

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 6:20 yesterday evening Mr. Stopford of the British Embassy called on me. He showed me the pencilled copy of a very confidential cablegram which he had received from the Ministry of Economic Warfare in London. This message stated that the Italian Consul General in New York was being informed by the Italian Ministry for Foreign Affairs by cablegram dated September 8 that the Italian Foreign Exchange Institute had opened a credit through the Credito Italiano agency in New York in behalf of the Consulate General for \$795,767.80, which sum was to be withdrawn in banknotes and silver and delivered secretly to H. Itohet of the New Jersey branch of Showa Tsusho Kaisha, in the General Motors Building, 1775 Broadway, New York.

I told Mr. Stopford that we had earlier information in regard to one Hideo Itoh, the manager of Tsusho Kaisha at 1775 Broadway, and that we understood that he was the purchasing agent for the Japanese Army. I let Stopford know that this individual had received payments from German account within recent weeks, amounting to considerable money. Furthermore, I told Stopford that the account of the Credito Italiano in New York had on September 10, two days after the sending of the above-mentioned cablegram, been subject to a cash withdrawal of \$150,000.



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DATE September 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Yesterday forenoon Mr. Norman Armour, American Ambassador to Argentina, called on me. We had chatted for a few minutes in the Secretary's outer office earlier in the forenoon. Mr. Armour stressed his interest in seeing something done financially for Argentina by the United States. He thought that the appointment of Mr. Pinedo as Argentine Minister of Finance made the outlook better for the United States in its relations with the Argentine. He thought that Pinedo was a real friend of this country and that if we did something for Argentina now while he is in office, Pinedo could show his colleagues that it paid to be on friendly terms with the United States, and a general improvement in our relations might result. I mentioned that the Export-Import Bank had recently received a big increase in its funds, and I thought that the new amount might go a long way toward helping Latin American countries. When Mr. Armour spoke also of a loan which might help the stability of the Argentine currency, I told him that I was a little conservative on Treasury intervention in this direction unless we have a situation upon which the Secretary very soundly could exercise the authority which is entrusted to him. Mr. Armour replied that if there were no element of risk involved, the Government would not be looked to for loans; these would be taken care of on a commercial basis. I did not argue with him on this point.

In answer to my inquiry, Armour stated that he understood Irigoyen's "wings had been clipped". That is, the new Minister of Finance is understood to be a better technician than his predecessor, and Armour does not think he needs Irigoyen for support. During my limited period in the Treasury it has been my observation that Irigoyen is highly intelligent and well informed on international finance, as well as being correct in his understanding of what the financial relations between our two countries should be. When Mr. Jay Crane was with me today, he mentioned Pinedo as being the official who was largely responsible for the development of Argentine exchange control, and who now apparently is behind the new Argentine steps toward refusing foreign exchange for importation of United States products. Crane thought that he was by no means pro-American. He told me that Professor John Williams was rather well acquainted with Pinedo, and could give us first-hand information in regard to this official.



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STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from Italian and German accounts.

Italian

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 19	\$3,000,000	Credito Italiano, New York	Post and Flagg
September 19	2,500,000	Banca Commerciale Italiana, New York	Discount Corporation
September 20	350,000	Credito Italiano, New York	Post and Flagg

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 16	\$ 611,000	Bank of Napoli Trust Company, New York	Irving Trust Company

German

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 19	\$ 100,000	Reichsbank	Hideo Itoha, Manager, Showa Tsusho Kaisha, 1775 Broadway, N. Y.
September 20	150,000	"	State Bank of the U.S.S.R.
September 20	64,000	"	Riggs National Bank, Washington, to be paid to the German Embassy for wages.



September 20, 1940

Mr. Pable

Mr. Cochran

Mr. George Lindsay, of the Swiss American Corporation, 24-26 Pine Street, New York, New York, called to see me yesterday forenoon. He stated that there had recently been no important withdrawals from Swiss accounts with his organization or with the New York agency of the Credit Suisse, the latter having offices in the same building. There had been, some weeks ago, certain withdrawals of working capital which had been sent to this market by Swiss concerns during the height of the European war crisis, when invasion of Switzerland was considered as likely. After Secretary Hergenthan's press statement in regard to the possible use of private funds on this market to pay public debts, some of the Swiss have preferred to risk invasion of their own country rather than blocking of their funds in the United States.

Mr. Lindsay told me that he hoped to call at the Treasury Department today with respect to several applications for license which his concern has pending with our Control. At 9:35 this morning he spoke with my secretary and left with her the attached documents mailed to him from New York to form the basis of his inquiries in the Treasury. I did not see him this morning, but it is my understanding that Mr. Lindsay will return around 4:00 this afternoon, hoping to see Mr. Pable. The attached documents are, therefore, submitted for Mr. Pable's attention.



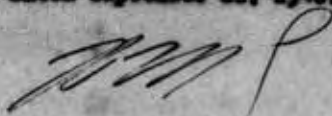
EMC:lsp-9/20/40

September 20, 1940

Professor Chamberlain

Mr. Cochran

Mr. Woodard of the State Department telephoned me yesterday to see whether we had taken any action on the application of Mrs. Maria Elvira Braganza which was the subject of my memorandum dated September 11, 1940.

A handwritten signature in cursive script, appearing to be 'JMP'.

HMC:lp-9/20/40

September 20, 1940

Professor Chamberlain**Mr. Cochran**

Mr. Bernard Carter telephoned me from the New York office of J. P. Morgan & Co. yesterday morning at 10:50, inquiring whether the Treasury was ready to take any action on the application for a license made by J. P. Morgan & Co. to transfer \$10,000 to the account of Anne Morgan working in behalf of Friends of France. I promised Mr. Carter that I would take this matter up at once with Professor Chamberlain, since we were both to attend a Staff meeting in ten minutes with a view to getting a decision in the premises. Mr. Carter was to call me back at 12:15.

Professor Chamberlain discussed the question with Secretary Morgenthau after our 11:00 Staff meeting. When Mr. Carter telephoned me at 12:20 I referred the call to Professor Chamberlain, as had been agreed. At our Group Meeting yesterday afternoon Professor Chamberlain reported this conversation.

While Mr. Carter was talking with me he asked if the Treasury might possibly reconsider its action in refusing Morgan's application No. 570 made for the extension for one year of a letter of credit in behalf of the Schloss family of France. Mr. Carter thought that failure to extend this letter enhances the opportunity for the Germans to get a hold on the funds of the family in question.



HMC:lm-9/20/40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau
FROM Mr. Cochran.

CONFIDENTIAL

The six reporting banks executed the following transactions in registered sterling:

Sold to commercial concerns	£34,000
Purchased from commercial concerns	£ 6,000

In the open market, sterling was quoted at 4.03-3/4 until just before the close, when it advanced to 4.04. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£ 2,000
Sold to foreign banks (Venezuela)	£ 2,000
Total	£ 4,000

Purchased from commercial concerns	-0-
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The Canadian dollar, which has been recovering in the past few days from last week's decline, weakened somewhat today. The closing discount was 16-1/4%, as against 15-7/8% yesterday.

The Cuban peso has had an easy tone of late. The discount widened to 10% this afternoon, and closed at 9-7/8%, as compared with yesterday's final rate of 8-7/8%.

The other currencies closed as follows:

Swiss franc	.2278
Swedish krona	.2386
Lira	.0505
Reichsmark	.3992
Mexican peso	.1996 bid, .2016 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank transferred on its books today \$2,419,000 in gold from the Bank of France Account Z to the ordinary gold account of the Swiss National Bank. This transaction is part of previous transfers of gold in New York from French to Swiss ownership, against delivery of \$48,596,000 in gold by the Swiss National Bank to the Bank of France in Paris. The original transfers represented 95% of the swap, and today's transfer constitutes the remaining 5%.

- 2 -

The Federal Reserve Bank reported that the Bank of Portugal shipped \$3,033,000 in gold from Portugal to the Federal, to be earmarked for its account.

The Bombay gold price moved off slightly to the equivalent of \$33.90. Silver in Bombay was priced at the equivalent of 44.67¢, up 1/8¢.

In London, the prices fixed for spot and forward silver were both unchanged at 23-7/16d and 23-5/16d respectively. The dollar equivalents were 42.56¢ and 42.33¢.

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 325,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented sales from inventory by one of the refining companies, and the remaining 125,000 ounces consisted of new production from foreign countries, for forward delivery.

**CONFIDENTIAL**

SEP 20 1940

Your Excellency:

I am in receipt of your letter of July 31st and am glad to note that you share the high opinion of Mr. Chen which all who came into contact with him here in the United States hold of him.

It reflects very favorably on China's prestige that she has continued to meet her obligations under the credit arrangements in the most trying circumstances. I am sure that the fulfilment of her obligations will stand her in good stead in the future.

I read your observations on recent and current developments in the Far East with great interest.

With my most cordial and best wishes for your continued success,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

His Excellency, Dr. H. H. Kung,
Vice President and Minister of Finance,
The Executive Yuan,
Chungking, China.

cc to Mr. Thompson

B.A.
HWA
9/18/40

ork

LE COPY

The Executive Yuan

Chungking, China.
July 31, 1940.

The Honourable Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.
U. S. A.

Dear Mr. Secretary,

It gave me great pleasure to receive your letter of May 23rd and to note your satisfaction with the manner in which Mr. K. P. Chen has conducted his mission to negotiate for the credits extended by your Government. Since then Mr. Chen has returned to Chungking and reported to me in details about the kind reception and helpful co-operation which you and other officials in your Government have extended to him.

I am indeed happy to have your approval of Mr. Chen's qualities of ability, vision and integrity, for it was precisely because of those merits which he possesses that I have selected him to head the mission.

But, while due credit must be given to Mr. Chen for the successful conclusion of his mission, I have not the least doubt that the maze of complexities and difficulties which he has had to encounter could not have been satisfactorily solved without your sympathetic support and interest in China's national cause. For this as well as for your many evidences of friendship in the past, I on behalf of the Chinese Government and myself must reiterate our sincere appreciation.

I wish to take this opportunity to say that no better evidence of China's appreciation for America's friendly assistance in her hour of need can be furnished than by our unshakable determination, on the one hand, to carry on our struggle for liberty to the bitter end and, on the other, by our earnest and scrupulous efforts to fulfill our obligations to your Government as contracted under the credit arrangements. You are certainly aware of the immense difficulties under which we have had to make good our promise. But you may rest assured that as far as humanly possible we will continue our efforts to live up to it.

Recent

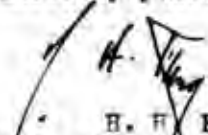
The Executive Yuan

Recent developments of the Far Eastern situation have completely unmasked Japan's true intentions regarding the so-called "New Order in East Asia". How in their armed aggression in China, the invading hordes of Japan have trampled upon American rights and interests and slammed the "Open Door", is a fact too clear to need any elucidation. But perhaps it is not sufficiently appreciated by the American people that, had Japan not been bogged down by China's stubborn resistance, she would have long ago taken advantage of the European situation to extend her lustful arms into the possessions of other Powers in the Pacific. I recall having had the occasion to discuss with you during our last visit together about the reality and gravity of the Japanese menace to the American democracy. To-day the unbounded lustfulness and madness of the Japanese militarists is definitely a direct and serious challenge to America's security and greatness as a Pacific Power. I refuse to believe that any American statesmen can think that a policy of appeasement will put an end to the Japanese aggression and restore peace to the Pacific neighbourhood.

We in China are interested to note the more positive attitude which your Government has recently taken towards the Far Eastern situation, and we can only hope that such an attitude will be strengthened in time by effective actions, so that the common security and interests of our two nations may be safeguarded. I still say that for America the cheapest way to check the Japanese aggression is to help strengthening China's power of resistance in every way possible.

Please accept my kindest personal regards and best wishes for your health and success.

Sincerely yours,


 H. H. Kung
 Vice President and concurrently
 Minister of Finance.

PARAPHRASE OF telegram from American Consulate General,
Prague, no. 258, September 20, 1940.

Secretary of State,

Washington.

It has now been announced officially that the customs frontier between Germany and Bohemia Moravia will be abolished the first of next month and that the crown and mark will have the status reported in this office's telegram of August 28, no. 231. Further, a National Bank official has told us beginning October first indirect taxes will be gradually changed to conform to those in the Reich. German railway rates will become effective the first of the year. During the coming year direct taxes will be changed to those prevailing in Germany. Regulations increasing to ten hours a day the working hours in the Protectorate and prices by from twenty-five to thirty percent will soon be published, according to reports.

Since there has been no indication that there will be abolished the now required entrance and exit permits for travel in the protectorate it is apparent that the customs boundary is an economic and financial measure.

POTTER

DCA:GME:BLS 9/21/40

eh

COPY

Copy of Letter from A. Mexico City, September 20, 1940.

As I have informed you in former correspondence, Avila Camacho made yesterday a declaration which I suppose was instead of the "Manifiesto" of which I had spoken before. It is very interesting and full of common sense. It says, among other things, first that he is a Catholic and a believing Catholic, a tremendous thing for a new President to say. By this he either has or is going to get the help of the Catholic Church, which is quite powerful again. I am convinced it is the former. About the labor movement he says the laborers by now have found out that one should not kill the hen which lays the golden eggs. He stated: "We all must work a lot and we must organize our work to accomplish the prosperity of the Country. It would be wrong to forget about the just conquests of the laboring classes, but it would also not be just if only certain sectors should benefit by it." He furthermore declared he will give all guarantees to Mexican and foreign capital and that by giving guarantees to the Mexican capital, foreign capital will come by itself.

I feel pretty sure that one of the first acts of his will be to arrange the oil question and necessarily he will be forced to do something for the railroad situation.

These declarations, of which very few people had inside information before, have been extremely well accepted by everybody here and it looks as if my optimism as given to you in former letters was justified.

This, of course, is not to be so optimistic as to believe that everything now is "couleur de rose". We live in Mexico where things are handled in an entirely different way than in other countries, and it is far too early to cry victory, but all signs point to the direction of a common sense Government to come. That is all Mexico needs.

The exchange situation is fairly unclear on account of rumors about a revolution which come practically always from the United States and have no foundation whatsoever. People have started either to return money to the United States or in rural districts, in the small places, to put away silver pesos instead of having bank deposits. The reserves of the Bank have gone down to 26 1/2 millions and while the official talk in Government circles is still to put the exchange down, I believe they will be glad if they can hold the exchange at 3 till the first of December. With the new wind then blowing and if the new President should choose a Cabinet whose personalities will give the impression that capital will have guarantees, it will be very easy for Mexico to hold the exchange at 3. Possibly the new Government may consider any time to put the exchange to 5.50 which, in my opinion, is the proper rate at which the exchange should be to the benefit of all.

COMPLIMENTS
OF

MR. H. K. HOCHSCHILD

September 20, 1940

Telegram to General Watson,
Poughkeepsie, New York

VIA WHITE HOUSE TELEGRAPH WIRE

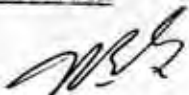
Guy Helvering talked to Magruder today who seemed to be familiar with what was going on. Guy told him the best thing we had to offer was a place on the Processing Tax Board of Review paying the same salary he is now getting. Magruder said he would make no decision until he had a chance to talk to a friend in the State Department with whom he has an appointment at 4 o'clock this afternoon. As soon as something further develops, I will advise you.

Henry Morgenthau, Jr.

September 20, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston



Guy Helvering talked to Collector Magruder of Baltimore from my office. Magruder knew what is going on. Guy told him that the best thing that we had to offer was a place on the Processing Tax Board of Review paying the same salary as he is now getting. Magruder said he would make no decision until he had had a chance to talk to a friend in the State Department with whom he has an appointment at four this afternoon. He will arrive in town at three. Guy is quite certain that the friend to whom he refers is Sumner Welles.

None of the three of us like the arrangement that is being made. Appointment to the Processing Tax Board of Review is not a promotion. It occurs to us that the President might be able to find some other position for Magruder outside of the Treasury that would be recognized as a promotion. In view of Magruder's request for time, we have not called any of the other persons concerned.

September 20, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Guy Halvering talked to Collector Magruder of Baltimore from my office. Magruder knew what is going on. Guy told him that the best thing that we had to offer was a place on the Processing Tax Board of Review paying the same salary as he is now getting. Magruder said he would make no decision until he had had a chance to talk to a friend in the State Department with whom he has an appointment at four this afternoon. He will arrive in town at three. Guy is quite certain that the friend to whom he refers is Sumner Welles.

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HEG/mah

DEPARTMENT OF STATE
WASHINGTONIn reply refer to
EA Frozen Credits

September 20, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and transmits herewith a memorandum of conversation between the Yugoslavian Minister at Washington and an officer of the Department concerning the unfreezing of the account of Mme. Vesnitch with the Chase National Bank.

Enclosure;

Memorandum of Conversation,
September 19, 1940.

September 19, 1940

EA -

The Yugoslav Minister talked to me about Mme. Blanche Vesnitch, born an American citizen but now a Yugoslav subject. She is the widow of a well-known Yugoslav diplomat, who was at one time Minister to the United States, and a woman of considerable means.

Mme. Vesnitch is now residing at the Ritz-Carlton Hotel in New York, having arrived recently from Europe. She finds herself in a serious predicament due to the fact that her funds have been blocked because she has for a long time resided in Paris. The Chase National Bank has for a considerable period been regularly sending to its branch in Paris sums of money to be paid to Mme. Vesnitch.

The Minister asked if we could not arrange for the release of her funds. Mme. Vesnitch intends to remain in America and has applied for re-naturalization.

I told the Minister that the Department would look into the matter. I believe that this case has considerable merit and that sufficient money at least to cover her living expenses might properly be released.

EU:Coe:DKP

mg

COPY

September 20, 1940.

To: Mr. Cochran

From: L. W. Knobe

Mr. Funck of the Chase National Bank called today to say that the "President Adams", expected to dock in New York on September 24 from a round-the-world trip, was carrying, consigned to the Chase National Bank by the Hongkong and Shanghai Banking Corp. in Hongkong 1,122,000 ounces of silver in sycee, silver coin and sub coin. This silver had been shipped by the Central Bank of China and the instructions to the Chase National Bank were to refine it upon arrival and then offer it for sale.

(1) L.W.K.

Funck says this has nothing to do with Tientsin silver, as far as he knows.

C O P Y

bj

September 20, 1940


MEMORANDUM FOR THE FILES:

I spoke to Mr. Lamiell of the Post Office relative to the matter of the Post Office authorizing certain shipments of gold by mail to this country in spite of the Postal Regulations prohibiting such shipments. Mr. Lamiell said that during the last year and one-half there had been very few cases where the Post Office had made such an exception; that each case was considered separately and the authorization was granted only where the circumstances were exceptional, that is, in cases in which the gold had arrived in this country; and that whenever the exception was granted the Postal authorities in the country of origin were advised of the Post Office Regulation. Mr. Lamiell agreed that before Post Office made any further exceptions they would notify the Treasury.

E. Bernstein

September 24, 1940

In conversation by telephone this morning with Mr. Knoke, I referred to his letter of September 16, and read to him the above memorandum from Mr. Bernstein. I also promised to send Mr. Knoke a copy of this memorandum for his files.

H. Merle Cochran


222

BRITISH EMBASSY,
WASHINGTON, D.C.

September 20th, 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. S. Brown

The Honourable

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

Telegram from London dated September 19th.

1. Naval.

Mine sweeper "Golden Eagle" hit and exploded enemy mine laying aircraft in mid-air on the night of September 17th/18th.

On September 16th carrier borne aircraft of the fleet air arm attacked Benghazi. A destroyer was probably sunk, a merchant vessel set on fire, and other vessels damaged. One enemy aircraft was shot down by our fighters.

On the night of September 17th/18th 2 destroyers and one gun boat bombarded the road at Sollum, and enemy concentrations at Sidi Barrani.

2. Royal Air Force.

On September 17th/18th heavy and successful attacks were made by 145 aircraft on enemy shipping in the channel ports. 7 marshalling yards were also attacked and hits scored on all of them. The docks at Hamburg were bombed and hits were registered in target area, although results were difficult to observe.

Last night 187 aircraft were sent out to the following objectives:

Shipping and barges in Channel ports (160 aircraft);
Marshalling yards in Germany and Belgium,
Gun emplacements opposite Dover and one aerodrome.

In addition mine laying was carried out, and leaflets were dropped in Northern France.

-2-

6 aircraft have not reported back.

3. General Air Force.

Night of September 17th/18th & telephone exchanges in West End of London are threatened by unexploded bombs. Casualties during this night are reported as about 100 killed, 350 injured.

A situation report of September 18th indicates that in one district electricity services, which were interrupted, are completely restored.

On London, Midland and Scottish system all lines are reported clear. On Southern Railway system power supply and signalling at Victoria is restored, several suburban lines are reopening to traffic, and up and down main lines to Clapham Junction are clear. One of London docks is temporarily closed by unexploded bombs.

During the day 3 major attacks developed against London, in the morning, at mid-day, and about 4.30 p.m. The first attack consisted of about 200 aircraft, all fighters; they were intercepted, and did not penetrate beyond Tilbury. The second raid of about 300 aircraft approached London area, and was dispersed by our fighters. The third of about 350 aircraft approached from the southeast, but turned away before reaching Central London. No major damage is reported as result of these raids, and enemy casualties were as follows:-

<u>Enemy</u>	<u>destroyed</u>	<u>probable</u>	<u>damaged</u>
<u>by fighters</u>			
Bombers	36	5	7
Fighters	10	11	12
TOTALS	46	16	19

Our losses 12 aircraft, but 9 pilots are safe.

Last night at about 8 p.m., a formation of approximately 200 aircraft approached London. This is

-3-

the first occasion that such a large formation has been plotted at night, enemy activity was continuous, and until 3 a.m. aircraft were plotted from many directions, and not merely from the usual areas. At 3.30 a.m. detachments again approached from Havre-Dieppe area. The "all-clear" was given at 5.30 a.m.

Besides London, the northeast, northwest and Bristol areas were visited. In London area bombing was similar in extent to previous night, coming chiefly to central London and East End. No serious damage was reported to docks, nor was there special concentration on railways, but certain industrial premises were hit, including 4 engaged on armament work, but at none of them was the damage serious. A rough estimate of casualties so far recorded is 90 killed and 350 wounded. Damage was caused to main railway lines at Liverpool, and some bombs were dropped on other towns in Lancashire.

4. Shipping Casualties, by submarine.

On September 17th British ship 5,000 tons was sunk in N.W. approaches. The same day the "City of Benares" (11,000 tons) and "Marina" (5,000 tons), having left an outward convoy, were torpedoed and sunk in N.W. approaches, the former had on board 100 children and 100 adults for Montreal. The British warship which rescued 18 women, 15 children and 46 men, reports that boats were rushed by U-boats and capsized.

5. Sudan.

Kassala Area. Report received yesterday that considerable enemy troop movements, including black shirt detachments, are reliably reported arrived at Kassala from the East, and crossing to the west bank of the River Atbara. Possible number of the latter 6,000 probably include some medium

artillery/

Regraded Unclassified

↓

artillery and tanks. Latest report indicates concentration completed, early move likely. Royal Air Force are taking action.

Egypt - Libya.

On September 17th our medium bombers attacked an aerodrome near Benghazi. A hangar and petrol dump were destroyed, also two enemy bombers on the ground. Enemy concentrations near Sidi Barrini were also attacked. Previous night Heron Matruh had been bombed by the enemy without damage.

Erythraea - Ethiopia.

On September 16th/17th/18th our medium and heavy bombers attacked Massawa, enemy aerodromes and railway station on the Jibouti railway.

RE EXCESS PROFITS TAX

September 20, 1940
9:25 a.m.Present: Mr. Foley
Mr. Sullivan

Foley: I said I thought it would be a good idea if you had him over to lunch and you said you wanted to do that after you got back.

H.M.Jr: Drew Pearson called me up to tell me that the old boy was awfully sore, and he talked to him on the telephone and that - he says, "Did this come out of the Treasury?" He said the Treasury in the past had always thought very highly of him. He said he left it in his mind that he got it from members of the Committee. As a matter of fact, he did get a lot of it from Jere Cooper.

Now, I'm going to call up the old boy right now.

Sullivan: This is what he wanted.

H.M.Jr: Let's see it.

Sullivan: It is crazy.

H.M.Jr: It appears that you will not back up the Treasury on that?

Sullivan: That is right.

H.M.Jr: That is what he wants?

Sullivan: Yes.

H.M.Jr: If he wants it, it is okay.

Sullivan: He hasn't seen it. That is what he was talking about the other night. Those are the things.

- 2 -

Foley: Is Drew going to go down and see him?

H.M.Jr: At twelve-something, and he said if we know anything about it, for God's sake to call him up, so if you know of anything, I would call him up.

So I said to Drew, "I am sorry I got you in hot water." I said, "We are in hot water."

(Telephone conversation with Congressman Doughton follows:)

September 20, 1940
9:25 a.m.

H.M.Jr: Hello. Henry Morgenthau talking.

Congressman
Doughton: How are you, Mr. Secretary - Henry?

H.M.Jr: How're you?

D: Oh, I'm right here about the same as usual.
You all right?

H.M.Jr: I'm on the job and I wondered if there was
anything that I could do to be helpful.

D: About which.

H.M.Jr: Is there anything that I can do to be helpful
about anything?

D: Well, I don't know - you always usually know.
We're going to conference but it don't look
like now we'll get to conference possibly
before Monday. The conferees are appointed
but our conferees seem to feel that we'll make
time and they'd be better satisfied if we
studied these Senate amendments and familiarize
ourselves with them pretty well before we go
into conference, and Dr. Crowther said - he's
been going along pretty well - that he couldn't
be here tomorrow. We're going to go back today.
I told Harrison we couldn't go into conference
before tomorrow, but some of them think we'd
make time by going over until Monday. I don't
know. I'm trying to push it all I can but it's
hard to push a Committee that feel like they
want to take their time.

H.M.Jr: Well, of course, after these years nobody
knows how to handle a Committee as well as
you do.

D: Well, I thank you - I get along with them -
I do that. I don't have any friction or
factionalism or anybody in the Committee that
feels like they don't get the treatment that
they should have accorded to them. I do rather
feel a pride in that. Did Sullivan say anything
to you about that newspaper article?

- H.M.Jr: Yes, he mentioned it to me and we're just as much upset about it as you are.
- D: Well, I'm very much perturbed about it.
- H.M.Jr: Because we don't like to have things like that and after all we all belong to the same Party and stuff like that is just ammunition for our enemies.
- D: Well, that's the way it looks to me.
- H.M.Jr: And we're all good Democrats and we're all working together and we've got to get Mr. Roosevelt re-elected and of course you've got a walk-over down there - you don't have to worry about anything.
- D: Well, the people - they don't understand my situation. Of course, I'm not uneasy about my election but I always have a hard fight. Fact is I had to defeat a Republican who was in Congress to get here.
- H.M.Jr: Of course Sullivan felt very badly about the matter particularly because it was about - it looked as though there might be differences between you and the Treasury where we'd had these years of friendship.
- D: Well, that's what I thought but it - the feeling around - I'm going to talk perfectly frank with you - the feeling around here among quite a number of people is that somebody in the Treasury has planted that or has some responsibility for it. My talk with Sullivan has not been entirely satisfactory. It was the first day we talked about it. Day before yesterday I called him down here and we talked about it and I told him that I felt that the Treasury should make a statement about it - that there was no foundation - that my conduct had not been subject to any criticism by the Treasury and he said he would make it and bring it to me yesterday. He came up yesterday and didn't mention it until I mentioned it to him and then he said he thought I was to call him which was no such understanding at all but he didn't seem like he meant it at all and finally said that he sat down to write a

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statement and he didn't see how he could make it, that it might make it worse that now it was forgotten and it would open it up again. Well, that was a matter for me to be the judge of. I thought he kind of equivocated about it and I wasn't pleased with his action at all yesterday, Henry.

- H.M.Jr: Well, the point was, we talked it over down here and we simply thought another statement would kind of rile up the waters but, God bless you, if you want it - I've got one in my hand - let me read it to you, and see if this is what you want because the way I feel - I hate to say this - but I think that that story came out of some of the Committee members.
- D: Well, if it did I want to find out who was responsible for it. That fellow that wrote it is coming down here at 12:30.
- H.M.Jr: Yeah, but I may be wrong.
- D: Uh-huh.
- H.M.Jr: But I've been here a long while and after seven and a half years I wouldn't be such a damn fool as to start planting stories in the newspapers.
- D: Well, I was sure of that. It looked - they tell me that that fellow Pearson that wrote it can't write anything much that he just writes what somebody else gives him - the substance - and if somebody hadn't planted it there, of course, he would never have thought about writing it, and he's coming down here today at 12:30, and he intimated to me - it's confidential now to you, I don't want to give out anything until he comes - but he intimated to me that some responsibility for that rests on the Treasury - somebody in the Treasury. Now, he gave that to me over the phone yesterday afternoon - I finally got in touch with him. I was a long time doing it, and also by implication he rather implied that maybe somebody else on the Committee might have had something to do with it too but he said he might have to take it on the chin before he'd divulge the source of all his information, but he'd come

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down and talk it over with me and probably make a statement about it. As far as Clay Williams' being concerned, I've not seen him but just a minute or two - five minutes one time back about the time the bill started before the Sub-Committee made its report or before we reached that last agreement on what we should bring out and I've not heard from him - whenever it's as convenient to communicate with me directly or indirectly. Fact is Clay Williams has always been as ethical with me and as far from saying anything that was improper as any man that ever has been in my office. He don't live in my district; I'm under no obligation to him; I'm not a tool of him or any other big interest.

H.M.Jr: Well, let me read this letter to you and I'll say this before I read it - if it's not satisfactory, you write one and we'll sign it. Now that's fair enough isn't it?

D: Yeah, that's fair enough but I want us to agree. I don't want you to make any statements you don't want to make.

H.M.Jr: Well, if this isn't what you want you write it the way you want it and we'll give it to you. Now, I don't think anything could be fairer than that.

D: No, that's a manifestly fair offer.

H.M.Jr: Because after seven and a half years I value your friendship and I'm not going to let anything come between us.

D: Well, I do yours too as much as any man I've ever cooperated with or known.

H.M.Jr: Now, let me read this letter to you.

D: All right.

H.M.Jr: "My dear Mr. Doughton:

In accordance with - this is a letter for Sullivan to sign, see, and he's written it.

D: All right.

H.M.Jr: "In accordance with a request you made yesterday afternoon, I am writing you in corroboration of your statement that it is not your responsibility to write the first draft of a tax bill and that in previous years you have not backed up the Treasury 100%.

D: How's that?

H.M.Jr: "..... and that in previous years you have not backed up the Treasury 100%. I am also happy to comply with your request and state that I have no reason to believe that in the recent legislation you have been improperly influenced by Clay Williams. Sincerely yours, John Sullivan." (Pause) Now if that isn't what you want Sullivan can come up now and you fix it up the way you want it and he'll sign it.

