

DIARY

Book 320

October 8 - 10, 1940

- A -

	Book	Page
Airport - Elizabeth City, North Carolina		
Gaston memorandum concerning dedication - 10/10/40..	320	426
a) HMJr approves Gaston's participation -		
10/11/40: See Book <u>321</u> , page 1		
Allison Engineering Company		
See War Conditions: Airplanes (Engines)		
Aluminum		
See War Conditions: Airplanes		
(Consolidated Aircraft)		
Angell, James R. (Dr.; former President of		
Yale University)		
Lauds HMJr for generous aid to Britain.....		301
a) HMJr's acknowledgment - 10/9/40.....		297
Argentina		
See Latin America		
ATLANTIC GULF, SS		
See War Conditions: Japan		

- B -

Beaverbrook, Lord		
See War Conditions: Airplanes (message of thanks		
to HMJr)		
Bomb Sight (Norden)		
See War Conditions		
Bombers		
See War Conditions: Airplanes		

- C -

Carmody, John M. (Administrator, Federal Works Agency)		
See War Conditions: Airplanes (Consolidated Aircraft)		
China		
See Day, Charles H.		
See War Conditions: China; Foreign Funds Control		
Consolidated Aircraft		
See War Conditions: Airplanes		
Cuba		
See Latin America		

- D -

Day, Charles H.		
McReynolds asks HMJr to see Day, who has just		
returned from China - 10/10/40.....		351
a) Biographical sketch.....		353
1) War Department report - 10/11/40:		
See Book <u>321</u> , page 23		
See also Book <u>322</u> , page 122		
Diamonds		
See War Conditions: Foreign Funds Control (Netherlands)		

- E -

Book Page

Elisabeth City, North Carolina
Gaston memorandum concerning dedication of new
airport - 10/10/40..... 320 426
a) HMJr approves Gaston's participation -
10/11/40: See Book 321, page 1

- F -

France
See War Conditions

- G -

General Counsel, Office of
Report on projects during September 1940..... 256
Germany
See War Conditions: Foreign Funds Control; Germany
Gold
See War Conditions
Grzesinski, Albert (Former Chief of Police, Berlin)
Recommended by Charles Hewitt, Jr. (sponsored by
Edgar Ansel Mowrer) for undercover work in
connection with Fifth Column activities -
10/8/40..... 204

- H -

Hewitt, Charles, Jr.
Mowrer (Edgar Ansel) introduces Hewitt to HMJr -
10/8/40..... 204, 208
Housing
See United States Housing Authority
See War Conditions: Airplanes (Consolidated Aircraft)

- I -

Italy
See War Conditions: Foreign Funds Control

- J -

Japan
See War Conditions: Foreign Funds Control; Japan

- L -

	Book	Page
Lacour-Gayet, Mr.		
See War Conditions: France		
Latin America		
Argentina:		
Industrial survey considered in cooperation with United States - 10/8/40.....	320	73
Conference agenda discussed by Argentine Ambassador and Cochran.....		97
a) Welles-HMJr conversation - 10/9/40..		308
Cuba:		
Economic Mission: White designated Treasury representative at State Department meeting - 10/10/40.....		427
Mexico: Hochschild transmits memorandum on mining industry - 10/10/40.....		442
(See also Book 321, page 242)		
Layton, Sir Walter		
See War Conditions: Purchasing Mission		

- M -

Martin, Glenn L., Company		
See War Conditions: Airplanes		
Mexico		
See Latin America		
Mint, Bureau of		
Increased demands causing extremely serious situation; Philadelphia Mint one of those being enlarged; new manufacturing plant in West may be necessary - 10/8/40.....		10
Monetary Research, Division of		
Report on projects during August and September, 1940..		445
Mowrer, Edgar Ansel		
Introduces Hewitt (Charles, Jr.) to HMJr - 10/8/40...		204, 208

- N -

National Gallery of Art		
Issuance of commemorative stamp disapproved by HMJr - 10/10/40.....		332
Naval Bases		
See War Conditions		
Netherlands		
See War Conditions: Foreign Funds Control (Diamonds); Netherlands		
North American Aviation		
See War Conditions: Airplanes		
North Carolina		
Elizabeth City: Gaston memorandum concerning dedication of new airport - 10/10/40.....		426
a) HMJr approves Gaston's participation - 10/11/40: See Book 321, page 1		

- P -

Portugal

See War Conditions: Gold

Book Page

- R -

Research and Statistics, Division of

Report on projects during September, 1940.....

320 74

Revenue Revision

Tax Bill, H.R. 10413: FDR requests study:

Does Bill (now an Act) discriminate in favor
of corporation with small amount of actual
invested capital but with high earnings over
last four years - 10/9/40.....

305

Roosevelt, G. Hall

See War Conditions: Foreign Funds Control
(Netherlands - diamonds)

Roumania

See War Conditions: Foreign Funds Control

- S -

San Diego, California

Housing:

See War Conditions: Airplanes (Consolidated Aircraft)

Schnacke, F. D.

See War Conditions: Airplanes (Consolidated Aircraft)

Ship Movements

See War Conditions

Sweden

See War Conditions

Switzerland

See War Conditions

- T -

Tax Evasion

Darryl Zanuck case: Settlement discussed at 9:30

meeting - 10/8/40.....

16

Taxation

See Revenue Revision

- U -

U.S.S.R.

See War Conditions: Foreign Funds Control

United Kingdom

See War Conditions: Military Planning; United Kingdom

United States Housing Authority

Thompson recommendations for administrative officer -
10/9/40.....

295

United States Savings Bonds

Change in rates and new booklet discussed at Treasury
conference - 10/9/40.....

209

	Book	Page
War Conditions		
Airplanes:		
Beaverbrook thanks HMJr for understanding and assistance.....	320	129
a) Personal message of gratitude sent by HMJr through Lothian - 10/8/40.....		128
See also Book 321, page 337		
Bombers:		
British-type Martin bomber 187-B and United States-type B-26A compared - 10/8/40.....		162,314
Consolidated Aircraft (Fleet, President) refuses additional commitments but later accepts Navy order for 200 long-range bombers: Forrestal-HMJr conversation - 10/10/40.....		316
a) Conditional bid discussed at 9:30 meeting.....		326
b) Fleet sends Forrestal conciliatory telegram - 10/11/40: See Book 321, page 4		
Vaughan (Curtiss-Wright) and HMJr discuss dive bombers - 10/10/40.....		336,345
Conference; present: HMJr, Buckley, Purvis, Fairey, Young, Towers, and Knox - 10/10/40.....		393
a) Dive bombers discussed		
Consolidated Aircraft:		
Housing of employees at San Diego revealed by visit to plant - HMJr asks for memorandum for FDR - 10/8/40.....		24
Findings discussed by Treasury representatives with British Purchasing Mission - 10/8/40....		45
Foley memorandum on visit - 10/8/40.....		111
a) Carmody (Administrator, Federal Works Agency) compliments Foley - 10/10/40: See Book 321, page		175
Agenda for conference on facilities.....		130
HMJr asks FDR to speed legislation - 10/8/40.....		200
a) Conference report adopted almost simultaneously.....		201,203
b) FDR announces signing of bill - 10/18/40: See Book 323, page 144		
Conference; present: HMJr, Knudsen, Knox, Stinson, Patterson, Forrestal, Marshall, Brett, Towers, Pennoyer, Young, Foley, and Buckley - 10/9/40...		274
a) Agenda.....		278
Forrestal transmits letter from Schnacke (Smith, Schnacke & Compton, lawyers) - 10/9/40.....		303,425
Knudsen sends Mead to plant: discussion at 9:30 meeting - 10/10/40.....		326
a) Patterson informs HMJr.....		412
Aluminum supply investigated by Forrestal.....		362
Forrestal telegram to Fleet concerning contract - 10/10/40.....		425

	Book	Page
War Conditions (Continued)		
Airplanes (Continued):		
Employment in the Aviation Manufacturing Industry:		
Haas memorandum - 10/10/40.....	320	377
a) September figures sent to White House.....		373
1) Map.....		376
Engines:		
Allison Engineering Company:		
HMJr-Evans conversation concerning output -		
10/10/40.....		418
Martin, Glenn L., Company:		
HMJr plans to visit plant - 10/10/40.....		313
a) Knudsen asked to accompany HMJr.....		334
b) Purvis " " " " " ".....		415
c) Trip cancelled - HMJr informs Purvis -		
10/11/40: See Book 321, page 92		
North American two-seater advanced trainer:		
One out of every seven to be transferred to		
the British - 10/8/40.....		2
Bomb Sight (Norden): Knox tells HMJr he is prepared to		
recommend to FDR that Navy share with British -		
10/9/40.....		273
China:		
Peiping, China, staff at German Embassy increased		
by about sixty - many air officers - 10/9/40.....		290
McReynolds asks HMJr to see Day (Charles H.), who		
has just returned from China - 10/10/40.....		351
a) Biographical sketch.....		353
1) War Department report - 10/11/40:		
See Book 321, page 23		
See also Book 322, page 122		
Exchange market resume' - 10/8/40, etc.....		98,271,440
Foreign Funds Control:		
Agenda for discussion with State Department of		
extension to additional areas.....		36
a) Discussion by Treasury group - 10/8/40.....		24
b) Attorney General's memorandum for FDR.....		40
c) Conference at State Department - 10/8/40....		148
China: Possible blocking discussed - 10/9/40.....		218
Germany:		
Transactions of Consulate General, New York City,		
reported by Federal Bureau of Investigation and		
State Department - 10/8/40.....		71
Transactions with Chase National Bank - 10/9/40..		255
Italy: Transactions with Chase National Bank and		
National City Bank - 10/9/40.....		253
Japan: Possible blocking discussed - 10/9/40.....		218
Netherlands:		
Diamonds: Roosevelt (G. Hall) inquiry concerning -		
10/10/40.....		355
See also Book 321, page 14		

War Conditions (Continued)

Foreign Funds Control (Continued):

Roumania:

State Department asked views concerning Treasury control of Roumanian funds in United States -

10/9/40.....	320	308
a) Welles-HMJr conversation - 10/9/40.....		308
b) Discussed at 9:30 meeting - 10/10/40.....		321,329
c) Hull-HMJr conversation - 10/10/40.....		324
d) State Department approves freezing -		
10/10/40.....		367,413

Roumanian balances blocked in United Kingdom -

10/10/40.....		361,367
---------------	--	---------

State Department officials' accounts discussed -

10/9/40.....		217,242,245
--------------	--	-------------

U.S.S.R.: Transactions with Chase National Bank -

10/9/40.....		264
--------------	--	-----

France:

Fosdick, of Rockefeller Foundation, discusses situation as reported by their representatives with Treasury group - 10/9/40.....		215
---	--	-----

Henri-Haye's conference with Welles, at which time he bitterly denies cooperation with Germany -

10/8/40.....		224
--------------	--	-----

Conference; present: HMJr, Lacour-Gayet, Bell,

and Cochran - 10/10/40.....		342
-----------------------------	--	-----

a) Lacour-Gayet to supervise all French financial problems and liquidate French Purchasing Commission in New York

1) Confere with HMJr, Bell, and Cochran -

10/12/40: Cochran memorandum

See Book 321, page 198

Germany:

Wiedemann, Fritz - German Consul General, San Francisco:

Federal Bureau of Investigation reports on his lack of sympathy with present regime in conversation with British official to ascertain British terms at end of war - 10/9/40.....		269
---	--	-----

Peiping, China, staff at German Embassy increased by about sixty - many air officers - 10/9/40.....		290
---	--	-----

United States stocks in invaded countries sold by Germans: New York Post article - 10/10/40.....		386
--	--	-----

(See also Book 321, page 10)

Gold:

Portugal: Holdings transferred to United States - 10/10/40.....		429
---	--	-----

United Kingdom: Holdings of gold and exchange - British Embassy memorandum - 10/10/40.....		358
--	--	-----

Japan:

Discrepancies in report from New York bank on amount on deposit discussed at 9:30 meeting - 10/10/40.....		320
---	--	-----

SS ATLANTIC GULF: Ickes informs HMJr of proposed sale to Japanese subject - 10/10/40.....		387
---	--	-----

War Conditions (Continued)

	Book	Page
Military Planning:		
Tentative Lessons bulletins:		
"German Training in Marching and March Discipline"		
10/8/40.....	320	101
"Use of Aviation in German Attack on Maginot Line"		
10/9/40.....		282
Reports from London transmitted by Lothian -		
10/8/40, etc.....		107,291,456
War Department reports - 10/10/40.....		452,453
Naval Bases: Banks to be used as depositories for		
United States funds where United States plans to		
use British bases discussed by British Embassy and		
Cochran - 10/8/40.....		147
Netherlands: Hull acknowledges letter concerning		
purchases in United States - 10/10/40.....		392
Purchasing Mission:		
Vesting Order: Official sales of British-owned dollar		
securities - 10/8/40.....		159
Furvis consults HMJr concerning Layton memorandum -		
10/10/40.....		416
Ship Movements:		
SS OREGON, MICHIGAN, and WINNIPEG - departure permits		
issued: Gaston memorandum - 10/10/40.....		356
QUEEN ELIZABETH, OSLOFJORD, and BERGENSFJORD to sail		
soon: Gaston memorandum - 10/10/40.....		357
Sweden: Situation reviewed in American Embassy, Stockholm,		
report - 10/10/40.....		430
Switzerland: Rise in Swiss franc stopped; British		
blockade discussed by Somary and Cochran - 10/10/40...		372
United Kingdom:		
Reports of visit by Generals Strong and Emmons sent		
to HMJr - 10/8/40.....		164
Holdings of gold and exchange: British Embassy		
memorandum - 10/10/40.....		358
Sterling area - newly-mined gold: British Embassy		
memorandum - 10/10/40.....		359
War Department		
Military Intelligence Division bulletins:		
See War Conditions: Military Planning		
Wiedemann, Fritz (German Consul General, San Francisco)		
See War Conditions: Germany		
Winston, Harry, Incorporated (New York)		
See War Conditions: Foreign Funds Control (Netherlands)		

Zanuck, Darryl F.
See Tax Evasion

October 8, 1940
9:08 a.m.

H.M.Jr: Hello.

Operator: Judge Patterson.

Robert
Patterson: Hello, Henry.

H.M.Jr: Hello. How are you? Bob, how are you coming along with that Republic deal?

P: They told me yesterday that we didn't have funds enough appropriated to take them up. That I can get around some way or other, but that was just a temporary snag. I understood that Arnold had put it up to the Advisory Commission to help him on giving an equivalent; that is, which things he can spare best if he acquired those.

H.M.Jr: Uh-huh.

P: Now, I'm glad you - I want you and Young to push me on it because it recalls it to me and I can get at it with more vigor.

H.M.Jr: Will you?

P: I will.

H.M.Jr: Because I really think we ought to clean it up.

P: Absolutely. I'll see, Henry.

H.M.Jr: Right. Will you call me?

P: Yes, sir.

H.M.Jr: Thank you.

P: Good-bye.

October 8, 1940
9:30 a.m.

H.M.Jr: Hello.

Robert
Patterson: Henry?

H.M.Jr: Yeah.

P: This is Bob Patterson.

H.M.Jr: Yes, sir!

P: On the Republic business

H.M.Jr: What a man, what a man!

P: we're trying to find the money to pick them up. It costs around 7 million I think, something like that, and we're getting down fairly well to the broke stage but we've got to fix that, of course.

H.M.Jr: Yeah.

P: The other thing is this, on the equivalent - we've proposed to the - we've put it to this Board that General Brett and Towers and these fellows from the Navy are on too

H.M.Jr: What do you call that Board?

P: Well, the British are on it - Fairey - it's kind of an allocation board, and it has been suggested to that Board, and I suppose Fairey will hear of it through the Board which meets tomorrow on the matter, that 70 of the AT-6's be turned over. That's the equivalent, I understand, of the Harvard and that, I think, is what was mentioned at the meeting at your office Thursday.

H.M.Jr: That's the 2-seater is it?

P: Just a minute. (Pause). 2-seater advance trainer.

- 2 -

H.M.Jr: And that'd be turned over to whom?

P: To the British, 70 of them. That is the proposition that is put to the Board. They are advance trainers. They will start coming in and we'll have some 400 or so between now and May, and the proposal is that the British take their 70 right out of that - 1 in every 7.

H.M.Jr: One out of every 7?

P: Yes. Well, you see, our order is around 490 or something like that.

H.M.Jr: I certainly must have missed something. With what company is this?

P: North American.

H.M.Jr: Oh, I didn't get that.

P: That's the one.

H.M.Jr: Oh, I didn't get that.

P: There's an order there.

H.M.Jr: Now I'm clear. You're proposing that 1 out of 7 go

P: Of our order, yes, you know, proportionately. Now, of course, that's a rather slow delivery but that's the proposition that's been put up to the Board. Fairey I understand is on the Board.

H.M.Jr: I see. Now those 70

P: They're in Baker.

H.M.Jr: are worth about - are they worth 7 million?

P: I'll find out.

H.M.Jr: They can't be. They can't be worth \$100,000 a piece.

P: (Talks aside). He says they run around \$25,000 per plane.

H.M.Jr: Yeah. I see.

P: They're probably worth about \$1½ million.

H.M.Jr: Well, then as I get it they're going to let this go over until this Board meets tomorrow. Is that right?

P: That's right. I understand that was it.

H.M.Jr: Well, I think that that sounds pretty good.

P: Well, I'm just not familiar enough to know whether it is or not. Well, of course, you see there's a little difficulty in this case in this way. The British haven't any real order at all for the Republics, it's not a question of their releasing something they have on order to get something we have on order.

H.M.Jr: I know.

P: Their only claim on these is a historical one in the, I mean, the development of the case. They were kind of put in a pigeon-hole for them in our own minds, but it was all mental.

H.M.Jr: Granted.

P: What?

H.M.Jr: You are right.

P: It was all mental. Of course, the President under the new legislation has the power to commandeer those planes, you know, on the administration of goods marked for export, for which export licenses have been refused, so that he can take them over anyway.

H.M.Jr: Yes, I know.

P: But I suppose the Republic people are - don't need to do that. They'll sell anyway to us.

- 4 -

H.M.Jr: Then, as I get it,

P: The Swedes have released us and Republic will sell to us.

H.M.Jr: And you're going to keep those Republic planes and use them yourself.

P: We'll use them as trainers, but due to the form in which the thing came up and the way for the last month it was developed, it was expected that maybe the British would get them though they couldn't. We're willing to give something for them, I mean, give the British some sort of equivalent.

H.M.Jr: And that's the offering of 70 Harvard trainers.

P: That's the one that's being put up to the Board as I understand it.

H.M.Jr: Is that the first offer?

P: Yes.

H.M.Jr: (Laughs). You started to say the only offer.

P: Yeah. Well, that's the only thing we've put up to the Board, as I understand it.

H.M.Jr: Well, I should think that they'd be delighted to get Harvard trainers.

P: Well, they said they were the nearest thing as the equivalent of it.

H.M.Jr: That's what they need anyway.

P: Do they?

H.M.Jr: Yeah, they do. They need them for Canada very badly.

P: Oh, this will go to Canada.

H.M.Jr: Oh, yeah, as I understand it, they go to Canada for their training program.

P: Yeah. All right.

H.M.Jr: Right. Thank you.

P: Fine. Good-bye.

October 8, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Haas
Mr. Young
Mr. Thompson
Mr. Pehle
Mr. Graves
Mr. Cochran
Mr. Gaston
Mr. Schwarz
Mr. Bell
Mr. White
Mrs. Klotz

H.M.Jr: Good morning, everybody. Norman?

Thompson: Nothing.

H.M.Jr: Professor Bell?

Bell: We have sold Treasury Bills yesterday, and they paid us \$18.50 for the privilege.

H.M.Jr: Quite a business.

Bell: I think we ought to increase the amount to \$200,000,000. It is cheap money.

You remember last week we had that Processing Tax Board of Review matter and I think Chick got the Republican release. There is an indication there that this man Hathcock that we have had some trouble with might be responsible for giving that out. His name is mentioned.

Schwarz: The information is too detailed. They didn't come to the Treasury to get it.

H.M.Jr: Fifth Columnists, is it?

Schwarz: It appears so.

H.M.Jr: Well, I gave the job of firing Hathcock originally, as I remember it, to one John Hanes. Then I gave the job to Sullivan, didn't I? We were going to have a Board of Review. What happened on that?

Foley: Doughton got in the way.

Bell: They were waiting until after the tax bill.

H.M.Jr: The tax bill is through.

Bell: It isn't signed yet, is it?

H.M.Jr: No. That is just a detail. Why not wait until Sullivan comes back? I don't like to interfere with his work.

Schwarz: If it is good work.

H.M.Jr: All right. Well, he was wrong, wasn't he, on his figures?

Schwarz: Oh, very definitely.

H.M.Jr: Well, I didn't see any paper run that except on the release. It came out on the ticker.

Schwarz: The New York Times has our story and just a reference to the Republican statement and the Washington Star on Sunday had about a paragraph on the Republican side.

H.M.Jr: Now, on a thing like that, do you suppose there would be some way or other of letting Mr. Michelson have the direct facts?

Schwarz: Surely.

H.M.Jr: Do you think that could be done?

Schwarz: I will do it today.

- 3 -

H.M.Jr: And in the future, when a thing like this comes if he could be notified right away.

Schwarz: Immediately.

H.M.Jr: Had you thought of that?

Schwarz: Yes.

H.M.Jr: But you hadn't done it?

Schwarz: Yes.

H.M.Jr: Well, I am glad of that.

Schwarz: We started immediately last Thursday afternoon to dig up the facts.

H.M.Jr: Well, in the future if there was some way that Mr. Michelson could also get the facts. It is only fair to let the Republicans know so why not let the Democrats know?

Schwarz: That is very good.

H.M.Jr: What else, Dan? While we are on that thing, there is this story this morning again. I got Harry White out of bed at five o'clock this morning and he says, "Where is the fire?" and I said, "Cordell Hull is doing away with all the frozen assets and from now on we can't move unless he says yes." Harry says, "Just a minute and I will put on my raincoat and I will come down." He came down and he was all flustered and he couldn't think of an excuse. He says, "What about that man Foley has up on the Hill? He ought to know about it." And then they find out it is just a bill --

Foley: It is a Federal Reserve bill, Mr. Secretary.

H.M.Jr: I know, but look at the story.

Foley: Well, I saw it on the ticker yesterday and I sent for Bernie and Larry. I was worried, too. But the ticker story was wrong.

- 4 -

H.M.Jr: Well, was there anything done - that was last night. I got the ticker story at eleven last night. What was done from the time it was on the ticker until the papers went to press this morning to correct it? After all, the Treasury is supposed to be on a 24-hour basis and not a monthly basis.

Schwarz: I talked to John Pehle yesterday.

H.M.Jr: This is 4:30. There was plenty of time to correct that story for the morning papers.

Schwarz: That was United Press.

H.M.Jr: 4:30 yesterday.

Schwarz: I talked to the United Press about it.

H.M.Jr: Last night?

Schwarz: Late yesterday afternoon.

H.M.Jr: He didn't get his correction in this morning's paper. They all had it wrong.

Schwarz: United Press was primarily responsible for that.

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

Schwarz: Yesterday afternoon. They don't correct it unless they feel like it.

H.M.Jr: I see. But you did speak to them?

Schwarz: I spoke to the Treasury man at United Press.

H.M.Jr: Okay. That is all you could do, I suppose.

Schwarz: Yes. We call attention to the facts, and it is up to them to be accurate if they are so minded.

H.M.Jr: It was tough on Harry. What else, Dan?

Bell: I approved on Saturday an order allowing the

- 5 -

Coast Guard to work more than the required 40 hours a week in some connection with some work on that survey, and Herb was supposed to have a report on that this morning. I knew you were against working overtime, but they had an emergency down there and I thought we might approve it subject to the full report.

Gaston: This is the wartime equipment on the cutters and they have to install new guns and so on and they can't get enough men to get the work - enough fully skilled men to get the work through in time without going on a 48-hour week. The Navy is - all the Yards are on a 48-hour week.

H.M.Jr: So is the Army.

Gaston: The outside figure is \$22,000 for the entire job and I think it is very reasonable to let them go on a 48-hour week.

H.M.Jr: Absolutely.

Graves: I have a report from Mr. Ireby on the indictment of "Win or Lose". It is very brief. There is also a full account of the agent.

H.M.Jr: I am just sort of surprised this came along. Is this sort of a hangover?

Graves: Apparently from the report of Mr. Ireby's agent, this was before a grand jury some time ago, which failed to indict, and the new grand jury has now investigated the matter again and has brought the indictment.

H.M.Jr: I see. Good. Are you following this other thing?

Graves: Yes, I am.

H.M.Jr: Graves tells me there may be real trouble. We may not be able to make enough money to keep up with the demand.

Graves: As you know, I spent Friday in the Mint at

Philadelphia and found that they were in difficulty in having changes made in their building which would permit the installation of the new equipment we have in mind. That money for alterations to the building is provided by the Public Buildings Administration.

I went over there yesterday, and Mr. Reynolds, when he became aware of the seriousness of the situation, has now cancelled out certain other projects so as to transfer the money.

H.M.Jr: Do you get a new building?

Graves: No, for the alterations and remodeling of that building.

H.M.Jr: How soon will that be in?

Graves: Our ambition is to have it in by the end of this fiscal year. It is a long job. It takes months to build this new equipment and it will take a long time to make the alterations to the building.

H.M.Jr: But it is underway?

Graves: It is underway.

Bell: Does that interfere with the present program of manufacturing very much?

Graves: No, we are working three shifts up there and of course one of the objects of the additional equipment is so we won't have to work three shifts, seven days a week.

Bell: Harold said he thought we might need a new manufacturing plant, probably in the West some place.

Graves: I also went over that in a preliminary way with Mr. Reynolds.

H.M.Jr: I think we should have.

Graves: Pretty soon I think we ought to lay some

- 7 -

definite plans.

H.M.Jr: I am ready. Okay?

Graves: Yes.

H.M.Jr: Harry?

White: Here is a letter from Secretary Welles (October 4) informing you about the Cubans. It doesn't leave any response, but we will have a report in here today on the general situation so that in the event he does call you up, you will be prepared.

There is a cable from London (October 2) which you may not have read. It indicates that the British Government is now spending at the rate of 13 billion dollars a year, during the first six months, of which ten billion dollars is being borrowed. That is, they are running into a deficit of almost 10 billion dollars out of an annual expenditure of 13 billion, so far this year.

Scrap iron and oil are still going out in large quantities.

H.M.Jr: I just saw that report this morning.

White: This is a memorandum that I think either Mr. Cairns or Mr. Foley have or will call to your attention, but I want to make sure that they do because it relates to a bill which will give Colonel Maxwell of the State Department very considerable authority that it seems to me infringes on some of the Treasury authority already with respect to control and administration of exports. I don't know whether you --

H.M.Jr: Is it imminent?

White: Either you have or you will, I think, because I got this from your (Foley's) office.

Young: I sent that report up to the farm with you

- 8 -

last week-end.

H.M.Jr: All right.

White: Here is that proposed French plan --

Foley: Yes, this is the thing we had a meeting on in your office, Dan.

White: On petroleum, just for the record, and another one for the record, on petroleum, also. That is all.

H.M.Jr: What else?

White: That is all.

H.M.Jr: George?

Haas: Allison didn't do quite as well. It is high, relatively. The last six weeks they averaged 52.

H.M.Jr: What did you say?

Haas: The last six weeks averaged 52.

H.M.Jr: Well, they did 49 engines last week.

Haas: They are getting a lot of P-40's to the British, you know.

H.M.Jr: Airplanes with engines, shipped, 76. All right.

White: Did you notice the picture in the - last Saturday's News on the front page, a picture of oil barrels being rolled onto a Japanese ship all over the front page?

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

White: With an editorial on it.

H.M.Jr: Which News?

White: Washington News.

- 9 -

H.M.Jr: Pehle?

Pehle: Nothing.

H.M.Jr: What did you hear about that money that Bullitt wanted to send?

Pehle: I gave Offie the message, which he thanked me for, and he called back about two hours later and said that the State Department wasn't inclined to stretch its authority that far. He said there were a number of people over in the State Department that had friends in France that they would like to send money to, but they couldn't send it in that amount, and he didn't think they were going to be very sympathetic and I just repeated what I told him before and told him that if anybody in the State Department asked me about it I would tell them the same thing. That was Saturday morning and we haven't heard anything since.

H.M.Jr: Okay.

Philip?

Young: I understand that those North American dive bombers that were bound for Siam, which the State Department took off in Manila, which General Arnold wanted so badly for the Philippine Air Corps, have no engines in them.

Haas: They can dive well.

Foley: They are lighter.

White: They don't need them.

H.M.Jr: That is what you call a "One Dive Bomber." Not bad. What other good news have you got?

Young: None.

White: Maybe they sent the engines to Japan?

- 10 -

Young: I think the engines are still in San Diego.

H.M.Jr: Anything else, Phil?

Young: No, sir.

H.M.Jr: You are going to find out about those two Martins for me?

Young: Yes.

H.M.Jr: Maybe you could know by 11:30.

Young: All right.

H.M.Jr: Chick?

Schwarz: Could I have about one minute afterward. I have two minor matters.

H.M.Jr: You can if I can get through before ten. Ambassador Lothian is coming.

Cochran: Nothing.

H.M.Jr: I thought on this thing here that you wrote me about this man Kollmar, that you might ask George Harrison to take that up with the Chemical.

Cochran: All right. There is one other memorandum that I gave you that Archie told us about.

H.M.Jr: It is the same thing.

Cochran: We are getting a lot of material from Stopford on his operations and he hoped we might hold off a little while to see just what he is doing.

H.M.Jr: Really?

Cochran: Yes, because we are getting something almost every day.

H.M.Jr: He wants to wait, then?

- 11 -

Cochran: He prefers to.

H.M.Jr: Then you carry it in your shop. I don't have to charge my memory?

Cochran: No, sir.

H.M.Jr: All right.

Ed?

Foley: Scalise has been indicted but the indictment hasn't been handed up. It is to be handed up to the Federal Judge today.

H.M.Jr: Well, in the paper there is nothing about a Federal Income Tax. I read it very carefully.

Foley: Well, this is a Federal Income Tax indictment. It isn't public property yet, because it - the true bill hasn't been given to the judge but it is going to be handed up today.

H.M.Jr: Well, the other one was all in the papers.

Foley: Well, ours will be in the paper today.

H.M.Jr: He is a bad boy, that Scalise.

Foley: You knew that the British took off those pictures down at Bermuda?

H.M.Jr: So I also saw in the papers.

Foley: They had no confidence in Merle Cochran.

H.M.Jr: That is very cute, it is all right.

Foley: We want to settle the Darryl Zanuck case for \$584,250, which is the amount of tax for the year 1935, the amount of the deficiency. We included in our letter an additional \$146,000 of penalty. This has been recommended by John Cahill and Sam Clark and if Mr. Irey and Oftedal are agreeable, I think we ought to take it.

H.M.Jr: How about Guy Halvering?

Foley: The Commissioner, Mr. Irey, Special Agent Oftedal --

H.M.Jr: Is there a letter from Helvering?

Foley: I have a memorandum from Wenchel. He says Commissioner Irey and Oftedal are agreeable.

H.M.Jr: I want a letter from Helvering and Irey and Oftedal, who is the man out on the West Coast, isn't he?

Foley: Yes.

H.M.Jr: I want each one of them to write a letter which should come up attached to Helvering's letter to me saying whatever they want, whatever they believe. Irey should write a letter to Helvering, Oftedal should write a letter to Helvering, and let him forward it to me or let him forward it to Assistant Secretary Sullivan and then let Sullivan write me a recommendation and then let the General Counsel write me one.

Foley: All right.

H.M.Jr: I want all of that. I want Sullivan on record in writing; I want Helvering, Irey, Oftedal and Foley, and when I get it all, we will take a look at it. I am ready. I am not trying to stall, I just want - I mean, I will skip Sullivan if he is not here but the others -- it is too important. Do they all include the fraud penalty?

Foley: No. We got the fraud penalty. We just include the \$584,250, which is the amount of the deficiency without the fraud penalty for the year '35. We never take that on a settlement. If we go to trial and we establish that more than 25% of the gross income was omitted from the return, which we have to prove, because the statute is run otherwise, we can make this stick and then we will get the fraud penalty and the tax, but I think this is a pretty decent offer of settlement.

- 13 -

H.M.Jr: Well, if it comes up to me I would like to have that formula followed, please. It is really important.

Foley: All right.

Bell: Did you get rid of the ship down on the Gulf Coast?

Foley: Yes.

Bell: Did you hear it sunk?

H.M.Jr: It is funny. I said at Cabinet, "Mr. President, I hope you won't accuse me of malice," but I said, "I did let that Panamanian ship sail the same night that the Secretary of State told me he wanted it to go," and I said, "the next day they had an explosion and now it is beached with a 30 degree list at the mouth of -" whatever body of water it is. He says, "Leave it to Henry." He just laughed, and for the first time I saw old Cordell laugh, even Cordell laughing. He thought - everybody thought it was very funny. Have they taken her off the beach?

Foley: I don't know.

Gaston: I don't think so. This is the same ship that was sunk by sabotage in Baltimore harbor a few months ago.

White: They don't need a permit to take her off the beach, do they?

H.M.Jr: Herbert?

Gaston: Hoover wrote a letter on September 30 about Dr. Francis Howard in Los Angeles who is trying to sell to the Japs a formula for making aviation gasoline from crude oil. That is - the new proclamation forbids the sending of such plans and specifications out of the United States, so we will try to stop him.

- 14 -

Did something happen on that plan for pursuing the - I guess I can get that from Harry.

H.M.Jr: I saw Malone and the result of that is that just two letters were sent to the farm, which exonerate him. I saw Malone.

Gaston: In the meantime, those boys are still at work in developing --

H.M.Jr: Well, the way the thing is, Sammy Klaus has taken over, supposedly. I mean, Hoover is working for him now.

Gaston: Oh, that is swell. I can always get information from Sammy.

H.M.Jr: I told him - I told him not to be mealy-mouthed about it and here is one of the ablest fellows we have got in the General Counsel's office, but we will have him help Hoover, "But I am warning you now, he will just take your whole organization over." He said, "Good, I like that kind of fellow." He said he would get in touch with him over the week-end. You (Foley) might ask Sammy what he did.

Foley: Bill Campbell wants Sammy to go out to Chicago this week-end for a couple of days. He says it is the last time he will ask for him.

H.M.Jr: I referred Hoover to Campbell for reference on Klaus.

Foley: Bill has been appointed Federal Judge, you know.

H.M.Jr: I didn't. I also told Hoover that Campbell thought he was always shadowed by the F.B.I. Campbell has lots of funny ideas.

Foley: He is a judge now, he is immune.

