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Excerpt from Memo Dictated by HM Jr on June 28, 1940

Lothian called me at 7:30 last night to tell me that Sir Frederick Phillips is coming and Lothian said he would like me to handle the announcement after he arrives.

STRICTLY CONFIDENTIAL

2

June 28, 1940

My dear Admiral Noyes:

Will you please transmit for me to Ambassador Kennedy the following confidential cable via secret naval code:

QUOTE - Lothian informs me Phillips is coming. Thanks for your prompt action. Suggest Phillips bring with him estimate of English purchasing needs in United States for next twelve months. Also latest figures on production in England of air frames and air engines. UNQUOTE

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Rear Admiral Leigh Noyes, U.S.N.
Director of Naval Communications,
Room 2622, Navy Building,
18th & Constitution Avenue, N.W.,
Washington, D.C.

By Mr. Frost, Secret Service - 1045

STRICTLY CONFIDENTIAL

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By Secret Service, Mr. Frost, 10:45

STRICTLY CONFIDENTIAL

4

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By Mr. Frost, Secret Service, 10:45

Inclosures were:

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War

June 17 " " " " " " "

June 18 from Secy of War to Secy of Treas.

June 19 " " " " " "

JUN 28 1940

Dear Mr. Knudsen:

Attached herewith is a copy of the correspondence which I have had with Secretary Woodring concerning the release of the plans for the Rolls Royce Merlin engines. As these plans were released to you by the War Department, the attached papers will complete your file on the subject.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable William S. Knudsen,
Commissioner Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

PY:bj
6/27/40

PY.

(Not mailed in Secy's office. Given to B.J.
at request of HEK)

JUN 28 1940

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Honorable William S. Knudsen,
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Federal Reserve Building,
Washington, D. C.

FT:bj
6/27/40

THE WHITE HOUSE
WASHINGTON

June 18, 1940.

*See reply
7/2/40*

My dear Mr. Secretary:

I have noted that the enrolled bill H. R. 9822, "To expedite national defense, and for other purposes," contains a section (Section 7) which provides double pay for vacation time for those employees of the Navy Department and the Naval Establishment and of the Coast Guard whose services, in the judgment of the Secretary of the Navy or the Secretary of the Treasury, as the case may be, cannot be spared during such vacation time without detriment to the national defense.

I note that the enrolled bill H. R. 9850, "To expedite the strengthening of the national defense," contains no such provision with respect to War Department employees; and also that there is no such provision in existing law with respect to any class of employees.

In view of this situation, and because this proposal, if it had been presented to me as a separate measure, would have received my unhesitating disapproval, I am writing to say to you that, in approving H. R. 9822, it is my wish that operations under this provision for double pay for vacation time be held to an absolute minimum, and that no payments be authorized thereunder until there has been presented for my consideration an administrative regulation governing such operations.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

At 12:30 this noon Mr. Pinsent called on me by appointment. He referred to the agreement of his Government to the visit to this country of the British Treasury official whose presence Secretary Morgenthau desired. He asked if the Secretary had any suggestion for the Embassy with respect to handling the publicity question in connection with the visit. Pinsent admitted that this does not arise immediately, since there is as yet no information concerning the date of departure of the British official. I told Pinsent that I would speak with the Secretary this afternoon or the first of next week, and then let him hear from us.

Pinsent stated that his Ambassador had been in touch with Under Secretary Welles of the State Department and had been informed that neither the French armistice nor the legislation proposed for the purpose of protecting Federal Reserve banks, through certain certificates by the Department of State, had altered the policy of this administration as explained by Mr. Welles to Lord Lothian some days ago. (This concerns particularly our attitude toward gold earmarked in this country for France.)

Mr. Pinsent let me see two documents of his Embassy. I have copied these herewith, and returned to Mr. Pinsent the copy which he had loaned me. The Mr. MacDaniels in question is an American citizen who has made headquarters in Paris for several years. He has been active in certain public utilities, such as the street railway in Belgrade, and has acted as a go between in various financial transactions. I believe these included the Export-Import Bank credit for the construction of a bridge in Portugal. I do not know Mr. MacDaniels personally, although some of the men in the Paris Embassy were on friendly terms with him. The British Embassy here has some reservations about their Government entering into negotiations of the kind and magnitude indicated with Mr. MacDaniels without first having some word of approval from our Government.

Mr. Pinsent volunteered that numerous individuals are constantly in touch with the Embassy and the Anglo French Purchasing Commission trying to find a way to make quick profits through high sounding financial schemes. Among these men are a Mr. Sanford and a Mr. Wallace.

B.M.P.

STRICTLY CONFIDENTIAL

1286

Viscount Halifax.

Marquess of Lothian.

"K"

27th June 1940. (3.55 p.m.)

27th June 1940. (11.00 a.m.)

IMMEDIATE.Secret.

President's letter to Mr. Waley of March
14th.

MacDaniels has sent to an American friend
in London two telegrams the texts of which are
given in my immediately following telegram.

Our feeling is that we can not properly
discuss projects of this kind except with Mr.
Morgenthau and we wonder whether Mr. MacDaniels'
claim to official blessing is well-founded. We
should be glad of your advice. Though we do not
want to rebuff an offer of financial assistance
without good reason our view is that we must
politely make it clear that we cannot pursue the
matter with Mr. MacDaniels.

C O P Y

STRICTLY CONFIDENTIAL

Lord Lethian

IMMEDIATE

7.40 p.m. June 27th 1940

"K"

Following are texts referred to in my immediately preceding telegram.

No. 1. Begins.

"With official blessing MacDaniels can arrange satisfying completely Britain's petroleum requirements against barter securities and Colonial products and for other raw materials or manufactured goods. He names figure up to 150,000,000 sterling.

If Nixon could arrange to go to Lisbon our friends now there prepared to negotiate. Alternatively could British Minister to Portugal explore matter on instructions from London. Require early answer principle. [I Promise of] new cabinet appointments have no bearing on this question. Clare Torrey". Ends.

Number 2 begins.

"Immediate decision [I Torrey and] my cables [I for this] order maintain interest here. Your [I nearest] figure mentioned could be increased several times. Financing arranged privately with official support. Explanations unnecessary our proposal simply half securities and half blocked currencies for purchase of manufactured raw materials over period subject to negotiations. If impossible for friends to take initiative suggest they instruct financial representative here to contact me. Regards. MacDaniels.

Ends.

:CL

STRICTLY CONFIDENTIAL

C O P Y

June 28, 1940

My dear Mr. President:

I am sending you herewith Mr. Carlton Ward's Report No. 2. This is the one referred to in Report No. 3, which I sent you on June 26th.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Encl. ✓

June 28, 1940

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By Messenger

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The White House.

Encl.

By Messenger

June 28, 1940

My dear Admiral Stark:

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Yours sincerely,

(Signed) H. Morgenthau

Admiral Harold R. Stark,
Chief of Bureau of Operations,
Navy Department,
Washington, D.C.

Encl. ✓

By Messenger 452

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Encl.

By Messenger

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My dear Mr. Knudsen:

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Sincerely yours,

(Signed) W. Woodward, Jr.

Mr. William S. Knudsen,
Member of Advisory Commission
to Council of National Defense,
Federal Reserve Building,
Washington, D.C.

Encl. ✓

By Messenger 450

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Federal Reserve Building,
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Encl.

By Messenger

June 28, 1940

My dear General Marshall:

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

General George C. Marshall,
Chief of Staff,
War Department Munitions Building,
Washington, D.C.

Encl. ✓

By Messenger 4 50

June 28, 1940

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War Department Munitions Building,
Washington, D.C.

Encl.

By Messenger

STRICTLY CONFIDENTIAL.

*Orig. to Pres.
Carbon copy to Stubb 25
" " " Marshall
Photostat to Knecht
6/28/40*

SECOND REPORT WITH REFERENCE TO FRENCH AIRCRAFT
ENGINE INDUSTRY.

On the evening of June 4th, a dinner was given for the American group by the officials of the Gnome-Rhône organization. It was learned at this dinner that the Air Ministry had not committed itself on Gnome-Rhône engines beyond December 15, 1940, thereby creating a very difficult problem for private industry to face. The Gnome-Rhône management felt that it required, for efficient planning, a schedule from the Government that would cover it for at least a year (this would check with American practice, under war conditions, as a minimum). The Gnome-Rhône management also stated that due to the use of a penalty clause for non-delivery which had cumulative penalties up to 10%, whereas the allowable profit on any contract is limited to not over 4%, that, therefore, the company was forced to always be ahead of time on its deliveries if it was to stay solvent. The company felt that this was not a practical or efficient situation under the circumstances.

It is also of interest to note that losses on one contract are not applicable, as an offset to any excessive profit over the 4%, on another contract, even though both run concurrently. (It is obvious that without some very flexible administration such a policy would be impractical under present conditions where factories are being moved at a moment's notice, women workers are being substituted for men, old machinery is being put into active production, new sources of material are being

- 2 -

started up, all tending toward a situation which would make accurate predictable costs almost impossible with any reasonable degree of accuracy). It is also interesting to note that the head of the Gnome-Rhône company is the first one to advance to our group the thought that what France should have is complete airplanes, including engines, instruments, and armament, all ready to fly rather than, for instance, the purchases of engines as a separate item. It was also pointed out that up to five years ago Gnome-Rhône actually had engines in stock ahead of installation, although there had been improvement in the Government airplane production factories since that date, which, it was stated, tended to more nearly balance the situation. It was also further stated that what France needed was long-range heavy bombers, such as the American B-17 (it must be remembered that the bombing of Paris had occurred the day before, and the thought in this gentleman's mind was that such bombers as the American B-17 could readily fly over Berlin and duplicate the results of the bombardment of Paris, thereby bringing home the result of such tactics to the German people and German officials in an important and practical manner). It was again impressed upon us that one unit of aeronautical equipment available at the front under today's conditions would be worth many units perhaps six months from now.

The impression of the American group at this dinner was that the Gnome-Rhône management is thoroughly production-minded and is attempting to let nothing stand in the way of production that lies within their own power (it was learned on the following day that the Air

- 3 -

Ministry gave them an order for three months additional engine capacity).

On the morning of June 5th, an official from the Air Ministry arrived early at our hotel with a query as to whether America could furnish landing gears for French airplanes, as the industry was behind on this unit. The writer recalled having seen outside the Caudron factory during a visit to the Air Ministry a large quantity of training planes which were complete, except for landing gears. They were stored in the open landing field which was being bombed during the writer's visit. The American group advised that this matter of landing gear procurement be directly taken up through the representatives of the French Mission in America without delay, and with sufficient technical information so that American landing gears could be supplied to the planes in question. It was stated that 300 per month would be needed.

The group then proceeded to the Gnome-Rhône forge and foundry at Gennevilliers. The Gnome-Rhône management explained that this unit is a unit which makes raw materials of any kind and for any purpose wherever and whenever a shortage appears in their regular procurement. It is an extremely large operation and is very vulnerable to bombing. The equipment would be difficult to move in many instances, since it consisted of large-sized steam hammers, presses, and other equipment involving not only great weight but very heavy foundations. The management operated a Diesel power plant, although the factory is

within/

Regraded Unclassified

within a short distance from the largest power station in the Paris area. It runs the Diesel station at part capacity at all times, alternating its units in such a way that all of them are kept in perfect condition for any emergency, and takes the rest of its power under normal conditions from the power company station.

The American group observed in this factory the casting of aviation cylinder heads in metal molds, a process which is not available in America. It has been stated by many American engineers that this process is an improvement over the same casting methods used in America. It is evident that this casting is more precise, with a lower scrap and with a much lower finishing labor requirement. Sand cast heads are also made in this factory to fill in production needs, so that the two processes could be viewed under like conditions by our group.

The working conditions in this factory were almost feverish, and the pitch of activity was very high. Women were used wherever possible and, in one instance, a woman was observed operating a new American Erie forging press which had been set up and begun operating two days before. This apparently was the first introduction of women into the heavy forging shop, where conditions are hot, dirty, and extremely noisy. We also observed a woman in the foundry running a medium molding machine, as well as large numbers of women on core work and finishing operations. We observed crankcases being forged in a 35,000 kilogram hammer, as well as propeller blades and other large aluminum forgings. In the same shop, steel crankshafts,

master/

- 5 -

master rods, and other ferrous parts are being fabricated. A press was available with a 1500-ton capacity, but it was interesting to note that most of the large equipment had been built in Germany before the war.

The workmen are all on a bonus system and are guaranteed a base rate of 10 to 12 francs per hour. While the factory is designed to make up shortages and, therefore, must be able to make any piece of raw material in any of the various metals, nevertheless the rate of production on certain items was rather high. In the case of cylinder heads, it amounted to between 500 and 1000 per day, consisting of the permanent mold type and the sand cast type. The company is also procuring steel and steel forgings in the United States. The feeling seemed to exist that aluminum would not be procurable in a forged form due to the demands of American industry on its own sources (from information given to the writer before sailing, it is believed that conditions at that time would have permitted American industry to aid in this direction if called upon).

Some rough finishing work is also done in the Gennevilliers plant as well as making forged dies and patterns. A summary of our views on this factory unit is:

1. Extraordinary degree of production activity in both numbers of workers and as to the rate at which each worker applied himself.
2. An extremely flexible management.
3. Lack of efficient or late types of equipment were not permitted to stand in the way of using everything available, even though roundabout methods had to be

adopted.

4. A preference for American steels, wherever they can be obtained, on the basis of greater uniformity.

5. No magnesium being used for castings or forgings. No satisfactory answer was given for this, and it is inferred that there is no sufficient supply available.

6. The vulnerability of this plant is one of much concern, although there are facilities existing outside of Paris for furnishing every one of the items manufactured at this location.

The management was unwilling to state the rate of its production, on the basis that it was not privileged to give this information. From other sources, it was said to be 820 engines last month, of which 700 were actually manufactured and the balance were put together from inventory and by shortening the final testing. We were again informed that the Model 14-R engine will be available before the end of this year, to have a normal HP of approximately 1500, but that there are few airplanes which are available for taking this motor at this time. Two of these motors are said to have had considerable test time. The company continues to be ahead of the Air Ministry schedule for reasons outlined and, with its affiliated groups, plans to attain an over all production of 1500 per month early in 1941. It was learned elsewhere that this organization is looked upon favorably with respect to its ability to produce, and that the management is energetic. We were informed that its main plant, on Boulevard Kellermann in Paris, is rapidly being dismantled and moved to another location, so that it was not necessary to inspect this unit although, up

to the war, this plant had been its principal one.

At noon a luncheon was given to us by the management of the Ford and Ford Air interests in France. It was learned that at the present time six Dewoitine fighters are being made per day at the Toulouse factory. This is regarded as the best French fighter.

This factory plans to increase this output to 15 a day and, while there were a few motors ahead, the airplane production now has been brought up to a point where it is equalized with that of the Hispano-Suiza motors. The Ford Company has been given firm orders for 10 months ahead, but the Ministry has instructed them to keep on manufacturing in any event. In other words, this firm has found it desirable to contract for materials at times beyond the 10-month production schedule if, in its judgment, this is necessary. It does not feel that this is a systematic method of operating a private enterprise, even in wartime, and the writer was informed that industry is endeavoring to correct this situation by longer range planning. From all sources with whom we contacted, high praise is given to the present head of the governmental aeronautical procurement, the Under Secretary for Air, Colonel Mény. During his several months of office, it is stated that the Government has straightened out many procurement problems and policies, and is making decisions promptly when needed. It is said that this present procurement administration for the aeronautical industry is a non-political one, the head being a former chief administrative officer for the (oil company with which Colonel Mény was associated).

The Ford Air Company is not yet in production, but expects to be within three months, it was stated. Their plan is to produce parts for 300 motors per month by the end of this year and, using their own estimate of the Hispano-Suiza production, both in the main and shadow plants, it was stated that it was doubtful if the total would reach the totals planned for, but would have a rate of production of around 700 engines a month by the turn of the year. It will be recalled that the Ministry plan is to build this up to 1300 a month at the first opportunity. The writer was informed, although this could not be verified, that one of the causes for the financial difficulty of the main Hispano-Suiza organization, which has already been referred to, was, in some measure due to payments to the Government because of inability to make deliveries as expected. The Ford Company stated that this brought about a contract between the Government and the Ford Company which had no penalty provision, and it was predicted that this would soon be general.

We were also informed that the Government had greatly curtailed its inspection services and that Government inspectors were pretty generally removed from all process operation inspection, and that final inspection had in some measure also been curtailed. The Government requires a guarantee of 150-hour, or one year, operation, depending upon which is attained first. In the Hispano-Suiza group, it was planned to set up one to one and a half percent of the sale price of each engine as a pooled fund from which to back up this guarantee and that, since the Ford Company made parts only and the inspection and assembly and test were to be done by the Hispano-Suiza operation in a

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separate unit, the division of responsibility would in each instance have to be worked out between the companies concerned. It was admitted that this was rather cumbersome and it was evident that there is uncertainty as to the business practices which will have to be adopted because of the unusual production conditions that are prevailing. The Ford Air Company pointed out that its lack of toolmakers is extreme and that important help will have to come from the outside. This company has attempted to procure all of its raw materials, wherever possible, from the United States. Its crankshafts are bought in the following manner: steel from Republic; forgings from Wyman-Gordon, and machining of the crankshafts from "Jackson". Its forged rods will come from Bethlehem Steel. Its cylinder barrels or sleeves come from Timken, its valves from Thompson Products, and its tool steel from America.

Later in the afternoon, our group visited an accessory plant. This company is the "B-G" and is at present in Paris. Plans have been completed and construction is nearing completion for a new plant in the department of Gironde. This plant is a licensee of the "B-G" Company of America for spark plugs, but also manufactures magnetos, "gyro" instruments, ignition harnesses. This factory, as well as the design of the magneto, impressed our group. The magneto is a new development, having been completed within the last eight months and already the production is 1000 per month. It is made of excellent die castings, and apparently high-grade material in all respects. The

machine/

Regraded Unclassified

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machine equipment is good and the tooling appears good. Here again a great many women are used and all departments, except assembly, worked twenty-four hours, seven days a week. The same number of harnesses is made per month both for Hispano-Suiza and Gnome-Rhône motors. Large quantities of spark plugs are manufactured, although the gyro instruments are only in the early stages. The magneto is much simpler than the American types, but apparently contains all of the important features, such as even-firing, booster connections (although it was stated that no booster is required, nor have the French engines been forced to use boosters), careful attention to oil seals, single and double magneto types, etc. It is not known, however, whether this magneto would pass American Army and Navy tests.

In conclusion, the Ministry has not indicated to us that accessories as yet have become a serious problem in connection with speeding up engine production.

On Thursday morning, the Commission had been asked to present to the Ministry its analysis of the plant and facilities of the sub-licensee of the French Government, Talbot Motors, for the manufacture of American Pratt and Whitney engines. A survey of this plant has been noted in Report No. 1. From our inspection and information gained subsequently, it was pretty evident that:

1. The management of Talbot Motors and the Ministry had lost confidence in each other.

2. It was the Ministry's feeling that they never knew whether to take the face value of either the

- 11 -

financial schedules or the production schedules worked out by the Talbot management.

3. On the part of the Talbot management, it was freely stated that the Ministry had made it plain that they did not enjoy the confidence of the Ministry and they felt that they had reached the limit of their own resources with the result that the plan could not be concluded.

4. A survey of the plant indicated that:

(a) Over a million dollars in the latest and best machine tools, almost entirely American, were installed in a brand new factory.

(b) A great quantity of tools and fixtures had been manufactured from Pratt and Whitney drawings for producing parts.

(c) The management said that in two more months it could complete the tooling of the engine.

(d) To make the complete engine would require approximately two more million dollars of machine tools, in accordance with the list submitted to the Ministry in October.

(e) No evidence of a strong organization was found.

(f) There was evidence of poor financial administration and good engineering administration.

(g) Likewise, in the separate plant formerly used for automobile manufacture, there was a large amount of suitable but old equipment, only a small portion of which was now being used by wartime procurement.

(h) The plant was highly vulnerable to bombing and, in the event that enemy forces secured the Paris area, very valuable equipment would fall into their hands unless quickly destroyed.

5. Much of the equipment which was not being put to good use in the factory would be of material assistance elsewhere. However, much of the equipment could be put to actual advantage in the manufacture of separate parts for the considerable quantity of Pratt and Whitney engines now being used at the front and for an even larger amount yet to come from America.

It was evident from the Commission's inspection of the various plants that there was a shortage of toolmakers and tools of the nature which Talbot already possessed. The Commission came to the conclusion that the most practical thing to do with all of the above circumstances in mind was to consider:

1. Immediately removing the equipment from the Paris danger zone.

2. Cleaning up and terminating the present arrangements with the Talbot Company.

3. Turning over the Talbot facilities to a strong industrial organization, preferably one with a good knowledge of American methods and with a sympathy and understanding for American manufacturing technique, where the facilities could be combined with like facilities on similar work as a separate department or unit.

4. Such a unit was exemplified by the Ford Air unit at Poissy, where there was every evidence of high-class management, a full knowledge of American methods, a contract to manufacture liquid-cooled engine parts, a shortage of first-class machinery of the type owned by Talbot, a severe lack of tools and fixtures of the type owned by Talbot, and last but not least, an organization which

had/

had already moved to a location near Bordeaux a majority of its aeronautical activity and where it was said to have additional room available.

Upon receiving the analysis of the American Mission, Colonel Mény, Under Secretary for Air, suggested that the Ford organization might be the one to consider. No alternate plans were suggested, therefore, by the American Mission unless requested by the Ministry. It was indicated that if the plan can be worked out, production will be started on spare parts from materials already received from America, and serious consideration will be given to completing the installation of sufficient equipment to have a complete engine plant, with this latter consideration being left open until a more detailed study could be made.

In the afternoon the Mission journeyed to the Ford Truck plant at Asnières, in the Paris area, at the request of the Ford management to discuss general procurement problems. The two groups were joined by Colonel Mény, the Under Secretary for Air, whereupon it was announced that the Ford organization in the United States had cabled that it was willing to consider manufacturing the Hispano-Suiza motor recently developed of the four-valve type and said to be of considerably increased HP.

It was stated, however, that the Ford organization would undertake to do this only upon direction of the United States Government, through whom the engines would be diverted to France, and providing the United States Government was interested in investigating the use of

this/

this motor to its own advantage, perhaps as a fourth source of motor types in the United States.

The Commission felt that this matter was officially not within the scope of its considerations and merely attempted to answer questions with respect to the known facts concerning American power plants compared with the Hispano-Suiza engine. In this regard, the discussion covered the fact that the American motors so far used in France had proven superior to engines of local manufacture, and that, in addition, larger HP models would be available in these types in the United States before the Hispano-Suiza motors could be put into production, and that the new Hispano-Suiza had apparently not yet as much engineering background of experience in the new form as had the newer American types of motors with which it might readily be called upon to compete. It was pointed out that this was a matter which would undoubtedly be considered carefully by the engineers in the various Government services, and that if the decision were to be made in the near future, it would undoubtedly thoroughly test the Hispano-Suiza motor which is being immediately despatched to the United States for the purpose.

At this point, the Ford management put out some very interesting figures in connection with the costs of the various types of motors here. These figures indicated that the Hispano-Suiza motor of equivalent HP could be procured by the French Government more cheaply than the equivalent Gnome-Rhône type. Secondly, that Rolls Royce engines could be procured in France for £2650 which, on the basis of their method of conversion, was also cheaper than the Gnome-Rhône engine. However, all of these figures

work out between 425,000 francs and 475,000 francs for the Hispano-Suiza and the Rolls Royce engines, and 500,000 francs for the Gnome-Rhône engine. The Commission was in no position to comment except to say that it was the opinion of many engineers in the United States that a liquid-cooled engine, exclusive of the cooling radiators, etc., which it was necessary to include in an engine of this type, would cost in the United States from 10% to 20% more than an equivalent air-cooled engine of an American type. At the present moment, of course, actual costs were nearly 50% higher since the liquid-cooled engine had not yet had the benefit of normal production. The question of greater vulnerability for the liquid-cooled engine in times of war as against the results with air-cooled engines was brought out by Colonel Mény.

The American Commission closed this discussion by stating that it was their belief that these aspects of the situation would be thoroughly appreciated in the United States by competent authorities.

Colonel Mény then retired and the discussions were turned into considerations which would lean to an improvement in the production situation here in France. This discussion brought out the fact that the more advanced units of the industry believed that a more orderly control of production and planning for production and a system of following up production was needed. To best bring this into being, it was suggested that it should be started in the Ministry office with a view toward reasonably standardizing the types of schedules from the various units, making them all part of a larger plan. Secondly,

it/

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it was brought out that much would be gained by having the representatives of the various industries visit each other's plants with a view toward picking out the better features and attempting to combine them in all of the various manufacturing plants.

The Commission's inspection plainly revealed that some factories were outstanding in their use of planning methods which others lacked, and that in other instances, some of the units which did lack planning methods had outstandingly high labor attitudes together with high standards of supervision having to do with production. Still others had more advanced inspection technique, etc., so that if these could be combined the general efficiency throughout the industry would be promoted.

The Ford management then outlined certain features of procurement which, it is felt, are of interest:

1. Each contract is limited to a 4% profit and is audited by representatives of the Government, but without any standard form of accounting procedure. In other words, our inference is that there is considerable discretion permitted to take care of the unusual situation prevailing. There is no averaging of profit among contracts.

2. Penalty clauses had been tried and were apparently falling into disfavor.

3. Extraordinary war facilities such as buildings, machinery, etc., were being amortized on a formula as follows: 50% the first year, 25% the second year, and 25% the third year. At present no agreement exists with reference to the possibility of the war ending after a brief period and leaving the private industries with high book values/

values for war facilities. This is under discussion at the present time between industry and the Ministry.

4. The original warranty required of the engines demanded a guarantee of two years, or 200 hours of operation, whichever was attained first. This was found to be too long a period and recently was reduced to one year, or 150 hours of operation.

5. If a manufacturer continues to use the war facilities upon conclusion of the war, it is assumed he will rebate to the Government excess depreciation allowed.

It was then explained to us that the Ford Air, which is set up as a part of the Hispano-Suiza production plan, has so far been given the job of making complete sets of parts which are to be assembled by Hispano-Suiza in an underground assembly plant at Jonzac, in the Bordeaux region. The Ford Company is responsible for delivery of the parts to the assembly plant and for the quality. Industry is short of qualified inspectors, it was then brought out. So far, Ford Air has an order for 2100 motors spread out over 12 months. It has no penalty clause for non-delivery and is setting aside 1-1/2% as a fund for supporting the warranty. Complex problems are involved in deciding upon responsibility for failure or damage to an engine within the warranty period. Many of these problems are yet to be worked out in the light of experience. It is part of the Ford Air plan to secure all of the raw materials that it possibly can in America.

