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December 7, 1940

Under Secretary Hall

Mr. Cochran

Minister Procope of Finland called on me yesterday morning at 10:15. He reminded me that the principal of the debt from Finland to the United States had been funded at \$8,221,326.17. Since the debt arrangement with the United States, Finland had paid \$5,891,891.77. This has, however, been chiefly applied to interest, thus leaving the amount due the United States at \$2,329,434.40. It will be recalled that interest charges mounted as a result of the Hoover Moratorium. Procope mentioned that the Finnish debt agreement had been one of the first concluded with the United States and that the terms thereof were more severe than those arranged with Italy and Balkan countries. If the arrangement had been on a scale similar to that with the Balkans, the debt would have amounted to only around \$2,400,000.

The Minister has talked with the State Department officials and has had instructions from his Government. He now contemplates addressing a letter to Secretary Hall stating that his Government desires to take advantage of the Vandenberg Resolution, and not pay on December 15 the installment then due. Furthermore, he plans to initiate the interest of the Finnish Government in reopening the entire debt question. That is, the funding debt, as apart from the credits now being enjoyed from the Export-Import Bank. It is my understanding that the Finns have utilized \$17,000,000 under the Export-Import Bank credits and have earmarked another \$6,000,000 thereof, leaving an unissued balance of \$7,000,000. It is planned, however, to move forward with the spending of this balance for much needed winter supplies if shipping facilities can be arranged. The Finns have experienced difficulties with both the British and German officials in getting certain clearances for imports from the United States.

The Minister has several propositions in mind with respect to a new debt arrangement. His preference would be for what he called a "restitution" of the old debt. That is, the Treasury Department would refund to Finland the amount of \$5,891,000 which has now been received, and would let the 1924 agreement begin to function as of 1940 with repayment extended over thirty years. This would give Finland almost \$6,000,000 in cash foreign exchange which is seriously needed at present.

A second proposition would be the cancellation of the existing Finnish debt. That is, we accept the approximately \$6,000,000 which has now been paid us and wipe out the remainder of the obligation.

A third proposal would be to consider as capital repayment the \$6,000,000 which have been received as interest, and thus reduce the capital obligation to around \$2,200,000, this balance to be paid over thirty years, with a clause to be written in the new contract which would free Finland from any payment within the first five years of the agreement, if Finland might shooze this delay.

- 2 -

Minister Freese said he thought that the State Department would favor the third of the above-mentioned alternatives.

The Minister hopes to write his letter to Mr. Hull shortly, but was anxious to have the opinion of the Treasury Department before so doing. I telephoned him back yesterday afternoon to let him know that I had mentioned this subject to Secretary Hargreaves, who is leaving today for a holiday, and that I had been instructed to take the matter up with Mr. Hull. Consequently, Mr. Freese asked if he can come and see Mr. Hull and myself some time on Friday morning.



This message to
Hoy by the Bureau
11-7-40

Protective
me young?
11-7-40 3

Financing of new facilities under U.S. and British complementary programs along the lines of the policy approved by Secretary Morgenthau in June, and applied in September to the Continental Motors case, has been withheld from subsequent British contracts, primarily due to reluctance on the part of the National Defense Advisory Commission (N.D.A.C.) to certify to the R.F.C. that the facilities involved were essential to the U.S. Even where the War Department has approved the facilities as essential, such as for tank and machine gun contracts, the N.D.A.C. has withheld its approval. The result has been to delay placement of British contracts and, accordingly, production.

Under the conditions laid down by the R.F.C. in the Continental Motors case, both the Army or the Navy and the N.D.A.C. must certify to the R.F.C. that additional facilities are essential for the U.S. Defense Program before the R.F.C. will finance them.

The reluctance of the N.D.A.C. so to certify is not fully understood, but may be due to its preference for a type of financing which draws upon private sources of capital rather than the R.F.C. It is understood that the N.D.A.C. is prepared to approve financing of new facilities along the lines informally approved for production of aircraft engines by Buick, which involves the so-called Five Year Financing Plan by private funds.

Either type of financing, under the Continental or Buick plan, is satisfactory to the British.

It is most urgent that British contracts which will create new facilities for the U.S. Defense be released at the earliest possible date. It is urged that some solution to the financing difficulties be reached promptly. The solution seems to lie in one or both of the following alternatives:

- (a) If R.F.C. financing is to be used, the necessity of obtaining approval from the N.D.A.C. should be eliminated, so that such approval will emanate from either the Army or Navy alone.
- (b) If R.F.C. financing is not to be used, the Buick plan should be adopted as it has received the approval, if not full endorsement, of all parties concerned.

As R.F.C. financing is probably the only type open for the contracts presently held up, it is urged that both solutions (a) and (b) above be accomplished so that either type may be used where appropriate.

Concurrent with the foregoing, a procedure should be adopted which will permit early co-ordination of British and U.S. programs with a view to providing the necessary new facilities for the entire programs and authorizing the financing thereof on approved lines prior to the negotiation of any new contracts thereunder.

November 7, 1940

Regraded Uclassified

S T A T E M E N T

of

FACILITIES GRANTED

by

UNITED KINGDOM

to

UNITED STATES

B.P.C.
Washington, D.C.
October 31, 1940.

I. AERIAL WARFARE

A. AT REQUEST OF UNITED STATES

Rolls-Royce "Merlin Engine" - Latest type sent to Wright Field with full advice re working, operations, potentialities, etc.

Rolls-Royce "Griffin Engine" - Latest type supplied with full advice re working, operations, potentialities, etc.

Various Types of Captured German Aircraft Engines Sent to Wright Field for testing operations.

20 m.m. Hispano Equipment - Certain details given. Further data and reports sent for.

Boulton and Paul and Frazer Nash Turrets - B. and P. turrets leaving for Wright Field in approximately 14 days time. F.N. turrets to follow.

Confidential Notes on Turret Training and Tracer as an Aid to Air Fighting - Copies obtained from U.K. and delivered October 11th.

Stabilisation of Torpedoes in Air - Preliminary information received Oct. 29th and about to be delivered. Complete data being prepared.

Chattellerault Belt Feed - All available information sent to all Departments. Manufacturing drawings obtained and about to be delivered. One sample feed in transit.

Anti-Structure trials .303 to 20 mm. Inclusive - Data obtained from U.K. and delivered Oct. 11th.

Latest type British Banner and Other Towed Targets - U.K. preparing information.

Information re Gun Tracer Ammunition - U.K. preparing information.

Servo Feeds up to and Including 20 mm. Manufacturing Drawings for Banner and Other Targets and above Ammunition - U.K. preparing information.

Information Regarding Operational and Technical Requirements of Future British Aircraft - Delivered October 28th.

Reports on 40 mm. Cannon - Requested October 28th; Cable sent to U.K.

Fire Control, Range Finders and Directors Employed with Above - Requested October 28th; cable sent to U.K.

Data and Lists of British Incendiary Ammunition - Requested October 28th; cable sent to U.K.

Description of British Practice in Mounting Armour Plate and Test Reports - Requested October 28th; cable sent to U.K.

Ballistic Data used for Beam Firing - Requested October 28th; cable sent to U.K.

I. AERIAL WARFARE (Continued)

B. UNSOLICITED BY UNITED STATES

Power Driven Turrets - Complete information, production drawings, 2 sample turrets and mechanic being sent from U.K. to demonstrate.

Ammunition - 10 reports of trials small calibre ammunition against aircraft. Details incendiary and special tracer requested from U.K.

Air Engines - Details of experimental work on two stroke internal combustion engines, internal combustion turbines, and jet propulsion.

Aerial Navigation - Details of latest developments. Sample installation German distant reading compass demonstrated and handed over to U.S.N.

II. ANTI-AIRCRAFT DEFENCE

A. AT REQUEST OF UNITED STATES

Naval Guns, Ammunition and A.A. Control System
Information given orally. Paper left with Ordnance.

20 mm. Oerlikon Gun - Demonstration for October 30th.

2 Pounder Mark VI and O.5 Mark III and Drawings - Supplied to U.S. Navy in September.

Aircraft Torpedo - Diagramatic sketches supplied. Working drawings sent for.

B. UNSOLICITED BY UNITED STATES

Full Disclosure Secret Method Including:
Balloon Barrage, Kite Barrage, Rockets P.A.C. Scheme, Long Aerial Mine, Anti-Barrage Cutters, Naval Rocket Barrage.

3.7" Gun - Full details including war experience, data, performance, new power-operated equipment given to U.S. Gun and crew being sent from U.K.

40 mm. Bofors Gun with Power Control & Kerison Predictor - Full disclosure of this most important and secret equipment. Data on performance given to U.S. Complete equipment and crew with production drawings being sent from U.K.

Other A.A. Guns - Full particulars all other types including 4.5", 3" Naval 4", 4.7" and Pom Pom with data on war experience.

Rockets - Details secret experiments with A.A. rockets and film lent. Details recent work on proximity fuses.

Fire Control - Full disclosure on directors for A.A. gun fire. Full details of very important and secret work on Radio Fire Control.

Small Arms - Details war experience with small arms against aircraft - types of mounting, sights, etc.

III. LAND WARFARE

A. AT REQUEST OF UNITED STATES

Tanks -

- Organization of Armoured Division
- Organization of Army Tank Bde.
- Type of Tanks used by (a) Germany
- (b) Russia
- (c) Italy
- (d) France

- Handbook on Power Traverse.
- Particulars and Drawings of 2" Smoke Mortar and mounting.
- Particulars of No. 9 and No. 11 Wireless Sets

25-Pounder Gun - Particulars given.

B. UNSOLICITED BY UNITED STATES

Tanks -

- Note on the work of the 1st Army Tank Bde. in France.
- Brig. Crocker's notes on A. F. V.'s in France
- Notes on the work and organization of the Hopkinson Mission.
- Full particulars of A12 Infantry Tank Mark II. (Firing trials were carried out against Turret at Aberdeen)
- Particulars of 2-pounder gun and shot. (Ballistic tests were carried out at Aberdeen)
- Particulars of the Besa M. G.
- Particulars of all British tanks.
- Summary of Technical Report regarding weapons. War Industry and Transportation Secret Copy No.144.

Chemical Warfare - Full disclosure latest detailed information. Scientist coming from U.K.

Explosives - Full disclosure all available information. Offer of explosives expert to be sent from U.K.

Ordnance - Details anti-tank guns - new types in development. Method of direction for guns and searchlights with operational experience in field.

IV. NAVAL WARFARE

A. AT REQUEST OF UNITED STATES

Purchase 30 Depth and Roll Recorders - Admiralty cabled U.K. for permission.

Torpedo Net Cutters - Verbal description given.

Torpedo Pistols - 3 F. type explained verbally.

New Composition for Detonators - Specification sent Naval Ordnance.

Composition C.E. Forprimers - Specification sent Naval Ordnance.

German Magnetic Torpedo Pistol - Request forwarded to Admiralty.

German Magnetic Mine Parachutes - Request forwarded to Admiralty.

British Mines & Parachutes - Request forwarded to Admiralty.

Dudley Warheads - Request forwarded to Admiralty.

Buoyant Cables for L.L. Swags - Information given verbally.

Effect Explosion & Shell Shock on Gyro Compass - Information given verbally.

Effect Demagnetism on Magnetic Compasses - Information given verbally.

Ship Electrical Arrangements - Various verbal requests answered.

Anti-submarine Equipment and Information - Supply being dealt with.

Marslin - Magslip look being asked for.

Latex Deck Covering - Request forwarded to Admiralty.

Minin Cable - Specifications provided.

Wireless Telegraph Signalling - Information given and further data sent for.

B. UNSOLICITED BY UNITED STATES

Anti-submarine measures - "Asic" device - Full disclosure - handbooks, drawings, U.S. Naval Officers invited to inspect in detail and in operation. Special items being sent from U.K. for test by U.S.N.

Details experimental work detection submarines by aircraft. Influence fuses for anti-submarine bombs supplied.

Slidin Torpedoes - Details of experimental work and film lent to U.S.N.

V. GENERALA. AT REQUEST OF UNITED STATESB. UNSOLICITED BY UNITED STATES

Radio Detection - Full disclosure highly secret and important radio methods for detection of:
Aircraft from ground; aircraft from ships;
aircraft from other aircraft; ships from coast; also of radio method of gun and searchlight laying and identification friendly aircraft and ships.

Sample equipment for detection ships from aircraft has been sent from U.K. Sample gun and searchlight laying equipment inspected by U.S. officers at Halifax. Details experimental work V.H.F. radio supplied. Most recent radio tubes for very low wave lengths exhibited. Advice and assistance being given in instituting new radio research laboratory for V.H.F.

Influence Fuses - Disclosure highly secret experimental work on influence fuses for bombs, rockets or shells, including that on photo-electric, acoustic and radio-operated fuses.

MEMORANDUMBOMB DAMAGEARMY SUPPLIES

Current general output loss through:

(a) Damage

(b) Loss of time through warnings remains at 10% or less. Expected may rise to 15% during winter.

In the case of particular items the situation is worse, e.g., small arms ammunition.

ADMIRALTY

Current general output loss estimated at 11%, of which only 1% is due to actual damage.

AIRCRAFT PRODUCTION

Total loss through:

(a) Damage from concentrated attacks on factories and

(b) Loss of time

probably at least 20% of final output.

In many cases loss of working time through air raid warnings is as much as 50%.

Nov. 4/40.

New York
November 1, 1940

To: Ministry of Aircraft Production

From: Self

1. Brewster: Firm are two months late on contract now in starting delivery and will be approximately two and one-half months behind by end of November. We do not see much hope of this contract being completed earlier than the middle of May 1941, which would be two and one-half months late of completion. Reasons for delay are given by the firm as delays in design settlement, modifications, etc., but we do not accept this excuse in full as firm are a weak organisation and undoubtedly have had trouble securing labour and were late in their shop work although they are doing all they can now to overtake arrears.
2. Curtiss Wright: This firm are not late as in your cable, but are now 39 machines ahead of schedule.
3. Glenn Martin: This firm are about six weeks late now and will be nearly two months late by the end of November. They expect to overtake some of these arrears and we think they will probably complete deliveries in March instead of February which will be just over one month late. Firm states reasons for delay was lateness in receipt of engines, and also lateness in technical decisions involving changes in shop tools, neither of which were firm's fault, but in addition we consider that firm were behind in general shop work. They anticipate picking up some of these arrears.
4. Grumman: Grumman 36A was completed in October according to promise.
5. Douglas: Douglas are still having cooling and other technical troubles, and have dropped further behind. We are following up the position with them and do not feel safe in making forecast until these troubles are cleared. Actually the shop work is reported to be well ahead and we believe these delays are mainly due to the troubles referred to and that they will get into good production as soon as they are cleared.
6. Lockheed: Lockheed are approximately one month late on Hudson deliveries at present time. Some of these delays were due to technical difficulties outside their control, but works are also late in addition. We consider that this position will not worsen, but that the arrears will be steadily picked up.
7. North American: North American are about two weeks behind schedule at present minute and would be up to programme early in December if engine deliveries can be secured to meet their acceleration, but it is probable that engine deliveries may prevent their catching up fully before January.
8. General: I need not stress the difficulties here, as in U.K., in maintaining contract schedules against the host of technical difficulties. In addition the engine situation is a limiting factor to possible airframe acceleration. We have every case under close supervision to achieve best improvement practicable.

November 7, 1940
9:40 a.m.

Arthur
Purvis: Good morning, Henry.

H.M.Jr: Hello, Arthur. Two things - I saw Secretary Knox this morning and he's really quite upset that he can't get that pom-pom gun.

P: Well, thank heavens, I've got it on the water now.

H.M.Jr: Oh, have you?

P: Yes.

H.M.Jr: He said the last he heard it was on a dock somewhere.

P: Well, I understood it was on the water. I think that's right. I'll check immediately, but they have been very slow about it. That's all there is to it.

H.M.Jr: Well, if you don't mind my saying it, I think it's inexcusable.

P: Yes. I cabled after our last talk along the lines that they simply have got to put it on, that it was causing an extremely bad impression.

H.M.Jr: If you could phone before 11 and let me know.

P: I will.

H.M.Jr: So I could tell Knox at 11, it would give our meeting a good send-off.

P: I'll call up.

H.M.Jr: Now, the other thing that I'm going to do - the President has done me the honor of asking me for lunch today, the first one after election. And what I'm going to do when I get over there - I have no idea of how he'll feel.....

P: No, quite.

- 2 -

H.M.Jr: that if, when we're through luncheon, whether you could come in and say good-bye to him.

P: Yes, if it were only for half a minute, it would simply - I'd love to do it.

H.M.Jr: So would you - so when I get over there I'll let the Treasury operator - but from 1 to 2 would you be reachable through my Treasury switchboard?

P: At any moment.

H.M.Jr: Well, if you don't mind - I mean, being on tap so to speak.

P: I'll have an arrangement with her. I'll ring her telling her exactly where she can get me before 1.

H.M.Jr: Well, no, between 1 and 2.

P: Yes, but I mean I'll let her know before 1 exactly where she can get me.

H.M.Jr: Where you will be so that if I call up and say, yes, the President says come in at five minutes of 2 or something like that you can

P: I'd be there on the dot.

H.M.Jr: And as I say, I never know, and if it isn't it's nothing personal.

P: Oh, no. Well, I'd simply love to do it and I fully understand if he can't - if it doesn't happen I shall understand too.

H.M.Jr: And if it doesn't happen, I'll see you at 2 anyway.

P: Thank you very much.

H.M.Jr: Right.

P: Now I'll find out about the pom-pom.

- 3 -

H.M.Jr: And if possible if I could know before
 11

P: Yes.

H.M.Jr: Thank you.

P: Good-bye.

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE

7 NOVEMBER, 1940

INCOMING HEADING

072219 P QUAH GR 13

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR OFFICE OF SECRETARY X HAVE MR PHILLIP YOUNG STAND BY FOR
RADIOGRAM

Operator's Record.

Initials of "ACTION" officer.

Philip Young
 Office of Sec.

Purvis was to
 let me know today
 if Pom Pom gun
~~is~~ ~~has left~~ is
 on high seas.

Radio me answer
~~after~~ ~~if~~ after
 contacting Purvis.

sent 11/7 M _____
 072290 #8

U. S. COAST GUARD

OFFICIAL DISPATCH

DATE 7 NOVEMBER, 1940

UNIT HEADQUARTERS

INCOMING HEADING

QUAT 072220

FROM

SECTREAS

(FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

(FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR PHILLIP YOUNG X PURVIS WAS TO LET ME KNOW TODAY IF
POM POM GUN IS ON HIGH SEAS X RADIO ME ANSWER AFTER
CONTACTING PURVIS

Operator's Record.

Initials of "ACTION" officer.

14/7/40

From: Office of Secy
To : Secy

PURVIS ADVISES POM POM GUN ON DOCK AWAITING SHIPMENT BUT TEMPORARILY DELAYED DUE TO ADVERSE SHIPPING CONDITION S. PURVIS ALSO ADVISES THAT OPERATIONALLY LOSSES NOT YET AVAILABLE BUT SLESSER WHO WILL ARRIVE TOMORROW HAS HOME DATA. SIGNED

PHILIP YOUNG

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

20

DATE 7 NOVEMBER, 1940

FROM	COAST GUARD HEADQUARTERS	CODE
TO (FOR ACTION)	SECTREAS	CIPHER
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.		ACKNOWLEDGE
TO (FOR INFORMATION)		PRIORITY
		ROUTINE
		ACKNOWLEDGE
		PRIORITY
		ROUTINE
MAIL TO		
TELEPHONE TO		
MESSENGER TO		
	OUTGOING HEADING	

TEXT

PURVIS ADVISES POM POM GUN ON DOCK AWAITING SHIPMENT BUT
TEMPORARILY DELAYED DUE TO ADVERSE SHIPPING CONDITIONS X
PURVIS ALSO ADVISES THAT OPERATIONAL LOSSES NOT YET
AVAILABLE BUT SLESSER WHO WILL ARRIVE TOMORROW HAS SOME
DATA X SIGNED PHILIP YOUNG

OPERATOR'S RECORD

OFFICIAL BUSINESS

INITIALS OF "RELEASING" OFFICER:

Phil Young

If after
reasonable
time after arrival
~~Besser~~ ^{slesser} is
not given what
~~off~~ he wants
let me know

M

#12 072320

U. S. COAST GUARD

OFFICIAL DISPATCH

DATE 7 NOVEMBER, 1940

FROM HEADQUARTERS

DATE

INCOMING HEADING

072520 QJAH

FROM

SECTREAS

(FOR ACTION)

COMDT

(FOR INFORMATION)

<input type="checkbox"/>	ACKNOWLEDGE
<input type="checkbox"/>	PRIORITY
<input type="checkbox"/>	ROUTINE
<input type="checkbox"/>	NITE
<input type="checkbox"/>	ACKNOWLEDGE
<input type="checkbox"/>	PRIORITY
<input type="checkbox"/>	ROUTINE
<input type="checkbox"/>	NITE

TEXT

FOR PHILIP YOUNG X IF AFTER REASONABLE TIME AFTER ARRIVAL
SLESSER IS NOT GIVEN WHAT HE WANTS LET ME KNOW

Receiver's Record.

Initials of "ACTION" officer.

16/7/40

From: Office of Secretary
To : Secretary

072337

WILL NURSE SLEFFER X GOOD NIGHT

QWAT 072300 QUAHP
 Phil Young X

~~He is to~~

Phil Purvis to
 contact me

~~on the~~

tomorrow

in

~~at my request~~

at my request.

he is following

through

to see you

NMH #11 Hingentman

FORM 1000
NAVY DEPARTMENT
U. S. COAST GUARD
24, Sept. 1940

U. S. COAST GUARD

OFFICIAL DISPATCH

DATE 7 NOVEMBER, 1940

FROM HEADQUARTERS

DATE

INCOMING HEADING

Z QUAT 072500 QJAH

FROM

SECTREAS

FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR PHILLIP YOUNG I ASK PURVIS TO CONTACT KNOX TOMORROW AND
INFORM HIM AT MY REQUEST I HE IS FOLLOWING THROUGH ON POM
POM GUN

Receiver's Name

Initials of "ACTION" officer.

November 7, 1940

Purvis

ARTHUR B. PURVIS, REPRESENTATIVE OF THE BRITISH PURCHASING COMMISSION, CALLED UPON PRESIDENT ROOSEVELT TO "PAY HIS RESPECTS" BEFORE LEAVING BY CLIPPER FOR A SHORT VISIT IN ENGLAND.

HE LEFT THE PRESIDENT'S OFFICE WITH SECRETARY MORGENTHAU WHO HAD LUNCHEON WITH MR. ROOSEVELT. PURVIS SAID THAT HE WOULD RETURN SOON "UNDOUBTEDLY WITH MORE ORDERS."

11/7--W222P

November 7, 1940
9:45 a.m.

GROUP MEETING

Present: Mr. Hass
Mr. Thompson
Mr. Sullivan
Mr. Young
Mr. Pehle
Mr. Foley
Mr. Gaston
Mr. Cochran
Mr. Graves
Mr. Schwarz
Mr. White
Mr. Wiley
Mrs. Klotz

H.K.Jr: Well, I asked you all to have lunch with me today. It is a goodbye luncheon. But the President has asked me to come over, which I think is very nice, and the lunch is here so as they say, it will be on the house.

Foley: Don't say that.

H.K.Jr: It is all there, so if you people will go down at one o'clock, it is all ordered. I tried to give it back and couldn't. Have you all met Mr. Wiley? Have you, Foley?

Foley: No, I haven't.

H.K.Jr: Sullivan, did you meet him?

Sullivan: Yes, I did meet him.

H.K.Jr: Do you know Harold Graves?

Wiley: We met a long time ago.

White: I don't think I have met you.

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H.M.Jr: You remember him from Belgium, Harold?

Graves: Yes, indeed.

H.M.Jr: When he was prime minister of Belgium for United States and gave them the works.

Graves: Sure.

Gaston: The meeting of the Advisory Committee to Colonel Maxwell, the administrator of export control, was concerned yesterday with an order regulating the export of steel fabricated products. That is all right. The only other thing was that he distributed copies of a summary of the accomplishments of the Export Control since its creation. If you would like to take a minute to read it --

H.M.Jr: I certainly do not.

Gaston: It is fascinating.

White: Won't take long to read.

H.M.Jr: I only read detective stories.

Gaston: I just wanted to say there is a letter here from him saying that he has submitted that report.

H.M.Jr: You (Foley) haven't had time?

Foley: That is right.

H.M.Jr: The same to you?

Sullivan: I haven't even had breakfast yet.

H.M.Jr: You have lost weight, too, haven't you?

Sullivan: Thank you, sir.

H.M.Jr: Haven't you?

Sullivan: It is the first kind word I have had on my figure since I came to town.

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H.M.Jr: Haven't you?

Sullivan: I think so.

Gaston: I remember way back in the campaign that Mr. Sullivan made some speeches. They were very good.

H.M.Jr: Johnny, one of the things that you and I have got to do when I get back, a thing we have never done before, and I wish you would carry it, I want to go out and sell the presentation program to the public. And what we are going to do now. One of the things I want to do, I want a number of talks prepared. I want to go to the people and sell them a program, for the first thing, of making it impossible for states and municipalities to sell tax-exempts. I want to put on a regular campaign, and about \$2,000,000,000 worth of securities of totally tax exempt non-Federal securities are coming due next year. Mr. Bell is my authority. I want to really put on a selling job with the people, explain to them that this money goes into these tax exempts, it can't be used for for national defense, et cetera, et cetera, we don't collect the revenue. I want to put on a real selling job.

Sullivan: Are you restricting that to state and municipals or also Federals.

H.M.Jr: The whole works. I have always taken the position - I don't want to have it just the Federal, but the whole works.

Sullivan: That is right.

H.M.Jr: But instead of waiting and all this jockeying in Congress, I want to put on a real campaign.

Sullivan: Yes.

H.M.Jr: So if you would be working on that.

Sullivan: You want about four speeches?

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H.M.Jr: Yes, for you and me.

Sullivan: Right.

H.M.Jr: And the other thing, I want to get out a weekly statement showing how much revenue we have collected, how much goes out to the national defense, and how we are paying for them weekly or semi-monthly. I want to educate the people on how much we are spending for national defense, how we are raising the revenue, who is paying for it, who is not paying for it. In other words, I want to really do an educational job on taxes.

Sullivan: Yes.

H.M.Jr: And not use it the way we have always done it before, wait until we get up on the Hill. You have got three weeks while I am gone to bring it in a simple way to the people, so they can understand. So much is being spent. We have got to borrow so much, we have got to go in debt so much, and we are getting so much from revenue. Give it to the collectors of internal revenue and so forth and so on, that they can use, a thorough salesmanship job.

Sullivan: All right.

H.M.Jr: You will agree with me, do you?

Sullivan: I do.

Bell: Yes.

H.M.Jr: We have never done that, and I want to do it.

Schwartz: Now that Dan is here you might want to suggest - at the press conference you are going to be asked about the financing program on the bills.

H.M.Jr: Dan will be here.

Schwartz: Fine. I thought the story this morning was pretty good. The other thing, I want to call your attention to Carl Allen's story on the

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export of planes for Britain in the Herald Tribune.

H.M.Jr: The campaign is over.

Schwarz: They will ask about it.

H.M.Jr: I mean, it is so ridiculous to take one month's export figures and multiply them by 12. The issue is over.

Schwarz: That is all.

H.M.Jr: Merle?

Cochran: You remember that Mr. Cooper brought up that point about the British purchasing tax.

H.M.Jr: I don't understand it.

Cochran: There is an article in the Star of yesterday about that.

H.M.Jr: Well, Mr. Sullivan is back.

Bell: It is a Customs matter.

H.M.Jr: Well, Mr. Gaston is back.

Gaston: We have had a lot of conversations with both the British and the State Department on that. We don't seem to have any out on it. The British wanted us to go to Congress and get a law under which we could declare that that purchase tax was not a part of the cost price of the products but that would simply upset our whole revenue schedule. It would constitute a glaring exception to our general revenue scheme.

Bell: I think Merle's point of view is that there is some publicity going on which is adverse to the Treasury and with the campaign it ought to be offset some way.

Cochran: I thought it was a little unusual that it

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should appear in the Star. New York commercial papers mentioned it, but in the Star --

H.M.Jr: Well, they have got this commission here now. I will leave it with Gaston, and the other thing, Purvis last night said he never thought he would have to come up to the Treasury to complain about our slowing up shipments to Europe.

Gaston: It seemed that they cleared with the State Department that they can strengthen the decks of Norwegian boats for gun mounts and have the work done in this country and everybody said they got it through the State Department. Then along comes Coast Guard and says no, that is arming a vessel and you can't do it.

H.M.Jr: Who was it?

Gaston: We had an agreement with the State Department if the State Department has agreed with the British that they can strengthen decks for the particular purpose of a gun mount, then they haven't told us about it, because we have an agreement with State and Justice that they could not do it.

H.M.Jr: So they sold you down the river.

Gaston: Well, of course, it is diplomacy.

H.M.Jr: All right, but anyway --

Gaston: When State Department and Justice tell us we can let them do it, we will let them do it.

H.M.Jr: Will you call them up?

Gaston: Yes.

H.M.Jr: This morning.

Gaston: Call up --

H.M.Jr: Anybody. Then tell Purvis or Philip Young what the answer is.

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Gaston: What we did do with them, where they had materials manufactured here by Bethlehem Steel and others, steel stanchions and all that sort of thing and even the actual gun mounts themselves, we let them put those aboard the ship and manifest them as cargo to the agents of the ship at Halifax and install them up there.

H.M.Jr: This is the strengthening of the decks?

Gaston: We had cases of that kind where the timbers were shipped to Halifax and they did it up there.

H.M.Jr: Will you take care of that?

Gaston: Yes.

H.M.Jr: I saw Sumner Welles this morning and he reminded me that I would see that this Argentinian mission was taken care of and he wanted to know who would see them and I said inasmuch as Mr. White was going to get himself well while I was gone, Mr. Bell would carry it.

Bell: What will I do with them?

White: Well, we will have an agenda, detailed.

H.M.Jr: Will you carry it?

Bell: I will try it.

H.M.Jr: Harry will tell you.

Bell: All right.

White: I take it that your idea is to go into the matter and continue discussions until you come back.

Bell: That is what I was afraid of, a whole month.

H.M.Jr: And while I am gone, make sure that Merle Cochran

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doesn't give them the Stabilization Fund.

Cochran: The Argentine --

Bell: I wish I was as safe on everything else as I am on that.

Cochran: The Argentine Ambassador called awhile ago and wanted to know if he could see you before you got away, and I told him no.

H.M.Jr: Anything else, Merle?

Cochran: No, sir.

H.M.Jr: Mr. Wiley, have they got you fixed up with a room?

Wiley: Very well, sir.

H.M.Jr: Is Thompson taking care of you?

Wiley: Splendidly.

H.M.Jr: You are down --

Wiley: Right below.

H.M.Jr: You are all right?

Wiley: Fine.

H.M.Jr: Is there anything you want to ask me before I leave?

Wiley: I don't think so yet. I am just getting started.

Pehle: You asked us to get up this letter to the President.

H.M.Jr: Yes. There has been a lot of Fifth Columnists around here trying to keep me from sending it. Let me read it out loud. I am having lunch with him.

Bell: You are having lunch with a Fifth Columnist, you say?

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H.M.Jr: No, I say there are a lot of Fifth Columnists around here who even though they say they are sick, come around and see me, trying to stop this letter.

(Mr. White looks behind screen)

White: I think he has gone. (Laughter)

H.M.Jr: "My dear Mr. President, during the past two months the Treasury has been studying and discussing with the State Department and other interested agencies the extension to wider areas of the present system of exchange control, which has thus far been applied only to invaded countries of Europe and their nationals and colonies. It is my recommendation that exchange control be extended to all foreign countries.

"(1) Exchange control is the most effective, comprehensive and flexible instrumentality for controlling international transactions of every kind - trade, capital movements, tourist expenditures, financing of subversive activities, etc. The control may be exercised in most international transactions since such transactions usually involve money payments. The system of licensing will permit varying forms of treatment for different countries, for different commodities, or for different transactions - varying all the way from complete economic blockade against a selected country to conservation of strategic materials. Exchange control would be administered in accord with, and as a supplement to, our national policies. Licenses can be granted or denied or otherwise dealt with in accordance with such governmental policies in a variety of fields.

"It is important to note that by the issuance from time to time of general licenses which may be modified or revoked, trade and financial transactions with certain countries or areas can go on substantially on the same basis as though no control applied to that country or area.

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"(2) Such control will be of significant help in dealing with propaganda and subversive activities. We have had extensive evidence in recent weeks of the withdrawal by the Axis powers of millions of dollars in United States currency and the shipment of such currency to Latin America. At present we have no effective means of controlling such action or even of obtaining adequate information as to the use of such funds.

"(3) Protection and control of the assets in this country belonging to the invaded countries or their nationals necessitate general exchange control because --

- (a) very large amounts of such assets in this country are nominally held in neutral names, particularly Swiss, and as a practical matter such assets have not been brought under control, and
- (b) large amounts of the assets of the invaded countries have come under the control of the aggressors who, either directly or through neutral countries, may sell such assets for dollar exchange.

"(4) The existing control has been criticized on the ground of inconsistency. We control and restrict relief payments and other remittances to the invaded countries, but freely allow all remittances and payments to the aggressors. We have blocked certain of the invaded countries but not others, such as China, Poland, Czechoslovakia, Albania, etc.

"(5) The census of all foreign-owned assets in the United States by countries and by individuals will furnish valuable information concerning foreign participation in American industry and other problems before us.

"Almost every country in the world has some form of exchange control. Americans having assets abroad find their use of such assets greatly limited, in some cases to the point of virtual confiscation.

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Exchange control by this Government will put it in a better position to enforce and protect its claims and the claims of its citizens against foreign nations.

"I am satisfied that extension of exchange control is an important, if not a vital, element of our defense program, and would be well received in this country.

"I am sending a copy of this memorandum to Secretary Hull."

H.M.Jr: Now, have you seen this letter?

Bell: No, sir.

H.M.Jr: Do you want to make any comment?

Bell: It sounds all right. The comment I would like to make is, I would like to see it sent to the Secretary of State instead of the President.

H.M.Jr: Well, Merle made a comment, wrote me last night, in which he said that this committee had been appointed and we hadn't done anything about it but it wasn't up to us to call that meeting together.

Cochran: But I thought if we had a problem we ought to get in touch with them before we made a definite reply to the President.

H.M.Jr: As a matter of protocol, you are right.

Cochran: Since we have had it up twice in group meetings --

H.M.Jr: That is the point. We have had it up twice and nothing happened.

White: There was something said at that meeting. We were trying to recollect definitely. It was to the effect that the matter would be taken up during the week, and it is now almost a month.

Bell: Mr. Hull was to get in touch with --

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- H.M.Jr: Which side are you on today, Harry?
- White: I am on the same side. I think the letter ought to be sent when you come back. I think the letter ought to be sent to the President.
- H.M.Jr: What?
- White: I think the letter ought to be sent to the President when you come back and that will be - three weeks will have elapsed, and by that time possibly the State Department may bring it up again.
- H.M.Jr: No, you know damn well they won't.
- White: That is why I think you ought to send it to the President.
- Gaston: I think the State Department ought to be given an opportunity to join in this letter to the President, because if they won't do it, I think we ought to give them notice that we are going to send it to the President anyway, and we ought to just give them a few minutes today to reciprocate.
- White: There will be numerous objections, and I think you ought to be here to defend them. That is another reason.
- H.M.Jr: Three weeks is too long.
- White: Then you might leave it with some special committee, either that or send it a week from now.
- H.M.Jr: In writing my letter to Mr. Hull, I can rewrite that and simply say in view of my leaving on a holiday and the seriousness of the situation, I am leaving with the President a memorandum.
- White: A memorandum instead of a letter.
- H.M.Jr: A memorandum on exchange control. Mr. Bell would like to discuss this matter with you at your

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earliest convenience. Do you feel a little better, Merle?

Cochran: Some.

H.M.Jr: All right.

White: Would a happy compromise be to state just what you have but add a phrase that, "I would like to send this to the President unless you have some objection."

H.M.Jr: No, I am going to give it to him at lunch, Harry. Three weeks is a lifetime.

White: Not on this.

H.M.Jr: Well, this is one of the times that my mind is made up, one of the few times. I disagree with you. It will take several weeks to get it through. I don't want to wait five or six weeks. I will call up Mr. Hull on the telephone and tell him.

Cochran: Fine.

H.M.Jr: I will do it that way. I will call him up on the phone and ask him if he has any objection to my leaving this memorandum with the President. How would that be?

Cochran: That is all right.

H.M.Jr: That would take the curse off, wouldn't it?

Cochran: I think so, yes.

H.M.Jr: I will call him up on the telephone. Does that make everybody happy?

White: That is much better.

H.M.Jr: What?

White: Much better.

H.M.Jr: Dan?

Bell: A little better. It is getting closer.

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H.M.Jr: All right. Now, how far have we got. Mr. Wiley?
Oh, Pehle, you gave me the letter.

White: That is to be changed to the form of a memorandum?

H.M.Jr: Yes.

White: Rather than a letter.

H.M.Jr: Philip?

Young: Joe Green called me up last night.

H.M.Jr: What is that?

Young: Joe Green called me up last night. He has just received the second memorandum I wrote to you last week, which traveled evidently the same route, via Stimson and Hull, reporting on my conversation with him, which probably gave him good reading and evidently - caused some discussion between him and Mr. Hull, so I told him I was properly sympathetic and I wouldn't have written the memorandum that way if I had known it was going to be distributed.

Gaston: If you had known he was listening.

H.M.Jr: Mr. Wiley, at the staff conference, if you want to change your mind and go back to the State Department, if this is too tough company for you - I don't know whether you are going to be able to stomach us or not.

Wiley: I think so.

H.M.Jr: What happened was very funny, if it wasn't so serious. Mr. Stimson called me up on the wire and said, as a great student of international law, me, would I find some way of getting these planes which are on the way to Siam, which were now in the Philippines, over to the Chinese, and I said I would love to, anything to help the Chinese. So we do it and give them away and give it to the President at Cabinet and the President says to Mr. Hull, "If it is legal,

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I would like to have it done," and Mr. Hull said, "I will take care of it." So I called him up a couple of days later and he says, "Why" - he seemed surprised. He had started the thing. In the meantime, Joe Green calls up Philip Young and gives him a calling down for having this bright idea and Young said, "Well, you might be interested to know whose idea this is. It isn't mine, it is Mr. Hull's." So that left Green breathless. So then we find out later on that Green, the same day or next day, tells Young that the Army wanted these planes and it was all off. I called up Mr. Stimson and in a sort of serious kidding manner said to him, "Why put me to work studying law books all night and then find out that you don't want the planes?" He really was quite excited; so much so, that he asked me to send Young's memorandum to me, giving me the inside dope about Joe Green, to him, and he was so excited that he takes it and walks it over to the State Department himself and lays it on Mr. Hull's desk, Joe Green saying that the deal was off. Mr. Hull goes through the ceiling and says, "If it is, I never heard it. I ordered it to go through." And Philip Young's memorandum to me, to Stimson, to Sullivan, finally reached Joe Green. Have the Chinese got the planes?

Young: No, the deal is still off according to Joe Green.

H.M.Jr: Joe Green had better be careful.

Young: He assures me it is all settled now.

H.M.Jr: Anything else?

Young: No. Anything new on the McReynolds picture?

Bell: He was to call you (Secretary) by noon today.

H.M.Jr: Remind Mac, will you?

Bell: Yes, sure.

H.M.Jr: He will never bring it over, if you don't.

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Bell: He said he would have it to you by twelve o'clock.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: Harry?

White: I have a few things, but before I say them, your suggestion with respect to taxes has brought to a head something that I have been feeling and others have been feeling, and we were talking this morning very briefly, about the fact that somehow or other it seems to us the Treasury is doing more than any other department in general and somehow gets less defense and the public is less aware of the issues at stake, etc. I am wondering whether you wouldn't care to extend those instructions to constitute a committee to examine what sort of a one year program can be laid out. There are all sorts of possibilities in the way of articles, speeches by the staff, on the numerous aspects which the public ought to be informed of in order to enable them to get behind the kind of legislation that we would like to see in monetary matters and exchange funds and Coast Guard, Customs, etc. I think there is a big field that can be accomplished over a long period if every avenue is taken advantage of. I don't think definitely it has been. I don't think the staff has been making either the talks or the speeches or writing the articles, etc., that they should be doing, not solely for the question of getting the public to understand what the Treasury has been doing, but more important to get the public behind the kind of policies which the Treasury stands for; so if you would care to consider appointing an informational committee to outline some plan of attack for the next year or two, I think something may well be accomplished.

H.M.Jr: Well, it will be part of that thing that Bell does in connection with inflation and that sort

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of thing. It is part of the same thing, don't you think so?

Bell: It all ties in there, all phases of it.

White: That is right. I noticed that the Council of Defense has adopted the - has begun the procedure of getting out a weekly release, rather lengthy, on the various activities, etc, not that we want to pattern that, but they are aware of the need to sell their work.

H.M.Jr: I think you are right, and I think this meeting that Bell has once a week, that that is the perfectly proper place to take it up.

White: I shouldn't think so, but if you think so --

H.M.Jr: Well, talk it over with Dan.

White: I mean that that plan was proper.

H.M.Jr: All right.

White: You might be interested in knowing that Greece has about 42 million dollars here. Half of it is private. An examination of the material put out by the Department of Agriculture, which is very excellent, and the material that you send us, which you get confidentially on the food situation in continental Europe, indicates rather clearly that there should not be any starvation in Europe if the food is properly distributed, that if there is starvation in Europe it is because of German maneuvering of the material. The letter which Soong sent you about this tank agreement which you wanted to know about, I think you can just overlook it. It is something that has been known for many years. He merely wants to call your attention to the fact that the Japanese have long been planning this extension of aggression and that the United States is one of the --

H.M.Jr: Is it worth reading?

White: Yes, it is worth reading.

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H.M.Jr: Give it to McKay, and I will take it along with me.