D: Well, I think it would be better for him to come up before we made it and let us go over it and see just what we think about it. I think that's rather - a little too brief to cover the case.

H.M.Jr: Well, anyway that you want it, it suits us.

D: Well, I feel this about it - I think you'll agree with me that if the Treasury had any cause at all to feel that I was not cooperating as was proper for me to do or doing anything that I shouldn't do about it under any improper influence, the first thing they should have done would have been to approach me about it.

H.M.Jr: You're absolutely right.

D: And not by any implication or innuendo any other way said anything that the newspapers could take up and try to discredit me with. Fact is - I tell you the truth, Henry, I don't worry about sewer rats or skunks like that crowd Allen and Pearson - that's not what is worrying me. If someone up here that I work with would be responsible for anything like that why then I'd want to know it because I could never work with them any more.

H.M.Jr: Well, Bob, if sometime you have the time, I'll show you some of the things they've written about me and what they wrote about

D: Well, if they write them of their own accord, you ignore it; but if you thought I'd inspired it, that would be an entirely different feeling - that'd be an entirely different proposition as far as you and I were concerned.

H.M.Jr: You're right.

D: Yes. That's the part I'm digging after.

H.M.Jr: You're right.

D: Have Sullivan to come on down here right away, then.

H.M.Jr: I'll do that.

D: We'll have time to discuss the matter dispassionately and in a friendly spirit before we meet.

H.M.Jr: Well, he'll - I know from what he told me that he was terribly upset and he wants to do anything he can to be helpful.

D: All right. Thank you very much.

H.M.Jr: Good-bye.

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H.M.Jr: Does that leave it all right?

Sullivan: Swell.

H.M.Jr: Are you satisfied?

Sullivan: Sure. I am very grateful to you. Jere went to see him last night.

H.M.Jr: Jere who?

Sullivan: Cooper. He went to tell him to forget about this thing. He said the old boy is so badly worked up that --

H.M.Jr: Well, it is water over the dam, but evidently Pearson kind of left it in his mind that maybe it did come from Treasury.

Sullivan: It is news to me.

The other thing I was interested in is, the House conferees wanted to know whether they should make a fight.

H.M.Jr: You asked me that before. I don't know, John. Tell Jere Cooper to call up the President. This is what I would tell him. He is going to be at Hyde Park tonight and I would tell him to call him up. Let him call the President.

Sullivan: All right.

H.M.Jr: Don't you agree?

Foley: Yes, I think that is right.

H.M.Jr: I would tell him to call the President in the morning. He will be too tired tonight.

September 19, 1940

My dear Mr. Doughton:

In accordance with the request you made yesterday afternoon, I am writing you in corroboration of your statement that it is not your responsibility to write the first draft of a tax bill, and that in previous years you have not backed up the Treasury one hundred percent.

I am also happy to comply with your request and state that I have no reason to believe that in the recent legislation you have been improperly influenced by Clay Williams.

Sincerely yours,

John Sullivan.

Honorable Robert L. Doughton,
House of Representatives.

Left by Mr. Crane
of A. O. Co

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STRICTLY CONFIDENTIAL

Washington, D. C.
September 20, 1940

Subject: Payment for Petroleum Supplies to Great Britain, Canada,
Argentina and the Sterling Area.

1. Great Britain.

The British Government has just sent word through Sir Andrew Agnew, head of the Petroleum Pool in London, that sterling must be accepted in payment of petroleum supplied to that country. It is not clear whether such sterling must be accepted for 100% of the f.o.b. value of the oil shipped from this side or whether only partial sterling payment is involved. However, the sterling so taken would undoubtedly be blocked in England and only available for use within the sterling area.

In the past year the exports of the Standard Oil Company of New Jersey to Great Britain were in excess of \$50,000,000 f.o.b. value and if any substantial part of that were locked up in England it would have a seriously adverse effect on the company's position. On the other hand if the company refused to supply oil against sterling payment, the two big British companies, Shell and Anglo-Iranian, could probably furnish the bulk of British oil requirements and of course they are able to use large amounts of sterling. The loss of the British market to the Standard Oil Co. would not only react against the United States and Dutch West Indies but would cause great trouble in Venezuela if oil production were sharply curtailed.

2. Canada.

Exports of ethyl fluid (used to make high octane gasoline) from the United States to Canada which amount to around \$4,000,000 per annum are now admitted to Canada only on the basis of 50% U. S. dollars and 50% Canadian dollars, the latter being blocked and available only for use within the country.

Crude oil and its products are not as yet placed on the foregoing basis.

3. Argentina.

The American oil companies which export petroleum products to the Argentine have been advised by the Argentine Government that such shipments must hereafter be paid 50% dollars and 50% sterling. The latter currency would surely be blocked in London. The Standard Oil Co. exports to the Argentine oil to the value (f.o.b.) of about

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\$12,000,000 per annum. If they refused to supply against such payment they would lose their position in that market since the two big British oil companies could supply the market. Shell is now accepting 50% sterling on its imports of oil into the Argentine.

4. Sterling Area.

The Standard-Vacuum Oil Co. (which is 50% owned by Standard of New Jersey and 50% by Socony-Vacuum) does most of its business within the sterling area. Difficulties are now being encountered in obtaining dollars from the Exchange Control in London. Some sterling is already blocked for their account and prospects for the future are unfavorable. Furthermore, this company produces, refines and sells oil in the Dutch East Indies. Exchange restrictions there threaten to tie up funds locally and the Japanese are demanding large supplies of oil from the Dutch East Indies as well as concessions and partnership in the business.

September 20, 1940

My dear Steve:

I am inclosing herewith a map of the United States, as you suggested, showing the employment in the aviation manufacturing industry by regions.

You will note that in December, 1938, employment was 51,200; December, 1939, 65,400. The most recent figures are for August, 1940, of 110,400.

Possibly the President or you would like to make these figures public.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President,
Hyde Park, N. Y.

September 20, 1940

My dear Steve:

I am inclosing herewith a map of the United States, as you suggested, showing the employment in the aviation manufacturing industry by regions.

You will note that in December, 1938, employment was 31,200; December, 1939, 65,400. The most recent figures are for August, 1940, of 110,400.

Possibly the President or you would like to make these figures public.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President,
Hyde Park, N. Y.

September 20, 1940

My dear Steve:

I am inclosing herewith a map of the United States, as you suggested, showing the employment in the aviation manufacturing industry by regions.

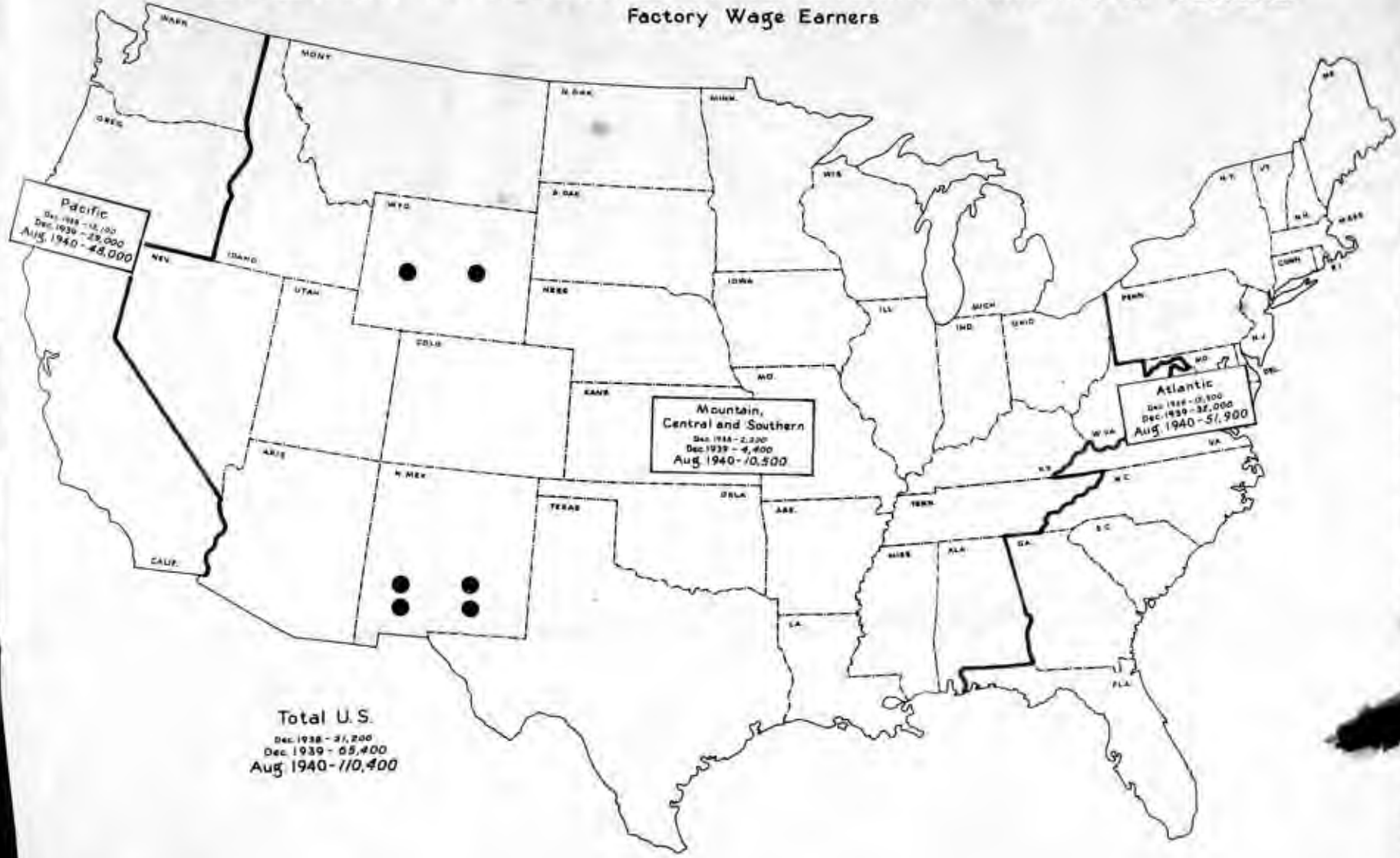
You will note that in December, 1938, employment was 31,200; December, 1939, 65,400. The most recent figures are for August, 1940, of 110,400.

Possibly the President or you would like to make these figures public.

Yours sincerely,

Hon. Stephen Early,
Secretary to the President,
Hyde Park, N. Y.

EMPLOYMENT IN THE AVIATION MANUFACTURING INDUSTRY, BY REGIONS Factory Wage Earners



Total U.S.
 Dec 1938 - 24,400
 Dec 1939 - 61,400
 Aug 1940 - 110,400

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau
FROM Mr. Oohran

STRICTLY CONFIDENTIAL

Mr. Albrand, Financial Counselor of the French Embassy, telephoned me from New York at 10:30 yesterday morning. He stated that he was coming to Washington this morning, having an appointment with Assistant Secretary of State Berle at 11:30 a.m. He would like then to see Professor Chamberlain and myself in the Treasury.

When I asked Mr. Albrand the topic which he desired to discuss, he said that it was the matter of French licenses which had been the subject of his letters to Professor Chamberlain. I told him that the question of funds for French diplomatic and consular officers in Latin America and Europe was in the hands of the State Department and that it would be better that he come to the Treasury after he has seen Mr. Berle. Consequently it was arranged that he should call at the Treasury at 12:30 today. I mentioned this prospective call to Messrs. Chamberlain and Pehle yesterday afternoon. It was decided that it was not necessary for Professor Chamberlain to delay his departure for New York, in order that he might be present for Mr. Albrand's visit. If the State Department has taken a favorable decision in behalf of the French, Mr. Pehle and I could start the issuance of the required licenses. If the State Department has not acted favorably, there would be nothing for Professor Chamberlain to do.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 20, 1940

STRICTLY CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

I telephoned Mr. Knoke yesterday morning to inquire whether the Federal was receiving the lists prepared by the Bank of England of securities which might have fallen into enemy hands, and also as to whether someone in the Federal would be ready to discuss with Mr. Bernstein of the Treasury the most useful utilization of such reports. Mr. Knoke stated that he had turned this matter over to Mr. Kimball, with whom he would now discuss it and then call me back. At 10:00 this morning Mr. Knoke telephoned me that his bank had received despatch No. 5743 from our Embassy in London, dated August 8, which gave one of the lists in question. He said that the Federal would like to know the manner in which the Bank of England compiled such a list. He said that it covered principally securities issued in London, but did contain some data of interest to the New York market. I told Knoke that I would endeavor to learn from Mr. Stopford or one of the other men in the British Embassy how the British list was compiled. In the meantime, I promised that the Treasury would forward to Mr. Knoke at the Federal Reserve Bank any lists of the above type which may be received either from our Embassy in London or from the British Embassy in Washington. After learning what I can from the British Embassy, I shall discuss this matter further with Mr. Bernstein.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 20, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:00 yesterday afternoon the Secretary called to his office Mr. Pehle and myself. The Argentine Ambassador was with the Secretary when we entered. The Ambassador was protesting to the Secretary because of the inquiry which an officer of our Control Group had asked an officer of the Argentine Embassy to make, with the view of obtaining from Buenos Aires specific information with respect to the facts surrounding an application for the transfer of some \$3,700,000 from blocked French accounts in the United States to Argentina to pay for purchases made in that country by the French Government. This really would settle the clearing balance between the two countries. The Ambassador argued that the Secretary of the Treasury had of his own initiative offered to transfer the sum in question to the Central Bank of Argentina some weeks ago, provided the Ambassador obtained assurance from Argentina that the sum in question was due for French purchases in that country. The Ambassador added that he had obtained that assurance in talking with the Governor of the Central Bank of Argentina from Mr. Cochran's office in the Treasury. Both Mr. Pehle and Mr. Cochran explained that the transaction immediately under reference was not identical with that to which the Ambassador referred as having been discussed with the Secretary some weeks ago.

The Ambassador thought it was a reflection upon him as an Ambassador and upon the veracity of the Central Bank of Argentina, which was the same as his Government, for the Treasury to ask for more information in support or proof of the statement which the Central Bank of Argentina had already made.

After Mr. Pehle had explained the circumstances in which the memorandum had been given to Mr. Bunge of the Argentine Embassy, the Secretary stressed the point that we had merely asked the Argentine Embassy to render us the courteous favor of obtaining specific information which we felt we should have in properly safeguarding the funds involved. The Secretary emphasized that there was not the slightest doubt in his mind as to the correctness of the data given by the Central Bank of Argentina, but that there was a duty upon our Foreign Funds Control to make certain investigations in cases of this type. The Ambassador stated that he was pleased to make such inquiries on the basis of the Secretary's explanation, but still felt that it was a reflection upon him as an Ambassador if the present transaction should be held up pending the provision of the information under reference by the Argentine Government.

Thereupon Secretary Morgenthau told the Ambassador that approval would be given at once, and that he could cable his Government that the Federal Reserve Bank of New York would have instructions to issue the necessary license by evening. The Secretary said he would do this for the Ambassador as a friend, and having full confidence in him, if the Ambassador would agree to protect the Treasury in the event

that the transaction should prove to be other than as represented. The Ambassador gave this assurance, and also told the Secretary that he would pass on to the Department such details as may be received from his Government in response to the cablegram which had already been despatched. The Secretary then gave instructions to Mr. Pehle to get in touch with New York and see that the necessary arrangements were made before the close of business yesterday.

Upon oral instructions given me this morning by the Secretary of the Treasury, I telephoned the office of Secretary of State Hull at 9:30 a.m. and summarized to Mr. Renchard the interview which we had with the Argentine Ambassador. Mr. Renchard stated that there had been no representations made at the Department of State in this matter so far as he was aware. He was glad, however, to be informed in the premises, and promised to let us know if any question in regard to this transaction should arise at the Department of State.

At noon today Mr. Pehle explained to me that while the necessary instructions had been sent by the Treasury last night to the Federal Reserve Bank in New York for the issuance of a license, the transaction has not yet been completed. Some time ago the Bank of France representative in New York had approved this transaction to the Federal, but had subsequently withdrawn definite approval, it being understood that the Federal would communicate with him for instructions whenever a license might be approved. The Federal has now been in touch with Mr. Marcial, the Bank of France representative. The latter has stated that he has referred the matter to the French Embassy and that the latter must obtain instructions from France for him before he can act. In agreement with Mr. Pehle, I called the Argentine Embassy between 12:00 and 1:00. The Ambassador was not present. I did reach him, however, at 2:45 this afternoon and gave him the above information, namely, that the Treasury had authorized the Federal Reserve Bank last night to issue a license, but that the transaction cannot be completed until the Bank of France, which is the payor, obtains authority from France to make the payment under reference. The Ambassador stated that he would cable his Government to this effect. I insisted that the Treasury and the Federal Reserve Bank had done everything they can in the premises, and that action now waits upon France. I added further that I had taken the occasion this noon to bring this case to the attention of Mr. Alphand, the new Financial Counselor of the French Embassy who was in town today seeing us on other business.

At 4:00 this afternoon Ambassador Espil of Argentina telephoned me that he had already telephoned Governor Fritch of the Central Bank of Argentina and had given him the message which I had given the Ambassador at noon. The Governor of the Central Bank stated that he would at once get in touch with the French Financial Attache in Argentina in the premises.

J.M.P.

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found date of meeting 9/20

MEMORANDUM

September 24, 1940.

To: The Secretary
From: Mr. Young

Conference Secretary's Office Friday,
September 20, 1940 on Aircraft Allocation.

Present at this conference were:

Secretary Morgenthau
Secretary of Navy, Knox
Undersecretary of Navy, Forrestal
Assistant Secretary of War, Patterson, and
Philip Young

Judge Patterson, who arrived at the conference prior to Secretary Knox and Mr. Forrestal, opened the conversation by suggesting that a formal committee be established to determine policy matters arising in connection with the coordination of British orders and defense orders to the United States. He suggested this committee be composed of:

Secretary Morgenthau
Secretary Knox
Secretary Stimson, and
Mr. Knudsen

Further, Mr. Knudsen was to act as chairman, and use his best judgment to determine matters of priority and allocation of deliveries. Judge Patterson explained that he considered Mr. Knudsen to be a good man for that job, inasmuch as such an arrangement would leave Secretaries Stimson and Knox free to plead the interests of their own Departments. Secretary Morgenthau replied that he thought it was a good idea to have Mr. Knudsen act in such a capacity as it would leave Secretary Morgenthau free to plead for the British.

Secretary Morgenthau took issue, however, with Judge Patterson's idea of having a formal committee which would sit as a board of directors. It was the Secretary's idea that such a committee might be worth trying, but it should be done on an informal basis rather than bound with formal procedures.

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He added that Philip Young could act as secretary and compile an agenda in advance for such meetings.

Secretary Knox and Mr. Forrestal joined the conference and Judge Patterson's idea about the committee was explained to them. They both agreed that it would be a good plan, and Secretary Knox stated that he saw no reason why Forrestal could not act for him.

Secretary Morgenthau asked Judge Patterson if he had spoken to Knudsen about it and Patterson replied that it was all right with Knudsen.

It was arranged that the group would meet the following Wednesday morning at 8:30 and, in the meantime, Philip Young should work up an agenda and acquaint Knudsen with the program.

Then, the Secretary went on to say that he thought aircraft production could be increased in instances where quantity orders could be placed for a specific model over a definite period of time. To demonstrate his point he read the memorandum addressed to him by Philip Young dated September 19th, 1940, entitled "Increase in P-40 Production".

To accentuate further the fact that such a procedure could be followed in other instances, Secretary Morgenthau also explained what could be done in producing the Sperry bomb sight if the Army and British would place a sufficiently large order to make mass production methods possible. Such a procedure would also have the advantage of reducing the unit price.

Both Secretary Knox and Judge Patterson agreed that such a procedure was desirable in those instances where it was applicable.

The Secretary went on to say that he had talked with the President about the possibility of giving the British equal deliveries with the Army or Navy in those instances where the Army or Navy showed a preponderance of deliveries between now and July 1, 1941. Of course, he added the British would have to place additional orders where necessary in order to make up for such diversions.

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Secretary Morgenthau stated he had shown the President the Consolidated aircraft delivery schedule and made specific reference to the PBV 5's. The President had said: "Henry, the British can have anything they want — talk to Stimson and Knox about it."

Secretary Morgenthau showed the group the delivery tables covering the period from now until July 1st for all the various aircraft companies.

Forrestal received a photostatic copy of these tables and Philip Young was to deliver another copy of the tables to Judge Patterson.

Both Secretary Knox and Judge Patterson agreed that the idea was a good one, and that the British should get every other plane delivered where it was possible to do so.

The Secretary asked them specifically to go over the tables carefully and take the matter up with their people and to lay the matter on the President's desk along about the middle of next week in such a way that the President could look at it and approve it with an "O.K. F.D.R.", or disapprove it as the case might be. Both Secretary Knox and Judge Patterson agreed to do it, and stated that they would lay it before the President as suggested by Secretary Morgenthau.

All present were enthusiastic about the idea and said they would do what they could to push it along.

Ry.

September 21, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Edmund J. Brandon, United States Attorney for Massachusetts, attended by invitation the monthly coordination meeting of Treasury Enforcement Agencies at Boston on September 10. The following is from a transcript of his remarks:

"Other than that, I want to make a report to you men who have charge of other men in the field. I make this statement most sincerely. I have not made it until after I have talked with my Assistants. I am a little ashamed to find that the Assistants of my office believe that the cases prepared by the Treasury Agents and the Post Office Inspectors are often better prepared than those prepared by the investigating agents of our own Department of Justice. I have gone so far as to tell that to Mr. Hoover, in the hope that the situation might be improved. I am ashamed to say it, because I have to praise your Department over my own, but being a fact, it should be said. I think you men should receive, on the record, proper recognition of that fact. One case before the Grand Jury today was a Secret Service case. I listened to the testimony of the Secret Service Agent, and I could see the training in the preparation of that case. This is true of the Narcotics, and all down the line in the Treasury Department. We do not have many Customs cases, but we have had some. Every branch of the Treasury and the Post Office have their cases finely prepared. I do not want to be critical of the F.B.I., except in a constructive manner, but it is my belief that the system of the F.B.I. involves too much paper work, and the reports are so exhaustive that the important points in the case do not stand out prominently as in the reports of other agencies. I appreciate that there is a record being made of what I am saying, but it happens to be the truth, and that is what I am here to say. * * *

"The reception I have had in Boston has been admirable, and a memory I will carry with me for the rest of my days. I cannot single out any one special division of the Treasury Department for praise. As far as investigating agents are concerned, my experience with all has been excellent. I have not agreed with all the agents. Most of you here around this

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table this afternoon I have disagreed with on certain matters, either insufficiency of evidence, matter of policy, and so on, and I have yet to find one of you who has not recognized the point I made and I recognize the point you made. We have not always agreed but there has been a mutual understanding growing between us. * * *

"I do want to say this, however, in the way of constructive criticism, that one difference I notice between divisions of the Treasury and their investigative agencies is the manner in which the cases are prepared so far as paper work is concerned. I have an example. Not singling out any division for praise or chastisement. A case came in recently. I would have liked to bring it down to show it to you but it is now before the Grand Jury. I think it is an ideal presentation of a case to a United States Attorney. There is, after the forwarding letter, a statement of the case in general; that is followed by a statement of the law, (the section involved), a statement of the elements of the law that had to be met by evidence, and a statement of what the evidence available consisted. That is followed by a list of witnesses, names, addresses, occupations, and a few words of description, and what each would testify to at length, and the point that this evidence would tend to establish - and so on right through. With preparation of this kind, the work of our office is cut down immensely and the presentation of the case to the Grand Jury and later to the Court is greatly simplified. In this manner of preparation, deficiencies are readily spotted. It seems that one of the things that could be done at these coordination meetings is to work out a uniform system of report where a case is sent in for prosecution, so that they could be lined up in a universal way. That is the only criticism I have to make. Some of the agencies do it not so well, some do it excellently. On the other hand, we realize we are at times at fault. We make our mistakes. I would be glad to hear of these mistakes, today or at any other time." * * *

M. J.

September 21, 1940.

MEMORANDUMTO: Secretary Morgenthau
FROM: Mr. Quenton

Edward J. Brennan, United States Attorney for Massachusetts, attended by invitation the monthly coordination meeting of Treasury Department Agencies at Boston on September 19. The following is from a transcript of his remarks:

"Other than that, I want to make a report to you men who have charge of other men in the field. I make this statement most sincerely. I have not made it until after I have talked with my assistants. I am a little ashamed to find that the assistants of my office believe that the cases prepared by the Treasury Agents and the Post Office Inspectors are often better prepared than those prepared by the investigating agents of our own Department of Justice. I have gone so far as to tell that to Mr. Hoover, in the hope that the situation might be improved. I am ashamed to say it, because I have to praise your Department over my own, but being a fact, it should be said. I think you men should receive, on the record, proper recognition of that fact. One case before the Grand Jury today was a Secret Service case. I listened to the testimony of the Secret Service Agent, and I could see the thinking in the preparation of that case. This is true of the Harcourt, and all down the line in the Treasury Department. We do not have many Customs cases, but we have had some. Every branch of the Treasury and the Post Office have their cases finely prepared. I do not want to be critical of the F.B.I., except in a constructive manner, but it is my belief that the system of the F.B.I. involves too much paper work, and the reports are so exhaustive that the important points in the case do not stand out prominently as in the reports of other agencies. I appreciate that there is a record being made of what I am saying, but it happens to be the truth, and that is what I am here to say. . . ."

"The recognition I have had in Boston has been admirable, and a memory I will carry with me for the rest of my days. I cannot single out any one special division of the Treasury Department for praise. As far as investigating agents are concerned, my experience with all has been excellent. I have not agreed with all the agents. Most of you here around this

- 2 -

table this afternoon I have disagreed with on certain matters, either insufficiency of evidence, matter of policy, and so on, and I have yet to find one of you who has not recognized the point I made and I recognize the point you made. We have not always agreed but there has been a mutual understanding growing between us. * * *

"I do want to say this, however, in the way of constructive criticism, that one difference I notice between divisions of the Treasury and their investigative agencies is the manner in which the cases are prepared so far as paper work is concerned. I have an example. Not singling out any division for praise or chastisement. A case came in recently. I would have liked to bring it down to show it to you but it is now before the Grand Jury. I think it is an ideal presentation of a case to a United States Attorney. There is, after the forwarding letter, a statement of the case in general; that is followed by a statement of the law, (the section involved), a statement of the elements of the law that had to be met by evidence, and a statement of what the evidence available consisted. That is followed by a list of witnesses, names, addresses, occupations, and a few words of description, and what each would testify to at length, and the point that this evidence would tend to establish - and so on right through. With preparation of this kind, the work of our office is cut down immensely and the presentation of the case to the Grand Jury and later to the Court is greatly simplified. In this manner of preparation, deficiencies are readily spotted. It seems that one of the things that could be done at these coordination meetings is to work out a uniform system of report where a case is sent in for prosecution, so that they could be lined up in a universal way. That is the only criticism I have to make. Some of the agencies do it not so well, some do it excellently. On the other hand, we realize we are at times at fault. We make our mistakes. I would be glad to hear of these mistakes, today or at any other time." * * *

Headed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury Department at 12 noon, September 21, 1940.

251

BRITISH PURCHASING COMMISSION
in dollar type
Statement as at 1st September 1940.

	<u>Paid in</u> <u>July</u>	<u>Paid in</u> <u>August</u>	<u>Estimate</u> <u>Sept. 1940-June 1941</u>
	(million \$)		
I. British Contracts			
<u>(including joint Anglo-French contracts in full)</u>			
1. Airframes	22.9	29.6	195.7
2. Airplane Engines	14.9	10.1	93.1
3. Airplane Accessories	4.9	5.9	10.2
4. Total Aircraft Products	42.7	45.6	299.0
5. Machine Tools	3.5	6.6	16.4
6. Chemical Warfare Material	-	-	-
7. Explosives & Propellants	.8	1.0	5.7
8. Ammunition	2.0	8.0	27.8
9. Ordnance Equipment	3.2	1.7	14.6
10. Tanks	1.6	.5	5.2
11. Motor Vehicles	.8	3.0	3.8
12. Iron & Steel	32.0	35.4	115.0
13. Non-Ferrous Metals	4.4	6.2	13.1
14. Textiles & Clothing	.3	.5	.8
15. Foodstuffs & Tobacco	1.2	2.4	.4
16. Petroleum Products	-	-	-
17. Animals	-	-	-
18. Ships	1.4	.4	3.7
19. Communications Equipment	.2	.3	.8
20. Timber	-	-	-
21. All Other	.1	.2	.5
22. Total Non-Aircraft Products	51.5	66.2	207.8
23. Total Commodities	94.2	111.8	506.8
24. Capital Assistance.	7.2	9.7	2.4
25. TOTAL BRITISH CONTRACTS.	101.4	121.5	509.2
II. French Contracts			
Admiralty	.1	-	2.0
Ministry of Aircraft Production	58.9	43.5	275.5
Ministry of Supply	8.3	17.8	163.8
TOTAL	67.3	61.3	441.3

STRICTLY CONFIDENTIAL

Proposed Programmes

First Airplane Programme
(Repeat Orders referred
to in British Embassy
Note of August 7th).

- - 250.0

Note. There are also the new 3,000 plane a month programme and the large new munitions programme, which are at present the subject of discussion between the United States authorities and the British Purchasing Commission, and for which no figures can yet be given. Further (1) the purchases of iron and steel may be prolonged and (2) there is a very small Indian programme for aircraft and machine tools.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 21, 1940

TO Secretary Horzenhan
FROM Mr. Cochran

CONFIDENTIAL

The six reporting banks executed the following transactions in registered sterling:

Sold to commercial concerns £15,000
Purchased from commercial concerns -0-

In the open market, sterling remained at 4.03-3/4 throughout the morning, and there were no reported transactions.

The other currencies closed as follows:

Swiss franc	.227 1/2
Canadian dollar	16-1/8% discount
Swedish krona	.2385
Lira	.0505
Belchsmark	.3995
Mexican peso	.2000 bid, .2020 offered
Cuban peso	10% discount

We purchased the following amounts of gold from earmarked accounts:

\$2,313,000 from the Central Bank of the Colombian Republic.
<u>560,000 from the B.I.S.</u>
\$2,873,000 Total

The Federal Reserve Bank reported that Barclays Bank, Ltd., Montreal, shipped \$64,000 in gold from Canada to the Bankers Trust Co., New York, for sale to the U. S. Assay Office.