Gaston: I haven't anything more.

H.M.Jr: Okay.

October 8, 1940
10:15 a.m.

H.M.Jr: Hello.

Henry
Stinson: Henry?

H.M.Jr: Yes.

S: Sometime ago I promised to send you an estimate of the general situation connected with the American preparedness munition program.

H.M.Jr: Yes, I know.

S: Did you ever get it?

H.M.Jr: No, the only thing I got as I recall is the one that General Strong wrote on the European one.

S: Yes, just purely his report.

H.M.Jr: Yeah, but I didn't get

S: Well, I just - you didn't get another shorter paper entitled "An Estimate of the Position of the United States in Relation to the World Situation."

H.M.Jr: No, I'm 90% sure I haven't got it.

S: Well, then I'll send you a copy. I just found that it had been held up for further polishing.

H.M.Jr: No. I would like very much to have it.

S: Well, I'll send it at once.

H.M.Jr: Right.

S: Now, one other question. What is the situation in regard to exports?

H.M.Jr: It's absolutely - nothing new.

S: Nothing new at all.

- 2 -

H.M.Jr: No.

S: Is the boat still on the - is the Iffiana or whatever it was

H.M.Jr: (Laughs).

S: the Panamanian?

H.M.Jr: Yeah, she's still on the rocks, she's still on the beach.

S: Good. Don't let her be unloaded.

H.M.Jr: No, no. I'm looking forward to seeing you tomorrow.

S: Well, I'm coming. I've got an appointment with the President this morning which has been brought up by an unexpected move that he made bearing on my Department without my knowing anything about it.

H.M.Jr: I see.

S: A gesture to Hawaii, and that rather brings up the whole situation a little bit and may well go into that.

H.M.Jr: Well, we've just got to get our heads

S: I didn't know whether there was anything new that you knew on that

H.M.Jr: On Hawaii?

S: No, no, that's only a part of the whole Pacific situation.

H.M.Jr: No, no.

S: I mean, the whole thing is so clear to me, I mean, there's such a clear answer to - our other friends fear that if we put on the pressure that we've been speaking about, that I spoke about at the last Cabinet meeting, that it would result in an immediate movement to the South, that I want to bring that to his attention. The thing to do there is to have - is to make sure that there's a sufficient

- 3 -

even if it was small naval - or Australian or possibly also a British - an American squadron or two there that could flood the wells before they got down

H.M.Jr: Right. Well, I think that it's a great idea.

S: Because the presence of vessels of those three countries will bring home to the enemy the futility of making a move - so there's a gesture that counts. You see?

H.M.Jr: Right. Well, you know where I am, I mean, I'm with you every minute.

S: Yeah.

H.M.Jr: But it's hard work.

S: (Laughs). Well, I'll send you this paper.

H.M.Jr: I was reminded last week that I was Secretary of the Treasury.

S: (Laughs). Well, other than the reminder that I saw given the week before?

H.M.Jr: Oh, yeah. Yeah. I'll tell you sometime.

S: Yes, tell me sometime.

H.M.Jr: It's all right. I want to be reminded once in a while.

S: Well, I may need the same admonition.

H.M.Jr: No, I wasn't thinking of you this time.

S: (Laughs).

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

S: Well, I don't want to run into it. It's safer for you to run into that danger than it is for me.

H.M.Jr: Well, I think you'd like it and could take it just as well.

- 4 -

S: (Laughs). All right.
H.M.Jr: Thank you.
S: I'll send this at once.
H.M.Jr: Thank you. Good-bye.

RE FOREIGN FUNDS CONTROL

October 8, 1940
10:30 a.m.

Present: Mr. Bell
Mr. White
Mr. Cochran
Mr. Foley
Mr. Bernstein
Mr. Pehle

H.M.Jr: This memorandum here came up in Cabinet. Attorney General Jackson had it and read it. I spoke up and said we were having a meeting Tuesday at 3:00 o'clock on this subject, would he care to attend, and he said no, but he would have Francis Biddle attend.

Now, I think you ought to get this over to Mr. Hull before lunch and tell him this is a copy of the Biddle memorandum that Jackson brought up in Cabinet. I would like to have him read it before 3:00 o'clock.

Cochran: All right.

H.M.Jr: Now, who is following this thing particularly?

Bell: Have we heard from the State Department?

(Mr. Foley, Mr. Bernstein and Mr. Pehle entered the conference)

H.M.Jr: Look, Ed, before we get started on this meeting, I would like to send the President a little memorandum telling him something like this, that as a result of the trip of the Army and the Treasury and the English to Consolidated, we are impressed with the absolute necessity of getting this housing bill through, you see, and this is the way the thing stands. I want to bring it to his attention. Possibly he would like to leave it on the Hill that he also is interested. Just dictate that to somebody. Do you get the idea? I can send it over to him.

- 2 -

Foley: I think it is all right.

H.M.Jr: And in the letter, see, to show him the need, San Diego alone will need 20 million dollars.

Foley: Approximately, yes.

H.M.Jr: Approximately 20 million dollars for housing.

Foley: Want it in the form of a memo or a letter?

H.M.Jr: Letter, but that also puts him on record. You get the idea. San Diego alone needs 20 million dollars.

(Mr. Foley left the conference)

Here is something all digested and everything else. Isn't that marvelous? This is what I am to say this afternoon?

White: No, it is to be presented.

H.M.Jr: Agenda for discussion. Now, are we going to get this into the hands of Mr. Hull before the meeting?

White: I don't know whether you would wish to. If so, we can.

H.M.Jr: Yes. I would do it via Merle Cochran. I think he ought to have a copy of this.

White: Would it be all right to give him a copy? We have run out of the ribbon on that.

H.M.Jr: You could have mine, which would give you a chance to do another one. Just give him this one.

Cochran: I will send that over.

- 3 -

H.M.Jr: I think you ought to. How do we start?

White: Well, I think you might want to just run over the various pros and cons. Some you will want to skip right over; some you may want to spend a little time discussing, and then after you have gone through them, you can go back to the varying possibilities and which of them, if any, you want to --

H.M.Jr: Well, let me just argue a minute until I think out loud for a minute, you see. Let's just say for the moment that we do it for Europe.

White: For the whole of Europe?

H.M.Jr: The whole of Europe. Would that include Russia?

White: Russia is a part of Europe, certainly, the western part.

Pehle: It wouldn't have to be.

White: You could find it either way.

H.M.Jr: I was thinking of Europe and not Russia, not China and Russia.

White: How about England?

H.M.Jr: England is not continental Europe.

White: The bulk of Russia is in Asia, but whether --

H.M.Jr: We could exclude it.

Bernstein: That would be just a matter of the words you used. You could say Europe, except Great Britain and Russia.

(Mr. Foley returned to the conference)

- 4 -

H.M.Jr: Ed, what I was suggesting is the possibility of doing it for continental Europe. I mean not Russia and not England.

Foley: Yes.

Bell: How about Japan?

H.M.Jr: Well, it is just a question of whether we want to hit them again. If we don't want to hit them again, okay.

White: It is getting pretty close to the elections, and whether it is - will lead people to think we are driving more rapidly toward or away, is a question which --

H.M.Jr: That isn't in the memorandum, what you are saying now, is it?

White: Well, I just said in the last phrase, I didn't want to refer to it that way. I merely said, "The public reaction to an extension of controls is very important and must be carefully evaluated."

H.M.Jr: Well, I tell you how I feel, just talking among ourselves. I can't describe it very well, but the old elbow sort of hesitates at this time. It just looks to me as though we are trying to speed up the tempo --

White: That we ought to speed it up?

H.M.Jr: That it would be interpreted as speeding up the whole thing.

White: It is very hard to know how the public would interpret an imposition against Japan at this time. It might be that they would say, "Well, that is the next step and we are hell-bent for trouble."

- 5 -

- H.M.Jr: No, I understand that the State Department has been put on notice and so has Japan, that the English are going to open up the road. I asked Lothian this morning, but I am not supposed to think in terms of foreign policy. You see, in this thing, the Solicitor General points out the difficulty of tracing down the money. Well, I don't think it is so difficult if the FBI would run some of this down in the field, but they don't do anything about it.
- Bell: I think the Germans have had plenty of time to find escapes, and I wouldn't be surprised if they have anticipated such a move and they have got this money into hands where it can be moved without --
- Cochran: It is some internal policing rather than this external control through which you have to get that. It is some internal policing such as the FBI or our own service or some news service that you would get this stuff on the use of funds by the Embassies, rather than the control which we have.
- White: Except I suspect that putting it on the basis of detection of subversive influences, which is quite important, if that were of paramount interest, I should think we would hesitate a long time before doing it now, but I am wondering whether there aren't some more important reasons that ought to be considered.
- H.M.Jr: Such as?
- Bell: I should think there ought to be more important reasons before you would freeze them than just the subversiveness.
- White: Yes. Why, I would say that there are two,

- 6 -

it would seem to me. One is the political repercussions, which is a topic about which there could be considerable difference of opinion, how the public would react, how Japan, Germany and Italy would react to a step which would be unquestionably played up very much in the press and would be interpreted by, I think, many people as an important diplomatic and economic move, a move in the direction of increased economic defense. That would be the first point.

The second point is that the extension of this instrument, as suggested in the memo, is the adoption of easily the most effective weapon of economic defense. Through this exchange control you do everything or anything, or nothing or little. You can control trade from particular countries on particular commodities, on particular transactions; you can discriminate very easily without raising any questions other than that of basic discrimination. In other words, you are adopting - you are making another move in what constitutes a very important weapon of economic defense.

Bell: What retaliation could Germany and Italy make? Just take those two countries against us.

White: Well, at present we are getting very little out of Germany, although I understand that they are ready to consider now some arrangement whereby some of the German bonds may be brought back at certain rates. This is a dribble of funds coming out of Germany, not very much, but there is something.

Bell: That is Kollmar's activity over there. He is interested in this repatriation of German securities.

- 7 -

White:

How much will eventually develop, I don't know, or whether that has been started to promote better feelings, I can't say. In Italy there have been a few bonds which have recently defaulted, and you can get very little out of Italy.

Japan, the oil companies do get some of their current profits, and there isn't much else there.

Now, they could stop all withdrawals of funds from those countries. They would be hesitant to do so in the case of the oil companies, possibly, because the only reason they are letting them take it out is in order for them to do more business, and they would suffer more by preventing them from doing business than otherwise, but I take it that if these controls were imposed, one of the things that would happen very soon thereafter would be either a curtailment or almost a complete elimination of our trade with Japan. It already has stopped with Italy and Germany. That would have rather important economic consequences.

Bell:

How about Switzerland and Sweden? Do we have any trade there to amount to anything?

White:

We have some.

Pehle:

Not much. How can they get in there?

White:

It has dropped very sharply, but there is some. You could continue to let that go through just as you do now. Whatever there would be need not be affected by the control. That is the beauty of the control. You can manipulate it by virtue of its flexibility to either strengthen it at any time, weaken

- 8 -

it or be less or more generous.

Bell: In other words, by putting on the control, there isn't much that would be thrown to other countries such as South America, like Venezuela and the oil.

White: Yes, they might attempt to - if they can get by the blockade, as far as Italy and Germany are concerned, they could do that now, but Japan would unquestionably divert more of her purchases to those countries, but she would be in a very serious situation if we stopped our purchases from her. She wouldn't have very much to spend but she would have some and she would divert some.

H.M.Jr: We have been so aggressive here on all this and we are talking about Japan. If they want to stop Japan, they could stop the silk from coming in. Why not do it through the front door?

White: I think if they are contemplating anything of this kind, this is easily the best method. If they are not contemplating anything of that kind, there is much less reason for imposition, aside from the political consequences, and those would, I think, be very large.

H.M.Jr: Now, after all, if they are worried about the propaganda, anybody can just take a list of the staff of the German Embassy, any of these Embassies, and compare them with what they were five years ago, and you know they have got five-fold. The fellows that weren't there five years ago, send them home. The same way with the Consulates. You don't have to go through all this rigamarole. The State Department

- 9 -

knows which of these men - when I was in Copenhagen a year ago last summer, they had ten press secretaries in the German Embassy in Copenhagen. Every other Embassy had either one or none, but they had ten.

White: It is pretty easy to get money in and not to cover those expenses. It may be a little difficult for a while, but there are so many ways of getting funds in --

H.M.Jr: And they have had plenty of time.

White: I don't say that you don't make it more difficult, and I think you also could help trace some of the activities, but --

H.M.Jr: For instance, if FBI had traced a case down to where the money was being used - I read all of this stuff over the week-end. They took over tracing the money in '39, and they have been doing it a year. They wrote me a report and sent it up to the country. It is absolutely nothing. It is just absolutely nothing to show that the money being traced is being used for other than legitimate purposes.

Bell: I haven't seen anything that came over that was important enough to send over.

H.M.Jr: From where?

Bell: FBI.

White: Well, they had a list of funds going to Russians and Germans. Did they trace them? That is what they should do.

Bell: I don't think they went beyond that point.

- 10 -

- H.M.Jr: We will put Sammy Klaus on that. He will run it down to the man's grandmother.
- Bell: We had one of them in a report of a guy on a ranch milking a cow. They have been watching him for a couple of years.
- White: I believe that this control, Mr. Secretary, is inevitable, and the question is one very largely of timing and whether they can put it on now and what the consequences would be, as compared with what would happen if you waited until after election and put it on, I don't know, but those are the considerations. I think we are moving into this field and if things continue as broad as they seem to be likely to, I think it is very essential that they should take this.
- H.M.Jr: I tell you what let's do. You people can all accompany me. We will all go over together at 3:00 o'clock this afternoon and we will send this thing over in advance to Mr. Hull. You can have my copy and give me another one later on. Let's go over there and say that the State Department asked us to consider it. What have they got in mind?
- White: Do you mind if we go over this to make sure it is all right?
- H.M.Jr: Well, of course on the theory that it is their meeting, maybe we had better not send an agenda over.
- White: Either way. It would help the discussion. I have merely enumerated all the points, pros and cons.

- 11 -

Bell: They won't have any memorandum on it and we will just sit there like a blank wall. Why don't we go into my room and go over this and send it over there?

H.M.Jr: We will get it to Mr. Hull before 1:00 o'clock.

Bell: Yes.

Foley: Who else is going to be there, Mr. Secretary? Anybody else besides Mr. Hull and his people?

H.M.Jr: I suppose Berle.

Foley: I mean any other departments, Commerce or --

H.M.Jr: Francis Biddle.

Cochran: They have a committee of four people on this over there. Grady and Berle and Feis and Pasvolsky, I think.

H.M.Jr: Personally, I think the whole thing is to take the thing over to State Department. The Treasury is in foreign affairs too much.

Cochran: It is financial sanctions, that is what it is. It is their business to decide whether they want us to try that.

H.M.Jr: To do what?

Cochran: I interpret any further move when a country is not invaded as purely a financial sanction.

H.M.Jr: Do you think it would be financial and economic?

Cochran: Well, we are tying up their money here.

White: I would rather regard it as economic defense.

- 12 -

It is a part and parcel of an aspect of defense. All defense is aimed at somebody. of course. Otherwise, it wouldn't be defense.

H.M.Jr: I will go with you, fellows, but I am going to listen. We can leave here at ten minutes to 3:00.

White: There is no position we take here. If there is anywhere, we will water it down. It is merely an attempt to give the pros and cons.

H.M.Jr: Okay.

White: And it has some confidential information on the assets here.

H.M.Jr: Go over it in Bell's room.

October 7, 1940

Secretary Morgenthau

Mr. White

Subject: Agenda for discussion on the question of extending foreign exchange controls to additional areas

I. Possible unit areas to which our exchange control can be extended:

- (a) All the "aggressor" nations
- (b) All remaining countries in continental Europe (excluding British Empire)
- (c) Continental Europe plus Asia
- (d) The world except American republics
- (e) The world (including transactions of every character and of every country)

(Summary of foreign balances and investments in the United States according to the above groupings are in Appendix I attached.)

The advantages and disadvantages of extending foreign exchange controls are for the most part similar to those considered when the question of freezing Scandinavian, Dutch, etc. balances was discussed. There are, however, some additional factors and many of the old considerations are of growing importance as the area of control is extended.

II. The chief disadvantages that should be re-evaluated are:

- (a) Possible retaliation against American assets abroad. Americans have balances and investments in foreign countries and imposition of control on transactions with those areas may make it more difficult to withdraw funds from those areas. (A table of the foreign holdings, investments and claims against foreign countries will be found in Appendix II attached.)

- (b) Loss of trade. If extended to include Germany, Italy and Japan, and if licenses are to be granted sparingly, our trade with those countries would probably cease. Whether or not this would be so depends, of course, upon the policy we would pursue in granting licenses. It is to be noted that our direct trade with Germany and Italy is already negligible because of the British blockade. (See table in Appendix III for amount of trade involved.)
- (c) Burdens on foreign trade and finance. Our foreign trade and international financial transactions would be burdened with delays, annoyances, and additional expense. American banks and concerns engaging in international transactions of any character will be put to some additional expense because of the additional paper work, etc. involved.
- (d) Added cost to the taxpayer. The administrative cost to the government will increase as the areas to be controlled are extended. If the whole world is placed under control, the cost of administration might well be several times the cost of current controls.
- (e) Government interference with private business. Extension of exchange controls would be regarded in many quarters as an extension of government interference with private enterprise, and hence as a step toward "Totalitarianism".
- (f) Possibility of non-economic reprisals. Areas subjected to restrictive measures on their movement of dollar funds may be thereby stimulated to adopt a more unfriendly attitude toward the United States. In the case of certain countries it may precipitate further aggression.
- (f) Might harm our Good Neighbor Policy. If applied to Latin American countries the restrictions may make more difficult promotion of our Good Neighbor policy.
- (h) Violation of liberal trade policies. If the control is extended it must be recognized that we will engage in discriminatory practices which constitute a violation of a commercial policy which we have been hitherto pursuing.

III. Advantages to be weighed against the disadvantages

- (a) Foreign exchange control an instrument of national defense. The measure should be regarded primarily as an important weapon of national defense and not as a means of obtaining commercial gain. If this be so, the administrative costs and the burden and annoyance to American business are small in comparison with the costs and burdens of other defense measures of equal potential effectiveness.
- (b) Effective instrument for implementing foreign policy. Foreign exchange control is the most effective, comprehensive and flexible weapon, for controlling international transactions of every kind - trade, capital movements, tourist expenditures, financing of subversive activities, etc. Since most international transactions involve money at some point, the control will come into play. The system of licensing will permit varying forms of treatment for different countries, for different commodities, or for different transactions - varying all the way from a complete economic blockade against a selected country to minor conservation of strategic materials.

Exchange control, as an instrument for implementing foreign policy, can be employed with a minimum of publicity and with a minimum of administration explanation of particular measures undertaken. Licenses can be turned down, delayed, or granted in part or in whole, with no public explanation and according to the needs of the public interests at the moment.

- (c) Provides an additional bargaining instrument. By the use of general and special licenses and by flexibility of controls it is possible to accord favorable treatment to selected countries and thereby facilitate closer relationships with those countries. One of the most important economic weapons utilized by Germany is the granting or withholding of exchange favors.

- 4 -

- (d) Would make present policy less inconsistent.
Extension of control to the aggressor nations would remove one source of criticism that our present policy is inconsistent in that it works hardships on some non-aggressor nations, leaving the aggressor nations free to operate in our market.
- (e) The administration of extended controls does not create insuperable administration problems.
The administration will be more expensive and more cumbersome but no more complex. The essential machinery is already operating and would merely need to be enlarged. However, the policy making aspect would be considerably complicated. The policy making aspects would involve a much wider range of consideration and greater liaison with interested departments and agencies.
- (f) Is extension of control inevitable? If economic pressure from other nations continues to increase, it is certain that in the future we will have to adopt exchange control. Therefore, we may want to set up the machinery ahead of time in order to avoid having to take such steps at a time when there will be a host of other pressing tasks and problems.

IV. The public reaction to an extension of controls is very important and must be carefully evaluated.

Attachments

HDW:esh
10/7/40

Received from Bob Jackson⁴⁰
at Cabinet Oct 4, 1940.

October 3, 1940

MEMORANDUM FOR THE PRESIDENT

It has been suggested to me, in connection with preventing German propaganda in this country and South America, that bank balances in this country directly or indirectly under German control should be blocked. These funds are, it is reported, being used for such propaganda purposes. The Treasury has already blocked balances belonging to the nationals of the conquered countries - Norway, Holland, Denmark, Belgium, etc. - and there is no doubt of the right of the United States to block German balances. This is done by permitting of the withdrawal of the funds only under licenses and by requiring a certificate showing to what use the funds are to be put before honoring the check. I understand that no specific reason for refusal to honor the check is given.

Control of these large reserves would accomplish more than any other single step to check Nazi propaganda, and would be immensely effective and simple. For a long time Germany has made it impossible for Americans to withdraw their old deposits or liquidate old credits with German banks, and has cut off almost entirely the payment of dividends and interest to Americans from their investments in Germany and in invaded countries. Under these circumstances it is a little naive, to say the least, for us to permit German balances to be withdrawn to subsidize propaganda designed to undermine American institu-

tions. I understand that when the suggestion was submitted to the State Department last June it was not favorably received. Perhaps a suggestion that this procedure be applied to all countries at war, so as to include England, would make the step seem less vindictive, and would satisfy any objections that the State Department might have. The restriction might also be applied to other countries not at war - such as Spain and the Soviet Union. To make control even more certain, I suggest that a regulation be promulgated requiring the Treasury or the Federal Reserve to photostat all checks and that the photostatic copies be filed with the Treasury. It would then be comparatively easy to discover where the money is going.

Treasury Orders and Statutes. The Treasury orders blocking the balances held in this country by nationals of occupied countries (31 C.F.R., § 130.1; 5 Federal Register 1401, 1616, 1680, 2283.) are based upon § 5 (b) of the Act of October 6, 1917 (40 Stat. 411) as amended by the Act of March 9, 1933 (48 Stat. 1). See also Executive Order No. 6550, January 14, 1934.

The statute reads in part as follows:

During time of war or during any period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations that he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payments by banking institutions as defined by the President, and export, hoarding, melting or carrying of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof, and the President may require

-3-

any person engaged in any transaction referred to in this subdivision to furnish, under oath, complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction is completed.

That portion of the statute permitting the President to require persons engaged in these transactions to produce any documents in connection therewith permit a regulation requiring the checks themselves to be produced. Certainly the checks could be photostated while in the possession of the Treasury and then returned to the various banking institutions. If it is more desirable to have the regional Federal Reserve Banks actually make the photostatic copies the regulation could accomplish this, since the President may act under the Statute "through any agency that he may designate."

FRANCIS BIDDLE
SOLICITOR GENERAL

October 8, 1940
11:03 a.m.

H.M.Jr: Hello.

Operator: The Postmaster General.

H.M.Jr: Hello.

Frank Walker: Hello.

H.M.Jr: Hello, P.M.

W: Well, hello, Mr. Secretary. How are you?

H.M.Jr: O.K.

W: That's good. Did you call in response to my call?

H.M.Jr: That's right.

W: Well, I tell you, Emily Post wasn't in town yesterday so I called you. I just wanted to know how you attired yourself when you went to a tea.....

H.M.Jr: (Laughs).

W: (laughs) - but you didn't go and I went with a business suit.

H.M.Jr: Good for you.

W: I just wanted to make sure.

H.M.Jr: Looking after the deficit, eh?

W: Being a novice down here, you see, I didn't
.....

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

W: This was an affair that my wife had to go to and it was her first one and she didn't want to go alone.

H.M.Jr: Oh.

- 2 -

W: How are you?
H.M.Jr: I'm fine. I hope to see you soon.
W: I hope so, Henry.
H.M.Jr: Take care of yourself.
W: I'll do that.
H.M.Jr: Good-bye.

RE BRITISH PURCHASING PROGRAM

October 8, 1940
11:30 a.m.

Present: Mr. Ballantyne
Mr. Buckley
Mr. Fairey
Mr. Gray
Mr. Young
Mr. Purvis
Mr. Foley
Mrs Klotz

H.M.Jr: I hear you don't know why you were shanghaied here.

Purvis: I was just taken out of a taxicab as I got to the airport.

H.M.Jr: I came back last night and I was so anxious to hear a report of what these men had done and I thought - I did have this period here today and I wanted to hear directly from Mr. Fairey, because it is most encouraging and discouraging, but I always feel I would rather know.

Purvis: I agree.

Fairey: Right.

H.M.Jr:than to be in ignorance. How do you feel about the possibilities?

Fairey: Of standardization?

H.M.Jr: Well, the way I have divided them for ourselves, I have divided them into three phases. One, what we can do for the municipality of San Diego, which is purely a domestic matter which we will carry the ball on if they will let us. Two, the question on speed-up on orders on hand. Three, the new orders which will be placed for standardization. That is the way I have classified them. I don't know whether that falls in --

- 2 -

Fairey: Well, dealing with the second one, we can do very little on the present ones because the firm are so committed. There are two different types, two different types of both, two different types of bomber. They look alike outside but the insides are different. The firm are better off keeping along on these two lines than they are trying to change it. We have done a few things. We went through every item. We went through every detail. We did a few little things where we were able to standardize a bit.

The main standardization is hanging on practical considerations, whether you are going to use the machines for long range or heavy bombers or the short range. The question is to get together on that. And it is tied up with the Norden sight. The Norden sight is built right into those machines.

Purvis: Must we take that advantage, Mr. Secretary?

Fairey: It isn't quite so bad as it looks. The Norden sight is divided into three parts. First there is the optical part, which is the secret sight. Then there is the stabilizer and the automatic pilot. Now, the pilot is built into the machine, you know, like the lungs into a man, and to tear that out would be rebuilding the machine. Our machines are built for the Sperry, our PBX's --

H.M.Jr: Are they built for the Sperry?

Fairey: For the Sperry stabilizer, yes.

H.M.Jr: But none has been put in yet.

Fairey: Not the sight, the stabilizer.

H.M.Jr: What you call the stabilizer, is that the same as an automatic pilot?

- 3 -

Fairey: Automatic pilot, yes. And the U. S. machines, Army and Navy, are built for the Norden. That affects the internal arrangement of the machine, where you put your bomber, where you move your other apparatus about, you see. You can't standardize between those two separate systems. You have got to have one system.

Now, we can help a lot if you could release to us the automatic pilot half of the Norden, because then the machines would be ready. We could fly them with the Norden stabilizer, but we could put in the Sperry sight and work it by hand. It wouldn't be so good.

H.M.Jr: That is what the boys told me.

Fairey: Now, that is your biggest feature on the present machines, and the future from the point of view of interchangeability, from the point of view of standardization. All the other things are different, but we can get over it. The bomber is different, armor is different, self-sealing tanks are lacking in the early machines.

H.M.Jr: You mean the ones that are still on the line?

Fairey: The provision is made for them in the first few, but they are not there yet.

H.M.Jr: Heavens.

Furvis: How many will come out before the self-sealing is added?

Fairey: I gather, ten or twelve. The provision is made for them and there is a lot of trifling differences, cameras and that, which we can adjust. We did adjust, when we got down to the smaller things, a good many things.

- 4 -

Now, if it comes to planning for the future, I think if we could get the service heads together, you know, doing it on a practical plane to start with, I think we could do it. Particularly with the PBV-5 boat, which is nearer than the bombers are.

H.M.Jr: Nearer together?

Fairey: Nearer together.

H.M.Jr: Well now --

Fairey: Now, I beg your pardon.

H.M.Jr: Go ahead.

Fairey: There is another big difference that is going to affect this future standardization. All the 24-A's, which are the first batch of the bombers, are built for non-superchargers. The 24-C's which come out for the Army are built for superchargers. That again alters the machines, makes a radical difference in them. The supercharger is a tremendous improvement.

H.M.Jr: Isn't that just part of the engine?

Fairey: Unfortunately, no. It goes back into the structure. It goes back into the spars of the center section and it affects the control, run of the engine controls.

H.M.Jr: But it is that part of a machine which enables it to go at a high altitude, isn't it?

Fairey: That is right.

H.M.Jr: Is that also the part that creates this pressure in the cabin or not?

Fairey: No.

- 5 -

H.M.Jr: That is something else again?

Fairey: That is a different matter. So you see, to start with in the first batch, we have got to face the fact we have got two different types and this fact sticks out, that as regards the bombers, it would take at least two months to convert those - you know, if we didn't have the Norden sight - this other thing is two something --

Purvis: If you didn't have the Norden sight or Norden stabilizer --

Fairey: Norden stabilizer. It is like trying to tear the liver out of a man to try to tear the sight out of that machine. If you leave the optical part out, we can still use the machines.

Buckley: Isn't there a difficulty there, if I may raise the point, that in those Army bombers there isn't sufficient room to use the Sperry sight, even manually, with the Norden automatic pilot? Wasn't that the final decision they came to?

Fairey: The Sperry sight would go into those we are building for ourselves, the LB-30's. It wouldn't go into the early Army ones. A manual sight would go in.

Buckley: Your other manual sight will go in?

Fairey: Yes.

H.M.Jr: Philip, for this meeting at 3:00 o'clock tomorrow, I think the things that we need should be listed. I mean, like just the things we are talking about. Do you follow me?

Young: Yes, sir.

- 6 -

- H.M.Jr: That if you want to give the English the one for one within the period, we will have to release the stabilizing part of the Norden sight. I think that should be put on the agenda. I have got Stimson and Knox to be here at 3:00 tomorrow and I thought if you could be in Philip Young's room at 3:15 with Fairey, if something comes up, if you don't mind, I could simply say, "Well now, Mr. Purvis and Mr. Fairey are down the hall on call."
- Purvis: With a chance of something coming up of that kind, we shall be there.
- H.M.Jr: Yes. That is the kind of agenda I want, Phil, so they can say yes or no.
- Fairey: That is the heart of the whole scheme. It is built right into those machines, and the one for one business, the success of it largely hangs on getting that stabilizer.
- The rest of the things we can adjust, although the early bombers - I am not talking of the PBY boats - it will take, as I say, at least two months to alter them, perhaps less than that with that sight, and they won't take a turret. They are a different type from the later ones. They won't take a table turret, a gun turret, and they are not armor plated and there is quite a lot to do to them.
- Purvis: Those are the first ten to twelve?
- Fairey: No, the first six we want for transportation, so we don't care about armor or guns or anything, as long as we can have this stabilizer. That gives the firm a good start off. We will give six and that will be a great help in time, because the firm has this attitude.

- 7 -

They say, "We won't change a thing." You see, they have got to build an Army machine as an Army machine and a British machine as a British.

H.M.Jr: And the first six will be used for transportation?

Fairey: Yes. You know, those are the six we have been bothering you about.

Purvis: To keep the North American route open.

H.M.Jr: I keep forgetting about it. I forget that these are the six.

Fairey: These are the six.

Purvis: B-24's, so that in a way that may be just as well.

Fairey: It is a godsend.

H.M.Jr: And these have no self-sealing tanks?

Fairey: It doesn't matter for transport.

H.M.Jr: They can only take one turret?

Fairey: They can only take one turret.

H.M.Jr: Again for the agenda, it is a point of argument that they should give them up because they are not, you might say - they are semi-obsolete, Phil.

Young: Yes.

Buckley: That is a source of nine more planes, because the Army is only going to get nine of these after the British get six plus twenty, and

- 8 -

the Army Air Corps men indicated in San Diego that as far as they were concerned, they would just as soon the British had all 29 so they wouldn't be left with 9 B-24-A's, which would be different from anything they would get in the future.

H.M.Jr: Well, put that down. That is the purpose of this meeting. I am getting my agenda ready for tomorrow.

Purvis: Yes.

H.M.Jr: How many of these?

Buckley: There are seven B-24's yet to come, of which six will go to the British. That is the first six. Then one to the Army for experimental purposes. After that, there are 29 B-24-A's to come, of which 20 were assigned to the British, and then that left 9 orphans going to the Army.

H.M.Jr: Yes.

Buckley: And the Army is probably perfectly willing to give those up. After that, you could come into the B-24-C's and the LB-30's, which are the corresponding ships.

Purvis: They begin to come out at about what date?

Buckley: It is April of next year.

H.M.Jr: Well, the Army doesn't show - they have 30 B-24's.

Buckley: Of those, only 29 are B-24-A's and the rest are B-24-C's.

H.M.Jr: Well, get it down on a piece of paper for tomorrow, will you? And then they have got

- 9 -

this big order for B-24-D's.

Buckley: That is right.

H.M.Jr: That is the B --

Buckley: That is the one that should be standardized alongside of the LB-30, because that is the ultimate ship for both services.

H.M.Jr: Well, that is the one that should be standardized.

Buckley: That is right.

H.M.Jr: And there is still time, isn't there?

Buckley: Yes, if we go right to work on it.

Purvis: Deliveries start on the 24-B when?

Fairey: That is the supercharged one. That assumes they are going to release to us the super-charger.

H.M.Jr: Haven't they, yet?

Buckley: Oh, they will release the supercharger. It is just a question of adjusting production.

Fairey: Oh, they will?

Buckley: Yes.

Purvis: Actually, the disposition with the exception of the Norden bomb sight has been really to release to us these various things as orders necessitate. I think it is only the Norden bomb sight that has been kept back from us. In fact, the bomb sight until recently and now the Norden bomb sight.

- 10 -

H.M.Jr: Well now, leading up - your English four-engine Sterling bomber, will that be a better - what has that got? Can we learn anything from that that we might put into this?

Fairey: Oh yes, it is a lot better than the 24-A, but the - from the armament point of view.

H.M.Jr: How about the B-24-D?

Fairey: The 24-D doesn't come out yet with superchargers.

H.M.Jr: Does yours have a supercharger?

Fairey: No, but by virtue of the supercharger, the 24-D will be better than the Sterling in performance and height, but the Sterling is a wonderfully armed machine, turrets and armor plate.

H.M.Jr: Can't that be adapted to our bomber?

Fairey: Yes.

H.M.Jr: To a four-engine Consolidated.

Fairey: The system, yes.

Purvis: If I understand you correctly, you are taking the situation that if we are now going to come together on the type, we take the very best out of everything we know on both sides?

H.M.Jr: Yes, and concentrate - let's - looking forward from six months ahead or nine months ahead, the next four-engine bomber that we have, we learn everything you people have got and put it in and decide this is one that both the English and ourselves will use from now on.

- 11 -

Purvis: I see.

H.M.Jr: The thing will be coming along.

Fairey: Yes, we will be able and pleased to give all the information. In fact, we have done it.

H.M.Jr: And the same on the flying boat.

Purvis: And you are assuming that we will get information on the American side?

Fairey: Yes. It is not so easy, Mr. Morgenthau, always to agree. We can give you information and the U. S. Army may say, "Well, we don't agree with you. We think our system is still better."