Arrangements were made by the Ministry to take the American Commission to the Société Turbomeca at Billancourt (Paris). The purpose of this trip was to show the American

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Commission a highly advanced supercharger design of a type not well known in America. This is known as the Szykowski compressor. Work was started on this unit at the request of the present Inspector General of Aeronautics, Martinot Lagarde, in the year 1928. The inventor, Szykowski, has worked on the unit continuously during the intervening period in order to develop what he claims is the scientific background of elastic flow at high speeds for which he claims to have a mathematical analysis. The supercharger has a unique system of variable blades which permits it to maintain its efficiency over a relatively wide range of operation. The mechanism, while more complicated than the standard supercharger, is a purely automatic device and is operated by a syphon control which corrects the blade setting of the supercharger to give the highest efficiency at all altitudes without attention from the pilot. In other words, for a mechanically driven supercharger, it attempts to approximate in its operation the desirable features of an exhaust gas turbine-driven supercharger. Manufacture of this unit was begun in September, when war was declared, and last month the factory made over 200 of these units, all of which are to be on the Hispano-Suiza engines and which are to be used on the Dewoitine fighter. The curve of efficiency for the supercharger, it was stated by the inventor, shows a top efficiency of 80% and this drops very slowly on a curve instead of in a straight line, so that it has a high efficiency over a relatively wide range.

Work of the Commission has apparently been concluded in the Paris area and we leave for the three outlying shadow factories as follows: Le Mans - Gnome-Rhône;

Bordeaux/

- 19 -

Bordeaux - Ford Air; Tarbes - Hispano-Suiza.

JUN 28 1940

Dear Mr. Knudsen:

Thank you for letter of June 22nd concerning reports on orders submitted by the Anglo-French Purchasing Board. The Purchasing Board has been requested to furnish an extra copy of these reports which will be forwarded to you regularly beginning next week.

Mr. Philip Young or Mr. George Haas, Director of the Division of Research and Statistics, will be delighted to request the Purchasing Board for any special information which you may wish on these orders.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable William S. Knudsen,
Commission Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

PY:bj
6/27/40

Py.

By Messenger 450

JUN 28 1940

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Honorable William S. Knudsen,
Commission Member,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

PT:bj
6/27/40

By Messinger

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

June 22, 1940

The Honorable
The Secretary of the Treasury

My dear Mr. Secretary:

In view of our need to have information of the Allied orders for materials and equipment in this country, I should like to request that copies of these reports be sent regularly to my office.

With best regards,

Sincerely yours,



William S. Knudsen

June 25, 1940.

Dear Mr. Emdson:

I am sending you herewith, for your confidential use, two copies of each of the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes, May 1 - June 22, 1940;
Unfilled Orders and Estimated Deliveries on June 22, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane Engines, May 1 - June 22, 1940; Unfilled Orders and Estimated Deliveries on June 22, 1940.

These tables carry forward through June 22, 1940 the information furnished you last week.

Beginning next week you will receive a report each week covering in detail all new orders and inquiries of the Anglo-French Purchasing Board, together with a summary by commodity classifications. In the meantime, any of the detailed information which you wish to have we shall be glad to make available immediately from the record copies in our files.

I have been advised that your division of the Advisory Commission to the Council of National Defense has requested that detailed reports on Canadian machine tool orders be sent directly to you by the Anglo-French Purchasing Board.

Since the Treasury Department has been established as the liaison between the United States Government and the Anglo-French Purchasing Board, the Department receives currently information regarding all the Board's operations. At my request Mr. George C. Haas, Director of Research and Statistics, has assisted the Board in organizing its statistical reports. May I suggest, therefore, that any future requests on the part of the Advisory Commission be made through Mr. Haas.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Emdson,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2004, Federal Reserve Building,
Washington, D. C.

(cc to Thompson and McReynolds at Secy's request)

CC:ek

FILE COPY

By Messenger /30

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THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

28 June 1940

My dear Mr. Morgenthau:

This will acknowledge the receipt
of reports 1 and 3 from Mr. J. Carlton Ward.

I found them very interesting and
very much appreciate your having sent them for
my information.

Very sincerely,

*Snodgrass Aids to
Stark, phoned
ack rec of report #2
6/29/40*

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

P.S. Since writing the above, I have just
received parts 1 and 2 of your report on
airplane and engine deliveries through 22
June. Many thanks.

HR Stark

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

June 28, 1940.

Dear Mr. Morgenthau:

Thank you very much for the following
reports which you sent me on June 27, 1940:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - June 22, 1940; Unfilled Orders and
Estimated Deliveries on June 22, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - June 22, 1940; Unfilled
Orders and Estimated Deliveries on June 22,
1940.

Faithfully yours,



Chief of Staff.

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

June 28, 1940
11:40 a.m.

Present: Major Smith
Mr. Young
Mrs. Klotz

HM Jr: Sit down, gentlemen. Now, Phil, have we got anything from the British this morning?

Young: I have a list which I took down over the phone. He is forwarding an official copy over directly.

HM Jr: How was that divided up?

Young: By Canada, Ireland and Casablanca.

HM Jr: By what?

Young: Canada, Ireland and Casablanca - three sections this time.

HM Jr: Then I'll tell you what I want you to do. When you get the list I would like you to type it and forward a copy to Major Smith and one to General Watson to see what support we can get from the White House for what these people are asking for. And probably as soon as convenient we might ask General Watson if he would show these lists to the President. Then maybe this afternoon you could report what success you have had.

Smith: Is that an exact copy?

Young: Yes, that's the latest list. That's not the same list I had this morning. That was the original list. There are only two items here on the Ireland request - twenty-four seventy-fives and twenty thousand Lee Enfield rifles and the ammunition.

HM Jr: Twenty thousand?

- 2 -

Young: Yes, and Canada wants 250,000 Enfields with as much ammunition as possible.

HM Jr: Well, I think anything we can give them - if you can let him know today.

Smith: There's a question about this ammunition, of course. They will have to buy that stuff commercially.

Young: Casablanca wants 100 modern tanks.

Smith: So do we and we want them badly, too.

TO:

Mr. Foley

52

The Secretary wants this back
by 9:30 tomorrow morning.

Miss McGuire

6/27/40

Rec'd at 5:25 P.M.

MR. FOLEY

JUN 28 1940

53

My dear Mr. Secretary:

I have your letter of June 27 making further suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

The Treasury Department is now drafting proposed regulations prescribing such procedure and the suggestions contained in your letter are being considered in this connection. I suggest that you have a representative communicate at once with Mr. Timothy C. Mooney of the Bureau of Internal Revenue in order that there may be no misunderstanding as to the way these matters will be handled.

Very truly yours,

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury

The Honorable

The Acting Secretary of the Navy

CLK:s 6/28/40

9174

By Messenger // 30

JUN 28 1940

My dear Mr. Secretary:

I have your letter of June 27 making further suggestions on the procedure to be followed with reference to the certification of the percentage of special additional facilities to be charged to the cost of performing contracts covered by the Vinson-Trammell Act.

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Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Acting Secretary of the Navy

CLK:s 6/28/40

By Messenger

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

27 June 1940

Sir:

I make further reference to your letter of June 20, 1940, in which you suggested an outline of procedure to be adopted between the Navy Department and the Treasury Department under Section 4 of H.R. 9822 with reference to special additional equipment and facilities required at private plants to expedite naval shipbuilding. This matter has been examined at some length, and I submit below the results of the Navy Department's consideration of this matter, which results were arrived at having in mind -

- First, the great desirability of simplifying and expediting all matters pertaining to naval shipbuilding and aircraft construction, and
- Second, early agreement between the two departments in order that steps to accomplish the first and main objective may be promptly initiated.

Section 4 of H.R. 9822 covers such special additional plant facilities, not only for future contracts, but also for existing contracts. Having in mind these two somewhat differing conditions, I believe that the simplest and most direct method would be to have agreements entered into between the Department and its contractors, such agreements to be entirely separate and distinct from the shipbuilding or aircraft contracts themselves. These agreements would not be contracts in the usual sense of the term, but would form the basis for the certification from the Secretary of the Navy to the Commissioner of Internal Revenue, required by Section 4 of H.R. 9822. For example, such agreements would set forth the necessity for each and every item of additional plant facilities or equipment; the actual or estimated total cost thereof; the proportion of the total cost to be allowed as part of the contractor's cost chargeable against all naval contracts; and, in addition, the amount of such allowable cost applicable to each contract for constructing the ships or airplanes or portions thereof.

If this be acceptable to the Treasury Department, as I trust it will be, then the detailed procedure would be about as follows:-

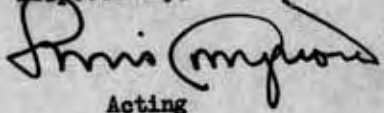
- (1) Three copies of the contemplated agreement, before it is executed by the Navy Department and the Contractor, will be forwarded immediately to Mr. Timothy C. Mooney, the Chairman, Room 4002, Internal Revenue Building. Accompanying the agreement will be three copies of a corresponding certification by the Secretary of the Navy, together with evidence that the contractor, after the Treasury Department has approved, will be willing to sign the agreement.
- (2) At the same time there will be transmitted to Mr. Mooney copies of the existing contracts to which this agreement is applicable, or, in the case of a new contract not yet executed, a copy of the proposed contract with evidence that the contractor is willing to execute same.
- (3) The agreements thus transmitted will itemize the special additional equipment and facilities, state the necessity and cost (or estimated cost) of each item thereof, and will further include the percentage of cost of each item to be charged against each contract involved.
- (4) The Treasury Department, upon receipt of this information, will act as promptly as possible upon the certifications thus submitted in order that there may be no delay in naval shipbuilding. In this connection, it is suggested that if there be any doubtful points involved, the telephone be used in order to settle them as quickly as possible, in view of the five-day limit within which objections must be made.

The use of the proposed "agreements" will simplify procedure in that they can be considered on their merits without involving unnecessary consideration of the basic ship or aircraft contracts. Upon approval by the Treasury Department of each Navy "certification", the Navy Department will, of course, authorize any modifications under the basic contracts that may be necessary. Such modifications under the basic contracts are purely Naval ad-

ministrative matters and will not involve any further action by the Treasury Department.

I trust the foregoing will meet with your approval, as it is in line with the suggestions made by you in your letter of June 20, 1940. If there be any points which require further clarification, I shall be glad to designate a representative of this Department to confer with anyone you may designate from the Treasury Department, in order that this important matter may be settled without delay.

Respectfully,



Acting

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

62
JUN 28 1940

Through the Bureau of the Budget
Attorney General
Division of the
Federal Register.

My dear Mr. President:

I have the honor to refer to section 4 of the Act of June .
1940 (Public, No. ., 76th Cong., 3d sess.), which authorizes the
Secretary of War or the Secretary of the Navy, as the case may be,
to certify to the Commissioner of Internal Revenue as to the neces-
sity and cost of special additional equipment and facilities installed
in private plants to facilitate completion of naval vessels or Army
or Navy aircraft, and the percentage of cost thereof to be borne by
the Government through the medium of a charge against the contract
or subcontract.

Such section 4 provides that the certification "shall be sub-
ject to such regulations as the President may prescribe," but shall
be binding upon the Commissioner of Internal Revenue unless within
five days after receipt of such certification the Commissioner makes
formal objection thereto.

I have the honor to present for your consideration a draft of
an Executive Order prescribing regulations pursuant to the above
provision of law. The proposed Executive Order provides that no
certification by the Secretary of War or Secretary of the Navy, as
the case may be, shall be made to the Commissioner of Internal
Revenue before a formal request therefor (copies of which shall be

- 2 -

filed with the Commissioner of Internal Revenue) is filed by the contractor or subcontractor with such Secretary, specifying the facilities involved, the treatment proposed, and the steps proposed to be taken to protect the interests of the Government. It is also provided that the certification shall not be submitted to the Commissioner of Internal Revenue unless adequate measures have been taken to protect the interest of the Government, to assure priority to Government work, and to preserve the additional equipment and facilities for national defense purposes. Certain time limits are prescribed within which the contracting party's request may be filed and the certification may be made. Authority is also given to the Secretary of War or Navy, as the case may be, and the Commissioner of Internal Revenue to issue joint rules for the administration of section 4 of the Act and the Executive Order.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

File to Mr. Thompson
Not mailed in Sup's office

EXECUTIVE ORDER

REGULATIONS GOVERNING CERTIFICATIONS OF THE SECRETARY OF WAR AND THE SECRETARY OF THE NAVY WITH RESPECT TO SPECIAL ADDITIONAL EQUIPMENT AND FACILITIES REQUIRED TO FACILITATE CONSTRUCTION OF NAVAL VESSELS AND ARMY AND NAVY AIRCRAFT

By virtue of and pursuant to the authority vested in me by section 4 of the Act of June , 1940 (Public, No. , 76th Cong., 3d sess.), and as President of the United States, I hereby prescribe the following regulations governing certifications to the Commissioner of Internal Revenue by the Secretary of War or the Secretary of the Navy as to the percentage of cost of special additional equipment and facilities to be charged against a contract or subcontract for the construction or manufacture of any complete naval vessel or Army or Navy aircraft or any portion thereof;

(1) As used in these regulations the term—

(a) "Secretary of the Department concerned" means the Secretary of War or the Secretary of the Navy as the case may be.

(b) "Contracting party" means the contractor or subcontractor as the case may be.

(2) No certification under the provisions of section 4 of the Act of June , 1940 (Public, No. , 76th Cong., 3d sess.) shall be made, in the case of any contract or subcontract or any contract or subcontract as modified, to the Commissioner of Internal Revenue by the Secretary of the Department concerned (and any certification made shall be ineffective) unless all the requirements of these regulations are met.

- 2 -

(3) Before a certification is made to the Commissioner of Internal Revenue, the contracting party shall file with the Secretary of the Department concerned a request for certification. Such request for certification shall--

(a) Specify and itemize the special additional equipment and facilities required (or to be acquired) to facilitate, during the national emergency declared by the President on September 8, 1939 to exist, the completion of any complete naval vessel or Army or Navy aircraft or any portion thereof;

(b) State the necessity and cost (or estimated cost) of each item of such equipment and the percentage of cost of each such item which the contracting party proposes to charge against the contract or subcontract; and

(c) State the action which the contracting party proposes to take in order that there shall be a compliance with the provisions of paragraph (6) of these regulations. If the request for certification is filed in the case of a subcontract or proposed subcontract, it shall be accompanied by a copy of such subcontract or proposed subcontract.

(4) Such a request for certification shall be filed by the contracting party prior to the 60th day after the close of the contracting party's first income taxable year within which is completed a contract or subcontract with respect to which the particular request for certification is made.

- 3 -

(5) On or before the date on which such request for certification is filed with the Secretary of the Department concerned, the contracting party shall file with the Commissioner of Internal Revenue at least three copies of such request for certification, together with at least three copies of excerpts of all such provisions of the contract, subcontract, or proposed contract or subcontract as are pertinent to such request for certification.

(6) No certification shall be made to the Commissioner of Internal Revenue with respect to any special additional equipment and facilities unless adequate measures have been taken by the Secretary of the Department concerned--

(a) To protect the interest of the Government in such special additional equipment and facilities, the cost, or portion of the cost, of which is borne by the Government and is chargeable against the contract or subcontract in accordance with the provisions of section 4 of the above-mentioned Act; and

(b) To provide that throughout the useful life of such special additional equipment and facilities the Government shall be given priority in the use thereof and that such special additional equipment and facilities shall be preserved for national defense purposes.

(7) The certification to the Commissioner of Internal Revenue in the case of any contract or subcontract may be made at any time prior to the 180th day after the close of the contracting party's income taxable year within which the contract or subcontract is completed, or prior to such later time as may be specified by the

Commissioner of Internal Revenue, but no certification shall be made in the case of any contract or subcontract unless a certification has been made on all contracts or subcontracts previously completed on which the special additional equipment and facilities were used.

(8) Every certification made to the Commissioner of Internal Revenue by the Secretary of the Department concerned shall be executed in triplicate and shall--

(a) Specify and itemize the special additional equipment and facilities acquired (or to be acquired) to facilitate, during the national emergency declared by the President on September 8, 1939 to exist, the completion of any complete naval vessel or Army or Navy aircraft or any portion thereof;

(b) State the necessity and cost (or estimated cost) of each item of such equipment and facilities, and the percentage of cost of each such item to be charged against the contract or subcontract;

(c) Describe the measures which have been taken by the Secretary of the Department concerned to effect a compliance with the provisions of paragraph (6) of these regulations; and

(d) Contain, or be accompanied by, the contracting party's agreement to such certification.

(9) The Secretary of the Department concerned and the Commissioner of Internal Revenue may issue joint rules for the administration of section 4 of the above-mentioned Act and this Executive Order.

June 28, 1940.

MEMORANDUM FOR THE SECRETARY'S DIARY

At a meeting held in Mr. Knudsen's office at 2:00 p.m., Friday, June 28, 1940, there were present Messrs. Knudsen and Mead of the Advisory Commission, Messrs. Hotchkiss, Van Anda and Gordon of Wright Aeronautical Corporation, and Messrs. Foley and Kades of the Treasury Department.

It was agreed by all present that the lease proposed to be entered into between the British Government and the Wright Aeronautical Corporation should be modified so that the term of the lease would continue until six months after the Wright Aeronautical Corporation ceased to be under any obligation to deliver any engines to the British Government, or six months after the cessation of the national emergency declared by the President of the United States on September 8, 1939 to exist, whichever date is later.

It was understood that this modification would be acceptable to the British Government, having been cleared by Messrs. Purvis and Childs, and that the Advisory Commission would withdraw its letter to Wright Aeronautical indicating that the lease as heretofore drafted would not be in the public interest.

It was also stated by the Treasury representatives that the Commissioner of Internal Revenue would rule on the basis of the facts represented by Wright Aeronautical that no income accrued to Wright Aeronautical by reason of the acquisition of the leasehold interest in the lands, buildings and machinery, and that after such ruling was made a closing agreement would be executed embodying the ruling. On their part, Wright Aeronautical agreed to discharge the British from any obligation to pay approximately \$3,000,000 in income taxes to the United States.

There was considerable discussion concerning the operation of the Vinson-Trammell Act, and the obstacles, both actual and psychological, which it created in carrying out the National Defense Program. A detailed discussion was had concerning the gigantic problem of explaining the Act to a multitude of subcontractors and inducing them to participate in the program, notwithstanding numerous complications in causing them to conform. Mr. Knudsen asked a number of legal and cost accounting questions which Treasury representatives answered, their answers always apparently dismaying him.

E. W. F. h.

June 28, 1940.

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(Initialed) E. H. F., Jr.

ULK:abc 6/28/40

June 28, 1940

The fact that Wilkie is running will make it possible for me to continue for the next four months just the same as the last four months to help the Allies and within the next four months the thing will be settled one way or the other.

* * * * *

Lothian called me at 7:30 last night to tell me that Sir Frederic Phillips is coming and Lothian said he would like me to handle the announcement after he arrives.

CONFIDENTIALFOR YOUR INFORMATION

June 28, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a copy of the request received at 12:05 P.M. today from the Anglo-French Purchasing Board, tabulated as follows:

Canadian Requirements

Eire Requirements

Casablanca Requirements

I gave Major Smith two copies of the foregoing at 12:50 P.M., one for his personal use, and one to be turned over to General Watson. Two additional copies are being transmitted to Admiral Spear and Colonel Burns, respectively, through the Liaison Committee this afternoon at Major Smith's request.

Ry.

CANADIAN REQUIREMENTS

I have received the most urgent request from Canada to ask your co-operation in obtaining the following stocks of war equipment of which they are badly in need. In view of the desirability of having the North American situation well protected, I hope that consideration will be given to this.

1. 250,000 Lee Enfield rifles, with as much ammunition as can be supplied
2. 100 preferably British pattern 75 m.m. field guns
3. 100,000 rounds of high explosive shells for above 75 m.m. field guns
4. 600 Lewis machine guns for land service, with complementary ammunition
5. 200 Vickers machine guns for land service, with complementary ammunition
6. 500 Thompson sub-machine guns
7. 1,000,000 rounds of .45 calibre ammunition for above

A.B.P.

FIRE REQUIREMENTS

1. 24 75 m.m. field guns
2. 72,000 rounds of shells for above
3. 20,000 Lee Enfield rifles with
complementary quantities of
ammunition for same

A.B.P.

CASABLANCA REQUIREMENTS

1. 10,000 Lee Enfield rifles with 500 cartridges each
2. 20 Anti-tank guns with 500 rounds per gun
3. 200 small calibre anti-aircraft guns with 2,000 rounds per gun.
4. 50 Anti-aircraft guns, medium calibre, with 1,000 rounds per gun.
5. 100 modern tanks with complementary ammunition
6. 470 French 75 m.m. guns

A.B.P.

June 28, 1940

RECEIVED

Regaded Unclassified

See Correspondence
to 6/26/40.

71

JUL - 1 1940

MEMORANDUM FOR THE PRESIDENT

The attached memorandum dated June 26, 1940 to you from Secretary Compton does not require a reply. It relates to §2(a) of H. R. 9822, the naval shipbuilding expediting bill which you approved on June 26, 1940, which authorizes the negotiation of contracts without competitive bidding.

On June 27, 1940 I gave you a memorandum discussing this matter to which was attached a letter for your signature to Secretary Compton conferring the necessary authority. That letter was in reply to an earlier undated letter from Secretary Compton to you which covered the same point covered by his memorandum dated June 26.

I am attaching a copy of the draft letter which I submitted with my memorandum of June 27, together with a copy of my memorandum.

(Signed) H. Morgenthau, Jr.
Secretary of the Treasury.

CLK:t
7-1-40

June 27, 1940

MEMORANDUM FOR THE PRESIDENT:

The draft of letter attached to the memorandum of Acting Secretary of the Navy Cumpston relates to section 2(a) of H. R. 9022 (the Naval Shipbuilding Expediting bill now before you for approval). This section does not relate to the profit-limiting provisions of the Vinson-Trammell Act, but authorizes the Secretary of the Navy upon receipt of authority from the President during the national emergency declared on September 8, 1939 to exist, to negotiate contracts for the acquisition, construction, repair or alteration of naval vessels or aircraft, or any portion thereof, including plans, spare parts and equipment, as well as machine tools. These contracts can be negotiated without competitive bidding.

According to the reports of the House and Senate Committees on Naval Affairs the object of the provision is to save time that would otherwise be consumed in advertising for bids, evaluating them after they are received, and perhaps re-advertising.

There was some reluctance to delegating such broad authority to place contracts without competition and in the report of the Senate Committee on Naval Affairs it is stated that "witnesses of the Navy Department assured the Committee that it would be the policy of the Navy Department to continue to submit to competitive bidding its requirements for naval material, wherever practical, resorting to negotiated contracts only where such action would hasten the naval program." Accordingly, in the draft of reply to Secretary Cumpston which I have prepared at your request and attach hereto, the authority of the Secretary of the Navy to negotiate contracts without competitive bidding is limited in accordance with the statements of the witnesses from the Navy Department to the Senate Committee. Other standards by which the Secretary of the Navy may determine in what cases he should negotiate contracts without competitive bidding and what constitutes a fair and reasonable price are included in the draft of reply.

Secretary of the Treasury.

6/26/40

My dear Mr. Secretary:

Pursuant to the authority vested in me by section 2(a) of an act entitled "An Act to expedite naval shipbuilding, and for other purposes" and subject to the provisions and conditions of said section, I hereby deem it to be in the best interests of the national defense during the national emergency declared by me on September 8, 1939 to exist that the Secretary of the Navy be authorized, after the date of approval of said Act, to negotiate contracts, for the acquisition, construction, repair or alteration of complete naval vessels or aircraft, or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment, without advertising or competitive bidding.

However such authority shall not be exercised unless the Secretary of the Navy shall find and determine that if advertising or competitive bidding were required, the bids submitted pursuant to such advertising would not represent the operation of effective competition or unless the Secretary of the Navy finds and determines that advertising for a reasonable time would seriously hamper, impede and delay the acquisition by the Secretary of the Navy of the items specified above.

Such contracts may be negotiated on any basis or system (other than on a cost-plus-a-percentage-of-cost system) which the Secretary of the Navy shall deem appropriate and may include any type of contract heretofore entered into by the Secretary of the Navy after competitive bidding.

Prior to the execution of any such contract the Secretary of the Navy shall find and determine that the price or prices included therein is fair and reasonable having due regard to (a) the cost of production of the same or comparable items in efficient, privately-owned plants operating at a rate of capacity equal to that at which the contractor's facilities will be operated during the period of the performance of the contract, and (b) wherever possible, the cost of production of the same or comparable items in Government-owned plants.

Sincerely yours,

Franklin D. Roosevelt

The Honorable

The Acting Secretary of the Navy.

OK:JJJ:G:KHF:LEN
6-27-40
replied at 7/1/40

THE WHITE HOUSE
WASHINGTON

June 25, 1940

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY
FOR PREPARATION OF REPLY
FOR MY SIGNATURE.

F. D. R.

DEPARTMENT OF THE NAVY
Office of the Secretary
Washington

26 June 1940

MEMORANDUM TO THE PRESIDENT.

Subject: Negotiated Contracts for Public Works.

The Act approved April 25, 1939, authorized the Secretary of the Navy to negotiate contracts for the construction of certain Naval air stations outside of the continental limits. At that time only three such contracts were contemplated and the Act provided that they must be approved by the President.

In the current emergency it became necessary, in the interest of speed of construction, to seek authority to negotiate all public works contracts, and this authority has been granted by the Congress, with your approval.

The number of public works contracts which will soon be negotiated will be in excess of one hundred and may possibly reach a total far greater than this. In order to relieve the President of the burden of personally approving all of these contracts, there was inserted in the Bill to expedite National Defense a provision which would permit the Secretary of the Navy to approve negotiated contracts "acting by direction of the President". In order to avoid all possible delays it will be appreciated if, by approving this memorandum, you authorize me to sign negotiated public works contracts by your direction, contingent upon your approval of H. R. 9522.

(signed) Louis Cagton

Acting Secretary of the Navy

P.S. Adm. Macrell concurs in this recommendation.
L.C.

JT

GRAY

BERLIN

Dated June 28, 1940

Rec'd 4:50 p.m.

Secretary of State,
Washington.

2171, June 28, 1 p.m.

My 1926, June 19, 9 a.m.

FOR TREASURY (FOR COCHRAN) FROM HEATH.

German military authorities under date of June 25, received today, stated they have no information concerning Leroy-Beaulieu, but search is being continued. They have located, however, a Belgian reserve lieutenant (physician) Marcel Leroy born 1908 at Les Sines attached to Namur Fortress. It is assumed that he is not the subject of your inquiry.

HEATH

NPL

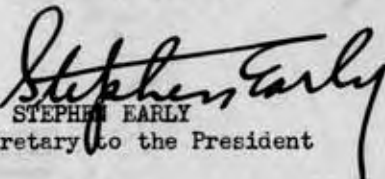
THE WHITE HOUSE
WASHINGTON

June 28, 1940.

My dear Mr. Secretary:

The President on June twenty-seventh signed a proclamation entitled "Control of vessels in territorial waters of the United States", and Regulations entitled "Anchorage Regulations", as recommended by you.

Very sincerely yours,


STEPHEN EARLY
Secretary to the President

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

June 28, 1940
9:00 a.m.

RE CLEARANCE OF FOREIGN VESSELS

Present: Mr. Thompson
Mr. Harris
Mr. Foley
Mr. Schwarz
Mr. Gaston
Mr. Bell
Mr. Pollio
Mr. Richmond
Mr. Derby
Admiral Waesche
Mr. McKay
Mrs. Klotz

H.M.Jr: What did you do, Herbert?

Gaston: Well, we put in the power to control the anchorage of vessels in harbors, the movements of vessels in harbors, the loading and discharging of explosives, and any other dangerous cargo, anything that we need very much, and it is right in line with the terms of the act.

H.M.Jr: Before we do that, let me get Waesche's recommendations. Who are you recommending, Waesche?