During the last few days, the Federal Reserve Bank has been investigating the unusually heavy increases which took place, during the week ended September 11, in Japanese and Chinese bank deposits with the New York Agency of the Yokohama Specie Bank. As regards Japanese bank deposits, the Federal has found that these rose about \$75,000,000 as a result of the inclusion in this category of a hitherto undisclosed cash balance in the custody account held for the Bank of Japan. Existence of this custody

- 2 - CONFIDENTIAL

account was made known to the Federal on August 7, but at that time it was understood to have contained only some \$60,000,000 in cash -- actually, it held about \$95,000,000, as revealed by the current investigation. Concerning Chinese bank deposits, these rose about \$5,000,000 in the week ended September 11 due to the inclusion of a previously unreported custody account held by the New York Agency in favor of the Federal Reserve Bank of North China. Considering both these new accounts, Yokohama's New York Agency apparently is now including in its deposit figures about \$100,000,000 in cash which, prior to August 7, had not been reported to the Federal Reserve Bank.

The Bombay gold price was equivalent to \$33.88, off 2¢. Silver was slightly higher at the equivalent of 44.70¢.

J. M. P.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany.

DATE: September 21, 1940, 10 a.m.

NO. : 4088 (SECTION ONE)

Kindly refer to the Department's telegram no. 2517 of the eighteenth of September, 6 p.m.

You are informed that the regulations of the German foreign exchange control were introduced in toto in Luxemburg. The German Government has imposed regulations in the Netherlands, Belgium and Norway which are, in all their salient features similar to those in effect in Germany, although they are more compact in form and they are adapted to the respective countries. (In this connection, kindly refer to report number 1289 made by the Consulate General on May 22, 1939, entitled "Full Text of Revised German Foreign Exchange Legislation" and also to despatch number 3246, under date of August 24, 1940, sent by the Embassy, giving texts of the fundamental regulations in effect in Belgium, the Netherlands and Norway, in the order named.) As a result, no payments are permitted to be made from these countries to the United States unless a permit is granted from the competent foreign exchange control authorities, and consequently funds in these countries belonging to American people living in the United States are blocked.

The

The foreign exchange control authorities are given great powers of discretion under these regulations.

KIRK

HPD

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

940 285 52 6M V 5Q

RECEIVED
TECHNICAL ASSISTANT

EA:VCL

000001

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin.

DATE: September 21, 1940, 10 a.m.

NO.: 4088.

SECTION TWO.

Although so far no information has been received by the Embassy regarding the practice of the authorities in the countries named above, the consular section's experience is that at present the practice of the authorities in Germany itself is to allow in general no transfers to America (excepting the sums covered by the standstill agreement and a few cases of cotton which was requisitioned in Poland and certain inheritance credits) even on the grounds of hardship or equity and that, except in cases of inheritance transfers, intervention of the consular section is ineffective at the present time. (Refer in this regard to despatches from the consular section, nos. 2870, July 3, and 3,000, July 19, and the seventh page of our despatch no. 3032, July 25.)

The Legation at Copenhagen ^{has} ^{been} ^{to} ^{send} ^{information} with regard to the Danish foreign exchange control legislation, as well as the detailed data which the Department asked for from the other above-mentioned countries. (END OF MESSAGE)

KIRK

EA:MSG

CORRECTED COPY

JR

GRAY

Berlin

Dated September 21, 1940

Rec'd 11:13 a.m.

Secretary of State,

Washington.

4094, September 21, 11 a.m.

My 3711, August 23, 4 p.m. and 3962, September 10,
7 p.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION.

During July the short term debt of the Reich (including tax certificates) increased by two thousand four hundred and thirteen million marks to a total of 287,917,000,000 marks. This is a large figure for monthly short term borrowing, the highest (with the exception of May) since the outbreak of the war. Of the total increase 2,232,000,000 marks was in the form of Treasury certificates and bills; 307,000,000 marks in "short term loans" offset in part by decreases of 198,000,000 marks in Reich's utilization of its operating credit at the Reichsbank, 28,000,000 marks in tax certificates outstanding.

KIRK

DM

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 21, 1940, 1 p.m.

NO.: 4099

CONFIDENTIAL.

The Embassy has received a report that an agreement has been reached between Germany and Greece with regard to trade, and establishing a new rate of exchange. The report stated that the new Reichsmark-drachma rate temporarily will be set at about 46.50 instead of the previous rate of about 41. According to reliable information, both countries consider that the new rate is only temporary since it is known that a better rate is desired by the Reich. It is stated that conversations for renewing discussion on the rate will probably be started in November. It is claimed that at that time the object of German diplomacy will be to abolish the prevailing discrepancy in the cross rates between the Reichsmark, drachma and dollar.

You are requested to inform the Treasury of the foregoing.

KIRK.

EA:LWW

21885

RDS

GRAY

(PARIS)
VICHY

Dated September 21, 1940

Rec'd 6:20 p.m.

Secretary of State,

Washington.

FROM PARIS.

873, September 21.

(Department's 1238, September 17.)

The reopening of the Paris banks was briefly referred to in the Embassy's despatch 6737 of July 23.

The French and German banking regulations at present being applied are the same for all banks (including British) operating in Paris and there is no limitation of withdrawals from franc accounts of residents in the occupied zone except as concerns the accounts of nationals of those countries considered by Germany as belligerents namely Great Britain and oversea dominions, France, Norway, Netherlands, Belgium, Luxemburg, Egypt, Sudan, Iraq (see Embassy's despatch No. 6762, July 30). The nationals of these countries residing in the occupied zone of France may draw upon their franc accounts in French, English or American banks for expenses of subsistence up to the amount of about 3000 francs monthly without the authorization of occupying authorities. In excess of this amount it is necessary to obtain authorization. Commercial enterprises are permitted to draw reasonable amounts for bona fide expenses of operation.

EMB

MATTHEWS

RDS

GRAY

(PARIS)
VICHY

Dated September 21, 1940

Rec'd 6:40 p.m.

Secretary of State,

Washington.

FROM PARIS.

573, September 21 (SECTION TWO)

With respect to the nature of operations permitted, in the main the present activities of the banks consist in the acceptance of franc deposits, the payment of checks drawn on franc accounts, transfers within the occupied zone, commercial collections in Paris and the occupied departments, and limited credit operations which do not carry a banking risk in excess of 200,000 francs. The banks are authorized to buy certain foreign banknotes including dollars but such banknotes must be held at the disposition of the German Foreign Exchange Office. Dealings in French securities may be carried out in Bordeaux by banks which have branches there.

The impression among bankers here is that the Paris stock exchange will soon be reopened. All transactions in foreign exchange (with the exception of those referred to above) and in foreign securities are blocked with the banks concerned.

Briefly

- 2 -

Briefly, current banking as referred to above and administrative matters are carried out without hindrance by the bank's own organization but outside this field, measures or decisions must be submitted to the approval or prior authorization of the German authorities.

(END OF MESSAGE)

MATTHEWS

EMB

TO THE DIRECTOR
GENERAL INVESTMENT
SECTION OF THE
ECONOMIC DEVELOPMENT
COMMISSION
RECEIVED

mg

COPY

HR

PLAIN

Manila

Dated September 21, 1940

Rec'd 8:43 a.m., 23rd

Secretary of State,

Washington.

Twenty-first.

FOR COMMERCE.

Monthly Exchange. Section One.

Exchange market during August showed practically no change from the previous month. Firmness of dollar continued as result of strong demand with insufficient export cover available. Throughout the month sellers quoting two naught one point two five and buyers two naught one with occasional interbank transactions effected at two naught one point one two five. Some interbank changeovers for two or three months forward at two hundred. Banks reported that at close of month import demand appeared to be lessening owing delayed collections and other factors but continued far in excess of available export cover. Consensus of bank opinion was firmness of market would continue for some time. Exchange transactions four weeks ended August 26th, 1940, showed moderate increase over preceding four weeks but continued reflect somewhat oversold position. Exchange transactions thousand pesos spot exchange bought one four naught three eight sold one eight four nine four future exchange bought seven seven one three sold one naught five five seven. Steintorf.

HICKOK

HSM

C O P Y

bj

ATP

PLAIN

MANILA VIA N.R.

Dated September 21, 1940

Rec'd 9:06 a.m. 23rd

Secretary of State,

Washington

Twenty-first.

FOR COMMERCE.

Monthly exchange, Section two, last.

Report of Insular Treasurer shows quite heavy sales of exchange during August. Total one eight thousand pesos of demand drafts sold to government bureaus and offices while banks purchased demand drafts during month to aggregate amount nine point nine million pesos. Sales of demand drafts to banks unprecedentedly heavy during present year total first eight months being six two point three million pesos compared two eight point nine million pesos sapely. Sales by Insular Treasurer to government bureaus and offices somewhat smaller during present year total first eight months being six naught five naught thousand pesos for telegraphic transfers and two three three thousand pesos demand drafts. Insular Treasurer report also shows receipts during August of three million pesos from United States Treasurer. End. Steintorf.

HICKOK

HSM

C O P Y

bj

CONFIDENTIAL

265

Code
Paraphrase of Radiogram Received at the War
Department 2:46 p.m., September 21, 1940.

London, Filed September 21, 1940.

1. The Royal Air Force, using 172 bombers, attacked the Dortmund Canal, seven enemy ports and seven railroad yards on the Continent during the night of September 20-21. During the last 24 hours the Coastal Command, using 102 planes, carried out 53 anti-invasion offensive sorties and submarine patrol reconnaissance missions, photographed 12 enemy harbors, and provided escorts for 21 convoys. Reports from areas occupied by the enemy give increasing indications of the considerable effects of British bombardments.

2. During the daylight hours of September 20th about 150 German planes flew over Britain, of which a few only reached London.

3. In most cases enemy attacks were near railroad lines. There was little damage except that some roads were blocked. During the night of September 20-21 several serious fires were started, mainly in the dock areas, where four docks were set on fire. In London major damage was done to the Southwark railroad bridge, which collapsed, and two depots were closed. The Firestone factory near Reston, one tool factory and four airfields have been evacuated due to unexploded long delay bombs. High explosive bombs near the Lambeth Palace did little damage.

4. German plane losses were six confirmed and 12 probable. The British lost seven planes and four pilots.

5. British convoys are still using the English Channel. Seven ships, totalling 36,200 tons, were reported sunk or damaged,

-1-
CONFIDENTIAL

of which two, totalling 24,000 tons, were sunk off the coast of Northern Ireland in an outbound convoy.

6. There is no additional information of the invasion.

7. During the last 48 hours Germans have adopted new daylight aerial tactics. They send huge formations of fighters over at high altitudes with the intention of luring the British fighters into unequal contests at the end of a long climb. However, the Germans gain nothing if the British refuse to accept combat under these conditions.

8. A change in the weather has brought rain, fog and rough seas.

LEE

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

CONFIDENTIAL

267

Paraphrase of Code Radiogram
Received at the War Department
at 5:24 P.M., September 23, 1940.

London, filed 18:00, September 23, 1940.

During daylight hours of September 21st the Royal Air Force bombed nine German occupied ports successfully. During the following night 93 bombers attacked four enemy ports. No planes were lost during these operations. In carrying out its usual missions, the Coastal Command lost one plane and had one damaged.

During the daylight hours of September 21st the enemy dispatched about 250 planes over Britain, but there was little combat and little damage done.

German activity during the night of September 21-22 was much less intense than usual. Of the three airdromes attacked during the preceding twenty-four hours, one was closed temporarily on account of a delayed action mine. Bombs demolished a railroad bridge at Hounds Ditch. Major damage was done to a timber yard, two flour mills, an electric light plant, a gas company, a surgical appliance factory, and to a portion of the Grand Union Canal. The Central Station in Liverpool was bombed, two trains were damaged and docks were set on fire in other parts of Britain. The plants of the Fairay Aviation Company (building bombers - G-3) and the Hawker Aviation Company (building Hurricane fighters - G-2) were slightly damaged by bombs or by small fires.

CONFIDENTIAL

German plane losses were two confirmed, one probable and six damaged. The Royal Air Force lost two coastal reconnaissance planes but no fighters. In London 130 civilian casualties were reported.

Six merchant vessels, totalling 54,000 tons, were sunk or damaged. Of these five were in a North Atlantic convoy.

There is no change indicated in the plans for invasion. British Intelligence services have learned that the enemy is organizing a force wearing the British uniform and able to speak English. These may be dumped on England at any time.

The Italian Army is consolidating its position at Sidi Barrani in Egypt with two divisions, one native and one Black Shirt.

LEE

Distribution:

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

-2-

Handed by Mr. Pissant of the British Embassy to Mr. Cochran in the Treasury Department at 12 noon, September 21, 1940.

MEMORANDUM

I have now heard from H.M. Treasury with regard to the information which is to be supplied regularly to Mr. Morgenthau, following Sir Frederick Phillips' visit in July.

The Embassy will be able to hand in:-

- (1) shortly after the 3rd of each month a statement showing our loss of gold and dollars and our sales of vested and unvested securities during the previous month:
- (2) shortly after the 10th of each month a classified statement of the expenditure of the British Purchasing Commission during the previous month and an estimate of expenditure during the remainder of the year to the end of June 1941, so far as reliable figures are available. Mention will be made of other items for which figures are not yet available.
- (3) shortly after the 16th of each month a classified summary statement of our dollar expenditure for all purposes (i.e. not only through the British Purchasing Commission) during the previous month.

(H.M. Treasury regret that it will not be possible to accompany this statement with an estimate of expenditure for the current and succeeding months since the nature and purpose of our dollar disbursements are so various that they have come to the conclusion that it would only be misleading to attempt to prepare estimates on a monthly basis. For the present it can be assumed that the total monthly expenditure of the United Kingdom in the United States will, on the average, exceed the expenditure of the British Purchasing Commission by something of the order of \$40 million. H.M. Treasury will add from time to time such further information as they can.)

- (4) towards the end of each month (depending on the available mails) an extended analysis of our dollar expenditure during the previous month.

(Initialed) G.H.S.P.

BRITISH EMBASSY,

19th September 1940.

dm

STRICTLY CONFIDENTIAL

EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED

Week ended September 21, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	---	---	---	---
Crude -				
Blended or California High Octane Crude *	175,118 Bbls.	---	---	---
All Other Crude	82,409 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	29,000 Bbls.
Gasoline B *	159,229 Bbls.	82,000 Bbls.	45,000 Bbls.	---
All Other Gasoline	70,586 Bbls.	---	20,000 Bbls.	---
Lubricating Oil -				
Aviation Lubricating Oil***	---	---	---	149 Bbls.
All Other Lubricating Oil	12,061 Bbls.	---	---	---
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	43,200 Bbls.
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	7,576 Tons	---	---	2,990 Tons
All Other Scrap	24,579 Tons	---	---	3,072 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.

Source: Office of Merchant Ship Control, Treasury Department.

Sept. 23, 1940

Any material from which by commercial distillation there can be separated more than 3% of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.

Sept 1 - 21²⁷¹

British 94

Army 46

Navy 1

141

ALLISON ENGINEERING COMPANY
Deliveries of Airplane Engines

	: Actual : deliveries :	: Estimated deliveries on : existing orders
<u>1940</u>		
January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 6.....	6	
July 7 - 13.....	18	
July 14 - 20.....	11	
July 21 - 27.....	15	
July 28 - August 3.....	30	
August 4 - 10.....	1	
August 11 - 17.....	1	
August 18 - 24.....	14	
August 25 - 31.....	45	
September 1 - 7.....	28	
September 8 - 14.....	52	
September 15 - 21.....	61*	
September 22 - 30.....		59
October.....		352
November.....		399
December.....		428
<u>1941</u>		
January.....		400
February.....		416
March.....		416
April.....		414
May.....		408
June.....		437
July.....		400
August.....		369
September.....		431
October.....		45
November.....		45
December.....		45
<u>1942</u>		
January.....		25
February.....		21

Office of the Secretary of the Treasury,
Division of Research and Statistics.

September 23, 1940.

*50 of these engines went to the British.

STRICTLY CONFIDENTIAL


CURTISS AEROPLANE DIVISION OF CURTISS-WRIGHT CORP

British Contracts

	P-40 (Allison)
Airframes on hand September 14	99
Airframes completed September 15 - 21	<u>12</u>
Total airframes needing engines	111
Airplanes with engines shipped September 15 - 21	<u>24</u>
Airframes on hand September 21	<u>87*</u>

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 23, 1940.

* On September 21 there were 67 Allison engines on hand for British P-40 contracts.



BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

September 21st, 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. S. L.

The Honourable

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

Telegram from London
dated September 20th

1. Naval. A British submarine reports that she fired 4 torpedoes at a large enemy convoy off Texel on September 16th; and estimated 2 hits.

On the night of September 17th/18th H.M.S. "Kent" was hit by a torpedo dropped from an aircraft taken off Bardia. Resulting damage necessitated her being taken in tow and she has now safely arrived in harbour.

2. Royal Air Force. Bombing attacks on enemy shipping on the night of September 18th/19th were successful. The heaviest scale attack was at Havre, where many hits on shipping and docks were reported. Marshalling yards in Germany and Belgium and an enemy aerodrome were also located and attacked. One aircraft obtained a direct hit on a destroyer off the Dutch Coast. 9 of our aircraft are missing.

During September 19th a number of offensive reconnaissances were carried out by our own bombers in areas of the Channel ports. All our aircraft returned safely. During the night owing to less favourable weather conditions a smaller force of bombers was despatched. Objectives were enemy shipping

in/

in the Channel ports, railway targets in Western Germany, and aqueduct on the Suez Canal. Mine-laying was also carried out. All our aircraft returned safely.

3. German Air Force. It was reported on September 19th that fires caused during the night of September 18th/19th were well in hand and unlikely to be visible at night. A very approximate estimate of casualties during this night is 200 killed and 500 wounded. September 19th enemy activity was considerably less and confined to operations by single aircraft. A considerable number of reconnaissances were made over Southeast England, South Wales and Liverpool areas. Six enemy bombers were destroyed, 4 of them by our fighters, one by anti-aircraft at night, and 1 forced to land intact. We lost no fighters.

During the night of September 19th/20th London was again the principal enemy objective; from 8 p.m. to 5:45 a.m. indiscriminate bombing took place on the usual scale. The East End suffered chiefly, but no reports of major damage have yet been received, and accurate casualty figures are not yet available. A few fell in Whitehall area, but damage was only slight.

During September 18th long range reconnaissances were made from Bordeaux, covering West Coasts of Ireland and Scotland and Irish Sea and from Trondhjem to a point Northwest of Faeroes.

Fighter/

-3-

Fighter patrols were maintained by day over the Channel and by day and night over the Low Countries and the Ruhr district.

4. September 19th one British tanker (1,000 tons) was sunk off the East Scottish Coast either by mine or explosion.

5. Middle East. On September 18th 5 heavy bombers attacked various Italian bases in the Dodecanese.

On the same day, aerodromes in Eastern Libya and military targets in operational zone were bombed by 18 Blenheims; considerable damage is thought to have been caused to enemy aircraft on the ground. One Blenheim was shot down.

Sudan. On September 18th Kassala station was successfully attacked by 9 British bombers.

6. Messina. Reference my telegram of September 2nd, paragraph 1. sub-paragraph (2).

It is now reported that a 10,000 ton Italian cruiser was probably sunk on this occasion.

September 23, 1940
3:00 p.m.

GROUP MEETING

Present: Mr. Gaston
Mr. Haas
Mr. Thompson
Mr. Chamberlain
Mr. Viner
Mr. Foley
Mr. Schwarz
Mr. Graves
Mr. Cochran
Mr. White
Mr. Bell
Mr. Young
Mrs. Klotz

H.M.Jr: Merle, could you find out - you know, that happened the morning after we saw the Argentinian Ambassador. I wondered if they knew over there that that was the story. We let them know, but did they know that this was coming and if they did, why in hell didn't they tell me? Did they know this was coming? Just look into this. I want to kind of make a record with the State Department.

Did you (Gaston) know this? (Handing Mr. Gaston memorandum from Mr. Cochran dated September 23.) This was a terrible thing.

Gaston: Is this the man involved in Customs?

H.M.Jr: Yes. Whoever the man is up there, order him to get on the train and get him down here tomorrow morning. I want it explained to me.

Gaston: I couldn't make out whether this was Canadian Customs or American Customs.

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H.M.Jr: Could you call up Hickerson and say that I have ordered this man down to Washington personally to report to me? Call up Hickerson and tell him that. How long have you known this?

Cochran: I got it this noon.

H.M.Jr: Tell him I have sent for this man to report to Washington immediately and would you please get word to Mr. Howard. Will you see that he does that, Herbert?

Gaston: Yes, I will.

H.M.Jr: Well, Bell, how are you?

Bell: I don't know whether you have seen it or not, but Mr. Davenport sent you a copy of his Post article on Financing Defense.

H.M.Jr: No.

Bell: Well, it is in your shop someplace.

H.M.Jr: Where?

Bell: I think probably Miss Chauncey has it. It came in Saturday late. Herbert has read it and Mr. Haas is going over it, and Mr. Blough is going over it. Part of it Mr. Sullivan should read. It isn't bad.

H.M.Jr: Is it good?

Bell: Well, it isn't good, but it isn't as bad as we might have expected.

H.M.Jr: What is the matter with it?

Bell: Well, it is just a straight article. There is nothing flashy about it at all. I don't think you have to worry any about it.

H.M.Jr: Is it critical?

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Bell: No, not critical at all. One or two little places you might like to straighten out, but it isn't bad at all. I don't know whether you would like to read it.

H.M.Jr: Yes.

Bell: We would like to get it for New York tomorrow night, if you do.

H.M.Jr: Well, I will try to read it tonight.

Bell: He can stay over if you can't read it.

H.M.Jr: I will try and read it. .

Bell: That is all I have.

H.M.Jr: Will you stay behind after this?

Bell: Yes.

H.M.Jr: Harry?

White: The Argentine Ambassador was here Saturday morning. I took him in to Dan Bell. He wanted to know what the possibilities of successful negotiations were and how long it would take and so on, and Dan just told him --

H.M.Jr: What kind of negotiations?

White: The --

H.M.Jr: You mean the American Ambassador or the Argentinian Ambassador?

White: Argentinian.

H.M.Jr: How can we negotiate when they have slapped down all exchange control?

White: Well, that subject wasn't discussed, but I saw elsewhere a cable that came in saying that it did not mean that they were restricting dollar goods and that the

- 4 -

article in the paper by John White was not an accurate account, but I don't know more than that.

- H.M.Jr: Well, I have asked Cochran to find out from the State Department what they did or didn't know.
- White: Yes. Well, he wanted to get some definite information before he telephoned his government, but Mr. Bell didn't give him any.
- H.M.Jr: About what, Harry? What does he want? Do you mean about that cable?
- White: About the cable, yes.
- Bell: He wanted to know how long negotiations would take and whether or not it could be completed before election and whether or not the election would have any effect on the negotiations and I told him that things were changing so fast we couldn't tell him how long it would take or what trend it would take.
- White: He said their new Minister of Finance was extremely interested in it, but couldn't come up if it took too much time and certainly it would be bad for them to come up and not be successful.
- H.M.Jr: They are doing me no favor in coming up here. I don't want him up here. Somebody in the State Department does. I don't. As far as I am concerned, he can stay down in the Argentine. Who thinks he can do me a favor by coming up here?
- White: I didn't ask him that question. I don't know.
- H.M.Jr: As far as I am concerned, let him stay down there.
- Bell: We did say we would be willing to talk to them, didn't we?

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- H.M.Jr: Well, they put all this pressure on me to okay this cable, and whoever wrote the cable is so interested in it - I don't know where all the pressure comes from. It is nothing in my life. Let Sumner Welles see it.
- Bell: He saw Sumner.
- H.M.Jr: Let him see him agdn. I don't want him running around. I'm serious. I'm very serious.
- White: I imagine the cable went forward, but I don't know whether it did. There was a meeting of the Executive Board of the Export-Import Bank this morning, and Jones asked me for permission to go ahead with negotiations with China to a maximum amount of \$25,000,000.
- H.M.Jr: Good.
- White: The State Department said that they were - in the person of Mr. Berle, said they would be interested in timing this thing properly in view of recent events, and it seems as though the thing will go through rather quickly, judging from what Jones said, at least the preliminary statement will be made soon.
- There also was taken up the question of the loan to Brazil for the Iron and Steel Company of 20 odd million dollars and that was approved, and a loan to Costa Rica of $4\frac{1}{2}$ million dollars for a highway. That was also approved.
- There is an article here in the New York Evening Post on gold that is interesting in itself, and I think it is particularly interesting in view of the fact that they have been panning the gold policy so much.
- H.M.Jr: That is by that woman, you know.
- Schwarz: Sylvia Porter.

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- White: And that is a brief statement on our gold inflows of the last 12 months, explanation and prophecy.
- Bell: Did the Treasury approve these loans through the Export-Import Bank?
- H.M.Jr: That is an embarrassing question you have raised. I was going to take it up with the Subcommittee. I didn't know what was going to be brought up before the time. They operate in a very interesting principle, in which Mr. Jones asks for permission to go ahead with negotiations somewhat along these lines. I knew you were in favor of the loan to China, so I thought I was safe in approving that, and I assumed, or thought I knew, that you would be in favor of the Brazilian loan and the other, but I didn't say anything. They just said, "No objections? Passed." It is a very interesting way of getting business done.
- Gaston: The Chair hears none.
- White: No, he asked for any suggestions or comments. They made a few, and there was something we will want to take up later, but I don't know what will happen when they bring the first one up that you don't happen to know anything about or that we don't approve of. I suppose it will start a minor revolution, but so far that hasn't happened. They transacted all their business in about 20 minutes, I think, three loans.
- H.M.Jr: Well, so far it sounds all right, doesn't it?
- White: Yes, those three I thought I knew you were in favor of.
- H.M.Jr: It is lucky.
- White: I thought so.
- Bell: I wonder if they can't give you in advance a little agenda.

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White: I was wondering whether that couldn't be arranged. I don't like to ask for any changes in procedure, since I have just joined, but I think that it won't be long now.

H.M.Jr: All right, Harry.

White: As a matter of fact, some of the directors didn't know anything about the loans. I happened to know a little bit about them.

H.M.Jr: I would feel badly if you treated Mr. Jones any better than you treated me.

White: I will have to assimilate that. I don't know just what that means.

H.M.Jr: Jake likes that one, don't you Jake?

Viner: I wouldn't feel badly.

H.M.Jr: Give Harry time. He will come back.

White: Give me time; I will give you a fight.

H.M.Jr: Philip?

Young: Mr. Purvis is on his way down to Washington this afternoon.

H.M.Jr: Two hundred and fifty thousand guns; are they for cash or for love?

Young: Cash for the moment.

H.M.Jr: Okay.

Young: The first are already on the way. They started to roll yesterday.

H.M.Jr: Are you going to get me something on that in writing?

Incidentally, did you give Mrs. Klotz anything on the meeting we had here that day that Knox came in unexpectedly and I talked my

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one and one idea?

Young:

No.

H.M.Jr:

You didn't?

Young:

No.

H.M.Jr:

Phil, you are slipping.

Young:

Yes, sir.

H.M.Jr:

That was an important meeting.

Young:

I will give you something now.

H.M.Jr:

Will you?

Young:

Yes, sir.

H.M.Jr:

I thought you hadn't. I didn't check up on you, either. Do you remember the meeting?

Young:

Sure.

H.M.Jr:

That may have started something - remember what I told him, what the President said and everything, that I wanted him to fix up a report and take it to him and get him to say yes or no? Remember?

Young:

Yes, sir.

H.M.Jr:

Please. Would you do it tonight yet?

Young:

Yes, sir.

H.M.Jr:

Anybody that comes in, when there is no stenographer present, when they are invited in to my meeting with me, whoever they are, I expect them to write a report when they go back to their office without my asking. That goes for everybody. When they go back to their office they should do it.

Young:

The Chinese powder is still in abeyance for the moment until we get more information on it.

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H.M.Jr: Incidentally, when I reported the last time - I don't know when it was - I am doing this for my record - that Hull said that if the Japanese went into Indo-China he would want to do two things, that is, the scrap iron and the oil. I forgot to mention one thing, which was very important. I guess it was at the Cabinet Thursday. He also wondered if we might want to put on some kind of embargo on silks, so I thought I would put you fellows on notice.

Foley: We got the papers.

H.M.Jr: At least, he asked me.

Foley: We got the papers.

H.M.Jr: What is that?

White: The papers are ready on the embargo on silk imports.

Viner: Under what authority, Harry?

Gaston: Fifty percent increase in duties.

Viner: There are no duties. It is on the free list.

White: There is authority for --

H.M.Jr: Well, I am seeing him at a quarter of nine tomorrow, and on one page could somebody see I get it tonight, the various things they could do on silk, in case he asks me?

Foley: Yes.

H.M.Jr: Will you look into that?

Foley: Yes.

H.M.Jr: Will you bring it with you?

Foley: Yes.

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H.M.Jr: Is that all, Phil?

Young: Yes, sir.

H.M.Jr: George?

Haas: Last week, Mr. Secretary, I gave you the wrong figure on Allison. They gave the wrong figure over the phone.

H.M.Jr: Fifty-two was the figure.

Haas: Do you know this week's?

H.M.Jr: No, I don't. What is the aspect?

Haas: That is what went to the British. I just figured out before I came in there have been that many produced and the British have gotten 94 since September. It looks like the P-40 situation in another week will be pretty good.

H.M.Jr: Phil, why should the Army get 11 out of the 61 last week? Is that according to --

Haas: They are supposed to get 50.

H.M.Jr: Who, the English?

Haas: The Army, for the month, as a whole, and they haven't forgotten them yet.

H.M.Jr: I see. They got 46?

Haas: That is right.

H.M.Jr: We will let them have four more.

Haas: No more.

H.M.Jr: Four more. You have got the Army down for 46.

Haas: According to that meeting we had with Arnold and Knudsen, 50 was all that they were to get.

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H.M.Jr: Well, watch them. While you (Haas) were absent, I got Tipton. He gave me some figures for Early. They didn't use them. I guess Early wasn't there.

Haas: They were in the paper.

H.M.Jr: They were?

Haas: Yes.

H.M.Jr: Those geographical figures?

Haas: I think so. Tipton this morning showed me a clipping out of some paper that had those figures in. I will get it and send it on in.

H.M.Jr: I didn't see it. Is that all?

Haas: I am all through.

H.M.Jr: Professor Chamberlain?

Chamberlain: Mr. Secretary, Mr. Pehle has got some information in respect to the remittances that he was - he and I would like to present it to you some time tomorrow. I have asked the Lieutenant for time.

H.M.Jr: Good. You don't want to do it today?

Chamberlain: No, it isn't quite ready. I want to go over it before he presents it.

H.M.Jr: While Dr. Viner is here, will you bring him up to date on what has been happening?

Chamberlain: I have made arrangements already to have a conference with him tomorrow morning.

H.M.Jr: I would like you to do that, if you would.

Dr. Viner? Always glad to see you.

Viner: Thank you.

