

DIARY

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GROUP MEETING

October 11, 1940
9:30 a.m.

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

H.M.Jr: Good morning, everybody.

Thompson, in reading this, I don't understand this. Is it five dollars plus a dollar thirty-three?

Thompson: No, sir, he gets nothing now.

H.M.Jr: Read that. It looks as though he gets five dollars plus his usual allowance.

Thompson: His usual allowance is when he is away from here.

H.M.Jr: "You will be granted an allowance in lieu of subsistence. In addition --"

Thompson: It is badly worded. Let me rewrite that.

H.M.Jr: I would read it five dollars in addition to the dollar thirty-three.

Thompson: I can fix it up. It does read badly.

H.M.Jr: Well, let him have the five dollars.

Herbert?

Gaston: That airport dedication --

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H.M.Jr: Oh, by all means. You do it. Swell.

Gaston: We have some Canadians popping in on us by surprise.

H.M.Jr: You are Assistant Secretary of the Treasury. That is good enough.

Gaston: You saw a little notice that came through FBI from Hoover about Jamaica. We got the same thing through Coast Guard channels. It may be a reverberation of the same thing, but we posted all the fellows in Customs and Coast Guard to be on the lookout.

H.M.Jr: I am thinking of going there after the election is why I was interested.

Gaston: To --

H.M.Jr: Jamaica, with Mrs. Morgenthau. I spoke to Hoover last night and he knew about it. McKay called up his secretary and he said he didn't think there was anything. He didn't know any reason why we shouldn't go.

Gaston: I think this rumor didn't relate to any activity in Jamaica, but somebody picked up in Jamaica this rumor from a Gestapo man that they were going to start in the United States.

H.M.Jr: I think if it were going to start in the United States, it would be a good thing to go to Jamaica.

Gaston: This man suggested that he would like to have some practice in mine sweeping and similar maneuvers. I think that is a legitimate thing in his getting ready and I suppose we will have to accede.

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H.M.Jr: 475?

Gaston: Yes.

H.M.Jr: Sure, that is all right. What else?

Gaston: Shall I give you a memorandum for the President on this Charlie Blake matter, the man who wrote the letter to Hearst? He is a Hearst newspaper man. He was a friend of Steve Gibbons. He was ill and they let him take a little trip on the Coast Guard cutters.

H.M.Jr: I don't get him like that.

Gaston: No. All right.

H.M.Jr: Was that in Steve Gibbons' era?

Gaston: No, I think it was arranged with Chick, and I think you spoke to me about it, didn't you?

Schwarz: Yes.

Gaston: He has been quite friendly. He was probably ordered to write this.

H.M.Jr: Pegler speaks today about "Hopkins to board a cutter of the U. S. Coast Guard to go along the coast of Florida."

Gaston: Incidentally, Blake, immediately on his return wrote a long letter to Waesche praising the Coast Guard and asking if he couldn't be hired as a public relations officer.

H.M.Jr: You might send that over to the President.

What else?

Gaston: That is all.

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Foley: Here is the memorandum for the Diary on the meeting over at Hulls' office the other day.

H.M.Jr: On what?

Foley: The meeting in Hulls' office the other day on extension of the freeze control.

H.M.Jr: Oh, did you do one?

Foley: Bernie did it for the whole crowd.

H.M.Jr: Wonderful.

Foley: I don't know whether I told you that Fleet had a complete change of heart and sent a most conciliatory telegram to Forrestal yesterday saying he would take anything they said.

H.M.Jr: I got it one way or the other.

Foley: Well, after the meeting over here when everybody decided to get tough, word must have been transmitted back to Fleet that this was no time for fooling and he had better change his tune, so he sent back the most conciliatory telegram I ever saw. Butter would have melted in his mouth when he wrote that. So, I think it pays to get tough.

H.M.Jr: I will let you know on the 18th of October whether I agree with you or not.

Foley: What is the 18th of October?

H.M.Jr: The day after they open the Burma Road.

Foley: Oh well, it works for Southern California.

H.M.Jr: I think that it works everywhere. It is a

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question of where you pack the punch when you got it.

Foley: I think Fleet must have had a couple of friends in the room who got in touch with him - I think Admiral Towers, and I think Mead must have called him, too, after Knudsen spoke to him.

H.M.Jr: Well, it was all to the good. Knudsen rode down with me this morning and he said that as a result of that luncheon yesterday, he has got 6200 houses now. I didn't argue with him, but how would he get 6200 houses?

Foley: I will tell you that. The 1200 are the Navy's 1200 for their enlisted people. That is entirely independent from what we were talking about. We decided our objective was 5,000, and that is 6,000. That adds up to 6200. Palmer looks at it altogether. They are going ahead with the 1200 for the enlisted people, plus 2,000 for Fleets' people, which will give us 3200 immediately, and then they are going to make a survey as to how many of the additional 3800 - no, 3,000, they should do at the present time, and they are also going to look into the question of how much they can take care of now for the single men, and how many single men's parents they will have to take care of. But they are going to set aside money to cover the whole thing. But nothing had been done, Mr. Secretary; no arrangements for civilian houses had been made.

H.M.Jr: Two days ago it was decided to do the 1200 when Moreell and Palmer saw the President, and yesterday it was decided to do the rest. I decided at 3:00 o'clock this morning I am not going to give them any advance. I am not going any place.

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Foley: You are not going to Baltimore?

H.M.Jr: No, I am not going any place until after the election.

What else?

Cochran: I was told last night in strict confidence that the Italian Embassy is going to receive instructions today, I think, that they are to draw three million eight hundred fifty thousand dollars to the order of the Italian Exchange Institute. They are to draw it all out in big currency and send it down by a member of their staff to Rio for a member of the Embassy to distribute to agents in Latin America. They mentioned Haiti and Cuba, particularly.

H.M.Jr: Well, we will just have to stop it, that is all. Where are they drawing that out of?

Cochran: I don't know which bank. It is probably the Chase or the National City because the Institute carries its account with those banks.

H.M.Jr: Let's just take a minute to think about this. Incidentally, somebody ought to call up the Washington Post and tell them they spell Rumania with a "u" and not with an "o". They have got a big headline "Romania".

Gaston: That is an alternative way of spelling.

H.M.Jr: It is the only paper that is carrying it that way.

Gaston: It is modernistic.

Schwarz: Most of them used our style.

H.M.Jr: Anyway, they were going to send that four million dollars down to the Argentine, weren't they?

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Cochran: That is right, yes. That would leave most of their balance with the Federal Reserve Bank.

H.M.Jr: The Germans think the Argentine is a good place to operate from. Now, the Italians are going to send some down.

Cochran: To Rio de Janeiro. They already have a deposit of five or six hundred thousand dollars.

H.M.Jr: Come over figuratively on my side of the table a minute. How can we stop it?

Cochran: Through control is about the only way. You might get him on withdrawing so much money and say it was for hoarding purposes. Ed, is that possible? Or you could stop him going into Brazil because of exchange regulations, but --

H.M.Jr: You said Rio. That is Brazil?

Cochran: Yes. They would probably welcome this much American money coming in.

H.M.Jr: Come on, how can we stop it? I want to stop it.

Bell: The only way to stop it is the control.

H.M.Jr: Have they drawn it already?

Cochran: I don't know. I had reports yesterday and it isn't listed among the transactions.

H.M.Jr: Is the money with the Federal?

Cochran: No, it isn't with the Federal, because they only have thirty thousand dollars worth in

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the Federal, so it would be with the Chase or National City, I think. It might be in one of the branches of the Italian banks.

H.M.Jr: Come on, smart boys.

Bell: I suppose there might be some way we could get cooperation between the central banks and get information on what it is being used for, but I don't think you can stop it except through control. I question whether you should stop it if you could, except through control.

H.M.Jr: Did you get it where I think you got it from?

Cochran: Yes. He phoned me last night at 11:15 and hoped we could stop it.

(H.M.Jr. places call for George Harrison)

Bell: He was in town yesterday.

H.M.Jr: Not in his office.

Bell: I mean in Washington. Who was it George Harrison had an appointment with?

Schwarz: I think that was the labor man.

H.M.Jr: Well, this was the Harrison.

What else?

Cochran: That is all.

Bell: Did you notice that transfer of the three hundred fifty-two thousand from Chase National, check to be drawn to Thomas McDonald?

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Cochran: Yes, the Monseignor up in New York, Society for the Propagation of Faith, or something like that.

H.M.Jr: Yes, what is that?

Bell: I don't know what it is, but shouldn't that be given to Hoover?

Cochran: I passed it on to our man here, Sammy Klaus. He gets copies of all those now.

Bell: It sounds like propaganda or organization.

Gaston: Who is that to?

Bell: An Italian.

Gaston: We had a settlement like that, you know, and it turned out to be payment for some property, missionary society property.

H.M.Jr: Is that going to be our contact now, Sammy? We are going to turn these queer ones over to Sam Klaus?

Cochran: That is right. I give him copies of all these things.

Gaston: I am sending everything I get to Sam.

H.M.Jr: Good. Sam only got back this morning. I want him to stick on this job, Ed. I don't want him to go to Chicago.

Foley: I told you that was the last time.

H.M.Jr: I know, but this is the last time.

Foley: Yes, Bill said it would be the last time.

H.M.Jr: I know. I just wanted to make sure.

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Foley: All right.

Schwarz: I think it would be an interesting story. The Soviet reporters are reporting German stock sales in New York.

H.M.Jr: We ought to be able to think up some way of stopping that thing.

Foley: Suppose we get together.

H.M.Jr: Yes, you and Bell. There must be some way.

Bell: Strong-arm method.

H.M.Jr: I want to stop it.

Bell: Let us think about it.

H.M.Jr: Don't think too long until it goes. I would hate to have to take the money off the boat at the Trinidad. Of course, we have always got that. Don't forget that. The boat pulls in at Trinidad and we could pull it off.

Bell: This will probably be through transfer, won't it?

Cochran: No, a member of the Embassy staff is going to carry the money down.

H.M.Jr: Well, I say, as a last resort the boat can always stop at Trinidad.

Bell: Yes.

H.M.Jr: Well, the first thing you want to do is find out who gets the money and then have somebody tail him.

Cochran: I will check up with Cameron in New York as soon as we go out and see if there was any

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payment made, yesterday. I haven't had yesterday's figures yet.

H.M.Jr: What else?

Cochran: Nothing.

H.M.Jr: Anything?

Schwarz: That is all. I am waiting for the file on that other matter.

H.M.Jr: Okay.

Philip?

Young: I saw this man, Walter Hawk, yesterday who was sent in to see you by Mr. Kingdom from New York, who is the German refugee. He had a very interesting career. He was a German cavalry captain in the World War and was sent down into Turkey and Mesopotamia and Iran, that whole country down there. He wound up being Commander of the German Air Force down there. He fought against Lawrence and the Arabians. He instigated the Afghanistan and Indian riots from Persia, and so on. He came back up to Germany after the war --

H.M.Jr: Will you talk a little more distinctly? It seems as though your tongue is a little bit thick this morning.

Young: A little tanky?

(Laughter)

H.M.Jr: He is blushing now. All right.

Young: He came up to Germany after the war and managed the Junkers factory, and then went

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out to Russia and started that one, and finally wound up as the manager of Skoda and went back down to Iran as the Skoda representative, which evidently gave him the opportunity to get over to England when Germany went into Czechoslovakia.

He has been working very closely there with Duff Cooper and various propagandists and is now a resident of the Bahamas and is up here for about three months trying to stir up interest in organizing fifth column activities against Germans, using Germans, because he says no German can understand a German except a German.

I think Herbert might be interested in talking with him.

H.M.Jr: Herbert specializes for me in fifth columnists. Personally, I am distrustful of all Germans.

Anyway, turn him over to our expert, Mr. Gaston.

Young: Yes.

H.M.Jr: Incidentally, if you would tell your friend, Purvis, that if they have in mind speed boats, which they have been talking about --

Young: Rescue boats?

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- H.M.Jr: Rescue boats, crash boats, anything else. I mentioned it to Knudsen this morning. There are all kinds of boat building companys up on the Great Lakes who have no business and who could turn them out now, and I am putting him on notice now, so he doesn't come around in two months and ask for every other one.
- Young: This British merchant shipping mission which just came over a week or so ago is making a very careful study of those Great Lakes companies.
- H.M.Jr: Well, just give that message to Purvis, will you please, today.
- Young: Right.
- H.M.Jr: I mean, they have been talking about it for three months and about next March when they are again talking about invasion, they will come around and want half of what we have got. Now, I am telling them now if he places his orders now he can get production for themselves.
- Gaston: Incidentally, the Coast Guard made a survey with the assistance of the Maritime Commission on who could build now 327-foot cutters, and they found there were 13 shipyards that need business and could take it right now.
- H.M.Jr: I wrote to the President on it.
- Gaston: Oh, you did?
- H.M.Jr: While you were away.
- Gaston: Oh, I didn't know that.

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H.M.Jr: Asking for a million dollars to lay down the keels for three, and I said before I do it, I want to know if the shipyards are available. It was in connection with that.

I gather you (Young) had an interesting session. How was the tank party?

Young: It was quite an elegant party. I was glad that - they had a string orchestra and a lot of people standing around, and so on.

H.M.Jr: And?

Young: It was a pretty good party. I was glad it wasn't financed on the continental pattern so I didn't have to get a certification as to capacity.

H.M.Jr: I see.

Young: I think it was probably very successful from the British point of view.

Klotz: It doesn't matter what you say now.

H.M.Jr: I see. Did Buckley go with you?

Young: Oh, yes; also, Cox.

H.M.Jr: Are you glad that you went?

Young: Oh, I enjoyed it.

H.M.Jr: Anything else of a serious nature?

Young: No, sir.

H.M.Jr: What did you do with Mr. Roosevelt?

Pehle: I am sending you a memorandum. We didn't do very much. It seemed to me that it was

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a pretty vague state that the whole thing was in and all sorts of possible things that might be done, but some doubt as to whether anything should be done.

H.M.Jr: You got my message, didn't you, in which I said, "Don't feed him any better than you would anybody else"? He was sitting here when I said that. Okay.

George?

Haas: I have nothing this morning.

H.M.Jr: Harold?

Dan?

For those who are golfers, I just want to let you know I am leaving around 3:00.

Bell: A little late for golf. You couldn't make it 2:00, could you?

H.M.Jr: Well, officially, I am leaving at 2:00.

Bell: That is good.

H.M.Jr: Officially, I have left at 2:00.

Bell: It gets dark early. The last time I played, I had to light a match to see the hole.

H.M.Jr: Did you make it?

Bell: I didn't make the put, but I got on in two.

These letters from New York on the Discount, it is just a matter of information is all. They have got about eleven and a half million of capital and they can't make any return on that capital, so they are turning back

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the original capital of six million, and now they will be capitalized on about a five and a half million dollar basis instead of eleven and a half, and they just wanted you to know it and that the reduction in capital wouldn't interfere with their operations as in the past. They would still continue to help the Treasury whenever it was called for.

H.M.Jr: Did it take three letters?

Bell: Yes, it took three letters to tell you that.
Here is that memorandum on the depository.

H.M.Jr: Oh, yes. Who was the girl - four different Senators wrote me about some woman.

Bell: We are investigating that.

H.M.Jr: What was it about? Was she about to be fired?

Bell: She anticipated it.

Thompson: She has been borrowing heavily from the Credit Unions.

H.M.Jr: I gave Foley a message for you on that other gal last night.

Thompson: Yes.

Bell: That is all.

H.M.Jr: Norman?

Thompson: Nothing.

H.M.Jr: Then you and Ed stay, and Mrs. Klotz.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Last night, at 11:15, Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at my home. He stated that his Embassy had just received a most confidential message with instructions to communicate the substance thereof to the Treasury, with the further instruction that any memoranda on this matter be burned. It was made clear that the source of the information was unimpeachable, but should be protected.

The message stated that the Italian Embassy was instructed by the Institute "Centro" (which I assume may have been "Cambio") to withdraw from "Fur E Account" \$3,850,000 in bank notes and to send this sum by a member of the staff of the Embassy in Washington to the Italian Embassy at Rio, which would, in turn, redistribute the money to Italian missions in Latin America, Havana and Haiti being particularly mentioned. The message stressed the importance of preventing this money from being delivered, since it was felt that this would be inimical to the interest of both our countries.

I gave the foregoing information to the Secretary at our Staff Meeting this morning. After the meeting I telephoned Mr. Cameron, in charge of the Foreign Department of the Federal Reserve Bank at New York. He had McKeon check up and telephone us down Italian transactions up to last evening, as reported by the usual New York banks. There was nothing of especial interest in it. Mr. Cameron promised, however, to keep in touch and let me know of any instructions covering important Italian transactions which might be received in New York today.

It is understood that the Chase and National City Banks are the principal American banks carrying official Italian accounts. Certain sums have been drawn out of those accounts in the past by order of the Italian Exchange Institute. It is possible, however, that there may not now be one big withdrawal in the amount above specified. It is conceivable that branches in New York of Italian banks may have been drawing out cash in the past and accumulating it in their own vaults for an emergency, such as a possible freezing of Italian assets in this country, or for sending abroad as in the present instance. If, on the other hand, the Italian Embassy did desire to withdraw over \$3,000,000 in currency at one time there is no present restriction thereon, providing an affidavit were filed to the effect that the currency is not desired for hoarding purposes. If the currency is to be sent to Brazil, manifestly such a statement could be honestly made. If we had a complete blocking of Italian funds and the Italian Embassy sought to make such a withdrawal, we would then be faced with the same diplomatic problem as that now experienced with France, with the Vichy Government desiring to use dollar deposits in New York to pay for expenses of French diplomatic and consular establishments in Latin America.

B. M. R.

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SEE FIRST MEMO TO PRESIDENT

DATED Feb. 8, 1940

(Book 240, p. 123)

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

10/11/40

MEMORANDUM FOR THE SECRETARY:

It has long been the established policy of the Treasury to designate banking institutions as depositories of public monies where such depositories are necessary for the performance of certain essential banking services for the Government which cannot adequately be transacted by Federal Reserve banks and branches. At present the major functions performed by these depositories are (1) to supply disbursing officers of the Government, principally Army and Navy officers, with currency and coin to meet payrolls and other expenditures; (2) to receive deposits from governmental officers and to transmit such funds to the Treasury, through credit with Federal Reserve banks; and (3) to service collection and checking accounts involved in the transmission of funds into the Unemployment Trust Fund in the Treasury and the payment of benefits out of funds withdrawn from such Trust Funds. This essential service has grown during recent years with the broadening of the activities of the Federal Government and as a result of action taken to improve depository facilities. As indicative of the trend, on June 30, 1933, there were 320 depositories with aggregate balances of 9 million, while on August 31, 1940, there were 456 depositories with balances totalling 58 million. The demands arising as a direct result of enlarged tax receipts and cash expenditures by Army and Navy disbursing officers for paying troops, etc., are causing a further sharp increase in the services required by the Government and the number of points where depositories are necessary.

There is a substantial cost to banks in servicing the Government accounts, much of which is direct out-of-pocket expense such as additional clerk hire,

space and equipment. The established method of offsetting these costs is through the medium of Treasury balances maintained with the depositaries. These balances are fixed in direct proportion to the amount and character of the business transacted and are adjusted periodically.

It is becoming increasingly difficult to effect and maintain satisfactory arrangements with banks due primarily to the decline in the earning value of bank assets, including the Treasury deposits which must either be loaned or invested in the current market to provide earnings which the bank may apply as offsets against the cost of transacting the Government's business. There is the additional important factor from the practical, administrative viewpoint, that the net earnings of banks upon their loans and investments is constantly changing, requiring corresponding changes in the amounts of Treasury balances maintained as offsets.

To eliminate these difficulties and in order that efficient service may be procured and equitable relations maintained between the Treasury and its designated depositaries, it is considered desirable to provide a special type of Government obligation which may be subscribed to by such depositaries only to the extent necessary to offset the costs of maintaining the Government accounts. This obligation should have a term of about ten years, be registered, and have a fixed rate of yield, say 2%, and which would not be subject to market fluctuations, with provision for redemption either at the option of the registered owner (depository) or the Treasury at face value plus accrued interest only when the Treasury's accounts are discontinued or decreased. This obligation would stabilize the investment value of the Treasury deposits, make such deposits reasonably attractive to banks, permit the Treasury to retain the advantages of its present efficient system, reduce the aggregate balances required as offsets by 25 to 30% and at the same time would be suitable

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for use by banks as collateral security required by law. If a 2% yield is provided, it is believed that it will not be necessary to have obligations outstanding at any one time in excess of \$75 million, due primarily to the fact that ownership will be restricted to approximately 500 qualified banking institutions and that, as a result of the careful administrative control of the depository system, the Treasury has been able to secure rates for services which are approximately 50% lower than the rates applied by banks against comparable commercial accounts.

An alternative to the bond plan would be the direct payment of bank charges out of appropriated funds. The Treasury is not opposed to such payment but experience and careful investigation lead to the opinion that such direct payments would materially increase the cost and the administrative problems involved. Furthermore, it appears that some additional legislative authority and, certainly, additional appropriations would be necessary, while the bond plan could be adopted under the existing authority of the Second Liberty Bond Act, as amended.

This plan was submitted to you on February 8, 1940, and was returned without approval with the request for further explanation.

dwB

WAR DEPARTMENT
OFFICE CHIEF OF STAFF
WASHINGTON, D. C.

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McKay: -

We have
radioed
China. It
takes some
time to get
a reply -
possibly three
or four days.

W. B. S.

WAR DEPARTMENT
WAR DEPARTMENT GENERAL STAFF
MILITARY INTELLIGENCE DIVISION G-2
WASHINGTON

G-2/2078-163

October 11, 1940.

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

The following is a summary of the information available to this Division concerning Mr. Charles Healy Day, formerly Technical Adviser, Commission on Aeronautical Affairs, Chinese Government.

Graduated as C.E., Rensselaer Institute, 1906.

Went to California, then to Alaska.

In the automobile business for 1½ years in Los Angeles with Mr. H. C. Brombacher.

Member of the automobile firm of Brown and Day until 1908 or 1909.

Moved to Dansville, N. Y., where he had charge of a small automobile concern called Klink Motor Car Co.

Returned to California in 1910. Designed and built an airplane, flew it and crashed.

Manufactured airplanes in Los Angeles under the name of Day Tractors.

Twice with Glenn Martin between 1910 and 1914.

In 1914 came east and joined Sloan Airplane Company, which grew into the Standard Aircraft and Standard Aero Corporation, of which he was Vice President and Chief Engineer. He designed the Standard J-1 and several other ships built there.

Joined the Electron Corporation of America (light alloys).

In 1927 organized the Gates-Day Aircraft, and afterwards the new Standard Aircraft Company, of which he was Vice President.

In 1929 Standard ceased operating and he did consulting engineering work except for a time in 1931 when he built an airplane and toured the world with it for some six months.

In 1934 employed by General Wong Kong Yue, who at that time was Chief of the Canton (China) Air Force.

Took charge of operating the Chinese aircraft factory at Shiuchow (north of Canton), making the Curtis Hawk, type III pursuit ship.

Returned to the United States on leave in 1938.

Returned to China and was Chief Engineer of the factory, which moved to Kunming, where he remained until 1940 when he resigned and returned to the United States.

In the opinion of this Division, Mr. Day, though at present not in the best of health, has a good reputation among aircraft engineers and designers.

Sincerely yours,



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

October 11, 1940
10:30 a.m.

RE AIRPLANE DELIVERY SPEED-UP

Present: Mr. Buckley
Mr. Young
Mr. Knudsen
Mr. Foley
Mr. Stimson
General Marshall
General Brett
Major Lyon
Admiral Towers
Mr. Forrestal
Mrs. Klotz

H.M.Jr: I was talking to your former associate, Mr. Evans, yesterday. I was telling him how pleased I was. I thought it didn't do any harm to call up and say thank you. So then he told me that the English had taken eight planes and sent them out to Lockheed and that Lockheed won't be able to use them until next March.

(Mr. Foley entered the conference.)

H.M.Jr: They won't have any use for them until next March. Evans and Hunt did a swell job out there.

Knudsen: Don't get too rosy about the picture. Let's get 800 engines a month and then I will feel better. Then they get a medal.

H.M.Jr: They don't get a medal until they get 800 a month? Well, I see that the President had to think up one for Dick Byrd the other day. He had given him all the medals there were, so now he attached a gold star on one. He had every medal they had ever had, so the President pinned a gold star on the medal he got last year.

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Foley: Here is that report of that Subcommittee, if you would like to look at it before the others come.

Buckley: Mr. Secretary, here is the letter from Consolidated that came in on the deficiencies, finally. I have copies of that in case the Army or Navy will be able to do anything about it. It is very weak, it seems to me. There is very little there that they claim they are behind on.

H.M.Jr: You mean there isn't much?

Buckley: There isn't much.

Knudsen: Foley, do you like these barracks and things? I don't.

Foley: Well, I don't have any feeling on it, Mr. Knudsen. That is what the Navy said would be adequate to take care of the single men. I am no expert on housing at all, and all I am trying to do here is to suggest funds and agencies and possible action.

What would you consider as an alternative to barracks?

Knudsen: Rooming in two-family houses.

Foley: There is nothing here that they are going to do insofar as the single men are concerned, the single civilians. They are going to make a study of the rooming conditions and things of that kind.

(Mr. Stimson, Mr. Patterson, General Brett, Major Lyon, and General Marshall entered the conference.)

H.M.Jr: Did General Lewis get in touch with you on that machine gun thing?

Young: Yes.

H.M.Jr: Everybody is here but Forrestal. Knox, I think, played hooky today and went home.

Stimson: Well, I think you had better come up here, General Marshall.

Marshall: I was leaving some room for the Navy up there.

Stimson: Well, I think they are taken care of properly.

Marshall: He is recording you here.

H.M.Jr: Does that bother you? Poor Philip made notes yesterday. He took 17 pages and I thought I would give Phil a rest.

Patterson: It is worse yet for you (Stimson) today, Colonel, because this man is taking down verbatim what you just said.

Stimson: All right.

H.M.Jr: The Colonel trusts me. Do you want to - Forrestal knows about this. Why don't we --

Foley: Distribute this?

H.M.Jr: Hear from Mr. Knudsen first, because he has to leave at eleven o'clock.

Foley: This is that Subcommittee on Housing.

Knudsen: As you remember, the last time there were certain things that I was supposed to do. The first thing was, I was to get Fleet on the telephone about this and tell him that we were rather disappointed in the delivery schedules that had been brought back by the men that had been out from here and that I would send him - the men out to see what could be done to help the thing along.

(Admiral Towers and Mr. Forrestal entered the conference.)

Knudsen: Head left yesterday noon and took a fellow along by the name of Grant, a production fellow, to go out there to advise and call

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me back as soon as he had anything to tell me. Fleet himself is quite cooperative. He said his doctor ordered him away, that was the reason for his hunting trip, but he promised to stay there until Monday night so as to get some time with these fellows and they can contact the organization while he is away. He says he is only going to be away for four days, so that is point No. 1.

Point No. 2, Mr. Palmer, who is the housing man for the Commission, contacted Mr. Foley and reported back that there seemed to be an agreement with reference to the housing that was required and that is embodied in this report you have before you. That represents all that I have to do in the picture until I hear from Mead.

In the meantime, I had the delivery schedules checked up, the aeronautical part of our picture over there, and, of course, we have on the bombers 93 four-motored bombers promised. I asked if this schedule was given - as far as we are concerned, we feel he ought to turn out 93 but he has told the people that came out from here he was only going to turn out 64. Until Mead confirms or rejects that, I haven't anything else to say about it.

Stimson: What models are included in the 64, what models that you have just spoken of?

Knudsen: B-24.

Stimson: All B-24?

Knudsen: That is right.

H.M.Jr: Well, now we have had the advantage at last of getting hold of Major Lyon, who stayed out there to check up on certain things which were very vital to this point. I have only had time for a very short talk with him this morning, but it seemed to me that his report is very important and

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determinative on my view of the situation. I can only say one thing, that he impressed me with the fact that the Consolidated Company has been doing a great deal better than I gathered from the last meeting that it had been doing and he has reasons for that.

I would like to have General Marshall or one of the others who have been with Major Lyon longer or Lyon himself, give out a statement, but it has impressed me that we have got to hear from Mead before we can go very much further or faster.

Forrestal: Have to get his support, Mr. Secretary.

Stimson: Yes, Mr. Mead's support.

H.M.Jr: Couldn't we hear what Lyon has to say?

Stimson: Yes.

Lyon: First, Mr. Secretary, with regard to the condition in the Consolidated plant as related to meeting their guaranteed deliveries, which we cited in our proposals to the British of October 1st. The facts that are concerned, that they cannot meet their guaranteed schedules, either to the Army - on the Army's B-24's or to the British Purchasing Commission for what they call the LB-30. It is a divided responsibility, part of it the Army, part of it the British, and part of it the manufacturer.

Superimposed on that is the element of risk and the element of gamble that is always taken in an airplane contract. The manufacturer will meet his guaranteed schedule deliveries if the tests that are made progressively with the development of the airplane are satisfactory. As applied to both the Navy contract for the PBX boats, on an engine installation, which is identical to an engine installation on the Army, there have been unforeseen delays. Likewise, the Army in the negotiations with the Consolidated Company, following our agreement with the French Government last March, you

remember, sir, in which we released the B-24, made certain changes and took in exchange for that an improved airplane on a current contract, which again was dependent upon certain tests being completed and satisfactory tests. In all instances, those tests had not been satisfactory and have required changes in the airplanes that are to come along later.

H.M.Jr: Let me interrupt you. I want to check on that one. You released it for a better plane to the Army?

Lyon: Exactly, sir. However, the French, sir, received a better plane. They provided for turret installations, for example, of their design, which was not in the original B-24 as we released it. Now, when the British took over the French order, it required still further production changes in the installations of the turret. The British, the Army and the French installations are not identical, and as of this date the British are requiring a changed turret from what the French agreed to, and I don't believe the final approval has been given, although it was promised when I left the plant day before yesterday.

The final approval on the Army turret, which is different from the British, again, has not been given, although the manufacturer has been given a go-ahead to cut the holes in the airplane, but the final details have not been released. We have to be honest with ourselves in that.

The manufacturer, as a necessity, will have to hold back certain components in production.

The next point that was discussed, in which I got the very definite impression while I was there, was the first six airplanes and which we agreed to turn over to the British Purchasing Commission during October and November, in order that those airplanes could be placed in service,

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we will say, by December, during the month of December. As a result of the tests on the first Navy boat, they discovered that little details of the engine cowling cracked as a result of a pedestal type of engine mount which the Army and Navy had standardized on. It made changes in both the Army and Navy airplanes. That results in a delay of 30 days. I finally uncovered that was the reason that the manufacturer would not obligate himself to saying he would have the airplanes out in October and November. They don't know just yet how they will cure the cracking of cowlings that occurred on the Navy's boat.

Stimson: Cracking of what?

Lyon: Cowling, sir, that goes around the engine. It is a very vital part of these high speed airplanes.

But the facts are, the results of the tests on this Navy boat proved that although the engine mount was okay, the cowling was not, and they don't know the answer yet, so the guesses that Consolidated give or we give to the British are still guesses and estimates. It is not a firm guarantee, either on the part of the Army or Consolidated.

Now, that brought up the question next in our tentative agreement, in my conversations with Mr. Fairey, that should the British Purchasing Commission take priority on the delivery of the next 20 airplanes instead of the one to one ratio we agreed to originally, in other words, should they take their 20 airplanes and then we take our 9 - that was a matter that was not - no commitments were made. However, I told Mr. Fairey that the Army would do everything possible in cooperation - cooperating with them to get the earliest possible deliveries to them.

Going back again for a moment to the first six airplanes, the next point that was brought up,

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the manufacturer represented that it would take an additional 60 days to put in the Sperry automatic pilot, forgetting the bomb sight. I committed myself to Mr. Fairey to find out why it would take 60 days. To do that, I had to go to the Douglas plant and pull out the drawings of a similar revised installation that we made in the Douglas bombers to answer certain technical questions, highly involved details, that were charged by the Consolidated engineers and which I thought caused Mr. Fairey to believe that they would not get their airplanes in time to be of any use to them. As a result of my investigations on Monday and Tuesday of this week, the Sperry automatic pilot will go into the B-24 airplanes without any structural changes, either in the instrument board or in the airplane itself. The Sperry pilot plus the Sperry bomb sight will go in the next 20 airplanes without any structural changes.

Now, particularly with respect to the nose of the airplane, on the LB-30 I stayed there until --

H.M.Jr: Wait a minute. For the benefit of Mr. Stimson and I, what is an LB-30?

Knudsen: It is the British counterpart of the B-24.

Lyon: The LB-30 is the British counterpart of the Army B-24. Therefore, the proposal that the Army made to the British Purchasing Commission for turning over the O-1 sight will allow them to not only install that sight in the - any number of Army B-24's that can be made available to them, but in their LB-30's, that is, to their account, with very small delays in delivery.

Now, a sidelight of that, there was what I - in my own opinion - felt an inclination on Mr. Fairey's part to take too much stock in what the manufacturer of the - the airplane manufacturer was - represented. Likewise, it was my estimate of the situation that the airplane manufacturer, knowing that he would

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be stuck, to use my own language, with guarantees, capitalized in this opportunity of a change in bomb sight to save him dollars on penalties. Therefore, I called General Brett - first I called the Sperry representative on the West Coast and received the flat statement that it was not the policy of the Sperry Company to bother with installations. However, I obtained his agreement to have a technical man at the Consolidated Company to meet with me on Monday afternoon. I went to Los Angeles to make these arrangements.

I arrived in Los Angeles at eleven o'clock by special airplane, and the Sperry representative who was a resident in San Diego was not there. On the telephone he could not be located, and the Sperry representative at the moment was not particularly concerned about it. I gained the impression that they were evading the issue. I called General Brett and he in turn called the Sperry people in New York, and immediately there was an entirely different situation, with the result that the Sperry engineers and the Sperry representative said that they could make this installation, the Sperry Company, instead of with 60 days' delay, in something like two weeks for the first airplane and ten days thereafter.

The next point came in. The Consolidated Company heretofore had said, "We don't want anything to do with it." Then they came around the back door to me and said "Perhaps we had better make this in the plant, and we can cooperate with the Sperry Company and when we are not working on the sixth airplane or the fifth airplane, they can work on it; it won't interfere with us." I took the liberty of stating that I would present to General Brett a proposition that if it would interfere with the Consolidated production, that we would move the airplanes across the field into the Coast Guard Hangar so that there would be no possible chance of interference.

H.M.Jr: Just as long as we don't lose that one plane.

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Lyon: The net result --

H.M.Jr: We don't mind losing the hangar.

Lyon: The net result was, the last thing before I left the plant, their Chief Engineer said it was a 5 to 1 gamble that they would have the six airplanes out with the complete Sperry automatic pilot by January 10, and even gambled that they would have the Sperry automatic pilot in the airplanes by December 30, whereas they said 60 days when we left out there.

Forrestal: Yes.

H.M.Jr: Do they want the bomb sight too or do they just want the automatic pilot?

Lyon: The first six airplanes are the Sperry automatic pilot only.

Forrestal: These are Army planes.

H.M.Jr: But they don't want any bomb sights on those?

Brett: No, sir, they are using those primarily for transports.

Lyon: That sums up, sir, the situation as I saw it.

H.M.Jr: I think that is a very intelligent report. I compliment you on it. It looks as though somebody had been given a series of run-arounds. That makes it much easier about - we don't have to do anything about the Nortons, then, do we?

Forrestal: Well, we were talking to Norton on the Navy flying boats.

Brett: Yes, except that the Norton is involved in our B-24's.

Forrestal: This is involved in your B-24's, but we still have probably --

Towers: Our engineers say that the Sperry automatic

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pilot cannot be replaced - I mean, the Norton control system, stabilizing system, cannot be replaced by this Sperry automatic pilot without a great loss of time. They figure that to live up to the proposed schedule of deliveries of our planes to the British, that they would have to put - leave the SBAE part of the Norton sight in seven of them.

Lyon: You are speaking of the boat, sir?

Towers: Yes.

Lyon: I wish to make perfectly clear that my remarks do not apply to the boats. The point I wish to make, sir, the problem of putting the Sperry automatic pilots on the PB5's and the B-24 airplanes are an entirely different proposition.

Towers: Yes. It represents a complete rebuilding of the entire instrument board.

Marshall: My impression of this affair at the present time, if I may intervene, is that until we hear from Dr. Mead, there is nothing much we can do in determination of plane deliveries.

H.M.Jr: There is just this suggestion, General Marshall, that if, for instance, the Army and English are arguing about two kinds of turrets, it seems to me that the argument ought to be terminated and they ought to agree to one kind of turret and they ought to start right there.

Stimson: And I feel the same way. I haven't had time to think it over, but we have had such a report from abroad to the effect that the British turret - I should like personally to see it settled.

Brett: The question involved on that turret situation, Mr. Secretary, is the fact that the United States Army and, I believe, the Navy, believe that the 50 calibre gun is the gun for all air warfare on the larger type airplane. Now, all English turrets are designed for the 303, which is approximately 30 calibre turret, and

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therefore we cannot standardize where they will not admit that the 50 calibre is the suitable gun.

Forrestal: They will do it, though, I think, General, if we will give them the ammunition and guns.

Brett: Yes.

Knudsen: The 50 ammunition is identical.

H.M.Jr: I want to make myself clear. I think the time has come - I would give them every opportunity to argue, but when it gets to the final thing, I think some place we have got to say we are going to draw the line and beyond that they will just have to take it, because I have always taken the position where I have been playing nurse to them but the time may come where we may have to take over what they have and when we do, we don't want something which the Army and Navy don't want, not something that the English want, so I think --

Stimson: Well, now, I would like to, before you go further into that, be sure what the Army's feeling is in regard to turrets. I haven't had an opportunity to confer with them. I had a conference yesterday with a member of the Ordnance Department who has been over there, and General Strong's report was so complimentary, the way he put it, and he came in and told me his impressions about the British turret and they were very striking and very flattering to the British turret as compared with ours.

Brett: I wonder if he has had an opportunity to go over our latest turrets.

Stimson: I don't know. It was one of the most striking reports that I have gotten from abroad as to - well, this is just my impression from what he told me, that the British had devised a hydraulic turret for quickness and ease of operation with multiple gun power which was a very striking

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advance on anything that - any sight, not only that anybody had over there --

Knudsen: May I ask to be excused? I am sorry.

Brett: We have one of those turrets in the Materiel Division right now, and the Navy has the other running turret to that. The only discrepancy that we found so far is the fact that the turret is designed for a 30 calibre gun, and we feel that we must redesign that turret to take the 50.

Patterson: May I be excused?

Forrestal: The British gives them an arc of fire which is greater.

Brett: Our development has been based on electric power and their development is on hydraulic. Therefore, their operation is much smoother and they don't get the jerky reaction we have gotten in our turrets, and we have practically accepted their turret except we do feel it should be built and designed for the 50 calibre gun.

Stimson: I am very glad to hear that. The general statement of Major - what was his name?

Marshall: Studler?

Stimson: Yes, it was Major Studler. His recommendation or general statement is acceptable, as far as you know now to our --

Brett: Oh, absolutely.

Stimson: He spoke of it as a turret that moved so smoothly that if you could put a pencil in one of the guns, you could write your name on a piece of paper out in front. I mean, it moved every way just so easily, without jarring the sight of the gun any, that it was to him a very remarkable improvement.

Brett: We have conceded all that, Mr. Secretary.

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The question only arises in the calibre of the gun that is carried.

Lyon: May I point out the situation that has come up on the standardization of turrets? From the point of view of the airplane manufacturer, the agreement is now that the manufacturer upholds - that is, the airplane structure will be identical for both the Army and the British. The fact that we cannot get delivery on British type of turrets - even if we standardized on it - would not allow us to install turrets on the airplanes. Therefore, the hole in the airplane is standardized so we put our turret in if we get it. They put their turret in if they get it. Now, the next point --

Stimson: The turrets are not made by the Consolidated Company?

Lyon: No, with the exception of the tail turret, and we are together on that. It is the main turret which the Secretary was just describing, which is the critical one. On that hole question of standardization, as discussed at the Consolidated Company, we were standardized to a point from the construction part of the airplane, but there was a definite cleavage where technique entered, so as a result the standardization argument was that if we standardized, for instance on flares, and things like that and identification lights, which are peculiar to the British technique and tactics, it was an additional item for the Army which we would take for the sake of standardization. Likewise, requirements that the Army have for furnishings and equipment that are peculiar to our tactics and technique, in many instances the British agreed to take for the purpose of standardization. The poor manufacturer sat down and when he added up the score, instead of having a simplified airplane, he had a more complicated airplane from the point of view of - for the reason that he had to go back and change the airplanes to the British account, the LB-30's in process at the time, and then go back and change their planes to our account, so this standardization can be a double-edged sword if we try and put it in too fast.

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Forrestal: In other words, trying to apply it to current production.

Lyon: That is it exactly. Now, I think this upset things very specifically because Mr. Fairey was extremely anxious to get a turbine supercharger into the LB-30's so that they could be standardized with the Army's so-called latest production order for B-24's. There are 352 of them on order. We have already gone back and picked up that change of turbine supercharger on nine airplanes on the contract that was let over a year ago, a year and a half ago, with a costly delay. That is the one I was mentioning awhile ago.

H.M.Jr: That is for the Army?

Lyon: Yes, nine for the Army. Why? Because we wanted to get a test of this turbine supercharger before the order came along, so looking at it from the broad point of view we will gain in the end, but we will lose in the next few months, until July.

Now, Mr. Fairey would like to interject the turbine supercharger for the sake of standardization, again, into his order for 165. If we do that it is going to cause further delay in the Consolidated plant. Likewise, this question of the turret, any changes now on these airplanes underway, I believe, will result in further delays rather than accelerated deliveries.

Forrestal: No question about it.

H.M.Jr: But there must be a point at which you could make changes far enough in advance --

Forrestal: On the stuff that isn't designed, drawn, and in process. In other words, the stuff you may start on next June.

H.M.Jr: As far ahead as that.

Forrestal: Yes.

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- Lyon: Specifically if the British Purchasing Commission take this supercharger. They are now considering 110 additional airplanes. The 110 should have it. The 165 should come out as they are.
- H.M.Jr: How much improvement in performance does a supercharger give, approximately?
- Lyon: It is a - it moves what we call the critical altitude, which is now about 14 or 15 thousand feet, that is, the altitude at which the engine gives its maximum power and the maximum speed to the airplane, from 15 thousand feet to 25 thousand feet and with appreciable increases in speed at those higher altitudes.
- H.M.Jr: Pretty important, isn't it?
- Brett: Very important at the present time.
- H.M.Jr: Well, what do you think?
- Stimson: I want to stabilize my own mind a little more. I have just come in contact with it.
- H.M.Jr: Don't you think that all of this, though, as far as the English orders and the Army's orders and the Navy's are concerned, have been helpful?
- Stimson: It has been very illuminating to me. Major Lyon has brought a whole new picture to me. I was worried the other day because he hadn't returned, but he was putting that extra time into most valuable information.
- H.M.Jr: Well, now, to me it has been of tremendous value and I think in the long run it will be to the manufacturer, because this meeting - as a result of this meeting these gentlemen had yesterday, this fellow has decided to take full responsibility. He has sent two fellows out there, hasn't he?
- Forrestal: Last night.
- H.M.Jr: I understand he finally convinced Admiral Moreell

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that he should let him have it.

Foley: On the civilian housing?

Forrestal: There never was any difference. Moreell thought he wanted to intervene in the stuff the Navy had in process and he didn't. It was just a question of the civilian stuff that we are now --

H.M.Jr: Where are we today on the flying boat situation, as far as Navy and the English are concerned?

Towers: Just where we were yesterday afternoon. There is that revised schedule which I understood had your approval and Secretary Knox' approval and we have the draft of a letter going out to our inspector.

Forrestal: We have got a specific list, also, of aluminum deliveries which we are going to shoot to --

H.M.Jr: Well, he has got one here on the deliveries, of which he can give copies to all of you people.

Forrestal: Have you got that one?

Buckley: No, I have got additional companies. I can give you a copy after the meeting.

H.M.Jr: Well, if this is worthwhile, the English have big orders in Lockheed and Douglas and Vultee, and I think North American, all on the West Coast. Would it be agreeable to you if a similar group went out there to look over that situation and see where the Army and Navy and the English could get together?

Stimson: Do what they have done at these other four, do what they have done at Consolidated?

H.M.Jr: Yes. What do you (Brett) think about that?

Brett: I think the four-engine bomber is the most important thing, and my reaction to the conferences that have been held is the fact that we could standardize, Mr. Secretary, if we

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could get an answer from the English. Now, we can get a decision from our own people within 24 hours, but there is a continual delay due to lack of the technicians, on which I sent a memorandum to Mr. Young, and also the question that they will not give us a decision.

Stimson: You mean the English haven't got their technicians here?

Brett: They apparently haven't the technicians, and everything has to be referred back to England before we get a decision.

Marshall: Let's go to the specific question. The Secretary spoke of - is it profitable now for us to go out to a conference out there similar to the Consolidated?

Brett: I don't believe so, sir, simply because the production in Douglas is entirely different from our production at the present time and they have their production lines set up. Now, we should go at that from a standpoint of standardizing well in the future.

Forrestal: Future stuff, that is right.

Brett: It is the same way with Lockheed. Lockheed is in good production for the English. We should, if we have a parallel airplane in the Lockheed factory, which we haven't, consider the possibility of standardization out at a given point but nothing to affect the present production line. That has been discussed with Mr. Fairey and Commander Mansell with an idea of setting up an immediate study to begin to standardize on any future orders, such as the case of the 110 LB-30's with the Consolidated.

Marshall: Do we understand, then, that you don't think at the present moment it should be done?

Brett: I don't think so at the present moment.

Forrestal: It will be much more effective, Mr. Secretary,

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when the technicians are here so that you know what you are shooting at.

Marshall: There is not apparently a confusion of orders there.

Stimson: Do you know whether they sent for their technicians as we asked?

Young: I don't know. They had the list yesterday afternoon and Fairey was going after it.

H.M.Jr: If they haven't, I will see that it goes today.

Towers: Mr. Fairey came in to see me about six o'clock last evening with your (Brett's) list.

Stimson: Was it a list --

Towers: A list of jobs and the numbers of people that General Brett seemed to think the English should have for the different jobs under this standardization. He felt that in two cases he would not be able to give as many people as you (Brett) asked for. He told me that he was going up and see the head of his mission and ask him to telephone to London last night. He told me that when he left. Whether or not he did it, I don't know.

Forrestal: Couldn't they be here next week, then? If they could be here next week, then we could get at it.

H.M.Jr: Yes, but if you don't --

Towers: Transportation is very difficult.

Stimson: I was just trying to get at the same thing, to find out whether the speed we would gain by having the technicians here who could answer yes or no on the spot was greater than the speed we could have by going ahead and cabling yes or no. That all depends on how long it would take to get the technicians here.

H.M.Jr: Well, you could continue to cable until they

- 20 -

get here, but if you don't mind, I am not --

Brett: Much too complicated, sir.

Forrestal: Can't do it. We have got to have it on the spot, Mr. Secretary.

Brett: You have got to sit down and look at the drawings and talk the thing over.

H.M.Jr: If General Brett doesn't mind my differing with him, I differ with you a lot, not on the technical end because that is your field and not mine, but we found out things there by going there. We never - at least I didn't know - take just, for example, the delay in aluminum products. You may have known it, but I don't think Mr. Forrestal knew it.

Forrestal: I didn't know it.

H.M.Jr: I don't know whether you people knew it, but just take that one thing alone. Now, I don't know how many troubles Mr. Douglas had with the Government or these other people, but it has all been the other way. They have all been coming to us and I think if these companies - do the Eastern companies first, if it takes too much time. I mean, where they have English orders. Take Glenn Martin. Clean up these companies first, and let these companies tell us what their troubles are. Maybe Martin has got a housing problem over there. I don't know. But I personally think we could learn an awful lot and maybe get some results. I would hate to just sit here and wait until these English experts come.

Stimson: I agree with you on that. I want to see motion.

H.M.Jr: We may not be able to do anything on the standardization, but at least we can get these people to tell us their troubles, whether it is labor or housing or --

Foley: Financing, taxation.

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Marshall: General Brett was just talking about standardization.

Forrestal: There is no question in my mind, Mr. Secretary, that you do get, any time you go to one of these places, on the spot, things that are on their minds coming out that you don't get in a visit down here.

Marshall: Well, Mr. Secretary, it is just exactly the same as troops. I have got the Inspector General's department and the Major General with the staff and plane and I am just going through these troops every week, and I want to telephone three or four times a day. That is the only way I can find it out. That is the only way you can learn those things.

H.M.Jr: Why not, if Mr. Stimson agrees, and I know how Mr. Forrestal feels, because both he and Mr. Knox have been pushing me on this, that they want to do more.

Forrestal: Yes, that is right.

H.M.Jr: Mr. Knox wants to do more, but next week - if you don't want to wait on the West Coast thing, you can clean up the Atlantic Coast thing first where there are English orders and I know they have an order with Glem Martin and I know they have an order with Brewster. I don't know whether they have an order with Republic or not, but there are several here.

Towers: They have one in Grumman.

H.M.Jr: You could clean up those on the Atlantic Coast first. It would be easier to do it next week.

Stimson: I think so.

Marshall: That is very specific on our side. At the present moment when the standardization will be in the forefront, something for Judge Patterson's section and I presume your (Forrestal's) section in the Navy Department.

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Stimson: I agree with the principle.

H.M.Jr: Couldn't we go ahead, then, on the Atlantic Coast next week?

Stimson: I should think so.

Marshall: Yes, I think so. I think you have got to do that. That is just exactly like a troop.

H.M.Jr: Then there is no argument about it?

Marshall: No.

H.M.Jr: Well, who --

Marshall: It is merely the decision of who goes.

H.M.Jr: Well, when Mr. Knox comes back --

Stimson: Judge Patterson left here. He is the man I would ask to go or have someone that he wants to go.

H.M.Jr: Who could take the leadership to organize this for early next week?

Forrestal: I will be glad to, if you want me to.

H.M.Jr: Would you?

Forrestal: Sure.

H.M.Jr: Is that agreeable to you?

Stimson: Yes, that is agreeable to me. I will be very glad if you (Forrestal) would do it.

Forrestal: Well, I will do it with Bob Patterson.

H.M.Jr: And then our boys are ready. They are on call.

Forrestal: I would like to have Mr. Foley, if it is agreeable to you, go.

H.M.Jr: Entirely. And Buckley and Young.

Forrestal: And Buckley.

