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TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS
Wednesday, July 24, 1940.
7/23/40

Press Service
No. 21-69

The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, is today offering for subscription, at par and accrued interest, through the Federal Reserve Banks, \$250,000,000, or thereabouts, of 2-year 9-month notes of the Commodity Credit Corporation, designated $3/4$ percent notes of Series F. The notes will be dated August 1, 1940, and will bear interest from that date at the rate of $3/4$ percent per annum payable on a semiannual basis, the first coupon being for the fractional period ending November 1, 1940. They will mature May 1, 1943, and will not be subject to call for redemption prior to maturity.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes).

The notes will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington. Subscriptions will not be received at the Commodity Credit Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be

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received without deposit, but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. A new certification has been added to the subscription blanks to be used for this offering, designed to eliminate the practice of making formal or informal contracts for the sale of subscriptions or allotments before the closing of the books. This practice has been discouraged by the Treasury and the Federal Reserve Banks, but has still persisted to some extent on recent issues.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be received subject to allotment. Payment for any notes allotted must be made or completed on or before August 1, 1940, or on later allotment.

The text of the official circular follows:

COMMODITY CREDIT CORPORATION

3/4 PERCENT NOTES OF SERIES F, DUE MAY 1, 1943

Dated and bearing interest from August 1, 1940

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL STATES, WHICH GUARANTY IS EXPRESSED ON THE FACE OF EACH NOTE

Exempt both as to principal and interest from all Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes)

1940
Department Circular No. 638

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 24, 1940.

Fiscal Service
Bureau of the Public Debt

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Commodity Credit Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Commodity Credit Corporation, designated 3/4 percent notes of Series F. The amount of the offering is \$250,000,000 or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated August 1, 1940, and will bear interest from that date at the rate of 3/4 percent per annum, payable on a semiannual basis on November 1, 1940, and thereafter on May 1 and November 1 in each year until the principal amount becomes payable. They will mature May 1, 1943, and will not be subject to call for redemption prior to maturity.

2. These notes are issued under the authority of the act approved March 8, 1938, (Public No. 442-75th Congress), as amended,

which provides that these notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States; that they shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes); and that the notes shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Commodity Credit Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such obligations, the Secretary of the Treasury shall pay to the holder the amount thereof which is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such obligations.

4. Bearer notes with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and Branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve Banks and the Treasury

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Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, and to close the books as to any or all subscriptions at any time without notice; and any action he may take in these respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before August 1, 1940, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions, to make

allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve Banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

July 24th, 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. Norton

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
late on the evening of July 23rd.

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1. H. M. Destroyer "Hasty" on night of 7th/8th north of Alexandria carried out two promising attacks against U-boats. First depth charge attack followed by heavy under-water explosions considered successful. Few hours later second U-boat attacked, is believed damaged and possibly sunk.

As sequel to enemy mine-laying activity recently: 27 magnetic mines destroyed in sweeping operations yesterday.

2. Royal Air Force night bombing 21st/22nd generally successful. Hits observed on aircraft factories and depots at Gottingen, Notenburg, Wismar and Kassel, on railway targets at Hamm and Soest, and on oil plant at Gelsenkirchen. Aerodromes at Rotterdam and in northwest France and north-western Germany also oil tanks at Ghent were attacked with success and mine-laying operations carried out.

Yesterday, all Blenheims despatched obliged to abandon tanks owing to lack of cloud cover.

Last night 78 aircraft despatched as follows: 50 heavy bombers against aircraft factory and depot at Bremen and Paderborn; oil plant/

plant at Gelsenkirchen; railway targets at
Hamm, Essen and Dusseldorf; aerodrome at
Ischwege. Of these, one aircraft carried
leaflets for northwest France. 18 medium
bombers against aerodromes; 10 aircraft for
mine-laying in Helsingfors area, Ems Estuary
and Hubert Gut. 2 aircraft missing.

3. Addition to yesterday's report:
enemy aircraft caused considerable damage to
Albert Docks Station, Leith Docks, night of
21st/22nd. Casualties one killed, six injured;
shipping and main traffic not affected.

Only slight enemy air activity yester-
day. Duff House, Banff, was bombed, four
German prisoners killed, twenty-three injured.
Meteorological flights carried out, chiefly
over north Scottish waters, and in one case as
far as Iceland, also shipping reconnaissance
flights. Our convoys, protected by fighters,
were approached but enemy seemed reluctant to
attack. Several incendiary bombs dropped in
Northumberland, but fires quickly extinguished.

Last night, considerable enemy
activity over wide-spread area, but damage was
slight and casualties few. Incendiary bombs
dropped in Fife, and a few H.E.s in Lincolnshire,
Essex, Yorkshire and South Wales; at Chepstow
a factory was damaged without causing casualties
or affecting output. Mine-laying was on exten-
sive scale. Casualties: Enemy two bombers
confirmed/

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confirmed and one unconfirmed. Our fighter casualties nil.

4. No shipping casualties were reported yesterday.

5. ADD. 12 Blenheims dropped five bombs on Diredawa aerodrome July 31st; results not yet available, one Blenheim missing. Night of 31st/1st, two of our aircraft bombed Macnasa aerodrome.

EXPT. On July 30th a unit of our armoured brigade engaged enemy column of twelve guns and motor transport north of Capuzzo and forced enemy to withdraw. Enemy aircraft on July 31st bombed Sollum, Mersa Matruh, Fuka and area west of Sidi Barrani. No damage reported.



BRITISH PURCHASING COMMISSION

725 15th Street N.W.
Washington, D.C.
July 24, 1940.

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

Dear Mr. Secretary,

I enclose a copy of a letter handed to Mr. Knudsen this afternoon.

At that interview Mr. Knudsen stated that complications had arisen in connection with the terms which he had arranged for us with regard to the Packard Rolls Royce deal. I understand that as we are interested to an extent greater than one half the R.F.C. financing plan cannot be arranged and we must put up a further \$10,000,000 to take care of capital expense. I had reported it to London on the other basis.

While I realize that the change does not involve vital considerations on the one contract, I am quite worried as to the possibility of a precedent being established which would detract from the value of the arrangement which I reported to London for complementary programmes. London attaches a great deal of value to that arrangement and it would be with the greatest regret that they saw anything happen to prevent it being worked out in practice. This I know from the cables they have sent me in response to my message after we had talked.

I am wondering if there is some way out whereby a precedent could be avoided. My own suggestion to Mr. Knudsen was that the U.S. share might be increased from three to six thousand engines

2.

so putting it on a 50-50 basis and avoiding the difficulty altogether. I suggested that he might be willing to go to Congress for the extra amount. I did not make much progress along this line.

He has asked me for a reply this afternoon. Frankly I hesitate to press you upon one more matter of ours today and indicated to him therefore that I might decide to write you, giving us both a night to sleep over it and telephone you from New York in the morning.

Yours sincerely,

Arthur D. Brown

15 BROAD STREET, NEW YORK



TELEPHONE HANOVER 2-2480

BRITISH PURCHASING COMMISSION

725 15 Street N.W.
Washington, D.C.
July 24, 1940.

Mr. B. Knudsen, Esq,
Chairman, Advisory Committee
National Defense Commission
Washington, D.C.

Dear Mr. Knudsen,

As arranged, I am writing to confirm the conclusions reached at the meeting this morning in Secretary Worgenthau's office.

For the immediate programs up to April 1st, 1942, it was agreed that the informal memorandum attached hereto as Statement A, would regulate further approvals of airframe orders and the release of surplus engines for shipment to the United Kingdom. We have ventured to modify the wording slightly but I do not think we have in any way detracted from our mutual understanding.

It was also agreed that you will arrange, on United Kingdom account, for the early formulation of plans and estimates for the creation, over and above all arrangements already in train, whether for the United States or for the United Kingdom, of additional capacity equivalent to 3,000 planes per month with a fully balanced production for all auxiliary equipment including engines, propellers, armament etc. The suggested split-up of this total of 3,000 is as shown in Statement B appended, and it was the hope of the meeting that those plans should envisage the creation of this new potential with the utmost acceleration.

2.

I trust the foregoing correctly records
the understandings reached.

Yours sincerely,

Director General

~~Encls.~~

Statement 'A'

Airplane - Army allocation to 4/1/42 12,884
- Navy allocation to 4/1/42 6,208
" - British allocation to 4/1/42 14,375

	<u>April 1, 1941</u>	<u>October 1, 1941</u>	<u>April 1, 1942</u>
Army	6,882	3,548	2,454
Navy	1,923	1,555	2,730
British	4,094	4,686	5,595

These allocations are accepted by parties involved in relation to capacity immediately in prospect. The United Kingdom will place at once the 1,287 planes under negotiation and has the option of placing 4,200 planes more to make the total of 14,400.

There are, in addition, requirements totalling 1,820 for Canada, Australia, South Africa, India, which will be dealt with separately.

On Engines

British orders of today are 21,485 with options to 12/31/42 of 20,589. It is understood and agreed that all planes made in the United States, American and British, get priority on engines and that optional and unallocated engines are distributed in accordance with the above understanding. It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon as possible and will be considered on the same basis.

Statement 192Req. aircraft for U. S.Equivalent to 1,000 aircraft per month(Statement of split-up by type)

600	Single-engined pursuits
400	Twin-engined " "
400	Five-bombers
600	Twin-engined medium bombers
250	Multi-engined long-range bombers
250	Flying boats
200	Single-engined advanced trainers
300	Twin-engined " " " "
<u>3,000</u>	<u>TOTAL</u>



BRITISH PURCHASING COMMISSION

725 15th Street N.W.
Washington, D.C.
July 24, 1940.

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

Dear Mr. Secretary,

I attach the original of the memorandum with regard to the Wright R-engines (2200 H.P.), copy of which was handed to Mr. Knudsen this afternoon with a request for a clearance.

He has asked Dr. Mead to develop the situation.

Yours sincerely,

AIDE-MEMOIRE FOR MR. MORGENTHAU

With reference to your recent telephone message to me, the United Kingdom Government desires to order 2 two-speed super-charged Wright R-3350-B engines, type 705-A, for delivery first week in September, 1940.

It is also desired to secure special priority for an initial order up to 400, and consideration is requested of this application, in the hope that it may be possible to indicate the best deliveries that can be looked for.

B.P.C.
July 24, 1940

OFFICE MEMORANDUM

To: Mr. W. L. Batt

Date: July 24, 1940

From: W. S. Tower

Subject: Supply of Iron and Steel Scrap

In the memorandum entitled "Iron and Steel Scrap," prepared by the Subcommittee on Regulation of Exports, and dated July 1940, the following points are made in respect to the importance of supplies of such scrap:

"(1) While pig iron and steel scrap are interchangeable within limits for steel manufacture, considerably greater tonnages of steel can be produced as the proportion of steel scrap in the furnace charge is increased, because steel scrap contains less non-ferrous impurities than pig iron. Steel production can be increased more quickly by using scrap.

"(2) To achieve maximum steel production at minimum cost, adequate scrap supplies should be available relatively near the steel plants. This minimizes cost and also bottlenecks in transportation, and in the production of coke and pig iron. The continued export of scrap in large volume operates to increase scrap prices and makes it necessary to go farther afield for supplies.

"(3) The steel industry is now much more dependent upon scrap than during the first World War."

While pig iron and steel scrap are "interchangeable within limits" for steel manufacture, the hard fact is that the steel industry could not operate at much more than 60% of capacity, if all the available blast furnaces in this country were producing only pig iron for use in steel making.

HDC-5--7/40--50M.

To: Mr. W. L. Batt

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July 24, 1946

A substantial part of blast furnace capacity, however, must be used for making essential ferro-alloys and foundry, malleable and other grades of non-steel making pig iron.

It is evident, therefore, that "to achieve maximum steel production" of which the industry is capable would, under any circumstances, require 40% or more of the metallic charge of the steel furnace in the form of scrap.

It is sometimes urged that so-called "synthetic scrap" offers a partial solution of the problem of scrap supply. But entirely apart from the fact that relatively few steel makers have any facility for producing synthetic scrap, competent opinion in the industry is to the effect that it ceases to be a possibility when the rate of operations gets above 75% of capacity.

If it be assumed for this discussion that the effects of demand for steel in the defense program, added to all other needs, will call for a sustained rate of production at 75% to 80% of capacity, such a rate would represent an output of 5 to 5½ million net tons of steel ingots per month. For comparison, it may be noted that the current rate (week of July 22) is 88%.

Assuming also a continuation of the common practice of charging at least 50% scrap in the open hearth steel furnace, the amount of scrap required for that assumed rate of operations would be about 2.5 to 2.7 million net tons per month.

A major part of the scrap used in steel furnaces is so-called home scrap, created in the process of making and finishing steel products in the mills. But current trends indicate that the percentage of home scrap created is likely to be relatively less than in

Mr. W. L. Batt

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July 24, 1940

In the recent past, for the following reasons:

- (a) Exports of semifinished steel, like shell steel and forging billets, mean less scrap per ton of ingots represented.
- (b) The larger proportion of heavy rolled products in the total output of finished steel means relatively less scrap per ton of ingots used because of less wastage in the manufacture of such products.
- (c) At higher rates of operation there is more chance to use off-heats of steel in other ways than in remelting them in lieu of using scrap.

The expected high rate of output, therefore, does not serve to relieve the pressure on supplies of scrap.

Among steel producers who are important consumers of scrap, it is generally agreed that the minimum margin of safety in scrap supply is the equivalent of 60 days' consumption, either in yards (consumers' or suppliers') or in transit thereto.

Based on the foregoing assumptions in respect to steel production 60 days' supply of scrap would be 5 to 5½ million net tons. An analysis of the Bureau of Mines report on scrap supplies as of March 31, 1940, indicates less than 5 million tons of steel making grades of scrap as of that date in the hands of consumers and suppliers or in transit.

It seems unlikely that the report on scrap supplies as of June 30, when it becomes available, will show any important improvement in visible supplies of steel making scrap in view of (a) the

To: Mr. W. L. Batt

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July 24, 1940

rapid rise in the rate of steel output during the second quarter and (b) the continued export of substantial tonnages of scrap (April-May exports about 582,000 net tons).

Although not readily supported by specific data, the opinion is general among large scrap consumers that continued heavy exports during the past three or four years have greatly depleted the potential sources of prompt scrap.

The available information, therefore, indicates that the visible supplies of steel making grades of scrap are below the commonly accepted minimum margin of safety, for an assumed rate of steel production averaging only 75% to 80% of capacity for some considerable period. If the industry is "to achieve maximum steel production," the 60-day supply as the margin of safety would call for upwards of 6 million tons of visible supplies of steel making scrap, or 20% to 25% more than the tonnage reported as of March 31, 1940.

The attached table shows the tonnage of scrap exported in each month from January 1937 to and including May 1940. It is evident from the figures for the first five months of this year that exports were at an average rate of more than 200,000 tons per month. This tonnage includes shipments averaging about 60,000 tons per month to Italy, which shipments have since been discontinued. Tonnage figures on export shipments of scrap for June 1940 are not now available. It is felt, however, that such figures will probably show that the discontinued tonnage to Italy was almost replaced by increased shipments to United Kingdom, Canada, and other smaller countries.

Recent press reports refer to Japanese purchases of scrap, stated to total close to 300,000 tons for shipment over the next

To: Mr. W. L. Batt

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July 24, 1940

three or four months, with approximately half the total tonnage to be shipped from Atlantic coast ports. Such shipments will be at approximately the same rate as was experienced in the first five months of 1940.

It probably is true that at a price there is theoretically a huge amount of scrap which might be made available for use in this country for steel production. But the practical fact is that depletion of the potential sources of prompt scrap and a less than adequate margin of safety in current visible supplies open the way for an actual physical shortage of scrap for the needs of maximum steel production over a sustained period.

For all these reasons appropriate steps should now be taken through regulation of the export movement of scrap to safeguard the progress of the defense program against any such possible contingency.

Walter S. Tower

W. S. Tower

Attachment
WST:jms

Table 2. - Iron and steel scrap^{1/}: United States exports by months, 1937-39 and January-May 1940

(Thousands of long tons)				
Month	1937	1938	1939 ^{2/}	1940 ^{2/}
January	69	356	225	186
February	143	256	223	233
March	356	335	310	205
April	421	307	238	219
May	631	372	383	310
June	515	160	397	
July	420	125	347	
August	474	107	291	
September	253	143	328	
October	184	221	335	
November	254	271	271	
December	328	321	204	
Total - 12 months	4,048	2,974	3,552	
Total - first 5 months	1,620	1,626	1,379	1,153

^{1/} Excludes tin-plate scrap, circles, etc., waste-waste tin plate, and terne-plate clippings and scrap.

^{2/} Preliminary. 1939 total differs slightly from that shown in table 1.

Source: Compiled from official statistics of the U. S. Dept. of Commerce.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 12 :00 noon, July 26.)

Telegram of 24th July 1940 from London.

We understand that American Express have refused to accept a rupee deposit from the East Asiatic Company, Calcutta, on the ground that the Reserve Bank will only allow credit to a blocked account. We have already taken adequate steps to remove all branches of the East Asiatic Company from the control of the head office in Denmark.

In particular Calcutta branch is under control of the Government of India. Cessation of operations of the Company would have serious economic consequences not only in British territories but throughout the Far East.

Can you explain the position to the Treasury and secure that the branches of the East Asiatic Company be treated as non-Danish concerns.

COPY

FEDERAL RESERVE BANK
of New York

July 24, 1940.

Sir: Attention: Mr. H. Merle Cochran

We enclose for your information a statement showing the amounts paid by us under instructions from the Reichsbank, Berlin, and the Bank for International Settlements, Chateau d'Oex, to the German Embassy, Washington, D. C., the German Consulate General, New York, and the German Consulate, San Francisco, since September, 1939.

It is interesting to note that no payments were made directly to the Embassy and Consulates prior to September, 1939.

Respectfully,

L. W. Knoke,
Vice President.

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

Enc.

27

PAYMENTS MADE BY THE FEDERAL RESERVE BANK OF NEW YORK, BEGINNING
 SEPTEMBER 1939, TO THE GERMAN EMBASSY, WASHINGTON, D. C., THE
 GERMAN CONSULATE GENERAL, NEW YORK, AND TO THE GERMAN CONSULATE,
 SAN FRANCISCO

(From the account of the Reichsbank up to December 14, 1939,
 and since that date from the account of the Bank for
 International Settlements)

Paid to the German Embassy, Washington, D. C.

<u>Date Paid</u>	<u>Amount</u>
<u>1939</u>	
September	\$ 138,765.94
October	69,536.57
November	80,224.63
December	80,224.63

<u>1940</u>	
January	182,580.79
February	72,202.17
March	80,224.63
April	130,224.63
May	160,000.00
June	100,777.90
July (24th)	<u>60,000.00</u>

Total \$1,154,761.89

Paid to the German Consulate General, New York

<u>1939</u>	
September	213,053.70
October	151,363.82
November	704,980.00
December	7,980.00

<u>1940</u>	
January	33,000.00
February	-0-
March	-0-
April	50,000.00
May	-0-
June	-0-
July (24th)	<u>35,000.00</u>

Total 1,195,377.52

-2-

Paid to German Consulate, San Francisco

Date Paid
1940

March

\$ 60,000.00

GRAND TOTAL

\$2,410,139.41

R E C A P I T U L A T I O NDate Paid
1939Amount

September

351,819.64

October

220,900.39

November

785,204.63

December

88,204.63

1940

January

215,580.79

February

72,202.17

March

140,224.63

April

180,224.63

May

160,000.00

June

100,777.90

July (24th)

95,000.00

GRAND TOTAL

\$ 2,410,139.41

July 24, 1940

TELEGRAM TO THE PRESIDENT, HYDE PARK
(Via White House Telegraph Wire)

URGENT AND STRICTLY CONFIDENTIAL

Tom Corcoran, Ben Cohen, Ed Foley and myself have worked up the following program which we are very anxious to discuss with you before Friday night when Tom Corcoran and I are going away for a short vacation. I would appreciate your giving us the necessary time to discuss this idea with you.

1. There should be established within the R. F. C.

a separate division, to be known as the Defense Finance Administration, specially equipped to deal quickly and effectively with the financing of our national defense needs. The division should be in charge of an aggressive administrator aided by a few key men with a passion for taking and not evading responsibility, cutting red tape and making quick decisions. The division should be authorized to avail itself of the powers of the Reconstruction Finance Corporation under section 5d of the RFC Act as provided by the Glass-Steagall Act of 1938 and the 1940 National Defense Amendment.

2. The Defense Finance Administration should have a separate section to look after the credit and capital needs of small and medium-sized businesses in order to make it possible for them to take an active part

Secretary Mergenthau,

2.

in the national defense program. The expediting of the national defense program requires the full utilization of the capacity and skill of all business, small as well as large.

3. The Defense Finance Administration would conduct a widespread publicity campaign, making known to small and medium-sized business that funds will be available on liberal terms, including low interest rates and without the rigorous requirements which have heretofore characterized the making of loans to small and medium-sized business by the Reconstruction Finance Corporation and Federal Reserve Banks.

4. The Defense Finance Administration should utilize not only the RFC regional fiscal agencies but also other decentralized government offices as well as ordinary commercial banks, with a view to bringing credit and capital to business men on their home ground and making it unnecessary for them to come to Washington. These local agencies and banks could act as the agents of the RFC, or in the case of local banks, the loans could be made by the banks with the RFC participating therein. Regulations governing the program should lay down standards which will enable the local agencies and banks to approve small loans without reference to Washington.

Secretary Morgenthau,

3.

5. The Reconstruction Finance Corporation would make available to the Defense Finance Administration a billion dollars to be provided by borrowed funds to the extent that the RFC might not have such amount available. This money would be used as a revolving fund by the Defense Finance Administration.
6. Once a month the Defense Finance Administration would make a detailed report of its activities during the preceding month to the Board of Directors of the RFC so that the RFC would always be advised of the activities of the Defense Finance Administration. The degree of control which the Federal Loan Administrator would exercise over the Defense Finance Administration would be substantially the same as the control which he exercises over the Federal Housing Administration, the Federal Home Loan Bank Board, or other organizations under his supervision.

Henry Morgenthau, Jr.

7-24-40

July 24, 1940

TELEGRAM TO THE PRESIDENT, HYDE PARK
(Via White House Telegraph Wire)

URGENT AND STRICTLY CONFIDENTIAL

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July 24, 1940

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(Via White House Telegraph Wire)

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July 24, 1940

My dear Mr. President:

In talking to Secretary Stimson yesterday in regard to adding oil and scrap metals to the list of strategic materials in your Embargo Proclamation, Secretary Stimson called my attention to the fact that during the Russo-Japanese episode in Siberia over the Chinese Eastern Railway in 1918, the War Trade Board successfully applied economic pressure on Japan by restricting licenses for the export of cotton to Japan and for the import of silk from Japan. I am enclosing, for your information, an extract from Foreign Relations, 1919, Russia, which relates the episode.

My reason in calling this to your attention is that you might want to consider possible economic sanctions at this time. If you are interested, I have prepared full memoranda on economic sanctions against Japan which I shall be happy to discuss with you.

Yours sincerely,

The President

The White House

EHF:mp
7/24'40

Extract from "Foreign Relations, Russia, 1919"

"You may then narrate in considerable detail the difficulties which we have had with Japan with reference to this railway and in particular the action of Japan in practically seizing the Chinese Eastern Railway, thereby in effect controlling all intercourse to and from Russia via the Pacific. You might mention the number of troops sent by Japan for the purpose and point out that such number was far in excess of that contemplated by the arrangement under which troops of the Associated Governments were landed in Siberia. The nature of the activities of Japan including the position of their troops and Japanese commercial activities should then be referred to (followed by) a statement of the efforts of the Government of the United States to restore the railroad to a condition where it would not be exclusively dominated by any one power The conversations of the President and Secretary of State with the Japanese Ambassador, the negotiations of Ambassador Morris under instructions from the Department and the economic pressure applied by the War Trade Board⁴⁶ may be referred to. You should then describe the successful conclusion of these efforts of the United States as evidenced by the arrangements for administration of the railway by Stevens as a Russian employee and the withdrawal of substantial numbers of Japanese troops. We feel that these proceedings and their conclusive achievement which may be of a very important and constructive character to the United States as well as the world in general, provided they are followed through, thereby giving practical effect to the principle of the open door."

⁴⁶ By restrictions laid upon licenses for the export of cotton and the import of silk in November 1918 (file no. 694.119/245)."

SEC. OF WAR
SEC. OF TREASURY

JUL 24 1940

LETTER

36

Date

RE: Addressee's letter of July 23, 1940, with which was enclosed a copy of an extract from "Foreign Relations, 1919, Russia" which dealt with the ~~RUSSO-JAPANESE~~ Russo-Japanese episode in Siberia in November, 1918.

ACTION TAKEN: Receipt is acknowledged.

IF - 7/24/40.

ERS
HC
MAB
EAT
7/24

SEC. OF WAR
SEC. OF TREASURY

LETTER

37

Date

RE: Addressee's letter of July 23, 1940, with which was enclosed a copy of an extract from "Foreign Relations, 1919, Russia" which dealt with the ~~RUSSO-JAPANESE~~ Russo-Japanese episode in Siberia in November, 1918.

ACTION TAKEN: Receipt is acknowledged.

IF - 7/24/40.

JUL 24 1940

My dear Mr. Secretary:

Receipt of your letter of July 23, 1940, with which was enclosed a copy of an extract from "Foreign Relations, 1919, Russia" which dealt with the Russo-Japanese episode in Siberia in November, 1918, is acknowledged.

Your courtesy in making this information available to me is appreciated.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

HJ/avp
Typed: 7/24/40.

File with

cc to Mr. Thompson

JUL 24 1940

My dear Mr. Secretary:

Receipt of your letter of July 23, 1940, with which was enclosed a copy of an extract from "Foreign Relations, 1919, Russia" which dealt with the Russo-Japanese episode in Siberia in November, 1918, is acknowledged.

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Secretary of the Treasury.

The Honorable

The Secretary of War.

HMJ/ary
Typed: 7/24/40.

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Secretary of the Treasury.

The Honorable

The Secretary of War.

HMJ/amp
Typed 7/24/40.

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(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of War.

HJ/ovp
Typed: 7/24/40.

WAR DEPARTMENT
WASHINGTON

July 23, 1940.

My dear Mr. Secretary:

Here is a copy of an Extract from "Foreign Relations, 1919, Russia," pages 246 and 247, which refers to the episode with Japan in Siberia, which took place in November 1918. I referred you to this citation in my telephone talk this afternoon.

Very sincerely yours,



Secretary of War.

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

RECEIVED DEPARTMENT

JUL 27 3 41 PM '40

SECRETARY OF WAR

OFFICE

EXTRACT FROM A TELEGRAM OF THE
COMMISSION TO NEGOTIATE PEACE TO THE ACTING SECRETARY OF STATE

Paris, January 31, 1919, 8 P.M.

(From "Foreign Relations, 1919, Russia," pages 246 and 247.)

"You may then narrate in considerable detail the difficulties which we have had with Japan with reference to this railway and in particular the action of Japan in practically seizing the Chinese Eastern Railway, thereby in effect controlling all intercourse to and from Russia via the Pacific. You might mention the number of troops sent by Japan for the purpose and point out that such number was far in excess of that contemplated by the arrangement under which troops of the Associated Governments were landed in Siberia. The nature of the activities of Japan including disposition of their troops and Japanese commercial activities should then be referred to (followed by) a statement of the efforts of the Government of the United States to restore the railroad to a condition where it would not be exclusively dominated by any one power. . . . The conversations of the President and Secretary of State with the Japanese Ambassador, the negotiations of Ambassador Morris under instructions from the Department and the economic pressure applied by the War Trade Board⁴⁶ may be referred to. You should then describe the successful conclusion of these efforts of the United States as evidenced by the arrangements for administration of the railway by Stevens as a Russian employe and the withdrawal of substantial numbers of Japanese troops. We feel that these proceedings and their conclusion can properly be described as a very important and constructive achievement which may be of inestimable value to the people of Russia and to the United States as well as the world in general, provided they are followed through, thereby giving practical effect to the principle of the open door."

⁴⁶. By restrictions laid upon licenses for the export of cotton and the import of silk in November 1918 (file no. 694.119/245)."

July 24, 1940

My dear Mr. Secretary:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Harold L. Ickes,
Secretary of the Interior.

Enc.

By Message 507

July 24, 1940

My dear Mr. Secretary:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(signed) H. Morgenthau, Jr.

Honorable Harold L. Ickes,
Secretary of the Interior.

By Messenger

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Honorable Harold L. Ickes,
Secretary of the Interior.

By Messenger

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING

PETROLEUM PRODUCTS ON JULY 29.

<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
SAN CLEMENTE MARU	Jap.	5285	Petroleum Products	—	San Francisco	Japanese & Chinese ports.
GULFWAY	Am.	5522	Petroleum Products	—	Port Arthur	Port Petrol, California.
KRISTO MARU	Jap.	3582	Aviation Gasoline	10,000 bbls. in drums.	San Pedro	Tokuyama & Kure, Japan.
SOLSTAD	Nor.	3435	Lub. Oil	—	Houston	United Kingdom
TATIBANA MARU	Jap.	—	Diesel Oil	55,000 bbls. in bulk.	San Pedro	Kawasaki, Japan.
CORISCO	Hon.	552	Petroleum Products	—	Port Arthur	Puerto Cortes, Honduras.
SKANDINAVIA	Nor.	723	Petroleum Products	—	Port Arthur	Montivideo, Uruguay; Rio de Janeiro & Santos, Brasil.

July 24, 1940

My dear Admiral Stark:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Enc.

By Messenger 507

July 24, 1940

My dear Admiral Stark:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(signed) H. Morgenthau, Jr.

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

By Message

July 24, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Harold E. Stark,
Chief of Naval Operations,
Navy Department,
Washington, D.C.

By Messenger

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING

PETROLEUM PRODUCTS ON JULY 29.