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H.M.Jr: I am going to talk a little financing right after this. If you care to stay, I would like to have you stay. I thought in honor of your being here, we would do a refunding.

Schwarz: I haven't anything.

H.M.Jr: Press at 4:30?

Schwarz: Four thirty.

H.M.Jr: Have there been any leaks on our refunding?

Schwarz: Nothing, no indications of any.

H.M.Jr: What was the great emergency that Ransom had to talk to me about?

Bell: Oh, there is a hearing on the Hill this morning before Steagall's Committee on the FDIC legislation, which involved the direction of the new building and the reduction of the rate from 1/12 to 1/14 and many other matters. I had already been in touch with Delano on Saturday and Leo also. Leo assures me that the only question involved in the hearing this morning is the reduction of 1/12 to 1/14 and the other matters were going to be eliminated so I told Ronald that and he felt better.

As a matter of fact, the hearing was confined to members of the Committee, and there was a great deal of objection from both Republicans and Democrats, and Larry Bernard thinks it is dead. I don't think we will hear about it again.

H.M.Jr: Merle?

Cochran: Pinsent got a few more figures on England that I am sending you up this evening, on their expenditures.

H.M.Jr: Rather than do that, Merle, I would like to

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sit down while Viner is here with you and with White and Bell, and take a look at that whole picture. You see, I haven't done it. I would like to do it sometime tomorrow. Don't send them up. I really haven't done anything on it since what's his name has gone. So if you could have them ready, I will have a little meeting tomorrow. Would you mention it to McKay when you go out?

- Cochran: All right, and I will have the figures distributed to the other men.
- H.M.Jr: I would like to sit down tomorrow and go over that with you gentlemen.
- Bell: The expenditures in this country?
- Cochran: Yes.
- Bell: Hasn't George been getting some reports on that?
- H.M.Jr: Then it would be Cochran and Viner and George and White and Bell.
- I want you to know those dahlias were picked today at one o'clock on my farm.
- Cochran: That is all.
- Foley: You got the message that Nelson Rockefeller couldn't come?
- H.M.Jr: He first accepted, didn't he?
- Foley: He said he would come if this engagement wasn't on Tuesday, the speaking engagement. He wasn't sure, so I checked with his girl and found out he had that speaking engagement at this department luncheon over at Agriculture. He would like to come some other time.
- Are we supposed to do anything on that scrap proclamation? Jackson, you know,

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changed a few of the words, but approved the thing as we sent it over in substance.

- H.M.Jr: We will wait until somebody hollers for it now.
- Foley: We haven't heard from any of the other people so far as I know.
- H.M.Jr: We will wait now and see what Mr. Hull does, since the Japanese have gone into - what is the name of that town they entered through?
- Schwarz: Dong Dang.
- Gaston: Isn't it Dang Dong?
- Schwarz: Dong Dang.
- Gaston: All right.
- Foley: We are clearing that rule that Knudsen talked about last Thursday night as to whether or not those contributions were income. I think they will be ready tomorrow.
- H.M.Jr: Plan No. 2?
- Foley: It is on Plan No. 2, yes.
- H.M.Jr: It is terribly funny. We had Knudsen for dinner the other night. I don't know who gets the credit for this witticism. He said he was asking for a hypothetical ruling and - was it you that gave him that?
- Foley: I think so.
- H.M.Jr: They said they would give him a hypothetical answer for a hypothetical airplane. Anything else?
- Foley: Nothing else.
- H.M.Jr: Herbert?
- Gaston: Mr. Magruder called this morning to say,

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"I have gotten word that a certain person has been misinformed. You are to forget it."

- H.M.Jr: Now, wait a minute. I am used to coded messages, but I don't get it. Say it again.
- Gaston: Mr. Magruder said to me, "I have gotten word that a certain person has been misinformed. You are to forget it."
- H.M.Jr: In England?
- Gaston: It means that his friend in the State Department went to the President and the President said, "I don't know about the background and we won't do it."
- H.M.Jr: His friend in the State Department - his last letter is W and his first is S, and he wears a high collar?
- Gaston: I think so. I have no information on that, but I surmise. I think he lives in Maryland.
- Foley: The friend of the Treasury.
- Gaston: We are not officially informed, but we are from that end.
- H.M.Jr: Will you give that exact same message to General Watson?
- Gaston: Yes, I will.
- H.M.Jr: The exact same message.
- Gaston: Will he be here tonight?
- H.M.Jr: He wasn't with the President.
- Gaston: Is he here?
- H.M.Jr: I think so. I don't think either of them - well, I am quite sure of Watson.

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Gaston: I will try to get him.

H.M.Jr: What else?

Gaston: We are proceeding to investigate two candidates for office, one Collector of Customs at Port Arthur, Texas, recommended by both Senators, and the other a Collector of Internal Revenue, at Little Rock, Arkansas, recommended by both Senators. The Little Rock thing, the former collector was - got the Democratic nomination for Governor, which is equivalent to election in Arkansas.

H.M.Jr: Would you have Johnson, Commissioner Johnson, tomorrow, see this fellow and after he has got the story, then you and I will see him with Johnson.

Gaston: Yes.

H.M.Jr: Please. Is everything else all right?

Gaston: Everything else is all right.

H.M.Jr: Now, if Mr. Bell and Mr. Haas will stay, and Mr. Viner and the Stenotypist.

September 23, 1940

Jesse Jones called me at 5 o'clock and said he had T. V. Soong in his outer office and that he had been talking with him at the request of Mr. Hull who called him last night at 9 o'clock and wants him to make a loan to China.

He told T. V. Soong that he was thinking of making a loan of \$20,000,000 against tungsten. "What did I think?" I said I understood that he made the suggestion to Export-Import of \$25,000,000. Jones said that was right. And I said what did Hull want him to do. He said he thought \$25,000,000. I said I thought he should make it \$25,000,000. He said he would and that he would leave the implication with T. V. Soong that there would be more when that was gone.

He said Hull was very anxious for him to make the announcement tonight on account of what had happened in Indo-China. He said he, Jones, thought it ought to be postponed for a couple of days for fear that people might think that this commitment had been made prior to Japan going into Indo-China. "What did I think?" I said it was purely a matter for Mr. Hull to decide and I had no opinion.

I gathered from what Jones said, directly and indirectly, that he had been talking over with Mr. Hull the meeting we had here Friday with the Russian Ambassador and that Hull felt upset about it. I said, Well, I was the injured party. Well, he hoped that Hull and I would make up. He, Jones, was very glad that I was going to see Hull tomorrow morning.

My own opinion is that the time to put the pressure on Japan was before she went into Indo-China and not after and I think it's too late and I think the Japanese and the rest of the dictators are just going to laugh at us. The time to have done it was months ago and then maybe Japan would have stopped, looked and listened.

* * * * *

Immediately after the above conversation, I spoke with Leon Henderson on the phone and he said there is to

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be a meeting tomorrow morning at 10 o'clock on scrap iron and he, Henderson, would report to me after the meeting what happened.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: September 23, 1940, 5 p.m.

Rec'd 4:20 p.m., 24th

NO.: 609

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This morning I had a talk with Rueff at Chatel Guyon. Rueff has spent most of his time in Paris since my telegram of August 26, 7 p.m., No. 431.

Rueff said there has been a complete breakdown in negotiations with the German authorities for an agreement whereunder Germany would allow a substantial relaxation of the present severe restrictions on all communications and transfers between the part of France occupied by the Germans and the unoccupied portion, in return for which there would be a certain adaptation of French exchange control regulations to the German and Germany would control the customs at France's geographical frontiers. Rueff said that when the matter had been submitted to General Von Brauschitsch the negotiations had reached an advanced stage. The General had indicated that he did not want any relaxation in present restrictions on communications between the occupied part of France and the unoccupied part, for reasons of military secrecy.

END SECTION ONE.

MATTHEWS.

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 609
OF SEPTEMBER 23, 1940 FROM PARIS

Rueff told me in confidence that at the Armistice Commission there was one question which had come up which would be of interest to the United States -

An inquiry had been slipped in to the Germans as to whether the Bank of France would be willing, through some agent which the German Government would designate, to purchase dollars. The Bank of France, it was answered, would be happy to do this provided the American authorities approved the dollar transfers. This was interpreted by Rueff to mean that the Germans had found or hoped to find a way to get around the United States system of blocking currencies. He made it plain that the Germans had not brought any pressure in this regard, that the question had been slipped in almost surreptitiously.

MATTHEWS.

PARAPHRASE OF SECTION THREE, TELEGRAM NO. 609
OF SEPTEMBER 23, 1940 FROM PARIS

Rueff is convinced that the German authorities do not want the Government to return to Paris for the time being, and preparations to dig in for the winter are being made by the services of the Bank of France which are still at Chatel Guyon.

Civilian German authorities in Paris, on the other hand, seem to recognize that it is impossible to continue the present complete prohibition of monetary transfers between the part of France occupied by Germany and foreign countries, in which category the unoccupied portion falls. Some days ago they therefore worked out an arrangement whereunder those persons or companies in the German-occupied portion of France who have reason for transmitting funds to the unoccupied portion could submit a detailed statement of the monetary needs and reasons for the transfer to the French Ministry of Finance, which in turn would submit the case to Berlin ~~to~~ through Schaeffer's organization. Theoretically, such requests would be acted upon by the Germans. The authorities received 150 requests in the first few days; Rueff said that up to the present the Germans have not given any reply to any of them, and this is typical of the German unwillingness

- 2 -

unwillingness to answer requests from the French.

END SECTION THREE.

MATTHEWS.

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 609
OF SEPTEMBER 23, 1940, FROM (PARIS) VICHY

In the occupied part of France prices are being kept down relatively satisfactorily by German control, and there is up to the present no sign of any serious inflationary tendencies. The bank note circulation of France is still about 200 billion francs - a great deal of this excess in circulation is due to the increased needs for currency because of the difficulties involved in all banking operations. However, Rueff told me that the main thing to watch was the possible ultimate utilization of the amount of 400 million francs a day which has been demanded by the Germans and which they are receiving theoretically to pay for the costs of the army in the occupied zone. Obviously, he said, they were not spending anything like such an amount and could not do so, and therefore enormous balances were being built up. He did not know whether these balances would be used ultimately for attempted purchase of gold, of factories in France, of foreign securities or of other resources in France, but he was apprehensive about the future implications of there being in France such enormous German balances.

END SECTION FOUR.

MATTHEWS.

EA:LWW

PARAPHRASE OF SECTIONS FIVE AND SIX OF
TELEGRAM NO. 609 OF SEPTEMBER 23, 1940 from Paris

Rueff told me that there is a possibility a change may be made in the franc-mark rate from twenty to some 17 1/2 or less so that it could be brought more in line with the franc-dollar rate. This change is something which the French hope to put through - the prevailing rate amounts at least in theory to a further devaluation of the franc. No plans are being considered for changing the official rate of the franc and dollar, and up to the present Rueff has not seen any indication that the Germans would try to bring about in France the same sort of inflation the Germans had suffered after the first World War, as he had previously feared would happen.

With regard to the relations between Governor Boisanger and the Germans, Rueff said that he had only seen Schaeffer for about five minutes, and only that one time. Letters are used for all communications. No attempt has been made so far by the Germans to bear down very hard on the Bank of France, and no attempt has been made to exercise the German veto power over important operations of the Bank. Reference, my telegram of September 17, No. 581: The Germans are, however, exercising an increasingly severe supervision over private banks and to a considerable extent are prying
into

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into the nature of the business of the latter.

At my suggestion Barrett of the Guaranty Trust told Rueff frankly of the intention of Guaranty to pull its horns and put its operations in France in a position where they could liquidate promptly. This morning Rueff mentioned this to me but did not show any particular reaction. His principal feeling, in fact, appeared to be a hope that the attitude of Guaranty meant that the head office foresaw that the British would receive increasing American support, and that repercussions in the future attitude of Germany toward American banks in France would be inevitable.

Rueff appeared to be less depressed than he was formerly. He said in conclusion that he himself had not had any difficulty in going back and forth to Paris, and he reiterated the obvious fact that the first and foremost interest of Germany today is its prosecution of the war against England, and that the military situation almost to the exclusion of everything else dominates Germany's relationships with France.

END OF MESSAGE.

MATTHEWS.

EA:LWW

PARAPHRASE OF TELEGRAM

SECRETLY CONFIDENTIAL

No. 435 of September 23, 1940 from the
Embassy at Buenos Aires

This afternoon the Minister of Finance told me that except for unforeseen developments he would head the Argentine delegation which will leave for Rio de Janeiro next Friday to negotiate with the Brazilians as provided for in the agreement signed at Habana on August 1 by Melo and Nabuco. The Minister expects to leave for Rio by airplane during the latter part of next week but will remain only about four days.

Dr. Pinedo asked me to inform the Department of State that the proposal which the Argentine delegation will present is an extensive one including a form of customs union similar to that indicated in his memorandum of June 17 which was enclosed with the Embassy's despatch no. 808 of June 18. I was particularly requested by the Minister to emphasize that any form of customs union which may be agreed upon by Brazil and Argentina and joined by two or more neighboring countries should not be regarded by the United States in any sense as an unfriendly act or as a measure designed to affect United States trade adversely. Dr. Pinedo intimated that the United States had not been invited to participate in these negotiations in view of the imminence of the elections, but hoped

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hoped that after the elections it would be able to consider participation. He continued that he planned to give us a memorandum explaining his plan in greater detail. He said that he had been in touch with the Brazilian Foreign Minister and that enough progress had been made on this matter to warrant his going to Rio at this time.

mg

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires.

DATE: September 23, 1940, 5 p.m.

NO.: 433.

Reference is made to your no. 219 of September 20,
4 p.m.

This afternoon I informed Doctor Pinedo in confidence of the Secretary of the Treasury's views. Dr. Pinedo was not surprised at hearing the news as Espil telephoned him yesterday and informed him of the decision of the Treasury Department.

It was intimated by Dr. Pinedo that he would soon appoint a representative for the purpose who would take a plane to Washington.

TUCK

EA:MSG

TO THE DIRECTOR
TECHNICAL SERVICE
DIVISION

1940 SEP 23 10 41

1940 SEP 23 10 41
RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 23, 1940, 11 a.m.

NO.: 4103

CONFIDENTIAL.

A reliable source has informed the Embassy that representatives of the Reich and of Yugoslavia are meeting in Belgrade for the purpose of drafting an accord covering exchange rates and commerce. It is understood that the representatives will take under consideration the fixing of a new rate for the Reichsmark and dinar, as well as adjustment of problems which have arisen through the incorporation into the German tariff system of the protectorate. In Yugoslavia the Reichsmark-dinar rate is now 14.80, and in Germany it is 17.50. It is stated that efforts will be made by Germany to advance the Belgrade quotation to that which now prevails in Germany.

KIRK.

TO THE DIRECTOR
TECHNICAL DIVISION
BUREAU OF THE
TREASURY

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BUREAU OF THE
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Stockholm

Dated September 23, 1940

Rec'd 7:20 p.m.

Secretary of State,

Washington.

917. Twenty-third.

In million crowns August customs collections 10 point 5 decline of 11 from last August commercial banks August deposits 4323 loans and discounts 4629 rediscounts 25 cash on hand 298 net foreign exchange reserves 71. August automotive registrations passenger 124 of which American 62 Swedish 50 German 11 trucks 719 of which American 305 Swedish 335 German 78. Barley allotment to breweries cut 50 percent from last year but inventories high and beverage production will not suffer. Swedish import and export prohibitions revised and rearranged but few changes mainly following exports prohibited of certain jewelry and precious stones and new import prohibitions on certain ribbon laces furtrimmed garments and import prohibitions removed on electrocardiograph paper, x-ray paper industrial diamonds decalcomanias and boxes if materials from which made not prohibited. INFORM COMMERCE AND TREASURY.

STERLING

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COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires.

DATE: September 23, 8 p.m.

NO. : 436

CONFIDENTIAL

Your 27, February 8, 11 a.m., (which was strictly confidential), relating to the proposed consideration of certain fundamental problems which would arise after the war, one of which was establishment of a sound economic system; Embassy's 422 of September 19, 12 noon, which reported that approval of prior permits for imports from the United States had been withheld and announced the possibility that a triangular agreement might be proposed in which Argentina would be enabled through American financing to continue her exports to Great Britain.

According to the press, a commercial mission from England, which is expected to arrive soon in Buenos Aires, may be headed by Lord Runciman. As was previously reported, my understanding is that arrangements are being made so that there can be exports on credit, and it has been stated in confidence by authorities of the Ministry of Finance that such credit probably would not be given by Argentina unless the United States lends assistance. There is reason to believe that a determined effort is being made by certain groups in British commercial circles to keep
the

- 2 -

the preferences, mostly at the expense of the United States, which had their origin in the Roca-Runciman agreement and which have stood most in the way to a sound economic relationship with America. The extension, or, as a matter of fact, the retention, in any measure of the arrangement of preferences which was forced on Argentina in limited form originally at the time of the British reprisals for the United States tariff of 1930 and which was subsequently intensified in form and applied up to the war's outbreak would, under the existing circumstances, appear to be indefensible. Permanent American interests are jeopardized seriously by the preferences since a normal growth of trade is obstructed and the soundness of dollar loans is decreased because under any bilateral balancing system increased service on debts and amortization of payments are subtracted from the exchange which is available for imports from America.

Therefore my recommendation is that no action be taken now which would be inconsistent with the establishment of a sound economic system necessary for the future and that with this purpose in mind no more loans be made except as part of a coordinated plan, such plan providing for the abolishing of discrimination as a necessary step to financial and other help.

It

- 3 -

It is believed that if the United States is ready to help by extending credits and possibly by purchases, the problem of abandoning preferences should be discussed in advance with the Argentine and British Governments both. In my opinion it is unfair that the British should demand and the Argentines yield to a continuation of the idea of preferences at the United States' expense, particularly at a time when the Government of Argentina feels that it can only keep up its exports to Great Britain on credit should the United States offer assistance. Moreover, it is my belief that we should give no assurances regarding specific help until we have satisfactorily brought to a settlement with Argentina and Great Britain the question of discrimination, since assistance in other circumstances would be viewed as compromising the principles of our trade policy and as tacitly approving a system that obstructs commercial and financial relations of a sound nature.

Complete agreement with the above statements has been expressed by Mr. Pierson, who arrived here today.

(END OF MESSAGE)

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September 23, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Yes


I was called to your office at 10:10 a.m. Friday, September 20, where Foley and Helvering were present. You directed us to try to conclude the Magruder matter that day if possible. Miss Chauncey had in her possession a memorandum which you directed that she copy and return to the White House. Foley and Helvering returned to my office with me and after some discussion Helvering called up Magruder, Collector of Internal Revenue at Baltimore. Magruder knew of the effort to displace him in favor of William Gordy, a former State Comptroller and candidate for Governor. He said he had an appointment to see a close friend at the State Department that afternoon and would drop in to see Mr. Helvering on his arrival in town. We had agreed that the only alternative position that could be offered Collector Magruder in the Treasury Department was the vacancy on the Processing Tax Board of Review, which pays \$7500, the same as the salary of Collector. I wrote you a note stating Magruder would not be able to give us his decision until he had talked with his friend in the State Department and you telegraphed that information to General Watson at Poughkeepsis.

At 3:30 Guy Helvering phoned me to say that Magruder was in his office and would like to come over and see me, which he did.

- 2 -

Magruder told me that he always had been willing to serve the President and would continue to serve him to the best of his ability. He said, however, that it was his considered judgment, as an old hand in politics, that for him to retire so that Tydings might appoint his successor, in consideration for which Tydings would come out for the President, would not do the President any good in Maryland but on the contrary would injure him. He said it would be entirely obvious to everybody that on the one hand he had been sacrificed to gain Tydings' support and on the other that Tydings had sold out for patronage. He said this would disgust the supporters both of the President and of Tydings. He had an appointment at 4:30 with his friend at the State Department (who is undoubtedly Sumner Welles, although his name was at no time mentioned in our conversation) and agreed to call me after his interview. He called me at 5:10 to say simply that he would not be able to give us his decision until Monday. I wired this information to General Watson and repeated it to you.

Mr. Magruder called me up from Baltimore this morning (Monday, September 23) at 9:43 and gave me this brief message: "I have gotten word that a certain person had been misinformed. You are to forget it." I told him that I had supposed the delay until today was to allow time for communication and told him I was pleased at the outcome. He said he was too and thanked me for our considerate attitude.



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M. I. D., W. D.
Special Bulletin No. 15
September 23, 1940.

RHINE CROSSING AND PENETRATION OF THE MAGINOT LINE
(THE GERMAN COLMAR OPERATION, JUNE 15-16, 1940)

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SOURCES

The information contained in this bulletin was furnished by official American sources.

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JUNE 15, 1940.
- II. THE GERMAN PLAN.
- III. THE ATTACK, JUNE 15-16, 1940.
- IV. COMMENT.

NOTE

Two explanatory maps are attached.

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I. THE COLMAR SECTION OF THE MAGINOT LINE AND THE GENERAL STRATEGICAL SITUATION, JUNE 15, 1940.

The German Rhine crossing on both sides of Breisach on June 15, 1940, and the subsequent penetration of the Maginot Line in Alsace by the German Seventh Army, constitutes one of the most daring and interesting tactical operations of the German West offensive of 1940.

The French Maginot Line was reputed, prior to this offensive, to be the strongest fortified line of the world. The Colmar section, however, was by no means its strongest portion, at least insofar as size of forts and number of pillboxes were concerned. Great reliance had been placed by the French General Staff on the major obstacle which the Rhine River afforded. The Rhine is here a truly formidable obstacle—between 200 and 300 yards wide, with a current which varies between six and eight miles per hour. With this natural obstacle interposing itself between France and Germany, no such fortress line was thought necessary in Alsace as was constructed farther north in the Moselle and Saar frontier sections.

The German attack on the Colmar section of the Maginot Line was launched at a time when the military strength of France was no longer intact. The French Army had already suffered severe defeats along the Meuse, in Flanders, and before Paris. The French divisions in Alsace had been stripped to a minimum to provide reserves for General Weygand's armies, which were fighting with their backs to the wall along the Somme and Aisne Rivers.

Whether the Germans ever would have selected the Colmar section for an attack if the French armies had been as strong in Alsace in June as they had been in April may well be doubted. Nevertheless, the French Army in Alsace was still formidable in the middle of June, at least numerically. The fortress troops of the Maginot Line had not been drawn on to reinforce Weygand. A fair number of active divisions also remained in Alsace-Lorraine ready to reinforce the fortress units should they be attacked. However, the morale of the French armies was, by June 15, no longer satisfactory. Paris had fallen to the Germans on the previous day, and such a catastrophe cannot but have left an imprint on French esprit. Subsequent events proved that the morale of the fortress troops had been undermined by nine months of war inactivity. As a French commander of one of the Maginot forts said after the armistice, "We fortress troops never trained throughout the winter. We had lost the feeling of being soldiers and had become mere mechanics. Offensive spirit and skill had totally vanished. We were prisoners of our forts." This statement of a French officer appears, in view of the events about to be described, as a correct estimate of the morale of his troops.

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It explains the overwhelming and rapid success of the German Seventh Army in breaking through, in two days, what was reputed to be the strongest fortress line in the world.

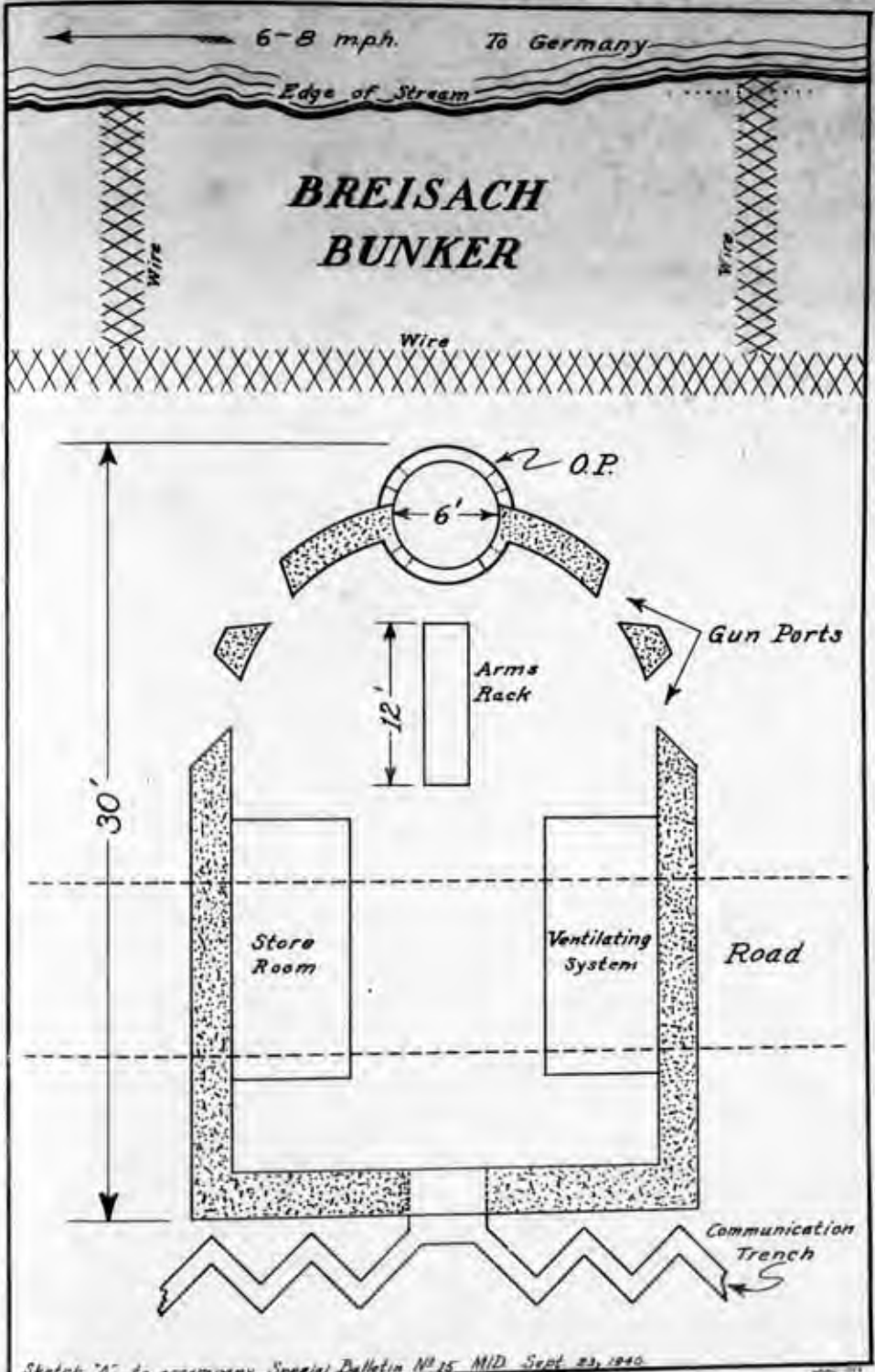
The Maginot Line to the east of Colmar was, in every sense of the word, a "line" rather than a zone. The permanent works extended back from the river line to a depth of not more than 10,000 yards, whereas the depth of the fortified zone on the German side of the river varied between 25,000 and 30,000 yards. The Maginot fortifications were in three lines. The forward, or outpost, line lay directly on the river bank and consisted of a string of concrete pillboxes spaced at intervals of from 200 to 600 yards. All pillboxes were located within 100 yards of the river. These positions had been selected to give the pillboxes both a field of observation and fire to the front and flanks. Rearward defense had not always been provided. These fort units covered the Rhine River with a continuous band of fire and were mutually supporting. Every favorable river crossing was covered by the fire of two or more pillboxes. Between the pillboxes were located armored cupolas which had no armement but which strengthened the chain of observation along the river. The following sketch shows the plan of a typical French bunker of this river line.

The steel cupola was about 8 feet high and 6 feet in diameter and was set in concrete. The thickness of the steel varied from 2 inches at the bottom to 12 inches on the exposed upper portion. The cupola had four firing ports. The concrete was heavily reinforced and about 4 feet thick. The normal armament consisted of machine guns, but an antitank gun could be used to replace them very quickly by means of an overhead trolley.

The pillboxes had a weak joint between cupola and concrete. American observers who inspected examples of this type of fortification said it appeared inferior in layout and construction to comparable German works. In particular, the exposed vertical face of the pillboxes toward the river offered an excellent target for the German artillery.

In front of this river line of pillboxes bands of wire entanglement extended toward the river bank, but never into the water. A certain amount of free space lay between the actual river bank and the forward edge of the entanglements. This was a mistake as was later proved in the course of the German attack, since it enabled the Germans quickly to gain a foothold on the French side of the river. Improvised and crude land mines also had been laid within the area of wire entanglements. The French garrison, however, forgot to pull the safety pins of the mines, so that these failed to explode when the attack came.

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Sketch "A" to accompany Special Bulletin #15 MID Sept. 23, 1940

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The French second pillbox line ran parallel to the river defenses about two to three miles west of the river. This line covered the town of Neu-Breisach. The third and final defense position lay on high ground to the west of the Rhine-Rhone Canal. The pillboxes of all three lines were very similar. They provided good observation and fields of fire for the garrison. There were, however, no large forts in this section, such as we are accustomed to associate with the idea of the Maginot Line.

The garrison of this forward river line was not strong, and the French had provided no units for local counterattack. Somewhere in the rear areas, and to the west of Colmar, was the French VII Corps as a general reserve for the French fortified line in Alsace. This corps, however, came into action only when penetration of the Maginot Line had been completed and the German troops had advanced to the foothills of the Vosges Mountains. The Rhine front in Alsace was within the section of the French Fifth Army. Its commander, on June 15, is believed to have been General Barnett.

II. THE GERMAN PLAN

By June 9 the advance of the German right wing armies toward Rouen on the lower Seine and Paris had achieved such important tactical successes that a situation had been created permitting the launching of the main German blow, long planned for the Champagne-Aisne area. French reserves had already been sucked westward. It is believed that seven divisions of the Alsace-Lorraine armies were, on June 10, en route to reinforce the threatened French left wing and center. This transfer naturally weakened the French right wing in Alsace and Lorraine.

The main German blow was to be delivered by "Army Group A" consisting of the Second, Twelfth, and Sixteenth Armies, the center army group of the German armies of the West. This army group, under the command of General-Colonel von Runstedt, attacked at dawn June 9. After breaking through the French forward positions along the Aisne, the army planned to pursue the French armies with armored and motorized forces as far as the Swiss frontier and cut off the right wing of the French armies holding Alsace-Lorraine.