Waesche: Derby, Richmond and Pollio will be the three officers I would recommend. Derby will be in charge of the group.

H.M.Jr: Derby will be in command?

Waesche: Yes, sir.

Gaston: He has been in charge of this Maritime training.

H.M.Jr: But Richmond is the man that has the law degree, isn't he?

- 2 -

Waesche: Yes, sir.

H.M.Jr: And they brought you (Harris) up to date on what happened last night?

Harris: Yes.

H.M.Jr: Have you any suggestions?

Harris: Well, I am a little disappointed to find that you are going to ask - require permits for all ships. I think that is an awful duplication and I think it is unnecessary.

H.M.Jr: Duplication with whom?

Harris: Well, I think that all you really require is that we will only hold up such ships as we want.

H.M.Jr: Well, let me put it this way to you, Basil. Come up here (Mr. Harris moved to the front of the room.)

H.M.Jr: I want you to hear my reasons. If I ask only those that I want, and let's say some-time today we get word we want to, then we have got to slap it on that one and immediately that ship and the country represented will know we picked that ship out. If, on the other hand, all foreign ships have to have permits and we say, "Well, we don't know," we can fumble the thing and hold it up and it takes some of the heat off. There will be no holding up in this - I don't know whether you know - they don't go to Commerce. Commerce is out of it. The only people they come to is Treasury. But I mean, if, for instance, some ship has got material on it we don't want to go, we can delay that. If, on the other hand, the President or Navy calls us up and says that, then we have got to single that one ship out.

Harris: Haven't you got to do that anyhow? You still have to single that ship out.

H.M.Jr: Well, I don't know - how do you feel? I said for everybody to think about it last night.

Gaston: I think there are some advantages in having it this way.

H.M.Jr: Which way?

Gaston: The way we are doing it, having it apply to everybody.

Harris: Well, we have had a case, lately - I am not casting any reflections on the Coast Guard, Lord knows, but we have had a case of how the Navy operates and we are - we wanted action on permits about machinery moving and - well, a fellow would grow a beard while you are waiting for an answer on some of those things.

H.H.Jr: That is the Navy.

Harris: Yes, I know it. I want to just cite that, as we go through a bureau there is a tendency to delay on it. A ship is a pretty expensive article.

H.M.Jr: Doesn't he have to get a permit to sail now, from Commerce?

Harris: That is right.

H.M.Jr: Commerce no longer has anything to do with it.

Foley: Mr. Secretary, I think I ought to clear that up. When you said to me over at State Department, "Does Commerce have anything to do with it?" insofar as your holding up a ship that is sailing is concerned, Commerce has absolutely nothing to do with it. You don't have to ask Commerce to give instructions to the Customs offices to withhold permission for that vessel to sail.

On the other hand, when we change this around so that every ship that is going has to get permission, they still act through our Customs offices insofar as the granting of clearance is concerned, but they can't move without your approval.

H.M.Jr: Well now, what bureau is it in Commerce that gives them clearance?

Foley: Well, our Customs Offices act as agents for the Secretary of Commerce in the granting of clearance papers.

Gaston: Bureau of Navigation and Marine inspection. They prescribe the rules and regulations and get out the forms, but the actual function of clearing is done by the collector and that will be done just the same.

H.M.Jr: That is why I asked, Ed. Is that Bureau of Navigation the one that inspects the life boats?

Gaston: Yes.

H.M.Jr: That is the thing I asked you, whether that ought to come over here.

Harris: You recommended that, if you will remember, some months ago.

H.M.Jr: I know, and in connection with this it seems to me this is the time to bring it over.

Foley: Well --

H.M.Jr: Well what?

Foley: Well, I didn't know that was what you were asking me. When you said, "Does Commerce have anything to do with this?" I said, "It has nothing to do with it," because the order goes directly from you to your representative and you don't have to clear it through Commerce at all. You have the say.

H.M.Jr: This is the thing that Herbert Gaston has been trying to get over here for some time.

Gaston: It will take either a statute or a reorganization to get it.

Harris: That is very sound.

Foley: We should have done that on the third reorganization plan.

Waesche: Mr. Secretary, if I may give some information here, Admiral Stark and Admiral Land are,

- 5 -

I daresay, the two men in the Government service whose word should have a lot of weight in Maritime affairs. They are both in accord with having the Bureau of Navigation in three parts as we recommended. I cannot understand why the reorganization order has not gone through with Admiral Stark, Chief of Operations, and Admiral Land, Chairman of the Maritime Commission, and yourself and the whole Treasury Department behind it. I talked to Admiral Stark about the same thing and I gave him a memorandum on it in which I said that if the President would send this reorganization order down, I believe that we could get an affirmative action by the Congress with Admiral Stark, Admiral Land, and myself, all three behind it in a very few days down there.

H.M.Jr: I tell you what you do now. Get these men to give me such a recommendation, Stark, Land, and with Waesche's name on it, and I will give it to the President.

Harris: You see, on some of these boats that we were holding up, we technically had no authority over them. We should really consult with Commerce and say, "Will you instruct our men to hold up the ships?"

(Mr. Bell entered conference.)

Foley: That isn't the situation now under this proclamation, Basil. The Secretary of the Treasury has complete control over movement of ships. He doesn't have to ask Commerce at all. I mean, Commerce can grant clearance and the ship can't sail if the Secretary says no.

Harris: Yes, that is right, but Commerce will still go through the formality of clearing ships.

Foley: Yes, they go through the formality, but it is meaningless if he says the boat isn't to go.

Harris: Exactly.

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H.M.Jr: But this thing which I have heard about, this thing that we were talking about, what I had in mind - Gaston had talked about it a number of times - (a), as you say, if these three men - then let Harris put his name on it and Gaston let it come up to me that way, then I will send it to the President myself.

Gaston: It splits the Bureau of Navigation in three parts, one part to Coast Guard, one part to Customs, and the other part to the Maritime Commission.

H.M.Jr: Well, let me try it this way. We will give blanket authority to certain countries. We are not going to interfere with coastwise shipping and we are not going to interfere with Carribean and South American shipping and so forth and so on. If this setup works the way I mean it to work, there is no reason why from the time the collector of customs sends in for clearance on the teletype upstairs, he shouldn't have the answer within 15 minutes, and if he doesn't have the answer within 15 minutes, they're going to catch Hell from me. We can't get it any quicker than that. Certainly the shippers can't expect a clearance - the man can wait there in an office, the messenger boy, and he will get a clearance while he waits or be refused. If it doesn't work that way - you come in or anybody else can come in and tell me about it. I would like to try it this way. My theory may be wrong, but I would like to try it. If it doesn't work, come on in and tell me about it. That is fair enough, isn't it?

Harris: Yes.

H.M.Jr: And what I thought I would do, Admiral, is have this man located in the building in the daytime but on the night shift, I mean the - I mean from nine to five, he could be here or whatever the hours are, and the other two shifts, let them be in Coast Guard Headquarters where you are on an all night duty anyway. What I want now --

- 7 -

Harris: We don't give any clearance after hours, anyway, do we? I don't think we do. I think we have statutory hours of clearance.

H.M.Jr: Don't they sometimes sail at night?

Gaston: Oh, I think they do.

Harris: They sail at night --

Foley: Well, if you give clearance at the pier, Basil, instead of downtown, you are going to have night service and I think probably you ought to do that under these emergency conditions rather than give a fellow clearance 24 hours before he takes off. I think you ought to give him spot service at the pier because something could happen between the time you give him clearance and the time he actually sails.

H.M.Jr: McKay, ask those three officers to come in, please.

(Commander Derby, Lieut. Commander Richmond, and Lieutenant Pollio entered conference.)

Waesche: Could we get clearances after five at night and before nine in the morning? Is that what you mean? My understanding is that normally no clearances are granted during the night, but the vessels do sail during the night and clearance has been granted during the regular office hours in the daytime, so I think the usual practice is not to grant clearance at night. The clearance is granted in the daytime, and the vessel sails within 24 hours.

H.M.Jr: Well, what I want to do, and I want you men to know this thing, when we started in licensing these banks to issue money, we did everything possible to clear everything up the same day, and we had no organization, we had three or four hundred applications a day.

Bell: That is right.

- 8 -

H.M.Jr: And Mr. Bell handled the thing. I mean, no matter what it was, they broke their necks to clear the thing that day, you see, and certainly the same way in this situation. When these things come in and the man sends in a teletype request, I want almost instantaneous service to the man to go right back, where we know those are the kind of ships there is no question about. If there is some question about it and it is a matter of policy, we will hang onto the license until we get everybody in Washington agreed they shouldn't sail, but my thought was to give coastwise and North and South American shipping a blanket license. That would not include, of course, Canada. I think they ought to get this thing set up. What I would like is for them to have a room downstairs, Norman, where I can walk down there and I want a map. I like a map. I want a map that will show where the ships are and what they are so I can go down there and take a look. That can be done, can't it?

Waesche: Yes, sir.

H.M.Jr: I wish you men would think about this. Beginning with New York Harbor - I saw by the papers where that ship was launched and so forth, in connection with tugs and lighters, anything which will come alongside the ship, I would like to know who owns these tugs and make it so they have got to clear their ownership, whether they are American citizens and whether the men who work on these tugs and lighters are American citizens.

Bell: Make that part of your reporting system without causing a delay, give a general license and then ask for a report of these various things within 30 days.

H.M.Jr: Looking towards sabotage -- after all, the lighters and the tugs - in other words, the ships, the boats that serve these ships, I want to know the nationality of those boats. You say let them file within 30 days?

- 9 -

Bell: Well, 15 or 30 days.

Waeache: That would be an identification card for the longshoremen to load explosives. Nobody is allowed to load them unless he has an identification card issued by Bayliss up there, which contains his fingerprints and his photograph. If we are going to keep track of citizenship of tugs - and they can change every half hour when they are tied up at the pier - it seems to me we must have a system of an identification card for each one of those people.

H.M.Jr: That is right.

Waeache: A lot of those longshoremen that load explosives are Italians. Unless they have something absolutely against a man or they are just new in the country, they are permitting those people, in some cases, to load explosives, because they have been doing it for years and years and years. As a matter of fact, Bayliss kept his gang down there all night one night to get out these identification cards to avoid a strike. The longshoremen were going to call a strike because they were limiting the number of longshoremen that could get in on this so-called gravy. They get higher pay and one and a half time for overtime, and they are working 10 or 12 hours a day and our first idea was to more or less limit the longshoremen who loaded explosives and we are limiting them to some extent, but we are expanding them.

H.M.Jr: When Mr. Harris first came with me, he pointed out to me that they were making plans to take the "Normandie" out and were going to have a time bomb on it and sink it, and at that time, you (Harris) said if you had your way you would never let these big ships come into New York at all. I have got a pretty good memory. How long ago is that?

Harris: A couple of years ago, at least.

H.M.Jr: He is perfectly right, and I think this whole question now, Basil, of the size of

- 10 -

the boats that are coming into New York and the possibility of their sinking a big boat, I think we ought to go into this thing. I have taken this responsibility, very, very seriously and I think, Herbert, your contact with J. Edgar Hoover - you ought to work with him on this thing, too.

Gaston: The way we have drafted these regulations, they cover quite a lot of that problem we have been working on, how to control these harbors better. Also we are providing for appointing quite a considerable list of additional captains of the ports in other ports, Baltimore, for instance. There are a great many places where we don't have captains of the port now. We can appoint them under these regulations.

H.M.Jr: How old is the captain of the port of New York?

Waesche: Bayliss is --

H.M.Jr: Is it Bayliss?

Waesche: The District Commander is captain of the port but Bayliss is the actual commander of the port.

H.M.Jr: What is that old fellow?

Waesche: Dempwolf?

H.M.Jr: Move him out. It is silly. Is he the man I mean, about 65 or something?

Gaston: No, that was Shea.

Waesche: Malloy.

H.M.Jr: The man that had been there and boasted he knew every buoy in New York.

Waesche: Dempwolf was the man who was brought from Seattle several years ago.

H.M.Jr: He considered the "Manhattan" his private boat.

- 11 -

McKay: He was the skipper of the Barge Office, Chief Bos'n of the Barge Office.

H.M.Jr: No, he was the captain. He was a man 50 or 60 years old.

Waesche: Who is the engineer officer up there?

Pollio: Was it Shea?

H.M.Jr: Yes.

Pollio: He is here.

H.M.Jr: He is in headquarters?

Pollio: Navy Department.

Harris: Mr. Secretary, I am a little vague in my mind how this is going to work. When your request for clearance comes down here, who will determine whether that should be immediately granted?

(The Secretary pointed to Commander Derby.)

Harris: What does he base his decision on?

H.M.Jr: He will base it on experience as he goes along.

Harris: You have no knowledge or no evidence.

Foley: Well, he will have this, Basil. The instructions to the collectors provide - and we are only improvising because we really don't know what the standards are either - we have to give some instructions - the Secretary will consider granting permission to the party upon receiving in appropriate cases, the following information by the most expeditious means of communication: Name and nationality of vessel; destination; name of owner and charterer, if any; whether vessel is controlled in whole or in part by any country which is engaged in war or by any nation whose territory or any part thereof is occupied by the military or naval forces of a country participating in war;

whether the vessel is armed or unarmed; brief description of cargo; statement of any unusual or suspicious circumstances relative to vessel, cargo, crew or voyage, which will enable Secretary to determine whether permission for departure should be granted or withheld, and recommendation of officer who will grant clearance as to the granting of the permission to clear from port.

Harris: Who is going to send that here?

Foley: That will be sent in here by the Collector of Customs in the port.

Harris: That is all right, because you see your grounds are generally grounds they pick up in a - sometimes a suspicious movement. You talk about a ship going to South America. He may be going to South America and trans-shipping the cargo to Germany.

H.M.Jr: It goes from collector of customs to whom?

Harris: Here.

H.M.Jr: I mean, who are you addressing it to?

Foley: This is signed by Harris. I suppose it will come from a collector of customs to the Commissioner of Customs.

Waesche: I should say it would be - that this office which we are going to establish here --

Foley: It will be addressed to the Commissioner --

Gaston: They recognize those things, when they come in, the character of the messages.

Foley: That routine can be taken care of inside the Treasury and those wires will be sent down to the room downstairs where the Coast Guard officer is.

H.M.Jr: If it doesn't hold up - I mean, if it goes to the Commissioner of Customs and then goes to the - what do you call it, routing office?

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Waesche: Ship movements.

H.M.Jr: We will get the benefit of your (Harris's) experience and it goes down to this office - this office is responsible to Gaston, you see.

Waesche: My thought was we would have a teletype right down there in their office connected right on the circuit with the Coast Guard and the Custom House so that any message coming into the Custom House in New York would appear right on the teletype down there.

H.M.Jr: What I would like to do is this: I would like Mr. Harris and Mr. Gaston and these officers to go into a huddle and talk this thing over, you see, and work out the details. We are going to have to work fast.

Gaston: We were in a huddle - Mr. Harris wasn't here but we were in a huddle until one thirty this morning.

Foley: May I make a suggestion, Mr. Secretary?

H.M.Jr: Let Harris take a look at it and get the benefit of his experience.

Foley: The regulations that accompanied the proclamation yesterday, of course, have to be superseded. The changes that we have made in these regulations are changes that tighten up the control of loading of explosives and the movement of harbor craft and so forth. It is also to take care of affirmative approval rather than negative approval of sailing of ships that require clearance by a Customs officer. We said in the press release that Steve Early gave out yesterday that provision was made for licensing of harbor craft, but it was not the present intention to license such harbor craft. I should think it might be advisable to put out the regulations with the authority to license the harbor craft and then work out how we are going to do that after the regulations are issued.

H.M.Jr: You fellows were here until one last night?

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Gaston: About one twenty, I guess, wasn't it?
You (Foley) didn't leave until two.

H.M.Jr: What were you doing, working on this or
listening to the Republican Convention?

Gaston: Well, yes. I woke up at half past twelve
last night with a splitting headache and
I turned on the radio and got all the fun
from twelve thirty to ten minutes of one.
I think the thing to do is if you have
got the thing, that Steve Early gave us
the jump, and we ought to move fast.

Foley: That is right, get them out and then
we will work out this other business,
but this thing will be in effect. In
the meantime --

H.M.Jr: If they want to put a teletype and have
the thing right downstairs, that is the
thing, and then at night time you have
got to get over there in Coast Guard
anyway. You can discontinue it at a
certain hour. You put in a circuit, is
that the idea?

Waesche: Yes, sir, we will go right on the same
circuit.

H.M.Jr: Fine.

Foley: Well, shall I read what these regulations
provide now?

H.M.Jr: How long are they?

Foley: Two pages.

H.M.Jr: Go ahead.

Foley: I would like to get it cleared, because --

Gaston: We had some good fundamental provisions.

Foley: I didn't know what you had in mind the
other time and I want to be sure this
time we are together.

"Pursuant to the authority contained in the above-quoted act, the following rules and regulations are hereby promulgated:

"(1) All existing rules and regulations of any department, agency, or instrumentality of the United States governing anchorage and movements of vessels in the territorial waters of the United States are hereby reaffirmed and continued in force during the period of the present emergency, except as modified by these rules and regulations.

"(2) The rules and regulations --"

We had the Solicitor of the Department of Commerce here last night and that is to keep in effect their regulations so there would be no disturbance.

"(2) The rules and regulations governing the anchorage of vessels herein reaffirmed or promulgated shall be enforced by the captain of the port, or where the port has no such officer, by an officer of the Coast Guard or the Customs Service designated by the Secretary of the Treasury. In any case where there are no applicable rules or regulations governing the anchorage of vessels, all anchorage shall be in accordance with the directions of the captain of the port or other officer designated by the Secretary of the Treasury pursuant to this section.

"(3) The movement of any vessel between points within the area of a port, and the movement, lading, and discharging of explosives or inflammable materials or other dangerous cargo shall be under the supervision and control of the captain of the port, or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof.

"(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon,

within the territorial waters of the United States, to place guards upon such vessels, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

"(5) The collector of customs, through the captain of the port or other agency acting for the collector, is hereby directed, subject to the approval of the Secretary of the Treasury, to take full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States, whenever it appears that such action is necessary in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States. Pending action by the Secretary of the Treasury, the collector of customs is authorized to detain any such vessel and is directed to communicate the facts by the most expeditious means available to the Secretary of the Treasury.

"(6) The Secretary of the Treasury may require all lighters, barges, ferries, tugs, motor boats, sailboats, and similar craft operating in the harbor or waters of any port of entry, to be especially licensed by the collector of customs for such purposes and may revoke any license so granted for any failure to comply with the anchorage or harbor regulations for such port, or to obey the orders issued thereunder by any duly authorized officer, or for any act inimical to the interests of the United States in the present emergency.

"(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage on which clearance by a customs officer of the United States is required, unless the principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit the departure."

H.M.Jr:

They use the word "United States". Does that mean Alaska?

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Foley: Any place subject to the jurisdiction of the United States.

H.M.Jr: You don't exclude the Canal Zone? That is subject to the jurisdiction.

Foley: Those regulations, insofar as the Canal Zone are concerned --

H.M.Jr: You don't exempt it. All right?

Foley: That is right.

H.M.Jr: Did I get one?

Foley: Yes.

H.M.Jr: Okay, you owe me a quarter. Go ahead.

Foley: That is all.

H.M.Jr: That would be except the Canal Zone?

Foley: That is right.

H.M.Jr: I think this, gentlemen: After all, we get the thing out and I would rather get it out and then find out we have got to adjust the thing a little bit afterwards, but I don't want to have people feel that we weren't ready and I think we should be ready because as a matter of fact these things don't go into effect until they are published in the register, is that right?

Foley: Well --

Gaston: In the files of the register.

Foley: When they are filed, and that will be today. What we have got to do is to get the other regulations that were over there back and get these in there in their place. Then we have got to get -- I don't think you signed the other ones.

H.M.Jr: I don't think I did either. What was the thing -- what did you call this office, Ship Movements?

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Waesche: Office of Merchant Ship Movements.

H.M.Jr: And I think that ought to be in, Chick, and these three officers' names should be in and explain their position and that they are under Mr. Gaston.

Schwarz: And what they are doing.

H.M.Jr: Detailed. Fix it up so it is correct as to the language and so on. Check it with Norman Thompson.

Gaston: You mean for the press release?

H.M.Jr: Yes.

Gaston: I would suggest that we stress this explosives and dangerous cargo in handling of harbor movements, because it furnishes some real reason.

Harris: You have got to go into that a bit deeper, because shoe polish is a dangerous cargo. You wouldn't want a special officer there when you are loading --

Gaston: All it says, Basil, is that it is under this officer's control and if he was to --

Harris: You have to break that down a little more, that is all, I think.

Gaston: You don't mean in the regulations?

Harris: Well, you speak of dangerous cargo and you have got to have a man present when you are loading it.

Gaston: No, you don't. There is nothing in the regulations saying you have to have a man present.

Harris: I thought you did.

Gaston: If he wants to have a man present, if in his judgment he should have a man present. It just says it is under his control.

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H.M.Jr: The other thing that I think is this, Ed. You may have thought of this. Just as soon as the thing is set, I think we ought to immediately transfer our regulations over to War Department so they can telegraph them down to the Canal Zone. The Governor of the Canal Zone might want to use them as his guidance, do you see?

Foley: Yes.

H.M.Jr: I think if you send them down to the Governor of the Canal Zone you could say, "This is what we are doing."

Foley: Yes, with a letter from you to the Acting Secretary of War.

H.M.Jr: Yes.

Foley: Pointing out the proclamation's - that they could issue similar regulations to the ones you are issuing.

H.M.Jr: Say this is for the guidance of the Governor of the Canal Zone. Do you want to ask some questions?

Derby: No, sir.

H.M.Jr: How about you?

Richmond: No.

H.M.Jr: Pollio?

Pollio: No.

Waesche: All three of these officers were down here last night.

H.M.Jr: They don't show it. Where was Waesche?

Waesche: Here.

H.M.Jr: You don't show it, either. I think this is all right and I just want to say this, when in doubt, ask. I would rather have you be slow, but be sure. In other words, don't

- 20 -

let any ships slip through your fingers and we will - you will have a normal tie-up through Pollio with Naval Intelligence, won't you?

Pollio: Yes, sir.

H.M.Jr: They ought to have a tie-in with them. I think we ought to have a tie-in with J. Edgar Hoover.

Gaston: Yes, they all ought to be notified of the power we have got here.

H.M.Jr: Maybe you can fix me up a letter and I can send this over to the Secretary of the Navy and War and Justice and State and say we would like them - so that we can detail somebody that can work with us and exchange information.

Gaston: Yes.

H.M.Jr: Can you fix that up, Herbert?

Gaston: Yes.

H.M.Jr: If they want anything, they can get in touch with you. Anybody got any second thoughts?

Gaston: Well, one thing we will need to get together --

H.M.Jr: Bell?

Gaston: We have got to discuss this question of policy on what - under what circumstances, that is the important thing that we have right now.

H.M.Jr: Listen, I went through this thing on foreign funds. We had this thing, and the first day, the first three days, were a terrible headache, but the thing gradually worked its way out.

Bell: It still is.

H.M.Jr: Yes, it still is, but I mean it is a question of what are we going to do. This bank wants this money and that thing and this is the same thing and I just raised this question,

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do we want the "Normandie" sticking in the New York Harbor? Maybe we will want to move her up to Boston and let her lay there. Isn't she useful dockage or is there plenty of dockage room in New York?

Harris: Plenty of space.

Gaston: We don't want to deprive New York of its income. Of course, under these regulations, we could put a crew on board the "Normandie" and use her for a maritime service training ship.

H.M.Jr: All right, gentlemen.

(T. D.)

Anchorage Regulations

Regulations for the control of vessels in
the territorial waters of the United States.

Approved by the President

TREASURY DEPARTMENT,
Washington, D. C.

To Collectors of Customs, and Captains of Ports and Others Concerned:

Section 1, title II, of the so-called espionage act,
approved June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191),
provides in part as follows:

"Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States, the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof."

By virtue of a proclamation issued on the 27th day of June, 1940, the above quoted provisions of law are now in full force and effect.

Pursuant to the authority contained in the above quoted act, the following rules and regulations are hereby promulgated:

(1) All existing rules and regulations of any department, agency or instrumentality of the United States governing anchorage and movements of vessels in the territorial waters of the United States are hereby reaffirmed and continued in force during the period of the present emergency, except as modified by these rules and regulations.

(2) The rules and regulations governing the anchorage of vessels herein reaffirmed or promulgated shall be enforced by the captain of the port, or where the port has no such officer, by an officer of the Coast Guard or the Customs Service designated by the Secretary of the Treasury. In any case where there are no applicable rules or regulations governing the anchorage of vessels, all anchorage shall be in accordance with the directions of the captain of the port or other officer designated by the Secretary of the Treasury pursuant to this section.

(3) The movement of any vessel between points within the area of a port, and the movement, lading, and discharging of explosives or inflammable materials or other dangerous cargo shall be under the supervision and control of the captain of the port, or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof.

(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof

is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, to place guards upon such vessels, and to remove therefrom any or all persons not specially authorized by him to go or to remain on board thereof.

(5) The collector of customs, through the captain of the port or other agency acting for the collector, is hereby directed, subject to the approval of the Secretary of the Treasury, to take full possession and control of any vessel, foreign or domestic, in the territorial waters of the United States, whenever it appears that such action is necessary in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States. Pending action by the Secretary of the Treasury, the collector of customs is authorized to detain any such vessel and is directed to communicate the facts by the most expeditious means available to the Secretary of the Treasury.

(6) The Secretary of the Treasury may require all lighters, barges, ferries, tugs, motor boats, sailboats, and similar craft operating in the harbor or waters of any port of entry, to be especially licensed by the collector of customs for such purposes and may revoke any license so granted for any failure to comply with the anchorage or harbor

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regulations for such port, or to obey the orders issued thereunder by any duly authorized officer, or for any act inimical to the interests of the United States in the present emergency.

(7) No vessel shall depart from any port or place in the United States, or from any port or place subject to the jurisdiction of the United States, on a voyage on which clearance by a customs officer of the United States is required, unless the principal customs officer in charge of the port of departure shall have been authorized by the Secretary of the Treasury to permit the departure.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

Approved June , 1940.

FRANKLIN D. ROOSEVELT,
President.

Excerpt from Meeting held on June 28,
1940, at 11:05 a.m., at which were
present Bell, Gaston, Thompson and
Graves

Gaston: Is the function of contact with the Allied
Purchasing - is that out of our hands?

HM Jr: No, no. The Director of Procurement is
chairman of that Board.

Graves: May I make a suggestion on that point?

HM Jr: That's what you're here for.

Graves: I think it would be better to change that
order and assign it to an Assistant to the Secretary, and
leave the Director of Procurement out of it because if you
put a man in with that responsibility it takes so much of
his time he can't do anything else.

Gaston: I think all of the Treasury functions should
be separate.

Bell: When you eliminate that, is it a big job?

Graves: It ought to be a much bigger job than it is.

Gaston: No man can handle both jobs.

HM Jr: That's all right. Are you (Thompson) in
agreement with that?

Thompson: Absolutely.

HM Jr: Let's forget about the Allied thing for a
minute and talk about the Director for Procurement. Let's
just talk about that.

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HM Jr: Let's put Mack aside. If the President is willing to detach the thing and make the man a Treasury man, Colonel Burns and Spear, I could look a long time and not find a fellow as intelligent or as hard working as Phil Young. No one would take as much interest, day and night. Time means nothing. And the important thing is his heart is in it. After all, what's his name who died, Assistant Secretary in 1928 or 1929

Thompson: Gilbert.

