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490 Million in French Gold on U.S. War Vessel

By GUY RICHARDS.

Behind a routine announcement from the Treasury and Navy Departments yesterday lay the story of one of the strangest and most secretive missions ever undertaken by the United States Navy.

The statement, issued in Washington, said only:

"Some time ago the United States purchased a sum of gold from the French Government. It was transported to the United States abroad the U.S.S. Vincennes, which was returning home from abroad."

Put at $490,000,000.

Estimates of the amount ran as high as $490,000,000—if correct, the largest golden hoard ever to be shipped on a single vessel.

Up to the time the announcement was made, utmost secrecy had surrounded the whole matter. Although the Vincennes, a heavy cruiser, had docked at the New York Navy Yard, Brooklyn, on Thursday, the Navy insisted she was "still in Portugal." With two destroyers, the Truxton and the Simpson, she had been sent to European waters on May 28.

All day Monday a steady stream of trucks transferred 2,500 green canvas bags, each containing 164 pounds of gold, from the Navy Yard to the United States Assay Office at Old Slip and South Street. Officers and men of the Vincennes, as well as the civilian truck drivers, had been sworn to silence.

Nevertheless, it was learned that the gold was taken from Casablanca, French Morocco, by three heavily camouflaged freighters to a secret rendezvous, where it was transferred to the Vincennes.

Her mission completed and the fabulously valuable cargo safe in the vaults of the Assay Office, the cruiser sailed for an unannounced destination at 2:45 P. M. yesterday.
Mr. Henry Ford's refusal to manufacture aircraft engines in the United States for the British Government has forced cancellation of plans for early mass production by the Ford Motor Company of the Rolls Royce aviation engine, William S. Knudsen, member of the National Defense Advisory Commission in charge of production, announced today.

On May 31, officials of the Ford Motor Company, including Mr. Edsel Ford, President, called at the Treasury to consider participation in an engine program. They agreed to study the Rolls Royce design, with a view to production, and subsequently discussed the matter with Mr. Maurice Olley, Rolls Royce representative in Detroit. It had been hoped that production in the United States would be expedited by employing Ford facilities due to the fact that Ford interests in Great Britain have a contract with the British Government for manufacture of Rolls Royce engines.

On June 11, Mr. Edsel Ford and his associates conferred in Washington with Mr. William S. Knudsen, member of the National Defense Advisory Commission in charge of production, and Dr. George J. Mead, head of the aeronautical section of Mr. Knudsen's division. At that conference Mr. Edsel Ford was informed that such of the motors as were produced for the British Government would have to be bought and paid for by that Government under a separate contract, while those produced for the United States Government would have to be covered by a contract with the United
States War Department. Mr. Edsel Ford requested that he be allowed an opportunity to discuss this phase of the matter with Mr. Henry Ford, and next day he called Mr. Knudsen on the telephone and said the arrangement was satisfactory.

Meanwhile, the Allied Purchasing Commission arranged with the British Government for a definite commitment covering 6,000 engines, and the United States War Department proposed to take 3,000 engines, making a total order of 9,000. The combined quantity was sufficient to justify the undertaking, as it would insure a more reasonable cost of both motor and equipment for its manufacture. Contract negotiations were then initiated and the drawings of the Rolls Royce engine were delivered to the Ford Motor Company June 19. The same day, Mr. Henry Ford announced his refusal to manufacture aircraft engines in the United States for the British Government.

On June 21, Mr. Knudsen conferred with Messrs. Henry and Edsel Ford in Detroit. Mr. Henry Ford, at that conference, confirmed his public statement, saying he would make any number of Rolls Royce engines for the United States Government but that he would undertake no contract with the Allied Purchasing Commission.

Mr. Henry Ford’s decision has necessitated termination of negotiations with the Ford Motor Company to manufacture the Rolls Royce engines. Cooperation in the production of this important military equipment will be sought elsewhere by the National Defense Advisory Commission.
June 26, 1940

Dr. Herbert Feis
Henry Morgenthau, Jr.

Will you please transmit for me the following message:

"To Ambassador Kennedy, London

From Henry Morgenthau, Jr.

Following is the text of Mr. Knudsen's statement for the press dated June 26, 1940:

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Regraded Unclassified
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Mr. Henry Ford's decision has necessitated termination of negotiations with the Ford Motor Company to manufacture the Rolls Royce engines. Cooperation in the production of this important military equipment will be sought elsewhere by the National Defense Advisory Commission. - UNQUOTE
1409, Twenty-sixth.

FOR THE AMBASSADOR FROM SECRETARY MORGENTHAU.

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HULL
(HF)

EA:FL:LMW
MEMORANDUM FOR THE SECRETARY'S DIARY

This afternoon at 2:30 Mr. Dwan and Mr. Foley called on Attorney General Jackson and Judge Townsend to discuss alternative proclamations pursuant to Sec. 191, U.S.C. Title 50, in the light of an informal opinion rendered by Attorney General Murphy to the President last August, a copy of which is attached. In that opinion, Attorney General Murphy advised that instructions to Customs Collectors, in the event of armed conflict, to seize German and Italian vessels in American waters and remove therefrom officers and crews, would violate international law, in that it would be discriminating in favor of one or more belligerents.

Mr. Foley said that three alternatives were under consideration, i.e., a proclamation under Sec. 191 which would (1) deal only with French vessels, (2) would deal with vessels of belligerents and (3) would deal with all vessels, domestic and foreign. Mr. Foley pointed out that in the event the President should decide to proceed pursuant to Sec. 191, in so far as French vessels are concerned, it would be necessary to reconsider Attorney General Murphy's opinion.

It was agreed that circumstances today are entirely different from circumstances existing last August when Attorney General Murphy's opinion was given to the President, and it would be possible, from a legal standpoint, to approve a proclamation dealing solely with French vessels or with vessels of belligerents in the present European conflict, or with all foreign and domestic vessels. In other words, depending upon policy to be decided, the lawyers could draft the appropriate proclamation and regulations, pursuant to Sec. 191.

June 26, 1940.
By Dear Mr. President:

Reference is made to your informal request for my opinion on whether the Secretary of the Treasury under your direction may issue instructions to all collectors of customs substantially as follows:

Immediately upon your being satisfied that Germany is in armed conflict with another nation with or without formal declaration of war with all German and Italian vessels in American territorial waters remove officers and crew therefrom and take all precautions against sabotage in engine-rooms or otherwise.

It is my opinion that in the event of armed conflict between foreign nations, action on our part in seizing in our ports vessels of one or more of the belligerents and not of the others would be in conflict with international law and could, under such law, be construed by the parties affected as an act of war.

It is also my opinion that any such action as contemplated by the proposed instructions, even if applied to the vessels of all belligerents impartially, would, unless based upon the procedure outlined in U.S.C. title 30, sec. 192, be in violation of the due process clause of the Constitution and would, in all probability, be immediately nullified by court action.

It is my advice, therefore, that any such instructions should be based upon a proper proclamation issued under said section 192, and that it should be made applicable impartially to at least the vessels of all belligerents.

Should the contemplated action be taken concurrently with, or subsequent to, the issuance of the general neutrality proclamation, the legal basis therefor would be considerably strengthened and broadened.

Faithfully,

(Signed) Frank H. Murphy
Attorney General.

The President,

The White House.
June 26, 1940

MEMORANDUM FOR THE SECRETARY'S DIARY

This afternoon at 3:30 a conference was held in Secretary Hull's office as to action proposed to be taken pursuant to Section 191 of Title 50 U. S. C. There were present: From the State Department, Secretary Hull, Assistant Secretary Long, Legal Adviser Hackworth, and Saugstad, Assistant Chief of Division of International Communications; from the Treasury Department, Secretary Morgenthau, Under Secretary Bell, Assistant Secretary Gaston, Assistant to the Secretary Harris, and General Counsel Foley; and from the Department of Justice, Attorney General Jackson.

Secretary Morgenthau opened the meeting by stating that he had received instructions from the President on Monday afternoon, June 24, to hold all French vessels in our ports, and in the meantime to work out a legal basis for such action. Secretary Morgenthau explained that orders to that effect had been issued through the Department of Commerce, and that he and his associates had been engaged, since that time, in exploring for legal authority for the action. Secretary Morgenthau said the Treasury had reached the conclusion that powers existed pursuant to Section 191 of Title 50 U. S. C. to give a legal and policy basis for the President's action, provided an appropriate proclamation and regulations were issued. The question to be decided, Secretary Morgenthau went on to explain, was the scope of the proclamation. Three alternatives presented themselves, i.e. a proclamation (a) dealing only with French vessels, (b) dealing with vessels of belligerents and (c) dealing with all vessels, both domestic and foreign. Secretary Morgenthau suggested that the first alternative might raise some question as to the applicability of an advisory opinion Attorney General Murphy had given the President last August, but added that he had just been informed this no longer was a barrier.