White: That is all.

H.M.Jr: Harold?

Graves: Our people who have been studying this mint proposition, that is, the proposition to establish a mint in the Middlewest, or at least an additional mint, have just about finished their job. We now know the type and size of the institution we would want. If you have a few minutes today, I can go over that with you.

H.M.Jr: Just go ahead and do it.

Graves: I was going to ask, if it would be satisfactory to you, we will take it up on that basis with the Federal Works Agency.

H.M.Jr: Yes.

Graves: Of course, I will go over it with Mr. Bell.

H.M.Jr: Yes, but I don't want to do it. Okay?

Graves: Yes.

H.M.Jr: Norman?

Thompson: I have nothing.

H.M.Jr: I will see some of you but I may not see the rest of you. I am sorry I cannot partake of the lunch with you. It is there, so I think I will say goodbye now, formally, and I will be back if everything is all right, about the 28th of November.

Sullivan: Bon voyage.

Schwarz: Happy voyage.

H.M.Jr: As I told the President about two o'clock in the morning, we have just begun to fight. Goodbye, everybody.

November 7, 1940
10:25 a.m.

H.M.Jr: Hello.

Hull's
Secretary: He's coming right on, sir.

H.M.Jr: Hello. (Pause).

Cordell
Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: What's going on over there?

H.M.Jr: Well, two things. First, I'd like to thank you for lending me John Wiley.

H: Well, I think John is an exceedingly bright fellow.

H.M.Jr: Yes, he is and he's going to be very useful and helpful to me. The other thing is this: I'm going away after lunch on a holiday and the President has done me the honor to have lunch with him.

H: Yeah.

H.M.Jr: And I would like to use that opportunity to leave a memorandum with him on exchange control which I would send you a copy over - I was just writing it now. I didn't know I was going to have lunch with him.

H: Yeah.

H.M.Jr: And then Bell will be here to discuss it with you. Now if you say to me, Henry, you'd rather discuss it first and send it over to him later, I'll do anyway you suggest.

H: No, it's all right to take it right up there and then we can follow up anytime.

H.M.Jr: Right. Well, I'm just leaving - normally I wouldn't do it that way but

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H: Yes, well that's all right.

H.M.Jr: but I want to make use of the chance of seeing him, and I'll tell him that I'm going to have Bell call on you and take it up with you.

H: All right, Henry.

H.M.Jr: Is that all right?

H: Yes, sir. I hope you have a fairly restful vacation.

H.M.Jr: Thank you so much.

H: Yeah.

H.M.Jr: Good-bye.

November 7, 1940

MEMORANDUM FOR THE PRESIDENT:

During the past few months the Treasury has been studying and discussing with the State Department and other interested agencies the extension to wider areas of the present system of exchange control, which has thus far been applied only to invaded countries of Europe and their nationals and colonies. It is my recommendation that exchange control be extended to all foreign countries.

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It is important to note that by the issuance from time to time of general licenses which may be modified or revoked, trade and financial transactions with certain countries or areas can go on substantially on the same basis as though no control applied to that country or area.

(2) Such control will be of significant help in dealing with propaganda and subversive activities. We have had extensive evidence in recent weeks of the withdrawal by the Axis powers of millions of dollars in United States currency and the shipment of such currency to Latin America. At present we have no effective means of controlling such action or even of obtaining adequate information as to the use of such funds.

(3) Protection and control of the assets in this country belonging to the invaded countries or their nationals necessitate

general exchange control because --

- (a) very large amounts of such assets in this country are nominally held in neutral names, particularly Swiss, and as a practical matter such assets have not been brought under control, and
- (b) large amounts of the assets of the invaded countries have come under the control of the aggressors who, either directly or through neutral countries, may sell such assets for dollar exchange.

(4) The existing control has been criticized on the ground of inconsistency. We control and restrict relief payments and other remittances to the invaded countries, but freely allow all remittances and payments to the aggressors. We have blocked certain of the invaded countries but not others, such as China, Poland, Czechoslovakia, Albania, etc.

(5) The census of all foreign-owned assets in the United States by countries and by individuals will furnish valuable information concerning foreign participation in American industry and other problems before us.

Almost every country in the world has some form of exchange control. Americans having assets abroad find their use of such assets greatly limited, in some cases to the point of virtual confiscation. Exchange control by this Government will put it in a better position to enforce and protect its claims and the claims of its citizens against foreign nations.

I am satisfied that extension of exchange control is an important, if not a vital, element of our defense program, and would be well received in this country.

I am sending a copy of this memorandum to Secretary Hull.

November 7, 1940

My dear Cordell:

In view of my going away on a holiday and the seriousness of the situation, I am leaving with the President a memorandum on exchange control.

Mr. Bell would like to discuss this matter with you at your earliest convenience.

Yours sincerely,

Honorable Cordell Hull,
Secretary of State.

November 7, 1940

My dear Cordell:

In view of my going away on a holiday and the seriousness of the situation, I am leaving with the President a memorandum on exchange control.

Mr. Bell would like to discuss this matter with you at your earliest convenience.

Yours sincerely,

Honorable Cordell Hall,
Secretary of State.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I have not initialed the draft letter to the President recommending the extension of our control to all foreign countries. Taking advantage of your suggestion made at the Staff Meeting yesterday to the effect that anyone who might not be in agreement with the letter as drafted by our Group was free to submit a minority recommendation, I beg to submit the following points:

1. Since the matter of extending our control to non-invaded countries is, in my mind, a matter of major foreign policy, the question should be discussed fully between the Treasury and State Departments before any recommendation is made to the President. At the meeting held in Secretary Hull's office on October 8 arrangements were provided for a committee drawn from the two departments which would study this very question of extending the control. The Treasury has not suggested that such a committee meet, and has not asked Mr. Hull to call the committee. In the absence of such action, it seems improper to me for the Treasury Department to submit directly to the President a separate recommendation so importantly affecting State Department policy.

2. I am not convinced that our Foreign Funds Control as presently constituted is equipped to check effectively the utilization in this country of funds for subversive activities. Extending the control to cover all countries of the world might permit our Control to acquire certain leads, but some other agency would still have to be depended upon to follow up these leads. The job is one of domestic policing, rather than one of control of foreign exchange. To reduce the likelihood of foreign governments spending money for propaganda in this country, I think we should ask the Department of Justice to draft legislation toward that end, rather than set in motion such a ponderous and dangerous weapon as that which we are now considering.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£28,000
Purchased from commercial concerns	£12,000

Open market sterling remained at 4.04 until late in the day. It closed at 4.04-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£12,000
Purchased from commercial concerns	-0-

Continuing its improvement, the Argentine free peso advanced to .2360 at the close. Last week's closing rate was .2335.

The other currencies closed as follows:

Canadian dollar	13-1/8% discount
Swiss franc	.2321-1/2
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	9-1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

No gold or silver prices were received from India today. According to one New York bank, the Bombay bullion market is extremely sensitive to India's political situation, and even minor developments often result in a suspension of trading.

In London, the prices fixed for spot and forward silver were both 1/16d higher, at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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

We made three purchases of silver totaling 150,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

RE BRITISH PURCHASING PROGRAM

November 7, 1940
11:00 a.m.

Present: Mr. Knudsen
Mr. Young
Mr. Knox
Admiral Towers
Mr. Cox
Mr. Stimson
Mr. Palmer
Mr. Marshall
Mrs Klotz

- H.M.Jr: Well, I just had a press conference and I thought I might as well let them know the worst. They wanted to know about the debt limit, so I said it would have to go to somewhere from 60 to 65 billion, and then they said - I said that was to June 30, '42, and then I made a remark which they didn't pick up. I said, "We have just started our National Defense."
- Knox: That is the down payment.
- H.M.Jr: And instead of the boys coming back and saying, "What do you mean, just started? Are you going to ask for more money?" - then I would have been on the spot. But we have got to get the debt increased from 15 to 20 billion if I am going to raise the money.
- Knox: Henry, have you seen this last Harper's Monthly?
- H.M.Jr: No.
- Knox: Do you know a fellow named Guy Grier? I wish you would get that and read it, the first article in it, "How Are We Going to Pay For It?" He has got something, that fellow has.
- H.M.Jr: I will take it with me.
- Knudsen: Aren't you pretty nearly ready to get the

- 2 -

people to put some money in this stuff?

H.M.Jr: You mean --

Knudsen: The common people.

H.M.Jr: We are doing that through our baby bonds, you know.

Knudsen: You ought to have a Defense bond.

H.M.Jr: What I am going to ask Congress for is to give me more leeway on my baby bonds.

Knudsen: But you ought to get it hooked up with the Defense.

H.M.Jr: I agree with you. Now, there are four billion there which we are starting to sell bills on tomorrow.

Knudsen: The common people don't understand it.

H.M.Jr: Because they will sell them in lots of 25 million. The banks will buy them up. But I agree with you that we ought to have something that a fellow feels, well, if he buys a hundred dollar certificate or a five dollar stamp through the Post Office --

Knudsen: Forty cents.

H.M.Jr: I agree.

Knox: Yes.

H.M.Jr: Something that will have a gun and an airplane and a boat on it, stamps, through the Post Office, like we used to.

Knudsen: A little sunshine.

- 3 -

H.M.Jr: Rising sun. We are asking for permission to do what we want within the baby bond limits and then we can do it that way, but my hands are tied now.

(Stimson, Marshall and Palmer entered the conference)

Knudsen: It is good economics.

H.M.Jr: I would like to talk to you about it more.

Well, gentlemen, I have asked to impose upon your good nature once more before I go and the Navy is going to see that I stay away for at least a couple of weeks.

Knox: Longer than that; three weeks. (Laughter)

Stimson: You think the effect of your announcement is going to be an explosion that will send you off into some happy country?

H.M.Jr: I have got one that I am laying at the President's desk at lunch which is an explosion, but that is something else again. In the room, I am asking him whether he won't please approve complete exchange control, because we cannot be responsible for the monies that are being spent in this country by Germany and Italy and the money they are taking out, down to Brazil particularly, unless we have complete exchange control so we cover every transaction. I cannot do it.

Knox: You are right. They picked up two million dollars down in Mexico today.

H.M.Jr: We are picking it up every day. We have got to have the authority to control both the currencies in any financial transaction.

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They know it is coming and they are rushing this money down to Brazil to get it out of the country, in currency. You know, we picked up this Italian, you know.

- Knox: Yes, with two million dollars. What was that, in currency?
- H.M.Jr: In currency, dollar bills. It was used by --
- Stimson: It was Italian property.
- H.M.Jr: It was this Count. He is from the Embassy here. He met a fellow down there in Mexico. Isn't that the story?
- Klotz: Yes.
- Knox: We had to give it back to him, that is the worst of it.
- H.M.Jr: Well, what I wanted to ask was this, to bring to your attention. Along the lines that I was talking last night, there are a number of planes, bombers, being made in our factories now where the English are not getting any part of that production, and in my most humble manner - very humble --
- Stimson: You have discovered some property that the British haven't yet got?
- H.M.Jr: And we will take the most difficult one first and that is Boeing four-engine bombers. After the first 42 will be delivered, which I understand will be in a couple of months, they are delivering about 20 a month now, we then get into a really good bomber --
- Knudsen: Don't we - is that a month?
- H.M.Jr: Brett said they were going to do 21 a month,

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B-17's. That is what Brett said. Am I right?
Isn't that what Brett said?

Knudsen:

Yes.

H.M.Jr:

He said they did 17 in October and they will
do 20 this month.

Cox:

That is right, he said they only expected
seven and had gotten 17 and were expecting
20 now.

Knudsen:

I thought 10 would be a fair expectancy.

H.M.Jr:

He said they delivered 17 in October and he
thinks they will do 20 this month.

Knudsen:

That is a bonus.

H.M.Jr:

I know. Whatever it is, after those 42 are
delivered, which I think are called - I don't
know what the initial is, but the next lot,
of which you have 500 on order, are really
good and the thing that I am suggesting is
that every one of these bombers, lock, stock
and barrel, just the way we did the destroyers,
that is, bomb sight, ammunition and bombs,
enough for three months, be sold to the British.
Also some of the Martin B-26's and some of
the North American bombers.

Stimson:

I am only struggling for breath, that is all,
for the moment, but --

H.M.Jr:

Well, General Brett last night --

Stimson:

Owing to the trip which I had to make very
early this morning to the station, and owing
to the departure of Judge Patterson, who I
asked to go to this and to report to me but
who didn't report to me, this is the first

- 6 -

announcement. I have only just had your announcement of this this morning, just about 20 minutes before I came.

Now, I have got to have some time to think about it.

H.M.Jr: Well, I want to lay it in your very generous lap, generous not in proportions but in what you have produced. (Laughter)

Stimson: You see, I can still cross my legs.

Knox: What bomb sight is in these planes?

H.M.Jr: Yours.

Knox: The Norden?

H.M.Jr: Yes.

Knox: Then you have got to get a clearance from the President anyway.

H.M.Jr: Yes. Well, all I can do is bring it as a suppliant to your attention, and then if you decide to recommend it --

Knudsen: What happens, you let the British give an order to the airplane company and that takes priority.

H.M.Jr: In the Boeing --

Knudsen: You haven't got anything new?

H.M.Jr: No, they place an order.

Stimson: I don't know - I haven't any time to discuss it. I just got General Marshall from another conference in your (Knox) office.

- 7 -

Knox: It wasn't a conference. I am glad he is out of there.

Stimson: At 14 minutes before the hour I was due here, so he and I have had no conference about this at all, but I think - what I mean, I can only give you my general principle. We are getting along to a situation where we have got to probably fall back on the power of the Commander-in-Chief to - and not upon, perhaps, artificial interpretations of statute, and to do that we have got to put ourselves in a position where we can advise the Commander-in-Chief of the military question of whether or not we can take a certain chance in order to give the British another chance. That is what it always comes back to in my mind, whether the property in question is going to be more useful to the defense of the United States across the Atlantic or here, and that is a military question on which the Chief of Staff, in military affairs, is the adviser of the President.

H.M.Jr: I appreciate that.

Stimson: Now, I think it is a good deal better to go through - it is such a big question and it is becoming so important and the crisis is coming so near now, comparatively, next spring, that I believe that we have got to do it as a broad matter of policy if we do it at all, rather than a question of statutory interpretation. In some cases we may be within the statute and in some cases I think we may not.

H.M.Jr: Might I interrupt you there? I was thinking along these lines. The bombers I am talking about are ones which will be coming into production along in November or December or

- 8 -

January, somewhere in along there. I mean somewhere they will come in --

- Stimson: I heard the same thing that Mr. Knudsen said. I heard, I think late last night or this morning, that the B-17's had been very much speeded up.
- H.M.Jr: And I was thinking in this term, that if the Chief of Staff would say that in his opinion he would consider it important from a strategic standpoint to have these bombers in the hands of the English in January, February, March, so we can get ready, rather than to do this thing, I would ask for special authority from Congress. Tell Congress what we want and ask Congress - we want to release so many of these bombers with complete equipment with the bomb sights, with the machine guns, with the ammunition and the bombs. Now, here is the bill of goods.
- Stimson: That would be infinitely better than to --
- H.M.Jr: And get it. Now, after all, even Mr. Willkie in his dying gasp yesterday on the radio said he wants to help England, so it seems to be unanimous.
- Stimson: Well, I think it is a much more frank way to do.
- H.M.Jr: That is the way I would like to see it done.
- Stimson: Than to try to bring it under a statute which was intended to mean something else.
- Knudsen: While we are doing this, is there any way to get that engine question settled that we started to settle on July 23, and it is not settled yet?

- 9 -

- H.H.Jr: Well, Mr. Knudsen, you have the unfortunate quality of remembering particular dates which are embarrassing.
- Knudsen: Well, it was a letter day as far as I was concerned, because we sat down and made a program.
- Stimson: Which engines were these?
- Knudsen: We were going to pool the engines and every plane in the United States was going to have an engine before we shipped any engines out of here, and it was finally twisted around that we were going to wait until we found out how many engines we wanted for British planes in England, you see, and it is still sort of vague.
- H.H.Jr: Well, didn't it work out satisfactorily in connection with the Boeings? I mean, didn't the Army get the number of --
- Knudsen: Yes, we got them; we went and took them.
- H.H.Jr: Haven't you got a committee on that?
- Knudsen: No.
- Towers: Yes, sir. That is pretty well straightened out, Mr. Knudsen.
- H.H.Jr: I thought it was.
- Knudsen: Well, I had Mead in last night and he said it isn't straightened out. Ever so often the rate - the latest one is, they want to get 1200 engines over in England on speculation.
- H.H.Jr: Do you know anything about that, Phil?

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- Young: No, I haven't heard anything about that.
- Knudsen: That is the latest one.
- Towers: We have had a committee. I am unfortunately the chairman of the committee that is - had a working committee that has been handling this matter daily as these things came up and then meeting as frequently as we could. The full committee passed on the recommendations of the working committee and put it into effect.
- Knudsen: I would like to have the understanding that if we have a plane and there is an engine, that the engine goes in the plane on this side.
- H.M.Jr: Well, is that the understanding?
- Knudsen: That is what the papers say.
- Young: Engines are now being exported for British frames.
- Knudsen: Yes.
- H.M.Jr: But the point - as I get it, what Mr. Knudsen says --
- Knudsen: I don't care if we have them to spare, but as long as we have got a plane that hasn't got an engine, we ought to have the right to take the engine, whether it is for export or not.
- H.M.Jr: Isn't that taken up with your committee?
- Towers: Yes, sir. We have been balancing the needs.
- H.M.Jr: Is it working all right?

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- Towers: I think so. Captain Kraus and Mead were both members of that committee. Mead has now been replaced by Meigs. Lombard attends all the meetings.
- Knudsen: Well, it is fresh in my mind. I worked with him last night.
- H.M.Jr: Well, would you mind --
- Knudsen: No, that is all.
- Towers: I will take it up with Mead and find out just exactly what is worrying him.
- H.M.Jr: Are you having any trouble with the English?
- Towers: No. Of course, there are minor arguments, there is a lot of give and take, but they are accepting the decisions. Fairey is a member of the committee and their Commodore Baker is a member of it.
- H.M.Jr: Are you a member?
- Young: Yes.
- Winson: Was it, as stated by Mr. Knudsen, that all our requirements were to be satisfied first?
- Towers: Not quite. We had no such directive in our precept. There has been a great deal of swapping of engines, as you know. The British gave up their rights on these engines and in turn maybe for planes that have been manufactured for the Swedish Government. There has been - I don't know how many cases before this committee and if it isn't functioning properly, certainly your representatives haven't had anything to say about it.
- Knudsen: We would like to have this understanding, that

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we are perfectly willing to ship engines to Great Britain if they are surplus, but as long as we have got a plane here that wants an engine and we haven't got any engines for that plane, that engine isn't going to go abroad.

- Towers: We have no such recommendation as that. The British bought these engines. They paid for the expansion of the plant in which they are being manufactured and they have certain inherent rights there.
- H.M.Jr: Well, if he (Towers) is chairman of this committee, couldn't George Mead see him?
- Knudsen: Yes.
- Towers: George Mead, up until a few days ago, was a member of the committee. In fact, he is still officially a member of the committee.
- Knox: Is Meigs taking his place now?
- Knudsen: Yes.
- Knox: Is Mead still here?
- Knudsen: He is going to help me on the bombers.
- Knox: Who, Meigs?
- Knudsen: No, Mead. Meigs is going to take up airplane production.
- H.M.Jr: Well, would you be willing to volunteer, Harry Stimson, to take this on inasmuch as it is all Army stuff?
- Stimson: I would rather not. I have just gotten off my shoulders the Layton matter.

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H.M.Jr: You did a beautiful job. Won't you take this on?

Stimson: It really belongs to Patterson.

H.M.Jr: Well, I meant - would you issue the instructions?

Stimson: I would be glad to do it except that I am awfully crowded with other work.

H.M.Jr: I didn't state it correctly. Would you be willing to say that the Army will carry the ball up to the point that they will say yes or no on this thing to the President? Would you designate somebody? X

Stimson: The thing that you are speaking about now?

H.M.Jr: Yes.

Stimson: You mean - you have left it --

H.M.Jr: Yes, I have left that now.

Stimson: Oh, I beg your pardon. I thought you meant the thing with Admiral Towers.

H.M.Jr: No, I have left that and come back to the thing I asked for a chance to see you people about, this thing, are we going to let some of our -- X

Stimson: What is the shape or way in which this thing has come up? The only thing that I have known about it, so to speak, my summons and complaint was a request to come to this meeting, which I got yesterday. Now, have the British made a request or --

H.M.Jr: No.

Stimson: What - I mean, what is the ball?

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H.M.Jr: The ball --

Stimson: That you ask me to carry.

H.M.Jr: The ball is this: Do we, in our policy of more aid to England, want to make it possible for them to get some of these very new, latest bombers which are going to be manufactured between now and the first of July, of which they have none on order, and give them every other one of these, with the equipment that goes with them?

Knudsen: And that is in addition to the present allotment.

H.M.Jr: Yes, sir.

Knox: And the question that makes it different from the others is that we are going to completely equip these with bomb sights and guns.

H.M.Jr: And ammunition and bombs.

Knox: In other words, we are going to throw the present statute out of the window and ask for a new one.

H.M.Jr: Whatever is necessary.

Knox: We will have to do it legally.

Stimson: Are these all supposed to be Army bombers?

H.M.Jr: They have to be.

Stimson: The Navy isn't --

Towers: The Navy has no large land plane bombers.

Knox: What did you say, Admiral?

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- Towers: The Navy has no land planes except those that operate from the carriers and operate - are operated by the Marines. There is no place in our picture for these bombers.
- Stimson: The British don't feel that sea planes would do them any good?
- H.M.Jr: Well, we have done a job on the sea planes. We are getting from Consolidated - I mean, we are getting everything that even I was willing to ask for.
- Marshall: The implication is that you didn't get a good bid from the Army, is it?
- H.M.Jr: Didn't ask for enough. The Army has been all right, but we didn't ask for enough.
- Knox: You said in your remarks, Henry, we have got to decide as a general policy whether the use of these bombers by the English are more effective for our defense than if we keep them for ourselves.
- H.M.Jr: Where they are going to do the most good.
- Stimson: Of course, if it relates only to Army bombers, it is my baby.
- H.M.Jr: I thought so, but you know that better than I do. But I don't want to go away this afternoon without your saying, "Henry, I won't touch it," or "I will take it on. I will give it to Bob Patterson," or "I will give it to General Marshall," or "I will do it myself."
- Stimson: Well, we haven't acted --
- H.M.Jr: No, I have got no complaint.

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- Stimson:badly in the past, I think. But this is a question which is a very serious question, as you must know.
- Knudsen: Can we do this, Mr. Secretary, can we reduce our American requirements for a certain period by one half?
- Stimson: Of this particular kind of claim?
- Knudsen: Yes, four-motored bombers.
- Marshall: Well, the determining factor, it seems to me, is this: how far dare we go in limiting ourselves? How far dare we speculate? That is the whole issue. Then, having arrived at that, how are we going to put it across, what is the modus operandi of going through the transaction? We have just completed one on the 26th of these big planes.
- Knox: Why do we have to decide this now, Henry?
- Stimson: We don't have to now.
- Knox: He wants to start it now. We can't get any of these ships to them before next March, can we?
- H.M.Jr: Oh yes, you can. The stuff all just begins to come into production in November or December.
- Stimson: You see hitherto, Frank, we have been dealing in deferment of orders. Now the British need some more planes and the only big land planes, of course, are our Army planes, of which we have some 60 or 70 now.
- Knox: New ones?
- Stimson: No, I mean the ones we had right along, and then the new ones that are coming in at an

- 17 -

accelerated rate.

- Knox: You put a certain point - after they had 42 more new ones, how long will it take to get those 42 more new ones?
- H.M.Jr: According to General Brett, at the rate they are going it will take them two to two and a half months.
- Knox: That would be sometime in January.
- Knudsen: January first.
- H.M.Jr: And then this North American bomber is coming off rather soon and so is this Martin B-26. They are all coming and the - we will say, "Well, we have started."
- Knudsen: But the English have got some on order.
- H.M.Jr: But the American one is different.
- Knudsen: The B-25, we haven't any of. The B-26, we have got 300.
- H.M.Jr: But the Army has a lot of bombers coming out of Martin very soon now, which is a heavier bomber than the English one. I think I am right.
- Marshall: It carries 2,000 pounds of bombs.
- Knudsen: We gave the British clearance on 300 B-26's just the other day.
- H.M.Jr: But that is orders. The stuff I am talking of --
- Knudsen: You don't need any modus operandi on Martin. You have got the orders in there.

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- H.M.Jr: Well, I don't know.
- Knox: How about the guns and equipment?
- H.M.Jr: The other thing you ask, if you gave them a four-engine bomber tomorrow, how long would it take them to train a crew so they could operate one of those things if they had one?
- Towers: It would take only a matter of days if they used personnel that were experienced in handling twin-engine bombers.
- Knudsen: If you took them off their own?
- Towers: Yes.
- H.M.Jr: But Frank, if you said today - that is what I want to do, to get the thing started until you get - if General Marshall decides that he can't, well, if he can't, all right. If he can't, we will forget about it, but if he can, can he get the legal papers and we will have to get authority from Congress. How long does the destroyer thing take, three months?
- Knox: Yes.
- H.M.Jr: If we did this thing in a month --
- Knox: Part of that delay was due to the English.
- H.M.Jr: If this thing was done in a month, it would be quick.
- Knox: Well, I think you are asking for a decision as to general policy that the War Department would be reluctant, I suspect, to make. They could only put it up to the President.
- H.M.Jr: And you have got to decide on the Norden bomb sight.

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Knox: I am ready to talk to the President any time. I know Harry is, too. We have both avoided discussion of it until now.

Stimson: The point is, what I think both General Marshall and I tried to present in language just a moment ago, it is a question of military policy of the most difficult kind. It involves so much guess work. We have to advise the President, or he will have to advise the President, so that the President can thereafter act on it.

Marshall: Might I ask a question here? It is a continuation of what Colonel Stimson spoke of. We have just had a discussion of this. I have had an analysis made. Out of that came the proposal of this 26 Consolidated four-engine bombers. That has been adjusted in the last 24 hours when they got the final decision that the thing was a go. That was a calculation that was in relation to the development of our squadrons, what we didn't have, what we thought we must have for our own security. Just as that is finished, this new one comes in. The Secretary was asking, where does this come from, is this our side or the British --

H.M.Jr: Me.

Marshall: Edging in still further?

H.M.Jr: It is me.

Marshall: That is what I wanted to get at, because we have just analyzed this whole thing on how far we dare go, and just as a settlement is reached we are out again, so I want to be pretty certain on how we start the thing.

H.M.Jr: I am the fellow.

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- Marshall: I am in agreement we have got to do everything we can to help the British, so long as we don't hurt ourselves.
- Knox: There is another question of whether the British will be able to hold out without us. A couple of months and we will be able to know a lot more about it than we do now.
- Marshall: I didn't quite understand you, Mr. Secretary.
- Knox: I say in the next couple of months we will have far more information as to whether the British are going to hold out without us, and if we are going to get in it has a direct bearing on this question, doesn't it? You would rather operate the bombers yourselves than have the British operate them, wouldn't you?
- Marshall: Yes, and as Mr. Knox says, the timing comes into it. We can go right ahead and go through all our figures and our delivery rates and the status of our affairs and measure that against the international possibilities, which is an estimate, and that has to do with the State Department, too, and measure the Japanese hazards and see if we can still do still more than we have already done and on what terms. I think the method is almost a secondary consideration.
- The first thing is to determine what we might do. After we get through that, then it is a question of whether the Commander-in-Chief orders it and ignores the present legal prescription, or whether you go into Congress as a state question to take it up there, but I think that is all secondary to the first phase of this thing.
- Stimson: It is all interwoven into the general picture of this situation in which both Great Britain

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and ourselves are involved.

Knox: We can do it if we want to. The only question is why.

H.M.Jr: I think it is popular. I am not saying - I think it is, but I can't decide anything. All I can do is to bring it to your attention, mention it at lunch to the President that we had this meeting and that Mr. Stimson and General Marshall --

Stimson: Has the President had it under consideration?

H.M.Jr: I mentioned it to him on Monday to find out how - if this was agreeable to him, that I start this thing, and he said it was agreeable that I take it up with you people, but he hasn't committed himself, but having taken it up, I wanted to know whether it was agreeable to him that I take it up and he said yes, by all means. He said - his answer was, "I think it is about time we got on that one-and-one basis." But he isn't committed --

Stimson: He isn't familiar with these --

H.M.Jr: All he is committed to is, it was all right with him that I talk to you gentlemen about it.

Stimson: And then I mean, in considering the second question, the question beyond that, the question which we have got to guess at, the question of how the British are going to use those bombers and how effectively, there are lots of considerations in which I think we ought to have an opportunity in time to have assurances through the State Department which would satisfy our military men of how they are going to be used.

- 22 -

This is a thing that is brought to my mind by something I haven't even had a chance to discuss with General Marshall but which I have had a chance to discuss with people in the State Department. It isn't a question of saying we are safe in doing this or we are not, on what we know here. It depends in great part on how the British are going to use those things and where they are going to use them and whether or not they use them in that way, as to whether it will be safe or not.

H.M.Jr: Safe?

Stimson: For us.

H.M.Jr: There is an English officer coming over here by the name of Slesser, who is in the operation end of the Air Ministry. He is one of the ablest men. I would like, while I am gone, if Philip Young could bring him to you (Stimson) and then see that he has an opportunity to meet --

Stimson: Slesser?

H.M.Jr: Yes. He is one of the ablest people they have got.

Stimson: He is on his way here?

H.M.Jr: He got - the ship he was on got as far as Horta, and they turned around and took him back to Lisbon. He is one of the ablest men on the operations end they have. He is an outstanding officer. If he would have an opportunity - what he wants to do is see what is the latest stuff we have got, and I understand he can make a contribution from experience. They say he is one of the ablest men.

- 26 -

- Stimson: Is he able on the procurement side or the operations side?
- H.M.Jr: On the operations. If he could be given an opportunity to --
- Stimson: Well, I agree with you, Mr. Secretary, that this is a very important matter, one of the most important that can be brought up, and as I look at it, I think what we have got to do is to be sure that we not only have the sufficient time to do it but we have sufficient - I mean, the thing should be drawn together. There is a great danger of a decision by the Navy by itself or a decision by the Army by itself or a decision of the Treasury by itself or a decision by the State Department by itself. Now, we may have to go further than that. As Knox suggests, we will know a good deal more about the British in due course, but there may be other ways of accelerating that knowledge.
- Now, all I say is, it is a question which in my opinion and from my study goes to the very basic roots of this country's problem, facing it in a great war.
- H.M.Jr: I realize it is important. I mean, I realize it is only second in importance to the one that I have scheduled in December when Sir Frederick Phillips arrives here with the latest information as to their financial position.
- Knox: That will be a headache.
- H.M.Jr: Yes. I thought I would go away on a holiday before I saw him.
- Stimson: Who is this?

- 27 -

H.M. Jr: Sir Frederick Phillips. He is the present Under Secretary of the Treasury.

Stimson: He was here in July.

Knox: I hope he is more loquacious than he was then. He can say fewer words than anybody I know.

Knudsen, what is the possibility of stepping up the speed of production? Are they working three shifts a day in all these airplane factories?

Knudsen: They are working in some of them, but in most of them they are only working in two shifts because we haven't got executives enough to go around.

Knox: How can we promote higher production, get pressure on them, out of what we now have in producing facilities to get more ships?

Knudsen: The best thing to do is to work them seven days a week, three shifts.

Knox: Why don't we go at that?

Knudsen: We are going at it.

Knox: Are we?

Knudsen: Yes.

Knox: Have we any prospects of success?

Knudsen: I don't know. We can try.

Stimson: Is Boeing working on three shifts?

Knudsen: Boeing is working two ten-hour shifts and Douglas is working three eight-hour shifts.

- 28 -

- Stimson: Is Consolidated going into that?
- Towers: Two ten-hour shifts and --
- Knudsen: We can either let them go --
- Towers: They are working a third shift on engineering.
- Knudsen: We can either let them go two ten-hour shifts for seven days, or three eight-hour shifts for seven days. It is a case we ought to get some more out of them.
- Knox: Yes. I think now that the damn election is out of the way and political pressure is off, we ought to do everything we can. I am going to do it in the Navy Yards. I am going to get all the possible production I can out of them every week.
- Stimson: Unfortunately, we haven't got any ship yards for airplanes.
- Knox: They raise the question now, are we getting maximum production on what we have.
- Knudsen: They all say as soon as they get executives they will put three shifts on. You see, now, you haven't got enough foremen. You have got the place filled up with men, and if they haven't any foremen, you just have the men in there and don't get anything done, so as fast as we can develop that, that is what we will have to do, but in the meantime, I thought I would ask President Roosevelt if there is any objection to putting it on a seven-day basis, or at least a six-day basis. It is more hours and we pay for them, and that is all there is to that.
- Stimson: Where do you go to get executives?

- 29 -

- Knudsen: We train them. In other words, we take a certain key man on a bench and make a foreman out of him. It takes a little while to do it, 30 or 60 days, but you remember how we have jumped the men in the plant in the last 60 days.
- Stimson: That means, in other words, each plant or each contractor will undertake the job of training his own men?
- Knudsen: He does that, yes. Now, Curtiss at Buffalo works three shifts.
- Knox: How did they get their executives?
- Knudsen: They train them. That is what you will have when you get the other three plants. You will have a problem there. They are now training in their own plant people to handle the second, third and fourth ones.
- Stimson: You are going to be gone --
- H.M.Jr: I hope three weeks.
- Stimson: That takes away my right hand helper in regard to this job you were talking about because I want to have some way of getting at people that I don't have facilities to get at.
- H.M.Jr: You will do pretty well.
- Knox: The President is going away too, isn't he? He told me he wanted a cruiser.
- H.M.Jr: When did he say that?
- Knox: Before election.
- H.M.Jr: Since Monday?

- 30 -

- Knox: No, at the last Cabinet meeting.
- H.M.Jr: I don't think he is going away before the 21st.
- Knox: 21st of November?
- H.M.Jr: Yes.
- Knox: That might have been what he meant.
- Stimson: When is he going, then, and for how long?
- H.M.Jr: He spoke of only a week or ten days.
- Knox: Is he going down and see that landing operation?
- H.M.Jr: What he said was, in the room here, he was going to stay in the Chesapeake Bay, he would not leave the Chesapeake Bay.
- Knox: Going fishing, is he?
- H.M.Jr: Well, just take the Potomac and go down there and stay in the Bay. That was Monday afternoon. He didn't think he would be further than that. I would like to bet, though, that if he finds some good fishing somewhere he may change his mind, but that is what he said Monday afternoon.
- Stimson: I don't see, then, that there is anything more. I have got to think up - General Marshall will have to do it, and then Frank, you and I have got to take something on this.
- Knox: One thing that I thought of while I was away, we haven't discussed with Leahy this matter of bases.
- Stimson: But after all, that is a question of administration.

- 31 -

It wouldn't take as much time, as I see it.

Knox:

Is that all you want of us, Henry?

Stimson:

I was going to say, my chief trouble is to get some steam under other departments, not yours (H.M.Jr's).

H.M.Jr:

That is all right.

Stimson:

You haven't got too much steam.

H.M.Jr:

Thank you. (Laughter)

November 7, 1940
12:00 noon

H.M.Jr: Hello.

Operator: Mr. Henderson.

H.M.Jr: Hello.

Leon
Henderson: Yes, Henry.

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

H: Pretty good - feeling better all the time.

H.M.Jr: Atta boy.

H: Every newspaper I read makes me feel better.

H.M.Jr: Leon, I don't know whether you've seen what I said about inflation or not - prices - but I hope that you'll like it - at the press conference. Hello?

H: Yeah.

H.M.Jr: I mean from our standpoint - what it would do to the Treasury.

H: Yeah.

H.M.Jr: The principal thing that I'm calling you up about is - Dan told me about his conference with you on steel. Hello?

H: Yeah.

H.M.Jr: And that the boys over there don't seem to want to do anything. I wondered if it would be helpful to you if I said something to the President about steel - or would you rather have me keep out of it?

H: Well, we've got two good surveys going on it we've forced a rechecking of the estimates and it wouldn't - Dan may have misunderstood me. I'm not clear from any of the statistics that have been brought to me that we've got a basis for making a fight and it has taken some time to get into line. I've got an

- 2 -

instinct and a hunch to go on that we're going to need more and now I expect it'll be another week before we've really perfected the figures.

H.M.Jr: I see.

H: If we need any help then, that would be the time to put it in but now you can't make a case.

H.M.Jr: I see. Then that's - that isn't - Dan must have misunderstood.

H: They are resisting but they've said that they've got enough and we can't prove that they haven't yet, and we've got several good fellows in there now who are really putting the pressure on the study and as I say, I'll know - I'm watching it pretty carefully myself.

H.M.Jr: O. K. Now the other thing - aluminum - domestic use.

H: Yeah.

H.M.Jr: From what I've seen they certainly ought to begin to curtail that.

H: Well, not in terms of the delivery dates on aluminum.

H.M.Jr: Well, I forget how much they use, for instance, for transmission of power. I'm perfectly amazed. Are you convinced there's enough aluminum for the planes?

H: Well, I'm convinced that they have as fast as they are going to need it. On the other hand, if we get a real big program - bigger than what is in sight now - we won't have the water power and therefore we'll probably have to curb domestically. I've got a man working on aluminum and magnesium now. I'll check with him again.

H.M.Jr: Well, I'm more worried about aluminum than I am anything else. If you put an order in

- 3 -

now, you can't get a delivery under twenty weeks. Did you know that?

H: For sheet?

H.M.Jr: For anything. For instance, the English place an order for some planes and they want to place an order for aluminum they can't - this was a week or ten days ago, it may be worse now - they won't promise them a delivery under twenty weeks.

H: Uh-huh.

H.M.Jr: Why that's terrible.

H: Twenty weeks, huh?

H.M.Jr: Twenty weeks.

H: Well, then I've - we discussed it the other day because you can pick up quite a bit just

H.M.Jr: Well, there's no argument about the twenty weeks. Everybody agrees that that is so, and I think that that's about fifteen weeks too long.

H: Yeah. Well, it's symptomatic of maybe an approaching worse condition.

H.M.Jr: Yes. I wish, Leon - I mean, the steel I don't know about. I'm convinced that the aluminum thing is right on us.

H: I'll step my fellows up on it today.

H.M.Jr: Would you?

H: Yeah.

H.M.Jr: Thank you so much.

H: All right.

H.M.Jr: Good-bye.

November 7, 1940
2:28 p.m.

H.M.Jr:a copy of that memorandum which I sent to Mr. Hull.

Daniel Bell: Oh, yeah.

H.M.Jr: I spoke to Mr. Hull on the phone and he asked me what he should do about it and I said just to hold it. See?

B: Yeah.

H.M.Jr: And that you'd get hold of - hello?

B: Yes.

H.M.Jr: That you'd get after Mr. Hull and see that the thing went through.

B: I see.

H.M.Jr: So the President has read it. He approves of it but he wants it to come through Mr. Hull.

B: Yeah, I see.

H.M.Jr: See?

B: All right.

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

B: Did you call Henderson?

H.M.Jr: Yes. Henderson said you got the thing wrong. He says he thinks there's plenty of steel and he's having two surveys and no reason why I should say anything to the President. So I went after him on aluminum.

B: I see. What did he say about that?

H.M.Jr: Well, he wasn't so sure on that.

B: Well - (laughs) - that was just our point that he seems so sure but he didn't convince us.

- 2 -

H.M.Jr: Well, keep after him. That's my answer.
B: O. K.
H.M.Jr: Keep after him.
B: All right. Have a good time.
H.M.Jr: Thank you.

DEPARTMENT OF STATE

Washington

In reply refer to
EA 851A.5151/4

November 7, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses herewith a copy of despatch no. 25188, dated October 24, 1940, from the American Vice Consul at St. Pierre-Miquelon.

Enclosure:

From St. Pierre-Miquelon,
October 24, 1940.

eh

COPY

C O P Y

In compliance with Department's memorandum dated October 1, 1940 transmitting a copy of a letter dated September 27, 1940 addressed to the Chief, Commercial Office, Department of State, by Chief, Financial Division, Department of Commerce.

REQUIRED

STRICTLY CONFIDENTIAL

EXCHANGE SITUATION IN ST. PIERRE-MIQUELON

From _____
Maurice Pasquet Vice Consul

St. Pierre-Miquelon.

Date of Completion: October 24, 1940.

Date of Mailing: October 24, 1940.

dm

- 1 -

Since the beginning of hostilities the islands of St. Pierre-Miquelon are entirely dependent on the United States and Canada for all supplies. Formerly, France was a large supplier but no ships have arrived from that country since the entry of the steamer Celte on May 23, 1940.

In August 1940 a credit of approximately United States \$80,000.-- was reported granted to St. Pierre-Miquelon by the United States under guarantee of the French gold in the United States and at the same time the Canadian government granted a credit of about Canadian \$50,000.-- guaranteed by French gold in that country or in the United States. Both of these credits are now exhausted and from September 27 to October 15 neither of the two banks operating locally were able to issue any checks in American or Canadian currency.

The Administrator, Gilbert de Bournat, made a trip to Canada and the United States during the early part of October and, upon his return, both banks resumed the issuance of Canadian currency checks based on a renewable monthly credit of 40,000 Canadian dollars allegedly obtained for an indefinite period. However the Administrator advised me that to date he had been unable to renew the American credit and consequently no United States currency checks can be issued to meet payments for orders already made or for future orders but that he hoped that any day he would receive advice from the French Embassy at Washington that a credit has been granted.