This German attack was highly successful. After hard fighting—in the German opinion the hardest of the war—a clear-cut penetration was achieved on June 10 in the south of the town of Chateau Porcien on the Aisne, and by June 12 armored units pressing through the gap had reached Chalons-Sur Marne. Organized French resistance in front of these armored units vanished quickly. The XIX Corps (Armored) of General Guderian and the XXII Corps (Armored) of General Baron von Kleist began their headlong dash

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southward, which was finally to reach the Swiss frontier at Pontarlier on June 17. This movement, as it progressed southward across the rear of the Maginot Line, was bound to present danger to the encircling force unless the three French armies in Alsace-Lorraine could be pinned down frontally. Frontal pressure against the Maginot Line seemed to the Germans necessary if the encircling force were to carry out its mission successfully. Hence, in accordance with German offensive custom, it was decided to attempt to break through the Maginot defenses at selected points and thereby prevent the French field forces from throwing their weight against the encircling forces who were threatening their rear.

These planned penetrations of the Maginot Line were not haphazard affairs conceived on the spur of the moment. Preparation had been begun as early as November, 1939. Extensive reconnaissance, air and ground, had picked out weak points in the Maginot Line which seemed to offer favorable prospects of success. Two areas were finally selected: a 10-mile stretch of the main Maginot Line, due south of Saarbrücken between St. Avold and Saargemund, and another in the Neu-Breisach section of the Alsatien-Rhine front, a little northeast of Colmar.

The eastern portion of the German West Front, that fronting the Maginot Line, was held by "Army Group C" under the command of General Ritter von Leeb. It consisted of two armies: the First Army, commanded by Generaloberst von Wittleben, and the Seventh Army, commanded by General Dollman. The First Army was assigned to carry out the Saarbrücken attack, while the Seventh was to carry out the attack toward Colmar, the operation being considered in this study.

The Seventh Army comprised between ten and twelve divisions and held that portion of the Rhine front extending from Strassburg to Freiburg. It was composed of three corps, the XXV to the north, and the XXVII in the center, and the XXIII Corps to the south. The latter two corps were assigned the initial task of forcing Rhine crossings and storming the Maginot Line.

The XXVII Corps was commanded by Lieut. General von Zorn. It comprised two divisions which have been identified: the 218th under Major General von Cretz, and the 221st under Major General von Pflugbeil. There was probably an unidentified division in corps reserve.

These two divisions were to attack abreast, the 218th on the north flank of the corps on both sides of Sasbach in the direction of the Alsatian village of Merolsheim, the 221st to force a crossing at Burkheim, and thence to attack southwestward

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toward Colmar.

The XXVII Corps, to the left of the XXVII, was also to attack, forcing a crossing at the German town of Breisach and thence driving southwestward toward Gebweiler. Whether the XXV Corps also participated in the action is not known.

The entire army consisted of units formed since the outbreak of war and classified as Landwehr. The divisions of the XXVII Corps had been recruited in Hessian districts of the IX Corps Area.

The local terrain favored the German attack. The Alsatian side of the stream was flat and largely without cover. The German side was hilly and wooded. Seven miles to the northeast of Breisach rose a wooded hill mass, known as the Kaiserstuhl, to an elevation of some 1400 feet above the river. Spurs 400 feet high extended directly to the river. This Kaiserstuhl hill mass gave the Germans not only superb observation over the Maginot Line, but excellent cover for the mass of artillery which had been drawn together to support the attack.

Another advantageous terrain feature for the Germans was the numerous branch channels on their side of the Rhine. These furnished the attackers safe cover behind which they could assemble in advance their ponton equipment without danger of such material being observed by the French.

The initial tactical problem facing the Seventh Army was a difficult one. Not only must a swift, 300-yard river be crossed, but the French permanent fortifications on the west bank had to be destroyed or neutralized before bridging operations could be begun.

Speed in crossing the Rhine was necessary for the leading elements. Old-type pontoons and German rubber rafts appeared to lack the speed which the Germans felt was necessary if such a daring enterprise were to succeed. To cope with this lack the Germans had developed a type of "motor assault boat", probably with just such a Rhine crossing in mind.

The German motorized assault boat is made of plywood. It is deeper and somewhat larger and heavier than the American assault boat. The latter, designed for propulsion by man-power, is flat bottomed whereas the German boat, designed for propulsion by motor, has a rounded, keeled hull. The capacity of the German boat is about 12 men with arms, and equipment. The motor is of the outboard type. It has 4 cylinders and probably develops at least 40 h.p. The propeller is mounted at the end of a shaft

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about 5 feet long. The entire motor is hinged over the rear gun-whale of the boat. By manipulation of the motor the propeller is kept free of the bottom, and the boat is steered. The most important characteristic of the boat, of course, is its great speed. Thus, it is indicated that the time required for a passage across the Rhine at Dreisach was only about 25 seconds.

The other special problem confronting the Seventh Army was the neutralization of the French pillboxes along the Rhine. During the World War both sides had sought to reduce permanent fortification by high-angle fire from howitzers of large calibre. This procedure had sometimes been successful, but quite as often had failed. In the post-war period the science of fortification had developed along a course which made forts all but impregnable to high-angle fire. World War practice, therefore, no longer was practicable for the Seventh Army; hence, some other procedure had to be found for reducing forts and pillboxes. This was believed to have been discovered in the direct fire of the modern anti-aircraft gun at short ranges, and, to a lesser extent, in the similar fire of antitank guns, both supplemented by the close-in operations of the assault Engineers. The high velocity and accuracy of both of these weapons permitted fire to be directed at the armored cupolas and embrasures of the forts. Furthermore, the penetrating and explosive effect of the special shells which Germany appears to have developed prior to the outbreak of hostilities had already proven very effective at Liege and Sedan. Altogether, this specially developed technique for reducing fortifications encouraged the German high command to believe that so long as a fortress line was not held by a field army capable of counterattack it could be speedily reduced.

The exact German plan of attack for the Breisach-Colmar river crossing is not known in detail at this time. American observers, however, had opportunity to inspect the terrain some three weeks after the operation and to listen to lectures held on the ground by German officers who had participated in the fighting. The impressions gained by our officers, together with German statements, permit a fairly accurate, though necessarily incomplete account of the operations.

It should be emphasized that this Alsace attack did not resemble the actions in northern France and Flanders with respect to the prominent role played by the air force and mechanized units. The Rhine crossing of June 18 bears more resemblance to a World War battle than it does to the battles in May and June in Belgium and northern France. The Infantry-Artillery team played the same important role in Alsace as on the Somme in 1916. In June, 1940, however, two further branches of the army made important contributions to the German effort—the Engineers and the Antiaircraft

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Artillery. The role played by the Engineers, or, as the Germans call them, the "Pioneers," deserves special mention.

Recent campaigns have demonstrated time and time again the German conception of the Engineer: The Pioneers are the path-blazers who, working in the very van and in intimate coordination with Artillery and Infantry, overcome obstacles of all descriptions. The success of the entire operation may very well depend upon the success of this obstacle-clearance work of the Engineer. In German doctrine the pontons and explosives of the Engineer are tools of the combat team, in the same sense as are the guns of the Artillery battery. The Engineer himself is a full-fledged member of the team.

The crossing at Breisach and the subsequent establishment of the bridgehead there affords an especially good example of the high importance of Engineers in the combat team. During the assault crossing the Engineers did more than ferry the Infantry to the far bank. The first of the assault boats appear to have been loaded with Engineers whose mission was to assault and complete the reduction of the fortifications along the enemy bank. This example of the Engineer's place in the combat team is especially good because the obstacles concerned were especially formidable: a river 200 yards wide, backed up by a line of permanent fortifications.

It is also known that a small number of dive bombers supported the army in this operation. A few bomb craters were actually observed by our officers in passing through the French fortified zone. Nevertheless, German officers did not stress their role; by implication they suggested that the weather was so bad on the day in question that the original plan to use them en masse had had to be abandoned.

The mass of German heavy artillery assembled to support the Rhine crossing amounted to sixty medium and heavy batteries, besides the normal artillery of the attacking divisions. This mass of artillery was emplaced in position in the hill mass of Kaiserstuhl, from which it could support both the crossings at Breisach and Sasbach.

III. THE ATTACK—JUNE 15-16, 1940.

The American military observers inspecting the battlefield visited both of the points at which the Rhine crossings were forced. It is probable, however, that still other crossings to the north of Sasbach were forced. The German front of attack was approximately 17 miles wide. Three divisions and one extra Infan-

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try regiment carried out the initial crossings. Two of these divisions, the 218th and the 221st, belonging to the XXVII Corps, attacked north of the Kaiserstuhl, while an unknown division of the XXXIII Corps forced a crossing south of the Kaiserstuhl between Neu-Breisach and Breisach.

A high German officer made the following statement with regard to the most southerly crossing at Breisach:

"The Rhine at this point was crossed by one Infantry regiment and one Pioneer regiment, supported by anti-tank and antiaircraft guns employing direct fire against French bunkers on and near the river bank.

"We employed sixty batteries of heavy artillery to protect the Breisach crossing. These batteries were located in the vicinity of Kaiserstuhl.

"The initial crossing at Breisach was made with speed boats (Blitzboote) and inflated boats (Schlauchboote) in the face of enemy fire and across the strong Rhine current of about 6 to 8 miles per hour. A small bridgehead was established, and construction on the ponton bridge was started at once by the Pioneers. The French artillery fire was so accurate, however, that the ponton bridge could not be completed until June 18, three days after the attack jumped off."

It appears that the weather constituted an important contributory factor in the success of the operation. The night preceding the crossing was dark and stormy. This made it possible for artillery to be emplaced, and ponton equipment to be assembled in forward areas without detection by the French. The mist and rain on the morning of the attack no doubt contributed to the French failure to detect the assembled equipment and helped the Germans to attain complete surprise.

The American observers also had the opportunity to inspect at close range one of the French pillboxes on the river bank opposite Breisach. This was a typical example of the pillboxes previously described. It had been put out of action by sixty rounds from an 88mm. antiaircraft battery, fired at a range of 400 yards. This battery had been brought into position during the night of June 14-15. Fire had been opened during the last phase of the artillery preparation, and just prior to the crossing by the leading wave of Pioneer troops in assault boats. Direct fire at portholes and turrets had been employed. This particular fortification had been completely destroyed.

There was evidence that practically every shell had hit the target. The concrete face of the pillbox had been reduced to gravel, and it seemed to our observers that the concrete used in its construction had been of inferior quality.

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The American military observers also inspected the terrain at Sasbach. Here a high German officer stated:

"The four French pillboxes protecting the crossing here were all destroyed by the fire of our antiaircraft artillery. Just as at Breisach, we possessed here the advantage of better observation from the hills on the German side of the river. The French on the opposite bank were at a grave disadvantage in having no elevated observation posts from which to observe our preparations.

"Our boats were assembled during the night between the base of the cliff and the river bank. They were so well concealed that the French did not discover them.

"The first storm troops moved forward into position at 10 a.m. June 15. At this same hour all of our artillery opened up for 20 minutes. Immediately after this preparation, our Pioneer troops moved across the river in their speed boats, powered by light motors. They were covered by machine gun fire from the cliffs above us.

"The French artillery was too late in getting started. It opened up at 11:30 a.m., but by that time the attack had progressed so far that a 16-ton bridge could be built. Our bridgehead at this time was 3 km. deep in the enemy territory. The French continued their artillery fire until 6:00 p.m., but they were not able to break up the movement.

"French bunkers were spaced every 200 yards along the bank of the Rhine. One bunker was completely destroyed in one terrible blast. Apparently one of the explosive charges placed by our Pioneers caused an explosion in the French ammunition supply. The French are careless in the way they handle ammunition. This explosion threw debris across the river.

"The Rhine has a current of 6 to 8 miles per hour. At Sasbach it is 200 yards wide. It is the most difficult river for which German Pioneers have had to prepare. Crossing the Rhine in the face of modern concrete and steel fortification, such as the Maginot Line, was not considered possible by the French without a long artillery and air preparation and heavy troop concentrations. We were thus able to effect a perfect surprise because:

- A. We attacked at 10:00 a.m. instead of at dawn, when the French expect attack to take place.

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- B. We attacked in the rain. The French expected such an attack to be made only in good weather.
- C. Our artillery preparation was short but intense and effective.
- D. We attacked at Sasbach with a regiment instead of an army.

"The degree of surprise is illustrated in the fact that many of the French prisoners did not have time to put on their shoes before their bunkers were in our hands. These prisoners stated they had gone back to their bunks for a morning nap, feeling certain that June 15 was just another quiet day on the front.

"Three additional factors operated in our favor:

- A. The French river line was not held in strength, nor had the French provided troops for local counterattacks.
- B. The French barbed wire entanglements did not extend to the water's edge. This allowed our landing forces to gain a quick foothold on the French bank. To be effective, these barbed wire obstacles should have extended a considerable distance into the water.
- C. The safety pins on the French land mines had not been pulled. This was probably due to lack of time resulting from the rapidity of the German advance."

Later, in examining the French fortifications in this area, American officers observed pillboxes showing evidence that both anti-tank guns and flame throwers had been used in their capture.

A German Engineer officer, commenting on an operation of a nature similar to this one at Colmar, made the following comments on French resistance:

"Some of the French concrete was excellent, but a great deal of it was rotten, showing graft on the part of the contractor.

"French earthworks frequently were very dangerous to us. We usually reduced them by artillery fire.

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"We had lots of antitank guns and used them.

"The French attempted two counterattacks. They used plenty of men, but their leadership was not good, and their timing was bad.

"A Polish division with Polish officers in this area fought exceptionally hard, but Polish prisoners told us they were not satisfied with their leadership.

"Neither the Poles nor the French had any speed in reaction. This was their principal defect.

"Some fought well in defense but seemed unable to take the offensive. The offensive is necessary even in defense."

A German general also made the following comments with regard to the policy of passive defense adopted by the garrison of the Maginot Line:

"Another cause of failure of the Maginot Line was that its defenders were trained only for the defensive. Their fortress troops had no training for anything except the defense of their bunkers and this from the inside. Bunkers cannot be defended without counterattack troops trained in the offensive. France considered the Maginot Line entirely defensive in character. A fortified zone is always for the purpose of aiding the offensive. France immobilized a large part of her forces by training these men only for service in the Maginot Line. These troops could never be used effectively outside of the Maginot Line. Our leaders knew that these fortress troops would never be capable of an offensive either against the West Wall or against our troops operating in Belgium and France, so they were safe in taking practically all of our troops out of the West Wall for use in the field armies. All of our troops are trained in the offensive. Duty in the West Wall is incidental, and in no way requires additional or special training. We found French officers and troops who had served in the same bunkers for three years!

"French bunkers were constructed with concrete 1-1/2 to 3-1/2 meters thick. They were built up on the surface of the ground—not sunk, as German bunkers are. The steel turrets were set on top of the concrete box—not built into it as are ours—and therefore they were easily blown off. The French did have some good ideas for motors, radio, and

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artillery, but their whole conception of warfare was wrong. They lacked vision, leadership, and purpose."

IV. COMMENT

The German Rhine crossing at Breisach of June 15 and 16 appears to have been a well planned and skillfully executed operation. However, this German attack met full success largely as the result of the weakening of the French field forces in Alsace which, in turn, was due to disasters in other theaters of war. Also, the lowered morale of the French fortress troops in the Breisach section contributed to the ease of the German victory. Had the French morale been high at this time and had the French reserves in this section still been intact, it is doubtful that the German attack would ever have been launched, or that this attack, if attempted, could have been successful. The timing of the Breisach attack was perfect. It was launched at a moment when the attention of the French reserves in Alsace had been diverted to the columns of German mechanized units moving against their rear from the direction of Rheims and Sedan. Units of fortress troops alone seemed to have been manning the Breisach section of the Maginot Line. French reserves capable of launching even local counterattacks seem to have been lacking. Therefore, this crossing was a contest between a fortress line with its normal garrison only, and an attacking army.

The speed and completeness of the German success suggest that lines of forts, however strong and however well garrisoned, cannot by themselves check the onslaught of an army. Fortress lines appear to possess value only if held by field forces capable of launching both local and general counterattacks. The Breisach section was, perhaps, the weakest section of the whole Maginot Line. Nevertheless, the reduction of this section forced the evacuation of the very strong sections farther north. Hence, it would seem that even a Maginot Line is no stronger than its weakest link.

The German attack procedure is of special interest, because tanks and airplanes were not in evidence. No tanks whatsoever were used, and only a very small number of dive bombers.

The Infantry-Artillery team starred at Breisach in 1940 as it had in the World War. This team, however, received important support from two other arms, the Engineers and the Antiaircraft Artillery.

The "Engineer-Antiaircraft team" appears to have become a specialist for reducing fortifications. This development is one

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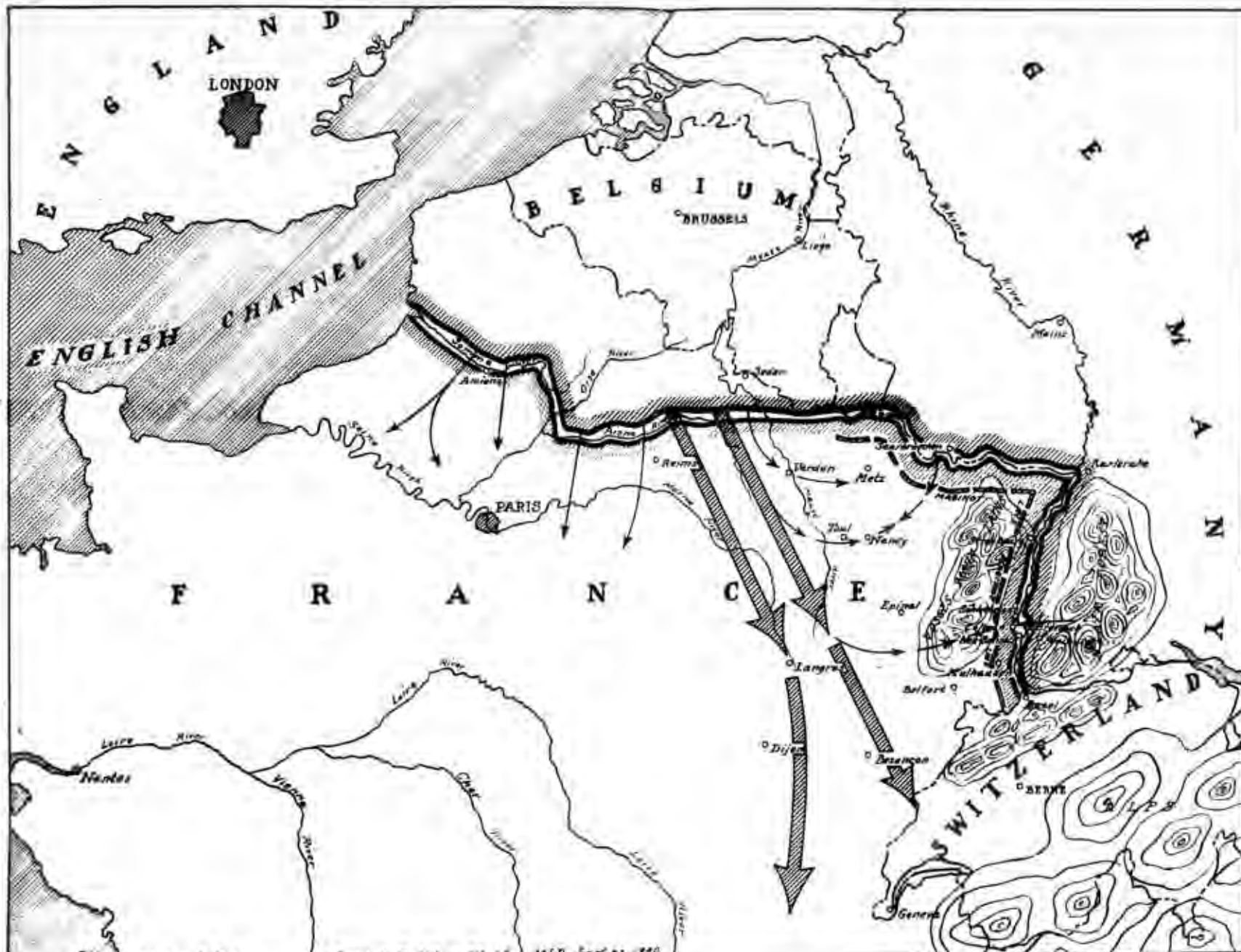
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of the most interesting tactical novelties of this Second World War. The successes secured by this team at Liege, Namur, Sedan, and at various points along the Maginot Line are a certain indication that offensive weapons have now reversed the superiority which defensive weapons maintained throughout the World War.

Perhaps the most significant lesson, however, which we can learn from this action is that wars cannot be won by fortresses and fortress troops. Indeed, a fortress line and an army trained for, and carrying out, a defensive strategy present a psychological menace which can be compensated for only by intensive training in the offensive and cultivation of the offensive spirit. This the French army failed to do. It would seem that something of the passive attributes of steel and concrete of the Maginot Line had entered between 1924 and 1940 into the soul of the French Army. The offensive will and spirit conquered at Breisach and at Saarbrücken over the art of fortifications. It is a lesson all armies should take to heart.

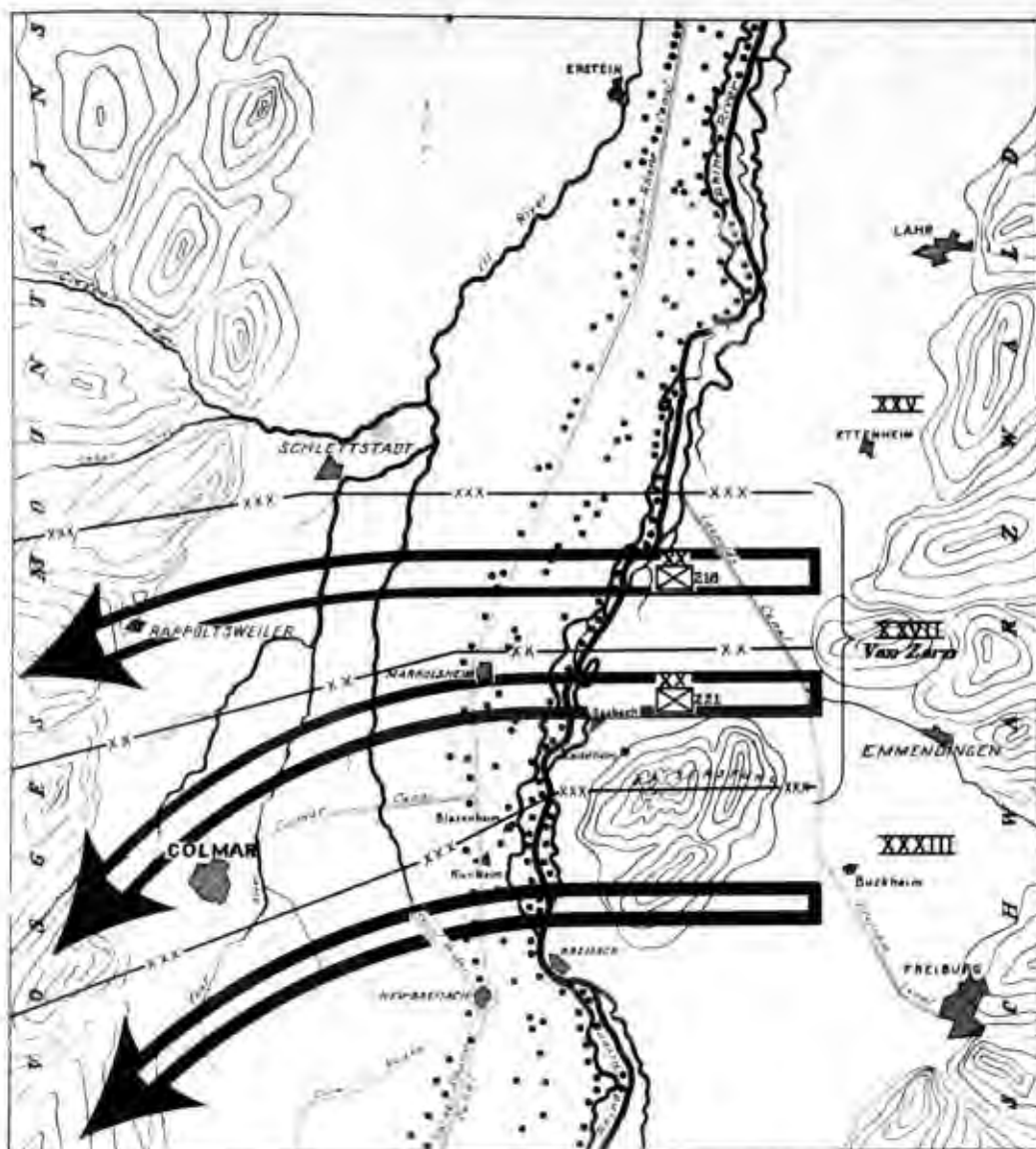
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Sketch "B" to accompany Special Bulletin No 15 M.I.I. Sep 23, 1940

Drawn by Lt Col R.A. Gibson - Staff Officer - M.I.I. No 101



**THE ATTACK OF THE GERMAN
SEVENTH ARMY AT COLMAR
JUNE 15 - 16, 1940.**

Sketch 707 to accompany General Bulletin #4 15' M.D. Staff 48, 1940
Drawing by 2d Lt. W. H. ...

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE Sept. 23, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: The Business Situation,
Week ending September 21, 1940.

Conclusions

- (1) The problem of capacity limitations is becoming of increasing importance as a factor affecting commodity prices. The steel industry, for example, is now operating nearer to full capacity than it was in 1915 when the extensive price rise began. Lack of smelting capacity has already sharply lifted zinc prices.
- (2) The alleviation of fears that Great Britain might suffer an early defeat has brought a noticeable increase in commodity buying, and has created a situation more favorable for a speculative price rise. Prices of industrial materials have risen steadily during the past several weeks; security prices have also improved and our "index of confidence" has advanced to the highest figure since last November.
- (3) Appropriations by Congress last week allocating \$330,000,000 for housing of draftees emphasize the outstanding role which the construction industry will play in the early phases of the defense program. In addition to this sum, large expenditures will be made for housing construction at military posts and industrial centers, and for shipyard and other capacity expansion.
- (4) Business activity, according to weekly indexes, continues to advance. The New York Times index in the week ended September 14 rose 1.1 points to 107.2, while Barron's index rose 0.5 to 111.9. Our new orders index in that week rose to the second highest figure since early July.
- - - - -

Secretary Morgenthau - 2

The general situation

As the United States armament program gets strongly under way, the problem of capacity limitations and other influences affecting the supplies of goods and materials -- and thereby affecting commodity prices -- is becoming of increasing importance.

In the production of raw steel, for example, we are now standing at the approximate point where, in the World War period, a great increase in prices began. (See Chart 1.) By the end of 1915 the steel mills had reached the practical limit of ingot production at the then-existing capacity, and when the continuing demand for steel could not further drive up production it drove up prices instead. The rate of steel production in December 1915 averaged 87.2 per cent of the capacity calculated at the end of that month, and in the following year the production rate averaged about 89.7 per cent. These compare with last week's estimated rate of 92.9 per cent of current capacity.

While our present steel ingot capacity is substantially larger than in the World War period -- 81,600,000 net tons at the end of 1939 versus 51,300,000 at the end of 1915 -- the increase has been made necessary by the expansion in our domestic steel consumption. With steel ingot output already close to practical capacity, it would seem that the demand for steel products cannot be increased much further without upward pressure on prices, although this pressure may be postponed for a time because of a substantial accumulation of steel in recent months by steel mills and steel consumers. The rationing of steel for civilian uses would, of course, reduce the strain on productive capacity.

In the case of zinc (and perhaps some other essential defense materials), production is already so near to practical capacity that further increases in demand seem more likely to raise prices than to increase production. It is quite possible, however, that the demand for zinc and other non-ferrous metals recently has included so much forward buying that it is not a fair measure of the demand that may be expected over the next few months. Of last week's zinc sales, for example, about 74 per cent are estimated to have been for delivery after December 31.

Secretary Morgenthau - 3

Capacity limitations would, of course, have less effect on prices if demand increased gradually, giving time for adjusting production facilities, than they would if a speculative buying movement should suddenly deplete the available supplies (as in early 1937). The relative inactivity of speculative buying in recent months may be traced to the after-effects of the misguided "war boom" last fall, to pressure on prices of basic world commodities resulting from the blockade of Europe, and to general apprehension over the possibility of a British defeat. As a consequence, there has been little speculative buying, and little or no accumulation of inventories in retail channels. Any accumulation of inventories in industry (as in steel) has been due more largely to fear of delivery difficulties than to expectations of price increases.

In the past few weeks, however, a distinct change in buying tendencies has been noticeable, apparently initiated by increased confidence that the war will not soon be ended. Buying of such metals as copper and zinc has increased very sharply. Copper sales so far in September have nearly reached the record total of September 1939 (see Chart 2), and all indications point to this record being exceeded before the end of the month. Zinc sales in the first two weeks of September have increased to a daily average of 3,458 tons, as compared with 1,185 tons per day in the month of August. Buying of textile products has also expanded noticeably.

Commodity prices rising

The increase in buying activity, as the possibility of an early British defeat becomes more and more remote, has been reflected in a rising trend of industrial material prices over the past several weeks. (See Chart 3.) Some evidence of the underlying strength of the current buying movement is shown by the substantial rise in cotton prices last week, despite the surprisingly large increase in the official crop estimate on September 9.

Secretary Morgenthau - 4

The more favorable trend of the news from Europe has also been reflected in security prices and in our "index of confidence." Stock prices last week gradually recovered from their earlier setback, and the Dow-Jones 40 bond price index has risen above its May high, reached just before the invasion of Holland and Belgium. An increased confidence among investors is shown by a relatively greater rise in speculative bond prices than in prices of the safer high grade bonds, which has lifted our "index of confidence" to a new high since last November.

The steel industry

Steel producers are becoming more concerned over the possibility of a shortage of raw steel, according to the Iron Age, particularly since steel requirements of the national defense program are still a long way from their peak. Those in the industry who are in closest touch with defense requirements, according to this publication, believe that the full impact on the steel industry may not be felt before the first quarter of next year, and that not less than two years of high activity lie ahead, regardless of the duration or outcome of the war.

The steel district output chart (see Chart 4) shows clearly that production has been forced to flatten out in nearly all districts because of the approach to the limits of capacity. Production in the current week is scheduled at 92.5 per cent of capacity, a reduction from last week's 92.9 rate. Trade reports indicate that steel output in some districts could be increased further by bringing idle Bessemer furnaces into production, provided more consumers were willing to take steel made by the Bessemer process in place of the better-quality open-hearth steel.