Attorney General Jackson explained that the opinion of former Attorney General Murphy could be distinguished in the light of present day circumstances, and a proclamation dealing solely with French ships in our harbors would not, in his opinion, be a breach of international law, and would be clearly authorized by our own law. Mr. Jackson told the group that this was one of those situations where it is possible for the lawyer to provide the appropriate proclamation and regulations, depending upon the decision reached by the policy makers.

Secretary Hull inquired as to the number of French vessels in our ports, and was told by Secretary Morgenthau that there were not more than eight here now. Mr. Hull said that he was somewhat troubled as to the attitude which the Germans might take, since the immediate return of French
vessels to French ports was one of the terms of the French-German armistice. Mr. Long added that the act probably would be viewed as a hostile one by Germany. Secretary Hull called upon Mr. Hackworth for his views. Mr. Hackworth told the group consideration should be given as a possible alternative to requisitioning all the ships for our own use. Attorney General Jackson pointed out that he doubted the existence of such a power while the United States is at peace, although he had not studied the question. Mr. Hull and Mr. Long thought the matter was one of high policy, and any steps pursuant to Section 191 should be given careful consideration.

Secretary Morgenthau said that that was the reason he was there, and that even if we decided to recommend to the President the issuance of a proclamation pursuant to Section 191, he wanted a clarification of the policy which he would be called upon to carry out in the administration of the proclamation.

Mr. G. and Mr. Harris explained that instructions had come from the Navy Department this afternoon to apprehend the sailing of two Belgian tankers, probably loaded with oil and destined for Germany.

Mr. Foley added that Secretary Morgenthau acted on Monday without my legal authority in carrying out the President's instructions, and it was highly important that some legal sanction be given to the Secretary's acts by way of a proclamation pursuant to Section 191 or that the ships be released.

Attorney General Jackson suggested that the President issue a proclamation dealing with all vessels, domestic and foreign. Everyone agreed that this action from a domestic standpoint would be the safest course.

It was agreed that Secretary Morgenthau would try to make an appointment tomorrow morning with the President for the three Cabinet Officers present, and others that they wished to bring. A definite recommendation would be made to the President that he issue a proclamation pursuant to Section 191, together with the necessary regulations.

Mr. Foley gave drafts of the proclamation and the regulations to Attorney General Jackson and Mr. Hackworth. The Attorney General said that he would put the papers in final form for presentation to the President.

**********

At 5:40 p.m., Secretary Morgenthau telephoned Mr. Foley that he had just had a telephone call from Under Secretary of State Welles. Mr. Welles said that Lord Lothian was with him, and had requested that
a French vessel in San Francisco be cleared by the Treasury for Vancouver, and asked what reply he could make to the British Ambassador. Secretary Morgenthau told Mr. Welles that a conference had been held that afternoon at the State Department on the disposition of the French ships and it had been decided that the whole matter should be presented to the President tomorrow morning. In view of these circumstances, Secretary Morgenthau advised Mr. Welles that he should stall until after the President had decided what action he wishes taken in the matter. Mr. Welles said that he did not know of the conference in Mr. Hull's office and thanked Mr. Morgenthau for the information.
June 23, 1940

My dear Mr. Hoover:

This is the material I promised
to send you.

Yours sincerely,

Mr. J. Edgar Hoover, Director
Federal Bureau of Investigation,
Department of Justice,
Washington, D.C.
Secretary Woodring: We have educational orders out to two other companies, but we are making fuses ourselves. There is the Younghouse fuse. I tried a year ago to get the Tavara. You would be surprised to know that Senator Nye was interested in having us use the Tavara fuse, which the British and French use. I begged Ordnance to do it, but they would not do it. It's really a better fuse, but Ordnance was fearful that we would be switching over to Tavara and we have $1,500,000 in machinery and probably $2,500,000 in royalties that we have paid on the Younghouse and I think Ordnance was a little fearful of their having adopted it in their opinion in comparison with Tavara.

General Marshall: How did Senator Nye come into it?

Secretary Woodring: Somebody had been to see him and sold him on it.

General Marshall: Ours is the Younghouse.

Secretary Woodring: I know why he was interested. The Younghouse is a German patent. The Tavara is Swiss.
June 26, 1940

My dear Mr. President:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

enclosure √
June 26, 1940

My dear Mr. President:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

enclosure

By Messenger
June 26, 1940

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(Signed) H. Morgenthau, Jr.

The President,
The White House.

enclosure
June 26, 1940

My dear Mr. Knudsen:

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl. ✓

Regarded Unclassified
June 26, 1940

My dear Mr. Knudsen:

I am sending you herewith report
No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2
which has not arrived. If it should be re-
ceived, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Enc.

By Messenger
June 26, 1940

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

Encl.
June 26, 1940

My dear Admiral Stark:

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He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl. 1
June 26, 1940

My dear Admiral Stark:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morganthau, Jr.

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

Enc.
June 26, 1940

My dear Admiral Stark:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl.
This was sent to General Marshall at 4:30 this afternoon. Simmons found that General Marshall was not in his office and, as this was strictly confidential, he brought it back to me at 5:30 and I put it in the safe for the night. It was delivered to General Marshall at 9:10 on June 27/40.

The reason Simmons did not get it back to me until 5:30 was that he had another letter for Admiral Stark, which he delivered first.

6/26/40
June 26, 1940

My dear General Marshall:

I am sending you herewith report No. 3 from Mr. J. Carlton Ward.

He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl. 1
June 26, 1940

My dear General Marshall:

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He makes reference to report No. 2 which has not arrived. If it should be received, I shall transmit it to you promptly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl.
June 26, 1940

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Yours sincerely,

(Signed) H. Morganthan, Jr.

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

Enc.
June 26, 1940
9:00 a.m.

RE ALLIED PURCHASING PROGRAM

Present: Mr. Knudsen
         Mr. Young
         Mr. Purvis
         Mr. Nelson
         Mr. Foley
         Mrs. Klotz

Purvis: This group is getting smaller, isn't it?
H.M.Jr: Is it?
Purvis: I miss my French colleagues.
H.M.Jr: Mr. Purvis, Mr. Knudsen had several things
       he wanted to take up with you first.
Purvis: Yes.
H.M.Jr: So I think I will let him talk first.
Purvis: I have one or two things also.
Knudsen: The first thing, of course, is the Packard
         thing. I have got the Packard people here
         this morning. Have you heard from England?
Purvis: Yes.
Knudsen: Are they satisfied?
Purvis: They are not satisfied, but go ahead. We
       back your judgment.
Knudsen: All right. Well then, in the handling of
       the machine tools, how are you going to
       handle it? I don't mind telling you confi-
       dentially that we are a little bit jittery
about whether the English will carry out the six thousand contracts. I should tell you that frankly, I think.

**Purvis:** So far we haven't struck that difficulty. I think in any pronounced way we have been able to maintain the position that the British Government has kept its word.

**Knudsen:** No question about it.

**Purvis:** I would not think it would be unduly difficult. Are you going to have the manufacturers do the deal with us?

**Knudsen:** Yes, they will have to.

**Purvis:** In that case, don't you think you should refer them to us?

**Knudsen:** Yes, indeed, but you understand I have got to hold their hand a little bit while this is going on and I want to do that.

**H.M.Jr:** May I butt in a minute? You want to set the formula first, though?

**Knudsen:** That is right.

**H.M.Jr:** You want to set the formula first though, don't you?

**Knudsen:** Yes.

**Purvis:** What is your idea of a formula?

**Knudsen:** Well, do you want to hold to the formula we talked about when you were in the office here the last time, that you want to pay --

**Purvis:** On the delivery, because we want our money to go as far as we can. After all, on the cash and carry basis, it already makes a heavy enough demand on current resources without anticipating that. Naturally we want to hold to that. It is one of the real things, I think, that was brought about.
Knudsen: Now then, can we deal with only six thousand or can you take an option on more than six?

Purvis: Well, what was the previous deal, six and six, wasn't it?

Knudsen: Six and four.

Purvis: But wasn't it an order for six with an option on a further six?

Knudsen: Yes.

Purvis: Well, it is the same deal. We haven't changed one atom. Only Mr. Ford has changed. We are in exactly the same situation we were in before.