H.M.Jr: Because they ran into tax things which they were able to help on, on the ground there.

Forrestal: If you can give these people a feeling that in addition to our making complaints as to their production they have got - we are trying to find out how we can help them, it gives them a mental reassurance that they aren't being ridden all the time, that we are anxious to try to help them as well.

Marshall: Just look on each plant like we look on an Army division right now.

H.M.Jr: I have confidence some good will come out of it. Then you will push for next week to clean up the Atlantic Coast where there are English orders?

Forrestal: Right.

H.M.Jr: And Fairey and Mansell can go with you.

Forrestal: Yes.

H.M.Jr: Fairey and Mansell. You said Mansell was good.

Forrestal: Very good. Don't you think so, Major?

Lyon: Yes, sir, I think so.

Forrestal: He knows the job. He has had fighting experience and he has got the power of decision.

Lyon: My impression was that Mansell was one man that could make up his mind as to what they ought to have and that was a great assistance to us.

Forrestal: And he was talking with a background of actual fighting experience.

H.M.Jr: Are you satisfied?

Stimson: Yes, I am satisfied. Is that all?

H.M.Jr: Okay, gents.

CONSOLIDATED AIRCRAFT CORPORATION

LINDBERGH FIELD SAN DIEGO, CALIFORNIA



IN REPLY
REFER TO
RGM:jh

8 October 1940

Mr. James C. Buckley
United States Treasury Department
Washington, D.C.

Dear Mr. Buckley:

We have been gathering together data sheets for the deficiency list which I promised to send to you. However, in studying these lists it appears that in a great many cases by the time your organization would get in contact with the various firms involved that time would have taken care of the condition.

However, we have a few individual items which are connected with the gasoline system or the engine installation without which it would be impossible to fly the airplane. Such items include the following:

Item	Our purchase number	Vendor
32P1661-8 check valve	#30233C	Parker Appliance Co., Cleveland, Ohio
16-U-182 engine gage unit	#27726C	Thomas A. Edison, Inc., West Orange, N.J.
Type 1809-1 compass	#29670C	Pacific Scientific Co., 1206 Maple Ave. Los Angeles, Cal.
8DJ13 SBE5 tachometer indicator	#27226C 27227C	General Electric Co., Los Angeles, Cal.

In the cases of the other items we have sufficient to carry us thru four or five airplanes and in another month when we would need these parts in greater volume it is believed that the vendors will have been able to supply them. In view of the above I have not bothered you with the multiplicity of small items which we are trying to take care of in the usual manner. These are part of the worries of producing airplanes and we do not wish to shirk our responsibility in the matter. As before stated, the situation with reference to Brewster seems to be the most serious one and any pressure which your department can bring to bear to get us outer wings quicker will be appreciated.

With kindest personal regards,

J. C. May
Production Manager
Consolidated Aircraft Corporation

October 11, 1940

MEMORANDUM FOR Secretary of the Treasury Morgenthau
Secretary of War Stimson
Secretary of the Navy Knox

Pursuant to your instructions the subcommittee designated on October 9, 1940 to consider the housing problem in San Diego met at the office of the Under Secretary of the Navy from 12:30 to 2:30 o'clock on Thursday afternoon, October 10, 1940. The following were present:

The subcommittee:

James V. Forrestal, Under Secretary of the Navy
E. H. Foley, Jr., General Counsel, Treasury Department
Charles Palmer, Coordinator of Housing for the Advisory Commission

From the Federal Works Agency:

John Carmody, Federal Works Administrator
C. F. Reynolds, Commissioner of Public Buildings
Howard Hunter, Acting Commissioner of Work Projects

Others present:

Admiral B. Moreell, Chief of the Bureau of Yards and Docks
Charles Detmar, Special Assistant to the Under Secretary of the Navy
C. L. Kades, Assistant General Counsel, Treasury Department

The conference considered ways and means of securing adequate housing facilities promptly, with a view to providing safe and sanitary shelter for the increased personnel needed to expedite the production of aircraft for the Army and Navy and the British Government at the Consolidated Aircraft Corporation's plant at San Diego. The Under Secretary of the Navy stressed the importance of San Diego as a naval operating base as well as the importance of the Consolidated plant as a supplier of patrol bombers. Admiral Moreell and Housing Coordinator Palmer outlined the steps now being taken to meet the housing problem in San Diego.

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It was unanimously agreed as follows:

1. The Navy Department, through the Bureau of Yards and Docks, will proceed as rapidly as possible with the construction of 1,200 units in San Diego, of which 600 units will be for married enlisted men near the Destroyer Base and of which 600 units will be for married Navy Department civilian employees near the Naval Training Station.

Note: The total cost of these projects will be \$4,800,000 (each being estimated to cost \$2,400,000), and the funds to finance the same have been allotted from the Second Supplemental National Defense Act, 1941, §201 (the \$100,000,000 fund).

2. It is imperative that additional housing facilities for civilian employees at Consolidated be provided by the Federal Government. The exact scope of the need will be determined by the Federal Works Agency at once.

Note: It is understood that Mr. Palmer's assistant and representatives from WPA and FBA will leave this evening for a personal inspection of the situation at San Diego and will report their findings upon their return to Washington.

3. The Federal Works Agency through the Public Buildings Administration will begin to construct 2,000 dwelling units for married civilian employees at the Consolidated plant as soon as funds are made available for this purpose.

Note: H.J.Res. 614, now before the President for his signature, appropriates \$75,000,000 and authorizes the execution of contracts for an additional \$75,000,000 to enable the Federal Works Administrator to provide low-cost housing for persons engaged in national defense activities, as authorized by H.R. 10412, which is also awaiting the President's signature.

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4. The Reconstruction Finance Corporation will aid a private corporation in financing the construction of 600 dwellings through using a plan of financing worked out in cooperation with the Housing Coordinator, the RFC Mortgage Company, and the Federal Housing Administration.

Note: This plan involves the purchase by the RFC of preferred stock for about half of the equity money, the other half being supplied by the private corporation; the lending by the RFC Mortgage Company of the balance necessary to build the project on the security of a first mortgage; and the insuring of the mortgage by the Federal Housing Administration.

5. The Federal Works Agency, through the Public Buildings Administration, will study the construction of an additional 2,400 dwelling units for married civilian employees at the Consolidated plant as well as barracks for 6,000 single employees; and, meanwhile, will earmark sufficient funds for this purpose.
6. So far as legally possible, the administration and operation of all housing projects for civilians engaged in national defense activities which are constructed by departments or agencies of the Federal Government will be centralized in the Public Buildings Administration of the Federal Works Agency.
7. The Federal Works Agency, through the Work Projects Administration, will provide the water distribution and sewerage facilities for the housing projects contemplated and will decide the extent to which the public improvements necessitated by the national defense program and described in the report of October 8, 1940 can be built as work relief^{or}/Federal public works projects.

in to Home by
Purvis
5/15/40

Copy to Sec. Stimson
Lunch
10-15-40
52

COPY

London,

October 11, 1940.

To: Morris Wilson

From: Beaverbrook

It is imperative that we should have an increased flow of aircraft from the United States. In particular we want bombing machines capable of reaching Berlin at night with a ton or more of bombs.

We want very much the Consolidated LB 30 and the Boeing B 17.

We would be well satisfied with the PBY flying boat.

Can you persuade the Administration and Morgenthau to send us forthwith 10 or 12 of these aircraft as a special claim by us to enable us to defend ourselves more completely. It would appear desirable that you should undertake on behalf of our Government a drive for more production in the aircraft factories for more assistance in suitable aircraft for the American Government and for a speeding up of production of Wright 2600 engines which are essential for our Stirling programme here.

If you would consider pressing forward with a programme to give us the aircraft and accessories we need, I would ask the Ministry to confer on you special powers and authority.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: Berlin via Lisbon

DATE: October 11, 1940, 11 a.m.

NO.: 4286

FOR THE TREASURY FROM HEATH AND FOR THE INFORMATION
OF THE DEPARTMENT.

Reference, my telegram of July 25, midnight, No. 3183,
about the speech of Minister Funk on that date.

Following the speech by Funk, the various economic
authorities of the Third Reich went actively to work on
plans for controlling and reorganizing the economy of
Europe west of Russia - on the assumption that victory
for Germany was near. Within the Government there was
considerable struggle for primacy in the planning of this
new Europe, mainly between the economic organization of
Goering and the Economics Ministry. There was also
competition from the Reichsbank and the Economic Section
of the Foreign Office. However, Goering delegated to
Funk the matter of German economic reconstruction of
Europe. Funk in turn decided to favor the Economics
Ministry which designated the office of Ministerial Direktor
Schlotterer as central clearing office for German economics
for Europe, to the extreme dissatisfaction of the four year
plan officials of Goering.

While memoranda and studies on the new economic
organization for Europe are still being produced, at the
present

- 2 -

present time this question has become if not a dead issue a rather academic pursuit. The Berlin ministries are now giving their attention to the problem of bolstering the economy of Germany to withstand a long fight.

On the other hand, the German press and officials in public speeches continue to state that work toward the economic reorganization of Europe by Germany is still proceeding. They claim, for example, that substantial progress has been made on one of the central projects of the new economic order, the realization of the European multilateral clearing arrangement. What has happened in fact is that the German Government has negotiated with the neutrals of Europe a limited resumption of the trade they formerly carried on with occupied Norway, Belgium, and the Netherlands. The three occupied countries are treated essentially as part of greater Germany in these negotiations. The European trade of the occupied countries is covered into the clearing agreements which Germany has with the unoccupied neutral countries of Europe. The tripartite arrangement between Germany, Sweden and Denmark is the nearest approach to a true multilateral agreement. However, although Denmark is officially independent, it is in all essential respects as much a part of war-time Germany as are the Netherlands and Norway.

No

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No attempt has been made to start negotiations for clearing the trade of unoccupied neutral countries with each other through Berlin, but according to authoritative information, there was no intention to proceed with such negotiations at a later time.

No advantage would accrue to either the unoccupied neutral countries of Europe or to Germany if the trade of the former were cleared through Berlin under war conditions. It is claimed that the advantages for a system of multilateral clearing are that the blocked balances which occur in bilateral clearing agreements and which hamper and reduce trade would be avoided. It is argued that there would be a tendency toward canceling out debit and credit balances in an enlarged multilateral arrangement. At a time when practically all the countries are clearing creditors of Germany, such canceling out cannot occur. German financial writers clearly recognize that to operate a European multilateral agreement successfully a fundamental condition is that Germany become a creditor nation. Under war conditions, the Reich cannot hope to attain such a status through developing a surplus of exports. There would not be much advantage to Germany in having neutral trade cleared through Berlin under war conditions, on the other hand, since the already topheavy bureaucratic structure of Germany would thereby be extended. Under present circumstances,

the Reich

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the Reich is in a position to exert sufficient control over trade between neutrals without adding to the existing complicated clearing apparatus.

The active planning for a new economic order in Europe has, in short, been largely shelved. Instead the economic authorities of the Reich are grappling anew with the practical problem of forcing a maximum production of goods and services by the occupied and unoccupied countries of the Continent which are needed by Germany for a prolonged war, and the problem of obtaining such goods and services on credit or in exchange for the least possible quantity of goods from Germany. The following methods are being used toward the accomplishment of the latter -

(a) The trading partners of Germany are being pressed to deliver on credit, in so far as is practicable. The clearing debt of Germany to Denmark is understood to have risen to almost 400,000,000 Danish crowns. The result of the recent negotiations with Switzerland is that the Swiss agreed to grant 100,000,000 Swiss francs in temporary clearing credits.

(b) In general European countries have to pay more for products from Germany while they themselves are prevented from raising their export prices.

The sole instance which has come to the attention of the Embassy where Germany consented to pay more for goods imported

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imported is in the case of the Netherlands. In this case it is understood that Germany agreed to a slight increase in export quotations of certain agricultural products, but higher prices for iron, steel and other products imported by the Netherlands from Germany offset this advantage. It is understood that in the case of Sweden, Germany forced an actual reduction in export prices of lumber of some 25 percent.

Both direct and indirect methods are employed for increasing German export prices. The export prices of iron and steel products from Germany have been increased directly, and it is understood that there will be an increase in the prices of other products as a result of the considerable reductions in export subsidies, which was one way by which Germany tried to overcome the mark overvaluation and bring quotations for exports from Germany into competitive range. I have been informed that eventually in the European export trade of Germany subsidies will be wholly abolished.

The terms of trade for Germany are improved indirectly through insisting that higher exchange rates for the clearing mark be granted. Following this line, Yugoslavia has had to elevate the clearing rate of the mark to 17.82 dinars, where formerly it was 14.80 dinars.

Announcement

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Announcement has been made by Landfried, the State Secretary of the Economics Ministry, that quotation of the clearing mark below nominal value will not be tolerated permanently in any other European country, although quotation at a discount of 20 percent will be permitted for a time. According to information here, the clearing mark at present has been quoted at a discount of 23 percent in Greece, 40 percent in Rumania, 22.5 percent in Hungary, and up to 35 percent in Bulgaria.

(c) Exchange regulations closely analogous to the German system have been imposed in all occupied countries. In these countries Germany is enforcing the registration of all securities foreign-owned and bank accounts and the surrender of gold foreign currency and foreign exchange. When I was in the new Reichsbank recently completed I noticed employees weighing and storing bullion and gold coin from Sweden, France, Denmark, Belgium, and the Netherlands. Up to the present it has been impossible to get an estimate of how much gold and exchange has been acquired by the Reichsbank from the occupied countries. However, the amount is undoubtedly a considerable one, and will be employed, in case of need, as payment for imports into Germany particularly perhaps from such countries as Spain and Russia.

(d) In the occupied countries, German individuals and firms

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firms are permitted to obtain at bargain terms participation or complete control of valuable industrial and commercial enterprises. This is another means whereby eventual foreign exchange resources for Reich purchases are being created.

(e) In the occupied countries Germany has confiscated huge stores of military equipment and valuable materials, in addition to (omission) the whole cost of the German army of occupation on these countries. Germany is in this way accumulating foreign exchange credits which may be used in payment for materials and services which it would not be practicable or desirable to confiscate outright.

(f) In order to remedy the labor shortage in Germany, both skilled and unskilled labor is being drawn from Poland, Belgium and the Netherlands in particular. Most of the two million prisoners of war are being forced to do productive work practically for their subsistence. Several hundred thousand laborers from Poland are being forced to deliver their services to the Reich at less than prevailing wage scales as a result of the 15 percent special tax.

Germany may be able temporarily to alleviate the fundamental economic difficulties which ultimately would confront Germany in a long fight by means of these procedures and devices, but they will not be sufficient to overcome such difficulties.

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difficulties. As contrasted with the confident attitude displayed three months ago by German officials, one now obtains inferential and even direct admissions that there is official preoccupation over economic problems which will eventually confront them and over the potential economic superiority of the British Empire and the sources of supply available to it. One informed source stated recently that at the most the rigid system of control of prices could not last for more than two years unless a drastic deflationary revision of the present financial and monetary policy is resorted to.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The Swiss Minister telephoned me at 11:15 this morning. He confirmed the information which Dr. Somary had given me yesterday morning in regard to the reasons for repatriation of Swiss assets. He stressed the need of the big Swiss insurance companies for funds in their own country to cover their possible needs. The Minister had just received a cablegram from his Government in regard to a specific application for license which our Control had refused on August 30. The Minister promised to send me a copy of his cablegram for possible use by me in asking the Control Committee whether this matter should be reopened upon the representations of the Swiss Government.

The Minister stated further that he had talked with Mr. Berle about the possibility of this Government conferring with him in the event that any extensive blocking of additional European countries might take place. That is, he hoped to have opportunity to make arrangements which would prevent Switzerland from being included in any hasty blocking. I assured the Minister that the Treasury was fully familiar with the Swiss viewpoint and would always give it careful consideration. On the other hand, I frankly told him that no one of us could commit our Government in advance.

mm

G-2/2657-220

RESTRICTED

No. 217

SITUATION REPORTM.I.D., W.D.
October 11, 1940.
12:00 M.

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

I. Western Theater of War.

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

On the 10th the German Air Force made daylight attacks over Sussex, Kent and London. Airdromes were again attacked in south-east England. Heavy night attacks were made on London and Liverpool. Activity over London was at the same high level as on preceding nights.

The R.A.F. made small daylight attacks along the Dutch coast yesterday and last night made their usual raids on France, Belgium, Holland and along the north coast of Germany. The heaviest attack seems to have been made on Amsterdam. Hamburg was also raided and had a 2-hour alert.

II. Mediterranean and African Theaters of War.

No ground operations reported. Air force activity was sporadic but the Italians claim a highly effective raid on Port Sudan, Egypt.

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SPECIAL BULLETIN
No. 20
G-2/2657-231

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 11, 1940.

NOTICE

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

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GENERAL REQUIN'S "LESSONS AND CONCLUSIONS"
FROM OPERATIONS OF FRENCH FOURTH ARMY

SOURCE

This document is the last part of a lengthy report made in July, 1940, to the French General Staff by General Requin, who commanded The French Fourth Army during the Champagne operations. Previous comment by General Requin has been covered in TENTATIVE LESSONS BULLETINS No. 31 and 55.

In order to preserve the exact ideas of the author, the document presented here is a verbatim translation, unedited and unrevised.

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1. INTRODUCTION
2. ESSENTIAL CAUSES OF THE GERMAN SUCCESS
3. PROBLEMS OF THE FOURTH ARMY, POSSIBLE SOLUTIONS, AND NECESSARY MEANS
4. CONCLUSIONS

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CONFIDENTIAL1. INTRODUCTION

An exhaustive study of the operations in June 1940 in CHAMPAGNE can only be made after a certain time has elapsed.

In fact, in order to make a worthwhile study, pertinent documents must be collected as well as the memories, opinions and suggestions of the qualified participants in these operations and above all, it must be undertaken with a free and serene mind.

At present too much passion is apt to upset both logic and reason.

However, among the numerous lessons that a study of the battle fought by the Fourth Army from the AISNE to the AUBE will bring to light, some can be determined immediately, for they impose themselves beyond any possible question. It will not be possible to question them later on even though legend and certain misleading versions replace the truth.

They set forth principally:

- (1) The essential causes of the enemy's success.
- (2) The modern solutions of certain tactical problems which are obvious and at the same time the insufficiency of our material means.

2. ESSENTIAL CAUSES OF THE GERMAN SUCCESS

Two words are ever recurring in the stories of the combatants:

- Tanks
- Aviation

They are simultaneously an explanation and a justification.

An explanation, because the German power, insofar as tanks and airplanes are concerned, is the very basis of the decisive successes of the Hitlerian armies.

A justification, for the lack of comparable means in our mobilized forces excuses the faint-heart of certain combatants due to discouragement and proves to those who held their ground to the bitter end that, although vanquished, they are worthy of their forefathers.

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CONFIDENTIALa. THE ARMORED WEAPON

It is the Arm of "Decision".

Its entry into action is preceded by classical attacks carried out by the Infantry and Artillery which, thanks to the effectiveness of airplane "dive-bombing", are more rapidly penetrating.

These attacks have as their object to insure to the armored units a "jumping-off place" for the conquest of bridgeheads beyond an obstacle (coupure, ditch, anti-tank works), or the creation of salients in a defensive position organized in depth.

With this objective in view, the Infantry launches an attack on a large front, en masse, with utter disregard of the losses. The effort of the attack is then brought to bear on the points of least resistance which have been disclosed.

As soon as the bridgeheads, or salients seem to be sufficiently deep, the Large Armored Units "go into action."

They create the event by their irruption in deep massive columns.

This is a modern charge going right ahead by successive echelons.

Launched slantwise, this charge will overcome the last resistance of the Infantry and anti-tanks.

The first tactical objective is: Overcome the whole position whose entire sides are outflanked, then encircled and this done, the charge continues by an exploitation conducted without interruption and having as objectives the vital rears of the Armies.

The Large Armored Units are kept informed, supported, and protected by Aviation in close liaison with their action.

They are followed up closely by motorized infantry and artillery columns which insure their security by day and night and open up for them, by actions of force, the passage of the gaps or narrow defiles that are held.

The development of this strategical exploitation is so rapid, that the reorganization of a constituted front in order to limit the effects thereof, becomes impossible even when the classical general reserve of Large Units and Artillery, are still available to attempt such action.

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The decisive breaking-through, tactically possible, but strategically an utopia during the last war of 1914-1918, has become a reality thanks to the use of Large Armored Units and Aviation for the exploitation.

In order not to be vanquished in a single large battle, one must oppose to the last man, the last tank, the last gun, the breaking-through of one's front; if worst comes to worst, it must be reorganized within the shortest delay possible.

To conquer, perhaps it may be sufficient to "break-through" the first.

b. THE AIR ARM

German aviation is the great conqueror of the war.

Without neglecting its role as an independent arm, with distant missions in enemy territory, which pertain to the general conduct of war, German aviation participated in the land battle with a power, a discipline and a dash to be admired.

On the front of the Fourth Army, it was without question permanently master of the sky.

Each day its bombers carried out the same program closely adapted to the operations on land:

- bombardments in a zone situated from 10 to 50 kms in rear of the front, of centers of communication, of important highways and railway lines, of halted troops, convoys and located depots.
- bombardment of important objectives: villages, bridges over large streams, cuts, etc., immediately ahead of the armored units and regulated directly by an officer belonging to these units. (*)
- "dive-bombing" and machine-gunning of centers of resistance which opposed the advance of the Infantry, or still resisted though encircled.

(*) The Army intercepted many radio messages sent in clear by an officer of the armored forces "controlling" directly the take-off and use of the aviation stationed on fields more or less near, supporting the operations of the tanks.

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The German Aviation cooperating with the land army constituted without doubt a true modern artillery, powerful, flexible and whose moral effect was crushing.

It took upon itself missions:

- of long distance interdiction and harassing fire.
- of protection of the independent operations of tanks at great distances.
- of furnishing direct support for infantry attacks.

Thus by its use the following problems were solved all at the same time:

- concentration of fires.
- observation of firing.
- instantaneous action.
- resupply of munitions during a combat.

The constant threat hovering over the troops wherever they were, certainly contributed to a great extent to diminish their capacity of resistance and their confidence in success.

c. However, if the Armored Arm and the Air Arm fulfilled the hope that an entire nation entrusted to them, and carried out the "Blitzkrieg" announced by Hitler, it is because they had available modern materiel in very large quantities, served by young and fanaticized crews ready for the supreme sacrifice.

Their triumph is the result of unrelenting effort during the first eight months of the war.

This effort was indispensable in order to have available before the launching of active operations on the Western front, a more powerful and more plentiful materiel than was had in September 1939 against Poland.

It was thus that on this date the 37 mm antitank gun was powerless against the French tanks - even the 35 R - as had been proven in the combats of the Fourth Army north of the BLIES. On the other hand, no German tank could withstand the fire of the 25 mm guns of our Infantry.

It was therefore necessary to put into service new anti-tank arms and new powerfully armored tanks.

As early as April 1940, a formidable program corresponding to these vital requirements was realized and HITLER assured his

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army that it could charge without fear of destroying its airplanes and tanks, for they would all be replaced as often as necessary until victory.

The German industrial power weighed fully in the balance and proved just what it could do.

3. PROBLEMS OF THE FOURTH ARMY, POSSIBLE SOLUTIONS AND NECESSARY MEANS

a. DEFENSE OF THE "COUPURES"

In this case, they are the rivers whose valleys are but relatively of little importance as obstacles, such as the AISNE, the MARNE, the AUBE and the SEINE in the part of their course which traverses the "CHAMPAGNE POUILLEUSE" region.

These rivers are of great importance to an enemy in a country essentially favorable to the use of tanks.

It sufficed to prohibit the crossing thereof by the Infantry charged with establishing a "bridgehead" indispensable to permit the construction of bridges, or the use of large size rafts and boats.

This problem is not new and its solution is classical.

But in the beginning of June, owing to the lack of available Large Units, the principle that "a coupure is only valuable if it can be properly held" was not respected.

Instead of a Division in line on a 10 Km front, 3 Divisions which had already suffered losses, were extended over a 45 km front in rear of the AISNE and its adjacent canal.

This weakness of the defense proved to be all the more serious because the Germans, after being sure that they were masters of the air, used very modern means and threw across the river masses of Infantry in order to be certain that sufficient forces, in spite of losses, would succeed in reaching the opposite bank.

The enemy attacking under such conditions on a very large front, took in the entire zone of the Army and outflanked the zone of the adjacent armies, pushing without hesitation large effectives against recognized weak points.

He thus succeeded in constituting several "bridgeheads" on the southern bank of the AISNE.

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Formerly, there would have been nothing much to worry about in such a situation. The Command "had the time" to take measures in view of:

- holding the hinges of the door opened in its formation,
- stopping at its source the arrival of reinforcements by artillery fire placed on the crossings of the river,
- bringing up reserves in order to set up the classical counter-attack on the flank in order to reduce the bridgehead.

Now, the problem is entirely different. The Command has but little time. The enemy Infantry must be thrown back before the tanks have had a chance to follow.

In fact, once the tanks have crossed the river, and no new antitank obstacle is in their way, experience has proven that for a normally dense formation (1 Infantry Division on a 10 Km front, reinforced by 1 Regiment of 75 mm Artillery) the fire of the antitank guns do not always stop the "tank charge".

Yet the effectiveness of these guns is generally adequate insofar as the 25 mm guns are concerned, and certainly insofar as the 47 mm and 75 mm guns are concerned.

But many rounds go amiss, and the "charge" in spite of the tanks put out of commission, continues to advance on the gunners of the antitank weapons who are bombarded without respite by dive-bombing airplanes.

Some hold their ground and finally fall, submerged or destroyed; others bewildered, weaken and give way before being actually in contact; while others, unfortunately, panic stricken, abandon their weapons without having used them.

How can the local Command reduce, in the shortest time possible a bridgehead which threatens the complete downfall of the entire defensive organization of the obstacle?

He must have reserves available on the spot, capable of brutally throwing back into the river the attacking Infantry, whether installed or not, even if some tanks have already succeeded in crossing.

Per Division, this reserve might include:

- 1 Infantry Battalion, General Reserve, entirely motorized:

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- 1 Troop of motorcyclist riflemen.
- 1 Troop of reconnaissance armored cars.
- 1 Troop of machine guns and antitank guns including:
 - 2 platoons of 47 mm (4 guns) on caterpillar automotive mounts.
 - 2 platoons of machine guns (8 machine guns)

1 Infantry Battalion1 Tank Battalion (R.40 or F.C.M.)

Placed at a practical distance for intervening within one hour; under the direct command of the Commanding General of the Division. Such a reserve should be engaged as a whole under a single direction. It should insure its own reconnaissances, its own protection, occupy the regained terrain and re-establish the defense of the ravine or other obstacle.

If its intervention is not decisive, the breaking-through of the position is to be feared as soon as the enemy tanks are engaged.

The command will then fight, no longer for the "obstacle" but will endeavor to prevent any exploitation of the rupture of his position.

b. DEFENSE OF POSITIONS

The war of 1914-1918 witnessed on the Western front the triumph of "positions" and the uselessness of "exploitations" attempted after their rupture.

Even though not organized, a position on which the command accepted battle, held by Divisions reinforced by artillery and deployed on fronts of from 5 to 7 Kms, could not be broken through except by a "large scale" attack.

Such an attack was characterized by the use of considerable artillery well provided with munitions and by very dense Infantry (1 Bn per 200 or 300 meters of front).

Therefore it was first necessary to destroy the Infantry of the defense, or at least prevent it from using "its fire" which prevented any contact; then submerge the defenders under successive assaulting waves.

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It was only during the last year of the war that, thanks to new means, viz, powerful and mobile heavy artillery, poisonous gas, tanks, the rupture of a front became an operation whose success was certain provided one was willing to pay the price and that it was technically well set up.

However, will exploitation, decisive phase of the battle, be able to follow the break-through?

No, because the former arm of exploitation, the Cavalry, has lost all offensive power in front of modern arms; a sheet of fire overcomes it, and Infantry, too slow, will advance all the more slowly because it will lack the support of Artillery, for even the field artillery will follow with difficulty across rough terrain.

Furthermore, all Infantry and Artillery actions are of a mechanism incompatible with the rhythm characterizing a "pursuit".

Finally, the necessary time for the emplacing of the means for a breaking-through attack, the duration of the preparation, the slow advance from objective to objective, have always given the defender the possibility of bringing up reserves:

- either to avoid a complete break-through.
- or to stop the breach opened in his front.

If worst comes to worst, after a total surprise (Chemin des Dames in May 1918), or an initial success of an unforeseen extent (Somme-Oise, March 1918), the arrival of reserves by rail or trucks limited the exploitation of the break-through to the creation of a "salient" more or less deep.

In conclusion, no deep strategical exploitation was possible with the means available to the belligerents. The British tanks "Whippels" raised the hopes of new possibilities, but their belated entry into service and their small number did not permit any realization of the possible action of rapid tanks in rear areas.

The decisive exploitation having as objective the mastery of communication centers, the disorganization of the command and of the reserves and even the encircling of complete armies attacked in their rear, having failed of accomplishment, the close-in exploitation materialized by a "salient" (*) was alone sought during the decisive battle engaged by Marshal FOCH July 12, 1918.

(*) It was conceded that "salients" could not exceed a depth equal to half of their base.

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The break-through operations of the Allied Armies carried on at a rapid pace thus, salient after salient, dislocated the entire German front and obliged LUDENDORFF to engage all his reserves in order to maintain a united front.

Without reserves, no stopping of a breach was possible. The next break-through battle was no longer to end in "salients" but by a strategical exploitation, which the total wearing down of the German Army foreshadowed as being decisive. To avoid this, vanguished Germany asked for an armistice.

As early as July 1940, may one already conclude - as some have asserted after the operations of May-June 1940 - that the system of war of "positions" is over?

The rapid success of the Germans in all the break-through battles, even those covered by an obstacle, would seem to prove this.

But it must not be overlooked that the defense of the positions attacked would have seemed hazardous even in 1914-18 owing to:

- combat fronts too extended (15 to 30 kms per Infantry Division).
- the absence or weakness of obstacles (entanglements in particular).
- lack of reserves.
- the mediocre quality of large units in personnel and material (the value of a position is that of its weakest sector).

Their break-through was therefore unavoidable.

It was all the more rapid due to the new means applied:

- Dive-bombing airplane attacks demoralizing the defenders;
- Attacks of armored weapons which found no obstacles nor antitank guns in sufficient quantity in front of them.

The results of the combats which took place between the Aisne and Marne show that the value of a position depends essentially on the antitank obstacles available.

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Without such obstacles, set up in depth, the attack of armored weapons passes through, in spite of the fire of antitank guns of all calibers: (25 mm, 47 mm, 75 mm.).

Whatever may be their losses, the armored weapons, not being able to avoid the hits by dropping to the ground as does the Infantry, charge at top speed to overcome and go beyond the antitank arms.

There are always some which succeed in doing this.

The position is then broken through, and through the breach, however narrow it may be initially, new masses of tanks, followed soon by motorized Infantry and Artillery, are going to pass.

It is the beginning of a close-in exploitation carried on by the weapons which have broken through, having as objective the disorganization of the rear areas of the position, to complete tactically the success and to open the door to the deep strategical exploitation which will follow without loss of time.

What solutions may already be contemplated to check the attacks by tanks against positions not leisurely organized, or in other words, not fortified?

Two suggest themselves immediately:

- Increase the number of antitank weapons.
- Oppose to the tanks obstacles which can be quickly set up.

(1) Increase the number of antitank weapons?

Yes, but only where the attack takes place.

In fact, to equip similarly an entire position, is to willfully not use 9/10 of the guns, as the armored tanks attack on narrow fronts, since the slightest breach is sufficient for them.

It suffices therefore to be able to concentrate at the desired point and in due time the necessary antitank weapons. To do this, the Command, beginning with the Army Corps echelon, should have available mobile and powerful antitank guns.

(2) Oppose to the Tanks new obstacles? which ones?

Mobile obstacles: tetrahedrals in steel tubes,

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is rails or cornered iron, felled trees, etc...are very heavy, and the total tonnage necessary to transport them and put them in position would require considerable time: weeks.

Their use is therefore limited to the framework of fortified positions except in the case of defiles.

Alone, light mines (6 Kgs) which can be rapidly and simply put in place are liable to constitute an effective antitank obstacle.

All Infantry and Artillery units, down to the echelons company and battery, should be provided with them.

In front of a position consisting of successive lines of antitank obstacles, the enemy would have to prepare an Infantry attack, therefore slowly developed.

This position, even conquered, will always constitute a "cut" from which the tanks will have to deboach by certain itineraries reestablished for them.

All these operations of conquest and preparation for crossing an obstacle will again permit the defense Commander to make his dispositions:

- Occupation by the reserves of one or two salients partitioning the rears of the position attacked, these salients being protected in turn by obstacles and mines;
- or assembly of antitank means, of large mechanized units and aviation to prevent the enemy's armored and motorized forces from debouching on the rear of the position, in a terrain free from obstacles.

In sum, a modern position must include obstacles which will require THAT A PREVIOUS Infantry attack be necessary, or that the advance of a tank attack be considerably slowed down.

The antitank armament of units holding this position on normal fronts need not necessarily be reinforced.

The Command must have available:

- (1) Batteries of powerful and very mobile antitank guns (on cross-country vehicles) to follow the maneuver decided upon:

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- oppose in time the enemy tanks debouching;
- support the counter-attack organized by the Large Armored Units;
- maneuver in retreat in front of the enemy mechanized forces making the exploitation.

These batteries on motorized mounts should be of a caliber from 75 mm to 90 mm; either

- for antiaircraft fire, batteries that require but a few minutes to go into position; or,
- for normal firing.

They should be included in the Corps Artillery (1 bn. of 3 batteries), as well as in regiments of general reserve.

In principle, Army Artillery should include 1 Regiment of this type.

(2) Large Armored Units

- to prevent the debouching of enemy tanks;
- to fight a battle of annihilation with forces of exploitation which have succeeded in debouching.

These Large General Reserve Units should have as a basis very heavily armored tanks:

- some small and speedy;
- others heavy, slower perhaps, but heavily armed.

All should have:

- a duration of combat action of at least 15 hours; (*)
- munitions for several days;
- food supplies and water for 4 days in a baggage locker.

One reconnaissance squadron should be an organic part of the Large Armored Unit.

Each Army should normally have one Large Armored Unit, except armies occupying fortified positions.

(*) 10 hours of which at an average cruising speed of 30 km per hour for the small tanks and 20 km per hour for the heavy ones, in average terrain.

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This Large Unit should always be engaged "as a whole" and hence organized for action "as a whole" and with rapidity at the same time.

(3) Pursuit aviation, to neutralize the action of dive-bombers and to aid the morale of the defenders.

Dive-bombing aviation to attack:

- the bridges if the obstacle is a cut;
- the tanks while they are crossing the obstacles in column;
- the Infantry and the batteries, during the entire battle.

The land army must direct this air action closely linked with its OWN OPERATIONS.

Dive-bombing aviation represents for the Commanding General of the Army his real Army Artillery. This organic Air Artillery should include as a minimum:

1. Groupment of 3 Groups of 3 squadrons each; that is, about 80 operating planes always available.

The summary expose above shows obviously how difficult it was, beginning May 26th, to hold on a front extending from the Bay of the Somme to MONTMEDY, before an adversary having at his disposal the most modern means, which he engaged regardless of cost.

In fact, we lacked everything at the same time:

- effectives, to such a degree that the Large Units constituting the main body of the army were extended over large fronts and reserves were few;
- modern materiel: tanks, airplanes, motorized antitank guns, mines;
- the necessary time to organize strong positions.

The grim determination to resist to the end was even lacking in certain units.

c. RETREATING MANEUVERS

Faced with the coordinated action of aviation and tanks supported by motorized Infantry and Artillery units, it is no longer possible to carry out a retreating maneuver in open country with Large Units of a normal type - not to mention a retreating combat such as the Fourth Army was compelled to do in CHAMPAGNE.

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As a matter of fact, the "fire curtains" which formerly permitted the breaking-off by night after having held the entire day, are swept aside by the tanks.

The resistance nests holding the centers of communications are either outflanked by mechanized and motorized columns, or if their capture is necessary they are crushed by bombing aviation and mopped up by the motorized forces.

The Large Units, once ordered to withdraw, can not, under these conditions, prevent the total dissociation caused by the action of the tanks which outspeed them and reach their rear.

Only the motorized elements of these Large Units can avoid being encircled and can re-assemble in rear of a protecting obstacle, or a new position duly held.

Isolated men can sometimes succeed in "passing" through the advance of the armored weapons and rejoining these motorized elements.

However, on the immense battlefields of today, events may oblige the Command to order a retreating maneuver on a certain front.

How can this be carried out successfully?

(1) Foot elements of the Large Units must be allowed to move away rapidly. The mission of holding up the advance of the armored and motorized enemy columns is then left to rear-guards composed of mechanized UNITS REINFORCED BY ANTITANK ARTILLERY. (*)

Hence, the double necessity for the army concerned to have available:

- motor transport for the Infantry of the Large Units, it being understood that the Artillery, Engineers, Train, etc., of these units are motorized organically.
- mechanized units and antitank units. (*)

(2) As close as possible in rear of the position whose evacuation has been necessary the following should be held:

- either the passages of an obstacle which tanks can not cross;
- or a new organized position with antitank obstacles.

(*) 75 mm, 80 or 90 mm guns on motorized cross-country mounts.

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(3) Finally pursuit and bombing aviation capable of acting in liaison with the rear-guards should be available.

In sum, for the defence of obstacles and positions, if success is to be had, modern means must be available: Aviation, Tanks and antitank guns, all characterized by power and mobility.

Horse-drawn or foot means can not compete with motorized means.

The retreating maneuver, or rather the retreating combat carried out by the Fourth Army between the AISNE and the MARNE, illustrates particularly well the conclusions stated above.

On the 10th and 11th of June, thanks to the intervention of the 7th Light Motorized Division and the 3rd Armored Division still representing a real force, the front of the Army was held together.

On the 12th of June, it was ruptured, separating the 8th and 23rd Corps.

The Germans were able to develop on the flank in the direction of RHEIMS-CHALONS, the action of the tanks reinforced by new units, which the absence of our bombing aviation enabled them to bring up by way of BERRY au BAC.

On the contrary, the situation of the Fourth Army on the MARNE west of DAMERY, obliged the Commanding General of the Fourth Army to use in the emergency the main body of the 7th Light Mechanized Division at the time it was returned to it by the 4th A.G. to save its left wing.

The few tanks remaining in the 3rd Armored Division and a small detachment of the 7th Light Mechanized Division, therefore remained alone confronted with 4 Panzer Divisions which were kept informed, protected and supported by numerous airplanes.

The breach was thus more easily opened up in the formation of the Army, followed by the development on its rear, the close-in exploitation in the direction of CONDE sur MARNE - CHALONS, and by the exploitation in depth launched on the axis: CHALONS, VITRY, ST. DIZIER. The latter continued without interruption in the direction of LANGRES, DIJON and the SAONE.

The desperate resistance of the defense in the region of MOURMELON did not permit the enemy elements of the close-in exploitation to reach the rear of the 8th Army Corps, which endeavored to withdraw, east of VITRY, back of the obstacle MARNE-SAULX. All its

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motorized elements succeeded in arriving there. But the distance to be covered (50 to 60 kms) was beyond the possibilities of the horse teams and of the men harassed by four days of battle and three of withdrawal.

Constituted detachments and isolated men succeeded nevertheless during the night of June 12-13th and the day of June 13th in reaching the region South and Southwest of VITRY.

Thanks to the obstacle of the MARNE, whose passages were all held, the Commanding General of the Army expected to regroup the remains of the 8th and 23rd Army Corps.

It seemed as though this maneuver, the only one which could be attempted, might possibly succeed; however, the enemy's advance in the direction of MONTMIRAIL - SEZANNE and the SEINE at ROMILLY, did not permit the MARNE to fulfill its contemplated checking role.

During all these operations between the AISNE and the MARNE, German Aviation never ceased to prepare and accompany the advance of the armored and motorized columns, to paralyze our movements, our supply services and our evacuations, and to disrupt all our telephone communications by launching continuous waves of planes, thus hampering considerably the exercise of command.

Our own pursuit aviation never once opposed these activities.

No friendly aviation participated in the struggle on land, to check the German exploitation, to help the breaking-off of our troops or their crossing of the MARNE bridges.

This difference of air activity weighed heavily on the execution of the retreating maneuver of the Fourth Army.

d. CLOSE-IN COUNTER-ATTACKS

The few close-in counter-attacks carried out within the framework of the Infantry Division by 35 R Tanks accompanied by Infantry, proved their effectiveness.

At times, the enemy, panic-stricken when the tanks debouched, left many prisoners in our hands.

It seems to have been proved that German Infantry does not hold any better than our own when faced with a sudden intervention of tanks.

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CONFIDENTIALe. COMBAT BETWEEN MECHANIZED UNITS

Our mechanized units had the arduous mission of stopping and sometimes throwing back the Panzer Divisions in order to free strong points which were threatened or encircled.

In spite of the unquestionable value of the German materiel engaged beginning with May 1940, our tanks of every type proved their superiority in combat.

They lacked only radius of action, and gasoline being exhausted, they had to be destroyed oftentimes by their own crews so that they should not fall intact in the hands of the enemy.

Furthermore, the composition of the Large Units and the technical and tactical methods of their use entailed delays too prolonged for going into action.

For example, the attack of the Armored Groupment (*) on June 10th on both banks of the RETOURNE, could not be launched until 7 hours after the order for it had been given.

For the success of such an attack its suddenness, which permits the exploitation of a known situation, and the brutality of the charge straight ahead in a given direction until a final definite objective is reached, are more important than clever maneuvering which merely disrupts the cohesion as a whole and diminishes the effect of mass, decisive factors of a shock action.

Finally, the game between our armored units, left to their own forces, and the Panzer Divisions, was not equal.

The FLAK (antiaircraft) guns, very mobile in cross country and very powerful (77 mm), opening fire within a few seconds, accompanied these Panzer Divisions, as well as numerous airplanes which, with unlimited activity and abnegation, informed, supported and protected them constantly.

In these new operations between Large Armored Units it is, as always, the combined action of the arms which wins the day.

The Aviation and Artillery must fight for the benefit of the principal arm of the attack: the Tanks.

With this object in view, they must have specialized

(*) Including the 3rd Armored Division and the 7th Mechanized Light Division.

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material equipping their units which, in turn, must be trained to maneuver with tank units.

f. EVACUATIONS(1) Civilian Evacuations

The stability of the front of the Army the 9th and 10th of June and the reduced size of the successive withdrawals up to June 13th (inclusive) in a region sparsely populated, enabled civilian evacuation to take place according to a preconceived plan without too much congestion of the main highways.

However, beginning at midnight June 13th civilian evacuation turned into a panic and the civilian authorities, taking entirely the place of the Army Commanding Generals, were themselves swamped.

The highways became useless for all military requirements, even to effect simple liaisons.

The dissociation of retreating units ended in a non-descript rout; there was nothing on the highways except intermingled civilians and military fugitives.

What measures should be taken to avoid such disorder in the rear areas and free the highways to serve the battlefield?

They should be exactly those provided for in September 1939 at the time of mobilization, in the case of populations protected by a fortified position.

Back of such a position an entirely evacuated zone of from 10 to 15 kms in depth, should be created.

On the other hand, back of fronts weakly held and in rear of an active front, no movement of motor or horse-drawn vehicles, or of personnel on foot should be tolerated.

Each civilian, whoever he may be, private or official, should remain home or at his post. Danger is less great there than on the road where the congested convoys offer particularly easy and vulnerable objectives to aviation.

Dissemination (*) will be the rule only in centers

(*) That is to say, the partial evacuation of the center or of the vital points of the populated area, for the purpose of seeking cover in the immediate vicinity.

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situated in rear of active fronts and where air attacks could not be preceded by an "alarm".

As in the days prior to the advent of the automobile, certain people will suddenly find themselves in the midst of operations. That is one of the terrible eventualities of war which a strong nation must envisage without fear.

(2) Military Evacuations

These are always necessary to avoid leaving the personnel and materiel of the abandoned territory in enemy hands.

However, these evacuations should begin in sufficient time and should be carried out normally by rail, even insofar as the automobile materiel is concerned.

In this manner certain evacuations, resembling "flights" and sometimes even the actual abandoning of posts, will be avoided. The highways will not be crowded with an inextricable mixture of elements from the armies and from the territory, the latter hastening the dissociation of the former.

Finally, to settle definitely the question of evacuations, it is important to envisage them as useful and possible only when reduced in size and echeloned in time. What we saw in June 1940 was not an evacuation but the modern migration of a nation before the victorious invader.

4. CONCLUSIONS

From the study of the events of June 1940 on the front of the Fourth Army, three main lessons may be drawn:

a. In the offensive, the use of the system of force: Tanks-Aviation, is the modern formula of a decisive attack.

However, it should be prepared by preliminary Infantry action if the enemy is holding behind a cut, or occupies a position protected by antitank obstacles.

b. In the defensive, a position can only be held if provided with antitank obstacles.

It is erroneous to contend that antitank arms are to armored vehicles what the machine gun is to Infantry.

Even in open country, machine guns are masters of their

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fire and pin to the ground any Infantry attack, while antitank guns under similar conditions do not stop the charge of tanks.

It is by combining obstacles with antitank guns that the defense of a position can:

- either be carried on to the very end (in case of a fortified position);
- or that it can hold long enough for the Command attacked to be able to deploy advantageously his antitank artillery and dispose his maneuvering reserves.

c. A Large Mechanized Unit should include, in addition to its miscellaneous armored vehicles and motorized infantry:

- Artillery on mechanized mounts,
- Reconnaissance and dive-bombing aviation.

On the other hand, to benefit by the other lessons set forth above, one should not lose sight of the very special conditions which characterized the operations of the Fourth Army in CHALPAGNE between the AISNE and the MARNE.

(1) Initial Situation

Belated taking up of position, organization of the Command effected at the last moment (engagement of the organic elements of the VIII Army Corps on the 8th of June only) absence of Army Services which did not rejoin.

(2) Strength of the equipment used by the Germans:

- 4 Armored Divisions
- 2 Motorized Divisions
- 12 Infantry Divisions

strongly supported by a powerful aviation, facing initially:

- 3 and later 4 Infantry Divisions
- 1 armored division incomplete
- 1 Light motorized division recently organized without any appreciable air forces.

(3) Form of Battle

- At first, frontal attack:

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On the AISNE, already crossed by the enemy in the West, and continued in CHAMPAGNE POUILLEUSE by a retreating maneuver to a depth of 80 kms, for the purpose of reaching the MARNE.

The absence of reserves in fact obliged the troops to fight while retreating, the same units fighting throughout the day after having withdrawn during the night.

- On the Left Wing as of June 11th the battle extended progressively to the south of the Marne the 11th and 12th owing to the deep withdrawal of the Right wing of the Sixth Army whose VII Army Corps could no longer insure liaison with the Fourth Army.
- Decisive Intervention of the Panzer Divisions on June 12th, which took advantage of the over-extended Left wing of the Fourth Army and attacked in two directions:

RHEIMS - CHALONS
DAMERY - EPERNAY

This crushed the XXIII Army Corps, some of whose elements succeeded in crossing the MARNE, and separated it from the VIII Army Corps whose withdrawal was carried out partly East of VITRY-le-FRANCOIS under particularly difficult conditions.

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Paraphrase of Code Radiogram
Received at the War Department
at 11:49 P.M., October 11, 1940

Belgrade, Filed 11:40 A.M., October 11.

Chief of Staff Kacic's Senior Secretary, told me that disaster was imminent in the Balkans. What he said confirmed a similar statement made to me by the Bulgarian Military Attache. The latter said that German infiltrations into Rumania were preliminary to a joint major offensive by Italy and Germany directed toward Salonika and the Straits and to begin about October 11. Bulgaria and Italy were to act jointly against Greece, while Germany attacked Turkey from Bulgaria. If the Yugoslavs place water and rail transportation facilities at Axis disposition, no military action will be taken against their country.

The ultimate objective of this offensive is the occupation of Turkey, Iraq, and Syria in order to operate against Palestine and the Suez Canal in conjunction with the Italian attack from Libya. Russia is to have freedom of action in the Caucasus and Persia and ultimately to obtain access to the Persian Gulf.

Kacic says that only the Serbs want to fight. The Slovanes, Greeks, and the existing government will not oppose passage of Axis troops across Yugoslavia. No general mobilization has been ordered.

About four days ago, a promise was made to the army that a military dictatorship would be set up, but to date no such action

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has taken place. The Yugoslav Military Attache in Moscow telegraphed that no demands should be placed on any half of the country. The Yugoslav Military Attache in Sofia reported that Bulgarian mobilization began October 15.

FORTIER.

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

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Paraphrase of Code Radiogram
Received at the War Department
at 2:31 p.m., October 12, 1940

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London, filed 17:40, October 12, 1940.

1. During daylight hours of Thursday, October 10th, the Bomber Command flew no missions on account of weather conditions. That night it dispatched 157 aircraft against their usual types of objectives. During the day the Coastal Command operated 94 planes on 35 patrols and for the escort of 19 convoys. That night 25 of its aircraft flew five attack missions, losing two planes. The Fighter Command operated 702 planes on 133 patrols.

2. During daylight hours of October 10th the enemy carried out four main attacks, one of about 100 planes against Dorset and three, of about 20, 60, and 145 planes, respectively, were against London. Night raids lasted from 7:00 p.m. to 6:00 a.m. with London as the primary and Birmingham the secondary objective.

3. Damages during the day were generally confined to the London and Southeast England area. No vital targets were hit. One aircraft factory was set on fire, with one hangar destroyed, and unsuccessful attacks were made against two airfields. Bombing during that night was indiscriminate and rather violent. There were some fires but reports received up to this time show little damage to munitions producing plants. Traffic in London was tangled this morning because of unexploded bombs. A telephone exchange was set on fire by hits from high explosive bombs.

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Railroads near London were damaged in six places. Considerable damage was done to the Southern Railway. In addition, there were material scattered damages to facilities in London. There was a power failure in one district and bombs falling on water sub-stations and breaking mains caused a shortage of water in two districts. There were superficial damages in Eastbourne, Brighton, Bexhill, and Hastings. Eighteen German long-range shells fell in Dover but there were no casualties and damage was negligible. The forces in London required to remove unexploded bombs are being increased.

4. German plane losses were five confirmed and five damaged. The British lost five planes and three pilots. In addition to other civilian casualties in London not yet reported, there were 79 killed and 39 seriously injured.

5. British cruisers and aircraft carriers bombarded Cherbourg during the night of October 10th-11th. One British patrol vessel was sunk by mines. A 370-ton coastal steamer was damaged. The arrival of a 29 ship convoy from America and the clearing of a 34 ship convoy was reported.