In the forefront of new defense activity that will affect steel demand is the construction of new plants and production facilities. This activity last week brought a new high for the year in the volume of inquiries for structural steel, aggregating 53,300 tons as compared with 33,450 tons in the previous week. A large demand for structural steel is expected in the near future from the various construction activities associated with the defense program. That such construction is already strongly under way is indicated by the fact that construction awards for military housing added nearly \$45,000,000 to last week's figures on heavy construction awards, raising the total to \$120,809,000, the third largest volume of the year. (See

Secretary Morgenthau '45

Chart 5, upper section.) Structural steel awards (lower section of chart) dipped somewhat last week, but with that exception they have been running for two months substantially above last year's figures.

New orders for steel last week increased considerably in some districts, according to trade reports, following a previous lull in demand for some products. Our latest report from the U. S. Steel Corporation does not cover last week's operations, but new orders during the week ended September 12 were at the rate of 71 per cent of capacity, substantially lower than the average of recent weeks.

Rise in defense housing

With total construction contract awards in August already reaching the best levels since June 1930, and residential construction at the highest levels since July 1929, further stimulus to construction activity now is developing in connection with defense housing requirements. Most important in dollar volume is the approximately \$330,000,000 which Congress has just appropriated for military construction, largely designed to take care of conscripts under the Selective Service Act. This appropriation is additional to \$201,000,000 contained in the second supplemental defense act for the construction of buildings, utilities, etc., at military posts.

In addition to the requirements for strictly military purposes, a large volume of construction is also in prospect in connection with the housing of defense workers. As of August 27, the Defense Housing Administrator estimated that over 110,000 additional new dwelling units were needed for defense housing purposes. A bill authorizing defense housing construction in the amount of \$150,000,000 is now pending in Congress.

Large quantities of such building materials as structural steel, lumber, and cement will also be required for the expansion of shipyards necessitated by the big Navy program, for the \$200,000,000 program to improve highways and bridges for defense purposes, and for plant expansion in various industries.

Secretary Morgenthau - 6

New orders index higher

An increase in orders for textiles and other products, except steel, brought a substantial upturn in our new orders index in the second week of September. (See Chart 6.) Reported steel orders, however, declined somewhat further in that week to the lowest figure since the second week of August.

A prospective increase in new buying to replenish depleted retail stocks, already an important factor in the textile markets, is indicated by the sharp rise in retail sales during August. (See Chart 7.) The adjusted index of department store sales (upper section of chart) rose in August to 90 per cent of the 1929 level. Since commodity prices in that month were nearly 20 per cent lower than in 1929, the physical volume of goods sold doubtless exceeded the 1929 volume. In the case of variety store and rural retail sales, the dollar volume of sales in August exceeded the 1929 level.

Weekly business indexes

With all components except one showing gains, the New York Times index of business activity for the week ended September 14 rose 1.1 points, carrying the combined index to 107.2, as compared with 106.1 (revised) in the previous week. Although electric power output rose to the second highest figure on record, the gain for the week was less than seasonal, causing a fractional decline in the adjusted index of electric power production.

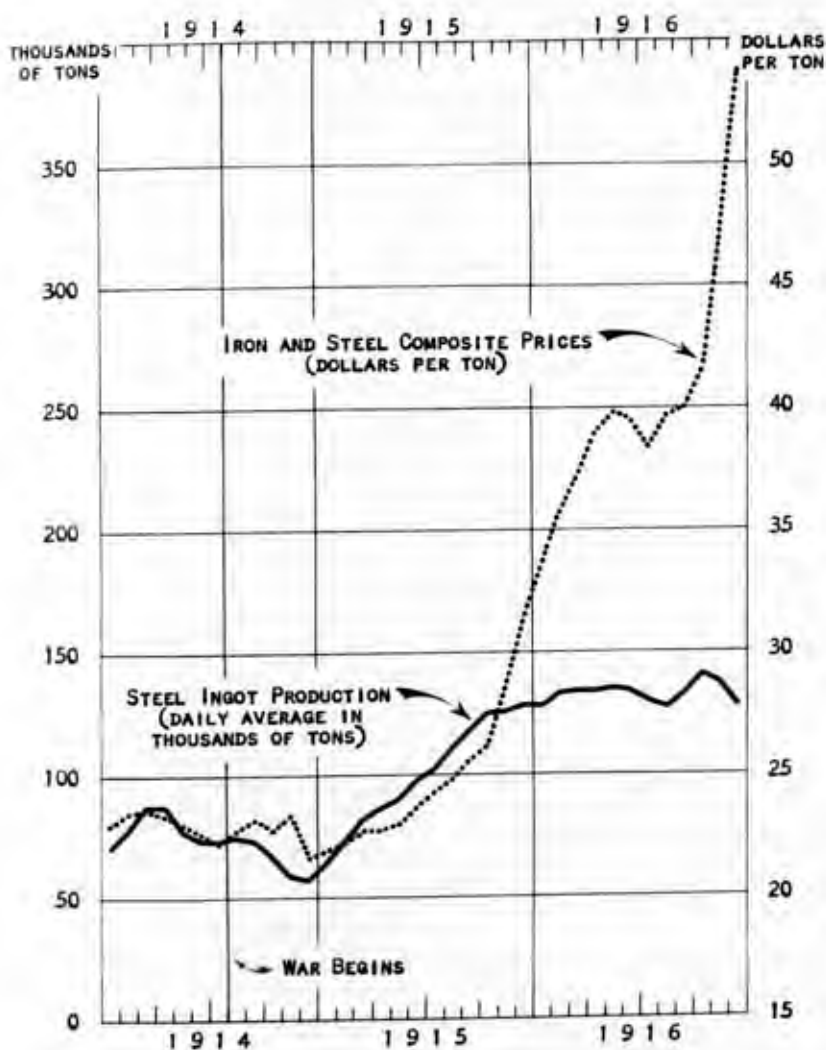
The principal factor in the rise in the combined index was another substantially greater than seasonal increase in automobile production. As a result, the aggregate gain in the adjusted index of automobile production since the week ended August 10 was extended to no less than 138 points. This unusually sharp rise has been responsible for the greater part of the gain made by the combined index during the period mentioned.

Barron's index of business activity for the week ended September 14 showed a smaller gain than the Times index, advancing only 0.5 to 111.9.

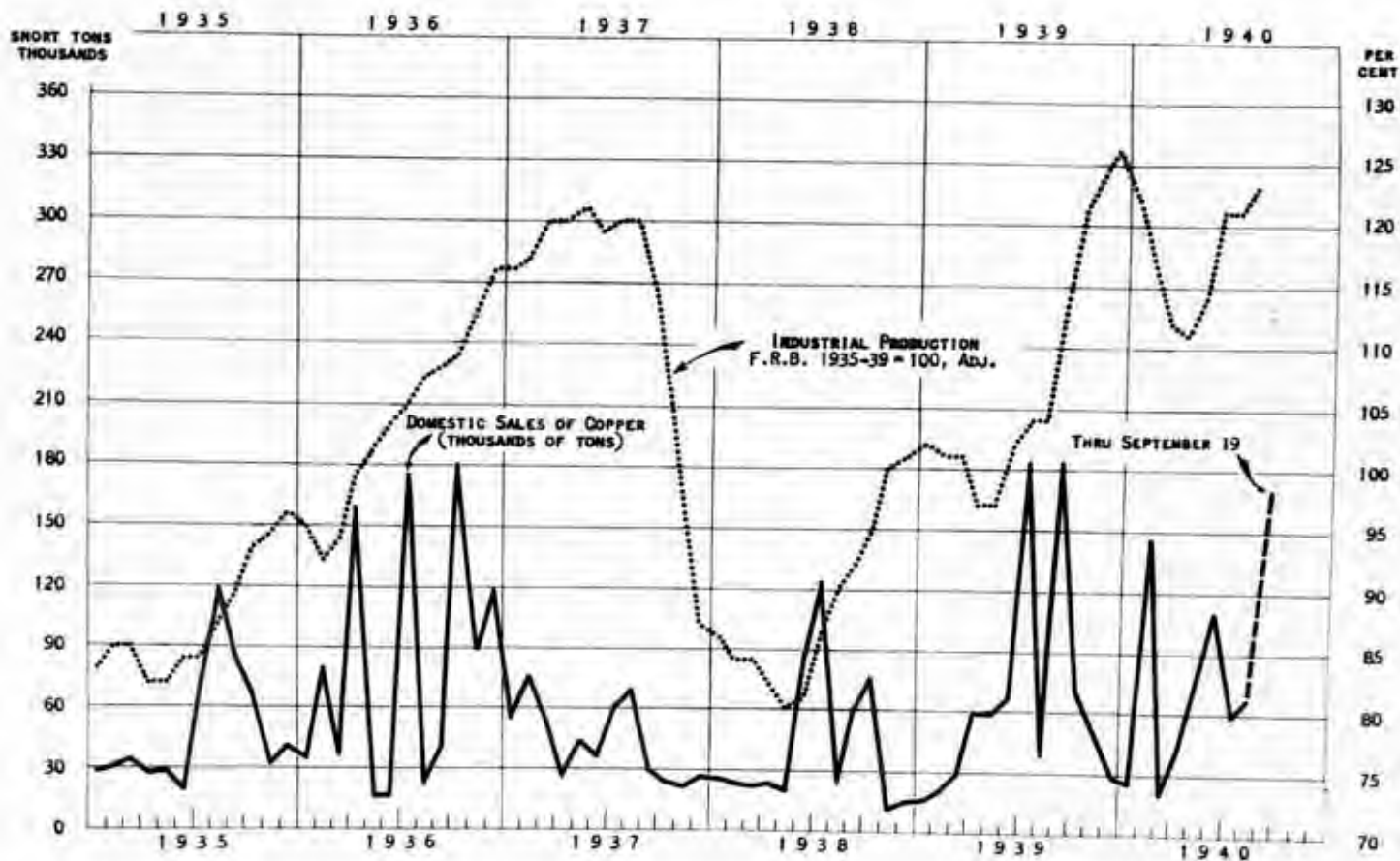
Secretary Morgenthau - 7

Preliminary data for the week ended September 21 show a moderately less than seasonal rise in steel ingot production, although the actual operating rate advanced to a new high for the year. During the same period automobile production scored another greater than seasonal gain, with an increase of nearly 16,000 units in actual automobile production. Ward's Automotive Reports anticipates a further substantial gain in automobile production during the current week.

STEEL PRODUCTION AND PRICES 1914 - 1916



DOMESTIC SALES OF COPPER AND INDUSTRIAL PRODUCTION

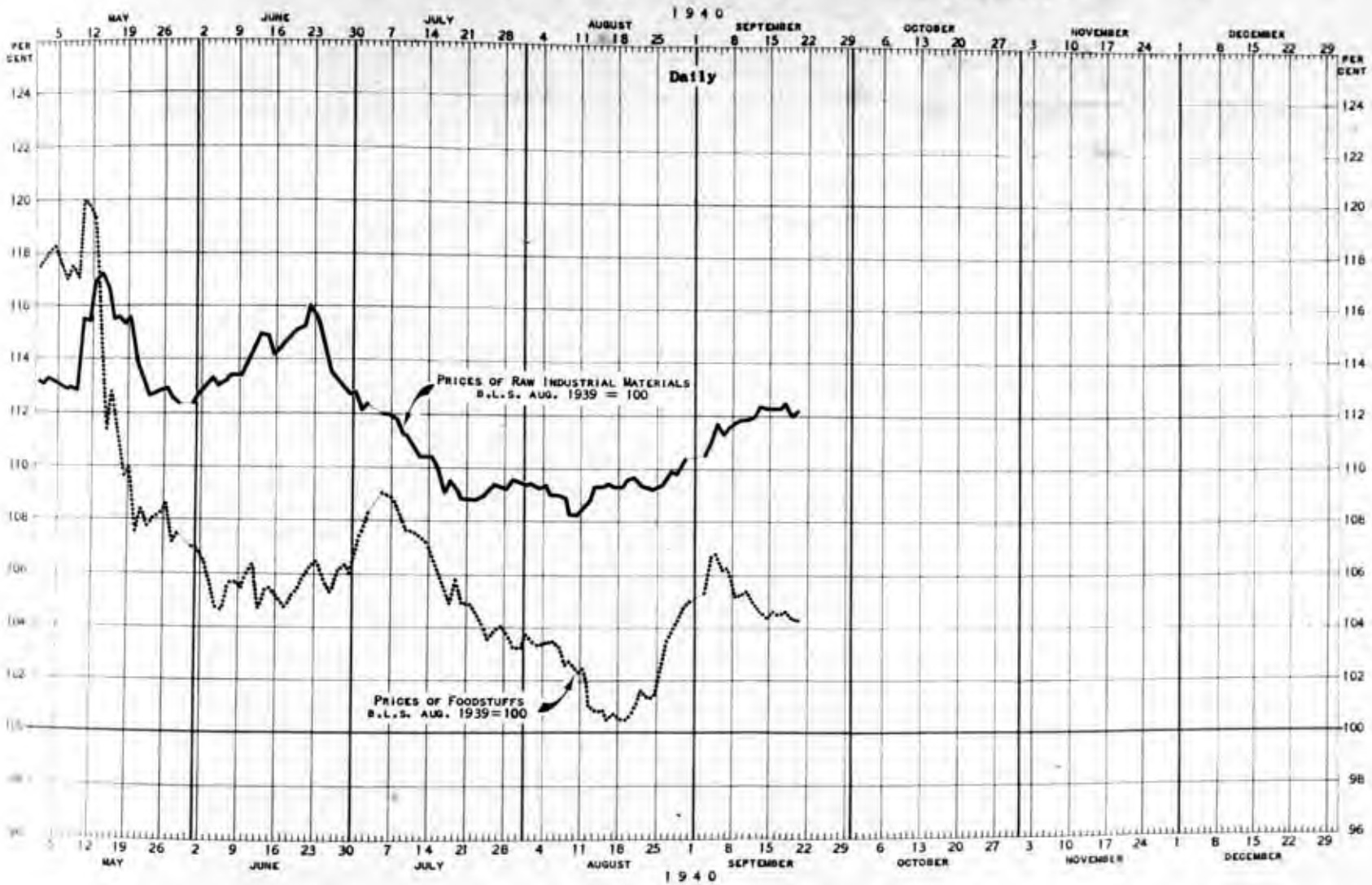


Office of the Secretary of the Treasury
 Division of Research and Statistics

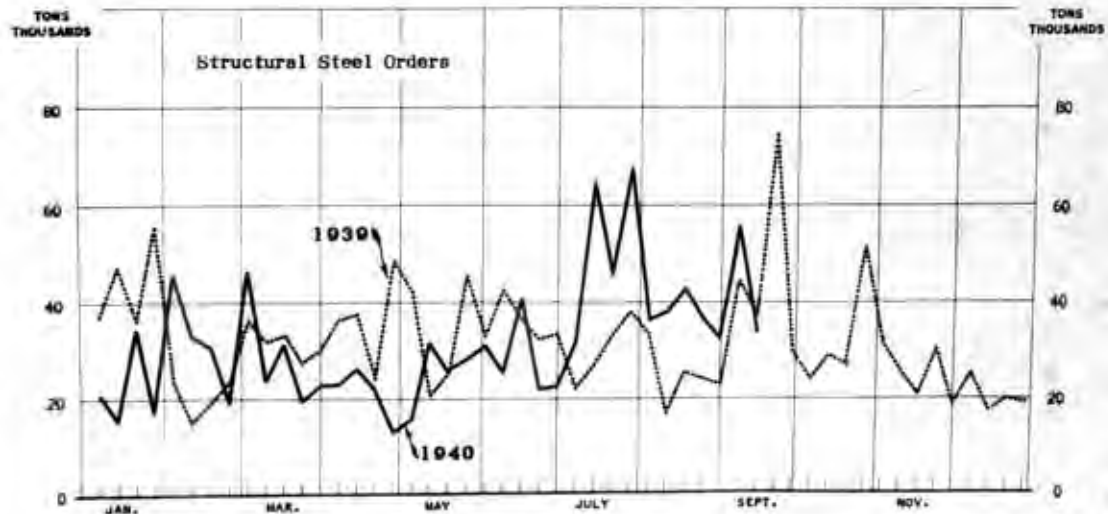
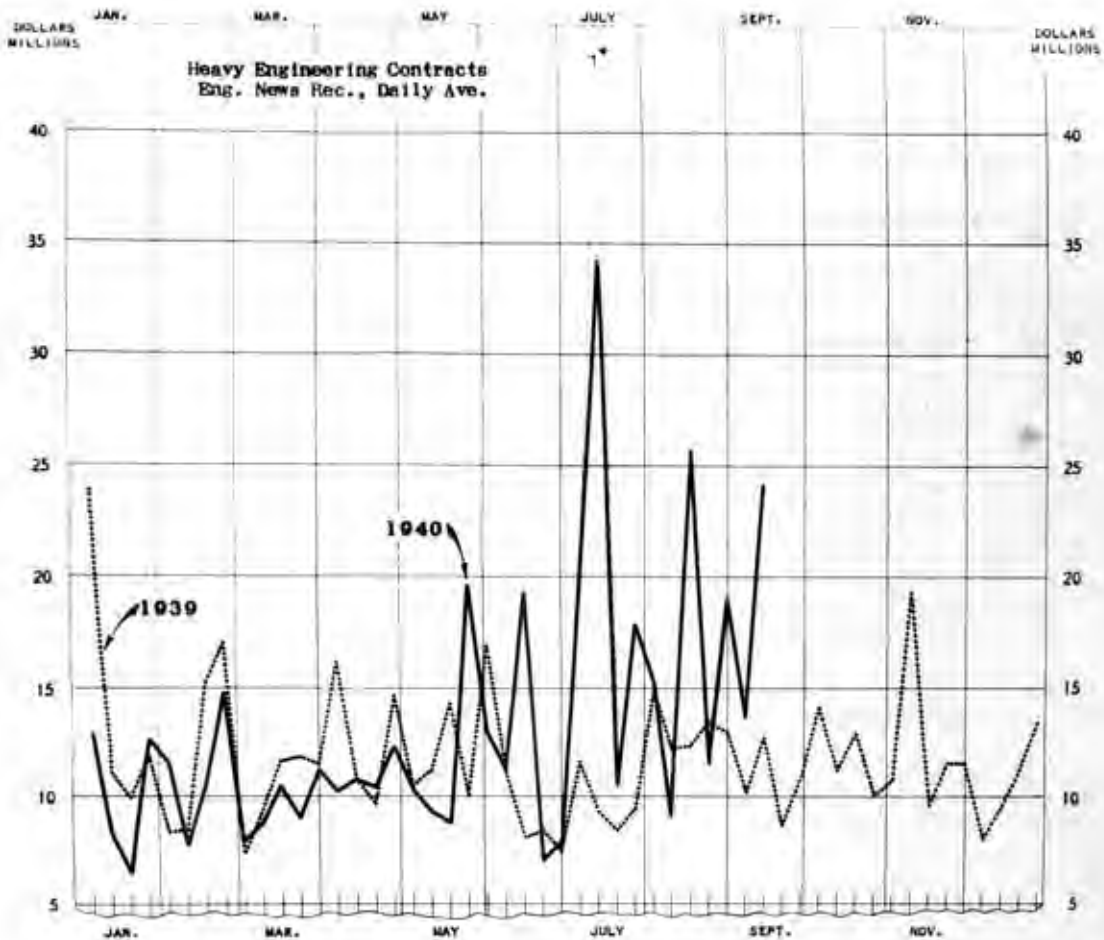
340 Chart 2

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PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS



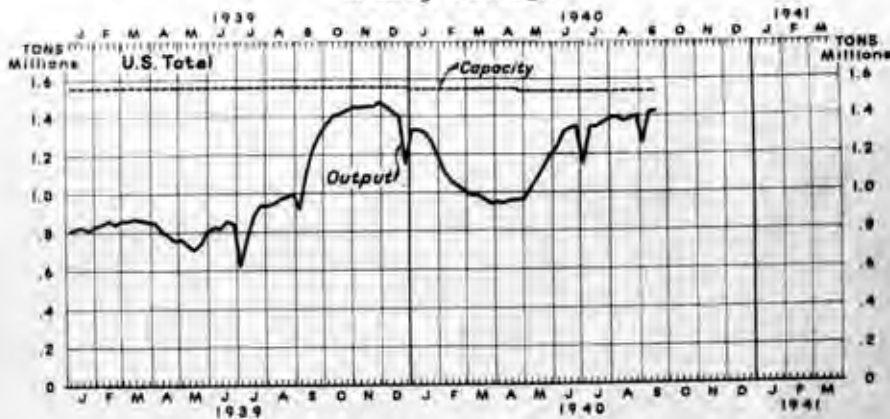
CONSTRUCTION AND STRUCTURAL STEEL ORDERS



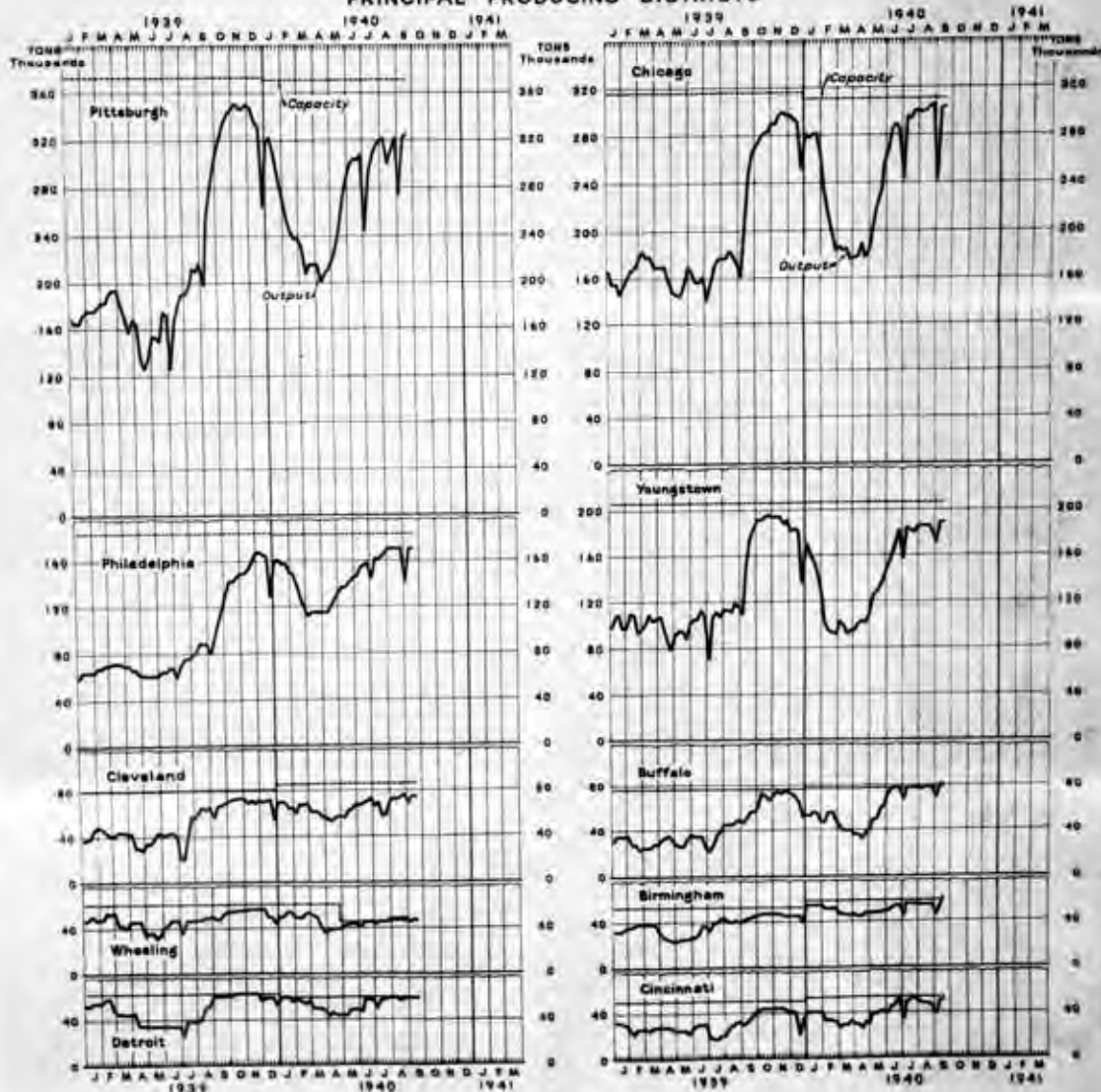
* INCLUDING OUTLYING POSSESSIONS OF THE U.S.

STEEL OUTPUT AND RATED CAPACITY*

Weekly Tonnage

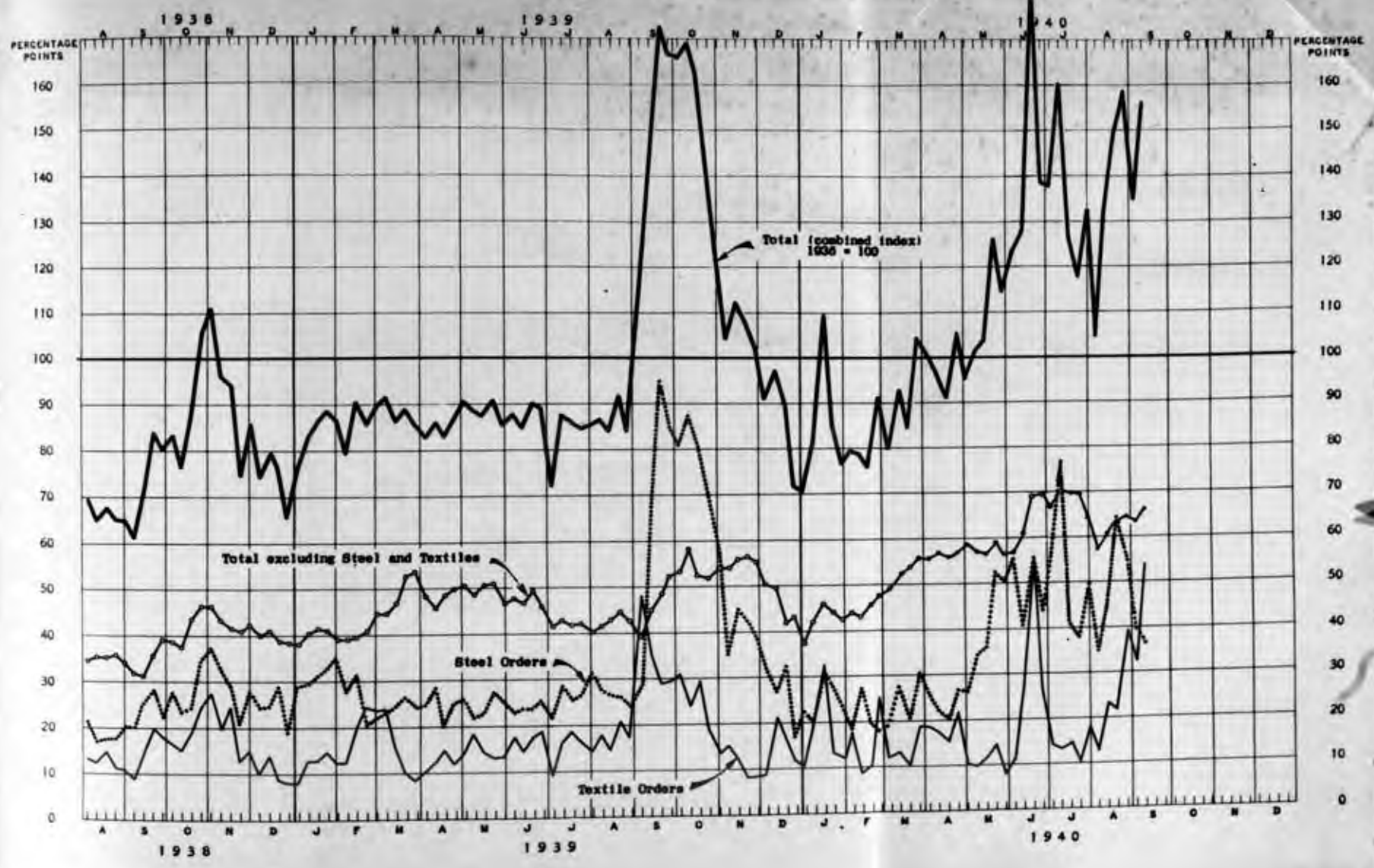


PRINCIPAL PRODUCING DISTRICTS



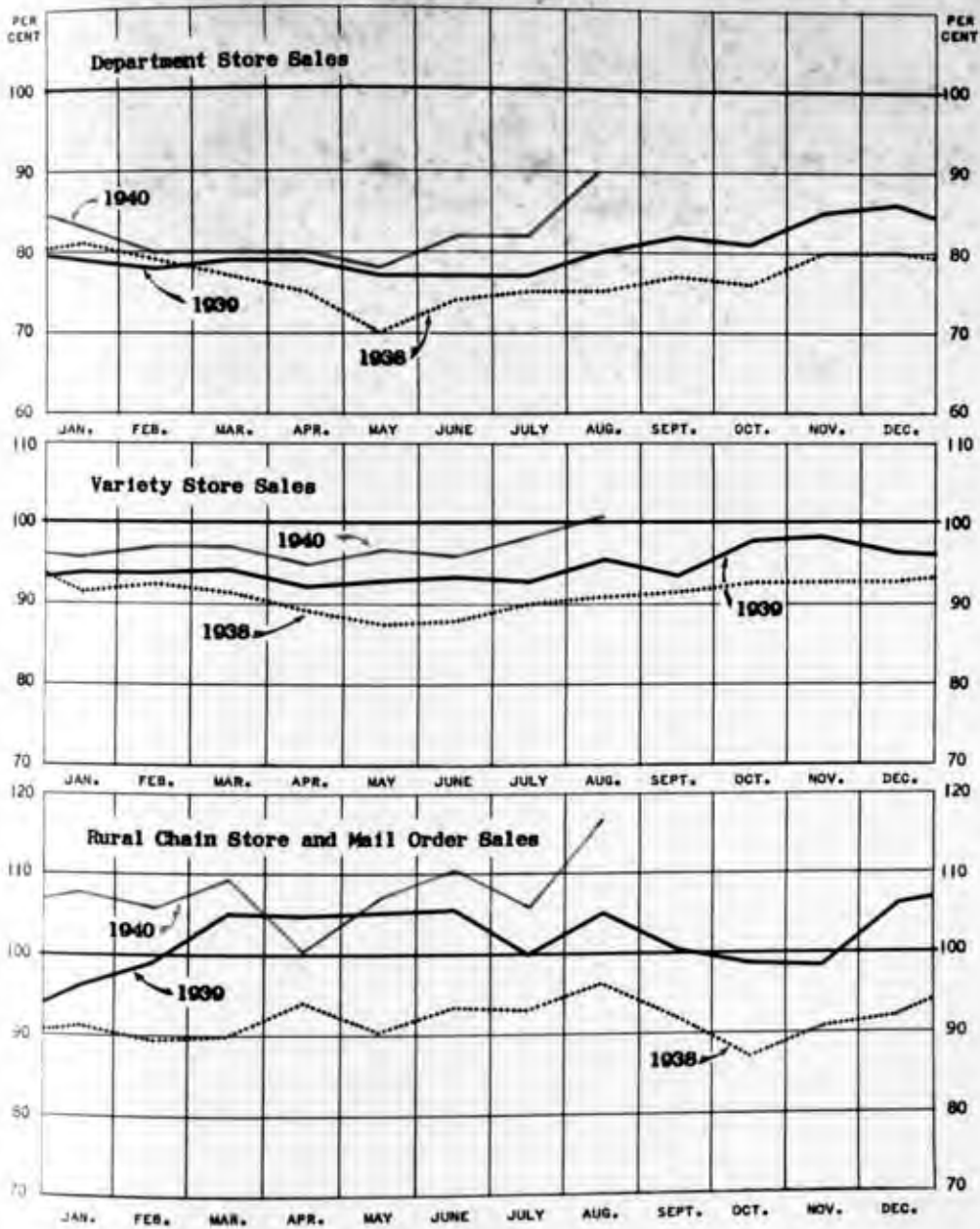
*Based on Iron Age data

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



Brief of the Secretary of the Treasury
Division of Research and Statistics

RETAIL TRADE
Urban and Rural Sales of General Merchandise
 1929 = 100, Adjusted



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau
FROM Mr. Haas *HA*

For the week ended September 11, 1940, Work Projects Administration reports show that 1,687,000 persons were employed, representing a decrease of 3,000 from the previous week's total of 1,690,000 persons.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending 1940	Number of Workers (In thousands)
February 7	2,288
February 14	2,306
February 21	2,319
February 28	2,324
March 6	2,324
March 13	2,319
March 20	2,312
March 27	2,288
April 3	2,204
April 10	2,162
April 17	2,118
April 24	2,092
May 1	2,059
May 8	2,008
May 15	1,970
May 22	1,945
May 29	1,925
June 5	1,859
June 12	1,785
June 19	1,714
June 26	1,666
July 3	1,611
July 10	1,619
July 17	1,659
July 24	1,689
July 31	1,700
August 7	1,709
August 14	1,708
August 21	1,699
August 28	1,692
September 4	1,690
September 11	1,687