Knudsen: So in setting up the formula, I can set up six with an option for six more?

Purvis: Yes. Unless you think they can build more quickly.

Knudsen: I don't think they can build more quickly, but in setting up the formula for the finances, I, of course, have to talk to Mr. Jones. He has got to handle this deal. We haven't any other agency through which to handle it.

Purvis: Of course, if they were to take the line, Mr. Knudsen - you see, so far contractors have been willing to make a reasonable deal with us. We have made concessions here and there to genuine fears, but as a whole we have been able to maintain the situation on a satisfactory basis. Now, of course if we were to find ourselves dealing with a manufacturer who didn't regard us as a satisfactory risk, we might not want to regard him as a satisfactory risk. That would be another new angle in the situation which we would have to be rather careful of, you see.

Knudsen: But you understand I am not talking so much about the manufacturers as I am talking about the kind of a deal I have to make to get
money to buy these tools.

Purvis: Oh yes, I had understood that was disposed of in our last talk. If it isn’t disposed of --

Knudsen: You see, the manufacturer is not worried about you as a risk. He is worrying about where he is going to get the money to pay for the tools, see, and if after the tools he is going to be permitted to make the motors. As I take it, you are willing to give us a firm order for 6 thousand motors and you are willing to take an option for 6 thousand more.

Purvis: That was the original deal, wasn’t it?

Knudsen: Yes.

Purvis: If it wasn’t the original deal, I don’t want to go one bit further than the original deal. The original deal, as I understood it thus far, was that — I am not quite clear on that. Are you, Mr. Knudsen?

Knudsen: Yes, I am clear to this extent, that we talked to Mr. Ford about 10 thousand motors with an option for 10 thousand more.

Purvis: That is what I —

Nelson: I am not sure that they agreed to the option for six. I don’t remember.

Purvis: We didn’t put it in the letter, but I didn’t think there was any question about it. An option is an option.

H.M.Jr: Doesn’t cost you anything.

Purvis: That is why I haven’t put it in there.

H.M.Jr: May I again interrupt? And the second ten thousand, as I remember it, was the thought that it might be an improved Rolls Royce.

Knudsen: Bigger.
Purvis: Yes, undoubtedly.

H.M. Jr: I want to bring that out, that it would be possibly the Griffen, you see, or something like that.

H.M. Jr: I think we would regard it somewhat of a failure if it weren't the Griffen, but do I understand, Mr. Knudsen - I am not sure I am clear what you are trying to convey to me. The last time we talked, my understanding was that the United States Administration was prepared to work out the deal along the lines of their advancing the capital requirements for these tools which was estimated at that time at 30 million dollars for the whole thing, I think.

Knudsen: That is right.

Purvis: And that then we would pay so much per unit of product, whether or not the contract was completed. In the event of cancellation, we would still owe the amount per unit which would take care of the capital cost of the tools. I think I was clear on that.

Knudsen: That is right, we are in the same situation now only that you take six thousand motors on a firm order and an option for six, some motor, perhaps not this, but a similar one.

Purvis: Yes, I think that was the essence of the deal.

H.M. Jr: As I remember it.

Nelson: Do you want to go one step further, Mr. Knudsen, and point out to Mr. Purvis - it may not be clear to him - that in your thinking you were spreading the absorption of the tool and die expense over the 20 thousand engines and not over the 10.

Knudsen: I was.

Nelson: I wanted to be sure that was clear to you.
Purvis: Now, when you talk about an option, you mean not the Packard option?

Knudsen: That is right.

Purvis: Insofar as the kind of situation you are suggesting, we are prepared to be reasonable as we would expect other people to make a deal with us. I mean, so far as I can see, the proper thing would be that the cost of those tools would be spread over the first order if the option is not exercised and the complete if it is. That would be fair to the manufacturer.

R.E.Jr: No, that wouldn't work.

Knudsen: You are willing to accept - what was it, six thousand?

Purvis: We would prefer, naturally, to have it over the whole. What is your view? We would expect to do it the same way.

Knudsen: We, of course, would have to follow you.

Purvis: Well, I don't know, I think - what deal can you make with the manufacturer on this? What would be fair to him and fair to the buyer?

Knudsen: Well, I take it you have accepted responsibility for the six thousand, the tools spread over the six thousand. If you don't exercise the option, then it is all right to put it on the basis of twelve thousand?

Purvis: You think there will be no residual value in the tools?

Knudsen: There will be some, but you see when you finish this job, there is going to be an awful lot of tools in the country and they are going to be worth about $15 a ton.

Purvis: I would like - I mean, if you want to produce this - work this deal up on some basis you
think is fair - as I understood it, it was a complementary purchasing which the two of us joined together to do something and do it as a unit. You also went so far as to elaborate a system for which our people at home are very appreciative, which was on the basis of distributing this tool cost over the deliveries of the units.

H.M.Jr: The idea was worked out in the first instance to be helpful to you.

Purvis: Yes, exactly.

H.M.Jr: That was the idea I started with.

Purvis: We would like to preserve that because it is a valuable thing, not only for this deal but an implication for other deals, big arms, which are important to us, and therefore we would like to keep it on that basis. There is nothing changed, so far as we are concerned. We never got - as I understood it at that time, to the detail of this proposition. The moment you have it set up in such form that you or the United States Government feel it proper for them, I am quite sure that we shall, as we have done on all the rest of the deal, put ourselves in your hands for the balance.

H.M.Jr: There is a good reason you didn't get the detail. Mr. Foley gave me the final copy yesterday, so there is a good reason why you didn't get it.

Purvis: Well, we couldn't have had it sooner.

Knudsen: In this case, it would be somewhat less, but I don't believe there would be any building required.

Purvis: There wasn't in the case of Ford, was there?

Knudsen: No. But here they are working on it over there and by tomorrow I ought to have it fixed.

Purvis: Well, whatever you think is a fair setup for you, I am pretty sure, Mr. Knudsen, is going to be considered a fair setup for us.
Knudsen: Well, if I had that assurance, I don't believe we could ask any more.

Purvis: I think that is about the answer. Whatever the United States thinks is a fair setup, I am quite willing to say, "Now, we will accept it."

Knudsen: All right, sir.

H.M.Jr: It is a better deal this way because Congress has changed the profit from 10% to 8, so they are going to have to operate on an 8% basis instead of 10.

Purvis: Will the manufacturer do good work under those circumstances, Mr. Knudsen?

Knudsen: Sure. Naturally, he would rather have 10 than 8. The House is full of kicks this morning about the 8%.

Purvis: We have a contingent interest in seeing the manufacturer go full steam ahead under the circumstances.

Knudsen: I don't think you need to worry about that.

Purvis: That is the only thing we would worry about.

Knudsen: That, after all, is my responsibility to see that he goes along. I am not going to have anybody fiddle around with the job. If he takes the job, he has got to get started. In selecting him and suggesting him to you, I felt that there was an outfit that could do - why not as well as Mr. Ford says he can do? At least the actual difference wouldn't be too great when we got through. But he hasn't got as much money as Mr. Ford has and we will have to help him with that.

Purvis: That is, in a way, the least important item in this particular question, isn't it? I mean, the question as to whether one pays just a little more or a little less in advance to him, I suppose, doesn't matter provided you are covered for the order.
Knudsen: The only thing I wanted to ask you this morning was whether the option held along and that is satisfactory and whether I could figure the tools on that basis, you to be responsible for it if you don't exercise the option.

Purvis: Oh yes. I see now what you mean a little more clearly. All you want is our responsibility for the tools on the option end of it --

Knudsen: To be transferred to the actual.

Purvis: That is another way of saying what I said.

Nelson: It makes no difference to you at all, Mr. Purvis.

Purvis: If that is the same as your deal, it is all right with us.

Nelson: It would be exactly the same, as far as you are concerned, whether you amortized them over six or over twelve. It would be the same amount of money, but if you canceled the order, it would be over six.

Purvis: If we are on level pegging with you on that, we shall be very happy.

Knudsen: That is the only thing I am trying to clear up now, and if you are in agreement, I will go ahead.

Now then, the second thing, this cancelation business is beginning to show up and I took a typical letter along to show that it actually has happened.

Purvis: Maybe before we go to the assignments and cancelations, we can raise one thing that might come right out of this order. One of the questions that arose last time, the advantages of this method of having a complementary order was the avoidance of the tax difficulty, income tax on capital assistance payments, which had overcome, I think, but --

H.M.Jr: No, I will tell you what I will do. I will give you - Mr. Foley gave me - there is no
reason why I shouldn't give him (Purvis) in confidence, a copy of that, is there? You have no objection?