6. In Egypt an Italian reconnaissance in force advanced 13 miles beyond Sir Bah and then withdrew.

7. The British believe that the bulk of the German JV-87 dive-bombers remain concentrated generally in the area east of Sicily Sea. There are indications that some planes of this type have been sent to Italy and that Italian pilots are being trained

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in their use. There is no information that any have arrived in Libya.

8. Officers of the Royal Air Force are satisfied that their night bombing is very accurate but feel that they should be using bombs weighing from 1,000 to 2,000 pounds. Bombs of these sizes are being produced and used in increasing quantities. Experiments are being conducted with bombs weighing 3,500 pounds.

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War Plans Division
Office of Naval Intelligence

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October 11, 1940
12:12 p.m.

James
Forrestal:

Hello.

H.M.Jr:

Hello, Jim.

F:

Henry, a subject has come up here which bears upon what we talked about in relation to the Defense Commission. They've appointed a - up to now whenever we wanted to get a plant extension approved to come under the - get the benefits of the amortization scheme, we got the approval of one fellow, Knudsen. They've now set up a Commission and the entire Commission has to approve those extensions which means Miss Elliot, Mr. Hillman and various other members.

H.M.Jr:

Well, their contribution will be worthwhile.

F:

Well, I think the contribution is worthwhile if it doesn't result in a creation - if it isn't delegated authority do you see

H.M.Jr:

I'm smiling.

F:

..... and you set up another intervening instrument that has to be hurdled before you get quick action. I'm not sure that it's going to do that yet but I just wanted to

H.M.Jr:

Well, now, let me see if I get it straight. Do you mean to say that before they'll approve any contract the whole Commission has to pass on it?

F:

Yeah, the whole Commission has to pass on the - it's a subcommittee appointed - it's a subcommittee - for example, we've got a contract to Consolidated. That has to be vis'd by a committee appointed by the Commission and each member of the Commission has a representative on that committee.

H.M.Jr:

My God.

F:

It sounds a little bit dangerous to me. Maybe we're boxing with shadows, but I agree with you that the contribution - the suggestion of people

- 2 -

H.M.Jr: Oh, I was joking - I was joking when I said that.

F: Well, I'm not certain, I think Sydney Hillman can make some suggestions all right.

H.M.Jr: Well, no, I was just

F: Henry, don't charge your mind with this. I simply want to - I'm going to have a summary of this made and I'm going to give it to Ed Foley and you can forget about it but I just wanted to tell you I'm going to do that to be sure that he gets it in his mind.

H.M.Jr: Well, don't give me anything that you want me to forget about.

F: (Laughs). Well, you're not going to forget about it because he'll be after you on the problem. But it just looks to me like an unnecessary clogging of procedure.

H.M.Jr: Yeah. Well, I think that I know how - I think I can help.

F: All right.

H.M.Jr: I think I can help.

F: Well, I'll send the memorandum direct to you.

H.M.Jr: Yeah. Will you? I think I know how to do it.

F: O. K.

H.M.Jr: Thank you.

October 11, 1940
12:16 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello, Arthur.

Arthur Purvis: Yes, Henry.

H.M.Jr: You got word the trip was off.

P: I was sorry to hear that, yes.

H.M.Jr: Well, I'll explain it to you sometime. I thought for political reasons with a capital "P" it was a mistake for me personally to go. I can't go without Glenn Martin telling it to the press.

P: No, that's dangerous.

H.M.Jr: And I was afraid Mr. Knudsen might take offense, so I thought it was better not. Now, after meeting this morning, it was decided though that we go ahead next week and send a similar group to the plants which have English orders on the Atlantic Coast.

P: Yes.

H.M.Jr: So they're going to go ahead with that because Stimson is very much pleased and certain things here we'll discuss about turrets, et cetera, et cetera, and standardization which Philip Young will pass on to you, but the main thing is we're going to go on and do all of the plants.

P: Yes.

H.M.Jr: And they had a meeting yesterday and they are actually going to build at once 2,000 houses for married people - for civilians.

P: Oh, yes. Very good.

- 2 -

H.M.Jr:

And the Public Works group are on their way out there now and, as you know, - so that's started and Mr. Knudsen sent out Mead and somebody else so that - the thing has been very, very helpful.

P:

Oh, I'm sure those steps are going to be invaluable and once they get started they'll gather momentum, too, don't you think?

H.M.Jr:

Oh, yes. And then the other thing which Phil can give you the details on - they've reported now that not to exceed two weeks delay will be on the 4-engine bomber putting in a complete - putting in the Sperry automatic pilot.

P:

Oh, I see. They're going to do it that way.

H.M.Jr:

Well, that's for the Army. The Navy still maintains that they can't rip out the certain secret thing, you know, and so I think the thing will happen - what I told you would.

P:

Yes, I see.

H.M.Jr:

In other words, if the Army is correct that Sperry can install the thing in two weeks - they say that the first six that they can install in not less than two weeks - they'll take turns installing them, you see. They'll take one out of the first six - they only want the automatic pilot in that anyway and so

P:

Yes, yes. That's quite different from the previous picture that they got.

H.M.Jr:

Quite. Major Lyons brought it back. I think that both you and Fairey ought to get this because it's really quite important and Philip Young's available.

P:

Yes. Well, we'd better get hold of Philip Young and have a word with him.

H.M.Jr:

Right. And I'll be seeing you next week. But the only reason I called the thing off, I thought looking at it in a big, broad way, if it got in the papers that I went, it might hurt some feelings.

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P: Yes, I know. I know. I think those things - I mean, one has to keep them in mind. By the way, Sir Walter wants to send that memorandum --- when will you be going up to the country?

H.M.Jr: Well, sometime after 2 o'clock.

P: Sometime after 2, so it's better to get it to you by 2.

H.M.Jr: Yes, if they can put it in the hands of Lt. Commander McKay.

P: Yes. I think he'd like very much also to feel that you could authorize that the other copies go to Secretary Stimson and Knox so that he could feel that they'd get progress next week.

H.M.Jr: Well, if he wants to deliver them, it's all right with me.

P: Will it be all right if you had gone, otherwise, send them to you.

H.M.Jr: Well, let's say I have gone.

P: All right. (Laughs).

H.M.Jr: Knox isn't here anyway.

P: Oh, he isn't.

H.M.Jr: But if he wants to get it over to Stimson today by all means let him do it.

P: Thank you very much.

H.M.Jr: Right.

P: Good-bye.

COPY.

11th October 1940.

Dear Mr. Morgenthau,

Arising out of conversations with the War Department and with Mr. Knudsen, I have been asked to submit as precise a statement as possible of the supplies for the British Army which we should like to receive from North America in 1941 in respect of the main items included in the table on page 8 of the memorandum which I sent to you on October 2nd.

I therefore enclose a short summary of the quantities of artillery and rifles which would be needed to complete the British Army's programme.

I also enclose a fuller statement, which shows the relation of the quantities asked for to the whole British programme and, in a short commentary, sets out the basis of our requirements and the limits within which it would be possible to make an adjustment of British standard types and those of the United States Army. You will appreciate that this second document contains information of a very secret character, since it necessarily gives the key to our military development next year. I am, therefore, enclosing four copies for the personal perusal of the President, yourself, Mr. Stimson and Colonel Knox. I venture to ask that no further copies be made.

I commend to your attention the outstanding urgency of certain items to which the memorandum refers.

We hope to submit to you at a very early date a similar memorandum covering the extended aircraft programme, some notes on Admiralty requirements, and a statement relating to advances of capital to contractors for war supplies. A note on Dominion supplies is also in preparation.

Yours sincerely,

(Signed) W. T. Layton.

Secretary of the Treasury,
Washington, D.C.

Enclosure No. 1.Statement of British Army Requirements from North America
of Artillery and Rifles in 1941.

The following supplies are needed from North America in 1941 to complete the British Army's equipment and, in part, to provide an insurance against a reduction in British output as a result of enemy actions:-

1. Field Guns (25 pdrs.)	...	1,800
2. Medium Artillery	...	300
(4.5" Gun and 5.5" Gun Howitzer)		
3. Anti-Aircraft Guns.		
(a) Heavy	...	1,600 plus
(b) Light	...	1,800 plus
4. Tank Guns and Anti-Tank Equipments.		
(a) 2 pdr. Carriages		2,000
(b) 2 pdr. Guns	...	4,250
(c) 6 pdr. Guns	...	1,000
(d) Carriages for 6 pdr. guns (same carriage as (a))	...	1,000
(e) 37 mm. Guns for M.3 Tanks	...	1,500
(f) 75 mm. Guns for M.3 Tanks	...	1,500
5. Rifles (.303 Enfields)		1,000,000

Notes

1. Suggested capacity 200 a month.
Delivery should commence as soon as possible after July 1st 1941, and be completed before March 31st 1942. The rate of supply will determine the rate of replacement of obsolete weapons in the field artillery of the British Army. Owing to the advanced state of the British programme and the complication resulting from mixed types, it is desirable that this supply should be of British type.
2. Suggested capacity rate for British order 30 a month. It is unlikely that 300 can be delivered in 1941; but if deliveries are certain to start in the autumn of 1941, the British Army would be justified in sending the British made guns abroad and running on a narrow reserve margin in the summer of 1941. The supply coming forward in 1941 would be used to complete the initial equipment of existing Army formations. Later deliveries, if British output remains unimpaired, will be needed to replace ~~obsolete Howitzers still in service.~~ This supply should, if possible, be of the British types now in production.
3. For reasons stated elsewhere, this requirement is practically unlimited. Uniformity of type is not as important in this as in the two preceding cases.

- 2 -

4. The demand for 2 pdr. anti-tank equipments can to some extent be met by a further supply of 37 mm. Anti-tank Equipments, of which 500 are already on order. It is very desirable that as large a proportion of these deliveries as possible should be made before mid-summer 1941.

The 6 pdr., which is mounted on the same carriage as the 2 pdr., is designed ultimately to supersede the lighter anti-tank gun.

The demand for 37 mm. and 75 mm. guns for the M.3 tanks will ultimately amount to 3,000 of each, or an equivalent number of whatever armament is used in any subsequent modification of the present tank design. The figure given is the number required for the tanks likely to be delivered in 1941.

5. Delivery of the Enfield rifles should, if possible, be completed during 1941 or at latest by March 1942. This will require a capacity of 100,000 a month.
6. Ammunition requirements connected with these artillery items can be dealt with as soon as the programme of weapons is settled.

11th October 1940.

- 2 -

The following paragraphs explain the final figures here shown.

The stock figure of 2,650 equipments in the hands of the Army on August 1st consisted of (a) 650 75-mm. field guns from the United States;* (b) about 1,000 18-pdr. and 4.5" Howitzer equipments surviving from the last war. (c) Over 1,000 25-pdrs. (655 being converted 18 pdrs and 410 new 25 pdrs.).

Thus, of the 7,500 guns in sight (stock plus production) by the end of 1941, some 1,650 are of old types and should be replaced as soon as circumstances permit. This leaves 5,850 as the total of modern or reconstructed weapons available between now and the end of next year.

The initial equipment of the divisions for which provision has to be made by the end of 1941 calls for at least 5,000 for establishment plus reserves — the figure would have to be a little larger if the force were dispersed over several theatres of war.

In order to provide what the Army Council consider an adequate reserve and to meet a moderate estimate of wastage during 1941, we should have available 6,650 guns, i.e. we need 800 more than the total available. Further, in order to provide a 20% margin against loss of British output, we should place an insurance order for 1,000 equipments.

In order, therefore, to be assured of meeting our timetable, we should like to receive from North America 1,800 equipments during 1941.**

Canada has already started production of 25 pdrs., but we do not count on receiving more than 100 equipments before the end of 1941.

I have briefly indicated in my preceding memorandum why these 1,800 equipments should be in the form of 25 pounders and not of some alternative weapon.

We are producing at the rate of 150 equipments a month. We expect to be producing at the rate of 380 a month next autumn.

* Of these 565 were with units in Great Britain and 85 in depots undergoing minor repairs. The balance of the number sent to Britain were afloat or in port waiting to be unloaded on August 1st.

** It will be noted that this is approximately the figure of the obsolete types which we hope to replace.

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The existing stock of medium artillery consists mainly of 4" Howitzers plus a few 60 pounder guns (5") which have been converted to 4 1/2" calibre and will take the shell designed for the new 4 1/2" gun. The output of new medium artillery shown in the table will consist in approximately equal quantities of the new 4 1/2" gun and the new 9 1/2" gun Howitzer (these two weapons are mounted on a common carriage). Delivery has just begun and one of the first complete 4 1/2" equipments will shortly be on its way to this country.

The forecast to the end of 1941 is about 100 equipments short of the total number required to cover the War Office estimate of wastage and appropriate reserve, on the assumption that the 6" Howitzers remain in service. To the deficiency of 100 should be added a figure for loss of output through bombing which should be fairly high as the production of these equipments cannot be widely distributed. We should, therefore, like to order 300 of these equipments from North America for delivery between September 1941 and June 1942.

It is intended to replace the 6" Howitzers with modern weapons as soon as production permits.

The productive capacity involved in manufacturing these weapons is largely alternative to that required for heavy anti-aircraft guns. If, therefore, we could secure more of the latter from overseas, we could enlarge the output of this medium artillery from our gun factories, and vice versa.

We expect to be producing 66 a month of these equipments next autumn.

(a) HEAVY

Our stock of heavy anti-aircraft guns on August 1st consists, as to nearly one half, of 3" and 4.5" guns, the production of which is not being continued, and, as to rather more than one half, of our standard 3.7" guns. The new production shown in the above table is made up entirely of this last weapon.

If the forecast is realized we shall have over 3,400 heavy anti-aircraft guns before the end of next year. In the view of the General Staff this figure should be at least 5,000, and if all vulnerable points are to be protected, as well as provision made for supplying a certain number of these weapons to our field forces, the figure should be 1,300 more. The deficiency is thus at least 1,600 without providing any insurance against our own loss of output. If the full requirement were to be met and insurance provided, from 3,000 to 3,500 guns would be needed.

There is no possibility of filling this demand either from British or overseas sources before the end of next year. But, unless we can assume that the struggle for air mastery will be substantially settled in our favour by the end of next year, these figures serve to show the need for broadening the basis of production of heavy anti-aircraft guns.

- 4 -

In the case of this equipment, the need of uniformity is less imperative than in the case of artillery which is used in the field, for a considerable proportion of these guns can be fixed in position and the ammunition supply can be arranged with comparative ease. Moreover, the total amount of ammunition that has to be dealt with is much smaller than that which has to be supplied to a field force.

Our own demand is, moreover, swollen by the desirability of giving protection to vulnerable points all over the world.

It is, therefore, very desirable that a large production of the most readily produced heavy A.A. gun should be planned in the U.S.A., and that allocation of the early deliveries should be made in accordance with the war situation prevailing at the time.

At the moment we are producing 80 3.7" A.A. guns a month and we expect to be producing 120 a month in the autumn of next year.

(b) LIGHT

Our present stock of light anti-aircraft guns consists almost entirely of 40 mm. (Bofors) guns. The new production shown in the table will consist entirely of this weapon. Our total supply at the end of next year will be some 800 guns short of the Army Council's minimum requirement and some 2,800 short of the total which the army would like to mount throughout the country, in addition to equipping the field force. We must also allow for some loss on our production forecasts.

On the basis of the lower requirement figure which shows a deficit of 800, plus an insurance against loss of, say, 1,000 guns, we should like to order 1,800 guns for delivery during 1941 from North America.

Our present output is 113 a month, and we expect to rise to 460 a month at the end of next year.

The life of the A.A. guns is very short. A large number of spare barrels must, therefore, be supplied. We have ordered, and are anxious to secure quick delivery of, spare barrels for both the 3.7" and 4.5" A.A. guns - which are mounted in considerable numbers for the defence of London. I would ask that these orders may have high priority. Our ammunition supply is abundant and the barrage fire which has recently been put up in London represents the wear of something like 100 barrels a week of the heavy A.A. guns.

Our programme of tank guns and anti-tank equipments is far behind our requirements. At the outset I should explain that the 2 pdr. gun is used both as an

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anti-tank weapon when mounted on an anti-tank carriage, and as the main armament of our tanks. The production of the gun itself has therefore to balance against production both of 2 pdr. carriages and tanks.

In the Battle of France the Army was insufficiently equipped with anti-tank weapons and lost all the 850 anti-tank equipments which were on the Continent, as well as several hundred 2 pdr. guns which were in the tanks that were left behind.

We have, therefore, had to build up our supply from the relatively few equipments and guns that remained in England. In other words, we had in this case to start again nearly from scratch.

Though the output of 2 pdr. anti-tank equipments and of 2 pdr. guns for tanks is rising rapidly, we shall be considerably behind the military timetable by May of next year. And though we shall catch up rapidly in the latter half of the year, the completion of the programme by the end of 1941 is not in sight.

Taking first the anti-tank carriage as the measure of our supply of anti-tank equipments, the output will be 2,600 behind the military timetable in June and will still be 1,000 in arrears in December of next year. It will catch up in the early months of 1942.* Allowing a margin for loss of output due to enemy action, we should like to secure an additional 2,000 anti-tank equipments from North America by the end of 1941.

In addition to the guns to be mounted on these carriages, our forecast of tank deliveries will require about 6,000 more 2 pdr. guns before the end of 1941. This, with the 4,850 2-pdr. guns required for mounting on 2 pdr. anti-tank carriages of British manufacture, gives a total gun requirement of 10,850. Our expected production is 9,600, leaving a deficit of 1,250. On this additional gun output for British tanks there should also be a margin of safety of, say, 1,000 guns.

Thus, to complete the programme the following additional supplies are needed from North America during next year:-

* The deficiency here quoted is after allowing for the delivery from the United States of 500 complete anti-tank 37 mm. equipments and of 600 2 pdr. anti-tank equipments from Canada.

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<u>Guns</u>	<u>Carriage</u>
2 pdr. Anti-tank Requirements	1,000
Insurance Margin	1,000
Additional Guns required to complete Tank programme	1,250
Additional Insurance on Gun production	1,000
	<u>4,250</u> <u>2,000</u>

It is not practicable fully to meet these deficiencies by additional output from Canada. We should like, therefore, to be able to secure a substantial supply from U.S.A.

The figures do not include the arming of the M.3 tanks which have been ordered in the United States. For these tanks 1,500 75-mm guns and a further 1,500 37 mm. guns will be required before the end of 1941.

In considering how to provide this tank and anti-tank armament two points should be noted.

The first is that the Army Council, and I think also the American Military Authorities, recognize that by 1942 both the British 2 pdr. and the 37 mm. anti-tank guns may not be powerful enough to pierce the armour with which the German tanks may then be protected. The 2 pdr. anti-tank carriage has, therefore, been re-designed to carry a new 6 pounder gun.

One of these guns is on its way to the United States. If it commands itself to the American Military Authorities it would be a great help if this gun could be put into production promptly in the United States, in parallel with the production of the lighter anti-tank gun. This suggestion is put forward because it is almost impossible to contemplate doing this in England owing to the great pressure on our gun-making capacity and the danger of interfering with the production of the 2 pdr. gun which is in full flight and is the only weapon that will be available next summer.

If the American War Department is not yet ready to reach a decision on this point, we should in any case like to place an initial order for the earliest possible delivery.

The second consideration is that the gap in the British programme in 1941 could to some extent be filled by a further supply of American 37 mm. equipments if they can be made available in time.

Substitution to the full extent of the deficiency would not be entirely satisfactory. On the one hand, a special mounting would have to be designed if the 37 mm.

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were to be used in British tanks, and on the other, as concerns the anti-tank equipments, we should like to have both 2 pdr. guns and 2 pdr. carriages in production in the United States in order to meet the possibility that our own flow of equipments might become interrupted through damage by enemy action to either the gun or carriage production as the case may be.

We should, therefore, like a supply of 2 pdr. guns and carriages to be included in the American supply programme.

For the reasons already mentioned, we are anxious that deliveries of 2 pdr. or of 37 mm. anti-tank equipments on existing or supplementary orders should be brought forward as far as possible to the early part of the year.

In August production of both guns and carriages was running at the rate of about 150 a month, and we have in stock a small surplus of 2 pdr. guns which are being mounted in British produced tanks. Production of the guns will run substantially ahead of carriages in December and at the end of next year we shall be providing from home sources 1,100 guns and 400 carriages a month.

In August the British Army, which had lost some 150,000 of its rifles in the Battle of France, possessed some 1½ million .303 Enfield rifles. This enabled it to equip the divisions in formation and supply a certain number of rifles to the Navy, which, in addition to its ordinary requirements, needs a considerable number for the men engaged in trawler and ancillary services.

The new output is, however, very small and the surplus in ordnance stores will with difficulty suffice for the intake of recruits and other urgent demands.

The War Office minimum demand for the field force, for troops engaged in home defence, and for wastage during the campaign of 1941 estimated on a very modest basis, amounts to 2½ millions. This figure is exclusive of the needs of the Home Guard, which have been mainly armed by American Enfield rifles from the United States.

Towards this requirement of 2½ millions, the Army possessed a little over 1½ millions in August. Our forecast of deliveries from existing British factories, from new factories which will come into production at about Christmas, and from small factories in Canada and Australia, amounts in all to an output of 850,000 more rifles before the end of next year.

The figure of 2½ millions is, however, only a minimum requirement. If, as is possible, the number of divisions in formation at that time is increased beyond the programme figure - in spite of a deficiency of some items of their equipment - a larger number of rifles will

be needed. We have also to provide for Polish, Czech, French and other troops in England, for the requirements of the Dominions and Colonies, and fortified posts abroad, as well as for a reserve which should be available to replace magazine if, in the latter part of 1941 or early 1942, it should be incurred on a full battle basis. We need also to provide a margin against possible loss of output from enemy action.

We therefore should like to order for as speedy delivery as possible at least one million Enfield .303 rifles in the United States - the rifle which is standard not only in the British regular forces but throughout the British Empire.

In our view, this order should be in addition to and not in substitution for an expansion of capacity beyond that now available for making .30 rifles; for a large supply from this country may be required not only to meet special British demands that can be isolated from our general programme, such as the Home Guard, but also to meet needs that are likely to arise in the next two years from many other sources.

In this connection it is worth putting on record that during the four years of the last war production of rifles in Britain and North America was approximately as follows:-

Great Britain	1914-1918	4,000,000	.303 calibre
Canada	1916-1918	120,000	" "
U.S.A.	1916-1917	1,250,000	" "
U.S.A.	1917-1919	2,950,000	.300 calibre

So far as I am aware, no preparations have been made to manufacture rifles on anything like this scale. Nevertheless, the Germans must have in their possession, or at their command in the countries under their control, an almost unlimited supply of rifles, while the French supply cannot, as in 1914-1918, be counted in the scale against them.

It may be that the machine gun and the automatic rifle may for certain purposes replace the standard rifle; but those figures suggest that the production of small arms in some form or another should now be envisaged on a very great scale.

In order to give a general picture of the scale of our production in relation to military needs and what has been done in the past, I have set out below a comparison of our forecast of production at the end of next year with figures of the last war. I have not available any statistics of French artillery production, which should be added in when considering the output of the Allied and Associated Powers; but I have quoted a figure for the United States from Colonel Ayres' Official Statistical Summary of the War with Germany. For purposes of the table I have assumed that his figure does not include any

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considerable number of tank and anti-tank guns.

The British figures were achieved after 3½ years of war; the American - aided by the capacity created by previous Allied orders - was reached in 18 months; the British figures for 1941 represent the prospective situation after approximately 2 years.

Monthly Output of Artillery

	British peak output March 1918	U.S.A. Oct. 1918	British Forecast Nov. 1941
Field Guns	340 (plus 200 gun bodies)		380 (plus 80 gun barrels)
Medium	160	420	66
Heavy	64		a few
A.A. Heavy	45		120
A.A. Light	None		460
Tank and Anti- tank guns	285		1,100

The figures are a measure of a part only of the industrial war effort - which can only be estimated as a whole if we also take account of the comparative production of tanks and aircraft.

October 11, 1940

STRICTLY CONFIDENTIAL

MEMORANDUM

To: The Secretary

From: Mr. Young

In the memorandum and material which I put in your envelope for the farm a week ago concerning a meeting of Colonel Maxwell's Advisory Committee on Export Control, there was some stuff relating to the possible development of a division of "Economic Defense" or "Economic Warfare". You may recall that I have spoken to you about this on a couple of occasions since that time.

A situation is developing beneath the surface which is designed to place the control of all measures taken for "economic defense" purposes in the hands of Colonel Maxwell or the War Department. At the present time the only people who have had anything on this subject are in the Army War College, and Secretary Stimson has promised to transfer this group to Colonel Maxwell's staff by December 1st.

Colonel Maxwell took me to lunch today and we had quite a lengthy discussion on this matter. Among other things, I discovered that Maxwell's State Department adviser is a committee of three appointed by Secretary Hull and consisting of Feis, Green and Grady. Presumably this committee refers the difficult decisions to Secretary Hull for consideration.

Colonel Maxwell invited me to come to see him next week so that both of us might go down to the War College and talk with the people there on this business of economic defense. I have been doing a good deal of thinking along those lines recently and it would seem that the time is rapidly approaching when some independent program will have to be developed for the existence of economic controls as a matter of national defense. This question is a much broader one than the question of export control per se, as the latter is merely the mechanism for executing the former.

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At the moment I feel quite strongly that the matter of economic defense could not be handled adequately either by the Administrator of Export Control, the State Department, the War Department, or the Advisory Commission. Preferably it should be handled by an old line department such as the Treasury, which has the facilities and the economic background. As a matter of fact, if the work of the Liaison Committee is analyzed it is found that this function is being performed already in certain instances.

Colonel Maxwell is quite alive to the potentialities of the situation and he and I both agree in that we believe a common-sense coordinated economic and control program is necessary. For your information, I have started to assemble certain basic data and various ideas dealing with the subject.

Ry.

RDS

GRAY

CALCUTTA

Dated October 11, 1940

Rec'd 12:44 a.m., 12th

Secretary of State,
Washington.

October 11, 4 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BOMBAY.

National Bank shipped to Chase National Bank,
New York, by the steamship PRESIDENT HAYES (sailed on
October 1st) 8875 ounces of gold valued at \$300,915.

GROTH

EMB

October 11, 1940

My dear Mr. Secretary:

I am writing to acknowledge receipt of the "Estimate of the Situation" which you were kind enough to send me on October 8th.

I appreciate so much your making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

By Messenger / 15

October 12, 1940

My dear Mr. Secretary:

I am writing to acknowledge receipt of the "Estimate of the Situation" which you were kind enough to send me on October 8th.

I appreciate so much your making this information available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

By Messenger

WAR DEPARTMENT
WASHINGTON

October 8, 1940.

MEMORANDUM for the Secretary of the Treasury:

Here is a copy of the "Estimate of the Situation" which I promised to send you some time ago.

Henry L. Stimson
H.
Secretary of War.

encl.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON, D. C.

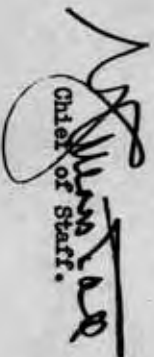
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October 2, 1940.

MEMORANDUM for the Secretary of War:

Attached is a copy of the "Estimate of the Situation" for Mr. Morgenthau.

It might be well to explain to Mr. Morgenthau that this is the product of the Joint Army and Navy Board, later revised in accordance with instructions from Admiral Stark and myself - and also from you; that it is now being considered by the State Department representative of the Liaison Committee, the Under Secretary of State, preliminary to its acceptance by the Liaison Committee - Mr. Welles, Admiral Stark and General Marshall, for submission to the Secretaries of War, State and Navy, for their approval and transmittal to the President.


Chief of Staff.

encl.

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~~MEMORANDUM~~

SUBJECT: The Problem of Production of Munitions in Relation to the Ability of the United States to Cope with its Defense Problems in the Present World Situation.

Section I. Estimate of the Position of the United States in Relation to the World Situation.

1. In relation to the existing world situation, the first consideration in regard to the position of the United States is that its action in opposition to the three Totalitarian Powers, Germany, Italy, and Japan, may cause them to undertake hostile action against the United States if their serious preoccupation with other military adventures will permit. With respect to Germany and Italy, it appears reasonably certain that neither will engage in open hostilities with the United States unless or until they have succeeded in inflicting a major reverse on Great Britain in the British Isles, and in the eastern Mediterranean, and as well, have assured themselves that Soviet Russia will not seize the opportunity to cause trouble for them in Europe while they were engaged elsewhere. With respect to Japan, definitely hostile action against the United States will depend upon the consequences of any steps taken by the United States to oppose Japanese aggression. These consequences may become such a hindrance to her economic and military welfare that steps in retaliation such as the seizure of the Philippines may be undertaken. Furthermore, the obviously expanding self-confidence and aggressiveness of Japan have become so great that there can be no assurance that in the near future she will not take action which will face the United States with the alternative of armed opposition or complete modification of our Far Eastern policy.

2. Our estimate of the threat of aggressive action by Germany or Italy must be concerned with two aspects of the question. The first is the time factor, affecting their attainment of sufficient strategic freedom of action to undertake operations against objectives in the Western Hemisphere, and second, the question whether, by the time they have attained such strategic freedom of action, the United States will have built up its armed strength sufficiently to render the attempt a dubious gamble with success, and therefore disadvantageous.

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3. As the situation stands in late September, 1940, the expected invasion of England has not been attempted and with every passing day the likelihood of this attempt appears to decrease. Meanwhile, uninterrupted violent air attacks on the British Isles have been continued for several weeks with no immediate indication of causing a breakdown in British morale or resistance. There is no prior precedent of air operations on such a scale with so apparent a prospect of long continuance. Consequently, no one can say whether British resistance will eventually succumb to air attack alone. However, from present indications it appears reasonable to assume that by air attack alone Germany cannot force British capitulation in the British Isles for several months yet to come. At the present time, the outcome of the Italians' offensive against British forces in the eastern Mediterranean is also uncertain. Undoubtedly, if the Italian drive should reach the Suez Canal and Italian forces should thereafter be able to deprive British naval and commercial shipping from use of the Suez Canal, the British would have to release their hold on the Near East and probably be driven out of the Mediterranean.

4. It has been suggested that the loss of Gibraltar by Great Britain would not only react seriously on the possibility of continued British operations in the Mediterranean, but would also open the way to serious consequences to the United States, by opening the way for movement of Italian naval forces into the Atlantic, especially if based on Dakar. The threat thus indicated would have to be opposed either by a part of the British Navy now based in the British Isles, or if that should prove impossible by the withdrawal of a part of the United States fleet from the Pacific into the South Atlantic, thereby weakening our Pacific position in opposition to Japan. Furthermore, occupation of Dakar by the Axis Powers, both as a naval and an air base, would open the way to aerial penetration of South America by ferrying flights to Natal. It is well recognized that it would be imperative for the United States to anticipate such action by the preventive occupation of the air fields and ports in northeastern Brazil. While the ousting of Great Britain from Gibraltar would undoubtedly make more difficult the position of British naval forces in the Mediterranean, it is considered doubtful that even with the gateway open to the Atlantic, that Italian naval forces would leave the Mediterranean while the British Fleet is still in being.

5. Meanwhile, the indications are that both Spain and Portugal will be drawn into the orbit of Axis control. In this event, unless immediately occupied by Great Britain or the United States, it may be expected that the Azores, Canary and Cape Verde Islands will be occupied and defended by Axis forces, and put to such use as operating bases as may be found practicable

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Regraded Unclassified

in order to disturb British naval control of the Atlantic. Axis control of the Azores would offer a definite threat to the security of the Western Hemisphere as it would materially shorten the distances for operations against our outposts at Newfoundland and Bermuda, as well as against commercial shipping or naval forces in the Atlantic.

6. From the standpoint of the time factor, it appears reasonable to estimate that the British hold on the British Isles cannot be so weakened as to make the withdrawal of the British Fleet therefrom necessary in less than 6 months. Assuming that the British Government adheres to its expressed purpose, under no circumstances to surrender the British Fleet, the Axis Powers would still lack freedom of action in the Atlantic if the British Fleet continued to operate from bases in the Western Hemisphere. Under these circumstances, serious attempts by the Axis Powers of aggression against the Western Hemisphere would have to await the building of sufficient naval forces to allow them to contest the combined naval supremacy of Great Britain and the United States in the Atlantic Ocean. This could not occur for several years, if ever. However, a part of the responsibility of the United States should be to be prepared to meet the worst possible situation. So far as the Atlantic is concerned, this worst possible situation would arise if, instead of withdrawing, the British Fleet were largely destroyed or were forced to surrender. Even if a sufficient portion of the British Fleet should be surrendered so that the strength of the surrendered vessels added to the existing strength of the German and Italian Navies would exceed the naval strength of the United States, it has been estimated that a period of at least 6 months from such surrender would have to elapse before British units could be effectively manned by German or Italian crews and, by training and operating practices, incorporated in the German or Italian Navies. Consequently, if the previously stated belief is correct, that it would be at least 6 months before the British hold on the British Isles can be destroyed, it appears that at least a year from now must elapse before the possibility will occur of freedom of action for the Axis Powers to operate against the Western Hemisphere unless, in the meantime, we become seriously involved in the Far East.

7. Nevertheless, there is a strong possibility that the United States will be confronted with the necessity for the employment of armed force for essential defensive missions in the Western Hemisphere within a year. This possibility arises from two different types of potential threats. The first is that German infiltration into Latin America, which is already occurring and which is known to be increasing, may bring about forms of so-called "Fifth Column" activities which without the

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assistance of the United States would be to overthrow, by subversive or revolutionary activity, the stability of existing Latin American Governments, which we have undertaken to support. Besides thus set up and affiliated with the German Government would afford ready overseas bases for subsequent German infiltration or for outright military, naval, and air operations when the Axis Powers should become foot-loose in the Atlantic. The second of these potential threats arises from the possibility that, following attrition of British naval forces, Germany probably would dispatch naval raiders for such harassing attacks on shipping and exposed coastal and island possessions in the Western Atlantic as might tend to withdraw British naval forces from the protection of the British Isles or United States naval forces now maintaining our strong position in the Pacific.

8. With regard to our position in the Pacific, as has previously been indicated, there is no assurance that Japan will not, within the next few months, move swiftly either against the Dutch East Indies or against the Philippines or Guam, especially if the Japanese Government should become increasingly embarrassed by embargo on exports from the United States to Japan, and at the same time should become convinced that despite protests by the United States it was only throwing a bluff and would back down in the face of a serious situation.

9. This brief survey leads to the following conclusions regarding the position of the United States in relation to the world situation.

a. Within the near future, the United States may be confronted with the demand for a major effort in the Far East, an effort for which we are not now prepared and will not be prepared for several years to come. If, in the near future, we should be confronted with the necessity of armed opposition to Japan, in the face of the potential threat in the Atlantic, that effort probably will be limited to the employment of minor naval surface and air forces operating from Singapore and Dutch East Indies bases, plus the interruption of Japanese shipping in the eastern Pacific.

b. If it develops that the British Fleet is destroyed or surrendered, from that very day the United States must within 3 months securely occupy all Atlantic outpost positions from Bahia in Brazil northward to include Greenland.

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c. At any time from the present moment forward, the United States may be required to fulfill its commitment for the employment of Naval and Military forces to prevent German-inspired upsets of Latin American Governments.

d. In order to safeguard our own security the United States may at any time, even before the collapse of the British Fleet, need to occupy preventively Dakar and the Azores.

2. It appears possible that within a year from the present time, the United States may be in a position requiring the conduct of widespread operations for the protection of the Western Hemisphere. For the full accomplishment of such operations, the Army may need a force of approximately 1,400,000 men, fully organized, trained, and equipped, and backed up by an adequate reserve of munitions. The Navy will require all elements of the U. S. Fleet fully manned, including Marine Expeditionary Forces of approximately 18,000 men, completely organized local defense forces, and Naval Transportation Service capable of transporting Army and Marine Expeditionary Forces and maintaining the supply of these Forces and the Fleet.

Section II.

The Munitions Situation

1. a. From the standpoint of Army forces, our ability to meet the requirements outlined in paragraph 9 above is drastically limited by actual and prospective shortages of military equipment, particularly ammunition. Today we cannot maintain in combat any balanced military force without seriously reducing allowances of ammunition required for the training of National Guard and Selective Service personnel soon to be brought into service. By reducing training allowances of ammunition by 50% a balanced force of one Corps of five Divisions, approximately 55,000 men, can be maintained in the field. On March 31, 1941, the situation will not be greatly improved, due to the continuing critical insufficiency of ammunition. It will be somewhat improved by September 30, 1941, on which date we will be able to maintain in the field a balanced force of one Army of two Corps of six Divisions, approximately 150,000 men. On March 31, 1942, our supply facilities will be sufficient to meet the requirements of a balanced force of two Armies of 9 Corps of 27 Infantry Divisions, 4 Armored Divisions and certain ORG and auxiliary troops, approximately 1,400,000 men, provided that when the emergency occurs we sequester all foreign munitions production in the United States.

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b. From the standpoint of the Navy, the Fleet is available for immediate operations except for personnel, which is inadequate in numbers and training. Within a short time these deficiencies can be corrected if the Naval Reserve is called to active duty. Naval Local Defense Forces can be provided initially from the Fleet until they can be relieved by conversion and new construction. The transportation of Army Expeditionary Forces by the Navy Transportation Service presents a problem of conversion of passenger vessels which may cause a considerable delay in initial movement of troops, and their subsequent support. This can only be avoided by the preparation of Army and Navy transports and suitable passenger vessels for this task before the necessity for their use arises. Two special transports with a capacity of 1300 each, will be available for the Fleet Marine Force by 1 November. Two additional special transports for the Fleet Marine Force will be available by 1 April, 1941. There are available at this time fully equipped Marine Expeditionary Forces, including defense battalions, of about 8,000 men. By March 31, 1941, these forces will total about 13,000. Additional forces of about 10,000 men can be organized, equipped, and maintained in combat by March 31, 1942. Ammunition for the Navy and Marine Corps, supplied by the Army, has priority over Army requirements, and is being delivered to the Navy in accordance with its requests. Stocks of ammunition for the Navy, supplied by the Navy, are adequate for initial naval operations.

2. The time schedule of requirements covering the current Army munitions program (excluding aircraft) provides, generally, for initial equipment for 1,200,000 men, to become available as follows:

- | | |
|---|-----------------|
| a. Antiaircraft and Field Artillery Material, | Dec. 31, 1941. |
| b. Modernization of Ordnance Equipment, | Mar. 31, 1941. |
| c. Engineer, Chemical Warfare Service,
Medical, and Quartermaster Equipment, | Mar. 31, 1941. |
| d. Ammunition Production to equal
Expenditure, as stated, | Sept. 30, 1941. |
| e. All others, | June 30, 1941. |

3. In the case of Field Artillery and Antiaircraft Material, the above schedule lags six months behind the availability of troops. The actual production of certain other items, such as night finders, flank spotting instruments and 37 mm guns will probably lag six months or more behind the schedule.

4. No time-requirement objective for definite quantities of ammunition to be manufactured has been established. Instead, a monthly production-rate objective, to be reached by September, 1941, has been set up. This rate is based on the minimum monthly expenditure of ammunition which would occur if a force of 2,000,000 men, including Air Corps, were in the field on that date. The estimated production of many types of munitions, as of September 30, 1941, will support only a portion of such a force; for example:

Caliber .30 ammunition	7-1/2%
Caliber .50 ammunition	5%
37 mm } Infantry ammunition	75%
60 mm }	
81 mm }	
3" and 90 mm AA ammunition	35%
Field Artillery (smaller than 155 mm)	50%
Incendiary bombs	50%

In the case of all other Critical Items, the present time-schedule of requirements for 1,200,000 men provides for delivery as troops become available. However, in the case of some items probable deliveries will not meet this objective; — this includes such items as medium and heavy tanks, certain Signal Corps radios, service gas masks, airplane smoke tanks, and certain fire control equipment.

5. The Munitions Policy as set forth by the Office of the Assistant Secretary of War is as follows: The munitions necessary to equip a ground army of 1,400,000 men with modern equipment for training purposes by June 30, 1941, and of 2,000,000 men for training purposes by September 30, 1941, together with necessary stocks and production sufficient to support these forces on a combat status by September 30, 1941, and December 31, 1941, respectively.

6. The time-schedule of requirements referred to in paragraph 2 above, which represents a practical maximum effort based on availability of production facilities, falls far short of meeting this policy.

7. The situation with respect to the production and delivery of aircraft follows:

8. The time schedule of requirements based upon the current Army objective of 12,884 airplanes, predicted deliveries and prospective shortages, is as follows:

	By 4-1-41	By 10-1-41	By 4-1-42
Objective	6,882	10,430	12,884
Predicted Deliveries	4,757	9,684	12,884
Shortages	2,125	746	00

b. The above objective, which is closely coordinated with the pilot training program, is designed to provide 25 combat groups by April 1, 1941, 41 by October 1, 1941, and 54 by April 1, 1942, with maintenance, spare parts and washout engines, and the required training and service units.

c. Deferrals in deliveries have resulted in a delay of from three to eight months in the completion of the previous 5,500 plane program, as evidenced by the fact that there are on hand only 49 bombers suitable for daylight operations, and but 140 suitable pursuit airplanes. Subsequent to these deferrals, the increased demands of foreign nations plus the augmentation of Army and Navy programs created a critical situation in the engine and airframe industry.

d. To meet this situation all interested procuring agencies, including the National Advisory Commission of National Defense and the British Purchasing Commission, agreed on July 23, 1940, that the United States production capacity for the period up to April, 1942, would be allocated as follows:

Army	12,004
Navy	6,308
British	14,175
Total	32,487

e. The shortages in the Army share indicated in a above and a proportional shortage in the Navy's share result from insufficient production capacity in being, aggravated by the fact that as of August 31, 1940, there were 7,223 engines under contract for the Army and Navy Combined, whereas British contracts totaled 21,564.

f. A committee was appointed September 13, 1940, by the Secretary of War to decide matters pertaining to aircraft standardization and aircraft delivery schedules. The committee consists of Generals Moore and Brett, U. S. Army, Admiral Towers and Captain Webster, U. S. Navy, Air Commodore C. B. A. Baker and Mr. C. A. Fairry of the British Purchasing Commission, and Major Hopkins, U. S. Army Air Corps. Each group of members is authorized to act and obligate the agency it represents. Decisions are to be formulated in collaboration with the Advisory Commission of the National Defense in order that the Commission can proceed to establish a firm schedule of deliveries, take full advantage of additional deliveries and plan for future production capacity. As a result standardization is being effected. However, satisfactory delivery schedules, to ameliorate Army shortages have not been formulated due to the refusal of the British members to agree to any relaxation of the contractual obligations of the engine industry to the British Government. In addition, no provision has been made to meet the aircraft requirements of Latin American Republics.

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g. Under existing circumstances it is estimated the initial quota of modern operating airplanes can be provided for combat squadrons as follows:

Type	Oct. 1, 1940	April 1, 1941	October 1, 1941	April 1, 1942
Heavy Bomb Sq	6	16	30	37
Medium Bomb Sq	0	13	30	31
Light Bomb Sq	0	6	12	31
Pursuit Sq	5	18	31	73

The above units will be without a maintenance quota and all losses must be replaced from current production.

h. It is evident that the current objective for the United States should be met and to this end every effort should be made to obtain adjustments in favor of the United States with special reference to allocation of engine deliveries.

8. The creation of additional productive capacity to meet the desired program is controlled primarily by the available production of machine tools. Colonel Burns, in a memorandum to the Assistant Secretary of War, under date of September 16, analyzed the machine tool output and concluded that the demand of the United States and Great Britain for machine tools approximates twice the present supply per year.

9. Productive capacity created in the United States by other powers may contribute to the attainment of our Munitions Policy, provided that such capacity is created within the United States and that the capacity so created is based on the manufacture of munitions standardized for use by the United States Army or Navy.

10. It is evident that rigid control must be exercised over the allocation of machine tool production and that before any additional releases are made to any use other than furtherance of the Munitions Program, that specific approval therefor should be secured by those in a position to judge the effect of such release on our schedule of desired production.

11. The Navy's principal concern in this problem is that releases of productive capacity to other nations should not result in curtailing the Navy's present or prospective contractual commitments and the fulfillment of its requirements.

SECRET

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Regraded Unclassified

**Section III. Necessary Additions to the National Policy
Concerning Release of Munitions and Production
Capacity to Great Britain and Other Nations.**

1. Existing productive capacity for material of which critical shortages exist should be utilized to the maximum through increased hours and operation of additional shifts.
2. The present program for expansion of productive facilities should be forcefully expedited with priority given to existing or prospective bottle-necks.
3. Capacity engaged in existing foreign orders should not be disturbed without consent of the government concerned except where the employment of this productive capacity involves a choke point such as airplane engines, machine tools, forgings, ammunition, and fire control equipment.
4. In the case of choke points, particularly with reference to machine tools, the capacity available to foreign powers for use in the United States should be rationed on such a basis as to avoid ham-stringing the expansion of our own production facilities.
5. The exportation of machine tools and similar items affecting productive capacity in the United States should be stopped, except where specific needs are shown to maintain present British Empire production.
6. Plant expansion already financed by the British should be reserved for their use as long as required by them unless the safety of the United States compels other action.
7. Foreign purchases of critical and essential items of munitions should be accommodated to the current procurement program of the Army and Navy. Special consideration should be given only to Canada, as material furnished to Canada will result in less demand upon United States forces for defense of Newfoundland and Canada.
8. A committee consisting of appropriate representatives of the Advisory Commission to the Council of National Defense, Treasury, War, and Navy Departments, and vested with authority to carry out the policies enunciated in paragraphs 1 to 7, inclusive, should be appointed without delay.

SECRET

MEMORANDUM:

SUBJECT: The Problem of Production of Munitions in Relation to the Ability of the United States to Cope with its Defense Problems in the Present World Situation.

Section I. Estimate of the Position of the United States in Relation to the World Situation.

1. In relation to the existing world situation, the first consideration in regard to the position of the United States is that its action in opposition to the three Totalitarian Powers, Germany, Italy, and Japan, may cause them to undertake hostile action against the United States if their serious preoccupation with other military adventures will permit. With respect to Germany and Italy, it appears reasonably certain that neither will engage in open hostilities with the United States unless or until they have succeeded in inflicting a major reverse on Great Britain in the British Isles, and in the eastern Mediterranean, and as well, have assured themselves that Soviet Russia will not seize the opportunity to cause trouble for them in Europe while they were engaged elsewhere. With respect to Japan, definitely hostile action against the United States will depend upon the consequences of any steps taken by the United States to oppose Japanese aggression. These consequences may become such a hindrance to her economic and military welfare that steps in retaliation such as the seizure of the Philippines may be undertaken. Furthermore, the obviously expanding self-confidence and aggressiveness of Japan have become so great that there can be no assurance that in the near future she will not take action which will face the United States with the alternative of armed opposition or complete modification of our Far Eastern policy.

2. Our estimate of the threat of aggressive action by Germany or Italy must be concerned with two aspects of the question. The first is the time factor, affecting

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their attainment of sufficient strategic freedom of action to undertake operations against objectives in the Western Hemisphere, and second, the question whether, by the time they have attained such strategic freedom of action, the United States will have built up its armed strength sufficiently to render the attempt a dubious gamble with success, and therefore disadvantageous.

3. As the situation stands in late September, 1940, the expected invasion of England has not been attempted and with every passing day the likelihood of this attempt appears to decrease. Meanwhile, uninterrupted violent air attacks on the British Isles have been continued for several weeks with no immediate indication of causing a breakdown in British morale or resistance. There is no prior precedent of air operations on such a scale with so apparent a prospect of long continuance. Consequently, no one can say whether British resistance will eventually succumb to air attack alone. However, from present indications it appears reasonable to assume that by air attack alone Germany cannot force British capitulation in the British Isles for several months yet to come. At the present time, the outcome of the Italians' offensive against British forces in the eastern Mediterranean is also uncertain. Undoubtedly, if the Italian drive should reach the Suez Canal and Italian forces should thereafter be able to deprive British naval and commercial shipping from use of the Suez Canal, the British would have to release their hold on the Near East and probably be driven out of the Mediterranean.

4. It has been suggested that the loss of Gibraltar by Great Britain would not only react seriously on the possibility of continued British operations in the Mediterranean, but would also open the way to serious consequences to the United States, by opening the way for movement of Italian naval forces into the Atlantic, especially if based on Dakar. The threat thus indicated would have to be opposed either by a part of the British Navy now based in the British Isles, or if that should prove impossible by the withdrawal of a part of the United States fleet from the Pacific into the South Atlantic, thereby weakening our Pacific posi-

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tion in opposition to Japan. Furthermore, occupation of Dakar by the Axis Powers, both as a naval and an air base, would open the way to aerial penetration of South America by ferrying flights to Natal. It is well recognized that it would be imperative for the United States to anticipate such action by the preventive occupation of the air fields and ports in northeastern Brazil. While the ousting of Great Britain from Gibraltar would undoubtedly make more difficult the position of British Naval forces in the Mediterranean, it is considered doubtful that even with the gateway open to the Atlantic, that Italian naval forces would leave the Mediterranean while the British Fleet is still in being.

5. Meanwhile, the indications are that both Spain and Portugal will be drawn into the orbit of Axis control. In this event, unless immediately occupied by Great Britain or the United States, it may be expected that the Azores, Canary and Cape Verde Islands will be occupied and defended by Axis forces, and put to such use as operating bases as may be found practicable in order to disturb British naval control of the Atlantic. Axis control of the Azores would offer a definite threat to the security of the Western Hemisphere as it would materially shorten the distance for operations against our outposts at Newfoundland and Bermuda, as well as against commercial shipping or Naval forces in the Atlantic.

6. From the standpoint of the time factor, it appears reasonable to estimate that the British hold on the British Isles cannot be so weakened as to make the withdrawal of the British Fleet therefrom necessary in less than 6 months. Assuming that the British Government adheres to its expressed purpose, under no circumstances to surrender the British Fleet, the Axis Powers would still lack freedom of action in the Atlantic if the British Fleet continued to operate from bases in the Western Hemisphere. Under these circumstances, serious attempts by the Axis Powers of aggression against the Western Hemisphere would have to await the building of sufficient naval forces to allow them to contest the combined naval supremacy of Great Britain and the United States in the Atlantic Ocean. This could not occur for several years, if ever. However, a part of the responsibility of the

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United States should be to be prepared to meet the worst possible situation. So far as the Atlantic is concerned, this worst possible situation would arise if, instead of withdrawing, the British Fleet were largely destroyed or were forced to surrender. Even if a sufficient portion of the British Fleet should be surrendered so that the strength of the surrendered vessels added to the existing strength of the German and Italian Navies would exceed the naval strength of the United States, it has been estimated that a period of at least 6 months from such surrender would have to elapse before British units could be effectively manned by German or Italian crews and, by training and operating practice, incorporated in the German or Italian Navies. Consequently, if the previously stated belief is correct, that it would be at least 6 months before the British hold on the British Isles can be destroyed, it appears that at least a year from now must elapse before the possibility will occur of freedom of action for the Axis Powers to operate against the Western Hemisphere unless, in the meantime, we become seriously involved in the Far East.