H.M.Jr: Well, I think you will find more and more that they will listen.

Fairey: You see, I will give you an example of the arguments we run into. Our bombs have two different fuses. On one, they can be set in the air. You can go off "contact" or you can go off deep. Now, when you are attacking a submarine, the submarine might be on the top and you want it contact or it might be deep, but the pilot can set it as it starts and perhaps just before he drops the bomb, he can change it into a depth bomb. The American bomb has only one type of fuse and you have got to commit yourself before you go out on a flight which sort of fuse you have. Those are the points the two services have got to get together on.

H.M.Jr: I think you should, as far as you can, and tell them you will have to come up to the top side where the civilians are who have an imagination.

- 12 -

Fairey: All right.

Purvis: That applies to us.

Fairey: Quite right.

H.M.Jr: Well, I want all the help on this agenda for tomorrow, and then going on the assumption that we are going to whip this Consolidated company into a real company - I just wrote a letter to the President telling him - warning him that we wanted \$23,000,000 for the City of San Diego on housing alone. It has gone over. \$23,000,000. That will give you some idea of the size.

Now, continuing this line of thought, in one of these memoranda I read, you people will want a long-distance two-engine bomber, and looking - I had Phil do a little inquiring - it seems the North American has one and I think you ought to leave them alone and let them concentrate on the trainer, so it comes to the Glenn Martin. What I don't know - after you take a look at it - is what you want, but I am thinking in terms of Glenn Martin as the next company to try to do a job on. I did see them turn out 2½ and 3 bombers a day for the French. He can do it, you know.

Have you (Young) found out the difference between the English and the U. S.?

Young: Not specifically; I know some differences. It is evidently still up in the air, as a matter of fact, as to just what the differences are going to be.

H.M.Jr: Well --

Young: It hasn't been built.

- 13 -

H.M.Jr: Phil says it is still in the air, which --

Young: Mr. Perry may know offhand.

H.M.Jr: The Army has an order on the B-26 bombers and you have an order. You have two different orders. You have one 67-F-4, which you have 168 on order, and the 187, of which you have got 600 on order.

Fairey: 187, yes.

H.M.Jr: Are they the same?

Fairey: No. The 167 is the French converted. The 187 is our own type.

H.M.Jr: Let's talk about that. Is that at all the same as the B-26?

Fairey: No, it is medium. It is not so heavy.

H.M.Jr: In view of the most recent advices from England, is that what they want?

Fairey: For its class, yes. It is a medium bomber, not a heavy. We want the 187, but it is the same sort of style that we are using now, the medium bomber.

H.M.Jr: Well, what I was trying to get over is this: this B-26 takes roughly a 2,000 horse engine and I guess it is heavy.

Fairey: In between. It doesn't range quite up with the heavy. It doesn't carry quite as much weight.

H.M.Jr: You know, this is only two-engine. But would you want to concentrate with Glenn Martin on the long-distance two-engine bomber and

- 14 -

try to get together with the Army and say that, "Here is Martin, and we have a two-engine bomber coming off," which would be again as near as possible the same for the English and ourselves?

Purvis: Fairey, does the new English program that we have been talking about embody such a bomber of such proportions?

Fairey: I am not very familiar with the B-22 and the B-26 because it is a secret type. They have got them shrouded with secrecy. But from what I understand, it is not so big.

H.M.Jr: It takes the 2,000 engine.

Fairey: It is an American machine that I am not familiar with.

H.M.Jr: It takes the biggest engine we have.

Young: It takes two Pratt & Whitney 2800's.

Fairey: It sounds good enough.

H.M.Jr: And this is the one the Canadians have been asking for recently, the B-26.

Purvis: This discussion - it would seem to me that in a way, if there were no objection, it would be well if our people could see some of the American types.

Fairey: Mansell just has seen this particular one, but he hasn't reported to me yet.

Purvis: But he is able to see them?

Fairey: Yes.

H.M.Jr: The Martin B-26?

- 15 -

Fairey: Yes.

H.M.Jr: He has seen it?

Fairey: Yes.

Purvis: Then we ought to be able very quickly to get --

H.M.Jr: From what I hear of it, it looks to me as though it was one step ahead and I am just - you see, not just saying, "What company do you want to take next?" And I was going to suggest Martin, if it was agreeable to you.

Fairey: I quite agree.

H.M.Jr: And try to concentrate on this B-26 with whatever modifications you fellows could bring in, bringing it up to date.

Fairey: Yes.

H.M.Jr: I know that from what I have actually seen with my own eyes that Martin can turn out planes and he can turn out a number of them a day. He has done it. I saw him do it. He said he could do much more.

Purvis: He ought to be organized in such a way --

Fairey: He has a very good organization.

H.M.Jr: He could. He could turn out from three to five of these a day, if he had the orders.

Purvis: We want to enable them to plan ahead.

H.M.Jr: Would you like to do Martin next, if that was agreeable?

- 16 -

Fairey: Yes, certainly. It is a very good organization.

H.M.Jr: This is the way I am looking, just so you get this idea. If you agreed on a four-engine bomber and you agreed on the flying boat, then you agreed on a - you call this B-26 a heavy bomber, don't you?

Fairey: Yes.

H.M.Jr: If you agree on that, and then the next thing after that, whatever is going to be the most advanced type of pursuit ship when you get through with the P-40. That is the line I am thinking along. Then bring them together on those things, and that is pretty well - that pretty well covers the program for the fighting ships, doesn't it?

Fairey: Yes.

Purvis: If you could get the quantities you wanted.

H.M.Jr: What else would you need?

Fairey: Except for special types like dive bombers.

H.M.Jr: Well, will you agree on that?

Fairey: Yes.

H.M.Jr: That is a Navy thing, isn't it?

Fairey: Yes, or Army.

H.M.Jr: Better stick with the Navy because they are way ahead on it. But that would make five types, wouldn't it, four-engine bomber, flying boat, two-engine long-distance bomber, fighting ship, and a dive bomber?

- 17 -

Fairey: Yes.

Purvis: There is no real reason, is there - there is no real reason why we should have a number of pursuit ships, if you could get the quantity of the type that is best.

Fairey: No, not at all, as long as you have got two firms going so that one is coming up with a new type while the other is in production, you see, so you don't stop them both together.

Purvis: Yes, that is right.

Fairey: We always work at home with two firms like the Hurricane and the Spitfire, so that now you see the Spitfire is ahead. The Hurricane people have just brought out their new one, you see. The Spitfire can go on long enough and keep going to let them get their new one perfect, and then it will be Spitfire's turn to change.

H.M.Jr: That is all right.

Fairey: We always work with two firms and two types.

H.M.Jr: That is good, but if we just went through this and then as soon as you got these people set, you could say, "Who has got a better four-engine bomber, let's take a look at that one." Of course, we would have two firms going there. We would have Boeing on the four engine and the other, but if we could just go right through this in the next two or three weeks and get that thing set.

Purvis: It sounds wonderful.

- 18 -

Fairey: I quite agree.

H.M.Jr: I understand from Curtiss they have what they call their 400 mile an hour ship coming along, which they think will be one jump ahead of anything else.

Fairey: Their fighter, pursuit?

H.M.Jr: Yes.

Fairey: We want to bring forward our Tornado, which is over 400, with a 2,000 horse engine. It has twelve guns. That is flying now.

H.M.Jr: Is that the one I suggested bringing over here?

Purvis: Yes.

Fairey: I know we were trying to get it. We have taken steps to get it. We have got our new 2,000 horsepower liquid-cooled engine flying and through its tests and we have got the machine flying.

H.M.Jr: If we could do that, we would make several jumps ahead, wouldn't we?

Fairey: Yes. We are really pleased with the new Tornado. And of course we are very well impressed with the Sterling.

H.M.Jr: Well, I think for tomorrow, Phil, if Mr. Fairey could sit down with you and fix up this agenda and then Ed, you see, we would get it over to Forrestal still today.

Foley: He won't be back, I don't believe, until the first thing in the morning.

- 20 -

H.M.Jr: I agree with you.

Fairey: Because they have got an advanced amount of primary structure built, you know, all the hulls, shells, going on. They have laid out the shop on an enormous scale. They have expanded very fast, but the difficult part of building an airplane is putting the stuff inside it, organizing the assemblers and getting all the equipment in, and that they will find is going to take them longer than they plan on.

H.M.Jr: I think you are right, but that is why I started off the meeting by saying I would much rather know the worst.

Purvis: What can we do to overcome that?

Fairey: There is nothing we can do.

Purvis: Is there no stiffening - I am just using we --

H.M.Jr: Yes, the boys - I think we definitely have a program. There is some talk, I mean, if he can't do it, we will have to put in somebody who can.

Purvis: On those conditions, there is nearly always something.

Fairey: Mr. Buckley was merely inviting my opinion, as one who knows, and my opinion is that they will be behind hand on the organization and the works. It may be all right.

H.M.Jr: I think it is a shocking condition out there, but I hope when they go around that they won't find all as bad as that. I don't think they will. I think we have visited the worst, at least I hope so.

- 21 -

Fairey: Yes. Well, the officers felt the Curtiss-Wright was marvelous, and Glenn Martin is very well.

H.M.Jr: I think he is all right. That is why I would like to see him --

Fairey: I think he could cope with expansion.

H.M.Jr: You see, the beauty of the thing now, we are at this phase where the Army have let all their contracts and they are through. Now, we come along and really talk business to them.

Purvis: Yes. It is a better tactical position.

H.M.Jr: Much better. I think Martin will do a good job.

Fairey: Oh, yes. I have known them for a long time and they have a very good firm.

H.M.Jr: Did the men tell you of this proposal that they are going to make tomorrow of this board that you were going to sit on, on the Republic?

Fairey: No.

H.M.Jr: I have spoken twice today to Patterson, and the last comeback is that as a compensation, as Patterson put it, for the mental earmarking on these planes for you, they are talking of giving you every seventh Harvard trainer, a total of seventy.

Fairey: That is very nice.

Purvis: That might enable us to get some more pilots in the air.

- 22 -

H.M.Jr: And I took the liberty - I made that suggestion over here. I said, "Why not Harvard trainers?" I took the liberty of saying that I was quite sure they were going to Canada.

Purvis: That is right.

H.M.Jr: They would, wouldn't they?

Purvis: Oh, yes.

H.M.Jr: Which seemed to please Patterson a lot. Wouldn't that be about as useful as anything?

Fairey: Certainly.

Purvis: That is about as good a deal as we could expect.

H.M.Jr: Did you notice I said "mental earmarking"? He looked through the whole thing and couldn't find out how you people got in on this.

Purvis: That was the day Patterson was here.

H.M.Jr: Yes. I didn't enlighten him any. It is the big order that they have. I think it is called the AP-6 trainer, I think that is what it is.

Young: That is right.

H.M.Jr: That is a big order and you are to get every seventh out of that up to 70. That is his first order. That is going to come up at this committee which you sit in on tomorrow.

Fairey: Thank you very much.

H.M.Jr: That would seem fairly good, wouldn't it?

Fairey: Yes, very good.

Purvis: After all, it is better - this is in exchange for the Republic machines we can't get, isn't it?

H.M.Jr: You have got it. I think it would be very nice. So far, they haven't asked for anything back. It is in exchange for a machine that nobody wants.

Fairey: Yes.

Purvis: You were going to give up the Republics gracefully tomorrow.

H.M.Jr: Philip, is that everything, if these gentlemen will help you with the agenda for tomorrow?

Young: Yes, I think that covers it.

H.M.Jr: Ed?

Foley: I have nothing else.

H.M.Jr: Does that cover it?

Foley: Yes.

H.M.Jr: I was thinking of the experience that you (Buckley) had on the boat. Did Mr. Fairey go out on the boat, too?

Buckley: Yes, he was on the boat.

H.M.Jr: Was he asked to --

Foley: It wasn't a yacht club.

- 24 -

Buckley: They let him run the boat. I was the one who had to go over and make the survey.

H.M.Jr: I gathered you all had a good time.

Fairey: Well, we got there around about 10:30 in the morning and we had a bath and then we worked that night until we slept. We started a conference at 8:30 on Saturday morning and we just thought we had finished when they took us out and we had the boat ride. Sunday we got up - we had two hours rest on Sunday. I had some conferences with my people on the West Coast side and then we came back again.

Purvis: A boat ride, but no buggy ride.

H.M.Jr: Our people think it is distinctly worth while, and Forrestal is very enthusiastic.

Purvis: Well, it is bound to develop the problems - I mean, a joint attack of that kind seems to me just excellent.

Fairey: It gives you such an insight into the whole situation. You can swap ideas about it. You get a much better idea instead of just wondering what it is like.

H.M.Jr: Foley wants a flag designed for the General Counsel of the Treasury. He says not having his own flag is a great disadvantage.

Fairey: You were addressed as General?

Foley: I told the Secretary about my new title out there.

Purvis: What is this?

- 25 -

Foley: Admiral Cook and General Foley and Commander this and Major that.

H.M.Jr: But he had no flag.

Foley: No flag.

Purvis: You get titles instead of airplanes, is that the situation?

Foley: That is right, lots of conversation.

H.M.Jr: Buckley insisted they got Hollywood and this plant mixed up. He thought he was going through a Hollywood plant the whole time.

Buckley: Scooters going back and forth and buttons, telephones, titles on all the doors --

Fairey: But no deficiency list.

Buckley: Yes. The production man knew he was deficient, there were lots of parts he ought to have, but when we asked him for a list, he didn't have it. He had to make a list and mail it to us.

H.M.Jr: Put the aluminum on that thing tomorrow.

Buckley: Right.

H.M.Jr: Well, I am awfully glad you went out. My people are very enthusiastic about it.

Fairey: I think it would be a good thing to do some of the other towns, too.

H.M.Jr: They were very enthusiastic about having you out there. Thank you all for coming.

CK

GRAY

Montevideo

Dated October 8, 1940

Rec'd 4:23 p.m.

Secretary of State

Washington

224, October 8, 5 p.m.

The Bank of the Republic announced today quotas for the last quarter of 1940 for imports from the United States at the free rate of \$60,000 for automobiles and \$60,000 for bus and truck chassis.

WILSON

NPL

DEPARTMENT OF STATE

ASSISTANT SECRETARY

October 8, 1940

Memorandum to Secretary MorgenthauDepartment of the Treasury

You possibly have the following from the FBI:

"As of possible interest to you, please be advised information has been received from a confidential source that on October 3, 1940, the Marine Midland Trust Company, Whitehall Branch, 17 Battery Place, New York, New York, received \$1,233,600 from Deutsche Golddiskontbank, Berlin, Germany, to be credited to the account of the law firm of Topken and Farley, New York, New York, attorneys for the German Consulate General.

"Arrangements have been made whereby the Federal Bureau of Investigation will be notified concerning any transfer of these funds."

There has likewise been received the following from the FBI, under date of October 1:

"As of possible interest it is to be noted that the German Consulate in New York City has withdrawn the following funds: 7/10/40, \$13,000 (\$2,000 in \$500 bills, \$5,000 in \$100 bills, \$5,000 in \$50 bills, and \$1,000 in \$10 bills); 7/17/40, \$35,000 in \$1,000 bills; 7/24/40, \$18,609 (\$17,000 in \$100 bills, ten \$100 bills, and the remainder in small denominations); 8/16/40, \$20,000 (\$15,000 in \$100 bills, \$2,500 in \$50 bills, and the remainder in smaller denominations); 8/24/40, \$5,000 in \$100 bills; 8/27/40, \$10,000, half in \$50 bills and half in \$100 bills; 8/29/40,

\$10,000.

-2-

\$10,000, half in \$10 bills and half in \$50 bills; 8/31/40, \$10,000, half in \$50 bills and half in \$100 bills.⁴

This last strikes me as pretty serious business. According to this, inside of six weeks \$121,000 has been withdrawn by the German Consulate in New York City in bills -- chiefly of the denominations of \$50 and \$100. This can only reflect a desire to carry on some kind of activity in the United States without leaving any trace.

Adolf A. Berle, Jr.
Assistant Secretary

PARAPHRASE

No. 474, October 3, 8 p.m., from Embassy,
Buenos Aires

Dr. Pinedo, during the course of a general conversation today with regard to plans for the further development of Argentina's industries, said that he was very desirous of co-operation by the United States in having conducted an industrial survey by a combination of private interests and Government experts. The Minister of Finance said that he would like that such a survey should be of a comprehensive character but with emphasis laid on certain industries. He said, by way of illustration, that he would like to explore the possibility of the manufacture of newsprint and other paper products. Dr. Pinedo expressed the view that any survey to be made should be made keeping in mind conditions in the United States and other Latin American countries so that the industries established or expanded should be well suited to Argentina and should complement the industrial development of other countries in this region. I informed the Minister that his interest in an industrial survey would be communicated to the Department by cable.

TUCK

RA:AED

copy

TREASURY DEPARTMENT

74

INTER OFFICE COMMUNICATION

DATE October 8, 1940

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of September 1940.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under
Way, and the Names of Persons Working on Each,
for the month of September 1940

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. A review of current developments in the high-grade securities markets was prepared, and a memorandum was transmitted to the Secretary on September 6. - Mr. Haas, Mr. Murphy, Mr. Turner, Mr. Purvis.
2. A memorandum was prepared on the pricing of the Treasury securities to be offered in the September financing, and was transmitted to the Secretary on September 10. - Mr. Murphy, Mr. Tickton, Mr. Conrad.
3. Five tables were prepared of probable yield bases and premiums of the Treasury bonds to be offered in the September financing, assuming two-year and three-year call periods, and were completed on September 14, 23, and 24. - Mr. Murphy, Mr. Tickton, Mr. Conrad.
4. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll.

5. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. March
- (1) Weekly statements are received covering in dollar volume itemized purchases through the Commission by British Empire countries, itemized purchases made by these governments with the knowledge of the Commission but not through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. In these reports all orders and deliveries are being classified in some twenty-five commodity groups designed especially for the purpose of this project. Tables showing weekly orders placed by the British Empire, classified by commodity groups, were prepared for the weeks ended August 24, 31, September 7, and 14; and tables showing the delivery status of orders placed by Great Britain through the British Purchasing Commission, classified by commodity groups, were prepared for the weeks ended August 10, 17, 24, and 31. These tables were transmitted according to instruction by the Secretary.
 - (2) Arrangements have been made also to secure from the same source periodic statements showing commitments and actual payments by British Empire countries for the purpose of providing capital assistance to United States companies in order to expedite deliveries. These commitments are classified by four industry groups: (a) airplanes, (b) airplane engines, (c) airplane accessories, and (d) other than aircraft. Tables showing capital commitments as of August 24, 31, and September 14 were prepared and were transmitted according to instruction by the Secretary.
 - (3) Special attention is being directed toward the aircraft industry, both as to the effect of capital assistance and as to output. Weekly statements are prepared showing by airplane and airplane engine companies the physical volume of orders placed, deliveries made, and scheduled deliveries on unfilled orders and on options. These statements give detail by type of airplane or type of engine. Summary tables give similar information with regard to purchases of

secondhand planes and engines. Tables giving details and summaries regarding purchases of airplanes and airplane engines, as of August 31, September 7, 14, and 21, were prepared, and were transmitted according to instruction by the Secretary.

- (4) A table showing the status of iron and steel purchases by the British Government was prepared as of August 31, 1940, and was transmitted on September 19, according to instruction by the Secretary.
 - (5) A table showing a forecast of future deliveries of orders by Great Britain placed through the British Purchasing Commission, unfilled as of August 31, 1940, classified by commodity groups, was prepared on September 19, and was transmitted according to instruction by the Secretary.
 - (6) A statement showing estimated future payments in the United States by the British Government on balances due as of August 31, 1940, was prepared on September 25, and was transmitted to the Secretary.
6. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared fortnightly showing this information by type of plane or engine and by class of purchaser. Reports for the weeks ended August 31, and September 7, and for the two weeks ended September 14, were transmitted according to instruction by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
 7. A memorandum was prepared at the request of Under Secretary Bell on September 24, on the provisions of the proposed excess profits tax bill which would affect United States Government securities, and was transmitted to him on the same date. - Mr. Murphy
 8. A memorandum was prepared at the request of Under Secretary Bell on September 19, on the earnings on invested capital by banks during the calendar year 1939, and was transmitted to him on the same date. - Mr. Murphy, Mr. Conrad, Mr. Purvis

9. Chart and annotations with respect to the factors influencing the movement of interest rates during the last World War have been completed, and were transmitted with a memorandum to Under Secretary Bell on September 27. - Mr. Turner.
10. At the request of Assistant Secretary Gaston on September 17, the figures in an article by the Assistant Secretary, entitled "The Government as a Business", were brought up to date, and were transmitted to him in a memorandum on September 21. - Mr. Turner
11. At the request of Under Secretary Bell on September 5, in connection with an article for publication by Fortune Magazine, a memorandum entitled "A Prologue to War Finance" was prepared, and was transmitted to the Under Secretary on that date.

In response to a request by Mr. John Davenport of Fortune Magazine on September 7, three tables and charts were prepared showing the public debt of the United States and the United Kingdom, classified by the number of years to maturity; the amount of guaranteed obligations by agency; the interest-bearing public debt and guaranteed obligations, by type; and the interest-bearing public debt and guaranteed obligations by the number of years to maturity. A letter to Mr. Davenport transmitting the data was prepared for signature of the Under Secretary, and was mailed on September 12.

At the request of the Under Secretary on September 28, a draft of the article submitted by Fortune Magazine was revised and checked, and was transmitted to the Under Secretary on September 30. - Mr. Haas, Mr. Murphy, Mr. O'Donnell

12. A review was made of a report by the Legal Division on S.4213 (to prevent profiteering and to make the financial resources of the nation available to the Government for National Defense), in response to a request by Senator Sheppard, Chairman of the Committee on Military Affairs, as requested by the Legal Division on September 26. The report was approved, and was forwarded to Mr. Sherbondy on September 27. - Mr. Murphy
13. A review was made of a report by the Legal Division on S.4214 (to mobilize financial resources by drafting money), in response to a request by Senator Sheppard, Chairman of the Committee on Military Affairs, as requested by the Legal Division on September 26. The report was approved, and was forwarded to Mr. Sherbondy on September 27. - Mr. Murphy

II. Projects or studies under way

1. Chart comparing yields on long-term Treasury bonds and over-the-counter volume depends for completion upon arrangements to secure the necessary data. - Miss Eyre
2. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner, Mr. Conrad
3. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
4. Study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
5. Discussion of various problems encountered and solutions devised in connection with war borrowing. - Mr. Murphy
6. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
7. Review of war-financing measures in the British Dominions and Germany in the present war. - Mr. Murphy
8. United States Savings Bonds - An analysis of factors affecting redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad
9. A memorandum is being prepared in connection with a request of Under Secretary Bell of June 24, on the distribution among the various classes of investors of increases in the direct and guaranteed public debt since June 30, 1933. - Mr. Murphy, Mr. Turner, Mr. Purvis
10. At the request of Mr. Broughton on September 14, a memorandum is being prepared for Under Secretary Bell on interest rates of United States savings bonds. - Mr. Murphy, Mr. Brown
11. At the request of the Division of Statistical Standards, Bureau of the Budget, on September 20, a review is being made of the "Base Book of Financial Statistics", to be issued by the Federal banking authorities. - Mr. Murphy

12. In response to a request by Mr. Foley dated September 25, cooperation is being given the Legal Division in preparing a review of the tax compromise case of the Erie Forge and Steel Company. - Mr. Conrad
13. A review of a report by the Bureau of Accounts on S. 4269 (to extend the Social Security Act), at the request of Senator Harrison, Chairman of the Finance Committee, is being made in response to a request by the Bureau of Accounts on September 10. - Mr. Murphy, Mr. Brown

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period September-June 1941, and was transmitted on September 5. - Mr. Wilson
2. The regular monthly summary comparison of estimated receipts and actual receipts in August 1940 on the daily Treasury statement basis, was prepared, September 7. - Mr. Wilson
3. The regular monthly detailed comparison of estimated and actual receipts in August 1940, and for the period July-August 1940, based on the collections classification, was prepared, September 30. - Mr. Wilson
4. Population estimates of the Continental United States, based on the 1940 census data, were prepared for the months from March 1940 through November 1941, and were forwarded on September 27 to Deputy Comptroller of the Currency Mulroney, and to Mr. Weber, Office of the Treasurer of the United States, in response to requests from their offices on September 20 and 25, respectively. - Mr. Wilson
5. A detailed estimate of additional yield from the proposed excess-profits tax on the basis of the calendar year 1940 liabilities as requested by the Division of Tax Research on July 20, was prepared, and was transmitted to Assistant Secretary Sullivan. - Mr. T. F. Leashey

6. An estimate of the revenue effects of the bill H. R. 1, 76th Congress, First Session (a bill providing for an excise tax on retail stores) which was being prepared for the Division of Tax Research, has been abandoned because the bill is no longer current. - Mr. T.F. Leahey
7. Preliminary estimates were made of miscellaneous internal revenue, except from the capital stock, estate, and gift taxes, for the fiscal years 1941 and 1942. - Mr. Daggit, Mrs. May, Mr. Chevraux, Miss Rastall, Mr. Smith, Miss Hagedorn
8. In connection with consideration of the proposed "Second Revenue Act of 1940", Title I, Excess Profits Tax, a number of revenue estimates listed below, were prepared for use of Assistant Secretary Sullivan. - Mr. O'Donnell, Mr. T. F. Leahey, Mr. Wilson
 - (1) Estimates were prepared of gross and net yields, at estimated income levels for the calendar year 1940, from a proposed provision allowing corporations to select their earnings in three out of four income years in determining the normal earnings during the base period, with loss years during the base period to be eliminated, and the average earnings to be computed by dividing only by the number of earnings years, and were transmitted orally to Assistant Secretary Sullivan on September 6.
 - (2) Estimates were prepared of gross and net yields, at estimated income levels for the calendar year 1940, which would be derived from an excess profits tax on all profits above 8 percent of invested capital, with a specific exemption of \$5,000, the rates and other provisions except for the base period to be the same as those in the original Treasury proposal, and were transmitted orally to Assistant Secretary Sullivan on September 6.
 - (3) Preliminary estimates were prepared and were transmitted to Assistant Secretary Sullivan in a memorandum on September 10, showing the revenues to be derived from the bill as tentatively approved by the Senate Finance Committee on September 9, at estimated income levels for the calendar year 1940, based upon elimination of

- 4 -

the privilege tax of 4.1 percent on the normal tax net income of corporations electing to compute excess profits under the average earnings method; making the bracket rates of corporations under the invested capital method coincident with the bracket rates of the average earnings method in the House bill; raising the specific credit to \$10,000; permitting corporations electing to use the invested capital method an 8 percent return on the invested capital in the taxable year, and increasing the normal tax rate of all corporations by 3.1 percent. Separate estimates were given of gross yield, yield from the excess profits tax, yield from the 3.1 percent increase in the normal tax rate, and net yield.

- (4) Estimates of gross and net yields, at estimated calendar year 1940 income levels, were prepared and were transmitted orally to Assistant Secretary Sullivan on September 10, on the basis of an amendment proposed by Senator La Follette, providing for excess profits to be determined by the relation of net income to invested capital, with the earnings of previous years not to be taken into consideration.
- (5) The following estimates were requested during the testimony of Assistant Secretary Sullivan on September 3, 4, and 5, in the public hearings before the Senate Finance Committee, and were presented by the Assistant Secretary in the period of September 6 through 12, in Executive sessions of the Committee.
 - (a) Estimates of gross and net yields, at estimated income levels for the calendar year 1940, were prepared on the basis of a proposed provision to allow corporations to select their earnings in any three out of four years from 1936 through 1939, rather than their earnings of the entire four years in computing the excess profits tax credit in the base period.

- (b) Estimates of gross and net yields, at estimated income levels for the calendar year 1940, were prepared on the basis of a proposed provision to increase the specific credits to \$10,000, \$15,000, \$20,000, and \$25,000.
 - (c) Estimates of gross and net yields, at estimated income levels for the calendar year 1940, were prepared on the basis of a proposal to eliminate the privilege tax of 4.1 percent of normal tax net income from the tax on corporations choosing the average earnings method of computing the tax.
 - (d) In connection with the provisions of the bill as of that date, at estimated income levels for the calendar year 1940, estimates were made of the percentage of income which would be represented by the total normal and excess profits tax liability, and of the percentage of the normal tax net income which would be represented by the total tax.
- (6) A tentative estimate was prepared of the revenue which would be derived from a proposal to increase the specific credit for excess profits tax computation from \$10,000 to \$25,000, and an estimate was made also of the number of corporations which might be affected by such a proposal, and were transmitted orally to Assistant Secretary Sullivan on September 13.
- (7) The following estimates were prepared and were transmitted in a memorandum to Assistant Secretary Sullivan on September 28.
- (a) Tentative estimates were prepared of gross and net yields, at estimated income levels for the calendar year 1940, showing amounts to be derived from the increased normal tax and from the excess profits tax, from the following proposed changes: (1) to reduce the excess profits tax credit of the average earnings method of the Senate Finance Committee bill to replace the estimated yield of the 4.1 percent privilege tax under the House bill; (2) to reduce the specific exemption from \$10,000 to \$5,000; (3) to permit

- 10 -

corporations to select any three out of four years in the base period to determine the excess profits credit; and (4) to increase the normal tax rate of 3.1 percent on corporations with incomes slightly in excess of \$25,000.

- (b) Estimates were prepared, in connection with the proposed compromise plan by Senator George, in a table showing the percentage of the excess profits credit of the average earnings method under the Senate Finance Committee bill, which would increase the yield of that bill by amounts equivalent to those which would have been yielded at estimated calendar year 1940 income levels under the Senate Finance Committee bill at specified rates by the type of privilege tax contained at 4.1 percent in the House bill.
- (c) Estimates were prepared, in connection with the proposed compromise plan by Senator George, in a table showing the percentage of the excess profits credit of the average earnings method under the Senate Finance Committee bill, which would increase the yield of that bill by amounts equivalent to those which would have been yielded at estimated calendar year 1940 income levels under the House bill at specified rates by the type of privilege tax contained at 4.1 percent in the House bill.
- (8) Tentative estimates were prepared of gross and net yields, at estimated income levels for the calendar year 1940, showing amounts to be derived from the increased normal tax and from the excess profits tax, from the following proposed changes: (1) to reduce the excess profits tax credit of the average earnings method of the Senate Finance Committee bill to replace the estimated yield of the 4.1 percent privilege tax under the House bill; (2) to reduce the

- 11 -

specific exemption from \$10,000 to \$5,000; and (3) to increase the normal tax rate of 3.1 percent on corporations with incomes slightly in excess of \$25,000. ~~The~~ estimates were transmitted in a memorandum to Assistant Secretary Sullivan on September 28.

9. A study was completed of the provisions of the Revenue Act of 1940, and their application in revising studies previously made for improving the methods of estimating revenues from specified taxes. - Mr. Daggit, Mrs. May, Miss Rastall
10. Projects for revising and improving methods of estimating revenues from the following taxes: - Mr. Daggit, Mrs. May, Miss Rastall
 - (1) Admissions to theaters, concerts, and cabarets, etc.
 - (2) Floor taxes.
 - (3) Processing tax on coconut and other vegetable oils.
 - (4) A new study relating to the tax on small cigarettes, taking into consideration possible changes in the general price level in 1941 and 1942.

II. Projects or studies under way

1. A preliminary revision of the Budget estimates of receipts for the fiscal years 1941 and 1942 is being made for the Director of the Budget in response to his request addressed to the Secretary on September 7. - Mr. O'Donnell, Mr. T. F. Leahey, Mr. Wilson, Mr. Bronfenbrenner
2. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. T. F. Leahey
3. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were

made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101 (11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahey

4. At the request of the Bureau of Accounts on August 29, in connection with the 1942 Budget, estimates are being made of (1) tax collections under the Federal Insurance Contributions Act (formerly Title VIII of the Social Security Act), for the fiscal years 1941 and 1942; (2) taxes to be collected from carriers and their employees, for the fiscal years 1941 and 1942; and (3) amounts to be deposited in the Unemployment Trust Fund under the Social Security and Railroad Unemployment Insurance Acts, for the fiscal years 1941 and 1942. - Mr. Wilson
5. At the request of the Division of Tax Research on September 20, a review is being made of a proposed revision of gift tax Table 2 for Statistics of Income pursuant to recommendations made to the General Committee on Statistics of Income by its subcommittee on estate and gift tax tabulations. - Mr. Wilson

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and were transmitted to the Secretary on September 3, 9, 16, 23, and 30. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained in addition to analysis of the current situation the following special study:

The relationship of steel production to steel scrap consumption and to steel scrap prices (Chart in memorandum of September 30). - Mr. Daggit, Miss Rastall

2. Memoranda on employment under the Work Projects Administration were prepared and were transmitted to the Secretary on September 3, 9, 16, and 23. - Miss Rastall, Miss Hagedorn

- 13 -

3. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Movements. The tables were prepared for the weeks ending August 31, September 7, 14, 21, and 28. On September 3, 9, and 16, the original and 12 photostats, and on September 23 and 30, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Miss Kailey
4. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mrs. May, Mr. Chevreaux
5. A study was made of the relationship between the New York Times index and the new FRB index in an attempt to estimate the weekly level of the new FRB index from the New York Times index. This estimate supersedes the estimate in the study completed in May of the relationship between the New York Times index and the FRB index on the old basis. - Mr. Daggit, Mrs. May
6. A method was worked out of deriving the FRB index of industrial production, old basis, from the new, by means of a basic study for each month of the year. - Mr. Daggit, Mrs. May, Miss Hagedorn
7. In connection with the preliminary estimate of internal revenue for the fiscal years 1941 and 1942, requested by the Bureau of the Budget, forecasts were made through June 1942, of the following basic series: the FRB index of industrial production on the old and new bases, the BLS index of wholesale prices, the BLS index of factory payrolls, our index of the value of industrial production, United States Department of Commerce series of salaries and wages; Standard Statistics index of prices of 419 stocks, Federal reserve series of bank debits

- 14 -

outside of New York City, and New York Times series of volume of stock transfers. Mr. Haas requested and received from the Board of Governors of the Federal Reserve System, the Department of Agriculture, and the Department of Commerce, forecasts of the new FRB index of industrial production and the BLS all-commodity price index, which were utilized in making these forecasts. - Mr. Haas, Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith

8. As a basis for forecasting business series through June 1942, for use in making revenue estimates, a study was made of the components of the new FRB index of industrial production as affected directly and indirectly by the armament industry. - Mr. Daggit, Mrs. May
9. A revision of an earlier study for making quarterly forecasts of the BLS index of factory payrolls, for use in connection with estimates of internal revenue. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith
10. The quarterly forecast of factory payrolls through March 1942, for use in estimating revenues from Social Security taxes, was made for the Bureau of Accounts. - Mr. Daggit, Mrs. May, Mr. Smith
11. A study of buying in anticipation of increased taxes was made in connection with the estimate of miscellaneous internal revenue for 1941. - Mr. Daggit, Mrs. May
12. A study was made of the decline in consumption of taxable articles that may be expected in the fiscal years 1941 and 1942, because of increased taxes paid by consumers. - Mr. Daggit, Mrs. May

II. Projects or studies under way

1. Index of unfilled orders.

An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index based on data from individual industries. - Mr. Daggit, Miss Rastall

- 15 -

2. Forces determining trends of basic commodity prices.

This project involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed: An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Rastall, Miss Hagedorn

3. Measures of consumer buying.

A project is under way with the object of developing (1) an index to measure the buying power of consumers in terms of physical volume of purchases, after correcting for the effect of changes in price on the apparent demand; and (2) an index to measure changes in total consumer expenditures, in dollar volume. These two indices will supplement our present "index of sales", which is designed to measure the "offtake" of manufactured goods into various consumption channels.