The current foreign exchange situation in these islands may be described as favorable for the purchase of Canadian goods owing to the existence of credits but unfavorable for the purchase of American goods until such time as the credits are renewed. If the United States holds security for the credits to be advanced it would be advisable to take immediate steps to renew such credits because certain American goods would be quickly replaced by Canadian goods and the market therefore would be lost.

dm

CONFIDENTIAL

The Administrator advises me that the needed monthly credits from the United States would be approximately United States \$20,000.— and in view of the strict control exercised locally over the granting of import licenses and the issuance of checks by the two local banks (La Banque des Iles St. Pierre et Miquelon and the Banque Pierre Andrieux) he was at a loss to understand why St. Pierre should be suspected and placed in the same category as two countries which he heard in Washington had been guilty of diverting to axis powers some of the credits allotted to them under a similar arrangement as exists for St. Pierre. Mr. de Bournat suggests that when the allotment of credits is made to the two correspondent banks in New York (The Guaranty Trust Company of New York and the Bank of Nova Scotia) that the Federal Reserve Bank of New York would be in a position to verify the checks drawn by the two local banks on their correspondents in New York. A further suggested means of verification might be to advise, through local importers, American exporters to attach a copy of their commercial invoices covering shipments to St. Pierre firms to the checks when they present these checks for collection. This latter procedure might obviate the necessity of having the local banks here apply for individual check licenses, as is done at present through their New York correspondents, thus shortening the unavoidable delay during which American exporters cannot but feel uncertain regarding the payment of the checks which they present for collection. Another possible reason for the delay of the renewal of American credits is that, according to Mrs. de Bournat's statement to my wife, the French Embassy at Washington insisted that the Administrator put into force a system of ration food tickets and possibly also monopolize banking as well as the purchase of merchandise through a government co-operative. To this proposal he is reported to have replied that they (French Embassy officials) did not know the St. Pierrais as he did and that he would rather resign than attempt to institute and enforce these restrictions which would certainly lead to public unrest. This situation would have been particularly difficult to handle at a time when there were at St. Pierre about 1400 French seamen of the French codfishing fleet most of whom have since left this port.

851.51

MP/ph.

Original and five copies to Department.

A true copy of the
signed original

(1) P.H.

Ministro de Hacienda de la Nación

Buenos Aires, November 7th., 1940.

The Honourable Henry Morgenthau,
Secretary of the Treasury,
WASHINGTON, D.C.

My dear Mr. Secretary:

It is a great pleasure for me to introduce to you, Mr. Raúl Prebisch, General Manager of the Banco Central de la República Argentina, who is traveling to the United States, as the representative of the Argentine Ministry of Finance, to handle negotiations which I would have greatly liked to undertake personally had I not been prevented from doing so by certain internal questions connected with my portfolio which for the moment demand my personal attention.

I have great confidence in the possibility of our two countries being able to come to mutually beneficial agreements, and I hope that the characteristic energy and efficiency of the Administration of which you, Mr. Secretary, are such an able and distinguished member will ensure the rapid achievement of such a result. If these negotiations are brought to a happy conclusion they will furnish a further proof of the good neighbour policy, from which this continent expects such great things.

I am firmly convinced that Mr. Prebisch will prove a worthy and efficient representative of our Government and that you will find it easy to work with him.

I remain, dear Mr. Secretary,

Yours very truly,



PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: November 7, 7 p.m.

NO. : 576

The Bank of Brazil has been informed by the Manager of Office of the Yokohama Specie Bank in Rio de Janeiro that the Yokohama Specie Bank would soon take steps to centralize all of its operations in dollar exchange in the Americas through the Bank of Brazil. One transaction amounting to \$500,000 has already been carried out in this manner.

The Bank of Brazil has also been approached by the Portuguese Government in an effort to enter into an agreement whereby the Bank of Brazil would be the agency which would carry out the Portuguese Government's foreign exchange operations in the Americas.

BURDETT

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C O P Y

COPY:EE:CJL

No. 139

Air Mail

AMERICAN CONSULATE

Kunming (Yunnanfu), China, November 7, 1940.

SUBJECT: Railway Conditions in Yunnan Province.

The Honorable

The Secretary of State,

Washington.

I have the honor to refer to my telegrams of September 17, 11 a.m. and September 19, 4 p.m., to the Embassy, Chungking, in regard to traffic conditions on the Yunnan-Indochina Railway, and to report that the removal of rails from the southern section of this line has now progressed to a point well above La-ba-ti, which is a division point 71 kilometers from the border at Hekow. The schedule calls for the tearing up of between 2 and 3 kilometers of rails per day, but work has apparently progressed at a slower rate than this. However, there has been no relaxation of efforts in this direction, and the eventual objective is said to be the destruction of the line so far as Kengtes-Fishichai, 178 kilometers from the border.

The road-bed itself is also being largely destroyed, it is reported. Several bridges have already been blown up in Yunnan,* and it is likely that all the more important bridges south of Kengtes (among which are those costing the greatest effort and engineering skill when the line was constructed) will in time be demolished.

Upon removal the rails are transported immediately to Kunming for use on the Yunnan-Lantsing section of the Yunnan-Szechwan Railway, construction on which is being rapidly pushed. Kutsing is an important highway junction and rail transport to that point will greatly facilitate shipments to the interior and assist in clearing Kunming of cargo. It is learned from the engineers in charge of this line (most of them American-trained) that track is being laid from Kunming northward at the rate of about a kilometer a day. Work to date has progressed to a point of about 40 kilometers distant from Kunming. It is stated that the topography of the country on this section is not as difficult for building as the remainder of the line to Szechwan,

fewer

*Kunming's telegram to the Embassy, Chungking,
Oct. 22, 4 p.m.

fewer tunnels and bridges being needed. Apparently the road-bed has already largely been completed. Construction may be expected to slow up, however, as it progresses from Kunming and the completion of this section by the end of the present year, as first contemplated, may not be accomplished. The line is already in local use as a means of daily evacuation of the population of Kunming; a freight service for evacuation of merchandise and personal effects for a distance of 30 kilometers from the city has now been instituted.

A prime difficulty encountered in using the iron rails from the Yunnan Railway has been the fact that most of them are curved. Local French Railway officials observed with some humor at the time that removal of rails from their line began that this curvature would make the rails useless for the building of a new line. However, the engineers of the Szechwan railway claim that a special method has been found (by Chinese workmen) for straightening the rails and that most of them can be used. Material is needed for approximately 120 of the 150 kilometers of the section being laid. Apparently the iron sleepers used by the French on the Yunnan Railway are not being transported to Kunming, as wooden sleepers are used on the new line, but it is not clear what disposition is to be made of the old ties.

The Yunnan-Szechwan Railway has a certain amount of rolling-stock in the province, to supplement which it can use stock of the Yunnan Railway as needed, the gauges of the two lines being the same. Coal can be obtained from the Iliang area, particularly at Ko-pao-tsun () about 60 kilometers below Kunming on the Yunnan Railway.

Most of the French nationals employed by the Yunnan Railway in the province are continuing to work with it under the new Chinese control. Night passenger train service was inaugurated around the middle of October owing to the threat of Japanese aerial attacks on the line. Passenger service extends, of course, only to the point where the rails end, the railway's responsibility for travel ceasing there. Passengers must then walk to Kokow-Laokat, arranging for coolie transportation of luggage at exorbitant rates. Passengers who made the trip on foot in two days when the gap was only 60 kilometers in length reported the journey as burdensome in the extreme. (The French Ambassador, who recently came to Kunming over the line, told local railway officials that the old caravan route Mengtsu-Mannao-Kokow was preferable for the lower section of the trip.)

Rushing of work on the southern end of the Yunnan-Szechwan Railway has resulted in a diversion of attention from the Yunnan-Burma Railway; indeed, it is understood that orders have gone out to curtail work on the latter line in favor of the Szechwan route. An American Chinese construction engineer on the Burma Railway recently informed the Consulate that of the seven sections of the eastern part of the Burma line (Kunming-Siangyun), work was being pushed only on the eastern three sections. The Chief Engineer of the Burma Railway, Tu Chen-yuan, recently received orders to proceed to Chungking for consultation and possible transfer of employment to the new

Seichang

-3-

Hsichang highway. According to present plans this road, which will be a cut-off to the interior of China from the Tali region, would leave the Burma highway at Hsiskwan, thence to Pingchwan, across the Kin Sha River to Yungsheng, thence to Hsichang (). Cooperation between the Ministry of Communications and the Yunnan Provincial High Administration is planned for the early completion of this route, which is regarded as necessary from a strategic viewpoint.

Respectfully yours,

TROY L. PERKINS,
American Consul.

TO THE SECRETARY
OF THE DEPARTMENT OF STATE
WASHINGTON, D. C.
DEC 10 10 10 AM '41
RECEIVED
GENERAL RECEIVED

In quintuplicate to the Department,
original and 2 copies by airmail.
Copy to Embassy, Peiping.
Copy to Embassy, Chungking.
Copy to Consulate General, Shanghai.

877
TLP:Epy

ATP

PLAIN

LONDON

Dated November 7, 1940

Rec'd 2:05 p.m.

Secretary of State,
Washington

3668 Seventh.

FOR TREASURY

(1) Both the gilt edge and ordinary shares quoted in the second paragraph of Embassy's 3462 of October 18 continue to rise, Government securities yesterday standing at 111.4 and ordinary shares at 67.9. Meanwhile the saving campaign yielded sterling 81.5 million for the period October 1 to 26 towards a deficit of sterling 206 million, the floating debt being increased by only sterling 125 million, whereas for September 1 to 30 savings yielded only sterling 60 million and the floating debt increased by sterling 167 million to meet a deficit of sterling 224 million. The halt in the increase in supply expenditure which occurred in October when the weekly average was sterling 68.4 million as compared with sterling 65.5 million in September was sharply reversed in the week ended November 2 when supply expenditure totalled

-2- 3668 November 7, 1940 from London

totalled sterling 89.1 million.

(2) Though conclusions from the index of retail sales are necessarily confused when compared to upsetting and seasonal trends, the figure for September indicates no special increase in the public's purchases and this trend coupled with improved savings is regarded as reassuring.

(3) There is, of course, no surprise in the announcement of financial assistance to Greece to meet her requirements in the sterling area with the initial loan of sterling 5 million. It is expected that purchases of Greek dried fruits and other products for immediate delivery from goods available in Egypt held by the United Kingdom Commercial Corporation will follow.

The particular concern is with physical delivery of needed armaments and supplies rather than finance.

(4) Two Treasury orders permit United Kingdom exports to Canada and Newfoundland to be paid for in sterling from Canadian authorized accounts (such accounts only to be opened with Bank of England permission) and payments to Philippines and certain other territories to be paid for in Philippine pesos. The names of the "other territories" will be obtained later.

JOHNSON

ALC

RDS

GRAY

LONDON

Dated November 7, 1940

Rec'd 6 p.m.

Secretary of State,
Washington.

3673, November 7, 11 p.m.

CONFIDENTIAL FOR TREASURY.

The British Treasury has communicated the following to bring up to date the payments agreements position discussed in Butterworth's 3291, October 2, 6 p.m. and 3340, October 8:

(1) The agreement with Chile will probably soon be signed, although there has been a slight delay for discussion on some point said not to be of much importance. There is still no de jure agreement with Peru.

Negotiations with Bolivia continue. The Bolivians have agreed to the British Treasury's proposal to set up special accounts for sterling outside of tin concentrates sterling.

Cuba is expected to enter the picture shortly. The United Kingdom might be able to buy more sugar there, and there are insurance interests involved. However, as indicated in 3291, the British Treasury will inform us before doing anything, in view of American interests.

Bank

-2- #3673, November 7, 11 p.m., from London.

Bank of England representative who has been in Chile is dealing with Colombia and Venezuela. The Venezuelan negotiations are being handled partly in London in view of difficulties experienced in Venezuela.

There is a small agreement on the way with Paraguay. This is linked up with the Argentine and would probably involve payment Paraguay's sterling into Argentine special accounts.

A multi-lateral arrangement is in contemplation with the Argentine--long in sterling, and Brazil--short, although one or the other does not know it yet.

The last annual report of the Argentine Central Bank contains what is described as a substantially accurate account of the Argentine agreement. There never has been a text of that agreement, by the way; as it was fixed by an exchange of telegrams.

The probable direction--although not yet settled policy--will be to eliminate free sterling from the American continent as a whole.

(2) As far as other parts of the world are concerned:

The British Treasury would not regret the elimination of the Swedish agreement, as it has cost too much gold.

The situation with Japan is unchanged, and the Japs

are

-3- #3673, November 7, 11 p.m., from London.

are now looking at a British text.

There were plans for an agreement with Yugoslavia, which would have been pleasant from the prestige viewpoint; but their failure to materialize is stated to mean little from other points of view.

Hungary's example is taken to show that the actual terms of agreement do not matter much, and that it is the use of the special accounts procedure that is important. The Hungarian Foreign Office, having turned down proposals for an agreement as not feasible politically, the Central Bank of Hungary promptly asked for information how to open special accounts and has done so.

(3) Referring to exchange rates, the Treasury indicated that--except in cases of countries like Greece, traditionally tied to sterling--the rates used are based on the appropriate dollar-sterling cross rates as starting points. Obviously they do not stop there in all cases and in this connection the Treasury noted another and broad aspect of "probable direction": from 45 different kinds of pounds in the various special accounts arrangements with countries with or without payments agreements, they hope eventually to reestablish the international nature of sterling. Peculiar as is the process used to approach such a result, and although they do not expect

a

-4- #3673, November 7, 11 p.m., from London.

a return of precisely the old status, they nevertheless regard the present stage as less Schachtian than appeared likely at first.

JOHNSON

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FEDERAL RESERVE BANK
OF NEW YORK

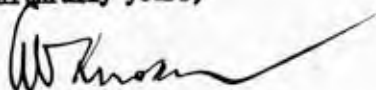
W. W. Cochran

November 7, 1940.

CONFIDENTIALDear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our weekly compilation, showing dollar disbursements out of the British and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoks,
Vice President.

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

Enclosure

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Oct. 30, 1940

Strictly
Confidential

PERIOD	BANK OF ENGLAND							BANK OF FRANCE							Net Incr. (+) or Deer. (-) in Balance	
	C R E D I T S				D E B I T S			C R E D I T S			D E B I T S					
	Total	Proceeds of Sales of Gold (Est.) (a)	Securities Registered (Sterling) (b)	Other (incl. adjust- ments) (c)	Total	Gov't Expend- itures (e)	Other	Total	Proceeds of Gold Sales	Other	Total	Gov't Expend- itures (d)	Other			
1932																
Aug. 31 - Sept. 27	207.8	185.4	33.6	-	-11.2(e)	94.3	3.8	90.7	+113.5	11.3	-	11.3	19.4	6.0	13.4	- 8.1
Sept. 28 - Nov. 1	142.0	3.2	82.6	-	86.2(f)	106.7	5.8	100.9	+ 35.5	76.2	35.0	41.2	88.6	61.8	105.4	- 12.4
Nov. 2 - 29	105.8	57.8	25.0	-	23.0	191.7	8.9	182.8	- 85.9	82.9	55.1	27.8	78.6	-	-	+ 4.3
Nov. 30 - Jan. 3	75.2	50.6	14.2	-	10.4	97.7	8.7	89.0	- 22.5	109.2	93.9	15.3	88.8	28.1	58.7	+ 22.4
1940																
Jan. 4 - 31	43.4	20.5	17.8	-	5.0(g)	54.8	16.8	38.0	- 11.4	55.9	50.1	5.8	61.5	31.5	30.0	- 5.6
Feb. 1 - 28	108.3	56.7	17.9	-	33.7	124.2	15.4	108.8	- 15.2	71.5	54.8	16.7	72.7	32.8	39.9	- 1.2
Feb. 29 - Apr. 3	94.0	60.9	21.5	-	11.6(h)	115.5	14.8	101.0	- 21.5	105.0	75.4	29.6	99.6	35.9	63.7	+ 5.4
Apr. 4 - May 1	86.4	46.8	13.4	-	26.2(i)	113.4	26.1	87.3	- 27.0	78.7	60.7	18.0	84.8	29.4	55.4	- 6.1
May 2 - 29	126.2	93.2	7.1	-	25.9	100.9	23.6	77.3	+ 25.3	145.4	126.2	19.2	101.4	57.0	44.4	+ 44.0
May 30 - July 3	319.3	301.3	5.1	-	12.9	283.2	145.3	137.9	+ 36.1	345.1(j)	335.6	9.5(j)	156.7(j)	127.5(j)	29.4	+188.4
July 5 - 31	225.0	212.2	2.0	2.6	8.0	249.7	156.7	93.0	- 24.7	3.2	3.0	0.2	7.3	6.3	1.0	- 4.1
Aug. 1 - 28	294.8	267.4	1.0	2.4	44.0(k)	261.1	180.2	80.9	+ 33.7	10.9	10.4	0.5	8.9	0.5	8.4	+ 2.0
First year of war	1,828.2	1,356.1	811.2	5.2	255.7	1,793.2	605.6	1,187.6	+ 35.0	1,095.3	900.2	195.1	866.3	416.6	449.7	+229.0
Aug. 29 - Oct. 2	308.9	271.5	6.0	1.1	30.3(l)	316.8	244.3	72.5	- 7.9	1.3	-	1.3	8.6	4.4	4.2	- 7.3
Oct. 3 - 30	198.5	160.5	6.0	0.3	31.7(m)	196.7	167.8	28.9	+ 1.8	0.5	-	0.5	0.5	0.3	0.2	-
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED:																
Oct. 9	59.2	48.9	2.0	0.2	8.1	52.4	44.1	8.3	+ 6.8	0.2	-	0.2	0.2	0.1	0.1	-
16	20.0	9.4	-	-	10.6	45.4	41.3	4.1	-25.4	0.2	-	0.2	0.2	0.1	0.1	-
23	61.3	52.1	2.0	0.1	7.1	58.3	50.9	7.4	+ 3.0	-	-	-	-	-	-	-
30	58.0	50.1	2.0	-	5.9(n)	40.6	31.5	9.1	+17.4	0.1	-	0.1	0.1	0.1	-	-

Average weekly expenditures since outbreak of war:
France (through June 19) \$19.6 million
England (through June 19) 27.6 million
England (since June 19) 60.4 million

Transfers from British Purchasing Commission to
Bank of Canada for French account:
Week ended October 30 \$0.1 million
Cumulation from July 26 79.4 million

(See footnotes on reverse side.)

- (a) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (b) Includes proceeds of sales of "registered" sterling in this market only.
- (c) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Includes adjustment for (a) above.
- (f) About \$26 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$9 million transferred from accounts of British authorized banks with New York banks.
- (i) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (j) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$3 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (n) \$1 million transferred from account of Royal Netherlands Government at this bank.

RECEIVED
 TECHNICAL ASSISTANT
 TO THE SECRETARY

840 NOV 9 AM 9 01

RECEIVED
 TREASURY DEPARTMENT

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 7, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

PERSONAL

Following instructions given to me after our Staff Meeting yesterday forenoon, I telephoned Mr. Pinsent in the British Embassy at 12:45 noon. I told him that Secretary Morgenthau would be arriving in Kingston on November 13, accompanied by his aide, Lieutenant-Commander McKay, and would be glad to accept the Governor General's invitation to spend that night at King's House. Furthermore, Mrs. Morgenthau would reach Kingston the following day and she and the Secretary would be pleased to spend the night of November 14 at the Governor General's. After that, however, the Secretary preferred to start looking around the island and not to have any definite commitments made as to plans or hotels. He would discuss such plans with the Governor General upon his arrival in Kingston. I added an expression of the Secretary's appreciation of the Governor General's invitation. Pinsent promised to have the message sent to Kingston at once.

As promised in the above-mentioned conversation yesterday, Mr. Malcolm of the British Embassy has today sent to me a letter of introduction from the British Charge d'Affaires here to the Governor General of Jamaica, which I have handed to Lieutenant-Commander McKay for the Secretary.



G-2/2657-220

RESTRICTEDM. I. D., W. D.
November 7, 1940.
12:00 M

No. 240.

SITUATION REPORT

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

I. Western Theater of War.

1. Air Force Operations.

The German Air Force stepped up the scale of its operations materially on the 6th. Daylight attacks were widespread over southern England and over adjacent waters. Southampton was attacked particularly heavily. Night activity centered over the London area and over unidentified industrial centers. The intensity of the attacks on London was high.

The Royal Air Force carried out normal night bombardments, attacking primarily oil refineries, factories, and rail junctions in Germany. Spandau, near Berlin, was raided.

II. Greek Theater of War.

1. Ground Operations.

The Italian communique of November 7 reports that on the Epirus front their troops have crossed the Kalamas River.

The Greek communique of the same date reports local Greek withdrawals in Epirus.

The lines on the Florina front appear to be stabilized.

2. Air Force Operations.

The Italian Air Force continued to attack ports and communications and to support ground troops on the Florina front. Cessation of attacks on Saloniki suggests that an adequate air defense has been established in that area.

III. Mediterranean and African Theaters of War.

1. There has been a hot local action at Gallabat, Sudan, which the British apparently are trying to recapture.

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2. The Italians report air fighting as occurring incident to the Gallabat operation. The R.A.F. raided Kassala in the Sudan and Bardia, Gar-el-Grein and Fort Maddalena along the Mediterranean coast.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE NOV 7 1940

TO Secretary Morgenthau
FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of October, 1940.

Attachment

Sub. 76

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
OCTOBER 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Income Tax - Second Revenue Act of 1940. The Second Revenue Act of 1940 was approved by the President on October 8, 1940. Regulations under that portion of the Act relating to amortization of war facilities were approved by the Secretary on October 23, 1940, as Treasury Decision 5016. A final draft of regulations under the "earnings and profits" provisions of the Act has been prepared and submitted for review. The Division is now concentrating on the development of further regulations under the Act, principally those relating to the excess profits tax provisions and those authorizing the filing of consolidated returns.
2. Income Tax - Non-taxable Reserves for Construction Permitted Under Amendment to Merchant Marine Act. The amendment to the Merchant Marine Act permitting a tax-free accumulation of replacement reserves, Public, No. 340, was approved by the President on October 10, 1940. The issuance of joint regulations for the administration of the provisions are provided for in the enactment. Consideration is now being given to the development of appropriate regulations.

- 2 -

3. Social Security - Comprehensive Amendment of Railroad Unemployment Insurance Act and Railroad Retirement Act of 1937. By virtue of Public, No. 833 (S. 3920), approved by the President on October 10, 1940, there was effected a comprehensive amendment of the Railroad Unemployment Insurance Act and the Railroad Retirement Act of 1937. Prior to the final enactment of the measure, there was eliminated from the bill the provision which would make decisions of the Railroad Retirement Board binding upon the Treasury Department.

4. Social Security - Extension of Time for Procuring Federal Credit Contributions to State Unemployment Funds. By virtue of section 701 of the Second Revenue Act of 1940, employers were given a further extension of time within which contributions may be made under State unemployment compensation laws and on the basis of a credit against Federal unemployment taxes for 1936, 1937, 1938, and 1939. Consideration is being given to the development of appropriate amendments of Regulations 90 so as to facilitate the administration of this recent enactment.

5. Income Tax - Soldiers' and Sailors' Civil Relief Act of 1940. On October 17, 1940, the President approved S. 4270, Public, No. 861, the Soldiers' and Sailors' Civil Relief Act of 1940. Section 513 of this Act requires deferment of the

- 3 -

collection of any tax on the income of any person engaged in the military service of the United States if the ability of such person to pay the tax is materially impaired by reason of such service.

6. Income and Other Taxes - Repeal of Various Provisions of Prior Acts Proposed by Committee on Revision of Laws. Consideration is being given to the occasion for and the possible consequences of a repeal of certain statutory provisions proposed by the House Committee on Revision of Laws in H.R. 9773, H.R. 9882, and H.R. 9947. The suggested repeal is proposed on the ground that the provisions involved are obsolete. A Treasury report on the bills requested by the Chairman of the Committee is now being prepared.

7. Income and Other Taxes - Code of Federal Regulations, 1939 Supplement. Galley proof of the 1939 Supplement to the Code of Federal Regulations has been checked and returned with corrections to the Treasury Archivist.

8. Vinson-Trammell Act - Suspension. There is being developed a Treasury decision prescribing regulations re the effect of section 401 of the Second Revenue Act of 1940 suspending the profit-limiting provisions of the Vinson-Trammell Act.

The handling of the above matters was supervised by G. E. Adams, Head, Legislation and Regulations Division.

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The following work was done under the supervision of Assistant General Counsel Cairns:

9. Treasury Control Over Credit Unions. This opinion, which was signed on October 1, 1940, was prepared by Mr. Feidler in answer to three questions raised by the Administrative Assistant to the Secretary. The opinion concludes (1) the Treasury Department has no supervision over Federal Credit Unions; (2) there are Department regulations which prohibit a superior officer from borrowing money from one of his subordinates and also prohibit, under certain circumstances, a subordinate from lending to a superior; (3) the Treasury Department cannot legally issue a circular prohibiting employees from executing notes to Credit Unions or others as co-makers.
10. Reinstatement of Government Employees Who Enter Military or Naval Service. This opinion, prepared by Mr. Wolf, was signed on October 1, 1940. It sets forth and summarizes the restoration provisions of section 3 of the Joint Resolution of August 27, 1940 (Pub. Res. No. 96, 76th Congress) and section 8 of the Selective Training and Service Act of 1940 (Pub., No. 733, 76th Congress).
11. Procurement--Submission of Invoices. This opinion, signed on October 1, 1940, was prepared originally by Mr. Davis of the Procurement legal section and was revised by Miss Goode. It is

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in answer to the question whether it is a violation of section 109 of the Criminal Code, which makes it an offense for a Government employee to assist in the prosecution of a claim against the United States, for field officers of the Procurement Division to send a form letter to contractors to whom the United States is indebted, informing them that submission of invoice is necessary to obtain payment. The opinion concludes that it is not a violation to send such a letter in the course of their official duties. However, the opinion suggests that it would be advisable to inform the Comptroller General that resumption of the practice of sending out letters is contemplated and suggests a new form.

12. Classification of Members of Processing Tax Board of Review.

This opinion was prepared by Mr. Plumb in answer to the question whether such members are exempt from classification by virtue of section 917 of Revenue Act of 1936. It was signed on October 15, 1940. The opinion concludes that the salaries of the members of the Board are not subject to the Classification Act of 1923.

13. British Purchase Tax. Messrs. Dwan and Smith of the Customs legal staff studied and approved a letter to the Secretary of State informing him that the proposed purchase tax of the United Kingdom would form a part of the foreign value of merchandise imported therefrom under existing tariff laws even though actually remitted in the case of exported goods. The most recent development on the matter is a Treasury Decision signed by Acting Secretary Gaston on

- 6 -

October 26, 1940, requiring that invoices covering merchandise subject to the purchase tax imposed by the British Finance (No. 2) Act, 1940, shipped to the United States from the United Kingdom shall set forth certain specific information with respect to each item of such merchandise. Mr. Dwan participated in the drafting of the Treasury Decision and in the discussion of it with a representative of the British Embassy.

13. Coffee Agreement. Mr. Dwan, Chief Counsel, Customs, and the Commissioner of Customs have had several discussions with representatives of the State Department on the proposed coffee agreement with certain South American countries for the purpose of indicating the type of provisions which would be desirable from the standpoint of customs administration.

14. Currency Conversion. Mr. Everett Smith represented the Chief Counsel's Office, Customs, in a conference between Treasury representatives (including Messrs. Cairns and Feidler) and officials of the Federal Reserve Bank of New York concerning the rate of exchange for Brazilian milreis, Chilean pesos, and Uruguayan pesos which should be certified for customs use pursuant to section 522 of the Tariff Act of 1930 (U.S.C. title 31, sec. 372). The purpose of the conference was to reach an agreement as to the proper procedure for the Bank and the Treasury. No definitive agreement was reached, but the participants

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for the Bank, Messrs. Trimble, McKeon and Lang, tended to agree with the Treasury's view that certifications of official rates for these currencies should be discontinued.

By virtue of the temporary suspension of legislative action by the Congress, practically the entire staff of the Legislative Section have been granted leaves of absence which they had not previously been able to take, and as a result there has been no material change in the studies and projects being handled by that section. The following are exceptions to the above:

15. Proposed Amendments to the Federal Narcotic Laws. These amendments have been returned to the Bureau of the Budget.
16. Litigation - Barlow Award. In the Barlow case (item 23, last month's report), the Court of Appeals for the District of Columbia issued an order under date of October 28, 1940, the effect of which was to require immediate payment to Barlow, the bomb inventor, of the sum of \$296,359.60, representing one half of the amount appropriated by Congress to Barlow to reimburse him for using his bomb patents. The balance of the appropriation is to be held until final determination of the case on the merits in the District Court, or until further order of the Court of Appeals. Ellis and Hansen have worked closely with Justice in the handling of this case.

The following matters were worked on under the direction of Mr. Bernstein:

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17. Foreign Funds Control. This office drafted an amendment to the Executive Order and Regulations extending the provisions thereof to the property of Rumania and nationals thereof. In connection therewith this office also prepared new general licenses, instructions and forms.

An extensive amount of work has also been done in the answering of correspondence relating to the Executive Order and the examination of legal questions which are continually arising.

In cooperation with Mr. Cairns' office and the Bureau of Customs this office participated in discussions concerning methods of controlling shipments of French paintings which were being shipped from Lisbon, Portugal on the SS EXCALIBUR and from South America on the SS DONALD MCKAY. Instructions were given to the New York customs office for the detention of the paintings in question. The shipping company was also instructed not to receive bills of lading or other evidences of ownership covering the paintings pending the issuance of a license by this Department authorizing dealings in such evidences of ownership. The paintings were removed from the SS EXCALIBUR by the British at Bermuda; the cases of paintings from the DONALD MCKAY are now held by Customs at Public Stores.

This office also worked on the problem of dealing with the assets held at the World's Fair by blocked foreign countries and nationals thereof. Mr. Luxford spent several days in New York going over this matter with the Customs and Federal Reserve officials.

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Appropriate action has been taken to obtain reports of such assets and as the cases arise, interested parties are being notified of the necessity of obtaining a license.

The entire staff worked on the foregoing matters.

Mr. Bernstein participated in several conferences with regard to the possible extension of the freezing control, including a conference at the Department of State.

18. Finnish Loan Payment of June 15, 1940. Mr. Bernstein assisted in the preparation of a reply to an inquiry from the Finnish Legation with respect to the question of whether the Finnish Government may now exercise its option under the Vandenburg resolution and have returned to it the loan payment which it made to the Treasury on June 15, 1940.

19. Withdrawal by Italians of Funds in this Country. Mr. Bernstein participated in the consideration of various alternative methods of dealing with the problem presented by an alleged withdrawal in cash of several million dollars of funds by Italians, and in departmental discussions on the matter.

20. Ruck-A-Chucky Gold. Miss Hodel and Mr. Friedman participated in discussions with Justice and Interior regarding the sale of gold recovered on a Government dam project by workers on such project. Justice contemplates a suit against the miners and purchasers of such gold.

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21. General Mexican Claims Bill. This office cooperated with Mr. Bernard's office in drafting a proposed veto message to the above bill which provides for the immediate payment of General Mexican Claims. The bill is still in conference and when it leaves conference it is proposed to discuss the veto message with the Department of State. Mr. Sutton and Mr. Friedman worked on this.
22. Code of Federal Regulations Material. We reviewed material to be included in the 1939 Supplement to Title 31 of the Code of Federal Regulations. The material included silver regulations, Secret Service regulations and quarterly proclamations of the value of foreign money. Mr. Groman and Mr. Sutton worked on this.
23. Sabotage Awards. Mr. Bernstein and Miss Hodel attended a conference in the Under Secretary's office to discuss whether or not the Treasury Department would be in a position to make payment of the sabotage awards on October 14, in case the Supreme Court handed down a decision denying certiorari. Mr. Bernstein and Miss Hodel also attended a conference in Assistant Attorney General Shea's office at which the matter of payment of the awards was again discussed. It was decided that the Treasury should not be ready to make payment on October 14.

On October 14, the Supreme Court granted certiorari in the Z. & F. case. Copies of a petition to the Secretary of State to

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recall his certifications of the sabotage awards were served on the Secretary of the Treasury. The Department of Justice formally advised the Treasury not to make payment of the awards pending the outcome of the present litigation.

23. Katherine Drier Case. In connection with Private Law No. 509 for the Relief of Katherine M. Drier, Mr. Aron, attorney for Mrs. Drier, submitted a memorandum for supporting a petition for readjustment and for the payment to Mrs. Drier under this Act. Mr. Bernstein, Miss Hodel and Mr. O'Daniel talked to Mr. Aron about the matter and it was decided that the Treasury Department could not agree with Aron's interpretation of the law. Mrs. Drier subsequently demanded that the Department pay her forthwith the 25 percent which is being retained by the Treasury Department pending the determination of rights of various parties to that share. The Department has advised Mrs. Drier and Aron that it will continue to hold the aforementioned 25 percent.

24. Purchase of Milreis from Brazil. This office assisted in the various steps taken in connection with the putting into operation of the agreement with Brazil to purchase milreis for dollars secured by gold.

BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

November 7th, 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,

Harold Butler

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

Telegram despatched from London
dated November 5th, 1940.

Naval.

Four French destroyers passed Gibraltar eastbound p.m. 4th.

2. Enemy aircraft bombing Red Sea convoy a.m. November 4th was badly damaged by our escorting aircraft no damage to any ship.

3. Night of November 3rd/4th, Kiel and Naples military targets bombed.

4. British submarine put 3 torpedoes into large inward-bound tanker p.m. November 4th off the mouth of the Loire.

5. A second Italian U-boat entered Tangier p.m. November 4th. We are pressing for internment after 24 hours stay.

6. "Windsor Castle" has arrived in harbour.

7. Military

Greece. Up to 6 p.m. on November 2nd, it was reported from extreme north Greek-Albanian frontier to a point due east of Leskovik in Albania, Greek forces had driven the Italians back on average distance of 8½ miles. The movement of Greek troops to their concentration areas was proceeding without interruption. Enemy aircraft activity has much increased, and 8 towns, including Buda (in Crete) Corfu and Salonica (twice) were bombed. Italian air reconnaissance was carried out over main routes and Greek military concentration areas. Three enemy bombers were shot down at Salonica.

8. Up to 10 a.m. November 3rd.

The night was calm on the Albanian front.

There/

- 8 -

There has been no artillery activity such as to indicate preparation for a general advance. There is no indication whatever that any German troops or aircraft are cooperating with Italian forces on this front.

9. Royal Air Force.

Night operations 3rd/4th Six heavy bombers bombed shipbuilding yard at Kiel. Bombs were seen to burst in target area but apart from 2 large fires, no results were observed. All our aircraft returned safely although one came down into the sea off the east coast. Five heavy bombers attacked an oil refinery at Naples. Observation was extremely difficult but bombs were seen to burst between the refinery and a railway junction close by. All our aircraft returned safely.

10. Day bombers sent out on November 4th were obliged to abandon their tasks owing to adverse weather.

11. Night of 4th/5th.

Most operations were cancelled owing to bad weather. Heavy bombers, however, attacked 3 "invasion ports" and large fires were started at Havre. Bursts were also seen on flares at one airport. All our aircraft returned safely.

12. German Air Force.

Daylight of November 4th.

Enemy activity was on a small scale and mainly confined to single aircraft operating in coastal districts but some occasionally penetrated inland. Damage in London area was negligible and no incidents of importance were reported from the rest of the country.

13. Night of November 4th/5th For the first four hours of darkness there was considerable enemy

- 3 -

activity in London area and Scotland with a lighter attack on Midlands. About 200 aircraft were plotted over the country but by 11 p.m. the attack on Scotland had ceased and thereafter activity over London was much reduced.

14. In London area two suburban stations were hit and main line from London to Dover was temporarily blocked. One factory manufacturing barrage balloons was damaged. Some incendiary bombs fell in the grounds of Buckingham Palace and considerable damage was caused to the Naval and Military Club. Two wounded. Some bombing and a few casualties were also reported from various London areas. No serious damage has been reported from Scotland. One motor-car factory at Coventry was hit but production is not affected. Minor bombing took place at Birmingham, Liverpool and in south-eastern counties.

15. Enemy attacks on trade. A lifeboat containing 10 men from a Swedish ship of 1600 tons which sailed from Scotland on October 13th has arrived in Azores.

16. Two tugs were sunk by mines in Thames Estuary on November 2nd.

Paraphrase of Code Dispatch
Received at the War Department
at 20:50, November 7, 1940

CONFIDENTIAL

London, filed 17:00, November 7, 1940.

1. The results of the daylight operations of the Bomber Command on Wednesday, November 6th, were good. It was planned to dispatch a total of 120 bombers that night, 20 against Berlin, 12 against enemy ports, nine against power plants, 12 against air fields, eight against chemical plants, 35 against oil plants, 14 against railroads and 10 against munitions plants. During the night of November 5-6th there was no bombing of Berlin due to very bad weather conditions. The Italian missions had scanty results; but other operations were successful. Four planes were lost that night and five crashed on landing. The Coastal Command was active against enemy shipping and coastal batteries, dispatching 19 convoy escorts, 33 patrol missions and 51 sorties. One enemy plane was destroyed and one damaged, while no British planes were lost in these operations. The Fighter Command dispatched 402 planes on 99 patrols.

2. Daylight operations of the German Air Force on Wednesday, November 6th, consisted of one large raid of about 100 planes plus patrol and reconnaissance missions, with a total of about 140 planes plotted. That night German planes operated chiefly over London and Southeast England until midnight, after which time there were scattering raids over the whole country.

3. Several unsuccessful attacks on British air fields

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were reported. The major damage in London consisted of hits on a military hospital, a munitions plant and large flats occupied by workmen. Three railroads were blocked and a southern seaport town suffered considerable civilian damage. Severe civilian damages to a town in Scotland resulted when it was machine gunned and bombed.

4. The determination of the Royal Air Force to attack long range objectives in spite of severe weather conditions is expensive but they intend to continue these operations. In the present situation the use of the Flying Fortresses would be of great assistance.

LKH

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury ✓
Asst. Secretary of War
Chief of Staff - 2 cc's
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

CONFIDENTIAL

123-A

Paraphrase of Code Radiogram received at the War Department 8:50 p.m., Nov. 7, 1940

London, Filed 17:00, Nov. 7, 1940

H I R A C I

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1. The outstanding feature of the first three months of intensified aerial operations is the failure of the German Air Force to concentrate on vital British military and industrial objectives and wipe them out. I was told by the Deputy Chief of the Air Staff that there was absolutely no satisfactory explanation of the foregoing and for a scale of enemy operations so incommensurate with the great air force Germany claims to possess.

2. As background material the following are reported:

a. The Russian Ambassador recently stated emphatically that in his opinion there were but three un conquerable nations in the world, i.e., the United States, China, and Russia. In spite of this belief he is convinced in the present situation that the combination of Axis Powers could not defeat Great Britain and that he has so reported to his Government since the first of July.

b. Last night the Minister from Switzerland stated that it was his opinion that the non-Axis countries are rapidly coming to believe that the tide is now commencing to turn in the fortunes of the Axis Powers. There is an increasing general skepticism regarding the accuracy of the present claims of the Axis and its ultimate success.

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He believes that the conviction of hopelessness will begin to pervade Germany itself unless the position of the Axis Powers has improved by Christmas.

* * *

LEE

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

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124

Paraphrase of Code Radiogram received at the
War Department 1:23 a.m., Nov. 8, 1940

Belgrade, Filed 10:00, November 7, 1940

Younger Serbian officers of General Staff are stunned at dismissal of vigorous Minister of War Nedlic. They had expected that he would force the supine government to fight. Petar Potic, his successor, is conservative and physically inactive. He was formerly Quartermaster General and was retired in 1929.

FORTIER

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

CONFIDENTIAL

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Paragraphs of Code Cryptogram Received at
the War Department on November 8, 1940.

125

London, Piled November 8, 1940 at 12:30.

1. Only one plane dispatched by the Bomber Command during daylight hours of Thursday, November 7th, reached its objective. One plane was lost. For that night it was planned to dispatch a total of 111 planes, of which 18 were against targets in Italy. Due to heavy clouds and extreme landing conditions the Bomber operations during the night of November 6-7 had an effectiveness of only about 35%. The operations of the Coastal Command were normal. Two enemy planes were damaged but no British planes were lost. The Fighter Command operated 1,251 planes on 208 patrols.

2. The German Air Force launched a raid of about 90 planes on shipping in the Thomas Boreary. Two attacks were made on the Portsmouth area, the first with about 110 and the second with about 80 planes. The first attack was made on a two-mile front and its prompt retreat was covered by about 50 additional fighters. The usual reconnaissance patrols were made. A total of about 370 German planes were plotted.

3. The main night attack on London was more severe than usual. Bombs dropped all over the town, with a total of 56 plotted. There were some damages to factory towns in the Midlands and on the South-east coast of England. Five airbases were attacked. Three planes were destroyed at one field, three were blown over in the second and the third is temporarily out of commission. The others are undamaged. Major damage was done to one bridge, three factories, one

CONFIDENTIAL

railroad station and one tunnel. Other damages were entirely non-military and of small consequence. Total casualties in London for the night of November 4-5 were 20 dead and 101 wounded. I consider it remarkable how the German planes keep missing the immense Battersea Power Station that is still operating undamaged. The delay action bombs at Windsor Castle have been removed.

4. German air casualties were seven confirmed, five probable and two damaged. One plane was shot down in combat at 31,000 feet. The British lost five planes but all pilots were saved. In the Middle East Italian plane losses were four confirmed, one probable and five damaged. The British lost five planes and two pilots in this theatre.

5. British Intelligence reports from Greece state that the Italian Army is not only being held but is being driven back at some points. It is reported that the Italians are short of rations which indicates that they expected an easy march through Greece to Salonika.

6. The War Office is informed that there are more than ten divisions in Rumania. This presages the cooperation of the Axis powers along the Bucharest-Salonika line to establish a barrier against Turkish intervention and to pinch out the Greek forces. Another report also believed to be reliable states that the Germans are constructing two pontoon bridges across the Danube River between Rumania and Bulgaria, one at Calarasi-Silistrua and the other at Giurgiu-Rusechuk. At the latter point a train ferry is also being constructed.

7. Additional information believed to be reliable indicates that there has been an increase in the total number of German Panzer divisions to ten and motorized divisions to 20. This makes a total of 30 fast powerful units which indicates an ultimate operation over the only suitable terrain, i.e., in Russia.