7. Nevertheless, there is a strong possibility that the United States will be confronted with the necessity for the employment of armed force for essential defensive missions in the Western Hemisphere within a year. This possibility arises from two different types of potential threats. The first is that German infiltration into Latin America, which is already occurring and which is known to be increasing, may bring about forms of so-called "Fifth Column" activities which without the assistance of the United States would be to overwhelm, by subversive or revolutionary activity, the stability of existing Latin American Governments, which we have undertaken to support. Regimes thus set up and affiliated with the German Government would afford ready overseas bases for subsequent German infiltration or for outright military, naval, and air operations when the Axis Powers should become foot-loose in the Atlantic. The second of these potential threats arises from the possibility that, following attrition of British naval forces, Germany probably would dispatch naval raiders for such harassing attacks on shipping and exposed coastal and island possessions in the Western Atlantic as might tend to withdraw British naval forces from the protection of

the British Isles or United States naval forces now maintaining our strong position in the Pacific.

8. With regard to our position in the Pacific, as has previously been indicated, there is no assurance that Japan will not, within the next few months, move swiftly either against the Dutch East Indies or against the Philippines or Guam, especially if the Japanese Government should become increasingly embarrassed by embargoes on exports from the United States to Japan, and at the same time should become convinced that despite protests by the United States it was only throwing a bluff and would back down in the face of a serious situation.

9. This brief survey leads to the following conclusions regarding the position of the United States in relation to the world situation.

a. Within the near future, the United States may be confronted with the demand for a major effort in the Far East, an effort for which we are not now prepared and will not be prepared for several years to come. If, in the near future, we should be confronted with the necessity of armed opposition to Japan, in the face of the potential threat in the Atlantic, that effort probably will be limited to the employment of minor naval surface and air forces operating from Singapore and Dutch East Indies bases, plus the interruption of Japanese shipping in the eastern Pacific.

b. If it develops that the British Fleet is destroyed or surrendered, from that very day the United States must within 3 months securely occupy all Atlantic outpost positions from Bahia in Brazil northward to include Greenland.

c. At any time from the present moment forward, the United States may be required to fulfill its commitment for the employment of Naval and Military forces to prevent German-inspired upsets of Latin American Governments.

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d. In order to safeguard our own security the United States may at any time, even before the collapse of the British Fleet, need to occupy preventively Dakar and the Azores.

e. It appears possible that within a year from the present time, the United States may be in a position requiring the conduct of widespread operations for the protection of the Western Hemisphere. For the full accomplishment of such operations, the Army may need a force of approximately 1,400,000 men, fully organized, trained, and equipped, and backed up by an adequate reserve of munitions. The Navy will require all elements of the U. S. Fleet fully manned, including Marine Expeditionary Forces of approximately 18,000 men, completely organized local defense forces, and Naval Transportation Service capable of transporting Army and Marine Expeditionary Forces and maintaining the supply of these Forces and the Fleet.

Section II. The Munitions Situation

1. a. From the standpoint of Army forces, our ability to meet the requirements outlined in paragraph 9 above is drastically limited by actual and prospective shortages of military equipment, particularly ammunition. Today we cannot maintain in combat any balanced military force without seriously reducing allowances of ammunition required for the training of National Guard and Selective Service personnel soon to be brought into service. By reducing training allowances of ammunition by 50% a balanced force of one Corps of five Divisions, approximately 55,000 men, can be maintained in the field. On March 31, 1941, the situation will not be greatly improved, due to the continuing critical insufficiency of ammunition. It will be somewhat improved by September 30, 1941, on which date we will be able to maintain in the field a balanced force of one Army of two Corps of six Divisions, approximately 150,000 men. On March 31, 1942, our supply

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facilities will be sufficient to meet the requirements of a balanced force of two Armies of 9 Corps of 27 Infantry Divisions, 4 Armored Divisions and certain GHQ and auxiliary troops, approximately 1,400,000 men, provided that when the emergency occurs we sequester all foreign munitions production in the United States.

b. From the standpoint of the Navy, the Fleet is available for immediate operations except for personnel, which is inadequate in numbers and training. Within a short time these deficiencies can be corrected if the Naval Reserve is called to active duty. Naval Local Defense Forces can be provided initially from the Fleet until they can be relieved by conversion and new construction. The transportation of Army Expeditionary Forces by the Navy Transportation Service presents a problem of conversion of passenger vessels which may cause a considerable delay in initial movement of troops, and their subsequent support. This can only be avoided by the preparation of Army and Navy transports and suitable passenger vessels for this task before the necessity for their use arises. Two special transports with a capacity of 1500 each, will be available for the Fleet Marine Force by 1 November. Two additional special transports for the Fleet Marine Force will be available by 1 April, 1941. There are available at this time fully equipped Marine Expeditionary Forces, including defense battalions, of about 8,000 men. By March 31, 1941, these forces will total about 13,000. Additional forces of about 10,000 men can be organized, equipped, and maintained in combat by March 31, 1942. Ammunition for the Navy and Marine Corps, supplied by the Army, has priority over Army requirements, and is being delivered to the Navy in accordance with its requests. Stocks of ammunition for the Navy, supplied by the Navy, are adequate for initial naval operations.

2. The time schedule of requirements covering the current Army munitions program (excluding aircraft) provides, generally, for initial equipment for 1,200,000 men, to become available as follows:

- a. Antiaircraft and Field Artillery Materiel, Dec. 31, 1941
- b. Modernization of Ordnance Equipment, Mar. 31, 1942
- c. Engineer, Chemical Warfare Service, Medical, and Quartermaster Equipment, Mar. 31, 1942
- d. Ammunition Production to equal Expenditure, as stated, Sept. 30, 1942
- e. All others, June 30, 1942

3. In the case of Field Artillery and Antiaircraft Materiel, the above schedule lags six months behind the availability of troops. The actual production of certain other items, such as height finders, flank spotting instruments and 37 mm guns will probably lag six months or more behind the schedule.

4. No time-requirement objective for definite quantities of ammunition to be manufactured has been established. Instead, a monthly production-rate objective, to be reached by September, 1941, has been set up. This rate is based on the minimum monthly expenditure of ammunition which would occur if a force of 2,000,000 men, including Air Corps, were in the field on that date. The estimated production of many types of munitions, as of September 30, 1941, will support only a portion of such a force; for example:

Caliber .30 ammunition	7-1/2%
Caliber .50 ammunition	5%
37 mm)	
60 mm)	
81 mm)	
Infantry ammunition	75%

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3" and 90 mm AA ammunition	35%
Field Artillery (smaller than 155 mm)	50%
Incendiary bombs	50%

In the case of all other Critical Items, the present time-schedule of requirements for 1,200,000 men provides for delivery as troops become available. However, in the case of some items probable deliveries will not meet this objective; -- this includes such items as medium and heavy tanks, certain Signal Corps radios, service gas masks, airplane smoke tanks, and certain fire control equipment.

5. The Munitions Policy as set forth by the Office of the Assistant Secretary of War is as follows: The munitions necessary to equip a ground army of 1,400,000 men with modern equipment for training purposes by June 30, 1941, and of 2,000,000 men for training purposes by September 30, 1941, together with necessary stocks and production sufficient to support these forces on a combat status by September 30, 1941, and December 31, 1941, respectively.

6. The time-schedule of requirements referred to in paragraph 2 above, which represents a practical maximum effort based on availability of production facilities, falls far short of meeting this policy.

7. The situation with respect to the production and delivery of aircraft follows:

a. The time schedule of requirements based upon the Current Army objective of 12,884 airplanes, predicted deliveries and prospective shortages, is as follows:

	By 4-1-41	By 10-1-41	By 4-1-42
Objective	6,882	10,430	12,884
Predicted Deliveries	4,757	9,694	12,884
Shortages	2,125	736	00

b. The above objective, which is closely coordinated with the pilot training program, is designed to provide 25 combat groups by April 1, 1941, 41 by October 1, 1941, and 54 by April 1, 1942, with maintenance, spare parts and washout quotas, and the required training and service units.

c. Deferrals in deliveries have resulted in a delay of from three to eight months in the completion of the previous 5,500 plane program, as evidenced by the fact that there are on hand only 49 bombers suitable for daylight operations, and but 140 suitable pursuit airplanes. Subsequent to these deferrals, the increased demands of foreign nations plus the augmentation of Army and Navy programs created a critical situation in the engine and airframe industry.

d. To meet this situation all interested procuring agencies, including the National Advisory Commission of National Defense and the British Purchasing Commission, agreed on July 23, 1940, that the United States production capacity for the period up to April, 1942, would be allocated as follows:

ARMY	12,884
NAVY	6,208
British	14,375
Total	<u>33,467</u>

e. The shortages in the Army share indicated in a above and a proportional shortage in the Navy's share result from insufficient production capacity in being, aggravated by the fact that as of August 31, 1940, there were 7,223 engines under contract for the Army and Navy Combined, whereas British contracts totaled 21,564.

f. A committee was appointed September 13, 1940, by the Secretary of War to decide matters pertaining to aircraft standardization and aircraft delivery

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schedules. The committee consists of Generals Moore and Brett, U. S. Army, Admiral Towers and Captain Webster, U. S. Navy, Air Commodore C. B. A. Baker and Mr. C. A. Fairey of the British Purchasing Commission, and Major Hopkins, U. S. Army Air Corps. Each group of members is authorized to act and obligate the agency it represents. Decisions are to be formulated in collaboration with the Advisory Commission of the National Defense in order that the Commission can proceed to establish a firm schedule of deliveries, take full advantage of additional deliveries and plan for future production capacity. As a result standardization is being effected. However, satisfactory delivery schedules, to ameliorate Army shortages have not been formulated due to the refusal of the British members to agree to any relaxation of the contractual obligations of the engine industry to the British Government. In addition, no provision has been made to meet the aircraft requirements of Latin American Republics.

g. Under existing circumstances, it is estimated the initial quota of modern operating airplanes can be provided for combat squadrons as follows:

Type	<u>10-1-40</u>	<u>4-1-41</u>	<u>10-1-41</u>	<u>4-1-42</u>
Heavy Bomb Sq	6	16	50	57
Medium Bomb Sq	0	13	50	51
Light Bomb Sq	0	6	12	51
Pursuit Sq	5	18	51	73

The above units will be without a maintenance quota and all losses must be replaced from current production.

h. It is evident that the current objective for the United States should be met and to this end every effort should be made to obtain adjustments in favor of the United States with special reference to allocation of engine deliveries.

8. The creation of additional productive capacity to meet the desired program is controlled primarily by the available production of machine tools. Colonel Burns, in a memorandum to the Assistant Secretary of War, under date

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of September 16, analyzed the machine tool output and concluded that the demand of the United States and Great Britain for machine tools approximates twice the present supply per year.

9. Productive capacity created in the United States by other powers may contribute to the attainment of our Munitions Policy, provided that such capacity is created within the United States and that the capacity so created is based on the manufacture of munitions standardized for use by the United States Army or Navy.

10. It is evident that rigid control must be exercised over the allocation of machine tool production and that before any additional releases are made to any use other than furtherance of the Munitions Program, that specific approval therefor should be secured by those in a position to judge the effect of such release on our schedule of desired production.

11. The Navy's principal concern in this problem is that releases of productive capacity to other nations should not result in curtailing the Navy's present or prospective contractual commitments and the fulfillment of its requirements.

Section III. Necessary Additions to the National Policy Covering Release of Munitions and Production Capacity to Great Britain and Other Nations.

1. Existing productive capacity for materiel of which critical shortages exist should be utilized to the maximum through increased hours and operation of additional shifts.

2. The present program for expansion of productive facilities should be forcefully expedited with priority given to existing or prospective bottle-necks.

3. Capacity engaged in existing foreign orders should not be disturbed without consent of the government concerned except where the employment of this productive capacity involves a choke point such as airplane engines, machine tools, forgings, ammunition, and fire control equipment.

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4. In the case of choke points, particularly with reference to machine tools, the capacity available to foreign powers for use in the United States should be rationed on such a basis as to avoid ham-stringing the expansion of our own production facilities.

5. The exportation of machine tools and similar items affecting productive capacity in the United States should be stopped, except where specific needs are shown to maintain present British Empire production.

6. Plant expansion already financed by the British should be reserved for their use as long as required by them unless the safety of the United States compels other action.

7. Foreign purchases of critical and essential items of munitions should be accommodated to the current procurement program of the Army and Navy. Special consideration should be given only to Canada, as materiel furnished to Canada will result in less demand upon United States forces for defense of Newfoundland and Canada.

8. A committee consisting of appropriate representatives of the Advisory Commission to the Council of National Defense, Treasury, War, and Navy Departments, and vested with authority to carry out the policies enunciated in paragraphs 1 to 7, inclusive, should be appointed without delay.

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FOREIGN FUNDS CONTROL

October 11, 1940
2:30 p.m.

Present: Mr. Bell
Mr. Foley
Mr. Cechran
Mr. Bernstein

H.M.Jr: Where is Pehle, or isn't he supposed to be here?

Foley: He wasn't in on it. Bell can tell you very quickly what the things are.

Bell: We discussed it this morning and there are four things we can do. One, of course, is the most important and the one most effective would be to freeze all Italian assets, and two, we could require an affidavit as to the purpose for which the funds are going to be used under our hoarding regulations of 1933. That would be more for delay than anything else. The other, we could - Bernie calls it a freezing control of this particular bank, just order them not to pay it out. He thinks it is legal, but he doesn't know what the Department of Justice might say about it.

H.M.Jr: Well, we can't freeze Italy, so I think the thing to do is to get an affidavit.

Bell: We have got one more. You could let them pay the money out and then have somebody trail the fellow that gets it and see where it goes and see if we can't push them into the hands of the British.

H.M.Jr: We will do that as a last resort.

Bell: We question whether you ought to do any of the last three unless you are going to freeze eventually.

H.M.Jr: How about the affidavit?

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Foley: Well, that is going to put them on notice, isn't it? They may give you an affidavit as to this fund, but they will grab all the rest of their funds and get them out of here.

Bell: That is just advance notice.

Cochran: They could turn around and transfer it out by cable and not take it out by currency.

H.M.Jr: That is right. Are you sure they are going to do it?

Cochran: Well, they came down and showed me this message which they got last night from London, which was marked very secret and so on, but there is a possibility that the money may already be in one of those other banks. They may have been drawing it out so we may not see one big transaction now. I mean, they have both the National City and the Chase, which are the two principal depositories, on notice to let the Federal Reserve know as soon as any important transaction comes up.

H.M.Jr: I think we had better just watch it and try to shadow the money, in the hope of --

Foley: That is my recommendation.

H.M.Jr: Bernie?

Bernstein: I agree.

Cochran: Yes, sir.

Bernstein: I think that after the freezing control --

H.M.Jr: We can't freeze now.

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- Foley: We can't do that now. The President is out of town and it would take a meeting.
- Bell: If you think we could freeze it next week, an affidavit would be the next best step.
- H.M.Jr: I hope we can freeze it next week, but I don't think we would freeze it unless they invaded us.
- Bell: We have got an article that appeared in today's Star by Mowrer, and he talks about the study that is being made to freeze Japanese assets, which is pretty bad, I should think, at this time.
- H.M.Jr: Where is the study being made?
- Bell: I don't know where he got his information and he had a date to come in and see Bernie at 2:45, and I am going to see him, but I don't want to see him. It is a bad time to see him, after he has written such an article.
- Foley: We didn't want to see him and we told - and then he, when he called to see Bernie - Bernie told him that he would have to talk to Chick, so Chick made arrangements for him to see Bernie. And we saw this article. I don't want Bernie to see him. I think it is too dangerous. So I told that to Chick and Chick sort of feels that he has to take him to see somebody, so he is going to sic him on to Dan.
- H.M.Jr: Because I have seen him several times and so has White. You know, he works for Frank Knox.
- Bell: Well, I knew --

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Foley: Well, this story is a pretty hot story in view of the relationship between the State Department and the Treasury, and the Japanese business, and I would rather not have Bernie see him.

H.M.Jr: Okay. Supposing you (Bell) see him. You can talk very frankly.

Bell: I can?

H.M.Jr: Well, I mean, you can tell him he had better lay off this.

Bell: It is a little late now. It is too bad we didn't see him before, if we knew he was going to write it.

H.M.Jr: I didn't know he was going to write it.

Bell: If we asked him not to, he wouldn't write it, is he that kind of a fellow?

H.M.Jr: Yes, he is all right.

Bell: Then I can talk?

H.M.Jr: Yes, he is all right. He is a very decent fellow, one of the most responsible.

Bell: I suppose he got hold of the information from the State Department. I understand he is very close to some of the --

H.M.Jr: Well, the other day when he left here, he went to see Sumner Welles.

Bell: How long ago was that?

H.M.Jr: A week or ten days ago. At least a week ago. He hasn't been in this week.

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Foley: He works for Knox and writes for the Star.

H.M.Jr: They most likely buy the Chicago Daily News service.

Foley: I see. Well, it is over his name.

H.M.Jr: He is a reliable fellow.

Bell: I see. Okay.

H.M.Jr: I mean, I would treat him just as I would Alsop. I think he is on that level, and I think if you asked Joe Alsop not to do something, he wouldn't do it.

Bell: To be frank with you, I don't see very many of them at all.

H.M.Jr: Well, I don't see many of them.

Cochran: If we get word that this deposit is being drawn out, should we get in touch with the FBI then?

H.M.Jr: Yes.

Cochran: Through Herbert?

H.M.Jr: Let "State trooper" Klaus.

Foley: "Storm trooper."

H.M.Jr: That is it, "storm trooper." I was trying to think of something.

Foley: He is outside, without his horse.

H.M.Jr: That is marvelous.

Bell: He may have it some place around.

PARAPHRASE

No. 239, October 11, 4 p.m., from Embassy Santiago

I was called to the Foreign Office to receive message which Foreign Minister was instructed deliver by President at the instigation of Labarca, leader of the pro-United States element in the Government. Foreign Minister stated definitely that shock troops of Nazi element are composed of Communists. States that idea is for Communists to create disturbances and initiate strikes in preparation for a coup. Labarca feels he can take care of strikes except one in coal industry which would cause considerable trouble because of no surplus. Labarca is confident he could deal eventually with coal strike, but would require possibly two weeks in which time existing coal supplies would be depleted with consequent paralyzation of power plants and railroads. In preparation for this emergency Government desires purchase 100,000 tons coal from United States. Credits given Fedregal cannot be used since they are already assigned. Additional credits are desired by Government to purchase this coal. Foreign Minister states the selling of coal to industries, power plants and railroads would liquidate credits in twelve months.

Situation here undoubtedly serious and granting of such credits would be protection to ourselves and investments, as well as defense measure for Chile. In my opinion Export-Import Bank should consider promptly and take action.

Escudero departing today for United States. Hopes to be in Washington for conference. His instructions are to return to Chile

as soon as possible because of threatening situation. Requests Department's reaction by telegraph since this appeal by Chilean Government is serious.

BOWERS

RA:Pool

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SIR:

There is transmitted herewith a proposed bill "To provide for the establishment, administration, and maintenance of a Coast Guard Auxiliary and a Coast Guard Reserve".

The proposed bill is designed to accomplish the following major purposes, namely:

1. Repeal the Coast Guard Reserve Act of 1939, 53 Stat. 854 (U.S.C., Sup. V, title 14, c. 9), as amended by Public No. 544, 76th Congress, 2d Session, and in lieu of the Coast Guard Reserve provided for in such Act, establish a United States Coast Guard Auxiliary. The establishment of the Auxiliary in lieu of the existing Reserve involves little more than a change in name.
2. Create a new United States Coast Guard Reserve, to be a military organization similar to the Naval Reserve.
3. Authorize the use of motorboats and yachts, which are placed at the disposal of the Coast Guard pursuant to law, for additional purposes incident to the carrying out of the functions and duties of the Coast Guard.

Title I of the bill would repeal the Coast Guard Reserve Act of 1939 and establish in lieu of the Reserve provided for in such Act a United States Coast Guard Auxiliary. This is accomplished by the reenactment with a number of minor changes of all provisions of the Act which is to be repealed. All orders, rules, regulations, enrollments, privileges and other benefits which were made, issued or granted pursuant to the Coast Guard Reserve Act of 1939 and which are in effect on the date of the enactment of the proposed bill are to be applicable to the Coast Guard Auxiliary and are to continue in effect under the bill until modified or revoked. The Auxiliary would continue to operate as a voluntary non-military organization, although its members would be enabled to enroll in the proposed new Reserve. Thus, members of the Auxiliary who loan their motorboats or yachts to the Coast Guard could be called to active duty as members of the Reserve and placed in charge of their own equipment.

Motorboats and yachts of the proposed Auxiliary which may be placed at the disposal of the Coast Guard, as authorized by law, are very well

adapted for operations on inland waters and could be used very advantageously to patrol harbors and anchorage grounds, to inspect motorboats and other vessels to insure compliance with the laws and regulations relating to the safety of navigation, and generally to assist the Coast Guard in carrying out other duties in situations where the use of motorboats and yachts would be suitable and appropriate. However, under existing law such craft are authorized to be used by the Coast Guard for life and property saving and marine regatta patrolling duties only. The proposed bill would authorize the use of such craft for such additional Coast Guard duties as the Secretary of the Treasury may deem appropriate. Thus the Coast Guard would be enabled to devote its own vessels and personnel to purposes of national defense in cooperation with the Navy and in the performance of its many other duties.

Title II of the bill establishes a new Coast Guard Reserve patterned as far as practicable after the Naval Reserve. Such Reserve would be military in character and its members available for active duty in time of war or during the period of a national emergency declared by the President to exist. The bill provides also that Reserve members may be called to active duty in time of peace with their consent. The ranks, grades and ratings for the Reserve would be the same as the various ranks, grades and ratings, not above lieutenant commander, prescribed for the Coast Guard, and while on active duty the members of the Reserve would be vested with the same power, authority, rights and privileges and would be entitled to receive the same pay and allowances as are applicable by law to members of the regular Coast Guard of similar ranks, grades and ratings.

In addition, title II of the bill provides that the regular officers and crews of motorboats and yachts placed at the disposal of the Coast Guard by members of the Auxiliary or by members of the Reserve who also are members of the Auxiliary, may be enrolled in the Reserve as temporary members thereof during the periods the motorboats or yachts to which they are attached are utilized in the service of the Coast Guard. Thus, not only would it be possible to continue in employment the officers and crews of such craft, but there would be made available to the Coast Guard the services of experienced men familiar with the operation of such vessels. In many instances such motorboats and yachts would be in charge of their crews as members of the Reserve on active duty.

In view of the fact that the Coast Guard operates as part of the Navy in time of war, is similarly organized, and is closely associated with the Navy in matters of national defense, the bill provides that regulations for the administration of the Reserve, to be prescribed by the Commandant of the Coast Guard, shall be approved by the Secretary of the Treasury with the concurrence of the Secretary of the Navy.

Title II also authorizes the appointment of qualified chief warrant and warrant officers and enlisted men now in the regular Coast Guard to commissioned, chief warrant and warrant status in the Reserve. There are a considerable number of chief warrant and warrant officers and enlisted men in the regular Coast Guard who by reason of their training and experience would be of greater value to the Coast Guard in the proposed advanced status during a war or a period of national emergency. Persons who are so appointed would revert to the status held by them in the regular Coast Guard upon the termination of such active duty as they may be required to perform during war or national emergency.

Title III of the bill contains general provisions which are applicable to the Auxiliary and the new Reserve. Some of these provisions consist of modifications of the Coast Guard Reserve Act of 1939, which it is proposed to repeal.

This proposed bill was prepared with the assistance of the Navy Department. The Treasury Department is of the opinion that the additional services and facilities which the proposed legislation would provide are necessary to enable the Coast Guard to perform such extraordinary duties as may be necessitated by emergency conditions.

It would be appreciated, therefore, if you would lay this proposed bill before the House of Representatives. A similar bill has been transmitted to the President of the Senate.

The proposed bill has been submitted to and approved by the President of the United States.

Very truly yours,

(Signed) H. Morganthau, Jr.

Secretary of the Treasury.

The Speaker

of the House of Representatives.

-3-

Typed 8-13-40

File to Mr. Thompson

not sent from this office

bnc.
KAM:JER:mb

October 11, 1940

My dear Mr. Secretary:

This will acknowledge receipt of your letter of October 4th informing me of the arrival in Washington of the delegation of Cuban economic and financial experts.

The Treasury will be very glad to cooperate with you in helping to assure the success of this mission.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

By Morgenthau

October 11, 1946

My dear Mr. Secretary:

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

By Messenger

October 11, 1940

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The Treasury will be very glad to cooperate with you in helping to assure the success of this mission.

Yours sincerely,

(signed) H. Morgenthau, Jr.

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

By Messenger



DEPARTMENT OF STATE
WASHINGTON

October 4, 1940

In reply refer to
EA

My dear Mr. Secretary:

I have just been informed that a delegation of distinguished Cuban economic and financial experts will arrive in Washington on Saturday, October 5, in order to initiate discussions with officials of this Government regarding the agenda of a broad program of co-operation in the economic field between Cuba and the United States. The delegation will be presided over by Dr. Pedro Martinez Fraga, Cuban Ambassador to Washington, and will consist of the following additional members according to present advices:

Mr. Eduardo I. Montouliou,
Secretary of the Treasury.

Mr. Amadeo López Castro,
Former Secretary of Agriculture
and of the Treasury.

Dr. Oscar García Montes,
Former Secretary of the Treasury.

Major Antonio Bolet, of the
Army Engineer Corps.

Among

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

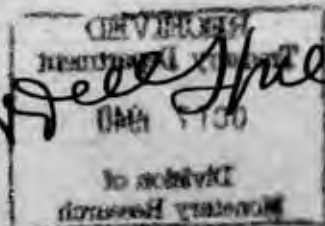
-2-

Among the subjects which it is believed will be discussed are the following:

- (a) A survey of Cuban agricultural possibilities, with particular reference to non-competitive products.
- (b) Examination of the Cuban monetary, banking, and exchange organization and situation, and fiscal system, with the object of drawing up specific proposals for legislation and cooperation.
- (c) The financing through the Export-Import Bank of a moderate and largely self-liquidating program of public works in Cuba.
- (d) The negotiation of a treaty of residence and navigation between Cuba and the United States in order, particularly, to protect the status of the citizens of the two countries residing in and doing business in the other country.
- (e) The reaching of an agreement for the prompt settlement of a number of claims owed by the Cuban Government to American citizens.
- (f) The examination of the situation faced by the Cuban sugar industry on account of the current paralysis of Cuba's European markets.

Your assistance will of course be essential to the success of these discussions, and I shall consult with you shortly regarding details.

Sincerely yours,



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding the transfer listed below from the account of the Bank for International Settlements maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 11	\$3,300,000	B.I.S. (by order of the National Bank of Hungary)	Guaranty Trust Co. of N. Y. for account of Central Corporation of Banking Companies, Budapest





TREASURY DEPARTMENT
WASHINGTON

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OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADVISED REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

October 11, 1940.

MEMORANDUM FOR THE SECRETARY.

As you requested, I am transmitting herewith a copy of my memorandum addressed to you recommending the acceptance of the offer of Darryl F. Zanuck in the sum of \$584,250.42, in settlement of the tax claims of himself and wife for the years 1934 and 1935, together with copies of the memorandums addressed to me by Mr. J. P. Wenchel, Chief Counsel of the Bureau, and Mr. Elmer L. Irey, Chief of the Intelligence Unit, concurring in the recommendation for acceptance of this offer.

The last paragraph of the memorandum of Mr. Wenchel contains the statement that Assistant Attorney General Clark of the Department of Justice and United States Attorney John Cahill of the Southern District of New York concur in the recommendation for the acceptance of this offer.

Encs.

Guy D. Helvering
Commissioner.



TREASURY DEPARTMENT

WASHINGTON

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October 11, 1940

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADVISES REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND RETURN TO

Mr. Secretary.

In re: Darryl F. Zanuck
Virginia Zanuck
B.T.A. 10937, 10938

In a telegram dated October 7, 1940 addressed to Mr. Wenchel, Chief Counsel for the Bureau of Internal Revenue, Darryl F. Zanuck wired as follows:

"I HEREBY ADVISE YOU THAT I HAVE SENT THE FOLLOWING TELEGRAM TODAY TO MY ATTORNEY DOCTOR JOSEPH J. KLEIN QUOTE DEAR DOCTOR: I HEREBY AUTHORIZE AND REQUEST ON BEHALF OF MY WIFE AND ME AS OUR ATTORNEY THAT YOU OFFER TO THE GOVERNMENT FULL SETTLEMENT OF ALL INCOME TAX CLAIMS AGAINST MY WIFE AND ME FOR THE YEARS NINETEEN THIRTY FOUR AND NINETEEN THIRTY FIVE THE SUM OF FIVE HUNDRED EIGHTY FOUR THOUSAND TWO HUNDRED FIFTY DOLLARS AND FORTY TWO CENTS WITHOUT INTEREST AND WITHOUT PENALTY AND TO EXECUTE ALL PAPERS NECESSARY TO RELIEVE ME AND MY WIFE FROM FURTHER LIABILITY UNQUOTE"

With respect to the year 1935, issues that would have to be determined are (a) valuation of shares of stock of the Twentieth Century Fox Film Corporation; (b) taxability as a matter of law of the receipt of such shares of stock described in the statutory notices of deficiency; and (c) fraud arising from the alleged willful omission to report the receipt of such income. While the Bureau is of the opinion that as a matter of law the receipt of such shares constituted a taxable income for the year 1935, it is, nevertheless, obvious that there are the inevitable hazards and risks of litigation concerning the possibility of the Bureau successfully maintaining its valuation and its contentions with respect to fraud. As to the latter item, of course, the burden of proof is upon the Government.

The proposed additional tax for 1934 arises solely by virtue of increased valuation of twenty shares of stock of the old company, Twentieth Century Pictures, Inc., received by Zanuck in 1934. Inasmuch as the normal period of limitations expired in 1938, the Government, as a practical matter of litigation, would have the

Mr. Secretary.

- 2 -

burden of proof to sustain the increased valuation in order to obtain the benefits of Section 275(c) of the 1934 Act which extends the period of limitations for an additional two years where there has been an omission of gross income on the return in excess of twenty-five percent. The additional tax for 1934 was asserted because it was deemed expedient, among other things, to protect fully the interests of the Government in the event it should turn out that the income now determined for 1935 was in fact income for 1934.

The Chief Counsel for the Bureau of Internal Revenue and the Chief of the Special Intelligence Unit recommend acceptance of the settlement proposal submitted by the taxpayers, namely, the payment of the full principal amount of tax for 1935 (\$584,250.42) without interest and without penalty and the closing of the year 1934 without further tax.

I am attaching hereto the recommendations of Mr. Wenchel and Mr. Irey. I am informed by Mr. Wenchel that Assistant Attorney General Clark and United States Attorney Cahill are agreeable to the settlement as proposed by the taxpayers. I recommend acceptance.

(Signed) Guy T. Helvering
Commissioner.

Approved:

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.



TREASURY DEPARTMENT

WASHINGTON

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OCT 10 1940

OFFICE OF
COMMISSIONER OF INTERNAL REVENUEMEMORANDUM FOR THE
COMMISSIONER OF INTERNAL REVENUE
AND REPLY TO

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MEMORANDUM FOR COMMISSIONER HELVERING:

In re: Darryl F. Zanuck,
Virginia Zanuck,
Docket Nos. 101937, 101938

On January 5, 1940, statutory notices were sent to Darryl F. Zanuck and his wife proposing a deficiency in income tax against each for the year 1935 of \$292,125.21, plus statutory fraud penalty of \$146,325.63 against Zanuck. These amounts, exclusive of interest, aggregate \$730,576.05. The deficiencies were predicated on treating as additional income the value of 61,326-1/2 shares of common stock of the Twentieth Century Fox Film Corporation computed at \$13.25 per share, plus the value of 7,315-1/6 shares of preferred stock of the same corporation, computed at \$25.375 per share. The fraud penalty was asserted against Zanuck because the omission to report such income was considered by the Bureau to be willful and with intent to defeat and evade tax.

Deficiencies of \$78,451.30 against Darryl F. Zanuck and \$78,223.30 against his wife have been asserted on the ground that the value per share of twenty shares of stock of Twentieth Century Pictures, Inc. (the corporation which existed prior to the reorganization) received by Zanuck in 1934 was \$23,685.36 instead of \$10,100.00. An additional tax of \$102,541.98 had been asserted and collected from the taxpayers in 1936 on the latter value.

Petitions were duly filed with the Board of Tax Appeals to review the determination of the Commissioner in proposing deficiencies for 1935. On behalf of the Commissioner a motion was filed by this office to require the taxpayers to make their petitions more specific in certain particulars. The motions were sustained in all material respects by the Board. On the same day, namely, July 10, 1940, Dr. Joseph Klein, counsel for the taxpayers, approached me with a suggestion of settlement. More specifically, Dr. Klein stated in substance that if some satisfactory basis could be mutually agreed to in determining the value of the common and preferred shares of Twentieth Century Fox Film Corporation which were made the basis of the proposed deficiencies of 1935, a settlement could in all probability be effected. Several conferences were held from time to time in this office with Dr. Klein. While in no wise abandoning his position that as a matter of law Zanuck received the shares of

Mem. for Commissioner Helvering
In re: Darryl F. and Virginia Zanuck

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stock in the Twentieth Century Fox Film Corporation tax free as a result of a reorganization, his main effort was directed to fix a value of said stock below that stated in the deficiency letters. For example, he suggested at one time that whereas he would accept the figure of \$25.375 per share of the preferred stock, the value of the common stock should be computed at not in excess of \$5.81 per share. That latter figure was arrived at by the use of an admittedly arbitrary formula based upon earnings and a combined average ratio of selling price of common stock to annual earnings experienced by certain other motion picture companies. Dr. Klein also submitted figures as low as \$2.00 per share of common stock and suggested that a possible basis for settlement might be to ignore the preferred stock entirely. His highest settlement proposal was slightly less than \$400,000, inclusive of interest, whereas his lowest figure was less than \$100,000. At one of the later conferences Dr. Klein made an offer of \$400,000, which offer he was told subsequently was unacceptable. On October 8, 1940, this office received a telegram dated October 7, 1940, from Darryl F. Zanuck reading as follows:

"I HEREBY ADVISE YOU THAT I HAVE SENT THE FOLLOWING TELEGRAM TODAY TO MY ATTORNEY DOCTOR JOSEPH J. KLEIN
QUOTE DEAR DOCTOR: I HEREBY AUTHORIZE AND REQUEST ON BEHALF OF MY WIFE AND ME AS OUR ATTORNEY THAT YOU OFFER TO THE GOVERNMENT FULL SETTLEMENT OF ALL INCOME TAX CLAIMS AGAINST MY WIFE AND ME FOR THE YEARS NINETEEN THIRTY FOUR AND NINETEEN THIRTY FIVE THE SUM OF FIVE HUNDRED EIGHTY FOUR THOUSAND TWO HUNDRED FIFTY DOLLARS AND FORTY TWO CENTS WITHOUT INTEREST AND WITHOUT PENALTY AND TO EXECUTE ALL PAPERS NECESSARY TO RELIEVE ME AND MY WIFE FROM FURTHER LIABILITY UNQUOTE"

After careful consideration of the terms of the offer contained in the foregoing telegram, I have no hesitancy, for reasons presently to be enumerated, in recommending the acceptance of the settlement proposal.

1. With respect to the proposed liability for 1935, a principal issue is the value of the shares of stock of Twentieth Century Fox Film Corporation. The values as stated in the deficiency notices were determined by taking the mean between the high and the low of market prices obtaining on August 28, 1935 (the first day of market quotations) although the taxpayers received the stock on August 22, 1935. The question of value is always a fact question. The outcome

Mem. for Commissioner Helvering
in re: Darryl F. and Virginia Zanuck

- 3 -

of that question is never predictable in litigation. It cannot, therefore, be gainsaid that in view of the number of shares valued for purposes of the deficiency notices, there is some uncertainty as to the success of the Bureau to have its determined values sustained.

2. Taxpayer's counsel at the hearing held on July 10, 1940, above described, gave notice that the taxpayer's defense would be that the shares of stock received by Zanuck in 1935 were the result of a non-taxable reorganization and that the distribution of those shares was likewise tax free. While this office is of the opinion that in an actual contest the odds are in its favor of succeeding on the question of law as to the taxability to Zanuck of the shares of Twentieth Century Fox Film Corporation stock stated in the deficiency notices, it is nevertheless pertinent to point out certain material observations. The burden of proof is on the Government to establish that the omission to report the determined income was willful and with intent to defeat and evade tax. Zanuck would, of course, defend upon the ground that he acted upon the advice of counsel. In such circumstances it is possible the Board would refuse to sustain the fraud penalty even though it should hold that the receipt of the shares in 1935 represented a taxable transaction as to Zanuck.

3. With respect to the year 1934, the normal period of limitations within which an additional assessment could have been made expired March 15, 1938, and the bar of the statute could be lifted only if it appeared in any final determination there was an omission from taxpayer's gross income in excess of 25 percent (section 275 (c), Revenue Act of 1934). Here the sole issue is the value of the 20 shares of the old company, Twentieth Century Pictures, Inc., received by Zanuck in 1934. Upon a contest on the issue of value for 1934, the burden of proof, from the practical aspects of the case, would be on the Government. The additional tax for 1934 was asserted because it was deemed expedient, among other things, to protect fully the interests of the Government in the event it should turn out that the income now determined for 1935 was in fact income for 1934.

The matter of accepting the taxpayer's settlement proposal was submitted informally to Assistant Attorney General Clark

Mem. for Commissioner Helvering
In re: Darryl F. and Virginia Zanuck

- 4 -

because of the desire of this office to avoid taking any action in this case which might prejudice to the disadvantage of the Government the outcome of the pending criminal cases in New York against Joseph M. Schenck. I am authorized by Mr. Clark to say that he and United States Attorney John Cahill concur in my recommendation for acceptance of the offer of settlement proposed by the taxpayers, namely, the payment of the full principal amount of tax for 1935 (\$584,250.42) without interest and without penalty and the closing of the year 1934 without further tax.

(Signed) J. P. Wenchel

J. P. Wenchel,
Chief Counsel.

Approve

(Signed) E. H. Foley, Jr.



TREASURY DEPARTMENT

WASHINGTON

160

OFFICE OF
CHIEF, INTELLIGENCE UNIT
BUREAU OF INTERNAL REVENUE

SI-15580-F
ELI-DW

October 10, 1940.

MEMORANDUM FOR COMMISSIONER HELVERING.

Darryl F. Zanuck has submitted to the Department an offer in compromise in the sum of \$584,250.42, in settlement of all tax claims against him and his wife for the years 1934 and 1935.

This matter was fully discussed in a conference which you had with Mr. Wenchel and me some days ago. At that time we agreed that the offer should be accepted.

I have carefully reviewed the statement of facts and discussion of this case contained in the memorandum of Mr. Wenchel which he is submitting to you today and find them in accord with my own views; further review and discussion are not being made in this memorandum because of needless repetition. It is on the basis of these facts that I concur in the recommendation that the offer be accepted.

On the occasion of his recent visit to Washington I discussed this offer with Special Agent Oftedal, who conducted the investigation of the Zanuck case. He stated he was in entire agreement for the acceptance of the offer and that, in his opinion, it would be a very good settlement for the Government.

(Signed) Elmer L. Trey

Chief, Intelligence Unit.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statements in Italian accounts maintained at:

Chase National Bank

National City Bank

Guaranty Trust Company



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 11	\$300,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York	\$1,361,500	Banca Commerciale Italiano, New York, by order Nat'l In- stitute of Foreign Exchange, Rome	Federal Reserve Bank of New York for account of the National Bank of Yugoslavia in favor of Hrvatska Banca, Zagreb
	160,000	Banca Commerciale Italiano, New York	Credito Italiano, Rome	500,000	Banca Commerciale Italiano, New York	The Trust Company of North America, New York
	100,000	Credito Italiano, New York	Irving Trust Co., New York, by order of Credito Italiano, New York	160,000	Credito Italiano, Rome	Banca Commerciale Italiano, New York, for account of Banca Com- merciale Italiano, Rome
	1,400,000	Banca Commerciale Italiano, New York	Bank of Manhattan Company by order of Credito Italiano, New York	150,000	Banca Commerciale Italiano, New York	Cash withdrawal
	100,000	Banca Commerciale Italiano, New York	Irving Trust Company, New York	105,000	Banca Commerciale Italiano, New York	J. Henry Schroeder Bank- ing Corporation, New York
	100,000	Banca Commerciale Italiano, New York	J. Henry Schroeder Banking Corporation, New York	100,000	Credito Italiano, New York	Cash withdrawal in \$100 bill.

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 11	\$100,000	Banca Commerciale Italiano, New York	Banque Federale, Zurich	\$100,000	Banca Commerciale Italiano, New York	Cash withdrawal in \$100 bills
				90,000	Credito Italiano, New York	Cash withdrawal in \$100 bills
				500,000	Banca Commerciale Italiano, New York	Central Hanover Bank & Trust Company, New York, for account of B.C.I., New York
				150,000	Banca Commerciale Italiano, New York	Cash withdrawal in \$100 bills
				125,000	Bank of Naples Trust Company	Cash withdrawal in \$100 bills

Guaranty Trust Company

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 11				\$100,000	Banca Commerciale Italiano, New York	Cash withdrawn in \$100 bills
				100,000	Credito Italiano, New York	Cash withdrawn in \$100 bills
				100,000	Bank of Naples Trust Company	Cash withdrawn in \$100 bills

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

<u>German</u>			
<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 10	\$560,000	Deutsche Gold Discount Bank, Berlin (by order of Swiss Bank Corp., Zurich)	Irving Trust Company, New York for account of Vongibara
	70,000	Reichsbank, Berlin by order Konversionkasse Deutsche Auslandsche, Berlin	Brown Bros. Harriman Co., New York.
<u>Italian</u>			
<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 10	\$250,000	Banca Commerciale Italiano, New York	Check drawn to the order of Monsignor Thomas McDonnell for deposit with the Central Hanover Bank & Trust Co. for the account of the Society for the Propagation of the Faith
	100,000	Banca Commerciale Italiano, New York	Chase National Bank, N.Y. for account of and by order of Banque Francaise et Italienne pour L'Amerique du Sud, Buenos Aires



TREASURY DEPARTMENT

166

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transaction listed below in the account of the State Bank of the U.S.S.R. maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>
October 11	\$1,300,000	Credit Suisse, New York by order Credit Suisse, Zurich

JMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from accounts maintained with the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 11	\$400,000	Skandinaviska Banka, Stockholm (by order of the Reichsbank, Berlin)	Yokohama Specie Bank, New York, for account of Yokohama Specie Bank, Tokio
	300,000	Reichsbank, Berlin	Yokohama Specie Bank, New York, for account of Yokohama Specie Bank, Tokio



CONFIDENTIAL

AMERICAN CONSULATE

American Foreign Service, Hanoi, Indochina,
October 11, 1940.

C
O
P
Y

COPY:FM:OJL

No. 137

Air Mail

Subject: Conditions at Haiphong

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to report, as of possible interest to the Department, as to present conditions in Haiphong, with particular reference to Chinese cargo and former Chinese cargo. This matter is of peculiar interest at this time in view of the fact that the Foreign Service Officer on detail at Hanoi is charged with a limited representation of Chinese interests in Tonkin.

Characteristically, at the time of Indochina-Japanese tension which immediately preceded the signing of the agreement of September 22, 1940, a great many Chinese fled from Haiphong. Among these were many Chinese Government officials, who should have at least put their affairs in order before departure. Instead, as a number of interested parties have subsequently found out, important documents were taken away, other records were left in a state of utter confusion, and minor employees were left in charge without proper credentials or powers of attorney.

Following the signing of the agreement of September 22, 1940, the outbreak of hostilities at Dong Dang and Langson, and the final capitulation of the French, the

- 2 -

the situation at Haiphong became if possible even worse. A number of automobiles and trucks, either belonging to Chinese governmental agencies or repurchased by American firms, disappeared at the time - although there were reports that the Japanese had seized these automobiles and trucks, it has been proved in almost every instance that the Chinese themselves used the automobiles and trucks for their own flight from Haiphong.

The following example is illustrative of the condition of at least one third of the Chinese or former Chinese owned cargo: during the early evacuation of certain types of cargo from Haiphong in July, some 7,200 sets of tires and tubes were transferred to Hanoi; theoretically these tires and tubes were part of the cargo transferred by the China Syndicate to the North American Syndicate; but now, when the latter company has the opportunity of either reexporting these tires or tubes or of selling them locally, no documents can be found.

In going through the papers of the China Syndicate and other Chinese organizations, a number of customs guarantees were found. In attempting to trace the cargo covered by these guarantees it was ascertained in some instances that the cargo had been shipped to China months ago but that the Chinese had "forgotten" to have the guarantees canceled by the customs - in other instances the cargo has not been traced as yet. In still other cases the cargo is in bonded warehouses but the customs papers are lost or have been taken away. The value of these various lots of cargo is large and the customs fines, in default of a regularization of the matter, is bound to be appreciable.

Lack of communications with Hongkong and Yunnanfu, whence many of the Chinese officials fled, will render difficult the clearing up of the situation at Haiphong. In the meantime, with no documentary evidence of ownership available

available on which to base protection by the Foreign Service Officer on detail at Hanoi, the Japanese, who are evidencing great interest in much of the cargo at Haiphong, may be able to confiscate parts of the cargo with virtual impunity.

Respectfully yours,

For the Consul at Saigon,

CHARLES S. REED II,

American Consul.

In triplicate to the Department (Original by air mail)
Copies to the Embassy, Chungking and Peiping
Copies to Consulates General, Hongkong and Shanghai
Copy to Consulate, Saigon

15.6
SR/13

RECEIVED
DEPARTMENT

DEC 10 AM 10 21

TO THE SECRETARY
TECHNICAL ASSISTANT
CHIEF OF THE

Copy:alm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£93,000
Purchased from commercial concerns	£13,000

In the open market, sterling opened and closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 1,000

The Cuban peso has had a weak tendency since last Monday, on which day it was quoted at 7-3/16% discount, the best rate in more than a year. Today's quotation was 8-1/8%.

The other currencies experienced little change and closed as follows:

Swiss franc	.2318
Canadian dollar	13-5/8% discount
Swedish krona	.2384
Reichsmark	.4005
Mexican peso	.2075
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Lira	.0505

There were no gold transactions consummated by us today.

The Federal Reserve Bank made a three-months loan of \$50,000 to the Central Bank of El Salvador, setting aside as collateral \$54,291 in gold from the Salvadorean Bank's earmarked account. The total of such loans now outstanding amounts to \$625,000, secured by \$703,534 in gold.

No new gold engagements were reported to us today.

The Bombay gold price was equivalent to \$33.79, off 4¢ from Wednesday's quotation. Silver was unchanged at the equivalent of 44.56¢.

The London spot silver price was fixed at 23-7/16d, up 1/16d. The forward quotation was unchanged at 23-5/16d. The dollar equivalents were 42.56¢ and 42.33¢ respectively.

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

We made three purchases of silver totaling 425,000 ounces under the Silver Purchase Act. Of this amount, 350,000 ounces represented a sale from inventory, and the remaining 75,000 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'J.M.F.', is centered on the page below the typed text.

CONFIDENTIAL

TELEGRAM SENT

ATP

GRAY

October 11, 1940

8 p.m.

AMERICAN LEGATION

BUCHAREST, (RUMANIA)

333

Executive Order 8565, October 10, 1940 extended all provisions of Executive Order 8389 of April 10, 1940, as amended, to include Rumania. For reference see last paragraph of Radio Bulletin No. 85, April 10, 1940.

HULL
(AAB)

840.51. FROZEN Credits/648

Eu:RDC:DKP:VD

EA

TREASURY DEPARTMENT

174

INTER OFFICE COMMUNICATION

DATE October 11, 1940

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

You asked for a copy of John Carmody's letter for your files.

S. H. H.

C O P Y

175

FEDERAL WORKS AGENCY
Washington

Office of the Administrator

October 10, 1940

Mr. E. H. Foley, Jr.
General Counsel
Treasury Department
Washington, D. C.

My dear Ed:

Before I get swamped with the flood of business that rushes in each day, I want to express my high regard for the speed with which you assimilated the essentials of the San Diego situation, and brevity and clarity in which you expressed it. Thanks for sending a copy to my house last night, where I had both time and quiet to read it.

I assume I will be told where the meeting you referred to will be held.

Sincerely,

(Signed) John M. Carmody

John M. Carmody
Administrator

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BRITISH EMBASSY,
WASHINGTON, D.C.

October 11th, 1940.

Personal and Secret

Dear Mr. Secretary,

In the temporary absence of
the Ambassador I am enclosing 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,

Henrik Baker

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

**Telegram from London dated
October 10th, 1940.**

1. Naval.

A naval mine-sweeping trawler was sunk by an underwater explosion on the evening of October 9th; there are no survivors.

Portland dockyard was attacked by 2 aircraft about 9.00 p.m. October 9th; 1 storehouse and 2 cranes were damaged and a water main was cut. Most bombs fell in the sea.

2. Royal Air Force

During the night of October 8th-9th our bombers attacked 4 channel ports and bursts were reported in the basins at Calais. Fires were started at 2 marshalling yards in Germany. Oil targets at Hamburg and Gelsenkirchen were located; at the former an explosion was caused and at the latter bombs straddled the target and a number of fires and explosions resulted. Fourteen aircraft attacked shipping yards at Bremen where all bombs fell in the target area and violent explosions followed. Sixteen aircraft also attacked "Tirpitz" at Wilhelmshaven; and although no direct hits are claimed there were several near misses including one with a 2,000-pound bomb. Single aircraft attacked 4 aerodromes, the Fokker aircraft factory, a metal factory in Germany and Kiel Canal power station. Twenty-two fires were started in Krupp's works at Essen by 3 aircraft and some mine-laying was also carried out.