<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
SAN CLEMENTE MARU	Jap.	5285	Petroleum Products	-----	San Francisco	Japanese & Chinese ports.
GULFWAI	Am.	5522	Petroleum Products	-----	Port Arthur	Port Petrol, California.
KRISTO MARU	Jap.	3582	Aviation Gasoline	10,000 bbls. in drums.	San Pedro	Tokuyama & Kuro, Japan.
SOLSTAD	Nor.	3435	Lub. Oil	-----	Houston	United Kingdom
TATIBANA MARU	Jap.	-----	Diesel Oil	55,000 bbls. in bulk.	San Pedro	Kawasaki, Japan.
CORISCO	Hon.	552	Petroleum Products	-----	Port Arthur	Puerto Cortes, Honduras.
SEANDINAVIA	Nor.	723	Petroleum Products	-----	Port Arthur	Montivideo, Uruguay; Rio de Janeiro & Santos, Brazil.

July 24, 1940

My dear Mr. Welles:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Sumner Welles,
Acting Secretary of State.

Enc.

By Messenger 575

July 24, 1940

My dear Mr. Welles:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Sumner Welles,
Acting Secretary of State.

By Messenger

July 24, 1940

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(Signed) H. Morgenthau, Jr.

Mr. Sumner Welles,
Acting Secretary of State.

By Messenger

July 24, 1940

My dear Mr. Secretary:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

Enc.

By Messenger 5:07 9:10 PM
7/25

July 24, 1940

My dear Mr. Secretary:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger

July 24, 1940

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Yours sincerely,

(Signed) H. Morganthau, Jr.

Honorable Frank Knox,
Secretary of the Navy.

By Messenger

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING
PETROLEUM PRODUCTS ON JULY 29.

<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
SAN CLEMENTE MARU	Jap.	5265	Petroleum Products	-----	San Francisco	Japanese & Chinese ports.
GULFWAY	Am.	5522	Petroleum Products	-----	Port Arthur	Port Petrol, California.
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SOLSTAD	Nor.	3435	Lub. Oil	-----	Houston	United Kingdom
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July 24, 1940

My dear Mr. Secretary:

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

Enc.

By Messenger 507

July 24, 1940

My dear Mr. Secretary:

I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) E. Mowbray, Jr.

Honorable Henry L. Stimson,
Secretary of War.

By Messenger

July 24, 1940

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I am inclosing herewith a statement showing departure permits granted vessels carrying petroleum products on July 23rd.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

By Messenger

July 24, 1940

My dear Mr. Forster:

Will you please telegraph to the President
the information contained in the inclosed table.

Yours sincerely,

Mr. Rudolph Forster,
Executive Clerk,
The White House.

Forster had left
S. Chicago Delivered
to Mr. Mr. Mueller,
the telegraph clerk
Mr. Thompson phoned
him it was coming.

July 24, 1940

My dear Mr. Forster:

Will you please telegraph to the President
the information contained in the inclosed table.

Yours sincerely,

Mr. Rudolph Forster,
Executive Clerk,
The White House.

July 24, 1940

My dear Mr. Forster:

Will you please telegraph to the President
the information contained in the inclosed table.

Yours sincerely,

Mr. Roskell Forster,
Executive Clerk,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

In accordance with our instructions, the Federal Reserve Bank has commenced this week to check up on German balances in New York. Since such balances amount to only \$8,000,000, and \$5,000,000 of this is carried with the Chase Bank alone, inquiries will be inaugurated solely with the Chase Bank until we have our initial picture of the situation. We do not desire to make so many inquiries that some of this capital might be inclined to flee in fear of a blocking arrangement.

Assistant Vice President McKeon has provided the following information in regard to Italian balances:

On July 16 the Credito Italiano drew a check on the National City Bank for \$75,000 in favor of the Swiss Banking Corporation.

On July 22 a check was drawn on the Chase by the Banco Commerciale Italiano in favor of the Swiss Banking Corporation for \$100,000.

On July 22 the Chase was ordered by the Bank of Italy at Rome to transfer \$143,000 to the Credit Suisse of New York for account of the Credit Suisse, Zurich.

On July 21 the Banco Commerciale Italiano drew a check on the Chase for \$50,000 in favor of the Banque Francaise et Italienne pour l'Amerique du Sud.

On July 21 the Banco Commerciale Italiano drew a check on Chase for \$121,000 in favor of the Standard Oil Company of New York.

On July 15 the Banco Commerciale Italiano drew a check on the Chase in favor of the French American Banking Corporation for \$65,000.

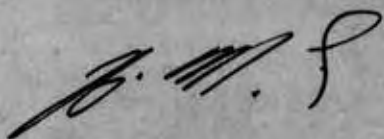
Mr. McKeon gave me the following information on Russian balances:

As of July 22 the State Bank of Russia had with the Chase Bank \$5,300,000 in its dollar balance and \$2,800,000 under its letter of credit account. On the same date Amtorg had a dollar balance of \$857,000 and a letter of credit account for \$1,660,000.

Among the payments into the State Bank account for the week ended July 22 was a transfer from the Federal Reserve Bank of New York by order of the Bank for International Settlements for \$600,000. \$200,000 was received from the Union Bank of Switzerland. There was a transfer from the Russian State Bank account with the main office of the Chase Bank to the account of the Amtorg Trading Company in the new Netherlands branch of the Chase for \$500,000. There was a transfer from the

- 2 -

from the State Bank account to the Amtorg account for \$400,000. There was also a transfer to the Mellon National Bank of \$151,000. The Russian account was also debited \$186,000 for trust fund corporate maturities and interest. There was another payment of \$400,000 from the Russian State Bank account to Amtorg. Finally the Russian State Bank account was debited for a transfer of \$50,000 to the Bank for Foreign Trade, Moscow.

A handwritten signature in dark ink, appearing to be 'B. M. S.', is centered on the page. The signature is fluid and cursive, with the first letter 'B' being particularly large and stylized.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940.

TO Secretary Morgenthau

FROM Mr. Gaston MERCHANT SHIP MOVEMENTSMatters Requiring Action by the Secretary of the Treasury

Major Holbrook of the United States Army requested the Treasury yesterday to prevent the departure from San Francisco to Alaska of the yacht SOUTHERN CROSS, owned by the Swedish munitions millionaire Axel Wenner-Gren, but under Panamanian registry. The request came from the San Francisco corps area command of the Army and Army Intelligence at Panama has made a report on Wenner-Gren. Major Holbrook indicated that the Army considered it inadvisable for the yacht to proceed to Alaska. He stated further, however, that the Secretary of War would make a formal application today to the Secretary of the Treasury to have the vessel detained. Steps have been taken by the Coast Guard to delay the departure of the vessel. *I believe we should consult State,*

Matters Not Requiring Action by the Secretary of the TreasuryPending Cases

The matters described in paragraphs 1, 3, and 4 under "Pending Cases" in the July 17, 1940, report, attached, are still under consideration.

Secretary Morgenthau

Mr. Cairns

July 17, 1940

MERCHANT SHIP MOVEMENTS

Closed Cases

1. A departure permit was refused for the American Tanker **ARYAN**, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.
2. A departure permit was refused for the American Tanker **NEVADA**, carrying petroleum products to Spain. This vessel is owned by the Texas Company, and is at Port Arthur, Texas.


Pending Cases

1. The Texas Company has submitted a request to export 610,000 tons of petroleum products to Spain for the balance of the year 1940. This would make a grand total of 1,076,000 tons for the year 1940. A memorandum of a conference with representatives of the Texas Company held on July 17, 1940, is attached. This matter is under consideration.
2. The Texas Company has requested advice as to whether or not the SS **MONTIE JAVALON**, under Spanish registry, will be permitted to carry 5,000 tons of asphalt to Spain. The vessel will be loaded at Port Neches, Texas, some time between August 10 and the early part of September. This matter is under consideration.
3. Suspicious circumstances have arisen in connection with the departure of the **SIMLA**, a Norwegian vessel now at the port of Philadelphia. No departure permit has been requested, but a stop order has been placed against such a request when it is received.
4. The Lithuanian Steamship **DEBY** is now in Boston. The Lithuanian-American Import & Export Corporation, 157 Chambers Street, New York City, has requested that it be advised if a departure permit is asked for this vessel. The corporation desires to submit certain facts to the Treasury Department before such permit is granted. This matter is under consideration.

HE/sp

(Initialed) H. C.

CC: Miss Channery
Mr. Foley



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

July 24, 1940.

MEMORANDUM FOR THE SECRETARY:

There is attached a revised statement of the plane program of the War and Navy. The Budget Officer of the Navy was at the Capitol yesterday in connection with the hearings on the pending estimates. In his absence, the person in the Navy Department who furnished the information which I gave to you yesterday afternoon did not understand the situation involving the presently authorized contract authorizations of \$125,000,000 for the fiscal year 1941 which is sufficient to provide for 1979 planes.

swB

Revised, July 24, 1940

PLANESAUTHORIZED PROGRAM - FISCAL YEAR 1941

	<u>Planes to be procured</u>	<u>Funds appropriated</u>	<u>Contracts authorized</u>	<u>Total cost</u>
War	4,247	\$262,412,030	\$212,559,597	\$474,971,627
Navy	3,101	81,088,562	125,000,000	206,088,562

PENDING PROGRAM (PRESIDENT'S MESSAGE
OF JULY 10, 1940)

	<u>Planes to be procured</u>	<u>Appropriations pending</u>	<u>Contract auth- orizations pending</u>	<u>Total cost</u>
War	14,394	\$502,197,404	\$1,002,600,000	\$1,504,797,404
Navy	4,028	125,000,000	375,000,000	500,000,000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu will call tomorrow at the appointed time of 11 o'clock. He asked if it would be opportune to present to the Secretary at the same time Mr. Georges Picot, who is succeeding Bloch-Laine on the French Purchasing Mission in New York, and who will substitute as Financial Attache between the date of Leroy-Beaulieu's departure and Alphand's arrival. I told Leroy-Beaulieu that I was fitting his appointment into the Secretary's very crowded schedule and I thought it might not be desirable to endeavor to introduce the new man at this time. I explained, however, that I had known Picot for some time in Paris, and would welcome him at the Treasury at any time, and would let the Secretary know whenever he was coming, to see if a presentation could be arranged. Leroy-Beaulieu agreed that it might be better for him to have more of a personal visit with the Secretary tomorrow than would be possible with Picot present. Picot will come to Washington, nevertheless, as he has certain business to attend to here. If and when the Secretary desires that he be brought in, I can arrange it.

Leroy-Beaulieu would like to take the clipper on Thursday of next week, but his Ambassador is trying to get him to stay over a few days longer. His final plans will be decided tomorrow while he is in Washington.

July 24, 1940

Under Secretary Bell

Mr. Cushman

STRICTLY CONFIDENTIAL

In accordance with the decision reached at our Group Meeting yesterday evening, I told Mr. Vincent by telephone this morning in answer to his inquiry of yesterday, that we had approved the release to the Norwegian Government from its account in New York of one-half million dollars for the purchase of munitions. Mr. Vincent had received a suggestion to this effect from the British Purchasing Commission, but desired to see that British and Norwegian purchases of munitions on this market were "coordinated".



HMS:lap-7/24/40



THE SECRETARY OF THE INTERIOR
WASHINGTON

73
July 24, 1940.

My dear Henry:

Thank you for your letter of July 23, to which was attached a list of permits granted to vessels carrying petroleum products on July 20, 21 and 22, last.

Sincerely yours,

Harold Z. Ickes

Secretary of the Interior.

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

RECEIVED
JUL 27 1940
WASHINGTON
DEPARTMENT OF THE INTERIOR

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING PETROLEUM PRODUCTS

July 24, 1940

<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
GENYO MARU	Jap.	5815	Fuel and Gas Oil	84,000 Bbls.	San Pedro	Yokahama, Japan.
CRIPPLE CREEK	Am.	4668	Petroleum products in drums and cases	Amount to be ascertained	Port Arthur	Yokahama, Japan.
THORSHOVDI	Nor.	5889	Fuel Oil Diesel Oil	51,000 Bbls. 49,000 Bbls.	San Pedro	Osaka, Japan.
MARGRETTE BALKE	Nor.	3200	Gasoline in drums	1,589,994 Gals.	New Orleans	Japanese ports.
SCOTTSEBURG	Am.	4829	Gasoline Lubricating Oil Grease	477,000 Gals. 106,435 Gals. 74,630 Lbs.	New Orleans	Manilla, P.I. via San Pedro, Yokahama, Kobe, Osaka, and Shanghai
MARINA	Nor.	5903	Refined Oil	---	San Francisco	Manilla, P.I. and Cebu
CITY OF LINCOLN	Br.	3978	Lubricating Oil	---	Philadelphia	India via New York
ISELIN	Nor.	---	Fuel Oil	92,000 Bbls.	San Pedro	Balboa, Canal Zone.
FENJA	Nor.	463	Crude Oil	---	Port Arthur	Montreal, Canada.
WINKLER	Pan.	4383	Gasoline	---	Port Arthur	Rio de Janeiro and Santos, Brazil.

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING PETROLEUM PRODUCTS

July 24, 1940

<u>Vessel</u>	<u>Nat.</u>	<u>Net Tonnage</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
MARINA	Nor.	5903	Refined Oil	---	San Francisco	Manilla, P.I. & Cebu
CITY OF LINCOLN	Br.	3978	Lubricating Oil	---	Philadelphia	India via New York
ISHELIN	Nor.	---	Fuel Oil	92,000 Bbls.	San Pedro	Balboa, Canal Zone.
PELTA	Nor.	463	Crude Oil	---	Port Arthur	Montreal, Canada.
WINKLER	Pan.	4383	Gasoline	---	Port Arthur	Rio de Janeiro & Santos, Brazil.

July 1/20

Help England
Help Herself
and

Keep U.S. out of ~~the~~ War

15

Mr. Cochran:

77

Lt. McKay said this appointment is for 11 o'clock tomorrow. You are expected to make the appt.

ka

Done 2:15 pm 7/24/40

J.M.R.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Paul Leroy-Beaulieu told me confidentially by telephone yesterday that he was expecting official instructions for his return to France. This morning it appears in the press that he has been ordered back to become "Director of Foreign Commerce" and that he will be replaced in the United States by Mr. Herve Alphand. Mr. Alphand has been for several years "Director of Commerce Accords" in the French Government, and I assume that this is merely an exchange of positions between Leroy-Beaulieu and Alphand. I should explain that Leroy-Beaulieu has for several years been a very close friend of Mr. Bouthillier, who recently became Minister of Finance of France. It is undoubtedly Bouthillier's influence which has caused the issuance of the transfer instruction. Alphand is the son of a French diplomat, who latterly served as Ambassador to Switzerland. He speaks English quite well and is a very smooth negotiator, a little too smooth if anything.

Leroy-Beaulieu has telephoned me this morning asking for an appointment with the Secretary on Thursday to say goodbye. This would be the last opportunity to see the Secretary since Leroy-Beaulieu will have left the United States before the Secretary returns from his week's absence. I am to telephone Leroy-Beaulieu today to indicate the hour for an appointment, if this is possible.



MR. MORGENTHAU'S OFFICE TO-

Mr. Bell	Mr. Thompson
Mr. Gaston	Mr. Foley
Mr. Sullivan	Mr. Graves

Mr. Alexander	Mr. Haas
Mr. Allen	Mr. Hall
Mr. Bartelt	Mr. Hanna
Mr. C. S. Bell	Mr. Harper
Mr. Berkshire	Mr. Harris
Mr. Bernard	Mr. Helvering
Mrs. Betts	Mr. Ireby
Mr. Birgfeld	Mr. Julian
Mr. Blough	Mr. Kilby
Mr. Broughton	Mr. Mulvihill
Mr. Bryan	Mr. Rose
Mr. Cochran	Mrs. Ross
Mr. Collie	Mr. Schwarz
Capt. Collins	Mr. Sloan
Mr. Delano	Mr. Spangler
Miss Diamond	Mr. Tarleau
Mr. Dietrich	Mr. Upham
Miss Flanagan	Mr. White
	Mr. Wilson

W. M. Young

(file)

COPY

The Honorable,
The Secretary of State.

JUL 24 1940

Dear Mr. Secretary:

There is enclosed a copy of letter dated June 28, 1940, from the Pratt & Whitney Aircraft Division of the United Aircraft Corporation requesting permission to sell for export certain aircraft engines which it manufactures.

The War and the Navy Departments have no objection on the ground of military secrecy in its relation to the national defense to the domestic or foreign sale of the following Pratt & Whitney Wasp Jr. engines manufactured in accordance with specifications as listed:

- Wasp Jr. Model TLB3 - Spec. PW-2033
- Wasp Jr. Model SB3 - Spec. PW-2031
- Wasp Jr. Model TB3 - Spec. PW-2032

This release is granted with the proviso that the proposed production of additional engines for export does not interfere with production for the United States Government.

Sincerely yours,

HENRY L. STIMSON

Secretary of War.

Enclosure:
Copy Pratt & Whitney
letter of June 28.

DISPATCHED
JUL 24 1940
FROM A. G. O.

Copy for Mr. Morgenthau

The Honorable,

JUL 24 1940

The Secretary of State.

Dear Mr. Secretary:

There is enclosed a copy of letter dated June 22, 1940, from the Washington representative of the Curtiss-Wright Corporation requesting permission to sell for export the Model 20 Cargo Airplane.

The War and the Navy Departments have no objection on the ground of military secrecy in its relation to the national defense to the foreign sale of the Model 20 Cargo Airplane manufactured by the St. Louis Airplane Division of the Curtiss-Wright Corporation in accordance with Model Specification P-239. This release is granted with the proviso that such foreign sale shall in no way interfere with possible production for the United States Government.

As the R-2600-B5 engine has been released for negotiation purposes only, it will be necessary for the engine manufacturer to obtain release for foreign sale prior to the actual sale of this installation.

Sincerely yours,

HENRY L. STIMSON

Secretary of War.

Enclosure:

Copy Curtiss-Wright
letter of June 22.

SECRETARIA DE HABERONIA
1940

1
JUL 23 10 15 AM '40
NAVY DEPARTMENT

DISPATCHED
JUL 24/1940
FROM A. G. O.

Copy for Mr. Morgenthau

July 24, 1940
3:18 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis. Go ahead.

H.M.Jr: Hello.

Arthur
Purvis: Henry, I'm sorry to worry you but Maurice
Wilson has been onto Lord B., who sends
you his most grateful thanks.....

H.M.Jr: Thank you.

P: and says that it's a great thing
at a time like this to have a friend like
that.

H.M.Jr: Thank you. I am quite touched.

P: Then there was another little thing I
wanted to speak to you about. I'm sending
on a memorandum -- I've got a message from Sir
Edward Beatty -- a telegram and it gives
particulars of the situation at the
Seignory Club.

H.M.Jr: Oh, yes.

P: He also mentions Digby, which is another
place as a suggestion, but that's on the
Bay of Fundy and I know that

H.M.Jr: I know Digby. I don't like that Bay of
Fundy country.

P: No.

H.M.Jr: It's too hard to swim, the tides are so
terrific.

P: And that's quite right and in addition to
that -- in any case, this will show you
exactly what the situation is at the Seignory
Club and that's the part of the message
you'll be interested in. The only

- 2 -

difficulty is that the cottages are all open, but they could put you up very comfortably indeed in a suite in the log cabin if you could -- well, you'll see from the tone of his message the kind of thing, and I think it looks all right to me.

H.M.Jr: Please.

P: Now then the other thing was that you were

H.M.Jr: Are you sending me his message?

P: That copy will come over in a very few minutes.

H.M.Jr: Thank you.

P: Along with that will be a copy of the letter to Knudsen confirming this arrangement and then we're just going to go over and see him and deliver it personally.

H.M.Jr: You're going over.

P: Yes, he asked particularly

H.M.Jr: What I'd like you to do as much as possible when you go over there, if this is agreeable to you, is to have Philip Young with you.

P: Yes. Now, the only difficulty is that Philip Young is with Daniel Bell and, I think, Ballantyne working -- and Charles, our lawyer, on that French assignment question. However, I'll send word over and tell him we're running over at 3:30 -- yes, I can do that, and he can come along then.

H.M.Jr: I think so.

P: It's much better to keep it like that I agree. I'll ring him straight away. Now there was one other thing that I wanted to mention to you and that is that you were

- 3 -

good enough to telephone me a little while ago in regard to 2 U-type 2200 horsepower Wright engines, 3350, No. R3350

- H.M.Jr: Well, that was weeks ago.
- P: Yes, it was some little time. Well, now Sir Henry has just given me a note saying that he has got a cable from London wanting to place an order for 400 of those. I'm sending you over a note, but I'm just mentioning this because I realize that the new discussions may or may not work in with it. But they would like to place an order.
- H.M.Jr: Well, why don't you under the new system tell that to Knudsen today so as not to lose any time.
- P: All right. Well, then we'll take it up with him and get his clearance on it.
- H.M.Jr: Why don't you just tell him.
- P: Fine. All right, we'll tell him this afternoon with the greatest pleasure. We're just typing up a little note now and I'll send you a copy of what we've told him.
- H.M.Jr: I think I'd just tell him under the new plan that this has come in and in order to save time and cut corners
- P: Yes.
- H.M.Jr: you can say, we mentioned it to Mr. Morgenthau and he said to put it right into his hands. How's that?
- P: Excellent. (Laughs). That's the kind of action.
- H.M.Jr: Now you'll be interested -- I've already talked to the President and told him about our conference. He's simply delighted.
- P: Oh, good. Oh, I am glad.

- 4 -

- H.M.Jr: Simply delighted, and I still haven't caught my breath from Sir Henry's having that information.
- P: (Laughs). I'll tell him that. He'll be pleased.
- H.M.Jr: I'm still breathless. If anybody tells me -- you know, the English are always slow, I'll say, go around and see Sir Henry.
- P: (Laughs). All right. I'll give him that message straight away and as I say, it may be an act of supererogation, but I had my thanks to Lord B. as expressed through
- H.M.Jr: Well, I tell you something, I think it's electrified all of us.
- P: Good work. I think it's splendid.
- H.M.Jr: Tell me. Is he going to handle it from the other side -- the publicity?
- P: Yes, I think he's going to -- I think you'll find he will put something right out.
- H.M.Jr: I told that also to the President that I thought it would come that way and he said fine.
- P: Yes. You know, it'll be a very heartening thing over there.
- H.M.Jr: Well, somebody figures up here and told me that -- we were talking and, I don't know -- it was several billion dollars.
- P: That's right. (Laughs).
- H.M.Jr: Well, being in the Treasury I never think of money.
- P: (Laughs). No, I agree.
- H.M.Jr: All right.
- P: All right, thank you very much.

July 24, 1940
4:15 p.m.

Secretary
Stimson:

..... a remarkable coincidence with what we were just talking about. A cable has been placed in my hands from -- or rather a telegram -- from the Commander of the Army Corps Area out in San Francisco, and I'll just read it to you -- it's short, and you'll see what it says.

H.M.Jr: Please.

S: "Unquestionably reliable report indicates Japan effecting practical corner of aviation gasoline market. Practically every Pacific and Gulf Coast Oil Company has been approached and contracts have been let or tendered for 1,200,000 drums. Earliest practicable delivery being insisted upon, with as much as possible to be delivered by September 1st, 1940. Practically all contracts let or tendered call for delivery by November 1940 with only small quantity asked for delivery in 1941. Practically all contracts are for gasoline in tin drums. Quantities being bought will strip market and productive capacity for months to come. If these purchases are all consummated, there would be a shortage of aviation gasoline should Army and Navy need it in quantity during next six to nine months." This is a telegram to our Adjutant General.

H.M.Jr: Well, now are you going

S: Are you interested in that?

H.M.Jr: Very, very much. I'd like to -- if you'll give me a copy

S: I'll have to have it paraphrased for it is in our confidential code, but I'll send it to you.

H.M.Jr: Yeah, and may I send a copy to Harold Ickes?

- 2 -

S: To whom?

H.M.Jr: Ickes.

S: Yes.

H.M.Jr: I mean, it's a conservation matter.

S: Yes.

H.M.Jr: What?.

S: Yes, send it confidentially.

H.M.Jr: Oh, yes, I mean to Ickes. Why don't you it direct?

S: Well, all right, except that I don't know him as well as you do.

H.M.Jr: Well, let me do it.

S: I'll send you two copies and you can send one to him.

H.M.Jr: And will you send it -- will you care to give it to the President?

S: All right, if you think

H.M.Jr: I think it's most important.

S: Yes. Well, I tell you, how do I address him, I mean, when he's up there.

H.M.Jr: You send it

S: You see, I haven't been communicating with him.

H.M.Jr: Right. Well, what you do is -- the Chief Clerk over there at the White House, Mr. Forster -- and ask him to put it on the private telegraph wire to the President -- secret telegraph wire.

S: All right.

- 3 -

H.M.Jr: You see?

S: All right. I'll do that myself.

H.M.Jr: Yes, you send it to the President and if you'll let me have a copy I'll get it over to Ickes.

S: All right.

H.M.Jr: And we've just got to do something about it.

S: Oh, I think you've got to. You see, here's a man who's interested in it solely from our national defense side, telegraphing this Department.

H.M.Jr: Well, I'm so glad you called me and you take care of the President and I'll take care of Harold Ickes.

S: All right. I'll send this as soon as I can have it paraphrased.

H.M.Jr: Thank you so much.

July 24, 1940
4:24 p.m.

Sumner
Welles: Hello.

H.M.Jr: Hello, Sumner.

W: Henry, I'm just about to see the French Ambassador and I wanted to get your views on the matter that we discussed.

H.M.Jr: Oh, yes. Now could you wait thirty seconds and I'll give you a yes or no. Bell just walked in. Just wait thirty seconds.

W: Yes, indeed.

H.M.Jr: (Talks aside). Bell says yes.

W: All right.

H.M.Jr: I'm sorry. I should have done it but I've just been up to my ears. The answer is yes.

W: All right, Henry. I'll wait my turn, don't worry.

H.M.Jr: Now, while I've got you, let me ask you one.

W: Right.

H.M.Jr: I'm sorry, I should have done it but I've been up to my ears now, you see. But as long as you get a yes it's all right. Axel Wenner-Gren's yacht, the Southern Cross, expects to leave San Francisco tonight for Seattle and Army Intelligence wants us to hold it up. He's going to Alaska. They don't want him to.

W: Yeah.

H.M.Jr: Now, I'm perfectly willing not to give it to him.

- 2 -

W: Well, all I can tell you, Henry, is that I know something about that gentleman. I don't know whether you know, but when I went to Europe he was on the boat and shadowed me the entire way over and back and most of the time that I was there. I haven't got a word of proof, but I have the most violently strong hunch that that man is acting as an agent for the German Government.

H.M.Jr: Yeah.

W: So if you take that action, I should be entirely and wholeheartedly in accord.

H.M.Jr: Well, I'll do it and I'll do it the way I do all these things -- when they ask me, I'll just shrug my shoulders.

W: (Laughs). That's a perfectly good method.

H.M.Jr: Well, that's all right, she won't sail.

W: Yeah.

H.M.Jr: And then if they come around, well, we just -- as I say, I just shrug my shoulders.

W: Yeah, exactly.

H.M.Jr: What?

W: In this case I think you have every possible justification short of evidence.

H.M.Jr: Well, we'll hold her at San Francisco and if she does sail for Alaska why we'll have a Coast Guard cutter keep them out of Alaskan waters.

W: I think that's all right.

H.M.Jr: That's where he wants to go.

W: Yeah.

H.M.Jr: What?

- 3 -

W: Yes, there's something so perfectly apparent about that man's activities that I think you should have no hesitation in taking just that action.

H.M.Jr: Well, that's that. Anyway we'll hold him and if you hear about it, you can shrug your shoulders.

W: I will, indeed and with particular pleasure.

H.M.Jr: O. K.

W: All right, Henry. Thanks. Good-bye.

H.M.Jr: Good-bye.

RE ALLIED PURCHASING PROGRAM

July 24, 1940
11:30 a.m.

Present: Colonel Knox
Lieutenant Anderson
Mr. Reed
General Brett
Major Lyons
Admiral Towers ✓
Colonel Dasher
Mr. Ballantyne ✓
Mr. Purvis ✓
Mr. Foley
Mr. Knudsen ✓
Mr. Wilson ✓
Mr. Henry Self ✓
Mr. Nelson
Captain Kraus
Mr. Young
Mr. Stimson ✓
Mrs Klotz

H.M.Jr: Does anybody know where Mr. Stimson is?

Arnold: He is up on the Hill, sir, and I am not sure if he is finished.

H.M.Jr: Well, I think we will start.

Knudsen: Mr. Secretary, we got together after we left your office yesterday and went over to my place and we finally arrived at the figures here as follows:

The Army requirement to April 1, '42, there are 12,884 planes. The Navy requirements are 6208, and the British requirements are 14,375.

We then sorted out or negotiated out the quantities that could be produced in the three periods, April 1, 1941, October 1, 1941, and April 1, 1942, and we split the quantities that I have given you above by periods so that in the first period the

- 2 -

Army got 6882; the Navy 1923; and the British 4094. In the second period, six months' period, the Army got 3548; Navy, 1555; and the British, 4686. In the last period, the Army got 2454; Navy, 2730; and the British 5595.

Now, these requirements were accepted by the parties over there and it was agreed that the British would place at once the 1287 planes that have been in negotiation for some little time and that they had the option of placing 4200 more planes in order to meet these quantities. In other words, the British have the right to place 4200 more planes within this period so it would make the quantity 14,400.

H.M.Jr: Now, the easiest way to say this - I got this last night and I began to worry, because I think the British are making a mistake, see, because --

Purvis: I would like, if I may, to speak on this memorandum, because we have had a little discussion with Mr. Knudsen this morning.

H.M.Jr: Oh.

Purvis: We also felt - you see, this is a throw-off of Mr. Knudsen's office which for instance, I, having left the office only saw yesterday afternoon. We have been discussing our views on that.

The first point we wanted to make on this is - and we have discussed this with Mr. Knudsen this morning - the thing that worries us most is the freezing of our position. There are two things that are worrying us; one, the freezing of our position of 14,375 planes plus a possible 1820 that we have been talking of for the other Empire units for delivery prior to '42. The second thing has been the fact that --

- 3 -

H.M.Jr: May I interrupt you a second? Major Lyons, would you excuse me? Is this your handwriting?