HM Jr: Gilbert was about 28 when he came here. I could go a long way and fare worse than on Phil Young.

Gaston: You mean on Allied Purchasing?

HM Jr: Yes.

Gaston: I agree.

HM Jr: Let's be frank among us girls. What has Nelson done on Allied Purchasing? Not a thing; not a thing. And the reason I am taking the whole thing so placidly about his going over to the Big Seven is I'm not losing anything - not a thing.

HM Jr: And then we will get this order changed, and I think we ought to explain this thing in a letter. You (Thompson) write it for me to the President. Simply say - go a little into the history - one of the troubles that Collins had was trying to do both things; therefore, we feel that the new Director of Procurement should be purely in charge of Procurement and that the man on this Board should be an assistant to me who does that and nothing else. And, therefore, I would like the order amended as follows, and I am recommending Mr. Philip Young for that job.

Thompson: Okay, sir.

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HM Jr: I don't want to offer this thing to Phil Young until I get it straightened out with the President, so write the thing and explain the thing to Forster. Forster is awfully good on this thing. Explain the background, what a swell job Mack has done, and explain to Forster why we want to change this thing around.

Bell: I wonder if you should not get confirmation of that executive order that Nelson told you about. He said he got it from Stettinius.

HM Jr: What McReynolds told me last night was - he said he went back to see the President. I said, "What about Nelson?" He said, "That's all straightened out. The reason why the President said no on Nelson was because he did not like the fellow you had in place of him." But you can check that with McReynolds. I don't like to have a hiatus here. Nelson goes over there as of July 1. He takes that job and, at the same time, we announce Phil Young and Mack. Bringing in a fellow like I had in mind, Woodruff of Coca Cola, who was this, that and the other thing, and he might turn out like Nelson.

Gaston: None of these big fellows from big organizations are in the position of a man who has got to make good.

HM Jr: No, Phil has done a big job.

June 28, 1940
12:20 p.m.

H.M.Jr: Hello.

Operator: General Watson.

H.M.Jr: Hello.

General Edwin
Watson: Yeah.

H.M.Jr: Pa?

W: Yeah.

H.M.Jr: Henry talking.

W: Yeah.

H.M.Jr: I see by the ticker that the President
has appointed Nelson.

W: Appointed who?

H.M.Jr: Nelson to a new job.

W: Well, that's that one he was talking about.

H.M.Jr: Yeah, but you told me he was to stay here.

W: He changed his mind yesterday again.

H.M.Jr: Well, the first I know about it is when
it's on the ticker.

W: Yeah, well, I didn't know anything about
it myself until McReynolds and Stettinius
told me last night he had changed his mind
again and was going to let me work over
there with them.

H.M.Jr: I see. Well

W: Well, you know, we can't do anything about
that. He just changed it again.

H.M.Jr: I see.

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W: They said he promised he'd do it the other day and you said you thought he had too.

H.M.Jr: Yeah.

W: And they had.

H.M.Jr: O. K.

W: But you and I can't touch that.

H.M.Jr: NO.

W: He'll do that.

H.M.Jr: Right.

W: And maybe he's done a wise thing. I hope so. Say, look here, they nominated the toughest guy they could have against us last night.

H.M.Jr: That's right.

W: Yeah. No use kidding ourselves.

H.M.Jr: That's right. But you won \$25 didn't you?

W: Yeah, I won \$25.

H.M.Jr: What?

W: Yeah. That's a pretty quick change they made on that, wasn't it?

H.M.Jr: Yeah. Smart.

W: I got that.

H.M.Jr: Yeah, they have nominated a tough guy.

W: What?

H.M.Jr: Sure he's tough. That's why they nominated him.

W: Why, I told the President yesterday morning that they were going to nominate a boy that'd be as tough as they knew was possible. And they picked him.

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H.M.Jr: That's right.

W: That guy has got a bullet in and he's got some color. The only thing is I don't think the head of one of these pyramiding holding companies will hold very good if we get after him.

H.M.Jr: I agree with you.

W:

H.M.Jr: it'll be on domestic issues and not on foreign issues.

W: Oh, yeah. That's the way it'll have to be fought now.

H.M.Jr: I mean, so we can go ahead and help the English

W: Yeah.

H.M.Jr: They don't huh.

W: He doesn't.

H.M.Jr: Well, he ought to know.

W: Yeah. Well, you and I can't do anything but just work.

H.M.Jr: That's right.

W: Keep our own nose to the grindstone.

H.M.Jr: O. K.

W: Yes, sir. Governor Lee is here and said we could come down and fish with him some time.

H.M.Jr: All right.

W: All right.

H.M.Jr: Good-bye.

June 28, 1940
12:11 p.m.

H.M.Jr: Hello.

Operator: McReynolds.

H.M.Jr: Hello.

Wm. H.
McReynolds: Good morning, sir.

H.M.Jr: Mac.

McR: Yes.

H.M.Jr: Nelson is sitting here with me -- you're on the loudspeaker and I just see by the ticker that Mr. Nelson's been appointed to another job. Nobody has let me know anything about it.

McR: Well, you know the thing came up -- you know it had been discussed before and Nelson had talked to you before and then the word you got from the President yesterday

H.M.Jr: was no.

McR: changed the situation.

H.M.Jr: Yes, but that he wanted Nelson to stay here.

McR: Yeah.

H.M.Jr: I've had nothing to change it since.

McR: No. What the President told us yesterday when we raised the question again was that -- he said, the real reason why I sent word back that I didn't want Nelson moved was because I didn't like the person that the Secretary proposed to take his place.

H.M.Jr: Yeah, but now that it's done, I mean, couldn't somebody let me know. I mean, the announcement doesn't say -- does Mr. Nelson go over there, does he resign here. We have no copy of the order. Somebody must have given the order to Mr. Early.

McR: Well, the President announced it at his press conference. He signed the appointment of Nelson yesterday.

H.M.Jr: Well, would it be asking too much to have a copy of it?

McR: As quick as I get the -- as quick as I get the pro forma signatures of these members of the Council and get the thing completed. I had intended of course that a photostatic copy with the President's signature on it would be sent over. As a matter of fact, I had intended to come over there and try to get to tell you -- I wanted to tell you yesterday as you came out -- just what the President had done, but he was buzzing for me and my chance there lay between Missy Le Hand and the deadline and the President told me that the only chance I had to see you again was last night before the first of July as I had some things I had to get cleared before the first of July.

H.M.Jr: O. K.

McR: And it was just -- (laughs) -- I'm terribly sorry. It was just a question of time that has kept me from getting to you since -- I didn't know of course, I had no idea what the President was going to do when we went in there yesterday. The Commission brought it up again and he made the decision to put Don in there in that position of Coordinator of Purchasing and he signed the order to that effect which had previously been prepared.

H.M.Jr: O. K., Mac.

McR: And I intended to lay it in your lap as full information at the first possible opportunity.

H.M.Jr: When does it take effect?

McR: Whenever he goes to work.

H.M.Jr: Well, when is that?

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McR: Well, of course, the order of the President was dated yesterday.

H.M.Jr: I see. O.K. Well, then it's up to Nelson to do what he wants to.

McR: Yeah.

H.M.Jr: All right, Mac.

June 28, 1940
12:07 p.m.

Arthur
Purvis:

Yes, sir. The head of this Curtiss-Wright crowd rang me up and we were having a rather delicate time with them too in connection with another matter -- this tax matter, and I didn't like to resist them but there again I said -- you see, it's a very awkward position because though Mr. Bloom has had nothing to do with it, it might be misunderstood. Well, finally whether I got weak or not in the difficulties of last week, I said to Bloom, all right, go ahead with one understanding and that is that if in any way -- and I said -- I pointed out to him that we were reorganizing and at this very time -- at this very time that it might change the air picture. If at any time this thing looks like it's going to be the smallest damage I expect you to drop it. He said, I'll be very happy to do that. Now, I'm not at all sure that I was wise. I just last week

H.M.Jr: Well, I thought I knew you well enough and it was a bit of a shock to me when I read it.

P: Yes, now I wonder, you know, whether I shouldn't -- would you mind me saying to Bloom that this doesn't sit very well and that you got worried, that I'd explained to you the circumstances

H.M.Jr: No. You can say I called you up and that -- you can say it left a bad taste in my mouth.

P: Yes, and that even though I had explained to you very fully the exact circumstances and that he had nothing to do with air, you felt that the public impression would be bad.

H.M.Jr: Right. You can use me.

P: Well, if I may. Now I really think that perhaps I should have stood firmer, but I've had such a difficult crowd to manage here.

H.M.Jr: Well, I know and I was sure that you wouldn't mind my calling you.

- 2 -

P: Well, I not only don't mind, I really rather appreciate it because frankly there are jolly few people here that I can talk anything over with.

H.M.Jr: Well, I mean, everything has been so clean up there and I think it's very stupid of Guy Vaughn.

P: I think it is too, really.

H.M.Jr: I think it's very stupid of Guy Vaughn.

P: And of course I was in the unfortunate position of knowing that there was this tax thing, that they were terribly difficult and so I think I should have stood firmer.

H.M.Jr: Well, anyway

P: Well, as a matter of fact, your calling me may be just the thing that will enable me to turn the trick.

H.M.Jr: All right.

P: Thank you very much.

H.M.Jr: Thank you.

P: Right.

June 21, 1940

Dr. Fels

Mr. Cochran

Will you kindly send the following cablegram:

"American Legation Lisbon (Portugal).

From the Treasury Department.

Reference your #83 June 22 noon. On June 27 the Treasury telegraphed the Federal Reserve Bank of New York as follows:

"You are authorized to issue thirty day license to the Chase National Bank permitting applicant to make all payments and transfers from account on its books in the name of Credit Franco-Portugais up to but not exceeding in amount, a sum equal to 25 percent of the balance standing to the credit of such account as of the close of business, June 26, plus the amounts of all deposits received for the credit of such account subsequent to June 26. Require weekly reports."

B.M.P.

TELEGRAM SENT

BLS

GRAY

June 28, 1940.

5 p.m.

AMERICAN LEGATION

LISBON

114.

FROM THE TREASURY DEPARTMENT.

Reference your no. 83, June 22, noon. On June 27 the Treasury telegraphed the Federal Reserve Bank of New York as follows:

QUOTE. You are authorized to issue thirty day license to the Chase National Bank permitting applicant to make all payments and transfers from account on its books in the name of Credit Franco-Portugais up to but not exceeding in amount, a sum equal to 25 percent of the balance standing to the credit of such account as of the close of business, June 26, plus the amounts of all deposits received for the credit of such account subsequent to June 26. Require weekly reports. END QUOTE

HULL
(HF)

EA:HF:LWW

JT

GRAY

BERLIN

Dated June 28, 1940

Rec'd 5:20 p.m.

Secretary of State,
Washington.

2165, June 28, 9 a.m. (SECTION ONE)

FOR TREASURY FROM HEATH AND ALSO FOR THE DEPARTMENT'S
INFORMATION.

My No. 1700, June 6, 4 p.m.

The Reich debt increased during March by approximately the same amount as in February, that is by 2262 million marks as compared with 2239 million marks. The total disclosed debt of the Reich (long, medium and short term including tax certificates) stood at 52065 million marks on March 31 as compared with 49803 million marks on February 29.

The character of the Reich's new borrowing during March was entirely different, however,, than in preceding months. Whereas by far the greater part of the Reich's borrowing since the beginning of the war, in fact since the beginning of 1939, has been on short term, the net increase in short term borrowing during March was minimal, whereas borrowing on long term - and medium term reached large proportions.

-2- #2165, June 28, 9 a.m. (SECTION ONE) from Berlin

proportions. The so-called funded debt (long and medium term) amounted to 29904 million marks on March 31 as compared with 27,744 million marks on February 29. As was expected, a large block of the four per cent five-year treasury certificates first introduced on March 12 (see my No. 1916, June 18 and 1345, May 16, noon) amounting to 750 million marks appeared in the statement for March 31. An unexpected development, however, was the large amount of four and one-half per cent liquidity loans sold, the figure for such loans has increased by 1388 million marks during March, a much higher amount than ever before sold in a single month. The entire 1939 issue of liquidity loans has amounted to little more than 3.5 billion marks. The Renten Bank loan also increased by 89 million marks. The total increase in funded debt during March after subtracting small decreases in several items was 2160 million marks compared with an average monthly increase of 450 million marks during the first six months of the war.

The so-called floating debt increased during March by 421 million marks but the amount of tax certificates outstanding decreased by 319 million marks so that the increase in total short term debt was only 102 million marks as compared with an average increase of 1623 million marks during the first six months of the war. The total

disclosed

-3- #2165, June 28, 9 a.m. (SECTION ONE) from Berlin disclosed short term debt (including tax certificates outstanding) was 22,161 million marks on March 31, compared with 22,059 million marks on February 29. Treasury bills and certificates outstanding increased during March by 510 million marks whereas direct borrowing at the Reichsbank decreased by 89 million marks. The amount of tax certificates outstanding decreased by 319 million marks during March which is approximately double the average amount turned in for tax payments in the three preceding months and represents roughly three-quarters of the tax certificates becoming eligible for tax payments during this period.

HEATH

NK

(Excerpt from a letter of June 28, 1940 from Ambassador Braden at Bogotá, to Mr. Duggan, Chief of the Division of the American Republics.)

Señor Fernando Martinez Dorrien has been in New York for some two months, and his brother called at the Chancelry this morning to hand me a letter received from New York. It was indicated that one of the principal purposes for the trip to New York was to meet with Mr. Louis Dieu, a French citizen, who is financially interested in Editorial Bolivar. It had been found that the present capital structure of Editorial Bolivar was insufficient and Mr. Dieu proposed to make up the amount needed. He had given Señor Martinez Dorrien a check on June 18, 1940, in the amount of \$12,000, and subsequently had issued a further check to bring the total amount up to \$25,000. These funds were destined for additional investment in the enterprise in Bogotá. Señor Martinez Dorrien now finds it will be impossible to remit the funds to Colombia, due to their having been blocked by our government's action resulting from the present situation in France. He has appealed to me for assistance in having these funds released so that the needs of his business may be met, including payment for supplies purchased in the United States.

For your background information, it may be indicated that Señor Martinez Dorrien, who is a Spanish citizen, arrived in Colombia some time ago, allegedly fleeing from Spain, where he is reported to have been actively aligned with the Republican Government. He has displayed considerable evidence of wealth and has so far made a going concern of Editorial Bolivar. Señor Martinez Dorrien, both in his personal capacity and through his two periodicals, has throughout evidenced a desire to co-operate with us and his periodicals have always been highly friendly to the United and this Embassy.

••

PLAIN

Stockholm

Dated June 28, 1940

Rec'd 10:20 a.m. 29th

Secretary of State,

Washington

679, twenty-eighth.

FOR COMMERCE

Refer our 559, May 27

Manufacturing situation unchanged. Inventories only slightly higher. Regarding exports see our 663 concerning German interest special delegation now here discussing prices and details but Germany not yet prepared to discuss shipments to Belgium, Holland, France while Italy is making by rail only cellulose for rayon industry. See our 605, June 8 and 610, June 10 re shipping.

STERLING

JT

GRAY

BERLIN

Dated June 28, 1940

Rec'd 3 p.m.

Secretary of State,
Washington.

2165, June 28, 9 a.m., (SECTION TWO)

The Reich thus may be entering a new phase of financing. Whereas up until March the war had been financed (outside of tax revenues) largely through short term borrowing the emphasis is now being placed on medium and long term borrowing. It is probable however, that subsequent months will again show somewhat greater borrowing on short term however, than occurred in March. It is hardly likely that the savings banks and insurance institutions can take up as large an amount of liquidity loans each month as in March. According to estimates in the press the sales of 4% Treasury certificates which continued until toward the middle of May amounted to approximately one and one-quarter billion marks per month but from the middle of May to June 18 no 4% Treasury certificates at all were issued. On the whole, however, it seems clear that the trend is toward longer term borrowing as might be expected from the continued liquid condition of the money and capital markets.

HOWEVER,

-2- #2165, June 29 (SECTION TWO) from Berlin

However, since the new 4% Treasury certificates cannot be rediscounted at the Reichsbank (although they may be used as collateral) it is probable that this development may be only a temporary one. Such a method of financing leaves less opportunity for the Reichsbank's powers of credit expansion to enter into play and this has been of tremendous importance up till now as evidenced by an increase of approximately one-third in the Reichsbank's investment portfolio from August 23 of last year to June 23. The facilities of the gold discount bank may again become important, however, since the amount of its sola bills outstanding is rising having increased from a low of 306 million marks on March 30 to 799 million marks on May 31. As will be recalled the gold discount bank's sola bills were originally introduced in order to provide commercial banks with a liquid paper rediscountable at the Reichsbank the proceeds being used by the gold discount bank to purchase bills from the Reichsbank. These had fallen out of favor with the banks because of a slight difference in the cost of rediscount but since this has now been eliminated it is probable that they will again play a more important role especially if fewer Treasury bills are being issued and the banks' desire for liquidity increases as might be anticipated if Germany's military success continues and the termination of the war appears imminent. (END MESSAGE)

HEATH

CSE

BLS

GRAY

ANKARA

Dated June 28, 1940.

Rec'd 3:25 p.m.

Secretary of State,
Washington.

110, June 28, 11 a.m.

Paul Friis, Danish Charge d'Affaires requests that authorization be granted to Guaranty Trust Company of New York to honor check no. 1907 of June 1, 1940 in the amount of \$589.34 drawn by Danish Ministry of Finance to the order of Paul Friis Ankara.
STCOR.

MACMURRAY

CSB

June 25, 1940

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy, (Paris), Bordeaux.

For Matthews.

From the Treasury Department.

Reference your 95 June 25 7 p.m. which was received June 25.

Federal Reserve Bank of New York states that Bank of France and Swiss National Bank were advised by cable last night of transfer in question upon completion."



June 28, 1940
4:00 p.m.

GROUP MEETING

Present: Mr. Bell
Mr. Gaston
Mr. Thompson
Mr. Young
Mr. Foley
Mr. Haas
Mr. White
Mr. Schwarz
Mr. Tarleau
Mr. Blough

H.M.Jr: Now look, all you fellows with all your papers, if I sign anything at all, you are lucky. The President wants an excess profits tax by Monday, a message. He said Monday is the psychological day.

White: Is there a message to accompany it?

H.M.Jr: Oh, not a bill, just a message. It is the opening gun of the campaign.

Klotz: They are holding back.

Bell: I am not sure it will be loaded very well. It ought to be loaded, if you are going to do it.

H.M.Jr: Why, what is the matter with it?

Bell: Well, you have got two days and I think the pressure is --

Foley: That is all. You have got to have an excess profits bill, there is no doubt about that. It ought to be a good message.

- 2 -

This is the end of a long, hard week.

H.M.Jr: You are telling me? I am going through the motions and if either Pat or Doughton is there, I am going to kill them.

Bell: You have the rest of us worried. I am pretty sure Doughton isn't there.

(Telephone conversation with Senator Harrison's office follows.)

(Senator Pat Harrison's office)

June 28, 1940
4:12 p.m.

H.M.Jr: Hello.

Operator: Senator Harrison is out of the city. I have Miss Blanton.

H.M.Jr: Oh, yes.

Operator: Go ahead.

H.M.Jr: Hello, Miss Blanton.

Miss Catherine Blanton: How are you?

H.M.Jr: I haven't talked to you in a long time.

B: No, sir.

H.M.Jr: Miss Blanton, when do you expect the Senator back?

B: Monday morning.

H.M.Jr: Monday morning. O. K. Do you know about what time he's going to come in.

B: On that early morning train.

H.M.Jr: Do you think it will be safe to ask him, say, to come to my office at 10:00?

B: Oh, yes. Uh-huh.

H.M.Jr: What?

B: Yes, sir. I'll put that down and he'll be there. 10:00 o'clock Monday morning.

H.M.Jr: 10:00 o'clock. And I may want to get the help of Stan. The President wants us to do a little drafting for him.

B: Uh-huh.

- 2 -

H.M.Jr: So that you know very confidentially, he wants me to talk over with the Senator and Doughton a message on excess profits.

B: Yes. Uh-huh.

H.M.Jr: So I thought if the Senator could be at my office at 10:00, we can talk it over and I'll try to have my boys and Stan see what they can do over the weekend.

B: Well, may I call Stan and tell him that you have this in mind?

H.M.Jr: Will you, and tell him to get in touch with Tarleau.

B: All rightie.

H.M.Jr: And I'll tell Tarleau to do the same.

B: All right, sir. He'll be there.

H.M.Jr: 10:00 o'clock. You'll deliver them.

B: Yes, indeed.

H.M.Jr: Thank you.

B: Good-bye.

- 3 -

Foley: Did you let John know?

H.M.Jr: He will.

Foley: Tarleau is going away on vacation tonight for a week.

H.M.Jr: He was.

Haas: He said he hoped the meeting would be short.

Klotz: You are mean.

(Mr. Tarleau and Mr. Blough entered the conference.)

H.M.Jr: I have got good news for you boys. Sit down. The President wants a message to Congress on excess profits.

Tarleau: When is that?

H.M.Jr: Monday. Don't look so pale. He looks sick, doesn't he?

White: Gee, I'm glad I am not in the Tax Division.

Blough: Just the message, not the bill?

Tarleau: Oh.

(Telephone conversation with Mr. Doughton's office follows.)

(Congressman Robert Doughton)

June 28, 1940
4:15 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton is out of the city and Miss McCandless in the Ways and Means office is the only person over there. His own secretary is away too.

H.M.Jr: Who's Miss McCann?

Operator: Miss McCandless, M-c-C-a-n-d-l-e-s-s. She's in the Ways and Means office -- a clerk.

H.M.Jr: Wait a minute. (Talks aside). Yes, let me talk to her.

Operator: Go ahead.

H.M.Jr: Mrs. McCandless.

Miss McCandless: Yes, Mr. Morgenthau.

H.M.Jr: How are you?

McG: I'm fine, thank you, sir.

H.M.Jr: When do you expect Mr. Doughton back?

McG: Well, the first of the week.. I can't be too definite as to which day, Mr. Secretary.

H.M.Jr: Well, now, will you do me a little favor?

McG: I'll be so happy to.

H.M.Jr: This is very confidential. The President is very, very anxious that I get together with Mr. Doughton and Senator Harrison. He wants us to work on a message. He wanted it Monday -- on excess profits. I got hold of Senator Harrison's office and they said he could be at my office at 10:00 on Monday.

McG: I'll be very happy to wire Mr. Doughton.

- 2 -

H.M.Jr: Would you? Don't -- just say, important meeting my office -- very important meeting my office 10:00 o'clock Monday.

McC: I'll wire him this afternoon.

H.M.Jr: Pardon?

McC: I'll wire him this afternoon.

H.M.Jr: Yes. And could you also contact Jerry Cooper, too?

McC: Yes, indeed.

H.M.Jr: And get him to my office if possible Monday.

McC: Monday morning at 10:00 o'clock.

H.M.Jr: 10:00 o'clock.

McC: I'll be so glad to.

H.M.Jr: Thank you.

McC: Yes, indeed. You're welcome.

H.M.Jr: Right.

H.M.Jr: Now, in order to save me time, will you get hold of Mr. Sullivan and if he is feeling at all well, I will ask him to be here Monday, say for two days.

Tarleau: Yes.

H.M.Jr: Then he can go back up again, and I also want Mr. Magill and Mr. Randolph Paul.

Tarleau: All right.

H.M.Jr: We will work from the inside.

White: It is a very good idea.

H.M.Jr: Sure, why have him write an independent message?

Tarleau: All right. Want me to start that now?

H.M.Jr: Yes, and whatever your plans are, I think you will have to just --

Tarleau: I was going to take a boat tonight, but I will call up and get rid of my ticket.

H.M.Jr: Well, if there is any personal loss to you, let me know, will you? Seriously, if there is anything out of your pocket, let me know.

Tarleau: And I will get these three men and tell them to be here.

H.M.Jr: Yes, and I want you to get hold of Stamm. Where were you going?

Tarleau: To Virginia Beach. Oh, I hope I can get rid of it.

H.M.Jr: If you can't, let me know.

Tarleau: She is trying to get Stamm?

H.M.Jr: Yes. She couldn't locate him, he is gone.

Tarleau: She couldn't locate him?

H.M.Jr: If there is any expense to you, let me know, please.

Blough: Is there anything indicated as to the nature of the message that is desired?

H.M.Jr: All I can say is what Bob Jackson says, "Make it tough."

Tarleau: We have got to use a little imagination as to what he would want in a message.

White: It is a political campaign you have, Blough.

H.M.Jr: Tarleau, you carry the ball and Mr. Sullivan and Mr. Randolph Paul and Mr. Roswell Magill in this office at ten o'clock Monday.

Tarleau: Fine.

(Tarleau and Blough left the conference.)

White: I am glad I am not in the tax division. That lets us out.

Bell: Don't they need an economist?

H.M.Jr: Dan?

Bell: You got another letter from the Secretary of War on a case that we have had since March. We have been drafting it and if you want to sign it --

H.M.Jr: What it is about, Dan?

Foley: It is war legislation, Mr. Secretary, to take care of civil rights of soldiers and sailors in war time. There is no hurry about it, and it has to do with suspending suits while they are in the enlisted service and eviction of their families from their homes while they are in military service in payment of premiums on insurance policies while they are in the Government service and all that stuff. Johnson wrote you a letter about it today and said they hadn't had a reply to it.

(Telephone conversation with "Pa" Watson follows.)

June 28, 1940
4:20 p.m.

General Edwin
Watson:

Hello.

H.M.Jr:

Pa?

W:

Yeah.

H.M.Jr:

The President said he wanted me to have a message for him on taxes ready by Monday, see? Well, I've contacted Harrison, Doughton and Cooper plus the tax expert on the Hill and all of them are out of town, and I've asked them all to be at my office at 10:00 o'clock Monday.

W:

All right.

H.M.Jr:

Please tell him that's the best I can do.

W:

All right.

H.M.Jr:

There isn't a one of them in town.

W:

All right. Now, look here. I'm sending you something that the President told me to take up confidentially with you through a report by our friend in the F.B.I. Do you want me to send it down to you?

H.M.Jr:

Yeah.

W:

See? And we'll take this up confidentially with Henry M.

H.M.Jr:

Yeah.

W:

Are you coming up here tomorrow, or what?

H.M.Jr:

No, I'm not. Are you?

W:

No, I want to be here.

H.M.Jr:

Well, if you could -- got a messenger there?

- 2 -

W: Yeah. I'll send it right down to you.
H.M.Jr: If you could hustle it over.
W: Right now.
H.M.Jr: Right now.
W: Right now.
H.M.Jr: Yeah.
W: Yeah. Right now.
H.M.Jr: What?

- 6 -

H.M.Jr: Okay, Harry?

White: Yes.

H.M.Jr: What, hasn't anybody anything?

Foley: Oh yes, I have. This is the letter of transmittal for the new regulations of Vinson-Trammell.

H.M.Jr: Oh, wonderful.

Foley: Executive order.

H.M.Jr: The President has to sign it?

Foley: Yes. It has got the Attorney General's approval.

H.M.Jr: Initialed?

Foley: It is all initialed.

H.M.Jr: Gentlemen, I hope you all have a nice pleasant week-end. May God bless you.