-2-

During the daylight on October 9th 8 Blenheims were despatched. One scored direct hits on an oil target at Hamburg and others attacked barges, railway tracks and an aerodrome in Holland.

During the night of October 9th-10th 82 aircraft were sent out to the following targets: invasion ports 20 medium bombers, railway communications 6 heavy bombers, oil target Cologne 18 heavy bombers, an aluminium works 17 heavy bombers, Krupp's works at Essen 20 heavy bombers.

Mine laying was also carried out and 4 aircraft were detailed to drop leaflets in the Lille area and over Paris and Guernsey. Twelve medium bombers of the coastal command also attacked Boulogne and Brest; at the former place fires were caused at the railway station and explosions in the docks and at Brest our pilots reported a probable hit on 1 destroyer and 2 hits on another destroyer. From all these operations 2 aircraft have failed to return.

3. German Air Force.

Night of October 8th-9th. Later reports.

In the London area some damage was caused to public utility services but none was of major importance. Some machine gunning by low flying aircraft occurred in the country districts; no military damage was reported although 19 unexploded bombs were dropped at Southampton airport.

During the daylight on October 9th there were 2 main raids; the first by about 100 aircraft during the morning which passed London on the east and went towards Essex and then turned away; and later by about 170 enemy aircraft in the afternoon, some of which

-3-

entered the inner London zone. The majority of enemy aircraft were fighters. A feature of yesterday's attacks was low level bombing and machine gunning by single machines particularly during the dusk period. Although some interruption was caused on the roads and railways no military damage was reported but a suspected delayed action bomb fell in a factory at Woolwich and outside London bombs fell in close proximity to 2 factories engaged on war work without causing damage. Premiscuous bombing of seaside towns with damage to property was also reported.

During the night of October 9th-10th London was again the chief enemy objective although minor bombing was reported from other parts of the country and mine-laying was suspected off the east coast. Most enemy activity took place before midnight. From the London area no damage of a military nature is reported nor any important damage to docks, communications or industrial premises although 1 factory manufacturing wireless telegraphic material was hit and a 20 pump fire was started in Holborn. Damage was also caused to the Royal Courts of Justice.

Outside London 2 Royal Air Force stations and a naval station were attacked; at the latter 1 aircraft was destroyed and the aerodrome is temporarily out of service owing to unexploded bombs. More attention than usual was paid to South Wales where there was some damage to houses and public services.

Aircraft/

-4-

Aircraft casualties.

<u>Enemy:</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
<u>By fighters</u>			
Bombers	1	2	3
Fighters	2	2	2
Totals	3	4	5

Our losses. 1 aircraft, pilot safe. 3 bombers missing.

4. Shipping casualties.

One British ship (3,700 tons) and a Greek ship (4,400 tons) in a homeward bound convoy were torpedoed and sunk in the northwestern approaches on October 9th. A British ship (5,000 tons) in a homeward bound convoy which was torpedoed off the Hebrides on October 8th has now sunk.

5. Middle East.

On October 8th our medium bombers attacked enemy aircraft on a landing ground at Bardia and mechanical transport and targets in the Sollum area with good results. One enemy aircraft was shot down by ground forces while attacking our forward troops.

Britain

On October 9th Blenheims attacked a suspected ammunition dump at Ascah where fires started the previous morning were still burning.

6. Germany.

Germany has at the moment 4 divisions in Slovakia, 11 divisions in Austria, 8 divisions in the protectorate and 10 divisions in south Poland. Of these 4 divisions are armoured and at least 1 motorized. The majority of these divisions could be available against Romania if required.

7. There are positive indications that invasion preparations continue unceasingly.

OFFICE OF
THE SECRETARY OF THE TREASURY

File under
date of 10/11

Tracy has #2 ¹⁸¹_{filed}
10-11-40

Knox has #3

Pres. has ribbon copy

*Atkinson was given
copy #4 by Layton
personally.*

October 14, 1940

My dear General Watson:

I am sending you herewith, by hand, a very secret document furnished to me by Sir Walter Layton of the British Purchasing Commission. I would appreciate it if you would personally place this in the hands of the President.

There are only four copies of this document in existence. One has been furnished to the Secretary of War, one to the Secretary of the Navy and I have the fourth copy.

Just as soon as the President has had an opportunity to read the Layton memorandum, I would like very much to discuss it with him, the Secretary of War, the Secretary of the Navy, the Chief of Staff of the Army and the Chief of Naval Operations.

Yours sincerely,

Major General Edwin M. Watson,
Secretary to The President,
The White House.

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Secretary to The President,
The White House.

October 14, 1940

Dear Frank:

I am sending over herewith, by hand, a very confidential memorandum which has been furnished to me by Sir Walter Layton of the British Purchasing Commission. I have promised him secrecy in connection with this memorandum, but you are at liberty to show it to anybody in the Navy as long as you personally feel that its secrecy will be kept.

Yours sincerely,

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

October 14, 1940

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Yours sincerely,

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

15 BROAD STREET, NEW YORK



TELEPHONE HANOVER 2-2460

187

BRITISH PURCHASING COMMISSION

*referred to
Mr. Young
10/14/40
also to General
Benny Hurst
"Pittman"*

SECRET

October 12, 1940.

Dear Mr Secretary

In confirmation of the memorandum that I submitted to you with my letter of October 11th, I have subsequently received a cable from the War Office and the Ministry of Supply in London emphasizing the importance of the provision of 1,000,000 - .303 rifles next year. The cable states that even if the full number cannot be supplied by November 1941, they hope very much that it will be possible for the greater part to be supplied by that date. At this moment the supply of rifles is insufficient. The intake of recruits in the next six months should be at least 300,000 and by November 1941 at least another 700,000 will be enrolled. Rifles are at present one of the main limiting factors in the expansion of the army. "If", they say, "capacity now existing or being created in the United States could be adjusted so as to give us some substantial deliveries of .303 rifles by next spring or early summer, this would be of supreme value." It is essential to have some reserve and to allow for wastage and 1,000,000 plus British production affords a very narrow margin.

The cable adds that if the United States could release a further quantity of .30 calibre Enfields in addition to the 1,000,000 - .303 rifles, they would be very welcome. The releases hitherto made have been invaluable; but the Home Guard will not be adequately armed even after receipt of the recent release of 250,000 .30 calibre Enfields. Moreover, if no .303 rifles from U. S. production are available by the spring of 1941, it may well be that the Army will be compelled to take away some of the .30 calibre rifles in the hands of the Home Guard in order to use them for the training of recruits for the regular Army.

You will appreciate from this statement that the request I submitted to you yesterday is one of great urgency.

Yours sincerely,

W. T. Layton

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



BRITISH PURCHASING COMMISSION

SECRET

October 12, 1940.

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You will appreciate from this statement that the request I submitted to you yesterday is one of great urgency.

Yours sincerely,

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

W. H. Layton

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: October 12, 1940, 2 p.m.

NO.: 251

CONFIDENTIAL.

No. 230

Reference is made to telegram/of September 30, 7 p.m., from the Legation and to telegram of October 2, 5 p.m., No. 235 from the Legation.

We are advised by the National Bank of Hungary that because of Italian intercession, the amount of the reduction of the dollar premium on the pengo will be much less than had been indicated previously, possibly amounting to only 4 or 5 percent; no definite decision on this has as yet been reached.

If the New York money market should disregard this increase when announcement is made, it seems likely that Germany would be caused some embarrassment, since it is Germany which is forcing Hungary to effect this appreciation of the pengo in terms of the dollar.

MONTGOMERY.

EA:LWW

October 12, 1940

MEMORANDUM TO: Mr. Graves

It is my thought to make certain changes which will be of a distinct advantage, and the proposed action is briefly summarized as I would like to have your opinion.

As you know, the position of Assistant Director has not been filled, and Mr. Lederre, Assistant to the Director, has been handling both positions. For the past few weeks and, undoubtedly, for some time to come, a large part of his time will be required both here and at New York City in connection with Red Cross purchasing and, as you know, we expect very shortly to be called upon to buy the material and equipment under the Housing Program for defense workers, also certain military personnel, involving approximately 125,000 units. Therefore, the proposed personnel changes, in my opinion, should be made promptly in order to be properly equipped to take on the additional work.

The following personnel changes are under consideration:

Robt. Lederre, Assistant to the Director, (CAF-14), \$7,000, to Assistant Director, (CAF-14), \$7,000. This change will enable Mr. Lederre to spend more time upon the actual supervision of term contracting, as he has had a long experience in the handling of General Schedules of Supply. He will also be required to serve as Acting Director in my absence, and to handle the other responsibilities of the position of Assistant Director.

Geo. Landick, Jr., Chief, Contract and Purchase Branch, (CAF-13), \$6,200, to Assistant to the Director, (CAF-14), \$6,500. This change will permit Mr. Landick to supervise special purchasing programs, for example the housing purchasing program, to hear protests, and to give consideration to improved means and methods of purchasing, such as a determination of better sources of supply, and to serve as a Technical Assistant.

W.M.B. Freeman, Chief, Stores and Operations Branch, (CAF-13), \$5,600, to Chief, Contract and Purchase Branch, (CAF-13), \$5,600. Mr. Freeman is a capable employee; he has a broad experience of procurement matters, and is the best qualified to fill the vacancy by reason of Mr. Landick's promotion.

Bernard Klotz, Chief, Surplus Property Division, (CAF-11), \$4,400, to Chief, Stores and Operations Branch, (CAF-13), \$5,600. Mr. Klotz has shown ability in handling the work of the Surplus Property Division, an important function, which was not in good shape when he took over the work. I think he is qualified to take over the supervision of the Stores and Operations Branch, of which the Surplus Property Division is a part.

- 2 -

Harry Smith, Planning Officer, (CAF-11), \$3,800, to Chief, Surplus Property Division, (CAF-11), \$3,800. Mr. Smith is a capable employee, and the position of Chief, Surplus Property Division, is a responsible one. Unfortunately, however, he is in the same position as Mr. Freeman in that the change is at the same grade and an administrative increase in either case is not possible at the moment. It is my purpose, however, to see that both Mr. Smith and Mr. Freeman receive proper recognition as soon as it is possible to do so.

It is believed that these changes should be made effective October 16, 1940. Will you please let me have your reaction.

Clifton E. Mack,
Director of Procurement.

CEM/ejw

O. K.

(Signed) H. M. JR.

(Oct. 14, 1940)

October 12, 1940.

MEMORANDUM

TO: The Secretary
FROM: Mr. Buckley

Re: Allison E-5 Engine for Bell Aircraft

While talking to Judge Patterson this morning about the six B-24's, I told him that Bell Aircraft was very anxious to secure an Allison E-5 engine to check the details of its installation in the planes which they are building for the British. I also told him that we understood one was just about completed for the Air Corps, and it would expedite future production on the British contract with Bell if this engine could be at least loaned to Bell for such time as they need to make their various tests. He said that he would check this at once and see if it could be so diverted.

In accordance with your instructions, I called Captain Collins at Bell Aircraft and told him that you were trying to get this engine for him. He was very pleased about it, saying that they were ready to use such an engine four days ago and the sooner they got it the quicker they would have the production problems straightened out. He added that he had mentioned this problem to General Arnold two or three weeks ago, who was very sympathetic.

Captain Collins also said that they would need the engine only for about sixty days, so that a loan for that period would be just as satisfactory as a permanent transfer.

I think it would be entirely appropriate to check with Judge Patterson on Monday as to the progress which he is making.

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October 12, 1940.

MEMORANDUM

TO: The Secretary

FROM: Mr. Buckley

Re: Six B-24 Bombers for the British

Major Lyons called me about 9:30 Saturday morning to say that he had a wire from Consolidated asking him when the Army anticipated a decision regarding the allocation of the early B-24's. Major Lyons added that it was his opinion that all work was held up on these six ships pending a decision as to whether they would go to the British or not.

As Major Lyons brought out in the meeting in your office on Friday morning, it appears that these ships can be diverted to the British with Sperry Automatic Pilots installed and still have delivery by January 10, 1941. In view of the relatively small delay to be occasioned by the installation of the Sperry equipment, the Army is rather anxious that the British take them with the Sperry equipment rather than to have to settle the Norden question before they can proceed with these six ships.

Accordingly, I called Mr. Fairey in New York, asking him if the British Purchasing Commission would take these six B-24's with the Sperry Automatic Pilot with delivery to be completed by January 10, 1941, barring unforeseen developments. He said that he would take that decision upon himself and that they would be delighted to have these planes under those conditions.

I then called Judge Patterson and sketched out for him the wire which Major Lyons had received from Consolidated and told him that the British were willing and anxious to take these planes with the Sperry installation, delivery presumably to be completed by January 10, 1941. He agreed that there was no reason for any delay in the transfer of these ships and said that he would see that proper notification was forwarded to Consolidated immediately.

Major Lyons called me back at 1:15 P.M. to say that he had called their Western District Representative at 1:00 P.M.

- 2 -

to give him a message for immediate transmittal to Consolidated, authorizing the diversion of the six planes to the British and immediate resumption of work on them. This message is rather important, and I attach a complete transcript of it.

I then made this message available to Mr. Gray of the British Purchasing Commission (Mr. Fairey being in New York) and suggested that they contact their west coast representative immediately and make arrangements to furnish whatever agreement Consolidated may require in order to protect them on the contract, and whatever additional agreement may be necessary to take care of the overtime work and additional engineering which will be necessary to get the planes out and to get the Sperry Pilot installed. I also suggested that the British Purchasing Commission make immediate arrangements with Sperry so that they could begin installing the Automatic Pilot as soon as possible.

Mr. Foley was not in the office Saturday, but I shall remind him the first thing Monday to call Mr. Morgan of Sperry to enlist his best efforts for the British Purchasing Commission on the work on these planes.

JTB
11

Telephone message from Major Lyons, Air Corps, to Consolidated Aircraft Co., October 12, 1940. As read over telephone by Major Lyons to Mr. Buckley.

The following message was transmitted to Colonel Smith, Western District Representative of the Army Air Corps, at Santa Monica, California:

"The Deputy Chief of Staff has authorized and instructed me to transmit the following information for your immediate action:

1. The Assistant Secretary of War has authorized the manufacturer to proceed immediately with the substitution of six B-24 airplanes being manufactured for the Army account to the British account for delivery by December 30, 1940.
2. The six B-24 airplanes will provide for the installation of the Sperry automatic pilot in lieu of the present pilot equipment. The Sperry Company representative will be notified accordingly.
3. The delivery of the sixth airplane will be by January 10, 1941, with the Sperry automatic pilot installed, barring unforeseen contingencies.
4. Mr. Firth, representing the British, will be advised that Mr. Buckley, representing the Treasury Department, has notified the Assistant Secretary of War that the British Purchasing Commission has accepted the delayed delivery and Sperry automatic pilot in the first six airplanes.
5. You are authorized to release six B-24 airplanes from the requirements of Army inspection in accordance with the oral agreement between Mr. Firth, Mr. Ladin, and Mr. Lyons.
6. You are authorized to advise the Consolidated Aircraft Company that all the foregoing is subject to suitable adjustment in contractual obligations between the United States Army and Consolidated Company, the details of which will be worked out later.
7. You are authorized to acquaint the manufacturer with the decision of the Deputy Chief of Staff that no action whatsoever will be taken by the manufacturer or the Air Corps with respect to the allocation of any additional airplanes over and above the six until further notice."

October 12, 1940.

To: Secretary Morgenthau

From: Mr. Gaston

Supplementing my previous memorandum with reference to the request from Under Secretary of State Sumner Welles to avoid withholding any shipments of machine tools to Japan, a check was made to ascertain if any such shipments were being withheld. No departure permits were being withheld by reason of such shipments and telegraphic inquiry to the Collectors of Customs at West Coast ports verified the fact that no actual shipments were being withheld from exportation.

The Collector at Seattle reported that the Antorg Trading Company had requested permission to export without license for Vladivostok certain machine tools off the American steamer WILDWOOD and that a dispatch had been sent to the Secretary of State on September 24th requesting information whether the tools should be released without license. The Collector reported that to date no answer had been received. It was noted in the morning press that as a gesture of good will to Russia all withheld shipments of machine tools to Russia have been released by the State Department and it is presumed that the Collector at Seattle has been instructed accordingly.

[Handwritten signature]

October 12, 1940.

MEMORANDUM

TO: The Secretary
FROM: Mr. Gaston



On Thursday evening, October 10th, after telephone message from Mr. Welles which I reported to you, I authorized departure permits for three French passenger ships now at New Orleans to go to England, where they are to take aboard French military refugees to be repatriated.

Yesterday afternoon the Collector of Customs at New Orleans reported over the teletype to Johnson that the French SS WINNIPEG, which had been granted permit to depart for Liverpool, had taken on at New Orleans 504,000 gallons of fuel oil (grade C bunker oil, U.S. Navy specifications) which was in addition to 194,000 gallons aboard when the vessel arrived at New Orleans from Miami, and that Coast Guard estimated requirements for voyage to Liverpool as approximately 288,000 gallons, making an excess of 365,000 gallons.

The Collector said he would withhold clearance pending advice. In cases where ships attempt to take as bunker supplies fuel far in excess of that required for the scheduled voyage, it is customary to require that the additional amount be shown as cargo.

I consulted Berle of the State Department and instructed the Ship Control office to revoke or suspend permission to depart. Berle called back a few minutes later to say that the British Embassy found it necessary to consult London, which might cause some delay. In the meantime the ship is being held.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

On October 10 I received by appointment Mr. Lacour-Gayet, formerly French Financial Attache in the United States (from 1924 to 1930), who recently arrived in the United States, and, according to his statement, will have the duty of supervising French economic and financial interests in the United States for a period of a few weeks, or perhaps a few months. His prime task will be to liquidate the French Purchasing Commission affairs in the United States. He is also to work with the Ambassador in Washington and Mr. Alphand in New York on their economic and financial problems, and to a certain extent take the place of the French Commercial Attache at New York, who recently resigned and has not been replaced. Mr. Lacour-Gayet talked to me about the general French situation and the problems of France in this country. I had little to say on the pending questions in regard to French assets in this country, explaining to Lacour-Gayet that the general problem was now in the hands of the Department of State. Under Secretary Bell received Mr. Lacour-Gayet and myself for a few minutes before 11 o'clock. This gave an opportunity for the renewal of the acquaintance of Messrs. Bell and Lacour-Gayet. At 11 o'clock the Secretary received Messrs. Lacour-Gayet, Bell and myself. Miss Chauncey took notes of the meeting. The principal point made by the Secretary was that the Department of State was the branch of this Government to which the French should look for a decision on pending problems with respect to utilization of official French funds held in New York.

After the conversation with the Secretary, Mr. Lacour-Gayet talked with Mr. Bell and then with me. While he is quite unhappy over the manner in which official French funds are so far being withheld from utilization for expenses of French diplomatic and consular officers in Latin America and certain other purposes, he is disposed to following an otherwise rather cool and common sense policy. He will spend most of his time in New York but hopes to come to Washington at least once a week.

Mr. Bell knows Mr. Lacour-Gayet well from previous service here, and I had much contact with Lacour-Gayet when the latter was an official of the Bank of France during my stay in Paris.



RDS

GRAY

BERLIN

Dated October 12, 1940

Rec'd 5:15 p.m.

Secretary of State,
Washington.

4305, October 12, noon.

FOR TREASURY FROM HEATH AND DEPARTMENT'S INFORMATION.

While no such announcement has appeared in the German press the NEUEZURCHER ZEITUNG, October 8 issue, carries a despatch from the Hague stating that all holders of foreign securities in Holland are obliged to register them with the authorities. The despatch states that compulsory surrender of such securities is for the present at least not contemplated. It is understood that some weeks ago similar regulations were introduced in Belgium but to date residents of Belgium have not been forced to surrender their holdings.

MORRIS

EMB

G-2/2657-220

RESTRICTED

No. 218

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

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

I. Western Theater of War.

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

German operations occurred in their regular pattern during daylight of the 11th and last night. London and Liverpool were the principal foci of attacks which the Germans claimed were directed at the dock areas. The Germans are using Messerschmitt pursuit, both single and twin-engine, to carry bombs in daylight operations. The normal level of bombers used over London nightly is estimated at approximately 200.

II. Mediterranean and African Theaters of War.

1. No ground operations reported.
2. The air forces were active against communications along the Mediterranean coast. There were also scattered British raids in East Africa.

III. Miscellaneous.

Between 150 and 300 German-made planes flew into Rumania on the 11th.

RESTRICTED

**EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED**

Week ended October 12, 1940

	: JAPAN :	: RUSSIA :	: SPAIN :	: GREAT BRITAIN :
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	98,000 Bbls.	---	82,000 Bbls.	---
Crude -				
Blended or California High Octane Crude *	87,523 Bbls.	---	---	---
All Other Crude	329,644 Bbls.	---	---	68,000 Bbls.
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	216,921 Bbls.	74,600 Bbls.	---	---
All Other Gasoline	---	---	---	---
Lubricating Oil -				
Aviation Lubricating Oil ***	52 Bbls.	---	---	22,157 Bbls.
All Other Lubricating Oil	9,752 Bbls.	---	12,129 Bbls.	74,439 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	16,691 Tons	---	---	3,950 Tons
All Other Scrap	9,915 Tons	---	---	5,950 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.

Source: Office of Merchant Ship Control, Treasury Department.

October 14, 1940

Any material from which by commercial distillation there can be separated more than 3% of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

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TENTATIVE LESSONS BULLETIN
No. 58
G-2/2657-235

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, October 12, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

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THE GERMAN FLAME THROWERSOURCE

Although it was not shown to him officially, an official American observer had "about ten seconds close view" of a German flame thrower on display at the Leipzig Fair on September 2, 1940. The flame thrower was located in the Pioneer section of the military exhibition.

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1. INTRODUCTION
2. CHARACTERISTICS
3. UNIFORM OF OPERATOR
4. USE OF FLAME THROWER

* * * *

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CONFIDENTIAL1. INTRODUCTION

The German War Ministry considers the flame thrower a secret weapon and states that it will neither release information upon it nor permit foreign military attaches to inspect it during the present war.

The following conflicting information was received before the weapon was inspected by the observer upon whose report this bulletin is based:

a. From a British source, May 31, 1940:

"The flame thrower now in use is said to have a range of 50-60 yards and a jet of heat sufficient to melt 3/4-inch armor plate at that range. It can be carried by one man. After use, the flame thrower must be returned to the factory for re-charging."

b. From an American source, July 27, 1940:

"A German Pioneer officer said that flame throwers were generally used at ranges not greater than 15 yards and that the maximum range was 20 yards. When played into firing ports of a cupola, the flame develops a temperature of 2000° C."

2. CHARACTERISTICS

The flame thrower on display at the Leipzig Fair consisted of two metal tanks strapped to the back of the soldier and a flexible hose which came under his right arm to a metal nozzle. The soldier held the nozzle in both hands. He could point it in any direction, but bent towards his left front.

a. Metal Tanks

A large cylindrical tank, estimated to be about 10 inches in diameter and 30 inches long was strapped to middle of the upper back; a small tank, estimated to be four inches in diameter and eight inches long, was attached to the large tank on the soldier's left. Neither the control levers nor the details of pipe connections between these tanks and the exhaust tube could be seen. However, no control levers were seen on the exhaust tube or the nozzle.

b. The Exhaust Tube

The exhaust tube was covered with a flexible basket

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weave copper sheathing. It was estimated to be $1\frac{1}{2}$ inches in diameter and about 36 inches long.

c. The Nozzle

The nozzle was a continuation of the exhaust tube. It appeared to be a metal tube $1\frac{1}{2}$ inches in diameter and three feet long. The nozzle end consisted of a 1/4-inch brass or copper tube passing through the center of the nozzle to within 3/4-inch of the end of the nozzle. On top of this tube, but separated from it by about 1/8 inch, is a second 1/4-inch brass or copper tube whose opening is cut on the bias about 3/4-inch shorter than the first tube.

A third tube of white metal passes along the first tubes to within 1/2-inch of the nozzle end, where it turns to form a three-quarter circle fitting close to the inner surface of the nozzle and perpendicular to its axis. The end of the tube is closed, but about eight small holes, one millimeter in diameter, open towards the exhaust end of the nozzle. The thickness of the nozzle wall appears to be about two millimeters.

3. UNIFORM OF OPERATOR

The uniform of the Pioneer handling this apparatus has the appearance of leather. The soldier wears heavy black gloves of an unknown material. His steel helmet is covered with a special material, and attached to it is a special visor of transparent material 1/4-inch thick. The visor is molded in a half cylinder to cover the front and sides of his face as far down as the chin. A German soldier who was examining the equipment tapped this visor with a pencil. From the sound, it is believed that the visor is of a plastic material.

4. USE OF THE FLAME THROWER

Flame throwers have been used in the present war principally in the attack of bunkers under the protection of antitank guns. German officers have shown badly melted machine guns and steel helmets as examples of their effect. Official moving pictures of flame throwers in action show a spurt of black smoke and flame lasting three or four seconds. It is believed that complete combustion takes place at the extreme portion of the spurt. No information is available on the material used to create this combustion. (For further information on use of the flame thrower, see TL29-26.)

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Paraphrase of Code Radiogram
Received at the War Department
at 16:08, October 12, 1940.

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London, filed 17:25, October 12, 1940.

1. During daylight hours of Friday, October 11th, the Bomber Command operated six planes on a North Sea reconnaissance. That night 132 aircraft were dispatched against invasion ports and enemy industrial and military targets. The Fighter Command operated 900 planes on 154 patrols. During daylight hours the Coastal Command dispatched 72 planes on 45 missions and the escort of 21 convoys and carried out successfully very extensive photographic reconnaissances. That night 12 planes laid mines and attacked enemy shipping. No planes were lost in all of these operations.

2. The German Air Force carried out seven main attacks, consisting of six, 194, 110, 50, 60, 50, and 25 planes, respectively, and several small raids during daylight hours of the 11th. In five of the main attacks one-quarter of the planes were bombers and three-quarters fighters; while in the other two only fighters were employed. Only one of these raids reached London. The raids during that night against Liverpool and London diminished gradually and stopped about 2:00 a.m., probably because of the fog.

3. The damages during this period were much less than usual. The communications system at one airfield was interrupted and several factories were shut down due to a lack of water.

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There were some minor fires and gas and water mains were broken in several places. Two railroads were interrupted. It is reported that the Germans are using a new type incendiary bomb weighing more than one kilogram that explodes while burning.

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

5. Merchant shipping totalling 11,500 tons was sunk or damaged. Two destroyers, one in the Mediterranean, were damaged by mines.

6. Extensive British air reconnaissance indicates that the Germans are loading barges, possibly for an invasion, at Antwerp and other Channel ports.

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Distribution:

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

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Paraphrase of Code Radiogram Received at the
War Department 6:44 p.m. October 12, 1940.

Berlin, Filed October 12, 1940.

1. Responsible officials have stated to me that Germany intends to continue and increase the severity of the air attacks against the British Isles.
2. It is believed that the Germany government is consolidating the Balkans in order to better the economic situation and to prepare for future action.

PEITON

Copies to: Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
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Paraphrase of Code Cablegram Received at the
War Department from the Military Attache,
London, 21:20, October 13, 1940.

London, filed 14:00, October 13, 1940.

1. Adverse conditions curtailed a number of the missions of the Bomber Command during the night of October 12-13th. The following attacks were made by the number of planes indicated: Channel ports, 10; alloy factories, 12; dispatched to Stettin but failed on account of weather, 13; setting fire to Hamburg, 10; enemy ports and docks, 14; bombing enemy airdromes, 4; and assorted Dutch targets by single planes, 16. One mine was laid in the Elbe River and four in the Kiel Canal. The Coastal Command, using 67 planes, carried out 12 routine patrols, 28 special patrols, two offensive missions, eight photographic reconnaissances, and escorted 21 convoys. During daylight hours the Fighter Command dispatched 756 planes on 144 missions.

2. During the night of October 12-13th the German Air Force was intensely active until 11:00 p.m., then operations were light until about 1:30 a.m., at which time they stopped. The Midlands area was also attacked until 1:00 a.m.

3. In the London area additional water, electric, and gas mains were damaged; four minor railway lines were temporarily blocked; there were some scattered damages to residential and commercial buildings; and high explosive bombs hit the following places of public interest: Trafalgar Square, The National Gallery, the War Office, and a subway. There were about 100 civilian casualties. In Cheshire

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there was widespread damage to residential property, and railway, road, gas and water mains were blocked. In Manchester rail sidings, flats, business premises, and a main telegraph cable were damaged. Damages in Liverpool were very slight. While none were of a strategic character, damages were widespread throughout the Midlands and Southeastern counties. In Coventry there were two very severe night raids causing 70 fires which were all extinguished by 2:30 a.m. The central fire station and the main telephone exchange were evacuated. The damages to key industry plants were light.

4. German plane losses were 11 confirmed, 11 probable, and seven damaged. The British lost four pilots and 10 planes. Casualties to civilians were fairly light.

5. One 6,900-ton commercial ship in convoy was torpedoed. A small ship was bombed in the Mediterranean. Due to mines the entrance to the Humber River has been closed. A total of 41 ships in two convoys has arrived here from the United States.

6. There is no further news of a possible invasion.

LME

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

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October 14, 1940
9:08 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur Purvis: Hello. Good morning, Henry. I'm sorry to disturb you at this hour.

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

P: There's just one matter that I was asked to see whether you could help in any way.

H.M.Jr: Well, where are you, Arthur?

P: I'm here in New York and coming down on the 1 o'clock. I'm up here on some organization problems of the New York office.

H.M.Jr: Right.

P: Layton, you will remember filed that additional memorandum. He then in the afternoon had a talk, I understand, with Patterson and Stimson and later, at their request I gather, with Strong.

H.M.Jr: Yes.

P: Strong, having just perused it I imagine, said if it were possible for the Secretary - for you, to get to the President word to go ahead as promptly as possible - a sort of instruction to go ahead as promptly as possible and settle this matter, I believe it would be most helpful. Now, when Layton put that to me, my reaction was - well, of course that sounded to me a little like an old sort of thing that has come up over and over again in that quarter when they wanted responsibility taken by somebody else instead of taking their share of it, but I said I would call you to see whether anything was possible along that line.

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H.M.Jr: Well, Arthur if you don't mind, the thing really makes me quite angry. Layton comes over here - how many weeks is he here?

P: It's three now.

H.M.Jr: All right, and after being here three weeks he lays this thing on my desk on a Friday.

P: Yes.

H.M.Jr: It takes the British Government thirteen months to tell us what they want and three weeks after Layton arrives here he puts a memorandum, which immediately goes to the Secretary, and on the President's return is laid on his desk.

P: Yes, quite. (Laughs).

H.M.Jr: Now if he can wait three weeks to write a report and thirteen months before they can make up their mind, I really - you can tell the - I think it's entirely uncalled for to put pressure on me or the President.

P: Yes, well, I felt, frankly, I'm ringing you up somewhat in a private capacity on it.

H.M.Jr: Well, I'm talking to you as I always do.

P: Yes, exactly.

H.M.Jr: And I think it's really quite uncalled for.

P: Yes, well, fine. Now as a matter of fact

H.M.Jr: And that - what I'm saying is for Layton and not for you.

P: Yes. I know.

H.M.Jr: My God! It takes him three weeks to write what we should have had two years ago.

P: And what should have been written at Lisbon I think when he was waiting.

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H.M.Jr: Well, what in the hell did he do in Lisbon for two weeks?

P: Frankly, that's the question I ask myself a good deal. However, thank God we've got it now and it's not been quite as easy to get it even. But I fully understand that. I just felt I had to pass it on.

H.M.Jr: Well, you passed it on but it's - and you can tell Layton if you want to - it doesn't sit well at all.

P: No.

H.M.Jr: It doesn't sit well at all and what I've had Philip Young do now is to make a list of the things that you've already got and the things which are on order which - I want to see that and before I talk with the President I want to find out what you've received and what is on order here.

P: Sort of get it into focus.

H.M.Jr: Well, what's the use of discussing half a picture, and in this memorandum he said there's more to come yet.

P: Yes, that's the difficulty of the Admiralty.

H.M.Jr: So when we have the whole picture - I'm not going to bother the President with the thing until we have the whole picture although I sent it over to General Watson and asked him to bring it to the President's attention and as soon as the President has read it would he see Mr. Stimson, Mr. Knox and me. Now, I can't do any more than that.

P: Well, now, that's exactly the course I thought it would take.

H.M.Jr: Well, that's already been done.

P: Yes, of course. I can so thoroughly understand your reaction to this so please just don't do anything you can when it's the proper time

H.M.Jr: Well, it's been done.

P: Yes.

H.M.Jr: It's been done and I wish that your people would help Philip because he doesn't know whether he has it - to get a list of stuff which you've already received and what is on order.

P: I'll see that he gets that today showing the deliveries all the way through.

H.M.Jr: So that we can add that to this column.

P: Be delighted to do that.

H.M.Jr: But everything by quantities just the way Layton has done it.

P: Yes. Well, I'll give him the whole picture today.

H.M.Jr: And my excitement is directed at the British Government and Layton and not at you, because if it hadn't been for you they wouldn't have got anything by now.

P: (Laughs). All right. Thank you very much. I've done my duty now. I just felt - he made such a point of my ringing - but frankly - he wanted me to ring you up in the country. I said, no, I won't. (Laughs). I said, he's hardly got the memo. All right. Thank you very much and I'll see that Philip gets that at mid-day when I get down.

H.M.Jr: Thank you.

P: Thank you. Good-bye.

GROUP MEETING

October 14, 1940
9:30 a.m.

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

H.M.Jr: The funniest one on the column thing is, you know his lawyer is Max Gardner. You know that, don't you? One of his lawyers is Max Gardner, and he was talking to Max Gardner about a story about Clay Williams, and he says, "You know, the story is all right, but you have the fellow wrong. It wasn't Clay Williams, it was Cannon." So when he told me that, I said, "Well, I know I didn't tell it to you." That fixes that one up.

Well, you (Schwarz) got your story over very nicely.

Schwarz: Thank you. We got the front page of the Times, I hear.

H.M.Jr: Yes, which amazes me, and Mrs. Morgenthau tells me the 11:00 o'clock broadcast had it.

Schwarz: One of them had it.

H.M.Jr: Have you got it?

Schwarz: I am getting a transcript, and then at 12:30 in the morning on the "Milkman's Matinee", we had it.

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Foley: I am told.

H.M.Jr: It seems that Mr. Foley gave my son a legal opinion on the so-called Hatch Act, so then he calls everything "so-called." He says that is legal language, so now everything is "so-called."

Well, everybody seems happy after getting such a nice Sunday.

Incidentally, Chick, according to the Wall Street Journal, it says the President named a four-man group to hurry war plans, with Morgenthau as chairman. I think you had better walk across the street and see Early and ask him what I should do about it, because the facts are, the President told us at Cabinet to get together, but tell him I have got a - what should we do about it?

Schwarz: I will do that.

H.M.Jr: Harry isn't here, is he? You (Klotz) might send that clipping to his office.

The other thing I see, "Release of Tools for Soviet Granted, Charter of 100,000 Ton Tanker for Petroleum." How true is that?

Gaston: It is true. It is true they have been getting a flood of oil.

H.M.Jr: Tools?

Gaston: Yes, that is right.

H.M.Jr: And I see the Journal of Commerce, Chick, has an editorial based on Willkie. Could you get my statement to the editor?

Schwarz: Yes, sir.

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H.M.Jr: Would you make a note?

Schwarz: Yes, sir.

H.M.Jr: And have you got the press conference thing which he quoted me on?

Schwarz: Yes, sir.

H.M.Jr: Where is it?

Schwarz: Upstairs. We are cutting a stencil on it.

H.M.Jr: Oh, will you get it to me as soon as possible?

Schwarz: Yes, sir.

H.M.Jr: And the other thing, shipping notes, first cotton to Russia since --

Gaston: Yes, there were three cargoes went in one day.

H.M.Jr: Business is picking up with Russia, is it?

Gaston: Yes. We got an order to be very regular, not gum up the works on any shipments to the Far East, from the President.

H.M.Jr: Not to?

Gaston: Yes. And right on top of that we got a request from a Navy officer, a man in Naval Intelligence, to stop some chronometers that were going to Japan. Before I learned about it, an order went out to stop them and I had it countermanded and I had Johnson get after Maxwell and tell him that we have got to get our requests through regular channels on that sort of thing.

H.M.Jr: Well, who told you to go slow?

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Gaston: Summer Welles gave me a message which he said was from the President. When he reported back to me about the French ships, he said the President in this critical situation in the Far East wanted us to do everything in order, strictly according to routine. I was a little afraid this Navy thing might have been a trap. I think it was just a blunder, but Johnson --

H.M.Jr: Aren't you suspicious?
(Mr. Gaston was handed a note by Mr. McKay)
Want to go?

Gaston: Fly is calling a meeting on communications. I hadn't known about it.

H.M.Jr: Why don't you stay here and then go over later?

Gaston: I will go over later.

H.M.Jr: McKay, tell them Mr. Gaston is occupied until 10:00 o'clock. Is that all right.

Gaston: Yes. He didn't tell me about a meeting today.

H.M.Jr: What else, Herbert?

Gaston: That is all. I told Johnson hereafter that any orders on stopping anything, we would have to get it through the Division of Controls, State Department, or somebody higher than that, before we would do it, on the face of what Welles told me.

H.M.Jr: The 17th is the day they are supposed to open up the Road, isn't it?

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- Gaston: Yes. That order on optical instruments and so on goes into effect tonight, and we are not even sure that these chronometers that the Navy wants to stop are covered under the Order. The ship sails today.
- H.M.Jr: Well, what I was telling Drew, he had the story all mixed up. I got him off that - told him that the way the stuff was going - I mean, constantly changing, is making it more and more difficult for the British to get what they needed, because the Japanese were buying more and more semi-manufactured steel. That is right, isn't it?
- Young: Yes.
- H.M.Jr: I said if he wanted to get more details, he should see Mr. Elliott of the British Purchasing Commission. Right?
- Young: Yes.
- H.M.Jr: He picked up the story when Knox, Stimson and I were up at the British Embassy about two months ago, and he only had half of it and I didn't tell him the rest of it. The State Department doesn't like me.
- Gaston: By the way, that about the cotton, instead of three cargoes going in one day, it was three charters of American ships to Vladivostok approved in one batch.
- Foley: The Director of Research of the National Committee, at Mrs. Morgenthau's request, wrote a letter in regard to that editorial that is being sent around to the country newspapers, drawing a comparison between the Roosevelts and the Hoovers. The thing they wanted to know particularly from us was

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whether or not the statement in that editorial that Mr. Hoover turned back his salary to the United States when he was President, to the Treasury, was correct. It is not correct. The records show that the 15% deduction that applied uniformly to all people that Congress could reduce, also provided that if the salary was protected by the Constitution or otherwise and Congress didn't have the power to reduce it, the Secretary of the Treasury could accept voluntary reimbursement to the Treasury up to the amount of the cut that otherwise would have been inflicted if Congress had the power.

Mr. Hoover returned 15% of his \$75,000 and Mr. Roosevelt did the same thing while the law was in effect.

Now, I think we ought to answer the letter. There is a disposition on the part of the people upstairs not to give out information of that kind. It is not in violation of the law on the tax return and it is information that our own bookkeeping warrants can properly give, in my opinion. I think we ought to do it.

Bell:

Well, doesn't the letter give that very information? Just individuals, writing in, you know, asking if it is true that Hoover turned back his salary, and we are saying that it is not true, that probably where they got the idea is due to this economy law and that the law affected not only President Hoover but also President Roosevelt, and they both voluntarily turned back that portion of their salary. We are answering letters every day.

Gaston:

We had that repeatedly in 1936. We had many of the same inquiries in '36.

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Bell: I sign a letter almost every day on that.

H.M.Jr: Why isn't it all right to give it to Mrs. Morgenthau?

Foley: I don't know. The people in Bookkeeping and Warrants said they didn't think we ought to give it out.

Bell: They won't give it out.

Easton: We can give it out in a letter, if somebody writes a letter and we answer the letter --

H.M.Jr: Bell will answer it for you. I mean --

Bell: It is a perfectly good statement. It is in accordance with the facts in the records. I see no reason, if you want to give out some public statement on it, for not saying you have got a number of these inquiries --

H.M.Jr: Mrs. Morgenthau wants to do that, doesn't she?

Easton: The replies to letters is the best way to handle it.

H.M.Jr: Okay.

Foley: Yes.

H.M.Jr: Did you see the Goodheart letter?

Foley: Yes, I did.

H.M.Jr: We sent that in to Mrs. Morgenthau. They don't say he is a United States citizen. I cut it out, and I will write a little letter on it.

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Foley: There is a letter on that San Diego thing from Palmer, so there isn't any resentment on the part of Palmer.

H.M.Jr: Good. You told me that once.

Foley: I showed you the letter from Carmody. This is from Palmer.

H.M.Jr: Wonderful. Now, a telegram came in Saturday from - addressed to me for you four fellows from Fleet. Do you know about it?

Foley: I haven't seen it.

H.M.Jr: Well, your (Young's) assistant has. He said he saw Studebaker has received some money and how could he get his out there? I gave it to your (Young's) man, a telegram. It should be answered. Will you and Ed get together? Who looks after the money that Studebaker has for training the workers? Will you take that or will Ed take that?

Young: I should think it is nearer down Ed's alley.

H.M.Jr: Well, one or the other of you do it, will you, right after this meeting? Find out what Jim has done about it. I would like to answer today. I would like to keep Fleet under the impression we are right on our toes. Am I registering?

Young: Yes, sir.

Foley: You mean Dr. Studebaker, the Office of Education?

H.M.Jr: Yes.

Foley: I think that is mine. I think that is in my report.

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H.M.Jr: Well, anyway, Jim Buckley has it, and will somebody draft an answer by telegram for me to acknowledge and tell him what we are going to do, this morning?

Foley: Yes.

H.M.Jr: Anything else?

Foley: No.

H.M.Jr: There is a little note from the President, of which I sent you (Sullivan) a copy, on the tax bill.

Sullivan: I have it.

Cochran: I gave Mr. Klaus on Friday and Saturday the information I got from New York on those Italian balances. There is over a million dollars withdrawn in one and two dollar bills.

H.M.Jr: Incidentally, I don't want it to get outside this room that Klaus is doing this work, so let's keep it in this room. Anything else?

Cochran: No, sir.

Schwarz: You may wish to ask Norman Thompson to see if we can work out some other method of working on an Internal Revenue film for tax collection, in view of the reluctance of the Bureau to accept my recommendation.

H.M.Jr: Talk to him about it afterward. He doesn't know what you are talking about.

Schwarz: You know we talked about the problem.

H.M.Jr: I know. It was last June when a memorandum went through recommending something like

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that, and Helvering doesn't want it. He (Sullivan) is back, too. The three of you get together.

Schwarz: That is right.

H.M.Jr: Helvering is upset about it. My name was used.

Schwarz: When I checked it over and had the full text, it was a correct statement.

I have a letter from the publisher of Life, just for the sake of the record, to you, asking permission for his men to make pictures of the interior of Fort Knox depository.

H.M.Jr: The answer is no.

Schwarz: I have asked.

H.M.Jr: Anything else?

Schwarz: That is all.

H.M.Jr: Phil, if you stay behind a minute - I had quite a heated conversation with Purvis. I will tell you about it.

Young: Yes, sir. Judge Patterson is working on the transfer of that E-5 engine over at Bell. It is going on all right.

H.M.Jr: Good.

Young: Also the negotiations on the first six Consolidateds.

H.M.Jr: I told him - I told him to go along the Sperry line for those first six.

Young: Yes. They said go ahead on that basis.

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H.M.Jr: I said if they had any trouble, to call up Tom Morgan of Sperry.

Anything else?

Foley: Buckley said he wanted me to call Tom. He told me this morning.

H.M.Jr: No, this man, Young. I may have misspoken myself, but it is Philip I want to call. He will follow this through. You follow this through on education and sewage. Did you know he (Foley) can go to any city and say they need a million and a half dollars sewage disposal plant by simply sniffing. (facetiously)?

Sullivan: If he happens to have a cold, they get twice as much.

Foley: They don't get any.

H.M.Jr: Or they may get nothing. He may not smell it.

Foreign Funds, have you set up a room for Rumania?

Pehle: Yes.

H.M.Jr: I hope you spell it with a "u".

Pehle: I have. We don't think we are going to get very many transactions. The Minister wrote in some letters, though, asking for what looks to me to be a considerable amount of money to run his staff, which is pretty small, which we thought we would refer over to the State Department and see what they thought, also see if we couldn't get a line on what attitude this fellow was going to take.

- 12 -

H.M.Jr: I see in the papers where they are supposed to have a hundred million dollars in Rumania.

Pehle: Well, we will know about that.

Bell: Chick says that is slightly inflated.

H.M.Jr: How much is there, anyway?

Cochran: They said most of this was gold. They only have twelve million in gold here. It is a little high.

Bell: The Rumanian Minister has asked me for an appointment this morning. I suppose it is all right if I see him?

H.M.Jr: Sure. Anything else?

Pehle: Only this: Klaus was in to see me and we had a talk Saturday about what information we might have that tied in with what he is doing. I assume that we can go along on that line and anything that we have --

H.M.Jr: Sure. Sammy has got one already, if he is right, and I think he is. He has already got a lead on one thing that looks to me as though he is on the right track on one thing.

Pehle: That is all.

H.M.Jr: I have got one for him. I am having some fun again. I haven't done any detective work in years. I am having lots of fun.

George?

Haas: They jumped back up again.

H.M.Jr: What?

- 13 -

Haas: Allison.

H.M.Jr: Oh, good. Incidentally, I gathered in my talk with Evans of Allison that Bell are ahead of their schedule, Bell Aircraft. Would you (Young) make a note that I would like to have - in the first place, please tell the British as soon as they get a report on what the Curtiss P-40 does under fighting conditions, I would like to have it. That is number one.

And then number two, in laymen's language, a comparison of the P-40, the Bell, and the so-called Lockheed Interceptor, see. Their armament and speed, and so forth and so on. I mean, could they give me a comparison of those three. Now, who else do they have a fighter from? Does Vultee or Grumman come in there?

Young: Vultee makes a fighter.

H.M.Jr: I mean what the English have bought, any other fighter that they have bought, that they have on order. Any other fighter that they have on order, please.

Young: All right.

H.M.Jr: This is good. Allison is up to 73 engines. They are really going to town.

Haas: Curtiss, Mr. Secretary, didn't report this week any storage, at least their report didn't show any. I am checking that to make sure that is the situation. I am not positive.

H.M.Jr: They are really going to town. It is marvelous.

- 14 -

Gaston: That must be that master mechanic that the fiction story in the Saturday Evening Post talks about. It is a fiction story that is plainly written around the Allison plant.

H.M.Jr: Oh, this last week?

Gaston: Yes, last week.

H.M.Jr: No, I think the two men that deserve the credit are one, Sloan, two, Evans, and three, Hunt, the Chief Engineer. They say that Hunt just worked 20 hours a day on this stuff. And incidentally, this time we are getting a fighting plane in the air. Last time we never got a fighting plane in the air, in the last war, American-made.

Gaston: The Allison really work when they put them in the planes, do they?

H.M.Jr: We will know when we get a report from abroad what they do under fighting conditions, but they have got enough of them out now. They have turned out 343.

Haas: Curtiss P-40, the report that you get Wednesday morning, I just glanced at the one that just came in. It shows that they made 60 P-40's in the last two weeks.

H.M.Jr: Well, the head of the company told me they are turning out six a day.

Haas: That is approximately right.

H.M.Jr: They work five days a week. That is right, thirty.

Haas: Yes, that is right.

H.M.Jr: The report shows 60?

- 15 -

Haas: Sixty.

H.M.Jr: That checks. Would you (Young) get me that other thing?

Young: Yes.

Graves: When you have time, I should like to have a few minutes to talk to you about Procurement.

H.M.Jr: I will have time today. Please note that this (letter from Fred C. Abbott, October 9) came in from the Governor's office, which is rather unusual, at my house, and it is a complaint of somebody, one of our men, but it sent to us from the Governor's office. Some man is being persecuted. Look at it yourself, would you?

Graves: Yes, sir.

H.M.Jr: I couldn't get down to what they had accused him of. It sounds a little crazy to me. I will see you this morning. Stick around and I will see you.

Dan?

Bell: We got word that that appointment is tomorrow at 11:00 with the Cubans.

H.M.Jr: Yes. And please, somebody, call up the State Department. I want some representative of the State Department to be here. Will you take care of that?

Bell: Yes.

H.M.Jr: Would it come through you?

Bell: Yes.

- 16 -

H.M.Jr: Well, I want somebody here - I want at least an Assistant Secretary. I want an Assistant Secretary of the State Department to be here to introduce them.

Bell: Do you want Collado to come along, too?

H.M.Jr: No, he's not an Assistant Secretary.

Bell: But to come along, too. He is apparently handling this.

H.M.Jr: Well, I want an Assistant Secretary.

Bell: They want somebody over there this morning at 11:00 to meet these people, and I told them I thought Harry White would be there, but Harry, I guess, is still sick.

H.M.Jr: Who is his second man?

Bell: Coe.

H.M.Jr: Oh, that is that man who used to teach in Canada, isn't it?

Bell: That is right.

H.M.Jr: Yes, let him go. Now, does anybody know what Jesse Jones wants at 3:00 o'clock?

Bell: I have a suspicion. May I stay a minute afterward and tell you some gossip?

H.M.Jr: Yes. I love gossip. With all I have seen of Drew Pearson this morning, I haven't had much.

Bell: I don't know that that is what he wants, but I have a suspicion it is.

H.M.Jr: Right. Is that a fixed appointment tomorrow, Chile?

- 17 -

Bell: No.

H.M.Jr: That is tentative? It is down for 3:00 o'clock for tomorrow.

Bell: Oh, I don't know. I think that came through Miss Chauncey. I didn't have anything to do with that.

H.M.Jr: The Cuban is fixed?

Bell: The Cuban is the only one I have.

H.M.Jr: (To Commander McKay) Mac, get together with Miss Chauncey on this 3:00 o'clock tomorrow appointment with Jesse Jones. Is that definite or indefinite?

McKay: Yes, sir.

Thompson: I have nothing.

Haas: Mr. Secretary, I just got a report. The last P-40 which was in storage was shipped last Friday, so that is all cleaned up.

H.M.Jr: They cleaned out all of them? That is perfectly amazing.

Haas: You see, they have got plenty of engines.

H.M.Jr: Well, you haven't got the figure how many P-40's have now gone to the Army as of Saturday, and how many have gone to the English?

Haas: Yes. I don't recall it, but it is on that report that I took the 60 on.

H.M.Jr: But I mean as of Friday?

- 18 -

Haas: As of the close of business Saturday.