8. British air reconnaissance in Libya showed a trench and pipe line extending ten miles east of Dabqub. In addition there were four miles of narrow gauge railroads extending from Dabqub to Alamed Barraqi.

9. There is no indication that the German air and land forces facing Britain across the Channel are being decreased.

10. Three British ships, totaling 19,000 tons, were bombed from the air, two being sunk and one damaged. A convoy of 32 vessels has arrived in Britain.

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

CONFIDENTIAL



G-2/2657-220

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

No. 241

SITUATION REPORT

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

I. Western Theater of War.

1. Air Force Operations.

German operations over England conformed to the established pattern. Portsmouth was attacked heavily during daylight of the 7th. Last night raids were heavy, and while London received the brunt of the attacks, there is evidence of considerable bombing in the provinces. The Germans are emphasizing in their communique the extent of their aerial attacks on shipping all around the British Isles.

Last night the R.A.F. was active over Germany claiming a particularly heavy attack on the Krupp works at Essen. Cologne, Dusseldorf, the Dortmund-Ems Canal, a submarine base at Lorient, France, and several airdromes were also bombed.

II. Greek Theater of War.

Italian ground pressure was intensified yesterday but their activity apparently is still not a maximum effort. The Italian Air Force continued to attack Greek roads and ports. The R.A.F. bombed Valona, Albania on the 6th.

III. Mediterranean and African Theaters of War.

1. Capture of Gallabat, Sudan is claimed by the British. Apparently this is an effort to gain access to Ethiopia.

2. The R.A.F. bombed Brindisi on the 6th. The Italians attacked the Siwa oasis from the air yesterday.

RESTRICTED

November 9, 1940

Under Secretary Ball

Mr. Cochran

At 10:45 yesterday morning Acting Secretary Ball received Finnish Minister Freese. Mr. Nikola of the Finnish Legation and Mr. Cochran of the Treasury were also present.

The Minister presented to Mr. Ball his ideas with respect to the Finnish debt toward the United States which had been summarized in my memorandum of November 7 to Mr. Ball. Mr. Ball suggested that if Mr. Freese chose to communicate formally to the Department of State the Finnish desire to take advantage of the Vandenberg resolution with respect to the payment due December 15, 1940, and also to raise the question of a readjustment of the funded debt of Finland to the United States, these two questions should be taken up in separate communications.

Mr. Ball indicated the readiness of the Treasury to participate in any conversations that may be arranged for, but suggested that the preliminary decisions should be taken after consultation between the Minister, the Department of State, and possibly

President. He felt that it would be highly important that the leaders of Congress be sounded out before any proposition be advanced too far with respect to reopening the Finnish debt question. That is, an awkward or untimely approach might result in the whole proposition being shelved, like that of Hungary. It was understood that the Minister will keep in touch with the Department of State, therefore, and may also ask to see the President shortly on this subject.



November 8, 1940

My dear Mr. Forrestal:

Just before the Secretary left yesterday afternoon for a vacation, he asked me to return to you the enclosed memorandum which you prepared on the inspection trip to aviation aircraft plants last month.

Yours sincerely,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable James V. Forrestal,
Under Secretary of the Navy,
Navy Department,
Washington, D.C.

Enclosure. ✓

By Messenger 135

November 8, 1940

My dear Mr. Forrestal:

Just before the Secretary left yesterday afternoon for a vacation, he asked me to return to you the enclosed memorandum which you prepared on the inspection trip to aviation aircraft plants last month.

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Under Secretary of the Navy,
Navy Department,
Washington, D.C.

Enclosure.

By Messenger

MEMORANDUM

132

OFFICE OF THE UNDER SECRETARY

Henry:

This is a very
sketchy preliminary
review of our trip. P. Y.
will have a much more
detailed one for you. He
was most helpful.

HT

Pls. return after reading.

THE UNDER SECRETARY OF THE NAVY.
WASHINGTON

18 October 1940

MEMORANDUM TO: SECRETARY KNOX

FROM: MR. FORRESTAL

Subject: INSPECTION TRIP TO AVIATION AIRCRAFT
PLANTS, OCTOBER 15-18.

1) Those on the trip were, besides myself, Commander Richardson, U.S.N., Phillip Young of the Treasury, Air Commodore Mansell (British), Mr. Fairey (British), Commander Gingrich, U.S.N. At Hartford, General Eccles and Major Meeney and Commander *Refer* Seigler, our inspector. At Brewster were Captain Whiting, U.S.N. and Captain Capehart, U.S.N. At Grumman, Commander D. Rittenhouse, U.S.N.

2) Plants Visited.

Pratt & Whitney Engine Plant, Hartford;
Vought, Sikorsky - Bridgeport;
Grumman Manufacturing, Beth Page, Long Island;
Ranger Engine, Farmingdale; and
Brewster Aeronautics Plants at Long Island City
and Newark.

3) Some progress was made in standardization. Further gains can be made on certain items such as guns, bombs and certain gadget equipment (pyrotechnics, safety belts, etc.), requiring conferences with Joint Board.

4) In addition it is obvious there are certain practices developed in actual combat overseas which we ought to look into at once and possibly adopt. These include automatic fire extinguishers for planes that have been shot down (extinguisher works automatically on landing and has proved effective in saving lives of injured pilots); balloon barrages for war ships, concentration of fire (put machine guns closer together in the wings to get greater fire concentration on fighters).

5) It is also clear that we can make gains in pooling of shop practices. At Grumman, a very efficient plant with vigorous direction by the way, there has been developed use of excavated bays with elevator installation to work on planes doing away with scaffolding and super-structure occupying a good deal of space and loss of efficiency. Pratt & Whitney has a "cold" run-in of motors under external power which saves a good deal of time in test runs of motors. Either the Industry or the Defense Commission ought to have someone constantly visiting all plants to see what particularly efficient practices can be made uniform for the Industry.

6) Questions that arose in course of trip:

- (1) Should we not camouflage our fighting, scouting, and bombing planes in the plant? This is a British practice and would seem to save time at some future date.
- (2) Why do we ^(Army) spend \$90,000,000 at Packard for the development of an in-line liquid cooled Rolls motor which we are by no means sure we can produce because it is the product of British shop and tool practice and not ours. In the last war it took us eighteen months to reproduce an Hispano Suiza motor and then it was really an American motor rebuilt after take down of the French model.

Pratt & Whitney and Grumman are doing an outstanding job. Ranger, which is making engines for us is slower but coming along well and seemed to have excellent engineering experimental work in progress. Brewster has a bad management situation - principal owner of the stock, James Work, who is also President, is both ill and apparently incompetent. I did not see him because he had just come out of a hospital in Philadelphia but I telephoned him and told him I wanted him to come to Washington next week.

Phillip Young is writing a more detailed report which I will send you in later.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

November 8, 1940.

Cabinet Meeting November 8, 1940.

The President asked Secretary Hull as to whether the Neutrality Proclamations with respect to Greece should be issued. He said he had signed them some time ago, ready to issue whenever the Secretary thought it advisable. The Secretary replied that they were still studying the matter, and this was not the proper moment to issue these proclamations. The President then asked regarding the Chinese situation with respect to the withdrawal of Japanese troops from certain areas in China; he wanted to know whether this had any real significance from the Chinese standpoint. Secretary Hull replied he did not think it had any real significance other than that the Japanese were endeavoring to shorten their lines and consolidate some of their positions.

The President then said he had had a conference with Mr. Purvis and Secretary Morgenthau and had agreed to give the British fifty per cent of our armament production including airplanes wherever the type of items produced fit in with the British program. It had also been suggested to Purvis and the Secretary, he said, that in view of the fact that the British were losing a large number of ships, the possibility of the United States building the ships and renting them to Great Britain. I raised a question of the Neutrality Act as to what flag these ships would fly. The President said this was a detail that would have to be worked out; he thought maybe the Attorney General might be able to solve the problem. Then there was a general discussion of the unused plant facilities throughout the country. The President thought there were many small plants that might be put into production of national defense items. He said that the National Defense Commission was setting up a committee to make a detailed study of this matter.

Mr. Bell. I had nothing to present other than the New York Times index which showed a rise of .4 of 1% over last week on five items, information regarding the other items not being available before two o'clock today. The President then said that he understood from Secretary Morgenthau that the Secretary of State had a memorandum from the Treasury in which it was recommended that the funds in this country belonging to all governments of the world and their nationals be frozen and asked if anything had been done about the matter. I told him we hadn't heard anything from the State Department. Secretary Hull said the matter was being considered by his people and that he

- 2 -

expected to call the Treasury within a day or two. The President then asked about a news item of a few days ago in which it was stated that Mexico had examined the baggage of an Italian Consul who was carrying approximately one and a half million dollars. I told the President we had had information from the F.B.I. on this and other matters of a similar character and our information was that at the same time \$3,800,000 of currency left the country by Mexico and that during the past two or three weeks approximately \$20,000,000 of Italian funds have gone to South America. Attorney General Jackson said that the F.B.I. was getting this information but that there was not much they could do about it other than tip off the Mexican authorities. The Mexican authorities immediately seized the Italian Consul and found out he did have the large amount of currency and after examining his baggage, returned the currency to him and apologized. I told the President, in connection with the recommendation for freezing funds in this country, there should also be issued a proclamation prohibiting the exportation of currency under the Anti-Hoarding Act.

The President also said that it looks as though we were going to have an increase in the debt limit. I said that the Secretary had felt it desirable to let the public know that the Treasury would require an increase in the debt limit of \$45,000,000,000 and that the inflexible provisions of the last act authorizing the issuance of National Defense notes should be eliminated. The Secretary had also stressed at his press conference that the Treasury was going to strongly recommend in the next session of Congress legislation which would eliminate the tax exemption features of all government securities. Both of these statements seemed to cause substantial increase in prices of Government securities and stocks. I said, however, I felt that this would not last more than a day or two and that things would soon settle back to normal procedure.

Mr. Stimson. Mr. Stimson said he had nothing except he wondered if something could not be done to get a certain piece of legislation pending in Congress passed in which the War Department is much interested. The President said he thought the Secretary might call Chairman May of the Military Affairs Committee and ask him if it could not be expedited.

The President said that he had an idea that he would like to throw out for discussion. We all knew, he said, that the Pan-American and other transportation lines were getting virtual monopoly on air traffic over certain foreign transportation lines. He thought it might be an excellent thing if the Government would participate in the ownership of these companies and that they should extend, after the war is over of course, their facilities to Northern Europe, to the Mediterranean and to the Far

- 3 -

East, as well as to all South American countries. This would give these companies a monopoly, but to some extent under Government control, but yet with private management facilities. Secretary Jones said he was also interested in the matter and would like to look into it and report to the President.

Mr. Jackson. Mr. Jackson said he was still conferring on the Canadian border matter but that he was finding some difficulty in working out a procedure for identifying Americans going back and forth across the border. He then discussed, in connection with the question that the President asked Mr. Walker noted below, violations of the Hatch Act in the last election. He thought that some action should be taken either to enforce the Hatch Act or to show that it should be drastically amended.

Mr. Walker. The President asked the Post Master General to look into the matter of scurrilous pamphlets being sent through the mail. He thought there were a number of them sent through the mail during the last campaign and he would like to have a report on it. Mr. Walker said he was meeting with his postal inspectors tomorrow morning for that very purpose. Mr. Jackson confirmed the fact that many pamphlets of a scurrilous nature were being transported through the mails and Mr. Carmody commented that there were not only pamphlets, but open mail and post cards.

Mr. Knox. The President said he wanted to talk to Secretary Knox about the Navy some time very soon. He had information that a foreign ship recently came out of a port in Columbia with several German aviators on board. While the Navy was supposed to keep track of this vessel, they completely lost her and just where she is now located no one seems to know. Secretary Knox said he was quite well aware of this fact and he had told the Navy people what he thought about it. He then said he had received a dispatch from one of his men abroad who had raised the question as to what could be done about securing bases in Ireland for the operation of the British fleet and air fields for their airplanes. He said this dispatch indicated that the British were having a rather difficult time in stopping the submarine drive coming in from the north and this was all due to the lack of proper facilities in that area. He wondered if something could not be done to stir up the American-Irish in behalf of the British so that the Irish Government would cooperate in this connection. He said he had definite information that DeValera had agreed with Churchill that the English should have these facilities but that when he returned home he was forced, because of the opposition of the protestant groups, to renounce the plan. The President said that he would have to be very careful as to what is done in this direction and suggested that Secretary Knox and Secretary Bull confer on the matter and see what could be worked out.

- 4 -

Mr. Ickes. Mr. Ickes said he had nothing.

Mr. Wickard. Mr. Wickard said that cotton was still the chief problem of the Agriculture Department. He said domestic consumption is very good and will take about 3 million bales this year and that we will ship out about 1-1/2 million bales, but that doesn't take all of the production. He said that Russia has begun to take cotton and they purchased about 54,000 bales in October. He raised the question of policy as to whether we ought to sell cotton to Russia at this time in such quantities which may be going to Germany. The President suggested that he work up for him a routing chart for cotton showing the various countries to which we and other cotton raising countries are now shipping cotton.

Mr. Jones. Mr. Jones said that the Finnish Minister had been in to see him and see whether or not his Government could get any relief from paying the interest and principal due under the \$60,000,000 credit extended to that country about a year ago. He said there was no doubt but what Finland was going to have a hard time this winter, and possibly we would extend to them some relief. He thought maybe some of the notes which are coming due this next year could be carried over for another year or two. I told the President that the Finnish Minister had advised the Treasury today informally that his government was going to take advantage of the Vandenberg Resolution by postponing the payments due on December 15th next and that he also wanted to discuss with this Government reconsideration of the whole debt matter.

Mr. Jones said that Stewart MacDonald had just about reached his limit on insured mortgages and he would like to get the President to sign a letter raising that limit another billion dollars. The President agreed to do this.

Miss Perkins. Secretary Perkins advised that the textile mills of the country are now operating at capacity. She then discussed at some length the possibilities of peace between the A.F. of L. and C.I.O. She thought there was quite an undercurrent of feeling among the labor unions; that an understanding should be reached very soon and that it should be accomplished by the two organizations working together rather than due to any pressure from the President.

Mr. McNutt. The President told Mr. McNutt that he is having prepared a letter to Miss Eliot of the National Defense Commission advising her that the matter of the health of the workers of the country should come under the Federal Security Administrator. He said he thought Mr. McNutt should set up a committee to go into this whole matter of

- 5 -

training not only for industry, but training from a health standpoint. He thought we might even do something along the patriotic line to change the attitude of certain elements of our population. There was quite a discussion of this matter between McNutt, Carmody, Miss Perkins, Bob Jackson, Mr. Ickes and the President.

After a long discussion the President appointed a committee of Mr. Ickes, Mr. Stimson, Mr. Knox, Mr. Jackson, Mr. McNutt, Miss Perkins and Dr. Dykstra to study this whole matter and make a report to the President on ways and means of carrying out the program.

swB

One other important matter discussed by the President at the Cabinet Meeting today which I failed to insert in its proper place above was the question of the capacity of the steel industry to meet the demands of national defense. The President said he had continually tried to impress upon the National Defense Commission the importance of this matter. He had always been told up until last week by Mr. Stettinius that the steel industry is prepared to meet all of the demands, but this week when he asked again about it, Mr. Stettinius said he had appointed a committee to look into the matter and would let the President have a report within the next few days. The President said he was quite certain that something would have to be done. This is important to the Treasury in view of our interest in the matter over the past month. We have insisted that a bottle-neck was developing in this industry and that it would be a good investment if we spent fifty to one hundred million dollars to expand plant facilities, even though we never used them in the end. We take this position because it will require anywhere from fourteen to eighteen months to complete these additional plant facilities.

swB

COPY

140

GRAY

BUENOS AIRES

Dated November 8, 1940

Rec'd 7:40 p.m.

Secretary of State,
Washington.

532, November 8, 6 p.m.

The so called Pinedo plan approved by the Argentine cabinet for submission to Congress, is attracting much attention. It is designed to stimulate private enterprise, provide cheap housing, safeguard the currency and solve the surplus commodity question. It is understood that the plan will be administered by a board formed by the President of the Central Bank and is to remain in operation until at least one and not more than five years after the war.

Although Argentina has lost 40% of her overseas markets for the time being, the surplus commodity question is not new and the present plan merely contemplates a continuation of the method already in use in avoiding disastrous accumulations of unmarketable agricultural products by purchasing crops at moderate minimum prices, financing the operation from exchange control profits. The workmen's housing plan will involve the expenditure of from 150 to 200,000,000 pesos next year to provide employment and stimulate local business. Moreover everything possible will be done to encourage sound domestic industries designed to increase employment and reduce the volume of necessary imports. The plan contemplates putting to work a portion of the funds now idle in savings accounts by a species of forced loan.

- 2 -

It is clearly implied from the Minister's report that imports are to be curtailed. In this connection reference is made to the Embassy's telegram 493 of October 17, 8 p.m. indicating that imports are to be divided into three categories.

ARMOUR

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TO THE
TECHNICAL
SECTION

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DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 F.G./863

November 8, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 575 dated November 7, 1940 from the American Embassy at Rio de Janeiro and requests his suggestion as to the reply that may be made in so far as concerns jurisdictions of the Treasury Department.

Enclosure:

From Rio de Janeiro,
November 7, 1940.

TO THE SECRETARY
OF THE DEPARTMENT OF STATE
WASHINGTON, D. C.

NOV 8 1940

RECEIVED
DEPARTMENT OF STATE

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: November 7, 1940, 6 p.m.

NO.: 575.

Today the Bank of Brazil was informed by the manager of the Brazilian subsidiary of the Dutch Phillips Company that decision has been made by the company to centralize its business with its United States subsidiary, which is the Knickerbocker Carriers, Inc., 24 Stone Street, New York, N. Y. It is now the desire of the Brazilian subsidiary's manager to transfer a sum of \$350,000 to the company in New York; however, before ~~granting~~ granting authority for this transfer, the Director of Exchange wants to find out how the New York company is regarded by the Government of the United States.

Your reply should be telegraphed.

BURDETT

EA:MSG

EH

40'

PLAIN

Shanghai via N.R.

Dated November 8, 1940

Rec'd 1:20 a.m., 10th

Secretary of State,
Washington.

1219, Eighth.

Weekly Financial.

Shanghai open market foreign exchange rates ruled quietly steady during week with operators cautious in commitments. Rates declined slightly early in week because of ports covering but firmed on receipt results American election. Rates eased slightly this morning because of unfavorable local developments and recurrent rumors that the proposed Central Bank of Nanking regime will shortly be established which expected be attended by closer regimentation of finance and trade. Interbank spot selling at noon around six one sixteenths cents and three twenty nine thirty seconds pence (representing sterling parity of United States dollars three point seven two five) having high during week of six three sixteenths and three thirty one thirty seconds and low of six cents and three seven eighth pence, November delivery same as spot, December delivery one thirty second cent and one sixty fourth penny lower.

-2-

lower. Other quotations this morning: paper gold bars around yuan five five three naught having high during week of five five seven five and low of five four naught five, Wei Wah cash discount rate point six percent, Bank Japan notes yen one for Chinese yuan one point five three lower due to new exchange control law enforced November eighth in Japan completely prohibiting repatriation of yen notes to Japan except with special permits,

(END OF SECTION ONE)

LOCKHART

EMB

EH

PLAIN

Shanghai via N.R.

Dated November 8, 1940

Rec'd 1:20 a.m., 10th.

Secretary of State,
Washington.

1219, Eighth (SECTION TWO).

military scrip now commands various rates in Shanghai ranging from yen one from Chinese yuan one point five seven to Chinese yuan one point six seven, central bank gold unit rates yuan two point seven naught seven or United States dollars naught point six six one eight seven five, Shanghai customs gold unit for duty payment purposes equivalent Huahsing yuan two point seven eight nine or Chinese yuan four point three seven nine as Huahsing yuan commands today premium fifty seven percent over Chinese yuan, Tientsin exchange rates six one sixteenths cents and three twenty nine thirty seconds pence, Tientsin Shanghai remittance Tientsin Chinese yuan nine nine point two five for Shanghai Chinese yuan one hundred, Tientsin Federal Reserve Bank yuan eight six point fifty for Chinese yuan one hundred. Yesterday's closing quotations: Chinese Government domestic bond prices reached new record high yesterday

-2-

yesterday with some issues approaching pre-hostilities level consolidation loan averaging six five, Shanghai general stocks higher average two eight nine point two seven, Shanghai rubber shares average two nine two point three five, Hong Kong exchange rates twenty three and three sixteenths cents and fourteen thirty one thirty seconds pence.

INFORM COMMERCE.

(END OF MESSAGE)

LOCKHART

EMB

C
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P
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CABLE

FROM: Commercial Attache Nicholson
Shanghai, China.

DATE: November 8, 1940

For the Secretary of the Treasury.

Current situation Shanghai for week ending November 2nd. Exchange market during week was dominated entirely by speculative activity without material change in rates. Net oversold position in foreign currencies estimated about U.S. dollars \$2,000,000. Stock exchange showed more confidence and greater activity than for some weeks past with steady improvement in prices. The general level of local industrial activity decreased during October. General index of cost of living of Shanghai workers October was 524 U.S. compared with 482 in September. Increase was spread over all commodity groups being heaviest in food and clothing. September compared with August Number of vessels entered and cleared all Chinese ports was up 15% tonnage was down 16%. Compared with September 1939 number entered was up 21% but tonnage was down 17%. These divergent trends in entrances and tonnage are no doubt due to fact that trade is passing more into hands of small vessels mostly Japanese engaged in tramp coastwise and shuttle service. Another part follows.

NICHOLSON

CABLE

149

FROM: Treasury Attache Nicholson
Shanghai, China.

DATE: November 8, 1940

For the Secretary of the Treasury.

Jap shipping is finding less to do in world trade than formerly. Transpacific lines are mostly engaged in export carriage of Japanese specialists and out of 5-1/2 million tons of tramp tonnage it is estimated 400,000 tons are idle in dock from lack of materials and skilled labor for repairs while another 1-1/2 million tons are engaged in transportation of supplies to China and in other war duties and still others are employed in unusual work of carrying food, etc., to Japan all of this decreasing number available for general merchant service productive of foreign exchange. It is estimated that Japanese shipping monopoly on Yangtze will this year carry 8 million tons cargo and 1 million passengers and that central China railway monopoly will carry 8-1/2 million tons freight. Now being organized a far eastern brittle company capitalized at \$1,000,000 which is apparently another Japanese monopoly to operate in central China. Much of merchandise handled by these trade and transport monopolies evidently does not pass through customs as indicated by fact that for first 7 months of this year Japanese official figures for trade with central China are 50% larger than nearest comparable Chinese figures for trade with Japan. The monopoly and permit system now in effect evidently aims at gradual incorporation of central China into yen block and is achieving more effect as Japanese policy becomes more unified under new totalitarian regime. Requirement that all foreign trade with interior be done in military yen has tended to

- 2 -

bolster that currency which recently approached Chinese dollars 170 per 100 military yen but is now around 155. There is rumor that all continental currencies including those of Manchuria Mongolia and North China may be devalued about 30% in comparison with Japanese yen. If this done and market value of military yen were to show further reasonable increase there might be some chance of bringing market value and official value into correspondence. The supreme authority on monopoly trade and currency questions in central China appears to be headquarters of the expeditionary force of the imperial Japanese army in Nanking.

NICHOLSON

JR

PLAIN

London

Dated November 8, 1940

Rec'd 1 p.m.

Secretary of State,
Washington.

3681, eighth.

FOR TREASURY.

One. The London financial dailies now assume that credits for the United Kingdom will follow naturally on the election result. The FINANCIAL NEWS prints an article stating that the Export-Import Bank Act already provides a loophole "by the modification of the Export-Import Bank's constitution which would make possible loans to Canada notwithstanding that Dominion's belligerent status." The Embassy has not received a copy or official summary of the act but from reference to an incomplete file of the Congressional Record, it appears that the FINANCIAL NEWS is under some misunderstanding which it might be desirable to correct, especially in view of that journal's connections mentioned in the Embassy's No. 1639 of June 13. In any case definite information would be welcome for use in answering inquiries on this point.

Two.

-2- #3681, November 8, from London.

Two. The following clarifies the last sentence of the first section of No. 3668 of November 7. The halt in the increase in supply expenditure which occurred in September when the weekly average was stlg 65.5 million as compared with stlg 67.6 millions in August was reversed in October when supply expenditure averaged stlg 68.4 millions weekly, while for the week ended November 2 the figure was stlg 89.1 million.

Three. The "other territories" to which payments may be made in Philippine pesos referred to in the 4th section of No. 3668 are the United States and possessions thereof.

Four. Replying to a question in the House of Commons, Sir Kingsley Wood stated that the average daily cost of interest on the national debt was stlg 593,311 and stlg 625,816 during the six months ended August 31, 1939 and 1940 respectively; and the cost of management of the debt stlg 2,740 and stlg 2,770 for the years 1938-39 and 1939-40 respectively.

JOHNSON

PEG



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 851.5151/2647

November 8, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 17 dated October 10, 1940 from the American Embassy at Vichy, transmitting the text of an instruction issued to one of the English banks by its German Commissioner, and a copy of the translation of the text.

Enclosures:

1. No. 17, October 10, from Vichy.
2. Translation of enclosure to despatch.

TO THE SECRETARY OF STATE
FROM THE AMERICAN EMBASSY AT VICHY
NOV 10 1940

AS E M B VON OIG

RECEIVED
DEPARTMENT OF STATE
NOV 10 1940

28

EMBASSY OF THE
UNITED STATES OF AMERICA

Vichy, France, October 10, 1940

No. 17

Subject: Text of Instruction of German Commissioner to
An English Bank in Paris.The Honorable
The Secretary of State
Washington, D. C.

Sir:

I have the honor to refer to my telegram for the Treasury, no. 581 of September 17, 5 p.m., reporting the increased control being exercised by the German Bank Supervision Office over the activities of certain foreign banks in Paris, and to enclose the text and translation of an instruction issued to one of the English banks by its German Commissioner.

The copy of the instruction, which has just been received by the Vichy Manager of the Guaranty Trust Company, does not give the name of the bank to which it was issued. He has been informed by his Paris Bank, however, that commissioners have been assigned to all of the English banks, and that at least three or four German officials have been permanently installed in the Westminster Bank.

Respectfully yours,

H. FREEMAN MATTHEWS
Chargé d'Affaires ad interim

Enclosures:

1. Text of Instruction
2. Translation of above

WOT/gd

(Enclosure no. 2 to Despatch no. 17 of Oct. 10, 1940 from the Embassy at Vichy.)

With reference to the interview which I had with your directors on September 6, 1940, it is requested that, until further notice, you observe the following rules in the management of your business:

(1) Current business of a commercial or administrative nature shall, barring special instructions for particular cases, be handled by the competent departments now in operation. My prior approval is required for the execution of measures or decisions relating to transactions of a commercial nature not falling within these bounds. This is particularly true as regards:

a) The acceptance of commercial risks of all types (credits, guarantee commitments, bankers' acceptances, discounts for customers) exceeding in value, in each instance, the sum of 200,000 francs.

b) All withdrawals of funds and deposits by individuals having their residence outside of occupied French territory or possessing a nationality other than French.

c) All operations relating to foreign currency accounts of customers or banks, whether creditor or debtor, or to securities, whether they belong to the bank itself or to its customers, payable in a currency other than French, or which have been issued by an entity situated outside of France.

d) All operations relating to the bank's own assets, so long as they do not concern the discount or pledging of bonds with the Bank of France in order to increase cash reserves.

e) All correspondence with the German or French authorities. I reserve the right to make exceptions to this rule as regards matters connected with the current fiscality of the bank.

f) All correspondence with individuals, commercial firms, companies or public authorities residing or having their headquarters outside of French territory occupied by the German troops.

(2) I must be immediately informed of all operations covered by the existent German and French legislation regarding foreign exchange, in particular those covered by the second provisional ordonnance on foreign

currencies

-2-

currencies issued by the Head of the Military Administration, on August 14, 1940. If the bank should be called upon to submit a statement on such a subject, it should first obtain my consent.

Trusting that we shall be able to cooperate fully and without difficulty in these matters to our mutual interest,

Very truly yours,

(signature not given)

With reference to my letter of September 9, it is requested that you furnish me, at the beginning of each week, with a brief numerical statement covering the financial position of your bank and that of your branches. Outstanding differences in comparison with the previous week's position must be explained. A report on the important transactions occurring in the week under review must also be attached to this statement, including those whose value is less than the maximum limit referred to in paragraph 1 a).

Commissioner-Administrator

WCT/gd

Mi 95

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfer listed below from the account of the Banca Commerciale Italiano, New York, maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 8	\$50,000	Cash withdrawal

B. M. S.

Mr. G.C.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed on the attached statement in German accounts maintained with the Chase National Bank of New York.

J.M.P.

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 8	\$58,800	Reichsbank, Berlin	Chase National Bank, N. Y., by order of Banco Aleman Trans- atlantico, Lima	\$250,000	Reichsbank, Berlin	Yokohama Specie Bank, Ltd., N.Y., for account of Yokohama Specie Bank, Ltd., Tokio
				56,675	Deutsche Gold- diskontbank, Berlin	Irving Trust Co., N.Y., for account of Carl Marks & Co., Inc.

M. S. C.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 8, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfer listed below from the Account of the Bank of Greece, Athens, maintained with the Federal Reserve Bank of New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
November 8	\$2,900,000	Chase National Bank, New York, for account of Gosbank, Moscow, in execution Bank of Greece credit #70065

We understand from Mr. McKeon that Gosbank is the cable address of the State Bank of the U. S. S. R.

J. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 8, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£133,000
Purchased from commercial concerns	£ 30,000

In the open market, sterling was first quoted at 4.04. Around noontime, it moved to 4.03-3/4, where it remained throughout the afternoon. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£4,000
Purchased from commercial concerns	£1,000

In the other currencies, there was a further small gain in the Argentine free peso rate, and a slight improvement in the Canadian dollar. The closing quotations were as follows:

Swiss franc	.2321
Canadian dollar	13% discount
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	9% discount

We purchased \$446,000 in gold from the earmarked account of the Central Bank of Chile.

About two weeks ago, the Central Bank of El Salvador wrote the Federal Reserve Bank of New York that it was applying to the B.I.S. for a dollar credit, the proceeds of which would be used to repay the three-month loans granted by the Federal to the Salvadorean bank. (Since the end of August, the Federal has made seventeen such loans aggregating \$797,000, with maturity dates ranging from December 2, 1940 to January 28, 1941. As collateral, the Federal set aside gold valued at \$890,069 from the Salvadorean bank's earmarked account.) In its letter, the Central Bank of El Salvador observed that the B.I.S. was prepared to make dollar loans provided the U. S. Treasury licensed the Federal to transfer gold, to be pledged as collateral, from the Salvadorean earmarked account to that of the B.I.S. The Federal was accordingly requested to apply for a license to make a

number of gold transfers to the value of up to \$650,000, and today, the Treasury granted such a license under the Gold Reserve Act. The Treasury also issued a license under Executive Order No. 8389 as amended, permitting the withdrawal of funds from the B.I.S. dollar account at the Federal, and the deposit of gold in the B.I.S. earmarked account. The Central Bank of El Salvador, incidentally, stated that it had applied to the B.I.S. for a loan of longer maturity because it did not expect to acquire enough dollar funds this year to make repayments on the Federal's loans, and did not wish, under existing conditions, to effect repayment by selling its gold.

The State Department forwarded to us a cable stating that Samuel Montagu & Co., London, shipped \$225,000 in gold from England to the Central Hanover Bank & Trust Co., New York, for sale to the U. S. Assay Office.

A gold price equivalent to \$33.79 was received from Bombay. This was 1¢ lower than the quotation of November 5. Silver was priced at the equivalent of 43.20¢, a gain of 1/2¢ over the November 5 level.

In London, the price fixed for spot silver was 23-5/16d. off 1/8d. The forward quotation was also 23-5/16d. off 1/16d. The dollar equivalent of both prices was 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 225,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 9, 1940

For Miss Channing
 TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£22,000
Purchased from commercial concerns	£ 1,000

The rate for open market sterling was $4.03\frac{3}{4}$ all morning. There were no reported transactions in open market sterling.

The other currencies closed as follows:

Canadian dollar	13% discount
Swiss franc	.2321-1/2
Swedish krona	.2387
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-7/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported the shipment of \$1,406,000 in gold from Portugal by the Bank of Portugal, to be earmarked for its account at the Federal.

In Bombay the equivalent of the gold price was \$33.81, up 2¢ from yesterday. Silver figured out to 43.46¢, up 1/4¢.

CONFIDENTIAL

TENTATIVE LESSONS BULLETIN
No. 65
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 9, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

SOME ASPECTS OF DEFENSE IN GREAT BRITAINSOURCE

Section 1 of this bulletin is quoted from a cable dispatched by an official American observer in London on October 25, 1940. Information in Section 2 was furnished by official British sources in late September, 1940.

CONTENTS

1. THE BRITISH CIVILIAN EFFORT
2. THE BALLOON BARRAGE UNDER
WARTIME OPERATIONAL CONDITIONS

CONFIDENTIAL

CONFIDENTIAL1. THE BRITISH CIVILIAN EFFORT

"One of the outstanding features of the British war effort is the extensive diffusion of responsibility for national success. In addition to members of the armed forces, nearly all British adults have assumed or been assigned duties of a direct and distinct nature.

"More than a million men have been conscripted into the armed forces, while two million have been exempted because of reserved occupations ¹. and will continue at these unless inducted into the armed services at a later date. One million seven hundred thousand men have volunteered for the Home Guard and are performing well organized day and night duty under arms. Three and a half million men and women who belong to the Air Raid Precautions organizations are carrying out in an admirable manner duties that are frequently dangerous, and at present they are suffering more casualties than members of the Army.

"Many organizations are filled by voluntary enlistment, but their full-time workers are uniformed and paid. These include the Women's Royal Naval Service with the Navy, the Women's Auxiliary Air Force and the Air Transport Auxiliary ² with the Air Force, the Auxiliary Territorial Service with the Army, and the Auxiliary Fire Service with the Air Raids Precautions. Members of these organizations are supplemented by uniformed but unpaid volunteers in the First Aid Nursing Yeomanry, the Mechanized Transport Corps, the Women's Voluntary Service, and similar groups which utilize the enormous patriotism and energy of the women and relieve the men of many duties.

"Add to these the civil servants, regular members of the police and fire departments and the industrial workers, who regard themselves as combatants since they frequently work under bombardment, and it becomes evident that no family and few individuals are without considerable and immediate responsibility for war efforts.

"There are enormously important by-products of these civilian efforts. They tend to stabilize and steady the social and political structure, to reduce useless activity, and to minimize the irresponsible chatter and epidemic apprehension which can so easily pervade communities or individuals not fully occupied."

2. THE BALLOON BARRAGE UNDER WARTIME OPERATIONAL CONDITIONSa. Role and General Use of the Barrage

-
1. Essential jobs in industry. G-2.
 2. Composed of women pilots for ferrying duty. G-2.

CONFIDENTIAL

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The role of the balloon barrage is to keep enemy bombers above the height at which they can carry out accurate destructive bombing and to force them into the zone of air where fighters and anti-aircraft guns are effective. In clear weather the barrage is flown at between 4,000 and 5,000 feet, its full operational height, while in cloudy weather it is flown in the clouds. Its moral effect has proved to be very great.

In general, the balloon barrage is used over clusters of vital points, such as docks, harbors, and large cities, where it serves as an economical and effective means of protection. When vital points are isolated, however, the barrage is not economical, for as many as 60 balloons would be necessary to provide adequate defense for a single precise point such as a power station. For defense of isolated points, light anti-aircraft artillery is used.

Fighter aircraft are always available in areas where balloon barrages are located, for barrages require their protection. Extra protection is provided by a small proportion of light anti-aircraft within the areas covered by the barrages.

The barrage is also used for protection of convoys. It prevents low flying attacks and, if kept to about 2,000 feet, renders it difficult for bombers to make hits on ships. Care must be taken, however, to prevent balloons projecting above the clouds and thus giving away the location of convoys.

b. Damage to Balloons

Recent storms have damaged and brought down a large number of British balloons, but many of these have been recovered, repaired, and put back into use.

Other balloons have been lost when they were struck by lightning with some frequency. If, however, the barrage is lowered below the cloud base under these circumstances, wastage can be avoided to a large extent.

It requires six to eight anti-aircraft shell fragments to bring a balloon down, and these fragments take a toll of approximately 30 balloons each 24 hours in the vicinity of London. Repairs can be effected quickly, and the damaged balloon is generally in service again within four to ten hours.

c. Layout Plan

The British Air Force use an area layout with a 17% probability of collision for aircraft flying across the balloon-

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defended zone. The barrage is strategically immobile—that is, it defends specific areas and is not moved. Tactically it is mobile and can be shifted from one location to another when a sudden change in enemy strategy makes this necessary. The British balloon barrage is lethal in that the cable used is strong enough to tear the wing from a plane striking it.

In London and certain other cities, especially those in which the aircraft industry is centered, the barrage is kept flying at all times. The average assigned strength of the London barrage is 360 balloons, but the average number in operation during a normal 24-hour period is 310. About 50 are generally on the repair list.

The strategically immobile barrage can be replaced by one strategically mobile—that is, a hedge of balloons across a well-known avenue of attack. The British have tried this, and, as more balloons become available, they may have more mobile barrages.

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G-2/2657-220

RESTRICTED

No. 242

SITUATION REPORTM.I.D., W.D.
November 9, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

German air activity conformed to normal pattern and intensity. The German official communique again emphasizes the extent of attacks on shipping and claims night operations against convoys.

The R.A.F. operated extensively over Germany. Munich was bombed, as was the Dornier plant at Friedrichshaven.

II. Greek Theater of War.

The ground situation continues to be one of inconclusive mountain warfare. The Italian Air Force bombed widely behind the lines in Greece.

III. Mediterranean and African Theaters of War.

No ground operations reported, but apparently brushes between patrols in western Egypt are becoming increasingly frequent. Last night the R.A.F., probably based on Great Britain, delivered a fairly heavy attack on Turin and its vicinity.

RESTRICTED

Paraphrase of Code Radiogram
Received at the War Department
at 11:47 A.M., Nov. 9, 1940

CONFIDENTIAL

Budapest, filed Nov. 9, 1940.

Information received from the British Military Attaché stationed in Budapest indicates that the headquarters of six German army corps are being set up at Bucharest, Galatz, Alex (garbled), Craiova, Jassy and Flocsti. Divisions of the last named corps are at Buzau, Brasso and Flocsti.

PARTRIDGE

Distribution:

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

CONFIDENTIAL

Paraphrase of Code Cablegram
Received at the War Department
at 8:15 P.M., November 9, 1940.

London, filed 15:55, November 9, 1940.

1. Due to the absence of clouds there were no daylight operations by the Bomber Command on Friday, November 8. It was planned to dispatch a total of 122 planes that night, 47 against enemy lines of communication, 37 against oil targets, 18 against Italy, 12 against airfields, 6 against aircraft factories and two against enemy ports. The results of the operations during the previous night were excellent except for the attacks on Italian targets. Fifty bombers dropped fifty tons of bombs, including ten 1,000-pounders in the attack on the Krupp works. Two planes crashed on landing. During the night of November 7-8 the Coastal Command attacked Lorient with seven bombers and planned to repeat the attack the following night. Its other operations were routine. One plane crashed on landing. The Fighter Command dispatched 708 planes on 127 patrols.

2. On November 8 German fighters operating at about 25,000 feet made three raids, of about 80, 75, and 50 planes, respectively, against the Southeast Coast. There were three attacks of about 35, 80 and 20 planes, respectively, on British shipping along the east and southeast coasts delivered from about 15,000 feet. On the

second attack the British shot down 15 dive bombers and one fighter. German operations that night were of a routine nature and on a small scale until daylight. A total of about 230 German planes were plotted.

3. Quarters at one British airbase were damaged and unexploded bombs stopped operations at a second. Wet weather is handicapping several fields. A munitions plant in London, a railroad, and a sewer line suffered major damage. Railroad lines in Birmingham were blocked in ten places. Coventry was raided but damages were light.

4. German plane losses were 19 confirmed, seven probable and nine damaged. The British lost six planes but three pilots were saved.

5. The Greek Army is now completely mobilized and its morale is high. But so far it has been impossible to draw conclusions as to the operations taking place.

6. Along the Southern Rumanian frontier several battalions of German technicians have arrived and arrangements have been completed for a rapid crossing to the railheads at Vidin, Lom, and Nikopol, all in Bulgaria and for transport to Philippopolis, Bulgaria, and the lower Struma River, Greece.

7. There has been no major action in Northern Africa but a further Italian advance is anticipated. The British have identified about 2,700 trucks which are capable of transporting two native and one white divisions. In the recapture of Gallabat, Anglo-Egyptian

CONFIDENTIAL

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Solan, on the morning of November 6, the British took 16 Italian
deserters and many Italian prisoners.

END

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

CONFIDENTIAL



Paraphrase of Code Dispatch
Received at the War Department
on November 10, 1940

CONFIDENTIAL

London, filed 12:30, November 10, 1940.

1. There were no successful daylight operations by the Bomber Command on Saturday, November 9th. That night this Command dispatched a total of 106 planes, 43 against submarine bases, 18 against enemy ports, 10 against German industrial plants, 12 against enemy airbases and 23 against targets in Italy. During the preceding night the principal bomber attack against communications was delivered against the railroad yard in Munich. A total of 32 planes dropped 22 tons of bombs, including two of 1,000 pounds each, on this target. The bombing was very accurate. All other missions, including those against Italian targets, were satisfactory. During that night a total of 106 planes were dispatched, of which three crashed on landing and one was lost. On November 9th the Coastal Command carried out 32 patrol missions, engaged in 32 sorties and escorted 15 convoys, all without losses. The preceding night planes from this Command carried out a very successful attack on the submarine base at Lorient. Forty-four 250-lb. bombs were dropped at altitudes varying from 2,000 to 9,000 feet. The Fighter Command operated 320 planes on 122 patrols.