PARAPHRASE OF TELEGRAM SENT

TO: American Consul, Bordeaux

NO.: 48 for Biddle

DATE: June 28, 1940, 8 p.m.

FOR MATTHEWS FROM THE TREASURY.

Reference is made to your telegram no. 95 of June 25, 7 p.m., which we received on June 28.

It is stated by the Federal Reserve Bank of New York that upon completion of the transfer referred to in the above-mentioned telegram, they advised the Swiss National Bank and the Bank of France by cable last night.

HULL (HF)

EA:EB

JUNE 28, 1940.

Despite the closing of the Mediterranean and the virtual cessation of shipments to France, the volume of export traffic moving through the Port of New York is increasing.

The number of cars of export freight lightered daily averages 900 and the average daily quantity awaiting lighterage is approximately 5000 cars. Both figures represent new record highs since the establishment of the port organization by the Association of American Railroads.

The number of export cars in railroad owned storage facilities is also high with 5513 cars but there is still available room for another 10,000 cars.

The number of lighters containing export freight on demurrage as of noon June 27th was 134, a sharp increase over the past week but probably due in great measure to the inability to work vessels the first few days of the week on account of the heavy rains.

There is no change of consequence in the export grain situation at New York; the quantity in elevators, railroad cars and boats holds around one and a quarter million bushels.

The Port of New York Authority announces that imports through the Port of New York are holding at about the pre-war level -

April 1939 - \$ 98,000,000.

April 1940 - 101,000,000.

The imports from Europe dropped from a valuation of \$43,000,000. in April 1939 to \$26,000,000. this year. The best part of the slack was taken up by Asia, which jumped from \$27,000,000. April 1939 to approximately \$45,000,000. April 1940. Imports from South America likewise helped to make up for the loss of European traffic.

-2-

June 28, 1940.

Carloadings for the week ended June 22d increased 16,000 cars over the preceding week and the average is 109.25% over that for the ten year period. Miscellaneous freight made up about one third of the increase, with grain and ore accounting for the remainder.

The British government is reported to be negotiating for a second lot of approximately 9,000 tons of Lard.

Occasioned probably by uncertainty as to disposition of the large quantities purchased by the French government, the price of export copper fell below 11¢ per pound.

Following the closing of the Mediterranean there has been a sharp increase in the number of scheduled sailings to northern Spain and Portugal, particularly Portugal. Estimates of potential traffic had to be revised drastically downward when it became known that in addition to Great Britain's refusal to issue any navicerts on cargo to Switzerland, vessels of United States registry would not be permitted to carry cargo via neutral ports in Spain or Portugal if the cargo were in transit to Switzerland.

The first combination passenger-cargo sailing of the American Export Line in their New York to Lisbon service, lifted only 400 tons.

An ingenious scheme to get traffic into Egypt, Palestine, Syria, Turkey, etc. was disclosed by the Barr Shipping Corporation who have set up a method of reaching these countries through the back door, transshipping at Persian Gulf and Red Sea ports cargo brought to these latter ports by vessels from the United States around the Cape of Good Hope and up the east coast of Africa.

-3-

June 28, 1940.

Full cargo rates continue to give ground on all fronts. The American Export Line chartered another of their freighters for a full cargo of coal to Lisbon at \$9.25. Coal to South America is down to \$7.00, if not slightly below. Rates on scrap iron to Japan have also been reduced.

The American steamer "ILLINOIS" was paid \$3.65 for a round trip in the South African trade - 10¢ less than the last fixture. The West Indies time charter rate is nominally quoted at \$3.00 but charterers are reported offering as low as \$2.25.

The tanker situation is equally as depressed as the dry cargo trades. Refusal of the Maritime Commission to approve the charter of six American ships for the carriage of oil to Spain has thrown these American ships back on the coastwise tanker market and pushed rates down.

Daniel Harris

TO:

The Secretary

Indyed

141

The informant mentioned in Hoover's June 17 to Watson is Eric L.F. Archdeacon of the Bankers Trust Co. He lives at Greenwich, Conn. Hoover will ask him to come down any time you say.

A large, stylized handwritten signature, possibly reading "W.B.", is written in dark ink.

From: Mr. GASTON

THE WHITE HOUSE
WASHINGTON

June 28, 1940.

MEMORANDUM FOR: Honorable Henry Morgenthau
Secretary of the Treasury.

Dear Mr. Secretary:

I am sending you herewith, by
special messenger, the papers about which
I just spoke to you over the telephone.

Sincerely,

Edwin M. Watson
EDWIN M. WATSON

Secretary to the President.

143

THE WHITE HOUSE
WASHINGTON

June 27, 1940.

MEMORANDUM FOR
GENERAL WATSON

Will you take this up
confidentially with Henry
Morgenthau?

F. D. R.

**Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.**

June 17, 1940

PERSONAL AND CONFIDENTIAL

Brigadier General Edwin M. Watson
Secretary to the President
The White House
Washington, D. C.

Dear General Watson:

I thought you and the President would be interested in the following information which deals principally with Germany's financial and business relationship to the United States. These data are furnished as received from a newly developed confidential informant who is in this country after having spent many years as the representative of a large American bank in Germany and, feeling sincerely desirous of assisting our country, undoubtedly can be relied upon.

According to the informant, Nazi investments in the United States total about two billion marks and American capital in Germany totals about three billion marks. The earning power of the former in the United States is a principal source of revenue for Germany to carry on its activities here, and he believes that exchange control similar to that instituted by the Nazis would cut off American financial aid to that country. He further expressed the belief that most of the large German interests in the United States are camouflaged as Dutch, Swiss or Swedish corporations and that if this country could find some way of going behind these corporate screens to halt them, with the resulting loss of income, it would be a tremendous blow to the Nazis.

-2-

This Bureau's informant has further advised that for the immediate future at least German agents will probably ship their purchases of materials from this country in Japanese boats across the Pacific and via the northern water route to Murmansk, Russia, which he understands has been completed and is navigable and ice-free for about six to eight weeks per year during the months of July and August, thence by railroad across Finland and reshipment to German Baltic ports. He further added that Russia's bargaining position with the Nazis has been of sufficient strength to force them to furnish munitions, machinery and machine tools in return for oil. He also brought out that in speaking with a high military official in Germany he has been told that Russia's agriculture has been highly mechanized and that Russia needs about 50% of the oil she has for the operation of the farming machinery. This same source advised the informant that if Germany ever declared war against Russia she would immediately attack the Russian oil fields which would eventually starve that country within its own borders.

This informant from his extensive experience in the German financial and business world expresses the definite belief that should the Nazis win the present war they will be in a position to undersell American products in all the markets of the world with a resulting drastic drop in the American standard of living.

It is suggested that should you have occasion to need any specific information which might be available from a man with the experience and background of the source of the above data, I shall be pleased to undertake an approach to him in the matter.

With assurances of my highest regards,

Sincerely yours,

J. Edgar Hoover

BY SPECIAL MESSENGER

CONFIDENTIAL

146

RDS

Tientsin via N.R.

Dated June 28, 1940

Rec'd 6:45 p.m.

Secretary of State,
Washington.

104, June 28, 6 p.m.

FOLLOWING SENT AT THE REQUEST OF THE TIENSIN AMERICAN
CHAMBER OF COMMERCE.

"Chinese Maritime Customs, Tientsin, have officially announced that as from June 27, 1940 no merchandise may be imported into North China unless a permit is obtained from the Japanese-controlled Federal Reserve Bank. Complete information as to full significance and exact working of these new regulations not yet available but this Chamber views same with very grave apprehension and considers that American trade with North China will be relegated to the same condition as that now prevailing in 'Manchukuo'. This Chamber is firmly of the opinion that protest to Japanese Government will be of no avail unless assurance in no uncertain terms is given that retaliatory measures will be instituted otherwise only such American companies (?) North China will be permitted as may be desired by the Japanese Government."

Sent to the Department. Repeated to Chungking, Peiping.
Airmail to Tokyo.

EMB

FLETCHER

June 28, 1940

10:30 a. m.

Present:

Ambassador Shih
Mr. T. V. Soong
Mr. Daniel W. Bell
Mr. Merle Cochran

HM, Jr: You had a good trip?

Mr. Soong: Splendid! Came all the way by Clipper.
Ran into very good weather.

HM, Jr: You made a very fast trip, didn't you?

Mr. Soong: Yes. Only about ten days from Chungking altogether.

HM, Jr: Is the Bank now in Chungking?

Mr. Soong: You mean the Bank of China?

HM, Jr: Yes.

Mr. Soong: No. We have operating headquarters more in Hong Kong rather than in Chungking, because of foreign exchange.

HM, Jr: You didn't see my friend, K. P. Chen?

Mr. Soong: We crossed each other. He was on the boat going from Manila to Hong Kong.

HM, Jr: I got a message from K. P. that he has changed his route.

Ambassador: Yes.

HM, Jr: He isn't going by Rangoon.

Mr. Soong: No, the French collapse and the threatened

-2-

invasion of Indo-China made the direct route better.

HM, Jr: What have you got left now? Have the English consented -- have they shut the Burma route?

Mr. Soong: No, they have not and from what I get, they will not do so.

Ambassador: We also have confirmation from London, from our Ambassador there, that the English will not yield to Japanese demands.

HM, Jr: Well, that's something, because the amount of material at Haiphong was enormous.

Mr. Soong: Quite large. Lately it has been reduced by strenuous efforts of French Indo-China authorities.

HM, Jr: But there are 60,000 or 70,000 tons.

Ambassador: Altogether about 80,000. Over 80,000. Very few from this American side. About 20,000 tons from the American side. All kind of goods from Hong Kong or from other sources, from Russia, all accumulated there, clearing

HM, Jr: ... 10,000 a month?

Ambassador: No, they can clear 18,000 and scheduled to be 30,000 in October.

HM, Jr: But that's all stopped?

Mr. Soong: Now, yes, it is stopped. In fact, the status of the Governor is in question. I think the Governor wants to resist, continue resisting, whereas the Petain Government removed him. The question is whether he will take his removal.

HM, Jr: The Bank of Indochina, they own that railroad, don't they? Or control it?

Mr. Soong: Yes.

-3-

HM, Jr: What's his name

Mr. Cochran: B-a-u-d-o-i-n.

HM, Jr: Baudoin?

Mr. Soong: Baudoin is Chairman of the Bank.

HM, Jr: Didn't I hear that Bedouin has gone to England?

Mr. Cochran: No. He's still in France. Gave out a statement yesterday. He is the Minister of Foreign Affairs and he's in favor of yielding on the Continent.

HM, Jr: He is?

Well, sir. What is on your mind?

Mr. Soong: General Chiang Kai-Shek wanted me to come over and see the President and members of the Administration because of the changed situation in the world. We all had expected, hoped, that it would be victory for the Democracies and now France has suddenly collapsed and England is fighting for its very existence. This means a change in our world outlook as well as yours and, therefore, we would like to be able to consult, if somebody could come over and discuss with the President and the Administration what the future outlook from the United States would be and at the same time to let the President know what is our internal situation, our military strength, our relations with various countries including Russia and certain questions which the United States might like to know, so he sent me.

HM, Jr: Well, I am sure the Ambassador can arrange for you.

Ambassador: I have just put in a request to present Dr. Soong to the President. Because I have been away three years and Mr. Soong's father was my teacher and we lived in the same dormitory at Columbia, and his coming is a great help to me, bringing to us and your Government the latest information, authentic information.

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HM, Jr: In regard to Russia, I mean -- my information -- I have not been following this as closely as I should -- are you still getting regular supplies from Russia?

Mr. Soong: Yes.

HM, Jr: You are. That's everything, all sorts of munitions?

Mr. Soong: The overland route is necessarily very difficult, so except for some very special arms and implements we do not have much at this time.

HM, Jr: You get plenty of airplanes?

Mr. Soong: Practically all of our airplanes now are Russian.

HM, Jr: Russian aviators?

Mr. Soong: Yes. They come in as volunteer. Either Russians or Czechs.

HM, Jr: That's something new.

Mr. Soong: No, because after the absorption of Czechoslovakia many Czechs went to Russia and the Russian Government sent them over.

HM, Jr: Do they give you good planes?

Mr. Soong: Very good planes, not perhaps their latest types, but still good enough to be on a par with the Japanese as far as quality goes.

HM, Jr: But not enough.

Mr. Soong: Not near enough. You see, the Japanese are raiding Chungking every day and they come with 150. We may be able to send up 20 or 25 to meet them.

HM, Jr: Pretty hopeless, isn't it?

-5-

Mr. Soong: Very difficult, but we still manage to shoot 2 or 3 down because we have pursuits and the Japanese still have to use bombers, which operate at a certain disadvantage.

HM, Jr: Are they slower?

Mr. Soong: They are slower, yes, for mass formation which protects them very well and, therefore, the disparity of numbers really narrows down to pursuits.

HM, Jr: Do you think the tung oil will continue to come out?

Mr. Soong: Yes. I have no doubt. By way of Burma.

HM, Jr: By way of Burma?

Mr. Soong: I am almost certain England will not yield as far as Burma is concerned. I am almost certain of that.

HM, Jr: What condition is that road in?

Mr. Soong: The road has been steadily improved. There are some American engineers helping and when we are forced to fall back on this, the only source aside from the Russian road, I think it will be used to much greater extent.

HM, Jr: How stiff are the Russians in their demands on you in return for what they give you?

Mr. Soong: They have made no political demands.

HM, Jr: They have not?

Mr. Soong: None. Of course they must be interested in the Chinese communists, but so far that they have been very correct. Never even mention them.

HM, Jr: I see. Well, are the numbers of Chinese communists growing?

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Mr. Soong: They are standing still, for some time.

HM,Jr: Do they have a separate Army?

Mr. Soong: They have a separate Army which is not very large in numbers and not very efficient, because poorly armed and more fitted for guerilla warfare than stiff pitched battles.

HM,Jr: Dan, would you like to ask anything?

Mr. Bell: No, I don't think so.

HM,Jr: How about you (Cochran)?

Mr. Cochran: On tin shipments, how would they come out now?

Mr. Soong: I think they would also go by way of Burma.

HM,Jr: We were supposed-- Mr. Nelson told me yesterday -- we were supposed to have bought 6,000 tons of tungsten in Indo-China. Did you know about that?

Ambassador: Yes. I was most grateful to your Government to enable us to get this 6,000 tons of tungsten and 5,000 tons of antimony out. That is about the total amount. It is worth \$8,000,000 gold. And this was done in one day. All Departments cooperated -- Treasury, National Defense Board, the Department of State, and Mr. Jones of the Export-Import Bank. Every Department helped us. Within ten hours the State Department sent out despatches to enable it to come out. I have not received any news as to the ship. We hope to be able to get it here.

HM,Jr: That's what I hope.

Ambassador: This amount is in the hands of the American Government. This amount is sold to the American Government. The transaction was completed day before yesterday.

HM,Jr: If they can load it and get it on board

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Ambassador: That is the question.

HM, Jr: I can't understand -- we have talked about that with the English and French for over six months, about that tungsten, talking about doing something. It's at least six months.

Ambassador: The French had an offer to buy the whole thing and they made an offer and the Government at that time had to sign this sale because the whole thing was in the hands of the French authorities in French Indo-China, but then at the last moment the French practically could not live up to their offer. They just gave up. That's why at the last moment our Government again offered it for sale, this amount, to you. To your Government.

Mr. Cochran: Does this take all of the tungsten and antimony?

Ambassador: Practically all.

HM, Jr: Was it in Haiphong?

Ambassador: It was in Haiphong -- 6,000 tons of tungsten and 5,000 tons of antimony.

HM, Jr: And the French will let it go out?

Ambassador: That is the part we don't quite know.

Mr. Bell: Where is it now?

Ambassador: At Haiphong.

HM, Jr: It's been there for at least six months.

Ambassador: Yes, accumulated.

HM, Jr: And that money that you are getting is free money?

Ambassador: Yes.

HM, Jr: You can use it for anything you want?

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Ambassador: Yes, if we can get this out.

HM, Jr: They are not making you use it against the loan?

Ambassador: No.

HM, Jr: Free money?

Ambassador: Yes.

HM, Jr: Be very useful.

Ambassador: Yes.

HM, Jr: Well, sir, we are here. You have got everybody here in the Treasury and next week if you care to come in I will be very glad to see you.

Mr. Soong: Thank you very much.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

After talking with Mr. Basil Harris and with Mr. Yost of the Department of State today, I telephoned Dr. Somary, the Swiss banker who is acting as Financial Counselor to the Legation of Switzerland in this country, to let him know that the American steamship Manhattan, which is due to arrive at Lisbon on July 8, will not be permitted to bring back gold. Dr. Somary is still anxious to get more gold out of Switzerland to the United States. He finds that the small ships of the American Export Line, which are now beginning to call regularly at Lisbon, can transport only a few million dollars each trip. Dr. Somary had read the press story of our bringing gold to this country which we had purchased from France, using an American warship for this purpose. He inquired as to whether any such arrangement could be made to transport Swiss gold. I promised to take this question up with the Secretary.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Zoltowski telephoned me from New York this noon and I was able to tell him that Mr. Pehle had received by telephone this morning from the French American Banking Corporation in New York an application for the freeing of \$12,000 to be paid out by the Shanghai branch of the Bank of Indo China to the Polish Legation at Shanghai. I told Mr. Zoltowski to keep in touch with the French American Banking Corporation, since we planned to act quickly on this case, in order that he could cable his Legation in Shanghai as soon as the funds are available.



COPY

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CHINESE EMBASSY
Washington, D. C.

June 28, 1940.

Mr. H. Merle Cochran
Department of the Treasury
Washington, D. C.

Dear Mr. Cochran:

I am directed by the Ambassador to enclose herewith a copy of a statement recently issued by the Chinese Minister of Foreign Affairs in regard to the question of French Indo-China.

The Ambassador will appreciate it if you will be good enough to show the statement to the Secretary of the Treasury.

Yours faithfully,

(Signed) Tsui Tswen-ling

T. L. Tsui,
First Secretary.

TO THE CHINESE EMBASSY
WASHINGTON, D. C.
JUL 1 1940

COPIES OF THE
STATE DEPT. RECORDS

RECEIVED
JUL 1 1940

COPY

THE MINISTER FOR FOREIGN AFFAIRS
ISSUED THE FOLLOWING STATEMENT
AT CHUNGKING, CHINA, ON JUNE 23, 1940

"Owing to their geographical proximity China and French Indo-China have long had relationships of an intimate nature. For many years their commercial and economic needs have been complementary to each other. Today as a channel of international trade, Indo-China is of vital importance not only to commerce between China and foreign countries, but also to the security of this country.

"China and France have concluded several agreements concerning this region, the most recent of which is 'La Convention Reglant Les Rapports Entre La Chine Et La France Relativement A L'Indo-Chine Francaise Et Aux Provinces Chinoises Limitrophes', signed on May 16, 1930. Under this convention France agrees to the transportation through Indo-China of all kinds of merchandise including arms and ammunition. In view of the above-mentioned commitment on the part of the French Government, the Chinese Government has the right to request France to live up to her obligations and keep the Indo-China route open for international trade. However, during the past year or so the Chinese Government has not made use of this route for transit of arms and ammunition out of consideration for any possible difficulty in which a friendly nation might become involved.

"Unfortunately the Militarist Government of Japan, taking full advantage of the international situation in Europe, has openly or otherwise coerced the French Government to suspend international trade. The Chinese Government considers it most regrettable that the Japanese demands have not been categorically rejected, for the object of these demands is to compel France to blockade this country with which she is at peace and on friendly terms. Such blockade cannot be justified from the standpoint of the Sino-French convention or international law.

"The failure of the French Government to take a strong stand against Japanese demands can only encourage further disturbance of peace in the Far East on the part of the Japanese Militarists. This the Chinese Government cannot but view with the gravest concern. The Chinese Government is fully convinced that any military movement on the part of the Japanese in furtherance of their plan of aggression on any part of Asia or the Pacific will be carried out with the view of utilizing their aggressive gains for attaining their principal object of conquering China. It is obvious that should Japan invade Indo-China, her goal would not be limited to the seizure of the French colony, but also make use of Indo-China as a base for attacking China. Therefore, in case of armed Japanese invasion of Indo-China, the Chinese Government, in order to preserve China's existence and independence, will be constrained to take such measures in self-defense as may be deemed necessary to cope with the situation in pursuance of its fixed policy of resistance against aggression."

The Chinese Embassy,

Washington, June 28, 1940

June 28, 1949

Dear Mr. Tsui:

Please accept my thanks for transmitting with your letter of June 28, 1949, a copy of the statement issued by the Minister for Foreign Affairs at Chungking on June 28, 1949, in regard to the question of French Indo-China.

As requested by your Ambassador, I am bringing this document to the attention of the Secretary of the Treasury.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

T. L. Tsui, Esquire,
First Secretary,
Chinese Embassy,
Washington, D. C.

HM:lap-6.29.49

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Livesey telephoned me from the State Department at 11:45 this morning. He stated that Messrs. W. A. Taylor and Company, the important wine merchants in New York who have an exclusive distributing contract for Martini and Rossi's Italian vermouth, have been requested by their principals to transmit all balances to Italy at once. Mr. Livesey knew of no ground on which the Government could oppose this. I confirmed that we had no freezing regulations applicable to such a transfer of funds to Italy.



TREASURY DEPARTMENT

153

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

By telephone this morning I discussed with Mr. Knoke Governor Fournier's grievances, as set forth in cablegram No. 99, dated June 26, from the American Embassy at Bordeaux. Knoke will discuss with me an appropriate reply, if any may be found necessary, after he has received the text of the cablegram, and looked into the questions raised therein.

I volunteered that I had asked him not to cable directly to the Bank of France in regard to the advance payment on the French gold which came by cruiser. This matter had been handled directly by the French and American Treasuries, through our Embassy in France and this Treasury had asked the Embassy to inform the Bank of France as to the 95% payment on the shipment. The Embassy's reply conveyed Governor Fournier's acknowledgement and thanks.

While on the above subject, I reminded Mr. Knoke that 1/4% handling charge on the entire shipment in question is to be levied and the proceeds credited to the Stabilization Fund. Furthermore the local charges in New York are to be deducted. Both the 1/4% and the local charges will come out of the balance of 5% due to the Bank of France and calculated after final reports are received from the Assay Office.



-STRICTLY CONFIDENTIAL

June 28, 1940.
9:45 a.m.

GROUP MEETING

Present: Haas
Young
Nelson
Cochran
Graves
White
Foley
Gaston
Thompson
Harris
Schwarz
Klotz

H.M.Jr: Sorry to keep you all waiting, but the White House made their release on those ships last night and we had no idea they were going to do it and half of the 9:30 group worked until 1:30 and we had to clear it this morning. We hadn't any idea they were going to release that last night. As a matter of fact, the State Department seal wasn't even on it, was it?

Foley: No.

H.M.Jr: They had no right to release it, did they?

Foley: Well, technically, no.

H.M.Jr: Normally they wait, don't they, until the seal is on it?

Foley: I should think so. This is the first time I have heard them say they couldn't put the seal on without a separate written authorization from the President when he signed the proclamation and the Secretary of State has attested to it.

Bell: I think it is the other way around. The State Department --

Foley: The State Department brought it over, Dan.

- 2 -

Bell: Yes, and they should have had the whole thing done before.

H.M.Jr: Mr. Hull didn't look at it.

Foley: The Budget never saw it.

H.M.Jr: Well, Mr. Bell is responsible for that.

Bell: Well, I am not responsible.

H.M.Jr: I mean, we simply figured that you thought it was necessary to show a draft.

Bell: All I saw was the memorandum from you to the President.

H.M.Jr: As a matter of fact, it was you who nudged me --

Bell: Yes, I wanted to know if you --

H.M.Jr: You nudged me in the stomach and said, "Why don't you talk up?" and I did. Bell just went like this (indicating) and says, "Come on, talk up."

Gaston: He is a help, isn't he?

H.M.Jr: I have been sore ever since.

Bell: You would have been in jail next week if you hadn't.

H.M.Jr: Norman, you looked as if you had a lot of papers.

Thompson: I have a matter here which Mr. Graves and I are recommending.

H.M.Jr: Incidentally, we are going to do like the Chinese. We are going to sell these permits for ships to the highest bidder.

White: You make much more money out of selling the licenses for funds.

H.M.Jr: Licenses for funds?

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White: Oh yes, if you are going into that business. I mean, that is the place to begin.

H.M.Jr: Didn't you know we were doing that?

White: Well, we knew it but we didn't know how soon it began.

H.M.Jr: Why do we have to --

Thompson: I have had rumors over the grape vine route that gifts are given to certain Procurement employees.

H.M.Jr: Why on this date do I have to give a thing like that to Procurement? Acceptance of gratuity, favors which might include many other things, money, tips on horse races, stocks, free trips on boats, accommodations at hotels and clubs, tickets for theaters, prize fights --

Klotz: Are you making those up?

H.M.Jr: No. Violation will be sufficient cause for removal from the Service by superiors. Administrative assistant will be held responsible. Do I have to sign a thing like that?

Graves: Mr. Morgenthau, this is an exact duplicate of an order issued at your instance to the people in Revenue as a result of the Detroit-Cleveland episode involving Secret Service and other people in their dealings with liquor and there is the same need to do this in Procurement as there was in Revenue. In other words, we are simply extending the regulation that was promulgated at your instance.

H.M.Jr: Is this the same language?

Graves: Same language, identically, that is found in the Revenue thing.

H.M.Jr: Doesn't say anything about tippling in here.

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White: Bell, why do this seven years after the Revenue - you have taken over Revenue - or the Procurement.

Bell: Why not for the whole Department?

Klotz: Why not for all departments?

H.M.Jr: Why not? I mean, this is an admission, publicly, that somebody in Procurement is doing this.

White: Or that it should have been done a long time ago.

H.M.Jr: Incidentally, it hasn't got Mr. Nelson's initials on it.

Nelson: I haven't seen it.

Bell: Wouldn't it sort of fit in with the charges that have come from the Hill? Is it an admission that the charges on the Hill might be true?

H.M.Jr: What are the charges?

Bell: Against LeFevre.

H.M.Jr: Charges against LeFevre were that under Postmaster-General Brown he bought too many supplies.

White: Is there an old order anytime back --

Graves: There is no order that relates to Procurement.

H.M.Jr: May I make a suggestion how I would handle it? In the first place, I am not going to do it until Nelson sees it and in the second place, you shouldn't bring it up until the Director of Procurement has seen it.

Thompson: I am sorry.

H.M.Jr: The way I would handle it, find a case of somebody that does it and fire them and then tell them, "Why, you know we never stood for this kind of thing in the Treasury. We have

- 5 -

fired this man because he does so and so."

Graves: You remember what happened in the Cleveland case? We undertook to do that and we were confronted with the fact that there was no regulation.

H.M.Jr: That was something different.

Graves: It was different in detail but the principle was the same.

H.M.Jr: You are talking about where they had stock in a liquor company?

Graves: We wanted to fire those people for that and --

H.M.Jr: Is there somebody that you know of that is doing this?

Graves: No, but we hear a great deal by way of rumor where we are constantly having to investigate irregularities that border on this sort of thing. For instance, we have now under investigation the people in the Indianapolis Procurement Office, some of whom, it is said, have accepted memberships in golf clubs given them by dealers with whom they do business. That is under investigation right now. We are always looking into --

H.M.Jr: I never was satisfied, Harold, with the fact that we paid two dollars a ton more for that road material over and above what the State of Indiana paid. I never was satisfied on that investigation.