Lyons: Yes, sir.

H.M.Jr: Just one second, please. Is this Army and Navy?

Lyons: No, this is Army only, sir.

H.M.Jr: Thank you.

Purvis: The second thing that worried us was that the formula in the last paragraph of the memorandum as dictated --

Knudsen: We haven't gotten around to that, Mr. Purvis.

Purvis: No, but I mean as it is at present dictated.

Knudsen: I haven't even read it yet.

Purvis: This memorandum that you gave to us yesterday?

Knudsen: I started with planes and the Secretary stopped me.

Purvis: I beg your pardon. Oh, I thought everybody had that.

H.M.Jr: I thought you were through. I am sorry.

Purvis: I thought that had been circulated, Mr. Knudsen.

H.M.Jr: Let Mr. Knudsen finish. I thought he was finished.

Purvis: I am sorry.

H.M.Jr: I am sorry, too.

- 4 -

Knudsen: On the engines to go with these planes, the British have orders today for 21,485 engines. Up to the end of '42, not to April '42, but to the end of '42, 20,589 more. So we agreed that all planes, American and British, would get engines first. In other words, whether the plane was American or British, we would say the engines would power the planes first and if there was any surplus of engines at any time, we would negotiate that on the basis that whatever was left would be shipped out to England or utilized in some other way.

The opinion was that we ought to have a dispatch committee which would meet once a month, the last week in the month, and plan for the second month ahead, the first month being too close, and in our conversations this morning Sir Henry advocated we plan two or three months ahead so as to give the British something to work on. In other words, he will submit to us their schedule of planes and we will apply that against our surplus so that we can write the schedule. That is all, sir.

H.M.Jr: Now, do you want to talk?

Purvis: May I - as I say, on this basis there were two things we were discussing with Mr. Knudsen this morning. Number one, it put an automatic ceiling for a long period ahead on the number of plane orders which we could hope to place in this country. That, we feel, is bound to have an extremely dangerous effect on the other side.

The second thing it does is, it takes away from us a certain - or may take away from us, I think that is fairer, because as Mr. Knudsen pointed out to me, you shouldn't cry about it having gone until it has gone. It might take away from us engines which today we own

- 5 -

because the allocation of U.K. airframes against the French - what are called the French engines, would only come after U. S. airframes had had their show.

Now, so far as the first point is concerned, the freezing at a level which looks to us dangerously low, I should mention that the phrasing used in here, British requirements, to the first of April 1942, is built up in this way. It is built up of the orders which we have placed with manufacturers which were full-blooded up to September '42. When we placed them, that was about as far ahead as the manufacturers seemed to have to go to get on with the job, plus an addition at the same rate per month, which Mr. Knudsen allowed us yesterday of 700 a month to '42, to the end of March '42.

Now, the minute we begin to get into that, it looks extremely dangerous from its freezing effects. After all, it - going back to my point yesterday, the only reason we only have orders for 8,300 placed for delivery up to December '41, was because we could not at that time get from the industry more, as far as we could find out, and that is something that was just a condition up to September '41, and perhaps the best way to crystallize this whole thing would be to say that in so far as this freezing of requirements is concerned, of which we are very much afraid, we would like to regard this market as a big market from which planes can come even if our factories are bombed, which is a three-to-one chance possibly that they will be. We would like to work on the basis that we - for instance, we could say to you firmly, "Will you arrange to make 3,000 planes a month?" We would take them

- 6 -

from January 1, 1941, to the end of December '42. Now, if you can't reach the 3,000 in January '41, will you reach it just as fast as you can and you will know where you stand opposite us and will give something to look forward to.

Otherwise, we want to get rid of that feeling which is going to be cast upon us now suddenly as a result of this formula and which is, I think, the major - or one of the major points that the U.K. will have against any such arrangement. Is that right, Mr. Wilson?

Knudsen: Mr. Purvis, when you want 3,000 planes a month on January 1, '41, you ought to begin to talk about that January 1, '39, and not in the middle of July.

Purvis: Yes.

Knudsen: Because you are just doubling the program that we have got laid out and while it might be swell for us to tell you we will go to it, you are not going to get it, so that is all there is.

Purvis: But Mr. Knudsen, did you hear my point? My point is that as we are now going beyond September '41, which is fifteen months ahead, up to the present we have been chained down to a date but yesterday we took this through to April 1, '42. That is nearly 20 months. Now, we realize that you can't get to 3,000 on January '41, but if we have that as our aim then it seems to me we are really going to get somewhere and we must cooperate by putting you in a position to know what we want sufficiently long ahead to do that class of a job as a production problem, which you know better than I do, but I also know a little bit about. I am wondering whether that wouldn't be the best tactics.

Knudsen: That means placing 40,000 British planes on American order?

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Purvis: More than that, isn't it?

Wilson: Well, Mr. Knudsen means --

Purvis: Well, I mean you may have to know beyond 12 months.

Knudsen: I am taking a round figure of 40,000.

Purvis: 3,000 a month through the two years. In other words --

Wilson: In other words, we are terrified, but this doesn't necessarily concern you. But I personally am terrified at the prospect of this afternoon having to telephone Lord Beaverbrook and telling him I am very sorry despite all your efforts and feelings that the ceiling of the United States for at least 20 months ahead is 700 planes a month. You will either win or lose the war on that 700 planes.

Knox: For 20 months.

Purvis: It is a long while.

Wilson: We are talking now until April '42.

Knox: Am I wrong about this, that a part of the reason you are asking this is for the moral effect it will have?

Wilson: Oh, I don't think so.

Purvis: It is to make a production program - to set up an actual production program to be - you see, this word "British requirements" is quite wrong. The word "requirements" in the ordinary sense of the term is what you really need a month and are willing to buy. We are willing to buy very, very much more than that up to April '42. We are willing to go

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beyond April '42, if it will make a better production program possible for Mr. Knudsen as a man faced with a practical difficulty of getting the output.

Knox: We would have to have a production of about 6,000 a month to meet that.

Knudsen: That is right.

Knox: Now you are talking about dream figures. You can't do it.

H.M.Jr: Oh yes you can, pardon me.

Brett: No, I beg your pardon, sir. He is not talking a dream figure; he is talking for something to shoot at.

Purvis: I am talking what we would be willing to put on the table so it could be tackled.

Knox: I am talking about what we can produce.

Purvis: We realize there will be no 3,000 in January '41. I realize that. It won't be done. But if we aim for 3,000 a month production, we shall get month by month a larger and larger proportion of what that is.

Knudsen: We will be in for all we can get.

Purvis: But Mr. Knudsen, I have an idea that you, as a General Motors man, having done what you do, you always set something that you really want to get in the form of a figure. If you were to say, "We will make as many cars as we can," you would never get as many as if you set the kind of schedules you set.

Knudsen: But 33,000 planes we have set as a schedule. 33,000 planes for the three of us is the schedule.

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- Purvis: The reason we are worried about it is that it puts a ceiling on us of 14,000 planes plus the possibility of this 1820, which is --
- Knudsen: That is all you could get anyway. Now if you are talking about --
- Purvis: Are you sure it is all we can get? As we go beyond into April '42, are you willing to state that whatever orders you get, that is the limit, because if so, it is not a question of freezing. You have just got to tell Lord Beaverbrook that the country can't produce them.
- Knudsen: Well, of course we started out with the assumption that we can make 33,000 planes from now until April 1, '42, and that is 5,000 high, you see. We put 5,000 more in there, feeling that by extra push we could get that 5,000. Now, what you plan after April 1, '42, doesn't concern me at all. We can go 3,000 a month or 6,000 a minute if you want, but what I want to say is that --
- Purvis: That sounds more like a figure for us.
- Knudsen: Let's talk facts here. We can make 33,000 planes and out of that 33,000, your split is 14,400, see. Now, if we are going to build some more plants and do some more expanding, let's do that, but let's be sure we get this first.
- Knox: That is good horse sense.
- H.M.Jr: May I interject myself? May I do it with all due humility, because I am talking in your field, but Mr. Purvis and Mr. Wilson for the first time are saying something new here today and I am partly responsible

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for this, because frankly I have been pacing the floor since 5:00 o'clock this morning worrying that with the chances 75 out of 100 they are going to lose their plants but they will still have the island and they will still have the will, that they are not going to have the tools, and the time to make the plans is now and not to be fighting over a pool which is not to be increased but to have these people say - I have urged them to say what are your needs on the basis of three out of four chances that they are going to lose these plants and therefore they are saying to the United States now that going on the assumption and looking at it from the darkest side of the picture, they may lose all of their production and their needs are 3,000 planes a month when we can reach that and therefore - they should have said this yesterday or a week ago or six months ago, but they haven't, which is unfortunate.

I am sure the productivity of the United States is possible, but we cast this picture and have another look at it, entirely new look at it, and what I would like to ask - as I say, I am very - I realize I am asking something which is your business, but at least I can look at the thing from the whole standpoint and I have been literally pacing the floor since 5:00 this morning - is to have an entirely new outlook at the thing in view of what Mr. Purvis and Mr. Wilson are saying now.

Now, nothing is impossible if you know what they need. They are saying something quite new and if I may make the suggestion, after you have had that look at it you will say, "All right, it will cost you so much for additional plants."

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Knudsen: That is certain.

H.M.Jr: That is what - after you have had a reasonable amount of time, that you come back and say, "All right, we can do this but this is what it is going to cost you." Now, we would like an affirmative statement saying that they are ready, and so forth and so on, but there is no use going over the fact that they should have done it before, but they are doing it now and I am partly responsible for them doing it, because I think up to this time, if you don't mind my saying so, they have been shortsighted and there is no use - they have got to go on the assumption they are going to lose their plants and have got to prepare so that the - if they have no production, they want 3,000 fighting planes a month just as soon as the United States can reach that point, and as I take it, you would like Mr. Knudsen and his associates --

Purvis:to figure on that basis.

H.M.Jr: And as soon as they are ready, give you the figure and you will say --

Purvis:take it up with England. That is the kind of thing.

H.M.Jr: And give them a yes or no within a couple of days.

Purvis: Oh, yes.

H.M.Jr: That is the picture.

Purvis: Mr. Knudsen, that doesn't need to interfere with going ahead in the meantime and doing everything you have got here.

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Knudsen: Oh, we are not going to stop on this. The thing that I want to get clear here now, I got the requirements of the United States down to what was considered a minimum yesterday. He gave me the actual figures that he required and we added to this this British - we took the total production and gave the British 70 to 100 percent. Now, this other proposition that we talked about will have to be superimposed on that, because there was no use of crowding after these hundreds of thousands of people are in certain localities. We have to spread it and get it out of the way. It will only interfere instead of doing a lot of good. In other words, we will have to spread the overhead around in different spots and put up plants for it.

H.M.Jr: Supposing - I don't know whether it is true - that Detroit had not heretofore taken care of the South American market and somebody else comes to you and says, "Now look, from now on we expect to take care of the South American market in addition to the United States and Canada." Well, all right, "How much do you want?" "Well, I want - it means so much." "All right, give me a couple of days and I will give you an answer," and that is what this means, that you have overnight - since their last figure they came back and say - I don't know, let's say we will agree to what is on this piece of paper which is here, but in addition to that it is an entirely new chapter. We want this other.

Knudsen: There is only one thing I want, then. If you will give me the split by types so as to be able to plan the manufacture, so many this way and so many bombers.

Wilson: We will give you everything you need.

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- Knudsen: And if you will furnish me with this schedule, I will go right to work on it.
- Purvis: If we can get that kind of outlook on the thing, it makes it a little easier to get over the second part which is that the - don't forget we are needing all the stuff we thought we owned, that these engines we thought we owned and do own legally today, except for such needs as you may have which are so urgent that you have to invoke some high authority on them, which we fully recognize as your right, it would perhaps enable us to get a little over that hurdle with the Air Ministry in London if they know that there isn't a ceiling on what --
- Knudsen: You will have to have a flock more motors.
- Purvis: We already have started to produce some more motors that are not in this thing.
- Knudsen: You will have to have a great many more than that. The ratio is 1.7.
- Purvis: You remember I wrote you a note last week saying we would be happy to go 50-50 in another engine enterprise.
- Knudsen: In the same breath, you called to my attention politely and forcibly that you had already spent a lot of money.
- Purvis: But I wrote you saying that we would go 50-50 again. Both things are true.
- Knudsen: All right. In other words, this is agreeable here and --
- Purvis: I --
- H.M.Jr: I don't know. He has got to say that. Is this agreeable here?

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- Purvis: You are satisfied on the engine situation, aren't you?
- Wilson: As the beginning of a larger discussion, we don't object to this.
- H.M.Jr: Just so that we don't - one or both of you tell Mr. Knudsen, because he and I are of the same mind. Once you say your word - is that right, Bill?
- Knudsen: Yes.
- Purvis: Let us say then what, Mr. Secretary --
- Knudsen: I told him I would rewrite it.
- Purvis: Mr. Secretary --
- Knudsen: He told me first it was all right.
- Purvis: The first thing we have asked Mr. Knudsen to do this morning is this: The item of British requirements to the first of April '42 is marked at 14,375. We were discussing the matter yesterday and we pointed out that we had not the figures for certain parts of the Empire. We have asked here this morning to add 1820 to that. He has said that he will try and do that, but that he might want to suggest that we take it in knocked-down parts.
- Knudsen: To survey the field and see if I can get knocked-down planes, I can't get them.
- Purvis: So that perhaps should be added to this memorandum because it is a separate point that has been discussed since. We might perhaps make a redraft of that.
- The second point we want to bring out is, before we finally settle, this last paragraph,

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as we understand it, does go beyond the principle that was agreed yesterday - or discussed yesterday. I won't say it was finally agreed. It does go beyond the principle that we discussed yesterday that we will not be hurt so far as existing orders are concerned in that for the engines that we have taken over from the French we only have a right to discuss the possibility of getting some of those as distinct from being able to export them as such to U.K. frames without question. Is that right, Mr. Knudsen?

Knudsen: It is pretty long. I will have to have it again.

Purvis: Well, yesterday when we talked --

Knudsen: What about the piece of paper?

Purvis: I want to say that that is my understanding, that this last paragraph of yours is intended to go beyond the discussion we had yesterday. As I understood the discussion we had yesterday, it was that our existing orders would not be interfered with.

Knudsen: Orders for planes or for engines?

Purvis: For anything which will give us more planes and engines, will give us planes if we can get them into frames in England; or in other words, as a practical matter, if the U. K. were to cable us tomorrow morning saying we have enough U. K. frames coming through to take care of more than the French engines that you have, this would prevent our shipping.

Knudsen: I will agree to that as far as the engines actually on order.

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Purvis: That is right, so that it does go beyond the principle that we talked yesterday and we hoped, of course, that we would be able to hold the ground we already had both on completed aircraft and on engines. Is that right?

H.M.Jr: You fellows have got to look at each other, because I haven't been sitting with you. As long as the two of you understand each other, I am perfectly happy.

Purvis: Well now, I think here at this point, having pointed out that he goes past that principle --

Knudsen: We agreed this morning that we will set up a crowd over in my place consisting of a representative of the British, a representative of the Army and Navy and Mead and myself, that we would - the last week in each month we will have a meeting and decide what surplus engines there are with - for the second month following and Sir Henry Self suggested that that be extended to cover not only the second month following but the third and fourth months following and I said that was all right.

Self: And the fifth and sixth.

Knudsen: Well, we will get some more.

Self: England can't possibly organize their plane production unless they can see the engine deliveries.

H.M.Jr: I wasn't in on this, so you people --

Knudsen: The principles, I understand, you agree to the principles that a plane must have an

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engine, either a British plane or an American plane.

Wilson: You tell us that that is an absolute priority to any discussion.

Knudsen: Yes.

Wilson: We accept that and then this morning we agree further that you will marry frames and engines month by month or quarter by quarter, if you like. You will marry frames and engines and then you have got "X" engines left over for that period. You say to us, "Get them out of the country, we have no interest in them," and every 30 days we will repeat that process. That is correct, isn't it?

Knudsen: That is correct.

Wilson: Well, I take it that the feeling, in theory at least, has been removed by the discussion here this morning and that being so, we can base this proposal regarding engines a little bit better than we could have yesterday. Yesterday I just didn't know what to say. I have got a man on the other end of the wire waiting for me to talk to him and I have been dodging him for 48 hours.

Knox: Mr. Knudsen, this object now outlined, there is a possibility involved of a huge investment in expanded plants and new factories and the people who are going into this business are going to require some money to build these plants. How is that going to be taken care of?

Knudsen: Mr. Morgenthau says I should give the British a figure and I shall give them that figure.

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I want to set that up separate now, engines and planes, 3,000 a month.

Purvis: So as not to interfere with getting ahead on this thing. We have got a contribution toward this in our joint deal on the Rolls Royce engine.

Wilson: Mr. Knudsen smiles at the figure of 3,000 a month, but I don't need to tell you that that is the popular figure for the German production.

Knudsen: But not the true figure for the German production.

Knox: What is the true figure?

Purvis: Can you tell me the truth?

Knudsen: I haven't been there, no. It is 2200.

Purvis: We have got to the point that we have fooled ourselves so long --

Knudsen: You won't go wrong on 3,000.

H.M.Jr: Then if it is 2200, 3,000 sounds good because they have got to do better than the Germans.

Wilson: We are losing our planes every day, very rapidly.

H.M.Jr: There is one thing I would like to point out, if you people understand each other, and that on our program, engine expansion, the Navy is short 45 million dollars.

Knox: We are short on our present program 45 million dollars.

H.M.Jr: For plant expansion. And if you want me to help, I will be glad to help.

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- Knox: We are certainly glad to help.
- H.M.Jr: And I want to bring that to the attention of the Navy now, that the Navy is short 45 million dollars for plant expansion.
- Towers: I pointed that out to Mr. Knudsen yesterday and got his permission to say that that was the amount of money that he wanted for the Navy.
- H.M.Jr: I think all of us ought to get busy and get it for the Navy.
- Brett: May I make an observation, Mr. Secretary, just in talking about plant expansion? According to my figures and the dope that I have, starting in March and April - April and May and June of 1941, speaking of the plant expansion which has been performed by the foreign countries in the United States, the foreign countries, Anglo-French, are getting 1640 engines as compared to 200 of the U. S. Army. In May of 1941, the Anglo-French Government is getting 1600 engines and the U. S. Army is getting 20 engines. In June of 1941, the Anglo-French Purchasing Commission is getting 1640 engines under order as compared with 40 engines for the United States Government.
- Purvis: General Brett, would you be --
- Brett: Those are the orders which are now under contract but which does not include any future orders.
- Purvis: I am glad to hear something said to indicate that our buying hasn't been quite so bad.
- Brett: Your buying has been very, very good because we have furnished over a period of 20 years

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a tremendous amount of plant expansion and production and in the spring and summer of 1941 that plant expansion is going very nearly entirely to the Anglo-French Purchasing Commission as compared with the Army orders.

H.M.Jr: What months were you talking about?

Brett: I was quoting the months of April, May, June of 1941.

H.M.Jr: Well, what kind of engines are you talking about?

Brett: I am talking total engine orders.

Purvis: You haven't placed your orders, is that it?

Brett: We have not placed our orders as yet.

H.M.Jr: Look over my shoulder.

(Discussion off the record)

Brett: My figures are right, aren't they, Mr. Secretary?

H.M.Jr: Yes.

Brett: Thank you.

H.M.Jr: Well now, as I understand, you (Knudsen) want them to give you a breakdown on these 3,000 engines, is that right?

Knudsen: 3,000 planes.

H.M.Jr: Now, what is a reasonable time to expect that?

Self: Now, sir.

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H.M.Jr: Now?

Self: I mean, do you want the basis --

H.M.Jr: Now is a lovely word.

Purvis: Especially from anybody who has been up since 5:00 in the morning.

Knudsen: Go ahead, sir.

Self: 600 single engine pursuits; 400 twin engine pursuits; 400 dive bombers; 600 twin engine medium bombers; 250 multi-engine long range bombers, two or four engines, according to the best performance you can get with emphasis on long range; 250 flying boats.

Knudsen: Is that two engines?

Self: Yes. 500 advanced trainers. I put no elementary trainers in there because I think Canada can take care of that.

Brett: Are you interested in the twin engine trainer or is that a single engine trainer?

H.M.Jr: I put 500 advance trainers.

Self: I didn't split it as between the single and twin. If you want to split, you had better take 200 single and 300 twin.

Knudsen: Mr. Purvis will write me a confirming letter on this?

Purvis: Yes, asking you to figure out for us a capital expansion program.

H.M.Jr: I think you gentlemen's sense of humor is good enough for me to say that when Sir Henry came

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through by saying, "Now," I said to myself, "Maybe England will win the war yet."

- Lyons: Did you say 304 two-engine trainers?
- Self: 300 twins and 200 single. Split the advanced trainers 300 twin engines and 200 single engines.
- H.M.Jr: Do you want to do it again, Sir Henry, to make sure everything is there?
- Self: 600 single engine pursuits; 400 twin engine pursuits; 400 dive bombers; 600 twin engine medium bombers; 50 multi-engine long range bombers; 250 flying boats; 250 single engine advanced trainers; 300 twin engine advanced trainers.
- H.M.Jr: Now, you want that confirmed in a letter but in the meantime you will make your plans so that you can tell them in several days or whatever is reasonable?
- Purvis: We will get the letter over today, sir.
- H.M.Jr: They will get it over there --
- Knudsen: And at the same time you will confirm the arrangement?
- Wilson: Yes. In view of the discussion that took place here and what we said on the way down, if you will allow us, we will redraft it and submit it to you for your approval so that we are - our minds are together. There will be no difficulty in translating the paper.
- Purvis: For your approval.
- Knox: You are not going to change the original --

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- Purvis: Oh yes, just to clarify it in the light of the later discussions this morning.
- Knox: This stands?
- Wilson: Yes, our minds are together. It is merely a matter of expression.
- Purvis: The figure 1820 point about the Empire planes that we talked about, things of that kind, merely the things that we have discussed.
- Knudsen: All right, sir.
- Purvis: And then you will reject that or not, depending on how well we have expressed it.
- H.M.Jr: May I just say this, and then you (Knudsen) will give him a breakdown of how much it will cost, is that right?
- Knudsen: Yes.
- H.M.Jr: May I say this about what we did after you left. The newspaper men saw that you were here and I had my man call up every one of the offices and we simply said that we were here to synchronize the thing, but if - once this is ready, I think this is a magnificent story and I think it ought to be very carefully done, Purvis, and if your people would write it out and then submit it to Mr. Knudsen, I think, and Army and Navy, I think you have got a great story here and I think it could be held and not leak out and then say, "This is what they are going to do," and so forth.
- Knudsen: There will be no leak as far as I am concerned.

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H.M.Jr: No, I know it.
Mr. Nelson, do you want to add anything?

Nelson: No, I think it is perfectly all right,
Mr. Secretary.

H.M.Jr: How does it sound to you?

Nelson: It sounds okay.

H.M.Jr: Are we going too fast?

Nelson: No sir, I think not.

Knudsen: I think if that is what they want, that is
what we will figure on.

H.M.Jr: Colonel Knox?

Knox: I am agreeable. I think you are going after
impossible figures, but go ahead and try it.

H.M.Jr: General Arnold?

Arnold: I think it is one of the best things we have
done yet. It will give us something to shoot
at.

H.M.Jr: Admiral Towers?

Wilson: And it doesn't make us fold up on the other
side. That is what we were afraid of.

Self: May I mention, Mr. Secretary, that this is
considerably less program than we had planned
in the United Kingdom in 1942.

Purvis: Sorry we have to raise the ante.

H.M.Jr: Have I overlooked anybody who would like to
say anything?

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- Knudsen: Kraus, you had better say something.
- Knox: Purvis, you fellows have got your teeth all set for a nice large sum.
- Purvis: Oh yes, we are used to that.
- Knox: It is going to cost like hell.
- Purvis: The war is costing like hell anyway and perhaps if we had let it cost a little more earlier, as the Secretary said, it would have been better. However, we thought we had other reasons - we thought we were on a desert island with just so much food and we had to - Mr. Hitler has told us some things.
- H.M.Jr: I would like to say this, gentlemen: I have sat in a lot of meetings. I think there has been one of the best spirits of any meeting I have ever attended here and what the English are asking us to do has put more encouragement into me than anything that has happened this year. I think there is a chance. It is the most hopeful thing that has happened.
- Purvis: Thank you very much.
- (Mr. Stimson entered the conference)
- H.M.Jr: I think if Mr. Knudsen could possibly sum up what happened here this morning for Mr. Stimson.
- Knudsen: Mr. Secretary, I think you were shown last night the points agreed on and the layout of production until April 1, 1942. This proposal this morning has been accepted by everybody concerned, with the understanding

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that we will add 1820 more planes which we have got to try to find and which I am hoping to get to the British in a knocked-down state. I am getting two weeks to look that over.

On top of that, at the direct request that has been made by Secretary Morgenthau this morning of the British Government, there will be superimposed on that schedule that you have a copy of a production program of 3,000 planes per month for the British account and I have been requested to estimate the amount of funds required --

Stimson: What?

Knudsen: The amount of money required for a program of that sort, this being strictly a British undertaking, aside from anything else.

Stimson: When do they want delivery?

Purvis: January '41, if possible, but we are quite aware of the fact that it won't start quite as early as that.

Knudsen: It is out of the question, of course, by January '41, but they will take the capacity as, if and when we can get it, I understand.

H.M.Jr: That is the story.

Stimson: So far as the original program is concerned, I am very glad you reached an agreement. I felt it a very good solution, Mr. Secretary.

H.M.Jr: It is good spirit on all sides.

Stimson: I am sure of that, and as for this other program, I hope it can be --

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- Purvis: We wanted to unfreeze the situation. We were terribly afraid of the affect in London of having such a small ceiling about us. When you get into talking about '42, we want to really get into the kind of thing that would enable us to combat Germany.
- Stimson: You are looking for that last battle.
- Purvis: Yes. We should have looked a little earlier, Mr. Secretary, as Mr. Knudsen properly reminded us.

July 24, 1940

Dear Jerome:

Due to the increased pressure arising from the National Defense Program, which has added considerably to the burdens which so many of us have been carrying, I have found it necessary to ask Philip Young, Assistant to the Secretary and Member of the President's Liaison Committee, to find a person to work with him and with me on a highly confidential assignment. Because of the nature of this job, it is extremely difficult to find a person who has the proper qualifications.

Mr. James G. Buckley, of your Reorganization Division, was suggested to me as a person well qualified to do this job. After talking with Mr. Buckley, I am very anxious to secure his services for from three to six months in the interest of national defense.

May I request that the services of Mr. Buckley be made available to my office on a loan basis with reimbursement provisions, and with the understanding that at the expiration of this temporary assignment he will return to the Securities and Exchange Commission.

Sincerely,

Henry

Honorable Jerome H. Frank, Chairman,
Securities and Exchange Commission,
Washington, D. C.

FT:bj

Pl. Am

CC to Mr. Thompson

By Messenger 3³⁵

COPY

Rio de Janeiro, Brasil, July 24, 1940.

No. 3321

Subject: The Release of Dollar Funds Of The Banco Frances e Italiano.

The Honorable

The Secretary of State,

Washington.

Sir:

With reference to the Department's telegram No. 211 of July 11, 1940, regarding the release of dollar funds of the Banco Frances e Italiano in New York, in order to make a dollar payment to the Bank of Brazil here, I have the honor to quote below the text of a letter from the Director of Exchange concerning a dollar draft drawn by the Banco Frances e Italiano against J. Henry Schroder Banking Corporation of New York:

"The Honorable
Jefferson Caffery,
American Ambassador,
Rio De Janeiro.

"With this letter we wish to request Your Excellency to take the steps which you may deem necessary in order to have liberated the amount of US \$14,084.71, drawn by the Banco Frances e Italiano against J. Henry Schroder Banking Corporation, New York, referring to the required delivery of the 30 per cent official exchange, which amount belongs, therefore, to the economy of the Brazilian Government.

"Anticipating our best thanks for your kind attention to this matter, we remain,

Very truly yours,
sd) Francisco Alves dos Santos Filho,
Director of Exchange.

Alberto de Castro Menezes,
Chief, Exchange Department. "

The Department's cooperation in arranging for the release of this

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amount will be appreciated.

Respectfully yours,
For the Ambassador:

Walter J. Donnelly,
Commercial Attache.

File 851.6

WJD:KF.

TO THE POINTS (VIA
16000 10 10 51
OF THE 10 10 51

16000 10 10 51

16000 10 10 51

July 24, 1940
8:50 a.m.

Present: Mr. Young
Mrs. Klotz

HM Jr: I am thoroughly disgusted with the Army and with Mr. Knudsen. They simply can't see any farther than the end of their nose. This memorandum here is terrible - it simply sickens me. *(see memo files 7-27 all to Young)*

Now, I'll tell you what I've been thinking about this morning. What I want is six separate engine plants, each one with a capacity to build 12,000 engines a year of 1000 HP or over, half of which will go to England and half of which we will keep. Now the way I figured the thing out is this: Curtiss Wright, New Jersey, Curtiss Wright, Ohio, two General Motors, Packard, and one other company. You see? And each of those factories should receive orders up to 1,000 engines a month on a two-shift basis. We're way short of that. Then if we have that, that means that with six plants each producing 1,000 engines a month we would have 6,000 engines. That will mean we will give 3,000 engines a month to England and have 3,000 for ourselves.

When Mr. Roosevelt finds out what the program is he is going to go right through the ceiling. They haven't done what I asked them to.

Young: George Mead called me up. I have been sending him certain inquiries with respect to other foreign orders, and he said it is going to take some time, that he still doesn't know what the air frame capacity is.

HM Jr: What difference does that make? They should get started on this other thing.

I talked to the President last night and I told him how things were going, and he said, "My God! Haven't they done that yet?" There's just something wrong somewhere and that's why I'm going to have Kraus and

- 2 -

Towers up alone at 10:00. I want to see them alone. You see?