2. The operations of the German Air Force on November 9th were on a minor scale, with about 120 planes plotted.

3. Five attacks were made on British airbases, mostly by machine guns, with negligible damage. Five planes were damaged at one field but four of them can be fixed up within two days.

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The only damage of a major nature occurred when four high explosive bombs hit a freight depot without damage. One railroad line was blocked. Other damages were quite widely distributed and mainly to private properties.

4. German plane losses were four confirmed and three damaged. The Fighter Command had no losses. In the Eastern Mediterranean the British lost two planes and the Italians two. Civilian casualties were 14 killed and 28 seriously wounded.

5. The following is the status of British airdromes damaged from all causes: One field is completely out of service and another is out temporarily. One airdrome is permanently out of action for night operations while another is serviceable at night for takeoffs but not for landing. One field has but one serviceable runway. Another field is useful in an emergency if given warning in advance, as the runway is being extended.

6. The Fighter Command is increasing its number of night patrols against German bombers. In my opinion their success in this field is increasingly promising.

7. I consider that the most important operation in the present situation was the seizure and establishment of a strong base at Crete from which Italy and the Balkans are very readily accessible by air. As yet there is no probability that it will be overrun by the German Army. This unexpected good fortune is almost the first British break so far in the war. The possession of this base allows the British to carry out effective operations against

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the Italian lines of communication to the Eastern Mediterranean and to maintain uninterrupted sea and air pressure on Italy. The success of this action depends wholly upon prompt action and the availability of the necessary forces.

LKE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury ✓
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL



TREASURY DEPARTMENT
UNITED STATES COAST GUARD

WASHINGTON 9 November, 1940.

From: Spagent, Shanghai, China.
To : Secretary of the Treasury.

Message from Mr. Nicholson.

Local Chinese bankers through Hsi Teh Mou send heartiest congratulations on the re-election of President Roosevelt and wish your administration continued prosperity and success for the next four years. The local American community, Chinese, and British are highly elated over the results of the election. The Japanese are very nervous, but continue whistling in the dark. This office wishes to add our congratulations to those expressed above and to also express our gratitude to you for the kind consideration and encouragement we have enjoyed at your hands during the past years and to assure you, God willing, of our humble efforts to contribute to your success during the next four years shall not diminish.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
NE 881.515/9

November 9, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of a telegram no. 48, dated November 2, 1940, from the American Diplomatic Agent and Consul General at Tangier concerning an order issued by the Spanish military authorities there with respect to the Spanish peseta.

Enclosure:

From Consul General,
Tangier, November 2, 1940.

OFFICE
SECRETARY OF TREASURY

1940 NOV 12 AM 8 46

TREASURY DEPARTMENT

RECEIVED
NOV 13 1940
U. S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.

hsm

AS

GRAY

Tangier

Dated November 2, 1940

Rec'd 8:18 a.m.

Secretary of State,
Washington.

48, November 2, 10 a.m.

Referring to my despatch No.54 of October 11th, the following is a translation of a notice which was posted yesterday afternoon:

"I, Don Antonio Yuste Segura, Colonel of Infantry, Chief of the Column of Occupation of the Zone of Tangier, order from tomorrow Spanish money shall be admitted into circulation as legal currency. Declarations of taxable values can always be written in Moroccan francs and in Spanish pesetas. Tangier, November 1st, 1940. (Signed) Antonio Yuste."

Comments will follow in a day or two.

WHITE

GW

EH

GRAY

(Paris)
Vichy

Dated November 9, 1940

Rec'd 6:20 p.m.

Secretary of State,
Washington.

924, November 9, 1 p.m. (SECTION ONE)
FOR THE TREASURY FROM MATTHEWS.

A series of laws and decrees designed to increase the credit base and at the same time reduce the circulation of bank notes by substituting other means of payment for them, was published in last night's Journal Officiel. These measures provide: (1) private payments in amounts in excess of 3,000 francs for such purchases as wages, salaries, rents, transportation charges, services, supplies and works shall hereafter obligatorily be paid by means of either (?) checks or transfers to a bank or postal account;

MATTHEWS

EMB

REB

GRAY

(Paris)
Vichy

Dated November 9, 1940

Rec'd 2:25 a. m. 10th.

Secretary of State,
Washington.

924, November 9, 1 p. m. (SECTION TWO)

(2) payments by the state and other public entities in amounts in excess of 3,000 francs for such purposes as those enumerated above shall be paid by transfers to a postal account or to an account opened at the Treasury office or a bank; (3) payments by the state and other public entities in amounts less than 3,000 francs shall be paid with postal money orders; (4) all merchants shall be required to maintain a bank account or a post office checking account; (5) up to 50 percent of state contracts for works exceeding 50,000 francs in value and those for supplies in excess of 200,000 francs may be paid with six month Treasury bills.

MATTHEWS

KLP

EH

GRAY

(Paris)
Vichy

Dated November 9, 1940

Rec'd 6:15 p.m.

Secretary of State,
Washington.

924, November 9, 1 p.m. (SECTION THREE)

The first four of the above provisions represent the latest and most important of the steps taken by the Government to further the employment of checks and giros, methods of payment which up to the present time have not been extensively used in France because of the average Frenchman's marked preference for banknotes.

The fact that payment of state contracts may hereafter be paid in part with Treasury bills, however, represents an innovation in French financial practices and one which seems closely to resemble those utilized in the autarchic economic systems. Heretofore except for war time requisitions which were usually paid with one year Treasury bonds the French Government has customarily effected settlement of its contracts with cash.

(END OF MESSAGE)

EMB

MATTHEWS

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 9, 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>
October 28	9,760	356,834	Nil	Nil
29	27,140	1,050,417	Nil	Nil
30	19,685	930,502	25,000	9,214
31	36,295	1,505,557	14,000	10,891
November 1	44,619	1,371,866	76,000	52,383
2	200	11,932	3,000	4,224
	<u>137,699</u>	<u>5,227,108</u>	<u>118,000</u>	<u>76,712</u>
Sales from February 22 to October 26	<u>1,686,695</u>	<u>59,033,831</u>	<u>5,124,000</u>	<u>3,996,896</u>
TOTAL FEBRUARY 22 TO NOVEMBER 2	1,824,394	64,260,939	5,242,000	4,073,608

Mr. Pinsent reported sales of non-vested securities for the week ended October 26 totaled \$500,000.

November 9, 1940

Files

Mr. Cochran

In a conversation by telephone yesterday Mr. Liversy let me know that he had spoken to Assistant Secretary of State Davis in regard to Heath's recent inquiry made at the instance of Vice President Fuhl of the Reichsbank in regard to removal of possible freezing of German assets in the United States by our Treasury. Davis stated that if the Treasury Department did not care to draft a reply to Heath's message, he thought it was not incumbent upon the Department of State to do so. I mentioned this matter at our Foreign Funds Control Group meeting yesterday afternoon, and it was confirmed that the Treasury should not give any reply in the premises.



EMC:1sp-11/9/40


November 9, 1940

File

Mr. Cushman

Mr. Pincent telephoned me from the British Embassy yesterday afternoon. He stated that Mr. D'Arcy Cooper had talked with the State Department in regard to the American Government purchasing certain British materials required for establishment of our bases in British possessions in this hemisphere, arranged for recently between the two governments. Mr. Fagua of the Department of State, an assistant in the Trade Agreements Section under Assistant Secretary Grady, had been helpful with the British, and had volunteered the private advice that Mr. Cooper should go directly to Secretaries Knox and Stimson on this matter. The British did not like to take this step without first consulting the Treasury.

I talked with Phil Young and called Pincent back yesterday evening. I told him that Mr. Young and I were of the opinion that since the Treasury had been acting from the beginning as liaison agency between the British and other Departments and agencies of the United States with respect to purchases by them on this market of supplies, the same procedure should be followed by British missions interested in selling products to the United States. This idea was entirely agreeable to Mr. Pincent and it was arranged that he or Cooper would call Young directly with the view to making such arrangements as may be found appropriate.



ENC:lm-11/9/40

November 9, 1940

Mr. Felle

Mr. Cochran

Mr. Livesey talked with me by telephone yesterday forenoon in regard to the request from the Australians, recently transmitted from the Department of State to the Treasury Department, for treatment of securities entering the United States from Australia, similar to that granted securities coming from the British Isles and Canada. I had told Livesey of our quandary, it being not clear in our minds as to whether we should speak of this matter to Mr. Stopford of the British Embassy before taking a decision. We feel that Stopford knows more about the possible smuggling of German-seized securities into the United States than anyone in the Australian Legation. Should we discuss this matter with him or would it be wrong for us to take up with the British Embassy a matter raised by the Australian Legation?

Livesey had discussed this matter with Mr. Stewart, in charge of the British desk, and let me know that the Department of State would like to see us act as generously as possible toward the Australian request. It was Livesey's suggestion that we might see fit to grant the Australian request and then let the British Embassy know of our action. If the British had any objection thereto, they could throw out the matter with the Australian Legation.

When I mentioned this proposal to the Foreign Funds Control group yesterday afternoon, it was found to involve difficulties, including that of giving publicity to a decision which we might subsequently be requested by the British to alter.

Mr. Livesey telephoned me at 10:30 this morning. He stated that the Australian Legation had asked for an appointment in the State Department at 11:30 this morning on some financial matter. In answer to his inquiry, I told him that I was not aware of any pending question with the Australians, other than that of entry of securities. I told Livesey further that our Group had not come to any definite decision on the Australian security matter. Livesey thought it would be a good idea if the Australians might be permitted to have direct contact with the Treasury. I told him that if he desired to suggest this to his visitor this morning, I would be glad to make the necessary introductions over here whenever the Australian representative might care to call.

November 9, 1940

Mr. Fehle

Mr. Cochran

At 10:00 yesterday morning Mr. Randolph Burgess telephoned me from the National City Bank. He said that the bank had on the preceding day filed with the Federal Reserve Bank of New York application for a license to transfer the dollar deposit accounts from the Brussels branch of the National City to a Belgian bank. Burgess stated that he knew we were aware of the National City efforts to liquidate their affairs in Belgium. They now think that they may be able to work out an arrangement that will avoid the necessity of their purchasing Belgian francs. Just now the third largest bank in Belgium seems interested in taking over both the assets and liabilities of the Brussels bank. This would be done without prior repayment of National City loans. To clear the way for this transaction, some disposition must be made of dollars which had been accepted for deposit by the Brussels branch and are now held on deposit with the National City Bank at New York to the credit of the Brussels branch.

In answer to Mr. Burgess' inquiry as to our attitude on this transaction, I told him that our decision would be greatly facilitated if he would address a letter to the Treasury giving in detail the facts which he had summarized to me over the telephone. He promised to do this promptly and also to have Mr. Ward come down from the bank to discuss this matter with us some time next week. I mentioned this matter to the Control Group yesterday afternoon, Mr. Fehle having the application under reference before him.



HMC:1sp-11/9/40

EH

GRAY

Bucharest

Dated November 9, 1940

Rec'd 4:45 p.m.

Secretary of State,
Washington.

720, November 9, 1 p.m.

On various occasions since we blocked Rumanian funds in the United States high Rumanian officials have requested the Legation's assistance in securing licenses from the Treasury. The Legation has invariably replied that it was not in a position to take the requested action and that the proper channels of application were: (one) through the Rumanian Legation in Washington; or (two) through the Chase Bank or other American corresponding banks of the Rumanian National Bank.

An official of the Ministry of National Economy recently called twice at the Legation leaving on each occasion a memorandum concerning applications made for the release of dollars to pay Rumanian diplomatic and consular salaries and expenses abroad. The first memorandum listed an application telegraphed to the Rumanian Legation on October 22nd requesting monthly authorization for \$100,000 for diplomatic and consular expenditures; and a telegraphic application
made

EH -2- 720, November 9, 1 p.m. from Bucharest.

made by the National Bank on October 23rd to Chase Bank for \$140,000--apparently a reiteration of the October 22nd request, the additional \$40,000 being for Military and Commercial Attaches. The National Bank states that no reply has yet been received to these applications.

The second memorandum concerned applications made on October 16th through the Chase Bank for the payment of October salaries of the staff of the Rumanian Legation in Tokyo totaling \$3,792.16. The National Bank states that these applications were definitely refused by the Treasury. This memorandum also stated that an additional sum of approximately \$2,000 a month was required for general running expenses of the Rumanian Legation at Tokyo but that no application had yet been made pending a favorable reply to the application for salary payments in Tokyo. Reference was also made to a telegraphic application of October 22nd for \$2,196 to cover the transportation cost of the Rumanian Commercial Counsellor in New York who has been recalled to Bucharest; no reply has been received to this application.

Both memoranda ended with the request that the Legation take steps with a view to securing the prompt issuance of these licenses.

On the occasion of both visits it was made clear to the
Ministry

EH -3- 720, November 9, 1 p.m. from Bucharest.

Ministry of National Economy official that the Legation had been specifically instructed not to act as a channel of transmission for applications and further that it could not volunteer recommendations concerning applications which had already been made through the Rumanian or the Chase bank. However, in view of the fact that these licenses are apparently needed urgently for the prompt functioning of the Rumanian foreign services I venture to bring the foregoing to the Department's attention for whatever action may be deemed advisable.

GUNTHER

EMB

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 9 NOVEMBER, 1940

INCOMING HEADING

090228 QUAH D GR 15

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS KLOTZ X AFTER RECEIPT OF THIS MESSAGE PLEASE SEND
ALL MAIL DIRECT TO JAMAICA

Operator's Record.

Initials of "ACTION" officer.

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 10 NOVEMBER, 1940

INCOMING HEADING

100200 QUAH GR 29

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

DEPARTING SAN JUAN TOMORROW SUNDAY AFTERNOON FOR ST THOMAS VIA
AIR X STOPPING BLUE BEARD HOTEL ST THOMAS X DEPART ST THOMAS
MORNING 13TH AND ARRIVE KINGSTON SAME AFTERNOON X INFORM
NECESSARY PARTIES

Operator's Record.

Initials of "ACTION" officer.

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE

10 NOVEMBER, 1940

INCOMING HEADING

101450 QUAH GR 26

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

ASK SECRETARY'S OPERATOR TELEPHONE FOLLOWING TO MRS KLOTZ
AFTER 1200 TODAY SUNDAY QUOTE REQUEST DICK TO START MONDAY
CARRYING OUT MY ORDERS CAREFULLY BEST REGARDS UNQUOTE

Operator's Record.

Initials of "ACTION" officer.

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 10 NOVEMBER, 1940

INCOMING HEADING

101455 QUAH GR 24

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS MORGENTHAU X SECRETARY REQUESTS YOU BRING WITH YOU
 TWO GOOD DETECTIVE BOOKS AND ONE BOTTLE 250 TABLETS MEADS
 BREWERS YEAST TABLETS

Operator's Record.

Initials of "ACTION" officer.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, Senegal, French West
Africa

DATE: November 10, 1940

NO.: 54

FOR THE TREASURY.

Reliable information has come to me that there is being sent by airplane to France a shipment of gold consigned to the Banque de France in the amount of ten metric tons. The greater part of the remaining gold (amounting to 1,240 tons) is now at Kayes, a town on the railroad to Bamako, according to the report.

WASSON.

EA:LWW

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 11 NOVEMBER, 1940

INCOMING HEADING

110323 QUAH D GR 21

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS MORGENTHAU X SECRETARY REQUESTS YOU BRING WITH YOU
A COPY OF NEW YORK TIMES FOR MONDAY AND TUESDAY

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

196

DATE 11 NOVEMBER, 1940

FROM COAST GUARD HEADQUARTERS	CODE
TO (FOR ACTION) SECTREAS	CIPHER
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE. TO (FOR INFORMATION)	ACKNOWLEDGE
	PRIORITY
	ROUTINE
	ACKNOWLEDGE
	PRIORITY
	ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

IS IT VERY WARM DOWN THERE X FEELING FINE AND LEAVING HERE
TUESDAY X LOOKING FORWARD TO JOINING YOU THURSDAY LOVE
ELINOR

OPERATOR'S RECORD

OFFICIAL BUSINESS

INITIALS OF "RELEASING" OFFICER.

U. S. GOVERNMENT PRINTING OFFICE 2-12417

U. S. COAST GUARD

OFFICIAL DISPATCH

DATE 11 NOVEMBER, 1940

UNIT HEADQUARTERS

INCOMING HEADING

111540 QUAH GR 22

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS MORGENTHAU X VERY WARM SIMILAR HAWAII X WILL TRY
MY BEST TO ARRANGE HAVE YOU GO DIRECT MONTEGO BAY X LOVE
HENRY

Operator's Record.

Initials of "ACTION" officer.

SECRET

11 November, 1940.

From: Secretary of the Treasury.
To : Mr. Dan Bell.

Docks and yards here cannot get steel deliveries under ninety days. If price of wool is out of line, suggest Army and Navy specifications permit up to twenty-five percent foreign wool. Understand Uruguay has a limited supply of available wool. Please investigate both steel deliveries and do best in price of wool cloth.

Copy to:
Mrs. Klets

MN

GRAY

London

Dated November 11, 1940

Rec'd 4:13 p.m.

Secretary of State

Washington

3694, November 11, 8 p.m.

FOR TREASURY.

(One) The Chilean payments agreement has now been signed and Treasury orders effective today provide that payments by Chilean residents to United Kingdom residents must be made in sterling to a Chilean special account. Arrangements have been made for payments of certain types of income in sterling from Chilean sterling area accounts with United Kingdom banks registered at the Bank of England, which Chilean residents are permitted in certain circumstances to maintain for meeting personal expenditure. Exports from the United Kingdom to Chile must be paid for in sterling from a Chilean special account.

Commenting on the agreement the Treasury said that all arrangements have thus been made for handling a large amount of sterling, and that all is complete except that there is no sterling. Another multilateral effort is, however,
being

MN -3 - tel # 3694, November 11, 8 p.m. from London

being made to remedy this deficiency, and the Bank of England representative is endeavoring to induce Peru, Chile, and Brazil to sell their products to Bolivia for sterling.

(Two) The text of the payments agreement with Uruguay dated September 11th has now been received. Does the Treasury wish the text telegraphed?

(Three) A Bank of England notice to bankers announces arrangements for individuals resident in Hungary to open sterling area accounts after prior authorization by the Bank of England.

JOHNSON

NPL

EMBASSY OF THE
UNITED STATES OF AMERICA

No. 693.

Chungking, November 11, 1940

Subject: Exports through Chungking during September
and October 1940.

Air mail

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report that the Bureau for the Inspection and Testing of Commercial Commodities of the Ministry of Economic Affairs just released the following figures showing exports from or through Chungking during September and October 1940.

<u>Commodity</u>	<u>October Exports in 100 pounds</u>	<u>September Exports in 100 pounds</u>
Tung oil	9,098.43	5,553.75
White Hog Bristles	----	30.62
Black Hog Bristles	457.03	935.58
Pig Casings	116.73	163.30
Yellow Silk	----	12.00
Rabbit hide	237 sheets	----

Since the reopening of the Burma Road an average of 100 tons of Szechuan wood-oil have been exported daily from Chungking.

The Szechuen Tung Oil Trading Company, which is the collecting agent in this province for the Fooshing Trading Corporation of the Ministry of Finance, announced that over 12,000 tons of wood-oil were purchased by the company from June, 1940, to October 31, 1940. It is expected that total purchases will reach 15,000 tons by the end of the year.

Respectfully yours,

NELSON TRUSLER JOHNSON

Original (by air mail) and
five copies to the Department
Copy to Peiping
Copy to Shanghai

610.22
Copy:bj

Summary of Code Messages Received at the War
Department 20145, November 11, 1940.

London, filed 18:30, November 11, 1940.

1. The program of the Bomber Command for the night of November 10-11th was to dispatch a total of 143 planes, 42 against German oil targets, 26 against factories in Berlin, 25 against industrial plants in Italy, 18 against German railroads, 12 against enemy airbases, 10 against enemy ports and 10 against special targets in Eastern Europe. Attention is called to the way that British bombing is reaching farther and further with the longer hours of darkness and the diminishing threat of invasion. Seven bombers operated during daylight hours of November 10th and 14 during the preceding night. One bomber was lost and one crashed on landing. The Coastal Command carried out its usual program with 39 patrol missions, 38 sorties and 22 convoy escorts. One German plane was destroyed in these operations. The Fighter Command dispatched 448 planes on 207 patrols.

2. Sunday, November 10th, was a pleasant day and there was but one raid of about 40 planes against the Peale area. This was probably aimed at the terminals of the Lisbon Airways. A total of about 130 planes were plotted.

3. Four British airbases were attacked. At one field three Supermarine Spitfires were destroyed and five damaged; while other airbases were undamaged. There were no casualties. The presence of an uncompleted bomb caused a munitions plant to suspend production for one day. The production of another factory was reduced by about 50 percent

due to a broken waterline. A London railroad station and a first aid depot were struck by 12 high explosive bombs, killing four and wounding 14. Three fires were set in London. A city water pumping station was damaged and other utilities and private houses were hit. A railroad line was out at four points. Traffic was affected but the damages were small.

4. There were no plane casualties on either side in the British theatre. In the Eastern Mediterranean the Italian Air Force lost one plane confirmed, one probable and one damaged. The British had two planes damaged.

5. The total casualties in London during the night of November 6-7th were 88 killed and 297 injured and during the following night 76 killed and 316 wounded. During this night 62 London boroughs were attacked. This illustrates the scattered nature of German night bombing. The inefficiency of the whole German bombing program is indicated by the fact that the Dartford district reports that 3,500 high explosive bombs, 300 unexploded bombs and five land mines have struck it since September 7th without causing a single death.

6. The British have announced that during the last thirteen weeks anti-aircraft fire has knocked down 397 German planes, one-seventh of the total bag. The maximum was reached during one week in August when 90 bombers and 14 fighters were destroyed.

7. The German raider in the Atlantic appears to have been identified as the "pocket battleship" Admiral Scheer. British losses in the convoy attack on November 5th is unknown. German dive bombers in an attack on a convoy in the Thames River on November 7th sank three ships and damaged one; but lost four planes confirmed and four probable.

CONFIDENTIAL

CONFIDENTIAL

The next day another convoy was attacked in the same area, sinking one ship and damaging a second. In this attack two German dive bombers were destroyed and two damaged by the anti-aircraft guns of escorting vessels and 15 were destroyed by British fighters. On the same day an unidentified British steamer off the coast of Ireland was bombed and damaged. A convoy of 24 vessels has arrived safely.

8. On November 7th an Italian force was defeated at Kassala (not located in C-2) losing 133 out of 200 men. At 10:00 A.M., November 9th, Italian units were surrounded near Iydrata (Iydrat ?) and were trying to cut their way out; while others in the Kassala area (about five miles within Greek territory - C-2) were reported to be in full retreat.

III

Distributions

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

CONFIDENTIAL

G-2/2657-220

RESTRICTED

No. 243

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

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

I. Western Theater of War.

1. Air Force Operations.

In the period November 9-11, bad weather generally prevailed.

On the 11th heavy German daylight raids with Italian participation occurred, and on the night of the 10th-11th German aerial activity over the London area was intense. Otherwise the scale of operations was relatively light. The Germans continue to emphasize their attacks on shipping.

The R.A.F. bomber command operated extensively only on the night of November 10th-11th, when raids were made on a number of coastal towns and targets in Germany, including Munich.

II. Greek Theater of War.

Ground situation apparently is stabilized along the Kalamas River, in the Voissa valley and in the Florina area. Italian reinforcements are arriving in Albania. There has been fairly heavy Italian air activity over Greek rear areas.

III. Mediterranean and African Theaters of War.

Small scale fighting continues around Gallabat. Air activity apparently has been minor.

RESTRICTED

U. S. COAST GUARD

OFFICIAL DISPATCH

DATE 12 NOVEMBER, 1940

UNIT HEADQUARTERS

INCOMING HEADING

120001 QUAH D GR 34

FROM

SEC TREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS KLOTZ X REQUEST VINER AND STEWART COME TO
WASHINGTON FIRST TUESDAY AFTER I RETURN X THEY SHOULD
BE PREPARED TO ADVISE ME WHO THEY CONSIDER OUTSTANDING
PROFESSOR IN PUBLIC FINANCE BEST REGARDS

Operator's Record.

Initials of "ACTION" officer.

Form 1030
NAVY DEPARTMENT
U. S. COAST GUARD
SEPT. 1930

U. S. COAST GUARD
OFFICIAL DISPATCH
TRANSMIT

12 NOVEMBER, 1940

DATE	12 NOVEMBER, 1940		
FROM	COAST GUARD HEADQUARTERS		
TO (FOR ACTION)	SECTREAS	CODE	
UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.	TO (FOR INFORMATION)	CIPHER	
		ACKNOWLEDGE	
		PRIORITY	
		ROUTINE	
		ACKNOWLEDGE	
		PRIORITY	
		ROUTINE	
MAIL TO			
TELEPHONE TO			
MESSENGER TO			

OUTGOING HEADING

TEXT

DICK COMPLETED NUMBER ONE X NUMBER TWO X THREE HUNDRED NUMBER
FOUR X THREE HUNDRED NUMBER FIVE X ONLY 85 AVAILABLE EFM NOT
ONE HUNDRED X SUFFICIENT AVAILABLE FOR ONLY TWO HUNDRED
NUMBER FOUR X BEST REGARDS HENRIETTA KLOTZ

OPERATOR'S RECORD

OFFICIAL BUSINESS

INITIALS OF "RELEASING" OFFICER

U. S. COAST GUARD

OFFICIAL DISPATCH

13 NOVEMBER, 1940

UNIT HEADQUARTERS

DATE

INCOMING HEADING

QUAT 130132 QUAH GR 21

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR MRS KLOTZ X YOUR SPECIAL CODE MESSAGE RECEIVED X
 PLEASE MAIL DETAILS X ENJOYING VIRGIN ISLANDS FEELING
 BETTER X BEST REGARDS

Operator's Record.

Initials of "ACTION" officer.

U. S. COAST GUARD

OFFICIAL DISPATCH

15 NOVEMBER, 1940

UNIT HEADQUARTERS

DATE

INCOMING HEADING

QUAT 130130 QUAH GR 38

FROM

SECTREAS

TO (FOR ACTION)

COMDT

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TO (FOR INFORMATION)

ACKNOWLEDGE

PRIORITY

ROUTINE

NITE

TEXT

FOR PHIL YOUNG X HOW LONG DOES ENGLISHMAN CONTEMPLATE
 STAYING IN UNITED STATES X IF I DECIDE TO HAVE HIM
 VISIT ME IN JAMAICA THINK IT BEST THAT HE DO SO AFTER
 HE HAS COMPLETED HIS VISIT IN UNITED STATES

Operator's Record.

Initials of "ACTION" officer.

CRYPTOGRAPHIC MESSAGE

15 November, 1940.

SECRET

From: Secretary of the Treasury.
To : Under Secretary Bell.

Please do not make any commitments to change present set-up of four billion dollar national defense obligations as I may wish to keep the present set-up.

Copy to:
Mrs. Klots

Any inquiries concerning this message should be telephoned to Extension 2251. Send replies, if any, in writing to Room 316 (Code Room), to be forwarded in cryptographic form.

BLUEBEARD'S CASTLE HOTEL
CHARLOTTE AMALIE
SAINT THOMAS, VIRGIN ISLANDS

Mrs. Klotz 211

Your file

DWRB

Mr Bell:-

(The following is sent by airmail to you instead of in code at direction of the Secretary. Please give a copy to Mrs Klotz)

"
Have Haas and couple of his men go into ^{the} field and check production both for ordinance and for civilian use and see where bottle necks are developing. Work out a plan with Don Nelson that we get red lights just as soon as any particular industry either raises its prices too fast or slows down on its deliveries. Watch for increase prices to counter balance excess profits tax.

Want a plan in working order by the time I get home. Check with other agencies to make sure we are not duplicating any machinery they may have already set up in the field.

13 Nov 1940

H. M. Jr.

Per D & M Kay

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 November 9, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	73,037 Bbls.	---	81,100 Bbls.	30,000 Bbls.
Crude -				
Blended or California High Octane Crude*	91,953 Bbls.	---	---	38,000 Bbls.
All Other Crude	64,990 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	91,267 Bbls.	---	67,000 Bbls.	---
All Other Gasoline	---	---	8,000 Bbls.	---
Lubricating Oil -				
Aviation Lubricating Oil ***	---	---	---	10,496 Bbls.
All Other Lubricating Oil	655 Bbls.	---	---	34,030 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	836 Tons
All Other Scrap	---	---	---	3,505 Tons

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

November 12, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

Any material from which by commercial distillation there can be separated more than 3 percent 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.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE November 12, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending November 9, 1940

Summary

(1) The pre-election lull in the commodity markets has been followed by a marked expansion of buying activity and a further rise in basic commodity prices, affecting both industrial materials and food products. This price upturn, accompanied by a rise in security prices and a further gain in our "index of confidence", apparently reflects a general increase in optimism over the business and price outlook, with some increase in inflationary sentiment.

(2) Weekly business series continue to indicate a rising trend of industrial activity. Our new orders index has risen to a new high level, owing to a marked expansion in textile orders. Unfilled orders generally have been increasing. The New York Times index for the week ended November 2 rose .3 further to 109.7.

(3) The heavy volume of lumber orders for defense construction in recent months, which has caused a sharp rise in lumber prices and a substantial reduction in available stocks, has not yet brought any material increase in lumber production, owing to characteristic slowness in this industry in getting production under way.

Price rise gains momentum

The general relief from pre-election uncertainties, and the centering of attention once more on the growing volume of demand arising from the national defense program, brought increased buying and rising prices in the commodity markets last week. While sales in a number of markets had begun to expand early in the week, the real buying movement was touched off on Thursday by the announcement of the Treasury's position favoring a substantial increase in the debt limit. Security

Secretary Morgenthau - 2

prices as well as commodity prices rose on this announcement, which contributed further to a growing optimism over the business and price outlook. Our "index of confidence", derived from a ratio between high grade and second grade bond prices, has risen slightly further since the election, after improving gradually over the past several months.

Last week's price movements in the futures markets are shown in Chart 1 (agricultural products) and Chart 2 (industrial materials). Following a pre-election lull in the previous week, sharp gains were recorded last week in the futures markets for various commodities. A feature of the market action was its comprehensiveness. Agricultural commodities joined in the advance and commodities with previously divergent price trends and widely different demand-and-supply situations acted together. Even raw cotton followed the market pattern, under the influence of heavy buying in the gray goods market, in spite of an admittedly large current supply (estimated slightly higher by the Government crop estimate which appeared Friday) and unfavorable export prospects.

Price gains widely distributed

Spot prices also advanced last week, with the index of raw industrial materials 1.0 point higher and foods 2.1 points higher. (See Chart 3.) The most important advances for the week were in wheat, flaxseed, and lead, with wheat, hides, and wool still the highest as compared with their August lows.

The spot price of lead was raised to 5.80 cents last week in two 0.15-cent advances, reaching the highest price since September 1937. In spite of the price advance, the pressure of buying did not slacken, and Mexican lead stored in bond continued to be drawn on. During the first nine months of 1940, imports of lead in pigs and bars totalled 131,000 tons, of which 117,000 tons came from Mexico. Net imports from Mexico and elsewhere in this period amounted to 26 per cent of domestic deliveries, whereas previously imports had been relatively small.

Sales of zinc advanced again to 19,000 tons in the week ended November 2, as compared with the high figure of 11,000 tons in the previous week. The American Zinc Institute reports that stocks of zinc at the end of October had

Secretary Morgenthau - 3

declined 8,365 tons to 22,600 tons, the lowest since December 1926. Shipments declined in October as compared with September, but since unfilled orders increased to almost double the level of shipments, there is evidently no reduction in the pressure of buying. Zinc production increased further in October to a daily average rate of 1,520 tons from 1,771 in September as additional retorts came into operation.

Commercial loans rising

An expansion of credit has accompanied the steady advance in prices of raw industrial materials over the past two months, as indicated by a rising volume of commercial loans. (See Chart 4.) Loans by New York banks for "commercial, industrial, and agricultural" purposes, have increased relatively less than loans of outside banks, the latter having now reached approximately the peak of 1937.

While the \$315,000,000 increase in commercial loans since the end of August cannot be attributed entirely to the financing of commodity purchases, there seems little doubt that a substantial part of the loans have been for that purpose. Raw materials are being bought in larger volume for defense orders, for new plant construction, and for inventories. Purchasing agents report that buyers are covering their needs for a longer period into the future, and the Purchasing Agents Association advises this policy in view of possible price advances and delivery difficulties.

Record production in numerous industries

In reflection of the expanding rate of operations still proceeding in numerous industries, business activity as measured by the New York Times index during the week ended November 2 showed a further slight gain to a new high since August 1937. (See Chart 5, upper section.)

The steel industry continues to be in the vanguard of the current high level of industrial activity. The industry's operating rate during the past week made a fractional gain to reach 96.0 per cent of capacity (refer to Chart 5), turning out the largest weekly tonnage in the history of the industry. The rate this week is scheduled at 96.1 per cent.

Secretary Morgenthau - 4

Trade sources report that steel buying in the first week of November showed no slackening from the extremely active pace set in the previous month. New orders received by the U. S. Steel Corporation during the week ended October 31 amounted to 105 per cent of capacity as compared with 106 per cent in the previous week. During the week ended November 4 the Corporation produced steel at a rate fractionally above 100 per cent, thus passing theoretical capacity for the first time since April 1929.

The extent of the present boom in the steel industry became more apparent last week when it was revealed that steel ingot production in October was 5 per cent in excess of the highest monthly total on record, and no less than 9 per cent in excess of the best month of 1929. Pig iron production in October also reached a new high record, although the number of furnaces in blast on November 1 totaled 195, only 2 more than on October 1. While there are 235 potentially active furnaces, some of these have not been operated in years, and the Iron Age reports that limited supplies of coke may prevent much further increase in the number of furnaces in blast.

Automobile production and sales high

The automobile industry, which in recent years has been consuming more steel than any other industry, has shown an uninterrupted rise in production for the past thirteen weeks. (Refer to Chart 5.) As a result of a further gain of 3,000 units during the past week, automobile output reached the highest figure since the week ended July 3, 1937. Preliminary data covering last month's operations indicate that the industry attained the best production and sales levels for any October on record. However, it must be remembered that an unusually early start was made in new model production this fall, so that too much significance cannot be attached to this showing. In view of the unusually rapid rise in volume production of new model cars since the change-over began last August, a leveling off in production is probably about to occur. This is likely to be followed a few weeks later by a gradual curtailment of production as field stocks are built up and poor selling weather arrives.

Secretary Morgenthau - 5

Power output at record

In addition to the gains noted in the steel and automobile industries, further evidence of expanding business activity is to be found in the rising trend of electric power output. Reference to Chart 5 will disclose successive gains in power output for the past three weeks at the highest levels on record. The latest figure reported, which covers the week ended November 2, already stands 4 per cent above the seasonal peak reached last December. On the basis of normal seasonal trends further expansion in electric power output may be expected between now and the latter part of December.

In view of the record activity in the steel, electric light and power, and other important coal consuming industries, it is somewhat anomalous at first glance to find a noticeable dropping off in bituminous coal production in October. (Refer to Chart 5.) The decline set in as a result of developments connected with establishment of minimum prices for bituminous coal effective October 1. Prior to that date, numerous consumers had been building up stocks in anticipation of higher prices. As a result, stocks in the hands of industrial consumers on October 1 were 12,000,000 tons (or 40 per cent) above the same date in 1939. In addition to the reaction which has occurred due to the advance building up of stocks, it has been reported that some independent producers of lower grade coals were forced to curtail or suspend operations as a result of the new minimum prices.

Lumber orders far exceed production

Lumber production has not yet responded to the heavy volume of defense orders, which in recent months have far exceeded the production level. (See Chart 6.) The normal slowness of the industry in expanding production is apparently responsible. It will be noted that in previous years several months have usually elapsed before production has reflected an increased level of new orders, and comments from the industry suggest that this behavior is characteristic. Trade reports say that sawmills commonly carry light stocks of manufactured lumber, and that these were drawn very low when the defense program began placing orders for large quantities.

Secretary Morgenthau - 6

Judging by evidence from the industry, it is probable that lumber producers have the capacity to increase production considerably further. The Lumber Survey Committee of the Department of Commerce, in its quarterly report dated August 26, 1940, estimated that the present saw mill capacity is adequate to increase the output of softwoods by 40 per cent and of hardwoods by 50 per cent, and that available timber resources afford no limitation on this estimate. From the point of view of lumber needs for defense purposes, the availability of softwoods is the more important.

The increase in the price of lumber and other building materials in 1940, as stocks declined, is shown on Chart 7. The price of lumber as measured by the lumber component of the BLS price index (1926 = 100) advanced sharply in September, while building material prices as a group were also somewhat higher. (Refer to Chart 7, upper section.) Preliminary data for the month of October indicate that building material prices again rose, largely because of an increase in lumber prices, which increased 2 per cent in the week ended October 26 and 1.4 per cent in the week ended November 2.

From the point of view of cost, it is significant that the Quartermaster Corps has raised its estimate of the cost of housing a soldier in cantonments to \$450, from the \$400 figure estimated last spring. Although this estimate includes all items required for shelter, the increase represents in considerable degree an advance in the cost of lumber. Press reports intimate that unless the FHA consents to increase its valuations of residences because of the increased cost of materials, some prospective purchasers of new homes may be deterred from buying.

New orders at record high

Our index of new orders reached a new high for the week ended November 2, largely because of a striking increase in orders for woollens which carried the textile component also to a new high. (See Chart 8.) The steel component and the total excluding steel and textiles were little changed from the previous week's revised figures.

Secretary Morgenthau - 7

Although cotton goods orders were fractionally lower for the week ended November 2, market news indicates an outstanding increase last week, which carried the estimated volume of orders for print cloth and related items to 225 per cent of current production. The already large backlog of unfilled orders, including both defense and civilian requirements, was thus increased further. Sales in the last 2 hours on Thursday totalled 10 million yards, a figure which would have been exceeded except that facilities of even the largest commission houses were unable to keep pace. Sales on Friday totalled 30 million yards, while prices of most fabrics rose to the highest level in 12 months. Even as early as last Monday, however, the demand was such that mills were doing everything they could to discourage long-term commitments.

Trade sources reported last week that orders for woollens by civilians are being refused because of the inability of mills to promise delivery on dates satisfactory to the purchasers. Meanwhile the War Department has announced that in the future Government contracts will no longer be limited to domestic wool alone, thus alleviating a serious difficulty which has been frequently mentioned. As a consequence, the woolen trade expects one of the heaviest import movements on record in the next 6 months.

Weekly business indexes

Largely as a result of a sharp contra-seasonal rise in electric power output, the New York Times index of business activity during the week ended November 2 advanced slightly to a new high for the current rise. As a result the index stood at 109.7 as compared with 109.4 (revised) in the previous week.

Other factors contributing to the rise were a contra-seasonal advance in steel ingot production and a more than seasonal increase in cotton mill activity. Miscellaneous freight car loadings showed less than the usual seasonal decline.