H.M.Jr: Yes. That isn't on here.

Haas: No, but it would be in this report you get Wednesday, but I have it in the office, I know, because it came in this morning.

H.M.Jr: Send it in. How many P-40's have gone to the Army and how many to the English, as of Saturday.

Haas: You mean for the last two weeks or --

H.M.Jr: Total.

McKay: That is tentative, sir, waiting for Mr. Jones to call you.

H.M.Jr: Total

Haas: I will get it for you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from the account of the Reichsbank, Berlin, maintained with the National City Bank and the Chase National Bank.

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 14	\$400,000	German Consul, New York
	200,000	Yokohama Specie Bank, New York

Chase National Bank

October 14	\$4,500,000	Chase National Bank for account of German Gold Discount Bank, Berlin
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statements in Italian accounts maintained at:

Chase National Bank

Federal Reserve Bank of New York



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 14	\$110,760	Credito Italiano, Rome	Sveriges Riksbank, Stockholm	\$700,000	Banca Commerciale Italiano, New York	Credit Suisse, N. Y.
	250,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York (check drawn on Guaranty Tr. Co.)	55,000	Banca Commerciale Italiano, New York	Federal Reserve Bank of N. Y. for account of Bank of Italy, Rome
	250,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York (check drawn on Manufacturers Tr.Co.)	550,000	Banca Commerciale Italiano, New York	Guaranty Trust Co. for account of Banca Commerciale Italiano, New York
	100,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York (check drawn on Bankers Trust Co.)	350,000	Banca Commerciale Italiano, New York	National City Bank for account of Banca Commerciale Italiano
	50,000	Banca Commerciale Italiano, New York	Banca Commerciale Italiano, New York (check drawn on J. Henry Schroeder Banking Corporation)			

Federal Reserve Bank of N. Y.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 14	\$108,000	Bank of Italy, Rome	Bank of Naples Trust Co., New York	\$175,000	Bank of Italy, Rome	Federal Reserve Bank of N. Y. for account of the Bank of Sweden, Stockholm
	55,000	Bank of Italy, Rome	Banca Commerciale Italiano, New York	10,000	Bank of Italy, Rome	Bank of Naples Trust Co., New York
	12,000	Bank of Italy, Rome	Credito Italiano, New York			

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: October 14, 1940, 10 a.m.

NO.: 4313.

ON ONE. Refer to your telegram no. 2502 of September 17, 4 p.m., and our telegram no. 4174 of September 27, 4 p.m.

From informed sources the Embassy has received the following data on the economic situation in Denmark.

(a) Germany had a 20,000,000-crown clearing credit against Denmark on the first of April. 590,000,000 crowns on clearing account were owed to Denmark by Germany at the first of October. 270,000,000 crowns of this total represented the costs of the German army of occupation (including big construction projects); the rest (320,000,000 crowns) was accounted for by normal clearing accounts. Estimates are that by the end of this year Danish claims against Germany will have reached a total of 1,360,000,000 crowns; 850,000,000 crowns of this will represent Danish exports to Germany; 510,000,000 crowns will represent various items, particularly the occupation expenses of the Germany military forces. However, these will be partly offset by Reich claims for exports to Denmark; it is estimated that such claims will amount to 460,000,000 crowns for the half year ending Dec. 31st; to this will be added 1,860,000,000 crowns for certain exports from Sweden and Norway to Denmark, which Germany will pay.

By

-2-

By the end of this year, therefore, the Reich's net clearing debt to Denmark will probably total 942,000,000 crowns; this figure is much greater than the currency circulation of Denmark which totaled 695,000,000 crowns on the 30th of September. The occupation costs of the German military force are paid entirely in Danish crowns now, such money being requisitioned from the National Bank of Denmark and included in the clearing account between Germany and Denmark. (END SECTION ONE)

MORRIS

EA:MSG

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 4313 OF
OCTOBER 14, 1940 FROM THE AMERICAN EMBASSY, BERLIN

Danish bank loans and discounts, since the beginning of the occupation, have shown a marked contraction, while record figures have been attained for deposits and cash holdings. A further reduction of the discount rate is believed probable in view of this situation. It is rumored that there is to take place a conversion of funded indebtedness for the benefit of the Government and the overmortgaged agricultural industry. It is reported that up to the present there has been no disturbing of the Danish gold reserve.

(b) It is estimated that there has been an increase of 40 percent in living costs during the past year. There has been practical cessation of imports of so-called luxury products. It is said that for many Danish agricultural commodities Germany is paying some 25 percent more, but there has been an increase in still greater degree in the price^{of} exports to Denmark from Germany. The retail prices of foodstuffs and other products are therefore mounting in spite of the Government's strenuous efforts to check them through such means as limiting the profits of producers, fixing the maximum prices on consumers goods, and rationing restrictions and restrictions against hoarding. Boards have been set up in many industries under supervision of the Government

- 2 -

Government for controlling production and distribution and allocating and rationing the available supplies of raw materials among the plants. Such control measures have been taken to cover the distribution of feedstuffs and grain to farmers as well as for the textile, iron, tobacco and most other manufacturing industries. There is rationing of the following articles at the present time:

bread	flour	tea
coal	fuel oils	
cocoa	gasoline	
coffee	kerosene	
coke	margarine	
firewood	sugar	

It is believed likely that in the near future many additional products will be rationed.

MORRIS

EA:LWW

SECTION THREE.

(c) Before Germany stationed troops in Denmark, 22 per cent of Denmark's import requirements ^{was} ~~were~~ supplied by Germany, whereas at the present time 84 percent is supplied by Germany. Whereas Germany took 28 percent of total Danish exports prior to occupation, it now takes 92 percent of total Danish exports. Denmark's trade with less important customers and suppliers was almost paralyzed for a long time after the occupation but now there is a gradual revival of such trade through the renewal of old agreements with Norway, Finland, Lithuania, Russia, Latvia, Sweden, Estonia, Italy and Switzerland. However, it is believed that there will be a dissolution of the trade agreements with Lithuania, Latvia and Estonia. Negotiations are now in progress with Bulgaria, Rumania and Yugoslavia; these countries are reported to be willing to furnish Denmark with cattle feedstuffs on the condition that Germany supply them with needed products on a trilateral basis. It appears that the possibility of bringing these negotiations to a successful conclusion is small. (END SECTION THREE)

MORRIS

EA:MSG

PARAPHRASE OF SECTION FOUR, TELEGRAM NO. 4313
OF OCTOBER 14, 1940, FROM THE AMERICAN EMBASSY, BERLIN

The report has come to us that all Danish trade agreements are negotiated now directly under supervision by Germany. For example, the arrangements with Sweden and Norway are agreements supervised by Germany, and Germany is a third party to the trilateral arrangements. Under the agreement with Sweden, Denmark will import from Sweden 36 million crowns of goods, and will export to Sweden goods in the amount of 24 million crowns. The deficit of 12 million crowns is to be debited by Sweden to Germany and applied to the clearing account between Sweden and Germany. The same basis is followed for the clearing agreement with Norway.

(d) Denmark has been practically deprived of free foreign exchange from shipping since occupation by the German military, and this source of national income had previously been one of the most important. It is expected that by the end of this winter Danish agricultural income will decline radically because of excessive slaughterings of livestock due to a lack of feedstuff for it.

Agreement has been reached among Danish employers and workers in all industries that they will keep industrial peace. It is regarded as inevitable that the number of unemployed will grow. Some 13,000 Danes are employed in Germany now, but it is expected that still more will be

- 2 -

forced to accept work in the Reich because of circumstances.

It is requested that Treasury be informed of the foregoing.

END OF MESSAGE.

MORRIS.

TO THE SECRETARY
TREASURY DEPARTMENT
OFFICE OF THE
DIRECTOR

1940 OCT 12 PM 11 02

RECEIVED
TREASURY DEPARTMENT

New York, October 14, 1940

For Mr. Morgenthau:

I refer to my letter and enclosed memorandum of October 10th.

Since that letter was written we have received confidential advices from Mexico that it is reported on good authority that the export tax on lead will be abolished effective around the end of this month and that export taxes on other metals will be reduced possibly as much as 50%.

Harold K. Hochschild.

RECEIVED DEPARTMENT

OCT 12 1940

RECEIVED DEPARTMENT
OCT 14

October 14, 1940
10:06 a.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello, Henry talking.

Henry
Stimson: Hello. I'm glad to hear you're back. I've been tied in here pretty hard so that I didn't - I heard you'd called but I didn't
.....

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

S: You've seen this new Layton paper?

H.M.Jr: Well, that's what I'm calling you up about.

S: Yes. He came in Friday and left it with me.

H.M.Jr: And, frankly, I'm very much disturbed by it.

S: Well, so am I.

H.M.Jr: And I wondered whether at your convenience if you and I and possibly Frank Knox couldn't sit down quietly and talk about it. That's what I was calling up about.

S: I've been trying to outline with Patterson some principles before we tackled our own people on it because I foresee great difficulties with our own people.

H.M.Jr: Yeah.

S: And the thing is - the only thing about Knox is - this doesn't involve nearly anything of his stuff, does it.

H.M.Jr: No, it's all Army but his is coming and I wasn't thinking - I'm thinking of the whole picture rather than individual guns and - I mean, after all, I'm thinking of

- 2 -

S: Well, I'm thinking of the whole picture and I tell you this, I've always been on the principle of my private life not to get - when I got in a stuck position where I had gotten into a bad contract or lost some money, I've always thought it was better policy to go ahead and make some more than to spend too much time fighting out the by-gone - see what I mean?

H.M.Jr: Yeah.

S: Well, now, that principle applied to our present position is to put as much steam as we can on speeding up production, which is the main thing to being in a position to give more to the British.

H.M.Jr: Right.

S: And I'm concerned just at present with some little troubles with the Defense Commission. They're our trouble now.

H.M.Jr: Well, would you rather see me alone?

S: What?

H.M.Jr: Would you rather see me without Knox?

S: No, I think Knox would be helpful but he won't be very much interested.

H.M.Jr: Well, but I

S: What I was going to say is - on this before we go back to that - I agree to that - is that I'm just thinking of having a talk this morning with some of the people in the Defense Commission. You see, we're stuck in regard to making speed somewhat by their theoretical plan - they're up in the air - it's getting into our Ordnance now - I've just been hearing about it from Bob Patterson. On some of these new contracts they've held up - you see, the President gave them virtual veto power over any of our contracts over 500,000 - well now they're sticking out on some Ordnance contracts, which are different from airplane

- 3 -

contracts in that it doesn't involve any facilities that are worth fighting over - new facilities, I mean - not often - but to a much less degree than the airplane business which meant the building up really of a new industry.

H.M.Jr: Right.

S: They're trying to apply the same questions of amortization to the contracts they've made to almost every damn one of those contracts.

H.M.Jr: Well, I don't see why they do that.

S: Why it would be better to lose a little money.

H.M.Jr: Yeah. I don't see why they do that.

S: And I'm going to have a pretty fine talk with them and I don't want to get into any position that you would disapprove of or feel

H.M.Jr: Uncomfortable.

S: uncomfortable about.

H.M.Jr: Well, this is the thought that I had in mind - whether possibly we could get together at lunch tomorrow - you, Knox and I, because I'm really disturbed about this report and our whole attitude towards the English. That's what I want to talk about - towards England.

S: Well, I was going to try to see how far I could get - it's a thing I've got to take over myself virtually because Patterson is terribly involved in pushing production now. He's making this week a series of very important trips in order to push production.

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

S: And this is a thing, anyhow, which involves outside nations and I'd have to give full attention to anyhow.

H.M.Jr: Well, the thing that I had in mind was that the three of us have a talk and then we will be seeing the President on it - I sent him a copy and I wanted to have a talk before we saw the President.

- 4 -

S: Well, the thing that's - I think we ought to, but you've got to remember that we're tied up with this infernal step which the Congress took in June in putting that limitation on the certificate and that applies to contracts as well as to the actual transfer of munitions themselves.

H.M.Jr: Would you be free at noon tomorrow?

S: Yes, I think I could make myself free.

H.M.Jr: Would you like to have lunch at the Treasury - at my little dining room?

S: Yes or suppose we transfer it. Suppose you come up to my house at that time and I'll ask Knox to come up there if he can.

H.M.Jr: I'll be delighted.

S: Well, that'd be very nice. One o'clock tomorrow.

H.M.Jr: One o'clock at your house.

S: Yes.

H.M.Jr: And tomorrow. I'd be delighted.

S: All right and I'll try to get

H.M.Jr: But this thing has disturbed me more than anything that has come along in a long time and I'm not thinking in the same terms of a gun or making this, but the whole thing - what are they getting at and where are we going to be next spring - that's what I'm thinking about.

S: Yes, I see.

H.M.Jr: What?

S: No, I know it.

H.M.Jr: And if we say no to them, then what?

S: We'll be gone.

- 5 -

H.M.Jr: See?

S: But I don't think we ought to say no.

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

S: I think they're up against it on a good many of these things. Well, of course, some of that - I think some of them - of course, they show in their paper No. - my paper is copy No. 4, I suppose yours is copy No. 1, or 2, or 3

H.M.Jr: No. 2.

S: Well, they do indicate that after the first two items, three and four seem to be open to compromise and I thought there it would be a question of getting them to use our own standard to a large extent. The great trouble is going to be in regard to the field guns where they're already dug in and we're already dug in. There the only thing I think we could possibly give would be to give new capacity - entirely new capacity to them.

H.M.Jr: Well, I'd like to talk also, as long as you've raised it, about the Defense Council because that bothers me a lot.

S: Beg pardon?

H.M.Jr: This whole question of the Defense Council and its position bothers me an awful lot and I'm glad you've raised it. I'd like to have a heart to heart talk with you about it.

S: Well, I'd be very glad to because, you see, it's different - the position that the President has taken about those contracts - giving them an absolute right to approve contracts of over 500,000 is a distinct step over the boundary into my territory beyond what ever happened in the last war.

H.M.Jr: I know. Well, he did that before you came to town didn't he?

S: I don't know; I imagine he did.

- 6 -

H.M.Jr: I think so because a lot of these things, you see, came up which never would of come if you'd been here.

S: (Laughs). Well, I hope so.

H.M.Jr: Well, I'll look forward - I'm really very anxious to have a talk

S: Well, we'll talk - that's a very important part of our talk tomorrow.

H.M.Jr: And you'll have Knox there

S: I'll try to get him.

H.M.Jr: and if you don't mind - I can't eat red meat.

S: Pardon?

H.M.Jr: I'm unable to eat red meat.

S: You don't eat red meat.

H.M.Jr: I can eat anything else.

S: All right.

H.M.Jr: Thank you.

S: Good-bye.

H.M.Jr: Good-bye.

October 14, 1940

Dear General Watson:

Referring to my letter to you of this morning in which I enclosed a secret document from Sir Walter Layton, of the British Purchasing Commission, I am now enclosing a photostatic copy of a supplemental memorandum which I have just received from him.

I would appreciate it if you would be good enough to see that this also reaches the President.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major General Edwin M. Watson,
Secretary to the President,
The White House.

By Messenger

October 14, 1940

Dear General Watson:

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By Messenger

October 14, 1940

My dear Mr. Stimson:

In connection with the confidential document which I understood Sir Walter Layton gave you personally, I am in receipt of a supplemental memorandum from him on the same subject. I am enclosing a photostatic copy for you.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Hon. Henry L. Stimson,
Secretary of War.

Enc.

By Messenger 4-55

October 14, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Major General Edwin M. Watson,
Secretary to the President,
The White House.

Enc.

By Messenger 3²⁰

October 14, 1940

255

Dear Frank:

With further reference to my letter of this morning, with which was enclosed a secret document from Sir Walter Layton, of the British Purchasing Commission, I am enclosing herewith a photostatic copy of a supplemental memorandum I have just received from him.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

Enc.

By Message 3²⁰

October 14, 1940

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(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger

October 14, 1940

257

Dear Frank:

With further reference to my letter of this morning, with which was enclosed a secret document from Sir Walter Layton, of the British Purchasing Commission, I am enclosing herewith a photostatic copy of a supplemental memorandum I have just received from him.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger



BRITISH PURCHASING COMMISSION

SECRET

October 12, 1940.

Dear Mr Secretary

In confirmation of the memorandum that I submitted to you with my letter of October 11th, I have subsequently received a cable from the War Office and the Ministry of Supply in London emphasizing the importance of the provision of 1,000,000 - .303 rifles next year. The cable states that even if the full number cannot be supplied by November 1941, they hope very much that it will be possible for the greater part to be supplied by that date. At this moment the supply of rifles is insufficient. The intake of recruits in the next six months should be at least 300,000 and by November 1941 at least another 700,000 will be enrolled. Rifles are at present one of the main limiting factors in the expansion of the Army. "If", they say, "capacity now existing or being created in the United States could be adjusted so as to give us some substantial deliveries of .303 rifles by next spring or early summer, this would be of supreme value." It is essential to have some reserve and to allow for wastage and 1,000,000 plus British production affords a very narrow margin.

The cable adds that if the United States could release a further quantity of .30 calibre Enfields in addition to the 1,000,000 - .303 rifles, they would be very welcome. The releases hitherto made have been invaluable; but the Home Guard will not be adequately armed even after receipt of the recent release of 150,000 .30 calibre Enfields. Moreover, if no .303 rifles from U. S. production are available by the spring of 1941, it may well be that the Army will be compelled to take away some of the .30 calibre rifles in the hands of the Home Guard in order to use them for the training of recruits for the regular Army.

You will appreciate from this statement that the request I submitted to you yesterday is one of great urgency.

Yours sincerely,

W. T. Layton

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfer listed below from the account of the Narodni Bank, Prague, Czechoslovakia, maintained at the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
October 14	\$700,000	Chase National Bank for account of the Union Bank of Switzerland, Zurich



jt

PLAIN

STOCKHOLM

Dated October 14, 1940

Rec'd 8:34 p.m.

Secretary of State.

Washington.

979, fourteenth.

Swedish national debt increased by 323 in September total 4231 budget deficit 1939-40 was 1100 and 1940-41 estimated 1500 proposal turnover tax to raise 200 in calendar year 1941 presented Riksdag provides 5 percent on sales excepting certain necessities and avoiding double sales taxation all million crowns. Further proposals for sales tax on luxuries in preparation. Proposed bills September 2850 valued one point five million.

INFORM TREASURY, COMMERCE.

STERLING

NPL

eh

COPY

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE October 14, 1940

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*

Work Projects Administration employment increased to 1,747,000 persons during the week ended October 2, 1940, representing a gain of 44,000 over the last week in September.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1940	Number of Workers (In thousands)
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611
July 10	1,619
July 17	1,659
July 24	1,689
July 31	1,700
August 7	1,709
August 14	1,708
August 21	1,699
August 28	1,692
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,703
October 2	1,747

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666
July	1,700
August	1,692
September	1,703

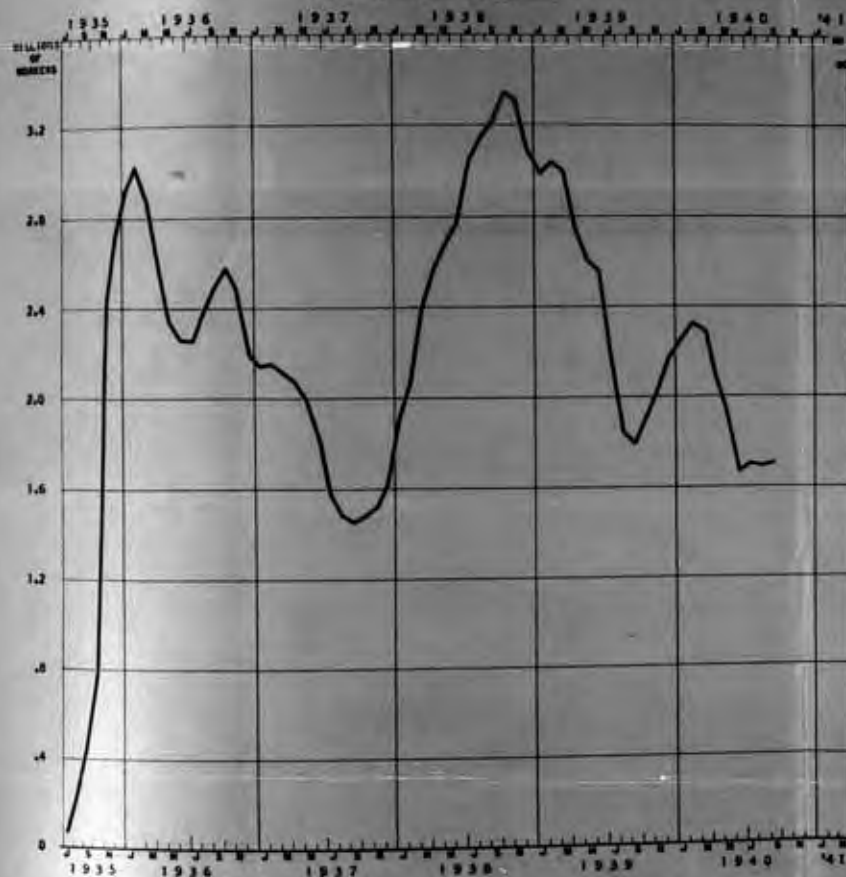
Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

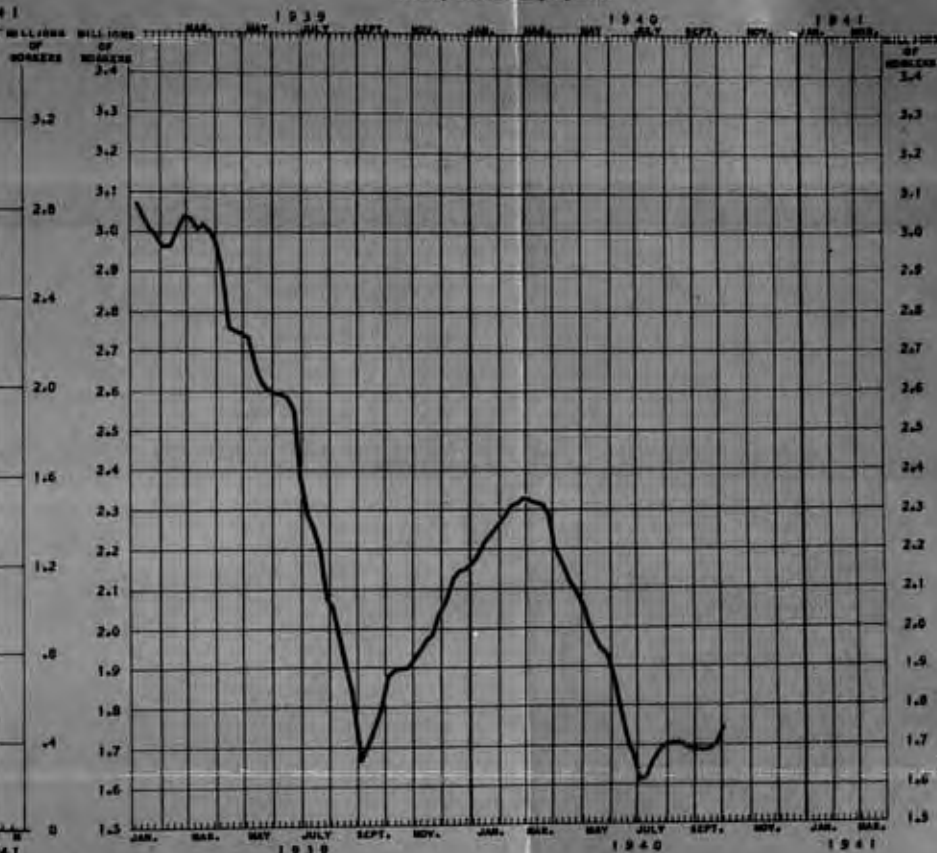
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL
DATE October 14, 1940

TO Secretary Morgenthau
FROM Mr. Hase
Subject: The Business Situation,
Week ending October 12, 1940.

Conclusions

(1) As prices of industrial materials continue to rise, and a prolonged period of high industrial activity appears ahead, businessmen are becoming more concerned over the adequacy of their inventories. Heavy buying to replenish stocks has already been done by consumers of certain industrial materials, but the movement has not yet spread to all industries nor to the wholesale and retail trade.

(2) While some slackening in a few indices of business activity has appeared in the past two weeks, this appears to be merely temporary. Steel activity continues to rise, and new orders for steel are increasing. An expansion in commercial loans is getting under way, apparently reflecting the participation of banks in financing the defense program, both for factory expansion and for raw material accumulation.

(3) Industrial material prices have reached a new high since June, with further increases recorded in prices of such basic materials as copper, lead, zinc, tin, steel scrap, and coke. The relative stability of foodstuff prices, on the other hand, suggests that no widespread or general demand for commodities has yet developed.

- - - - -

The present situation

While the general business trend continues to improve, a slackening in some indices of business activity in early October suggests that the improvement remains gradual rather than rapid. In recent months the FRB index of industrial production has risen only slightly, the tentative figure of 124 for September comparing with 122 in August and 121 in June and July.

Secretary Morgenthau - 2

During the week ended October 5 the New York Times index reversed its previous rising trend and declined 1.3 points to 107.3. (See Chart 1.) All components were lower except miscellaneous freight car loadings and cotton mill activity, both of which showed good gains. The principal factor in the decline was a drop of more than 2 points in the adjusted index of electric power production, resulting from a contra-seasonal decline in actual power output. It should be noted, however, that the decline occurred from the highest level on record, and that actual electric power output in that week was still at the third highest figure ever recorded.

Next in importance was a contra-seasonal drop in "all other" freight car loadings, the result of a sharp decrease in loadings of coal. This development appears to have been due largely to some distortion in the normal movement of bituminous coal resulting from the establishment of minimum price regulations effective October 1. A substantial decline occurred in the index of automobile production, but, as pointed out in our memoranda of recent weeks, this seasonally adjusted index had reached an artificially high level due to the earlier start made this year in volume production of new model cars. The adjusted index of lumber production also declined, but it should be noted that orders for lumber still continued to run ahead of production. Actual steel operations continued steady at very high levels, and after seasonal adjustment this component of the index showed only a moderate reduction.

Barron's index of business activity, which lagged behind the Times index during most of its extended rise, is now narrowing the gap between the two indexes. While the Times index was declining in the week ended October 5, Barron's index moved up to 115.1 from 114.0 in the previous week.

Construction awards lower

Heavy construction awards and structural steel awards declined last week. The Engineering News Record reported \$84,797,000 in heavy construction awards, as compared with \$94,181,000 in the previous week. Structural steel bookings totalled 54,610 tons, versus 85,190 tons in the previous week.

Secretary Morgenthau - 3

More inventory buying noted

The continued rise in prices of industrial materials, and the assured outlook for a prolonged period of high industrial activity, have led businessmen to look with more concern toward the adequacy of their stocks of raw materials and supplies. This has led to heavy inventory buying in recent weeks by consumers of certain industrial materials, notably the non-ferrous metals. The movement has not yet spread to all industries, nor to wholesale and retail trade, but further price increases might provide the incentive for rather widespread inventory buying.

Increased buying by industrial concerns in Detroit, partly for the purpose of enlarging stocks of essential materials in advance of possible Government priorities, is indicated by figures compiled by the Purchasing Agents Association of Detroit as of September 30. These show that 77 percent of the reporting members are now buying 3 months or more ahead, as compared with 61 percent at the end of June.

Commercial loans of reporting Federal Reserve member banks, which usually reflect any important tendency toward inventory accumulation, have recently shown a noticeable upturn. (See Chart 2). Since part of the rise, however, is attributed to term loans, presumably to finance plant expansion under the armament program, it seems evident that the amount of inventory accumulation financed by bank borrowing is as yet relatively small. The situation, it will be noted, is in marked contrast to that during the inventory boom of 1937.

The steel situation

Increased operating schedules for the two most important steel districts -- Pittsburgh and Chicago -- indicate that the steel industry this week may operate closer to capacity than at any time since 1929. A continued increase in new orders for steel from various industries is given in trade reports as the reason for the expanded production. New orders reported by the U. S. Steel Corporation for the week ended October 3 rose to 101 percent of capacity from 98 percent in the previous week.

Secretary Morgenthau - 3

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The steel situation

Despite reported increases in operating schedules in the two most important steel districts -- Pittsburgh and Chicago -- the operating rate for the steel industry this week is estimated at an increase of only 0.2 above last week's rate. The figure of 94.4 per cent of capacity, however, equals the highest rate in 1939. A continued increase in new orders for steel from various industries is given in trade reports as the reason for the expanded production. New orders reported by the U. S. Steel Corporation for the week ended October 3 rose to 101 per cent of capacity from 98 per cent in the previous week.

Secretary Morgenthau - 4

The concern of steel buyers over possible Government priorities is indicated by a trade report that "for the first time since 1937 a large number of buyers are flocking to mill districts to arrange for future deliveries."

More concern is being felt by steel men over the possibility of a shortage of pig iron, which is believed in the trade to be more of a bottleneck than steel ingots. Three more blast furnaces were in blast at the end of September than at the end of August, according to the Iron Age, raising the number to 193 out of a total of 232, but many of those in blast are reported to be in need of relining and other repairs.

The Iron Age composite price of scrap steel as of October 8 was 8¢ a ton higher at \$20.62, registering a new high for the year and the highest level since November 11, 1939. Scrap prices were advanced in Pittsburgh, Cleveland, and Youngstown. By-product coke prices in Boston were raised 50¢ a ton.

Shipments by the United States Steel Corporation in September were the highest for that month in 20 years, and on a daily average basis were 7.6 per cent higher than in August. Because of a decline in new orders in that month, more tonnage was shipped than was placed on the books. (See Chart 3, upper section.) The backlog of unfilled orders (lower section of chart) has accordingly shown some decline.

Residential construction high in September

The volume of residential construction, as measured by F. W. Dodge data, held during September at the high August level. (See Chart 4, upper section.) This is in line with seasonal expectations, and the trend confirms previous indications based on the volume of FHA mortgages selected for appraisal. (Dotted line.) These mortgages in recent weeks have continued to maintain their wide margin over last year's figures. (Lower section of chart.)

An earlier indication of residential construction trends may be provided by the number of new homes to be built, as reported by the Federal Housing Administration. (See Chart 5, upper line.) These represent prospective new houses which

Secretary Morgenthau - 5

have been selected for appraisal, but have not yet been accepted for insurance nor has construction actually been started. An increase in new homes to be built has usually been followed about a month later by an increase in homes started (lower line). The rise in the former figure last month may therefore be followed by a further increase in new homes started during October.

Further increase in industrial material prices

The rise in industrial material prices was extended last week, and was shared by practically all of the principal basic materials usually included in this group. The ELS price index of 16 industrial materials (see Chart 6, upper line) reached the highest level since June. So far, however, no widespread increase in demand for commodities in general has occurred, which explains why prices of basic foodstuffs (lower line on chart) have remained relatively steady.

In the futures markets last week, prices of practically all industrial materials reached higher levels. Futures prices for copper, lead, zinc and tin were increased sharply (see Chart 7). Spot prices of lead and tin were also higher.

The American Zinc Institute now reports that visible supplies of zinc have decreased almost 60 per cent between the end of April and the end of September. Stocks in the hands of consumers, however, may not be as short as many had feared, since a special inquiry made by the Bureau of Mines indicates that such stocks decreased only about 13 per cent between April and September. There is also some encouragement in the reported increase in the number of zinc retorts operating in September: 47,700 as compared with 44,400 in August. This has been reflected in a rise of 10 per cent in the daily average output of zinc during September.

The recent pressure on the copper market caused by intensive buying and tightness in the supply has evidently slackened somewhat. Sales of copper in the first ten days of October showed considerable decline from the record rate established in September. The daily average rate in this period of October was 3,032 tons compared with 10,639 in September.

Secretary Morgenthau - 6

Statistics released by the Copper Institute on Friday show that stocks of refined copper were reduced in September by only 13,400 tons, as compared with 25,000 previously estimated by trade reporters.

The increase in the spot price of lead had no deterrent effect on buying, according to trade sources, and orders continued to be booked in good volume. Industry commentators estimated that stocks of refined lead at the end of September were down to 37,000 tons, which is the lowest figure since at least 1931.

The first ten days of October witnessed heavy buying of silk in anticipation of a possible embargo. It is reported that virtually all stocks of desirable grades of raw silk held in warehouses here and in transit from Japan have been sold. Like silk, rubber was another commodity whose futures prices showed a marked increase under the influence of uncertainty concerning the Far East situation.

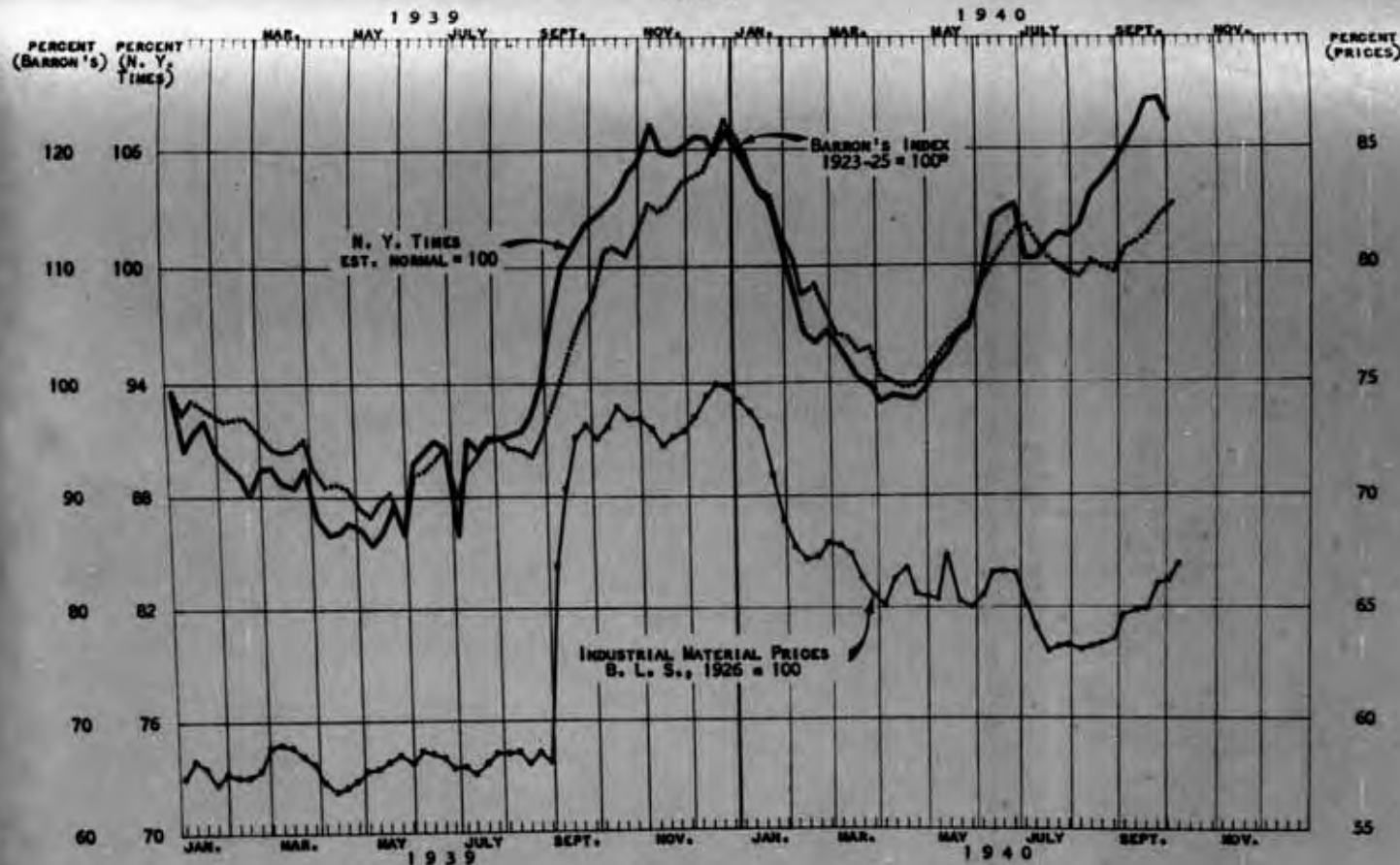
The rise in hide futures was influenced by reports from Argentina that Britain is negotiating for £40,000,000 of commodities including hides. Sales of domestic packer hides last week were close to the estimated level of current production.

New orders well maintained

Our weekly index of new orders (see Chart 8) held during the first week of October close to the high levels of the previous month. A slight downturn in the combined index was due to a decline in orders for electrical equipment from the high volume of the previous week. Steel and textile orders both showed a slight increase.

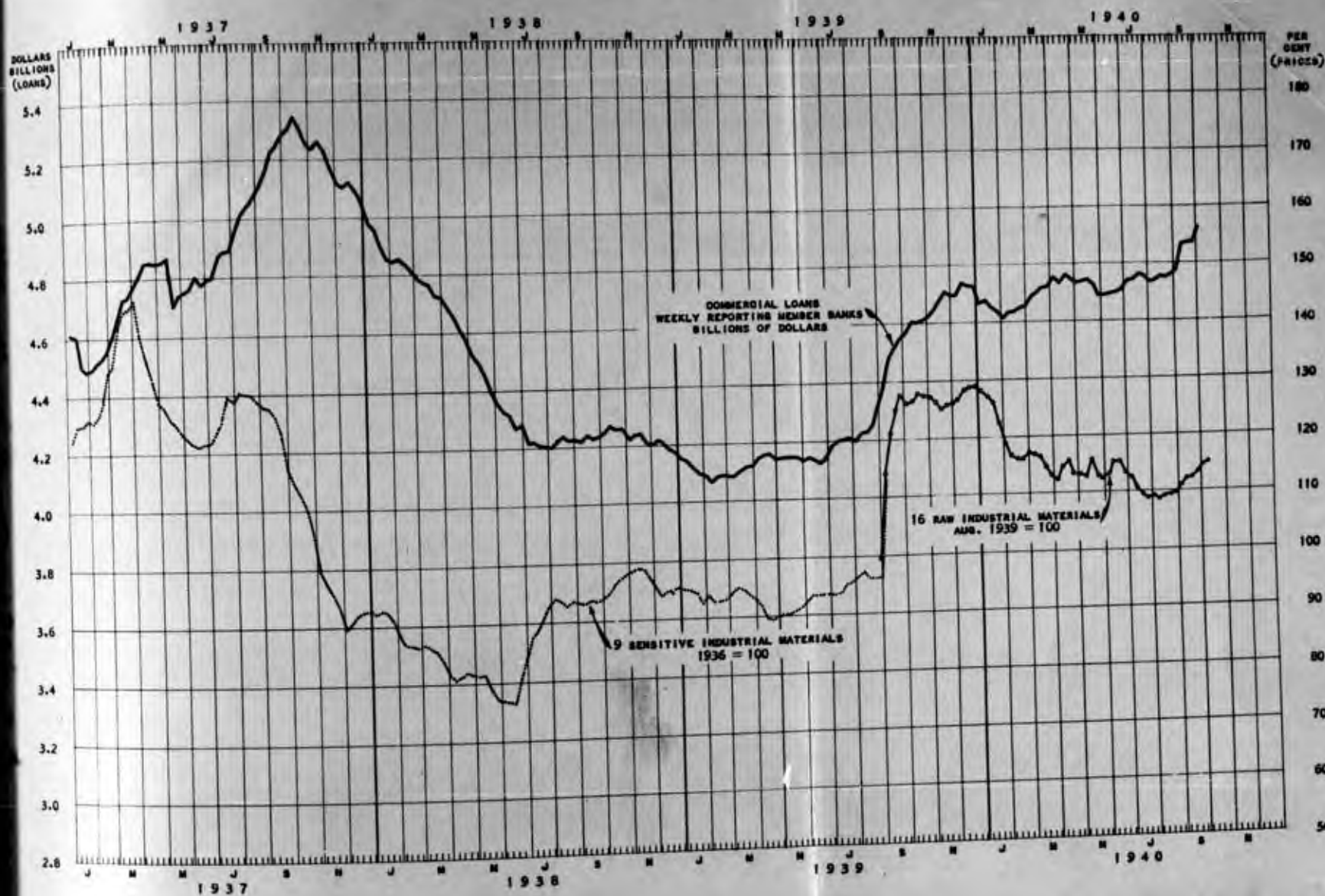
INDEXES OF BUSINESS ACTIVITY AND PRICES OF INDUSTRIAL MATERIALS

Weekly



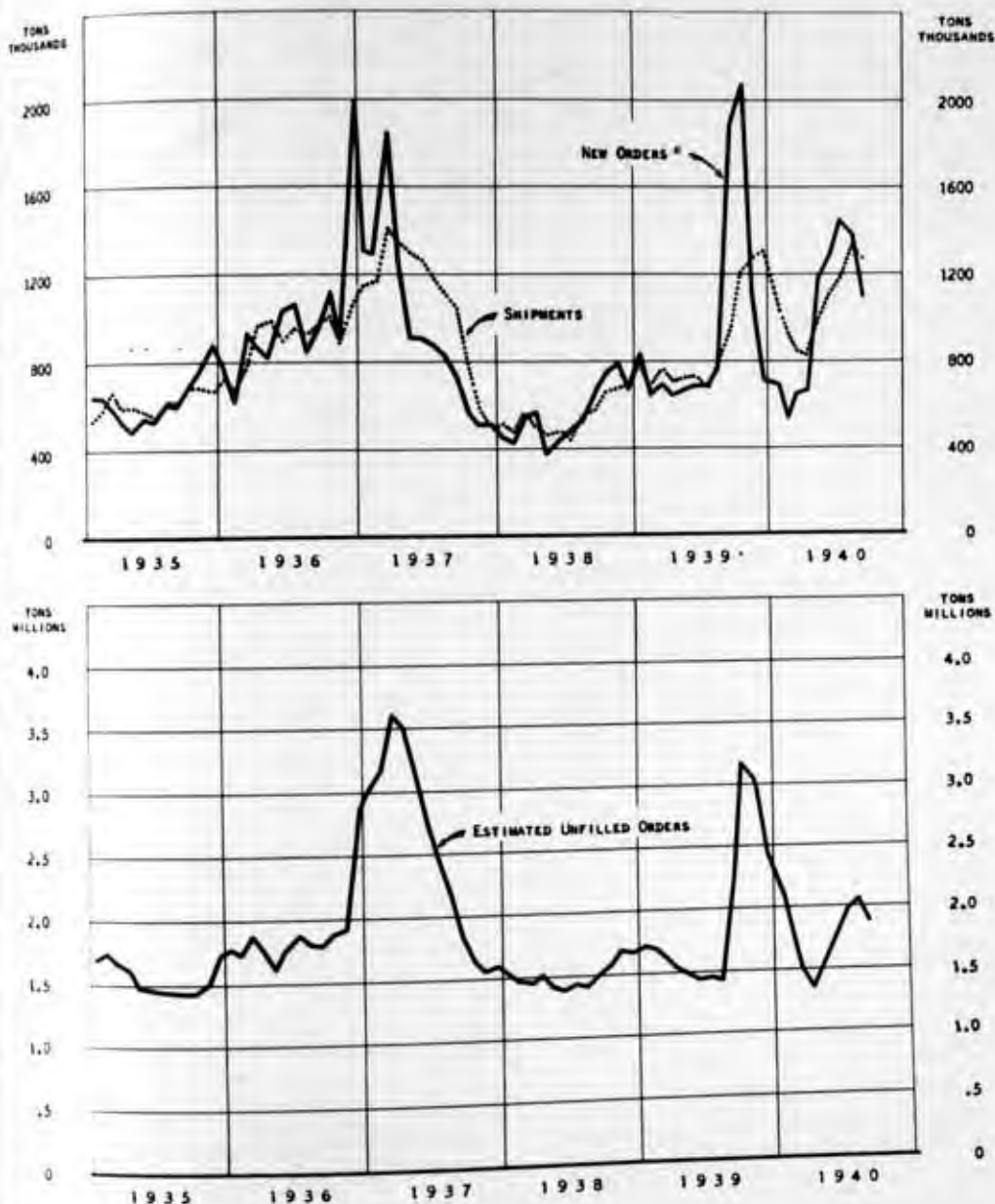
*ADJUSTED FOR SEASONAL, NOT FOR TREND

COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES



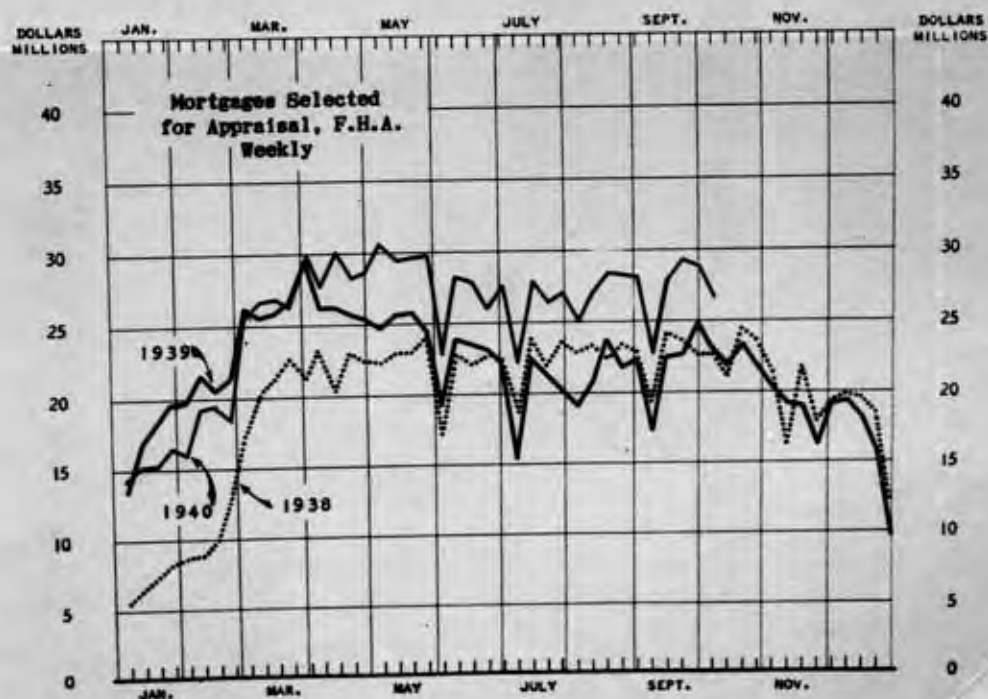
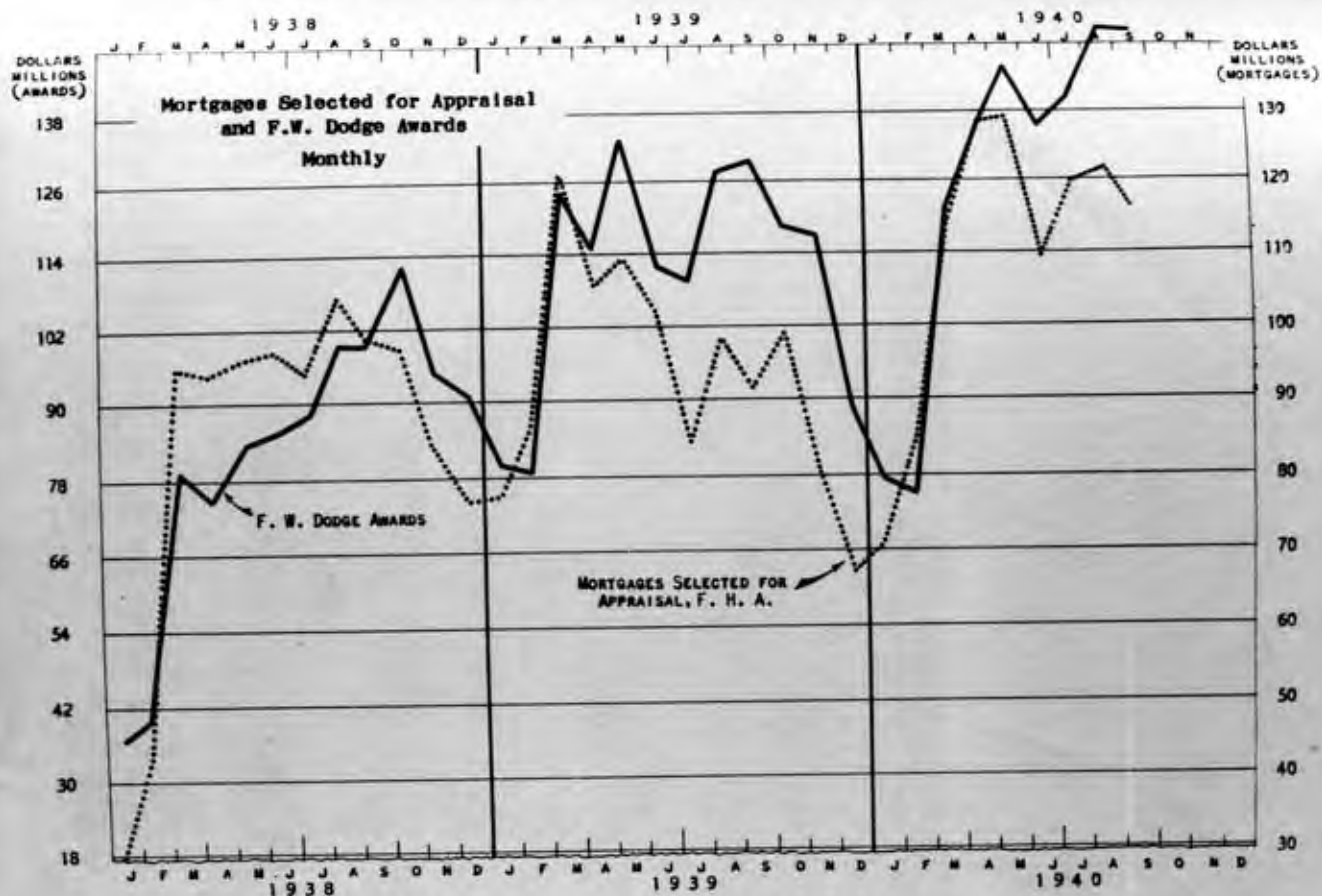
NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS
OF THE U.S. STEEL CORPORATION