Graves: You know what we did about it?

H.M.Jr: No.

Graves: We, at your suggestion, have referred that to the Federal Trade Commission and the Violation of the Monoply.

Foley: Yes, but that is no excuse for our fellows paying two dollars a barrel more than the State of Indiana was paying for the same stuff.

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Graves: That isn't a fact, Ed. The State of Indiana was not buying this. Our people were.

Foley: Well, was anybody else out there?

Graves: That is a different case. It was the contractors who had a straight contract.

Foley: That is right. We paid eight dollars and the average price was six dollars - ten dollars and the average price is eight dollars. They added four dollars on our supplies and two dollars on the barrels for the gravy in the State. It was a stupid buy, because I think they were paying more than they should.

H.M.Jr: I feel that way, too, you know, Harold, on that thing. I never was satisfied with it. I never was satisfied.

Graves: Well, it was in the end a decision of which Mr. Foley's people concurred, that this was a matter for the investigation of the Federal Trade Commission and it is over there now.

H.M.Jr: But still, as long as you mention it, I never felt that whoever the man was in charge of that office - I mean, it seemed to be far more serious that we were paying two dollars more than somebody else could buy it at than that you might take a club membership and a golf club. The way I feel is this, gentlemen: I feel I have got 75,000 employees in the Treasury and have always felt that they are on their honor and in the time I have been here, it has been - I don't suppose we have had five or ten at the most in seven years who have been crooked, is that right?

Thompson: Very small percentage.

H.M.Jr: If you have got something, I would rather wait and make an example of the person than to get out a rule and regulation like that.

White: Mr. Secretary, I think Mr. Graves is quite wise. I would agree thoroughly with a ruling like that. The only thing I think there is

- 7 -

any question about is the particular timing, but I think that the possibilities which exist in the Procurement Division for the numerous ways of contacts between buyers and sellers to obtain gratuities of one fashion or another, I think it should be made clear to the employees. If it hasn't been in some formal order, the only thing I would be inclined to question is the particular timing of it. There should be some appropriate time, but I think the order is an excellent one.

H.M.Jr: Then if it has gone on to Internal Revenue, it ought to go to every Government Bureau.

White: There isn't that relationship. Most Bureaus don't do buying and selling, I suppose.

H.M.Jr: They do over in the Bureau of Engraving.

White: I thought they buy through the Procurement Division.

H.M.Jr: They don't buy their paper.

Schwarz: This would be an unfortunate time, Mr. Secretary, to promulgate such an order. It would get publicity. It would have to be spread all through the division.

H.M.Jr: Let Mr. Nelson take a look at it and bring it up again Monday, will you? Does it go to the Customs fellows?

Thompson: Customs has such a provision.

Graves: They have comparable provisions in their regulations.

Thompson: Customs --

H.M.Jr: Bring it up again Monday, but give Nelson a chance to look at it.

What else?

Thompson: Mr. Cotton advised me he is trustee of and represents the Treasury on the Export-Import Bank

- 8 -

and due to that situation he is resigning. I wonder if you have somebody you want to designate in his place. He is also on the Inter-Departmental Committee for the co-operation of American republics.

H.M.Jr: Talk it over with Bell and let Bell make a recommendation.

Thompson: Mr. Bell and I would like to see you just a few minutes to get the orders signed on the fiscal service setup.

H.M.Jr: Stay behind. Dan?

Bell: I have nothing.

H.M.Jr: Harold?

Harry?

White: The State Department called up this morning.

H.M.Jr: There is something the matter with my hearing. Talk up.

White: I can speak louder very easily. The State Department called up this morning to report that the Secretary - that Secretary Hull wants to send Congress, or is drafting for the President to send to Congress, a foreward on the Inter-American bill. That has already been drafted some time ago in which we gave some help on the drafting but Secretary Hull wants to add a sentence to it to the effect that the various departments, which would include the Treasury Department, have participated in the drafting of the bill. He feels that Congress would look upon the bill much more favorably if they felt that the various departments had participated and he doesn't feel that the Treasury Department should be left out since they really had some hand in it.

H.M.Jr: All right.

White: It is all right?

H.M.Jr: Sure.

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White: Okay. That is all.

H.M.Jr: Anybody mention about smuggling the jewelry in? Did you look them over?

Harris: No, they had everything off. It was pretty hot.

H.M.Jr: I see. It was even hot jewelry, was it? George?

Haas: I have nothing.

H.M.Jr: That assignment I gave you, I would like to have that Monday morning.

Schwarz: Yes, sir. We have started work on that already.

H.M.Jr: Monday morning?

Schwarz: Yes, sir.

H.M.Jr: Phil?

Young: I have got this report here.

H.M.Jr: No, that isn't the way I told them I wanted it. I want it to go over with the other stuff. Ask McKay about it. This should be part of the other letter which I am sending them over the material today and this should be in addition, you see. It makes it look much better. Ask McKay to take care of it. That should be attached to the letter of transmission of this week's stuff. Do you get it?

Young: Right, yes, sir.

Nelson: The Chilean Government is coming in this morning at ten o'clock as the first one of the Americans to come in under the new bill for the Liaison Committee. You remember the bill directed the Secretary of War and the Secretary of Navy to help the Americans re-arm and their operation is to go first to the State Department and then be directed over here, and we meet with the committee

- 10 -

and then the committee passes back to the Secretary of War and the Secretary of the Navy.

H.M.Jr: I asked Phil to try to get me by eleven thirty this morning those three lists from the English, one for Canada, one for England, and one Ireland.

Nelson: I had another request yesterday from the State Department. They sent over a request for arms for the Algerian Government and the State Department asked us to hand it informally to the Commission, which I did, to Mr. Ballantyne. They have diverted - the Anglo-French Commission have diverted some TNT down there from their own stocks. That is all, sir.

H.M.Jr: You gentlemen know where the boat carrying those planes is supposed to be? Did I tell you? She is supposed to be in the British West Indies.

Gaston: What boat is that?

H.M.Jr: The French aircraft carrier which has all these American airships on.

Nelson: I was wondering what became of her.

H.M.Jr: She is supposed to be in the British West Indies. I hope that is right. I asked for confirmation. If it is, it is good news. That is where those 50 dive bombers are, on that ship.

Nelson: Yes.

H.M.Jr: All right?

Nelson: That is all, sir.

H.M.Jr: The Chinese Embassy telephoned a while ago to see if it would be all right for the Ambassador to present Dr. Soong, and I told them it would be, so he will come in at ten thirty. Will you be here?

Cochran: All right, sir.

- 11 -

H.M.Jr: Will you be here, Bell?

Bell: Eleven thirty?

Cochran: Ten thirty.

Foley: Here is a reply to the Navy Department on their letter to you in reply to your letter setting up how the Vinson-Trammell stuff should be handled and we are telling them we are drafting the regulations and that will be in the provisions.

H.M.Jr: When are you going to have those ready?

Foley: Today.

H.M.Jr: Anything else?

Foley: No.

Gaston: Thompson and Mr. Graves and I met with Mr. Helvering and Mr. Berkshire on the Federal Alcohol Absorption matter and I don't know whether you mentioned it, Norman, or not, but the question came up as to what we should do with some 50 employees whom they can't place. There are 50 or 60 that they can't place in Internal Revenue at present, and there was a tentative agreement that they would all get 30 days notice plus any accumulated leave and in the meantime we would circulate the list of them to see if they could be absorbed anywhere in the Treasury.

H.M.Jr: Good. And I would like a list as of July 1st of how many people that were laid off in the Procurement we have been able to find jobs for. Last time it was 60% and I would like a list as of July 1st.

Graves: I think it is much higher than that now.

H.M.Jr: I would like that.

Gaston: I have nothing else.

H.M.Jr: All right.

RAW

GRAY

Tientsin via N.R.

Dated June 28, 1940.

Rec'd. 11:25 a.m.

Secretary of State,
Washington.

103, June 28, 10 a.m.

Referring to my despatch no. 984 ²⁶⁶⁵ to the Embassy of January 30 copies of which were transmitted to the Department with the Embassy's despatch 2520 of February 15, the Federal Reserve Bank in letters dated June 24th to Tientsin trade associations and Chambers of Commerce announced that "copies of the local American Consular invoices are from now on required to be presented to us after shipment for our file and reference pertaining to all exports destined to the United States from this port", that although a certified copy is preferred, a copy signed by the exporter will be acceptable but that the original certified copy must also be exhibited for "identification", and that "should the exporter fail to send us the necessary American Consular invoice within ten days after we have confirmed the 'certificate of selling exchange', we shall be compelled to refrain from confirming bank rate of exchange applied by such exporter".

Sent

RAW -2- #103, June 28, 10 a.m., Tientsin via N.R.

Sent to the Department. Repeated to Chungking,
Peiping, Shanghai. Shanghai please inform Treasury
Attache.

FLETCHER

CSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 28, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The open market rate for sterling, which closed last night at 4.01, opened 7 $\frac{1}{2}$ lower this morning. From 3.94, it moved erratically downward, touching a low of 3.87 at the close.

As revealed by the turnover figures, foreign banks were again good sellers of sterling on balance. Apparently, part of their offerings were absorbed by New York banks, who were continuing their short covering operations.

Sales of spot sterling by the six reporting banks totaled £460,000, from the following sources:

By commercial concerns.....	£104,000
By foreign banks (Europe, Far East, Near East, & So. Amer.).....	£356,000
Total.....	£460,000

Purchases of spot sterling amounted to £230,000, as indicated below:

By commercial concerns.....	£103,000
By foreign banks (Europe, South America and Far East).....	£127,000
Total.....	£230,000

A London despatch which appeared on the Dow-Jones ticker this morning reads as follows: "It is understood that further extensive progress has been made towards elimination of the free sterling market in conversation here between London branches of United States banks and the British authorities. Discussions are being held by these interests on a plan put forward by the banks to transact all sterling-dollar exchange in New York at the official rate."

The Guaranty Trust Company reported that it sold cotton bills totaling £18,000 to the British Control on the basis of the official rate of 4.02-1/2.

The Irving Trust Company stated that it purchased £6,000 from the British Control at the official rate of 4.03-1/2.

The Canadian dollar, which improved to a discount of 14-3/4% yesterday, had a weak tendency today. It closed at 16-1/4%.

The other currencies closed as follows:

Swiss franc	.2265
Lira	.0506
Reichsmark	.4000
Cuban peso	9-13/16% discount
Mexican peso	.1975 bid, .2025 offered

- 2 -

We sold \$500,000 in gold to the Bank of Portugal, to be added to its earmarked account.

The State Department forwarded to us a cable stating that the following gold shipments would be made from England, all of which are for sale to the U.S. Assay Office at New York:

\$ 965,000 shipped by Lloyds and National Provincial Foreign Bank, London, to the Bank of London and South America, New York.
579,000 shipped by the Midland Bank, Overseas Branch, London, to the Bank of Manhattan, New York.
170,000 shipped by the Westminster Bank, London, to the Credit Suisse, New York.
82,000 shipped by the Midland Bank, Overseas Branch, London, to the Royal Bank of Canada, New York.
42,000 shipped by the Westminster Bank, London, to the Chase National Bank, New York.
\$1,838,000 Total

The Bombay gold price was equivalent to \$33.58, off 27¢.

Spot silver in Bombay advanced the equivalent of 1/16¢ to 43.65¢.

In London, the price fixed for spot silver declined 1/16d to 21-5/8d. The forward quotation fell 1/8d to 21-3/8d. The U. S. equivalents were 39.31¢ and 38.86¢ respectively.

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

We made two purchases of silver totaling 275,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 75,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 270,000 ounces of silver from the Bank of Canada under our regular monthly agreement, raising the total bought from that source during June to the agreed limit of 1,200,000 ounces.

B.M.P.
CONFIDENTIAL

June 28, 1940
10:25 a.m.

H.M.Jr: Hello, George.

George
Harrison: Hello, Henry, good morning.

H.M.Jr: How are you?

H: First rate, thank you.

H.M.Jr: Something on your mind?

H: Well, I called you -- tried to get you last night and I just missed you, merely because I had said I would call you about my time. I'd like to come down there sometime and have a talk with you whenever you most want me. I had planned to be down there the Fourth of July which would be Thursday anyway and I was wondering whether Wednesday, the day before, would be convenient for you or whether that is late for anything you had in mind.

H.M.Jr: No, there's nothing for the moment.

H: Yeah. If you want me before then, I shall come but I was just mentioning frankly that that would be the day that would be most convenient for me.

H.M.Jr: Well, how about 10:30 Wednesday.

H: 10:30 Wednesday morning. If that's all right, that will be fine with me.

H.M.Jr: George, strictly in confidence and for nobody else, I finally succeeded in persuading the English Government to let Sir Frederick Phillips come over.

H: Oh, good work.

H.M.Jr: And he's coming, but don't tell anybody.

H: No, I shan't tell anybody.

- 2 -

H.M.Jr: But I got confirmation last night.

H: Well, I'm very glad.

H.M.Jr: And I told them that I wanted to talk to him about all these frozen assets. You know he's -- you know him.

H: What's that?

H.M.Jr: You know Phillips.

H: Oh, yes.

H.M.Jr: He's tops.

H: He is.

H.M.Jr: And

H: He's difficult sometimes to get anything out of but

H.M.Jr: I know, but

H: but once he loosens up he's all right.

H.M.Jr: But at least he knows what it's all about.

H: Oh, very much.

H.M.Jr: And there's nobody over here representing the British Government who does.

H: That's quite right, too. Through no fault of theirs.

H.M.Jr: What?

H: Through no fault of theirs.

H.M.Jr: Well, except that they haven't got a good Treasury man over here, I mean, the British Government.

H: Yes. Well, I'm glad he's coming and I think it's very important for him to get here as soon as he can.

- 3 -

H.M.Jr: Yeah. Well, I gathered he is to come at once.

H: Uh-huh. Well, I'm glad to hear that and I shan't tell a soul.

H.M.Jr: What the devil T. V. Soong wants I don't know, but I can imagine.

H: What's that?

H.M.Jr: T. V. Soong is coming in this morning.

H: I wonder what he wants.

H.M.Jr: I don't know. Well, Arthur Young is with him so you can imagine stabilization loan.

H: I think what they're trying to do is to protect the few they have got back into transit

(?)

And what were they going to do about it?

H.M.Jr: Well, I imagine he'll want to see you.

H: Well, Henry, I'll come any time you want, of course, but Wednesday

H.M.Jr: Well, we're getting along -- we're getting along as well as we can and there's nothing for the moment but I'd like to talk to you Wednesday.

H: All right, that'll be fine. I'll be there at 10:30.

H.M.Jr: O. K., George.

H: First rate.

June 28, 1940
10:51 a.m.

H.M.Jr: Hello.

Lewis
Compton: Good morning, Mr. Morgenthau, this is Lewis
Compton.

H.M.Jr: Hello, Compton.

C: How are you this morning, sir?

H.M.Jr: I'm fine.

C: Mr. Morgenthau, did you get that letter I
sent over yesterday?

H.M.Jr: Yeah, and I've answered it and it ought to
be on the way over.

C: Is it all right?

H.M.Jr: Yeah.

C: Oh, fine. The reason I called, Mr. Morgenthau,
was that I want my Admiral Robinson to check
in with your Mr. Mooney, you see?

H.M.Jr: That's right.

C: And I want to make sure we're all squared
away.

H.M.Jr: Well, I signed it this morning and it ought
to be on the way over to you.

C: Fine, thank you very much indeed and I'll
have Robinson contact Mr. Mooney right away
then.

H.M.Jr: Thank you.

C: Thank you, sir. Good-bye.

H.M.Jr: Good-bye.

June 28, 1940
4:07 p.m.

H.M.Jr: Hello.

Admiral Noyes: Mr. Secretary, this is Admiral Noyes.

H.M.Jr: Yes, Admiral.

N: We just had a message from London today that the ship you're interested in is at Martinque.

H.M.Jr: Oh, good.

N: Together with the Joan D'Arc.

H.M.Jr: What is the Joan D'Arc?

N: A battleship I think.

H.M.Jr: Oh.

N: Might be a heavy cruiser, but she's a big ship.

H.M.Jr: Right. I see. Well, at Martinque. Swell.

N: That's the latest report. We've heard on and off all the week, but that's the report today that she is there.

H.M.Jr: Thank you so much for calling me.

N: You're welcome, Mr. Secretary.

Board of Trustees
POSTAL SAVINGS SYSTEM
Washington

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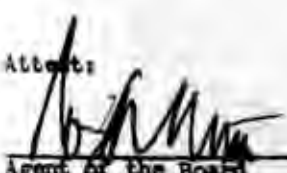
At a meeting of the Board of Trustees of the Postal Savings System held at Washington, D. C., on this date, the following action was taken:

WHEREAS on May 13, 1940, the President authorized the Board of Trustees of the Postal Savings System to purchase from postal-savings funds, bonds to the aggregate amount of one hundred million dollars (\$100,000,000), par value, in addition to securities already authorized to be purchased, embracing any or all of these classes—(1) bonds or other securities of the United States; (2) bonds of the Federal Farm Mortgage Corporation authorized by Act of Congress approved January 31, 1934, fully guaranteed both as to principal and interest by the United States; and (3) bonds of the Home Owners' Loan Corporation authorized by Act of Congress approved April 27, 1934, fully guaranteed both as to principal and interest by the United States:

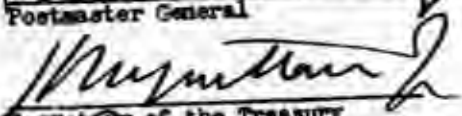
RESOLVED, That pursuant to the authority conferred by the President, the Board of Trustees hereby authorizes and empowers the Secretary of the Treasury to invest in any or all of the securities specified above, either by original subscription or purchase, in an aggregate amount not exceeding one hundred million dollars (\$100,000,000), par value, of postal-savings funds, which, on being consummated, will leave no unexecuted balance under the President's authorization of May 13, 1940:

RESOLVED, That the Secretary of the Treasury is authorized to leave the securities purchased under this resolution with the Federal Reserve Bank of New York, to be held in safe-keeping, in coupon form, subject to his order, for account of the Board, or to have them registered in the name of the Board of Trustees of the Postal Savings System and deposited with the Treasurer of the United States as custodian for such Board, whichever the Secretary of the Treasury may elect.

Attest:


Agent of the Board


Postmaster General


Secretary of the Treasury


Attorney General

Board of Trustees
POSTAL SAVINGS SYSTEM
Washington

At a meeting of the Board of Trustees of the Postal Savings System held at Washington, D. C., on this date, the following action was taken:

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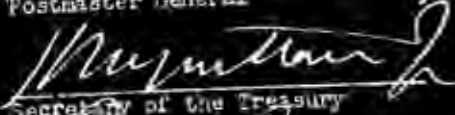
RESOLVED, That pursuant to the authority conferred by the President, the Board of Trustees hereby authorizes and empowers the Secretary of the Treasury to invest in any or all of the securities specified above, either by original subscription or purchase, in an aggregate amount not exceeding one hundred million dollars (\$100,000,000), par value, of postal-savings funds, which, on being consummated, will leave no unexecuted balance under the President's authorization of May 13, 1940:

RESOLVED, That the Secretary of the Treasury is authorized to leave the securities purchased under this resolution with the Federal Reserve Bank of New York, to be held in safe-keeping, in coupon form, subject to his order, for account of the Board, or to have them registered in the name of the Board of Trustees of the Postal Savings System and deposited with the Treasurer of the United States as custodian for such Board, whichever the Secretary of the Treasury may elect.

Attest:


Agent of the Board


Postmaster General


Secretary of the Treasury


Attorney General

June 28, 1940
11:05 a.m.

Present: Mr. Bell
Mr. Gaston
Mr. Thompson
Mr. Graves

Graves: I sign any formal papers that require the signature of the Director of Procurement. As a matter of fact, that amounts only to certain court papers where the Director's signature is necessary. The assistants over there, Rhelander and La Favre, are authorized to sign contracts and appointment papers. But nothing is done without Mr. Mack's approval. So we are in a satisfactory operating situation. Of course, we are sort of receivers you might say and any time a Director is appointed we will turn over. There is no emergency.

HM Jr: I can do two kinds of thing. I can get a name and a stuffed shirt or I can get somebody who will really run the job.

Gaston: Is the function of contact with the Allied Purchasing - is that out of our hands?

HM Jr: No, no. The Director of Procurement is chairman of that Board.

Graves: May I make a suggestion on that point?

HM Jr: That's what you're here for.

Graves: I think it would be better to change that order and assign it to an Assistant to the Secretary, and leave the Director of Procurement out of it because if you put a man in with that responsibility it takes so much of his time he can't do anything else.

Gaston: I think all of the Treasury functions should be separate.

Bell: When you eliminate that, is it a big job?

Graves: It ought to be a much bigger job than it is.

- 2 -

Gaston: No man can handle both jobs.

HM Jr: That's all right. Are you (Thompson) in agreement with that?

Thompson: Absolutely.

HM Jr: Let's forget about the Allied thing for a minute and talk about the Director for Procurement. Let's just talk about that.

Graves: Well, the very best man we could ever find for Director of Procurement in our own shop is Cliff Mack, but I don't think Cliff Mack wants that job. He is one of the most competent boys that it has been my good fortune to meet, and he has done a perfectly swell organizing job in Procurement.

Gaston: Strange thing, isn't it? His business is investigator, detective, and yet he is a first class businessman.

Graves: He has taken to that job as a duck to water.

HM Jr: Why do you think Cliff Mack is a businessman?

Gaston: I have not had much direct contact with him, but all the men I have seen say he is a very able fellow.

Graves: He is one of the most versatile fellows I have seen.

Gaston: John Sullivan, when he passed Cliff Mack in the hall, said, "There goes the best man in Internal Revenue."

HM Jr: You know me. I won't go out of the Treasury.

Graves: You wouldn't make a mistake. He lives in Boston, has his home there, his family is in Boston, and he said his ambition is to stay in the Bureau of Internal Revenue and go back to Boston.

- 3 -

Thompson: I am just trying to do some thinking. I don't think there is anybody in Procurement you could promote. I think Mack would be an ace in the job if he would take it.

Graves: You could forget Procurement if Mack would take the job.

HM Jr: Let's put Mack aside. If the President is willing to detach the thing and make the man a Treasury man, Colonel Burns and Spear, I could look a long time and not find a fellow as intelligent or as hard working as Phil Young. No one would take as much interest, day and night. Time means nothing. And the important thing is his heart is in it. After all, what's his name who died, Assistant Secretary in 1928 or 1929

Thompson: Gilbert.

HM Jr: Gilbert was about 28 when he came here. I could go a long way and fare worse than on Phil Young.

Gaston: You mean on Allied Purchasing?

HM Jr: Yes.

Gaston: I agree.

HM Jr: Let's be frank among us girls. What has Nelson done on Allied Purchasing? Not a thing; not a thing. And the reason I am taking the whole thing so placidly about his going over to the Big Seven is I'm not losing anything - not a thing.

Bell: This isn't a Civil Service job.

Graves: Yes, it is.

Bell: What is it, \$10,000?

Graves: It's a Grade 15 job. Go in at \$8,000, and could go as high as \$9,000. And I would like to say this - if Mr. Mack goes in, he ought to go at once to the top salary of that grade.

- 4 -

Gaston: What's he getting now?

Graves: \$6400.

HM Jr: You mean go to what?

Graves: \$9,000. He has to move his family and his home to Washington.

HM Jr: My point is this - that if I have somebody in the Treasury I believe in giving them a chance. I always have felt that way. As far as I'm concerned, rents, I am satisfied. I authorize you now to talk to Cliff Mack this morning.

Graves: Fine. Fine.

HM Jr: And then we will get this order changed, and I think we ought to explain this thing in a letter. You (Thompson) write it for me to the President. Simply say - go a little into the history - one of the troubles that Collins had was trying to do both things; therefore, we feel that the new Director of Procurement should be purely in charge of Procurement and that the man on this Board should be an assistant to me who does that and nothing else. And, therefore, I would like the order amended as follows, and I am recommending Mr. Philip Young for that job.

Thompson: Okay, sir.

Ball: Supposing Mack doesn't take it?

Graves: Mack is this kind of a fellow. If he understands we want him to take it, he will take it.

HM Jr: Well, I'll tell you what you do. You have him here at a quarter of twelve and I will offer it to him.

Graves: Would you rather I did not speak to him?

HM Jr: No, you break the ground and bring him in here at a quarter of twelve. I don't want to offer this thing to Phil Young until I get it straightened out with the President, so write the thing and explain the thing to Forster. Forster is awfully good on this thing. Explain the background, what a swell job Mack has done, and explain to Forster why we want to change this thing around.

- 5 -

Bell: I wonder if you should not get confirmation of that executive order that Nelson told you about. He said he got it from Stettinius.

HM Jr: What McReynolds told me last night was - he said he went back to see the President. I said, "What about Nelson?" He said, "That's all straightened out. The reason why the President said no on Nelson was because he did not like the fellow you had in place of him." But you can check that with McReynolds. I don't like to have a hiatus here. Nelson goes over there as of July 1. He takes that job and, at the same time, we announce Phil Young and Mack. Bringing in a fellow like I had in mind, Woodruff of Coca Cola, who was this, that and the other thing, and he might turn out like Nelson.

Gaston: None of these big fellows from big organizations are in the position of a man who has got to make good.

HM Jr: No, Phil has done a big job.

Gaston: McReynolds made a request. They have about 40 or 50 people they want investigated. Can we let our people do personal investigations on them?

HM Jr: I'm responsible for that. I sent word to the President that these people should be investigated from the top down, and this is the result.

Gaston: I can tell him it's all right?

HM Jr: Yes. I told him the Department of Justice and Treasury should make investigations and this is the result of my suggestion, so we can't turn them down.

If you (Thompson) will explain this thing, get it into Forster's hands, and explain the whole background. And I would tell him frankly the whole history. You know Forster?

Thompson: Oh, yes.

HM Jr: He goes in there and he tells the President.

- 6 -

Bell: Nobody to take poor old Forster's place.

HM Jr: I gave him some papers yesterday and I realized I had not had them photostated, and I said, "You better give them back to me or Thompson will give me Hell." He laughed. Thought it was the funniest thing. What I meant was Mrs. Klotz but I said Thompson.

BRITISH EMBASSY,
WASHINGTON, D.C.

June 28th, 1940

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurain

Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

SECRET

Telegram despatched from London in
the evening of June 27th, 1940

Enemy aircraft estimated at 50-70 dropped high explosive and incendiary bombs over the North East of England, Midlands, East Anglia, South and South West of England, and South Wales last night. Reports so far received indicate that casualty list was small and damage slight. Information received up to the present is that two enemy aircraft were shot down by our fighters. Further reports of air attacks on England night of June 25-26th are that five people were killed and nine injured. Petrol depot in Wales was damaged but main storage there unaffected. In Stoke-on-Trent area, a railway station was damaged and houses demolished. In Scottish area damage was very slight.

2. Thirteen officers and about 100 ratings, survivors from H.M.S. "Praser" have been landed in England.

Further thirty survivors are on board British war ships.

3. Evacuation from St. Jean de Luz area completed. French troops, air force personnel and technicians were not allowed to leave France. Evacuation from Cette and Port Vendres now completed. Six hundred modern French aircraft and 1650 personnel have been evacuated from France to Algeria.