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

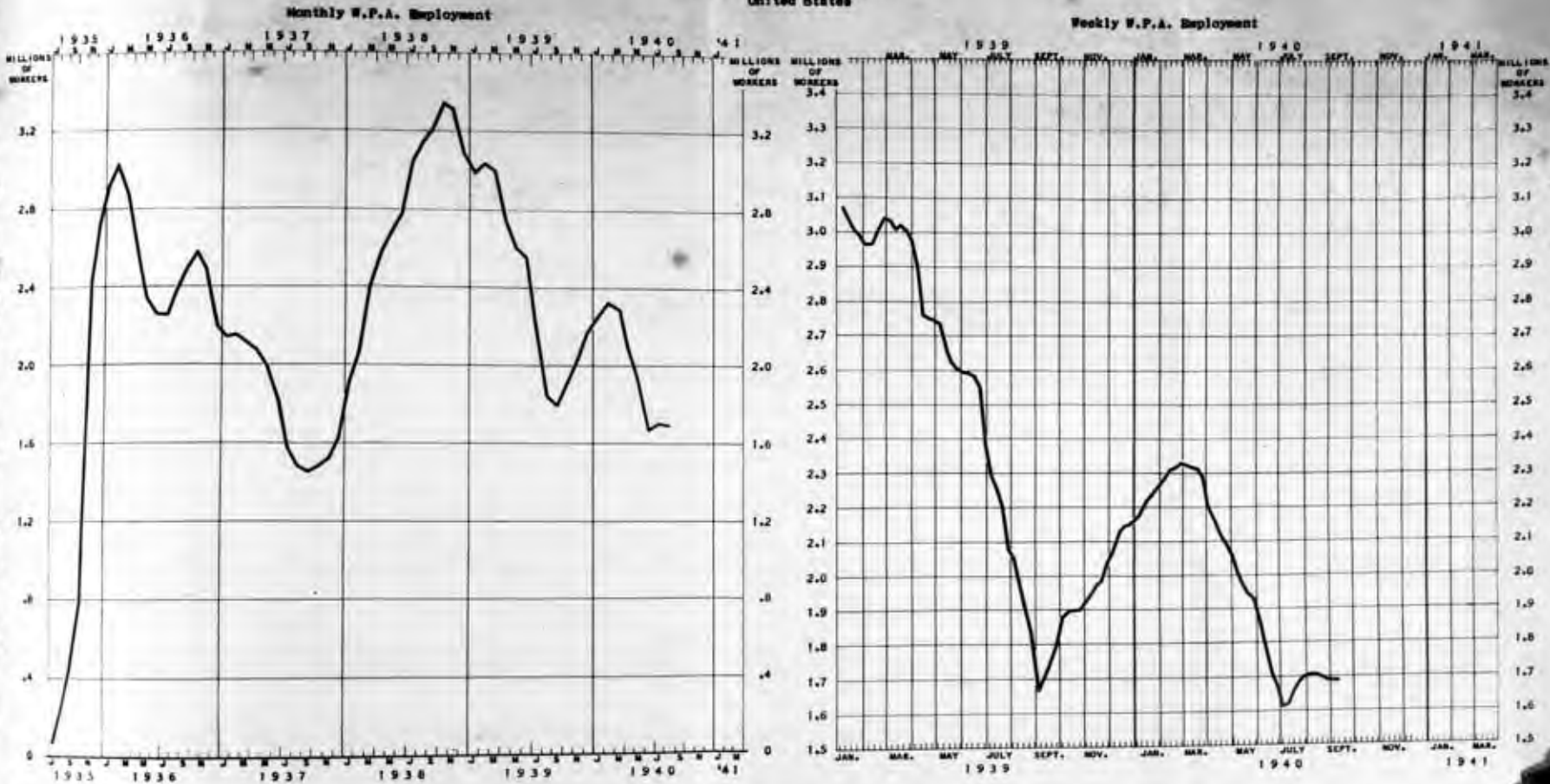
	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666
July	1,700
August	1,692

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau
 FROM Mr. White
 Subject: Gold Inflows Since Outbreak of War

1. About a year has passed since the outbreak of the European war. In that year the United States has imported on balance over \$4 billion of gold. (4,050 from September 1939 to August 1940, not including about \$600 million received but placed on earmark.) This is by far the largest sum of gold ever received by us or any country in a like period. We now have slightly over 70 percent of the monetary gold held by governments and central banks. (We actually hold 80 percent of the world's monetary gold if we include earmarked gold held here.)

2. The chief items which have made up the huge balance due us since September 1939 are:

Excess of merchandise exports	1,400
Recorded net capital inflow	<u>900</u>
	2,300

Added to the \$2,300 million balance on trade and capital flows is a "residual" of \$1,750 million! This residual reflects the following transactions:

- (a) Advance payments on war orders or contributions to capital expansion made by the British in this country. This item alone probably amounts to more than a half billion dollars.
- (b) Migration to this country of foreigners and foreign corporations possessing dollar deposits in the United States. Frequently this figure appears in our capital movements as an outflow of capital whereas actually the funds remain in the country. This item doubtless amounts to several hundred million dollars.

- 2 -

(c) Concealed capital imports. Capital inflows which escape our statistics can take numerous forms: Foreigners placing funds in the name of friends, etc.

(d) Non-reported capital inflows. Repatriation of foreign dollar bonds through non-banking channels, purchase of real property, etc. And finally, errors and omissions in our trade data and service items.

(There is appended a more detailed analysis of our balance of payments for the past twelve months prepared by Miss Kistler.)

3. What is the outlook on gold imports for the next twelve months? It is impossible for the rate of gold inflow we have experienced in the past twelve months to continue throughout the coming year, even should the war continue. We expect our favorable trade balance will be maintained and may even increase, but we expect that capital inflows, both recorded and non-recorded, will be substantially reduced.

The whole of Latin America produces less than \$100 million of gold and we will probably get all of that. The British Empire will produce about \$800 million and we will doubtless get it all. We may pick up a few hundred million dollars worth of newly-mined gold from other areas -- Russia, Japan -- but we cannot get very much more of the gold that now constitutes part of the reserve stock of foreign countries without placing a very severe strain on their monetary systems. The British Empire may relinquish a billion dollars out of her remaining holdings and the other countries may be able to part with a few hundred million dollars, but that is all. I would estimate that if the war continues we will get, at the outside, \$3 billion.

A more detailed statement of our balance of payments since the outbreak of the war, prepared by Miss Kistler, is appended.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 19, 1940

TO Mr. White

FROM Miss Kistler

Subject: United States Balance of International Payments During the First Year of War

The broad features of our balance of international payments during the year, September 1939 through August 1940, are shown in the table below. An unusually large excess of merchandise exports over imports coupled with a heavy inflow of capital funds from abroad and a large residual item -- most of which probably represents inward-moving capital funds -- were responsible for the unprecedented inward movement of gold during the past year.

Net Receipts or Net Payments (-)

(In millions)

Excess of merchandise exports	\$1,400
Other trade and service items	0
Net capital inflow	900
Net imports of gold and silver	- 4,050
Residual	\$1,750

Merchandise Trade: Since the close of August 1939, we have exported \$1,400 million more merchandise than we imported from abroad. This excess of merchandise exports is the largest for any 12 month period since 1921. It is three-fourths again as high as the favorable trade balance for the preceding twelve months, when our excess of exports over imports totalled \$800 million. The increase over the preceding year is due to a larger rise in exports than in imports. The figures below show the trend of our foreign trade during the past two years.

(In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Excess of exports</u>
Sept. 1938 - Dec. 1939	1,034	688	346
Jan. 1939 - April 1939	918	699	219
May 1939 - Aug. 1939	954	723	231
Sept. 1939 - Dec. 1939	1,251	854	397
Jan. 1940 - April 1940	1,359	834	525
May 1940 - Aug. 1940 ^{1/}	1,290	845	445

^{1/} Figures for August are estimated.

Other Trade and Service Items: Our balance of payments on account of other current items is small. Net payment to foreigners on account of shipping services, tourist expenditures, personal remittances, and government transactions are largely offset by net receipts on interest and dividend account. In both 1938 and 1939, we had an estimated excess on outpayments on account of these service items of slightly over \$100 million. This excess in all probability has been eliminated during the past twelve months and may actually have given way to a favorable balance, at the outside, of \$100 million or so. This is the result of a sharp drop in tourist expenditures abroad -- the largest of the debit service items -- due to the imposition of restrictions upon American travel in Europe. The information available indicates no large change in the balance due to us or owed by us on account of other service items.

Capital Movements: The recorded net capital inflow into the United States, September 1939 through August 1940, is \$875 million. The bulk of these funds have come to this country since the German invasion of Denmark and Norway and represents the building up of foreign dollar balances in this country and, to a lesser extent, the withdrawal of American balances held abroad. The recorded repatriation of American securities held abroad amounted to less than \$100 million during the twelve month period.

Net Capital Inflow or Outflow (-)

(In millions of dollars)

	Sept. 1939- Aug. 1940	Sept.- December	Jan.- April	May- August
Increase in foreign dollar balances in the United States	\$675	- 18	\$136	\$558
Decrease in U.S. balances abroad	158	30	- 7	135
Net U.S. purchases of U.S. securities held abroad	- 94	- 63	- 6	- 25
Net foreign purchases of foreign securities held in the U.S.	133	68	45	20
Net capital inflow	\$875	\$ 17	\$168	\$688

Gold and Silver: Imports of gold into the United States climbed rapidly upward during the past twelve months and for the period as a whole recorded the unprecedented figure of \$4 billion. Imports of silver, on the other hand, were the lowest since 1933.

Net Imports

(In millions of dollars)

	Gold ^{1/}	Silver
Sept. - December, 1939	\$ 943	\$15
January - April, 1940	1,136	19
May - August, 1940	1,927	18
Total	\$4,006	\$42

Residual: The extraordinarily large residual item of \$1,750 million for the twelve month period is the difference between \$4,050 million of net gold and silver imports and \$2,300 million of net receipts on account of the excess of merchandise exports and the reported net inflow of capital.

The residual is composed of the following items:

(a) Advance payments on war orders or contributions to capital expansion made by the British in this country. The British authorities may have as much as \$500 to \$600 million outstanding for these two purposes in this country. These expenditures have as yet not been reflected in the figures of our merchandise export trade. The British are reported to have spent \$1,350 million in this country between the close of August 1939 and July 10, 1940. Our merchandise exports to Britain during this period totalled only \$650 million.

(b) Migration of foreigners and foreign corporations possessing dollar deposits in the United States to this country. An immigrant individual or corporation establishes a domestic address here and the bank carrying its deposit ceases to include the account in its report of foreign deposits. Our reports on capital movements under such circumstances indicate an outflow of capital which actually did not occur. In the calendar year 1939, such transactions are estimated to have amounted to \$200 to \$300 million.

This item may have been as much as several hundred million dollars during the past twelve months, but we have no way of ascertaining the amount from our records. However, during the coming months we shall have accurate figures of such withdrawals in the case of those countries whose funds here have been frozen — namely, France, Belgium, Holland, Norway, Denmark and the Baltic countries.

^{1/} Corrected for earmarking operations.

(c) Concealed capital imports. These may take one of several forms. Foreigners could place their funds in the hands of friends, relatives or even total strangers in the United States for investment in securities, real estate or for deposit in banks, the foreigner retaining no legal claim to ownership. Alternatively, foreigners could hoard United States currency in safety deposit boxes in this country or secure it abroad through non-banking channels. Neither of these items are reported in our capital movement statistics.

In view of the extension of control exercised over foreign funds held in the United States and in England, the incentive to conceal foreign funds in this country and to hoard American currency has doubtless increased over the past year.

(d) Other capital inflows: Repatriation of foreign dollar bonds through non-banking channels and the purchase of land, apartment houses, and other forms of real property in this country by foreigners, both common practices, are not reflected in our capital import figures.

(e) Errors and omissions in our merchandise trade data and in the estimates of the service items in our balance of international payments. Although these errors and omissions may be large individually and perhaps substantial on balance, they are undoubtedly small in comparison to the unrecorded capital inflow.

Attached is a table showing the balance of international payments of the United States for the calendar years 1938 and 1939 and the first year of war, September 1939 through August 1940.

Attachment

Balance of International Payments
of the United States, 1938, 1939, and September 1939
through August 1940

(Net receipts (+) or net payments (-))

(In millions of dollars)

	: 1938 :	: 1939 :	: Sept. 1939- : Aug. 1940 :
Merchandise trade	+ 1,133	+ 859	+ 1,400 ^{1/}
Other current items	- 107	- 132	-
Capital items	+ 330	+ 1,232	+ 900
Gold ^{2/}	- 1,640	- 3,040	- 4,006
Silver	- 224	- 70	- 42
Residual	+ 508	+ 1,151	+ 1,750

Treasury Department, Division of Monetary Research. September 17, 1940

^{1/} Estimated for August 1940

^{2/} Corrected for earmarking operations

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

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The six reporting banks executed the following transactions in registered sterling:

Sold to commercial concerns	£129,000
Purchased from commercial concerns	£ 11,000

The Federal Reserve Bank sold £10,000 to a non-reporting bank.

In the open market, sterling remained at 4.03-3/4 until late in the day, when it rose to close at 4.04. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 4,000

The Canadian dollar, which closed at 16-1/4% discount on Saturday, improved to 15-13/16% today.

The Swiss franc had a better tone today. As compared with Saturday's final rate of .2278, that currency advanced to .2283 this morning. It closed at .2282. The absence of any reference to Switzerland from the recent German-Italian discussions may have had a favorable influence upon the rate.

On the offering of a small amount of Swedish kronor this afternoon, the New York quotation for that currency moved off to .2381 at the close, as against .2385 on Saturday.

The other currencies closed as follows:

Lira	.0505
Reichsmark	.3995
Mexican peso	.2000 bid, .2020 offered
Cuban peso	9-13/16% discount

There were no gold transactions consummated by us today.

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

£2,480,000	from South Africa, shipped by the South African Reserve Bank for account of the Bank of Sweden, for sale to the U. S. Assay office at New York.
447,000	from Chile, shipped by the Central Bank of Chile, to be earmarked for its account.
<u>£2,927,000</u>	Total

The State Department forwarded to us a cable stating that the Chase Bank, Hong Kong, shipped \$109,000 in gold from Hong Kong to the Chase National Bank, San Francisco, for sale to the U. S. Mint there.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on September 18, showed that such deposits totaled \$85,747,000, an increase of \$446,000 since the last report as of September 11. Included in this total were \$35,217,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, up \$1,007,000 from September 11, and \$41,003,000 in deposits made by Japanese banks in Japan and Manchuria, off \$1,107,000. Loans made to Japanese banks by Yokohama's New York agency totaled \$15,723,000, an increase of \$932,000 over the September 11 figure.

Today's Bombay gold price was equivalent to \$33.91, up 3¢, and silver was slightly higher at the equivalent of 44.76¢.

In London, spot silver was fixed at 23-1/2d, up 1/16d. The forward quotation was 23-7/16d, a gain of 1/8d. The dollar equivalents were 42.67¢ and 42.56¢ 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 eight purchases of silver totaling 525,000 ounces under the Silver Purchase Act, all of which represented new production from foreign countries, for forward delivery.

CONFIDENTIAL

B. M. P.

September 23, 1940
4:25 p.m.

H.M.Jr: Hello.

Jesse
Jones: Hello.

H.M.Jr: How are you, Jesse?

J: Pretty good. How are you?

H.M.Jr: I'm a little bit better than pretty good.

J: Good. Fine.

H.M.Jr: They said you called me while I was away.
I don't suppose you can remember now what it
was.

J: Yes, Henry, I just wondered what you had
about your - a matter we were going to after
I left over there.

H.M.Jr: Well, I'm calling on him tomorrow morning
at his apartment.

J: I see.

H.M.Jr: Hull you mean.

J: Yeah.

H.M.Jr: Yeah I'm going to see him tomorrow morning
at his apartment. I had a chance to speak
to the President Saturday and I told him
just what we'd done and I told him how
perfectly grand you'd been and that you'd
stuck right by me in doing what we thought
he wanted us to do, and that I thought that
it was all to the good.

J: Yeah.

H.M.Jr: And I understand later after I'd talked to
him Welles called up - the President told me
this, I saw him at a picnic Sunday - and he
told Welles to come over and see me, but I
haven't heard from Welles and I'm not going
to call him up.

- 2 -

J: Uh-huh.

H.M.Jr: I think if he wants to see me he knows where I am, but I am going to call on Mr. Hull just the way I said I would.

J: Uh-huh.

H.M.Jr: And I'm taking along that stenographic report which is just the way it was written and there's nothing in it that anybody couldn't see.

J: Yeah. Well, by the way, I'd like to have a confidential copy of that.

H.M.Jr: I'll give you one.

J: I'd like to see it just because I've been interested in it - to see how we got along.

H.M.Jr: I'll give you one if you will keep it

J: I will. Just absolutely confidential.

H.M.Jr: I guard those things, but you're entitled to one. Have you heard anything on that from either Hull or Welles?

J: No. I understood that - well, that they hoped the meeting would not have been held and that's about as far as I can go at the minute.

H.M.Jr: I see.

J: But that's about all there was to it anyway.

H.M.Jr: I see. Where'd you get that from?

J: Well, now, let me see. I think I got that from Hull.

H.M.Jr: From who?

J: Hull.

H.M.Jr: Hull. I see. Well, I should think the way the Japanese have walked into Indo-China -

- 3 -

and he has said publicly two or three times that he would chastise them if they did - that he would be very glad that this meeting took place.

- J: Yeah. Well, I think it'll all work out all right. As a matter of fact I think that the way we got along over there was all to the good - (laughs) - it looks to me like it.
- H.M.Jr: The more I think of it, I should think that Hull would say thank you, but of course what goes on over at the State Department - I don't know how you are - I've never been able to understand it.
- J: Yeah. Well, what time are you leaving your office?
- H.M.Jr: Well, I'm going home early today.
- J: Could I call you there?
- H.M.Jr: Oh, I get you.
- J: Sure. O. K.
- H.M.Jr: I get you.
- J: I'll call you.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau
FROM Mr. Foley

The following courses may be followed if it is desired to apply economic sanction to Japan:

(1) The President is authorized to impose new or additional duties not to exceed fifty per centum ad valorem or its equivalent on all Japanese products coming to the United States. Such imports totaled \$161,000,000 in 1939 and were higher in the first five months of 1940 than in the comparable period of 1939. This action would be taken under authority of section 338 of the Tariff Act of 1930 and would be based upon a finding of Japanese discrimination against the commerce of the United States in areas of China under Japanese control.

(2) If Japan maintains or increases its discrimination against the commerce of the United States after taking the above action, the President, if he deems it consistent with the interests of the United States, may direct that such products of the foreign country or such articles imported in its vessels as he shall deem consistent with the public interests shall be excluded from importation into the United States.

(3) The President is authorized to deny Japan the benefit of the Trade Agreement rates as he has Germany on seventeen occasions and Australia on five occasions. This action, however, would effect less than two per cent of the Japanese exports of the United States. The authority of this action is section 350 of the Tariff Act of 1930, as amended.

(4) In 1918, in connection with the Japanese seizure of the Chinese Eastern Railway, the United States applied economic pressure against Japan by restrictions laid upon licenses for the export of cotton and the import of silk. See Foreign Relations, 1919, Russia, at pages 246-247. The War Trade Board has, of course, gone out of existence, but restrictions could now be laid upon the export of cotton under the authority contained in section 6 of the Act of July 2, 1940 (Public, No. 703, 76th Congress), to prohibit or curtail the exportation of material or supplies necessary for the manufacturing service or operation of military equipment or munitions or component parts thereof.

(5) The President may prohibit or restrict the importation into the United States of articles or products of Japan if he is satisfied that there is reasonable ground to believe that under the laws, regulations, or practices of Japan the importation of articles of the United States is prevented or restricted into Japan or into any other country, contrary to the law and practice of nations. Sec. 305 of the Act of September 8, 1916, 39 Stat. 799 (U.S.C. Title 15, sec. 76).

E. W. F. L.

September 23, 1940

Secretary Morgenthau

Mr. Foley

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

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Paraphrase of Code Cablegram
Received at the War Department
at 11:20 A. M., September 23, 1940

London, filed September 23, 1940.

As this cablegram is sent the War Office assures us that there had been absolutely no move toward an invasion of England as late as 10 A. M. today.

Based upon the movements and disposition of German barge and ship flotillas and other indications there is no evidence of an immediate invasion. The growing concentrations of shipping at Cherbourg, Brest and Hayre and some new barge and ship movements to the westward extends the threat of invasion to West England and even Ireland. However, the extensive diplomatic maneuvers of Ciano, Suner, and Ribbentrop may indicate that the next major move will be in another theater.

British official opinion is that any attempt at invasion will be preceded by large parachute operations during the hours of darkness and possibly by the use of smoke screens on a large scale. Regarding yesterday's episode, they consider that when the invasion is attempted the time will be set by local German commanders and that no one in Berlin will be told.

Distribution:

Military Aide to the President
Secretary of War
State Department
✓ Secretary of Treasury
Asst. Secretary of War
Chief of Staff
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Paraphrase of Code Radiogram
Received at the War Department
at 7:57 A.M., September 23, 1940.

Peiping, filed 8:12 P.M., September 23, 1940.

According to reliable foreign observers General Hsiao-ho has 10,000 men in his Communist 8th Route Army in the Peiping area. There are 10,000 more reported between Peiping and Tientsin and 40,000 in east Hopei. Kuomintang - Communist disagreement reported satisfactorily settled. Commanders of Communist units in Hopei who were believed to be maltreating local residents were replaced by men from 8th Route Army Headquarters. It is also reported that North China railways will all be cut in a month or two.

MAYER

Distribution:

Military Aide to the President
Secretary of War
State Department (3)
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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375

Paraphrase of Code Radiogram
Received at the War Department
at 1:34 P. M., September 23, 1940

London, filed September 23, 1940.

The following information is in response to your cablegram of September 21 on the subject of balloon barrages:

The Air Ministry states that the moral effect of a balloon barrage has proved to^{be} very great. With the balloons flying at an average altitude of 4,500 feet the barrage prevents low level and dive bombing on precision targets and at the same time keeps enemy aircraft at an altitude which is most favorable for the use of fighter aircraft and antiaircraft artillery.

I concur in this opinion. However the balloon barrage is not well adapted for the protection of small isolated targets because it is not economical. The defense of such small targets should be vested in light antiaircraft artillery. A balloon barrage requires protection from enemy fighter aircraft and should be used only in areas where it can be protected by antiaircraft guns. In addition, friendly fighter aircraft should be available in the area in which the barrage is located.

In the protection of convoys of shipping barrage balloons prevent low flying bombing attacks and tend to keep bombers above 2,000 feet.

The Germans have adopted the British system of the area layout of their balloon barrages. Their cable is 15 hundredweight (1,680 pounds), is not lethal, but can be flown at over 10,000 feet.

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The British balloon has a $3\frac{1}{4}$ -ton cable which is lethal. It is reported that the Germans are using artillery observation balloons in their Calais barrage.

During recent storms a high rate of temporary wastage was incurred but many were recovered and repaired. Fragments of antiaircraft projectiles and electrical positions damaged some balloons.

Approximately 1,500 barrage balloons are in daily use throughout Britain. These balloons cost £450 (about \$1,800), exclusive of winch, truck and pouch.

I consider balloon barrages to be most valuable for the protection of vital areas such as the Navy Yard at Pearl Harbor and the locks of the Panama Canal.

LEE.

Distribution:

Military Aide to the President
Secretary of War
State Department
✓ Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
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Paraphrase of Code Radiogram
Received at the War Department
at 1:34 P.M., September 23, 1940

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London, September 23, 1940.

1. Royal Air Force bombing and reconnaissance planes operated during the daylight hours of September 22d but their attacks were hampered by lack of cloud cover. During the night of September 22-23, 104 bombers attacked one aluminum plant and targets in eight Continental parts. During September 22d the Coastal Command dispatched 59 aircraft on assorted missions and in addition escorted 13 convoys. There were no British losses in these operations and one enemy bomber was destroyed.

2. During daylight hours of September 22d enemy operations were on a small scale. British railroads were the primary objectives but they were only slightly damaged. The Southern Railroad lines were blocked at Basingstokes, Hants. Bombs were dropped in about 50 places in London. The power station at Lambeth was damaged. Considerable damage was done to Woolrich Arsenal by fire. A mine exploded at Ilford, Essex, destroying about 100 houses and damaging an equal number. However, only 12 persons were injured. Direct hits on air raid shelters in the Poplar and Lambeth districts killed between 30 and 50 persons and injured a large number of others. Fires were started in Kennington. The Rank Flour Mills, Victoria Docks, have been put out of commission permanently, affecting 1,800 employees. Department stores in Kensington were damaged. The Briggs Body Works in Dagenham, Essex, burned. Four airdromes were attacked. One only was damaged and one fighter was destroyed. A fire was started in the Liverpool Docks. The Germans dropped bombs and mines in 114 other places in England with little

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results other than inconvenience.

3. A British destroyer was damaged by a mine in the Thames River. Seven ships, totalling about 44,000 tons, were reported sunk or damaged, one by an enemy raider about 500 miles west of the Canary Islands.

4. The Italian invasion of Egypt is proceeding very cautiously.

5. The possibilities of an invasion of Britain are dealt with in a separate cable today.

6. General Strong's interview received an excellent press in London.

LEE

Distribution:

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

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BRITISH PURCHASING COMMISSION

September 23, 1940.

Dear Mr. Morgenthau,

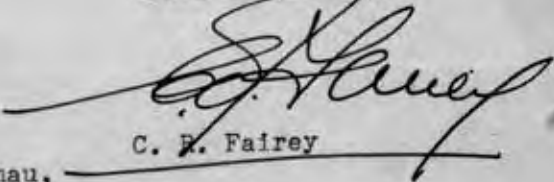
I have now obtained from London further particulars of the Heinkel 113 as follows:

Span 30.8 feet, wing area 156 sq. ft., engine D.B. 601 E (1300 H.P. for take-off), weight in flying order 5720 lbs., maximum speed 447 M.P.H. at 18,000 feet, climb to 19,800 feet 6 minutes, endurance 1 hour at maximum continuous speed, armament 4 M.C. 81's (2 on leading edge of wing, 2 alongside fuselage and firing through airscrew).

We have not yet shot down a machine in condition to fly. Our own authorities do not accept the maximum speed of 447 M.P.H. as being possible with this engine, they think it more probably in the order of 390. The machine guns are approximately 13 mm. equivalent to .5.

I will, if you wish, pursue these inquiries as soon as more information is available.

Yours sincerely,


C. R. Fairey

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

RECEIVED (mirrored)
SEP 23 1940
SECRET (mirrored)



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September 23, 1940.

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Yours sincerely,

C. R. Fairey

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

September 23, 1940


Professor Chamberlain

Mr. Cochran

Mr. Livezey telephoned me at 10:00 this morning from the State Department in regard to facilitating imports of graphite from Madagascar. He reminded me that the British, French and Dutch had tied up shipping to Madagascar, and that much needed graphite for the United States was now coming out by special arrangement only. The Swedish steamship Glimmaren is now scheduled to leave Madagascar next week carrying graphite to the United States. Certain financial transactions must be approved before the full cargo can be taken out of Madagascar.

Mr. Charles Pettines, who is looking after this business, now asks that speedy action be taken on New York applications No. 52997 and 43978, which cover graphite transactions. He insists that the National City Bank must be able to cable this week credits involved in the two applications.

At 11:00 this morning Mr. Fruehloed, also of Mr. Livezey's office, asked that I add to the above two applications No. 54667, which involves a letter of credit on the New York Trust Company being utilized in financing an order of graphite by the Asbury Company, which likewise is to come on the above-mentioned steamship.



EMC:lap-9/23/40

RE REFUNDING

September 23, 1940
3:30 p.m.

Present: Mr. Bell
Mr. Haas
Mr. Viner
Mr. Hadley
Mr. Murphy

H.M.Jr: How much is the issue, the December issue?

Bell: 737.

H.M.Jr: How much?

Bell: 737 million.

H.M.Jr: I see. What is the coupon on it?

Bell: One and a half.

H.M.Jr: It is a note, is it?

Bell: Yes, a five-year note. It was a five-year note.

H.M.Jr: We are thinking of refunding now. It seems like a good time. The market has been going strong. That Brown Amendment was defeated, so nobody can accuse us of trying to sell more tax exempts. December is going to be very, very crowded. The last time we sold a two percent - how many years was it?

Hadley: 8-10.

Bell: A '48-'50.

H.M.Jr: And we now can go out almost 15 years.

Viner: What would the date be?