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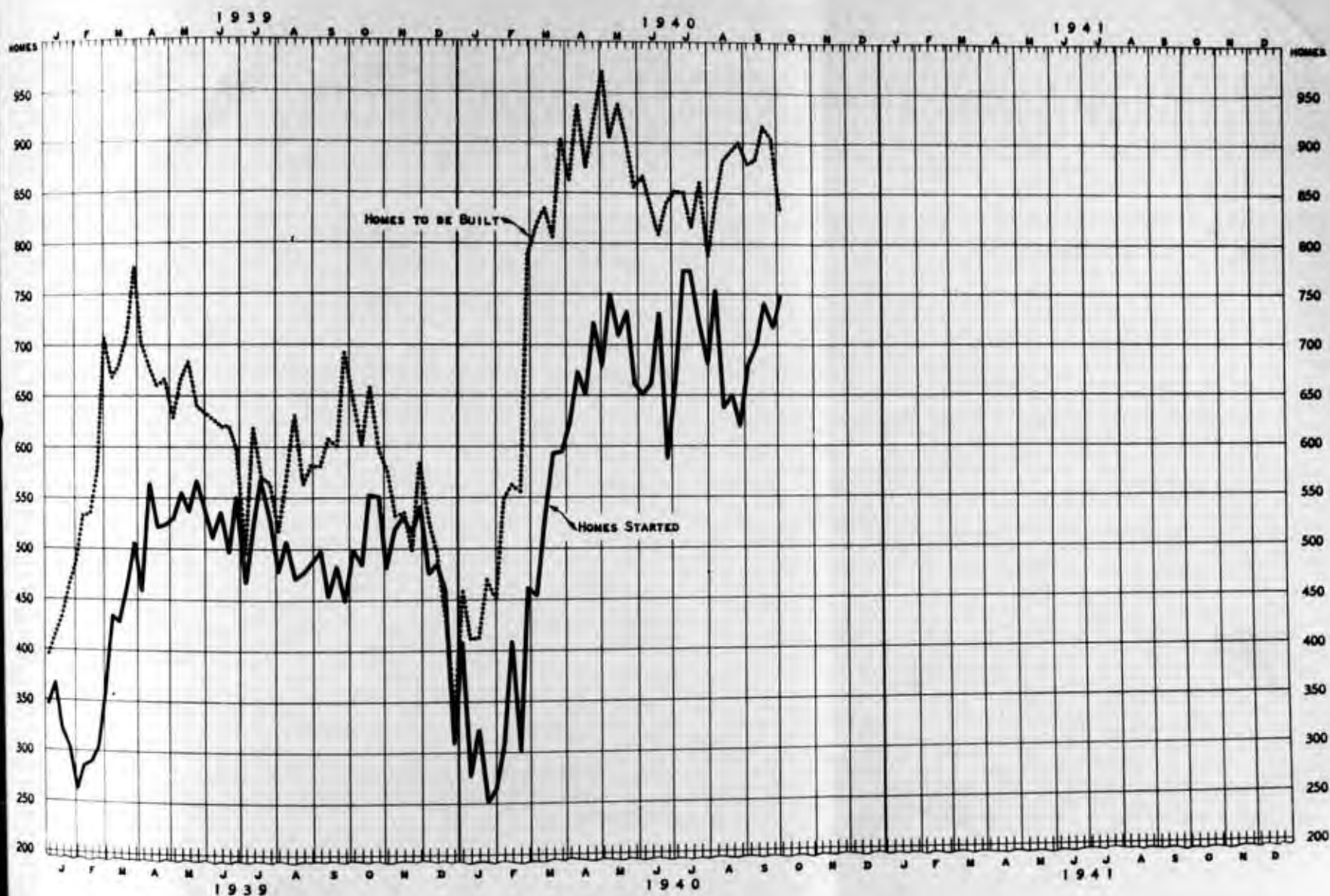


* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

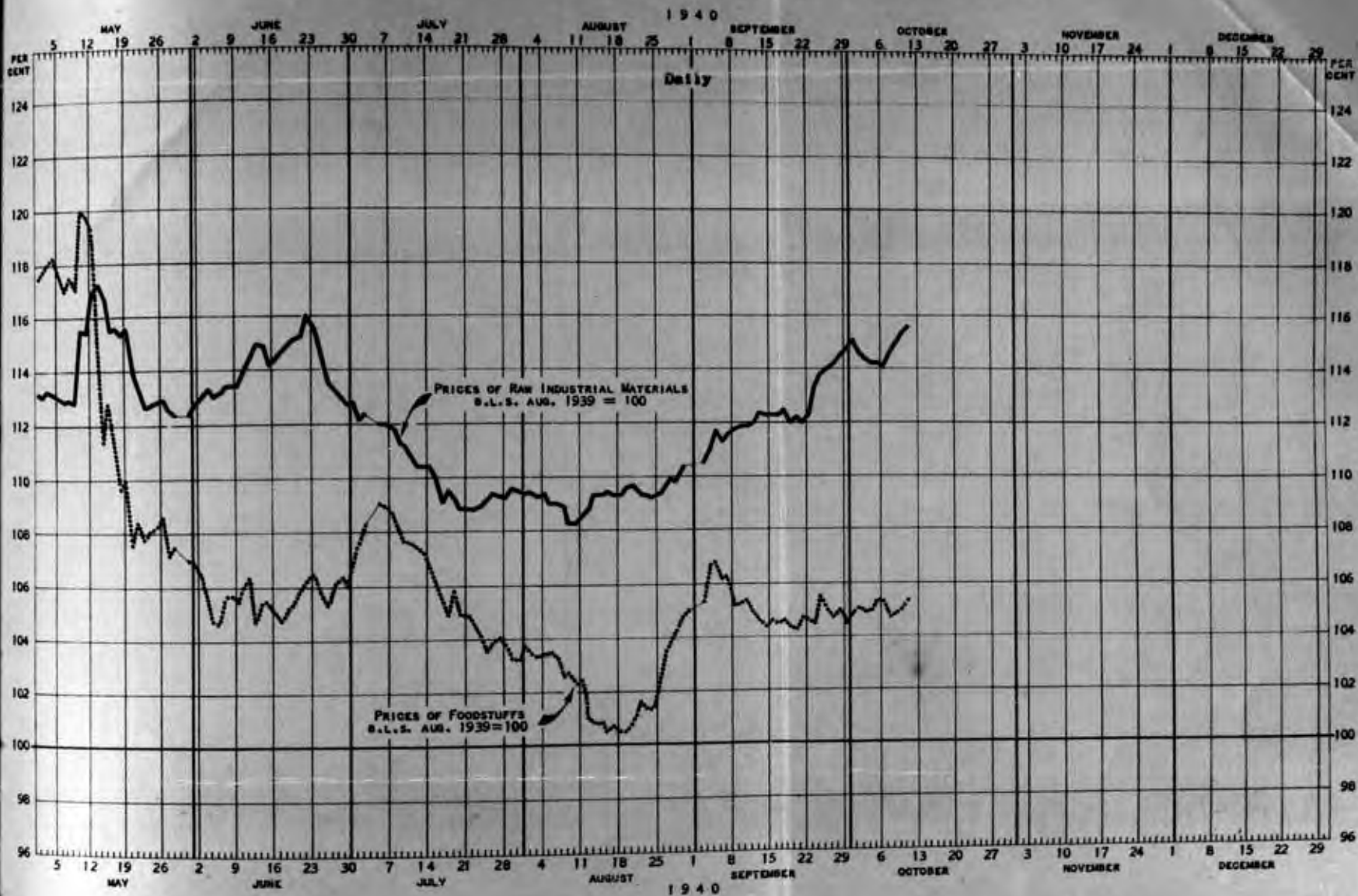
RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



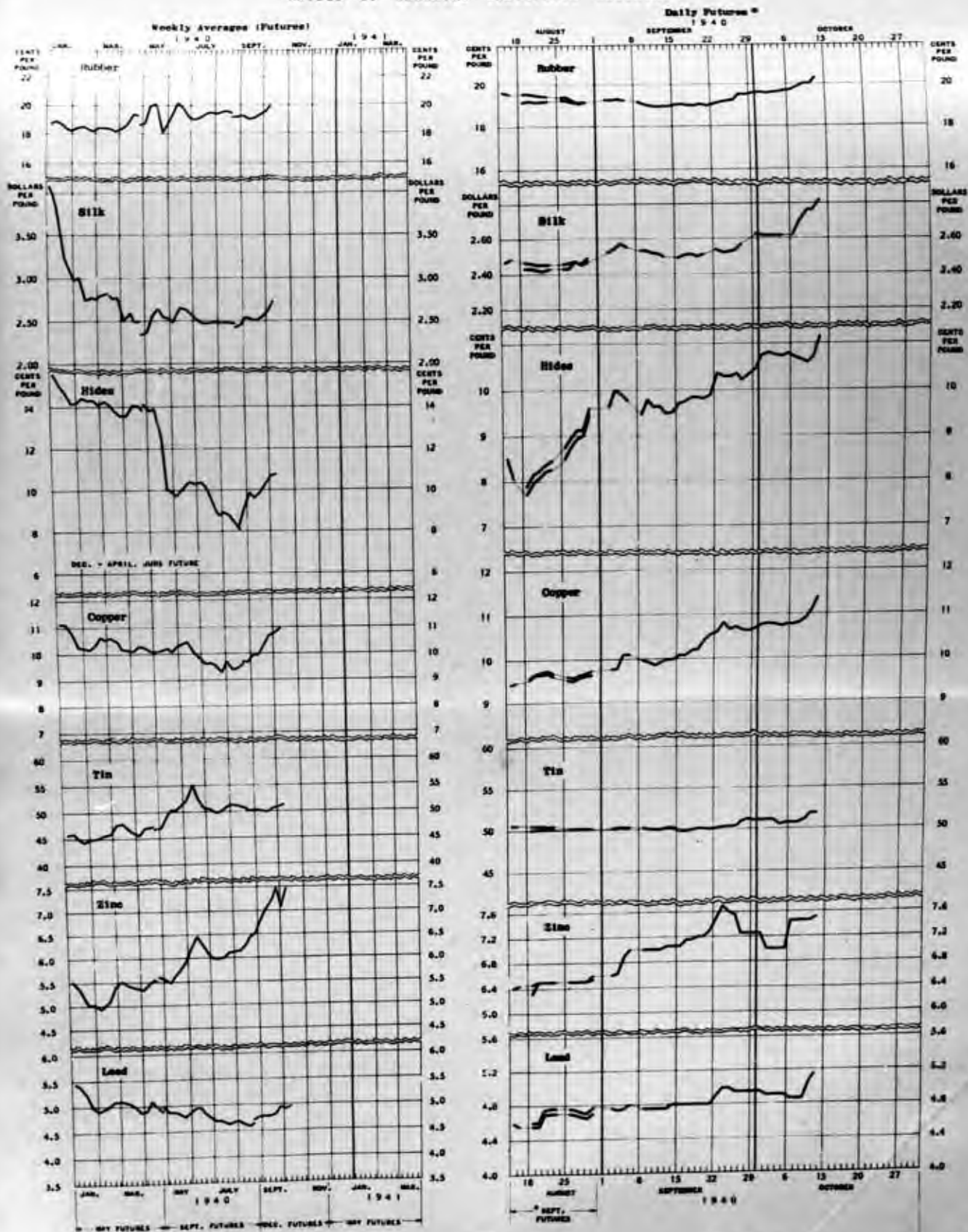
NEW HOME CONSTRUCTION, F.H.A.
Daily Average Number of Homes



PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



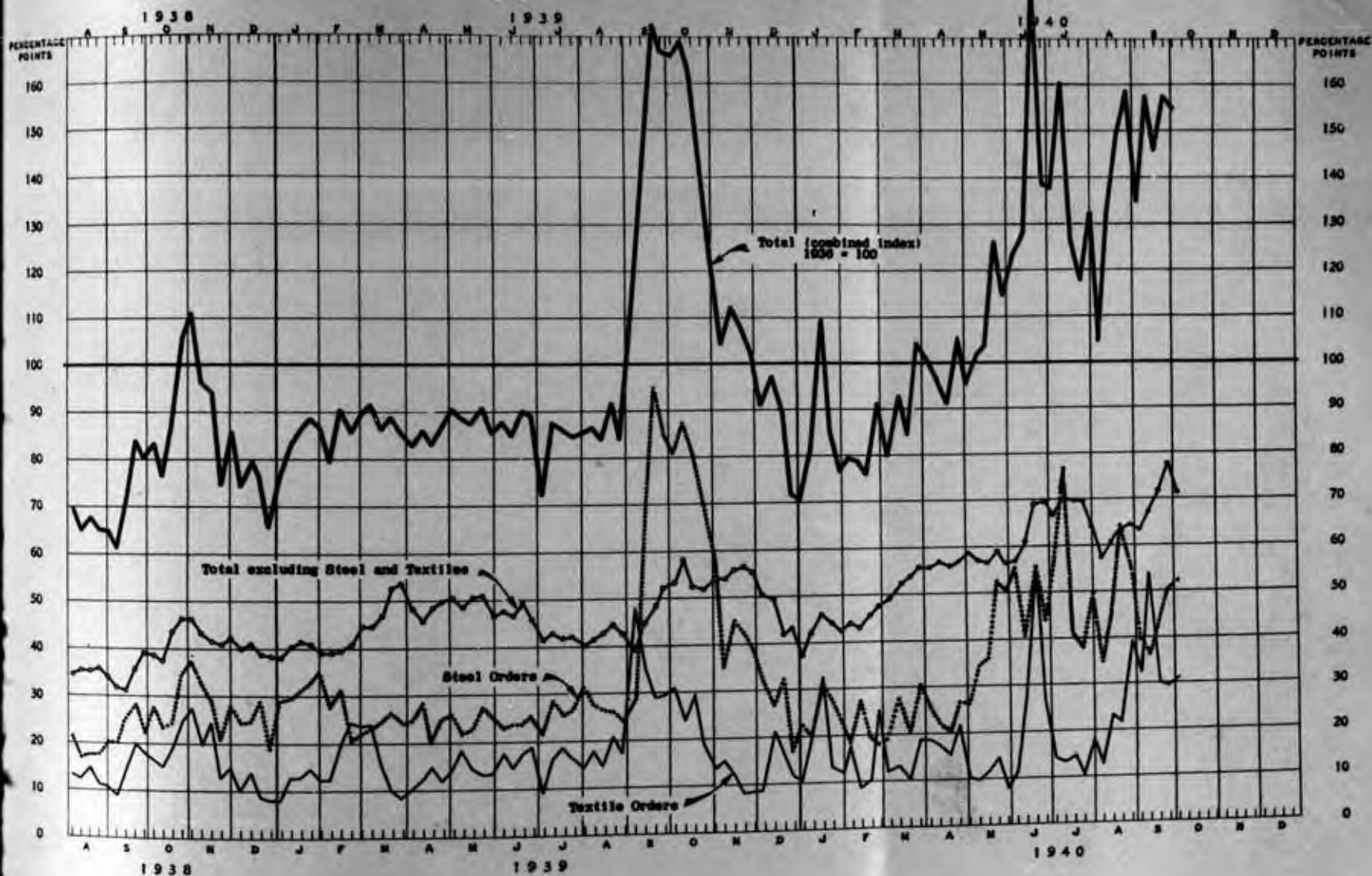
PRICES OF SELECTED INDUSTRIAL MATERIALS



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Chart 8
CONFIDENTIAL

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



G-2/2657-220

RESTRICTED

No. 219

SITUATION REPORTM.I.D., W.D.
October 14, 1940.
12:00 M.

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

I. Western Theater of War.

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

German air activity continued in its established pattern by day and night on the 12th and 13th. Raids centered over southeast England, the London area, the Midlands and northwest England, notably Liverpool. Level of activity was high.

The R.A.F.'s offensive operations were conducted principally at night. There was some bombing of the "Invasion Ports". Berlin was bombed on the night of the 12th-13th. The Krupp works at Essen were raided on the 12th-13th and 13th-14th. Other points bombed included the railroad yards at Hamm and Cologne, 3 oil plants, Kiel and Wilhelmshaven, and the Fokker aircraft factory at Amsterdam.

II. Mediterranean and African Theaters of War.

1. No ground operations reported.
2. There were widespread air raids on both sides over the entire theater. It is probable that all missions were executed by small formations.
3. The Italians claim destruction of a British cruiser and damage to an aircraft carrier and to another cruiser in a naval-aerial action near Malta on the 11th-12th. They admit the loss of one destroyer and two torpedo boats.

RESTRICTED

Paraphrase of Code Dispatch
Received at the War Department
at 18:00, October 14, 1940

CONFIDENTIAL

London, filed 14:00, October 14, 1940.

1. During the night of October 13-14th the Bomber Command dispatched 133 planes against enemy objectives, with 75 against Wilhelmshaven and the Kiel Canal, 35 against oil targets, 18 against invasion ports, five against aircraft factories, and 12 against railroad yards. In addition six planes reconnoitered the North Sea. The Coastal Command operated 28 planes on 19 routine patrols, 21 planes on 16 special patrols, 14 planes on five offensive missions, seven planes on seven photographic missions, and escorted 19 convoys. None of these planes were lost. The Fighter Command sent out 121 patrols and engaged in 121 sorties.

2. The German Air Force made four main attacks during daylight hours of Sunday, October 13th, employing about 25, 60, 90, and 50 machines, respectively, practically all of which were fighters. Elements of the last three raids were successful in reaching London. London was the main objective of the raids that night, with Liverpool the secondary target. In addition German planes laid mines.

3. Damages inflicted by the daylight attacks were negligible. Bombs damaged the Eastern London gas works, and had a scattered effect on railways. The more pronounced activity during the night reduced industrial activities in 18 factories. German mining resulted in the closing of the entrances to the Medway, Rumber and Fenny Rivers, Falmouth Bay, the Kyle of Bute, and the Bay entrance to Scapa Flow.

CONFIDENTIAL

CONFIDENTIAL

4. German plane losses were two confirmed and five probable. The Fighter Command lost one pilot and two aircraft.

5. Two outbound convoys with a total of 99 ships have cleared the British Isles.

6. German attacks on road and rail communications continue. In connection with tactics of daylight attacks, it is the consensus of opinion here that the Germans are in a quandary. Their action in stopping the use of bombers and the diversion of fighters for bombing attacks is considered a proof of this belief. The experience of the past week indicates that handling attacks by British fighters cause the German attacks to break up easily. However it is my opinion that these changed tactics resulted from an adoption of a policy of infiltration by the enemy rather than from a lowered morale.

7. It is the general impression here that it is the present intention of the Germans to contain the British with their cross-Channel threat in order to prevent the sending of reinforcements to the Middle East. A growing apprehension is created by the situation there.

8. Lord Halifax informed me during the weekend that he was satisfied that Sauer, Franco's brother-in-law, came back from Berlin and Rome unimpressed by the proposals of the Axis. He is very optimistic that Spain will remain neutral.

Distribution:

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

LEE

CONFIDENTIAL

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

October 14th, 1940

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Moran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London

October 9th, 1940.

Naval.

Two naval trawlers were sunk by enemy action south of the Isle of Wight on the night of October 11th - 12th. A British destroyer sighted and engaged two fast enemy small craft but lost touch.

A naval trawler was sunk by an explosion off Sheerness, night of October 12th.

During fleet operations in the Mediterranean there has been little enemy air activity some enemy submarines reported south-west of Crete and one heavily depth-charged. Units of the fleet re-fuelled at Malta without incident.

The convoy from Alexandria arrived safely. Thunderstorms prevented air attacks.

Two Italian destroyers were encountered on the night of October 11th-12th. H.M.S. Ajax disabled one of them (1200 tons completed 1930-2) which was sunk by the fleet on the following morning.

2. Royal Air Force.

Adverse weather, including severe icing conditions, restricted our night-bombing on October 11th-12th. Several invasion ports were attacked though in most cases accurate observation/

-2-

observation was not possible but a large explosion was seen in the docks at Boulogne and targets were hit at Rotterdam an oil refinery at Hamburg and Krupp works at Kiel docks were located and fires caused. An aluminium works ship building yards at Hamburg, and docks at three naval stations were attacked without observed results.

Other air craft unable to locate their primary targets attacked twelve aerodromes, docks in Dutch ports, and Fokker aircraft factory at Amsterdam.

Some mines were successfully laid.

One aircraft shot down an M.E. 109 into the sea.

During daylight on October 12th two Blenheims on patrol attacked an enemy convoy off Treadjham with small calibre and incendiary bombs.

Several near misses were obtained, and probably one hit.

During the night of October 12th-13th ninety nine aircraft were despatched to the following targets:

Invasion ports (35 medium bombers).
Aluminium and chemical works and Krupp works at Essen (55 heavy bombers). Marshalling yards in Germany and Fokker aircraft factory.

In addition four aircraft were sent to lay mines and two to drop leaflets in Northern France. All our aircraft have returned.

3. German Air Force.

Night of October 11th - 12th. Further reports.

Some dislocation of public utility service

-3-

and wide-spread damage to house property was caused at Manchester and a ship was damaged by fire in Liverpool docks. In London area approximately 64 persons were killed and 167 seriously injured.

Daylight October 18th.

On seven occasions during the day enemy formations of approximately 40 to 60 aircraft crossed the South Coast and flew towards the London area. The final raid, between 4 and 5 p.m. contained about 150 aircraft. In each instance a small proportion of enemy machines, mostly flying at a very great height reached inner London area. Our fighters intercepted and engaged the enemy and shot down 10 aircraft.

Bombing in the London area was not heavy and no serious damage occurred. Outside London, Hastings was bombed twice, the second time heavily and a serious fire was started at the gas works.

During the night of October 18th - 18th weather conditions were clear with bright moonlight. Enemy attacks on London and the Midlands were heavy between 8 and 10:45 p.m. A lighter scale attack was resumed on London at 11 o'clock, but by 2:30 a.m. the country was clear.

In the London area no important damage has been reported, although the National Gallery and the War Office were hit. At Trafalgar Square

under/

-4-

under ground station seven persons were killed and thirty or forty wounded. Coventry was heavily attacked between 8:30 and 10 p.m., and several fires were caused which were all extinguished by early morning. Extensive damage was done to commercial property but the damage to key factories was slight.

The Central fire station and telephone exchange were hit. Casualties from this area so far reported are 15 killed and 63 wounded.

Four soldiers were killed and 16 wounded at a military camp in South West England.

Aircraft Casualties

<u>By</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Repaired</u>
-by fighters	9	10	
-others	1	1	nil
By anti-aircraft unspecified	1	nil	nil
Totals	11	11	7

In addition a Junker 88 dived into the sea off the Isle of Wight last night being blinded by searchlights.

We lost 10 aircraft & pilots being lost.

4. CONVOYS.

Two convoys aggregating 41 ships have arrived safely. Cargoes included 8 of steel and 21 of lumber.

Middle East.

Libya. On October 11th our aircraft attacked shipping at Tobruk and scored a direct hit on a large ship. On the night of October 11th - 12th our medium bombers attacked Benghazi, fires were started in warehouse areas, direct hits were scored

-4-

on military buildings and a ship was set on fire.

Erythrea & Abyssinia

On October 9th - 10th two Italian aerodromes were attacked fires and explosions were caused and bombs fell amongst hangars and buildings. On October 11th bombers of the South African airforce attacked an Italian aerodrome and scored direct hits on a building and on mechanized transport.

Sudan

Kassala sector. On October 10th one of our mechanized patrols engaged the enemy and killed 18, our casualties 1 killed 1 wounded.

West Africa

It is reported that a French aircraft flew over Duala on October 18th and dropped anti-British leaflets.

BRITISH EMBASSY,
WASHINGTON, D.C.

October 14th, 1940

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. S. S.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated

October 11th, 1940.

Naval.

During the night of October 10th-11th a bombardment of the harbour and shipping at Cherbourg was carried out by one battleship and a force of cruisers and destroyers in conjunction with an air attack by heavy and medium bombers.

A naval patrol vessel was mined and sunk in the Firth of Forth on October 10th.

2. Royal Air Force.

During the night of October 9th-10th observation of our bombarding operations was difficult and results could not always be assessed. However, 4 invasion ports were attacked and fires started at Flushing and Amsterdam; the synthetic oil plant at Cologne and Krupp's work were attacked; large fires were started by 7 heavy bombers at an aluminium works; Reichels power station and an armament factory at Cologne were bombed by single aircraft. Several railway targets and 10 aerodromes were also attacked and mine laying and leaflet dropping were also undertaken.

During the night of October 10th-11th 167 bombers were despatched as follows. Invasion ports, 32 aircraft; marshalling yards, 10 aircraft; co-operating with Royal Navy, 13 aircraft; 6 oil targets, 67 heavy bombers; Wilhelmshaven docks, 13 heavy bombers; Krupp's works at Kiel, 11 heavy

bombers;/

-2-

bombers; Eindhoven aerodrome, 3 heavy bombers; mine laying was carried out by 14 aircraft and 1 machine was detailed to drop leaflets in northern France. All our aircraft have returned.

3. German Air Force.

Night of October 9th-10th. Later reports.

Some temporary interruptions to road and telephone communications and public utility services are reported from the London area where casualties were approximately 79 killed and 31 seriously wounded; at Chatham a bomb fell in a barracks where 5 persons were killed and 10 seriously wounded.

During the daylight of October 10th four major formations of enemy aircraft crossed the coast. Two of these consisting of 50 and 100 aircraft respectively came between 8.30 and 10.00 a.m.; the first penetrated to the eastern outskirts of London while the second remained over the Dover area. At mid-day 100 aircraft operated in the Weymouth area for a short time but did not penetrate far inland. At 3.15 p.m. a raid took place in the Thames estuary area while a patrol of about 70 aircraft remained off Dover; by 4.00 o'clock all had recrossed the coast. As a result of interception by our fighters 4 enemy aircraft were destroyed. During these raids bombs were dropped in southeastern London suburbs causing some casualties and outside London damage to property was caused at seaside resorts on the east and southeast coasts.

During the night of October 10th-11th London was again the main objective. Until 11.00 p.m. activity was on a normal scale but diminished later on. Isolated aircraft operated widely over the country.

Damage/

Damage is reported as follows. In the London area interruptions were caused to electrical suburban services and a few streets in the West End are temporarily closed. Dislocation of public utility services was caused in three districts and services at one telephone exchange are interrupted. The only damage to war industry reported was a forty pump fire in a factory engaged on aircraft work; the fire is under control and two-thirds of the factory is safe. Casualties appear to be small although reports are incomplete. Outside London bombs fell on the southern suburbs of Manchester, in Liverpool and Bootle but no damage of military importance was caused although some structural damage was done to Messrs. Lever Bros., Port Sunlight, Cardiff and towns on Tyneside were visited but there are no reports of serious damage from these areas.

The naval air station reported as being out of service yesterday is again in use.

4. Summary of air casualties.

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
<u>By our fighters:</u>			
Bombers	1	-	2
Fighters	3	-	3
<u>By anti-aircraft</u>			
Bombers	<u>1</u>	<u>-</u>	<u>-</u>
Total	<u>5</u>	<u>-</u>	<u>5</u>
British	5 fighters (2 pilots safe)		
			Convoys/

5. Convoy A convoy of 29 ships has arrived safely; cargoes included 4 of oil and 6 of steel.

6. Middle East

Libya On October 9th 3 Blenheims bombed shipping at Tobruk starting a fire on one tanker, hitting another and also scoring direct hits on a large ship.

On the morning of October 10th three Italian columns made a short advance of 13 miles but later withdrew to their original position. These columns consisted of mechanical transport and some tanks; fire from a battery of the Royal Horse Artillery caused considerable casualties to personnel and to about ten vehicles. Our casualties nil.

No information has so far been received of German forces in Libya though a report of October 9th says that 3,000-4,000 specialists are in the country and that this number is increasing every week.

There is no confirmation of a Press report that General Feldmarshall Keitel has been appointed to take over command of Italian troops in Libya.

Malta On October 8th a Hurricane shot down one of a file of enemy aircraft which approached the island and severely damaged a second. The remainder turned away before reaching the coast.

7. Germany

Indications from the Press and other sources agree that the German public is being told that/

8.

that the British are preparing to use gas warfare and is being advised to take precautions. From previous experience of German methods there is the possibility that this may be a move in preparation for the Germans themselves adopting chemical warfare against this country. This possibility has been foreseen and measures which are being actively pursued have been already taken to counter any such step by the enemy.

Telegram from London dated October 12th.

1. Naval. During operations off Cherbourg on night of October 10th/11th, one hundred and twenty shells (fifteen inch) and eight hundred shells (4.7 inch) were fired by our warships. Many salvoes fell in target area and large fires were started. At first enemy did not appear to realize that attack came from sea but later fire was opened by a 13.5 inch battery which straddled our ships up to 18 miles without causing damage or casualties.

During night of October 11th-October 12th three motor torpedo boats torpedoed and sank two enemy trawlers off Calais and brought home thirty-four prisoners. (It is not proposed to publish this). Reports from two British merchant vessels indicated that two enemy surface raiders may be operating in mid-Atlantic.

2. Royal Air Force. During the night of October 10th-11th, fifty-nine bombers attacked shipping in invasion ports, five marshalling yards were bombed and hits were registered on all except one where results could not be observed. Attacks on oil targets in Germany appear to have been very successful and 44 heavy bombers located and bombed their objectives. Hits were seen in dockyards at Bremerhaven and Kiel which were attacked by 21 heavy bombers but at Wilhelmshaven results were unobserved. Hindenburg and 7 other aerodromes were/

-3-

were bombed and other targets included a blast furnace, a factory and at Cologne a motor works but results on these targets could not be assessed. All aircraft detailed for mine laying operations successfully completed their tasks. During above operations two enemy aircraft are claimed to have been shot down.

During night of October 11th-12th, 76 aircraft were despatched to the following targets: Shipping at Ostend, Rotterdam, aluminium works, oil targets in Germany (30 heavy bombers), shipbuilding yard in Germany (17 heavy bombers), "Tirpitz" at Wilhelmshaven (six heavy bombers). In addition 18 aircraft were detailed for mine laying. All our machines have returned safely.

3. German Air Force.

During the night of October 10th-11th in addition to damage already reported some temporary dislocation of main railway line occurred in London area. Casualties at Liverpool were only two killed and four injured and at Cardiff four killed and six injured. Day-light October 11th. Many formations contained a very large proportion of fighters. Two main attacks consisting entirely of fighter aircraft, and composition of others was approximately three fighters to one bomber. Activity started at 7.30 when six aircraft penetrated to central London. Later in the morning, in the early afternoon and at 4 p.m. large enemy formations operated over Kent but none penetrated the inner London zone except at 4.30. Interceptions were made by our fighters. Only slight damage in east and southeast London areas is reported. Bombs were dropped at Canterbury where

windows/

-3-

windows of the Cathedral and roof of church were damaged. Surprise bombing of sea-side towns on the south coast occurred, causing damage to property though casualties were few. The formations of about fifty aircraft each operated over southwest coast, but no bombing was reported.

Summary of air casualties:-

<u>Enemy</u>	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
By our fighters			
Bombers	4	2	nil
Fighters	4	2	1
By night bombers			
Unidentified	2	nil	nil
Totals	<u>10</u>	<u>4</u>	<u>1</u>

British

9 aircraft (6 pilots safe).

Night of October 11th-12th. During the early part of the night the usual scale of enemy attack was maintained over London as main objective although other raids visited Liverpool, Manchester and Bristol areas. Later in the night activity was greatly reduced and by early morning country was clear. Mine laying activity is suspected off the East Scottish Coast. In London area no damage of military importance is reported but some dislocation of rail and road services was caused and two factories and a power station were hit but it is believed output will not be seriously affected. At about 8 p.m. thirty persons were killed and 20 injured when 3 buses were hit. A serious fire at Southampton Hospital was quickly got under control. Outside London a raid of nearly two hours duration was made at Liverpool

-4-

docks but damage is not extensive; bombing also took place at Manchester but no damage of major significance has been reported.

4. Shipping Casualties. Last night a Norwegian ship (4700 tons) and a British ship (5700 tons) the latter carrying rifles and aeroplanes homeward bound and in convoy were attacked by a U-boat in Northwestern approaches. Damage and casualties are not yet known.

A Greek ship (3800 tons) torpedoed on October 9th disappeared last night when under escort and is presumed sunk.

5. Middle East.

Libya. On the night of October 10th twelve medium and three heavy bombers attacked shipping and docks at Benghazi. A large fire was started and direct hits were made on three ships.

Kenya. An infantry reconnaissance on October 10th met strong enemy resistance five miles south of Buna and withdrew after inflicting casualties.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£99,000
Purchased from commercial concerns	£10,000

The Federal Reserve Bank sold £15,000 in registered sterling to a non-reporting bank.

In the open market, sterling was first quoted at 4.03-1/2. It moved to 4.03-3/4 in the early afternoon and closed at that level. No commercial or foreign bank transactions were reported.

Continuing its improvement, the Swiss franc advanced to close at .2321, a new current high. The volume of Swiss franc business transacted in New York was reported to have been small.

The other currencies closed as follows:

Canadian dollar	13-3/8% discount
Swedish krona	.2387
Reichsmark	.4005
Mexican peso	.2073
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Cuban peso	8-1/2% discount
Lira	.0505

A Vichy report on the Dow Jones ticker stated that American banks in France, by common agreement, lowered their buying rate for dollars to 42.97 francs per dollar, the lowest point since the start of the war. Previously, the buying rate was 43.60. The banks said their action was caused by the difficulty and cost in transferring dollars between New York and Vichy. However, the rate at which the banks will sell dollars was maintained at 44 francs per dollar. French franc-dollar business was very small, according to the news item. The new rates for dollars in Vichy are equivalent to .0232-3/4 buying (as against .0229-3/8 previously) and .0227-1/4 selling.

We sold \$800,000 in gold to the National Bank of Afghanistan, to be added to its earmarked account.

We purchased \$500,000 in gold from the earmarked account of the Central Bank of the Uruguayan Republic.

The Federal Reserve Bank made a three-months loan of \$25,000 to the Central Bank of El Salvador, setting aside as collateral \$30,150 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$650,000, secured by \$733,684 in gold.

The Federal Reserve Bank reported the following shipments of gold:

- 3,049,000 from Japan, shipped by the Yokohama Specie Bank to its San Francisco agency, for sale to the U.S. Mint.
- 2,022,000 from Canada, shipped by the Bank of Canada, Ottawa to the Irving Trust Company, New York, for account of the National Bank of Iran, Tehran, Iran, for sale to the U. S. Assay Office.
- 1,521,000 from South Africa, shipped by the South African Reserve Bank to the Federal Reserve Bank of New York for account of the Bank of Sweden, for sale to the U. S. Assay Office.
- 606,000 from Portugal, shipped by the Bank of Portugal to the Federal Reserve Bank of New York, to be earmarked for its account.
- 54,000 from El Salvador, shipped by the Central Bank of El Salvador to the Federal Reserve Bank of New York, to be earmarked for its account.
- 17,252,000 Total

The State Department forwarded to us a cable stating that the National Bank of India, Bombay, shipped \$311,000 in gold from India to the Chase National Bank, New York, for sale to the U. S. Assay Office.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on October 9, showed that such deposits totaled \$102,455,000, an increase of \$3,443,000 since the last report as of October 2. Included in this total were \$35,759,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, off \$123,000 from October 2, and \$55,757,000 in deposits made by Japanese banks in Japan and Manchuria, up \$3,384,000. Loans made to Japanese banks by Yokohama's New York agency totaled \$17,756,000, an increase of \$780,000 over the October 2 figure.

The Bombay gold price was equivalent to \$33.79, unchanged from Friday's quotation. Silver was priced at the equivalent of 44.51¢, off 1/16¢.

In London, the prices fixed for spot and forward silver were both unchanged at 23-7/16d and 23-5/16d respectively. The dollar equivalents were 42.56¢ and 42.33¢.

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

We made four purchases of silver totaling 475,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 275,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

Pages 301-303 placed with
Willkie (Wendell L.) material.

(Forrestal-HMJr telephone
conversation - 10/14/40)

October 14, 1940
12:40 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello, Henry talking.

Henry
Stimson: Yes, Henry. I've just talked with Frank Knox and he just remembered that he had an engagement to go off on a trip - some inspection trip or other with a body of officers of some two weeks standing tomorrow in the middle of the day. He could if you thought it important enough meet with us right early in the morning - about 9 o'clock, or he was perfectly willing for you and me to go on ahead. Which would you prefer?

H.M.Jr: Well, why don't just you and I go ahead sort of.

S: Well, all right. I think it's rather better - of course, that all relates to Army.

H.M.Jr: Well, then, why don't I just come up there at 1 o'clock tomorrow.

S: That's it. Fine.

H.M.Jr: O. K.?

S: O. K.

H.M.Jr: Thank you.

October 14, 1940
2:48 p.m.

H.M.Jr: Hello.

Operator: Mr. Fraleigh.

H.M.Jr: Hello.

Elmer
Fraleigh: Hello.

H.M.Jr: Elmer, I got your message via Mrs. Morgenthau and before deciding I wondered if anybody had been in today who wanted to buy any apples.

F: There hasn't been a one around.

H.M.Jr: There has not.

F: No.

H.M.Jr: I see. Nobody showed up, huh?

F: I haven't seen one around the storage at all.

H.M.Jr: Well, I did a little figuring on the \$2.10 and I figure after storage it works out about \$1.57. I don't know what you figured it.

F: I don't think it's any better.

H.M.Jr: What?

F: I don't think it's any better.

H.M.Jr: \$1.57.

F: It figures \$1.57?

H.M.Jr: \$1.57 after storage. What do you figure it?

F: I didn't figure it exactly, but I figured around \$1.60.

H.M.Jr: Well, we're not far apart then.

F: No.

- 2 -

H.M.Jr: Well, before I change over I think we'll keep on where we are for another day or so. See?

F: Yes.

H.M.Jr: Because to go to the boxes would disturb the whole thing.

F: That's right.

H.M.Jr: Well, I'd just like to wait another day or so.

F: Yeah.

H.M.Jr: Now, what do you want to tell me?

F: I think that was all. Oh, I couldn't find Mr. Hart to find out about when they were going to start up there. I did find out that registration is until 9 o'clock in the evening and so I can go up after I get through.

H.M.Jr: O.K. Would it be agreeable to you if I wrote Hart a letter and asked him whether you could stay for the month of November as a favor to me, if I wrote him?

F: Well, I don't believe I can.

H.M.Jr: But you - I mean, it would be agreeable to you if it was agreeable to him.

F: Yeah.

H.M.Jr: O.K. Well, I think I'll write him a letter today then - today or tomorrow and see what he says. Because if we had you in November then we'd have everything pretty well packed up and out of the way.

F: We'll finish the McIntosh the latter part of next week.

H.M.Jr: Right. If you make any sales tomorrow, give me a call.

F: Beg pardon?

- 3 -

H.M.Jr: If you sell any apples tomorrow give me a call.

F: All right.

H.M.Jr: I think that what you should be careful to watch and try to sell a bushel of No. 1's to every bushel of utilities. Try to keep it on that basis.

F: Yes.

H.M.Jr: Somebody might come in tomorrow and want only utilities - I'd try to keep it if possible one-and-one.

F: Well, Thurman wants a load.

H.M.Jr: Who?

F: Thurman, Wednesday or Thursday he said. He wasn't quite definite about it.

H.M.Jr: Well, try if you can to keep it on a one-and-one basis.

F: All right.

H.M.Jr: I thought that price in New York was pretty good.

F: Yes, but it doesn't compare to what we're getting here.

H.M.Jr: No, that's right. That's right. O. K.

F: All right.

H.M.Jr: Good-bye.

F: Good-bye.

October 14, 1946
3:13 p.m.

H.M.Jr: Hello.

Jesse
Jones: Hello, Henry.

H.M.Jr: How are you?

J: Pretty good. How are you?

H.M.Jr: I'm O.K. I got some word that you wanted to talk tomorrow about Chile.

J: Yes, somebody said I did. I don't know who told me. (Laughs).

H.M.Jr: Well, do you?

J: Yeah, I suppose so.

H.M.Jr: Well, I mean, the call, I understood, came from your office.

J: Well, the State Department people were here this morning about - they said that it had been suggested that I see you tomorrow at 3 o'clock.

H.M.Jr: Oh. Did you know what it's about?

J: About Chile.

H.M.Jr: Yeah, but I mean as to what?

J: I suppose it's their exchange end of their desire for credit.

H.M.Jr: What's the fellow - Collado - is that the fellow?

J: That's the fellow.

H.M.Jr: I see. Well, I can find out through White what he has on his mind.

J: All right. Would you do that?

H.M.Jr: Are you coming over?

- 2 -

J: I'll come any time you say. What time suits you?

H.M.Jr: Well, I put you down tentatively for 3 tomorrow.

J: I see. You haven't got me down for 1 o'clock, huh?

H.M.Jr: No, I'm - (laughs) - going to have lunch with Mr. Stimson.

J: (Laughs). O. K.

H.M.Jr: But I'll put you down Wednesday at 1 o'clock.

J: Wednesday at 1.

H.M.Jr: Yeah.

J: I wonder if that wouldn't be - I don't know whether this thing's going - whether these other boys will have a calf in the meantime.

H.M.Jr: It's all right with me - only have one appointment.

J: Put it down tentatively and let me check and see if that won't suit the State Department just as well.

H.M.Jr: Now what do you. - I can't keep up with you as usual, Jesse.

J: I say I prefer 1 o'clock Wednesday but - no, no, I'm sorry, I remember now, I've got a 1 o'clock luncheon for Wednesday. Better make it tomorrow I guess.

H.M.Jr: Tomorrow at 3 o'clock, and that will be on Chile.

J: Yeah.

H.M.Jr: O. K., Jesse.

J: All right.

October 14, 1940

My dear Mr. President:

I am inclosing herewith an extremely interesting interview between Hirochi Kondo and Treasury Agent Nicholson.

I have sent copies of this to the State, War and Navy Departments.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Enc. ✓

By Messenger 4/43

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By Messenger

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(Signed) H. McGowan, Jr.

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

Encl. ✓

By Messenger ✓

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Honorable Henry Stimson,
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Washington, D.C.

Encl. ✓

By Messenger 456

October 14, 1940

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

Encl.

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(Signed) H. Morgenthau, Jr.

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

Encl. ✓

By Messenger 4⁵⁵

October 14, 1940

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(Signed) H. Morgenthau, Jr.

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

Encl.

By Messenger



HEADQUARTERS

*APC
to return
to MISS C.*

Mur

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ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

14 October, 1940.

SECRET

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

Message from Mr. Nicholson.

The following is highly confidential: Hirochi Kondo, Vice Minister of Foreign Affairs, Tokyo, who has been in Shanghai for the past five days collecting information regarding the general situation and activities of agents of different Japanese intelligence services, left today for Tokyo. As he is a very old friend of mine, he talked with me more freely than with his Japanese colleagues and the following summary of information was obtained:

First: The purpose of his visit was to get a better understanding of all actions which have been taken by local military and civil authorities on their own initiative.

Second: While here, he got acquainted with various Japanese organizations and their activities and was deeply shocked to learn of their criminal operations. He pointed out that Japan had long since been purged of the dregs of the society involved; then Harbin underwent a similar cleaning process, then North China, following which the whole crowd came to Shanghai to continue their criminal activities along the old lines trying to attain leadership by terrorism and gangster tactics. Kondo stated that there would be sweeping changes by replacing local officials who are supporting such activities.

SECRET

- 2 -

Third: Regarding the new order, Kondo says an essential feature thereof is to destroy domination of Anglo-Saxons in Asia, but that this does not mean expulsion of all foreigners. The struggle is against those foreign groups and financial concerns which want to maintain the high position they acquired a hundred years ago. Against them the struggle will be continued to the end, but others, regardless of nationality, whether French, Jews, British, Americans, will be able to continue their activities on a basis with the new order by simply acknowledging the same.

Fourth: Kondo believes that an agreement ending the war will be reached between Japan and China and that Chiang Kai Shek and Wang Ching Wei share a common point of view on this subject.

Fifth: War in China and regimentation of economics to military ends are displeasing to Japanese workers. There is a shortage of man power in all branches of industry and commerce. All men are mobilized and are being held in reserves in case more divisions have to be sent south, as armies in Manchukuo and Korea cannot be moved. Wherever opportunity offers, grown men are being replaced in jobs by young boys and girls.

Sixth: Half the people of Japan are socialists. The regimentation of capitalists by force and persuasion is an easy undertaking in comparison with the prospective task of bringing workers and farmers into line. The relation between rural and urban classes is one of antagonism; village blames city for harness of life, and city dwellers are displeased with country districts

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- 3 -

because farmers do not wish to supply rice and other farm products at controlled prices. This is causing a situation unprecedented in Japan. In town markets there is a lack of most important goods; farmers have them but consider it unprofitable to sell them at fixed prices, hence they keep them in the country. The same situation applies to wholesalers who will not sell to retail shops. As a result, trade is dead and there is hunger in cities. Leftist elements are using this growing displeasure to fan their anti-government propaganda.

Seventh: Konoye is very popular in Japan as a representative of an ancient family, but he is too weak for present demands and unsuited for the roll of a dictator. The tragedy of Japan is that there is in the country no Hitler or Mussolini and the socialists make the most of this. The only authority which still holds the country together is that of the emperor.

Eighth: There was a recent meeting in Tokyo attended by Kondo at which representatives of the Ministry of the Interior considered the present situation. Domestically this was found to be exceedingly difficult. One of the main reasons discovered was that numerous small officials recently appointed to replace drafted men were people without any experience or ideas of government. The meeting considered that it would be necessary to recall former officials from the army and reinstate them in their old posts and introduce some resolute measures to stop further developments of socialism. The growth of the idea of socialistic monarchy may lead

SECRET

- 4 -

to revolution; in fact, Kondo says practically speaking, Japan is living on top of revolution. Nobody expected events would take such a turn.

Ninth: Kondo does not consider war between Japan and America likely. Knowing Matsuoka personally, he believes that the latter will be able to work out some mutual understanding with the United States. Even if such negotiations should fail, and war became a reality, the Japanese fleet is strong enough so that Japan could easily dominate eastern waters against the United States Navy. Japanese Naval Headquarters, so far as he knows, believe that they can easily defeat the United States Navy and any possible allies in this part of the Pacific and are not worrying at all about the next two or three years.

This is the end of the interview with Kondo, but I will have more information later on other subjects.

SECRET

October 14, 1940

Coast Guard

Secretary Morgenthau

Will you please transmit the following message
for me to Treasury Agent Nicholson, Shanghai:

"Compliment you on message of interview
with Kondo."

October 14, 1940

Coast Guard
Secretary Morgenthau

Will you please transmit the following message
for me to Treasury Agent Nicholson, Shanghai:

"Compliment you on message of interview
with Kondo."

October 14, 1940
(Dictated October 15, 1940)

The British Ambassador came to see me at 7 o'clock last night. I said, "Does your returning to England at this time mean that you are more cheerful about the Far Eastern situation?" He said, "Yes. I am very much more cheerful." He said that the President has handled the Japanese magnificently, and they don't look for any trouble other than that the Japanese will bombard that part of the Burma Road which is in Indo-China. He said, "We have absolutely reduced our fleet to the irreducible minimum in the Far East." I think he said they only have six naval vessels there, and they sounded like ships of no consequence. He said, "We have taken every Navy ship into the Mediterranean with the result that we control the Mediterranean."

I asked about Russia, and he said, "We have just had a very disturbing telegram from the British Ambassador at Moscow who said the Japanese threw a party for the high ranking Russian Foreign Office officials and others, and before the evening was over the Russians became thoroughly drunk and were throwing their arms around the Japanese and hugging them." He said that it would not be surprising if we see a non-aggression pact announced between the Russians and the Japanese, but he said it will be meaningless just the way the non-aggression pact between the Germans and the Russians has been. But at this time I don't think the world will think it is meaningless. He added, "Of course, you can't trust the Russians, but," he said, "Stalin is afraid of having an enemy on both frontiers and he is scared to death of Germany."

I asked him what he thought the Germans were up to, and he said, "Well, of course, undoubtedly what their dream is now is for the Germans to come down through Rumania and Turkey and take the Dardanelles, and come into the Suez Canal, while the Italians come through North Africa and meet the Germans at the Suez Canal." He said that the Germans will then tell the French to get out of North Africa. I asked him if he thought that would happen, and he said, "I don't know, but we are convinced that the Yugoslavians

- 2 -

are going to fight because they realize that only if they fight will they have any place left at the table of nations." I asked, "What about Greece and Turkey?" and he said, "Well, we hope that they also will fight." He took pains to pay his complimentary remarks to both Yugoslavia and Turkey as fighters, and I agreed with him. But he wasn't at all sure as to what Russia would do as he said they might want back that part of Turkey which they lost during the war; namely, Armenia, and he mentioned another province.

The Ambassador said, "You remember when Sir Frederick Phillips was here the last time you said you would be very glad to have him return. Sir Frederick now says that he would like to see you again and raise the red light signal in connection with our finances." So I said, "Well, I expect to be gone for a couple of weeks after the election." He then asked, "Well, if he arrived around November 20th or thereabouts would that be all right?" and I said, "Yes." I added, "You tell Sir Frederick that I would be glad to see him at that time." The Ambassador said that the President told him yesterday that he (the President) was going away right after election, and that if the President and I were going to be away, he thought he wouldn't hurry back himself.

When he first came in, he read me a cable from the Air Marshall, Portal, saying that he himself couldn't come at this time but that he would send one of his first assistants. I asked the Ambassador if he didn't think it would be a good idea to have somebody come, and he said, "Yes. Absolutely."

He said that in his discussion with the President the conversation got around to the joint licensing of commerce between England, United States and the Americas; and he (Lothian) was very enthusiastic about this idea. He thought that this was the way to beat the Germans and Italians on the economic front. I agreed with him.

Pages 326-330 placed with
Willkie (Wendell L.) material

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(N.Y. Times article - 10/14/40)

STRICTLY CONFIDENTIAL

ALLISON ENGINEERING COMPANY Deliveries of Airplane Engines

331

: Actual : Estimated deliveries on
: deliveries : existing orders

1940

January.....	10
May 1 - June 1.....	15
June 2 - 29.....	31
June 30 - July 6.....	6
July 7 - 13.....	18
July 14 - 20.....	11
July 21 - 27.....	15
July 28 - August 3.....	30
August 4 - 10.....	1
August 11 - 17.....	1
August 18 - 24.....	14
August 25 - 31.....	45
September 1 - 7.....	28
September 8 - 14.....	52
September 15 - 21.....	61
September 22 - 28.....	80
September 29 - October 5.....	49
October 6 - 12.....	73
October 13 - 31.....	
November.....	
December.....	

166
336
364

1941

January.....	400
February.....	416
March.....	433
April.....	454
May.....	448
June.....	437
July.....	400
August.....	369
September.....	431
October.....	45
November.....	45
December.....	45

431
45
45
45

1942

January.....	25
February.....	21

25
21

Office of the Secretary of the Treasury,
Division of Research and Statistics.

October 14, 1940.