Young: They're all right. The trouble there it seems is with General Arnold.

HM Jr: Well, Towers and Kraus are coming entirely alone because Kraus knows what Mead is doing if anybody does. He lives with him you know.

Young: Oh, yes, he knows all right.

HM Jr: So I'm going to find out, and Towers is my best bet.

Young: He's all right. He really is a square fellow.

HM Jr: But I don't know what the capacity of each of these plants is today and how many orders they have on hand.

Young: Kraus has all the figures on that laid out as it is now.

HM Jr: What?

Young: Kraus has all the figures on that.

HM Jr: He seems to carry a lot of that stuff in his head - never seems to have a lot of figures written down.

Young: They have a pretty complete survey.

HM Jr: Well, giving Mead the best of the breaks I take it all he has in mind is he is trying to make what he has go as far as it can.

- 3 -

Young: Sure. What I wanted to do yesterday afternoon was to talk about these other foreign orders because he might be able to get another 1,000 engines.

HM Jr: What I say is this - if Germany has a capacity of 1,000 units, we should have 1500 units. If they have 1500, we should have 2000 and so on.

Mrs. Klotz: Purvis said that yesterday.

HM Jr: Yes. The point is this - it is only a question of time before some bombs are going to hit the English airplane plants, and here we are doing nothing, waiting until they hit a plant.

Young: That's what Morris Wilson said.

HM Jr: But it's just ridiculous. I mean . . .

Young: We can do it all right.

HM Jr: The President - if he had left it to me I would have done it and it would have been on the way now. This person doesn't want to do it for this reason and that person doesn't want to do it for someother reason. And it's just terrible.

(To Mrs. Klotz) Wait until you see the telegram I sent the President this morning. It's going directly. I dictated it over the wire. *(copy in Busis folder)*

Young: Any more information on that memo?

HM Jr: It's a good memo but it gives me the whole picture and it is simply sickening. It isn't your fault. The memo is good but the stuff that is in it is making me sick. All right then. Does that hit the bell with you, Phil?

Young: Absolutely.

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HM Jr: Oh, yes, somebody told me you can't get this fellow Buckley. How are you coming along on that?

Young: Well, yes. Jerome Frank seems to think . . .

HM Jr: Dictate a letter for me to Jerome Frank. You write it for me to Jerome Frank, you see?

Young: All right. I'll be glad to.

Notes on Conference in the
Secretary's Office at 10:15 A.M.,
Wednesday, July 24, 1940.

Those present, the Secretary, General Brett, Major Lyon,
Admiral Towers, Captain Kraus, and Mr. Young.

The Secretary opened the conference with a general statement that, according to his information, the aircraft program under the direction of Mr. Knudsen and, more specifically, Dr. Mead had not been progressing very fast. He said he did not know what the reason was for the delay; that he did not think much had been accomplished. He asked Captain Kraus if they were still thinking in terms of the original program for 50,000 planes a year as outlined when Kraus and Mead were working in the Treasury. Kraus replied that they were following it generally, but that they were only shooting at 40,000 planes per year.

The Secretary stated that he wanted to be perfectly frank with everybody present and to lay his cards on the table. He added that he thought everybody in the room knew that he could be trusted and that he always played fair and above board. He looked specifically at General Brett and remarked that he hoped the General realized that as he certainly should from the earlier contacts which they had had while the aircraft program was in the hands of the Treasury. Whereupon, the Secretary asked everybody to take their hair down and tell him just what they thought the trouble was. At that point there was an intermission of approximately ten minutes while the Secretary talked with the White House on the telephone.

When the group reconvened, the Secretary stated that he had been awfully worried about what had occurred at the conference with Knudsen the preceding afternoon as it tended to freeze aircraft, plane and engine production in the United States. He added that he had been awake most of the night thinking over the problem and had literally been pacing the floor since 5 o'clock in the morning. Further, that he had talked with the President the preceding evening about the whole matter.

The Secretary again outlined what he understood to be the President's policy concerning the superimposing of the defense program on top of foreign orders. The Secretary said that he

- 2 -

thought the way to tackle the problem was to put down in a column the potential aircraft engine capacity in the United States for the calendar year 1941, and then for the calendar year 1942. From this total should be subtracted the requirements for the Army, the requirements for the Navy, and the number of engines on order for the British. According to the Secretary, the result would be a minus balance which could only be counteracted through expansion of engine production capacity.

Whereupon, the Secretary asked Captain Kraus for the engine production capacity for the calendar year 1941 in order to demonstrate the procedure outlined above. This table appeared as follows:

<u>Engine Production Calendar Year 1941</u>	
(1) Pratt & Whitney	13,000
(2) Curtiss Wright (Patterson plant)	15,000
(3) Curtiss Wright (Ohio plant)	3,600
(4) Packard	4,000
(5) Allison	<u>5,700</u>
Total	41,300
Army Requirements	<u>20,000</u>
Balance	21,300
Navy Requirements	_____
Balance	
England has on order	_____
Deficit ?	

The foregoing table is incomplete due to the fact that Admiral Towers was not in a position to supply the Navy requirements at the time. The Secretary went on to say that he would like to see a monthly schedule of deliveries worked out beginning

with January, 1941, and extending through December, 1942.

Admiral Towers said that his view of the whole program as visualized by Mr. Knudsen was a question of creating the necessary production velocity. Mr. Knudsen visualized a balanced program of completed airplanes including accessories. It was that balanced program, according to Admiral Towers, which Mr. Knudsen had in mind when he said that this country could produce 30,000 planes in two years.

The Secretary said that he did not agree with Mr. Knudsen's point of view or with the way in which the problem was attacked. Briefly, instead of stating how much the country could produce, the requirements of the Army and Navy plus those of the British should be ascertained first and then the capacity of the country should be developed to meet the requirements. In this way, a definite goal would be set to shoot at regardless of facilities presently available.

The Secretary asked Captain Kraus as to what was the matter with George Mead, adding that he felt some responsibility for Mead inasmuch as he had originally brought him to Washington. Both Captain Kraus and Admiral Towers replied that they thought Mead to be an excellent engineer and a good man for the job. Captain Kraus emphasized the point, however, that Mead was working under a definite directive on a specific program. Kraus added that he knew Mead would cooperate 100 per cent in working out a program whether it provided for 30,000 or 300,000 planes.

Captain Kraus also pointed out that Mead had been very worried over the Pratt & Whitney production situation. Evidently, the Pratt & Whitney personnel has become very thin, so that the company is afraid to go ahead on an expansion program at least to the extent of building and managing a plant in the middle West away from its home ground. Curtiss Wright, on the other hand, said Captain Kraus, had a large and skillful personnel, so that that company was quite ready to build a new plant in Ohio and to go ahead on such an expansion program.

General Brett stated that he thought the greatest difficulties at the present time which were hindering the aircraft program were those of a legal nature plus those created by red tape procedure. The Secretary said that he realized that those difficulties existed and that he had even checked with the Budget Bureau to find out the number of planes for which appropriations had been approved for both the Army and the Navy. He pointed out that at

the present time \$252,000,000 had been appropriated for 4,247 planes for the War Department, and \$81,000,000 for 3,101 planes for the Navy. Further, that appropriations were pending amounting to \$602,000,000 covering 24,394 Army planes, and \$125,000,000 covering 4,028 Navy planes.

Admiral Towers and General Brett stated that these figures were correct, but Admiral Towers added that he had \$45,000,000 still pending in the Bureau of the Budget. General Brett added that he had \$93,000,000 already, and, further, that he had plenty of money to start the new Curtiss Wright Ohio plant on its new production program.

Reverting back to his idea of what the aircraft program should include, the Secretary rounded out the group on the statement which Mr. Purvis had made the preceding day, namely, that the British would like to get 3,000 planes a month if they could. Both General Brett and Admiral Towers admitted that they had never heard that figure mentioned in that connection before, but that they thought the possibility of a new program superimposed on the potential program discussed yesterday should be seriously considered.

The Secretary asked Mr. Young to request Mr. Purvis to come to Mrs. Kloits' office and to wait until the Secretary could talk with him. The Secretary concluded the conference by saying that he was going to talk with Mr. Purvis and urge him to make a definite request for the production of 3,000 planes per month for the British, and that this matter should be discussed at the ensuing conference at which Messrs. Knudsen, Stimson, Knox, Arnold, and Purvis were to be present.

* * * * *

The Secretary and Mr. Young met with Mr. Purvis and Mrs. Kloits about 11:20 A.M. in Mrs. Kloits' office. The Secretary explained to Mr. Purvis that he had skipped out of a conference with General Brett, Admiral Towers, and Captain Evans, and that he only had five minutes.

"Purvis," said the Secretary, "the aircraft program of the United States can't be frozen, it can't have a ceiling. You've talked about how the British would like 3,000 planes a month; say to Knudsen you're ready to order them on behalf of England -- on behalf of the British Empire!"

Purvis was very startled and unconsciously started to object. The Secretary said, "Don't worry about the authorization - take forty-eight hours - take until next Monday, you'll get it all right."

Purvis said, "Do you mean make a firm offer to Knudsen for 3,000 planes?"

"You've got to do it," replied the Secretary. "Knudsen may quibble over 1,200 planes but he can't do it on 3,000. Pass the ball to him."

"Hadn't I better say 2,500 planes?" queried Purvis, still not grasping the scheme.

"Purvis," said the Secretary, "you've got to bluff; stick to the 3,000 planes and put it up to Knudsen as though it were an offer you had been thinking about for weeks. After all, part or all of your British production facilities will be bombed - this country has got to take care of it."

"Tell Knudsen you want 3,000 planes and I'll back you up; I'll tell him it would be suicidal if this country didn't do it."

"I'll do it!" said Purvis, "but I must see Morris Wilson - he's Lord Beaverbrook in this country and I've got to have his backing - he must share the responsibility - but I'll do it!"

Mr. Purvis left to see Morris Wilson and Sir Henry Self before the conference at 11:30 A.M. at which Messrs. Knudsen, Stimson and Knox were to be present.

On the way out, the Secretary said to Phil Young, "Write me an account for the Diary, especially this meeting with Purvis - it's history."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. Arthur N. Young, Financial Advisor to the Chinese Government, who is in the United States accompanying Dr. Soong, asked me yesterday evening if I would bring to the Secretary's attention the urgent desirability of having the new legislation for increasing the Export-Import Bank's funds by \$500,000,000 include some provision which will make it possible to grant added credits to China, and for the purposes which have been discussed in recent conferences between the representatives of China and the American officials.



July 24, 1940

My dear Mr. Hoover:

Thank you for the following letters which I have received from you recently:

- July 17 - Boeing Aircraft Company, Seattle;
- July 18 - German activities in Ecuador;
- July 19 - Secret meeting of Hitler and Stalin in Lwow, Poland;
- July 20 - Payments by order of Bosch, Stuttgart, Germany; *given to Mrs. Easton 7/19/40*
- July 20 - Summary of information in the Mexican press relative to entrance of political refugees into Mexico.

I appreciate your kindness in making these various reports available to me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

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Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

JOHN EDGAR HOOVER
DIRECTOR

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

July 17, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith as of possible interest to you copies of a memorandum containing information received from a confidential source concerning labor conditions at the Boeing Aircraft Company, Seattle, Washington.

Sincerely yours,

J. Edgar Hoover

Enclosure

July 16, 1940

MEMORANDUM

Information has been received from a confidential source to the effect that Hugo Lundquist, Business Agent of the Aeronautical Mechanics Union at the Boeing Aircraft Company, Seattle, Washington has instructed several Union members to resign from the National Guard or else resign from the Union.

Lundquist reportedly stated that the Aeronautical Mechanics Union is going to strike and he does not want National Guard men shooting other Union employees.

JOHN EDGAR HOOVER
DIRECTOR

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

July 18, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you, there is being transmitted herewith a memorandum incorporating information relative to German activities in Ecuador, South America. These data were obtained through a confidential source of information by the representative of this Bureau presently stationed in Ecuador.

Sincerely yours,

J. Edgar Hoover

Enclosure

BY SPECIAL MESSENGER

July 18, 1940

MEMORANDUM

Re: GERMAN ACTIVITIES IN ECUADOR

The Press

In Quito, Ecuador, the German Legation spends about \$500 a month for articles in the newspapers and expends approximately the same sum for the identical purpose in Guayaquil, Ecuador. These articles are written by Germans using fictitious names and also by Ecuadorians who are paid for their services in this regard. The articles are paid for as business advertisements and therefore are printed in their entirety. On the other hand, items with anti-Nazi themes are frequently deleted by editors because the newspapers receive no money for them, whereas the Germans pay for their articles as business advertisements or announcements which compels the editors to print the articles without making any deletions therefrom.

Since the collapse of France these articles have been directed against the Jews and the United States. Their theme has been to show what great things Germany has done for Latin-America and on the other hand to point out United States exploitation of Latin-America. They frequently refer to the financial loans of the United States to Republics in South America as "Dollar Dictatorship". Another theme is that Pan-Americanism is another form of American business.

In the near future a newspaper will be published and financed by Nazi and Fascist adherents in Ecuador.

The Radio

The radio station in Guayaquil has a daily program of one hour which consists of anti-Semitic propaganda.

In Quito the Bolivar radio station gives daily press news furnished by Transocean, the German overseas press bureau. It is said the radio station receives several thousand dollars a year for this utilization of its service. This press news is highly favorable to Germany and the radio station sees no advantage in spending

-2-

money for one of the American news services.

Transocean has an office in Quito which is under the direction of Herr von Simons who was formerly Minister of Propaganda in Berlin. This office is one of the Nazi propaganda centers in Ecuador.

Direct Propaganda

The Ecuadorian Army has Fascist tendencies due to the fact it is under an Italian Military Mission and also because a large number of the staff officers thereof have attended postgraduate military schools in Italy.

Commercial

Most of the merchants in Ecuador have done good business with Germany and are highly organized by the Nazis. The merchants represent both German and American concerns and secure prices on articles from the United States which are quoted to the German manufacturers who are consequently in a position to submit a lower bid than the American concerns.

Other Propaganda Factors

The Germans have established schools in Ecuador which are attended by the children of many influential Ecuadorians. The German House is open to Ecuadorians who are frequently invited to attend parties and celebrations, most of which happen to fall on German and Nazi holidays.

Frequent meetings are held in The German House, in private homes, and on farms owned by Germans. There are military drills at early hours on German farms and German tourists from neighboring Republics are encouraged to visit Ecuador. There are secret and unlicensed radio stations, and campaigns against the Jews and "Yankee Imperialism" in South America.

Many Germans have married into politically influential Ecuadorian families.

The so-called Communist, radical and socialist elements in Ecuador are being influenced by Nazi propaganda to believe that Germany is fighting against capitalism; that the United States is the symbol of capitalism, and that Dr. Arroyo del Rio, the incoming President who is pro-American, is the representative of the dollar.

-3-

Funds for Propaganda Purposes

The Nazis have about \$500,000 at their disposal for propaganda purposes. A part of this is contributed by the Nazi party and the remainder is secured from German merchants and importers of German goods who are given credit in banks in Germany for the amounts they contribute locally.

Another source of funds is Victor E. Estrada, a powerful banker of Ecuador who prior to the war arranged the Aski-mark agreement between Ecuador and Germany, and who in return for his services was designated by the German Government as the exclusive agent for this type of trade money. It is not known if he is contributing at the present time inasmuch as the war caught him with a large amount of Aski-marks in the possession of his bank La Previsora with no way of disposing of them.

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

July 19, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

Information has just been received from a confidential source to the effect that after the German and Russian invasion and partition of Poland, Hitler and Stalin met secretly in Lwow, Poland, on October 17, 1939. It is alleged that foreign governments have not yet become aware of this meeting. During these secret negotiations, Hitler and Stalin reportedly signed a military treaty to replace the previously consummated Non-Aggression Pact. It is reported that on October 28, 1939, Stalin made a report to the Political Bureau of the Communist Party of the Soviet Union, in which he furnished the seven members of the said Bureau, full details concerning his negotiations with Hitler.

I thought you would be interested in these data.

Sincerely yours,

J. E. Hoover

BY SPECIAL MESSENGER

JOHN EDGAR HOOVER
DIRECTOR

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Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.
July 20, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you, there is being transmitted herewith a memorandum summarizing information appearing in the Mexican press relative to the entrance of political refugees into that country.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER

July 20, 1940

MEMORANDUM

A summary of information appearing in the Mexican press reflects that notwithstanding recent official statements published in Mexico City to the effect that no more political refugees would enter that country, nearly one hundred political refugees who were former Azana soldiers in the Spanish War arrived in Mexico aboard the Laredo train on June 1, 1940. These refugees originally entered the United States through the port of New York City.

It is also reported that the ex-President of the former Spanish Republic, Don Manuel Azana, would soon arrive in Mexico incognito, accompanied by his private secretary. Azana was granted admission by the consent of President Cardenas and his voyage was to be made directly to Vera Cruz and not by way of New York.

It was further reported that at different places in Mexico there were arriving some of the former high officials of the erstwhile Republican Government, among them being Angel Galarza, Minister of the Interior under the Azana Government, and considered one of the principal instigators of the Spanish Civil War.



DEPARTMENT OF STATE
WASHINGTON

July 24, 1940.

Dear Merle:

I enclose message from Harry White for the Secretary of the Treasury. Please advise me of the reply.

Sincerely yours,

Herbert Feis

Herbert Feis
Adviser on International
Economic Affairs

Enclosures:

4 copies, paraphrase,
No. 9 of July 23 from
Habana.

Mr. Merle Cochran,

Technical Assistant to the Secretary,

Treasury Department.

TO THE SECRETARY
OF THE DEPARTMENT OF STATE
RECEIVED

JUL 24 1940

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Delegation, Habana, Cuba

DATE: July 23, 1940, 6 p.m.

NO.: 9

FOR THE SECRETARY OF THE TREASURY FROM WHITE.

I was approached by Secretary Hull with the question as to the desirability of the United States Government being able to give to some of the other foreign ministers in confidence at this conference some indication of what might be done in the way of monetary assistance from the United States Government. It is our opinion that it would be very helpful to Secretary Hull if and when he deems it would be appropriate he could, on your authorization, make the following statement or a similar one, orally, either directly or through Berle in private talks with delegation heads -

QUOTE. I understand that should any Latin American Government approach the Secretary of the Treasury he is prepared to give immediate and sympathetic consideration to specific proposals involving American assistance for cooperative arrangements directed at stabilization of relationship between the dollar and the currency of that country and the strengthening of the monetary and banking system of that country. Any such monetary cooperation is envisaged

- 2 -

envisaged only when it is part of a broad program of cooperation between the countries directed toward the attainment of the objectives as outlined in my address before the conference. END QUOTE.

Presumably the transaction implied by this statement is one which would involve essentially a loan of gold and dollars from the United States out of the stabilization fund using as collateral the currency of the other country. Any person to whom such a statement is made would doubtless interpret it in some such manner. There was inserted the term "cooperative arrangement" to indicate that the other country would have to meet certain conditions which you may prescribe before consummation of an arrangement. Although you are not committed to any specific action in the statement, you would be committed to serious consideration of any plan that might be put before you. The statement seems further to commit you to the expectation that in some cases favorable action will result, provided the country in question has on its part given us adequate cooperation on other parts of the program in general.

for 10B-^{cash}
HULL
5-1-41

EA:LWW

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran.

STRICTLY CONFIDENTIAL

There is attached a cablegram to Dr. White, setting forth your answer as given to me by Mrs. Klotz.

Does the answer cover adequately the question as to whether you would give "a loan of gold and dollars from the United States out of the Stabilization Fund using as collateral the currency of the other country"?

Have we made any commitment to Congress which would oblige the Treasury to seek the approval of Congress before giving a loan of gold from the Fund to a foreign state or central bank?

On the other hand, are we changing our policy so that the Fund may be giving a loan of dollars against paper currency (rather than secured by gold or silver) as collateral, provided the borrowing government and central bank individually and collectively guarantee repayment?



July 24, 1940

Secretary Hergenthan

Mr. Cochran.

STRICTLY CONFIDENTIAL

There is attached a cablegram to Mr. White, setting forth your answer as given to me by Mrs. Klots.

Does the answer cover adequately the question as to whether you would give a loan of gold and dollars from the United States out of the Stabilization Fund using as collateral the currency of the other country?

Have we made any commitment to Congress which would oblige the Treasury to seek the approval of Congress before giving a loan of gold from the Fund to a foreign state or central bank?

On the other hand, are we changing our policy so that the Fund may be giving a loan of dollars against paper currency (rather than secured by gold or silver) as collateral, provided the borrowing government and central bank individually and collectively guarantee repayment?



July 24, 1940

Mr. Felo

Mr. Cushman

With reference to your note of July 24, transmitting a paraphrase of the cablegram received from the American Delegation at Havana, the Secretary of the Treasury desires that the following cablegram be sent:

American Delegation,
American Embassy,
Havana, Cuba.

For White from the Secretary of the Treasury.

Reference your No. 3, July 23, 6 p.m. I am willing to go along provided the Government and Central Bank of each particular country would guarantee individually and collectively the gold loan."



July 24, 1940
5:30 p.m.

Jesse
Jones: How are you?

H.M.Jr: Oh, I'm fine.

J: I've got a telegram here -- I suppose you must have had one -- from the Little Rock Clearing House Association.

H.M.Jr: What kind of clearing house?

J: The Little Rock, Arkansas.

H.M.Jr: No, I haven't got it?

J: May I read it to you?

H.M.Jr: Please.

J: It just came to me. It's a wire.
"I have just heard that the 1940 cotton loans in our territory are to be transferred to Memphis Federal Reserve Bank for handling instead of the Little Rock Federal Reserve Bank as heretofore. This will be great inconvenience to farmers, merchants, cotton buyers and bankers in the Little Rock territory and will tend to further depress our local cotton markets."

H.M.Jr: Well, Jesse, you're calling up the wrong fellow. I'm not running for Vice President.

J: You're not.

H.M.Jr: (Laughs). No.

J: Well, where's Wallace? (Laughs).

H.M.Jr: (Laughs).

J: See, I'm out of the race now.

H.M.Jr: Well, I think Wallace is playing tennis in Des Moines, Iowa, or throwing the -- what do you call the thing -- boomerang.

- 2 -

J: Yeah, boomerang is right.

H.M.Jr: (Laughs).

J: I showed Henry that -- talking about that proposed increase in the bank -- I showed him that proposed legislation and he wouldn't discuss it. This was after he was nominated.

H.M.Jr: I see. Well, Jesse, to be serious for a moment, if you'll send the thing over to me I'll be glad to look into it.

J: O. K. I will because the fellows are -- I'll be glad to send it over.

H.M.Jr: Thank you, Jesse.

J: Everything all right with you?

H.M.Jr: Everything's fine. I hope to see you soon.

J: Fine.

PARAPHRASE OF TELEGRAM SENT

TO: American Delegation, Habana, Cuba

DATE: July 24, 1940, 8 p.m.

NO.: 25

FOR WHITE FROM SECRETARY MORGENTHAU.

I refer to your telegram of July 23, 6 p.m.,
no. 9 from the Delegation.

Provided the Government and Central Bank of each
country concerned would guarantee individually and
collectively the gold loan, I am willing to go along.

WELLES

Acting

EA:HF:MSG

EA:LWW

JT

PLAIN

LONDON

Dated July 24, 1940

Rec'd 2:30 p.m.

Secretary of State,
Washington.

2377, July 24.

FOR TREASURY FROM BUTTERWORTH.

The only editorial in this morning's press which may be said to express approval of the budget is that in the FINANCIAL TIMES; In general the budget has not been well received, the criticism being that it does not go far enough either in providing a suitable proportion of expenditure from current taxation or in curtailing consumption spending. Every writer stresses the interim character of the budget, the DAILY MAIL excusing the Chancellor of the Exchequer on the grounds that he has been too short a time in office to prepare a war budget on a new basis, while the FINANCIAL NEWS asks, if only £126 million of the £800 million increase in the expenditure estimate since April is to be raised by taxation and confidence is placed in the hope that the great bulk of the gap will be filled by voluntary savings supplemented by

JT -2- No. 2377, July 24, from London

by drafts on gold reserves and the use of other assets, why was this supplementary budget made at all? THE TIMES, THE TELEGRAPH, THE FINANCIAL NEWS and THE MANCHESTER GUARDIAN all pay tribute to the Chancellor's excellent statement of the general problem which he gave in the opening part of his speech, the MANCHESTER GUARDIAN characterizing it as whole-heartedly commendable and saying: "Mr. Keynes and the many others who have been trying to drive the unpalatable facts into the heads of politicians have not agitated in vain. The crux of the economic problem, as Sir Kingsley said, is that we have a larger and increasing total of money incomes and a smaller and diminishing supply of consumable goods. Behind this fundamentally dangerous situation lies the possibility of a quickly developing inflationary movement with wages and prices chasing one another upwards. To permit this, as he said, might well be fatal to the successful prosecution of the war and certainly a source of hardship and suffering, more particularly to the poorer sections of the community." But all agree that the measures proposed in the budget are inadequate to combat the situation, the FINANCIAL NEWS puts it: "In fact there is only too good reason to conclude that if this is all the Treasury can do by way of emergency financing we shall certainly have inflation by the front door." The MANCHESTER GUARDIAN says

-3- #2377, July 24, from London

says: "If this budget represents the maximum burden that can be laid upon incomes then the freedom to spend incomes must be restricted by direct legislative interference. It is not enough to restrict the supply of goods either by consumer rationing or by trade rationing. There must also be a direct restriction of spending power if some sort of balance is to be maintained." The TIMES points out that: "From the point of view of preventing a continuation and acceleration of the rise in the general level of prices which has already begun it is quite inadequate. For it leaves by far the greater fraction of the extra incomes and extra wages which will be the counterpart of the increased excess of exchequer disbursements over receipts in the current year to be spent on a diminishing quantity of goods. This is to invite inflation, unless far more drastic steps are contemplated outside the budget as such in order to divert the moneys back to the exchequer." Another specific criticism is made by the DAILY MAIL which predicts that there will be a great rush to purchase goods liable to be subject to the purchase tax, especially as this tax will not be operative until some unannounced date in the next month or two. Regarding the decision to make compulsory a system now working on a limited voluntary basis of income tax deductions at the source from monthly salaries and weekly

WAGES,

-4- #2377, July 24, from London

wages, the MANCHESTER GUARDIAN rightly points out that: "A very large number of income earners have lately come into the income tax range who for administrative reasons have been difficult to catch." It is generally admitted that the deduction at source will also help to prevent some consumption spending. This is the one feature which meets with universal approval in a budget generally characterized by such adjectives as, timid, tinkering, make-shift, stop-gap and inadequate. The TIMES editorial, for example, concludes: "Its figures were necessarily provisional; its proposals were provisionally humdrum; and there is good augury for the future in the fact that the audience were clearly ready to applaud something much more imaginative and drastic."

KENNEDY

WWO

ATP

GRAY

BERLIN

Dat'd July 24, 1940

Rec'd 8:50 p.m.

Secretary of State,
Washington

3134, July 24, 2 p.m.

My 2644, July 5, 9 p.m.

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

Today's press carries a statement of the short term debt of the Reich on May 31. No statement of long term debt has been issued since the one for March 31 so that it is still impossible to get a complete picture of the Reich's borrowing since that time.

On May 31 the short term debt of the Reich (including tax certificates) was 25,345,000,000 marks as compared with 22,674,000,000 marks a month before. The increase during May for short term debt alone was thus 2,671,000,000 marks, which is well above the previous record for monthly increase in both long and short term debt of 2,483,000,000 marks which was reached in October of last year. It seems probable that there was also a fairly large increase in long term debt during May since it is known that 4 per cent Treasury certificates continued to be sold up to middle of the month. If sales were at

the

-2- 3134, July 24, 3 p.m. from Berlin

the same rate as in March, roughly 500,000,000 marks of these bonds should have been issued during May and in addition li-loans were presumably also taken up by the savings banks and insurance companies. It seems almost certain that the total increase in debt during May was above, perhaps well above, 3,000,000,000 marks, which would not be astonishing in view of the military operations in that month.

The amount of Treasury bills and certificates outstanding increased during May by 26,078,000,000 marks to 20,872,000,000 marks. The amount borrowed against the Reich's operating credit at the Reichsbank decreased by 258,000,000 marks to 250,000,000 marks. "Other short term loan", however, which had been negligible in the past, increased by 347,000,000 marks during May to 351,000,000 marks. Exactly what type of loans these maybe is not known. The amount of tax certificates outstanding decreased during May by 96,000,000 marks. (considerably less than in previous months) to 37,022,000,000 marks.

KIRK

TFV
WWC

JR

PLAIN

London

Dated July 24, 1940

Rec'd 2:50 p.m.

Secretary of State,
Washington.

2378, July 24.

FOR TREASURY FROM BUTTE NORTH.

The Commercial and Agricultural Attaches would appreciate it if their departments could have made available to them the contents of the penultimate paragraph of my 2353, July 23, together with the following details: Budget customs excise increases effective July 24. BEER customs increase 16 shillings per barrel 36 gallons new full rate five pounds one shilling five pence plus three shillings (instead of two shilling six pence) additional for each degree over 1027. Same increases excise. Tax now four pounds one shilling plus some gravity charge. Increases equivalent one penny per pint retail. Light wines increase 2 shillings per gallon to 8 shillings, heavy wines 4 shillings gallon to 16 shillings. No change in additional rates on sparkling wine and bottled still wine. Excise increase 2 shillings gallon all wines. Tobacco increase 2 shillings pound all categories both customs excise. Full customs rate now on unmanufactured
(10 per cent

-2- #2378, July 24, from London.

(10 per cent or more moisture) unstripped 19 shillings 6 pence, stripped 19 shillings 6 pence halfpenny. (below 10 per cent) 1 shilling higher. Cigars 1 pound 8 shillings and 1 penny. Cigarettes 1 pound 4 shillings 7 pence. Preferential customs rates increased in all cases by same amount as full rates. Customs excise drawbacks raised by same amounts as duties. Entertainment tax increased on sliding scale effective October 6. Full details and effective date new purchase tax not yet announced.