H.M.Jr: We would do it Thursday.

Viner: Oh, Thursday?

- 2 -

H.M.Jr: Offer it Thursday, and leave it open the rest of the week, I take it.

Bell: We could do it Wednesday morning, if you wanted to.

H.M.Jr: Oh, I don't think that gives the market enough warning, do you?

Viner: Would it be a straight conversion? Conversion and repayment?

Bell: Conversion; straight refunding.

H.M.Jr: I think you had better do it Thursday.

Bell: Well, they are expecting something. I don't think they need a lot of time. I think the Federal Reserve Banks would appreciate the extra day.

H.M.Jr: You mean go from Wednesday until Saturday night?

Bell: Oh, no, Friday night.

H.M.Jr: Well, if you can do it Wednesday, with the war on, I would say Wednesday.

Bell: We could get it out of here pretty early tomorrow afternoon and they could do it tomorrow night and it is a refunding, so you don't have the same situation as you have in a cash offering where it is only open one day.

H.M.Jr: I didn't dream you could do it that fast.

Bell: We have been doing it.

H.M.Jr: Have you?

- 8 -

Bell: Remember? You have been rushing us a little. It has sort of gotten routine now.

H.M.Jr: I never knew I rushed you.

Bell: We haven't had that extra day for the last three or four issues.

H.M.Jr: Has the SEC got anything coming up?

Bell: There is a possibility of something between 55 and 70 million, but the only one really scheduled is 30 million, Southern California Gas Company.

H.M.Jr: When?

Bell: Scheduled for Wednesday. Jerry says it may not even come out and there is a 25 million Central Maine Power sale of stock, but that, he says, will not come out, the chances are, but it is the type of stuff that I don't think would interfere with us.

H.M.Jr: Did he care?

Bell: No, he said that he didn't think that it was the kind that would interfere with ours at all.

Hadley: They go to a different type of market. The Central Maine Power is offered to shareholders and the other is refunding, that Southern California.

Bell: It is the miscellaneous stuff of about 10 million in aggregate, four or five issues of small stuff. The market has been running around 35 to 50 million dollars a week for refundings and it hasn't disturbed it any.

H.M.Jr: I was thinking more, would he object?

- 4 -

Bell: No, he had no objection.

H.M.Jr: Don't you think, Jake, or do you think it is a good time now?

Viner: Oh, get as much out of the way as you can. The market is good and I guess they want two percents. They want to invest.

Bell: Well, the market is hungry. The market has gone up. The insurance people are in the market, apparently pretty strong.

H.M.Jr: Have you got anything to show me how it is going up? Have you got any charts, George?

Haas: I will get some from my office.

H.M.Jr: If you want Murphy in, bring him in.

Hadley: This is the maturity set-up on bonds.

H.M.Jr: All right.

Hadley: You can see the open date here, and the call date here (indicating).

H.M.Jr: This is the call date?

Hadley: Yes, and this is the maturity date on the same issue.

H.M.Jr: What is this?

Viner: How much of it, would you think, Dan, would be converted, ninety percent?

Bell: Ninety-eight.

Viner: Ninety-eight percent?

- 5 -

Bell: 700 million would come in easily, if it is right.

Viner: Aren't there any - that is a quick operation within two days. It is all in the hands of specialist operators?

Bell: Well, it is a note. It is probably pretty well held by banks.

Viner: You can't allow more days for the small amounts, can you?

Bell: We can, but I doubt if they are in the hands of the smaller ones.

Viner: You don't think there is any need of it? Have you ever done it?

Bell: Yes. It is more important on a bond issue, though, where they are widely scattered, but we always get anywhere from ninety-seven to ninety-eight percent of a note at maturity.

H.M.Jr: The last call date in the '51 series is 12-15-51. We have no call date until 6-15-54. There is a gap there from December 15, '51, until July 15, '54.

Madley: Two and a half years.

H.M.Jr: Two and a half years.

Bell: That is assuming there will be no overlapping.

H.M.Jr: But as to call dates --

Bell: Yes, that is the first call date. You might skip the first call date, and the second call date would be a call date.

- 6 -

H.M.Jr: But there is - I mean, if he came along --

Viner: As far as first call dates are concerned, there is that gap.

H.M.Jr: But he is suggesting here a March 15, '53.

Bell: That is vacant, and so is June and so is September and December of that year. There isn't a maturity or call date in '52.

H.M.Jr: Say it again.

Bell: There isn't a maturity or a call date, assuming no overlapping. There is only one in '54 and that is the one you put out in July.

Hadley: That cross mark shows where the first call date would come.

(Mr. Murphy entered the conference)

Viner: Make it a 13-year issue maturing on September 13, 1953.

Haas: Here it is. It has every bond issue and every note issue (indicating). Here is this issue.

H.M.Jr: Where is the one with the call date?

Haas: That is this one here. It is 1½, 737. That just shows the rights.

H.M.Jr: What are the rights?

Hadley: 101.14.

H.M.Jr: How many 32nds is this?

Hadley: One point and 14.

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H.M.Jr: You mean it is a point and 14?

Hadley: Yes.

H.M.Jr: I never heard of such a thing.

Bell: Yes, that is about the - anywhere from 8 to 10.

H.M.Jr: You mean it is almost a point and a half?

Bell: They have been running anywhere from --

H.M.Jr: They must think I am going to be good.

Bell: They think you are Santa Claus. This is the '51-'53, and this is the '54-'56 you just put out. You see how the price has gone up on the yield.

H.M.Jr: Well, for the night, the only thing I want to decide is, do we want to have the refunding? Does everybody want a refunding?

Haas: I will vote for it.

Bell: I will vote for it.

Hadley: I think it is a very good time for it. The market is seeking bonds.

Viner: I like it.

H.M.Jr: And if we are going to do it Wednesday, oughtn't I to tell them it is going to be a bond?

Bell: I should think it might help if you would say we are going to consider tomorrow a refunding of the December maturities and that it would be a bond.

H.M.Jr: Hope it would be a boy.

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Bell: Yes, a boy.

H.M.Jr: Well, if we tell them it is a bond as against a note, it kind of narrows it down, doesn't it?

Bell: That will help Ross in his conferences tomorrow to say that you are going to refund it into a bond.

H.M.Jr: Do you want something else than the bond?

Murphy: No, bond is okay by me. The people that are bidding one and fourteen certainly are expecting a bond.

H.M.Jr: George?

Haas: Bond is what I would think.

H.M.Jr: What would you like?

Viner: Bond.

H.M.Jr: It is going to be a bond.

Bell: Do you want the two percent bond?

H.M.Jr: Don't you?

Bell: Yes, that is all right with me. You can get two and a half for those two and a quarters. It will pay a year's interest and reduce the budget.

H.M.Jr: Now, don't try to seduce me, Dan.

White: Two and a half, you would get 17 million dollars premium.

H.M.Jr: And what good does it do you?

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Bell: It is nice ready cash.

Viner: How do you account for premium income? What do you with them?

H.M.Jr: It goes in the jack-pot.

Bell: Yes.

H.M.Jr: What do you do with it?

Bell: Credit it against interest. It reduces your interest.

Murphy: In the current year, no amortization.

H.M.Jr: We couldn't spread it over very well. It is impractical.

Viner: SEC will get after you.

Bell: We will handle that.

H.M.Jr: I don't see that we have got to do any more than that today. If you will be here at 4:30 --

Bell: Yes.

H.M.Jr: How much is this?

Bell: 737.

H.M.Jr: That is a good number, 737.

Viner: What is that?

Hadley: The market has moved up in the last ten days. We might push it out another year. It has moved up a year and a half in the last two days.

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H.M.Jr: It is a good time to do it.

Bell: I think the market will go up on this.

H.M.Jr: Now, what happens to your debt limit on this?

Bell: Oh, this doesn't change it.

Viner: It is a conversion.

H.M.Jr: I think this is good fiscal policy, don't you?

Viner: Oh, I think by all means.

Haas: That two percent looks to me like a perfectly safe thing.

H.M.Jr: I don't know a better answer to the New York Times editorial as to the fiscal policy of the Government, et cetera, than to be able to sell a Government bond, 15 years, two percent. I don't expect you to answer that, Viner.

Viner: It is a good partial answer.

H.M.Jr: You are right. I agree with you. It is a good partial answer. Well, I will just talk a minute with Dr. Viner.

September 23, 1940
5:00 p.m.

H.M.Jr: Hello.

Leon
Henderson: Yes, this is Leon.

H.M.Jr: Hello, Leon.

H: On scrap - I told you I had a talk with Hull
and he said there were two situations on
which he was on a day-to-day basis.

H.M.Jr: Yeah.

H: He called a meeting tomorrow at 10 o'clock
in which he's asked me to come in and talk
things over and I understand that he's ready
to move and it's merely a question of how
much and when.

H.M.Jr: Good.

H: In the meantime we have worked out on the
basis that I told you a scientific schedule
and I think it will be all right with him.

H.M.Jr: Good.

H: Now your people are on that voluntary basis -
they're not going ahead at all are they?

H.M.Jr: Not going ahead?

H: Yeah.

H.M.Jr: How do you mean?

H: Well, you remember you sent a proposal that
.....

H.M.Jr: Oh, yes, and we've just been waiting on Hull.

H: Well, we can handle it under the Export Control
thing, you see, and make it work under that
general arrangement, so I'll let you know how
we make out on this.

- 2 -

H.M.Jr: Will you do that?

H: Yeah. How are things otherwise?

H.M.Jr: I think they're all right.

H: I want to talk to you one of these days about Don Nelson.

H.M.Jr: Oh, really? What's the matter with Don Nelson?

H: Oh, he's just the stuff. The contribution that you made in persuading him to come down here and then letting us steal him is this particular - these critical weeks - has been tremendous and I wanted to put a few things in the back of your mind that you wouldn't get otherwise.

H.M.Jr: Well, will you let me know when you're ready?

H: Yeah. I'll come by and see you.

H.M.Jr: I wish you would.

H: All right, Henry.

H.M.Jr: Thank you.

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Financing
the
National Defense Program

by
W. Randolph Burgess



Financing
the
National Defense Program

An Address By
W. RANDOLPH BURGESS
Vice-Chairman of the Board
THE NATIONAL CITY BANK OF NEW YORK



Before the National Bank Division
AMERICAN BANKERS ASSOCIATION
Atlantic City, New Jersey
Monday Afternoon Session, September 23, 1940

Financing the National Defense Program

A NUMBER of years ago bankers, business men, and economists were seriously worried because the United States Government was failing to balance its budget. There were predictions of a breakdown of government credit and of inflation. That was a perfectly reasonable belief, for the history of government finance seemed to show pretty clearly that the wages of financial sin is death. Yet for nine years now the budget of this government has been seriously out of balance. We are looking forward to a still larger deficit in the current fiscal year and as far as we can see into the future. But people are less worried to-day about inflation or other serious financial consequences than they were six or seven years ago. Government bonds are selling at approximately the lowest yields of all time, and it would now appear that the government can borrow easily and at very low interest rates all the money it is likely to need.

How shall we account for our extraordinary complacency in these unusual circumstances? It is no doubt partly that we have become accustomed to them. Those who have cried "wolf" have been wrong so often that we no longer trust them. Also there has been growing up a considerable school of thought to the effect that the old experience as to the inflationary consequence of unbalanced budgets was not necessary, but was due to archaic economic processes which may be superseded to-day.

A number of recent writers have suggested that Germany has discovered the answer, which is that war is a matter of production and not of money, and that if a nation will only order its production properly it can fight a war almost indefinitely without involving itself in serious financial difficulties. The suggestion is that if we would only think in terms of men rather than of money, we no longer need concern ourselves seriously about budgetary deficits and the old shibboleths of monetary science. To any who have studied

financial history it sounds a little like saying that the wages of sin is not death but life everlasting.

In judging the truth of this somewhat startling suggestion we ought to note that the last chapter of the German experiment has not yet been written. It is worth recalling that the historic German inflation did not take place mainly during the last war, but after its close. After the first year of war there had been little price advance, and even at the end of the war prices in Germany were only twice as high as at its beginning. The current experiment is not finished, and it remains to be seen what the final consequences will be.

The lesson of history is pretty clear, that major wars lead to inflation. It was true in this country in the Revolution, the War of 1812, the Civil War, and the World War. It has been true of other wars in other countries; the link between war and inflation appears to have been practically unbroken. It is a record which places the burden of proof on those who suggest that a new era has arrived in this respect.

THEORY OF WAR FINANCE

Yet the subject is too vital to be dismissed with general statements or historical analogies. The size of the financial undertaking now facing this and other countries makes it essential for us to examine more fully the economics of the problem. There is a considerable literature on the subject. One of the briefest and most complete statements of the essential principles is to be found in an address before the Army War College in 1922 by Benjamin Strong, former Governor of the Federal Reserve Bank of New York. More recently, they have been discussed by the English economist, J. Maynard Keynes, and by Jerome Frank, Chairman of the Securities Exchange Commission. In their broad outlines these three discussions of the problem are in agreement. It is theoretically possible to conduct a war without inflation. The heart of the problem is the relation between the increase in the volume and activity of money and the increase in the production of goods. If as a consequence of government spending people have more money to buy things with than there are things to be bought, prices tend to rise.

Now theoretically it ought to be possible for a country to finance a war or huge defense program without excessive increases in money

and in prices. There are four areas for action in seeking to accomplish this feat.

1. Keep down government spending.
2. Collect large taxes.
3. Divert the people's savings to meet war costs.
4. Control the effects of increased buying power by controlling prices and consumption.

Germany has been active in all four fields. Its war costs are kept down by paying low wages and requiring long hours of work. It collects large taxes. It forces business and individuals to buy government securities and so diverts savings to war uses. It prevents added purchasing power from raising prices or competing for goods by rigid price control and rationing most articles of consumption. Even so it appears from the available figures that Germany is not avoiding some substantial increase in money. The government is borrowing from the Central Bank and from the private banks. Both the volume of bank credit and paper money circulation are increasing. The usual effects on prices have been avoided as yet, partly through the direct control of prices and consumption. But the very fact that there has been an increase in credit and in the government debt leads to some doubt whether even with her controls Germany can in the long run wholly escape the normal consequences of war finance.

But for us the significant part of this analysis is the complete and detailed governmental control of the economic life of the country required by this sort of program for avoiding inflation. The analysis makes it clear why wars have in the past practically always meant inflation. The easiest way is to borrow. Few countries have been prepared to subject themselves to the stringent and thoroughgoing control implied in the formula suggested above, and practiced in Germany.

In the face of these facts the question which inevitably arises is how a democracy can compete in war with a totalitarian state which is able to control all these elements. Certainly it would appear on the surface that any democracy is at a great disadvantage compared with the authoritarian state. How can we meet this situation?

REGIMENTATION OR DEMOCRACY?

In war or a huge defense program like ours there are two directions

in which we might travel. One is to copy the authoritarian methods, to become ourselves a socialistic state in the sense that the government would be given absolute control over the life of the people. It is appalling to discover how many people are willing to adopt that sort of solution for the present problems of the United States. In order to combat Nazism as a form of government some propose that we surrender in advance, and adopt that form of government ourselves in the hope possibly that when the conflict is over we might be able to revert to a democracy once more. The proposed cartel plan for South America was an example of exactly this sort. It was a proposal to establish complete authoritarian control over the production and marketing of goods. It was fortunate that this plan died of its own weight before the Havana conference, and that conference under the leadership of Secretary Hull, adopted wiser and more liberal proposals. There are other examples arising constantly in recent discussions of legislation before Congress, such as the proposal to take over plants for the defense program by force rather than establishing conditions for and a spirit of cooperation.

Certain compulsions beyond those of peacetime are unquestionably required in time of war and emergency, but how far must they go? Is there another alternative to complete regimentation of the lives of the people? I believe there is, and that it is to be found in the capacity of a democracy for analyzing its problems and for subjecting itself voluntarily to the disciplines required by the situation. It is our democratic faith that a people so disciplining itself will win wars from a people enslaved by its government. Woodrow Wilson stated it, "The highest and best form of efficiency is the spontaneous cooperation of a free people."

It is worth recalling that we fought and won the last war in this general way, and that the inflation in this country was limited, at least in some measure, by deliberate forms of self-restraint. We limited the expansion of bank credit in two ways: first, by the Liberty Loan campaigns, through which a considerable part of war costs was met out of savings rather than bank credit, and second by voluntary curtailment of enterprises requiring credit. One of the special restraints which applied particularly to the country's money was that the government did not borrow directly from the central bank,

although the newly created Federal Reserve System was available as a facility which might have been abused.

On looking back at the war experience we can now see that there were a number of other steps which might have been taken which would in retrospect have limited the inflation. The most important lapse perhaps was that we were not sufficiently conscious of the price problem; and business, labor, and government did not resist sufficiently the upward spiral of costs and prices. We are to-day fortunately much more conscious of that problem, and there has already been definite voluntary resistance to upward price movements. We are, moreover, starting this defense program with a level of tax rates in effect far higher than was true at the beginning of the last war; so that in any period of expansion we should be likely to collect taxes more rapidly.

PROBLEM STILL UNDERPRODUCTION

A more important difference still between the present position and that of the World War is that we start this period of national defense with substantial unemployment, with large excess supplies of food and raw materials and with the volume of industrial production far under the country's reasonable capacity. That is a distinction which should greatly affect the policies to be adopted. For if we revert to our formula, which was that inflation took place when purchasing power increased more rapidly than production, this country has to-day the facilities by which a further increase in purchasing power may, with wisdom, be paralleled by largely increased production. Hence inflation should be easier to avoid. In theory at least there is no inherent reason why a \$5,000,000,000 a year defense program should not be added to our present national production without substantial decreases in the total of production for other purposes. We have the labor, we have the money in super-abundance, and we have the engineering and business ability.

Our industrial position is quite different from that of Germany or England, for those two countries are working at approximately maximum capacity, and they can only produce additional war materials by reducing their production and consumption in other directions. What they need is a redistribution of their national effort. What we need is a stimulation of our total national effort. While England and

Germany may require methods which will cut down the nation's consumption in one direction to make available man power and capacity for the defense program, we do not need as yet to cut down our national consumption, but rather to increase it. We have been suffering from under-stimulation, and that is still our problem. Our need is for initiative, enterprise, hard work, increased production. We face a problem in addition rather than subtraction.

DEFENSE COMES FIRST

Two qualifications, however, must be made. The first is that, while as a whole we have excess production potentialities, there are many areas in which the defense program will require diversion of skilled men and machines. Where defense and peacetime programs clash defense must come first. Our guiding principle cannot be "business as usual." We face a situation as critical as though we were actually at war, for our avoidance of war and our future position and influence in the world probably depend on prompt arming. Our defense program is laggard, held back by red tape, technicalities, a failure to put first things first. Nothing must now stand in its way. Concentration on this program means readjustments by business, labor, and government, some of them painful and laborious. It remains to be seen whether we can make these readjustments rapidly enough to meet the emergency, and do it without so damaging our economic machinery as to impair productive power in other directions.

The second qualification to stimulation as an objective is that we launch our defense program under conditions which could become inflationary. Our present bank credit and national debt, and our surplus of bank funds are at ludicrously swollen figures. Our defense spending is piled on top of a huge annual budgetary deficit. We have been on a wild governmental spending spree and our habits and powers of control are impaired. As a people we have not suffered the usual consequences of these abortions and have come to believe we never will, a highly dangerous frame of mind.

Thus our present problem is not simple but complex. We need first and foremost stimulation,—increased output. But we need second to begin to get under control some of our loose fiscal and monetary policies and powers.

One way of picturing to ourselves this confusing situation in which we find ourselves is to attempt to visualize two alternative courses which now appear to be open to this country.

THE CHOICE—DEPRESSION OR RECOVERY

The first is to continue the way we have been going, that is, to continue in the depression which has now lasted for nearly ten years, with continued large unemployment as a moral and social as well as economic drag on the whole country. In this situation and without substantial recovery the defense program would become an almost unbearable burden. If that program can be carried through only by a decrease of other production and other consumption it means a further decrease in the standard of living, a decrease which might be socially dangerous at a time of large unemployment and sub-standard consumption in many population groups. This is not the moral atmosphere for an energetic defense effort. This course would leave us at the conclusion of war with a greatly weakened economy.

A gloomy outlook indeed, but not an impossible one. If we continue to follow public policies which discourage business enterprise, and if in a zeal to avoid inflation and eliminate profits we place premature checks on production and consumption we may find ourselves, after some temporary lift, in continued depression.

The second alternative is that, under the stimulus of the defense program we might again put the whole nation to work; so that the defense program is added to and not subtracted from our present output. If we thus lift the total national income there will be large increases in government tax receipts, and decreases in unemployment which should make possible large reductions in relief expenditures and thus bring the budget nearer to balance and lessen technical causes for inflation. But more important still a nation at work without the drag of unemployment is a more effective nation both for defense and for progress.

The pursuit of this second course might indeed lead us to the point where over expansion and inflation, resulting from the more active use of money already created, might become a real danger and not just a bugaboo. We should have to be alert to see its approach and

try to avoid it, but only when it really threatened. The machinery should be prepared in advance.

Clearly the second course is the only sane choice. If we prefer it we must seek it consciously and intelligently. That means two sorts of action: 1, the encouragement of enterprise and production and 2, preliminary steps in getting under control the potential factors of inflation.

HOW TO ENCOURAGE PRODUCTION

What are the essential steps of public policy which must be taken to make progress in these directions? As to the encouragement of enterprise the story is long and familiar but it certainly includes the need of a vigorous and active security market, less hampered by stringent controls and technical rulings and laws. We need a revision of the labor relations act to give the employer as well as the employee a square deal. At a time when the all-important task is to increase efficiency and production, we would do well to consider the effects of mandatory provisions of the wage-hour law with respect to reduction of working hours and payment of overtime, which tend to raise costs and prices both to the government and to the general public. We need railroad legislation to help clear up the debris of insolvencies. We need revision of the utility holding company act to open the way for the utilities to finance, through the open market, additions and improvements. We need an intelligent and sympathetic administration of these and other laws. We need a careful revision of tax laws to encourage and not discourage enterprise.

AVOIDING INFLATION

But on the other side of the picture we must begin to put our house in order against the time when expansion may be followed by over-expansion and inflation. Here again all that can be done within the compass of this discussion is to suggest somewhat dogmatically several avenues in which action is desirable. We surely must get the government budget under better control, and should make a beginning at cutting expenditures outside the defense program. With any recovery in business activity that should not be too difficult. Likewise this is no time to be launching forth on costly long-term state, county, and city undertakings which will place added burdens on the

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taxpayer and compete with the Federal Government in the markets for labor and supplies. The mechanisms of monetary control greatly distorted by the depression legislation need overhauling. In particular it is unnecessarily dangerous and disturbing to confidence to continue on the statute books power for the President to issue \$3,000,000,000 greenbacks solely at his own discretion. In similar position are the power and instruction to buy huge additional amounts of silver and the power to devalue the dollar still further. The repeal of these powers will concentrate monetary controls more fully in the Federal Reserve System, where they belong. The Federal Reserve legislation itself needs review as to the System's real independence of politics and the adequacy of its power of control.

We need to begin to watch more carefully the movement of prices. Theoretically an argument may be made for a somewhat higher price level. Practically an upward movement is so difficult to control once it gets under way, and dislocations of the whole cost structure are so disturbing, that we should probably do better to rely on volume for recovery rather than higher prices. But nowhere is it more important to keep our processes within the democratic framework, for price fixing is a highly dangerous process. We should certainly review those acts of Congress which have created in several spheres the machinery of monopoly to raise prices deliberately. The best way to avoid price inflation is to produce abundantly.

The mechanism of financing the defense program needs study. If inflation really threatens we need to collect more taxes, sell bonds to savers rather than banks. We ought now to finance defense industries as far as possible privately rather than with government funds.

But here, in the case of taxes especially, we run into trouble. For our two objectives are contradictory. Stimulation requires lowering some tax rates, control of inflation requires high rates. Actually the contradiction is less than it appears, for some of the present rates are so high that they pass the point of diminishing returns. They penalize the operation taxed to a point where it is avoided and tax returns thereby reduced. At present any conflict should be resolved in favor of stimulation rather than control. The inflation danger is latent, not immediate. It must be prepared for, but it is too early to put repressive controls into effect. In taxation, for example, we do well to let people earn some money before we take it away.

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WHAT BANKERS CAN DO

Up to this point we have been talking largely about what other people ought to do. What responsibilities have we as bankers in these matters?

First comes our responsibility as leaders of opinion. We know or should know more about these matters than most other people; and the time has come when we may speak out more freely.

Second, we have a direct responsibility in financing the defense program. It will come to our desk in two forms: the chance to finance directly business working on defense orders and the chance to subscribe to government bonds. The direct financing is complicated and difficult to arrange safely; taking government securities is easy. But for our own good and the good of the country the more we finance directly and correspondingly the less government securities we buy the better. As we finance directly we shall put good business on our books, and keep the banking business in private hands. To the extent we turn the business over to the RFC or other government agencies, we encourage the government in taking over the banking business and increase the government debt and the danger of inflation. Admittedly, there are serious difficulties in lending for defense but they are difficulties we should seek to surmount.

Let me summarize by suggesting still another approach to this situation. We have been looking for a new industry, like automobiles, to lead us out of the desert into the promised land. Many have felt that only so could we get our unemployed to work, get the wheels of industry stirring, and get the national income up. Here is a new industry in the form of a defense program,—a tragic sort of a leader—but one on which the nation can again unite after some years of bickering and disunity and looking for scapegoats. We all know we must get results and must operate efficiently. For our place as a nation and the preservation of our way of life is in the balance.

Can we rise to this challenge? Have we the energy, initiative, and national unity for the speed of output we must have? Can we act sanely and reasonably so as to carry forward this new activity without disrupting the economic machine? If the wheels start turning too fast have we the wisdom and courage to keep it under control? And can we do this within the framework of democracy? These are our problems.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:00 this morning the Swiss Minister called on me by appointment. He asked whether I could give him definite instructions for the guidance of Swiss banks in the United States in meeting the requirements of the Treasury's control of foreign funds. I told the Minister that the only published documentation on the subject consisted of the various orders and regulations, which are now being compiled in one pamphlet, of which I am to provide him a copy. I added that the officers of the Federal Reserve Bank in New York and those in the Treasury dealing with the control of foreign funds are always available for consultation. I added, however, that there was no written formulation of policy which would meet just the need which he mentions. I told him that we are constantly developing our system of control and that eventually we shall perhaps be in a position to give clearer guidance to the banks.

The Minister seemed principally concerned because of reports that transactions of the Swiss Bank Corporation and the Credit Suisse in New York were looked upon with suspicion by certain officials of our Government. I told the Minister that I was not aware that any charges had been made against either of these banks, and I agreed to let him know if any evidence of wrongdoing on the part of either of them should come to my attention. The only general advice which I could give was that these banks, as well as all banks, should definitely avoid any "cloak" transactions. The Minister understood that Switzerland might be suspected of serving as a cover for German operations, but he emphasized his confidence in the Swiss bankers and in their good business judgment which would preclude their carrying on operations which did not meet our approval.

The Minister is still unhappy because of the litigation entered by the Department of Justice against the Swiss Bank Corporation in New York, involving the old Alien Property claim. He had negotiated toward amicable settlement of this matter with the Department of Justice, when the suit was instituted without any hint to him that such action was being contemplated.

The Minister showed me a cable which he had from a member of the Swiss Parliament in regard to the case which the Foreign Funds Control has had brought to its attention, involving transfer of shares of a chemical concern, about whose nationality there has been some question. I told the Minister that if he cared to give me a copy of this cablegram together with the substance of one from his Government endorsing the statement made in the message from the Member of Parliament, I would be glad to submit this new information to my colleagues who pass upon such applications as that filed in behalf of the chemical company. He promised to write me a letter in the premises.



September 23, 1940

Professor Chamberlain

Mr. Cochran

At 11:00 this morning I telephoned Mr. Clark, in charge of the Belgian desk of the Department of State. I referred to the memorandum left with the State Department under date of August 26, 1940, by the Belgian Embassy in regard to the present status of the Belgian Congo. I reminded Mr. Clark that he and Mr. Thompson, after consultation with their superior officers in the Department of State, had on two occasions indicated the desire of the Department of State that the Treasury in its control of foreign assets deal liberally with the Belgian Congo. I added, however, that we were holding up certain action here pending a decision from the State Department as to whether the request of Mr. Harn could be granted, namely, that Belgian Congo be considered to enjoy the same status as Iceland.

After consulting with Mr. Hackworth, Mr. Clark called me back this noon, to state that the State Department desires that the Treasury continue to be as liberal as possible in dealing with licenses involving the Belgian Congo. The State Department preferred, however, that we did not raise the question as to whether the Belgian Congo enjoys a status similar to that of Iceland. Mr. Clark explained that the status of Iceland had been definitely established many years ago. On the other hand, the State Department is following carefully developments with respect to the Belgian Government in order to enable it to determine just what recognition the United States should accord the Belgian Government and its acts. Just now the Belgian Minister of Colonies and Minister of Finance are in London. Pierlet and Spaak are in Spain, trying to get to London. Our Department of State has intervened in their behalf trying to assist their travel out of Spain to England. Plans have even been given by our officials to permit these members of the Belgian Government to travel via the United States. The two cabinet members in London are accepted as representing the Belgian Government. They and the two colleagues in Spain have been given the authority from which the remaining members of the cabinet have resigned.

At 12:15 today Baron de Gruben of the Belgian Embassy telephoned me. He asked whether there was anything further that the Treasury could tell him in regard to the treatment we are ready to accord Congolese companies. He said he was going to New York this afternoon and would see Mr. Harn while there. He was also interested in the status of the Itale Belge Bank. I told Baron de Gruben that only this morning I had been in touch with the Department of State again with respect to Belgian Congo, and that upon his return from New York he should telephone me again to learn what the Treasury might have to say by that time with respect both to Belgian Congo and the Bank Itale Belge. In our conversation Baron de Gruben mentioned that the Argentine Government now considers the Bank Itale Belge in Argentina as an Argentine company.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
September 16	1,865	86,617	50,000	27,763
17	10,794	181,895	22,000	12,302
18	12,625	148,410	22,000	12,400
19	3,300	64,912	10,000	5,679
20	4,689	147,769	15,000	8,595
21	2,225	83,414	11,000	10,021
	<u>35,498</u>	<u>713,017</u>	<u>130,000</u>	<u>76,760</u>
Sales from February 22 to September 14	<u>1,485,980</u>	<u>51,797,588</u>	<u>4,372,000</u>	<u>3,547,661</u>
TOTAL FEBRUARY 22 TO SEPTEMBER 21	1,521,478	52,510,605	4,502,000	3,624,421

Mr. Pinsent reported sales of non-vested securities for the week ended September 14 totaled \$200,000.

J.B. M.R.