Knudsen: No.

H.M.Jr: I will give you (Purvis) a copy of it and Foley's two page analysis.

Purvis: The Curtiss-Wright contract?

H.M.Jr: Yes, which is worked out on this formula, the Curtiss-Wright contract to build the plant and you can take it and read it and that will be the formula which Mr. Knudsen has worked out.

Purvis: I see.

H.M.Jr: You take this and read it and then you will know the kind of contract you are going to get in on with Packard.

Purvis: That will be splendid. We have one little difficulty which arises with our friends, Curtiss-Wright, in another way, and I wondered if I could, as I think Mr. Knudsen's committee is the key to our difficulty for the moment --

H.M.Jr: (To Mr. Young) A memorandum that Mr. Foley gave me yesterday, a two page memorandum, attached to the Curtiss-Wright contract, mark it strictly confidential and let Mr. Purvis have a copy of it. It is a two page analysis.

Purvis: Thank you very much. We have a contract with Curtiss-Wright for airplane engines, as you know, a rather big one, and with a good deal of capital assistance on this fresh contract we put out in April. In fact, the tax alone, if we had to pay income tax on the capital assistance we are giving them, would be on that one contract $3,500,000.00.

Knudsen: It is two and three quarters.

Purvis: No, three million six.

Knudsen: He showed me a statement on it.
Purvis: What he has charged us is three million six.

Knudsen: Well, this might be another contract.

Purvis: That is our position. Now, we have been making contracts for a considerable time under a form which Mr. Sullivan found acceptable and which has been discussed here in advance whereby we have technical ownership to machine tools or equipment in a plant. The manufacturer in turn has an option in most cases to buy it back at a stated price, a very small one. Anyway, it is a procedure that has been developed and used in several cases and successfully used.

The Curtiss-Wright people, to whom we have had to make this larger advance, have suddenly come to us and said that the Defense Advisory Board has ruled or has written them a letter saying that they do not wish them to have a foreign government owning any plant in their factories. That automatically creates a condition which will bite into a dozen of our main contracts. Curtiss-Wright have used it and we - I say this - I don't know why they want to insist that we pay this tax, but we have been struggling with them for 2½ months. They are using your letter as a means of preventing our getting the refund of this tax which we have had to pay to them. We feel very strongly that there can be no difficulty from the United States Government's viewpoint in that the physical possession of the assets are under their control.

Item No. 1: We are prepared to put any clause into the contract which will protect the United States Government asset for the requirement that it was going to take possession of these assets and this is simply - this letter that has been written to them by the Defense Advisory Committee has simply created a situation whereby we are going to have to pay tens of millions of dollars in income tax on these things on capital assistance.
Knudsen: Well, is the reason for that that you wanted to be relieved of the responsibility with the Wright Company?

Purvis: Well, it is the same as the Allison. Your own company has made it that way, that you came from - or that I came from - I don't know which it is - both ideas and the Pullman Company on shells and the Curtiss-Wright and half a dozen. There has only been one difficulty. With Curtiss-Wright from the beginning there has been a very great desire, apparently, not to let us escape from this tax. Finally, their own lawyer, Mr. Bananders, developed this adaptation of a previous method that was used.

Knudsen: Using the facilities --

Purvis: Oh yes. We got a great many contracts like that. This was put back into Mr. Sullivan's - I think Mr. Sullivan himself and his men had discussed it with them. It was all settled, blessed by them, and then Curtiss-Wright went after the Defense Advisory Committee alone without us being there and as far as I know without the Treasury represented there and argued a case, "you don't want belligerent governments to own plants," and so on. It sounded, no doubt, very specious to the committee but actually we are prepared, as I say, to have every clause in the contract to protect the United States Government's right to take over the thing at any moment.

Knudsen: Well, there is such a clause in the contract, isn't there?

Purvis: That is it. So they are using this letter that has been written by --

H.M.Jr: Who signed the letter?

Purvis: I don't know. It may be in this thing. Here is the little scrap of paper you were asking for. There is a statement of the case, a short statement of the case.

H.M.Jr: Shall I read it out loud?
The lease arrangement proposed for the Curtiss-Wright contracts contemplated the purchase and ownership by the British Government of additional plant and plant facilities to be used by Wright Aeronautical Corporation for the duration of the British contracts. Under such arrangement, no income taxes are payable with respect to the purchase price of the additional plant and plant facilities financed by the British Government. The result of such an arrangement, so far as it affects the operation of the Wright plants, is the same as if such additional plant and plant facilities had been purchased outright by Wright Aeronautical Corporation. The difference is in form only.

"Curtiss-Wright have, however, advised us that they consulted last week members of the Defense Committee, Treasury, Army and Navy officials in Washington and that the consensus of opinion of such officials was that such lease arrangement would be unacceptable, as a matter of policy, to the United States Government because the arrangement permitted the ownership by a foreign government of United States armament plant facilities, which ownership might result in jeopardizing the interest of the American Government, or in international complications. Curtiss-Wright advises us that they have today received a letter from Mr. Knudsen confirming the foregoing objections to the lease arrangement.

"The lease arrangement has been approved in principle by certain representatives of the Treasury and has been used by us in other contracts such as the General Motors contract for the purchase of Allison engines."

You (Knudsen) don't mind if I have a belly laugh, do you?

That is unkind, isn't it, Mr. Knudsen.

My laughing or their putting it in here?
Your laughing.

Well, he can take it.

Our young American lawyer, Childs, enjoyed putting that in there, knowing I was going to see Mr. Knudsen about it this morning. He is a very good young fellow, too.

I am sure Mr. Knudsen enjoys it also.

"The lease arrangement has been approved in principle by certain representatives of the Treasury and has been used by us in other contracts such as the General Motors contract for the purchase of Allison engines. The amount of taxes saved by the use of this arrangement has been substantial and would amount to approximately $3,600,000.00 in the case of the Curtiss-Wright contracts alone.

"The objection made by the Defense Committee might be met very simply by provision in the instrument of lease covering the additional facilities fully protecting the interests of the American Government, so that in no event can the British Government object or interfere with the use of such facilities to the prejudice of the American Government, or to the embarrassment of the American manufacturer. It should be emphasized that from the point of view of operation the use of the lease arrangement makes no difference whatsoever, and the failure to recognize this fact may result in the unnecessary payment by the British Government of substantial amounts in taxes.

"Because of the foregoing considerations, we urge that the use of the lease arrangement be reconsidered by the Defense Committee, and we be given an opportunity to explain the exact nature and operation of such arrangement."

I think Mr. Knudsen had better talk first. I don't know anything about this. This is the first time I have heard about it.
Purvis: It represents, from our viewpoint, a vital matter because it is a reversal of previous position.

Knudsen: Curtiss-Wright brought up the fact that we have three plant expansions. Some of it is financed by the Allied Government, some of it by the French, if I remember correctly. It was gone over rather sketchily in our --

Purvis: We would like to have our people present if it is going to be ventilated, because there are replies. You have got to remember we are dealing with a corporation that says, "It is much easier for us if the British have to pay that three million six and never get it back. Then there is no risk of any kind to us whatsoever. Whereas, there might be a change of Government in the year 1948 or '72 that might - and we might have a criticism of this 20 years after it was done."

Knudsen: Just to open up for the defense a minute, you see, the question we were discussing there was whether there was some way by which the Treasury could rule that the tax --

Purvis: The Treasury has been working on this for months, Mr. Knudsen, and this is the best way we have been able to arrive at.

Knudsen: You understand this was all informal discussion and the letter that we got was to the effect that it wasn't desirable to lease.

Purvis: Curtiss-Wright are trying, I think, to get a ruling from the Treasury which we have been trying to avoid asking the Treasury to make. They are going back over their tracks.

H.M.Jr: Well, I sent for Foley because I just - I don't know about it and it is impossible for me to follow it all and it needs an expert on taxes on this.
The extraordinary thing is --

We had a conversation that lasted all afternoon and Foley was there. The question was whether there was some avenue that could be utilized --

It has been explored and explored.

(Mr. Foley entered the conference.)

Ed, if you will read this, probably the discussion can continue later on. How would you like to handle this, Mr. Knudsen?

I think we ought to get the attorneys for the Curtiss-Wright people and your people down here and talk this thing over.

It won't be the first time they have been down here, both of them, to talk it over.

I have never seen them.