KENNEDY

WSB

MP

PLAIN

Shanghai via N.R.

Dated July 24, 1940

Rec'd. 4:52 a. m., 25th

Secretary of State,
Washington

685, Twenty-fourth.

FROM COMMERCIAL ATTACHE.

Special Financial. Under instructions from Ministry Finance of Nanking regime, Shanghai customs on July twentieth began collecting import duties in terms of gold units on a new basis. Director of Customs Administration, Ministry Finance of Nanking regime made statement July 21st paraphrased as follows: since gold unit for collection of customs duties has been based on official stabilization rate of Fapi or Chinese yuan at fourteen one half pence customs has sustained heavy losses as open market rate of fapi now only around four pence, furthermore since gold unit has been hitherto based on London nominal price of gold which is lower than New York price, an additional loss has been sustained in revenues. Instead of collecting customs revenue in terms of gold units at open market rate for Fapi thus causing local importers to be heavily burdened, authorities

MP -2- #685, July 24 from Shanghai

authorities are now merely changing the basis for gold unit to New York price of gold to protect to some extent collections of customs revenues at Shanghai. It is hoped that Shanghai merchants will appreciate official efforts. End paraphrase.

(END OF SECTION ONE)

BUTRICK

EMB

MF

PLAIN

Shanghai via N.R.

Dated July 24, 1940

Rec'd. 4:55 a. m., 25th

Secretary of State,
Washington

685, Twenty fourth. (SECTION TWO)

Formerly as calculated daily by the Central Bank of China, Shanghai, the gold unit for duty payment purposes was based on the London price of standard gold of one six eight shillings per troy ounce at Chinese Government's basic stabilization rate of fourteen one half pence to the yuan without reference to the free sterling rate thus arriving at yuan two point seven naught seven as the equivalent of the gold unit. However, Shanghai customs since September first last year has collected the duties on an arbitrarily set rate of Huahsing yuan two point seven naught eight (repeat eight) to the gold unit. On the new basis effective July twentieth the New York price of United States dollars three five per troy ounce of gold and the closing free sterling rate in New York of the previous day are used for determining the day's Huahsing currency equivalent of the gold unit for duty payment

MP -2- #685, July 24, from Shanghai

payment purposes. Formula now used by Shanghai customs to determine yuan equivalent of gold unit for duty payments as follows, rates for July twenty-second used: New York price gold per troy ounce United States dollars three five divided by New York free sterling rate of previous business day Saturday July twenty but arbitrarily raised one cent to United States dollars three point nine one equals pounds eight point nine five one three three four.

(END OF SECTION TWO).

BUTRICK

EMB

JT

PLAIN

SHANGHAI VIA N.R.

Dated July 24, 1940

Rec'd 9:35 p.m.

Secretary of State,
Washington.

685, twenty-fourth. (SECTION THREE)

which is the equivalent price in free sterling per troy ounce and is equal to two one four eight point three two pence. This figure multiplied by a constant of point naught one nine three five (which represents the gold unit in terms of troy ounces with adjustment for fineness) gives four one point five seven pence as the free sterling equivalent of the gold unit. There is now arbitrarily added a farthing as commission, shipping and other charges making the equivalent four one point eight two pence per gold unit. This is divided by fourteen one half pence (official basic stabilization rate of Chinese yuan but not the stabilization rate for Hua Hsing yuan which is arbitrarily set at six pence) to convert into Chinese national yuan two point eight eight four three per gold unit but arbitrarily this figure is considered to represent the Hua Hsing currency equivalent of the gold unit hence must be multiplied by one point sixty to arrive

at

-2- No. 685, July 24, (SEC THREE) from Shanghai

at yuan four point six one five which was the duty paying equivalent to gold unit in terms of Chinese yuan on July twenty-second (Hua Hsing notes being at a premium of sixty per cent over yuan representing difference between these arbitrary values of six pence and the open market rate of the day for yuan

(END SECTION THREE)

BUTRICK

NPL

JT

PLAIN

SHANGHAI VIA N.R.

Dated July 24, 1940

Rec'd 3:45 p.m.

Secretary of State,
Washington.

685, twenty-fourth, (SECTION FOUR).

At three and thirteen sixteenths pence which actually represents only fifty five per cent premium of Hua Hsing over yuan at latter's equivalent value of the day at foregoing rate but is arbitrarily charged at sixty per cent premium). Application of the new basis to United States dollars invoices at rates and calculations of July twenty-second indicate duty payment in terms of Hua Hsing of Chinese national currency six and half per cent greater than on July nineteenth on former basis. Comments will follow separately. Inform Treasury and Commerce reference to latter's inquiry of April first, written details to follow.

(END MESSAGE)

BUTRICK

NPL

AS

GRAY

Riga

Dated July 24, 1940

Rec'd 1 p.m.

Secretary of State,
Washington.

224, July 24, 6 p.m.

Nationalization of banks has now been put into
effect.

WILEY

WSB

TO THE SECRETARY OF STATE
FROM THE SECRETARY OF STATE
JULY 24 1940
RECEIVED

CABLE

FROM: Treasury Attache Nicholson,
Shanghai, China.

DATE: July 24, 1940

For the Secretary of the Treasury.

Shanghai market July 23 closed quiet at 3-57/64
for cash and July 3-7/8 for August for sterling. 6-1/8
for cash and July 6-1/16 for August for U.S. dollars gold bars
closed at 5270 and wei wah at discount of 4.60%.

NICHOLSON

TO THE RECEIVING
TELETYPE UNIT
OFFICE OF THE

DO NOT WRITE IN

RECEIVED

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

From Mr. McKoon in the Federal Reserve Bank yesterday I learned that the Lazard transaction concerning which Pinsent spoke to us was made the basis of application for license No. 28113. From the Treasury's records it develops that Lazard Freres in New York received on July 16 a cablegram from Lazard Freres in France which is believed to have been despatched on June 12 ordering a payment of \$550,000 to the Bank of Manhattan. The Federal asked for more information on this application and was informed that it was anticipated that payments out of the account with the Bank of Manhattan would be requested by Lazard Freres.

Since the Treasury has not yet acted upon this application, Mr. Pable has agreed to request the Federal Reserve Bank at New York to obtain more information as to the contemplated withdrawals from the account. I have this forenoon advised Mr. Pinsent of the status of this application. He thanked us for the information and assumes that the sum if transferred will be held in a blocked account, and that we will carefully scrutinize applications for withdrawals therefrom.



July 24, 1940

Under Secretary Bell

STRICTLY CONFIDENTIAL

Mr. Cochran

Reference is made to my memorandum dated yesterday in which I reported a conversation by telephone with Mr. Edward Shepard, Vice President of the National City Bank of New York.

At 11:00 this morning Mr. Shepard telephoned me and I took down the following cablegram which he had just received from the Manager of the French affiliate of the National City:

"To National City, New York,
From National City, Legay.

We can make payments in francs in free zone and with delays in certain occupied parts including Paris and Bordeaux if you can furnish immediate cover Step Bank of France willing to buy dollars 43.70 and to remit francs only upon receipt advice by cable Federal Reserve Bank that dollars have been received for their account Step. Consequently you can procure francs by selling dollars direct to the Bank of France at present Chatel Guyon."

I told Mr. Shepard that I had taken up with our Group yesterday the question that faces the National City if it is to reopen in Paris. I promised Mr. Shepard that I would press for a decision which would permit the National City in New York to cable a reply to Mr. Pearce. Mr. Shepard made it plain that it will not be able for the Paris bank to operate unless it may be possible for the New York bank to provide it with dollars with which francs can be obtained from the Bank of France. I told Shepard that we had considered the advisability of having the Federal Reserve Bank at New York having a joint meeting of representatives of the banks in that city which have their own organizations in France, and that he may hear from the Federal on this point. I promised, however, to see what I could do here in the meantime.

In the meeting yesterday I made the point that cablegrams from Matthews indicate that the German Government has requested banking institutions in France, including American banks there established, to reopen for business. Unless the National City has funds to carry out its operations, it is obviously impossible for it to function. I also added that the American banks operating in Paris own valuable real estate which might conceivably be confiscated if they fail to comply with German requests for reopening. We thus face in making our decision the question as to how best to protect American interests established abroad. Mr. Shepard said he would have to wait to hear from us before he can reply to Mr. Pearce.

- 2 -

Mr. Shepard again reminded me of the pressing requests which their bank has for licenses to permit remittances to friends and relatives in Europe. I told him this question was receiving our urgent attention and that a decision could be expected soon.

JMP

July 24, 1940

Under Secretary Hall

Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the decision taken at our Group Meeting yesterday afternoon, I telephoned Mr. Vincent this morning that the Mr. Linden referred to in his message of July 20 should have applications for licenses made through the banks in New York with which he carries his funds, and that the Treasury would act favorably thereon to expedite his sale of \$1,000,000 to the United States Exchange Control.



HSG:lag-7/24/40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The volume of business in both registered and open market sterling was increased today.

Transactions of the six reporting banks in registered sterling were as follows:

- | | |
|---|----------|
| 1. Purchased from the Federal Reserve Bank of New York..... | £185,000 |
| Purchased directly from authorized banks in London..... | £ 8,000 |
| Total purchased..... | £193,000 |
| 2. Sold directly to authorized banks in London..... | £ 6,000 |

Of the above-mentioned purchases, £175,000 were bought by the banks for their commercial customers; most of the remaining £20,000 appears to have been used to increase registered account balances in London.

The Federal Reserve Bank of New York also stated that £28,000 in registered sterling was purchased from it by J. P. Morgan & Co., to be used in payment for whisky shipments.

The rate for open market sterling advanced from 3.81 at the opening to a high of 3.88 in the mid-afternoon. It closed at 3.86. Today's reported turnover was the largest since the institution, on July 18, of dealings in registered sterling.

Sales of spot sterling in the open market totaled £102,000, from the following sources:

By commercial concerns.....	£ 62,000
By foreign banks (Far East).....	£ 40,000
Total.....	£102,000

Purchases of spot sterling amounted to £103,000, as indicated below:

By commercial concerns.....	£ 63,000
By foreign banks (Europe).....	£ 40,000
Total.....	£103,000

It was also reported that the New York agencies of Japanese banks were fair buyers of open market sterling this morning.

- 2 -

The other currencies closed as follows:

Swiss franc	.2273
Canadian dollar	11-5/8% discount
Lira	.0505
Reichsmark	.4005
Cuban peso	9-15/16% discount
Mexican peso	.2010 bid, .2030 offered

We sold \$1,000,000 in gold to the Central Reserve Bank of Peru, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the following gold shipments were consigned to it:

\$ 5,291,000 from England, shipped by the Bank of England, to be earmarked for account of His Britannic Majesty's Government.
 3,840,000 from Canada, shipped by the Bank of Canada for its own account, for sale to the U. S. Assay Office.
\$12,131,000 Total

The State Department forwarded a cable to us stating that Johnson Matthey, London, shipped \$90,000 in gold from England to the National City Bank, New York, for sale to the U. S. Assay Office.

The Bombay gold price was slightly lower at the equivalent of \$33.75.

Spot silver in Bombay was equivalent to 44.06¢, up 1/16¢.

In London, spot silver was fixed 1/16d lower at 22-3/8d, and the forward price was unchanged at 22-1/16d. The U. S. equivalents were 40.68¢ and 40.11¢ 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 135,000 ounces under the Silver Purchase Act. Of this amount, 35,000 ounces represented a sale from inventory, and the remaining 100,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

W. M. S.

Copy of Letter from B, Mexico City, July 24, 1940.

In politics, things seem to have quieted down considerably, and after all the election excitement has blown over people seem to be glad of this calmness, which does not necessarily mean that things are definitely settled. As a matter of fact, no one knows what the future will bring. While the P.R.M. emphatically declares that they have won the elections, and that Congress will be theirs, and that Avila Camacho will be the next President, the P.R.U.N. (Almazan's Party) insinuates that there will be an Almazanista Congress, and that Almazan will take office as President. And in addition there are dozens of different rumors, some talking about a possible transaction, or some sort of an understanding between the two candidates; others claiming that Almazan will not admit defeat; others that Almazan will not undertake anything, but that some of his followers will. In short, the political picture is quite obscure and confused, and it is quite impossible to predict what will happen. What is a fact, however, is that Gen. Almazan has gone to Havana, obviously for the purpose of taking a rest. Some people believe that Almazan's presence in Havana at this time is his desire to contact certain statesmen of this hemisphere, which does not sound very plausible to us. Wishful thinking makes us hope that the storm will blow over without serious trouble, because we are convinced that any revolution or uprising will not solve Mexico's problems, but would rather complicate them, exposing the country to an intervention from the outside. The one party that has lost lot of prestige of late is labor leader #1, Lic. Lozano Toledano, who has been very severely attacked and criticized, and whose star seems to be definitely declining (of which we would be awfully glad.)

The Havana conference is receiving considerable attention in the local press. Opinions are divided, some hoping that practical results may be achieved; others believing that this cannot be done, due to the complexity of economic conditions in this hemisphere and abroad.

The impending and most necessary reorganizations of the Railroads (Workmen's administration) and the Oil Industry (Government administration) continue to be in the limelight, but apparently all efforts by the Government have achieved nothing up to now, mainly due to the Union's stubborn opposition to admit any readjustments in men and wages, without which the reorganization cannot be carried out. The Railroad Unions in particular will not listen to any proposition entailing the aforementioned readjustments. They see the only salvation of the Railways in heavy increases of tariffs, mentioning in their demands particularly the Mining Industry, on which they would like to double and triple tariffs. So far the Government has held a different view in the matter, and we hope that it will thus continue, although there is of course no assurance in this respect. The President is pleading with Oil and R.R. workers Unions to accept his projects for reorganization, which entail sacrifices on part of the workmen. So, we are finally harvesting the results of the agitation of many years.

There is no change in the status of the Cananea strike, and no indications that there will be in the near future. There has, however,

-2-

been a change in the status of the Matehuala conflict of the A.S. & R. Co. That Company has finally suspended payment of wages to the non working men of that plant. If we recall correctly, the Smelting Company had been paying full wages for eight months at Matehuala, and while the plant could not be operated for lack of raw materials. The Union refused shut down or readjustment in spite of the provisions of the Labor Law which should have been enforced. The Smelting Company pleaded with the Labor Department, the Secretary of Economy, the Treasury Department, and finally with the President, receiving promises everywhere but no results. After thus having exhausted all means for a peaceful and legal settlement, they have now suspended payment of wages, which will force a showdown, the outcome of which will be most interesting. What the Union wants is a smelting plant of their own. Will they now get one? These are their dreams to make them independent from custom smelters for treatment of Cooperativas productions. And talking about Cooperativas, most of them seem to be in very difficult conditions, as has been disclosed at the Union's Grand Convention which is taking place in this city at present.

The Exchange has stayed close to 4.95 for the period under review, and there are no indications that it will vary much from this figure in the near future.

CONFIDENTIAL

July 25, 1940

To: The Secretary

From: Mr. Young

Re: Packard

I talked with Mr. Purvis on the telephone at 10:10 A.M. in an effort to clarify his letter to you of last night. According to Mr. Purvis, the original arrangement provided for \$22,000,000 for working capital, \$6,000,000 for tools, and \$20,000,000 for plant cost. Under the original complementary arrangement, the United Kingdom was to pay two-thirds and the United States one-third of each item.

The present controversy centers on the \$20,000,000 for plant cost. Under the old arrangement, the RFC was to put up the money and the United Kingdom was to pay its proportion, \$13,600,000.00, pro rata on the unit price.

Mr. Knudsen advised Mr. Purvis last night that in accordance with a legal opinion (which Mr. Knudsen said Secretary Morgenthau knew all about) the RFC could not put up the money, except on a fifty-fifty basis, or less, for the British. Mr. Knudsen added, however, that the legal difficulty (?) could be eliminated if the United Kingdom made a \$10,000,000 down payment on plant cost and then apportioned the remaining \$3,600,000 of its share pro rata on the unit price. Thus, the United Kingdom does not pay any more money, but it does pay by far the largest part of its proportion of plant cost at the beginning.

Mr. Purvis takes the stand that, although an initial \$10,000,000 down payment on plant cost is not important in itself, it is important as establishing a precedent which will make impossible other complementary programs between the United Kingdom and the United States. Mr. Purvis comes to you with this because he stated that you had made the original arrangement for the working out of a complementary program and had deemed it to be, not only of great importance, but also a great advance beneficial both to the United States as well as the United Kingdom.

P.Y.

BRITISH EMBASSY,
WASHINGTON, D. C.

July 25th, 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. Stimson

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 24th.

176

1. Force of eight enemy destroyers and six merchant vessels reported by our aircraft 22.00 hours July 23rd off southwest Norway, course northwest 10 knots. Fifteen aircraft of Fleet air arm left to attack between 23.30 hours and midnight. One Swordfish registered hit on enemy destroyer with torpedo, other machines failed to locate enemy. One of a force of our M.T.B.s operating off French coast engaged six enemy E-boats early this morning.

2. During night of 22nd - 23rd heavier scale attacks against Gelsenkirchen oil plant, Paderborn air depot and Bremen air factory all observed very satisfactory.

Yesterday, attacks by Blenheims were hampered by bad weather and inconclusive.

Last night, one hundred aircraft despatched as follows. Three Blenheims to aerodrome at Amsterdam, eleven Blenheims to aerodromes in Germany, thirty Wellingtons to aircraft factory at Gotha and oil plant at Gelsenkirchen, twenty-four Whitleys to aircraft factory Kassel, marshalling yards at Osnabruck and Oldenburg, and oil refinery at Hamburg,
fourteen/

fourteen Hampdens aircraft factory 177
Wensendorf, three Wellingtons and three
Whitleys leaflet dropping in northern France
six Blenheims barges at Amsterdam, six
Swordfish minelaying in the Scheldt off
Terschelling Gat and off Texel.

One Messerschmidt 110 shot down
by Wellingtons on the way out. One Blenheim
missing.

3. Full reports indicate enemy bombing
activity night of 22nd-23rd almost entirely
confined to coastal districts as follows.
Firth of Forth, Humber to the Wash, Thames
Estuary, South Wales coast. No serious damage,
only ten minor casualties.

Yesterday morning two small enemy
formations attempted to penetrate; one crossing
the coast near Shoreham as far as Kenley, other
approached to within a few miles of North
Foreland; both turned back on seeing our fighter
squadron patrols. Only bombs dropped were in
Chatham and Worthing districts, no damage or
casualties reported.

Last night enemy activity was on a
reduced scale, almost entirely confined to
coastal flights, probably minelaying; chief
attention paid to east coast from Dover to
the Tyne and the Forth Estuary.

Soon after midnight, a smoke screen
about 100 yards long and 30 feet high
reported off Dover by Observer Corps. 40/

4. Summary of air operations

Night of July 23rd

Enemy: Confirmed - 1 bomber (Kinnaird Head)
1 flying boat

Unconfirmed - 1 bomber (Great
Yarmouth)

Our own: Nil

Night July 23rd - 24th

Enemy: 1 Messerschmidt 110 confirmed,
1 Heinkel 111 confirmed.

Our own: 1 Blenheim missing

Total - Enemy 4. Our Own 1.

5. No attacks on shipping reported during period covered by summary; but enemy aircraft attacked 4 mine-sweeping trawlers Thames Estuary and caused some damage.

6. Egypt. During the night of the 21st - 22nd and on the 22nd, Blenheims attacked El Gubbi aerodrome, where fires were started and three bombs fell among enemy aircraft; and Tobruk harbour, where direct hits were obtained on submarine jetty.

Same night, enemy aircraft bombed Sidi Barrani, Merse Matruh, Akasaba and Fuka; no damage. On the 22nd, ten enemy bombers attacked troops Hamra; no important damage.

Maria /

Malta. Yesterday one Sunderland aircraft attacked three merchant vessels and three tankers in convoy with one destroyer off Cape Spartivento. Direct hits observed on two merchant vessels and convoy dispersed.

Sudan. Successful attacks made on aerodromes Asmara and Umm 21st and 22nd.

Kenya. Aircraft of S.A.A.F. on the 20th and 21st bombed 5 gun emplacements and 50 camels north of Husea and native troops at Derkali and motor transport on Takaaba-Buna road.

Indications point that enemy's entire Italian air forces in Italian East Africa are concentrated in northern Eritrea opposite Aden and the Sudan and in eastern Abyssinia opposite British Somaliland, leaving southern Abyssinia and Italian Somaliland completely undefended by fighter aircraft. These dispositions evidently rendered necessary by constant R.A.F. raids on Italian aerodromes in northern Eritrea and eastern Abyssinia.

JUL 25 1940

My dear Mr. President:

As you may recall, last December a question was raised as to the possibility of a promotion of \$500 for John H. Flynn, brother of Ed Flynn. On taking the matter up with the United States Housing Authority, where John Flynn is employed as a Land Appraiser, it developed that it would not be legally possible to make the promotion prior to July 1, 1940.

I am now advised that Mr. Flynn was promoted on July 23 from \$3800 to \$4600 a year - an increase of \$800.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

ENT:ams

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Business in registered sterling was small today with only three of the six reporting banks effecting transactions:

- | | |
|---|---------|
| 1. Purchased from the Federal Reserve Bank of New York..... | £25,000 |
| Purchased directly from authorized banks in London..... | £ 8,000 |
| Total purchased..... | £33,000 |
| | |
| 2. Sold directly to authorized banks in London..... | £ 1,000 |

All of the above-mentioned purchases were bought by the banks for their customers.

The Federal Reserve Bank of New York also stated that £1,000 in registered sterling was purchased from it by a non-reporting bank.

In the open market, sterling advanced from 3.86 at the opening to 3.88-3/4 in the mid-morning. It subsequently declined, however, and closed at 3.85-1/2, slightly lower than last night's final quotation. The reporting banks executed orders to sell £100,000, of which £70,000 were for account of a Far Eastern bank and £30,000 for commercial concerns. Orders to purchase £47,000, all for commercial concerns, were also executed.

It appears that a large part of the sales and purchases of open market sterling made by commercial concerns in the past week represent the reversal of forward delivery contracts made prior to June 8 as hedges against the expected shipment of goods. Such reversals are probably occasioned by the fact that open market sterling (1) can no longer be used to pay for imports from the sterling area, and (2) is no longer received in payment for exports to that area.

The banks have also been reporting foreign bank orders to sell sterling, such as the £70,000 order executed today. Since the sterling area accounts of American institutions can no longer be credited with open market sterling received from foreigners, inquiry was made regarding the circumstances of recent foreign bank sales. We learned that sterling was purchased some time ago, for forward delivery, by foreign banks, and that now the latter, instead of accepting the sterling, were ordering the contract cancelled (in effect, re-selling the sterling to the New York banks). These cancellations are reported as sales by foreign banks, even though the sterling involved has not left the New York banks' accounts.

The Canadian dollar, which has been quoted in the neighborhood of 11-1/2% discount during the past few days, weakened in a thin market today to 12-5/8% at the close.

The other currencies closed as follows:

Swiss franc	.2273
Lira	.0505
Reichsmark	.4004
Cuban peso	9-15/16% discount
Mexican peso	.2018 bid, .2040 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the following gold shipments were consigned to it:

\$ 8,240,000 from Canada, shipped by the Bank of Canada for its own account, for sale to the U.S. Assay Office.

From England, shipped by the Bank of England:

3,101,000 for account of the Royal Norwegian Government, disposition unknown.
 2,510,000 to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.
 2,060,000 to be earmarked for account of the Swiss National Bank.
 1,298,000 for account of the Bank of Greece, disposition unknown.
 1,066,000 for account of the Bank of Portugal, disposition unknown.
 394,000 to be earmarked for account of the Bank of Finland.
\$18,669,000 Total

The State Department forwarded to us a cable stating that the following shipments of gold would be made from Sweden:

\$ 2,262,000 representing two shipments by the Bank of Sweden for its own account to the Federal Reserve Bank of New York, disposition unknown.
 335,000 shipped by the Bolidens Gruvaktiebolag to the New York Trust Company, New York, for sale to the U.S. Assay Office.
\$ 2,597,000 Total

The Bombay gold price was equivalent to \$33.72, off 3¢.

Spot silver in Bombay was unchanged at the equivalent of 44.06¢.

In London, the price fixed for spot silver moved off 3/16d to 22-3/16d. The forward price was 1/16d lower at 22d. The U.S. equivalents were 40.34¢ and 40.00¢ respectively.

CONFIDENTIAL

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

We made four purchases of silver totaling 350,000 ounces under the Silver Purchase Act. Of this amount, 275,000 ounces represented sales from inventory, and the remaining 75,000 ounces consisted of new production from foreign countries, for forward delivery.

The Federal Reserve Bank of New York, under authorization by the Treasury, transferred \$776,318 and gold valued at \$2,246,202 from the account of the Bank of France to the account of the Bank of Poland. The gold, which was originally held under earmark for account of the Bank of Poland, was transferred to an account in the name of the Bank of France last December.

A handwritten signature in dark ink, appearing to be 'B.M.P.', is centered on the page below the main text.

CONFIDENTIAL

July 22, 1940.

Dear Mr. Keeshin:

Your letter of July 23rd, which encloses a copy of one you have received from Mr. Van Fatter, has reached the Secretary's office, and we are very glad to have it. I want to thank you on Mr. Norgenthan's behalf for sending this to him, and I can assure you that it will be read with much interest.

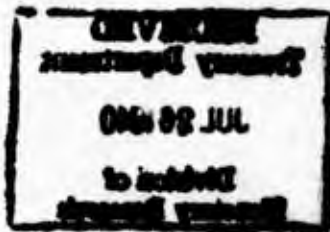
Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. J. L. Keeshin,
President, Keeshin Freight Lines, Inc.,
221 West Roosevelt Road,
Chicago, Illinois.

GHT/dbs



July 28, 1940.

Dear Mr. Keeshin:

Your letter of July 24th, which encloses a copy of one you have received from Mr. Van Patten, has reached the Secretary's office, and we are very glad to have it. I want to thank you on Mr. Mergenthan's behalf for sending this to him, and I can assure you that it will be read with much interest.

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Private Secretary.

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President, Keeshin Freight Lines, Inc.,
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Chicago, Illinois.

GHF/abs

KEESHIN FREIGHT LINES, INC.

J. L. KEESHIN
PRESIDENT

221 WEST ROOSEVELT ROAD
CHICAGO

July 23, 1940

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

My dear Mr. Secretary:

Enclose herewith copy of
another letter received from C. W. Van Patter,
from Kweiyang, China written under date of June
25, 1940.

Kindest regards-

Very truly yours,

J. L. Keeshin
J. L. Keeshin

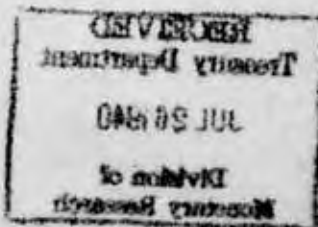
JLK:LR
Enc.

OFFICE
SECRETARY OF TREASURY

1940 JUL 25 AM 9 00

9:40

TREASURY DEPARTMENT



COPY

June 25, 1940
Kweiyang, China

Mr. J. L. Keeshin
221 W. Roosevelt Road
Chicago, Illinois

Dear Mr. Keeshin:

The date of our return to America is drawing near but I will get one more letter through to you before that time arrives. I have been in Kweiyang since I last wrote to you and expect to return to Chungking near the fifteenth of July. We plan to leave Chungking either the last of July or early in August providing the states have not declared war on Japan previous to that time.

The Japanese bombs are still dropping on Chungking and considerable damage has been inflicted on the schools, universities and residential districts. New Villa #6 has been demolished since I departed from Chungking but very fortunately Andy was in the dugout both days that it was bombed. I was unduly worried for a few days as the telephone communications were severed between there and Kweiyang, making it impossible to receive any authentic news, however, I now know that he has escaped without injury. It is quite apparent that the enemy still has some unfinished business so I believe the air raids will continue for another two weeks. Many people have been killed and wounded in each of these daily raids.

Business is going on as usual here in Kweiyang, but I am afraid the gasoline shortage is going to cause many hardships pertaining to the imports and exports of wood oils, I express this opinion in view of information that we have very recently received from Indo China, stating that they would be unable to permit any more commodities to pass thru the two seaports of Haiphong or Saigon. If some agreement more favorable to China is not reached, the situation here is going to become very serious, particularly so if the states hesitate to exert extreme pressure on Japan. Also there is a remote possibility that they may attack Hongkong.

The Szechuen Kweiyang and Yunnan Burma routes have both had traffic interruptions due to landslides, however, the Szechuen highway slide was only a small affair and is now open to through traffic but the Burma route is still closed at this writing. Of course, we are now having an over abundance of rain due to this time of the year being the rainy season in China's interior.

Since arriving here in Kweiyang, I have been extremely busy endeavoring to establish in the Kweiyang maintenance and repair shops enough basic principles and reasonable efficiency to assure them a pattern to follow in effecting improvements in the other shops and garages throughout free China. Inexperience, lack of enthusiasm, and a great variation of ideas have all been difficult problems to solve. However, I feel as though we have made unusual progress and if they will only carry on after we leave China, I am sure that their unnecessary trials and tribulations will eventually come to an end. We have given them the shop procedures so commonly followed in America, with a deviated policy to properly fit Chinese conditions. If they will only proceed by inacting the knowledge that we have so painfully conveyed to them, I am certain that a reasonable transportation system will be the result of our efforts. Untold numbers of past evils have been eliminated during the previous two months and many improvements have been effected but they will have to continue with the same methods and procedures otherwise our efforts have been futilely wasted.

Mr. J. L. Keeshin

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June 25, 1940
Kweiyang, China

Only a few days ago I received a letter from Mr. Gordy, and was very pleased to hear from him. He also informed me of the good news that conditions within the company are more favorable than they have been for quite some time. It is reasonable to believe that the European situation will also have a desirable stimulating effect on business, however, even though my sympathy is strongly with the Allies, the present situation is not too favorable for their cause. In my opinion the only savior to France, is a quick attack on Germany from the Russian border and I would gather from the tone of our unauthentic news received here in Kweiyang that that is very unlikely to occur.

