIFORNIA</u> Mare Island	600	(Direct allocation to the Navy Department)			\$ 2,400,000
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<u>NEW HAMPSHIRE</u> Portsmouth	400	(Direct allocation to the Navy Department)			\$ 1,600,000
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Canal Zone	400	(Direct allocation to the Navy Department)			1,600,000
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Total all USHA-aided Defense Housing Projects (Including Army and Navy)..... 8,036
in 25 Projects in 21 Cities

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my memorandum of October 2 in regard to the accounts of the Netherlands Government with the Federal Reserve Bank at New York.

In response to my inquiry for further information on this subject, Mr. Cameron of the Foreign Department of the Federal telephoned me this afternoon. He said that since the setting up of the accounts of the Netherlands Government with the Federal, four instructions have been received to set aside sums for the Minister of the Netherlands in Washington. The first order was for the sum of \$6,900,000, to be disbursed at the rate of \$145,000 per month for diplomatic and consular expenses of the Netherlands. The next allocation to the Minister was for \$6,400,000, which the Federal understood was to be used for paying for war materials to be shipped to the Netherlands East Indies. Out of this amount \$4,600,000 have been paid by the Minister to the Guaranty Trust Company. There have been two further allocations to the Minister, one for \$4,200,000 and the other for \$300,000, thus bringing the total of such allocations to \$17,800,000. Mr. Cameron was not aware as to the purpose of the last two items.

It appears, therefore, that the Netherlands account is comparatively idle. As operated now, it is not possible to tell for what purposes payments are made by the Minister of the Netherlands. Consequently an arrangement with him will be necessary if we are to have details.

Cameron reported that there have been no payments so far out of the Javasche Bank account for war materials. The Federal has had some business with Java involving payments to and from Japanese branch banks on that island.



For Miss Chauncey

309

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Minister of Switzerland telephoned me at 12:30 this noon. He stated that he had received a further cablegram from Zurich in regard to recurring rumors that the United States will extend its control to freeze Swiss assets in this country. I told him that there had been no change on this question, insofar as the Treasury is concerned, since our last talk with him. When he asked whether I could indicate any reasons why the Treasury might consider freezing Swiss assets, I told him that my personal feeling was that the assets of no country should be frozen unless it is invaded. I insisted, however, that this was only my personal opinion and that it was entirely possible that circumstances might be such as to lead other officials in the Government to favor a blocking of one or more countries for reasons other than actual invasion. I again told the Minister that I hoped he would let me know if he found the source of the continuing rumors as to possible Treasury action. When the Minister again raised the question of the Swiss Chemical transfer application now under consideration, I told him that our Committee was continuing to receive documentary material on this case and that no decision could be expected until such material is studied. I assured him that the Treasury would give careful attention to this application and did my best to convince him that there was nothing about this case with which he need concern himself.