Studies on a monthly basis have been nearly completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar

volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Miss Rastall, Mr. Smith

4. Trends of individual commodity prices and price factors during the World War period.

This project is patterned after the general study of prices and price factors, 1913 to 1922, made in October 1939, but deals with six individual basic commodities - wheat, cotton, hogs, steel, copper, and zinc. The project is designed to determine the principal price factors associated with the wartime rise and subsequent collapse of prices of these commodities. - Mr. Daggit, Mrs. May

5. Index of commodity stocks.

This project is designed to develop a composite index of basic commodity stocks as a measure of one important factor in the general price level. Stocks of sixteen important industrial materials, expressed in terms of their net effect on prices, are being compiled for this index. - Mrs. May

6. Index of goods inventories.

A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit, Miss Rastall

7. Index of buying on deferred payments.

A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May

8. Weekly approximations of the FRB index of industrial production.

Project was started during March and for completion awaited the new FRB monthly index which was recently released. This project is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Miss Rastall, Mr. Smith

9. Classifications of specified export data by Commerce and Treasury Departments.

A new study was made during the month to determine how to classify export data from the Department of Commerce to conform as closely as possible to the classification in the weekly reports summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as shown by departure permits granted. Monthly statistics were compiled, on the Commerce classification developed by this Division, from January 1937 to July 1940. A memorandum is in preparation showing the Commerce series chosen, with an explanation of divergences in the Commerce and Treasury series. - Mr. Daggit, Mrs. May

10. New orders in the lumber industry.

This project is designed to obtain current figures on a seasonally-adjusted basis for appraising the outlook for lumber production. Work has been done toward more accurate determination of seasonal trends, which has involved obtaining new data for earlier years. - Mr. Daggit, Mrs. May

Actuarial Problems

I. Projects or studies completed

1. Municipal Finance Officers Association

In response to a request received on September 4, from Mr. Carl H. Chatters, Executive Director of the Municipal Finance Officers Association, a manuscript entitled, "Retirement Systems for Public Employees" was reviewed, and the review was transmitted in a letter addressed to Mr. Chatters on September 14. - Mr. Reagh

II. Projects or studies under way

1. Board of Actuaries of the Civil Service Retirement and Disability Fund.

There is pending before the Board of Actuaries the matter of approving regulations with respect to the optional benefits payable under the Civil Service Retirement Act. The Comptroller General has decided that a cash refund of voluntary contributions would not be permissible under the Act. On the basis of this decision and other information the Board of Actuaries is now deciding whether to approve the regulations. - Mr. Reagh

2. Report of the Civil Service Assembly of the United States and Canada on "The Retirement of Government Employees."

A first draft of the chapter on "Financing the Plan" is in process of preparation. - Mr. Reagh

3. Retirement system for Haitian Government employees.

The State Department has requested assistance in devising a retirement system for employees of the Haitian Fiscal Service. Cooperation will be given the Fiscal Representative of Haiti in that cost estimates will be prepared on the basis of data submitted and plans will be suggested for financing the system. The work is temporarily in abeyance. - Mr. Reagh

4. Federal Communications Commission.

A request from the Federal Communications Commission was received on May 18 to review an actuarial report of the American Telephone and Telegraph Company regarding recent changes which they have made in the valuation of their pension plan. Members of the Division's staff are serving in an advisory capacity. A preliminary report has been submitted to the Commission. During the month additional data were obtained and further work was done. - Mr. Reagh, Mr. Brown

5. Actuarial valuation of the Foreign Service Retirement and Disability Fund.

The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the

"Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, of oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. During the month a preliminary estimate of the appropriation required for the fiscal year 1942 was prepared, and was submitted to the State Department. - Mr. Reagh, Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

Data were prepared for the September issue of the Bulletin on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

All the material submitted for the September issue was reviewed and edited. - Mr. Lindow, Miss Eyre, Miss Westerman

2. Annual Report of the Secretary of the Treasury.

Manuscript for the Annual Report for the fiscal year 1940, both for the regular features of the Report and for the special review articles, is being given an editorial review as received. The usual handling of the material is going forward. - Mr. Tickton, Miss Westerman

3. Other material for publication.

Two tables on the distribution of holdings of direct and guaranteed Government obligations are being brought up to date for Moody's Government Manual. - Mr. Turner

4. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department

- 20 -

which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

5. Correspondence.

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During September 387 letters were received in the Division and 394 were handled as required.

6. Charts.

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of September is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during September 1940

Type of work	For Division of R & S	For Others.	Total
<u>Photographic:</u>			
<u>New Charts:</u>			
Total charts completed	28	11	39
Bond book charts completed	-	-	-
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	26 (times)	-	26 (t)
All other charts brought up to date	689	27	716
<u>Miscellaneous:</u>			
Total jobs	22	14	36
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	51	15	66
Number of-			
Negatives	146	12	158
Contact prints	169	81	250
Enlargements	174	22	196
<u>Photostats:</u>			
Total jobs	137	12	149
Number of-			
Lettersize copies	309	111	420
All other copies	8,909	58	8,967
<u>Multilith:</u>			
Total jobs	4	1	5
Number of-			
Zinc plates	79	1	80
<u>Miscellaneous:</u>			
Total jobs	15	12	27

Wlt
1-40

Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months,
beginning July 1940.

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. Graphic							
New charts completed	45	18	39				
Charts brought up to date	748	687	716				
Bond book charts completed	-	2	-				
Bond books brought up to date	28 (times)	27 (t)	26 (t)				
Miscellaneous jobs completed	23	17	36				
B. Photographic							
<u>Photography</u>							
Total jobs	53	48	66				
Number of-							
Negatives	151	170	158				
Contact prints	164	158	250				
Enlargements	177	96	196				
<u>Photostats</u>							
Total jobs	123	116	149				
Number of-							
Letterwise copies	3,657	342	420				
All other copies	8,165	12,467	8,967				
<u>Multilith</u>							
Total jobs	7	5	5				
Number of-							
Zinc plates	91	131	80				
<u>Miscellaneous</u>							
Total jobs	14	12	27				

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

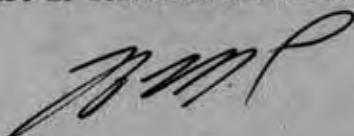
DATE October 8, 1940

Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Argentine Ambassador telephoned at 10 a.m. this morning. He told me that the State Department had given him the agenda for the conversations to be carried on between the Argentine delegation and the American Government. He had read this agenda to Mr. Prebisch over the telephone this morning. Mr. Prebisch will leave for the United States in about ten days. In the meantime, the Ambassador asks whether we could give him any further information, in elucidation of the agenda, and particularly with respect to what plan the Treasury may have in mind. The Ambassador feels that this information would help him considerably, since he is to sit in the conferences, and would also be of value to Mr. Prebisch if the Ambassador can pass it on to him before he leaves Buenos Aires.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 2, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£95,000
Purchased from commercial concerns	£63,000

Open market sterling remained at 4.04 throughout the day. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£2,000
Purchased from commercial concerns	£1,000

The Swiss franc touched a new high of .2317-1/2 this afternoon. It subsequently eased to close at .2316-1/2, as compared with yesterday's .2313.

Although the Canadian dollar strengthened to 13% discount at noontime, it later reacted to close at 13-1/2%, unchanged from last night's final rate.

The other currencies closed as follows:

Swedish krona	.2383
Reichsmark	.4005
Mexican peso	.2061
Argentine peso (free)	.2350
Brasilian milreis (free)	.0505
Cuban peso	7-1/4% discount
Lira	.0505

There were no gold transactions consummated by us today.

The Federal Reserve Bank reported that it had made two three-months loans of \$20,000 each to the Central Bank of El Salvador, setting aside as collateral \$42,702 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$520,000, secured by \$578,498 in gold.

The State Department forwarded to us cables stating that the following gold shipments would be made from Hong Kong, for sale to the U.S. Mint at San Francisco:

\$218,000 shipped by the National City Bank, Hong Kong, to the American Trust Company, San Francisco.

149,000 shipped by the Chartered Bank of India, Australia and China, Hong Kong, to the Bank of California N.A., San Francisco.

\$367,000 Total

- 2 - CONFIDENTIAL

The report of October 2, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$10,570,000, an increase of \$184,000 in the short position. The net changes in the positions are as follows:

Country	Short Position September 25	Short Position October 2	Increase in Short Position
England*	\$ 542,000	\$ 658,000	\$116,000
Europe	4,171,000	4,186,000	15,000
Canada	10,000	71,000 (Long)	81,000 (Increase in Long Position)
Latin America	403,000	438,000	35,000
Japan	4,202,000	4,395,000	193,000
Other Asia	1,114,000	1,044,000	70,000 (Decrease)
All others	56,000 (Long)	80,000 (Long)	24,000 (Increase in Long Position)
Total	\$10,386,000	\$10,570,000	\$184,000

*Combined position in registered and open market sterling.

The Bombay gold price was unchanged at the equivalent of \$33.88. The silver quotation was equivalent to 44.56¢, off 1/16¢.

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

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

We made five purchases of silver totaling 750,000 ounces under the Silver Purchase Act. Of this amount, 250,000 ounces represented a sale from inventory and 200,000 ounces consisted of new production from foreign countries, for forward delivery. The remaining 300,000 ounces was purchased from the Central Bank of China, and represents another portion of the 1,122,000 ounces sent to this country from Hong Kong by the Central Bank of China. So far, we have bought 675,000 ounces of this particular importation, which arrived here September 24 on the President Adams.

BMP

G-2/2657-220

RESTRICTEDM.I.D., W.D.
October 8, 1940.
12:00 M.

No. 214

SITUATION REPORT

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 Germans operated over England on the 7th and on the night of the 7th—8th in as great strength as in any previous 24-hour period of the war. Activity centered over southern England and over the London area, although some attacks were made in the northwest. Night operations were concentrated over London. Liverpool, Manchester and Edinburgh were also attacked.

The R.A.F. made a few daylight attacks along the Channel coast on the 7th. That night they made a large-scale attack on Berlin, dropping about 100 heavy bombs. Scattering attacks were made against many ports, several communications centers in western Germany, and on various airdromes.

Great aerial activity is reported over England today.

II. Mediterranean and African Theaters of War.

No ground operations and only minor air activity.

III. Miscellaneous.

Entry of German troops into Rumania and movement of Spanish troops from Malaga to Morocco are regarded as indications of a forthcoming increase in military and political activity in the Mediterranean and Near Eastern areas.

RESTRICTED

RESTRICTED

TENTATIVE LESSONS BULLETIN
No. 56
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT
Washington, October 8, 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.

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.

GERMAN TRAINING IN MARCHING AND
MARCH DISCIPLINE

SOURCE

Motion picture newsreels, operation reports, personal observation, and conversations with German military personnel were the sources from which an official American observer secured the following information during August, 1940. For previous comment on the physical aspects of German training, see TL 3-2; TL 4-3; TL 30-I C, II C 1 a, II C 2 a; III C 1; TL 52-3.

CONTENTS

1. NECESSITY FOR TRAINING
2. GENERAL PRINCIPLES AND PRACTICES
3. BAGGAGE WAGONS AND THEIR USE
4. INDIVIDUAL COMBAT EQUIPMENT
5. MUSIC
6. THE MARCHING TRADITION

RESTRICTED

RESTRICTED1. NECESSITY FOR TRAINING

The march discipline and marching ability of the German Infantry is sometimes overlooked by students of German operations, especially those which took place in Poland and on the Western Front, where motor transportation was used extensively.

In training and other preparation for motorized and mechanized warfare, the Germans did not neglect the importance of providing Infantry capable of making extended marches under adverse conditions, and they continue to emphasize this principle. In spite of the presence of motor vehicles in large numbers, Infantry units and even units of other combat arms are required at times to move on foot. Hence the German soldier - especially the Infantryman - is trained both physically and psychologically to endure such marches.

The following statement is from German instructions in troop leadership: "A great part of the combat activity of troops consists of marching. The success of all ground combat operations is based upon the dependable marching ability of the units involved and their ability to function efficiently after the completion of the march."

2. GENERAL PRINCIPLES AND PRACTICES

The normal distance between rifle companies on the march is ten paces. When horse-mounted units similar in size to infantry companies march in the same column with foot troops, this interval is increased to 15 paces. Horse-mounted units, if followed by foot elements, never gain lost distance by trotting, for such a remedy creates an impossible situation for the foot troops. If horse-mounted units have lost distance, they regain it during the next halt—not by trotting.

According to conversations and motion picture newsreels, horse-drawn transportation marching with a company or similar unit maintains its place in the column even if it becomes necessary for men to assist by pushing or pulling it over difficult terrain.

The narrower the road, the more necessary it is for troops to march on the right. This allows space for motor traffic, bicycles or horse-mounted messengers. A unit has no march discipline if it must be cautioned to keep to the right of the road.

When a commander has given an arm signal or an oral command to his unit while marching, he does not give the command of execution until he is certain that all subordinate elements have received the initial command. Otherwise the leading elements change their pace or formation before the rear elements understand the command.

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Individuals are forbidden to drink water from canteens while actually marching. The Germans consider such action an indication of lack of training. Thirst should be quenched during halts.

3. BAGGAGE WAGONS AND THEIR USE

Rolls are carried on the back or in the company baggage wagon, and this vehicle moves with the company or in a special train according to the situation. In a column of marching troops observed near Saarbrücken on July 11, 1940, company baggage wagons apparently were assembled by battalions. They moved in the battalion train at the rear of each battalion. In other marching columns company baggage wagons carrying individual rolls have been seen moving at the rear of their respective companies. Much leeway is given to battalion and higher commanders in making these arrangements.

4. INDIVIDUAL COMBAT EQUIPMENT

When the unit is approaching combat, rolls are normally carried in the company baggage wagons. The individual rifleman carries his weapon, ammunition as issued, canteen, mess kit, gas mask, two or three hand grenades, and possibly his rain mantle.

5. MUSIC

The Germans love music, and commanders often use it to help maintain morale and spirit during marches. Marching songs are frequently heard when columns are passed on the road.

6. THE MARCHING TRADITION

Probably the most important factor contributing to the marching endurance of the German soldier is the fact that walking is a tradition with him. In his youth he carried part of the family camping equipment on hikes into the woods or along the rivers during vacations. In the Hitler Youth and in working camps he received further training. When he entered the Army, he expected to make long and fatiguing marches in the normal course of events. His ability to endure them is a matter of tradition and personal pride.

Paraphrase of Code Radiogram Received at the
War Department 3:17 p.m., October 8, 1940.

London, filed 6:26 p.m., October 8, 1940.

1. During Monday, October 7th, the Coastal Command operated 86 planes on 49 missions and escorted 27 convoys. One British and one German plane were lost in these operations. During daylight hours 12 planes from the Bomber Command were dispatched against primary targets, mostly petroleum plants. Owing to the lack of clouds the primary targets were not reached and only two planes were able to bomb their secondary objectives. Six other planes conducted a reconnaissance over the North Sea. No planes were lost during the day. During that night 150 bombers laid mines along the coast of the Continent, attacked invasion ports, bombed railroad yards, shipping, and gun emplacements in enemy territory, and operated against Berlin targets. Results of these operations are not available. During October 7th the Fighter Command operated 822 planes on 129 patrols.

2. During daylight hours of October 7th the German Air Force conducted four main attacks against London, employing about 120, 130, 50, and 30 planes, respectively. The first and the last raids came in over Dorset. During the night about 200 planes operated between 7:00 p.m. and 6:00 a.m. on a large scale and over widely separated areas.

3. German plane losses were 27 confirmed, 5 probable and 14 damaged. The Royal Air Force lost 16 planes and 6 pilots.

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4. The British airfields that were bombed are still serviceable, but two planes were wrecked at one, and one bomber and one observation were destroyed at the other field. A gas works in London suffered major damage from fire. Three railroad lines are blocked, one probably for two or three days. A factory was set on fire but production is not affected. A commercial dock along the Thames River was set on fire and one wharf damaged. Two fires were started in Portsmouth but neither have any military effect. Two large bombs fell on one corner of Hyde Park. Early on the morning of October 8th a stick of heavy bombs fell on Whitehall, one striking the Air Ministry and the other the War office.

5. One 910-ton merchant ship was sunk by a mine. Two British destroyers suffered damage, one from fire and the other from a mine. One 13 ship convoy cleared the British Isles and another of 46 ships arrived safely.

6. It is estimated that Germany has sent about 100 JU-90 and JU-52 multi-engine transport planes to Italy. (These planes would have a carrying capacity of about 2,000 men for each trip. 6-8). Cuneani returned to Libya from Rome on October 6th.

7. There is no change in the military situation. Hartford, who left Paris on October 1st, reports that Germans claim that they are waiting for a heavy fog before they attempt an invasion.

LHM

Copies to: Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff

OK

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106

Paraphrase of Code Callaghan Received at the
War Department 6:30 a.m., October 8, 1940.

Belgrade, filed 14:15, October 7, 1940.

The Yugoslav Chief of Military Intelligence told me that the position of Yugoslavia toward German demands would depend upon the attitude of Russia. If help can be had from Russia, Yugoslavia will answer "Yes", but if not, it will probably be necessary to say "No". This is in reply to query as to what Yugoslavia would do with respect to German demands for transit of troops over Yugoslav territory.

Defection appears to be more general in Belgrade.

FURTHER.

Copies to: Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WFO
GHI

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 8th, 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. Norton

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated
October 7th, 1940.

1. Naval.

A British submarine reports in daylight on October 1st when near Cherbourg she attacked four enemy destroyers with torpedoes the result is unknown (confirmation of paragraph 1, sub-paragraph two, of summary of October 2nd).

reference paragraph 1, sub-paragraph 3, of summary of October 6th, twenty-eight survivors of this trawler have been landed in Spain.

Three attacks were made on U-boats yesterday; one by a Dutch submarine, one by aircraft and one by a naval unit. In all cases, results could not be seen.

2. Royal Air Force. Owing to unfavourable weather conditions on night of the 5th/6th, only a few of the aircraft despatched penetrated into Germany, fires were started at Gelsenkirchen oil plant and at three railway targets, and Krupp works were attacked with unknown results. Other aircraft bombed aerodromes in Holland, and machines of coastal command bombed shipping at Brest, and barges and mechanical transport near Calais. Mine-laying operations were made difficult by cloudy and icing conditions.

During the daylight of October 6th, twentyone medium bombers were despatched and all returned safely. Attacks were made on Calais harbour, three aerodromes,

and/

-2-

and on barges and shipping in Dutch ports; a direct hit was obtained on a merchant vessel off the Dutch coast. An XL.109 was shot down into the sea off Calais.

Three medium bombers attacked with bombs and machine guns two armed merchant vessels off the west coast of Denmark. Bullets were seen to hit target, but one of our aircraft was hit and set on fire; nevertheless it continued attack until the fire spread, when it dived into sea and was lost.

All operations were cancelled last night, owing to unfavourable weather.

3. German Air Force. Day of October 6th, weather was rainy with low cloud, and enemy activity was confined to raids by single aircraft, which in some cases penetrated to London owing to the difficulty of interception, some bombs were dropped in central area. Our fighters patrolled in pairs, and interceptions did take place, but only one enemy aircraft was destroyed. A number of Royal Air Force aerodromes were attacked, and at one a Hurricane was destroyed on the ground, but at no other aerodrome was any serious damage done. Owing to the weather conditions, enemy machines flew very low, and in one London suburb and at Southampton machine gunning of the streets from the air took place. Some bombs were also dropped in south-east sea side towns and casualties caused. Some small oil cisterns were set alight at a depot on the Thames Estuary, the fire was extinguished by four a.m. today, four cisterns damaged and the contents of nine destroyed. There was no enemy activity in daylight after 5.45 p.m.

Summary/

-3-

Summary of air casualties:

<u>Enemy</u>	Destroyed	Damaged	Probable
By our fighters			
Bombers	1	-	1
Fighters	1	-	-
(off Calais)			
Totals	<u>2</u>	<u>-</u>	<u>1</u>

British

In the air: one medium bomber
On the ground: one Hurricane and pilot.

During the night of October 6th/7th only
9 enemy aircraft operated over Great Britain.

4. Shipping Casualties. Although a British tanker was
torpedoed, no definite shipping casualties were reported
on October 6th.

5. Middle East. Libya. Tactical air reconnaissance on
the morning of the fifth showed approximately 1,300
mechanical transport vehicles in various localities in a
sector of about 40 miles extent, south and west of Sidi
Barrani. These concentrations suggest establishment of
forward bases.

On October 5th, about 60 enemy aeroplanes
including 16 fighters, attacked Mersa Matruh and dropped
160 bombs. Casualties 2 killed, 1 wounded; damage to a
few vehicles; anti-aircraft claims 3 aeroplanes hit.

October 8, 1940

Secretary Morgenthau

E. H. Foley, Jr.

Pursuant to your instructions, I left Washington at 6:15 Thursday afternoon, October 3, 1940, for San Diego, California, arriving there at 9:00 o'clock Friday morning, October 4, 1940. At about 11:00 o'clock on that day I attended a conference at the office of the President of the Consolidated Aircraft Corporation at Lindbergh Field, San Diego, at which (in addition to J. C. Buckley, C. L. Kades and myself representing the Treasury Department) the following were present:

Representing the Navy Department:

James V. Forrestal, Under Secretary of the Navy
Admiral A. B. Cook, Commander, Aircraft Scouting Force
Captains Ravenscroft, Murray and Zeigler
Commanders Pennoyer and Gingrich

Representing the War Department:

Colonel George Kenney
Lieutenant Colonel L. H. Smith
Majors Al. Lyon and E. R. McReynolds

Representing the British Purchasing Mission:

Mr. E. R. Fairey of Fairey Aeroplane Works, England
Mr. C. N. Gray
Air Commodore Mansell
Wing Commander Addams

Representing Consolidated Aircraft Corporation:

R. H. Fleet, President
C. A. Van Dusen, Vice President and Works Manager
I. M. Laddon, Vice President and Chief Engineer
D. G. Fleet, Assistant to the Manager

- 2 -

From information obtained at this conference and at subsequent conversations, and on the basis of what I personally observed during two days in San Diego, I wish to make the following points:

1. The national defense program is causing critical conditions affecting the health, safety and welfare of persons engaged in defense activities in the City of San Diego. The Federal Government has an important and valuable stake in San Diego. The population of San Diego will increase by 100,000 persons in the next year as the direct result of the national defense program. The national defense program presently amounts to about \$30,300,000, including naval public works costing \$13,500,000, naval housing costing \$4,200,000, army public works costing \$2,300,000 and aircraft plant expansion costing \$10,000,000. In addition, the backlog of orders from the Navy, the Army, and the British for Consolidated planes aggregates \$300,000,000 and will require nearly 20,000 employees by June 1, 1941.

2. Approximately \$23,500,000 should be allotted to the Public Buildings Administration (or the Navy Department) for the construction of housing facilities for employees of the Consolidated Aircraft Corporation plant and persons engaged in other defense activities.

3. Approximately \$2,000,000 should be allotted to the Works Projects Administration (or the Navy Department) for the construction of a comprehensive system for the collection and disposal of sewerage in San Diego.

4. Approximately \$7,700,000 should be allotted to the Bureau of Reclamation (or the Navy Department) for the construction of an aqueduct from the All-American Canal to El Capitan and San Vicente reservoirs.

5. Consideration should also be given to undertaking other needed projects in San Diego, such as constructing an express military and naval harbor drive costing about \$1,500,000 and expanding vocational training for the aircraft industry through the erection and equipment of new buildings costing about \$1,250,000.

The basic assumptions which underlie these points are:

(a) That workers in defense industries have the right to maintain a standard of living in decency and comfort, with the opportunity of providing their families with safe and sanitary dwellings, having adequate water and sewerage facilities;

(b) That the existing emergency justifies immediate Federal financial aid for projects serving primarily naval, military and civilian personnel engaged in performing naval, military or aircraft manufacturing functions; and

(c) That the Federal Government will ultimately have to provide for the comprehensive development of San Diego as a new Federal city.

Attached hereto is a discussion of the reasons on which I have based the foregoing suggestions.

I.

THE NATIONAL DEFENSE PROGRAM IS CAUSING CRITICAL CONDITIONS AFFECTING THE HEALTH, SAFETY, AND WELFARE OF PERSONS ENGAGED IN DEFENSE ACTIVITIES IN SAN DIEGO.

A. The Federal Government has an important and valuable stake in San Diego.

1. The City of San Diego, a municipal corporation of the State of California, is the headquarters for the Eleventh Naval District and the site of the largest naval operating base on the Pacific coast. The naval base embraces a Naval Air Station, Marine Base, Naval Fuel Depot, Naval Supply Depot, Destroyer Base, Naval Hospital and Naval Training Station, a Coast Guard Base, and naval radio stations.

2. San Diego is also the site of Fort Rosecrans, an important military post, an Army Air Corps training school and supply depot.

3. San Diego is a center of aircraft manufacturing activities, the plants of both the Consolidated Aircraft Corporation and the Ryan Aeronautical Corporation being located there. Ryan manufactures training planes and conducts a training school for aircraft pilots. Consolidated manufactures navy patrol bomber flying boats, twin-engine army bombers and other types of military and naval airplanes.

- 5 -

4. Property owned by the Federal Government in San Diego constitutes about one-quarter of the City's assessed valuation of about \$200,000,000. Likewise, about one-quarter of the City's present population of 202,000 consists of Navy personnel, on active duty and retired.

B. The Federal Government is presently increasing its stake in San Diego by carrying out a vast public works and aircraft plant expansion program there.

1. The Navy has undertaken a building program in San Diego which, exclusive of a four million dollar low-cost housing program, amounts to about \$13,500,000. Included in this program are the following described projects estimated to cost the following amounts:

<u>Project</u>	<u>Estimated Cost</u>
Destroyer Base: Cruiser graving dock, store-houses, shop buildings, etc.	\$4,500,000
Naval Air Station: Land and seaplane hangers, gasoline storage tanks and piers	3,900,000
Marine Corps Base: Barracks, messing facilities, dispensary, etc.	1,550,000
Naval Supply Depot: Pier and transient shed	1,700,000
Naval Training Station: Temporary barracks and other buildings	1,200,000
Naval Fuel Depot: Diesel and fuel oil storage facilities	500,000
Naval Hospital: Temporary ward buildings	150,000
	<u>\$13,500,000</u>

2. The War Department has under way harbor improvements costing \$2,300,000, including dredging the seaplane basin opposite the Coast Guard Base at a cost of about \$300,000.

3. The Consolidated Aircraft Corporation (which recently completed a plant expansion program costing \$2,500,000) proposes to expend an additional \$12,300,000 on the construction of (1) a new separate parts plant estimated to cost \$8,500,000, (2) new improvements in its existing plant estimated to cost \$3,800,000, including \$1,200,000 for machinery and \$300,000 for a badly-needed supplemental sprinkler system.

In this connection it was agreed at a conference on October 5 in San Diego that Consolidated would accept the offer of the Reconstruction Finance Corporation of September 13, 1940, under which the new airplane parts plant will be built by Consolidated on behalf of the Defense Plant Corporation (a subsidiary of the RFC) which will hold title to the plant and will lease the same to Consolidated. The site of the plant (which had already been acquired by Consolidated) will be deeded to the Defense Plant Corporation.

It is also contemplated that the Reconstruction Finance Corporation will lend Consolidated the \$1,500,000 for the machinery and sprinkler system in the existing plant; the remaining \$2,300,000 will be financed by Consolidated from its own funds.

C. San Diego's population is rapidly increasing as a direct result of the national defense program.

1. Navy personnel increased 10,400 from September 1, 1939 to October 1, 1940, notwithstanding that part of the fleet ordinarily based at San Diego has been absent since March 1940. During this period enlisted personnel increased from 8,300 to 17,700, officer

- 7 -

personnel from 500 to 750, and civilian personnel attached to the Navy from 2,400 to 3,150.

2. Consolidated Aircraft Corporation personnel increased from 3,170 employees on December 29, 1939, to 11,702 employees on October 3, 1940. Consolidated will require an additional 7,000 employees by May 31, 1941, bringing the total to 18,000. It has been estimated that Consolidated will employ by 1942 more than 30,000 persons in San Diego.

3. The City's total population increased more than one-third in the decade from 1930 to 1940, there being 147,000 inhabitants according to the 1930 census and 202,000 according to the 1940 census. It is conservatively estimated that its population will increase an additional 50 per cent during 1941 to a total of 300,000, due preponderantly to the national defense program.

II.

APPROXIMATELY \$23,500,000 SHOULD BE ALLOTTED TO THE PUBLIC BUILDINGS ADMINISTRATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF HOUSING FACILITIES FOR CIVILIANS EMPLOYED AT CONSOLIDATED AND ENGAGED IN OTHER DEFENSE ACTIVITIES.

A. There is an acute housing shortage in San Diego due to the national defense program.

1. The housing vacancies are less than 2 per cent. These vacancies on the whole exist in dwellings renting from \$70 per month upwards which were formerly occupied by naval officers now with the fleet in Hawaii.

- 8 -

2. The families of workers at the Consolidated plant are forced to live in abandoned street cars, auto trailers and shacks, without proper sewage or toilet facilities.

3. The Federal Housing Administration has made several surveys but has apparently been unable to obtain private capital to undertake housing projects for labor.

4. The City Council has never created a local housing authority. Even if it had done so, it is doubtful if such an authority would be authorized under the State Housing Authorities Law to construct projects for persons engaged in defense industry because such persons receive wages enabling them to pay normal rents without being subsidized. An amendment to the state law which would have permitted local housing authorities to engage in such projects was defeated at a recent special session of the Legislature of California called by the Governor partly for the purpose of passing such an amendment.

B. The Navy Department's housing project will only slightly alleviate the shortage of safe and sanitary dwellings.

1. The Navy Department is about to begin construction of 1,200 housing units in San Diego, half for married enlisted men and half for married civilians attached to naval activities. Money for this project has been made available from the fund established by § 201 of the Second Supplemental National Defense Appropriation Act, 1941. In addition, a project of 1,650 units has been approved for a later program when funds are available. Neither of these projects, however, will be sufficient to take care of civilians to be employed at the Consolidated Aircraft Company.

2. It is essential that at least 6,000 units for married civilians and 6,000 units for bachelor civilians to be employed by the Consolidated Aircraft Company be built as quickly as possible. It is estimated that a housing unit for a married person would cost not to exceed \$3,000 (including land which in the past has been obtained in San Diego for an average of \$500 per unit) and could be leased at a rental of about \$15 per month.

The units for bachelor civilians would consist of semi-permanent barracks similar to bachelor quarters at existing naval bases and would probably not cost more than \$425 per person housed.

3. It is essential that a joint resolution appropriating \$150,000,000 to carry out the provisions of H.R. 10412 (which authorizes the expenditure of \$150,000,000 for the construction of housing facilities for persons engaged in national defense activities and their families) be enacted at the earliest possible date.

4. In this connection, it was settled at a conference on October 5, 1940 in San Diego that a wholly-owned subsidiary of Consolidated Aircraft Corporation (called Frontier Enterprises, Inc.) would offer in writing to sell two parcels of land to the Navy for housing purposes at a total price of \$97,625, the County appraised value being \$134,650 and the assessed value being \$67,325. These parcels would be sufficient to provide land sufficient for 1,400 married employees of Consolidated, and, in addition, 1,000 enlisted married Navy personnel. Additional land near the parcels mentioned for housing workers employed at Consolidated can be obtained within walking distance of the plant by condemning land owned by a private flying service.

- 10 -

III.

APPROXIMATELY \$2,000,000 SHOULD BE ALLOTTED TO THE WORKS PROJECTS ADMINISTRATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF A SYSTEM FOR THE COLLECTION AND DISPOSAL OF SEWAGE IN SAN DIEGO.

A. The pollution of San Diego Bay is a serious menace to health.

1. Sewage is now dumped into San Diego Bay from nine outfall sewers. The density of pollution in the Bay is startling. If an epidemic is to be avoided, immediate correction of this condition is imperative. Not only is the health of civilians engaged in defense industries imperilled, but the pollution is hazardous to Navy personnel stationed on vessels in the harbor as well as those stationed ashore.

2. The anticipated increase in the City's population will, of course, accentuate the gravity of this problem.

B. The proposed WPA sewage disposal plant should be supplemented by an intercepting sewer system.

1. Among projects certified as necessary for the national defense to the Works Projects Administration by the Secretary of War and the Secretary of the Navy is the construction of an outfall sewer at the Destroyer Base estimated to cost \$108,000 and the construction of a sewage disposal and treatment plant estimated to cost \$430,000. In addition, a modern and adequate sewage collection system costing about \$1,500,000 is needed. Such an intercepting sewer would begin at the Naval Reservation on the west side of San Diego Bay and would run past the Naval Training Station, the Marine Base, the Consolidated plant, the Naval District Headquarters to the Destroyer Base on the east side of the Bay where the proposed treatment plant will be located.

- 11 -

WPA would seem to be the logical agency to construct this project. However, in the last month more than 700 persons have been removed from WPA relief rolls because of their ability to secure private employment and there remains only 1,400 men on relief of which about 100 are skilled mechanics. It will be necessary to use these men in order to carry out other WPA projects (which have also been certified as necessary for national defense) costing in the aggregate the sum of \$1,000,000. These projects consist of the following:

<u>Description</u>	<u>Amount</u>
Improvements to the Lindbergh airport	\$1,400,000
Naval Operating Base: repairs & improvements	900,000
Naval Reserve Armory	210,000
Improvements to fire alarm system	100,000
Naval Fuel Depot: road improvements	40,000
Water line from Chestertown to Camp Elliott	90,000
Construction of sewage disposal plant & sewer outfall near the Destroyer Base (referred to above)	530,000
	<u>\$3,270,000</u>

3. Unless it is desirable to give the intercepting sewer project priority over one or more of the other national defense projects, either WPA might be permitted to bring relief labor (if available) from some locality or (2) the Navy Department might be permitted to construct the sewer by ordinary contract procedure under the supervision of the Public Works Officer of the Eleventh Naval District as a national defense emergency facility since it will service military and naval establishments and defense industries.