I am looking forward with pleasure to returning to work again in the Keeshin organization and until that time, my best wishes and kindest regards are always with you and yours.

Very sincerely yours,

(signed) Van

RECEIVED
JUN 26 1940
U.S. DEPARTMENT OF STATE

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July 25, 1940

BY HAND

For Secretary Morgenthau

from

E. R. Stettinius Jr.

OFFICE MEMORANDUM

To: Mr. W. L. Batt

Date: July 24, 1940

From: W. S. Tower

Subject: Supply of Iron and Steel Scrap

In the memorandum entitled "Iron and Steel Scrap," prepared by the Subcommittee on Regulation of Exports, and dated July 1940, the following points are made in respect to the importance of supplies of such scrap:

"(1) While pig iron and steel scrap are interchangeable within limits for steel manufacture, considerably greater tonnages of steel can be produced as the proportion of steel scrap in the furnace charge is increased, because steel scrap contains less non-ferrous impurities than pig iron. Steel production can be increased more quickly by using scrap.

"(2) To achieve maximum steel production at minimum cost, adequate scrap supplies should be available relatively near the steel plants. This minimizes cost and also bottlenecks in transportation, and in the production of coke and pig iron. The continued export of scrap in large volume operates to increase scrap prices and makes it necessary to go farther afield for supplies.

"(3) The steel industry is now much more dependent upon scrap than during the first World War."

While pig iron and steel scrap are "interchangeable within limits" for steel manufacture, the hard fact is that the steel industry could not operate at much more than 60% of capacity, if all the available blast furnaces in this country were producing only pig iron for use in steel making.

To: Mr. W. L. Batt

-2-

July 24, 1940

A substantial part of blast furnace capacity, however, must be used for making essential ferro-alloys and foundry, malleable and other grades of non-steel making pig iron.

It is evident, therefore, that "to achieve maximum steel production" of which the industry is capable would, under any circumstances, require 40% or more of the metallic charge of the steel furnace in the form of scrap.

It is sometimes urged that so-called "synthetic scrap" offers a partial solution of the problem of scrap supply. But entirely apart from the fact that relatively few steel makers have any facility for producing synthetic scrap, competent opinion in the industry is to the effect that it ceases to be a possibility when the rate of operations gets above 75% of capacity.

If it be assumed for this discussion that the effects of demand for steel in the defense program, added to all other needs, will call for a sustained rate of production at 75% to 80% of capacity, such a rate would represent an output of 5 to 5½ million net tons of steel ingots per month. For comparison, it may be noted that the current rate (week of July 22) is 88%.

Assuming also a continuation of the common practice of charging at least 50% scrap in the open hearth steel furnace, the amount of scrap required for that assumed rate of operations would be about 2.5 to 2.7 million net tons per month.

A major part of the scrap used in steel furnaces is so-called home scrap, created in the process of making and finishing steel products in the mills. But current trends indicate that the percentage of home scrap created is likely to be relatively less than in

To: Mr. W. L. Batt

-3-

July 24, 1940

the recent past, for the following reasons:

- (a) Exports of semifinished steel, like shell steel and forging billets, mean less scrap per ton of ingots represented.
- (b) The larger proportion of heavy rolled products in the total output of finished steel means relatively less scrap per ton of ingots used because of less wastage in the manufacture of such products.
- (c) At higher rates of operation there is more chance to use off-heats of steel in other ways than in remelting them in lieu of using scrap.

The expected high rate of output, therefore, does not serve to relieve the pressure on supplies of scrap.

Among steel producers who are important consumers of scrap, it is generally agreed that the minimum margin of safety in scrap supply is the equivalent of 60 days' consumption, either in yards (consumers' or suppliers') or in transit thereto.

Based on the foregoing assumptions in respect to steel production 60 days' supply of scrap would be 5 to 5½ million net tons. An analysis of the Bureau of Mines report on scrap supplies as of March 31, 1940, indicates less than 5 million tons of steel making grades of scrap as of that date in the hands of consumers and suppliers or in transit.

It seems unlikely that the report on scrap supplies as of June 30, when it becomes available, will show any important improvement in visible supplies of steel making scrap in view of (a) the

To: Mr. W. L. Batt

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July 24, 1940

rapid rise in the rate of steel output during the second quarter and (b) the continued export of substantial tonnages of scrap (April-May exports about 582,000 net tons).

Although not readily supported by specific data, the opinion is general among large scrap consumers that continued heavy exports during the past three or four years have greatly depleted the potential sources of prompt scrap.

The available information, therefore, indicates that the visible supplies of steel making grades of scrap are below the commonly accepted minimum margin of safety, for an assumed rate of steel production averaging only 75% to 80% of capacity for some considerable period. If the industry is "to achieve maximum steel production," the 60-day supply as the margin of safety would call for upwards of 6 million tons of visible supplies of steel making scrap, or 20% to 25% more than the tonnage reported as of March 31, 1940.

The attached table shows the tonnage of scrap exported in each month from January 1937 to and including May 1940. It is evident from the figures for the first five months of this year that exports were at an average rate of more than 200,000 tons per month. This tonnage includes shipments averaging about 60,000 tons per month to Italy, which shipments have since been discontinued. Tonnage figures on export shipments of scrap for June 1940 are not now available. It is felt, however, that such figures will probably show that the discontinued tonnage to Italy was almost replaced by increased shipments to United Kingdom, Canada, and other smaller countries.

Recent press reports refer to Japanese purchases of scrap, stated to total close to 300,000 tons for shipment over the next

To: Mr. W. L. Batt

-5-

July 24, 1940

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It probably is true that at a price there is theoretically a huge amount of scrap which might be made available for use in this country for steel production. But the practical fact is that depletion of the potential sources of prompt scrap and a less than adequate margin of safety in current visible supplies open the way for an actual physical shortage of scrap for the needs of maximum steel production over a sustained period.

For all these reasons appropriate steps should now be taken through regulation of the export movement of scrap to safeguard the progress of the defense program against any such possible contingency.

~~Walter S. Tower~~

W. S. Tower

Attachment
WST:jms

Table 2. - Iron and steel scrap^{1/}: United States exports by months, 1937-39 and January-May 1940

(Thousands of long tons)					
Month	1937	1938	1939 ^{2/}	1940 ^{2/}	
January	69	356	225	186	
February	143	256	223	233	
March	356	335	310	205	
April	421	307	238	219	
May	631	372	383	310	
June	515	160	397		
July	420	125	347		
August	474	107	291		
September	253	143	328		
October	184	221	335		
November	254	271	271		
December	328	321	204		
Total - 12 months	4,048	2,974	3,552		
Total - first 5 months	1,620	1,626	1,379	1,153	

^{1/} Excludes tin-plate scrap, circles, etc., waste-waste tin plate, and terne-plate clippings and scrap.

^{2/} Preliminary. 1939 total differs slightly from that shown in table 1.

Source: Compiled from official statistics of the U. S. Dept. of Commerce.

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July 24, 1940

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RE DEBT LIMIT

July 25, 1940
9:00 a.m.

Present: Mr. Foley
Mr. Gaston
Mr. Sullivan
Mr. Bell

H.M.Jr: Well, go ahead.

Bell: Okay. We have no estimate from the Budget on this latest picture because the last defense message that went up asked for two billion 61 million dollars in cash and two billion 800 million in contract authorization. That was what the Army and Navy estimated they would need under that program and the Budget can't now revise that until Congress passes on it, because if they submit a figure less than that two billion one they are afraid that Congress will cut the appropriation. Anyhow, I have made some estimates on the idea that they won't spend more than two billion dollars out of that two billion one. I figure now that the estimated receipts will be three billion 600 million.

H.M.Jr: You are going to have something in writing on this, aren't you?

Bell: Yes. The total expenditures of 11 billion 547 million, making a net deficit for the 1941 year of five billion 180 million dollars.

On the basis of the debt increase that we got under the Revenue Act of 1940, we had on July 1, five billion 781 million of borrowing power and if we run through the year to June 30, we will have left only 118 million dollars and we will have to make some shift beginning in January from the national - from the regular to the national defense in order to live within

- 2 -

the 45 billion dollar limitation on general account. That is the picture in a nutshell.

Foley: That is without any new taxes?

H.M.Jr: Without any new taxes on this program we are working on now, but it includes the taxes on the revenue bill we just signed. But you are going to have that written up?

Bell: Yes. You want it as short as possible for him to read, don't you?

H.M.Jr: Yes.

Bell: All right.

H.M.Jr: Well, that is the picture. Then on another piece of paper I would like to have something for him, Dan, along the lines we were talking earlier this morning, in which we say - you said he needed a debt limit of around 52 billion to - that you were going to kill these other bonds and do this thing on a straight financing basis.

Bell: Well, I had in mind putting it in the same memorandum, but I can put it on a separate one.

H.M.Jr: I would rather have it on two separate pieces of paper.

Bell: One is the statement of facts and the other a recommendation.

H.M.Jr: Yes. How do you arrive at the 52 billion? How long would that take us?

Bell: Well, I was just giving you some leeway over and above the 49 billion. You could get by with 50 billion in the next session.

- 3 -

H.M.Jr: What would 50 give us?

Bell: That would give us a balance on June 30 of about 50 million dollars.

H.M.Jr: I wouldn't ask for more than 50.

Gaston: You mean borrowing power balance?

Bell: Yes.

H.M.Jr: I wouldn't ask for more than 50.

Bell: It is enough as long as you are going to - if you are going to state that you are perfectly willing to come up each year and any Secretary should be willing to come up to the Congress and ask for a debt increase each year.

Sullivan: What would your balance be, Dan?

Bell: About a billion.

Sullivan: And your borrowing power would be --

Bell: About a billion also. You would have to have a debt increase in the next session.

Sullivan: That is at 50?

Bell: Yes, and then when you get in the next session you see what kind of a national defense program we are going to have for '42 and you can ask for another debt increase based on that new program.

H.M.Jr: The country has gotten kind of prepared for 50. I would say 50.

Bell: All right, that is plenty. Of course, you have got to have a debt increase before June 30, anyhow.

- 4 -

- H.M.Jr: We have had one preliminary run on this already this morning. Now, what are we going to ask the President for in the way of taxes on excess profits?
- Sullivan: Well, I can give him the reaction in the memorandum if you wish it, the reaction of the fellows up there that we have talked with, and the rates that will produce half a billion, three quarters of a billion and a billion.
- H.M.Jr: No, let's kind of instead of doing it that way, let's do it the way we are doing it with Dan. I am making a recommendation on this that we are raising the debt limit to 50, you see. These monies are to be on this year's earnings, aren't they?
- Sullivan: That is right, sir.
- H.M.Jr: I have a good filing system.
- Gaston: Have you got it for two billion?
- Sullivan: Yes.
- Gaston: One hundred percent? One hundred percent of the profits over what?
- Sullivan: Over their average profits in the base period between four and ten percent.
- H.M.Jr: Well, my own feeling I have now, I would give my recommendation to the President subject to what you fellows have to say. I would ask for 500,000 because that means 25 percent.
- Sullivan: I think that is right, sir.
- H.M.Jr: Have you seen it?

- 5 -

Gaston: No.

Bell: Would you be willing to ask for some smaller percentage or even 500 million for 1940 and raise those rates for '41?

Sullivan: That is what Dr. Viner - you mean as Dr. Viner suggested?

Bell: I don't know.

Sullivan: He suggested that we put in this bill with rates that would prevail in succeeding years and I don't think they would stick in the first place. I think they would be subject to revision upward and downward. If you put them in and you didn't have them up as high as you needed, you might have a little trouble.

Bell: Is this a one-year program?

Sullivan: No.

Bell: Isn't this more or less a permanent law during the emergency?

Sullivan: That is right, but I mean you were going up and ask to have these rates increased as your requirements increase, Dan, and I don't think you are going to accomplish very much by putting in at this time the rates that will prevail for succeeding years.

Foley: What do you mean? Do you mean you change it every year?

Sullivan: No, you leave this rate in until Congress changes it.

Bell: Well, there wouldn't be any difference, of course, if you said it would be 20 percent

- 6 -

above your base for 1940, which gives business a little stimulus and 30 percent in 1940 and thereafter.

- Sullivan: Yes, but suppose when you get to that time, Dan, you don't want 30 percent, you want 50 percent.
- Bell: Well, that is true of every tax bill you pass.
- Sullivan: I think they are going to be reluctant to fix a sliding upward scale on rates here.
- Bell: It just eases the first year in which you are going in and the second year you hit a little harder.
- H.M.Jr: I don't think we can go up and ask for less than half a billion dollars.
- Sullivan: No, I don't either, sir.
- Foley: Why not ask for 750 million?
- H.M.Jr: It is too big a shock, Dan.
- Bell: That is what I was thinking.
- H.M.Jr: The people don't yet realize - they haven't got on to the thing, or hadn't as of last week.
- Sullivan: That would call for a rate starting at 35 and then jumping to 50.
- Bell: 750?
- Sullivan: Yes.
- H.M.Jr: I think we had better - 25 percent is just going to be slaughter to some of these fellows.

- 7 -

- Foley: Well, it is all excess profits, Mr. Secretary.
- H.M.Jr: It is excess for an arbitrary figure.
- Foley: Over a normal return.
- Sullivan: No, it isn't that.
- Foley: Why?
- Sullivan: Because no company is allowed to make exempt from excess profits more than ten percent of their invested capital.
- Foley: Isn't that a pretty good earning?
- Sullivan: Yes, but you are talking about normal. A lot of them have been making a lot more than that and we would be taking it away from them, although they are not making more than normal.
- H.M.Jr: You are suddenly introducing an entirely new philosophy of business profits and you are saying to the fellow who rents his facilities and therefore has very little capital invested, "You can't do so and so," and the fellow who has his money invested in real estate and has a large capitalization, that is different, but this is something that is an entirely new philosophy. I think we should kind of ease them into the thing. The country is only still a 72 billion dollar country.
- Foley: Yes, but with these expenditures it will be --
- Sullivan: But these aren't taking effect in 1940.
- Foley: They will be felt in this year's income.
- Sullivan: They will to some extent, yes.

- 8 -

- H.M.Jr: We are going to get 25 percent of it.
- Gaston: This implies no change in your existing corporate tax rates other than the existing excess profits, is that right?
- Sullivan: No --
- Gaston: Present corporate taxes.
- Sullivan: The existing excess profits stays on the books.
- Gaston: And the present corporate rates?
- Sullivan: That is right, which have recently been increased.
- H.M.Jr: The way I feel is this: The thing that we want to do is - well, I think the taxes should follow very closely on the profits, but I do think we ought to let the fellows have the profits, let them feel good for a little while and then take it away from them, but I think if we go above 25 percent - and I am making this recommendation of a half a billion dollars at 25 percent. There isn't one chance in five that Congress will pass it, but at least that is steeply putting the thing on.
- Bell: You say there isn't one chance?
- H.M.Jr: One chance in five.
- Sullivan: Well, either the rate will be reduced or the provisions will be softened so the yield will come down a little.
- H.M.Jr: Let me put it another way. We can go across the street. I want something with a concrete recommendation to the President. I don't want to tell him this is what Congress thinks.

- 9 -

Then we will listen to him and he can say this isn't high enough or this is too high, but at least we have given him something to chew on and that is what I want to do. I don't want to walk over there and simply say, "Pat Harrison thinks it is terrible and Bob Doughton doesn't know what it is all about," and somebody else is sore because Harry Hopkins told him this. In other words, we don't want to go over and have a little gossip.

Gaston: Those things are all true that you just said?

H.M.Jr: Or am I manufacturing? No, they are all true.

Gaston: It is rather interesting. I think the President will ask for a bill with the idea Congress will want it down.

H.M.Jr: That is all right. The statements I made about Harrison, Doughton and McCormack?

Gaston: That is what I was interested in.

H.M.Jr: Those are all true statements, at least the people in the room have told me that.

Bell: Is the President going to ask for a certain amount? He wants to make a recommendation.

H.M.Jr: But I just want to put something on the desk and if he wants to raise me, that is all right, I won't mind. I wouldn't want to go across the street with less than half a billion.

Bell: It isn't worth while to walk over for less than half a billion.

H.M.Jr: No, if you fellows will have this ready, after he has entertained the ruling heads of Europe, he will see us.

- 10 -

- Bell: Ruling heads?
- Foley: Luxembourg.
- Gaston: The whole story is in the paper this morning, the Luxembourg family were coming on the Trenton to Annapolis.
- H.M.Jr: Last night in riding down the river with Colonel Knox, I was telling about - he offered us his financial editor. Is it Mr. Gruber?
- Sullivan: No, Roy O. Munger.
- Gaston: He is a hundred percent anti-New Deal.
- H.M.Jr: What kind of fellow is he?
- Gaston: Little, querulous, scolding - a pretty smart fellow, at that.
- Sullivan: A good man on financial stuff?
- Gaston: Oh, he is a good LaSalle Street man. He writes what they want to hear.
- H.M.Jr: Well, I kind of got myself into it. I am afraid we can't turn him down. He is being loaned to us. Now, who do we want to off-set him? Who do we want to do the job? That is the trouble going down the river with these New Hampshire Republicans. Anyway, Herbert, who do you think we want today?
- Gaston: I think we had better start out with a man that is close at hand and would be quite willing to do the work. That is Dave Coyle.
- H.M.Jr: Will you send for him this morning?

- 11 -

Gaston: Yes, and I understand this stuff is to be strictly stuff for - anonymous stuff for official authorship.

H.M.Jr: That is right, and if he likes it, I would like to see him sometime this afternoon.

Gaston: Have you any special hour you would like to see him?

H.M.Jr: Why don't you send in a note if you get him?

Gaston: All right.



*when I saw Took this with me
F.H.R.*

THE SECRETARY OF THE TREASURY
WASHINGTON

W.M.J. 214
7-25-40

July 25, 1940

MEMORANDUM ON THE FISCAL SITUATION

The table below summarizes the changes in the 1941 Budget estimates since your Budget Message of January 3, 1940. These changes have been brought about largely as a result of the enactment of the Revenue Act of 1940 and the enlarged national defense program submitted by you to the Congress.

BUDGET ESTIMATES FOR 1941
(In millions of dollars)

	: Estimates : of : July 24, 1940	: Estimates : of : June 3, 1940	: Estimates : of : May 29, 1940	: Estimates : of : Jan. 1940
Receipts	6,367	5,652	5,652	5,548
<u>Expenditures</u>				
Regular	6,947	6,751	6,751	6,484
National defense.	4,600	3,250	2,604	1,940
Total expenditures.	11,547	10,001	9,355	8,424
Net deficit	5,180	4,349	3,703	2,876

The national defense expenditures given under the first column of the above table were estimated by the Treasury. The Budget has made no official estimate as yet and does not feel that it can consistently make one until Congress has passed on your last request for \$2,161,000,000 additional cash.

To finance the presently estimated deficit of \$5,180,000,000 indicated above, the Treasury has a combined borrowing authority of \$5,781,000,000 under the general debt limitation of \$45,000,000,000 and the national defense debt limitation of \$4,000,000,000. After providing for the deficit, for future accruals on this year's estimated sales of U. S. Savings Bonds, and for certain statutory investment accounts, our borrowing authority will be reduced on June 30, 1941, to about \$118,000,000. From these figures it is quite obvious that we will need to secure additional borrowing authority early in the next session of Congress, and in order to be absolutely safe we should probably ask for it in this session. If the increase is delayed until the next session, the Treasury would be deprived of that flexibility in its financing which is now necessary in view of the larger national defense program.

In view of the fact that the Ways and Means Committee is now working on an excess profits tax bill, it is suggested that the entire fiscal situation be submitted to that Committee for consideration in connection with this bill.



THE SECRETARY OF THE TREASURY
WASHINGTON

July 25, 1940

RECOMMENDATIONS

1. That the \$4,000,000,000 debt limitation to cover national defense expenditures included in the Revenue Act of 1940 be repealed and that the general debt limitation be increased from \$45,000,000,000 to \$50,000,000,000. This increase would, I believe, more than cover the estimated deficit for 1941 and give the Treasury flexibility in its financing operations.

2. That the special fund created to retire any obligations issued under the national defense debt limitation included in the Revenue Act of 1940 be repealed. The taxes collected under that Act could then be covered into the Treasury like any other revenue collections.

3. That Congress be advised that further recommendations with respect to an increase in the debt limitation and additional taxes will be made to the next session in the light of programs formulated at that time.

J. M. [Signature]

Final copy.

July 25, 1940

MEMORANDUM FOR THE PRESIDENT:

The present draft of the Excess Profits Bill provides the following rates:

25% on that amount of net income which represents 15% of invested capital.

40% on that amount of net income which represents between 15% and 30% of invested capital.

50% on that amount which represents more than 30% of the invested capital.

Under current business conditions these rates will yield a probable minimum of \$500,000,000 per year.

one carbon to Foley.

July 25, 1940

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Draft #1

THE SECRETARY OF THE TREASURY
WASHINGTON

July 25, 1940.

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40% on that amount of net income which represents between 15% and 30% of invested capital.

50% on that amount which represents more than 30% of the invested capital.

Under current business conditions these rates will yield a probable minimum of \$500,000,000 per year. ~~(In view of the reaction of those Congressional leaders who have thus far been consulted, and because this is a new type of tax to which business will have to become adjusted, I recommend no higher rates than these be applied to 1940 income.)~~

The question as to whether the Congress would entertain other revenue raising bills at this session has been explored, and thus far the reaction has been almost unanimously unfavorable. However, there is a feeling that at the next session Congress would be receptive to the extension of taxes on some commodities and would seriously consider a manufacturers sales tax.

July 25, 1940.

Dear Admiral Stark:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 20, 1940; Unfilled Orders and
Estimated Deliveries on July 20, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - July 20, 1940; Unfilled Orders
and Estimated Deliveries on July 20, 1940.

These tables carry forward through July 20, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

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

GCH:ok

FILE COPY

By Messenger 4 25

July 23, 1940.

Dear General Marshall:

I am sending you herewith, for your confidential use, the following reports:

Part I - Airplanes

Deliveries of and New Orders for Airplanes,
May 1 - July 20, 1940; Unfilled Orders and
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Sincerely,

(Signed) H. Morgenthau, Jr.

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

GA

Jan

FILE COPY

GCH:ek

By Messenger 4²⁵

July 23, 1940.

Dear Mr. Knudsen:

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 - July 20, 1940; Unfilled Orders and
Estimated Deliveries on July 20, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, May 1 - July 20, 1940; Unfilled Orders
and Estimated Deliveries on July 20, 1940.

These tables carry forward through July 20, 1940 the information furnished you last week.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. William S. Knudsen,
Chairman, Advisory Commission to the
Council of National Defense,
Room 2262, Federal Reserve Building,
Washington, D. C.

GCH:ek

FILE COPY

By Messenger 4 25

223

-0000-

FORM TFEL-2



SPECIMEN

ISSUER:

ISSUE:



CERTIFICATE No.

DENOMINATION:

224

ORIGINAL AND FOUR CARBONS OF THE
EXECUTIVE ORDER WENT TO THE PRESIDENT

MEMORANDUM FOR THE PRESIDENT:

Annexed is an Executive Order which amends the existing Order imposing certain "freezing" control.

Under the proposed Order a license will be required in order to deal in securities bearing stamps or notarial seals, etc., showing that they have been in one of the invaded countries. In this connection we are reliably informed that approximately 95 percent of all foreign securities in the Netherlands at the time of invasion had a Dutch revenue stamp which is readily recognizable imprinted upon them and that this stamp will be of material aid in tracing bearer securities looted in the Netherlands. Furthermore, foreign securities which have been brought into some of the other invaded countries, such as France, are required to have a government tax stamp on them.

The Order will also restrict dealings in securities not physically situated within the United States. We understand that certain brokerage firms in New York have already voluntarily adopted a policy along this line and the extension of this policy will aid in preventing the unloading of looted securities in our markets by cabled instructions, etc.

I believe the proposed Order will be very helpful in thus carrying out the purposes of the existing freezing control, and particularly in supplementing the existing regulations governing the importing of securities into the United States.

These documents have been cleared with the Attorney General, the Securities and Exchange Commission, and the State Department.

Secretary of the Treasury.

July 25, 1940

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These documents have been cleared with the Attorney General, the Securities and Exchange Commission, and the State Department.

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.

Initialed by:

AFL LCA BB EHF, Jr. HMO

COPY

EXECUTIVE ORDER

AMENDMENT OF EXECUTIVE ORDER NO. 8389
OF APRIL 10, 1940, AS AMENDED.

By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389 of April 10, 1940, as amended, amending Executive Order No. 6560 of January 15, 1934, by adding the following sections after section 12 thereof:

"Section 13 A. The following are prohibited except as specifically authorized by the Secretary of the Treasury by means of rulings, regulations, instructions, licenses, or otherwise:

"(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order, or a notarial or similar seal which by its contents indicates that it was stamped, imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such a stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto.

"(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

"B. The Secretary of the Treasury may investigate, regulate, or prohibit under such rulings, regulations, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidence thereof so brought into the United States. The provisions of General Ruling No. 5 of June 6, 1940, and all instructions issued pursuant thereto, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

"C. In the case of any transaction covered by this section, an application for license may be filed in the manner indicated in the Regulations of April 10, 1940, as amended, issued pursuant to this Order.

"D. The Regulations of November 12, 1934, are hereby modified in so far as they are inconsistent with the provisions of this section.

"Section 14. The Secretary of the Treasury may require any person to furnish under oath, complete information relative to any transaction referred to in this Order, or with respect to any property in which any foreign country designated in this Order, or any national thereof, has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed."

THE WHITE HOUSE,

July , 1940.

Initialed by:

AFL LCA BB EHF, Jr. HMC

HM, Jr.

August 1, 1940

Miss Conway

Mr. Sanford

Pursuant to your request through Miss Heblire, I am transmitting herewith by messenger a specimen form of TFE-2. Since I am held directly accountable for the distribution of such specimens, it will be greatly appreciated if you will sign the receipt below.

A.F.L.

RECEIPT

Receipt is acknowledged of one specimen form TFE-2.

AVL:mc 8-1-40

July 25, 1940

My dear Mr. Secretary:

Thank you for your letter of July 24th sending me a paraphrase of the radiogram from the Commanding Officer of the 4th Corps Area at San Francisco.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

July 25, 1940

My dear Mr. Secretary:

Thank you for your letter of July 24th sending me a paraphrase of the radiogram from the Commanding Officer of the 4th Corps Area at San Francisco.

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(signed) H. Morgenthau, Jr.

Honorable Henry L. Stimson,
Secretary of War.

July 25, 1940

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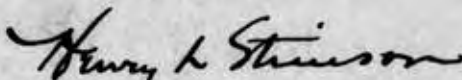
WAR DEPARTMENT
WASHINGTON

July 24, 1940.

Dear Mr. Secretary:

I send you enclosed paraphrase of radiogram from the Commanding Officer of the 4th Corps Area at San Francisco, relating to Japan's purchases of aviation oil about which I spoke to you over the telephone.

Faithfully yours,



Secretary of War.

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

CONFIDENTIAL

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PARAPHRASE OF RADIOGRAM

AD 488.7 (7-23-40)

FROM: DEWITT, Presidio of San Francisco, July 23, 1940.

TO: The Adjutant General.

Report which is unquestionably reliable indicates practical corner of aviation gasoline market is being effected by Japan and that approaches have been made to practically every Pacific and Gulf Coast Oil Company and contracts for one million two hundred thousand drums have been let or tendered for. Insist upon earliest practicable delivery to be made by September 1st 1940 as nearly as possible. Delivery by November 1940 are requested on practically all contracts let or tendered. For delivery in 1941 only small quantity is asked for. Gasoline in tin drums are requested by practically all contracts. Market will be stripped by quantities being bought and productive capacity for months to come likewise effected. Should Army and Navy need it in quantity during next six or to nine months there would be inevitable shortage of aviation gasoline if these purchases are all consummated.

CONFIDENTIAL

July 25, 1940

Dear Harold:

I am inclosing herewith a very important and interesting telegram furnished me by the Secretary of War in strictest confidence.

Yours sincerely,

Henry

Honorable Harold L. Ickes,
Secretary of the Interior.

Enc.

By Messenger 1137

July 25, 1940

Dear Harold:

I am inclosing herewith a very important and interesting telegram furnished me by the Secretary of War in strictest confidence.

Yours sincerely,

Henry

Honorable Harold L. Ickes,
Secretary of the Interior.

July 25, 1940

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Yours sincerely,

Henry

Honorable Harold L. Ickes,
Secretary of the Interior.



THE SECRETARY OF THE INTERIOR
WASHINGTON

July 25, 1940.

My dear Henry:

I have yours of this date, to which was attached a copy of a "paraphrase of radiogram sent to you by the Secretary of War." A copy of this had already been sent to me. Surely we ought to do something to prevent what seems to be a plan to corner our aviation gasoline on the Pacific Coast.

Sincerely yours,

Harold I. Ickes

Secretary of the Interior

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

CONFIDENTIAL

Dear Professor Brown:

I was very glad to have your letter of June 15, 1940 concerning the survey of industrial relations problems in defense industries which you are making, and, of course, I was especially interested in your comments concerning the allowance for depreciation.

As you know, the Internal Revenue Code provides that in computing net income no deduction shall in any case be allowed in respect of any amount paid out for new buildings or for permanent improvements or betterments made to increase the value of any property or estate. § 24(a)(2). Consequently, capital expenditures incurred to expand productive facilities in connection with the national defense program are not deductible business expenses under existing law.

There is no provision in the Internal Revenue Code for the amortization over a period of years of capital expenditures except the depreciation deduction. The Code defines the deduction as a reasonable allowance for the exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence. There is nothing to indicate that Congress intended that, for income tax purposes, the taxable incomes of private manufacturers of armament should be determined according to any different rules from the rules applicable to the taxable incomes of all other private manufacturers.

It is my duty to "superintend the collection of the revenue." R.S. § 248. The Congress has not delegated to me discretion to allow amortization of the cost of new plant capacity during the existing emergency when it is anyone's guess (a) whether or not the new plant capacity will ever be unused excess or (b) how long the existing emergency will last.