4. Air operations over Germany yesterday hampered by weather conditions but synthetic oil plant at Gelsinkirchen - Schipol and marshalling yard at Soest were bombed. Ninety-five heavy bombers despatched last night/

-2-

night to attack aluminium works, aerodromes and railway targets in Western Germany. Results not yet known.

Three aircraft missing; now reported most targets were located and bombed in attacks carried out on night of June 25th-26th.

5. German bomber reconnaissance aircraft still active over North West and South West coasts of France on the look out for shipping.

6. Two British ships attacked by submarine yesterday in Western Mediterranean. Swedish ship was sunk by air bombing in this area on June 22nd. One Norwegian ship, one Estonian ship, one Greek ship, and one Finnish ship sunk off West Coast of Europe during period June 21st-25th. Attack thought to have been successful has been made by British warship against the enemy submarine in the Red Sea. Enemy convoy attacked off Norwegian coast by submarine on June 25th and one ship believed to have been sunk.

7. Malta was raided by aircraft five times yesterday. Preliminary reports indicate that only slight damage was done.

181-D

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal & Secret

June 29th, 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 despatched
on evening of June 28th, 1940.

Raids were carried out by 80 to 100 enemy aircraft over England and Southern half of Scotland last night. Weather conditions were in enemy's favour and no interceptions reported by our fighters. Bombs dropped over a large area without causing extensive damage. Only key point hit was a steel works where output has been reduced but not stopped. Two high explosive and 137 incendiary bombs were dropped on military camp in Yorkshire but only a few casualties resulted. Further reports on air attacks on United Kingdom night of June 26th to 27th are that damage was caused to one key factory which will result in at least 24 hours stoppage of work. No other other serious damage caused to factories engaged on war effort. Seventeen casualties reported.

Blenheims made two identification attacks on oil targets in North Western Germany yesterday. One aircraft missing. Two photographic reconnaissances carried out over Calais/Boulogne area. One aircraft missing. Ninety heavy bombers attacked railway targets, aerodromes, air frame factories and oil tanks

in/

in North West Germany last night. One aircraft missing. Further mine laying operations by aircraft of coastal command also successfully carried out. Weather conditions made location of targets and observation of bursts difficult during attacks night of June 26th / 27th, but bursts seen in target area on aluminium works at Keln and Ludwigshaven and on four railway marshalling yards. Good results also obtained on five aerodromes and wharves at Rotterdam.

No change to report in activities of German bomber reconnaissance and transport aircraft.

Little damage and no casualties caused by air raids on Malta reported in my immediately preceding telegram. Enemy at 16,000 feet.

Sudan. Mechanized patrols had further encounters with enemy near Kassala on June 25th and 26th. Numerous enemy casualties inflicted with no losses to us. On June 27th 1,200 enemy cavalry were routed by two machine gun cars. Enemy left 50 casualties.

Italian East Africa. Our attacks on bomb and petrol stores are reported to have caused Italians considerable anxiety.

Successful attack carried out by Wellasse against aerodrome in Northern

Eritrea/

Britree on June 25th. One enemy fighter shot down. All British aircraft returned. Italian air losses on all fronts up to June 25th are 57 confirmed, 12 unconfirmed, 12 damaged.

One British submarine reported lost in the Mediterranean, and one other submarine has failed to reply to wireless signals. One Dutch ship sunk in Western approaches on June 27th. One Dutch and one Estonian ship missing and presumed sunk in home waters.

June 29th,

Dear Henry,

Here is some stuff that I've knocked off in my best Menemsha two-fingered system.

The first page is merely some general thoughts of an obvious nature, pulled together.

The rest is a bunch of notes of events that I culled out of the material. It may contain items that call your attention to incidents that you may have forgotten. I've put them down, for better or worse, After you have read this, so ^{one} more familiar wth the situation than I am, can get out such material as you may deem important.

As I suspected this memo ain't worth much. But it is the high-spotting which I gathered from a necessarily hasty reading of those piles.

I expect to be here until a week from Sunday. If you want to reach me the phone is Chilmark 867 M-1. ~~If~~ Even if you don't, it is.

Good-luck.

Eddie

GENERAL POLICY

The policy of the administration, supported by the overwhelming sentiment of the American people, has been and still is to do everything possible to keep us out of war. All thinking persons have realized that the plans of the dictator countries, backed by powerful war-machines, for world domination and the destruction of democracies, constituted a threat to our peace and to our very existence. As an important move to defend ourselves, it has been obvious that it was essential to do what we could to help strengthen other democracies, which were subject to more immediate threats. Accordingly, it has been and still is the policy of the administration, supported by the overwhelming sentiment of the American people, to furnish such help in every way legally possible, without involving us in war. In accord with this policy the Government has cooperated with the British and French in their purchase of material in this country.

The purchase of such material has been an aid to our own defense, not only because it has been a step seeking to halt the advance of a menacing threat to our own peace, but also by creating and strengthening the facilities of production in this country. At no time has anything been done, which would weaken our own forces. Nothing has been sold or divulged that was presently needed for our own defense. The production of material for Allied use has been a first step that will prove of tremendous benefit to us in our present program of building up our defenses on a vast scale. Such production has enabled manufacturers to be prepared for the tremendous task, now confronting us. It is the preliminary to the job of building up plants, increasing production and delivering the most effective implements needed to complete the defense program, which has become essential.

the following indicates some of the steps taken:

Nov. 14th.

Conference at the White House. This was attended by HM Jr and other officials to discuss the question. W was not present. It was decided to have a further conference. HM Jr said that he did want to attend. J insisted that he do ~~also~~.

Dec. 16th.

Bullitt ^{Monet} and visit HM, who says he will not discuss the matter until Welles ok's it. This was followed by an ok from Welles on the 17th and from FDR on the 21st.

Dec. 22nd.

W sends memo to HM that order for 1000 allied planes would interfere with Government's plans for 10,000.

Dec. 29th.

W sends memo to HM that there must be assurance that proposed inspection of planes is on the basis of an order to purchase.

Dec. 30th.

HM advises W that he cannot proceed on that basis and he so informs FDR. W indicates that he did not mean what he had said.

Jan. 16th

Conference at White House. HM, W, Bullitt and others present. FDR states that he wants to do everything to help France.

Jan. 23rd.

W phones HM giving him clearance.

Jan. 27th.

HM phones W about news story that French pilot was killed and that permission had been given by Treasury. HM insists that W take steps to have facts correctly stated, W demurs, HM says "You're the head of the War Department."

HM testifies before Senate Committee. In answer to a question by

Senator Clark says that the Treasury has no connection whatever with the purchase of planes for military purposes, and that Procurement act as a matter of courtesy. (p.257)

FDR says that Treasury is in it because it is interested in the building up of industry and because Procurement works with Army and Navy.

W testifies that HM should tell the sequence of events about the French mission, because the War Department was only brought in at a certain point (p.303) Squabble with HM as to exact facts (pp.311-2). Feb. 16th.

J tells HM that W told FDR that HM had been terrible on the hill and had given FDR terrible advice. Feb. 23rd.

HM sends memo to FDR that his duties with the French Mission have been completed and that therefore he is stopping.

HM continued working on the matter. As Sec. of the Treasury he was charged with certain duties in regard to it. These are referred to in memos dated May 2nd and Sept. 8th, 1939. They include the following; the Sec. is a member of the National Munitions Control Board of the Neutrality Act of 1937; the enforcement of the Vinson-Trammell Act is left with the Bureau of Internal Revenue; closing agreements are to be signed by Treasury; Section 3760 of the Internal Revenue Code and provisions for a Joint Committee of the Army, Navy and Treasury.

The principal authorization for the Sec's. continued activity was a series of direct orders from FDR, adding specific and general duties to the responsibilities imposed by law.

Nov. 3rd. ~~AM~~

HM suggests to British Purchasing Mission that they have close liaison with the French. Advises them that he is merely "pinch-hitter."

Nov. 8th.

HM asks FDR to relieve him of the duties imposed on a temporary basis, says the work too heavy for him, recommends that a board be set up.

Nov. 9th.

FDR memo. Refers to the disparity between rate of production of motors and planes; directs HM to work out policy of depreciation allowance for consultation with Congress

Dec. 1st.

Memo HM to FDR re closing agreements, obsolescence, up to War and Navy. Legislation needed. Copies sent to War and Navy.

Dec. 6th.

FDR appoints committee to contact foreign governments for purchase of war material, Director Of Procurement, Quartermaster General of the Army and Paymaster General of the Navy.

Dec. 29th.

White House conference. (This followed considerable dissatisfaction expressed by the Army as to the new committee.) FDR says there are two points, first not to interfere with needs of U.S.; and second, the question of prices.

Jan. 8th.

HM suggests to FDR diversion of U.S. planes to British and French

Jan. 17th.

At White House conference it was ~~stated~~ stated that we could not supply the allies and meet the requirements of the U.S.

~~Jan. 24th.~~

Jan. 26th.

HM phones Bullitt not to send him cables on non-Treasury matters, and cables thru State Department that "President designated me liaison officer" and clarifies his status.

March 13th.

At White House conference attended by Secretaries of Treasury, War and Navy and Ass't Sec. J, FDR says that there is to be no more disagreement. J asks to relieve Quartermaster General.

HM phones Purvis. J says quick delivery will not interfere with Army.

March 13th.

W testifies before the House Military Affairs sub-Committee on Aviation. (It may be advisable to see this testimony).

March. 14th.

At lunch meeting with Edison and W, W says that he is working on plan for cooperation with British on planes.

March 18th.

W too busy to keep date with HM. Also article about benefit to US by sale of planes to Allies.

March 26th.

Sullivan memo to HM refers to cooperation with J who says that W is sniping. refers to Gen Johnson article that allied sales helpful to our defense.

March 27th.

W testifies before Committee that "policy worked out by him."

April 9th.

J phones HM that he is having trouble with W and on the next day J speaks to FDR about it.

April 26th.

HM phones on J and says that he counts on him to keep him posted. J says he has no contact with W. Says that W cannot say he does not know what is going on as "I've told him everything."

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Thomas F. Moloney
Garden City, N. Y.
210 Kilburn Road

*Can you help me
to get a copy of
the report of the
July 21st meeting
of the committee
on the
June 29, 1940*

Mrs. Henry Morgenthau Jr.,
Hopewell Junction, N. Y.

Dear Mrs. Morgenthau:

May I not ask as a patriotic duty that you read the attached letter addressed to Mr. Morgenthau and then give it to him. The original forwarded to him I fear did not reach.

This letter concerns the Rolls Royce Engines and the great amount of publicity attending same. In connection with this publicity a great many things are being printed as coming from Mr. Morgenthau and it is well known by informed persons; that many of the statements given to Mr. Morgenthau by certain Army Officials are not only false; but will place The Secretary in a bad light when later the full story is told.

In the New York Times of June 28th The Secretary is Quoted as saying - - "General Henry H. Arnold, frantically tried to get Rolls Royce Engines." Who ever furnished this information to The Secretary knew it was false for General Arnold refused to recommend the Rolls Royce Engine last January when I tried to interest him in it. It was funny to see the look on his face when I informed him that President Roosevelt cut all "Red Tape" by approving the engine on December 28th, 1940. He then made arrangements for me to talk to a former brother officer General George Brett regarding the Rolls Royce Engine.

You can verify all the foregoing by consulting Mrs. Eleanor Roosevelt to whom a complete copy of the plan of operation and illustrated copy of the type of plan was forwarded on November 30, 1939.

The Group which I am heading is still working on the plan and a copy of the means that they believe would raise the necessary funds is also attached. This plan would save a tremendous amount in taxes and bonds. Investment houses say it would stimulate matters a great deal.

Thanking you for the courtesy given to this communication and as an evidence of good faith may I not point out that I have given no statements to the newspapers of being, "gypped" etc., for I know The Secretary is clean, fine and wholesome.

Very truly yours,

Thomas F. Moloney

*Hmf has
not seen
Citation Copy
D.L.
6/29/40*

MEMORANDUM

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RE SMITH & WESSON 9 M.M. SUB-MACHINE GUNS

Smith & Wesson have a contract with the Swedish Government for the delivery on July 18th of 2,000 of the first guns they produce. This contract with Sweden provides that if these guns are intended for use against the Allies, or if the State Department refuses an export license, Smith & Wesson are relieved from this contract.

Apparently the company would have no objection if an export license was refused, as they are suspicious of the ultimate destination of these guns and they can obtain a contract for them from the British Purchasing Commission.

The British Purchasing Commission has received instructions to place an order for 20,000 of these sub-machine guns with the Smith & Wesson Company.

June 29, 1940.

June 26, 1940.

From: Thomas F. Maloney, 410 Kilburn Road, Garden City, N.Y.
 To: Hon. Henry Morgenthau Jr., Secretary of the Treasury.
 Subject: The Right and Wrong methods of Making Rolls Royce Engines.

1: Newspapers proclaim the fact, in headlines, that a license has been granted to the United States to make the Rolls Royce Merlin Aviation Engines #2 and #10. Those newly, in authority, in Washington give the news to the press, without stopping to ascertain, the cause or reason for the license being granted - - whether or no, the Army or the Navy wanted it.

2: Again the newspapers state the fact that negotiations have been entered into with Mr. Henry Ford to lend his genius to make the engines by the thousands. A "BOMB" was pulled by those in Authority when they failed to check up on the reason why Mr. Ford stopped the making of the Rolls Royce Engine for France and why he kicked it out of his plant and sent all drawings, tools, jigs, etc., on the 11 d' France back to France. Then the news he refused to make the engine for England. The above information was given to Mr. George J. Mead and Captain Krause on June 7, 1940.

3: The pitiful thing about the whole matter is that, seemingly, we have learned nothing from experience. The same errors of personnel selection, the same errors of judgment - - that wasted \$600,000,000.00 in 1917-18 - - in a fallacious Aviation Program that produced nothing but useless blueprints and thousands of columns in the newspapers of Aviation Dreams never realized.

4: What causes these conditions and how may they be remedied? Being the person responsible for the Rolls Royce Engines being brought to our Country, I will speak from 25 years experience as a former Army Officer and Aviation Executive. Please understand that all statements are made without rancor and with one point in view - - the bringing to America - - the best of world-wide knowledge and experience in Aviation.

5: My remarks will be sub-divided under the following headings:

- (a) Mistakes of personnel selection and the remedy.
- (b) Mistakes of methods.
- (c) Lack of Cooperation on part of Army and Navy officials.
- (d) Fantastic "Bunk" for publication should be eliminated.
- (e) The real way in which Rolls Royce, Hispano-Suiza, the Junkers Jumo 210 D, E, and 211 C, can be made in quantity successfully.

1a) MISTAKES OF PERSONNEL AND THE REMEDY.

There is an old and wise saying - - "Fools rush in where angels fear to tread." This is true of the present Aviation Program. Men are being selected without reference to their ability to do a particular job and their requisite knowledge for it. The contractor, who makes in a clothing factory, thousands of cheaply priced garments could not be lifted out of that environment and put in charge of the "Custom Type of Establishment" successfully. Neither can the maker of low priced cars be expected to have the knowledge and experience to make the elite of engines. The methods of quantity production in each field differ vastly. Witness the difficulty of the General Motors in trying to make the Allison, in their difficulty of trying to compress into a few years the knowledge and experience that it took others a quarter of a century to learn how to do it correctly. The Remedy - - Put the job in the hands of those who quietly for 15 years were working out details for the establishment of a plant for the purpose of making large in-line Liquid Cooled Engines, they know where to obtain the tools, and the experienced help absolutely necessary for success.

Seasoned experience in Governmental and Civilian Affairs have developed the requisite attributes and knowledge necessary for success.

(b) MISTAKES OF METHODS.

During the C.I.O., strikes in Detroit unguarded remarks made by large Motor Executives showed that there was an understanding between certain motor car manufacturing concerns. Was this the reason why Mr. Knudsen first offered the making of the Merlin to Chrysler? The question is asked -- Why? Did Mr. Knudsen check the record of Mr. Henry Ford with reference to his treatment of France when negotiating an order of some \$129,000,000.00, if he did not, he lead with his chin.

Putting the development of a Liquid Cooled In-Line Aviation Engine in the hands of those chiefly concerned in the development of Radial Air-Cooled Aviation Engines is inviting disaster. You might just as well expect a Mongoose and a Cobra to lay down quietly in the same pit

In all of the talk of "Mass Production" of Liquid Cooled Engines, did it ever occur to these "Big Brained Executives" that they are making these engines in Europe by the thousands under the title of "Quantitative Production". We term it "Mass Production." Maybe we could learn something from Europe in this respect that would be illuminating. Results rarely accrue where there is no responsibility other than voluntary service.

(c) LACK OF COOPERATION ON THE PART OF ARMY AND NAVY OFFICIALS.

Just so long as Army and Navy officials must be politicians, you will not find them taking any stand that will put in jeopardy their pension rights (Billy Mitchell's) are exceedingly rare. Neither will they take any effort or initiate any action that might be detrimental to certain entrenched Aviation Interests. Illustrative of this is the following: In January of this year I was talking to a certain General to interest him in the Rolls Royce Merlin Engine. He said to me, "What would Pratt Whitney and Wrights have to say if we recommended this engine?" My answer was short, blunt and to the point. "To hell with them, your job is to provide the best of all types of engines for the service and not to confine it to one channel".

To obtain peak of efficiency in the Army and the Navy put Development, Research and Procurement under Civilian Control and hold them accountable and you will get results.

(d) FANTASTIC "BUNK" FOR PUBLICATION SHOULD BE ELIMINATED.

Every effort should be made to eliminate the "Fantastic Bunk" fed to newspapers -- Pop says -- "I can make a thousand a day." Junior says -- "We can make five thousand a day." and then they pass the buck after they get the publicity. "They don't like England." This type of hooey and that peddled by the C.A.A. regarding flying wings, etc., should be stopped. The Aviation Program should not be used to press agent any particular person, group or organization. The newspapers play the game squarely -- don't feed them rosy promises until you know you can back same up with performance.

(e) THE REAL WAY TO MAKE THE ROLLS ROYCE MERLIN ENGINE, ETC.

The Rolls Royce Merlin Engines can be made in America successfully. It will require common sense to appraise the situation and realize that the same methods of "Quantitative Production" used in Europe will have to be adopted here. Duplicate the methods used by the Rolls Royce Company in the three large factories they operate employing tens of thousands of employees and results will be sure.

Until the Treasury Department stepped into the matter and "gummed" up the works a Group had been quietly working for the past year and a quarter developing a program for the manufacture of the Rolls Royce Engines. This Group was responsible for President Roosevelt approving the Engine on December 29, 1939 for any department or service that wanted it. As head of the Group I started to try to get the Rolls Royce Ltd., to permit manufacture of their engines as far back as March 1939. In April 1939 while talking to an associate in London on the Trans-Atlantic Telephone he stated that he had contacted the Rolls Royce Ltd., and that while they were not interested in coming to America they would consider a license only on the following terms which they are believing that they could or would not be met:

The conditions for the issuance of the license were:

- 1) The Blessing of the American Government — The Heads of the Army and Navy Air Corps ducked this request for months. They would not recommend the Engine. The matter was presented to President Roosevelt on December 29, 1939 for me by Congressman Andrew L. Somers. The President promptly approved the Engine for either or both services if they wanted it.
- 2) On January 10th, 1940 after learning that President Roosevelt had approved the Engine General Brett got on the band wagon and agreed to order two of the engines for test. This took care of the question of orders.
- 3) A license fee of \$250,000.00. This matter was the subject of discussion with banking underwriting houses when word came from England that the Engines could not be furnished. I wrote to my representative in London, pointed and vigorously. He presented the letter to the Air Ministry. The Engines came, so did the license but not to the Group that did all the work.

The suggestion is made that insofar as the Rolls Royce Engine is concerned that the National Advisory Defense Committee keep its hands off and turn the matter over to the Group that initiated the first steps towards having it manufactured in this Country for the reasons set forth herewith:

- 1: They know the way to make the engine is to duplicate the plants in Europe and their experts have been through these plants and likewise have located similar types in this Country that can be quickly converted.
- 2: They have the ability to raise the necessary capital for tooling, equipment necessary for special operations, to augment the equipment already in the plants under option.
- 3: They have in the Group former employees and officers of Rolls Royce that know their methods and can work in harmony with the European concern.
- 4: They had the foresight to ascertain just what airplanes were designed and engineered for Rolls Royce Merlins and they have made arrangements so that they can be made in America in quantity production. One model of attack bomber is of outstanding design.
- 5: They had a survey made of the tool situation by competent experts in the tool industry and know where to locate quickly the necessary tools and equipment not on hand in the plants under option. They likewise intended to use the knowledge gained in 1917 in the manufacture of Rolls Royce Engines through sub-contract of parts until assembly lines and equipment were ready.
- 6: The "Group" has the necessary personnel, experience and the ability to get the job started without any hurrah or bunk being fed to the newspapers. Accomplishment is what is desired not headlines.
- 7: They understand the needs of the Army and the Navy. Its members know from experience how to cut Governmental "Red Tape" and effectively secure cooperation from "Buck Passers". They have the courage to speak plainly and bluntly, knowing that, even if it costs them money, their ideas and plans are fundamentally sound and in the end they will prevail.
- 8: Their present desire is to be permitted to go ahead with a "Job" long planned as can be seen from the foregoing before the present hullaboo started, and they want to do it right from the start.

Congressman Andrew L. Somers has had ample opportunity to know the ability of the writer and I would appreciate permission being given to me to demonstrate how quickly I can finance and get operating the plant to make the Rolls Royce Engines. The Plans our group had developed recognised the fact that a war was impending but they had in mind also full time peace operation to supply needs of South America and China.

The record of the writer covers service in many capacities during the period of 1917 to 1920. A few of the high-lights are set forth as follows:

1917

Appointed Chief of the Material Division, Aviation Section Signal Office, Eastern Department. Selected by General William Mitchell to supervise the acquisition of all Aviation needs for the A.E.F. sailing on the Baltic with General Pershing.

Developed a sound system of purchase and procurement for Aviation and Signal Corps needs.

Organized and managed the Aviation Gasoline and Lubrication Division. Consolidated all purchases of France, Italy and England with our own.

Appointed by General Saltsman to coordinate the activities of the Italian, French and English Air Missions. Through these commissions brought into the United States the best types of airplanes of the Allies as well as their most advanced airplane engines.

1918-1920

Prepared and presented to the Secretary of War a report showing waste, inefficiency and duplication in the Aviation Section, in procurement, management and supply. Charges investigated and sustained. Necessary corrections suggested adopted.

Promoted to the General Staff, Purchase, Storage and Traffic Divisions, detailed to consolidate the activities of the Ordnance, Aviation, Signal and Medical Division in regard to disbursements.

Devised and originated the present form of contract used for telephone service.

Originated simplified forms of Purchase and Procurement Forms. These approved and accepted by Generals Lord and Dawes.

1920-1940

Economic Adviser and Credit Analyst for large industrial concerns. Adviser to Continental Aero-Surveys for finance. Conducted surveys for Cabinet Officers.

For the past year and a half have been conducting a quiet survey of plants that could be quickly converted into airplane engine factories for the manufacture of In-Line Liquid Cooled Engines. The project being based on peace time efforts could be utilized also for war purposes.

I would appreciate the opportunity of discussing with you the full details for the financing, management and equipping of the plants I have in mind. Not one penny of Government money is needed. I can raise any amount quickly and cheaply for National Defense units that can at the end of the emergency turn to peace time pursuits a way having been devised and tested to take up the slack. Thanking you for the attention given to this lengthy communication, I am,

Very truly yours,

Thomas F. Moloney
Thomas F. Moloney.

- J.S. Plan for raising of funds discussed with Congressman Somers will raise in two weeks time all the funds necessary for plant expansion without taxation or bond issue, on part of Government or private concerns.

YOUR "INVESTMENT IN SECURITY" IS "INVESTMENT IN INVINCIBILITY."

A Plan for the Financing of Plants Engaged in National Defense Supply.

To meet the need and demand for Capital wherewith to finance the great Program for National Defense, in so far as it relates to equipping, reconditioning and expansion of existing types of plants so that they could be permanently set up as National Defense Units, A Plan is offered for the raising of the necessary funds, that is simple, logical and patriotic. It will ease the burden of taxation and reduce by a substantial amount the total that would ordinarily have to be borrowed.

In our Country are a great number of persons, who by reason of age, physical condition, or some perfectly legitimate responsibility cannot in times of stress and danger to our cherished institutions and freedom, participate physically and volunteer their services. They all want to do their "bit" and "The Plan" offers to these persons an opportunity to invest and enlist in the service of their Country a limited portion of their wealth with an assured feeling that an "Investment in Security is Investment in Invincibility." The Plan is set forth herewith:

"THE PLAN"

- 1: To create and set up under the supervision of the Securities and Exchange Commission a division, that would be charged with the duty of supervising the receipt of subscriptions for Preferred Stocks to be issued by Corporations engaged in making DEFENSE NECESSITIES.
- 2: This division would be authorized to work with Nationally known and responsible Underwriting Firms, Stock Exchanges, Registered Brokers, Banking Corporations, Private Bankers, and Security Dealers, whereby these individuals or corporations would be authorized to solicit and receive subscriptions for Preferred Stocks and to distribute same when allocated and issued. For such services rendered these participants would be paid a commission of three (3) percent on all subscriptions they obtain and receive for transmission to the division for such Preferred Stocks.
- 3: These Preferred Stocks would have preference as to Dividends, and in liquidation. To prevent the freezing of capital, arrangements would be made so that the funds enlisted would be demobilized, by drawings, as fast as earnings and profits built up a reserve for

for their redemption. A limit of one hundred thousand (\$100,000.00) dollars would be the maximum investment permitted in any one company by any person, partnership or corporation. The Preferred Stock Certificates would be issued in units of \$1.00 per value, offered to the Public at \$10.00 per share. Redeemable by lot on call.

A distinctive advantage of the "Plan" is that it permits patriotic persons to share in the great work of arming for protection of our Country and at the same time it eliminates all "wild-cat" types of Stock Promotion. "The Plan" being for use of concerns that would be engaged in the Defense Program of the Country, and being supervised by the Securities and Exchange Commission, the integrity and responsibility of all distributors would be known in advance.

No all Subscribers there would be given with their subscription an attractive pin or button to wear to signify their cooperation and also an emblem or poster to display in an appropriate place in the home, office, factory, etc as the case may be.

There would be no expense to the Government as an additional two (2) percent would be deducted from the proceeds of the sale of the Stocks to cover the cost of handling same, the cost of emblem, office help, overhead, etc., this would mean that the total cost of obtaining capital would be only five (5) percent.

Through the vision and courage of the present administration the way is now open to put America in a preeminent position in the construction of all types of Aircraft, Airplane Engines, Tanks, etc.

This Plan was devised by Thomas T. Moloney, 210 Kilburn Road, Garden City, N. Y., and represents experience gained in thirty years in International Aviation. Mr. Moloney served in the last war in many capacities in the Signal Corps, Aviation as well as ~~Army~~ Divisions and was Liaison Officer to the English, French and Italian Air Missions and in this capacity supervised the bringing to America many of the famous airplane and airplane engines, of France, England and Italy. He is responsible for the extraordinary interest shown in the Rolls Royce Engine. In March 1939, sensing the way conditions were going he got in touch with the Rolls Royce Ltd., and endeavored to induce them to come to America. In a trans-atlantic conversation had with Mr. Bernard

Weatherill, his London Representative, Mr. Weatherill who had been in consultation with the Rolls Royce Ltd., stated that they set three conditions for the granting of a license to America to make their Engine, and these were as follows:

- 1: That "The Blessing of the American Government" be obtained. This they stated they did not believe could be gotten.
- 2: That a license fee of Two hundred and fifty thousand (\$250,000.00) be paid with a commission after the third year on all engines sold.
- 3: That orders be obtained and Rolls Royce Standards of excellence be maintained.