IV.

APPROXIMATELY \$7,700,000 SHOULD BE ALLOTTED TO THE BUREAU OF RECLAMATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF AN AQUEDUCT FROM THE ALL-AMERICAN CANAL TO EL CAPITAN AND SAN VICENTE RESERVOIRS.

A. The water supply of San Diego is not adequate for the contemplated expansion of Naval and Aircraft Manufacturing Activities.

1. The net yield of water obtainable by the City from the presently developed surface supply is 26.6 million gallons daily. The inhabitants of the City and the naval, military, and aircraft manufacturing establishments are using 25 million gallons of water daily at present. The anticipated expansion of the City and the rate of population growth has been pointed out above.

B. The City has planned to supply water required for only a normal increase in population.

1. On November 5, 1940, the voters will be asked to authorize a bond issue of \$3,000,000 which, together with an additional \$550,000 now on hand, will be used for the construction of an additional reservoir on the San Vicente Creek, a tributary to the San Diego River. They will also be asked to authorize the expenditure of \$1,300,000 for extensions and improvements to the water distribution system. However, the new reservoir, when filled to capacity, will only add approximately 5 million gallons per day to the City's supply. It is estimated that a million gallons of water per day is required for each 8,000 persons added to the population.

2. To construct the works necessary to obtain an additional

25 million gallons of water per day, a pipe line can be constructed from the All-American Canal to El Capitan Reservoir at an estimated cost of \$7,700,000.

3. The City has rights from the State of California and from the United States, in accordance with the Boulder Dam Project Act, enabling it to obtain 100 million gallons per day of water from the Colorado River. The Bureau of Reclamation has completed the main All-American Canal, and is now constructing the Coachella branch of the All-American Canal on the east side of the Imperial Valley. It is anticipated that the Bureau of Reclamation will soon start construction of the west mesa pumping lateral.

4. In 1937 a board of consulting engineers recommended the construction of such a conduit from the west end of the All-American Canal to the City's El Capitan Reservoir, in order to protect the City's allocation of Colorado River water and to supplement the local sources of supply when required by the growth of the City. On October 1, 1940 the Commandant of the Eleventh Naval District recommended that an allocation of \$7,700,000 be made to construct this pipe line, stating that any undue delay in the provision of funds for this very vital improvement might result in seriously jeopardizing the progress of national defense projects in San Diego, especially if a severe drought such as was experienced in this vicinity several years ago, should reoccur.

C. The aqueduct project might be made self-liquidating.

1. It is suggested that the cost of construction could be reimbursed to the Bureau of Reclamation over a reasonable period of years by means of a lease of the aqueduct from the Bureau to the City under which the City

-14-

would pay an agreed annual rental sufficient to amortize the cost over the lease period. In order to avoid having the lease constitute the incurring of indebtedness by the City (which would require a municipal election to authorize its execution) the lease could grant the City an option to cancel.

2. In this connection, it might be noted that part of the Moffet Water Tunnel Project for the City of Denver, Colorado, was built on a lease basis by the Public Works Administration, and a state prison for Georgia was also built by PWA on a lease basis of the character suggested.

V.

CONSIDERATION SHOULD ALSO BE GIVEN TO (A) CONSTRUCTING AN EXPRESS MILITARY AND NAVAL HARBOR DRIVE CONNECTING THE VARIOUS NAVAL AND MILITARY ESTABLISHMENTS AROUND SAN DIEGO BAY, AND (B) EXPANDING EXISTING VOCATIONAL TRAINING FACILITIES FOR THE AIRCRAFT INDUSTRY.

A. The Bureau of Public Roads has been cooperating with the Army and the Navy in planning and aiding in the construction of strategic military highways and access roads. It is understood that a report on an access road to Fort Rosecrans on the peninsula at the western side of San Diego Bay has been submitted by the Bureau of Public Roads to the War Department. In addition, however, it has been urged that the various naval establishments around the Bay should be linked by a two-hundred foot drive with a view to increasing the mobility of naval and marine units from one part of the Naval Base to another. The project is estimated to cost \$1,500,000. A survey to determine the necessity and feasibility of the road would be made by the Bureau of Public Roads upon request of the Secretary of the Navy.

-15-

B. The present vocational courses include aircraft sheet metal, aircraft welding, machine shop practice, tool making, bench metal work, blue print reading, shop mathematics, aeronautical terms and ground school flight training in connection with the Civil Aeronautics Authority's program.

According to the City Superintendent of Schools, more than 1,000 students were placed in the aircraft industry in the first six months of 1940. Consolidated hires 60 students a week upon their graduation from a Kansas aircraft industrial school.

Over \$250,000 has been appropriated by the Board of Education of San Diego for the fiscal year 1940-41 for this purpose.

On June 11, 1940 the Superintendent of Schools applied to Commissioner Studebaker of the Office of Education for a grant of about \$700,000 to expend the present vocational school system of San Diego. Of this sum about \$550,000 was for the construction and equipment of new shop buildings, the balance being for emergency supplies and salaries of additional instructors.

In view of the proposed construction of a new parts plant for Consolidated, it is now estimated by City officials that approximately \$1,270,000 is required to meet the needs of national defense training, this sum being arrived at as follows:

Equipment

Machine Shop (100 stations)	\$100,000.00	
Aeronautics (riveting, welding, etc.)	65,000.00	
Ship Building	15,000.00	
Pattern Making	5,000.00	
Experimental Laboratory	15,000.00	
Miscellaneous Shop Equipment	50,000.00	
Total		\$250,000.00

-16-

Total Equipment forward	\$ 250,000.00
Land (additional)	50,000.00
Building (four story - Market and Union) 250 x 100 x 4 = 100,000 sq.ft.	450,000.00
Building (four story - present vacant lot plus building site directly north 165 x 100 x 4 = 74,000)	300,000.00
Elevators	<u>20,000.00</u>
	\$1,070,000.00
1 Story Factory Type (50,000 (Aero))	150,000.00
Equipment for above	<u>50,000.00</u>
	\$1,270,000.00

AGENDA FOR OCTOBER 9TH CONFERENCE
FACILITIES IMMEDIATELY NECESSARY FOR CONSOLIDATED AIRCRAFT PLANT AND SAN DIEGO

Description of Project	Estimated Cost	Recommended Agency	Statutory Authority & Appropriation
1. Low-cost housing for civilians employed at Consolidated (6,000 units for married men, 6,000 bachelors quarters. Land for 1,400 family units has been offered by Consolidated to Navy Dept. and additional adjacent land is available and may be condemned.)	\$23,500,000	Federal Works Agency, Public Buildings Administration or Navy Department.	If PBA, H.R. 10412; if Navy, 2nd Supplemental National Defense Appropriation Act, 1941.
2. Sewerage:			
(a) Sewage disposal plant & outfall at Destroyer Base	530,000	Federal Works Agency, Works Projects Administration	Emergency Relief Appropriation Act, Fiscal year 1941, §1(c) (\$25 million fund)
(b) Intercepting trunk sewer.	1,500,000	Federal Works Agency, Works Projects Administration or Navy Dept.	If WPA, same as above; if Navy, Pub. No. 671, §8(b)
3. Aqueduct from All-American Canal to El Capitan Reservoir	7,700,000	Dept. of Interior - Bureau of Reclamation	Emergency Fund for the President; Pub. No. 588, and Military Appropriation Act, 1941.
4. Express military and naval harbor drive	1,500,000	Federal Works Agency, Bureau of Public Roads	" " " " "
5. Erection and equipment of vocational school buildings for aircraft manufacture training.	1,270,000	Federal Security Agency, Office of Education	" " " " "
6. New aircraft parts plant. (Consideration should be given to locating this plant in Salt Lake City)	8,500,000 \$44,500,000	Federal Loan Agency, Defense Plant Corp. (RFC subsidiary).	Pub. No. 671, §5.

October 8, 1940

Lord Lothian was in today and I asked him to take back the following message to Lord Beaverbrook. I said to him that I was deeply touched by Lord Beaverbrook's message (copy attached hereto) and that while I did not believe that I needed encouragement to be of help to the British, still it was very nice to get it. I sent him my warm regards.

Lord Lothian said, "I can certify that you do not need any encouragement".

BRITISH EMBASSY,
WASHINGTON, D. C.

October 3rd 1940.

My dear Mr. Secretary,

Lord Beaverbrook has cabled asking me to convey to you the following message from him:

"It is with gratitude for your understanding of our problems in past and with confidence in your goodwill for the future that Aircraft Ministry gives its pledge to pilots of a flow of aeroplanes sufficient to carry them through battle to victory. This pledge is only possible owing to help we derive from you. We cannot publicly acknowledge your assistance but we hope the day will come when you will visit us and receive from our lads the thanks we owe you."

It gives me great pleasure to pass this on.

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

(Signed) Lothian

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

*see Hays's reply to be
delivered in person by
Lord Lothian in London
(Hes 10/8/40.)*

AGENDA FOR OCTOBER 9TH CONFERENCE

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TREASURY DEPARTMENT

131

INTER-OFFICE COMMUNICATION

DATE October 8, 1940

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Pursuant to your instructions, I left Washington at 6:15 Thursday afternoon, October 3, 1940, for San Diego, California, arriving there at 9:00 o'clock Friday morning, October 4, 1940. At about 11:00 o'clock on that day I attended a conference at the office of the President of the Consolidated Aircraft Corporation at Lindbergh Field, San Diego, at which (in addition to J. C. Buckley, C. L. Kades and myself representing the Treasury Department) the following were present:

Representing the Navy Department:

James V. Forrestal, Under Secretary of the Navy
Admiral A. B. Cook, Commander, Aircraft Scouting Force
Captains Ravenscroft, Murray and Zeigler
Commanders Pennoyer and Gingrich

Representing the War Department:

Colonel George Kenney
Lieutenant Colonel L. H. Smith
Majors Al. Lyon and E. R. McReynolds

Representing the British Purchasing Mission:

Mr. E. R. Fairey of Fairey Aeroplane Works, England
Mr. C. N. Gray
Air Commodore Mansell
Wing Commander Addams

Representing Consolidated Aircraft Corporation:

R. H. Fleet, President
C. A. Van Dusen, Vice President and Works Manager
I. M. Laddon, Vice President and Chief Engineer
D. G. Fleet, Assistant to the Manager

- 2 -

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1. The national defense program is causing critical conditions affecting the health, safety and welfare of persons engaged in defense activities in the City of San Diego. The Federal Government has an important and valuable stake in San Diego. The population of San Diego will increase by 100,000 persons in the next year as the direct result of the national defense program. The national defense program presently amounts to about \$30,300,000, including naval public works costing \$13,500,000, naval housing costing \$4,200,000, army public works costing \$2,300,000 and aircraft plant expansion costing \$10,000,000. In addition, the backlog of orders from the Navy, the Army, and the British for Consolidated planes aggregates \$300,000,000 and will require nearly 20,000 employees by June 1, 1941.

2. Approximately \$23,500,000 should be allotted to the Public Buildings Administration (or the Navy Department) for the construction of housing facilities for employees of the Consolidated Aircraft Corporation plant and persons engaged in other defense activities.

3. Approximately \$2,000,000 should be allotted to the Works Progress Administration (or the Navy Department) for the construction of a comprehensive system for the collection and disposal of sewerage in San Diego.

- 2a -

4. Approximately \$7,700,000 should be allotted to the Bureau of Reclamation (or the Navy Department) for the construction of an aqueduct from the All-American Canal to El Capitan and San Vicente reservoirs.

5. Consideration should also be given to undertaking other needed projects in San Diego, such as constructing an express military and naval harbor drive costing about \$1,500,000 and expanding vocational training for the aircraft industry through the erection and equipment of new buildings costing about \$1,250,000.

The basic assumptions which underlie these points are:

(a) That workers in defense industries have the right to maintain a standard of living in decency and comfort, with the opportunity of providing their families with safe and sanitary dwellings, having adequate water and sewerage facilities;

(b) That the existing emergency justifies immediate Federal financial aid for projects serving primarily naval, military and civilian personnel engaged in performing naval, military or aircraft manufacturing functions; and

(c) That the Federal Government will ultimately have to provide for the comprehensive development of San Diego as a new Federal city.

Attached hereto is a discussion of the reasons on which I have based the foregoing suggestions.

P. W. Foley Jr.

- 3 -

I.

THE NATIONAL DEFENSE PROGRAM IS CAUSING CRITICAL CONDITIONS AFFECTING THE HEALTH, SAFETY, AND WELFARE OF PERSONS ENGAGED IN DEFENSE ACTIVITIES IN SAN DIEGO.

A. The Federal Government has an important and valuable stake in San Diego.

1. The City of San Diego, a municipal corporation of the State of California, is the headquarters for the Eleventh Naval District and the site of the largest naval operating base on the Pacific coast. The naval base embraces a Naval Air Station, Marine Base, Naval Fuel Depot, Naval Supply Depot, Destroyer Base, Naval Hospital and Naval Training Station, a Coast Guard Base, and naval radio stations.

2. San Diego is also the site of Fort Rosecrans, an important military post, an Army Air Corps training school and supply depot.

3. San Diego is a center of aircraft manufacturing activities, the plants of both the Consolidated Aircraft Corporation and the Ryan Aeronautical Corporation being located there. Ryan manufactures training planes and conducts a training school for aircraft pilots. Consolidated manufactures navy patrol bomber flying boats, twin-engine army bombers and other types of military and naval airplanes.

- 4 -

4. Property owned by the Federal Government in San Diego constitutes about one-quarter of the City's assessed valuation of about \$200,000,000. Likewise, about one-quarter of the City's present population of 202,000 consists of Navy personnel, on active duty and retired.

B. The Federal Government is presently increasing its stake in San Diego by carrying out a vast public works and aircraft plant expansion program there.

1. The Navy has undertaken a building program in San Diego which, exclusive of a four million dollar low-cost housing program, amounts to about \$13,500,000. Included in this program are the following described projects estimated to cost the following amounts:

<u>Project</u>	<u>Estimated Cost</u>
Destroyer Base: Cruiser graving dock, storehouses, shop buildings, etc.	\$4,500,000
Naval Air Station: Land and seaplane hangars, gasoline storage tanks and piers	3,900,000
Marine Corps Base: Barracks, messing facilities, dispensary, etc.	1,550,000
Naval Supply Depot: Pier and transient shed	1,700,000
Naval Training Station: Temporary barracks and other buildings	1,200,000
Naval Fuel Depot: Diesel and fuel oil storage facilities	500,000
Naval Hospital: Temporary ward buildings	150,000
	<u>\$13,500,000</u>

2. The War Department has under way harbor improvements costing \$2,300,000, including dredging the seaplane basin opposite the Coast Guard Base at a cost of about \$300,000.

3. The Consolidated Aircraft Corporation (which recently completed a plant expansion program costing \$2,500,000) proposes to expend an additional \$12,300,000 on the construction of (1) a new separate parts plant estimated to cost \$8,500,000, (2) new improvements in its existing plant estimated to cost \$3,800,000, including \$1,200,000 for machinery and \$300,000 for a badly-needed supplemental sprinkler system.

In this connection it was agreed at a conference on October 5 in San Diego that Consolidated would accept the offer of the Reconstruction Finance Corporation of September 13, 1940, under which the new airplane parts plant will be built by Consolidated on behalf of the Defense Plant Corporation (a subsidiary of the RFC) which will hold title to the plant and will lease the same to Consolidated. The site of the plant (which had already been acquired by Consolidated) will be deeded to the Defense Plant Corporation.

It is also contemplated that the Reconstruction Finance Corporation will lend Consolidated the \$1,500,000 for the machinery and sprinkler system in the existing plant; the remaining \$2,300,000 will be financed by Consolidated from its own funds.

C. San Diego's population is rapidly increasing as a direct result of the national defense program.

1. Navy personnel increased 10,400 from September 1, 1939 to October 1, 1940, notwithstanding that part of the fleet ordinarily based at San Diego has been absent since March 1940. During this period enlisted personnel increased from 8,300 to 17,700, officer

- 6 -

personnel from 500 to 750, and civilian personnel attached to the Navy from 2,400 to 3,150.

2. Consolidated Aircraft Corporation personnel increased from 3,170 employees on December 29, 1939, to 11,702 employees on October 3, 1940. Consolidated will require an additional 7,000 employees by May 31, 1941, bringing the total to 18,000. It has been estimated that Consolidated will employ by 1942 more than 30,000 persons in San Diego.

3. The City's total population increased more than one-third in the decade from 1930 to 1940, there being 147,000 inhabitants according to the 1930 census and 202,000 according to the 1940 census. It is conservatively estimated that its population will increase an additional 50 per cent during 1941 to a total of 300,000, due preponderantly to the national defense program.

II.

APPROXIMATELY \$23,500,000 SHOULD BE ALLOTTED TO THE PUBLIC BUILDINGS ADMINISTRATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF HOUSING FACILITIES FOR CIVILIANS EMPLOYED AT CONSOLIDATED AND ENGAGED IN OTHER DEFENSE ACTIVITIES.

A. There is an acute housing shortage in San Diego due to the national defense program.

1. The housing vacancies are less than 2 per cent. These vacancies on the whole exist in dwellings renting from \$70 per month upwards which were formerly occupied by naval officers now with the fleet in Hawaii.

2. The families of workers at the Consolidated plant are forced to live in abandoned street cars, auto trailers and shacks, without proper sewage or toilet facilities.

3. The Federal Housing Administration has made several surveys but has apparently been unable to obtain private capital to undertake housing projects for labor.

4. The City Council has never created a local housing authority. Even if it had done so, it is doubtful if such an authority would be authorized under the State Housing Authorities Law to construct projects for persons engaged in defense industry because such persons receive wages enabling them to pay normal rents without being subsidized. An amendment to the state law which would have permitted local housing authorities to engage in such projects was defeated at a recent special session of the Legislature of California called by the Governor partly for the purpose of passing such an amendment.

B. The Navy Department's housing project will only slightly alleviate the shortage of safe and sanitary dwellings.

1. The Navy Department is about to begin construction of 1,200 housing units in San Diego, half for married enlisted men and half for married civilians attached to naval activities. Money for this project has been made available from the fund established by § 201 of the Second Supplemental National Defense Appropriation Act, 1941. In addition, a project of 1,650 units has been approved for a later program when funds are available. Neither of these projects, however, will be sufficient to take care of civilians to be employed at the Consolidated Aircraft Company.

- 8 -

2. It is essential that at least 6,000 units for married civilians and 6,000 units for bachelor civilians to be employed by the Consolidated Aircraft company be built as quickly as possible. It is estimated that a housing unit for a married person would cost not to exceed \$3,000 (including land which in the past has been obtained in San Diego for an average of \$500 per unit) and could be leased at a rental of about \$15 per month.

The units for bachelor civilians would consist of semi-permanent barracks similar to bachelor quarters at existing naval bases and would probably not cost more than \$425 per person housed.

3. It is essential that a joint resolution appropriating \$150,000,000 to carry out the provisions of H.R. 10412 (which authorizes the expenditure of \$150,000,000 for the construction of housing facilities for persons engaged in national defense activities and their families) be enacted at the earliest possible date.

4. In this connection, it was settled at a conference on October 5, 1940 in San Diego that a wholly-owned subsidiary of Consolidated Aircraft Corporation (called Frontier Enterprises, Inc.) would offer in writing to sell two parcels of land to the Navy for housing purposes at a total price of \$97,625, the County appraised value being \$134,650 and the assessed value being \$67,325. These parcels would be sufficient to provide land sufficient for 1,400 married employees of Consolidated, and, in addition, 1,000 enlisted married Navy personnel. Additional land near the parcels mentioned for housing workers employed at Consolidated can be obtained within walking distance of the plant by condemning land owned by a private flying service.

III.

APPROXIMATELY \$2,000,000 SHOULD BE ALLOTTED TO THE WORKS PROJECTS ADMINISTRATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF A SYSTEM FOR THE COLLECTION AND DISPOSAL OF SEWAGE IN SAN DIEGO.

A. The pollution of San Diego Bay is a serious menace to health.

1. Sewage is now dumped into San Diego Bay from nine outfall sewers. The density of pollution in the Bay is startling. If an epidemic is to be avoided, immediate correction of this condition is imperative. Not only is the health of civilians engaged in defense industries imperiled, but the pollution is hazardous to Navy personnel stationed on vessels in the harbor as well as those stationed ashore.

2. The anticipated increase in the City's population will, of course, accentuate the gravity of this problem.

B. The proposed WPA sewage disposal plant should be supplemented by an intercepting sewer system.

1. Among projects certified as necessary for the national defense to the Works Projects Administration by the Secretary of War and the Secretary of the Navy is the construction of an outfall sewer at the Destroyer Base estimated to cost \$108,000 and the construction of a sewage disposal and treatment plant estimated to cost \$430,000. In addition, a modern and adequate sewage collection system costing about \$1,500,000 is needed. Such an intercepting sewer would begin at the Naval Reservation on the west side of San Diego Bay and would run past the Naval Training Station, the Marine Base, the Consolidated plant, the Naval District Headquarters to the Destroyer Base on the east side of the Bay where the proposed treatment plant will be located.

-10-

2. WPA would seem to be the logical agency to construct this project. However, in the last month more than 700 persons have been dropped from WPA relief rolls because of their ability to secure private employment and there remain only 1,400 men on relief of which about 100 are skilled mechanics. It will be necessary to use these men in order to carry out other WPA projects (which have also been certified as necessary for national defense) costing in the aggregate the sum of \$3,270,000. These projects consist of the following:

<u>Description</u>	<u>Amount</u>
Improvements to the Lindbergh airport	\$1,400,000
Naval Operating Base: repairs & improvements	900,000
Naval Reserve Armory	210,000
Improvements to fire alarm system	100,000
Naval Fuel Depot: road improvements	40,000
Water line from Chestertown to Camp Elliott	90,000
Construction of sewage disposal plant & sewer outfall near the Destroyer Base (referred to above)	530,000
	<u>\$3,270,000</u>

3. Unless it is desirable to give the intercepting sewer project priority over one or more of the other national defense projects, either (1) WPA might be permitted to bring relief labor (if available) from some nearby locality or (2) the Navy Department might be permitted to construct the sewer by ordinary contract procedure under the supervision of the Public Works Officer of the Eleventh Naval District as a national defense emergency facility since it will service military and naval establishments and defense industries.

-11-

IV.

APPROXIMATELY \$7,700,000 SHOULD BE ALLOTTED TO THE BUREAU OF RECLAMATION (OR THE NAVY DEPARTMENT) FOR THE CONSTRUCTION OF AN AQUEDUCT FROM THE ALL-AMERICAN CANAL TO EL CAPITAN AND SAN VICENTE RESERVOIRS.

A. The water supply of San Diego is not adequate for the contemplated expansion of Naval and Aircraft Manufacturing Activities.

1. The net yield of water obtainable by the City from the presently developed surface supply is 26.6 million gallons daily. The inhabitants of the City and the naval, military, and aircraft manufacturing establishments are using 25 million gallons of water daily at present. The anticipated expansion of the City and the rate of population growth has been pointed out above.

B. The City has planned to supply water required for only a normal increase in population.

1. On November 5, 1940, the voters will be asked to authorize a bond issue of \$3,000,000 which, together with an additional \$550,000 now on hand, will be used for the construction of an additional reservoir on the San Vicente Creek, a tributary to the San Diego River. They will also be asked to authorize the expenditure of \$1,300,000 for extensions and improvements to the water distribution system. However, the new reservoir, when filled to capacity, will only add approximately 5 million gallons per day to the City's supply. It is estimated that a million gallons of water per day is required for each 8,000 persons added to the population.

2. To construct the works necessary to obtain an additional

-12-

25 million gallons of water per day, a pipe line can be constructed from the All-American Canal to El Capitan Reservoir at an estimated cost of \$7,700,000.

3. The City has rights from the State of California and from the United States, in accordance with the Boulder Dam Project Act, enabling it to obtain 100 million gallons per day of water from the Colorado River. The Bureau of Reclamation has completed the main All-American Canal, and is now constructing the Coachella branch of the All-American Canal on the east side of the Imperial Valley. It is anticipated that the Bureau of Reclamation will soon start construction of the west mesa pumping lateral.

4. In 1937 a board of consulting engineers recommended the construction of such a conduit from the west end of the All-American Canal to the City's El Capitan Reservoir, in order to protect the City's allocation of Colorado River water and to supplement the local sources of supply when required by the growth of the City. On October 1, 1940 the Commandant of the Eleventh Naval District recommended that an allocation of \$7,700,000 be made to construct this pipe line, stating that any undue delay in the provision of funds for this very vital improvement might result in seriously jeopardizing the progress of national defense projects in San Diego, especially if a severe drought such as was experienced in this vicinity several years ago, should reoccur.

C. The aqueduct project might be made self-liquidating.

1. It is suggested that the cost of construction could be reimbursed to the Bureau of Reclamation over a reasonable period of years by means of a lease of the aqueduct from the Bureau to the City under which the City

would pay an agreed annual rental sufficient to amortize the cost over the lease period. In order to avoid having the lease constitute the incurring of indebtedness by the City (which would require a municipal election to authorize its execution) the lease could grant the City an option to cancel.

2. In this connection, it might be noted that part of the Moffat Water Tunnel Project for the City of Denver, Colorado, was built on a lease basis by the Public Works Administration, and a state prison for Georgia was also built by PWA on a lease basis of the character suggested.

V.

CONSIDERATION SHOULD ALSO BE GIVEN TO (A) CONSTRUCTING AN EXPRESS MILITARY AND NAVAL HARBOR DRIVE CONNECTING THE VARIOUS NAVAL AND MILITARY ESTABLISHMENTS AROUND SAN DIEGO BAY, AND (B) EXPANDING EXISTING VOCATIONAL TRAINING FACILITIES FOR THE AIRCRAFT INDUSTRY.

A. The Bureau of Public Roads has been cooperating with the Army and the Navy in planning and aiding in the construction of strategic military highways and access roads. It is understood that a report on an access road to Fort Rosecrans on the peninsula at the western side of San Diego Bay has been submitted by the Bureau of Public Roads to the War Department. In addition, however, it has been urged that the various naval establishments around the Bay should be linked by a two-hundred foot drive with a view to increasing the mobility of naval and marine units from one part of the Naval Base to another. The project is estimated to cost \$1,500,000. A survey to determine the necessity and feasibility of the road would be made by the Bureau of Public Roads upon request of the Secretary of the Navy.

B. The present vocational courses include aircraft sheet metal, aircraft welding, machine shop practice, tool making, bench metal work, blue print reading, shop mathematics, aeronautical terms and ground school flight training in connection with the Civil Aeronautics Authority's program.

According to the City Superintendent of Schools, more than 1,000 students were placed in the aircraft industry in the first six months of 1940. Consolidated hires 60 students a week upon their graduation from a Kansas aircraft industrial school.

Over \$250,000 has been appropriated by the Board of Education of San Diego for the fiscal year 1940-41 for this purpose.

On June 11, 1940 the Superintendent of Schools applied to Commissioner Studebaker of the Office of Education for a grant of about \$700,000 to expand the present vocational school system of San Diego. Of this sum about \$550,000 was for the construction and equipment of new shop buildings, the balance being for emergency supplies and salaries of additional instructors.

In view of the proposed construction of a new parts plant for Consolidated, it is now estimated by City officials that approximately \$1,270,000 is required to meet the needs of national defense training, this sum being arrived at as follows:

Equipment

Machine Shop (100 stations)	\$100,000.00	
Aeronautics (riveting, welding, etc.)	65,000.00	
Ship Building	15,000.00	
Pattern Making	5,000.00	
Experimental Laboratory	15,000.00	
Miscellaneous Shop Equipment	50,000.00	
Total		\$250,000.00

-15-

Total Equipment forward	\$ 250,000.00
Land (additional)	50,000.00
Building (four story - Market and Union) 250 x 100 x 4 = 100,000 sq.ft.	450,000.00
Building (four story - present vacant lot plus building site directly north 165 x 100 x 4 = 74,000)	300,000.00
Elevators	<u>20,000.00</u>
	\$1,070,000.00
1 Story Factory Type (50,000 (Aero))	150,000.00
Equipment for above	<u>50,000.00</u>
	\$1,270,000.00

October 5, 1940

Files

Mr. Cushman

After consulting Under Secretary Bell on Mr. Pincent's memorandum of October 7, I telephoned Mr. Pincent yesterday. I told him that practically all of the British and Canadian banks which have branches in the areas where this Government has arranged with the British for naval bases have now been in to see us in the Treasury or have written, with the view to obtaining our accounts. I explained to Mr. Pincent that it is the Treasury Department which decides what banks shall be the depositories for Government funds to be disbursed in the areas under reference. Since there are American branch banks in these areas, we will necessarily utilize the British and Canadian banks. Furthermore, I agreed that the normal procedure would be for the Treasury to purchase through the Federal Reserve Bank at New York any sterling which the Treasury might require. This would meet the British request that sterling be procured through a recognized channel. Pincent was glad to have this information and planned to cable it to his Government.

JMP

XMC:lp-10/8/40

October 8, 1940.

MEMORANDUM

There was a meeting in Secretary Hull's office at 3 p.m., October 8, which lasted for three-quarters of an hour and was attended by the following: Messrs. Hull, Berle, Grady, Feis and Pasvolsky of the State Department; Solicitor General Biddle, and Messrs. Morgenthau, Bell, Foley, Cochran, White, Pehle and Bernstein of the Treasury. The subject of discussion was the question of extending the area of foreign exchange controls raised in Secretary Hull's letter of October 2, 1940, to the Treasury. Several hours before the meeting the Treasury had forwarded to the State Department a memorandum of a suggested agenda for the discussion which had been prepared by Mr. White and reviewed by the group in Mr. Bell's office on the morning of October 2.

In response to a question from Secretary Hull, Mr. Grady stated that the problem was one of controlling movements of funds, particularly European funds and he felt that exchange control should be employed only as a last resort in dealing with the problem. Secretary Morgenthau referred to the memorandum that the Treasury had submitted indicating the alternatives and the problems that might arise in connection therewith and stated that the Treasury had the machinery for handling the matter but that the policy was for the State Department to decide and that when the State Department decided the policy the Treasury, so long as it had the machinery, would carry out the policy.

Mr. Berle stated that in June the Departments had discussed general exchange control but it was decided that the time was not then ripe for such action but that the matter should be studied further. Now that the Japanese-Axis Pact has been announced, the time has arrived to review the question. He stated that there were three problems:

1. Use of the funds by Germany for propaganda purposes and subversive activities.
2. Control of the funds to protect the domestic economy.
3. Control as a weapon of defense.

Berle also stated that the public reaction should be taken into account in view of the Far Eastern situation.

Thereupon the discussion took place as to certain figures included in the aforementioned memorandum, particularly the figures relating to Swiss balances. Mr. Biddle then stated that he believes that Germany is operating through Switzerland and Swiss accounts and that he felt that German assets should be blocked. He said such action would be justified and would eliminate inconsistencies in our present freezing policies.

In response to a question by Solicitor General Biddle, Secretary

- 2 -

Morgenthau stated that under the mechanism of the freezing control, it was possible to unfreeze in such a manner as to help countries in accordance with Government policies. Biddle then went on to state that he was anxious to know how Germany was using money here and expressed the hope to be able to obtain information with regard to this matter. The possibility of getting this information by reports without application of freezing control was thereupon discussed. Mr. Feis thought that it might be valuable to get reports even though freezing control was not invoked.

Pasvolsky stated that if we wanted to prevent German funds from going to South America, it would be necessary to apply more stringent control to South American money transfers than would be imposed in the case of the other countries. He also raised the question as to the legal basis for preventing Germany from using its funds if the funds actually belonged to Germany as distinguished from the cases now under our freezing control where the possibility exists of money being used by an invader.

Secretary Hull and Grady then discussed the question of obtaining more information before any action was taken. Thereupon Secretary Hull suggested that a committee of the Departments be designated to consider the matter further and report to the two Departments. Secretary Morgenthau agreed to this and stated that Mr. Bell would head the Treasury Committee and for Secretary Hull to communicate with Mr. Bell whenever he wished the committee to meet. Mr. Biddle stated that he did not think it was necessary for the Department of Justice to be represented on such committee.

**SUGGESTED AGENDA FOR DISCUSSION ON QUESTION OF
EXTENDING THE AREA OF FOREIGN EXCHANGE
CONTROLS RAISED IN SECRETARY HULL'S
LETTER OF OCTOBER 2, 1940**

I. Some of the unit areas to which our exchange control can be extended:

- (a) All the "aggressor" nations
- (b) All remaining countries in continental Europe (excluding British Empire and possibly Russia)
- (c) Continental Europe plus Asia
- (d) The world except American republics
- (e) The world (including transactions of every character and of every country)

(There are appended tables of some data pertinent to the discussion. The data on earmarked gold and current balances are confidential.)

The advantages and disadvantages of extending foreign exchange controls are in part similar to those considered when the question of freezing Scandinavian, Dutch, etc. balances was discussed. There are, however, additional factors and many of the old considerations are of growing importance as the area of control is extended.

II. The chief disadvantages to be considered are:

- (a) Possible retaliation against American assets abroad. Americans have balances and investments in foreign countries and imposition of control on transactions with these areas may make it more difficult to withdraw funds from these areas.
- (b) Loss of trade. If extended to include Germany, Italy and Japan, and if licenses are to be granted sparingly, our trade with these countries would probably cease. Whether or not this

~~See C.#18 for tables attached~~

10/8/40 - For meeting in State Dept.

- 2 -

would be so depends, of course, upon the policy we would pursue in granting licenses. It is to be noted that our direct trade with Germany and Italy is now negligible because of the British blockade.

- (c) Burdens on foreign trade and finance. Our foreign trade and international financial transactions would be burdened with delays, annoyances, and additional expense. American banks and concerns engaging in international transactions of any character will be put to some additional expense because of the additional paper work, etc. involved.
- (d) Added cost to the taxpayer. The administrative cost to the government will increase as the areas to be controlled are extended. If the whole world is placed under control, the cost of administration might well be several times the cost of current controls.
- (e) Government interference with private business. Extension of exchange controls would be regarded in many quarters as an extension of government interference with private enterprise, and hence as a step toward "Totalitarianism".
- (f) Possibility of non-economic reprisals. Areas subjected to restrictive measures on their movement of dollar funds may be thereby stimulated to adopt a more unfriendly attitude toward the United States. In the case of certain countries it may precipitate further aggression or belligerence.
- (g) Might harm our Good Neighbor Policy. If applied to Latin American countries the restrictions may make more difficult promotion of our Good Neighbor policy.
- (h) Violation of liberal trade policies. If the control is extended it must be recognized that we will engage in discriminatory practices which constitute a violation of a commercial policy we have been hitherto pursuing.