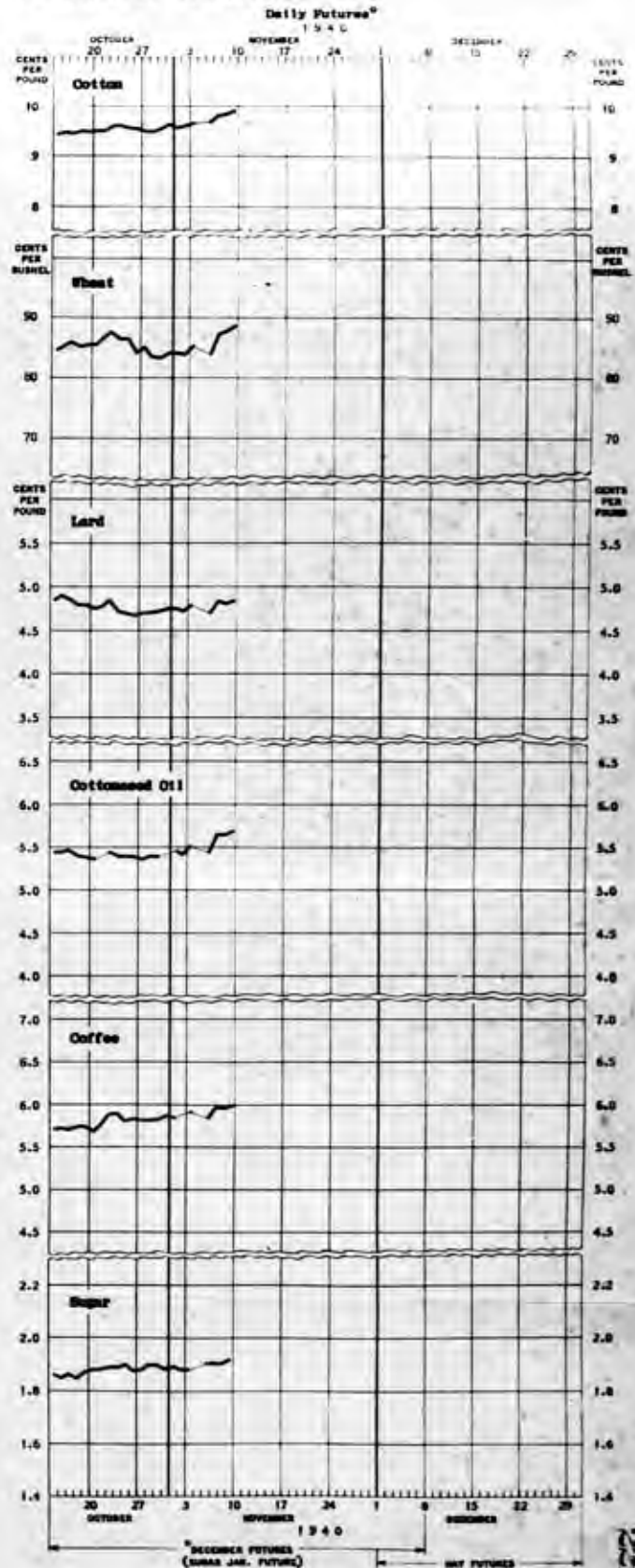
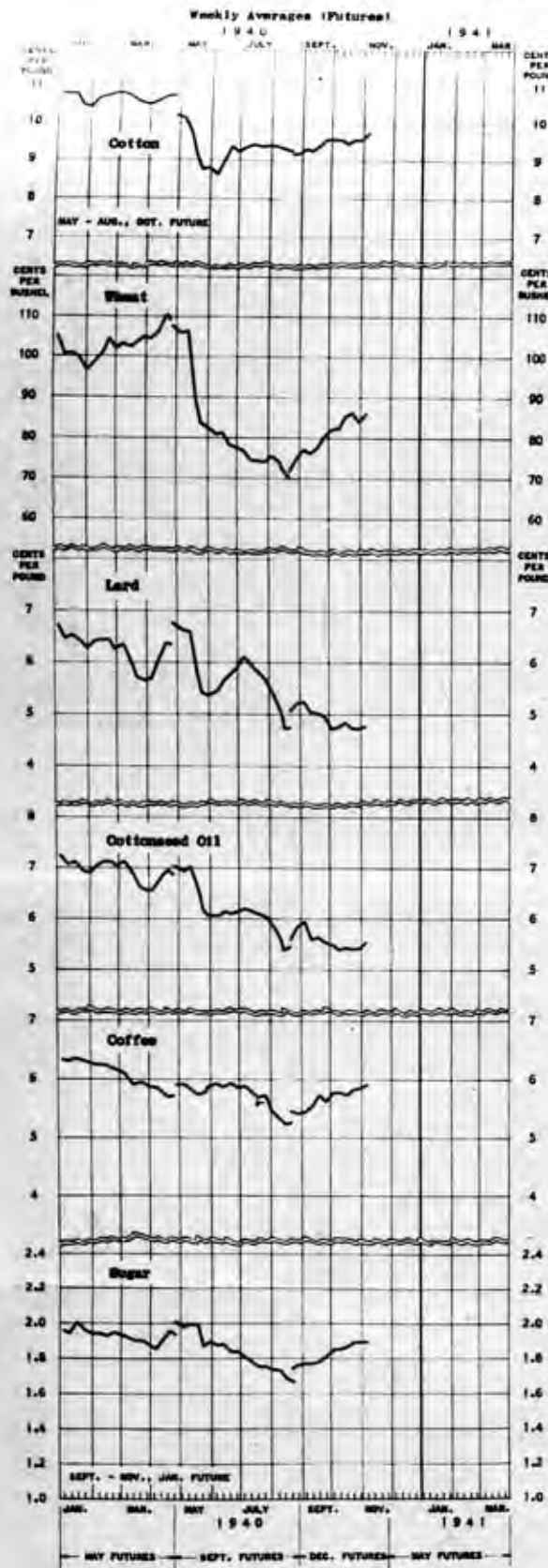
The principal offsetting factor was another sharp decline in the adjusted index of automobile production despite a further rise in actual output. However, the adjusted indexes of lumber production and "all other" carloadings

Secretary Morgenthau - 8

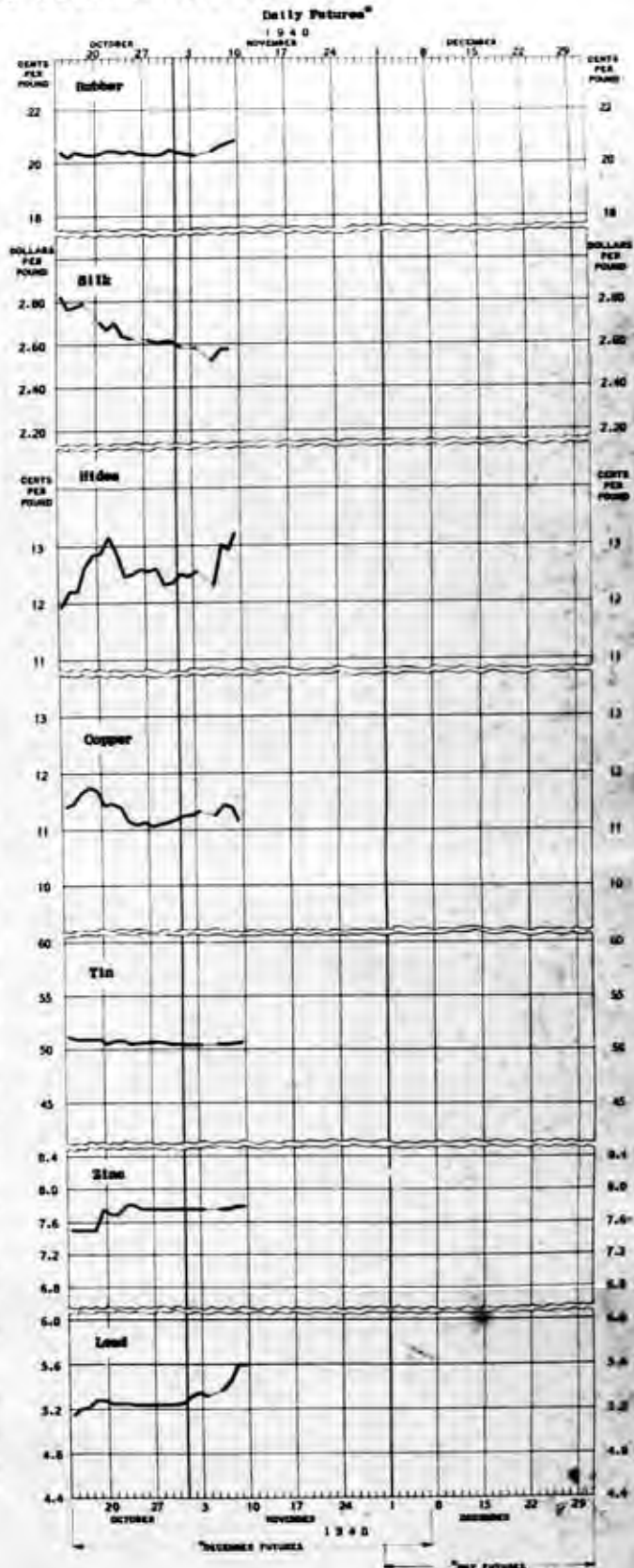
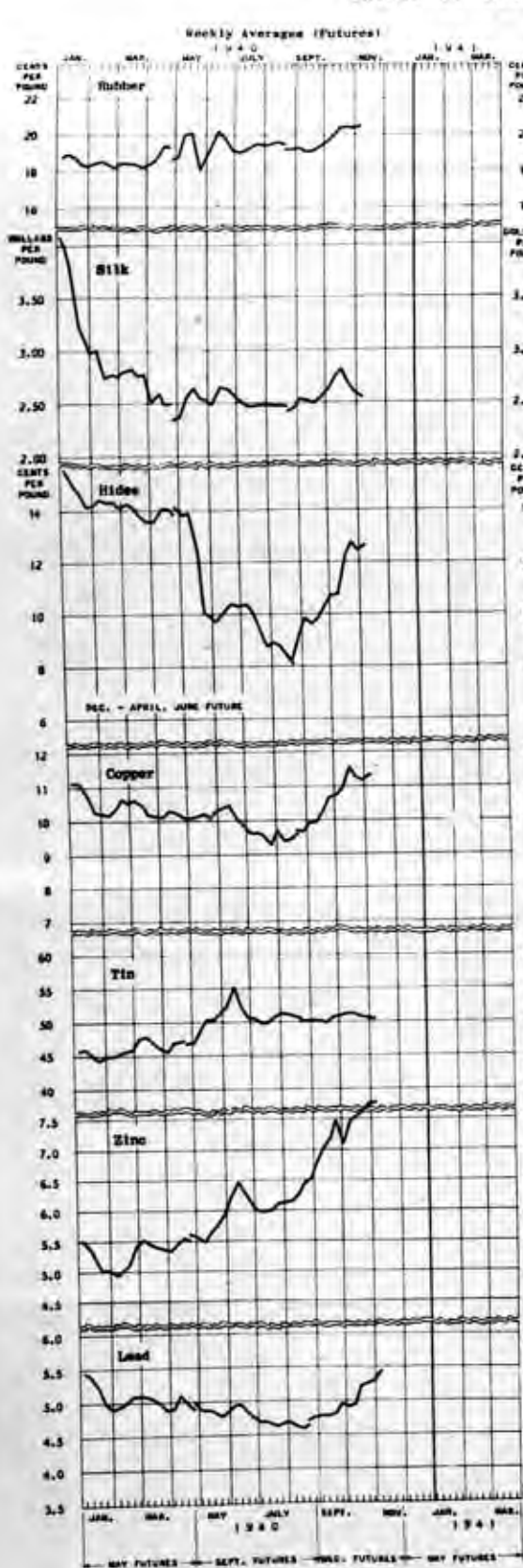
also showed rather sizeable downturns as a result of greater than seasonal decreases in activity.

Barron's index of business activity for the week ended November 2 lagged behind the Times index slightly and as a result declined to 118.8 from 118.9 in the previous week.

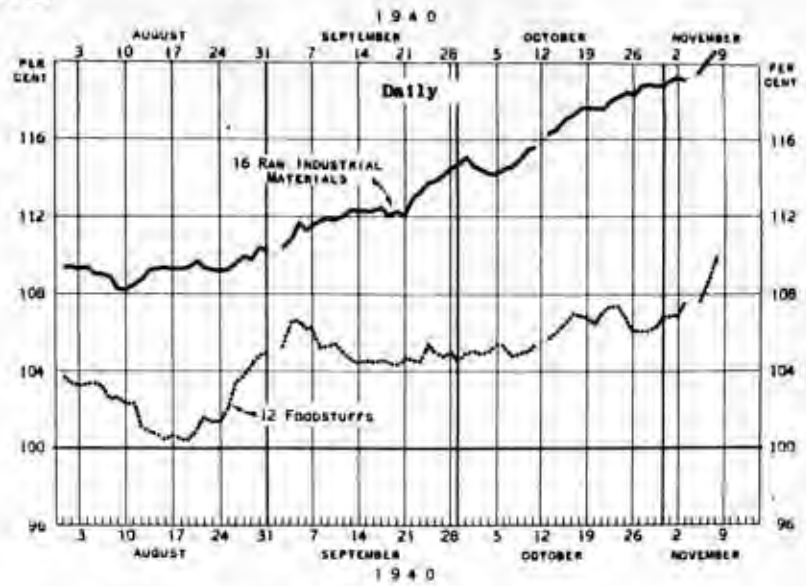
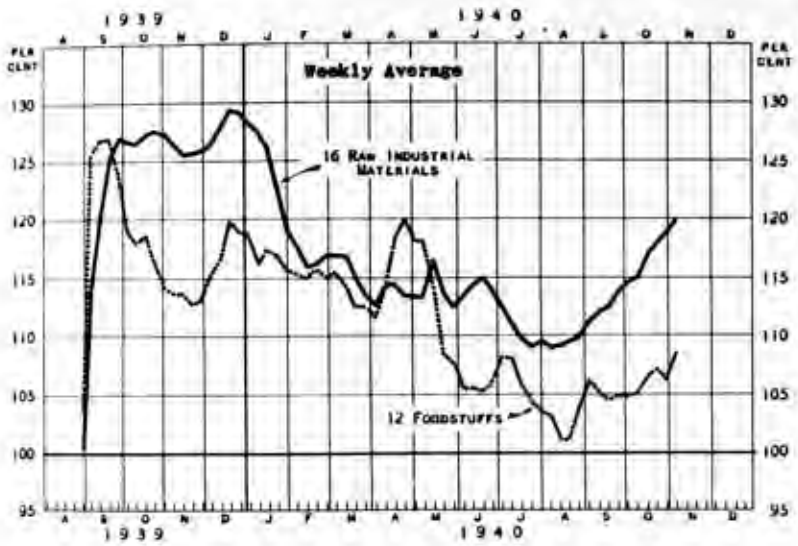
PRICES OF SELECTED AGRICULTURAL COMMODITIES



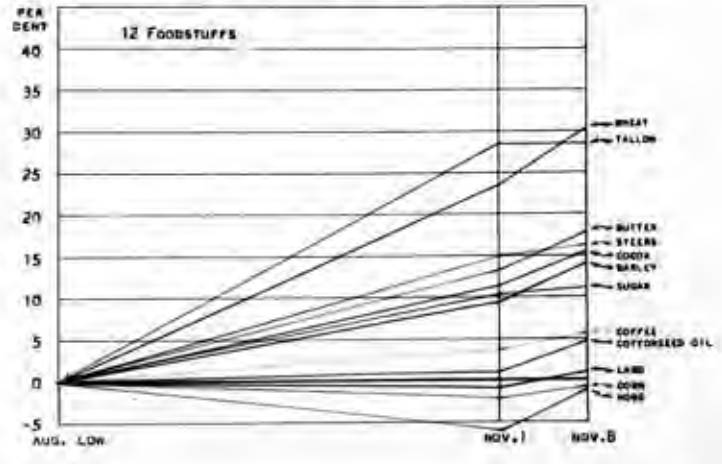
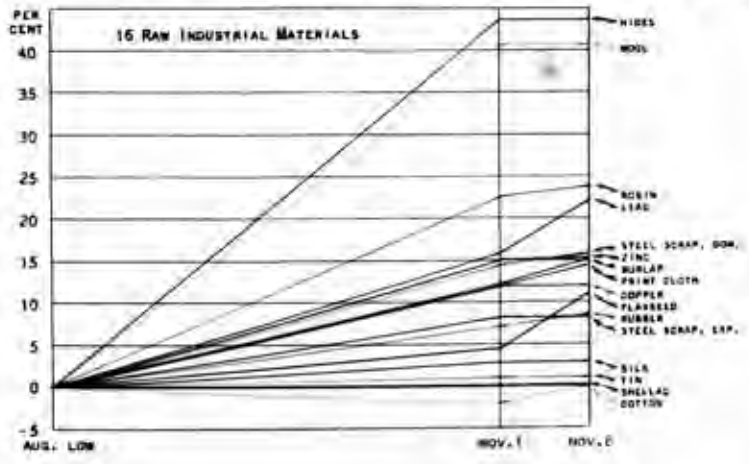
PRICES OF SELECTED INDUSTRIAL MATERIALS



MOVEMENT OF BASIC COMMODITY PRICES
AUGUST 1939 = 100

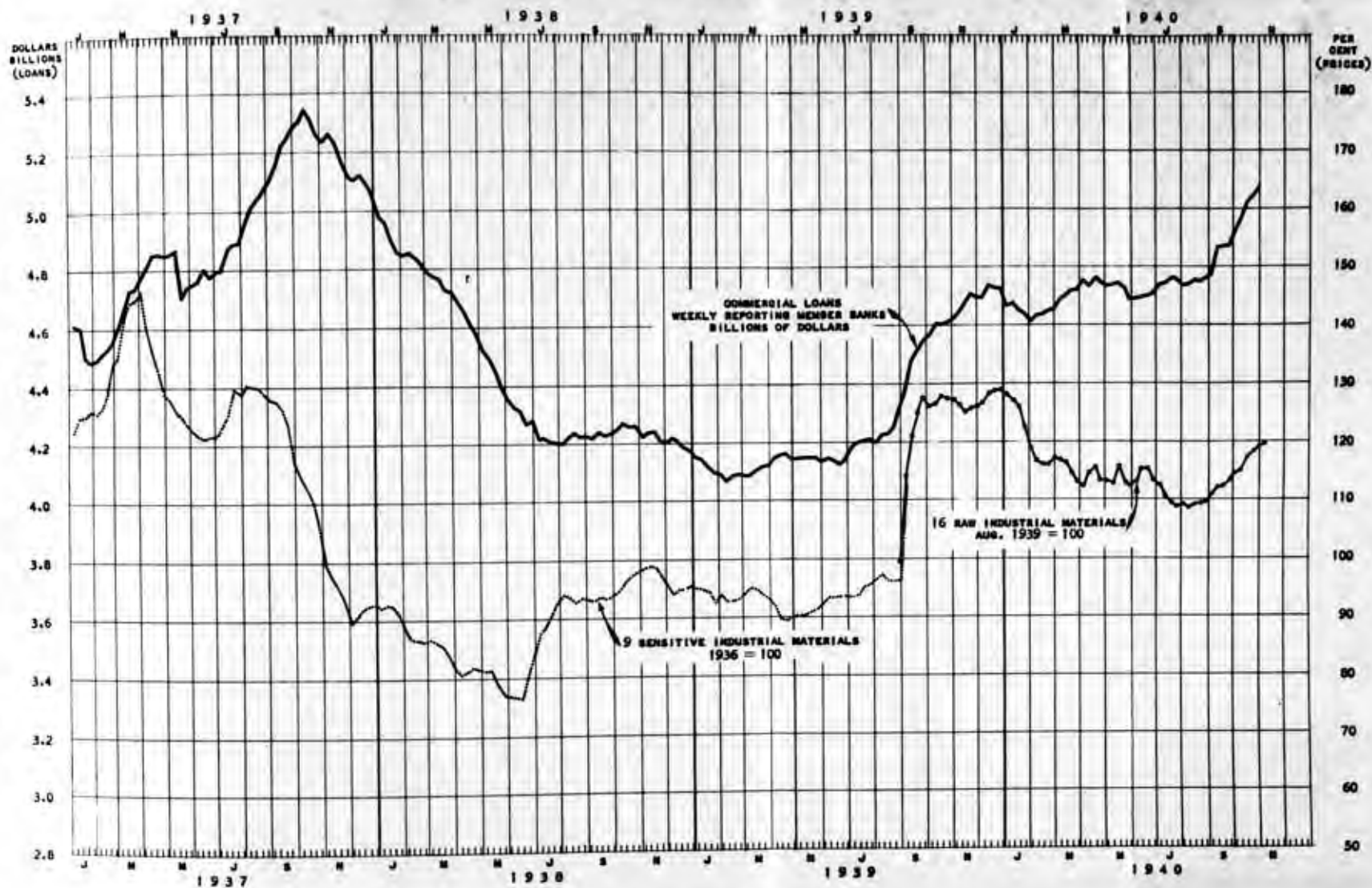


Percentage Change for Individual Commodities, August Low to November 1, and to November 8, 1940

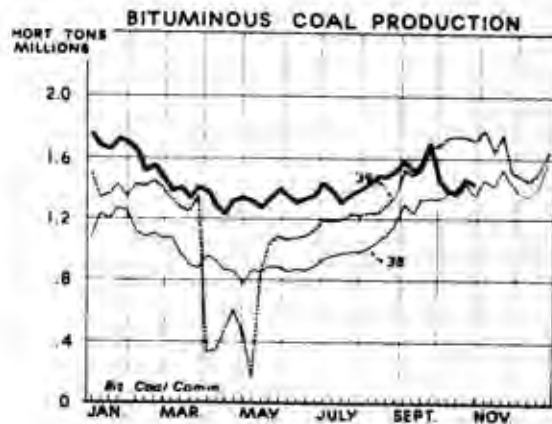
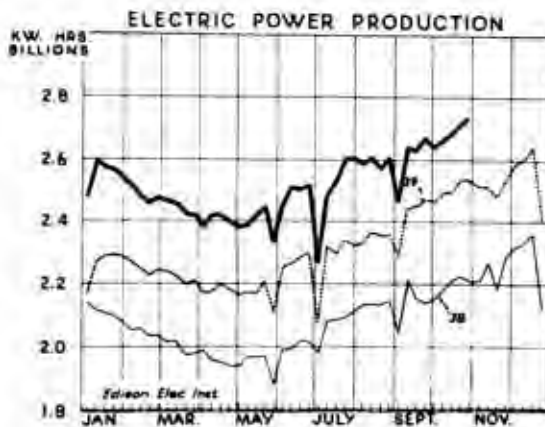
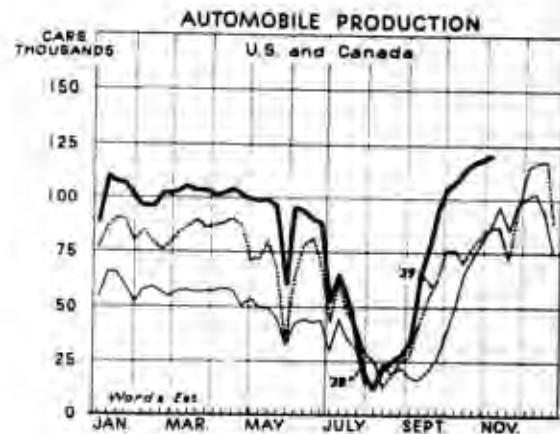
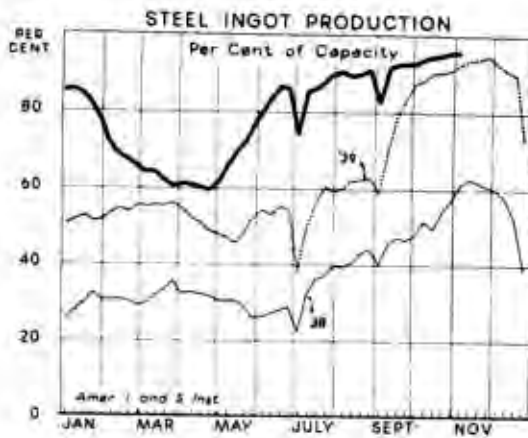
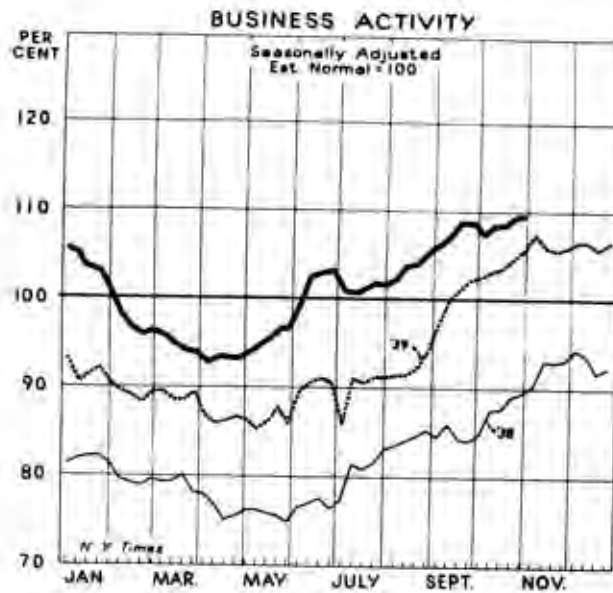


Office of the Secretary of the Treasury
Division of Economic and Statistics

COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES

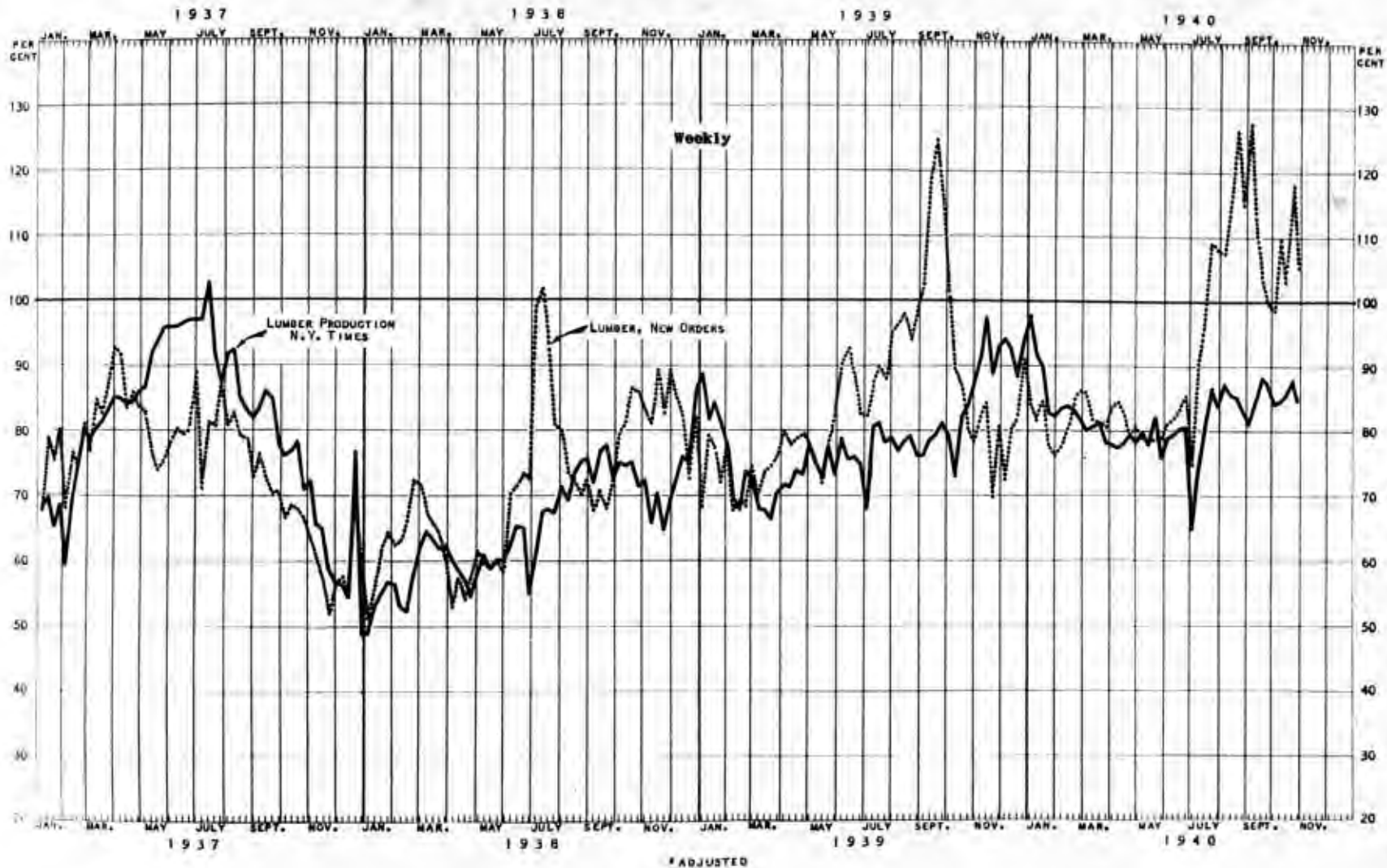


SELECTED BUSINESS INDICES



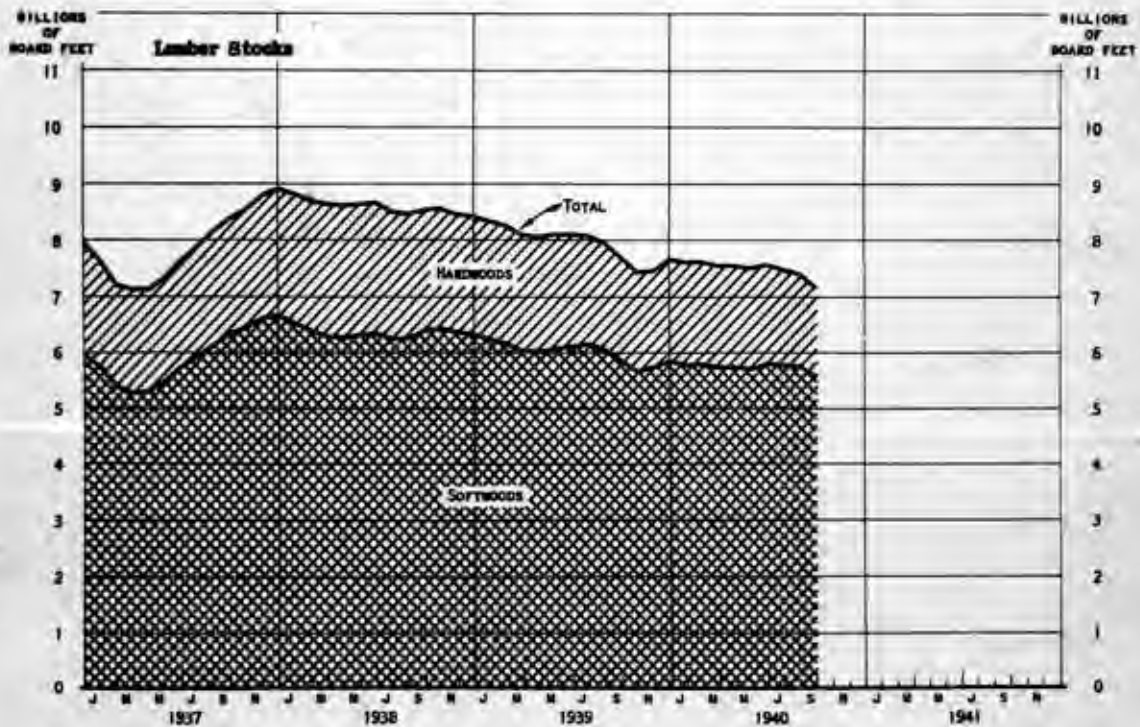
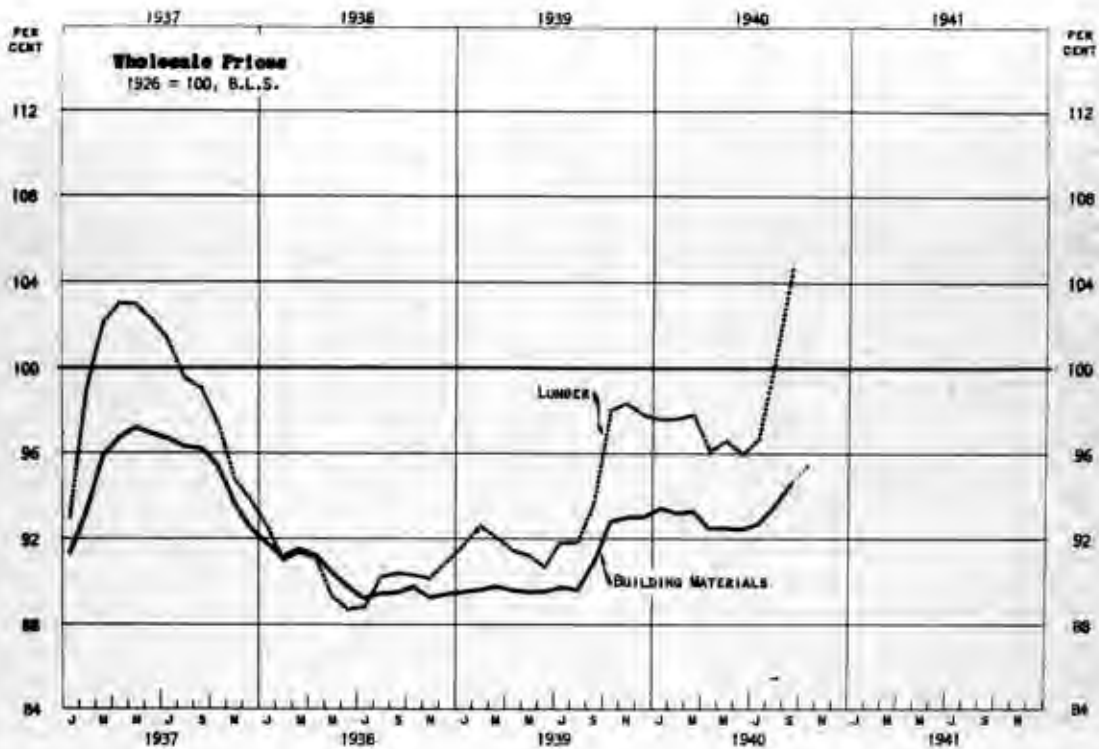
LUMBER PRODUCTION AND NEW ORDERS

EST. NORMAL = 100*



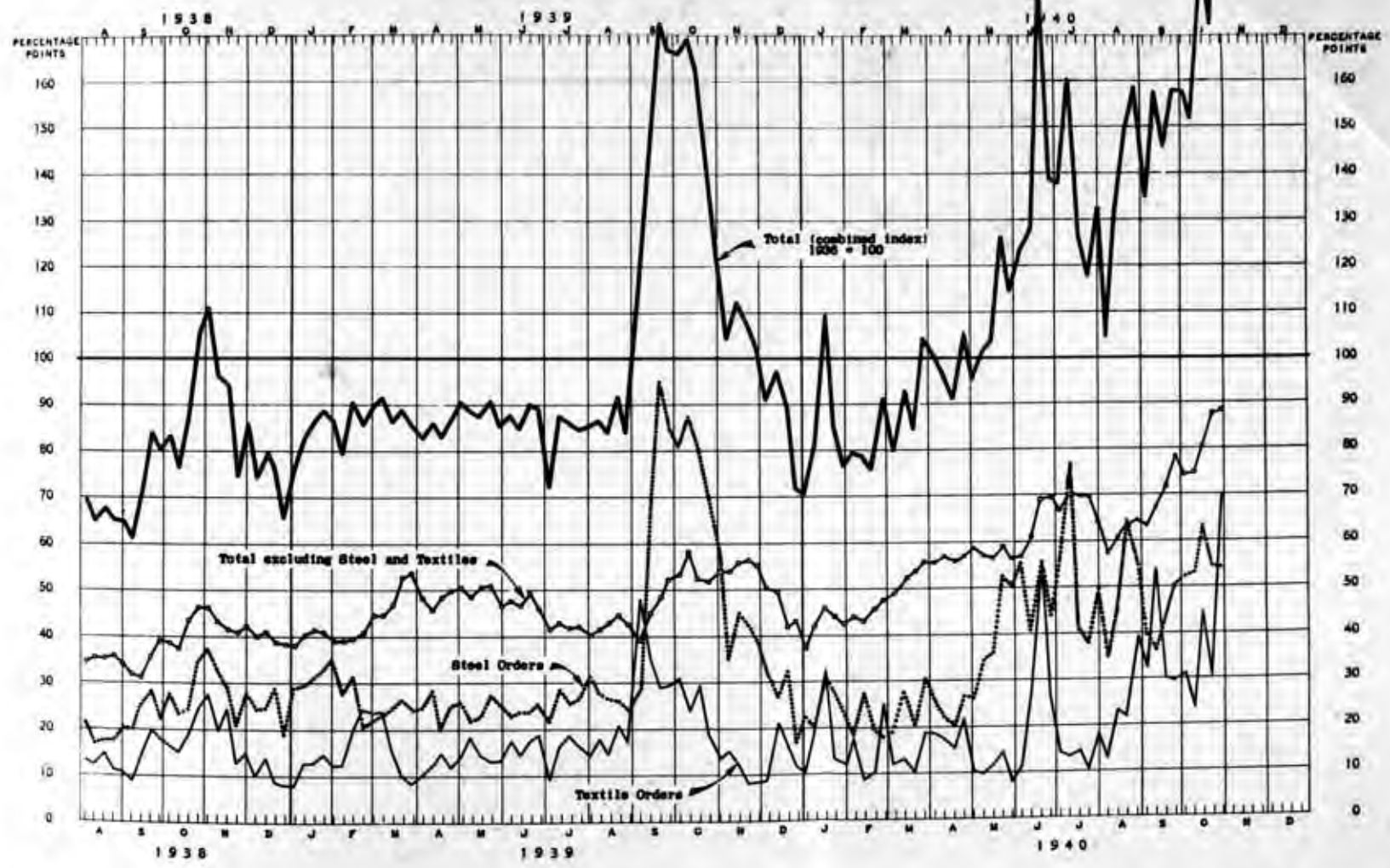
* ADJUSTED

LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



203
CHART 7

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



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

For Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£95,000
Purchased from commercial concerns.....£44,000

The Federal Reserve Bank of New York sold £20,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-3/4 until late in the afternoon. It closed at 4.04. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£27,000
Purchased from commercial concerns.....£ 5,000

In a very dull market, the Swiss franc eased slightly, closing at .2320. Saturday's final rate was .2321-1/2.

The Argentine free peso continued to move upward, closing at .2370. A week ago, that currency was quoted at .2335.

The Cuban peso has shown a firm tendency of late. As compared with last week's prevailing discount of 9-1/8%, today's quotation was 8-1/2%.

Closing quotations for the other currencies were as follows:

Canadian dollar	13% discount
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2070

There were no purchases or sales of gold effected by us today.

Having received the Treasury's authority under both the Gold Reserve Act and Executive Order No. 8389 as amended, the Federal Reserve Bank of New York effected the following transfer of gold in its vaults today:

\$2,963,000 from B.I.S. account No. 2 to the account of the Central Bank of the Argentine Republic. Gold in B.I.S. account No. 2 is owned by the B.I.S.

According to cables received from the B.I.S., the aforementioned transaction represents part of an arrangement between the National Bank of Hungary and the Argentine Central Bank, in which the B.I.S. acted as intermediary. Having decided to keep part of its metallic reserve in Buenos Aires, the Hungarian Bank asked the B.I.S. to effect this transfer in preference to incurring the delay, cost and risk of shipping gold to Argentina. The B.I.S. arranged with the Argentine Central Bank to exchange gold in New York for gold in Buenos Aires; the latter is being earmarked with the Argentine Central Bank in the name of the B.I.S. and is the property of the National Bank of Hungary.

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

- \$50,000,000 from Canada, shipped by the Bank of Canada, to be earmarked for account of His Britannic Majesty's Government.
 - 17,082,000 from Canada, representing two shipments by the Bank of Canada, for account of the Government of Canada, for sale to the U.S. Assay Office at New York.
 - 3,229,000 from Portugal, shipped by the Bank of Portugal for its own account, disposition unknown.
 - 518,000 from England, shipped by the Bank of England, for account of the National Bank of the Kingdom of Yugoslavia, disposition unknown.
(Similar shipments in the past have been earmarked upon arrival.)
- \$70,829,000 Total

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 November 6, showed that such deposits totaled \$98,753,000, an increase of \$1,006,000 since the last report as of October 30. Included in this total were \$36,249,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, slightly higher than the figure of October 30, and \$51,411,000 in deposits made by Japanese banks in Japan and Manchuria, up \$1,530,000. In addition to the last-mentioned increase, bills held by Yokohama's New York agency for Asiatic account rose \$2,751,000. Against these new dollar liabilities, the New York agency reported that its loans to Japanese banks in Japan and Manchuria increased by \$3,671,000 to \$32,433,000 during the week ended November 6.

The gold price received from Bombay today was equivalent to \$33.80, off 1¢ from the quotation of November 9. According to cable advice received from Bombay, a fair export demand was in evidence last week, despite a 2% increase in war risk insurance rates. The Bombay silver price was equivalent to 43.60¢, a gain of 3/8¢ since November 9.

In London, the spot and forward silver prices were both fixed at 23-3/8d, each showing a gain of 1/16d from last Friday's quotation. The dollar equivalent of 23-3/8d is 42.44¢.

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

We made six purchases of silver totaling 390,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL *[Handwritten initials]*

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 12, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in German accounts maintained at:

Chase National Bank

National City Bank

A handwritten signature in dark ink, appearing to be 'J. M. C.', is written in a cursive style below the typed text.

Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 8	\$180,000	A/B Svenska Handelsbanken, Stockholm, for account of Allgemein Waren Finanzierung, G.M.B.H., Berlin	Chase National Bank by order of Reichsbank	\$ 55,700	Deutsche Golddiskontbank, Berlin	Irving Trust Co., for account of Vongibara
Nov. 9				250,000	Reichsbank, Berlin	Chase National Bank, N.Y., for State Bank of U.S.S.R.
				250,000	"	Chase National Bank, N.Y., for account of Deutsche Gold Discount Bank, Berlin
				250,000	"	Central Hanover Bank and Trust Co., N.Y., for account of Banco de La Nacion Argentina, Buenos Aires
				36,882.50	Deutsche Gold Discount Bank, Berlin	Irving Trust Co. for account of Carl Marks & Co., N.Y.
				50,216.67	Reichsbank, Berlin	Corn Products Refining Co., 17 Battery Place, N.Y., by order of Konversionkasse fur Deutsche Auslandsschulden, Berlin

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 9	\$750,000	Reichsbank, Berlin	National City Bank, N.Y., by order of Swiss National Bank, Zurich	\$250,000	Reichsbank, Berlin	Yokohama Specie Bank, Ltd., N.Y., in favor of Yokohama Specie Bank, Ltd., Tokio, by order and for account of the Reichsbank, Berlin

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

We received from the Federal Reserve Bank of New York the following information regarding the transactions listed on the attached statements in Italian accounts maintained at:

Chase National Bank

National City Bank



Chase National Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 9	\$50,000	Banca Commerciale Italiana, N.Y. For account of Banca Commerciale Italiana, Rome	National City Bank, N.Y., by order of Banca de America et d'Italia, Rome	\$59,987.32	Banca Commerciale Italiana, N.Y.	Check to order of Bankers Trust Co., N.Y.
				50,000	Banca de America et d'Italia, Rome	Chase National Bank, for account of Banca Commerciale Italiana, N.Y., for account of Banca Commerciale Italiana, Rome.
				78,748	Banca Commerciale Italiana, N.Y.	Check to order of Bankers Trust Co., N.Y.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Oct. 26				\$ 75,000	Banca Commerciale Italiana, New York	Check to order of Manufacturers Trust Co., N.Y.
Oct. 28				42,200	Banco di Napoli Trust Co., New York	Check to order of Leopoldo Alerano Glauer
				40,240	"	Check to order of Credit Suisse, N.Y.
Nov. 1				150,000	Banca Commerciale Italiana, New York	Check to order of National City Bank, N.Y.
Nov. 2				40,000	"	"
Nov. 6				25,000	"	Check to order of Guaranty Trust Co., N.Y.
Nov. 7				50,000	Credito Italiano, New York	Check to order of Irving Trust Co., N.Y. for account of Credito Italiano, N.Y.
				28,200	Credito Italiano, Rome	National City Bank, N.Y., for account of Credito Italiano, N.Y.

November 12, 1940.

Dear Mr. Sherwood:

Thank you very much for sending me the twenty copies of the list of businessmen associated with the Defense Commission. I appreciate your promptness in replying to my request.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Sidney Sherwood,
Assistant Secretary,
The Advisory Commission of the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

GWF:ues

November 12, 1940.