But there is a whole period of months before this. This one argument has been going on for ten weeks and every sort of method has been explored and this is the one that the Treasury and ourselves came to and we had the - it was developed in its final form by the lawyer for the Curtiss-Wright Corporation, which put the heads of the Curtiss-Wright Corporation fortunately for us for the first time in the difficult position of saying they won't go along with something that their lawyer originated, which is a tactical position we had much pleasure in finding because we had struggled for a long time before we got to that. He is a very able lawyer, and I really believe that the thing holds water. It is just a temperamental disinclination on the part of Curtiss-Wright to have anything of that nature.

You spread that plant over so much --

It has to be done in a great many cases.

You spread the plant over so much territory down there that it is pretty hard to tell who owns which.
Purvis: And frankly, for all practical purposes, it doesn't matter but it does matter from the point of view of the setup of the contract as to what we pay.

Knudsen: Mr. Purvis, isn't it fair to assume that if we can get all the information together we can finally arrive at some satisfactory solution? I don't think anybody wants to shake you down.

Purvis: No. Well, for six months, Mr. Knudsen - I just want you to know that there is six months background in this thing in which everybody has done a lot of work and right in this building a lot of the extremely sympathetic work has been done to try to avoid our having to pay income tax on capital assistance and you are not entering something - these arguments last generally for about three hours each. They go on, generally, for four to five days a week. We all go through all the same processes. Each one of us goes through them and this is the only arrangement that anybody has got which holds water and which has been used in many contracts.

Knudsen: Do you recollect the conversation about this over in the office?

Foley: Yes.

Knudsen: And that we wound up trying to see if there was another way that could be devised aside from the lease arrangement?

Foley: Yes.

Knudsen: Well, we are still there.

Foley: I haven't heard any more about it.

Knudsen: No, I haven't either. So, Mr. Secretary, I suggest that we be given another opportunity.

H.M.Jr: It is all right. I just warn you, you are are stepping into something very difficult.
This is a result of, as Mr. Purvis says - I mean, we just almost broke our backs trying to solve this thing and there has really been months and months of work in the thing.

Knudsen: As I remember it, the proposition showed to me by Curtiss-Wright in some way emphasized the difficulty of a lease arrangement. I will get them back any time.

Purvis: Their own lawyer devised this arrangement and he was the most difficult of all the lawyers we had to meet and the fact therefore that he himself, after two months work, devised this scheme, as satisfactory to him, has simply proved to us what we suspected during the whole of the previous two months, that is, that Mr. Gordon doesn't really want to see the arrangement go through.

H.M.Jr: Am I correct that in the case of Curtiss-Wright you have got a covering letter, they are going ahead and building their plant and making engines? This thing doesn't hold you up any, does it?

Purvis: We went so far, Mr. Secretary, as to pay the three million six down and had paid it down for two months on the theory we would be fairly treated in the end.

H.M.Jr: But any further discussions do not hold you up on production?

Purvis: No. Here is one thing, Mr. Secretary, I should say. We are allowed just so many days within which to conclude the contract by Curtiss-Wright. If we exceed that number of days, they can break the contract. Therefore, if there is a holdup on the decision in this matter, it might put us in default by failing to complete the contract over and above the letter of intention. We are working on the letter of intention, and this is holding up the contract and has been for the last six weeks.

H.M.Jr: Well, you (Knudsen) are going to take the initiative to call them down, is that right?
Knudsen: That is right.

H.M.Jr: Okay.

Knudsen: Inasmuch as they are the originators, we will start all over again. I am familiar with the previous discussions.

Purvis: And if we can have our people present --

Knudsen: Oh, sure. We will have information on whether Jones can release the money to the Allies so they can buy the motors with it.

H.M.Jr: If I may suggest, I think it would be helpful if Mr. Foley or Sullivan - Sullivan is not here now - somebody from the Treasury be present and give you our position.

Knudsen: Oh, I will be glad to have them, absolutely. I will be glad to have Mr. Foley's assistance.

Purvis: The heart of the problem is that each one of these manufacturers wants a declaration from the Treasury that the Treasury can't make, as far as I understand, and therefore we have had to find some way of assuring them of getting something into good shape, and this was the product of your people's brains in General Motors and in its present form in the Curtiss-Wright corporation, their lawyer.

Knudsen: Curtiss-Wright brought it up. We didn't originate it and I will get them back down and we will see what we can do.

H.M.Jr: What else?

Knudsen: Point 2.

Purvis: Next is Mr. Knudsen's point. I interrupted because it had a bearing, I thought, on the other contract.

Nelson: We were talking about cancelation.

Knudsen: I got the first letter about this cancelation business and I got it from the White Motor Company.
We had 300 six wheel trucks and in a cable from France they stated it was most urgent so they could work on it and try to get the trucks done and they are due to be delivered in July and August. We are pretty close to it. Now we have received advice from the French Commission stating that present events necessitate the cancelation of the contract. He said, "We expect to receive the formal cancelation from the French tomorrow," which was June 20. They have a sizable deposit and suffer no loss, you see.

Purvis: Well now, if - is he raising any points with you? Because I could give you - the picture is a little different from what he has it and it is not his fault that he has it a little differently. What happened was simply this, that on the 16th of June the French State, in the person of the French Purchasing Commission, its Director General, Mr. Bloch-Laine, assigned to the British Purchasing Commission, and we accepted - the document was duly put in form, all beneficial ownership, all ownership, they assigned the whole contract, for everything which dealt with aircraft, munitions, machine tools, or materials pertaining thereto or entering therein in the manufactures. Now, that document lay on the table last week for operation. In the meantime, there are individuals in the French mission, for instance, shut off - I mean, you have got 400 men, most of whom are individualists, and they shut off one or two letters, I understand, which did not coincide with the case. What was happening was a physical examination. Contracts which are - which contain tens of thousands of items are being made with a view to an intelligent attack upon the whole thing. We got the first physical report on the situation in rough form on Saturday night and on Monday morning we sat around to decide what was the next legal step with the lawyers and intimation went out from the British Purchasing Commission to all those people that under an assignment agreement of the 16th of June, they were taking over rights and responsibilities opposite those contracts, so this man will get
a letter, if he hasn’t already got it, by tomorrow morning at the latest, saying, “If you get in touch with the British Purchasing Commission, we have assumed this contract.” Otherwise, if we want the trucks, we take the trucks. If we want to cancel, we make a deal with him, but there is nothing to – as far as I know – to worry about.

Knudsen: Well now, this applies also to machine tools?

Purvis: Oh yes.

Knudsen: And where the chap has got the tools finished and he is in need of a place to ship them –

Purvis: We will look after that.

Knudsen: Where will they go?

Purvis: We will look after that. That is our responsibility. We have warehouses. We have plants here that we may put them into, you see. We are overlooking the whole machine tool thing, Mr. Knudsen, in an entirely different way. I cabled to London some time ago and suggested that in these machine tool considerations we look at this thing in a new light, in the light of bombing being much more effective than we expected, and therefore the necessity of increasing the potential on this side of the water for completed goods as distinguished from semi-goods, as a point of broad policy.

Now then, I am in process of cabling over on shells, guns, small and large, small arms ammunition, explosives, showing the orders we have placed to date, the things we can place in the immediate future, and the long range possibilities with a view to complementary action with you as far as possible, I mean, as far as it suits you on all the long range ones.

Now, the Rolls Royce motor is merely an illustration of that kind of thing. We would like to develop that same thing with you if it interests you on 75 millimeter
guns in a big way and very rapidly and very quickly.

Now, machine tools that are unshipped among these may be useful for that. There is a pool of machine tools we are looking after. Of course, a lot of them were brought to complete existing plants in England and in France. Some of them will turn out to be useless.

Knudsen: There is no use shooting any more to France.

Purvis: They are finished. Now, Canada and the United States and ourselves are the three.

Knudsen: Pardon me a minute. If we have some machine tools in France that are finished now, do you take them over?

Purvis: We have taken them over.

Knudsen: Some of the manufacturers have tools that are finished now.

Purvis: What about it?

Knudsen: They say, "Where do we go from here?"

Purvis: They can just get in touch with us and deliver them.

Knudsen: That is the point. When I left the office, when we had the first talk, the understanding was that they were to stop nothing.

Purvis: That is right.

Knudsen: We were together right on with everything we did. These are the orders I have issued.

Purvis: That is correct.

Knudsen: And that policy is what we have been working on. Now, some of these chaps have got stuff coming through and beginning to worry about where to get rid of it.