III. Advantages to be weighed against the disadvantages

- (a) Foreign exchange control an instrument of national defense. The measure should be regarded primarily as a weapon of national defense and not as a means of obtaining commercial gain. If this be so, the administrative costs and the burden and annoyance to American business assume a smaller importance.
- (b) Provides an additional bargaining instrument. By the use of general and special licenses and by flexibility of controls it is possible to accord favorable treatment to selected countries and thereby facilitate closer relationships with these countries.
- (c) Would make present policy less inconsistent. Extension of control to the aggressor nations might remove the criticism that our present policy is inconsistent.
- (d) The administration of extended controls does not create insurmountable administrative problems. The essential machinery is already operating and would merely need to be enlarged. However, the policy making aspect would be considerably complicated. The policy making aspects would involve a much wider range of consideration and greater liaison with interested departments and agencies.

IV. The public reaction to an extension of controls is very important and must be carefully evaluated.

Attachments

HDW:lon
10/8/40

Appendix I

Table 1

Assets of Selected Foreign Countries in the United States

(In millions of dollars)

Country	Deposits of :		Funds :		Holdings of :		Direct : Other :		Total of Known Items
	Governments and Central Banks in U. S. on Oct. 2, 1940		Other funds: in Federal Reserve Bank District on Sept. 25, 1940		in other Federal Reserve Districts on Sept. 18, 1939		U. S. Securities: as of Dec. 31, 1939		
	: in U. S. on Oct. 2, 1940		: in Federal Reserve Bank District on Sept. 25, 1940		: in other Federal Reserve Districts on Sept. 18, 1939		: U. S. Securities: as of Dec. 31, 1939		
	: in U. S. on Oct. 2, 1940		: in Federal Reserve Bank District on Sept. 25, 1940		: in other Federal Reserve Districts on Sept. 18, 1939		: U. S. Securities: as of Dec. 31, 1939		
	: in U. S. on Oct. 2, 1940		: in Federal Reserve Bank District on Sept. 25, 1940		: in other Federal Reserve Districts on Sept. 18, 1939		: U. S. Securities: as of Dec. 31, 1939		
Germany	0	.3	10.8	.8	16.0	55.0	29.0	111.9	
Italy	0	.01	25.4	.9	6.0	12.0	22.0	66.3	
Japan	0	-	93.4	3.5	-	-	-	96.9	
Total	0	.4	129.6	5.2	22.0	67.0	51.0	275.1	
Switzerland	197.5	176.7	276.1	2.0	647.0	74.0	25.0	1,328.3	
Sweden	47.7	160.7	60.1	1.1				269.6	
Greece	6.7	12.1	31.1 D					49.9	
Hungary	0	0	4.8 D					4.8	
Romania	12.1	4.2	24.9 D					41.2	
Yugoslavia	56.3	4.0	11.3 D					71.6	
Spain	0	0	10.2 D					10.2	
Portugal	70.5	.2	27.0 D					97.7	
Total	390.8	357.9	445.5	3.1	647.0	74.0	25.0	1,943.3	

Treasury Department, Division of Monetary Research.

October 7, 1940.

Where no figures are given, the datum either is too old to be reliable or unavailable.

D - Deposits only.

HMK:hbt
10/7/40

153

Regraded Unclassified

Table 3

Assets of Foreign Countries in the United States,
as of Various Dates on which Controls were Instituted

(In millions of dollars)

	Billion and Currency	Deposits of Governments and Central Banks	Other Banking Funds	United States Securities	Other Investments in the United States	Total
Aug - 15, 1940	22	4	31	16	8	81
Oct - 15, 1940	20	23	65	19	13	140
Nov - 10, 1940	21	-	31	14	2	68
Dec - 10, 1940	173	1	299	189	14	676
Jan - 10, 1940	351	6	428	734	33	1,552
Feb - 17, 1940	560	264	197	394	89	1,404
Ethiopia Lithuania - 10, 1940	9	4	13	1	1/	27
Total	1,135	302	1,064	1,327	159	3,987
			<u>Tabulated Debits (Incomplete)</u>		<u>Total Less Debits</u>	
			6		75	
			11		129	
			0.4		47	
			196		480	
			84		1,468	
			63		1,401	
Ethiopia and Lithuania			-		27	
Total			360		3,627	

Department, Division of Monetary Research.
than \$500,000.

October 7, 1940

10/7/40

Appendix II
Table 2

Assets of United States in Foreign Countries
(In millions of dollars)

Country	United States Short-Term Claims on Foreigners		Dollar Bonds as of Dec. 31, 1936	Direct Investments Abroad 1/	Total	War Debts Due United States
	Second Federal Reserve District, only, as of 9/25/40	Of Other Fed. Res. Dist., as of 8/15/40				
Germany	25.0	17.5	173.2	233.5	452.2	3,161.4
Italy	2.4	.1	73.6	70.2	146.3	2,026.9
Japan	41.5	2.9	111.8	46.7	202.9	-
Total	71.9	20.5	358.6	350.4	601.4	5,188.3
Switzerland	2.0	-	-	8.6	10.6	-
Sweden	2.4	.2	-	25.5	28.1	-
Greece	-	-	14.8	8.5	23.3	34.8
Hungary	-	-	-	9.3	9.3	2.4
Romania	-	-	4.4	44.0	48.4	63.8
Yugoslavia	-	-	32.5	3.2	35.7	61.9
Spain	-	-	-	80.5	80.5	-
Portugal	-	-	-	5.7	5.7	-
Total	4.4	.2	51.7	185.3	241.6	164.9

Treasury Department, Division of Monetary Research.

October 7, 1940.

1/ These figures are as of December 31, 1936. These are the latest figures available and probably represent a minimum, due to inability to withdraw earnings from many countries.

Appendix A1
Table 2

Assets of United States in Foreign Countries
(In millions of dollars)

	United States Short-Term Claims on Foreigners	Dollar Bonds	Direct Investments	Total	War Debt Due United States
	Second Federal: Of Other Fed. Res. Dist. Only: Res. Dist., as as of 9/25/40 : of 9/15/40 : Dec. 31, 1939	as of Dec. 31, 1939	Abroad 1/		
U.S.S.R.	-	-	10.1	10.1	399.9
Turkey	-	-	10.7	24.4	-
China	23.3	1.2	13.2	124.3	-
Thailand	-	-	-	1.0	-
Total	23.3	1.2	34.0	165.3	399.9
United Kingdom	15.8	3.0	-	474.1	5,631.8
Canada	26.7	2.1	1,424.3	1,951.6	-
Hong Kong	3.1	.4	-	3.5	-
B.W.I. and Bermuda	-	-	-	-	-
British India	-	-	-	29.7	-
British Malaya	-	-	-	23.7	-
Palestine	-	-	.1	.1	-
Australia	-	-	96.0	111.0	-
British South Africa	-	-	-	-	-
Egypt and Anglo- Egyptian Sudan	-	-	-	8.3	-
Union of South Africa	-	-	-	72.1	-
Total	45.6	5.5	1,510.4	2,653.5	5,631.8

Treasury Department, Division of Monetary Research.

October 7, 1945.

1/ These figures are as of December 31, 1936. These are the latest figures available and probably represent a minimum, due to inability to withdraw earnings from many countries.

Appendix III

United States Trade with Japan, Germany and Italy,
during the first 8 months of 1940

(In millions of dollars)

	<u>January-June</u> <u>1940</u>	<u>July</u> <u>1940</u>	<u>August</u> <u>1940</u>
<u>Japan</u>			
United States exports	106.9	15.4	25.2
United States imports	66.5	13.4	13.3
<u>Germany</u>			
United States exports	.2	-	-
United States imports	3.8	.2	.2
<u>Italy</u>			
United States exports	52.1	.02	.01
United States imports	22.3	.8	.2

United States Trade with Japan by Leading Commodities,
the first six months of 1940

(In millions of dollars)

<u>U.S. Exports</u>		<u>U.S. Imports</u>	
All commodities	106.9	All commodities	66.5
Raw cotton	25.5	Raw silk	41.3
Petroleum and products	16.3	Crabmeat, sauce and paste	2.8
Metal-working machinery	15.5	China, porcelain and earthenware	1.5
Iron and steel scrap	7.6	Cotton cloth, bleached	1.0
Copper, refined	7.4	Tea	.8
Steel ingots, billets and slabs	4.5		
Iron and steel bars and rods	3.4		

 Division
10/20/40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
September 30	5,321	82,532	89,000	51,289
October 1	5,925	228,750	32,000	17,361
2	7,895	266,251	171,000	104,723
3	3,599	122,048	19,000	8,396
4	3,144	225,437	8,000	3,518
5	300	16,523	16,000	9,027
	<u>26,184</u>	<u>941,541</u>	<u>335,000</u>	<u>194,314</u>
Sales from February 22 to September 28	<u>1,556,503</u>	<u>53,876,560</u>	<u>4,699,000</u>	<u>3,747,718</u>

TOTAL FEBRUARY 22 TO OCTOBER 5	1,582,687	54,818,101	5,034,000	3,942,032
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Mr. Pinsent reported sales of non-vested securities for the week ended September 28 totaled \$500,000.

PLAIN

London

Dated October 8, 1940

Received 8th 1:10 p.m.

MEO

Secretary of State,
Washington.

3340, Eighth.

For Treasury from Butterworth.

1. With reference to my 3291, October 2, 6 p.m. the British Treasury states it has, after previously advising La Paz, imposed a clearing on Bolivia as the only means of accelerating progress. As soon as the arrangement is concluded with Peru the Bank of England's representative will go from Lima to La Paz.

2. A committee appointed by the British Treasury is now reconsidering the question of an insurance scheme to cover air-raid damage to property.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: October 8, 1940, 3 p.m.

NO.: 19

I refer to telegram of October 6, noon, No. 17
from the Consulate.

I have been informed by Stefan Michalski, who
introduced himself as a Director of the Bank of Poland, that
Poland owns 56,920 kilos of the gold which is now in
French West Africa. The gold was loaded on the vessel
VICTOR SCHOLCHER at Brest, and instead of being taken
to the United States was brought here.

WASSON.

EA:LWW

October 8, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a brief comparison of the British type Martin bomber 187-B and the United States type bomber B-26A. This comparison was furnished to me by the British Purchasing Commission.

RY.

BritishU.S.Martin 187-BMartin B26A

Engine	2 Wright 2600-A5B-5	2 P & W R-1800-5
BHP	1400 BHP at 10,000 ft.	1500 BHP at 14,000 ft.
Normal weight	21,050 lbs.	28,340 lbs.
Crew	4	5
Top speed	336 MPH at 12,500 ft.	313 MPH at about 16,000 ft.
Fixed guns in wings	4 x 0.3	
Flexible guns in nose*		1 x 0.3
Fixed guns in fuselage firing aft	4 x 0.3	
Flexible gun in tail		1 x 0.5
Flexible guns firing above fuselage	2 x 0.3	
Flexible guns firing below fuselage	2 x 0.3	1 x 0.3
Normal bomb load (total)	1,000 lbs.	2,000 lbs.
Overload bomb load (total)	2,000 lbs.	4,000 lbs.
Maximum range with normal load	about 1,350 miles	about 1,000 miles
Maximum range with no bomb load	about 1,400 miles	about 3,000 miles
Guns in upper non-retractable power-operated turret		2 x 0.5
Guns in rear bomb bay		2 x 0.3
		Firing forward.
		Sockets for mounting 1 x 0.3 gun at each side window.

* Provision made for additional
2 x 0.3 flexible guns in nose

October 8, 1940

Dear General Strong:

I appreciate your kindness in making available to me your several reports on your trip to England. I have read them most carefully and found them intensely interesting.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Brig. Gen. George V. Strong, U.S.A.,
War Department General Staff,
War Plans Division,
Washington, D. C.

Personal on envelope

October 8, 1940

Dear General Strong:

I appreciate your kindness in making available to me your several reports on your trip to England. I have read them most carefully and found them intensely interesting.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Wig. Gen. George V. Strong, U.S.A.,
War Department General Staff,
War Plans Division,
Washington, D. C.

October 2, 1940

*Personal on
envelope*

Dear General Strong:

I appreciate your kindness in making available to me your several reports on your trip to England. I have read them most carefully and found them intensely interesting.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Brig. Gen. George V. Strong, U.S.A.,
War Department General Staff,
War Plans Division,
Washington, D. C.

(Signed) H. Morgenthau, Jr.

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
WAR PLANS DIVISION
WASHINGTON

167

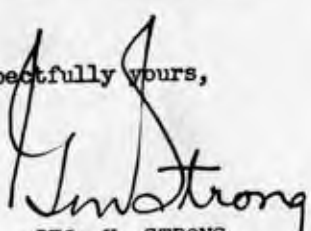
September 28, 1940.

Mr. Henry Morgenthau,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In connection with our conversation of Wednesday night, enclosed are copies of reports submitted to the President and Secretary of War on my trip to England.

Respectfully yours,


GEO. V. STRONG,
Brigadier General, U. S. Army.

Memorandum for The President

Subject: Preliminary Report of Generals Strong and Humes.

1. General Humes, Commanding GHQ Air Force, and General Strong, Assistant Chief of Staff, War Plans Division, who left for England on August 6 as War Department observers, have returned to Washington and have submitted their report, the essential features of which are summarized as follows:

a. British morale is high. Both Government and public are confident, perhaps over confident, that they can defeat decisively any attempts at invasion by Axis Powers. They display an equal confidence in their ultimate victory.

b. Internally England is united behind Churchill. Externally the situation is fluid. The Chief British concerns aside from invasion of England are the Mediterranean, the Near East and the Far East. They regard it as to their best interests that the American Navy remain in the Pacific.

c. Industrially the situation is not bad at the present. British policy is to utilize to the utmost the material resources of the Empire and of the United States. Production, particularly in aircraft is increasing, but their factories are very vulnerable to attack and have suffered some damage since September 7. Production of armament is not so satisfactory due largely to shortage of machine tools. Until September 7 industrial production had been hampered but little by air raids, after that date it decreased markedly in some lines, dropping for instance 60% in the Ford factory. The British do not know their full combined requirements for munitions, nor do they know their own actual or potential production capabilities. They have

nothing comparable to our Industrial Mobilization Plan, nor have they the data on which to base such a plan. Their procurement from us is on a hand-to-mouth basis. They desire us to assure at our expense their material requirements. If they use the facilities thus established they will pay if possible, if not then we must foot the bill.

4. The financial outlook is dubious if not distinctly bad. On September 2 Lord Beaverbrook, with the concurrence of the Prime Minister, stated that their gold supply, including the French gold, the amount and legal status of which is debatable, amounted to £ 750,000,000. This statement, as pointed out at the time by the American Ambassador is not consistent with Treasury statements.

5. The shipping situation is serious, due to shortage of destroyers, flying-boats and light craft with which to meet the apparently increasing submarine menace, which is resulting in losses of tonnage that will be crippling if not promptly controlled.

6. The military situation is fair insofar as the British Isles are concerned. If invasion be delayed until after October 15 the situation will improve decidedly during the winter. The lack of fully trained troops and equipment, and the diversion of troops to the Near East has spread defensive means dangerously thin. The most vulnerable areas, whose loss would be very serious are Egypt and Gibraltar. The British are hopeful that they can be successfully defended.

7. The air situation is not too bad. The Fighter Command has done magnificent work, but as yet has not faced

more than 25% of German air strength. The Bomber Command has and is making many profitable sorties into Germany and Italy. The actual operating strength of the Royal Air Force is weak and losses have been heavy but quality, morale and confidence remain high. The production of trained combat crews, including pilots, is the bottle neck with the Royal Air Force now and will be for some time.

b. The naval situation is unfavorable at the present time, due to lack of destroyers and the relative weakness of the Naval air arm. Losses in naval material, due to submarines and bombing, have been heavy but have not affected morale nor apparently the combat efficiency of the Fleet. The problem of safeguarding the shipping lanes has not been solved in spite of the fact that the Royal Navy has supreme confidence in its ability to maintain control of the seas.

1. The present defensive phase existing since Dunkirk has been essentially an air war, the Army and Navy playing subordinate roles. Coordination of the three arms is effected by mutual cooperation. Just how this cooperation would work in the face of a combined German land, sea and air attack is problematical. How it will work in combined operations in an offensive in an overseas theater is questionable in view of British failures in Norway, Belgium and France.

1. The outstanding lessons of the war for us appear to be as follows:

(1) Our air program must be radically revised. Observation aviation as a type must be scrapped. It cannot function under modern battle conditions. In its place must be a fast light bomber, well armed, capable of carrying an attack bomb load and fitted with means for aerial photography and de-icing equipment. The firepower of pursuit and bombers must be increased. Bomb bays must be provided for handling the maximum number of bombs of all sizes that the airplanes can carry.

(2) Antiaircraft guns, heavy and light, must be provided for all bases, airfields, vital installations and mobile columns. Such armament must be capable of horizontal fire against ground targets. Ground machine guns must be furnished with adapters for antiaircraft fire.

(3) A high proportion of engineer troops must be available for repairs to roads, landing fields, for executing demolitions, for construction of defense works, and for making anti-tank obstacles.

(4) Dependable multiple improvement of communications must be furnished all echelons.

(5) More effective combined training between air, ground and naval forces must be established as a routine matter.

(6) More rigorous physical and disciplinary training must be given both commissioned and enlisted personnel. A state of high physical training is essential to modern operations.

SECRET

(7) A high degree of tactical indoctrination of officers and non-commissioned officers and a correspondingly local decentralization of responsibility for subordinate operations is strongly indicated.

(8) There is a marked need for more effective and rapid radio communication in code.

(9) A marked increase in anti-tank defensive power in Divisions is necessary.

k. On September 7 Mr. Churchill asked these officers to convey to you the following statement of his urgent needs:

(1) Expediting the manufacture and shipment of machine tools already under order, it being vital to British production that these tools, particularly capstans and millers, be furnished with the least practicable delay.

(2) Flying-boats (Swedish contract) which are essential for combating the present submarine menace. In addition Mr. Churchill desires 50 FBY 's over and above those that are on order. They are needed at once.

(3) Motor torpedo boats. Twenty of these are urgently needed for policing the Channel in the event of an attempted German invasion, in order to combat the German E-boats.

(4) Rifles. Mr. Churchill stated that he feels the urgent need of every rifle that we can spare over and above the 275,000 Lee-Enfields (evidently referring to the 250,000 now being shipped) which

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had not been shipped by September 2.

(5) Anything that can be done to expedite the manufacture and delivery of airplanes now on contract would be a distinct contribution to meeting the serious shortage of combat planes which now exists.

(6) 16" Coast Defense guns. Mr. Churchill expressed himself as urgently desiring two (2) coast defense guns of a range of approximately 45,000 yards for counter battery work against the German big gun installations opposite Dover.

(7) As many pilots, trained by the Army or Navy, as will volunteer. Mr. Churchill stated that he would provide any Army or Navy pilot on a leave of absence status for a few months, a wonderful training by giving them actual combat experience.

1. On September 16 during a farewell call on Lord Beaverbrook, the latter stated he was much concerned over the enterprising action of the Stinson airplane people in delaying prospective delivery of 100 C-74 Stinson planes unless an increased price of \$5,000 per plane were paid. Lord Beaverbrook desires priority on 100 of these planes now being delivered to the United States Government. Lord Beaverbrook is also very anxious to get at once from the United States Government, 32 "Flying Fortresses" to use in long range bombing operations against Germany and Italy during the coming winter. He indicated that conversations had already taken place with the President on this subject. In addition, Lord Beaverbrook desires that

SECRET

174

the release of turbo-superchargers be expedited.

2. A complete copy of the report of these officers will be available if desired, in a day or two.

Secretary of War.

NOTE FOR RECORD:

Delivered by hand by A.C. of S., WPD to Chief of Staff
for signature of Sec. of War. 1/21/40.

SECRET

Regraded Unclassified

WFO 4368

WAR DEPARTMENT
War Department General Staff
War Plans Division
WashingtonWFO
DWM

September 25, 1940

MEMORANDUM FOR THE CHIEF OF STAFF

Subject: Observations in England.

1. In compliance with orders from the Secretary of War, dated August 3, the undersigned proceeded on August 6 from Washington, D.C., to New York, and embarked on August 7 on the S. S. BRITANNIC to the British Isles, arriving in Liverpool on August 15. Confidential instructions furnished the undersigned were carried out until September 18, on which date they departed by Imperial Airways for Lisbon, Portugal, arrived in New York on September 20 and returned to Washington.

2. The personnel of the American Embassy made the necessary arrangements so that the undersigned had the opportunity to talk with the King, the Prime Minister, the War Cabinet, practically all members of the Government and with the Chiefs of Staff, the Vice Chiefs and the personnel of the High Command of the Army, Navy and Air Forces, to visit military, naval and air commands, airplane factories, defense works, training establishments and so forth. Every question asked was fully answered, or arrangements made to procure the necessary information except in regard to procurement of munitions in the United States for which they apparently have no long range plan. All concerned were perfectly frank and apparently no effort was made to conceal anything or to put their best foot forward. The Government and the High Command realize fully that they are facing the most desperate crisis that the British Empire has ever met. They are perfectly frank in their statements that they are dependent upon us for means that they cannot produce themselves. They are supremely confident of winning out in the end. They are going about their job coolly, calmly, and a bit grimly, with a firm determination that if they cannot win out they will go on fighting to the bitter end and then go down with the flag flying.

3. Morale is high. The undersigned discussed conditions with government officials, military, naval and Air Force personnel of all ranks and ratings, civilians, farmers, business men, politicians, writers, and vehicle drivers. They were all a unit behind Mr. Churchill, and are confident, perhaps over-confident, that they can defeat decisively any attempts at invasion by Axis powers. There was no flag waving. There was no hysteria, but there was manifestly a grim determination cheerfully to go on and see the show through, thoroughly convinced of their ultimate victory. We talked to no children, but a little boy of about 2-1/2 years of age, sitting in his grass in Hyde Park, wearing a tin hat and playing with a gas mask, seemed as cheerful as his elders. This cheerfulness, a rifle grip and somewhat forced, appears almost universally how long-continued bombing of the character to which London has been subjected since September 7, will affect the British, remains to be seen. The internal situation, as has just been indicated, is relatively stabilized. Externally, the situation is fluid due to the fact that it is as yet impossible to determine how the Spanish will jump and how the Balkan situation will develop. It is assumed that sooner or later the Axis powers will move into both Spain and Portugal. This action, when taken, is likely to have serious effect upon American

communications to Europe, unless our present neutrality proclamations are changed in accordance with new developments. The chief British concerns, aside from the present danger of invasion of England, in order of priority are the Mediterranean, the Near East, and the Far East. The British, insofar as the future is concerned, are visualizing not only the present war but subsequent operations on the Empire basis rather than on the British Isles basis. It is to be noted, however, that the first Sea Lord of the Admiralty on two occasions stated that he deemed it to their best interests that the American Navy remain in the Pacific.

4. Industrially, the situation is not bad at present. The British, however, apparently have not fully realized and discounted the possible effect of long continued bombing upon industrial production. Last Friday, the plant manager of the Ford factory in Britain informed the American Ambassador that Ford production had dropped 60 per cent since September 7, as the result of the intense bombing raids over England. We were unable to check the effect on other industrial concerns. The British policy, at present, is to utilize to the utmost the material resources of the Empire and of the United States. Production, particularly in aircraft, is increasing but their factories are extremely vulnerable to air attack. The bombing of the Wellington factory, south of London, on September 10, decreased the production of Wellington bombing planes by 30 per cent for an estimated period of one month. These figures were given by the plant manager and are merely an estimate. The production of armament is not satisfactory, due largely to the shortage of machine tools. Until September 7, when intense air raids began, industrial production had been hampered but little by air raids; after that date it decreased markedly in some lines as witnessed by the statement of the manager of the Ford plant. It is to be noted and seriously considered that the British do not know their full combined requirements for material, nor do they know definitely their own actual or potential production capacity. Their procurement from us has been and is on a hand-to-mouth basis. They desire us to assure, at our expense, their material requirements. If they use the facilities thus established they will pay if possible, if not then we must foot the bill. This statement is made as the result of two conferences with Sir Walter Layton, who arrived in this country yesterday to act as the Chief Economic Adviser of the British Purchasing Commission, and who undoubtedly will see the President. Sir Walter Layton is an economist of note. He knows little or nothing about military procurement or about military supply. His attitude is typically British and his primary concern is British procurement.

5. The financial outlook is dubious if not definitely bad. On September 2, Lord Beaverbrook, with the concurrence of the Prime Minister, stated to the undersigned that the British gold supply, including the French gold (the amount and legal status of which is debatable) amounted to 750,000,000 pounds. This statement, as pointed out at the time by the American Ambassador, is not consistent with Treasury statements. Lord Beaverbrook insisted that his statement was correct.

6. The shipping situation is serious due to shortage of destroyers, flying boats, and light craft with which to meet the apparently increasing submarine menace. This is resulting in the loss of tonnage that will be crippling if not controlled. The British, publicly, are not admitting the very serious losses that are constantly occurring. Details of this will be furnished the Navy Department by Admiral Ghorelsey.

7. The military situation is fair so far as the British Isles are concerned. If invasion be delayed until after October 15, the situation should improve decidedly during the winter. The lack of fully trained troops, the lack of adequate armament, and the diversion of troops to the Near East has spread defensive means in the British Isles dangerously thin. Outside of the British Isles the most vulnerable areas whose loss would be very serious are Egypt, which of course would involve the Suez Canal, and Gibraltar, which would involve the loss of the control of the Western Mediterranean. The British are hopeful, however, that both can be successfully defended.

8. The air situation is not too bad. The Fighter Command has done magnificent work but as yet has not faced more than 25 per cent of German air strength. The Bomber Command has, and is making, many profitable sorties into Germany and Italy. The actual operating strength of the Royal Air Force is weak and losses have been very heavy, but quality of personnel and materiel, morale, and confidence remains high. The production of trained combat crews is the bottleneck with the R.A.F. now and will be for some time to come.

9. The naval situation is unfavorable at present, due to lack of destroyers and the relative weakness of the naval air arm. Losses in naval materiel, due to submarines and bombings, have been heavy but have not affected morale, nor apparently the combat efficiency of the Fleet. The problem of safeguarding shipping lanes has not been solved in spite of the fact that the Royal Navy has supreme confidence in its ability to maintain the control of the seas.

10. The present defensive phase, existing since Dunkirk, has been essentially an air war, the Army and the Navy for the time being playing subordinate roles. Coordination of the three Arms is effected by mutual cooperation. Just how this cooperation would work in the face of a combined German land, sea and air attack is problematical. How it will work in combined operations in an offensive overseas theater is questionable in view of the fiasco in Norway and in Belgium.

11. It should be noted throughout this report that our observations were made of conditions existing in a very special situation, that is a defensive phase of a war being waged essentially on British soil, and what appear to be obvious lessons under these conditions may not be applicable to their full extent under offensive conditions in a theater outside of Great Britain. This matter has been duly considered in this report, and the report itself is limited to what appear to be conditions and developments which may be of value to us and are not of a special character or limited application. We saw much from which we can learn lessons. We saw much that is unsatisfactory and certainly should be avoided as far as our development is concerned. This report will deal primarily with the positive matters that appear to have an application either to our materiel, or to our training, or to our tactical handling of the various arms. In many respects, the British are far ahead of us in certain specific lines. In other respects they are years behind us. This report will endeavor to avoid criticism and undue emphasis on the obvious mistakes the British have made but which have little or no application to our physical conditions. It has been customary in the past for many American officers to disparage the efforts of the British, especially in their technical progress, and particularly in comparison with that of the Germans. In our opinion the British are doing a difficult job and doing it well, and so far as can be judged from reports on captured German military equipment and from personal observation of certain of this equipment, especially in aviation, the British are well ahead of the Germans.

CONFIDENTIAL

12. In connection with the trips outside of London, to which reference is made hereafter, the officers detailed to escort us made every effort to show us everything we desired to see. These trips included invariably stops for inspection of damage caused by bombs of different types dropped in the course of air raids, and we were allowed free access to all barred or prohibited areas. As illustrative of the occasions that were extended to us, at Plymouth our guide over the "range" which is under regular attack the night with the "Great Spots" off Westward, was the Chief Engineer who served on the "Queen" during this flight. For our visit at the Bomber Command they flew in from other stations, all types of ships that are actually used in the Bomber Command or which they undertake using. These included the new Blenheim four-engine bomber which is superior in both speed and armament to our B-17's. At Gropdon, Easing and Marston, we saw the effects of bombing very shortly after the raids were over, and before many of the damaged action bombs had been exploded. While every effort was made to afford us reasonable protection, we were not coddled or well nursed. We were allowed out in the open to see air flights overhead, the only restriction being that we were strongly advised to wear tin hats.

13. The following paragraphs record the results of our observations and are accompanied with recommendations pertinent thereto. In this connection it should be noted that the personnel in the office of the Military Attache have reported in detail on many subjects on which we asked questions. It is to be regretted that the outstanding work that has been done in this office apparently has not been given the widespread dissemination in the War Department that its intrinsic merit deserves. This applies in particular to the superior work which has been done by Major R. R. Studdler who is freely acknowledged to be an outstanding authority on armament and ordnance material. Apparently the reports and recommendations which have been submitted by Major Studdler have not been given the weight and consideration which they deserve. In regard to aircraft armament in particular it is believed that it would be the part of wisdom to order Major Studdler back to the United States for a period of about three months in order that our aircraft armament program may be gotten on its feet and the lessons of the present war be properly considered and incorporated in our own rearmament program.

14. As stated in the first cablegram sent to you, this place, under present conditions, is a gold mine of information, and the under-lying would be lax in their duty if they did not point out the wisdom of taking immediate advantage of the experience over here, and urge that due consideration be given to the progress that has been made by the British in the development of weapons, and in the change in tactical doctrine impressed upon them by the bitter lessons of this war, in order that we may not find ourselves, either as the result of ignorance or of smug self-complacency, in the same boat that the British found themselves a year ago. Development in proceeding so rapidly, tactics are being so altered, the interplay and the interdependence of the old arms is becoming so vital and the cooperation and utilization of new arms is attaining such importance that we must, in self defense, keep fully abreast of these recent developments. To do so, we must be closely in touch with the multifarious questions which are being solved, and solved satisfactorily, over there. To that end, the Military Attache there, in order to do his job must have more space, more personnel, and more funds, and this applies particularly to highly skilled technicians in the Air Corps, in Ordnance, in the Signal Corps, in the

trained Corps, in the Engineers, and in Industrial Mobilization. In addition, highly competent officers of Infantry and Field Artillery should be kept in Great Britain constantly to keep abreast of the latest developments in training and in the technique of employment.

15. The following detailed observations are submitted under the heads indicated at the beginning of each paragraph in an endeavor to present a general picture covering the subject which may be of some use to the interested agencies in the War Department. They are based primarily either upon personal observation or upon conversation with high ranking officers whose activities have been influenced thereby.

16. AIR MATERIEL.

The modern British aviation equipment is excellently designed to meet the problems they had in mind at the time such design was approved. It has proven to be superior in most every respect to the German equipment that has so far been used in the battle of Britain. British fighters are fast, maneuverable, and relatively easy to fly. They have been successfully largely because of their superior offensive fire power. All have self-sealing tanks and armor for the pilot. The British are adding more guns to, and increasing caliber on, their fighters as rapidly as they can, consistent with delivery requirements. Armor is being added, for example on Plymouth tanks, where experience proves the necessity. The additional weight is being carried for by installing engines of greater power. In spite of added weight, performance of the same types appear to be going up rather than down. British bombers are characterized by very large bomb bays. The British believe in and apply the fundamental principle that bomb and fuel loads should be interchangeable to the maximum practical degree. The British require a reasonable minimum of speed but consider speed to be secondary. British bombers are well protected by armor and defensive machine guns. They have developed two excellent types of power turrets and are using them as shown by the Halifax and the Stirling, their new four-engined bombers. The British are producing four-engined bombers in order to secure increased ranges and bomb loads.

Some of the details we observed with respect to British aviation equipment follow:

(1) The British have a very high opinion of the North American trainers and Lockheed Stinsons.

2. Fighter aircraft to be successful, other things being equal, must have more offensive fire power than that of the enemy. The only offensive fire up to the present time has been at very short range and the effort for the few seconds available must be very great if the hostile airplanes are to be shot down. In this connection, and because of the armor now being put on the German airplanes, the British have accepted the policy of arming their fighters with as many cannon as can be carried and still retain the required performance. Services test installations are now being made in British fighter airplanes in other follows: In a Spitfire two-20 mm. and four-303 machine guns in other Spitfires six-50 calibre machine guns; in a Hurricane four-20 mm. cannon. He had an opportunity of seeing the Typhoon type of airplane, equipped with the Sabre engine, which had mounted on it 12-303 machine guns. He also had an opportunity to see the beautiful, which will have mounted on it four-20 mm. cannon and six-50 calibre machine guns. There is no doubt that much of the success that the British have had over the Germans is due to the superior fire power of the British fighter.

b. In all the large bombers we examined we found the fuselage bomb-bays to be divided into three sections transversely. This allows many more of the smaller types of bombs to be carried and, what is of great importance, allows bomb-bay doors to be very light and small. The pilots state that the braking action of these bomb-bay doors when opened is practically nil. The four-engined Stirling and Halifax bombers have not only enormous bomb-bays in the fuselage but also one in the wing on each side of the fuselage. In the Stirling the wing bomb-bay doors are drawn up into the bomb-bay. This airplane has enough bomb-bay space to carry 24-300 pound bombs.

c. It should be noted that the Minister of Aircraft Production is very anxious to secure 100 of the Stinson type for work with the artillery. It is understood that these airplanes will be manned by artillery officers.

d. We had an opportunity to speak with a number of fighter commanders and pilots and their complaint invariably was that they require more ammunition. The Spitfire for example has eight 303 machine guns and 15 seconds of fire. On several occasions to date, fighters have had to land three times in order to replenish their ammunition.

e. It was noted that all guns and cannons on airplanes are provided with heaters. It also was noted that in order to make successful photographic reconnaissances, cameras had been mounted in Spitfires. We saw some of the photographs taken at altitudes in excess of 30,000 feet and they were excellent.

f. Both Spitfires and Hurricanes are being ferried considerable distances because they have been provided with auxiliary fuel tanks. It is most essential that our pursuit planes be equipped so that they too can be flown greater distances for ferrying purposes.

g. The British Fighter Command appear to think highly of the De Wilde explosive incendiary bullet. It is understood that report has been made of this bullet and that a sample has been sent to the United States.

h. It was the opinion of several officers of the Fighter Command with whom we talked that the ordinary explosive bullet with the instantaneous fuse is of little value because no penetration is secured. They seem to think that a bullet of the dum-dum type which will tear a large hole in the airplane structure would be of greater value.

i. Inquiries showed that fire-control developments for defensive and fighter gunfire are still in the experimental stage.

j. We had an opportunity to see on a map the location of all searchlights in the Searchlight Command. We were astounded at the very large number of searchlights now in operation. From a quick examination of this map it appeared that almost the entire country was checkered with searchlights, with distances between lights varying from 3,500 to 6,000 yards; certainly this was true of the London area and that part of England south of London.

k. We also learned that the British had developed an air-to-air detector and that it is in limited use at the present time. The Commander-in-Chief Fighter Command stated to us that he thought it was the answer to night interception. This device is now installed in two-seater fighters because of its weight, the necessity of having one

and to devote most of his time to making the spectroscopes and because of the weightiness of the light. This device now weighs somewhere between 150 and 200 pounds and has a maximum range of 6,000 yards and a minimum range of from 800 to 450 feet. It is being redesigned to weigh about half its present weight, or less than 100 pounds, to enable the two spectroscopes to be used to find the light points. Then this is accomplished this device will be installed in single-seater fighters.