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Mr. Sidney Sherwood,
Assistant Secretary,
The Advisory Commission of the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

SH:two

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

November 8, 1940

Dear Mrs. Klots:

Herewith 20 additional copies of the current list of businessmen associated with the Defense Commission, in keeping with your request of November 6th.

Sincerely,


Sidney Sherwood
Assistant Secretary

Mrs. H. S. Klots
Office of the Secretary
Treasury Department

November 12, 1940

Dr. Fois

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy,

London.

From Treasury.


With reference to your #3674, November 11, 8 p.m. Not necessary
to telegraph text of payments agreement with Uruguay dated September 11. Copies
by mail will suffice."

November 12, 1940

Files

Mr. Cochran

When I talked with Mr. Livesey at 9:15 this morning he told me that the State Department had not sent the telegraphic instruction to Martinique for our Vice Consul there to report upon gold, as had been planned last week. The reason for this decision was that Admiral Greenhalgh of the United States Navy, who has just returned from a tour of the Caribbean inspecting naval bases, had reported that he had discussed with the French Commanding Admiral at Martinique the question of gold and had been assured by the latter that there had not been any shipment of French gold out of Martinique and that no such gold would be shipped. The State Department was satisfied with this report and preferred not to make any further inquiries through our Vice Consul.



EMG:lsp-11/12/40

September 18, 1940

Mr. Fehle

Mr. Cochran

Mr. Stepford talked with me at 10:35 this morning. He had received a cablegram to the effect that his people in London were still worried about permitting the French to make payments out of dollars in the United States for diplomatic and consular expenses in Latin America. I told Stepford that this decision had only been made after much discussion by various branches of our Government and that I did not think it would be changed unless there might be some important alteration in the French situation. When he asked whether he could let his people know that this was really a diplomatic decision in which the Department of State had participated, I told him that I saw no objection thereto.

Stepford also indicated the unhappiness of London over our approving a transaction involving dollars, whereby Turkey was to sell cotton to Rumania and Rumania was to sell oil to Turkey. Again I told Stepford that the application in question had been approved only after consultation with the Department of State. I added that I had made available to the Department of State all of the information on this subject which Stepford had provided to me, so that the State Department was fully aware of the views of the British Government in the premises. Stepford hoped that we would not take any action on the Iran-Rumanian cotton proposition without letting him have an opportunity to present British objections. I told him I thought this was still pending, but that I would check with Mr. Fehle.



Washington

In reply refer to
Bu 840.51-Frozen Credits/865

November 12, 1940

My dear Mr. Secretary:

I enclose for your consideration and information a copy of a note date November 6, 1940 from the Rumanian Charge d'Affaires with regard to the release of \$25,070 for "salaries and expenses of the various Rumanian Legations and consular offices."

The Charge d'Affaires also refers to four previous applications for license to pay from the account of the National Bank of Rumania certain sums to the Rumanian Legation in Tokyo and to members of the Legation's staff. It appears that these applications have been refused.

In view of the limited amounts involved, I suggest that favorable consideration be given to the release of the amounts specified in the note in question from the Rumanian Legation.

Sincerely yours,

For the Secretary of State:

(Signed) A.A. Berle, Jr.

Adolf A. Berle, Jr.
Assistant Secretary

Enclosure:

From Rumanian Legation,
November 6, 1940.The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

No. 3793/P-3-II-3a

November 6, 1940.

Sir:

Since the requests I had the honor to present to you in behalf of my Government, on October 19, 1940, our No. 3631, have not yet been decided, I have the honor to refer to point (d) thereof, calling attention to the following:

Pending consideration of the Romanian Government's request to have the sum of \$95,000 monthly freed from the funds the National Bank of Romania has on deposit with the Chase National Bank of New York, the latter, through the Federal Reserve Bank, filed with the Treasury Department on October 29, (No. 15173), an application for a license to pay from the said account the amount of \$25,070.00 for "salaries and expenses of the various Romanian Legations and consular offices." As this amount represents urgently needed traveling expenses of recalled officers of various Romanian Legations and salaries for the month of October, for which no other means of payment exist, I have the honor to ask you to be good enough to intercede with the Treasury Department in order that the said amount may be freed in the shortest possible time. Considering that the National Bank of Romania will draw checks to various Legations and Consulates, up to the said amount, it will be necessary that the license be irrevocable for a period of at least sixty days.

The sum of \$25,070 is divided, as follows:

1. Sums representing traveling expenses of transferred members of the Romanian Diplomatic Service:

Legation in Lisbon.....	\$1,500
Legation in Moscow.....	350
Legation in Mexico.....	2,000
Legation in Rio de Janeiro.....	600
Legation in Buenos Aires.....	2,350

2. Sums representing salaries of members of various Romanian missions, which heretofore have been paid in dollars:

Legation in Buenos Aires.....	\$1,800
Legation in Moscow.....	4,900
Legation in Mexico.....	1,400
Legation in Helsinki.....	900
Legation in Rio de Janeiro.....	2,400
Legation in Teheran.....	800
Legation in Washington.....	500
Consulate in Montreal.....	1,300

3. Sums representing partial salaries of members of the staffs of the following Legations and Consulates:

Legation in Ankara.....	\$ 650
Legation in Athens.....	750
Legation in Belgrad.....	1,000
Legation in Lisbon.....	350
Legation in Madrid.....	550
Consulate in Ianina (Greece).....	150
Consulate, Istanbul (Turkey).....	250
Consulate, Piræens, (Greece).....	150
Consulate, Salonika (Greece).....	150
Consulate, Skoplje (Yugoslavia)...	120
Romanian Danube Commission in Belgrad.....	150

The salaries above must be paid in dollars because dollars represent the only means whereby the payees may make foreign purchases, which are indispensable to them.

Prior to requesting the sum of \$25,070, the Chase National Bank, on October 18, 24 and 26, filed four applications for license to pay from the account of the National Bank of Romania the amounts of \$1,738.37, \$159.92, \$1,894.07, Yens 1.997.09 to the Romanian Legation

in Tokio and to members of the said Legation.

This request having not been approved, the Romanian Legation asked, on October 31, 1940, (No. 3783), for a reconsideration, explaining that the said sums represent urgently needed salaries and office expenses for the month of October 1940 of the Romanian Legation and the Military Attache in Tokio, for which, because of the late date, no arrangements can be made for payment from other sources. (See Enclosure).

On November 6, 1940, the Treasury Department replied that "such applications have received careful consideration and it has been found that the approval thereof would not be in accordance with the policy of the Treasury Department in administering Executive Order No. 8389 of April 10, 1940, as amended."

In view of the urgency of these matters, we now request the kind intervention of your Department with the Treasury Department in an endeavor to have these payments approved.

Accept, Sir, the renewed assurances of my highest consideration.

Romanian Charge d'Affaires a.i.

The Honorable Cordell Hull,
Secretary of State.

COPY

247

No. 3783/P-3-II-3a

COPY

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

October 31, 1940.

Sir:

Attention of Mr. Pehle.

The Chase National Bank, through the Federal Reserve Bank, filed the following applications for license to pay out of the account of the National Bank of Romania, the sums shown below:

1. No. 14728, dated October 18, 1940, to Colonel Radulescu Nicolae, Romanian Military Attache in Tokyo, \$1,738.37;
2. No. 14739, dated October 18, 1940, to Colonel Radulescu Nicolae, Romanian Military Attache in Tokyo, \$159.92;
3. No. 14958, dated October 24, 1940, to G. Paraschivescu, Romanian Minister, and R. Flonder, Secretary of Legation, in Tokyo, \$1,894.07;
4. No. 15077, dated October 26, 1940, Royal Legation of Romania in Tokyo, Yen 1,997.09.

The Chase National Bank informs me that the requested licenses were not approved and I, therefore, beg to ask you to be good enough to reconsider this refusal for the following reasons:

The above sums represent immediately needed salaries and office expenses for the month of October 1940 of our Legation and the Military Attache in Tokyo. Because of the late date no arrangements can be made for the payment of these sums from other sources and, therefore, I would greatly appreciate it if the necessary licenses would be granted.

Accept, Sir, the renewed assurances of my highest consideration.

Brutus Coste,
Romanian Charge d'Affaires

Miss Chauncey says that this should just
be put in the diary without HM Jr seeing
it as it is obvious that the reports should
be discontinued since the V.T. Act has been
suspended.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

IT:P:CA
CAA

November 12, 1940.

REPORT FOR SECRETARY MORGENTHAU:

In regard to closing agreements under the Vinson-Trammell Act, there were no developments during the week.

In view of the suspension of the Vinson-Trammell Act and of the unlikelihood of further transactions in closing agreements, if you approve it is proposed that this weekly report be discontinued.

A handwritten signature in cursive script, reading "Guy F. Hering".

Commissioner.

Paraphrase of No. 269, November 12, 6 p.m.
from Santiago, Chile

All itemized list of exchange totaling \$6,086,178 has now been furnished by the Exchange Control Commission which it states is owed to seventy-one firms in the United States for goods sold to companies in Chile. The Commission reports that the total amount of exchange owed to all concerns in the United States for merchandise is \$8,500,000. The difference between the two amounts mentioned represents small accounts owed to about five hundred exporters in the United States. About thirty important commercial houses in Chile contributed information for the compilation of the itemized list, the Control Commission having asked them to report the names of United States exporters to whom monies were owed and the amounts of exchange that had been applied for but not yet granted.

The amount of \$2,413,822 declared to be owed to United States exporters was arrived at by the Exchange Commission by the subtraction of the total of the itemized list (that is, \$6,086,178) from \$8,500,000, which figure appears to be the total of all dollar exchange for which applications have been received, but for which exchange has not been granted, to pay for goods from the United States. The \$8,500,000 should accordingly be considered

as

as an all-inclusive figure, in view of the manner in which the information has been compiled by the Control Commission, presumably because its records do not permit the preparation of data showing actual arrears. If assistance were to be provided in this total amount, it is believed that exchange cover for all applications pending at this time for payments for American merchandise could be provided by the Exchange Control Commission.

In the Chilean market, there is always a "float" of unmatured and currently maturing bills for imports and for which exchange has been requested. The figure of \$8,500,000 mentioned by the Exchange Control Commission includes this float, which is unofficially but reliably estimated to total from \$1,500,000 to \$2,000,000.

If this amount is deducted, it appears that from \$6,500,000 to \$7,000,000 would be the actual amount of dollar exchange arrears. The Department and the Export-Import Bank may wish to consider the granting of exchange assistance on this basis.

The Exchange Control Commission states that it is not able to break down the amount of \$8,500,000 according to (1) goods in the country for which exchange has been applied for but not yet granted, (2) goods held in customs for which exchange has been applied for, (3) goods in transit and/or on order for which exchange has been

been applied for. After discussing this question with leading importers, the Commercial Attache believes that the \$8,500,000 may be broken down approximately as follows, in the numerical order mentioned in the preceding sentence: (1) \$5,000,000, (2) \$2,500,000, and (3) \$1,000,000.

Of the \$5,000,000 for goods already in the country but not yet paid for, the following accounts for the major part:

Standard Oil Company of New Jersey	\$620,000
General Motors	\$250,000
Anglo-Mexican Petroleum, New York	\$400,000
Balfour Guthrie, New York (for general merchandise)	\$150,500
International Standard Electric Company	\$110,000
Ford Motor Company	\$383,600
International Harvester Corporation	\$163,400
Eastman Kodak Company	\$108,000
Grace and Company (for general merchandise)	\$700,000
Wessel Duval (for general products)	\$800,000
Singer Sewing Machine Company	\$348,000
Goodyear	\$ 56,800
United States Rubber	\$ 35,600
Goodrich	

- 4 -

Goodrich	\$ 30,100
Kelly Springfield	\$ 37,200
United States Steel Corporation	\$222,400
Bethlehem	\$128,000

The last two firms mentioned owe the amounts specified to banks in Chile which have opened the corresponding dollar commercial credits in New York on behalf of the companies. The Embassy's observation of the manner in which exchange control has functioned in the past counsels the advisability of including in any arrangement for exchange relief some provision for preventing the accumulation of new arrears, such as by limiting the issuance of import licenses for goods the aggregate value of which in any three-month period or other convenient period would not exceed the exchange receipts for the same period as conservatively estimated. Air mail report follows.

BOWERS

RA:RFW:GRS
btsCOPI

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£57,000
Purchased from commercial concerns	£38,000

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

Sold to commercial concerns	£9,000
Purchased from commercial concerns	£3,000

The Cuban peso continued to improve. Today's discount was 8-1/8%, as against 8-1/2% yesterday.

There was no appreciable movement in the other currencies. The closing quotations were as follows:

Canadian dollar	1 3/4% discount
Swiss franc	.2321
Swedish krona	.2386-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2368
Brazilian milreis (free)	.0505
Mexican peso	.2070

We purchased \$50,162,000 in gold from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank of New York released \$340,000 in gold from the earmarked account of the Bank of Finland. This gold was sold directly to the U. S. Assay Office at New York. Since the bars are not in a condition acceptable for an advance payment, the Assay Office intends to make full payment for the gold twelve days hence.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$25,000 yesterday, setting aside as collateral \$28,712 in gold from the Salvadorean bank's earmarked account. The total of such loans now outstanding amounts to \$822,000, secured by \$918,781 in gold.

There were no new gold engagements reported to us today.

The report of November 6, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$12,472,000, a decrease of \$140,000 in the short position. The net changes in the positions are as follows:

Country	Short Position October 30	Short Position November 6	Decrease in Short Position
England*	\$ 2,552,000	\$ 2,153,000	\$399,000
Europe	4,252,000	4,234,000	18,000
Canada	52,000	38,000	14,000
Latin America	324,000	369,000	45,000 (Increase)
Japan	4,338,000	4,471,000	133,000 (Increase)
Other Asia	1,083,000	1,227,000	144,000 (Increase)
All others	11,000	20,000 (Long)	31,000 (Increase in Long Position)
Total	\$12,612,000	\$12,472,000	\$140,000

*Combined position in registered and open market sterling.

No gold or silver quotations were received from Bombay by the New York banks.

In London, a price of 23-5/16d was fixed for both spot and forward silver, 1/16d lower in each case. The dollar equivalent of 23-5/16d is 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 three purchases of silver totaling 315,841 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

The Federal Reserve Bank of New York reported the following transactions in Russian accounts maintained with the Chase National Bank.

Principal changes in the State Bank of Russia's dollar account during the period November 7 to November 13, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Nov. 7	\$ 270,000	Antorg Trading Corp.	\$ 150,000	Chase National Bank, N.Y., for account of Moscow Narodni Bank Ltd., London
	3,000,000	Guaranty Trust Co., N.Y., by order Banque de Greece, Athens, re obligation to pay for 50,000 tons of wheat for account of the Greek State, represents reimbursement under Guaranty Trust Co. Letter of Credit		
Nov. 8	60,000	Chase National Bank, N.Y., for account of Skandinaviska Banka, Stockholm	1,300,000	Antorg Trading Corp.
	250,000	Chase National Bank, N.Y., by order Sveriges Riksbank, Stockholm in favor Rasno Export order Reservforerr- sadannamnd, Stockholm	199,618	Commercial Letters of Credit
Nov. 9	2,900,000	Federal Reserve Bank of N.Y. by order of Banque de Greece, Athens	79,614	"
Nov. 12	250,000	Chase National Bank, N.Y. by order of Reichsbank, Berlin	103,123	"
Nov. 13	810,717	Commercial Letters of Credit	197,216	"

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<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Nov. 13	\$ 221,866	Chase National Bank, N.Y., by order of Skandinaviska Banken, Stockholm		
	176,043	Chase National Bank, N.Y., by order Stockholms Enskilda Bank Stockholm account Sojus Promexport, Moscow order A. Johnson & Co.		

On November 13 the balances of the State Bank and the Amtorg Trading Corporation were as follows:

	<u>State Bank of the U.S.S.R.</u>	<u>Amtorg Trading Corporation</u>
Cash Balance	\$15,346,400	\$ 1,459,000
Cash commercial Letters of Credit	13,899,500	2,141,700
Time deposit	<u>10,300</u>	<u>-0-</u>
Total	\$29,256,200	\$ 3,600,700
Change in total since November 6	+ \$ 6,058,300	- \$ 117,600

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE November 13, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the transactions, on the statement attached, in Italian accounts maintained with the Chase National Bank, New York.

A handwritten signature in dark ink, appearing to be 'JMK', is written in the center of the page.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>	<u>Chase National Bank</u> <u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
Nov. 13	\$619,737	Credito Italiano, N.Y.	Credito Italiano, N.Y. (Check drawn by Post & Flagg, N.Y., on Bank of Manhattan Co., N.Y.)	\$ 606,000	Credito Italiano, N.Y.	Chase National Bank, N.Y., for account Banca Commerciale Italiana, N.Y.
	606,000	Banca Commerciale Italiana, N.Y.	Chase National Bank, N.Y., by order of Credito Italiano, N.Y.	1,023,000	Banca Commerciale Italiana, N.Y.	Federal Reserve Bank of N.Y. in favor of Banque Nationale du Royaume de Yugoslavie, Belgrade for account of Hrvatska Banka dd Zagreb, by order of Istituto Nazionale per I Cambi con L'Estero, Rome
	150,000	"	B.C.I., N.Y. (Check of B.C.I., N.Y., on National City Bank, N.Y.)			
	150,000	"	B.C.I., N.Y. (Check of B.C.I., N.Y., on Guaranty Trust Co., N.Y.)			

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 13, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in German accounts maintained with the Chase National Bank and the National City Bank, New York.

Chase National Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 12	\$200,000	Reichsbank, Berlin	Chase National Bank, N.Y., for account A/B Svenska Handelsbanken, Stockholm

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
November 13	\$150,000	Reichsbank, Berlin	Yokohama Specie Bank, Ltd., N.Y., in favor Yokohama Specie Bank, Tokio, by and for account Reichsbank, Berlin



JT

GRAY

BUENOS AIRES

Dated November 13, 1940

Rec'd 4:58 p.m.

Secretary of State,
Washington.

539, November 13, 3 p.m.

With reference to the Embassy's telegram 532, November 8, 6 p.m., concerning the Pinedo report, the final section published Saturday is of more direct interest to the United States since it indicates a radical reduction in the volume of American automotive products and agricultural machinery that will be admitted. The figure given, 24,000,000 pesos, is one-third the estimated total for the present year and is understood to represent a provisional figure to be used as a basis for the second category of products mentioned in the last paragraph of the Embassy's telegram 493, October 17, 8 p.m. whereunder any increase would depend upon the success of the importers affected in stimulating certain Argentine exports.

The Minister's report divides Argentina's foreign markets into three categories: (1) the sterling group comprising areas governed by compensation agreements

or

-2- No. 539, November 13, 3 p.m., from Buenos Aires

or where payment is made in blocked exchange; (2) countries of free exchange, chiefly the United States; and (3) neighboring countries exercising control of exchange. The plan contemplates the liquidation of blocked balances through the repatriation of government bonds or the purchase of foreign-owned public utilities and transportation companies. As to the unfavorable balance with the second group the report states that imports will have to be restricted and to this end will be divided into the three groups referred to in the Embassy's telegram 493 and the enclosures to despatch No. 1309, September 27. As to the remaining group, a reduction is to be effected by disposing of the exchange available for this category at auction. The free market will be maintained for transactions such as remittances of profits abroad and investments of foreign capital in Argentina.

ARMOUR

NPL

P A R A P H R A S E

The following is the substance of a telegram (no. 1240) dated November 13, 1940, from the American Consul General at Shanghai:

(A) In local Chinese banking circles considerable agitation has been caused by (1) the fact that Japanese brokers have stated to American and other local banks that plans are being actively pushed for the early inauguration of the new central bank; and by (2) the taking over on November 9 by the Nanking authorities of the Central Bank of China premises in the International Settlement.

(B) It is stated by Chinese bankers having contact with the new bank's personnel that it is planned that the Nanking Finance Minister, Chow Fu Hai, will proceed on November 16 to Japan to make arrangement for final details. Whether the bank will be named "The Central Reserve Bank of China" or "The Central Bank of China" apparently has not been decided.

(C) The intention is to introduce strict trade control to insure success, according to one Chinese banker with close contacts in Nanking; and also to peg the new central bank currency on a "managed" basis at 16 United States cents; and to announce that, until the ultimate perfection of trade

of trade control and the consequent disappearance of the "Fapi", the "Fapi" and its related foreign exchange market are to be allowed to continue, the exchange rate between the "Fapi" and the new currency being determined by the former's foreign exchange value in United States cents.

(D) It is feared by Chinese bankers that pressure will be exerted upon them, when the new currency is launched, to subscribe to loan issues of the new bank and to assist in furthering the currency's circulation. Various cooperative measures for the consideration of the Chungking authorities are being suggested by the bankers. They are especially concerned over the rendition to Nanking's jurisdiction of the Chinese courts in the French Concession at Shanghai, and over the possibility of further pressure being used with a view to similar action in the International Settlement. Should rendition in the International Settlement be consummated the banker's securities and the chances for future prosperity of Chinese banks and business enterprises would be undermined. The American position might also be further seriously impaired, since foreign, including American, business and trade

CONFIDENTIAL

-3-

trade in this region obviously can survive and flourish only under conditions propitious for the Chinese.

A section of the Japanese Army here is understood to have opposed establishment of the new bank and issuance of the new currency, because it wishes to perpetuate its own military scrip notes and because it depends on the free and open foreign exchange market for exchange to purchase supplies from abroad. This opposition may have been overcome, however, and a compromise scheme for early execution may be in the making, according to the indications.

JR

GRAY

Berlin

Dated November 13, 1940

Rec'd 11:30 a.m.

Secretary of State,
Washington.

4690, November 13, 11 a.m.

For Treasury from Heath and for Department's
information.

In a speech recently made by the Reich's Economic and Financial Commissar for Holland Dr. Fischbock he denied that it was planned to devalue the florin to parity with the mark. He regarded the adjustment of the Dutch price level to Germany's as inevitable since Holland must obtain such a large proportion of her imports from Germany. Although note circulation has increased from 1 to 1.5 billion florins there is no ground for fears of inflation he asserted since uncontrolled price rises are prevented and the excess purchasing power is made available to the Government for its expenditures via the banks.

Fischbock denied also that trade between Germany and Holland was "onesided". Imports from Germany reached 19 million florins in July 29 million in August, and 31 million in September (as compared with a monthly average of 25 million in 1938 and 30 million in 1939) and Dutch exports

to

-2- #4690, November 13, 11 a.m., from Berlin.

to Germany reached 25 million florins in July 38 million in August and 39 million in September (as compared to a monthly average of 13 million in 1938 and 11 million in 1939). Holland's excess of exports to Germany he said is thus not very large he maintained that future negotiations concerning economic affairs will be on the basis of equality that Holland will not be dictated to and her economic interests will be given full consideration although Germany's economic requirements must under all circumstances be safeguarded. An increase in the profits tax but not to the German level was also forecast in his speech and it was indicated that there might also be other tax increases.

It will be noted that in his account of the increasing value of German exports to Holland no mention is made of the higher export prices now quoted for certain German commodities.

MOSES

AR

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: November 13, 1940, 8 p.m.

NO.: 944

FROM MATTHEWS FOR THE TREASURY DEPARTMENT.

Reference, telegram of November 5, 5 p.m., No. 898 from the Embassy.

Instructions have been given to the banks by the Finance Minister not to comply with the instructions of the German authorities that they shall submit statements covering the total values of foreign currencies and foreign securities which they hold in the unoccupied territory as well as the total values of such currencies and securities which they hold in this area for the account of clients who are domiciled in the occupied area.

A letter was written to the German authorities by Bouthillier to the effect that he considered in issuing these instructions they had exceeded their authority. The German authorities informed him finally that they could not accept his contention. Consequently the matter has been referred to Wiesbaden by Bouthillier.

MATTHEWS.

EA:LWV

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy, France

DATE: November 13, 1940, 9 p.m.

NO.: 946

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

In a talk with Cariguel at Clermont-Ferrand today he said that the relations between Schaeffer and the Bank of France continue to be amicable. Cariguel said that Schaeffer had not made any attempt to influence the Bank's policies in the unoccupied territory. It has been pointed out by the bank supervision office that it will be necessary to institute certain reforms in the French banking system, especially to reduce the number of banks, but as yet no steps have been taken to bring about this reduction. Reference: telegram of August 26, 7 p.m., No. 431 from the Embassy. It is Cariguel's opinion that there really are too many banks in France, and ^{he} agrees with the German authorities that no bank should be permitted to operate if its capital is less than 50,000,000 francs.

French banknote circulation figures are usually about two or three weeks old because of the difficulties and delays in communication; the total is still around 210,000,000,000 francs according to the latest data available.

Cariguel said that the Germans had been informed by Bouthillier that it would not be possible for France to continue payments to cover the costs of the occupation Army in the amount of 400,000,000 francs daily.

END SECTIONS ONE AND TWO.

MATTHEWS.

PARAPHRASE OF SECTIONS THREE AND FOUR OF
TELEGRAM NO. 946 OF NOVEMBER 13, 1940 FROM PARIS (VICHY)

He said that it would be necessary for Germany to scale the payments down to a reasonable figure, or there would be serious monetary inflation in France. At Wiesbaden conversations are now proceeding on this matter.

According to Cariguel, attempts had been made by the Germans to invest the idle capital accruing to them from these payments in the French money market, but the Bank of France had not permitted them to put into operation such a scheme.

Cariguel claimed that the French authorities are becoming concerned about prices in the occupied zone, which are from 10 to 15 percent higher than those in the unoccupied area. Prices continue to rise despite the strict measures of control. The upward movement ~~movement~~ has been encouraged, he said, because the Germans are unwilling to pay more than the market price for consumers goods provided delivery can be assured thereby.

One of the main points in the recent protest by Southillier to the Germans on submitting bank statements of foreign securities held in the unoccupied territory, Cariguel said, was the fact that the Bank of France had no desire to divulge information to the Germans about the foreign securities since all those which it holds for its clients are now physically located in this territory.

(Reference, telegram of November 12, 8 p.m., from

- 2 -

the Embassy, No. 944.)

Several of his colleagues, Cariguel said, were somewhat concerned lest de Gaulle have turned over to him the balances of the Bank of France held in the United States.

END OF MESSAGE.

MATTHEWS.

EA:LWW

AS

PLAIN

London

Dated November 13, 1940

Rec'd 12:22 p.m.

Secretary of State,
Washington.

3718, thirteenth.

FOR TREASURY.

One. Under the headline "United States Blow To British Trade" the DAILY TELEGRAPH prints an article from its Washington correspondent complaining that as Dr. Jekyll the United States Treasury gives every assistance to the British Purchasing Commission and as Mr. Hyde assesses import duty inclusive of purchase tax. The correspondent asserts that "it would be the simplest matter in the world by a mere change in administrative ruling to assume that the British wholesale price on which the American customs duty is based is the price at which the goods are sold by wholesalers". The correspondent goes on to point out that since the Neutrality Act necessitates cash payments the building up of exports to the United States is of prime importance and asserts that "British-held securities are being used up rapidly. If British imports are

AS-2- No.3718, thirteenth, from London.

are at the same time restricted by Treasury policy a critical situation will be reached far sooner than expected".

Two. The October Clearing Bank returns show a further increase of stlg 64 million in deposits to stlg 2,611 million, only stlg 6 million being due to transit items. The increase, the eighth in succession, in investments, of stlg 25.8 million to stlg 723.9 million is attributed largely to purchases of 2-1/2-0/0 on tap war bonds rather than market purchases of gilt-edged securities. Advances declined by pounds 3.1 million to pounds 933.7 million, indicating that the September increase was due to special causes. The now weekly loans to the Treasury by deposit receipts are recorded in the returns at pounds 179.5 million having increased by pounds 88 million on September and being only partly offset by a drop in bills discounted of pounds 27.9 million to pounds 373.4 million and a drop of pounds 6.5 million to pounds 137 million in call money. Cash, down by pounds 18.7 million to pounds 269.5 million, gave a ratio to deposits of 10.13 per cent as compared with 11.1 per cent for September.

Three. Supply expenditure continues high, standing at Pounds 85.2 million for the week ended November 9 when total expenditure was pounds 87.4 million and revenue pounds 22.8 million leaving a deficit of pounds 64.6 million for the week.

TFV

JOHNSON

PARAPHRASE

Telegram No. 591 from Rio de Janeiro, November 14.

Today the Banco Allemac Transatlantico posed the following questions in strict confidence to the Director of Exchange of the Bank of Brazil:

Remittances of bullion (gold bars) to Brazil from abroad.

One. Will the Banco de Brazil purchase gold arriving in Brazil from abroad, against payment in United States dollars? If in the affirmative, at what rate?

Two. May gold received from abroad by a bank or local firm be reexported to another country after being in safe keeping for a certain time in a bank or some other place for account of the remitting party?

No decision as to the answers has yet been made. The Director states that in all probability the Bank of Brazil will buy the gold if additional information is forthcoming or will accept the gold in payment for Brazilian exports.

The Director is under the impression that the gold which the Germans wish to sell is French gold held in French Guiana or other French possessions.

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COPY

Paraphrase of Code Cablegram
Received At the War Department
at 8:00 P.M., November 13, 1940.

London, filed 15:45, November 13, 1940.

1. All missions of the Bomber Command for the night of November 11-12 and for the following day were cancelled. For the night of November 12-13 it was planned to dispatch 118 bombers to attack German and French targets. The Coastal Command operated 20 patrol missions, 27 sorties and 15 convoy escorts; with one plane crashing on landing. The activity of the Fighter Command was at a minimum during November 12, with 41 patrols engaged in 22 sorties.

2. Three British airdromes were attacked but none were damaged. However, six fields are wholly or partially unserviceable because they are waterlogged. No military targets in London sustained major damage. A subway station, an air raid shelter in the working class district, and a moving picture theater were hit with some casualties. During November 10-11 the total civilian casualties in London were 84 killed and 273 wounded.

3. The only plane loss was one German bomber destroyed.

4. The British have now accounted for a total of 28 merchant ships out of the 30 from the convoy that was attacked by the German "pocket battleship." A British destroyer has been damaged by a mine. A convoy off the coast of Scotland was bombed by German planes and one ship was lost by fire. The convoys were bombed in

the estuary of the Thames on November 11; with two ships damaged and one set on fire. A 3,400-ton Norwegian ship was bombed and sunk on the same day.

5. General Venning, Quartermaster-General of the British Army, advised me on Tuesday that the situation would soon become difficult if the present rate of ship sinkings continues. At present the British are able to carry on regardless of the long haul around the Cape of Good Hope. However, it is reasonable to expect that the Germans will continue their present efforts against shipping and, unless enough tonnage can be purchased from the United States, no way is seen to replace the losses fast enough.

6. Reports of November 10 state that the British have occupied Gallabat in the Sudan.

7. There now seems to be no question but that the Greeks have won a decided victory over the Italian Alpini and Bersaglieri.

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Distribution:

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

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

I. Western Theater of War.

1. Air Force Operations.

During daylight of the 12th there was widespread German activity over England by single planes and small formations. Last night the German air attack on London was officially described as "heavy" until after midnight, when visibility decreased.

The R.A.F. last night attacked German oil plants at Gelsenkirchen, Cologne, and Duisburg-Ruhrort, rail centers and factories in the Ruhr and the submarine base at Lorient. Docks at Flushing and Dunkirk and some airdromes in occupied territory were also raided. The British bombing effort against the "Invasion Ports" is clearly slackening.

II. Greek Theater of War.

No change in the general situation. Greek ground forces have made local counterattacks at various points along the front. The Italian Air Force continues to bomb Greek troops at the front and communication centers in rear areas. Greek or British planes are conducting similar operations over Albania.

III. Mediterranean and African Theaters of War.

Ground fighting on the Sudan-Ethiopian border is continuing.

The R.A.F. attacked Italian naval units at Taranto on the 11th and 12th and claims to have sunk or severely damaged several vessels, including three battleships. The Italians admit damage to one warship. It is believed that the British claims are more nearly correct.

Elsewhere in the theaters air operations were minor in character.

G-2/2657-220

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No. 245

SITUATION REPORTM.I.D., W.D.
November 14, 1940.
12:00 M.

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

I. Western Theater of War.

1. Air Force Operations.

Bad weather prevailed.

The German Air Force was active over southern England by day on the 13th but apparently the raids were not heavy. Last night German air activity over England appeared normal, but was centered in the provinces. London had an unusually early "all clear". The German air effort against shipping apparently is increasing.

British night bombing, apparently on a reduced scale, reached the Berlin area, but was concentrated on Western Germany and the occupied territory.

II. Greek Theater of War.

No change in the ground situation. Italian air activity conformed to established pattern. Greek and British planes continued to attack Albanian ports.

III. Mediterranean and African Theaters of War.

Ground fighting apparently was confined to the Gallabat area, Sudan. This town has changed hands several times. The Italian Air Force attacked shipping in the eastern Mediterranean. The British state that Taranto and Bari were bombed.

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TENTATIVE LESSONS BULLETIN
No. 66
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, November 14, 1940.

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and in no sense mature studies.

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-E-M.

MORALE IN THE FRENCH ARMYSOURCE

This bulletin presents a study made in the Morale Division of the Adjutant General's Office. It is based upon the reports of American official observers.

CONTENTS

1. ELEMENTS IN THE MORALE POLICY
2. MORALE REPORTS AND CONDITIONS, AUTUMN 1939
3. DISCONTENT AT THE FRONT, WINTER 1940
4. ABSENCE OF MILITARY CONTROL OVER MORALE
5. CIVILIAN INTEREST AND ACTIVITY IN ARMY MORALE
6. AFTER-EFFECTS OF MORALE POLICY

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1. ELEMENTS IN THE MORALE PROBLEM

Three important elements entered into the morale problem of the French Army. They were, (1) the fact that France, morally unprepared to fight, was taken into the war by political leaders without the formality of popular or parliamentary sanction; (2) the feeling among soldiers and their families that men who should have been in the Army were being allowed to evade military service on specious pleas of indispensability in non-combatant fields; and (3) the fact that civilians rather than military men played dominant roles in the conduct of morale activities within the military establishment.

2. MORALE REPORTS AND CONDITIONS, AUTUMN 1939

Both officers and men of the French Army have said that they entered the war without enthusiasm, and that this attitude matched the lack of enthusiasm among civilians. What little spirit the troops had at the beginning of the war was weakened by the monotony of hours in the Maginot Line.

Although reports stated that morale and general discipline in the French Army were at a high pitch, there were indications to the contrary as early as November, 1939. Absence without leave was widely prevalent, although it was virtually unknown in the German Army, and on Saturdays there were mass departures without authority, despite increased police details and many arrests. Men generally returned on Monday mornings and were given ten days extra duty as penalty for their unauthorized absence.

In addition to asserting that the morale of troops at the front was magnificent, reports in the autumn of 1939 stated that all soldiers seemed confident of their ability to meet the Germans. Observers visiting the front during the winter, however, began to question the validity of these generalities, especially in view of concrete bits of evidence, such as absence without leave, drinking, and carelessness, which were not in line with the optimistic assertions of officers.

While the commanding general of the 2nd Army and his officers spoke of the high morale of both French and British troops, the repeated emphasis given these assertions inspired in observers a feeling of doubt. The men themselves presented a sorry spectacle of discomfort and dejection, and to their material hardships were added the moral factors of inaction and monotony.

3. DISCONTENT AT THE FRONT, WINTER 1940

As the winter wore on, reports on morale became less re-

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assuring. On January 31, 1940, the Chef du Cabinet of Mandel, a member of the French Ministry, noted growing discontent among the mobilized men belonging to labor syndicates. These men were disgusted with the living conditions of their families at home, and this disgust created a fertile field for the seeds of discontent.

The view that the British were not doing their share in meeting the German menace was spreading. Reports spoke of the French feeling that the British were treating the war as a sport, and of crowds of R. A. F. officers about the hotel bar at Rheims throughout the late afternoons and evenings. Circulated remarks referred to France as Britain's catspaw, and British participation on the Western Front was described as pitifully inadequate. Apparently the principal measures taken by French leaders against the spread of this feeling fostered by German propaganda, was the showing of American motion pictures on Britain's war effort.

By March, 1940, the morale at the front had still further deteriorated. The soldiers grumbled because of long inaction. There was more and more discontent in camps behind the lines, with the men demanding to know what the war was about. Soldiers stated that their discontent had nothing to do with patriotism, but grew out of the feeling that something ought to be started. They spoke of the absence of drill or other activity behind the lines, where life held "nothing but monotony". Growing discontent over inaction and military discipline bred an urge to return to normal civilian life.

From the start of the war, men called into the military services, their relatives, and their friends resented the favoritism allegedly shown to persons claiming indispensability in their civilian occupations. French emphasis on behind-the-lines activity was carried to such a point that specialists were taken out of armored divisions and assigned to non-combatant jobs. Combat teams were thus broken up, and it became necessary to train replacements on what proved to be the eve of a decisive battle.

As the war continued, resentment against so-called "special assignments" to non-combatant jobs grew until political leaders felt obliged to take action. Special commissions were organized for the purpose of correcting this condition, and, in order to reassure men at the front, veterans of the World War were included in the membership of these commissions. Despite all efforts, the evasion of combat service by political, social, or other influences remained a standing grievance of the men at the front.

4. ABSENCE OF MILITARY CONTROL OVER MORALE

The outbreak of the war found the French Army without

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machinery for conduct of morale activities under proper military control. Army units in the field were left more or less to their own devices, although civilian agencies active in welfare and recreation work included national organizations such as the Red Cross and local individuals such as village priests in billeting areas. One observer notes the search made by a lieutenant of the 45th Infantry Division for civilians who might be interested in providing for the men of his organization recreation and welfare facilities such as motion picture machines, radios, sporting goods, books, and games.

The morale problem which confronted the French Army and the methods somewhat haphazardly adopted for its solution combined to obscure the principle that morale as a function of command is a military function.

In certain exceptional cases, division commanders dominated morale activities within their jurisdiction, and in these units excellent results were obtained. Generally, however, morale activities were carried on from the civilian standpoint of entertainment rather than from the military standpoint of training. Officers lost contact with their men, and soldiers became more concerned with their personal comfort than with their military efficiency as part of a fighting team.

A French colonel in a summary called Trop de Croix Rouge, emphasized the demoralizing and unmilitary morale conditions which prevailed just before the collapse. Despite this and other examples of recognition of danger by military leaders, there were plans afoot to organize a Ministry of Social Service to be charged with welfare work in the armed services and elsewhere.

5. CIVILIAN INTEREST AND ACTIVITY IN ARMY MORALE

a. Control. As needs became evident, civilians became active in raising funds and doing welfare work with governmental sanction. This work was under the general direction of the Minister of War, Veterans, and Pensioners and the President of the National Office of War, Invalids, Veterans, War Victims, and National Pupils. Requests for authority to participate in the work were examined by an interdepartmental committee of Government agencies.

b. Radio. French broadcasting stations were directed to alter their programs and to provide gay music and light songs for soldiers in the lines and in the interior.

c. Supplies. The civil population was urged to send soldiers such articles as books, cigarettes, and blankets. There was a shortage of blankets because a large number had been sent from

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France to the Spanish Loyalists during the Civil War, and this circumstance occasioned bitter comment.

d. Foyers. Recognition of the necessity for some form of amusement for the soldiers resulted in the establishment of Foyers Militaires or Foyers des Soldats in the regions of the front. These Foyers had recreation halls equipped with billiard tables, radios, phonographs, playing cards, chess tables, and reading and writing rooms. Wine could be had at the Foyers.

e. Theatricals and Athletics. There were halls for motion pictures and theatricals. Regiments had theatres at which improvised plays and sketches, as well as professional performances, were presented. Group singing was encouraged. In some organizations, emphasis was placed on athletics, and teams were developed to compete with the British.

f. Education. There were, in addition, educational courses, some for illiterates and others consisting of lectures and conferences on the war, French history, and the geography of countries in the news of the day.

g. "Godmothers". An effort was made to strengthen morale in the armed services and, at the same time, to identify civilian communities with men at the front, through formation of a government-sponsored Ecole Marseillaise du Combattant, headed up in the Ministry of National Defense. A similar organization largely under private control, had existed in 1914-1918. Under this plan, marseillaises, "godmothers", were chosen for men who were at the front and who had no near relatives interested in their welfare. These men were listed by organization commanders and "assigned" to various French schools, which in turn provided "godmothers" from among their pupils. To strengthen national unity, men were assigned to schools in regions distant from their home communities.

"Godmothers" were encouraged to correspond with and send gifts to their "godsons". The relationship continued until the soldier was transferred to a unit in the zone of the interior or until he died. The Ecole Marseillaise received wide attention and became an object of great interest to politicians.

6. AFTER-EFFECTS OF MORALE POLICY

When disaster overtook the French Army, the country was quick to place the blame on the shoulders of the Commander-in-Chief. Those who had demanded a generous leave policy for men in the Army now censured him for furloughing soldiers who should have been retained to build blockhouses and trenches. Those who had clamored for use

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of his name and prestige in sponsoring civilian welfare agencies now condemned him for nominally heading societies such as those which sought "godmothers" for soldiers or supplied radio sets and athletic equipment.

The soldiers themselves complained that for six crucial months they had been given little to do by way of preparing themselves to meet the enemy, and that, instead, they had sat around writing letters and being entertained in idleness.

As expected, the Army authorities were denounced for allowing morale work, a military function, to become a civilian welfare and entertainment activity. These denunciations now form part of the charges brought against General Gamelin and others formally accused of responsibility for the downfall of France.

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Paraphrase of Code Cablegram Received at the
War Department at 10:23 A. M., November 14, 1940

London, November 14, 1940.

The outstanding feature of this struggle so far is the insistence of the British upon the highest standard of quality attainable in every aspect of war making. The result of this policy or national characteristic has been most rigorously demonstrated in the conflict between small numbers of British planes and pilots of high quality and large numbers of German airplanes and pilots, both of a somewhat lower standard. I believe that this recent dramatic aerial struggle between character and machinery (using latter term in largest sense) or between quality and quantity is only one example of many.

The same insistence upon quality and thoroughness is evident in training and equipping the Army and the Navy, as well as the Air Raids Precautions service and the unexpected huge force of the Home Guards. It is also apparent in the refusal of the Air Ministry to surrender under pressure to a shorter period of pilot training and to the use of cheaper, more easily produced machines.