Purvis: I don't know why they worry.
Knudsen: There is a slack in getting the information, so if you tell me now --

Purvis: I think you will find that every single one of them is in possession of a letter which enables them to know exactly where to come to go on with the contract. After all, they made the contract in good faith and the French made the contract in good faith. Their interests have been protected by the fact that the British assumed the responsibilities and rights of the contracts as of the 16th of June.

Knudsen: All right, but then our understanding still stands, that we stop nothing --

Purvis: Nothing except - if we find - I will be quite frank with you - if we find that in any shop there is a tool being made which is only suitable for the production of French guns of a certain size, we would think it perfectly crazy, from our own viewpoint, not to make the best settlement we can with the manufacturer so he can get on with the work which will be useful to all of us.

Knudsen: That is right, and how long will it take to have that information available?

Purvis: Well, the men were working day and night last week and fortunately the French had nothing else to do but help us with this because as individuals, semi-officially, unofficially, they are helping us go over these lists, but you have got to remember you are dealing with 16 thousand items on that alone. Now, there is just a certain amount of physical work that is required and a certain amount of time to do it. It is going just as rapidly as we know how, because that is to our interest.

Knudsen: Then I understand that you are to give us this decision - give the disposition --

Purvis: How do you mean, disposition?
Knudsen: Either cash on it or take shipment on it.

Purvis: To give it to whom?

Knudsen: To the Advisory Commission.

Purvis: No, we thought our relationship was with the contractor.

Knudsen: But don't you see that they come back to us all the time and want to know what is what?

Purvis: We are actually feeding, and have been, information as regards all our doings, gradually getting more and more complete, into the United States Government, for six months. We have absolutely nothing to conceal about any of those things but actually our position is merely this, that we have a buying setup and any relationship you want to know about that we would be happy to give.

Knudsen: That takes us back to the question, how to get the commitments and orders.

Nelson: Yes. Well, you are getting that now, you see.

Purvis: Mr. Knudsen, I would like to make one point quite clear. I think it was mentioned when we were here last. We have been, and so far with propriety, we have found from actual experience, assuming that it is not the intention of the United States Government in our difficult position of being at war to prevent our getting the stuff, we hope, looking at it from the point of view that it pays them to have us be as efficient as possible in fighting our particular battle --

Knudsen: Mr. Purvis, don't get the idea that we are trying to interfere with you. We are trying to get the procedure so we can advise all the people --

H.M.Jr: Could I be helpful? You see, the President has an order outstanding that he set up a
committee, the Director of Procurement, Colonel Burns, and Admiral Spear, and those people are to contact all foreign purchasing groups and you (Knudsen) wrote me the letter that you wanted the information and we are giving it to you as rapidly as we get it, and I think we have been acting as a buffer between the Purchasing Commission and the various Government Agencies and if there is anything special that you want that you haven't got, if you will address a letter to - he is still chairman of this committee as of today - I don't know what he will be tomorrow --

Nelson: Today, I am still here.

H.M.Jr: Nelson is the fellow to say to, "Now look, Nelson, I want this and that," and it is up to him to get it under this setup.

Purvis: We will cooperate 100% to see that he gets it as quickly as it is physically possible.

Nelson: I have been working that way. It is working now, Mr. Secretary.

On this machine tool thing, may I suggest this? Rather than having them come to you with a big list of what they are going to do, the manufacturer inquires from you, you ask them to inquire from the British Purchasing Agent. If they do not get a satisfactory result there, then we can take it up again. It seems to me that would be the best way to handle it rather than for them to tell you and you have to go through the file to see what --

Purvis: If every manufacturer in the United States who had a deal with the French is going to make a three cornered game out of it with you and ourselves and the French, it would be disastrous.

Knudsen: The main thing is that we know what to tell them when they call on us.

Purvis: I think that is perfectly fair and proper, and I think we ought to simply send you a
copy of the letter which we have sent to every supplier telling him that we assume the obligations and rights of the French.

Knudsen: That is right. Whenever we hear from the machine tool manufacturer he hasn't heard from the Purchasing Commission or he wouldn't talk to us.

Purvis: You see, there again there were hundreds of letters. The decision was made on Monday, this is Wednesday, is it not? Anything that is written to you probably antedated that, but the actual physical job of going over the contracts last week took five days. We have got to remember the French were not working at their best last week. They didn't know what was going to happen to them, and we had to rely on what came out from them.

Knudsen: I followed the line that we laid down here. I told everybody to keep right on working.

H.M.Jr: Well, that was the right thing to do.

Knudsen: And I told White to keep on working. Now I get a letter saying somebody stopped them, and that is the reason I am bringing that up here.

H.M.Jr: Well, don't you feel better now?

Knudsen: Yes, I feel all right. I can't go out and send word out one day and have it changed the next day. People will think we don't know what we are talking about.

H.M.Jr: There is no change from the assurance that Mr. Purvis gave us, and the statement you made to the American industry is still good.

Purvis: That is right.

H.M.Jr: Your statement stands.

Purvis: We expect to make a mutually satisfactory settlement of all outstanding problems, not just one that is satisfactory to us. We assume the obligations as well as the rights under these agreements.
Knudsen: Now how will this disposition affect the shipment of motors? Has that been stopped right away?

Purvis: Motors?

Knudsen: Pratt and Whitney and Curtiss-Wright motors for France.

Purvis: No, I think we will buy more air frames, Mr. Knudsen, to fit the motors.

Knudsen: But you have stopped all shipping orders on motors?

Purvis: There were none at the moment affected. You see, they are going into planes instead. The real arrangement is so trifling at the moment. You have got to remember that most of the capacity we have bought does not come to its zenith because of the inability of the makers to produce until later on. We would gladly have taken in January, February, April, March, May, or June --

Knudsen: The schedules as laid down now do not change on account of the French? You take the sum total of the two schedules?

Purvis: Oh yes. We are simply fitting them to more air frames, that is all.

Knudsen: I think that covers what I have, Mr. Secretary.

H.H. Jr: That clears you?

Knudsen: Yes.

H.H. Jr: Have you got anything more?

Purvis: I have got one or two things I would like to talk to you about. I don't know whether it is necessary now. If I could see you later in the day, it would be better.

H.H. Jr: How about you, Nelson? Anything that affects them?
Nelson: No.

H.M.Jr: You can stay a few minutes and we can talk.

Nelson: I think it is going along very smoothly. I have been working with Mr. Knudsen’s men, Mr. Vance and Mr. Mead, and as the question comes up about machine tools, I have been handling it and I have written a letter to you (Knudsen) that confirms just what we said this morning.

Knudsen: The only reason I brought it up was to confirm the decision we made in here.

H.M.Jr: You made a statement and you want to know if what you said is there or it isn’t.

Knudsen: We didn’t want to cross wires through a mixup of correspondence.

Purvis: All you need, I think, to complete your records, will be a copy of the letter and I will see that it is sent to you today.

H.M.Jr: And you are going to take the initiative on Curtiss-Wright?

Knudsen: Yes.
June 26, 1940
11:30 a.m.

Present:

Mr. Gaston
Mr. Bell
Mrs. Klotz
Major Smith (for last of meeting)

(subject under discussion when Miss Chauncey arrived was a proclamation of the President creating an embargo on a long list of materials useful in National defense and providing for the appointment of Colonel Maxwell as Administrator to recommend to the State Department what licenses for export of these materials should be granted and what should be refused.)

HM,Jr: This is what I am going to say. My recommendation to the President is that if he feels that we need somebody to do this thing, that this person, whoever he is, should be either State or Commerce and I am doing this in order to save the President the additional responsibility of setting up a new organization directly responsible to him. I think it is a mistake.

Mr. Gaston: Cairns suggested that if they wanted to designate somebody to advise the Secretary of State, they should have designated the Secretary of War rather than a subordinate of the Secretary of War.

HM,Jr: I don’t think it is Treasury. It ought to be in War, Navy or Commerce, so that a Cabinet officer will be responsible to the President and not an outside person. What do you think?

Mr. Bell: You can say to the President that this ought to be handled in the same manner as the foreign exchange control. There the authority is put in the President to operate through such agency as he may desig-
nate and he designated the Secretary of the Treasury and prescribed rules and regulations. Now he never hears of it except when a matter of policy comes up, and this should operate in the same way.

HM,Jr: Sure! That's excellent.

(At this point Major Smith came in.)

HM,Jr: You (Major Smith) may want to make some notes on this. I want to tell the President we do not approve of this method because we feel that it places an unnecessary additional burden on the President himself. An analogus case placed in the President the authority to control foreign funds and assets in this country and he designated the Treasury to administer this authority ...

Mr. Bell: .... under rules and regulations approved by the President.