The present policy of the Treasury as embodied in existing regulations relative to the allowance for obsolescence is consistent with the position taken by the Commons Committee in its report to the Senate on the Investigation of the Bureau of Internal Revenue. After pointing out that any investment in equipment might turn out to be unprofitable and that the full cost plus a profit might not be realized during its life, the Committee made the following comments which seem equally applicable today:

"The war facilities which a taxpayer elects to retain in use can have no different status than any other facilities.

As to all facilities he takes the risk incident to the business of recovering their value through annual deductions for depreciation. If a residual undepreciated value remains, when the use of such facilities are abandoned, the residuum is taken as loss of useful value.

"No deduction of a capital loss should be permitted until it can be computed with reasonable certainty. To attempt to say now that a taxpayer will not recover through operation the value of facilities he elects to retain in use, and to attempt to compute the resulting loss involves nothing more than sheer speculation." [Senate Report No. 27, 69th Cong., 1st Sess., pp. 168-170.]

Although there has been an extraordinary amount of discussion among certain interests on the subject of depreciation deductions, stimulated in my opinion by a few misnamed "news letters", not a single instance has ever been brought to my attention in which the existing Treasury regulations have worked any hardship or inequity upon, or distorted the true income of, any industrial enterprise. Needless to say, however, the Treasury is going to give full consideration and study to possible revisions of the law to permit expenditures for plant facilities especially acquired for the national defense program to be treated differently from ordinary capital expenditures.

I am looking forward enthusiastically to receiving and reading a copy of your report which you have so thoughtfully said you would send me.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Professor J. Douglas Brown
Director, Industrial Relations Section
Princeton University
Princeton, New Jersey

PRINCETON UNIVERSITY
INDUSTRIAL RELATIONS SECTION
(Department of Economics and Social Institutions)

of 241
7

J. DOUGLAS BROWN, Director
HELEN BAKER, Assistant Director
HAZEL C. BENJAMIN, Librarian

Princeton, New Jersey

June 15, 1940.

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

Confidential

Dear Secretary Morgenthau:

During recent weeks I have been making an intensive survey of industrial relations problems in defense industries, visiting machine tool, aviation, aviation parts, and certain essential mass production companies. We are rushing to print on a report analyzing problems and I shall send you a copy as soon as it is off the press.

In my survey I am increasingly impressed with the importance of the early adjustment of depreciation regulations in regard to corporate income taxes, particularly in the case of the machine tool industry. While I realize the great need of the Treasury for funds these days, I feel that one of the most reasonable objections to rapid expansion advanced by machine tool builders is the fact that additions to plant and equipment made to speed up production will prove in large measure unnecessary following the defense boom. I do feel that it is sound economics to recognize the temporary but vital usefulness of these extensions to plants by determining the rate of depreciation for tax purposes in terms of the time the plants are used for defense production. The machine tool builders have faced feast and famine, and the very machines produced in great quantities now will prove a depressing factor in the machine tool market for some years following the boom.

Since I felt so strongly on this matter, I stopped in to express my views to Jacob Viner on Wednesday. He suggested that I write you this letter.

Further, I am not at all convinced that the machine tool people have yet raised their sights sufficiently as to the necessities of the present situation. The industry is directed, to a considerable extent, by an older generation of executives who are deeply imbued with conventional engineering thinking. At the same time, they are probably much worried by the possibility of government

The Honorable Henry Morgenthau, Jr. - page 2 - June 15, 1940.

intervention. It seems to me that a good deal of the talking that they are doing concerning their ability to meet the situation is really a defense against increasing government pressure. Rather than depending on skilled labor supplies, the industry will have to adjust itself quickly to the type of labor now available by rapid dilution of skills and intensive short-time training. Many of the executives of these companies, as engineers, naturally object to such a step.

I am leaving tonight for the West Coast to survey the aviation industry there. If I can be of assistance at any time, however, I hope that you will let me know. Any word will be forwarded immediately.

Yours respectfully,

J. Douglas Brown

B/a

July 25, 1940
11:10 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen. Go ahead.

H.M.Jr: Hello.

Wm. S. Knudsen: This is Knudsen.

H.M.Jr: How are you?

K: Did Purvis talk to you last night?

H.M.Jr: No. He wrote me a letter, but he didn't talk to me.

K: What do you think of it?

H.M.Jr: Bill, I don't know enough about it. I mean, I don't know enough about the facts.

K: Well, the facts are this, that of course Jesse wants them to put up 10 million against the 20.

H.M.Jr: You'll have to explain it a little bit more.

K: All right. You know we're talking about a plant that costs \$20 million, of which the English have two-thirds and the Americans one-third. Jesse takes the position that unless the English is smaller than the American he's going to be in wrong, so if we put up 10, that leaves 10 and that gives the Americans two-thirds and the British one.

H.M.Jr: Now, let me see. How much does Jesse have to put up, 20?

K: Yes.

H.M.Jr: 20. And when you originally spoke to Purvis, how much was he to put up?

K: He wasn't to put up any for the plant, that was to come out of the motors.

- 2 -

H.M.Jr: Oh. Well, of course, here's the thing. We sent you this ruling over from the Attorney General and under that ruling Jesse could loan the whole 20. I don't know whether you've had a chance to look at it.

K: I read it, yeah. You sent it to me. I was very grateful for it.

H.M.Jr: What's that?

K: I was very grateful for that.

H.M.Jr: I don't know whether Jesse has seen that or not.

K: Yes, he has.

H.M.Jr: And he won't do it?

K: He says that according to his attorney's opinion, the minute he has a smaller portion in American funds than in British funds, then he's in wrong.

H.M.Jr: Well, how could his attorney stand up against the Attorney General

K: Well, I don't know.

H.M.Jr: Well, it's silly.

K: No, but then I put the burden -- you know, I spoke to you yesterday noon

H.M.Jr: I know.

K: Then I put the proposition to Purvis and he took it very bad and he said he was going over to see you and I said that was all right. I couldn't stop him from seeing you.

H.M.Jr: Well, I was letting him cook because I figured sooner or later somebody would call me. Let me ask you this, Bill. Is this something you want to settle today?

- 3 -

- K: Yes. I've got the Packard man here. You know, that thing has been stewing around for a couple of weeks. Of course, the Convention was in -- the Convention was in between, see.
- H.M.Jr: Yeah. Of course, you and I, we've talked to the President about this at least twice, you know, and both times the President said O. K.
- K: Yes.
- H.M.Jr: And now you've got the Attorney General's opinion to back us up. I don't know what the hell to say.
- K: Well, I'll have to bring up the issue with Jesse.
- H.M.Jr: What?
- K: I'll have to bring up the issue with Jesse because if the British don't want to put up the money, well, then, Jesse will have to go through with it.
- H.M.Jr: Well, I haven't talked to Purvis since he left my office yesterday -- I started to say last week, it seems like it
- K: He was to call me this morning and let me know but he didn't call me.
- H.M.Jr: And I've got this letter from him in which he mentions this and how badly he felt and all that, and I have not talked to him today.
- K: I see.
- H.M.Jr: Well, my thought is -- I'm thinking out loud -- I'd try to shove this Attorney General's opinion down Jones' throat and see what happens. Now if you don't get anywhere, give me a call and I'll do what I can to help.

- 4 -

K: All right.
H.M.Jr: Is that all right?
K: Thank you, sir.
H.M.Jr: Thank you.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Shanghai.

DATE: July 25, 1940, 3 p.m.

NO.: 695.

Consulate's no. 666 of July 20, 2 p.m.

In order that the operations of the ^{Chinese} branches of the Banque de L'Indochina, Shanghai, may be facilitated in dealings with the U.S., the Bank's Manager requests the authority to open in behalf of every individual branch with their main correspondent, the French American Banking Corp., N. Y., an account in U.S. dollars, of which the free disposition would be assured definitely. Funds to be deposited in these new accounts would include the remaining balances of amounts which are unblocked already, all (sums?) pertaining to business transactions in the future and any (sums?) which are still on deposit with U.S. correspondents which may in a second release be unblocked. It is stated by the manager of Banque Franco-Chinoise's three branches at Peiping, Shanghai and Tientsin that these branches had deposits in the Irving Trust Company of New York of 266,000 U.S. dollars, 66,500 U.S. dollars of which was released on the 29th of June, leaving an amount still unblocked of U.S. dollars 199,500. Release of ~~of~~ 100,000 U.S. dollars additional is requested by the bank's manager, to be used for meeting depositors' demands; the manager explains that

-2-

that one fifth of the bank's capital of fifty million francs is owned by the Finance Ministry of the Government of China, the China Development Finance Corp., the Bank of China and the Bank of Communications; he further states that the bank has many commitments to Chinese, ~~with~~ in accounts both private and official. The French Ambassador has been cabled (?) for assistance, by the bank.

BUTRICK

EA:MSG

RECEIVED
TELETYPE UNIT

20 11 WA 05 JUL 58

TO JNC & DIRECTOR
TELETYPE UNIT
THAT THE
YHAI 5805 8 25 07

July 25, 1940

My dear Mr. Hoover:

Thank you for your letter of July 18th in which you report the results of your agent's contact with the British Purchasing Commission.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

July 25, 1940

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Federal Bureau of Investigation,
Washington, D.C.

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

July 18, 1940

The Honorable Henry Morgenthau, Jr.
The Secretary of the Treasury Personal and Confidential
Washington, D. C. By Special Messenger

My dear Mr. Secretary:

In compliance with your telephonic request of yesterday and the subsequent verbal request made of Mr. Foxworth by your Mr. Young and Mr. Purvis of the English Purchasing Commission, I saw that the appropriate action was immediately taken.

Mr. Purvis suggested that a representative of this Bureau contact his assistant, Hamish Mitchell, in New York City. This has been done. Mr. Mitchell at first, although Mr. Purvis stated he knew the details and he would inform Mitchell to expect an FBI man, stated when contacted that he did not know any of the detail matters. Mr. Mitchell further said that the English were now in possession of all the plans and specifications, etc., which the French had. Upon making inquiry in his office he could not verify this.

Thereafter, Mr. Mitchell contacted Mr. Purvis and later talked with my New York representative, at which time he stated positively that the English had possession of everything so far as plans and specifications were concerned that the French possessed and in fact had sent one complete set of all such plans and specifications to London. Mr. Mitchell informed that he thought "the matter was just a teapot." It was stated by him that while the French Purchasing Commission in the United States was still in possession of one copy of the plans and specifications of course the original and undoubtedly other copies of the same

Honorable Henry Morgenthau, Jr. -2- 7-18-40

plans and specifications were in France, and that therefore no real harm could be done even if the representatives of the French Government returned the set of plans and specifications now in their possession to France.

Close contact will be maintained with Mr. Mitchell of the New York office of the British Purchasing Commission and in the event anything further develops in this matter I will immediately advise you.

Sincerely yours,

J. Edgar Hoover

July 25, 1940

Mrs. Klots:

I was informed last night by Ted Sheridan, Executive Assistant to Jerome Frank, that it would be impossible for the SEC to let Jim Buckley be assigned on a temporary loan basis to the Treasury. At that time, Mr. Frank had not yet read the letter addressed to him by Secretary Morgenthau. I also understood from this conversation that this was the first request of this nature to be refused by the SEC.

My point of view is simply that I do not consider it fair to ask Mr. Buckley to come to the Treasury on a temporary basis if he cannot be assured by the SEC that he can have a job, even though it not be his original job, back at the end of the period.

I consider Buckley to be the best qualified person I know of for this Treasury assignment, and his services would be far more valuable to the Treasury than they would be to the SEC Reorganization Division in his present capacity as Senior Analyst. I would also like to point out the fact that after a complete investigation, Mr. Irey gave Buckley a very high recommendation.

P.Y.

DEPARTURE PERMITS GRANTED TO VESSELS CARRYING PETROLEUM PRODUCTS,
 SCRAP IRON AND SCRAP STEEL TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN.

July 25, 1940

<u>Vessel</u>	<u>Nat.</u>	<u>Cargo</u>	<u>Amount</u>	<u>From</u>	<u>To</u>
NISSYO MARU	Jap.	Crude	88,550 Bbls.	San Francisco	Kawasaki, Japan.
CONDYLIS	Greek	Scrap Iron	5,333 Tons	Houston	Yokohama, Japan.
KENTUCKY	Am.	Scrap Steel	7,317 Tons	Portland, Oregon	Yokohama & Osaka, Japan.
SAN RAFAEL	Pan.	Scrap Steel	7,412 Tons	Portland, Oregon	Japan via Victoria, B.C.
GALLA *	Nor.	Gasoline	73,000 Bbls.	Port Arthur	United Kingdom
YASUKAWA MARU	Jap.	Lubricating Oil	42,000 Bbls.	San Francisco	Yokohama, Osaka & Kobe, Japan.
		Scrap Iron	----- **		
MIRAMIRE	Pan.	Scrap Steel	----- **	Jacksonville	Osaka, Japan.
MATHILDA	Nor.	Scrap Steel	5,431 Tons	New Orleans	Hull, England
ESTURIA	Br.	Gasoline	----- **	Corpus Christi	United Kingdom.
YSELHAVEN	Neth.	Scrap Iron	----- **	Norfolk	United Kingdom.

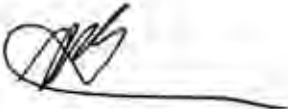
NOTES:

- * Vessel also carried 40,000 Bbls. of kerosene.
- ** Amounts have been requested.

July 25, 1940.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston


MERCHANT SHIP MOVEMENTSMatters Requiring Action by the Secretary of the Treasury

None.

Matters Not Requiring Action by the Secretary of the TreasuryClosed Cases

Following a request from Military Intelligence and your conversation at 4:30 P.M., July 24, with Acting Secretary of State Sumner Welles, instructions were sent to the Captain of the Port at San Francisco to permit the departure for Seattle of the Panamanian yacht SOUTHERN CROSS, owned by Axel Wenner-Gren, Swedish millionaire, but instructions at the same time were sent to Coast Guard headquarters at Seattle and Juneau, Alaska, that the SOUTHERN CROSS is not to be permitted to depart from Seattle for Alaska and that she is not to be permitted to enter Alaskan waters.

Permits to depart were granted to the American Export Lines for the American SS EXTAVIA from Norfolk for Lisbon, with a cargo of coal and pipe, under charter to the Consolidation Coal Company, and to American SS EXCAMBION from New York to Lisbon, with a general cargo.

Permits to depart were granted to the Greek SS NICOLAOU VIRGINIA from Savannah, Georgia to Glasgow; the American SS KENTUCKY, from Portland to Yokohama; the Panamanian SS SAN RAFAEL from Portland to Japan via Victoria.

Pending Cases

The German yacht TE RUFUNGA applied for permission to depart from Honolulu, Hawaii, for the high seas. This case was held for further consideration.

July 25, 1940.

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TO: Secretary Mergenthau
 FROM: Mr. Gaston *HSG*

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CC: Mr. Cairns Mr. Feidler
 Miss Chauncey Mr. Foley
 Commander Derby

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

July 25, 1940

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

Dear Mr. Secretary:

I have sent the steel scrap memorandum to Lieutenant McKay by special messenger.

I am not sure that it is in exactly the form that you desire, and if it is not, please call me.

Faithfully yours,


E. R. Stettinius, Jr.

TELEGRAM SENT

JI

GRAY

July 25, 1940

5 p.m.

AMEMBASSY,

RIO DE JANEIRO

226.

Your despatch no. 3252 July 9.

Treasury advised by the Bankers Trust Company that check was paid on July 5. Treasury states that it is apparently the practice of some New York banks upon receipt of checks against blocked accounts to protest such checks and, at the same time, apply for license which would explain the Trust Company's telegram of June 27.

WELLES
(Acting)
(FL)

840.51 Frozen Credits/303

EA:FL:EHS

TELEGRAM SENT

RDS

PLAIN

JULY 25, 1940

AMERICAN LEGATION,
STOCKHOLM.

251, Twentyfifth.

Your 733 July 16, 1940.

The Treasury is advised by the Bank of Manhattan
that it has no information with respect to the trans-
action.

WELLES
Acting
(FH)

840.51 Frozen Credits/302

EA:FL:EHS

THE SECRETARY OF THE NAVY
WASHINGTON

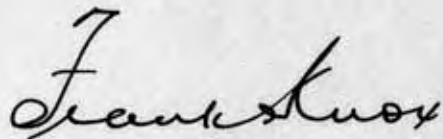
July 25, 1940

My dear Mr. Secretary:

Thank you very much for your note of July twenty-third and for the enclosures. I was glad to have the information which they contain.

It was a real pleasure to have you on the boat with us last night and I hope we can do this frequently in these hot days.

Yours sincerely,



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

50 0 WA 75 JUL 26 1940

AS

PLAIN

Berlin

Dated July 25, 1940

Rec'd 8:25 a.m., 26th

Secretary of State,
Washington.

3183, July 25, midnight. (SECTION ONE).

FOR TREASURY FROM HEATH AND DEPARTMENT'S INFORMATION.

Funk, Reich Economics Minister and President of the Reichsbank, gave an address to foreign correspondents this evening on the subject of the new economic order in Europe, prefacing his talk with the statement that he had been commissioned by Goerring to prepare a comprehensive plan for building up the German and European economy after the end of the war. The text of his address, however, was handed to the correspondents in the form of answers to questions formulated by the editor of the SUDOST ECHO.

There follows a close summary translation of the official text of his remarks.

One. In answer to the question "How do you picture to yourself the general economic order in the new European order?". Funk pointed out that the National Socialist economic policy had never been rigidly dogmatic but had employed methods which seemed most practicable at the moment.

AS-2- No.3183, July 25, midnight.(SECTION ONE), from Berlin:

moment. There was a natural foundation for close economic cooperation between Germany and the other European countries. The war will have far reaching effects on the European and the world economy. Germany intends to cooperate closely with Italy toward the reconstruction of Europe.

The economic methods which will be applied will be those which have given such great economic results for the Reich before and especially during the war. The unregulated play of forces which previously brought German economy into such great difficulties will not be allowed to become effective in the future. The new methods will not only be of advantage to Germany but to all European economies which have close relations with the Reich.

KIRK

ALC

AS

PLAIN

Berlin

Date: July 25, 1940

Rec'd 9:12 a.m., 26th

Secretary of State,
Washington.

3183, July 25, midnight. (SECTION TWO).

Two. The currency after the war. Funk maintained that the currency was a secondary problem, the primary consideration being economic leadership. In a sound European economy and a sensible division of labor between the European economies the currency problem would be solved automatically since it was only a question of employing the correct monetary technique. The enormous increase in the power of the Greater German Reich will naturally insure the Reichsmark a dominant position. It will continue to increase in importance released from the bonds of unsettled foreign debts and the numerous variously valued types of mark. "On the basis of the methods of bilateral trade already applied and the payments agreements which have developed out of them, there will be a further development to multilateral trade and to an adjustment of balances of payment of the individual countries that thus the various countries can also enter into ordered economic relations with

AS-2- No.3183, July 25, midnight.(SECTION TWO), from Berlin.

with each other by means of a clearing agency. Stable currency ratios presuppose an equalization of the balances in terms of value of the various countries and the road to such a regulation of currency ratios will be a long one. In Europe every country must develop its own economic forces and every country will be able to carry on trade with another country but the principles and methods by which this trade is conducted will, by and large, be the same. Under a common valid monetary and payment system the controls strict regulations and red tape can largely be eliminated for they will be unnecessary.

Three. What will be lacking in the new European economy? and what commodities will be superfluous?

Certain products will always be lacking in Europe and an exclusively self sufficient economy is not envisaged.

Europe will naturally continue to be bound up to a great extent with the world economy. However, it is intended that as far as possible all those products which are necessary to the economic independence of the European economic area shall be produced in sufficient quantity in Europe. Funk maintained that the German raw materials base has improved greatly during the war and that Germany at the end of a victorious war will have an export potential

greater

AS-3- No. 3183, July 25, midnight.(SECTION TWO), from Berlin.

greater than ever before. She will be far more independent of the monocultures of the world than she was before through such products as coal, potash, iron, wood, electrical energy and especially in all the synthetic materials developed by German science and economy. But it will be necessary to continue economic relations with the rest of the world in order to raise the standard of living of the German people and that of the highly developed European industrial states.

KIRK

ALG

AS

PLAIN

Berlin

Dated July 25, 1940

Rec'd 3:08 a.m., 26th

Secretary of State,
Washington.

3183, July 25, midnight. (SECTION THREE).

Four. What merchandise does the new Europe expect of Russia, America, South America and the Far East. And what commodities will it deliver in exchange?

According to Funk Russia will in the future play an even greater role as a supplier of raw materials and as a market for German industrial products.

"How great Germany's trade with the United States will be depends entirely on the Americans themselves. Of course as long as it defames German goods such trade is problematical and as long as it holds to a dogma which is nothing more than a dogma and has no longer any basis in economic practice, trade with the United States will naturally be difficult. But if the United States wishes to make a continuous contribution to the formation of world economy it must abandon its wrongful methods of wanting to be at the same time the greatest creditor nation and

the

AB-2- No.3183, July 25, midnight.(SECTION THREE), from
Berlin.

the greatest export country. If one is a great creditor country one should not promote exports by all methods while systematically hindering imports. We will not attempt to answer the question of what America will do with its gold. In any event gold will in the future no longer play a role as the base for European currencies since a currency is not dependent on its cover but on the value which the state that is in this case the economic order regulated by the state gives it. It is something else when one considers gold as a useful means for adjusting payment balances but Germany will never carry on a monetary policy which brings it into any sort of dependence on gold since one cannot bind oneself to an instrument whose value one cannot himself determine. If however the Americans want to get rid of their gold which at present is of absolutely no use to them then they must revalue the dollar upwards which would of course lead to substantial difficulties for the American economy. But then gold would flow out of America that is then one would be able to sell advantageously in America and a stream of goods would then flow to America. This is however a question depending upon to what extent the internal American policy can carry through such a measure. If one incidentally brought the entire gold
which

AS-3- No.3183, July 25, midnight.(SECTION THREE), from
Berlin.

which lies in America locked up in a fort to an island
and this island sank into the sea through some natural
catastrophe then absolutely no change would necessarily
ensue in the economic life of the peoples."

KIRK

ROW

EH

PLAIN

Berlin

Dated July 25, 1940

Rec'd 8:55 a.m. 26th.

Secretary of State,
Washington.

3183, July 25, midnight (SECTION FOUR)

Funk asserted that after the end of the war and the blockade Germany's trade with South America and the Near East would develop favorably since it must be remembered that the difficulties of the world economy, especially of Europe, were aside from the ridiculous methods of Versailles, due to the fact first, that Russia was eliminated as a market which sold its grain surpluses in Europe; that secondly, the great Far Eastern market was greatly affected by the war in China. The return of stable economic conditions in China, however, towards which Japan is striving will change this situation. Funk said he did not believe that the attempts to make the American market autarchic and to shut them off from trade with the world would be successful. The economic requisites were lacking since the United States can never absorb South American products to the extent which Europe can.

The

-2- 3183, July 25, midnight, from Berlin (SECTION FOUR)

The United States must give up the idea that it can dictate its economic conditions to Germany or Europe, respectively. We do not need the United States as an intermediary to carry on trade with the South American countries. Either German, South American trade takes place on the basis of free agreements with sovereign South American countries or it will not occur at all. American plans for export monopolies for the South American products are in principal a bilateral economic system which it already has in effect with other countries. Just why should Germany be shut out from this system? There are, in any event, no technical difficulties in the way of a normalization of reciprocal trade relations. It is, after all, not the methods but the quality of the commodities which is decisive and in this regard there really need be no worries concerning German export products.

(Five) How is this war being financed in Germany?

Funk maintained that the essence of German war financing is "labor". The bills through which the Reich borrows are "labor bills" whose value is absolutely stable because prices and wages are stable. Hence, the question of consolidating short term credits was absolutely unimportant and the indebtedness in Germany could cause no concern.

-3- 3183, July 25, midnight, from Berlin. (SECTION FOUR)

concern.

(Seven) How will the war economy be transformed into a peace economy? Will this readjustment not lead to a great economic crisis?

Funk asserted that Germany had controlled the economy, both before and during the war, largely in accordance with public needs and since there will be important problems to solve after the war, the readjustment will lead to no great difficulties. There will not be a sudden demand for money or credit because stocks will be permitted to be only gradually restored. Money and credit after the war will be directed at first, to essential branches of production.

In conclusion, Funk said;

(A) By means of long terms economic agreements with the European States will adjust their production on a long term basis to the German market. By this means it will be possible to increase European output and to undertake production of entirely new products. On the other hand there will also be better markets in Europe for German goods.

KIRK

ALC

EH

PLAIN

Berlin

Dated July 25, 1940

Rec'd 4:30 a.m. 26th.

Secretary of State,
Washington.

3183, July 25, midnight. (SECTION FIVE)

(B) Through creation of stable currency relationships a well functioning payments system for carrying on trade between individual countries will be insured. The present clearing agreements with stable exchange rates can be developed to serve as a starting point for increased trade.

(C) Through consultation in the field of agriculture and industries the greatest possible production of food-stuffs and raw materials and a sensible economic division of labor in Europe will be achieved. By making practicable use of economic forces present in Europe the standard of living of the European peoples will be raised and their sense of security against possible blockade measures will be strengthened.

(D) A strengthening of the feeling of economic community among the European peoples must be brought about through cooperation in all the fields of economic policy
(currency,

-2- 3183, July 25, midnight. (SECTION FIVE) from Berlin.

(currency, credit, production, trade, etc.)

The economic solidarity of the European countries should make possible a better representation of European economic interests as against other economic groups in world economy. This United Europe will not permit any non European unit to impose political or economic conditions on it. It will carry on trade with other partners at any time on the basis of equality but be able in doing so to throw the full economic weight of the continent into the scales.

Funk concluded by saying that the comprehensive plan for a peace economy prepared by him will guarantee the Greater German Reich the maximum of consumption goods to improve the well being of the people. The European Economy will be directed toward this goal.

END OF MESSAGE

KIRK

ROW

MN

GRAY

(Paris)
La Bourboule

Dated July 25, 1940

Rec'd 10:10 p.m.

Secretary of State

Washington

150, July 25, 11 a.m.

FOR THE TREASURY FROM MATTHEWS.

Governor Fournier has at last returned from Paris but the Bank of France plans for returning to the capital seem still to be in the air. I missed both the Governor and Rueff at Chatelguyon but I hope to see the latter tomorrow. Another convoy of French bank personnel numbering about 1200 is due to leave for Paris Friday. The opening of the Bourse has been postponed until Monday and I understand that the agents de change are leaving their securities in unoccupied territory.

No agreement has yet been reached with the Germans with respect to modalities of exchange control or with respect to the freedom of movement of assets between Paris and unoccupied territory requested by the French banks (fourth paragraph my telegram Number 111, July 19, 9 a.m.). The Germans are not permitting removal

either

- 2 - #150, July 25 from La Bourboule (Paris)

either of any securities or of French or foreign bank notes in substantial volume from occupied to unoccupied territory. They have not however as yet established any system of personal search of refugees and other persons permitted to pass between occupied and unoccupied territory. (The movement of refugees both French and

Belgian back to occupied territory is gradually gaining momentum and three trains daily are running from Vichy to Paris. The almost complete absence of available gasoline supplies of course constitutes a great obstacle).

The American banks continue to proceed slowly in the move to return to Paris though Barrett told me yesterday that the Guaranty is moving half its securities section personnel German next week.

Cariguel told me that his dollar transactions have now been reduced to some half a million dollars daily and I gather from other sources that the obtaining of dollar exchange authorizations is growing more difficult. For instance I am told that to obtain dollars for payment of imports previously contracted the import authorization is insufficient and proof of actual shipment or arrival of goods in France is being required (a policy which may, it seems to me, hamper trade even further in view of its variance with our cash and carry provisions). The Minister of Finance, who returned to Paris several days ago, has given instructions that all personnel of his Ministry must report at their

MA -3- tel # 150 July 25 from La Bourboule (Paris).

posts in occupied territory by July 31 or lose their jobs.

Leroy-Beaulieu has been appointed "director of foreign commerce at the central administration of the Ministry of Finance" and Herve Alphan (former director of commercial accords of the Minister of Commerce) Financial Attache at Washington in his place.

I believe you are sufficiently acquainted with Alphan's name to require no comment from me (I have no confidential code here.) (END SECTION ONE).

MURPHY

RR

JI

PLAIN & GRAY

(Paris)
La Bourboule

Dated July 25, 1948

Rec'd 3:53 p.m.

Secretary of State

Washington

150, July 25, 11 a. m. (SECTION TWO)

The Bank of France has now officially blocked British balances in France. The Syndicate of Bankers has circulated the following letter received by its President from Rueff.

"In view of the measures taken by the British Government with respect to French balances in Great Britain I have the honor to request you urgently to invite in my name all bankers and brokers to block until further notice such credit balances as they may hold for the account of British physical or moral persons.

"I shall be grateful if you will give all desirable publicity to these measures and inform your members thereof as quickly as possible".

MURPHY

NPL

JR

PLAIN

Budapest

Dated July 25, 1940

Rec'd 9:51 a.m.

Secretary of State,
Washington.

169, twenty-fifth.

Reference Legation's 161, July sixteen.

Futura now advises further amounts of same description also blocked. Banque Commercial Roumaine, Bucharest by order Futura instructed by Hungarian General Bank, Budapest to remit the latter \$107,000 blocked with Chase National Bank. Similarly Banque Commercial Roumaine instructed by First National Savings Bank Corporation Budapest to remit the latter \$11,940 blocked with Irving Bank New York. Both New York banks refused to remit. Futura states situation exactly analagous to that outlined Legation's cable above mentioned. Please reply STCOR soon as possible case being urgent.

MONTGOMERY

ROW

July 25, 1940
8:21 a.m.

H.M.Jr: Hello. Professor Chamberlain.

Prof.
Chamberlain: Yes.

H.M.Jr: Can you hear me?

C: Yes, very well, thank you, sir.