The first condition was no cinch. All the Brass Hat "Generals" and "Admirals" ducked quickly. They were not going to get in Dutch with American Concerns by recommending any foreign product, no matter how good it was.

To cut the "Gordian Knot" Mr. Moloney presented all facts to Congressman Andrew L. Somers, a former Naval Officer and Test Pilot for the Navy. Mr. Somers made an appointment with President Roosevelt on December 29th, 1939, explained to the President the merits of the Rolls Royce and the President approved of the engine for any department that wanted it. The other two provisions soon faded after the President approved the engine.

It is to build and equip factories to build this and other types of Aviation Engines and Airplanes that this plan has been developed. It will permit our Country to have located at strategic points, fully equipped plants ready to fill our needs and also to keep abreast of the times for the future.

June 29, 1940

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during June 1940.

RB

Attachment

Monthly Report on Projects in the
Division of Tax Research
June 1940

I. New projects

1. War and excess profits taxes

In accordance with instructions of the Congressional Committees on taxation, plans are being prepared for the writing of an excess profits tax bill. A digest of Congressional war finance proposals during the period 1920-1940, and a translation of the French tax law enacted in 1939 for the limitation of profits of industrial and commercial enterprises have been prepared.

(Mr. Blough and staff)*

2. Income taxes

Materials were prepared comparing income taxes under the Revenue Act of 1939 with income taxes under the Revenue Act of 1940 and under certain other proposals during the consideration of the Revenue Act of 1940. (Mr. Shere and staff)

3. Tax on value added

A memorandum is in preparation analyzing the economic and administrative issues which would be involved if a value-added tax were imposed.

(Mr. Farioletti)

*Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

4. Exempt insurance companies

A memorandum is in preparation on exempt insurance companies, giving special attention to the basis for treating mutual insurance companies other than life different from stock insurance companies and examining the tax exemption issues with respect to the various classes of exempt insurance companies covered by section 101 of the Internal Revenue Code. (Miss Till and Mr. Mills)

5. State taxes

Tables were prepared showing: (1) Rates and exemptions under State admissions taxes and (2) rates of State taxes on soft drinks. (Mr. Ecker-Racz and Miss Wells)

6. Summary of Revenue Act of 1940

At the request of Mr. Morris Copeland, Consultant to the Advisory Council, National Defense Council, a summary of the main provisions of the Revenue Act of 1940 was prepared. (Mr. Atlas)

7. Liquor and tobacco taxes

Data were prepared comparing the taxes proposed under the Revenue Bill of 1940, and under prior law on liquor and tobacco per unit of common volume and per dollar of retail price. (Mr. Shere, Mr. Ecker-Racz and Mr. Campbell)

II. Continuing projects

1. Undistributed profits tax

A memorandum is in process analyzing, in the light of issues raised by the undistributed profits tax, the statistics made available from income tax returns and other sources.

(Mr. Shere, Mr. Atlas and Mr. Copeland)

2. Incentive taxation

A report analyzing the provisions of S. 3560, 76th Congress, has been prepared and is being edited. This bill provides for the imposition of a tax which is reduced as the expenditure for labor used in business is increased. (Mr. Shere and Mr. Farioletti)

3. Building and loan associations

A memorandum analyzing the suggestion to exempt dividends on building and loan association stock from the Federal normal income tax has been prepared and is now being edited. (Mr. Shere and Miss Till)

4. Tax-exempt securities

Data on (1) the gross amount of interest-bearing securities of Federal corporations and agencies outstanding at the end of each calendar year from 1929 to 1939 and (2) the amount of such securities

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held by the United States Government, Federal trust funds and Federal agencies are being compiled. (Mr. Ecker-Racz and Mr. Mannen)

5. Income and estate taxes

- (a) A memorandum analyzing the problems of estate tax payment is in process. (Mr. Mills)
- (b) Reports on the following subjects are in various stages of preparation but have not been actively prosecuted during the month:
 - (1) The problems of special defense taxes with particular reference to the technical problems involved in the suggestion that a flat percentage increase in the present income and other taxes be imposed. (Mr. Shere and Miss Coyle)
 - (2) Distribution of tax-exempt securities by net income brackets with particular reference to the holdings of such securities by persons in high income brackets. (Miss Coyle)
 - (3) Proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)
 - (4) Powers of appointment and remainders under the estate tax. (Mr. Mills)

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6. Articles, etc.

An article has been prepared for the June issue of the Treasury Bulletin on "Dividends Received by Corporations." (Miss Coyle)

7. Inventory of tax proposals

A draft of an inventory of proposals designed to produce additional revenue, which has been considered by the Treasury from time to time, has been prepared. A similar compilation of Treasury tax proposals other than those designed to produce revenue is in preparation. (Mr. Shere and Mr. Zorach)

8. Tax chronology, 1919-1927

A chronology of Federal tax rates covering the period 1919-1927 has been prepared and submitted for review to the office of the General Counsel. (Charts covering the years 1913-1918 and 1928-1939 were previously prepared.) (Mr. Atlas and Miss Hughes)

9. Income Tax Study, WPA

The study of income tax returns carried on at Philadelphia with WPA funds since October 1938 is nearing completion. Portions of the text of the Study and table forms for special tabulations were reviewed. (Mr. Shere and Miss Coyle)

- 6 -

III. Routine assignments

1. Statistics

- (a) In connection with the supervision of the technical work of the Bureau of Internal Revenue, several proposals of statistical tabulations were reviewed. (Mr. Blough and Mr. Shere)
- (b) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented on for the information of Mr. Sullivan. (Mr. Campbell)

2. Correspondence

The Division handled correspondence pertaining to tax problems. (Staff members)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 29, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to our conversation by telephone this morning, in which I mentioned a Norwegian gold shipment.

The Norwegian Minister has now called, accompanied by two Norwegians, one of them the Under Secretary of the Norwegian Ministry of Finance, who accompanied the gold from England to Baltimore. The second of these officials had collected the gold along the Norwegian Coast from small fishing vessels and had then transferred the gold to England. Through this method practically all of the sixty or seventy million dollars of gold was moved out of the country. The plan was to leave about one-third of this amount in London, transferring one-third to Canada, and hold between thirty and forty percent in New York.

The two men who arrived in Baltimore brought approximately nine million dollars of gold in a fifteen hundred ton motorship, without any insurance. When the ship arrived yesterday we had our Customs people go on board where they are now guarding most of the gold. Two parcels of coin were left, under an arrangement which we made, with the Baltimore branch of the Federal Reserve for safekeeping. The Customs officials accompanied the two Norwegians to the Norwegian Legation in Washington.

Arrangements are almost completed with the Federal Reserve Bank at New York for the opening of an earmarked account there for the Norwegian Government into which six million dollars of the nine million will be deposited for earmark. The plan is to ship the other three million to Montreal.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 29, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The sterling rate continued to decline today. From an opening of 3.85, it moved off to 3.78 in the mid-morning, and then returned to 3.81 at the close.

Sales of spot sterling by the six reporting banks totaled £202,000 from the following sources:

By commercial concerns.....	£ 32,000
By foreign banks(Europe and Far East).....	£170,000
Total.....	£202,000

Purchases of spot sterling amounted to £192,000, as indicated below:

By commercial concerns.....	£ 63,000
By foreign banks (Europe and Far East).....	£129,000
Total.....	£192,000

The Guaranty Trust Company reported that it had sold cotton bills totaling £12,000 to the British Control on the basis of the official rate of 4.02-1/2.

There were no reported purchases of sterling from the British Control at the official rate of 4.03-1/2.

Although the Canadian dollar weakened further to 17-5/8% discount just after the opening, it subsequently developed a firmer tone, closing at 16-7/8%.

The other currencies closed as follows:

Swiss franc	.2264
Lira	.0505
Reichsmark	.4000
Cuban peso	9-5/8% discount
Mexican peso	.1980 bid, .2020 offered

We purchased \$5,000,000 in gold from the earmarked account of the Central Bank of the Argentine Republic.

There were no new gold engagements reported to us today.

No quotations for gold and silver were received from Bombay today. The Commerce Department's daily statements of silver exports and imports for June 27

- 2 -

and June 28 revealed that shipments of refined silver bullion are still being exported from the United States to Bombay, India. On the two days mentioned, a total of 650,000 ounces left this country for that destination.

During the month of June, we purchased a total of 6,014,000 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	3,668,000
2. From Canada under agreement	1,200,000
Inventory	996,000
Trading	150,000
Total	6,014,000



CONFIDENTIAL



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 29 June, 1940.

SECRET

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

Message from Mr. Nicholson.

In a telegram received from Kung, Chungking, he states:

"The sale of one hundred pounds worth of Tientsin silver is forced upon the British by the Japanese, consequently the Chinese Government is not interested in the matter of its disposal."

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

1300 PM 30 JUN 1940

RECEIVED
JUN 30 1940

EH

PLAIN

Hong Kong

Dated June 29, 1940

Rec'd 3:11 p.m.

Secretary of State,
Washington.

218, June 29, 2 p.m.

Collections in June tending to be slower mainly attributable to delayed deliveries and increasing trade uncertainty. Banks appear to be granting credits freely to well established old customers and to be discouraging new commitments to all others. Requests for bill extensions slightly increased. No failure of importance.

SOUTHARD

WSB

JI

GRAY

Calcutta

Dated June 29, 1940

Rec'd 7:58 a.m.

Secretary of State

Washington

June 29, 11 a.m.

Referring to my telegram of May 20, 5 p.m.,

third paragraph, registration of transactions
extended to July 19th because of mail delays..

WHITE

RR

Control license system.

COPY

DEPARTMENT OF STATE

Washington

In reply refer to
Eu 855.51/806

June 29, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a communication regarding the National Bank of Belgium which the former has sent today to the President of the Federal Reserve Bank of New York together with copies of the enclosure thereto with the exception of the original French text of the note of June 26 from the Belgian Ambassador.

Enclosure:

To Federal Reserve Bank
from State Department,
with enclosures.

June 29, 1940

In reply refer to
Eu 855.51/806

The Secretary of State presents his compliments to the President of the Federal Reserve Bank of New York, and encloses a copy and translation of a note of June 26, 1940 from the Belgian Ambassador regarding the legality under Belgian law of the activities of the National Bank of Belgium.

There is also enclosed a copy of a telegram no. 98, June 26, 1 p.m. from the American Embassy at Bordeaux, communicating the text of a power of attorney issued under date of June 26, 1940 by the Governor of the National Bank of Belgium.

Enclosures:

1. Copy of note.
2. Translation of note.
3. Copy of telegram.

Eu:LC:AMR 6/29

TRANSLATION OF NOTE

June 26, 1940.

In referring to a letter which was addressed to you by Mr. Theunis, Ambassador on Special Mission, under date of June 23, no. 2446, I have the honor to bring to Your Excellency's attention that which follows.

Taking advantage of the provisions of Article 1 of the decree law of February 2, 1940, communicated by the Belgian Embassy to the Department of State with the Embassy's note no. 1295 of April 29, 1940, the National Bank of Belgium decided to transfer its legal domicile to the seat of the Belgian Government.

The Federal Reserve Bank of New York has raised the question whether the National Bank of Belgium had recently established its legal domicile at the seat of the Government.

In fact, the National Bank of Belgium, for reasons of practical organization, established the part of its offices which had been transferred abroad, in the localities occupied by the National Bank of France, first at Paris, later at Saumur, and finally at Mont de Marsan. The Belgian Government, for its part, established its offices first at Ostend, then at Poitiers, and later at
Bordeaux.

- 2 -

Bordeaux. The fact that the administrative organs of the Government and those of the Bank were not established in the same locality is explained, moreover, by the difficulty involved in suddenly installing the numerous administrations in the small villages.

This purely factual circumstance is not of a character to annul the validity of the acts done by the administration of the National Bank. It is necessary, in addition, to remark that the validity of these acts is independent of the place where they have been done. Nothing in the statutes of the Bank nor in Belgian legislation makes the validity of an act of administration of a commercial enterprise, such as the National Bank of Belgium, depend upon the place where it has been done. Neither do the provisions of the decree law of February 2, 1940 make the validity of the acts of enterprises which make use of the law depend upon the fact that they are done or not done in the locality where the legal domicile is established, for example for the National Bank, there where the Government resides.

Furthermore, in Belgian law, the idea of legal domicile (siège social) is a juridical conception which should not be confounded with the location of the activity,

the

- 3 -

the latter may be situated in a distinct locality. The legal domicile of the Bank was established at the seat of Government by a decision of the Board of Directors (Comite de Direction) in conformity with the decree law of February 2, 1940. This decision was not annulled. The successive removals of the Government and the Bank are factual events which have no juridical effect upon this legal situation. Today, so far as the Embassy knows, the legal domicile of the National Bank has in consequence been established since May 17, 1940 at the seat of the Government.

I take advantage of this occasion, Mr. Secretary of State, to renew to you the assurances of my highest consideration.

COPY

JI

GRAY

(Paris)
Bordeaux

Dated June 26, 1940

Rec'd 1:42 a.m., 28th

Secretary of State

Washington

98, June 26, 1 p.m.

Governor Jansen of the National Bank of Belgium called this morning and showed the Embassy a brief cable received from Theunis indicating his existing power of attorney was inadequate; that a new one should be executed and acknowledged before the American Consul and cabled to the "Department of State". The following is a translation of the original power of attorney executed in and formally acknowledged at the Consulate here before Consul Waterman:

"The National Bank of Belgium.

"In the event that the administration of the National Bank of Belgium should find it impossible to give instructions relative to its holdings abroad to the institutions with which they are now or may hereafter be deposited and especially:

One. The Bank of England.

The South African Reserve Bank.

Power of attorney to take any action for the preservation of these holdings is hereby granted to the following persons:

JI-2-498, June 26, 1 p.m. from Paris

One. As present the foregoing to Mr. Adolph E. Baudewyns, Director of the National Bank of Belgium;

Two. As alternate to Mr. Hubert Ansieux, Inspector of the National Bank of Belgium.

Power of attorney for the same purpose is likewise granted to Mr. Georges Theunis, Ambassador Extra-ordinary of Belgium at Washington, in the event that the afore mentioned attorneys should be unable to exercise their powers. The afore mentioned attorneys are likewise authorized to delegate their powers in whole or in part to Mr. Georges Theunis.

Bordeaux, June 26, 1940.

(Signed Jansen)". Governor Jansen's present address is care of the Bank of France, Tarbes, Hautes-Pyrenees in unoccupied territory. The Belgium Government he says is now located at Sauve Terre de Guyenne, Gironde.

BIDDLE

RR

C O P Y

JT

GRAY

STOCKHOLM

Dated June 29, 1940

Rec'd 11:27 a.m.

Secretary of State,
Washington.

680, June 29, noon.

Large and increasing number of German commercial men are at present in Sweden acting as brokers endeavoring to sell for free exchange a wide variety of Balkan products including olive oil, fodder cake, bauxite manganese. Sweden has no clearing agreement with Hungary, Bulgaria, Yugoslavia and will give free exchange for products of these countries. Clearing agreement with Turkey provides free exchange for chrome only. From hints heard it appears likely that arrangements are being made to turn over to the German Reichsbank at least half of exchange so obtained and that Balkan sellers will receive the inducement of augmented prices paid from German clearing balances in their countries.

Bramsnes of the National Bank of Denmark is in Stockholm endeavoring to obtain loan of Swedish crowns to pay interest on Sweden's loans to Denmark. Reliably informed that lacking collateral his application has

been

-2- #680, June 29, noon, from Stockholm

been refused by the Scandinaviskabanken. Inform
Commerce and Treasury.

STERLING

CSB

BLS

PLAIN

BERLIN

Dated June 29, 1940.

Rec'd 8:20 p.m.

Secretary of State,

Washington.

2214, June 29, 5 p.m. (SECTION ONE).

My 2072, June 24, 5 p.m.

According to an announcement published in today's VOELKISCHER BEOBACHTER the bread ration for young people from 10 to 20 years will be increased as from July 29 by 200 grams per week. This, however, will be offset by a reduction in the bread ration of all adults above 20 years by 150 grams per week. This reduction applies not only to "normal consumers", but also to heavy and heaviest workers. The bread ration for children remains unchanged.

On the other hand, the "extraordinary favorable development of butter supplies" is adduced as reason for an increase of the butter ration by 125 grams for the four-weeks rationing. Beginning July 1 the VOELKISCHER BEOBACHTER announces and barring unforeseen circumstances this additional butter ration will also be distributed in the following rationing period beginning July 29, 1940. In addition for the duration of the seasonal increase in milk production curds may be sold without any restriction.

HEATH

NPL

COPY

Paraphrase of sections 2 and 3 of telegram 2214 from Berlin, June 29, 1940.

Secretary of State,

Washington.

Because of recent official statements that Germany will enter the new crop year with a large carry-over of bread grain as in September 1939, the reduction in rations of bread for adults including workers of all classes was unexpected. If compared with the total bread consumption in Germany, these changes in the rations of bread for different age groups would result in a saving which appears insignificant.

Because of the additional rations for young people, about a hundred and twenty-five thousand tons of bread additional will be required yearly for these rations. There will be a saving of about half a million tons from the reduction of the rations for adults, leaving a net saving of three hundred seventy-five thousand tons of bread which amounts roughly to about two hundred twenty-five thousand tons of bread grain per year, or a figure which is less than one-fiftieth of the yearly consumption of wheat and rye in Germany.

RECEIVED
THE DEPARTMENT
JUL 2 1940

HEATH

COPY

DCA:CHK:MEK

Paraphrase of telegram No. 2194 from Berlin, June 29, 1940

Secretary of State,

Washington.

Confidential.

An analysis of food policy, available statistical materials, and general conditions is the basis of the following summary of the present food situation.

1. Less damage than was expected occurred to crops which were in fair condition after the severe winter. The spring season was late but labor sufficient to perform necessary work was available. The growth of spring and winter crops has been retarded somewhat, particularly on light soils, by the recent long dry period with cooler evenings than is usual at this season. The cereal crop prospects cannot yet be estimated, as yet they appear certainly not to be above average, and below average or even poorer results may be expected if the present unfavorable weather continues. Potato and other root crops have been increased about ten percent and are reported in good condition though in several places in need of rain. These crops normally tend to offset bad cereal years and the shortage of such foodstuffs.

2. It is claimed that cereal reserves are as large as a year ago, but there has been made no similar claim regarding fats. Butter reserves have increased due principally

-2-

principally to shipments of butter from Denmark, and the production of margarine in the Netherlands has ended because fats in other forms are claimed to be available. More frozen and tinned meat is probably available than a year ago, since more livestock has been killed because of fodder shortages in Denmark and the Netherlands. This of course will mean that meat production will be reduced in the future. Fats, meats, and so forth from Denmark have recently been released by the Berlin authorities to other buyers, though similar foodstuffs from the Balkans and the Baltic states are held for the Germans.

3. The food policy of Germany comprises the following:

(a) that the German population shall have standard rations. These last winter were sufficient to enable both the military and the civilian populations to carry on the war effort in spite of abnormal transportation difficulties; (b) alien and prisoner labor to receive a smaller ration of essential foodstuffs, which have been described by neutral technical observers as sufficient, economical, and cheap; (c) its own food supply to be provided as far as possible by occupied territory—as shown in Poland last winter it was regarded as sufficient if the non-German population had the bare necessities of life; and (d) occupied territory to feed the occupying forces of Germany if possible.

As was the case last year it is expected that Poland will keep itself. France, it is expected, will be able to

-3-

to survive on its accumulated military reserves and upon domestic production. At least during the summer and autumn, the Netherlands, Norway and Denmark are believed to be self-sufficient, but an official survey discloses that breadstuffs are already short in Belgium. The German authorities feel that with restrictions and higher prices such as were put into effect last winter in Poland, they can reduce food consumption in the west, which they regard as having been wasteful. Though other populations must experience shortage of food to make it possible, the Nazi policy is that at least the standard ration should be had by the Germans.

5. In as much as Germany and Italy are now the only practicable markets for eastern European countries, the last two months have witnessed an expansion of the potential sources of imported foodstuffs for Germany. Italy, however, cut off as she is from her overseas imports, is expected to bid for a portion of the additional food supplies available from those sources. The binding of the countries of Eastern Europe to the German continental economic system is already under way, and it is said that large foodstuffs supplies can be drawn by Germany particularly from South-eastern Europe. The reserve stocks and the stocks carried over from last year in the Danubian countries, which are said to be large, are emphasized in this connection.

Those

4

Those countries' crops for this year are not expected to be above average. A confident note can be observed to the effect that Germany can now command with respect to economic matters in those countries and no longer has to bargain.

It would now appear that Germany proper will have adequate supplies of food throughout the coming year and that its position is now better for mobilizing for its own disposition the surplus supplies of continental countries. It would seem also that Germany can control distribution and consumption on the continent to a large extent and in the interests of its policy, both military and economic, and that to carry out its policies, it will use ruthlessly this power to control the food supplies of non-German people.

HEATH

DCA:GHK:MEK

COPY

EXCHANGE STABILIZATION FUND

Approximate earnings for
month of June, 1940.

Interest earned on investments	19,461.74	
Interest earned on Yuan	<u>22,181.76</u>	
Total		41,643.50
Profits on handling charges on gold		<u>973,700.15</u>
		1,015,343.65

Expenses entered in the
accounts during June, 1940.

Salaries	20,145.08	
Travel	616.02	
Subsistence	459.00	
Telephone and Telegraph	6,515.83	
Stationery	55.75	
All others	<u>1,745.56</u>	<u>29,537.24</u>
Difference		985,806.41



DEPARTMENT OF STATE
WASHINGTON

June 29, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 101 of June 26 from Bordeaux.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

1940 JUN 30 11 23

RECEIVED
TECHNICAL ASSISTANT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Bordeaux, France

DATE: June 26, 1940, 6 p.m.

Rec'd 10:15 p.m., June 28th.

NO.: 101

RUSH

FOR THE TREASURY FROM MATTHEWS.

This afternoon Governor Janssen of the Belgian National Bank, in company with Cariguel, called on me. The Governor said that because it is impossible for him to communicate direct and in confidence with the New York Federal Reserve Bank, he would appreciate it if the following message could be delivered to them -

(Message in paraphrase)

New York Federal Reserve Bank: Would your Bank accept gold deposit for our account but under your Bank of Canada dossier; would transfer subsequently to New York be (omission). Would you please send your answer to the National Bank of Belgium, in care of the Bank of France, Tarbes Hautes Pyrenees. (signature of Governor Janssen). French gold is now "outside of metropolitan France" and the Belgian gold is with it.

I asked Governor Janssen what was the Belgian Government's present status, and he answered that as yet no contact had been made with German representatives. However, they expected to make contact immediately. Decision had been

- 2 -

been reached that the Belgian Government could "not go farther than the French Government" and that in order to facilitate the return to their homes of the millions of Belgian refugees, presumably an "armistice" would promptly be signed with Germany.

Governor Janssen also told me - and I had not previously heard this - that some days ago a secret message "confirming the legality of the Belgian Government now in France" had been sent by King Leopold, via Switzerland.

BIDDLE.

EA:LWW

TO THE SECRETARY
TECHNICAL INTELLIGENCE
DIVISION OF THE

22 11 AM 23 SEP 44

THE FOLLOWING DELIVERED
RECEIVED

PAP

PLAIN

LONDON

Dated June 29, 1940

Rec'd 7:14 a.m.

Secretary of State

Washington

1885, June 29.

FOR TREASURY FROM BUTTERWORTH.

The following notice which speaks for itself has been issued by the British Treasury:

"The Passport and Permit Office require in certain instances a declaration to be made in duplicate by or on behalf of an intending traveller that no application to transfer sums in the nature of either income or capital from a territory inside the sterling area to a place outside that area will be made for the benefit of the traveller during his or her absence abroad. The duplicate will be forwarded by the Passport Office, or the Children's Overseas Reception Board, to the applicant's banker named on the form and should be retained as evidence of the applicant's agreement (as above) that no remittances outside the sterling area will be made."

KENNEDY

RR

PLAIN

La Bourboule

Dated June 29, 1940.

Rec'd 8:22 a.m., July 1.

Secretary of State,

Washington.

1, twenty-ninth.

Arrived and staying La Bourboule with Foreign Office.

MATTHEWS.

231-A

BRITISH EMBASSY,
WASHINGTON, D.C.

June 30th, 1940.

Personal and Secret.

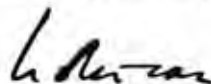
Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



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

Telegram despatched from London
on evening of June 29th.

Yesterday evening enemy aircraft operated over Cornwall, South Wales, and South Ireland and over Channel Islands where indiscriminate bombarding and machine gunning in Jersey and Guernsey resulted in 26 killed and many wounded. At Guernsey bombed on fire and destroyed. Last night enemy aircraft crossed south and east coasts of England, others remaining off shore, probably mine laying. Bombs reported dropped in Lincolnshire, Essex, and South Wales. Damage reported to be negligible. Further reports on attacks on night of June 27th to 28th confirm that remarkably little damage was done and there were only 3 casualties. The one big factory damaged has now recommenced work.

Blenheim escorted by fighters reconnoitred Calais-Doulogne area yesterday afternoon. Nothing of importance seen on roads or rail. All aircraft returned. Reconnaissance over Guernsey late yesterday evening reported no ships in harbour and no signs of enemy activity but number of houses had been destroyed. Last night 64 heavy bombers attacked marshalling yards, chemical factories/

factories and enemy aircraft on ground in north-western Germany. All aircraft returned. Mine-laying also continued. During attacks on night of June 27th to 28th bad visibility prevented accurate observations but successful attacks were made on 3 marshalling yards, docks and steel works, oil tanks, aerodromes and canal lock and lock-gates.

German Air Force continuing routine weather flights in North Sea. Transport still very active. Little other operational activity is reported and it is thought remainder of German Air Force is resting and re-equipping.

German troops in Norway appear to be being reinforced and include considerable numbers of parachute troops. There are sufficient aerodromes in existence or under construction to provide for assembly of air-borne expedition. Sufficient shipping probably also available in this area to transport two divisions. Shipping thought to be plentiful in Baltic and there is evidence of concentration of small craft in Holland and Belgium.

One Italian destroyer sunk by British warship in eastern Mediterranean yesterday. One German submarine thought to have been sunk in home waters yesterday, three British ships and one Norwegian ship torpedoed and sunk in western approaches.

Two British fighters engaged six enemy aircraft over Malta yesterday, one enemy aircraft believed/

believed shot down. Sidi Barrani and Mersa Matruh in Egypt heavily bombed, and aerodrome at latter place rendered unserviceable. British aircraft from Aden successfully bombed aerodrome and dumps in Macao. In Kenya Moyale was bombed on June 23th and Wajir on June 27th with little effect. Italian troops attacked Moyale yesterday supported by artillery. Attack unsuccessful but no further details available.

Morale of majority of French navy is deteriorating everywhere and though diminishing minorities may wish to continue the struggle senior officers will no longer do so.