HM,Jr: .... under rules and regulations approved by the President and with the exception ....

Mr. Bell: .... of major matters of policy ....

HM,Jr: .... and with the exception of major matters of policy he never hears about it. Therefore, we recommend that he designate either the Secretary of War or Navy or Commerce to administer this order for him.

Mr. Bell: Do you want to say he ought to designate a cabinet officer as the responsible officer?

HM,Jr: Yes. He ought to designate the Secretary of State, War, Navy or Commerce. That's my recommendation.

Major Smith: Thank you very much.

HM,Jr: You (Major Smith) get the two things? Absolutely the same authority. Control of foreign funds -- we have this big section downstairs -- Mr. Bell runs it for me -- and the President -- once in a great while some
very major policy, we ask; otherwise he is not involved.

Major Smith: You know, Sir, a different method was already recommended and he proposed this method.

HM, Jr: What was it?

Major Smith: The Department of Commerce recommended that either one Department handle it alone or a sort of commission be appointed and he was inclined to prefer this method as being less intrusive, but nevertheless he was insistent on having your reaction, so here it is.

HM, Jr: Well, he has the reaction of the three of us.

Thank you.

(Major Smith left the conference.)

HM, Jr: I am not going to sit here and see the President get bogged down.

Mr. Gaston: I am satisfied it is illegal anyway.

Mr. Bell: The President has got to release he can't do this job by himself. He has to delegate authority to somebody.

HM, Jr: I wonder who cooked this scheme up?

Mr. Gaston: It was cooked up at a meeting over in the State Department. They are away behind on this thing and I have been for weeks hammering those people on the backs to get them to get busy on proclamations and regulations on the passage of this Bill. They had a meeting at State, to which they did not call us, which resulted in a message from the White House.
CONFIDENTIAL FOR YOUR INFORMATION

June 26, 1940

To: The Secretary
From: Mr. Young

AIRPLANE SPRUCE

Attached is a memorandum which I received from Mr. Ballantyne inquiring as to what proportion of the United States spruce production might be allotted to the British, and what proportion will be absorbed by the United States aircraft program. I forwarded a copy of this to Dr. Mead for a reply.

75 MM GUNS

Representatives of the Anglo-French Purchasing Board have been conferring with the War Department concerning the possibility of manufacturing British type 75 mm guns in this country. Further, the Purchasing Board and the War Department have been talking seriously about establishing production facilities for the manufacture of Hispano-Suiza aircraft cannons in the United States.
Re: Aeroplane Spruce

Would it be possible to ascertain what proportion of spruce production would be absorbed by the United States Government's contemplated aircraft expenditure and what proportion might be allotted to the British?

C.T.B.
June 26, 1940
10:44 a.m.

General Watson: Hello.

H.M.Jr: Yes.

W: I took that up with the President and he says he doesn't like the idea of that fellow......

H.M.Jr: He doesn't.

W: ...... and he said furthermore he wants Don Nelson to stay right where he is.

H.M.Jr: Well, they've drawn it all up and signed it and I understand......

W: Well, let me tell you, he says he never told anybody to do that. He says he wants him to stay right where he is in charge of Procurement.


W: Yeah.

H.M.Jr: While I've got you on the phone -- I was writing the President a letter, but I'd much rather tell it to you.

W: Yeah.

H.M.Jr: Leon Henderson called me up today and told me five different businessmen he brought down.

W: Who?

H.M.Jr: Leon Henderson.

W: Yeah.

H.M.Jr: I said, "just out of curiosity, Leon, have you cleared them with the President? Oh, no." Now I think that the President ought to direct McReynolds that before they bring
anybody down here, McReynolds ought to clear it with Justice and Treasury to make sure that we haven't got some ugly case against these fellows.

W: Yeah, well, I'll tell him that.

H.M.Jr: Tell the President.

W: Yeah, I'll tell the President.

H.M.Jr: I mean, he ought to tell McReynolds that if anybody's coming down here, they ought to -- McReynolds should send a memo over to Bob Jackson and me so that we haven't got something really -- something criminal against some of these fellows.

W: That's right. Now look ......

H.M.Jr: It's ridiculous.

W: Yeah, but your man Nelson is O.K. I'll tell him about the other, and Nelson, let's don't get away from that, he's O.K. -- you keep him where he is.

H.M.Jr: Well ......

W: You want him, don't you?

H.M.Jr: Well, he came in here and Stettinius and McReynolds told me that it was all cooked up and approved by the President that he's to become ......

W: Well, that's what they said, but he -- they didn't. He's told me -- I've already informed McReynolds -- the President says that's off.

H.M.Jr: Well.

W: He stays where he is and he doesn't want that other fellow you suggested. Now, look here, Henry, how about ordering those 9,000 for ourselves -- those Rolls Royce?

H.M.Jr: Oh. Well, now ......
W: ....... for us instead. Barney Baruch phoned me from New York and says why not get engines so much easier to make than the three.

H.M.Jr: Knudsen is taking care of that.

W: Yeah.

H.M.Jr: He's ordering 9,000 from Packard.

W: Yeah.

H.M.Jr: Six for the British and three for us.

W: But not -- what's he doing with Ford?

H.M.Jr: Nothing. He told Ford that he's gone back on his word and he doesn't want to do business with him.

W: I see. All right.

H.M.Jr: What?

W: All right.

H.M.Jr: He told them .......

W: Can I tell Barney Baruch that?

H.M.Jr: You can tell Barney Baruch that Mr. Knudsen doesn't want to do business with Ford because he broke his word.

W: All right. I'll tell him just that.

H.M.Jr: And that the Packard Motor Car are going to build it and he's about closing a contract with Packard.

W: Good. All right.

H.M.Jr: And that Knudsen has handled it beautifully.

W: All right. I told him I was sure he had.

H.M.Jr: What?
W: I was sure he did.
H.M. Jr: Well, has Barney ....
W: Barney thought you ought to make Henry Ford do it.
H.M. Jr: Well, can Barney make Henry Ford do it?
W: I don't know.
H.M. Jr: Well, Knudsen handled this beautifully.
W: Well, then I'm telling Barney that -- you know he calls up about once every two hours.
H.M. Jr: It's all been arranged with Packard.
W: Yeah. Well, I'm not getting in it.
H.M. Jr: Right.
W: I'm just passing this on to you so I can inform Barney.
H.M. Jr: Are you and Steve coming for lunch?
W: Yeah.
H.M. Jr: O. K.
W: All right. I've got something
H.M. Jr: All right.
You asked me about whether they cleared with the White House, I remembered that Stettinius handed to the Boss a list of names of people he was going to appoint on something, whether it was all or not, and I'm not sure what -- it was right at the end of the meeting -- but the Boss said, you ought to clear those names with Internal Revenue and with the Anti-Trust Bureau to see that there is no embarrassment.

Well, they haven't.

They have not?

No, sir. There hasn't been a single name except one or two that the President gave me of his own assistants. Those are the only people that have ever been cleared.

I see.

I just got through telling that to Pa Watson. None of these financiers have been cleared with Jackson or me, not a one.

I see.

The President's own appointments, and his own Administrative Assistants, yes, I mean, a fellow like Mr. -- what's his name, Fosdick. The President personally cleared that with me.

Yeah.

But the other fellows over there -- not a one. And I'm only thinking of the President.

Sure. He did say that and whether he made it as a general policy to Ed, I don't know.
H.M. Jr: This is not -- just between us, see -- I just got through telling Watson -- and please keep this a secret, will you?

H: Yeah.

H.M. Jr: You've kept other secrets that I've told you.

H: That's right.

H.M. Jr: And you and I have both been here -- we're Old Dealers now.

H: Yeah.

H.M. Jr: And as protection to the Boes, I told Pa that they should be cleared with Bob Jackson and me.

H: They certainly should, because -- well, I know, Chester Davis worried about a couple.

H.M. Jr: "Well, now, that's just between us and I can assure you that from now on they're going to be.

H: All right.

H.M. Jr: Because I know of another case of a fellow that -- well, I took the trouble to go all through it with Arnold and he's over there now.

H: I see. Well, it ought to be done.

H.M. Jr: I mean, it's .......

H: If I get a chance I'll kick it along.

H.M. Jr: O. K. But leave me out of it.

H: Sure.

H.M. Jr: I've got troubles enough.

H: I see.

H.M. Jr: Thank you.

H: All right, Henry.
June 26, 1940
11:48 a.m.