This device is used in connection with their ground-control system. The Fighter Command knows where the hostile airplanes are and by direct visual radio tracks the fighter. The Fighter Command directs the fighter to the near vicinity of the hostile bomber, the fighter then with the use of his air-to-air detector makes interception. This device is of tremendous importance.

3. We learned that the British had developed and are using an airplane-to-ship detector which can locate a ship the size of a cruiser as far away as approximately 50 miles. This device is also of tremendous importance because it simplified the problem of reconnaissance and the problem of interception by our bombers of surface craft. The Coastal Command pilots actually use this device to home on coastal points.

4. The British have found the deficits necessarily for detecting equipment; they have been equipping many of the Hampden bombers with detecting equipment and will shortly equip the Wellingtons. It is expected the fighters must contain themselves with altimeter rings and protection for the control blanges.

5. There is no doubt of the value of the self-sealing gasoline and oil tanks — these are demanded by all. The British are now arming the glycol tanks to avoid fires.

6. The British fighters now adjust their fire to cross at 250 yards.

7. On some of the reflector-sights used by the fighters there are etched rings which give to the sight range-finding properties.

8. The matter of identification of aircraft is of the utmost importance. The Military Attachés have submitted reports on the methods used in England. The pip-squawk radio signal or some other means of radio identification is essential. The fighters have a pyrotechnic projector in the tail of the ship, fired electrically from a switch in the cockpit. This is used to signal to the anti-aircraft artillery their identity if picked up by the searchlights or fired on and to inform the anti-aircraft artillery that the fighter is ready to attack. Such an instantaneous visual signal is absolutely necessary.

9. Interceptor fighters are very closely controlled from the ground, and their location is determined by the use of directional radio tuned to the pip-squawk signal.

10. It is the usual thing for the British to install loud-speaker systems that cover the whole airbase except the officers' quarters.

11. The self-starters of the airplanes are not used to start the fighter engines; instead, batteries mounted on carts are used for this purpose.

12. The following is a brief description of the stirring bomber. Performance figures were given us by the pilot of the ship, and may not be accurate. It has four Hercules engines and weighs in the neighborhood of 64,000 pounds. It has an extremely long fuselage, which

give it the appearance of a dragon fly. Its operating cruising speed is around 220 miles per hour, and its most successful cruising speed about 185 miles per hour. It has a range at most sustained speed of about 2000 miles. It has a very long dash--in the fuel tank divided into three sections. It also has a tank--in each side of the fuselage--it can carry 24 - 500-pound bombs, on short-range missions.

4. The data on the Smalley Page "Wallace" four-engine bomber are in the hands of the Chief of Air Corps.

5. The British have had several accidents by running into their own barrage balloons. To avoid this they have developed a radio device similar to our marker beacon which indicated when there is a balloon in the near vicinity.

6. The British have developed a glide-bombing sight, and the Bomber Command considers it absolutely essential to effective operations.

7. They have in their Intelligence Room a projector which enables a photograph or a map to be projected on a screen. The map or photograph is laid horizontally in the machine. Such a thing is of great value in pointing out to the combat crews details in connection with their mission and the objectives.

8. It was learned that the French had, when Colapso came, a four-engine Stratosphere Farman Bomber. This bomber performed many missions over Berlin and Italy. It was manned with a kernel combat crew. It is probably now in the hands of the Germans.

9. A jacket made out of water-proof cloth was observed. This jacket had as an integral part of it, water wings and provision for the parachute harness. Two straps with hooks protruded from the jacket near the breasts and two others from near the waist. This would permit a belly type or seat type parachute to be attached to the harness by the very simple and quiet operation of attaching two hooks. The officer who wore it said it was very satisfactory and we have asked the Military Attache to purchase one and send it to the United States.

10. We were told that clay-pigeon shooting with shot guns mounted in airplanes turrets using a water-shield fuelage was a very good form of flexible-gunners training.

11. We had an opportunity to see some high altitude combats and the condemnation forward behind the fighters. Of course this condemnation causes a fighter to be picked out by anti-aircraft and hostile fighters. It is desirable that some means be devised to do away with this condemnation.

12. It was also learned that some of the German dive-bombers have an automatic pull-out arrangement which performs the operation on a fixed radius so as to avoid undue strain on the structure.

13. The British are now interesting themselves in the construction of gliders. The Chief of the Operations Planning Division stated that they expected to have gliders which will carry 40 men. They fully appreciate that a far greater load can be taken off the ground by an airplane dragging a glider than can be carried in the airplane itself. They have a project, in order to get off with large

loads, of loading the airplanes with the maximum load of bombs, and a limited amount of fuel, and loading a glider with sufficient gasoline to fill the tanks of the bomber. Then they are both in the air, the glider pilot takes his position somewhat above the airplane and allows the gasoline to flow from the glider tanks into the airplane tanks.

12. It is noted that German airplanes have been constructed so that quick engine changes can be made. It is estimated that on a Messerschmitt 109 an engine change can be made in 40 minutes. It is a great weakness in aircraft manufacturing in the United States, and we are going to lose an immense amount of flying time unless our aircraft are built so that engines can be changed in the minimum of time.

13. The British are using ammunition belts that are more flexible than ours. We will have to have them for installation in four-gun turrets.

14. The camera guns on the British fighters are of great value in checking the training of their pilots and in pointing out mistakes. We must mount them on our fighters as soon as possible.

15. The British have made a very satisfactory mounting of the 20-mm cannon in the Barker Barriano. The success of this installation can be attributed to the belt feed obtained from the Pressoly drum feed cannot be as satisfactory. Each gun in the Barker Barriano will have 100 rounds in a belt.

16. The Fraser Nash hydraulic turret and the Boulton Paul electric-hydraulic turret both appear to be very satisfactory. The hydraulic turret is superior as far as ease of handling is concerned, but is more vulnerable than the electric-hydraulic turret.

17. The British have developed a hydrostatic sine of the type recommended by the GHQ Air Force. The Military Attache has been promised full details of this and they will be forwarded shortly.

18. It is understood that the British are equipping a squadron of torpedoes for Mediterranean service. Colonel Hunter will visit this squadron if it exists and determine the data on it.

19. The British have had great success with night bombing and we tried to find out the real reason. It was not until we had an opportunity to examine the British bomb sight that we learned the reason. In our bomb sights the bombardier must look at the objective through a periscope containing half a dozen lenses. This cuts down the light by about 50 per cent. The light is still further cut down when the cross hairs are illuminated. The result has been that we have had very little success with night bombing. The British, on the other hand, have incorporated the reflector principle in their bomb sight. Their bombardier looks directly at the objective through a piece of non-glare ground glass on this glass is reflected the cross hairs. The result is that practically all of the light on the target reaches the eye of the bombardier. It is recommended that our bomb sights be modified so that this device can be used for night bombing.

20. We had the opportunity to examine the three types of the Lofte bomb sight used by the Germans. The latest model is better arranged and more compact than the other two and has incorporated in it an adaptation of the pendulum principle in order to get directional stability. The principle of the German bomb sight is exactly the same as that of the British. The material division is familiar with this principle.

22. We also had the opportunity to examine German and British cameras for vertical work. Both use the hemispherical lens which apparently performs the same work as our multi-lenses. The two German cameras, and they are the only two they use, are both bulky and heavy. The British camera, on the other hand, is very light and compact, much more so than our multi-lens cameras. If the hemispherical lens will do the job that our multi-lenses do then it is recommended that the material division study the possibilities of using such a lens. The civilian in charge of the camera laboratory stated that there was no indication that the Germans were taking color or infrared pictures or that they were further in advance in photography than the British.

23. A number of German types of airplanes were examined during this trip to England. One is struck by the lack of defensive fire power, the small bomb capacity, and the lack of working space given to the crew. It is very evident that the Germans have sacrificed offensive fire power in order to secure speed. The damage done by the Germans in England has been very small considering the very large number of bombers used and the reason for it is that their bombers and the fuzing of their bombs are not satisfactory. They have done only a fraction of the damage that they could have done had they been equipped with the British types of bombardment airplanes.

17. AIR FORCE PERSONNEL

The Royal Air Force is self-contained insofar as personnel is concerned; even the medical officers wear Royal Air Force uniforms with special insignia. We were informed that the infantry and artillery now engaged in protecting air stations will shortly be transferred to the Royal Air Force in order to assure homogeneity, avoid complications and to improve morale.

We were struck by the alert young men in command of the combat units of the Royal Air Force. We found that the Royal Air Force has two fundamental policies with respect to this:

A. To place in command men young enough to lead their units in action and stand the physical strain of continuous air operations.

B. To give commanders the rank that their position calls for. Rapid promotion in the Royal Air Force is achieved by the following means:

(1) Accelerated war service promotion. This applies to officers up to and including Squadron Leaders. In time of war a grade corresponding to First Lieutenant may be reached in one year. The grade corresponding to Captain may be reached in about two years.

(2) Selective temporary promotion, to Squadron Leader and above. Each position, whether command or staff, is given a grade and the right man is selected to fill the job. When for any reason he is transferred from the job he loses his temporary grade, except that provision is made that if an officer holds a temporary grade for a certain period of time, varying with the grade, he retains his temporary rank for the duration of the war; should he be retired he is retired with his temporary rank.

(3) A ruthless policy of retirement and discharge. Regular officers are retired on an age in grade policy. Should they in the meantime be found unsatisfactory in any respect they are immediately put on a pension. This policy does not work such a hardship as it might seem as most of them who

CONFIDENTIAL

ship to are immediately given positions in the Air Ministry, at a 25 per cent increase in their pension. In this connection it is interesting to note that the size of the Regular Officers Corps in the Royal Air Force is about the same as it was before the war -- about 1300. The British did not, after the last war, take any large number of officers of about the same age into the regular Air Force, and as a result have not the very serious problem confronting our Air Force. The British at the present time are taking into their regular establishment very few new officers each year in order to cover the attrition rate and to provide a hope to the many temporary officers who desire permanent commissions. Naturally the officers who go into the regular establishment are very carefully selected. The advantages of such a policy are obvious. We questioned the effect on morale of the entire policy and the answer was uniform and to the effect that it did not harm morale because every officer when he came into the service knew exactly what to expect.

It is interesting to note that approximately 10,000 young women are now a part of the Royal Air Force. They fill all kinds of positions and do many jobs far better than can be done by men. It is said that they help morale and that no sex problems of any moment have been encountered.

Before the war it was the policy that all officers of the Royal Air Force be pilots except:

- a. Officers assigned to the equipment branch.
- b. Medical officers.
- c. Chaplains.

Since the beginning of the war there has been organized an administrative and special duty service and the officers in this service are non-pilots and also temporary officers.

It is the policy of the Air Ministry to give the fighting units the officers they want; in other words the combat units have first choice of officers rather than last, as we have in our Air Corps.

It is noteworthy that every step is taken to relieve Combat Commanders from administrative matters. The only exception in the Royal Air Force is the Station Commander who is charged with the administration of the station and the operation of the squadrons on that station. This Station Commander, however, is given a very high ranking officer to handle the administrative work. However, it has become perfectly evident that the Station Commander who is charged with the defense of his airdrome, the administration of the station, a considerable amount of training, and the operation of the combat units at the station, has entirely too much to do. A change, no doubt, will be made.

In the Air Force the Higher Command has indoctrinated personnel with the idea that periodic leave of absence is a vested right and that they are privileged to take this leave of absence when they feel the occasion for it, and they do grant leave of absence when we would not think of it.

We had unusual opportunities to check on the morale of the British armed forces. We found them to have extremely high morale and to be full of confidence. They recognize the situation and the very difficult tasks before them but they are supremely confident that they will be able to meet them.

He also learned that the policy is to assign to all Army and Royal Air Force units immediately they take the field a 14 per cent initial replacement in men. This means that those units are, when they take their position in the line at full strength and not below strength by reason of sickness, losses of equipment, and so forth.

18. AIR FORCE SUPPLY

One officer in the Royal Air Force is responsible for all supply. A tactical commander secures his supplies from one source rather than from many as we have to in our Army. The Air Marshal charged with the responsibility of supply procures his supplies from three sources:

- (1) From the Ministry of Supply of those things used in common by all arms and services, such as ammunition.
- (2) From the Ministry of Aircraft Production for all aircraft and aviation material.
- (3) From the Trade.

These supplies are then turned over to what is called the Maintenance Command, which is charged with the distribution and maintenance of them. For this purpose the Maintenance Command has a number of repair depots and universal storage depots. The Maintenance Command is charged with the distribution of all supplies except vehicles. Vehicles are supplied by the army system of supply. All supply as far as tactical commanders are concerned is practically automatic. It must be said that such a system for the supply of Air Force units is immeasurably superior to that of our own the saving in administrative work alone is enormous.

19. AIR RAIDS

During the time we spent in England, the inland has been subjected to a large number of air raids. Some of them were made in considerable force. Most of them prior to August 26 were made during daylight. Since then, however, there have been many night raids. Weather conditions have been excellent. Visibility and ceiling have been unlimited for a great portion of the time. A large number of bombs, both high explosive and incendiary, have been dropped. In most cases the German bomber formations have been intercepted by British fighters and have suffered severe losses. Practically all bombing raids during daylight hours have been accompanied by strong pursuit protection, and the loss of their pursuit protection has been heavy. The reasons why the Germans have suffered such severe relative losses are easy to determine. They are (1) the comparatively large volume of fire that can be delivered from British fighters; (2) the very poor rear hemisphere gun defenses of the German bombers; (3) the employment by the Germans of dive bombing tactics; (4) the use by the Germans of large inflexible formations, and (5) poor air discipline. The British operational officers with whom we have discussed this situation state that as a rule the Germans, as individuals, especially pilots, are very well trained. A criticism that they have to offer on the German training is that they believe they have not been sufficiently trained in navigating at night.

While the military results of these raids have been comparatively small, the best military minds in England are endeavoring to determine the purpose of the raids. The best probable answer is that it is a combination of harassment, training, attrition of British fighters and material destruction, particularly of those installations which might contribute to the success of the British air effort.

20. AIR TACTICS

It is the general opinion among fighter pilots that because of the difference in maneuverability the two-engined fighter is not a match for the single-engined fighter in individual combat. As a result

the usual arrangement is to have the two-engined fighters work with the single-engined fighters. One method of a combined attack is to have the two-engined fighters get below the hostile formation, and the single-engined fighters get above. In analyzing methods of attack it should be appreciated that the Defiant cannot fire below the horizontal while flying level.

The British have found by experience that the six-ship formation of bombers is the largest that can be maneuvered satisfactorily and they consider maneuverability of a formation to be of great importance. They are also of the opinion that it is large enough to take full advantage of cooperative fire. Their present method is to employ as a rule six-ship formations for daylight attacks, although formations of three Blenheims do make frequent attacks against the German air installations just across the Channel. The British feel that the six-ship formation, if the bombers have sufficient defensive guns and a reasonable amount of protective armor, can reach its objective during daylight hours without serious losses. The British, however, are now using their heavy bombers mostly during the hours of darkness; they are securing fair results and by night operations are reducing their losses. At the present time they have not enough equipment or enough trained combat crews to take unnecessary risks. In this connection it should be appreciated that the objectives selected by the British are selected for their moral as well as for their physical value.

It was noted that both the Germans and the British take full advantage of cloud cover in their air operations.

The British make a careful study of the objectives they plan to attack. As a rule, they have, for obvious reasons, been attacking gasoline storage tanks, gasoline producing plants, large railway concentrations, munitions factories, German shipping, assembled lots of small boats which might be used for invasion, hostile airdromes and other well selected targets. They do not attack anything but military objectives. Each combat crew always is given two areas, each of which contains a primary and a secondary objective. The two areas are given because of the impossibility of forecasting very far ahead the weather conditions. They are instructed that if they cannot attack any of these objectives because of weather or other conditions to bring their bombs home.

We have greatly exaggerated the value of air attacks on airdromes occupied by an alert air force. The damage done to British airdromes has not been serious nor was it worth the cost. The best examples to date are Malta and Stavanger.

21. BOMBS.

The British in addition to the general purpose bomb have a semi-armor-piercing and an armor-piercing bomb. When questioned as to the value of the armor-piercing bomb the statement was made that they have not had enough experience against German warships to determine its value. The Naval Air Attache in London had an opportunity to examine many British ships that have been damaged by aircraft bombs. He reports that he has arrived at the following conclusions: That the mining effect of the aerial bomb has been greatly exaggerated; that the fragmentation effect of a bomb striking the water and exploding near the surface does real damage and has been greatly minimized in the past; that hits on the deck with practically instantaneous fuses do great amount of damage. His general conclusion is that the most valuable bomb against ships is a bomb which will carry the maximum amount of explosive, which will have a case thick enough to provide substantial fragments, and which has a fuse with a delay of from one-eighth to one-hundredth of a second. It is also to be noted that such a bomb would be ideal for the attack of structures, the roofs of which can be penetrated by this type of bomb.

CONFIDENTIAL

It is highly probable that in total destruction incendiary bombs have been responsible for greater losses than have high explosive bombs. This is spite of the fact that most of the counter-planes in England is of masonry. Against modern construction, such as we have in this country, incendiary bombs used in accordance with the German tactics would undoubtedly have a terrific effect.

22. GROUND POSTS.

We had opportunity to visit several operations and control rooms. They ranged from the Cabinet Operations Room down to a station operating room. They occupy a large amount of space and require a large amount of personnel. However, they do present to a commander a clear and simple picture of the situation at any moment and, in a modern war where time is of the essence, we feel that the creation of suitable command posts, including operation rooms, in the United States is very necessary. Many are under ground. The design, construction and organization of these command posts have covered a period of years. There is much that we can learn from them. The Military Attache has made detailed reports of some of them, such as the very complicated one of the Fighter Command. The secret of the success of the operations is rapid, reliable and accurate channels of communications. The British have installed a very elaborate system of communications, consisting of the telephone, the teletypewriter and the radio. This system of communications must have been extremely expensive and required years, but it is the framework upon which the defenses of Britain are built. If England successfully resists an invasion it will be because of this communication system. The fact that an airplane can be picked up by a radio watchman and the position, direction of flight, and so forth reported to a fighter station in a matter of seconds is illustrative of the care with which this system has been designed and of its value.

23. The following are brief comments on the Fighter Command, the Bomber Command, the Coastal Command, the Ballroom Command, the Anti-aircraft Command, the Searchlight Command, the Air Field Protection Service, the Observer Corps. Full details of these organizations have been reported by the Military Attache.

A. Fighter Command. The following tabulation shows the fighter strength of the Royal Air Force in England at the present time in squadrons:

Spitfire	-	33
Hurricane	-	19
Blenheim	-	8
Defiant	-	2
Gladiator	-	2

Of the above 3 are included in the operational training units and 1 in the non-operating units. The British squadron strength in fighters is as follows:

12 in the first line or ready for operations.
6 in immediate reserve.
4 in command reserve. The use of this last four is restricted to emergencies or approval by group commander.

In England all purely defensive means against air attacks are, as they should be, under one command, the Fighter Command. This organization is a model for us to follow. It is beautifully organized and operates most effectively. In the Continental United States it is believed that four Fighter Commands should be organized in our four great strategic areas.

b. Bomber Command. On the 27th of August a visit was paid to the Bomber Command, which consists of the following:

36 operational squadrons
6 non-operational squadrons
11 Operational Training Units.

It is to be noted that the Operational Training Units are used to the utmost for training crews for the operational squadrons. The output of the operational training units which are not immediately needed for operational squadrons, are put in reserve squadrons where full operational training is maintained until such time as replacements are required for the operational units. The operational units are divided up into five groups each of which have the same equipment throughout, each group consisting of from four to eleven operational squadrons. The number of groups shortly will be increased to six.

It is to be noted that there was a marked shortage of serviceable equipment in some squadrons of the operational forces, one squadron being reduced to two serviceable planes. Others had as high as seventeen serviceable planes. It is doubtful whether in the latter part of August the Bomber Command could actually operate as many as 300 bombing planes. According to Lord Beaverbrook this situation will be very greatly improved in the near future.

c. Coastal Command. The primary functions of the Coastal Command are the air protection of convoys along the coast of Great Britain, and the operation of patrols to determine the location of enemy surface and submarine forces and their attack when practicable, to furnish the necessary seaward reconnaissance for the defense of Britain and the check on the location and operation of British surface and submarine forces. It is intimately connected with the Navy, with the Fighter Command, and to a certain extent with the Bomber Command. Outside of its main functions of providing warning against invasion, escorting convoys and locating and attacking enemy submarines, and certain miscellaneous duties in connection with minefields and photography, its squadrons are used for attacks against hostile ports and shipping.

d. Balloon Command. Under the Fighter Command comes the Balloon Command. This Command handles all barrage balloons in England except a small number that are being experimented with by the Navy in connection with the protection of convoys against dive bombing. The number of balloons, their altitude and the hours for change from one altitude to another are determined primarily by Fighter Command requirements with a constant flow of information from the Balloon Command Headquarters to the Bomber Command, the Coastal Command, and the Navy. It seemed to be the consensus that the barrage balloon system acted as a very useful deterrent against low altitude bombing operations in those places protected by a balloon barrage. In the bombing operations on August 16 at Ramley, it was noted that all bombs dropped were at least half a mile south of the southern line of barrage balloons protecting South London. Similarly, during the rather intensive raiding during the period August 21 to August 30, fully 90 per cent of the bombs were dropped east and north of the balloon barrage protecting London. It is to be noted that barrage balloons do not offer an immunity from bombing, particularly high altitude bombing, but they do not constitute a very marked deterrent against low altitude or dive bombing. We recommended that \$5,000,000 be made available immediately for the development and test of barrage balloons, cables, carriers, and accessories.

We observed a large number of barrage balloons around the important cities. The maximum altitude to which these balloons can go at present is about 6,000 feet. The Commander-in-Chief, Bomber Command, informed us that the German barrage balloons can go up as high as 14,000 feet but use lighter cables. One of the officers at the

CONFIDENTIAL

fighter Command informed us that the British would probably be the same thing. In this connection we had an opportunity to see the installation of the cable uniters on Hampden bombers. We were informed that this cable uniters, while not as satisfactory as it should be does actually cut without cables and does constitute a great deal to the wire and safety of landing crews which must attack German installations protected by barrage balloons when weather conditions require low altitude landing. They have and still do make such attacks and have cut a number of balloons on each wing. It was stated that although they would require a great deal and prevent in front of the leading edge fire or air fighter they do not materially affect the performance of the airplane. One worry they have in this connection is that the present type of cable cutter cannot be used in conjunction with the best type of de-liner.

g. ANTI-AIRCRAFT COMMAND. The Anti-aircraft Command has headquarters adjoining the Fighter Command Headquarters and is under the operational control of the Fighter Command. It consists of six regiments which are part of the Army artillery. The Commanding General of the Anti-aircraft Artillery Command, General Pile, advocates 40 per cent of heavy guns and 60 per cent of light guns or submachine weapons such as the 40 mm and the 37 mm or the .50 caliber machine gun, in each tactical unit. General Pile expressed himself quite emphatically that in his opinion, the .30 caliber machine gun was utterly useless for anti-aircraft work for the reason that it had neither the hitting power nor the rate of fire that is necessary.

h. SEARCHLIGHT COMMAND. The Searchlight Command, which consists of many thousands of searchlights, is under the operational control of the Anti-aircraft Command.

i. AIR BALT PROSECUTION SERVICE. The Air Balt Prosecution Service is beautifully organized and is performing a most valuable service. It is under the operational control of the Fighter Command. Its organization has been reported on by the Military Attache. He should adopt it to our requirements without delay as the creation and equipping of a force of the size we require will take many months.

j. OBSERVER CORPS. The Observer Corps is also well organized and is performing a most useful service. It is under the control of the Fighter Command and is a model for us to follow. It is further discussed on page 21.

24. ARMY COMMAND.

All Army Forces in England are grouped for operations under the Commander-in-Chief, Home Forces. The Home Forces are divided into a number of commands, of which the only ones related were the Southern Command and the Eastern Command. The Southern Command consisted of the 7th Corps and the 12th Corps. The Commanding General of the 7th Corps was General Montgomery, a Canadian who had a fine record in the last war and who has developed a very much of a leader in the present war. He has very decided ideas as to organization and equipment which have been more or less in conflict with the ideas of the War Ministry but which have received the concurrence of most Commanders of Ground Forces. General Montgomery expressed himself quite emphatically that as the result of his experience in the last war and in the present war, the Corps should consist of the nucleus of three divisions, each with the strength of about 15,000, and each infantry brigade should have four battalions instead of three. He insists that all replacements must come into divisions fully trained in an infantry training center and not in from holding battalions in which they have been trained in battalion operations. This insistence on receiving fully trained men rather than attempting to train them in divisions was found to be

general throughout England. It is generally accepted that a division cannot carry on basic training for replacements and at the same time keep up the standard that has been found necessary for the efficient performance of field duties. The brief visit paid to the Canadian Corps indicates a very high state of efficiency on the part of both officers and men. The latter are well set up, clean, intelligent, and apparently know their job thoroughly. They are working hard and show the results of such work. A better appearing body of men would be hard to find any place. The Canadian Corps have developed a system of adapters whereby all machine guns and light automatic weapons are given adapters so that they can be used for either horizontal or vertical fire. Working bearings of these adapters were obtained and given to the Military Attache with instructions that they be furnished G-2. This system of having all automatic weapons capable of anti-aircraft fire has put a very definite stop to the German dive-bombing tactics insofar as England is concerned. Other matters noted in this visit to the 7th Corps will be found under paragraphs headed Engineers and Anti-tank defense.

The 12th Corps, under command of Lieutenant General Thorne, is charged with the defense of southeast England, and we were given the opportunity to make a tour with General Thorne over his area and examine the defense system prepared to meet a possible invasion. The tour covered the general area of Tunbridge Wells, Canterbury, Sheerness, Margate, Ramsgate, Dover, Deal, Dungeness and Winchelsea. The entire area is covered by three lines, consisting of a beach defense, a corps line with highly organized strong points, and a G.H.Q. line, the necessary switch lines being laid out. The area is well gridded, with nodal points strongly organized for defense, and in these defensive features concealment is strongly emphasized. It is to be noted that the original work frantically put in immediately after Dunkirk, contained many improperly sited strong points and works, which have been left as they were, very largely as bait, because they certainly must show up well in aerial photographs. The outstanding feature of this defense system which is based essentially on holding beach defenses, consists in having highly mobile, fully motorized reserves available under G.H.Q. Corps and Divisions, to be thrown immediately into any sector attacked. The system being very much the same as our normal fire protection system in cities, with a prompt shifting of apparatus from one station to another in the event of a fire. While the 12th Corps has an enormous front and at present an inadequate number of divisions, it has at its disposal the troops of the 7th Corps in the event of an emergency. It is understood that a number of additional divisions will be put in the 12th Corps by the middle of October. It is to be noted that the Commanding Generals of both the 7th and the 12th Corps are quite insistent upon maintaining motor transportation so that their reserves are fully motorized and can be thrown from one station to another in a minimum of time. At every nodal point and at practically every road intersection obstacles and road blocks have been established so that they can quickly be put into effect. It is further to be noted that the Local Defense Volunteers in such regions and districts which go to make up the Southern Command are at the disposal of Corps Commanders in the event of an emergency, thus freeing combat personnel to a very high degree for service in connection with the beach defenses or on the divisional defense lines. For the organization of the defenses in this area the engineers of the 7th Corps were used for two months and a half in addition to the engineers of the 12th Corps.

25. ARMORED DIVISIONS.

Both the First and Second Armored Divisions were visited and in both of these demonstrations were put on to show their tactics. While the visit to the First Armored Division, with its demonstration, might have been staged for our benefit, the demonstration in the Second

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Armored Division was at a surprise visit in company with the Secretary of State for War, Mr. Blum, and obviously was unannounced to the Division Commander prior to the arrival of Mr. Blum. Generally speaking, these Armored Divisions are divided into four corps. The scouting force consists of light "scooped" tanks which correspond to our scout cars but which have neither the speed, armament, nor maneuverability of our scout cars. They are accompanied by a large number of motorcycles, most of which are armed with tommy guns. The machine gun carriers which form an integral part of the scout force brigade each have one Boys gun for horizontal fire, but the rate of fire was criticized as inadequate for most requirements. Both the machine gun carriers and the scout cars have very limited cross-country ability. It is to be noted, however, that all .30 caliber machine guns were capable of vertical as well as horizontal fire. The preference was very generally expressed for .50 caliber machine guns in place of the .30 caliber.

The striking force of the Armored Division consists of one brigade armed primarily with cruiser tanks which have been reported upon by the Military Attache, and which seem to be an eminently satisfactory vehicle, although two or three tank commanders who served in France believe that they should be more heavily armored, particularly around the engine.

The third brigade of the Armored Division which is the support force, consists of only two battalions of infantry. The need of a third battalion, more heavily armed in machine guns, anti-tank guns and mortars was indicated. The Division Headquarters under which are grouped the engineers, the signal troops, the supply echelon and the artillery, appeared to be quite as mobile as the other brigades, but a marked preference was expressed for the 25-pounder gun of which they had only one battalion, as against the 18-pounder gun of which they had two battalions and with which they had been armed in France. Greater flexibility, greater fire power and higher trajectory of the 25-pounder were apparently the chief factors leading to the preference for this gun.

In regard to tank tactics, on four separate training problems it was noted that the light tanks and the cruiser tanks both operated as platoon units, usually separated by a distance varying from 400 to a thousand yards, with platoon formation in echelon either to right or left, and with a platoon mission of breaking through the objective and then immediately circling back, either by platoon or individual tanks, to mop up anti-tank weapons that had been located during the advance. Smoke was employed in practically all attacks. It was noted that the radio equipment was built into a tank and not makeshift devices subsequently installed. Radio communication means seemed to be eminently satisfactory. Tank commanders were almost a unit in expressing an opinion that the armor on light tanks should not be less than 50 millimeters in thickness and on medium tanks not less than 70 millimeters in thickness.

26. TRAINING CENTERS.

Officers. A visit was paid to the officers' training center at Sandhurst. This course consists of four months and is supposed to be adequate to indoctrinate newly appointed officers for the performance of their duties as platoon commanders. The instruction except insofar as driving of motor vehicles, that is motorcycle, passenger car and truck which is compulsory for all officers below the grade of brigadier general, was entirely theoretical, was done by antiquated methods except insofar as the use of the sand table for minor tactics was concerned, and appeared to be utterly devoid of any useful results insofar as training a platoon leader is concerned. It was the most inefficient and the most useless thing that was seen in England.

Infantry Training Center. A detailed inspection was made of the activities of the Infantry Training Center run by the Depot Battalion of the Queen's Royal Rifles at Guildford. The course consists of sixteen weeks' intensive training in which each individual receives an extremely thorough and apparently an extremely efficient training in the

CONFIDENTIAL

rifle, the automatic rifle, the .30 caliber machine gun, the heavy anti-tank gun, the infantry mortar, and in hand and rifle grenades. The exercise of simulation, both sub-caliber and service as fired in each one of these weapons, have been reported upon by the Military Attache. The greatest emphasis is placed on physical training and on perfecting the recruit. They work on the average of from eight to twelve hours a day, which includes a minimum of four hours' night operations per week. The men were clean, alert, apparently in magnificent physical shape and showed clearly, particularly the advanced platoons, the result of their intensive training. Under the advanced platoons, the subject was given either by a non-commissioned officer, a retired officer, or a civilian who was an expert in his own particular line. They were all up on their toes and worked with the greatest enthusiasm and push. The course was devoted entirely to training, all administrative, supply, fatigue and guard work was done by permanent personnel, none of it by the trainees. This course and schedules pertaining thereto have been furnished by the Military Attache. Serious consideration should be given to this system in the United States for the reason that it produces astonishing results in a very short time. The men turned out are trained soldiers and not recruits.

Engineers. The Commanding General of the 7th Corps stated very forcibly that his own experience in France indicated the vital necessity of increased strength in engineers which he deems essential for road blocks, for exploding bombs, for making road repairs and for demolitions. He is now working to a strength in the Canadian Corps of 5,899 engineers for a two division Corps, and 6,799 engineers for a three division Corps. This gives an engineer strength of approximately 14.6 per cent.

An inspection was made of the Engineer Training Center at Cambridge. The outstanding feature of this inspection was an exhibition of the construction of four types of a tubular steel bridge known as the Ingalls Bridges. The normal type is a two-way bridge, capable of handling 34 tons on a 90-foot span. Other types are variations of this basic type but are made out of standard links of tubular steel and are capable of extremely rapid construction. On one test, with four gangs of approximately 16 men each working on the bridge, it progressed at a rate of approximately 7-1/2 feet per minute. The material is simple, it is easy to produce and appears to be most effective. A full report, as to cost, production problems, weight, transportation loads, etc., should be required of the Military Attache in London.

27. BEACH DEFENSES.

In the defense of England, the British Army is committed to the principle of meeting the enemy at the beach and there defeating it. To this end, at every practicable landing beach in England there has been constructed obstacles of concrete, of railroad iron and of barbed wire, all covered with machine gun fire which have to be surmounted before an enemy could get a toe hold. Back of these beaches but still within field of fire of small arms, are machine gun nests and in some cases concrete strong points that would make a landing an extremely costly effort. In the Southern Command, at varying distances back of the beach, are a series of strong points to serve as centers of resistance until mobile forces held on the Division or G.H.Q. lines in rear can be brought up to reinforce the local defenders and drive the attempted landing back into the sea. The types of obstacles, some of which are new in character, is expected to be very well suited for the particular type of terrain which is found on these beaches. They are designed to meet a local situation and in consequence will not be described in detail. These beach defenses represent an immense amount of intelligent engineering effort and form an accomplishment that is worthy of very high praise.