My own conviction is that whenever the British begin making concessions in this policy they will place themselves on a level with the Germans and will take the first step toward

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defeat since the Germans are greater masters of mass production than the British and have planned their efforts on the principle that quantity can and will overrun and obliterate quality.

The reason for this dispatch is that our industrial production is the factor which will turn the scale. We are the greatest masters of mass production existing but the idea is widespread that mass production implies a considerable lowering of highest standards; that is, that mass production necessarily connotes Ford instead of Lincoln or Rolls Royce standards. I believe that the policy which should be adopted at the outset in the United States is that no matter how large a program we envisage on land, sea or in air, we must follow the line that in using our great resources of mass production we will use it to make only the types of articles which in trained hands will give the maximum performance. This principle should be applied not only to material but to all other phases of the national effort, such as the training and discipline of officers and men of all services. General Pershing adopted this idea for the Army in the last war when he announced that in all respects the standards to be aimed at were those of West Point.

The idea of best quality should now be extended to every phase of war. This argument can be summarized in four words, "Quantity Production of Quality".

The immediate objective, of course, is to speed the suppression of the Axis powers but it is very obvious that this

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policy, if made effective throughout United States industry, would give American producers greater advantage in world markets after the war in competition with cheap German, Japanese, Chinese and Indian products.

LEE.

Distributions:

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
National Defense Advisory Commission

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LW 287-A

Paraphrase of Code Cabling
Received at the War Department
at 6:30 P.M., November 14, 1940

London, filed 15:30, November 14, 1940.

1. The weather almost completely neutralized the daylight operations of the Bomber Command on Wednesday, November 13. It was planned to dispatch a total of 115 bombers that night, 23 against Berlin, 30 against oil targets, 15 against railroads, 23 against targets in Italy, 5 against enemy ports, nine against enemy airfields and three against naval targets. The bombing attacks during the night of November 12-13, involving 70 sorties, were fairly successful. One plane crashed on landing. The Coastal Command carried out routine operations, dispatching 30 patrol missions, 62 sorties and 20 convoy escorts. The Fighter Command operated 525 planes on 115 daylight patrols on November 13 and 51 planes on 51 patrols that night.

2. During daylight hours of November 13 the German Air Force was only reasonably active, operating about 200 planes on reconnaissance missions and small raids. Operations that night were on an extremely small scale with little penetration inland and no attack reaching as far as London.

3. Attacks on five British airbases were reported but none of them was effective. However, nine fields are either wholly or partially unserviceable, mostly due to weather conditions. No major

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damage during the last 24 hours was reported. Civilian casualties during November 11-12 were (?) killed and three wounded.

4. German plane losses were three confirmed and eight damaged, while the British lost none.

5. Eight ships, with a total tonnage of about 80,000, from the convoy attacked on November 5 are still missing.

6. The great British success at Taranto with the loss of two planes only justifies in many eyes the British establishment of the Fleet Air Arm. It is said that Italian naval vessels were attacked with torpedoes dropped from aircraft under moonlight conditions.

7. That the threats of German invasion still exist is shown by the constant cross-Channel training and consensus of British opinion that Germany cannot win the war without a desperate attempt to conquer Britain. Therefore the threat of invasion will remain present all winter.

8. A universal roar of laughter has been caused by the advent of Italian raiders equipped with helmets, gas masks, Chianti wine, cheese, champagne and bayonets, and at the same time flying obsolescent biplanes with wooden wings. This use of Mussolini's airman plus the renewed operation by the Germans of their discredited dive bombers lends color to the belief that the German-Italian reserves of aircraft are not large. Examination of captured Italian airmen gives indications of their low combat value and of their great relief at being safely out of the fight.

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9. General Scanlon has been informed by high officers in the Air Ministry that they estimate at this time that the reserve of German fighters has been practically wiped out by the casualties inflicted by the Royal Air Force during the last three months. In this connection please see our daily cablegram of September 26. (This dispatch sets forth the belief that the previously accepted estimate of the strength of the German Air Force is greatly exaggerated. - G-2.)

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Distribution:

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

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Paraphrase of Code Radiogram
Received at the War Department
8:12 a.m., November 14, 1940.

Manila, November 14:

Source, British Consular: Reich Oil Control
Department, according to recent letter from Hamburg, wants
more Copra from Cebu and gives Manahouli as alternative
to Vladivostok as trans-shipping point.

GRUMMET

Distribution:
State Department
Secretary of Treasury
Asst. Secretary of War
O.N.I.

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U. S. COAST GUARD

289

OFFICIAL DISPATCH

TRANSMIT

14 NOVEMBER, 1940

DATE

FROM

COAST GUARD HEADQUARTERS

TO (FOR ACTION)

SECTREAS

UNLESS DESIGNATED OTHERWISE TRANSMIT THIS DISPATCH AS NITE.

TO (FOR INFORMATION)

CODE

CIPHER

ACKNOWLEDGE

PRIORITY

ROUTINE

ACKNOWLEDGE

PRIORITY

ROUTINE

MAIL TO

TELEPHONE TO

MESSENGER TO

OUTGOING HEADING

TEXT

IT IS ARRANGED THAT ENGLISHMAN REFERRED TO AWAIT YOUR RETURN

PHILIP YOUNG

OPERATOR'S RECORD

OFFICIAL BUSINESS

INITIALS OF "RELEASING" OFFICER.

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....	£151,000
Purchased from commercial concerns.....	£ 38,000

Of the sterling sold, approximately £125,000 were used to pay for the importation of rubber, and the remaining £26,000 were applied against various imports.

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

Sold to commercial concerns.....	£ 5,000
Purchased from commercial concerns.....	-0-

The other currencies closed as follows:

Canadian dollar	13% discount
Swiss franc	.2320-1/2
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2365
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-1/8% discount

There were no gold transactions consummated by us today.

No new gold engagements were reported.

A gold price equivalent to \$33.82 was received from Bombay today, 2¢ higher than the quotation of November 12. Silver in Bombay was unchanged at the equivalent of 43.80¢.

In London, both spot and forward silver were fixed at 23-5/16d, unchanged from yesterday's level. The dollar equivalent of this price is 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 two purchases of silver totaling 125,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 1:15 p.m., November 14, 1940).

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MINUTE SHEET

Reference.....

Mr. Cochran.

Annexed is a statement of British expenditure in U.S. dollars for the month of September, other than expenditure through the British Purchasing Commission. This is an improvement on the statement of which I showed you a specimen before. It will be sent in monthly, I hope rather more promptly in future than this one.

(1) G.H.S.P.

November 11th, 1940.

GHP:MAB

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U.S. DOLLAR EXPENDITURE AND STERLING TRANSFERS TO THE UNITED STATES OF AMERICA (AND POSSESSIONS) DURING SEPTEMBER, 1940, OTHERWISE THAN THROUGH THE BRITISH PURCHASING COMMISSION (INCLUDING FORWARD TRANSACTIONS)

<u>Purpose</u>	<u>1000's</u>		
	<u>In Dollars</u> (Stg. Equiv.)	<u>In Sterling</u>	<u>Total</u>
Imports into U.K.:			
Food, drink, tobacco	972	109	1,081
Raw materials	4,371	128	4,499
Manufactures	2,932	33	2,965
Miscellaneous	13	-	13
	<u>8,288</u>	<u>270</u>	<u>8,558</u>
Government Departments	858	-	858
Ships' Disbursements and other transport charges	182	17	199
Royalties	29	14	43
Agency Services	77	34	111
Purchase and upkeep of property abroad	184	1	185
Miscellaneous Services	104	22	126
Subsistence and travel	117	30	147
Insurance (Premia, Claims, etc.)	121	40	161
Dividends and profits on U.S. investments			
in the United States	608	64	672
Requirements of firms operating dollar accounts *	715	-	715
Distribution of Capital under Trusts	-	44	44
Payments on account of rest of Sterling Area	7,497	256	7,753
Other payments	-	12	12
	<u>18,780</u>	<u>804</u>	<u>19,584</u>

+ Including U.S. dollars paid to countries other than the U.S.A. In future such payments will be eliminated.

* Surrenders by such firms cannot yet be stated; nor their expenditure out of dollar receipts other than from the Control.

Bank of England,

17th October, 1940.

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United Kingdom Holdings of Gold and Exchange

With reference to my memorandum of the 7th October, showing the monthly balance and loss of gold and exchange, and the resources utilized each month, the loss of gold and exchange in October amounted to \$116 million, bringing the balance at the end of that month to \$781 million.

The proceeds of sale of securities in October were \$9 million, and the total resources utilized were thus \$125 million.

(The British Treasury has not yet given me the analysis of the above figures into gold, United States dollars and Canadian dollars).

(1) G.H.S.P.

BRITISH EMBASSY,

7th November 1940.

bfn

FEDERAL RESERVE BANK
OF NEW YORK

November 14, 1940.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

Pursuant to Mr. Cochran's request, I enclose our compilation for the week ended November 6, 1940, showing dollar disbursements out of the British and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Nov. 6, 1940.

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PERIOD	BANK OF ENGLAND							BANK OF FRANCE								
	C R E D I T S			Other (incl. adjust- ments)	D E B I T S			Net Incr. (+) or Decr. (-) in Balance	C R E D I T S			D E B I T S		Net Incr. (+) or Decr. (-) in Balance		
	Total	Proceeds of Sales of Securities ^(a) Gold (Est.)	Registered ^(b) Sterling		Total	Gov't Expend- itures ^(c)	Other		Total	Proceeds of Gold Sales	Other	Total	Gov't Expend- itures ^(d)		Other	
1939																
Aug. 31 - Sept. 27	207.8	185.4	33.6	-	-11.8(e)	94.3	3.6	50.7	+113.5	11.3	-	11.3	19.4	6.0	13.4	- 8.1
Sept. 28 - Nov. 1	149.0	3.8	55.6	-	86.2(f)	106.7	5.8	100.9	+ 35.0	76.2	35.0	41.2	85.6	61.8	105.4	- 12.4
Nov. 2 - 29	105.8	57.6	35.0	-	23.0	191.7	8.9	182.8	- 88.9	85.9	85.1	27.6	78.6			+ 4.3
Nov. 30 - Jan. 3	75.2	50.6	14.2	-	10.4	97.7	8.7	89.0	- 22.5	109.2	93.5	15.3	86.8	28.1	58.7	+ 20.4
1940																
Jan. 4 - 31	43.4	20.5	19.8	-	5.0(g)	54.8	15.8	39.0	- 11.4	55.9	50.1	5.8	51.9	31.5	30.0	- 8.6
Feb. 1 - 28	108.3	56.7	17.9	-	33.7	124.1	15.4	108.8	- 15.2	71.5	54.8	16.7	72.7	32.8	39.9	- 1.2
Feb. 29 - Apr. 3	94.0	60.9	21.5	-	11.6(h)	115.5	14.5	101.0	- 71.5	105.0	78.4	29.6	95.6	36.9	63.7	+ 5.4
Apr. 4 - May 1	86.4	46.8	13.4	-	26.2(i)	113.4	25.1	87.3	- 27.0	78.7	60.2	18.0	84.8	29.4	55.4	- 5.1
May 2 - 29	126.2	93.2	7.1	-	25.9	100.9	23.6	77.3	+ 25.3	149.4	126.5	19.2	101.4	57.0	44.4	+ 46.0
May 30 - July 3	319.3	301.3	5.1	-	12.9	283.2	145.5	137.8	+ 35.1	345.1(j)	335.0	9.5(j)	126.7(j)	127.3(j)	29.4	+189.4
July 5 - 31	225.0	212.2	2.0	8.5	8.0	249.7	156.7	93.0	- 24.7	5.1	5.0	0.2	7.3	5.3	1.0	- 4.1
Aug. 1 - 28	294.8	267.4	1.0	2.4	24.0(k)	261.1	180.2	80.9	+ 33.7	10.2	10.4	0.5	8.9	0.5	5.4	+ 2.0
First year of war	1,828.2	1,356.1	211.2	5.2	259.7	1,792.2	605.6	1,187.6	+ 35.0	1,095.3	900.2	195.1	866.3	416.6	449.7	+229.0
Aug. 29 - Oct. 2	308.9	271.5	6.0	1.1	30.3(l)	316.6	244.3	72.3	- 7.9	1.3	-	1.3	8.6	4.4	4.2	- 7.5
Oct. 3 - 30	198.5	160.5	6.0	0.3	31.7(m)	196.7	167.8	28.9	+ 1.8	0.5	-	0.5	0.5	0.3	0.2	-
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDED:																
Oct. 16	20.0	9.4	-	-	10.6	45.4	41.3	4.1	- 25.4	0.2	-	0.2	0.2	0.1	0.1	-
23	61.3	52.1	2.0	0.1	7.1	58.3	50.9	7.4	+ 3.0	-	-	-	-	-	-	-
30	58.0	50.1	2.0	-	5.9	40.6	31.5	9.1	+ 17.4	0.1	-	0.1	0.1	0.1	-	-
Nov. 6	61.2	47.2	6.0	0.1	7.9(n)	55.4	47.7	7.7	+ 5.8	0.2	-	0.2	0.4	0.1	0.3	- 0.2

Average weekly expenditures since outbreak of war:
 France (through June 19) \$19.6 million
 England (through June 19) 27.6 million
 England (since June 19) 60.1 million

Transfers from British Purchasing Commission to

Bank of Canada for French account:

Week ended November 6 \$ 6.4 million
 Cumulation from July 26 85.7 million

(See footnotes on reverse side.)

- (a) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (b) Includes proceeds of sales of "registered" sterling in this market only.
- (c) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Includes adjustment for (a) above.
- (f) About \$35 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (i) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (j) Adjusted to eliminate the effect of \$30 million paid out on June 26 and returned the following day.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (n) \$2 million transferred from the account of a British authorized bank with a New York bank.

OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY

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RECEIVED
TREASURY DEPARTMENT

November 14, 1940.

PERSONAL

Mr. E. Merle Cochran,
Treasury Department,
Washington, D. C.

Dear Merle:

1. NETHERLANDS EAST INDIES

You have doubtless read in this morning's newspapers that the negotiations between the N.E.I. authorities and the oil companies on the one hand and the Japanese Government and Mitsui on the other, have now been concluded. I am told that the understanding has been initiated but no formal contracts have been drawn up as yet. The arrangement is for a period of six months and provides for supplies of crude oil and products at the rate of 1,800,000 tons per annum. Heretofore the annual amount has been around 500,000 tons so that the Japanese have obtained a substantial increase although their original demands were for 3,500,000 tons. No aviation gasoline is included and payment is to be made in dollars in New York before the vessels are loaded. In fact the Japanese are to supply their own tonnage.

2. ARGENTINA

With reference to the Argentine, we have just received advice from our people that they have reached an agreement covering exchange at the official rate for petroleum imports up to the end of this year on the basis of 50% in dollars in cash and 50% in 3-year dollar notes of the Argentine Treasury, with interest at 2-1/2% and 30% amortization at the end of the second year. The aggregate amount involved for us up to the end of 1940 will be close to \$5,000,000. This takes care of our companies for this year in a reasonably satisfactory manner and we must now concern ourselves with the arrangements which can be made for next year. I presume the authorities in Buenos Aires will want to await the outcome of the present discussions in Washington before they decide what they can do for us in 1941.

3. GREAT BRITAIN

In regard to the recent visit of Sir Andrew Agnew and the demand that we take some sterling in payment of our exports to the United Kingdom, we have heard nothing further about the matter.

4. HUNGARY

We have had no further word regarding the possible sale of our properties.

With kind personal regards, believe me,

Faithfully yours,
(signed) J. E. Crane

Copy to:
Mr. D.W. Bell
ccpv:jba

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE November 15, 1940.

TO Mr. Thompson

FROM Mr. Haas *HA*

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

DIVISION OF RESEARCH AND STATISTICS

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

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

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

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on October 1, 15, and 29. - Mr. Haas, Mr. Turner, Mr. Purvis

These reviews contained, in addition to analysis of the current situation, the following special studies:

- (1) Decline of mutual savings bank dividend rates (Review of October 1, page 4). - Mr. Purvis
 - (2) Canadian war finance (Review of October 15, page 4). - Mr. Turner
 - (3) Canadian war effort (Review of October 29, page 4). - Mr. Purvis
2. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date of issue and also for the years 1939 and 1940 to date. A chart for each issue was kept up to date showing recent daily price and yield figures together with comparative monthly data since 1933 or since date of issue. - Mr. Brown, Mr. Moody, Mr. Kroll

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3. Four proposals of the RFC that the Secretary of the Treasury request that Corporation to purchase preferred stock of banks were examined. - Mr. Murphy, Mr. Turner, Mr. Purvis
4. At the request of the Secretary, arrangements have been made to secure periodically from the British Purchasing Commission certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. March

- (1) Weekly statements are received covering in dollar volume the itemized purchases by British Empire Governments through the Commission, the itemized purchases made by these Governments with the knowledge of the Commission but not through its facilities, and inquiries made by the Commission or with its knowledge for future purchases. Similar statements are received showing, by itemized contracts, the dollar volume of deliveries made with respect to orders placed by Great Britain through the Commission. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the Division each week and reports are then prepared summarizing total orders by the British Empire, classified by commodity groups. A separate statement shows the delivery status of orders placed by Great Britain through the Commission, classified by the commodity groups.

During October statements showing weekly orders placed in the United States were prepared for the weeks ended September 21 and 28, and October 5, 12, and 19; tables showing the delivery status of orders placed by Great Britain (excluding Dominions) through the British Purchasing Commission were prepared for the weeks ended September 7, 14, 21, and 28, and October 5 and 12. These tables were transmitted according to instructions by the Secretary.

- (2) The Commission also supplies the Division each week with the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of worksheets prepared

by the Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the volume of orders placed and the volume of deliveries made, by months beginning with September 1939, and by weeks for a current period. Other tables show the number of planes or engines on order and the scheduled deliveries with respect to those orders. Similarly, tables on options show the number of planes or engines under option and the delivery schedules. Orders for secondhand planes and engines and deliveries thereon, as well as scheduled deliveries with respect to unfilled orders, are shown in separate tables. Summary tables show, in one table each, the most important information on planes and on engines, respectively. In addition to summarizing the data in the detailed tables, the summary tables present information concerning the number of planes or engines which have actually been shipped and, in the case of planes, the country of destination is shown.

During October tables giving details and summaries regarding purchases of airplanes and airplane engines were prepared as of September 28, October 5, 12, 19, and 26, and were transmitted according to instructions by the Secretary.

- (3) Reports are prepared each week showing commitments by British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries from United States companies. The data for these statements are provided by the Commission but the tables are actually prepared in the Division.

During October tables showing capital commitments as of September 21 and 28, October 5, 12, and 19, were prepared and were transmitted according to instructions by the Secretary.

- (4) Monthly statements are also prepared with respect to certain activities of the Commission. One of these statements shows estimated British payments to be made in the United States on balances due as of the end of the preceding month. This statement shows the amount of payments made to date, the value of orders to date, and the residual amounts of balances

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due, together with the estimated schedule of future payments. The material for the table is obtained from the Commission but the table is actually set up in the Division. This table was not prepared in October in view of the fact that the payment data were incorporated in a special analysis summarizing British requirements as of October 1, 1940 (described below), prepared by the British Purchasing Commission with the assistance of the Division.

Another monthly statement shows the physical volume of iron and steel purchases in the United States by the British Government and the deliveries which have been made. This statement is brought up to date each month with new data supplied by the Commission. A table was prepared showing the status of iron and steel purchases as of September 30, 1940, and was transmitted on October 11, 1940 according to instructions by the Secretary.

- (5) Special analyses are also prepared from time to time. Special statements were prepared during October as follows:
- (a) Tables showing deliveries of airplanes and airplane engines made to the French Government through June 30, 1940 were prepared on October 10, 1940 and transmitted according to instructions by the Secretary.
 - (b) Statements summarizing British requirements as of October 1, 1940 were prepared for the Secretary by the British Purchasing Commission, with the assistance of the Division, on October 17, 1940. These tables were transmitted to the Commission on October 18, and a copy was returned to the Secretary by the Commission the same day.
 - (c) Statements showing summary of British Government orders, deliveries, and additional requirements, as of October 1, were prepared on October 26, 1940 and transmitted to the Secretary on October 28, 1940.

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5. At the request of Mr. Cochran on October 17, a description was prepared of the reports made from data obtained from the British Purchasing Commission, and was transmitted to him on October 18. - Mr. Lindow
6. Arrangements have been made to obtain weekly statements covering the itemized purchases in the United States through various Dutch purchasing agencies, and the deliveries made on these orders. In these reports, all orders and deliveries are classified in the same twenty-five commodity groups designed for the purpose of reporting British orders in the United States. The first reports, showing unfilled orders of the Dutch Government purchasing missions as of September 28, 1940, were received on October 25. - Mr. Lindow
7. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared every other week showing this information by type of plane or engine and by class of purchaser. Reports for the fortnights ended September 28, October 12, and 26, were prepared during October and were transmitted according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
8. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group, considering matters of general interest in connection with defense finance. - Mr. Haas, Mr. Murphy, Mr. Daggit

The material presented during the month included the following:

- (1) "What Should We Do Now about Inflation", an analysis which considered the problem as a whole, its monetary, and its physical aspects, the last with special emphasis on the possibility of capacity shortages in steel, zinc, copper, and lead. (Memorandum at meeting on October 4). - Mr. Haas, Mr. Murphy, Mr. Daggit, Mrs. May
- (2) A chart showing the movements of selected economic indices in the United States from 1913 to 1922, inclusive, and annotations to accompany the chart. (At meeting on October 4). - Mr. Haas, Mr. Murphy, Mr. Turner

- (3) Charts showing the movements of commodity prices and related price factors during the first World War, with a memorandum giving a chronological interpretation of commodity price movements from 1913 to 1922, inclusive. (At meeting on October 11). - Mr. Haas, Mr. Daggit, Mrs. May
- (4) A chart showing the movements of interest rates in the United States during the period 1913 to 1922, inclusive, and annotations to accompany the chart. (At meeting on October 11). - Mr. Murphy, Mr. Turner
- (5) A study of present action needed to forestall inflation, which included an analysis of the current approach to capacity by major industries represented in the FRB index of industrial production, new basis, with a parallel statement for steel, cotton textiles, and zinc in the first World War period; and an interpretation of the present commodity price situation with special attention to hides, wool, zinc, copper, and steel. (Memorandum and 8 large charts presented at the meeting on October 25). - Mr. Haas, Mr. Daggit, Mrs. May
- (6) A study of selected components of the FRB unadjusted index of industrial production, new basis, for September 1940 compared with the peaks in 1929 and in the period 1937 through 1939. (Chart presented at the meeting on October 25). - Mr. Daggit, Mrs. May
- (7) A study was made of the movement of basic commodity prices, showing components of BLS 28 basic commodities weekly from September 1939, daily from August 1940 to the present, and the percentage change for individual commodities from the August 1940 low to the present. (Chart presented at the meeting on October 25). - Mr. Daggit, Mrs. May
- (8) Relationship of commodity prices and the cost of living, 1935 to date, monthly. (Chart presented at the meeting on October 25). - Mr. Daggit, Mrs. May
- (9) A study of the "basic price" for copper, estimated from past relationships of production, deliveries, and stocks, 1935 to date, monthly. (Chart presented at meeting on October 25). - Mr. Daggit, Mrs. May

- (10) A memorandum was prepared in connection with a request of Under Secretary Bell of June 24, on the distribution among the various classes of investors of increases in the direct and guaranteed public debt since June 30, 1933, and was transmitted to the Secretary and the Under Secretary on October 3. - Mr. Murohy, Mr. Turner, Mr. Purvis
- (11) At the request of Under Secretary Bell on October 4, a memorandum was prepared on the behavior of high-grade bond prices during past wars, and was transmitted to him on October 17. - Mr. Haas, Mr. Murphy
- (12) A study was completed of problems encountered and solutions devised in connection with war borrowing and was incorporated in a memorandum on borrowing problems and methods of the United States Treasury during the World War, which was transmitted to Under Secretary Bell on October 23. - Mr. Haas, Mr. Murphy, Mr. Purvis
9. At the request of the Secretary on October 21, a memorandum was prepared showing defense appropriations made since January 1, 1940, and was transmitted to him on that date. - Mr. Tickton
10. At the request of Mr. Blough on October 25, a table was prepared showing the computed annual interest charge on the direct and guaranteed debt on February 28, 1933 and September 30, 1940, classified by type of tax exemption, and was transmitted to Mr. Blough on the date of his request. - Mr. Conrad
11. At the request of Mr. Broughton on September 14, a memorandum, with tables and charts, was prepared for Under Secretary Bell showing proposed schedules of redemption values of United States savings bonds with various specified final maturity yields, and analyzing the current position of savings bonds relative to the yield of market securities, and was transmitted to the Secretary and the Under Secretary on October 3. - Mr. Murphy, Mr. Brown, Miss Eyre
12. At the request of Under Secretary Bell on October 22, a memorandum was prepared on a proposal for a type of United States savings bond with a current interest rate, and was transmitted to him on October 25. - Mr. Murphy, Mr. Purvis

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13. At the request of Under Secretary Bell on October 23, for information on the probable yield of a one-year 1/4 per cent United States Housing Authority note, figures were given to him orally on that date. - Mr. Haas, Mr. Murphy, Mr. Conrad
 14. At the request of Assistant Secretary Sullivan on October 25, a table was prepared showing corporate net profits, after all Federal, State, and local taxes, for the years 1932 to 1939, inclusive, and was transmitted to him on that date. - Mr. Tickton
 15. In response to a request by Mr. Foley on September 25, a memorandum was prepared and transmitted to him on October 17 for use by the Legal Division in preparing a review of the indebtedness compromise offer of the Erie Forge and Steel Company. - Mr. Murphy, Mr. Conrad

II. Projects or studies under way

1. Chart comparing yields on long-term Treasury bonds and over-the-counter volume depends for completion upon arrangements to secure the necessary data. - Miss Eyre
2. Study of the relationship between the yields and maturities of high-grade securities immediately preceding prior major bear markets in such securities. - Mr. Turner
3. Comparison of relative amplitude of price fluctuations of long-term and short-term securities. - Mr. Lindow, Mr. Conrad
4. Study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of U. S. securities. - Mr. Conrad
5. Memorandum comparing and contrasting war and depression deficit-financing. - Mr. Murphy
6. Review of war-financing measures in belligerent countries in the present war. - Mr. Murphy, Mr. Purvis, Mr. Stringham
7. United States Savings Bonds - An analysis of factors affecting sales and redemptions of United States savings bonds, as a guide to future experience. - Mr. Conrad
8. At the request of the Division of Statistical Standards, Bureau of the Budget, on September 20, a review is being made of the "Base Book of Financial Statistics", to be issued by the Federal banking authorities. - Mr. Murphy

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9. At the request of Under Secretary Bell on October 9, a memorandum is being prepared on the increase of money in circulation in the United States. - Mr. Turner
10. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
11. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Murphy, Mr. Turner, Mr. Conrad, Mr. Purvis
12. At the request of Under Secretary Bell on October 11, a memorandum is being prepared on suggested changes which should be made in the laws affecting the public debt in the event of a revision. - Mr. Murphy
13. A review of a report by the Bureau of Accounts on S.4269 (to extend the Social Security Act), at the request of Senator Harrison, Chairman of the Finance Committee, is being made in response to a request by the Bureau of Accounts on September 10. - Mr. Murphy, Mr. Reagh, Mr. Brown

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period October-June 1941, and was transmitted on October 4. - Mr. Wilson, Mr. Delcher
2. The regular monthly summary comparison of estimated receipts and actual receipts in September 1940 on the daily Treasury statement basis, was prepared. - Mr. Wilson, Mr. Delcher

3. The regular monthly detailed comparison of estimated and actual receipts in September 1940, and for the period July-September 1940, based on the collections classification, was prepared. - Mr. Wilson, Mr. Delcher
4. A preliminary revision of the Budget estimates of receipts for the fiscal years 1941 and 1942 was made for the Director of the Budget in response to his request addressed to the Secretary on September 7, and was forwarded to Under Secretary Bell on October 4, in a letter prepared for signature of the Secretary. - Mr. Haas, Mr. O'Donnell, Mr. Daggit, Mr. T. P. Leahy, Mr. Wilson, Mr. Bronfenbrenner
5. At the request of the Bureau of Accounts on August 29, in connection with the 1942 Budget, estimates were made of (1) tax collections under the Federal Insurance Contributions Act (formerly Title VIII of the Social Security Act), for the fiscal years 1941 and 1942; (2) taxes to be collected from carriers and their employees, for the fiscal years 1941 and 1942; and (3) amounts to be deposited in the Unemployment Trust Fund under the Social Security and Railroad Unemployment Insurance acts, for the fiscal years 1941 and 1942. The estimates were incorporated in a memorandum to Mr. Maxwell, which was transmitted on October 3.-Mr. Wilson
6. At the request of Mr. Heffelfinger on October 23, preliminary estimates were prepared of the monthly distribution of revenue during the fiscal years 1941 and 1942, and were transmitted on that date. - Mr. Delcher, Mrs. May
7. Tentative estimates of receipts for the fiscal years 1941 and 1942 were prepared at the request of Under Secretary Bell and were given him orally on October 14. In connection with the component miscellaneous internal revenue, the estimates involved the making of a special study to determine the influence on Federal revenue collections of taxes upon consumers in these years. - Mr. Haas, Mr. Daggit, Mr. Wilson, Mrs. May
8. At the request of the Division of Tax Research on September 20, a review was made of a proposed revision of gift tax Table 2 for Statistics of Income pursuant to recommendations made to the General Committee on Statistics of Income by its subcommittee on estate and gift tax tabulations, and was transmitted to Mr. Blough on October 3. - Mr. O'Donnell

9. Estimates were prepared of the revenue yield of the Second Revenue Act of 1940, in terms of probable range based on the upward revision in the forecast of business levels for the calendar year 1940 and the lower levels of forecasts used in connection with estimates made during the Committee hearings on the excess profits tax bill. The estimates in tabular form were given to Assistant Secretary Sullivan on October 2. - Mr. Leahy

II. Projects or studies under way

1. Tentative plans for a WPA statistical project in connection with work on the excess-profits tax, as well as material proposed to be obtained from the Securities and Exchange Commission, are being reviewed in accordance with requests by the Division of Tax Research on July 12 and 17. - Mr. T. F. Leahy
2. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance companies taxable under Section 204, and at the same time the exemption under Section 101 (11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahy
3. An estimate is being made of miscellaneous internal revenue except from capital stock, estate, and gift taxes, in the calendar year 1941, if the taxes in existence as of July 1, 1928 were in effect. - Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

Economic Conditions Related to Fiscal and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared and were transmitted to the Secretary on October 7, 14, 21, and 28. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

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

- (1) The movement of non-ferrous metal prices compared with the movement of the BLS index of all-commodity prices during the first World War. (Chart in memorandum of October 7). - Mr. Daggit, Mrs. May
 - (2) Relationship of commodity prices and the cost of living, 1935 to date, monthly. (Chart in memorandum of October 7. Also listed above under Financial Analysis, section I, as item g(8)). - Mr. Daggit, Mrs. May
 - (3) FHA reports on new homes under construction and new homes to be built through its facilities, 1939 to date, weekly. (Chart in memorandum of October 14). - Mr. Daggit, Mrs. May
 - (4) Production and prices of copper, lead, and zinc, monthly from 1936 to October 18, 1940. (Chart in memorandum of October 21). - Mr. Daggit, Mrs. May
 - (5) A study of the "basic price" for copper, 1935 to date, monthly. (Chart in memorandum of October 21. Also described above under Financial Analysis, section I, as item g(9)). - Mr. Daggit, Mrs. May
 - (6) Movements of commodity prices and related price factors with chronological interpretation for period 1913-1922. (Revised charts and annotations in memoranda of October 21 and 28. Also described above under Financial Analysis, section I, as item g(3)). - Mr. Daggit, Mrs. May
 - (7) A study of selected components of the FRB unadjusted index of industrial production, new basis, for September 1940 compared with the peaks in 1929 and in the period 1937 through 1939. (Chart in memorandum of October 28. Also listed above under Financial Analysis, section I, as item g(6)). - Mr. Daggit, Mrs. May
2. Memoranda on employment under the Work Projects Administration were prepared and were transmitted to the Secretary on October 1, 8, 14, 23, and 28. - Miss Hagedorn

3. At the request of the Secretary, arrangements have been made with the Bureau of Labor Statistics of the Department of Labor for the securing of monthly data on the number of factory workers employed in 25 of the large airplane and airplane engine plants. On the basis of these data, and of a census prepared at the Treasury's request by the Bureau of Labor Statistics for August 1940, an estimate of employment in the airplane industry by geographic areas is prepared. A report for September was transmitted on October 10, according to instructions by the Secretary. - Mr. Tickton
4. At the request of the Secretary on October 18, three tables were prepared and were transmitted to him on that date showing estimated employment and the percentage change for selected periods for the following industrial groups: total non-agricultural, total factory, iron and steel, shipbuilding, airplanes, airplane engines, machine tools, aluminum, and explosives. - Mr. Daggit, Mrs. May
5. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Movements. The tables were prepared for the weeks ending October 5, 12, 19, and 26. On October 7, 14, 21, and 28, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Mr. Tickton, Miss Kalley, Mr. D. J. Leahy
6. At the request of Mr. Young on October 15, a study was made to ascertain available export figures on specified commodities, and was transmitted to him in a memorandum on October 29. - Mrs. May, Mr. Smith
7. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indices, foreign and domestic security transactions, security prices, exchange rates, etc., as well as other data for the Secretary's chart book. - Mrs. May, Mr. Chevroaux
8. A memorandum entitled "What Should Be Done now about Inflation" was prepared, on the basis of the memorandum listed under Financial Analysis I, as item g (1) above, and was transmitted to the Secretary and the Under Secretary on October 16. - Mr. Haas, Mr. Daggit, Mr. Murphy

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9. A memorandum, with charts, was prepared giving a chronological interpretation of commodity price movements from 1913 to 1922, and was transmitted to the Secretary on October 7. This study was used also in connection with item 8(2), section I, under Financial Analysis, and item 1(6) under Economic Conditions. - Mr. Haas, Mr. Daggit, Mrs. May
10. A study was made of the movement of basic commodity prices, showing components of BLS 28 basic commodities weekly from September 1939, daily from August 1940 to the present, and the percentage change for individual commodities from the August 1940 low to the present, and was shown in a chart. The results of this study were used in connection with the memorandum to the Secretary shown as item 11 below, in the business memoranda of October 21 and 28, and at the meeting of the Friday discussion group on October 25. - Mr. Daggit, Mrs. May
11. At the request of the Secretary on October 15, a memorandum was prepared showing movements of commodity prices and living costs, and was transmitted to him on October 16. - Mr. Haas, Mr. Daggit, Mrs. May
12. At the request of the Secretary compilations were made, and were transmitted to him on October 21 and 22, in tables with notations showing business trends since 1929, as follows: FRB index of industrial production (new); American Iron and Steel Institute steel production; Standard Statistics quarterly earnings of industrial and utility corporations; BLS factory payrolls; NIOB cost of living index (on 1923 and 1926 bases); Department of Agriculture farm income (2 series); BLS wholesale prices of raw materials and finished products; BLS factory average hourly earnings; F. W. Dodge residential construction contracts awarded; and FRB production of non-durable manufactures. Included were the following business data for more recent years: BLS estimated employment in September 1940 for selected industries, showing percent increase since August 1938 and August 1939; NIOB estimated total employment and unemployment in August 1940; and WPA employment by months, 1938 to date. - Mr. Haas, Mr. Daggit, Mrs. May, Miss Hagedorn

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13. A forecast was made of the following basic business series for the fiscal years 1943 and 1944, for use in estimating tax revenues: FRB index of industrial production, new and old bases; BLS index of wholesale prices; an index of the value of industrial production; BLS index of factory payrolls; Department of Commerce series of salaries and wages; Standard Statistics index of 419 stock prices; and Federal Reserve series on bank debits outside New York City. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Smith

II. Projects or studies under way

1. Index of unfilled orders.

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

2. Forces determining trends of basic commodity prices.

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

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

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

3. Measures of consumer buying.

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

Studies on a monthly basis have been nearly completed on individual components of two physical volume indexes of consumer buying, one corrected for the effect of price changes, and the other corrected both for the effect of price changes and for the effect of changes in national income. The weighting of the individual components remains to be done. In addition, with respect to the index of consumer expenditures in dollar volume, substantial progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. The purpose is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Mr. Smith

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

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

5. Index of commodity stocks.

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

6. Index of goods inventories.

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

7. Index of buying on deferred payments.

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

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

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

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

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

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10. New orders in the lumber industry.

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

Actuarial Problems

I. Projects or studies completed

1. Federal Communications Commission.

A request from the Federal Communications Commission was received on May 18 to review an actuarial report of the American Telephone and Telegraph Company regarding recent changes which they have made in the valuation of their pension plan. Members of the Division's staff served in an advisory capacity. A final report was submitted to the Commission on October 18. - Mr. Reagh, Mr. Brown

II. Projects or studies under way

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

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

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

The Board of Actuaries is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown

3. Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund.

In cooperation with the members of the staff of the Social Security Board, there is being prepared a draft for the first annual report of the Board of Trustees. - Mr. Reagh, Mr. Murphy, Mr. Brown

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

The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. A preliminary estimate of the appropriation required for the fiscal year 1942 has been prepared, and has been submitted to the State Department. - Mr. Reagh, Mr. Brown

5. Retirement System for Field Employees of the Farm Credit Administration.

In response to a request from the Farm Credit Administration on October 10, assistance is being given in devising a retirement system covering field employees in that organization. During the month several conferences were attended by a member of the staff. - Mr. Reagh

6. Retirement System for Haitian Government Employees.

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

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

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

8. Review of Memorandum on Pension Trust Plan vs. Group Annuity Plan.

At the request of the Division of Tax Research on October 29, a review is being made of a memorandum submitted by Mr. B. E. Wyatt, University of Michigan, entitled "The Inequitable Tax Provisions of the Pension Trust Plan in Comparison with the Group Annuity Plan." - Mr. Reagh, - Mr. Brown

Other Projects or Studies

1. Treasury Bulletin.

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

All the material submitted for the October issue was reviewed and edited. Substantial revision was made in the following tables: Customs duties and taxes collected, and values of dutiable and taxable imports, estimated by tariff schedules; Bank holdings of Government obligations; Securities held in Treasury trust funds and by certain governmental corporations; Statutory debt limitation; Average yields of Treasury bonds and high-grade corporate bonds; Government corporations and credit agencies: assets, liabilities, and proprietary interest of the United States; Silver production by leading countries; and Balance sheet of exchange stabilization fund.

Additional revisions are being considered for the November issue. - Mr. Lindow, Miss Eyre

2. Annual Report of the Secretary of the Treasury.

Articles for the text of the Annual Report for the fiscal year 1940, including the special review are being prepared on the following subjects: Estimates of receipts; Public Debt; Obligations guaranteed by the United States; Absorption of the direct and guaranteed public debt by classes of holders; Market developments; Banking developments; Treasury activities under the provisions of the Social Security Act; Treasury national defense activities; and the Administrative report for the Division. - Mr. Haas, Mr. Tickton, Miss Michigan, Miss Westerman, Mr. Turner, Mr. Bronfenbrenner, Mr. Murphy, Miss Ziegler, Mr. Reagh, Mr. O'Donnell

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

3. Other material for publication.

(1) Two tables on the distribution of holdings of direct and guaranteed Government obligations were brought up to date for Moody's Government Manual, and were transmitted to the Bureau of Accounts on October 18. - Mr. Turner

(2) At the request of Assistant Secretary Gaston on October 18, an article is being prepared on the operations of the Treasury Department during 1940 to be incorporated in the 1941 Americana Annual. - Mr. Tickton

4. Cumulative index of Treasury Publications.

Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

5. Sources of Statistical material in Annual Report and Bulletin.

Request was made by Mr. Henriksen, Bureau of Accounts, on October 14, for information on the sources of statistical material in the Annual Report of the Secretary of the Treasury and in the Bulletin of the Treasury Department. The material on the Annual Report was transmitted on October 25, and the information on the Bulletin is in preparation. - Miss Michener, Mr. Lindow, Mr. Tickton, Miss Westerman

6. Correspondence.

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

During October 307 letters were received in the Division and 299 were handled as required.

7. Charts.

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

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

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New charts:</u>			
Total charts completed	34	9	43
Bond book charts completed	63	-	63
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	27 (times)	-	27 (t)
All other charts brought up to date	682	29	711
<u>Miscellaneous:</u>			
Total jobs	19	13	32
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	46	16	62
Number of-			
Negatives	182	38	220
Contact prints	105	76	181
Enlargements	632	49	681
<u>Photostats:</u>			
Total jobs	136	4	140
Number of-			
Lettersize copies	730	15	745
All other copies	9,190	15	9,205
<u>Multilith:</u>			
Total jobs	3	1	4
Number of-			
Zinc plates	79	4	83
<u>Miscellaneous:</u>			
Total jobs	15	11	26

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

Type of work	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
A. Graphic							
New charts completed	45	18	39	43			
Charts brought up to date	748	687	716	711			
Bond book charts completed	-	2	-	63			
Bond books brought up to date	28 (times)	27 (t)	26 (t)	27 (t)			
Miscellaneous jobs completed	23	17	36	32			
B. Photographic							
<u>Photographs:</u>							
Total jobs	53	48	66	62			
Number of-							
Negatives	151	170	158	220			
Contact prints	164	158	250	181			
Enlargements	177	96	196	681			
<u>Photostats:</u>							
Total jobs	123	116	149	140			
Number of-							
Lettersize copies	3,657	742	420	745			
All other copies.	8,165	12,467	8,967	9,210			
<u>Multilith:</u>							
Total jobs	7	5	5	4			
Number of-							
Zinc plates	91	131	80	83			
<u>Miscellaneous:</u>							
Total jobs	14	12	27	26			

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10-1-40

11-1-40

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