H.M.Jr: I just had a talk with Dan Bell and he would be simply delighted to be relieved of the responsibility because he said he was about ready to come to me. He said he just couldn't carry it all.

C: Yes, I think that's true.

H.M.Jr: Now, I'd like to do a little bargaining with you.

C: Yes.

H.M.Jr: On thinking the matter over, I wondered if your generosity would go to the extent of saying that if you undertook this that you would see me through the rest of this year.

C: Well, Mr. Secretary, the point I have is this, that I have a pretty heavy schedule at the University. I could undertake the responsibility of coming to Washington for as much time as is necessary of course this summer and then coming on -- coming down during the winter. I couldn't give as much time after the first of October, but I could come down every week.

H.M.Jr: The point is this, Bell was saying that if we did it, in order to really relieve him, then you ought to do the signing as well. Hello?

C: Yes.

H.M.Jr: Which he does -- I mean, the signing of the various stuff. In other words, what I'm

- 2 -

trying to envisage is, if we're going to do it, relieve him of the entire responsibility. Hello?

C: Yes.

H.M.Jr: Now, would that be agreeable to you?

C: Yes, if it could be done on that basis.

H.M.Jr: Well, October 1 looks like a lifetime away for me and if you could take it from now until October 1, between now and then why we could certainly work out somebody else who could take over after that.

C: I think that we could. I could come down -- I'll be down Monday and I could see him or see -- you're not going to be there, I understand.

H.M.Jr: No.

C: Well, that's good. I'm glad you're getting a rest.

H.M.Jr: What I want to do is, Bell says I'd have to get the President to sign an Executive Order authorizing -- delegating this power to you. I can't do it; he has to do it. See? But there'll be no trouble about that, I mean, the way it is now it's delegated to me that the only person who can sign my name is an Assistant Secretary.

C: I see.

H.M.Jr: But we'll fix up an Executive Order and ask him to make it legal so that you can sign as well.

C: All right.

H.M.Jr: See?

C: Yes.

- 3 -

- H.M.Jr: And what I've got in mind, I mean, so that we're thinking along the same line, is that beginning with Monday, I mean, as rapidly as you can, you'll take it off Bell's shoulders and take the full responsibility and using our present staff and adding to it in any way that you think you'd like to do.
- C: What does he think about my suggestion of Mr. Pehle?
- H.M.Jr: Oh, you mean sort of upping him?
- C: Yes.
- H.M.Jr: Well, I talked to Foley and he thought that Pehle was all right but that Bernstein also is very important in the picture.
- C: Yes, but I thought Bernstein had a number of other jobs too is the reason why I didn't suggest him.
- H.M.Jr: Well, he thought that Pehle is all right, but that he'd like to have Bernstein continue sort of as legal adviser to Pehle.
- C: That is what I thought.
- H.M.Jr: But the way I would do it, if you'd come down Monday -- anyway that you and Bell and Foley work it out is all right with me.
- C: All right, Mr. Secretary, I'll be down Monday.
- H.M.Jr: If you'll do this, of course, it'll be a terrific help to both Bell and me.
- C: Well, I'll undertake it on that condition that after the term begins, I'll have to give more time here.
- H.M.Jr: I understand. Well, then, it'll be up to all of us to be looking and possibly after you've been here awhile you may feel that Pehle could carry on.

- 4 -

- C: Well, I think that's quite possible.
- H.M.Jr: And if not, we'd have two months to look around for somebody.
- C: All right.
- H.M.Jr: But I'm fearful that if we don't take some of this off Bell, he's going to break down.
- C: He seems to be very tired. I think you've all got pretty heavy responsibilities.
- H.M.Jr: I think if you come and then say we keep our eyes open for somebody to break in almost immediately -- that you could break in to carry on after October 1.
- C: All right, Mr. Secretary. I'll be down on Monday and I'll see Mr. Bell and have a talk with him.
- H.M.Jr: Fine.
- C: I'll write him a note this morning telling him I am coming down and see if I can make an appointment with him.
- H.M.Jr: Thank you.
- C: Thank you, Mr. Secretary.

July 25, 1940
10:26 a.m.

H.M.Jr: Hello.

Lord
Lothian: Hello.

H.M.Jr: Morgenthau.

L: Good morning, Mr. Morgenthau. I was trying to get you last night.

H.M.Jr: Yeah. I was down the river.

L: Because Mr. Purvis came up to see me and he gave me an account -- he said the most marvelous performance he'd ever seen done by anybody was done by you yesterday.

H.M.Jr: I see.

L: He absolutely is as enthusiastic as can be.

H.M.Jr: Well, that is nice.

L: I thought I'd just ring you up and say how much I appreciate it. It'll make terrific difference to the whole future for the whole thing is lifted at last onto the right basis.

H.M.Jr: Well, that's the way I feel and I'm very happy about it also and I was terribly worried that they were going to freeze this production.

L: Yes.
has lifted the whole scale now onto the right proportions.

H.M.Jr: And I think after the people sort of I think it's going to have a lot to do to overcome the defeatist attitude in this country.

L: I quite agree.

H.M.Jr: It was very kind of you to

- 2 -

L: He said he never heard a more impressive thing than your statement yesterday. He said it made an enormous impression on everybody, so I thought I'd just ring you up and tell you how much I appreciated all you've done.

H.M.Jr: That's very kind. Now, just as long as I have you -- we are collecting the figures on the shipments of oil daily going to Japan, and they are increasing tremendously.

L: Yes, they are.

H.M.Jr: And

L: I wired for similar figures from London and the other sources. I haven't got them yet.

H.M.Jr: And they are -- daily, really there's an awful lot going out.

L: Yes, there is.

H.M.Jr: Well, thank you for calling.

L: Well, all right. Thank you, Mr. Morgenthau.

H.M.Jr: Good-bye.

L: Good-bye.

*original letter
sent to Boston*

July 25, 1940

My dear Mr. Hoover:

Thank you for your letter of July 22nd concerning the expected arrival in Port Arthur, Texas, of the Belgian tanker Spideleine which left some British port July 11th.

This information has been carefully noted.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

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(signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.

July 25, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Haas
Mr. Thompson
Mr. Schwarz
Mr. Gaston
Mr. Foley
Mr. Sullivan
Mr. Bell
Mr. Young
Mrs. Klotz

H.M.Jr: Chick, I thought the way you handled that plane story was very good.

Schwarz: Thank you, sir.

H.M.Jr: I don't know how much difficulty you had --

Schwarz: We were put on the spot pretty much. Everybody called for it.

H.M.Jr: That was handled very well.

Schwarz: Thank you.

H.M.Jr: Now, are you coming to my press conference to talk about that 8 year contract?

Foley: If you want me to.

H.M.Jr: What are you going to talk on, the first contract?

Foley: We can't mention the taxpayers' names yet, but in the Treasury Bulletin for this week is set forth, using letters instead of the

- 2 -

names of the taxpayers, the Treasury decision which on those circumstances provide that for income and excess profits tax purposes the entire lease may be written off within the period of the original lease, which is 8 years.

H.M.Jr: It is for my information.

Foley: It is Curtiss-Wright and it is the loan that was in the Wall Street Journal as having been made by the RFC.

H.M.Jr: Now, a couple of things: The first thing this morning, Mr. Bell and I have had a talk and in order to make life livable for Dan, I am going to relieve him of all this foreign exchange work and I called Professor Chamberlain to be down Monday ready to take over. He can not stay on full time after the first of October.

Bell: He cannot stay?

H.M.Jr: No. He is full time from now until the first of October and after that he cannot give his full time on account of his university responsibilities, but he will immediately begin to look for somebody either inside the Treasury or out, to take over when he goes. I mean he will immediately begin to look for someone. I mentioned to Norman the fact we needed an Executive Order so that Chamberlain can sign. You gentlemen can work that out.

Thompson: I was going to ask the General Counsel if he could appoint him as an assistant to the Secretary.

H.M.Jr: Well, work it out. Dan says that doesn't help.

Foley: What is the Executive Order for, Dan?

Thompson: It is authority to perform these duties.

Bell: This authority is lodged by the President's

- 3 -

order with the Secretary. Bernie has some question as to whether the Secretary - it is not delegated to Secretary Morgenthau. It is delegated to the Secretary of the Treasury. He has some question as to whether anybody else can sign these papers. I haven't signed anything as Under Secretary.

- Foley: You sign as Acting?
- Bell: Now, can an assistant to the Secretary sign as Acting Secretary or if he signs --
- Foley: Assistant to the Secretary, of course, can't sign as Acting any more than I can as Acting.
- H.M.Jr: Gents, work it out.
- Thompson: We will check it up.
- H.M.Jr: I have been all through this before. I think Bell is right.
- Foley: That is right, but the question is whether or not you may delegate to an assistant to the Secretary the authority to sign.
- H.M.Jr: Well, between you and Bell and Norman, have it fixed up and if I have to sign anything, I can do it tomorrow.
- Foley: Right. What happens to the committee, Mr. Secretary?
- H.M.Jr: Chamberlain takes that over.
- Foley: I see, and he just is Vice for Dan?
- H.M.Jr: He is what?
- Foley: He is Vice for Dan.
- H.M.Jr: Why get personal?
- Foley: As they say in football, Bell out and Chamberlain in.

- 4 -

H.M.Jr: That is right, but instead of Bell on the bench we put him up in the bleachers.

Foley: And the committee functions just as it has.

H.M.Jr: Just as it has, just relieve Dan of this thing so he can do more important things, financing et cetera.

Foley: I think it has reached the point where it is routinized enough so that Dan can drop out.

Bell: It isn't routine by any means.

H.M.Jr: Well, you set up a beautiful organization --

Bell: It really requires a lot of time.

H.M.Jr: It isn't fair. I am going to look for a couple more people to bring down and try Chamberlain out. I think he is going to work out swell and not only two months, but I am going to get some more people and try them out and if they succeed we will use two or three young fellows around here. We will see what happens. The other thing is, I have had a preliminary discussion with some of the people here, Norman, and under the rules and regulations of the Treasury nobody is supposed to receive gratuities. Isn't that right?

Thompson: Yes, sir.

H.M.Jr: All right. Well, whether it is a theatre ticket or a box of candy or a three day trip on the boat. Therefore, by word of mouth I want it to be spread that I think it is - does not come under the rules and regulations or the spirit of them for anybody to make this trip over the week-end on the "America". And if the thing comes back on you (Schwarz) on the boat trip why suddenly so many people decided not to, the answer is to show them the rules and regulations on gratuities.

- 5 -

Schwarz: Easy.

H.M.Jr: Certainly if a couple of theatre tickets is a gratuity, a three day trip on the boat with all the liquor you can drink is a gratuity.

Thompson: I don't think anybody asked. Some of the people think they will, because evidently there are more people counting on going than I knew, but the fact that they have got to come and ask --

H.M.Jr: That is right. The fact that they have got to come and ask me whether they should go shows there must be some doubt on the people's minds, and if there is doubt, I just don't want them doing it. Gaston is going to break it to McReynolds. Mac was going to go and Gaston wants to let McReynolds know. Well, anyway --

Gaston: I will just call his attention to the Treasury regulations.

Klotz: Is he in the Treasury?

Gaston: He is not in the Treasury any more.

Klotz: He won't go, then.

H.M.Jr: Gaston thinks he would be leaving him out on the end of a limb if he didn't let Mac know that nobody from Treasury was going.

Thompson: The only people that I have heard of that were going in Treasury was one of the lawyers in Customs.

H.M.Jr: Some Internal Revenue people were planning on going. You are taking care of that?

Sullivan: Yes, sir.

H.M.Jr: All right, Norman.

Thompson: I have a list of promotions in the Coast Guard

which you might like to sign, since it includes Lieutenant McKay and Lieutenant Tollaksen.

- H.M.Jr: Oh, when does this become effective, as of today? Do I date it? July 10th is the date.
- Gaston: They have to get commissions, yet, don't they? You have to get the commissions signed by the President.
- Thompson: Yes, they have to be nominated and confirmed.
- H.M.Jr: Can that go up today to the Senate?
- Thompson: No, these have to go to the President. He will send them right along.
- H.M.Jr: The Senate is in session today.
- Thompson: Here is the letter I prepared for your signature to the President on the John Flynn case, which was up last December.
- H.M.Jr: What else?
- Thompson: That is all.
- Bell: You will recall some time ago that Jesse Jones wrote you a letter about the delay in the Treasury in handling his cases, and he pointed out that the Hudson County National Bank had been delayed for some time. That case was a young Bank of America case, probably a little worse, except in size. They have had several conferences during the past two weeks with the representatives of the bank, including former Senator Milton. Apparently he is a political power up there. They have finally come to an agreement and everything is straightened out and Jesse is satisfied, so it is on the road to settlement.
- H.M.Jr: Good.
- Bell: I still have for discussion that Executive Order on securities, as to whether or not we are going to attach a stamp to securities that have been abroad and have some indication

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that they passed through foreign sources.

- H.M.Jr: Well, if you stay behind this meeting, we will settle this right now. We will go around the room.
- Bell: I think we ought to have Ed and Bernstein.
- H.M.Jr: All right.
- Bell: Professor Chamberlain has gone back to New York.
- H.M.Jr: Yes. Pehle should be on that, too.
- Bell: Yes. I will get them.
- Foley: Dan, don't you think that John ought to have a little more money? He is going to assume additional responsibility on this.
- Bell: Why, I think it would be very good if he would get more money. I don't know how much promotion he got while I was away. I know he got some.
- Foley: He got \$500.00. He gets \$5,500 now. I think he ought to get \$6,500.
- Thompson: He gets \$5600 now.
- H.M.Jr: I think we ought to have Merle Cochran.
- Klotz: Yes. I knew there were more people missing.
- Bell: Well, I can discuss that with you.
- H.M.Jr: I called up the bank in New York and neither Harrison nor his second man were there, so I will tell you now what I wanted to tell them. I won't do it this Saturday, but beginning the first of August I won't do any business any more on Saturday on foreign exchange until further notice. That gives everybody a chance to get caught up. It is just too much.

- 8 -

Bell: Start this Saturday, if it is possible.

H.M.Jr: All right, start this Saturday.

Bell: New York banks don't do much business on Saturday.

Foley: Most of them are closed, aren't they, Dan? They have changed the law in New York, you know. The State Banks can be closed.

Bell: I don't think they voted on that this year.

H.M.Jr: I will do it and the question is why the Treasury has gone Seventh Day Adventist.

Bell: Do you want me to call them?

H.M.Jr: Yes. We have become Seventh Day Adventists.

Bell: But we are not going to work on Sunday, are we?

H.M.Jr: On Saturday we are Seventh Day Adventists.

Bell: That is all I have.

H.M.Jr: George? You put this Detective McKay on my track all the time on some book you want.

Haas: That new order book.

H.M.Jr: I haven't got it.

Haas: You haven't got it? I will have to put the detective looking somewhere else.

H.M.Jr: Have you asked Madam Klotz about it?

Haas: McKay did, didn't he?

Klotz: Madam Klotz? I will ask her and find out.

Haas: We will go into a huddle.

H.M.Jr: See if she can see you.

(Mr. Haas handed report to Secretary.)

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H.M.Jr: I would stop this now and don't send that in to me any more unless there is something wrong with it.

Haas: That isn't on the new basis yet, Mr. Secretary.

H.M.Jr: What is this?

Haas: Ship movements.

H.M.Jr: As of yesterday?

Haas: That is right.

H.M.Jr: Well now, I will send --

Haas: There is nothing very exciting on that.

H.M.Jr: No. I think, Herbert - I will not be here next week, but you make a note, will you please?

Gaston: Yes.

H.M.Jr: You get these figures every Tuesday from now on and while I am not here on Tuesday, the figures covering the week before of oil and the breakdown on it, what kind of oil and scrap iron, to Japan, Russia, Spain and England to go to the President, State, War and Navy and Interior. Will you take care of that?

Gaston: Yes. And Admiral Stark?

H.M.Jr: Yes.

Gaston: In addition to the Secretary of the Navy?

H.M.Jr: Yes, and, Herbert, in order - I don't want every day during the day these ship movements any more, see, unless you yourself are in doubt.

Gaston: All right.

H.M.Jr: If you are in doubt you give me a ring and

- 10 -

I will see you, but I am getting a lot of stuff I don't want to get any more and if you, Herbert Gaston, are in doubt, you walk in and ask Henry Morgenthau what he thinks about it.

- Gaston: Could I have a chance some time today to talk about two or three points in connection with that ship movement thing?
- H.M.Jr: Sure. Come in right after the press conference.
- Gaston: Yes.
- H.M.Jr: But I mean they keep feeding this stuff into me all the time and I want to stop it.
- Gaston: Well, you gave that order last night that you didn't want to pass on those individuals any more.
- H.M.Jr: Yes, but around here it is hard to stop these things. All right, George?
- Haas: I am all through.
- H.M.Jr: Philip?
- Young: I will give this letter back to you from Mr. Purvis.
- H.M.Jr: Phil, this is my reaction. I don't know - sit down a minute. I don't know the detail. In the corner after that difficult meeting yesterday Mr. Knudsen whispered to me, he said, "Well, I may have to ask ten million dollars more of the English on the Packard-Rolls Royce deal, because that is the only way Jesse Jones would do it." I don't know. And now Purvis comes back on me. I don't want to wear out my welcome with Knudsen, you see. We did pull a white rabbit on him yesterday. Why does Knudsen want ten million dollars more out of Purvis?
- Foley: Because he hasn't done anything with the opinion we gave him. If Jesse will follow that opinion he doesn't have to have ten million more out of Purvis.

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H.M.Jr: Well, supposing I do this? You (Young) were over there, weren't you?

Young: No, I wasn't over there.

H.M.Jr: I asked him to take you over.

Young: He called up. I had the Greek Chancellor on my neck.

H.M.Jr: Turn your head around once.

Young: It is still there.

H.M.Jr: I want to see if it is clean.

Young: By the time I got through with him, Purvis said it wasn't worthwhile coming over but that he would let you know what occurred.

H.M.Jr: Well, supposing I sit tight this morning and do nothing. I will tell you what I can do, I have got a call for Knudsen and you can all listen in. I will talk to him right now and ask him where he stands. I just don't want this fellow to feel - I don't want him to get, you know, impatient with me, Knudsen, and I guess Jesse has pushed him pretty hard. My own hunch is that in view of the fact that we want the President to see us today or tomorrow on the new setup of financing war orders, which we have recommended, we might let this thing slide; and if it is this new organization, we may get a breath of fresh air and if we want horrible examples to give the President, the Packard one would be as good as any, wouldn't it?

Foley: Yes.

H.M.Jr: You (Young) couldn't find out for me from Purvis where he stands on this Rolls Royce thing?

Young: Sure.

H.M.Jr: Why would he want them to put up ten more besides

- 12 -

the 25, is that half the money?

Young:

I don't know.

H.M.Jr:

I don't either. Do you know, Ed?

Bell:

Thirty million is the amount, isn't it?

Foley:

I don't know. Jesse set it up on the basis of where the amount of capital contributed by RFC and the British for construction is in ratio to the number of engines to be manufactured for the United States and for the British. That is the way he wanted it set up in the first instance. We take the position, and I am sure we are right, that National Defense Legislation calls for the construction of the facilities and the use of the facilities has no bearing upon the construction of them but what we need is to be able to produce airplanes and if the facilities are there, what they may be used for until the Government wants to take over the use under priority or under mobilization of industry makes no difference.

Young:

Doesn't it say in that letter that they can't go ahead any way except on a fifty-fifty basis?

H.M.Jr:

He doesn't say fifty-fifty. "United States' share might be increased from 3 to 6,000 engines, so putting it on a fifty-fifty basis on the engines," but not on the contribution of money.

Foley:

Maybe the 10 million dollars will increase the British contribution from 1/3 to 50%.

Young:

He says, "I understand that as we are interested to an extent greater than 1/2, the RFC financing plan cannot be arranged and we must have a further 10 million dollars to take care of capital defense."

H.M.Jr:

They are getting 2/3 of the engines but - I took it they were putting up 1/3 of the money. I don't know. Try to find out.

- 13 -

Young: I will find out.

H.M.Jr: Anything, Phil?

Young: No. I have two or three things I want to talk to you about some time before you get out of town. Our Hispano Suiza engine has turned up in the Ford plant at Detroit.

H.M.Jr: How did it get through Customs?

Young: I haven't any idea. Mr. Harris was looking out for it.

H.M.Jr: I know it. Weren't there two of these engines?

Young: Only one turned up.

H.M.Jr: Ask McKay, will you, for an appointment?
Who is running for Governor of New Hampshire?
Got it all under control?

Sullivan: I guess so. In another couple of hours.

H.M.Jr: What a state.

Sullivan: They play for keeps.

H.M.Jr: Ed?

Foley: Nothing.

H.M.Jr: Are you all right?

Foley: Yes.

Gaston: I will see you later, I hope. Waesche went up this morning to meet Smith at New London.

H.M.Jr: Let's see, we are going to do - what are we going to do, Dan? Stamp tax now.

Schwarz: I got passed up, Mr. Secretary, on one matter.

H.M.Jr: Oh, that is what you call playing "Going to Jerusalem."

- 14 -

Schwarz: I have this order on Chrome from the Procurement Division and I also have just received a memorandum from the Director of Procurement in which he says the folks over there have talked over the whole situation and feel that it is contrary to the Government's interest to release these negotiated contracts where they have limited sources of supply because they fear prices will rise.

H.M.Jr: All right.

Schwarz: What I would like is an opinion on it.

H.M.Jr: Well, take his advice.

Schwarz: For the time being, and possibly later on if they have got enough stuff, then when they have got it all in we can make use of the figures.

H.M.Jr: All right.

Copy to

Hon. Jesse Jones
Hon. Warren L. Piarson
Mr. George Murnane
Hon. Edward R. Stettinius, Jr.
Hon. Henry Morgenthau
Mrs. Roosevelt.

MEMORANDUM OF CONVERSATION WITH
D. STEWART IGLEHART, PRESIDENT,
W. R. GRACE AND COMPANY,
JULY 25, 1940

Mr. D. Stewart Iglehart of W. R. Grace and Company called this morning to say that he has just received word from Peru that 90-day sterling bills were now practically unmarketable. He suggested exploring the possibility of setting up some kind of bank operation in New York to handle this kind of credit. He thought that Lores of the Guaranty was about the best informed on the South American Exchange. He remarked that the New York Clearing House might also be used. I am going to talk to George Murnane and ask him if he will make an independent study of this question, also exploring the possibility of organizing a corporation under the Edge Act, or an acceptance bank with private capital, to embark on this form of business. If responsible private capital could be interested, I assume that the Export-Import Bank or the R.F.C. might consider loans.

Mr. Iglehart also said that he had just been informed by one of his people in Bolivia, a man named Bowers, that the Germans had begun to acquire newspapers in Bolivia, also that Lufthansa was also making a proposal to buy a half-interest in the Bolivian airlines, paying for such stock in equipment, that is, planes, hangars, etc.

Mr. Iglehart also referred again to his suggestion of two weeks ago that some of our Government agencies — Federal Reserve Bank, R.F.C., or the Treasury — consider small stabilizing loans to the Reserve Banks of various South American countries against specific commodities — Brazilian coffee, Chilean nitrates and Bolivian tin and antimony.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS
Thursday, July 25, 1940.
7/24/40

Press Service
No. 21-71

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3/4 percent notes of Series F of the Commodity Credit Corporation closed at the close of business Wednesday, July 24.

Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Treasury Department, and placed in the mail before 12 o'clock, midnight, Wednesday, July 24, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Monday, July 29.

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RAW

PLAIN

London

Dated July 25, 1940.

Rec'd. 2:55 p.m.

Secretary of State,
Washington.

2402, July 25.

FOR TREASURY FROM BUTTERWORTH.

My 2353, July 23, blocked out the dimensions of the budgetary position and my 2377, July 24, gave the press reaction ~~the~~ ~~re~~to. Important aspects of Britain's financial problem as I see them which have not been discussed in the press and which should be receiving the attention of the British monetary authorities are the following:

With the present rate of war expenditure running at £57 million a week it is probable that spending is now out-running - daily and weekly - the intake from (1) taxation and (2) genuine savings (although these latter may for war-time purposes be taken as gross not net savings). This is, if this be correct, "borrowing in excess of savings", the classic and simplest form of inflation.

In this connection it is pertinent and exceptional that an overwhelming proportion of Britain's wartime outlay on pay rolls is being spent in the United Kingdom - the army and air force being at home. In fact this circumstance

RAW -2- Plain, London, July 25, 1940.

is much in evidence: the large flow (repeat flow) of money as compared with the condition prevailing during "the Indian summer of British war finance" (see my no. 2695 of December 21, 7 p.m.).

The suggestion implicit in the Chancellor's budget speech that acquisition of dollar and other securities by the British Government avoids, pro tanto, inflationary creation of credit seems to me over-simplifying matters because the sterling has first to be borrowed or created for purchase of these holdings. On the other hand, it is possible (1) that inflationary credit has to some extent already been created via the exchange equalization fund and (2) that most of the sterling paid to investors will return more or less directly to Government loans of one kind or another.

If as seems probable port or shipping facilities, if nothing else, will enforce a lower rate of total (repeat total) consumption of consumables, there is the prospect of larger money income impinging on a smaller supply. Prices must rise unless such diminishing supply is rationed very severely and prices regulated. In other words administrative and political control will have to counteract what would be the normal influence of the money flow in the British economy.

The present and probable future financial and economic strain is easily justified and explained by the fact that -

for

RAW -3- Plain, London, July 25, 1940.

for known reasons - Britain is now compelled to telescope (repeat telescope) what would, even if undertaken over a period of years (as was done by Germany), have been a prodigious financial war effort. But the risk of a steep and dislocating - or a non self-propelling - rise in United Kingdom prices and wages is not removed by this admission. It seems to me only a firm and concerted policy can counteract it. It is hard to see how monetary expansion rendered inevitable by the exigencies of a war effort could (repeat could) be counteracted by monetary, i.e. fiscal measures in an opposing sense. Administrative and mechanical control of prices and distribution of supply can alone prevent the monetary flow from exerting its normal influence: especially as there appears to be great hesitancy about reducing spendable incomes - now being rapidly generated and certainly already raising total national income above peacetime levels - to the degree practiced in Germany. These considerations seem to me to link up naturally and directly with the question of exchange policy and mechanism: if a rise in United Kingdom prices is not or cannot be prevented the need for some elasticity in the exchange (governing exports) is the greater.

In the case of Germany two essential factors had to be employed in support of exports other than subsidies, which did not prove a success and were not really liked by the

German

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German Government itself: (1) absolute rigidity of wages was enforced and it was the workers' consumption that had to give way and (2) when even so export prices were found too high various differential exchange rates were used either as different types of marks or by means of direct bilateral commercial arrangements with individual countries in each of which exchange differentials played the requisite part.

On the other hand, the British Treasury has by the measures undertaken on July 17 introduced a degree of rigidity in its foreign exchange mechanism which seems to me can but in due course prove incompatible with the complete lack of rigidity of wages and domestic costs.

Ironically enough this seems to have been unnecessary for in its original regulation 5b, as pointed out in my telegram no. 594 of March 9, 12 noon, it was eating its foreign exchange cake and having it too; garnering its full quota of dollars from the sales of the monopolistic 5b goods (and this list could be added to or subtracted from at will) while at the same time the free market for sterling (which could at any time be held at any level deemed appropriate by the intervention of the equalization fund) benefited Britain's competitive exports. If to this were added the blocking of non-resident owned securities and the network of payments agreements or unilateral clearing arrangements, having thus

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closed up the unprofitable loopholes in the free sterling market, a neat mechanism would have remained which in conjunction with the equalization fund would have provided a flexible and effective means of ensuring a competitive exchange rate for vulnerable British exports to the United States. The operation of the 100 percent excess profits duty tax would have automatically drawn off any undue advantage accruing to a particular export industry.

However, the problems remain; how and when they will be faced up to is in the lap of whatever political gods there be.

KENNEDY

WVC

48

GRAY

Berlin

Dated July 25, 1940

Rec'd 4:15 a.m., 26th

Secretary of State,
Washington.

3158, July 25, 3 p.m.

My 2389, July 2, 2 p.m.

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

According to a statement published by the Reich's Finance Ministry the total tax revenues of the Central Government of the Reich in the period from April 1 to June 30, 1940 were 6,067,000,000 marks of which 4,896,000,000 marks were derived from income property and trade taxes (including war surtaxes) and 1,171,000,000 marks from consumption taxes and the customs. Total tax revenues were thus 227,000,000 marks higher than in the preceding quarter and 846,000,000 marks higher than in the corresponding period of last year. It is to be noted that normally tax collections are somewhat higher in the June quarter than in the March quarter.

For the period from October 1, 1939 to June 30, 1940
during

AS-2- No. 3158, July 25, 3 p.m., from Berlin.

during which present tax rates have been in effect gross tax on revenues of the Central Government have averaged slightly over 2,000,000,000 a month with little variation-- a rate of 24,000,000,000 marks a year. A part of this amount between 1.5 and 2,000,000,000 marks a year is transferred to the governments of the provinces and communes. On the other hand the war contributions of the provinces and communes to the Central Government amounting to about 1.5 billion marks a year are apparently not included in the official statement of tax revenues. There are, furthermore, certain miscellaneous revenues such as the Reich's share of the profits of the Reichsbank, Reichsbahn and other state enterprises, seignorage on metal coinage, rents on government real estate, court fines and costs, etc., which are also not included in the statement of tax revenues so that it can probably be safely assumed that the Central Government's total revenues from taxes and miscellaneous sources (not including borrowing) are at least 2,000,000,000 marks a month.

KIRK

TFV

CABLE

FROM: Treasury Attache Nicholson,
Shanghai, China.

DATE: July 25, 1940

For the Secretary of the Treasury.

Shanghai market July 24 closed quiet at 3-29/32 for cash and July 3-57/64 for August for sterling 6-1/8 for cash and July 6-1/16 for August for U.S. dollars. Gold bars closed at 5263 and wei wah at discount of 4.60%.

NICHOLSON