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	: Sept. : : 1-28 :	Sept. 29- Oct. 5	: Oct. : : 6-12 :	: Total
British	164	43	67	274
Army	56	6	6	68
Navy	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
Total	<u>221</u>	<u>49</u>	<u>73</u>	<u>343</u>

Office of the Secretary of the Treasury,
Division of Research and Statistics.

October 14, 1940.

STRICTLY CONFIDENTIAL

CURTISS AEROPLANE DIVISION OF CURTISS-WRIGHT CORP.

P-40's delivered to October 12, 1940

United States Army	203
British	<u>191</u>
Total	<u>394</u>

Office of the Secretary of the Treasury,
Division of Research and Statistics. October 14, 1940.

Excess Profits Taxes

A Special Study

Prepared By

Standard Statistics Company, Inc.

SEASONGOOD & HAAS
MEMBER NEW YORK STOCK EXCHANGE
60 WALL STREET
NEW YORK

OCTOBER 14, 1940

Excess Profits Taxes

Highlights of the Law—Methods of Computation Under Average Earnings and Invested Capital Options—Special Exemptions

The new tax law—the Second Revenue Act of 1940—is both an excess profits tax measure and a measure to increase normal income taxes. It also serves such collateral purposes as suspending the profits limitation on aircraft and shipbuilding contracts for the United States military services and providing for five-year amortization of emergency defense plants.

Like the Revenue Act of 1940 passed in June, it is applicable to all fiscal years beginning after December 31, 1939. In general, it increases the normal income tax on corporations by 3.1% and establishes a sliding scale, running up to 50%, in the excess of earnings over either (1) 95% of average profits in the four years 1936-39 or (2) 8% of invested capital, as specifically defined in the law.

Increase in Normal Tax

Corporations earning over \$25,000 were subject, under the 1939 law, to a normal income tax of 10% of net income. The first Revenue Act of 1940 increased the rate to 19% and imposed a special tax of 10% of the tax, making the effective rate 20.9%. The new law adds 3.1% more, making the normal income tax 24%. This means that large corporations must now pay one-third more in income taxes to the Federal Government, exclusive of whatever excess profits taxes they may be subject to.

The June increase in the rate of tax was provided for in the income statements of corporations for the first half of the year, but with the new increase retroactive to the beginning of 1940 (as of the 1940-41 fiscal year), charges must be made against second-half earnings applicable in the first half income. In the tables on later pages of this survey, the estimated amount of increase in normal income taxes for the full year resulting from the Second Revenue Act of 1940 is shown in a separate column.

Excess Profits Tax

Corporations have the option of choosing to pay an excess profits tax on net income above either average earnings of the base period or 8% of invested capital. Under either option, the rate of excess profits tax is as follows:

Amount	Rate	Excess Profits Tax
On the first \$50,000 of excess profits	20%	\$10,000
On the next \$50,000 of excess profits	25%	12,500
On the next \$50,000 of excess profits	30%	15,000
On the next \$50,000 of excess profits	35%	17,500
On the next \$50,000 of excess profits	40%	20,000
On the next \$50,000 of excess profits	45%	22,500
On the next \$50,000 of excess profits	50%	25,000
Total		\$142,500
On all excess profits		\$142,500

The tax measure as enacted eases the relative burden on very small companies but correspondingly increases the load on big companies, which must divide equally with the government any "excess" profits above \$500,000 which they can earn after increasing their normal-tax contribution by one-third.

Average Earnings Option

Under the average earnings option, the excess profits tax scale is applied to the excess of earnings in the taxable year over 95% of the average annual earnings in the fiscal years beginning after December 31, 1935, and before January 1, 1940—four fiscal years, except for companies which changed their accounting period during the interim. In addition, there is a flat exemption of \$1,000. An allowance is made for changes in capital, the exemption being increased by 8% of the net capital addition or decreased by 6% of the net capital reduction from the average for the base period.

Net income, for both the taxable year and the base period, is after normal income tax. Adjustments are provided to exclude certain non-recurring items—(1) gains of processing taxes, recoveries on bad debts previously written off, profits on repurchase of bonds at a discount, and long-term capital gains and losses. For purposes of the excess profits tax, 100% of dividends received are excluded, instead of the 85% ratio applicable in calculating normal income taxes. An affiliated group of corporations may file a consolidated return, provided 95% of each class of stock of each company (excluding non-voting preferred) is owned by the parent company or other subsidiaries.

If during the four-year base period, one year showed a deficit, the deficit year is taken as zero. If there were two years of deficits, the larger deficit is taken as zero. This would work out as follows:

CORPORATION A—NET INCOME

1936	\$150,000
1937	170,000
1938	240,000
1939	340,000

Treating the 1938 figure as zero, total net income for the four years would be \$460,000; the average would be \$115,000, and the exemption would be 95% of that, or \$109,250.

CORPORATION B—NET INCOME

1936	\$180,000
1937	240,000
1938	240,000
1939	140,000

Treating the 1937 figure—the larger deficit—as zero, total net income for the four years would be \$560,000. The average would be \$140,000, and the exemption \$133,000.

Computation of Tax—Income Base

Actual computation of the amount of excess profits tax for companies using the average earnings base is a complicated problem. When the company's accounting department sets out to figure the tax, it must decide whether to opt to file a consolidated return. It must make adjustments for changes in capital, for the special non-recurring items mentioned, and for dividends received. Undoubtedly, it will take weeks for such calculations.

Obviously, it is impossible, without access to the detailed accounting records of each company and all its subsidiaries, to arrive at exact figures for tax liability. The computations on the following pages, consequently, are based on consolidated income statements, as reported to stockholders, which may differ considerably in detail from reports to the tax authorities. They, therefore, represent only approximations, but since they are based on *substantives* of earnings, an exact figure could not be given in any event. Only where adjustments are obviously large—as in the case of DuPont, which derives some 40% of its income from dividends on its holdings of General Motors stock—have they been made.

The amount of exemption on the average earnings base is figured for all companies, even those which will choose the invested capital option, in order to show which option they will choose and how much of an advantage it gives them. The exemption figure under this option as shown in the tables is in each case based on the present capitalization. The method can be easily illustrated, as follows:

CORPORATION C

Capitalization: Bonds, \$200,000; St. Preferred, 100,000 shares, \$100 par; Common Stock, 1,000,000 shares.	
Net Income after Fixed Charges and Normal Income Tax	
1936	\$1,000,000
1937	1,500,000
1938	2,000,000
1939	2,500,000
1940 Est.	3,000,000

On basis of first Revenue Act of 1940, before additional 3.1% Normal Income Tax.

Obviously, the 1940 estimated net income is equivalent to a common share after preferred dividends of \$400,000. The additional normal income tax of 3.1% is applied, not to the \$1,000,000 net income after a normal tax of 20.9%, but to the net income before normal taxes of approximately \$2,122,780, which is equivalent to \$1,061,390 after a tax of 20.9%. Thus, the normal income tax is increased in the one lot by \$22,780, or roughly \$0.02 a share. A quick way of checking the increase in the normal tax is to take 3.1% of the income after the 20.9% tax. This figure is arrived at by dividing the 3.1% increase by 21.1, which is the percentage of normal tax net income remaining after deducting the 20.9% tax previously in effect.

The excess profits tax is determined by the amount of income after the full 24% normal tax, to this rate \$1,557,300 for 1940. Average earnings for 1936-39 were \$1,250,000, and 95% of this figure is \$1,187,500. The excess profit, therefore, is \$1,557,300 minus \$1,187,500 and means the flat exemption of \$25,000. This is equal to \$25,000, and the excess profits tax is as follows:

\$1,557,300 at 20%	\$311,460
\$1,557,300 at 25%	389,325
\$1,557,300 at 30%	467,190
\$1,557,300 at 35%	545,055
\$1,557,300 at 40%	622,920
\$1,557,300 at 45%	700,785
\$1,557,300 at 50%	778,650

Thus, the previously estimated net income of \$1,000,000 is reduced by \$25,000 and \$134,140, a total of \$159,140, leaving \$840,860. A five \$200,000 preferred dividends on income per share is reduced by the tax from \$1 to \$0.84.

Invested Capital Basis

In allowing an exemption of 8% of invested capital before liability for excess profits taxes, the law defines invested capital as equity capital plus half of borrowed capital. Borrowed capital, in effect, includes all obligations in the form of a written promise to pay (bonds, notes, debentures, bank loans, etc.). Equity capital consists of money or property paid in for stock or for paid-in surplus, plus accumulated earnings, including the value of earnings distributed in stock dividends if such stock dividends were in the form of taxable income to the recipients. The method used in determining invested capital from published balance sheets will be discussed in the following section.

As in the case of the average earnings option, there is a \$5,000 flat exemption and adjustments are provided for certain non-recurring items, including income from retirement and discharge of bonds, refunds of processing taxes, recoveries on bad debts, and long-term capital gains and losses. Dividends received are 100% exempt under both options. Because half of borrowed capital is included in invested capital, half of the interest on borrowed capital must be included in income in determining the rate of return, but the 8% permitted is after normal income taxes (of 24% for the current year).

A special adjustment is provided in the case of wholly or partially tax-exempt securities—chiefly Federal Government and municipal bonds. These can be taken into account in figuring the excess profits tax, under the invested capital option, only if the company chooses also to include them in its normal tax calculations and to pay the 24% rate on income from all such securities. If it is unwilling to do this, then these securities are classed as inadmissible assets, along with stocks held which are, in every case, inadmissible assets, and the invested capital base on which earnings are calculated is reduced in the same ratio that inadmissible assets bear to total assets. An illustration will make this clear.

Assume that total invested capital has been computed to be \$5,000,000. Total assets are \$10,000,000, including \$2,000,000 of common and preferred stocks (not including stocks of 50%-owned subsidiaries) and \$8,000,000 of government and municipal bonds which the company chooses to treat as inadmissible assets. Total inadmissible assets would, therefore, be \$8,000,000, or half of total assets, and invested capital on which an 8% return would be exempt would be reduced by half, to \$2,500,000. Interest on the tax-exempt bonds and dividends on the stocks would not be included in income.

If the company chose to treat the tax-exempt bonds as admissible assets, its inadmissible assets would be only \$2,000,000, or one-fifth of total assets, and its allowable invested capital would be four-fifths of \$10,000,000, or \$8,000,000. Total income of \$1,000,000, instead of \$2,000,000, would be exempt from excess profits taxes but the interest earned on the \$2,000,000 of tax-exempt assets would be included not only in excess profits tax net income but also in normal tax net income.

The option of including otherwise tax-exempt bonds as admissible assets is of value only to financial institutions such as certain banks and insurance companies, which have a high ratio of total assets to invested capital (because of their use of depositors' or policyholders' money), and a high ratio of tax-exempt bonds to total assets. It will be of value to them only if earnings are substantially above the 1936-39 average.

DOLLARS PER COMMON SHARE

Company—	Estimated Excess Profit Tax Credit Based on:		1939 Actual Earnings	Estimated 1940 Earnings			Approx. Current Price
	Average Earnings 1936-1939 Base	Invested Capital Base		BEFORE	ADDITIONAL	AFTER	
				3 1/2% Normal and Excess Profit Taxes	3 1/2% Normal Tax	ADDITIONAL 3 1/2% NORMAL AND EXCESS PROFIT TAXES	
AUTO PARTS & ACCESSORIES—							
Sundix Aviation	1.12	1.12	2.14	a3.50	a 0.15	a 0.00	32
Bohn Aluminum & Brass	2.90	2.07	2.15	3.75	0.15	3.25	27
Borg-Warner Corp.	2.27	1.39	2.48	2.75	0.10	2.50	19
Bower Roller Bearing	2.94	1.18	3.23	4.25	0.15	3.70	35
Briggs Manufacturing	2.74	1.33	1.09	2.75	0.15	2.20	22
Cleveland Graphite Bronze	3.54	1.15	5.42	5.25	0.20	4.60	35
Doehler Die Casting	2.21	1.54	2.43	4.35	0.15	3.40	20
Eaton Manufacturing	2.60	1.64	2.85	4.75	0.20	3.35	34
Electric Auto-Lite	3.22	1.57	4.72	6.50	0.25	4.80	36
Electric Storage Battery	1.96	3.04	2.01	3.90	0.10	2.90	30
Houdaille Hershey "B"	1.38	0.64	1.34	2.50	0.10	1.95	13
Libbey-Owens-Ford Glass	3.11	1.84	3.21	4.50	0.20	3.70	44
Motor Wheel	1.70	c1.16	2.18	b2.75	b 0.10	b 2.20	17
Noblit Sparks Industries	3.36	1.76	4.23	4.35	0.15	3.90	29
*Spleer Mfg.	3.36	2.02	c4.49	c6.25	—	c4.25	33
Standard Steel Spring	1.05	0.97	1.66	3.75	0.15	2.55	33
Stewart-Warner	0.86	0.96	0.45	1.10	0.05	1.00	7
Thompson Products	2.23	2.00	3.00	6.50	0.25	4.40	34
Timken-Detroit Axle	1.83	c1.12	2.65	A3.69	—	A3.69	28
Timken Roller Bearing	2.83	1.42	3.02	4.25	0.15	3.50	49

A—Actual. Fiscal year ended June 30, 1940, after allowing for \$1,100,000 excess profit tax (as reported by company) applicable to income since Jan. 1, 1940, equal to \$1.11 per share. a Fiscal year ended Sept. 30. b 12 months ended June 30. c Based on balance sheet dated June 30, 1940. d Fiscal year ended Aug. 31. f Because of change in fiscal year, new taxes are applicable only to earnings since December 31, 1939.

AUTOMOBILE TIRES—

a†Firestone Tire & Rubber	1.95	2.69	2.03	1.55	—	1.05	15
Goodrich (B. F.)	1.18	3.81	2.53	1.35	0.10	1.25	13
Goodyear Tire & Rubber	2.06	3.60	b4.07	2.75	0.15	2.60	16
a†Leo Rubber & Tire	3.50	3.00	5.46	2.50	—	2.50	25
U. S. Rubber	1.78	2.50	2.91	3.15	0.25	2.70	20

a Fiscal year ended Oct. 31. b Before foreign exchange adjustment.

BEVERAGES—

a†Canada Dry Ginger Ale	1.47	1.25	1.88	2.00	—	2.00	14
Coca-Cola	5.49	1.19	6.82	7.35	0.30	6.20	100
Vahl Corp.	0.74	0.21	b0.96	1.05	0.05	0.90	9

a Fiscal year ended Sept. 30. b Adjusted for 400% stock dividend paid in 1940.

BUILDING—

Amer. Radiator & Standard Sanitary	0.40	0.74	0.34	0.60	0.02	0.58	7 1/2
Crane Company	1.67	2.44	1.55	2.40	0.10	2.30	21
Holland Furnace	2.90	1.74	3.11	3.50	0.15	3.20	32
Johns-Manville Corp.	2.75	4.02	a4.41	5.35	0.25	4.60	28
Lons Star Cement	3.30	3.67	a3.69	3.00	0.10	2.90	37
c†Masonite Corporation	2.57	0.67	1.99	A2.91	—	A2.91	29
Minneapolis-Honeywell Regulator	2.30	1.23	2.77	4.00	0.20	3.35	48
National Gypsum Co.	0.56	0.69	0.95	0.95	0.05	0.90	6 1/2
National Lead	1.06	1.93	b1.23	1.50	0.10	1.40	18
Otis Elevator	1.03	1.32	1.15	1.50	0.05	1.40	15
Pittsburgh Plate Glass	5.55	4.00	4.95	6.50	0.25	5.90	93
U. S. Gypsum	4.08	3.00	5.71	6.25	0.25	5.10	80

A—Actual. a Before foreign exchange adjustment. b After non-recurring losses. c Fiscal year ended Aug. 31.

*Excess profit tax based on average 1936-1939 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1936-37 to 1939-40 and invested capital base is computed from latest published year-end balance sheet.

Company—	DOLLARS PER COMMON SHARE						
	Estimated Excess Profit Tax Credits Based on:		Estimated 1940 Earnings—				Approx. Current Price
	Average Earnings 1936-1939 Base	Invested Capital Base	1939 Annual Earnings	BEFORE Additional 2 1/2% Normal and Excess Profit Taxes	Additional 2 1/2% Normal Tax	AFTER ADDITIONAL 2 1/2% NORMAL AND EXCESS PROFIT TAXES	
CHEMICALS & FERTILIZER—							
Air Reduction	2.04	1.20	1.95	2.75	0.10	2.35	41
Allied Chemical & Dye	0.04	8.10	9.50	11.50	0.45	10.05	185
a) American Agric. Chemical	1.86	2.66	1.22	A1.45	—	\$A1.45	15
b) American Cyanamid "B"	1.52	1.73	2.07	2.65	0.10	\$2.15	30
Commercial Solvents	0.49	0.54	0.81	0.85	0.05	\$0.70	10
c) Dow Chemical	2.79	2.47	6.05	8.50	0.30	6.40	140
duPont (E. I.) de Nemours	c3.40	c2.80	7.65	9.30	0.25	8.00	176
Freeport Sulphur	2.51	1.92	2.75	2.75	0.15	2.10	22
Hercules Powder	2.69	3.23	5.65	5.25	0.20	3.90	90
Mathieson Alkali Works	1.35	2.11	1.12	1.90	0.10	\$1.30	30
Monsanto Chemical	3.09	2.64	4.01	5.00	0.20	4.00	94
Texas Gulf Sulphur	2.24	1.24	2.04	2.50	0.10	2.25	34
Union Carbide & Carbon	5.00	2.47	8.86	5.00	0.20	4.50	78
United Carbon	4.85	3.04	3.82	4.30	0.29	4.30	82
U. S. Industrial Alcohol	g0.50	2.19	g1.06	f2.50	0.10	f12.40	22
Westvaco Chlorine Prod.	1.60	2.09	2.91	3.40	0.15	\$2.85	35

A—Actual. a Fiscal year ended June 30. b On combined Class A and E common shares. c Fiscal year ended May 31 of the following calendar year. d Excluding income from investment in General Motors. f Fiscal year ended March 31, 1941. g Before extraordinary charges.

COAL—

Island Creek Coal	1.89	1.46	2.42	3.00	0.15	2.45	27
a) United Electric Coal	0.36	1.18	0.32	A0.38	—	\$A0.33	44

A—Actual. a Fiscal year ended July 31.

CONTAINERS—

American Can	5.29	4.12	6.22	7.35	0.35	6.15	99
Continental Can	2.49	2.94	2.71	3.50	0.15	\$2.15	40
Crown Cork & Seal	2.29	3.67	2.80	4.25	0.20	\$2.95	20
Hazel Atlas Glass	5.90	4.03	6.64	5.40	0.20	5.20	102
Owens-Illinois Glass	2.97	2.10	3.17	3.25	0.15	2.65	87

ELECTRICAL PRODUCTS—

a) Black & Decker Mfg.	1.81	1.18	1.60	2.50	—	\$2.50	19
Outler-Hammer	1.32	0.97	1.28	2.50	0.10	1.90	29
General Electric	1.45	0.94	1.42	2.15	0.10	1.75	26
McGraw Electric	2.14	0.66	2.99	3.75	0.15	2.95	25
Radio Corp. of America	0.29	0.19	0.35	0.65	0.05	0.45	5
Square D Company	1.73	0.76	3.02	5.00	0.20	3.40	22
Westinghouse Elec. & Mfg.	5.22	6.07	5.18	8.50	0.35	\$7.15	107

a Fiscal year ended Sept. 30.

FINANCE COMPANIES—

Beneficial Industrial Loan	2.45	1.61	2.57	2.60	0.10	2.40	19
Commercial Credit	5.20	4.77	4.01	4.90	0.15	\$3.85	21
Commercial Invest. Trust	a4.49	a5.10	a4.00	4.50	0.20	\$4.50	87
Household Finance	0.47	4.95	6.98	7.50	0.25	6.99	99

a Excluding National Surety.

*Excess profit tax based on average 1936-1939 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1936-37 to 1939-40 and invested capital base is computed from latest published year-end balance sheet.

Company	DOLLARS PER COMMON SHARE						
	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:
Company	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:
FOOD PRODUCTS—							
American Cicle	1.51	1.59	1.79	1.80	0.35	1.00	130
Borden Company	1.50	1.93	1.91	1.70	0.05	11.68	20
Coca-Cola Bottling	1.80	2.64	3.33	3.00	0.15	2.50	51
General Baking	0.59	0.75	0.83	0.70	0.05	0.80	47
General Foods	2.35	1.00	2.75	2.75	0.10	3.40	41
General Mills	1.56	1.49	1.64	1.60	0.10	1.60	31
Life Savers	1.80	0.90	1.30	1.25	0.10	1.35	33
Lotus-Wiles Biscuit	1.52	2.73	1.08	1.75	0.10	11.63	13
Mead Johnson & Co.	0.45	3.10	10.37	9.55	0.40	6.70	150
National Biscuit Co.	1.80	1.20	1.09	1.00	0.05	1.55	18
National Dairy Products	1.71	1.05	1.97	1.70	0.05	11.63	13
Purdy Biscuits	1.23	1.05	1.14	1.00	0.05	11.63	11
Standard Brands	0.70	0.70	0.51	0.05	0.05	0.00	81
United Biscuit Co. of America	2.06	2.67	2.32	2.10	0.10	19.00	14
United Fruit	4.13	4.65	4.87	4.75	0.20	14.43	70
Wrigley (Wm.) Jr.	2.97	2.54	4.35	4.60	0.20	4.20	80

a—Fiscal year ended May 31 of the following calendar year. b—No estimate possible.

HOUSEHOLD FURNISHINGS—

Armstrong Cork	2.55	2.73	3.03	3.00	0.10	15.65	38
Conglomerate	1.81	1.77	1.70	1.40	0.00	11.55	19
Simmons Company	2.34	1.82	2.11	2.30	0.10	2.50	13

LEATHER & SHOES—

Adidas Shoe	2.17	4.30	3.13	3.75	—	12.75	39
Endicott-Johnson	2.30	0.32	3.97	2.75	—	12.75	40
International Shoe	1.68	1.68	1.97	1.85	—	11.85	30
McWane Shoe	2.51	0.78	2.50	2.00	0.15	2.70	30

a—Fiscal year ended Oct. 31. b—Fiscal year ended Nov. 30. c—Includes J. T. McWane Co.

MACHINERY—

Allis-Chalmers Mfg. Co.	2.43	3.47	3.09	3.15	0.10	15.05	34
American Chain & Cable	1.30	1.27	1.30	2.70	0.10	2.30	21
Bollard Company	1.00	0.81	1.04	0.90	0.30	4.00	33
Caterpillar Tractor	2.00	1.75	2.80	4.00	0.15	3.30	49
Deere & Company	2.50	1.71	1.82	2.80	—	12.00	20
Ev-Coll-Cl Corp.	1.42	0.74	2.51	7.00	0.25	4.25	30
Harbison Morse	2.95	1.00	4.12	4.00	0.25	4.40	41
Harvard Motor	1.50	1.64	2.07	2.30	0.10	2.65	15
International Harvester	2.35	0.82	1.71	3.00	—	12.00	40
Link Belt	2.55	1.06	3.25	3.00	0.15	3.00	30
National Arms	1.37	0.70	0.14	0.20	0.20	3.30	30
Niles-Robertson	4.90	4.38	4.71	13.00	0.45	8.50	64

a—Fiscal year ended Oct. 31.

MEDICINES, DRUGS & COSMETICS—

Abbott Laboratories	2.04	1.46	2.61	2.55	0.10	2.45	57
American Home Products	3.01	0.80	0.33	5.00	0.20	4.20	45
Bristol-Myers	2.16	0.31	2.49	3.25	0.15	2.10	45
Gillette Safety Razor	1.12	0.21	0.99	0.45	0.05	0.80	34
Lambert Company	1.58	0.80	1.00	1.50	0.05	1.45	15
Parke, Davis & Company	1.70	0.62	1.30	1.70	0.05	1.65	14
Sterling Products	4.85	2.00	3.25	3.50	0.20	4.50	67
United Drug	0.27	1.20	0.70	0.50	0.05	0.50	45
Wick Chemical	2.75	1.30	0.60	41.65	—	14.00	40

a—Fiscal year ended June 30. b—Actual.

*Excess profit tax based on average 1926-1928 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1935-37 to 1939-41 and invested capital base is computed from latest published year-end balance sheet.

Company	DOLLARS PER COMMON SHARE						
	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:
Company	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:	Income Before Profit Tax Based on:
METAL FABRICATORS—							
Bridgeport Brass	0.37	0.30	0.30	1.20	0.05	11.10	11
General Cable "A"	0.61	2.00	0.30	—	—	—	18
Hydramet Brass	2.30	1.40	1.60	2.00	—	—	30
Metco Copper & Brass "A"	1.60	0.80	0.20	0.40	0.05	11.70	30
Metco Manufacturing	0.10	1.30	0.30	1.70	0.05	11.70	30
Metco Tube	0.04	0.05	0.37	1.30	0.05	0.00	010

a—No estimate possible. b—Fiscal year ended Dec. 31. c—Before inventory adjustments. d—Deduct.

METALS—Gold & Silver—

Alaska Juneau Gold Mining	0.10	1.05	0.75	0.70	0.00	0.00	40
Homestake Mining	3.41	0.91	3.50	3.00	0.15	3.00	40
U. S. Smelting & Refining	0.33	0.00	0.77	1.25	0.40	0.70	81

METALS—Non-Ferrous—

Aluminum Co. of America	0.10	0.10	0.10	0.10	0.10	0.10	101
American Smelting & Refining	0.00	0.00	0.00	0.00	0.00	0.00	43
Alumina Copper Mining	0.11	0.70	0.33	0.30	0.15	0.30	33
Chas. Molybdenum	2.30	2.40	4.00	3.50	0.10	2.40	30
Eagle Fluor Lead	0.00	1.20	1.25	0.00	0.00	11.20	0
Rock Mining	0.00	0.00	0.00	0.00	0.00	0.00	0
Howe Sound Co.	0.00	0.00	0.00	0.00	0.00	0.00	0
Kennecott Copper	0.00	0.00	0.00	0.00	0.00	0.00	0
Magnum Copper	0.00	0.00	0.00	0.00	0.00	0.00	0
New Jersey Zinc	0.00	0.00	0.00	0.00	0.00	0.00	0
Phelps Dodge	0.00	0.00	0.00	0.00	0.00	0.00	0
St. Joseph Lead	0.00	0.00	0.00	0.00	0.00	0.00	0
Vanadium Corp. of America	1.54	2.00	3.25	3.25	0.20	14.00	30

a—Includes gain or loss from purchase and retirement of preferred stock. b—Before depletion. c—Balance sheet not reported.

MISCELLANEOUS MANUFACTURERS—

Colt's Patent Fire Arms Mfg. Co.	0.05	0.10	0.04	0.00	0.00	0.25	30
Diamond Match	1.00	2.40	1.64	1.85	0.10	11.80	30
Minnesota Mining & Mfg.	0.42	1.11	4.34	2.00	0.20	6.10	47
Savage Arms	1.57	2.42	2.40	2.00	0.15	2.70	30

MOTION PICTURES & AMUSEMENTS—

Brunswick-Balke-Clender	2.10	2.07	4.20	5.00	0.20	2.00	30
Eastman Kodak	1.54	0.50	0.35	1.75	0.30	7.40	104
General Theatrical Equip.	1.51	1.87	3.17	1.45	0.05	11.40	12
Paramount Pictures	1.24	1.73	1.07	1.45	0.05	11.40	7
20th Century Fox Film	2.50	1.50	1.50	—	—	—	0

a—No estimate possible.

OFFICE & BUSINESS EQUIPMENT—

Burrhead Adding Machine	0.00	0.40	0.44	0.20	0.05	0.20	0
International Business Machine	0.00	0.00	0.10	0.15	0.00	0.00	107
National Cash Register	1.00	1.00	1.10	1.20	0.05	11.20	14
Monogram Band	1.00	0.70	0.94	1.25	0.05	1.20	010
Royal Typewriter	0.00	2.20	0.13	0.70	—	14.70	00
Underwood-Elliott-Fisher	4.00	2.00	2.00	1.00	0.10	2.00	34

a—Actual. b—Adjusted for 5% stock dividend paid in 1930. c—Fiscal year ended March 31 of the following calendar year. d—Fiscal year ended July 31.

*Excess profit tax based on average 1926-1928 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1935-37 to 1939-41 and invested capital base is computed from latest published year-end balance sheet.

DOLLARS PER COMMON SHARE

Estimated
Excess Profit Tax Credit
Based on:

Estimated 1940 Earnings

Company	Average Earnings 1936-1939 Base	Invested Capital Base	1939 Actual Earnings	BEFORE Additional 2 1/2% Normal and Excess Profit Taxes	Additional 2 1/2% Normal Tax	AFTER ADDITIONAL 2 1/2% NORMAL AND EXCESS PROFIT TAXES	Approx. Current Price
OIL PRODUCING & REFINING—							
Atlantic Refining	2.15	5.06	1.66	2.75	0.10	†2.65	22
Continental Oil Co. (Del.)	1.77	1.76	1.35	0.90	0.05	0.85	†18
Gulf Oil	2.27	3.19	1.69	2.25	0.10	†2.15	30
Phillips Petroleum	3.35	3.29	2.21	2.50	0.10	†2.40	36
Plymouth Oil	2.25	0.81	2.38	1.75	0.05	1.70	†17
Pure Oil	0.96	2.93	1.11	1.10	0.10	†1.00	7 1/4
Shell Union Oil	1.01	1.79	0.75	1.00	0.05	†0.95	9
Socony Vacuum Oil	1.31	1.94	1.09	1.25	0.05	†1.20	8 1/4
Standard Oil of Indiana	2.50	3.55	2.24	2.25	0.10	†2.15	34
Standard Oil of New Jersey	3.50	4.96	3.27	4.50	0.20	†4.30	33
Texas Corp.	3.25	3.76	3.02	4.00	0.15	†3.85	35

PAPER & PAPER PRODUCTS—

Container Corp. of America	1.38	2.16	1.85	2.50	0.10	†2.20	15
Crown Zellerbach	1.39	1.84	2.42	2.75	0.15	†2.25	16
International Paper & Power	00.04	4.30	0.14	0.00	0.35	†5.00	14
Kimberly-Clark	2.84	6.35	4.21	4.75	0.25	†4.50	24
Sutherland Paper	2.25	1.45	2.52	3.00	0.10	†2.70	24
Union Bag & Paper	0.69	0.97	0.76	3.00	0.10	†2.00	12

†Fiscal year ended April 30 of the following calendar year. ‡Deficit.

PRINTING & PUBLISHING—

American Bank Note	0.26	1.46	00.57	00.50	---	00.50	8
Columbia Broadcasting System "A"	2.30	0.64	2.92	3.25	0.15	2.80	20
General Printing Ink	0.99	0.40	0.94	0.95	0.05	0.90	7 1/4
Interchemical Corp.	2.06	2.43	4.10	3.00	0.15	†2.75	28
Time, Inc.	7.33	1.40	13.63	17.50	0.70	†2.25	127

§ On combined Class "A" and "B" shares. ‡ Deficit.

RAILROADS—

Atchafalpa, Topeka & Santa Fe	0.81	25.45	0.95	1.25	0.15	†1.10	17
Atlantic Coast Line	1.39	20.32	0.96	1.50	0.05	†1.45	14
Chesapeake & Ohio	3.84	4.71	3.49	4.35	0.15	†4.20	40
Great Northern, Ltd.	2.90	15.50	3.48	4.50	0.20	†4.30	28
Illinois Central	0.30	18.55	0.90	0.15	0.05	†0.10	8 1/4
Kansas City Southern	00.45	12.09	00.15	0.05	0.10	†0.55	5
Louisville & Nashville	5.45	17.37	6.32	8.50	0.35	†8.15	59
Nashville, Chatt. & St. Louis	0.75	12.15	2.42	1.25	0.10	†1.25	17
New York Central	0.73	11.64	0.70	2.00	0.10	†1.90	15
New York, Chicago & St. Louis	3.04	26.32	3.58	5.15	0.45	†4.70	15
Norfolk & Western	18.73	23.85	20.68	20.00	0.05	†22.05	220
Northern Pacific	0.19	16.29	0.03	0.90	0.05	†0.85	7
Pennsylvania Railroad	1.97	7.85	2.43	2.85	0.10	†2.75	23
Pere Marquette	0.99	14.04	0.89	0.60	0.10	†0.70	12
Union Pacific	6.50	24.86	6.74	6.60	0.25	†6.45	64

‡ Deficit.

RAILWAY EQUIPMENT—

American Brake Shoe & Fdry.	2.39	2.80	2.39	3.25	0.15	†2.80	28
American Car & Fdry.	02.00	8.08	03.40	2.50	0.25	†2.25	27
American Locomotive	01.24	2.31	04.28	0.63	0.10	†0.55	16
American Steel Foundries	1.59	2.15	1.15	2.45	0.10	†2.40	24
Baldwin Locomotive Works	00.17	3.06	0.41	1.25	0.10	†1.75	17
General American Transportation	3.16	5.41	3.11	4.50	0.20	†4.30	50
New York Air Brake	2.24	4.14	2.80	0.00	0.25	†5.10	44
Pullman, Inc.	1.55	4.14	1.05	1.75	0.05	†1.70	25
Union Tank Car	1.69	2.59	2.07	2.25	0.10	†2.15	28
Westinghouse Air Brake	1.17	1.20	0.57	2.00	0.10	†1.60	22

† Fiscal year ended April 30 of the following calendar year. ‡ Deficit.

*Excess profit tax based on average 1936-1939 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1936-37 to 1939-40 and invested capital base is computed from latest published year-end balance sheet.

Company—	Estimated Earnings Profit Tax Credit Based on:			DOLLARS PER COMMON SHARE				Approx. Current Price
	Average Earnings 1936-1939 Base	Invested Capital Base	1939 Actual Earnings	Estimated 1940 Earnings—				
				BEFORE ADDITIONAL 2 1/2% Normal and Excess Profit Taxes	ADDITIONAL 2 1/2% Normal Tax	AFTER ADDITIONAL 2 1/2% NORMAL AND EXCESS PROFIT TAXES		
RETAIL TRADE—								
aAllied Stores	0.93	1.44	1.26	1.00	0.10	\$1.45	7 1/2	
aBest & Company	3.59	2.87	3.42	3.50	0.15	3.35	50	
bFirst National Stores	3.44	2.46	3.34	3.35	0.15	3.20	43	
aGrant (W. T.)	7.62	2.16	2.92	3.15	0.15	2.85	33	
aGroco (H. L.)	3.08	1.50	3.51	3.75	0.15	3.40	33	
Jewel Tea	2.67	1.24	c2.23	2.85	0.10	2.73	48	
Kresge (S. S.)	1.78	1.67	1.90	2.00	0.10	1.85	23	
Kress (S. H.)	1.87	2.21	1.93	2.15	0.10	\$2.05	25	
Kroger Grocery & Baking	2.02	1.97	3.01	3.30	0.10	2.40	32	
aMacy (R. H.) & Co.	2.16	3.77	2.36	2.35	0.10	\$2.15	38	
aMay Dept. Stores	3.51	3.39	3.58	4.10	0.15	3.80	53	
aMontgomery Ward	3.65	2.97	4.91	5.02	0.20	4.25	42	
Pennys (J. C.)	5.67	2.34	6.48	6.25	0.25	5.85	51	
Safeway Stores	4.04	4.42	6.61	6.00	0.30	\$5.00	43	
aSears, Roebuck & Co.	5.12	3.80	6.60	7.80	0.30	6.30	51	

a Fiscal year ended Jan. 31 of the following calendar year. b Fiscal year ended March 31 of the following calendar year. c Adjusted for 2-for-1 split made during 1940.

SHIPPING & SHIPBUILDING—							
Bath Iron Works	0.59	0.65	1.58	3.50	0.15	\$2.10	15
Electric Boat	0.79	0.73	1.44	1.85	0.05	1.35	15
New York Shipbuilding (Partic.)	1.36	1.92	1.61	4.50	0.30	\$3.25	21

SOAPS & VEGETABLE OILS—							
aArcher-Daniels-Midland	3.60	4.30	3.02	A5.42	—	\$A5.42	20
Bon Ami "B"	3.44	0.45	4.01	3.85	0.25	3.55	38
aProcter & Gamble	3.50	1.50	3.60	A4.37	—	\$A4.37	—

A—Actual. a Fiscal year ended June 30. d Deficit.

STEEL & IRON—							
Allegheny-Ludlum Steel	a1.31	1.00	1.49	3.50	0.15	\$2.50	22
Bethlehem Steel	3.32	12.05	5.75	14.50	0.55	\$12.95	80
Crucible Steel Co. of America	1.52	13.99	2.54	11.25	0.60	\$10.65	34
General Refractories	2.16	2.75	3.24	2.75	0.10	\$2.65	27
Harbison-Walker Refractories	1.48	1.73	1.34	1.75	0.05	\$1.70	23
Inland Steel	0.93	5.76	6.73	3.25	0.30	7.65	85
Interlake Iron	0.29	1.91	d0.28	0.45	0.02	\$0.43	9
Jones & Laughlin Steel	d1.95	17.44	d1.60	10.50	0.70	\$9.80	28
National Steel	5.35	5.69	5.71	7.90	0.30	\$6.45	67
Otis Steel	0.34	1.20	d0.50	d0.35	0.02	\$0.37	9 1/2
Republic Steel	0.78	3.13	1.46	3.00	0.15	\$2.85	18
Sharon Steel	1.00	2.90	d0.11	2.15	0.10	\$2.05	11
U. S. Pipe & Foundry	3.03	3.16	3.69	2.65	0.10	\$2.55	23
United States Steel	2.19	10.55	1.83	8.80	0.45	\$8.05	59
Warren Foundry & Pipe	2.43	1.94	2.93	3.00	0.10	\$2.75	26
Wheeling Steel	2.65	9.41	6.34	5.00	0.35	\$4.65	25
Youngstown Sheet & Tube	2.44	7.95	2.50	5.00	0.20	\$4.80	24

a Based on combined earnings of Allegheny Steel Co. and Ludlum Steel Co. in 1938 and 1937. d Deficit.

SUGAR PRODUCING & REFINING—							
American Sugar Refining	d0.84	11.39	d0.34	a	—	—	14
bCentral Aguirre Assoc.	1.23	2.80	1.51	1.25	—	\$1.25	18
cGreat Western Sugar	2.29	1.75	1.67	a	—	—	20
dSouth Porto Rico Sugar	1.95	2.59	3.11	2.25	—	\$2.25	19

a No estimate possible. b Fiscal year ended July 31. c Fiscal year ended Feb. 28 of the following calendar year. d Deficit. e Fiscal year ended Sept. 30.

*Excess profit tax based on average 1936-1939 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1936-37 to 1939-40 and invested capital base is computed from latest published year-end balance sheet.

DOLLARS PER COMMON SHARE

Company—	Estimated Income Profit Tax Credit Based on:		1935 Actual Earnings	Estimated 1935 Earnings—			Approx. Current Price
	Average Earnings 1934-1935 Base	Invested Capital Base		BEFORE	Additional	AFTER	
				2 1/2% Normal and Excess Profit Taxes	2 1/2% Normal Tax	2 1/2% NORMAL AND EXCESS PROFIT TAXES	
TEXTILES & APPAREL—							
American Woolen	\$4.71	5.84	\$9.35	Nil	0.25	\$9.25	9 1/2
Burlington Mills	1.89	1.85	3.23	4.90	0.15	2.95	19
Celanese Corp. of America	1.43	1.25	3.53	5.50	0.30	3.35	29
Cloet Peabody	1.81	1.40	\$4.16	4.85	0.20	3.90	25
bCollins & Allman	4.54	2.81	4.16	6.00	0.25	5.20	27
Industrial Rayon	1.09	2.36	1.75	3.00	0.10	\$2.70	26

a Before foreign exchange adjustment. b Fiscal year ended Feb. 28 of the following calendar year. d Deficit.

TOBACCO & TOBACCO PRODUCTS—

American Snuff	3.01	2.99	1.93	3.80	0.15	2.85	57
aAmerican Tobacco "B"	4.44	2.36	5.12	5.50	0.25	4.85	79
Bayuk Cigars	2.90	2.06	4.33	5.15	0.20	4.95	28
General Cigar	2.06	3.31	1.13	2.10	0.10	\$2.00	17
aLiggett & Myers Tobacco "B"	6.11	3.49	6.13	6.40	0.25	\$6.15	180
Lorillard (P.)	1.37	1.55	1.69	1.60	0.10	\$1.50	21
aKeynolds (R. J.) Tobacco "B"	2.54	1.22	2.56	2.70	0.10	2.58	36
U. S. Tobacco	1.79	1.06	1.77	1.85	0.10	1.75	34

c On combined common and common "B" shares. d Excess profit tax estimated at less than one cent per share.

UTILITIES—Electric Light, Power, Gas, Etc.—

NOTE: It has been found impracticable to attempt computations of the excess profits base and to estimate taxes for most utility holding companies. Detailed subsidiary company figures are necessary for this purpose, whereas most holding company reports are on a consolidated basis. For tax purposes, consolidated reports can be filed only when 95% of each class of voting stock is owned; few holding companies own this ratio of such voting shares. Generally speaking, however, it is true that utility holding company earnings are well under the base level of 8% on invested capital as defined for the purposes of this act, and that utilities are, as a class, not particularly vulnerable to excess profits taxes.

American Gas & Electric	2.23	3.67	2.50	3.00	0.15	\$2.85	—
Boston Edison	2.94	3.91	\$2.22	2.25	0.10	\$2.15	36
Brooklyn Union Gas	2.44	5.36	2.42	2.60	0.10	\$2.50	16
Commonwealth Edison	0.59	2.43	2.43	2.25	0.10	\$2.25	21
Consolidated Edison of N. Y.	2.03	5.19	2.23	2.15	0.10	\$2.05	26
Consol. Gas Elec. L. & Pwr. (Balt.)	4.11	5.41	4.84	5.00	0.25	\$4.75	80
De Wolf Edison	7.11	12.20	7.58	8.00	0.30	\$7.70	110
Lake Star Gas	1.62	1.40	0.98	1.25	0.05	\$1.20	9 1/2
Peoples Gas Light & Coke	1.07	11.17	3.49	5.25	0.20	\$5.05	37
Public Service of New Jersey	2.44	3.72	2.85	2.70	0.15	\$2.55	33
Southern California Edison	2.08	4.00	2.26	2.35	0.15	\$2.20	28
Stone & Webster	0.43	0.85	0.40	0.75	0.05	\$0.70	8 1/2
United Gas Corp.	\$9.31	0.83	\$9.55	\$9.25	0.05	\$9.20	1 1/2

a Adjusted for 4-for-1 split. d Deficit.

UTILITIES—Tel. & Tel.—

New England Tel. & Tel.	5.97	10.45	7.37	7.75	0.30	\$7.45	117
Southern New England Tel.	7.29	10.35	8.05	8.40	0.25	\$8.05	169
Western Union Telegraph Co.	2.70	13.65	1.32	"	—	—	20

a No estimate possible.

*Excess profit tax based on average 1935-1939 net income option unless otherwise indicated. †Excess profit tax based on the invested capital option. ‡Not subject to additional normal or excess profit tax until fiscal year ending in 1941; base period earnings are for four years 1936-37 to 1939-40 and invested capital base is computed from latest published year-end balance sheet.

The financial information contained herein has been derived from sources which are believed to be accurate, but is not guaranteed. Opinions and forecasts are based upon careful analysis, but are also not guaranteed and are subject to change without notice.

October 14, 1940
3:17 p.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal.

H.M.Jr: Hello.

James
Forrestal: Henry, do you want to ask Knudsen who he
wants to have, if anybody, join us up at
Hartford?

H.M.Jr: Oh, I think you could do it. It doesn't
have to be so formal as to do it through me.

F: O. K.

H.M.Jr: I just think you can call him.

F: All right.

H.M.Jr: Thanks for the courtesy.

F: O. K.

H.M.Jr: Are you going to have anybody from the English?

F: Yes, I talked to Young on that.

H.M.Jr: Oh, good.

F: And I presume he'll inform you.

H.M.Jr: Yes, he surely will.

F: O. K.

H.M.Jr: Thank you.

October 14, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Schwarz CS

Steve Early believes that, since the story on the four-man committee to accelerate aircraft production is out, there should be no objection to discussing the subject at your press conference this afternoon. He thinks that, in your discretion, you may wish to go into some of the details of the technique of the field trips to straighten out production situations "on the scene." He says that during his own half-hour press conference this morning, none of the White House correspondents raised the question of this morning's Wall Street Journal story, which apparently leaked out after the Cabinet meeting, and that he is satisfied the President was not planning to go into the subject at any length tomorrow afternoon at his press conference.

London
October 14, 1940

COPY

To: Morris Wilson

From: Beaverbrook

Your Mny 965.

How deeply indebted we are to you for all the benefits you confer upon your own people. And how much we appreciate the assistance we derive from Morgenthau. We can never repay our debt to him. I have tried to express it to him in a telegram but I left much unspoken. We could not have got on so far without his backing.

The arrangements you made for us over the Hispano Suizas were very welcome. Now we deal in bigger and better things.

We are most grateful for the Consolidated B 24's. So urgent is our need that they should be ferried across Atlantic. Provide ferrying equipment in United States and please notify us if any ferrying equipment is required from this side.

We need those airplanes for bombing Berlin 1500 miles return journey carrying bombs of 2000 pounds. Overall length of bombs 100.8 inches, diameter 18.7 inches. Please advise at once service equipment we shall have to install this side, to fit those machines for night bombing. Suggest you consult Mansell about these requirements.

We will be very glad to take B 17's.

For the engines we are most grateful. We have immediate use for them. We are now happy, contented and certain that with all the assistance we are receiving from the United States we will in the end prevail. And the end is not far off.

Received Oct 15, 1940
4.30 P.M.
from A. Purvis

WAR DEPARTMENT
WASHINGTON

*Photostatic copies
to Mr. Young
10/16/40*

October 14, 1940.

My dear Mr. Secretary:

In conformity with your request the other day, I have added the name of Mr. Philip Young, the Assistant to the Secretary of the Treasury, to the committee which I appointed on September 13th to consider matters pertaining to aircraft standardization and delivery schedules.

I send you enclosed a copy of my letter to the Deputy Chief of Staff making that appointment here and also copy of the original letter of September 13, 1940, containing the membership of this committee with Mr. Philip Young's name added.

Very sincerely yours,

Henry L. Stimson

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

RECEIVED
OCT 16 1940
13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Aircraft Standardization and Delivery Schedules.

September 13, 1940.

CORRECTED COPY

Brigadier General Richard C. Moore,
Deputy Chief of Staff,
Washington, D. C.

1. With the concurrence of the Secretary of the Navy and the Chairman of the British Purchasing Commission, a committee consisting of the following-named members is appointed to consider and decide matters pertaining to aircraft standardization and aircraft delivery schedules:

Brigadier General Richard C. Moore, U. S. Army,
Brigadier General George H. Brett, U. S. Army,

Rear Admiral John H. Towers, U. S. Navy,
Captain Walter W. Webster, U. S. Navy,

Air Commodore C. B.A. Baker, British Purchasing Commission,
Mr. C. R. Fairey, British Purchasing Commission,

Major Frederick M. Hopkins, Jr., Air Corps, U.S. Army, Recorder,

Added later → Philip Young, Assistant to the Secretary of the Treasury.

2. Each group of members of this Committee is authorized to act for and obligate the agency it represents. Decisions will be formulated in collaboration with the Advisory Commission to the Council of National Defense in order that that Commission can proceed to establish a firm schedule of deliveries, take full advantage of potential deliveries, and plan for future productive capacity.

3. The Committee will meet initially at the call of the senior Army member thereof.

HENRY L. STIMSON,

Secretary of War.

DISTRIBUTION:

Secretary of War
Secretary of Navy
British Purchasing Comm. 725 15th St., N.W.
Advisory Comm. to the Council of Nat'l Def.
Chief of the Air Corps
Asst. C. of Staff, G-4,
Each member listed above
Captain Joseph G. Hopkins, Air Corps.

WD 452 (10-11-40)0

Subject: Aircraft Standardization and Delivery Schedules.

Major General Richard C. Moore,
Deputy Chief of Staff,
Washington, D. C.

1. With the concurrence of the Departments concerned, Mr. Philip Young, of the Treasury Department, is appointed as an additional member of the Army-Navy-British Purchasing Commission, Joint Committee, appointed by letter, this office, dated September 13, 1940.

2. A copy of letter referred to above is being furnished Mr. Young for his information.

(Signed) HENRY L. STIMSON
Secretary of War.

RECEIVED
OCT 12 1940
U.S. DEPARTMENT OF WAR

October 14, 1940

MEMORANDUM

To: The Secretary

From: Mr. Young

Attached herewith is a copy of a memorandum which I have received from General Brett concerning the furnishing of British technical personnel to work with the Army and Navy on aircraft standardization. A copy of this memorandum has been transmitted to Mr. Fairey, of the British Purchasing Commission.

P.Y.

COPY

WAR DEPARTMENT
Air Corps
Materiel DivisionWashington, D. C.,
October 10, 1940.MEMORANDUM FOR - Mr. Philip Young,
Assistant to The Secretary,
Treasury Department.

1. In connection with my statement in Mr. Morgenthau's office the afternoon of October 9 referring to the lack of British technical personnel to conduct standardization with the Army and Navy, it is very evident that the British should immediately secure the services of technical men capable of discussing and deciding upon standardization of the following items:

- a. Power plants and accessories - 1 man.
- b. Radio and installations - 1 man.
- c. Navigational instruments and navigation - 1 man.
- d. Armament: - 3 men.
Bombs and small arms,
Pyrotechnics,
Torpedoes,
Fire control,
Turrets,
Bombays.
- e. Armor and fuel tank protection - 2 men.
- f. Bomb sights and accessories - 1 man.
- g. Equipment and accessories such as oxygen, photography, clothing, small power installations, lighting, safety devices, etc. - 2 men.
- h. Tactical employment dealing primarily with military characteristics and military employment. These men should be qualified in tactics and technicians of the air arm - 3 men.

2. Clarify the situation. The Materiel Division at Wright Field and the Bureau of Ordnance and Naval Aeronautics of the Navy Department have their functional duties divided approximately as indicated above. Considerable progress could be immediately made if British technicians were available who could sit down with the various sections of the Army and Navy

Memo. to Mr. Philip Young, Treasury Dept.,
October 10, 1940.

and discuss standardization along the lines in which they are specialists. Today with only two men available in the British Purchasing Commission there is a tremendous delay caused by the British through lack of suitably qualified technical personnel to discuss the many questions arising on aviation standardization.

(Signed) Geo. H. Brett
GEO H. BRETT,
Major General, U.S.A.,
Chief, Materiel Division.