28. ANTI-TANK DEFENSES.

The British, in preparation for the defense of England against landing attacks, have devoted considerable attention to anti-tank defenses. They have provided obstacles on all important roads which are designed to delay an advancing force and subject it to anti-tank gun fire.

In addition to anti-tank guns that are specifically assigned to particular localities for anti-tank defense, each British battalion is now working toward 12 anti-tank guns per battalion. Where possible, British desire the 47 mm anti-tank gun which they consider the lightest gun capable of anti-tank defense. The present British anti-tank gun is considered unsatisfactory on account of lack of hitting power and on account of excessive weight. British Line Officers claim that a maximum traverse of 30 degrees is all that is ever required, and a 360 degree traverse for anti-tank guns is an absurdity. They do desire and in some cases have an adapter to permit the use of the anti-tank gun for anti-aircraft fire. It is very questionable whether any effective results can be obtained by this system.

The Engineers of the Canadian Divisions have devised a tank defense system which is apparently remarkably effective. It has been put into effect throughout the area covered by the 7th and 12th Corps and is worthy of serious consideration. The engineers are very well equipped with various types of machines such as concrete mixers, post hole diggers, road machines, bull-dozers, cranes, well-drilling machines, etc. In digging a tank trap, a well-drilling machine forces a 50-foot, 2-1/2 inch pipe diagonally into the ground at an angle of about one on five to one on eight, depending upon the soil. These pipes are put in overlapping at about 15 foot intervals. When in, they are filled with explosives at the rate of about 2-1/2 pounds per lineal foot of pipe. They are then tamped with water and exploded. The result is a ditch about 12 feet in depth and about 20 feet in width with very spongy soil at the sides and bottom. Actual tests show that this is far more effective than the hand or machine dug ditch with reveted sides because a track vehicle getting in the ditch, churning up the spongy soil, buries itself and is unable to get out. This system, devised by Canadian engineers, is very much more rapid than the construction of the conventional form of tank trap.

29. ANTI-AIRCRAFT DEFENSE.

Great attention has been paid by the British to the subject of anti-aircraft defense and they have made very considerable progress in this respect. Every important industrial installation, every air field, and every important command post is given some measure of anti-aircraft defense. This consists, generally speaking, of about 40 per cent heavy guns and about 60 per cent light. The British are leaning very strongly to the 3.7 and the 4.7 anti-aircraft gun in order to get bursts at high altitudes. They are definitely of the opinion that the 3-inch anti-aircraft gun is so ineffective that no more should be procured. As to lighter weapons they look upon the .30 caliber machine gun as extremely ineffective except against very low flying bombers. They very strongly favor the .50 caliber machine gun with a high rate of fire, approximately 1,000 per minute. The 20 mm gun is very favorably considered and is reported to be extremely effective against low flying aircraft. The 40 mm gun has done a great deal of damage against low flying aircraft but its rate of fire is held to be totally inadequate. Searchlights were very extensively used in connection with anti-aircraft defense at night up until September 11, thereafter it was very unusual to see a searchlight at all, and the consensus seemed to be that searchlights did more harm than good in guiding an enemy to an objective and illuminating a target so that anti-aircraft guns could fire on the target. After September 11 anti-aircraft guns were used effectively without searchlights by means of the R.D.F. instruments which will be referred to in the succeeding paragraph. About this time the British devised the system of an aerial barrage by means of anti-aircraft fire. This barrage was apparently more successful in interfering with bombing attacks. In this

be designed and built into the machine and not added afterwards as an additional gadget. This results in much better reception than is the case for instance in our tanks and scout cars in the United States.

12. THE STRATEGICAL SITUATION.

The strategical concept of the war and the general tones of plans for the future conduct of the war were discussed in detail with the Chiefs of Staff of the three armed services and with the Vice Chiefs of Staff of the three services. This was supplemented by detailed discussions with the War Plans Officers of the Army and the Royal Air Force. Certain documentation that was furnished us in this respect was given with the distinct understanding that it would not be embodied in any report but was solely for the information of the Chief of Staff and the President, and that after the papers had been presented separately to the Chief of Staff and the President they must be destroyed. The undersigned gave our assurances to this effect.

On September 2, Mr. Churchill asked the undersigned to convey to the President the following statement of his urgent needs:

(1) Expediting the manufacture and shipment of machine tools already under order, it being vital to British production that these tools, particularly castings and millers, be furnished with the least practicable delay.

(2) Flying boats (Swedish contract) which are essential to combating the present submarine menace. In addition to these, Mr. Churchill desires 50 FBT's over and above those that are now on order. They are needed at once.

(3) Motor torpedo boats. Twenty of these are urgently needed for policing the channel in the event of an attempted German invasion in order to combat the German E-boats.

(4) Rifles. Mr. Churchill stated that he feels the urgent need for every possible rifle that we can spare over and above the 275,000 Lee-Enfields which had not been shipped by that date.

(5) Anything that can be done to expedite the manufacture and delivery of airplanes now on contract would be a distinct contribution to meeting the serious shortage of combat planes which now exists.

(6) 16-inch C.D. guns. Mr. Churchill expressed himself as urgently desiring two (2) coast defense guns of a range of approximately 45,000 yards for counter battery work against the German big gun installations opposite Dover.

(7) As many pilots, trained by the Army and Navy, as will volunteer. Mr. Churchill stated that he would provide any Army or Navy pilot, on a leave of absence status for a few months, a wonderful training by giving them actual combat experience.

On September 16, in the course of a farewell call, Lord Beaverbrook stated that he desired the President to know that he was very much concerned over the action of the British aviation people on the order for 100 G-74 light observation airplanes. On July 6 the British Government requested a diversion of 100 planes ordered by the United States Army in order that they might receive the first hundred manufactured to meet their

requirements. On August 14, the last date the British Government could obtain from the Blissens factory, run from January 10 to May 14, 1941. Later the January 1941 delivery date was officially changed by the factory to August 1941; thus setting back volume of the deliveries. At the same time the British Purchasing Commission was told by the Blissens factory that deliveries could start on three airplanes in March 1941 provided the British Government pay \$5,000 more per plane. Lord Beaverbrook looks upon this price increase and juggling of dates as extortion and states further that the delivery dates proposed are not in relation to the exterritorial prices asked. Lord Beaverbrook desires the intervention of this Government in effecting a reevaluation of this type of aircraft which would serve British Government requirements.

At this meeting Lord Beaverbrook requested further that 32 B-17 Boeing bombers be placed at the disposition of the British Government at once in order that long-range bombing of Germany may continue through the winter. He intimated that conversations had already taken place with the President on this subject. Lord Beaverbrook further requested that at the earliest possible date six complete turbo superchargers, with spares, be turned over to Great Britain for tests, it being proposed to put two on a two-engine bomber, two on a fighter, and two on other type of aircraft that was not designated. The Ministry of Aircraft Production declares that these superchargers be released at the earliest practicable date. These requests of Mr. Churchill and Lord Beaverbrook are submitted for transmission to the President in accordance with their request.

33. CONCLUSIONS.

A. Insofar as the defense of England is concerned, it has been for some months, is now, and probably will be for some time to come, an air war. It is very probable that we too will be confronted with a similar air war phase in the event that we become engaged in war. The lesson from this war, as far as we are concerned, is that we must build up the striking component of our Air Force as quickly as possible.

B. We both have the very definite feeling that sooner or later the United States will be drawn into this war. A study should be initiated immediately as to how we best can build up our air striking force and our air defense force in the shortest practicable time. The negotiation by the United States of bases in this hemisphere has made a very definite change in our situation. It may mean a revision of our requirements and to this end it is recommended that the Air Board be recommended to make this study and to make recommendations as to how to build up an adequate Air Force in the shortest possible time.

C. During this tour we had an opportunity to examine as few people have, the preparations that a great nation has made for war that involves national existence. In addition, we had a chance to get a perspective of our own War Department and to make

a comparison with that of the British. It is quite obvious that the British in some respects are markedly more advanced than we are. Our cumbersome procedure in the War Department is too well known to bear comment. We appreciate that no changes can be made at this late hour which will upset current planning and operations, but it is believed that the simplification of administration, procurement and planning is highly desirable.

g. The outstanding lessons of the war for us appear to be as follows:

- (1) Our air program must be radically revised. Observation aviation as a type must be scrapped. It cannot function under modern battle conditions. In its place must be a fast, well-armed light bomber, capable of carrying an adequate bomb load and fitted with means for aerial photography and de-icing equipment. The fire power of our pursuit and bombers must be increased. Bomb bays must be provided for handling the maximum number of bombs of all sizes that an airplane can carry.
- (2) Antiaircraft guns, heavy and light, must be provided for all bases, air fields, vital installations and mobile columns. Such armament must be capable of horizontal fire against ground targets. Ground machine guns must be furnished adapters for anti-aircraft fire.
- (3) A higher proportion of engineer troops must be made available for mobile forces for repairs to landing fields and roads, for executing demolitions, for the construction of defense works, and for making anti-tank obstacles.
- (4) Dependable multiple means of communications must be furnished all echelons.
- (5) More effective combined training between air, ground and naval forces must be established as a routine matter.
- (6) More rigorous physical and disciplinary training must be given both commissioned and enlisted personnel. A high state of physical training is necessary for modern operations.

(7) A high degree of tactical indoctrination of officers, and a correspondingly increased local decentralization of responsibility for subordinate commanders is strongly indicated.

(8) There is a marked need for more effective and rapid radio communication in code.

(9) A marked increase in anti-tank defensive power in Divisions is necessary.

(10) The quantity, equipment and method of utilization of communication troops must be thoroughly revised and expanded.

(11) The using service rather than a supply agency must have final determination of types and specifications of equipment to be used by that service. The determination of these matters by a supply agency is unsound.

DELOS C. EMMONS,
Major General,
Commanding G. H. Q. Air Force.

GEO. V. STRONG,
Brigadier General,
Assistant Chief of Staff.

OCT 8 1940

My dear Mr. President:

As a result of the trip which Ed Foley took to San Diego this past week-end with representatives of the Army and Navy, and the British Purchasing Mission, I am convinced that it is imperative that H. R. 10412, which would provide \$150,000,000 for the construction of housing for persons engaged in national defense activities and their families, be enacted at the earliest possible date.

For example, to illustrate the need, approximately \$23,500,000 is required to provide adequate housing facilities for civilians who will be employed at the Consolidated Aircraft Corporation plant in San Diego. This sum will enable dwelling units to be constructed for 6,000 families and for 6,000 bachelor employees according to estimates made by the Federal Housing Administration.

I understand that Congressman Latham, Chairman of the House Committee on Public Buildings and Grounds, is handling the appropriation as well as the bill and you may wish to speak to him and the leaders concerning this matter.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The President

The White House

105 to Mr. Thompson

CLK:LJB:t
10-8-40

By Messenger 11:30

To Gen. Watson

OCT 8 1940

My dear Mr. President:

I have just learned that the House early this afternoon adopted the conference report on H.R. 10412, the national defense housing bill, I wrote you about this morning. This completes legislative action on the bill. The House this afternoon also passed and sent to the Senate a joint resolution appropriating the \$150,000,000 authorized by H.R. 10412.

I have been advised that the Senate intends to complete action on the appropriation before adjournment this afternoon.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

File to Mr. Thompson

By Messenger 4 55

LJB:EHF Jr.:vls - 10/8/40

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(signed) H. Morgenthau, Jr.

The President,

The White House.

By Messenger

LJB:EHF Jr.:vls - 10/8/40

TREASURY DEPARTMENT

203

INTER-OFFICE COMMUNICATION

DATE October 8, 1940

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

For your information

I have just been informed that the Senate this afternoon appropriated \$150,000,000 to carry out the purposes of the National Defense Housing Bill for civilian employees. This completes legislative action on the bill and the appropriation. Both measures are now going to the President for signature.

E.H.F.

October 8, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



You had as your guest at lunch today Mr. Charles Hewitt, Jr., the young man whom Edgar Ansel Mowrer mentioned when he called on you several weeks ago.

Hewitt lived in Munich for some seven years and for about two years worked under Mowrer as a correspondent of the Chicago Daily News. His home is in North Tonawanda, a suburb of Buffalo, where his family runs a newspaper. Since his return from Germany Hewitt has been interested in developing on his own account evidence of German "Fifth Column" work in the United States. He told us at luncheon today that because of the excellent letters he presented to Bavarians from Dr. Jacob Gould Schurmann and others he had very good access to persons of many ranks in Bavaria, including men who later became important Nazis. He thought also that his appearance counted in his favor, as he is of the blond type that might be considered German.

His particular object today was to interest you in the possibilities of this Government's making use of the ability and experience of Albert Grzesinski, who has been in this country since 1937 when Messersmith cooperated in accomplishing his entry from Canada. This man was the officer in charge of the demobilization of the German army after the last World War, was later successively Chief of the Prussian Police, Chief of Police of Berlin (in which capacity he visited the United States on the first voyage of the dirigible Von Hindenburg) and Controller of the Political Police of Germany from 1923 until Hitler's access to power in 1933. Hewitt said that G at one time signed an order for the deportation of Hitler as an undesirable alien (his nationality was then Austrian) but this order was not executed because of the timorous character of Chancellor Brüning. Hewitt says he has been in frequent contact with G, who has extensive files, including dossiers of many important characters and would be of unique value in assisting our Government because of his knowledge of the manner in which the various German organizations operate. He had called G to the attention of the F.B.I., but the only result was that F.B.I. men at various times had called on G to ask information on specific cases and individuals. He cited several instances of what

- 2 -

seemed to him the failure of the F.B.I. to operate effectively on this problem and said, citing instances, that the German representatives were cynically bold in their operations in this country. While he didn't think G had a list of German under-cover men in Government Departments and key industries, he thought that G could be of unique value in compiling such a list. He said the F.B.I. didn't have adequate records even on what is publicly known of German operations in this country.

In conversation with Hewitt afterward he assented vigorously to a suggestion that G could very profitably be put to work at going over the records of the McCormack-Dickstein inquiry of several years ago, which he thought highly important, the Dies Committee hearings, the files of German language newspapers and other material, and in suggesting a plan of action to combat the Fifth Column menace in this country.

As to G's source of income, he told me that he believed G had some capital and income from his writings, which include a book called "Inside Germany." He is very confident of G's reliability and his thorough-going antagonism to the present German regime. He said G fully intended to become an American citizen, had taken all the necessary steps and would be an American citizen in about another year and a half. G's wife, he said, is of English descent and her name was Daisy Torrance.

Since leaving Germany in 1933 and up until he came to this country in 1937 G was a member of the Comité Consultatif, attached to the French Home Ministry, which had charge of the entry of refugees into France and their supervision while in France. He thought generally that this Government was failing to make use of its most important asset for counter-espionage, which was the knowledge of the methods of German espionage possessed by Germans in the United States who are thoroughly hostile to the Nazi Government.

You explained to Hewitt that such a matter as the utilization of G's services was outside the sphere of the Treasury Department but that within twenty-four hours you thought you would be able to name the man who would exercise general direction over this sort of work and that you thought it would be Francis Biddle. You said you would let him know.

The following addresses are for the record:

Albert Grzesinski,
146 West 79th Street,
New York City.
Telephone: Trafalgar 7-8464

Charles Hewitt, Jr.,
146 East End Avenue,
Telephone: Regent 4-6992
In Washington - c/o John M. Billings,
Dupont 4411.

(Hewitt thinks he made an error in giving you G's New York address.)

October 3, 1943.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Canton

You had as your guest at lunch today Mr. Charles Hewitt, Jr., the young man whom Edgar Ansel Murrer mentioned when he called on you several weeks ago.

Hewitt lived in Munich for some seven years and for about two years worked under Murrer as a correspondent of the Chicago Daily News. His home is in North Tonawanda, a suburb of Buffalo, where his family runs a newspaper. Since his return from Germany Hewitt has been interested in developing on his own account evidence of German "Fifth Column" work in the United States. He told us at luncheon today that because of the excellent letters he presented to Bavarians from Dr. Jacob Gould Schurmann and others he had very good access to persons of many ranks in Bavaria, including men who later became important Nazis. He thought also that his appearance counted in his favor, as he is of the blond type that might be considered German.

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seemed to him the failure of the F.B.I. to operate effectively on this problem and said, citing instances, that the German representatives were gradually held in their operations in this country. He didn't think G had a list of German under-cover men in Government Departments and key industries, he thought that G could be of unique value in compiling such a list. He said the F.B.I. didn't have adequate records even on what is publicly known of German operations in this country.

In conversation with Howitt afterward he asserted vigorously to a suggestion that G could very profitably be put to work at going over the records of the McCormack-McCraw Inquiry of several years ago, which he thought highly important, the Hays Committee hearings, the files of German language newspapers and other material, and in suggesting a plan of action to combat the Fifth Column menace in this country.

As to G's source of income, he told me that he believed G had some capital and income from his writings, which include a book called "Inside Germany." He is very confident of G's reliability and his thorough-going antagonism to the present German regime. He said G fully intended to become an American citizen, had taken all the necessary steps and would be an American citizen in about another year and a half. G's wife, he said, is of English descent and her name was Daisy Ferrance.

Since leaving Germany in 1933 and up until he came to this country in 1937 G was a member of the Comité Consultatif, attached to the French Home Ministry, which had charge of the entry of refugees into France and their supervision while in France. He thought generally that this Government was failing to make use of its most important asset for counter-espionage, which was the knowledge of the methods of German espionage possessed by Germans in the United States who are thoroughly hostile to the Nazi Government.

Tom explained to Howitt that such a matter as the utilization of G's services was outside the sphere of the Treasury Department but that within twenty-four hours you would be able to name the man who would exercise general direction over this sort of work and that you thought it would be Francis Biddle. You said you would let him know.

The following addresses are for the records:

Albert Grossmann,
146 East 79th Street,
New York City.
Telephone: BRadford 7-8464

Charles Howitt, Jr.,
146 East End Avenue,
Telephone: BUrgess 4-6792
In Washington - c/o John B. Williams,
Burgess 4611.

(Howitt thinks he made an error in giving you G's New York address.)

October 8, 1940.

MEMORANDUMCONFIDENTIAL - TO BE DESTROYEDTO: Secretary Morgenthau
FROM: Mr. Gaston

Hewitt talked more freely and with much less hesitation when he was in my office, confirming my impression of him. I noted that he bites his finger nails, which is added evidence. I think though that it might be a good idea to check further with Edgar Mowrer about him, which I hope to do.

October 9, 1940
10:30 a.m.

RE BABY BONDS

Present: Mr. Bell
Mr. Haas
Mr. Sloan
Mr. Broughton
Mr. Bryan

H.M.Jr: How much does this booklet cost?

Bryan: This costs less than a cent apiece.

H.M.Jr: How many are you getting out?

Bryan: We would ordinarily use around 500,000.

H.M.Jr: \$500,000?

Bryan: Oh no, that is \$50,000.

H.M.Jr: You mean you get that out for a cent and a half?

Bryan: Oh yes, we do it for a cent and a half.
The cost, Mr. Secretary, is in the preparation and then we are using lithography and we are doing beautiful things at very small cost.

Sloan: There has never been one yet that has cost over a cent and a half.

Bryan: And for every eight assemblies we send out, we sell \$250 worth of bonds.

H.M.Jr: You credit everything that comes in, don't you?

Bryan: Sure.

- 2 -

H.M.Jr: I wonder what if you didn't send anything out?

Bryan: Well, even --

Bell: If you stop advertising, your sales go down.

Sloan: You are not figuring post office sales, are you?

Bryan: Yes. But I will say this, it costs us less than - it costs about one sixth of one percent from a mail order standpoint. It costs us less than half of one percent including the postage, Mr. Secretary; charged to us as if we were a commercial organization.

H.M.Jr: Where is Jefferson?

Bryan: Well, that is just --

H.M.Jr: Where do you come from, Maine?

Bryan: Tennessee.

H.M.Jr: What? I don't believe it. If you are going to have three people, why not stick Jefferson in there?

Bryan: Yes, Mr. Secretary, I quite agree with you. That was just a suggestion for the artist.

H.M.Jr: Just as soon as you give them Civil Service status, they go --

Bryan: I think that would be a nice thing.

Bell: I was just explaining that we have in mind a portrait later for Treasury bills of the denominational basis and we thought probably Ogden Mills should go on there, because he was the originator of Treasury bills, but we went back and picked out Carlyle.

H.M.Jr: Well, stick old Jefferson in there.

Bryan: I shall, sir.

- 3 -

Bell: How do you like that idea, Mr. Secretary?

H.M.Jr: Good.

Bryan: I think it is so much better than the other idea.

H.M.Jr: That is all right.

Bryan: I am sorry I made a bust on the portrait.

H.M.Jr: If you had got away with that, I never could have gotten it explained to the President.

Now, Dan, you have got until eleven o'clock.

Bell: You cut me out an hour, I see.

H.M.Jr: Yes. You just tell me what you want, and I will say yes.

Bell: Well, this is the conference on the question as to whether we should change the rate on United States Savings Bonds and if we are going to change, we ought to know now because it takes about six weeks to two months to make the changes and get everything out into the hands of 16,000 postmasters. We have had some discussion among ourselves and we have a table here to show the various rates, if you want to look at them, but I think this group feels that we should make no change at the present time, just go ahead, but that when we go to Congress and get a change in our debt limitation, which we certainly will have to do, we will also get a change of a \$10,000 limitation on savings bonds and put it into your hands as a discretion, and then we make that limitation, say, \$3,000 instead of \$10,000 and maybe at the same time put out another issue that will appeal to the larger fellow and the trust estates and make it a lower rate.

H.M.Jr: Why do you want to cut them down to three?

Bell: Well, we think that gets the small investor and the fellow that we are trying to encourage

- 4 -

to save, and how many would you (Sloan) say that would take care of, in your group now?

Sloan: Well, we figure there are only about 3% of the number of people who buy these bonds who buy more than \$5,000 in any one year.

H.M.Jr: Only 3%?

Sloan: Yes, sir. About 97% of them are people - in number of people that buy less than \$5,000.

H.M.Jr: Buy less than \$5,000?

Sloan: Yes, sir.

Bryan: No, more than \$5,000.

Sloan: And of our regular purchase plan people, 96% of those people buy less than \$1,000 a year.

Bryan: \$37.50 a month.

H.M.Jr: Now, wait a minute, I'm all mixed up. 97% of the people buy \$5,000 or less?

Sloan: That is right.

H.M.Jr: Is that right?

Sloan: Yes, sir.

H.M.Jr: 97% of the people buy \$5,000 or less?

Sloan: Yes, sir.

H.M.Jr: In numbers?

Sloan: Yes, sir.

H.M.Jr: What is this --

Sloan: 96% of the people who buy on our regular purchase plan --

Bell: That is a monthly basis.

Sloan: buy less than \$1,000 a year.

- 5 -

Broughton: That is worth considering.

H.M.Jr: Yes. So you would cut it down to \$5,000?

Sloan: What we understood was that we would get full freedom of action so that you could change it at any time at will, but that if it was still decided that you wanted to hold it down to a figure below what it has been running, if the sales got away from us again, we could cut it down to \$3,000 in any one year and you can limit it to a total maybe of 30 after January 1 of next year.

H.M.Jr: One reason why I am willing to stall on the thing is that this National Defense Program is really getting going, and you don't know what it is going to do to the money market and it might be the height of stupidity to do it just now. What do you think, George?

Reed: I agree with you. I think, Mr. Secretary, that the type of investor you need in here is not the general market type of investor. You have to compete with building and loan associations and even banks give preference to small deposits, higher interest rates, the Mutual Savings Bank. So I think the way to meet this situation is not to cut the rate at this time. I agree with you that you don't know what the future rate is going to be, but cut the amount and then you have not only the Defense Program going into a high level of business activity, you want to do everything you can to keep the Government securities out of banks so that they will not increase deposits any more, so Dan's suggestion about putting out another series and maybe have a top on that of \$25,000 or \$50,000 there, but price it more nearly the market, is all right.

Hell: That is something we have plenty of time to consider and have it ready if we get the legislation.

H.M.Jr: Okay, let her ride. What else do you want?

- 6 -

Bell: Well, the other thing I had was a despository matter.

H.M.Jr: What the hell is that? Oh, that is that thing that you have been talking about. Are these men in on that?

Bell: No, they are not in on that.

Broughton: Then we are going to leave it as it is?

Bell: Yes.

H.M.Jr: And don't forget Jefferson.

Bryan: I shall not.

October 9, 1940
11:00 a.m.

RE FREEZING

Present: Mr. Pehle
Mr. Chamberlain

H.M.Jr: What have you gentlemen got?

Pehle: Mr. Fosdick of the Rockefeller Foundation was down and left with us a long letter which they received from their people in France which again describes conditions. It quotes from a diary that their man over there is keeping and they promised to keep sending us those things.

Chamberlain: I think it is very interesting.

Pehle: He also left with us a copy of the agreement which the Rockefeller people have with the French authorities. They are dealing with the French authorities in Paris, who are the technical people, and they tell me they have talked to Atherton in State and other people over there who encourage them to deal with the technical people and stay away from the political side. They have this very general agreement with the technical people for the

- 2 -

setting up of public health services and assisting the French in combating epidemics, a copy of which is here.

Dr. Fosdick mentioned that we gave them a license several months ago covering about a quarter of a million dollars which they were going to use throughout Europe in surveying the public health field. They have used but a small portion of that. The time, however, is running out and they wanted to be sure it was to be renewed and I told him we would consider it promptly. It won't run out for a couple of weeks yet, but they want to be able to plan, of course, what they are going to do and I assume there has been no change.

H.M.Jr: I don't know of any change.

Pehle: One the number of pending cases, there are now six hundred seventy-nine, which is about current. I think that is about what we would expect to have in.

Chamberlain: It is very good.

New York had over six hundred cases yesterday, just New York alone. You see, there are still a lot of cases coming in. I wanted to mention to you about Rumania which we didn't discuss yesterday at the State Department. You recall we wrote them a letter and asked them whether they wanted to extend the freezing control. Have we heard from them?

H.M.Jr: Here is a letter from the Secretary of State. This is an answer - I will let you gentlemen read it.

"Proposed Circular Telegram

"To all Diplomatic and Consular officers in

- 3 -

Belgium, Denmark, France, Luxemburg, Netherlands, Norway, and to Consular officers at Leopoldville, Algiers, Saigon, Tahiti, Tunis, Cayenne, Martinique, St. Pierre-Miquelon, Dakar, Batavia, Curacao, Medan, and Surabaya."

Pehle: I think I know what that is. It is a minor matter. It involves State Department officials' accounts.

H.M.Jr: Will you take care of it?

Pehle: Yes, sir.

H.M.Jr: Try to get it out within twenty-four hours.

Pehle: Right.

About Rumania, we wrote them a letter and they wrote back and wanted to know how much money was involved, and we told them. Then we haven't heard. We have had a number of people call us up and say, "Have you blocked Rumania yet?" and so forth, and the only question is, should we let the State Department know or should we let it rest?

H.M.Jr: Have we brought it to their attention?

Pehle: Yes, we have.

H.M.Jr: I would let them decide.

Chamberlain: It isn't very important. It is a question of principle more than anything else.

H.M.Jr: How long ago did we nudge them?

Pehle: We wrote them about ten days ago. They replied and wanted to know what the amount was and we promptly told them the amount, so it is pending there and has been for about a week, I should say.

- 4 -

- H.M.Jr: I think I would let it go.
- Chamberlain: The question of Japan arises, of course, Mr. Secretary, blocking Japan. Mr. Pehle discussed it for a few moments, and I think that is a question of very high politics. The only point we made was that if Japan is into it, we should block at least the occupied part of China. Mr. Pehle raised the question as to whether we would block all China. He said he understood the Chinese were quite willing to have it done.
- H.M.Jr: I think if we did Japan, we ought to do the whole works.
- Pehle: That is the thing that would hurt.
- Chamberlain: I think we ought to take it up with the Chinese Ambassador.
- H.M.Jr: Yes, but I think until we know pretty much what we are going to do, I don't think we ought to even hint about it.
- Chamberlain: I think so too. That is what we felt. We just wanted to mention the importance of blocking all China or at least certainly all occupied China in the event of a--
- H.M.Jr: Am I not right that the Chinese have sort of asked us to do this?
- Pehle: Yes, sometime ago.
- Chamberlain: Hinted.
- Pehle: I thought you would be interested to know that the Aluminum Company of America is spending about eight hundred fifty thousand dollars to build a new bauxite plant. That is Vienna. That has been cleared with the defense and fits

- 5 -

into their program on bauxite. Of course, they have a mine down there. This will tend to speed up production down there in the refining process in Dutch Guiana. When the French Ambassador was in here I understood he mentioned something in a very glib fashion about the French fleet at Alexandria.

We now have a letter from Alphand in which he says that they want an immediate release of one hundred thousand dollars and a hundred thousand per month thereafter for the maintenance of the French fleet demobilized at Alexandria. These expenses fall entirely under the control of the British authorities, and they want to take it out of their blocked account here. We have prepared a letter to State asking for their views.

H.M. Jr:

Let me see. Mr. Welles sent me a memorandum he wrote of his conversation with the French Ambassador.

"Blocked French funds in the United States"

The Ambassador then inquired whether I had been informed by the President of his conversation with the Ambassador with regard to the request for the unblocking of French funds in this country so as to permit the French Embassy here to pay from these funds the expenses of French diplomatic and consular establishments in the Western Hemisphere and in certain countries of Europe, and also to utilize \$1,500,000 for the purchase of beef in Argentina to be used in feeding French prisoners of war in Germany and in French occupied territory. The Ambassador also asked whether I had any information concerning his recent conversation on this subject with the Secretary of the Treasury.

- 6 -

"I replied that while the President had spoken to me concerning certain features of his interview with the Ambassador, the President had not spoken with me concerning the question of blocked funds.

"The Ambassador thereupon stated that he had outlined the situation to the President and that as he was leaving, the President had said "I hope you will work out satisfactorily the question of your diplomatic and consular establishments on the American continent".

"I said to the Ambassador that I had spoken only this morning with the Secretary of the Treasury on the telephone and that I was afraid the Ambassador had misunderstood the President, since I was informed by the Secretary of the Treasury that the President had made no commitment in that regard whatever. I then went on to say that I would have to inform the Ambassador that he could expect no relaxation by this Government of the blocking of French funds in so far as the suggested purchase of beef by France for the relief of French prisoners of war was concerned. I said that under the accepted rules of international law and in accordance with various international agreements, the German government was obligated to undertake the proper feeding and care of the prisoners of war under its control. I stated that there seemed in the judgment of this Government no justification whatever for the purchase by the French Government of large quantities of beef to be used in the feeding of prisoners of war, thus relieving the German Government of its valid obligations in this regard and making it easier for the German Government to feed its own troops and its own civilian population. I said that with regard to the facilitation of funds for the payment of diplomatic and consular establishments of

- 7 -

France in the Western Hemisphere, I could at this time give him no definite reply. I said that all I could add in this regard was that questions of this character could undoubtedly be more readily solved if the French Government showed a more friendly and cooperative spirit in its dealings with the United States and that I trusted that the reply made by France as communicated to me this morning by the French Ambassador with regard to French colonies in the Americas would seem to the high officials of this Government as an indication of such desire on the part of the Vichy Government to cooperate to our mutual advantage.

"The Ambassador then launched into a very long and exceedingly vehement tirade. He stated that the refusal of this Government at this juncture to release funds for the payment of French diplomatic and consular missions in the American continent was tantamount to a desire on the part of the United States to liquidate such establishments and as proof that this Government did not regard the Vichy Government as a sovereign government. He said that our refusal to permit French funds in the United States to be used for the purchase of food supplies to relieve the situation of French prisoners of war was a proof that this Government had no humanitarian interest in the fate of these unfortunate individuals and that our action in this regard would be equivalent to a sentence of death for them."

Chamberlain: You have seen Mr. Berle's memorandum on that?

H.M.Jr: No, I don't think I have.

Chamberlain: On the French purchase.

H.M.Jr: No.

- 8 -

- Pehle: Mr. Cochran had it. It came up after the thing had been presented, as I understand it, at Cabinet, or at the same time, and Berle sent a memorandum over that Davis had presented to him saying that we had examined the prison camps in Germany, and we found there was plenty of food and the conditions were not what the French said they were and practically saying the French were giving us a false story.
- Chamberlain: We made the point, Mr. Secretary, that these prisons should be used for work.
- H.M.Jr: There is nothing on that. I just would refer it - what is that?
- Pehle: That is a proposed letter just asking the Secretary's views.
- H.M.Jr: That is that.
- Pehle: Are we going to be in a position to take any action on the various French things that are here or should we just sit tight?
- H.M.Jr: Sit tight. The President said, "Now--"
- Pehle: I am not turning them down. We have a number of cases where--
- H.M.Jr: Oh, I don't think I would turn them down. I just think I would do nothing.
- Chamberlain: I think so. If we do nothing, it practically amounts to temporarily turning them down, and we have great doubt as to what is going out of South America, anyway.
- H.M.Jr: Have we?
- Chamberlain: They reported to us on one large purchase,

- 9 -

you remember, after we objected. We said we wanted to know what they were using the money for. They said they had been able to cancel a contract and provide for a forfeit of ten percent of the amount of the original contract, so that you can see from that, Mr. Secretary, that this is not just a straight business transaction.

Pehle: The other thing, we have an application here to use some French funds in Federal Reserve. This amount is two hundred forty thousand dollars which they say they want to use to cover imports of clothing, haberdashery, and spare parts for their sugar refinery, all in Martinique.

H.M.Jr: Well, I certainly would write also to Mr. Hull on that because that is part of the French deal, Martinique.

Pehle: That is all I have.

Chamberlain: That is all.

H.M.Jr: Fine.

Chamberlain: I see you are getting close to the question of an extension of this.

H.M.Jr: Yes, I am watching it. It is always nice to see you.

Chamberlain: It is always nice to see you.

THE UNDER SECRETARY OF STATE
WASHINGTON

October 8, 1940

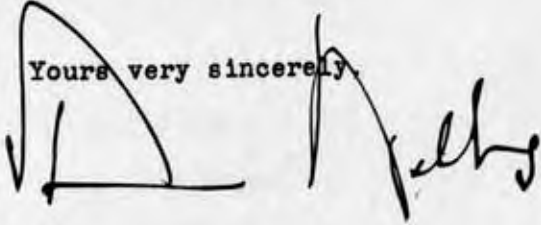
Personal and
Confidential

Dear Henry:

In the belief that it will be of interest to you, I am enclosing for your personal and confidential information a memorandum of my conversation with the French Ambassador yesterday.

Believe me

Yours very sincerely,



Enclosure.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.