H.M. Jr: Hello.
Operator: J. Edgar Hoover.
H.M. Jr: Hello.
J. Edgar Hoover: Hello. This is Hoover talking, Mr. Secretary.
H.M. Jr: How do you do.
H: Fine. I hope you're the same.
H.M. Jr: Well, the big wind has started to blow on a certain source of information which you want -- where you didn't get it, you know?
H: Oh, yes.
H.M. Jr: In Washington?
H: Yes.
H.M. Jr: (Laughs) For once at least you got into the wrong channel.
H: Oh, is that so?
H.M. Jr: And the President gave it to his Army Secretary ......
H: Yeah.
H.M. Jr: And he just called me up about it.
H: Yeah.
H.M. Jr: What's it all about so -- (laughs) -- I got caught red-handed.
H: Oh, I'm so sorry to have caused you any trouble.
H.M. Jr: Well that's -- yes, but I just wanted to let you know why it was started.

Regraded Unclassified
H: Yeah, because I didn't want to cause any embarrassment to you.

H.M.Jr: No, no. It's all been good work and I made the flat statement that you didn't know what they were getting.

H: That's true.

H.M.Jr: And it was perfectly ridiculous.

H: That's absolutely true.

H.M.Jr: So they said, well, very important military secrets.

H: Yes.

H.M.Jr: I says, maybe.

H: Well, now we ought to have a pooling of assets. If people can't be trusted, they oughtn't to be in Government service.

H.M.Jr: That's right.

H: That's the way I feel about it.

H.M.Jr: And I wanted to warn you.

H: Yes, well -- (laughs) -- I'll be on the lookout for the Blitzkrieg.

H.M.Jr: I thought that I'd hidden myself but evidently I haven't.

H: (Laughs) Well, we'll both have to be on the lookout for the Blitzkrieg that may come from the War Department.

H.M.Jr: O. K.

H: Fine. Thanks ever so much.

H.M.Jr: Good-bye.

H: Good-bye.
June 26, 1940
3:15 p.m.

H.M.Jr: Hello.
Operator: McReynolds.
H.M.Jr: Hello.
Wm. H. McReynolds: Yes, sir.
H.M.Jr: Mac, you're on the air and Nelson's in the room with me -- nobody else.
McR: Yeah.
H.M.Jr: Did you get any message from General Watson?
McR: Yeah.
H.M.Jr: Well, what did he tell you?
McR: He told me that he had a request from you for clearance of a name for Nelson's successor as Procurement head.
H.M.Jr: That's right.
McR: Now the President had told him, and I intended to tell Nelson this this morning but we ran so long that I didn't get around to it, -- he told him to tell you that he wanted Nelson to stay where he was and he didn't want him to go to the Commission and that, therefore, there would be no vacancy to fill. Now that was the word that Watson gave me. He said, the President didn't tell me to tell you this, that is, to tell me, but he told me to tell Henry Morgenthau this. So he says, I thought you'd want to know. Consequently, I told that to the boys down there at the Commission. I didn't get a chance to tell Don. I didn't want to tell it publicly down there or before everybody and before I got through with somebody else, Don had gone and it was late and I hadn't had a chance to get hold of him since.
H.M.Jr: Well, I wanted him to get it direct from you as well as from me.

McR: That was the word that Watson gave me.

H.M.Jr: Well, I told Mr. Nelson word-for-word just what you're telling him.

McR: Yeah. That's all I know -- is Pa's interpretation of what the Boss said.

H.M.Jr: Well, they both were here for lunch -- Watson and Early -- and they told me the same story that that's what the President said. They said he had no recollection of you and Stettinius talking to him about it.

McR: Well, of course, their record of last week's meeting -- (laughs) -- was right specific on it. They brought in a written report, that is, the report in which Nelson joined and which you have read and submitted it to the President and he looked it over and specifically approved it at the time.

H.M.Jr: Well, did he approve Nelson for the job?

McR: Yeah -- (laughs) -- though I don't know. We're going to be in a meeting with him tomorrow again and of course the thing has got to be straightened out one way or the other, but that is the fact as to last week's meeting. He specifically approved -- not only did he approve Nelson for the job, but he suggested somebody else who might be considered for Nelson's job in Treasury.

H.M.Jr: Yeah.

McR: So it's a very substantial thing. He probably overlooked it. I haven't the least idea -- he may have entirely changed his mind about the whole thing in the meantime, but that's the record.

H.M.Jr: Well, I've had no communication with him on it whatsoever.
McR: Well, I was sure from what you said yesterday you were not going to.

H.M.Jr: No, I wouldn't.

McR: Yeah.

H.M.Jr: My only communication was through Watson.

McR: Well, all I had was just that one statement that Watson called up. He said, when I told him that Henry Morgenthau wanted the clearance on a name that he gave for the successor to Nelson as head of Procurement, he told me that he didn't want Nelson to leave Procurement. He expected him to stay there. He didn't want -- when I told him that he was going down to that Council he said, I don't want him to go to the Council -- I want him to stay in Treasury. Now that was what Pa told me just as plain as he could. I says, you're sure you're right? He said, that's just what the President said.

H.M.Jr: He told me that and Early was present and confirmed it word for word.

McR: Uh-huh.

H.M.Jr: O. K.

McR: Right.

H.M.Jr: Thank you.
FOR THE HONORABLE SECRETARY OF TREASURY
FROM LONDON

NOW RELIABLY INFORMED THAT PREVIOUS REPORT CONCERNING BEARN
WAS IN ERROR.

BEARN NOW IN WEST INDIES.
(CONFIDENTIAL)

PARAPHRASE

A telegram of June 26, 1940, from the American Consul at Saigon reads substantially as follows:

The Foreign Office has informed the British Consul General that the British Government guarantees the salaries of the officials of Indochina and the present status of that area. According to the British authorities, Japan is sending to Haiphong, pending the arrival of inspectors, one naval vessel. A copy of a proclamation which is to be issued by the general in command of all French troops in French Indochina has been received by the Governor of Cochin-China. The proclamation states that Indochina will be defended as long as possible and will not be surrendered; it calls upon the people to have confidence in their leaders and a spirit of sacrifice and determination during a struggle, the final result of which is not in doubt although the struggle will be a long one.
A further advance in the sterling rate took place today. At the opening, the pound was quoted at 3.72. After fluctuating within a 3-cent range during the morning, it rose steadily in the afternoon, reaching a high of 3.75 just before the close. The final quotation was 3.74-1/2.

Sales of spot sterling by the six reporting banks totaled £205,000, from the following sources:

- By commercial concerns: £88,000
- By foreign banks (Far East and Europe): £117,000

Total: £205,000

Purchases of spot sterling amounted to £214,000, as indicated below:

- By commercial concerns: £147,000
- By foreign banks (Europe and Far East): £67,000

Total: £214,000

The following reporting banks sold cotton bills totaling £5,000 to the British Control on the basis of the official rate of 4.03-1/2:

- £3,000 by the Guaranty Trust Company
- 1,000 by the National City Bank
- 1,000 by the Bankers Trust Company
- £5,000 Total

There were no reported purchases of sterling from the British Control at the official rate of 4.03-1/2.

Developments in the other currencies were as follows:

The Swiss franc improved slightly and closed at .2260.

The Canadian dollar had a better tone. The final discount was 18%, as against yesterday's close of 18-3/4%.

The lira and reichsmark were again quoted at offered rates of .0505 and .4000 respectively.

The Cuban peso was about unchanged at 10½ discount. The Mexican peso was slightly easier, being quoted at .2020 bid, .2061 offered.
There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada was making two shipments of gold totaling $11,807,000 from Canada to the Federal for its own account, for sale to the U.S. Assay Office at New York.

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

52,000 shipped by the Swiss Bank Corporation, London, to its New York agency.
31,000 shipped by the Chase National Bank, London, to its head office at New York. $168,000 Total

The Bombay gold price was equivalent to $34.87, up 23¢ from the quotation of June 24.

Spot silver in Bombay worked out to the equivalent of 44.06¢, about 3/4¢ higher than the June 24 price.

In London, spot silver was fixed at 21-1/4d, up 1/8d. The forward quotation was 21-3/16d, up 3/16d. The U. S. equivalents were 38.53¢ and 38.52¢, respectively.

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

We made three purchases of silver totaling 125,000 ounces under the Silver Purchase Act. Of this amount, 50,000 ounces represented a sale from inventory, and the remaining 75,000 ounces consisted of new production from foreign countries, for forward delivery.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At a conference in Under Secretary Bell's office this noon it was agreed that I should telephone Dr. Somary, the Swiss economist who is acting as financial counselor to the Swiss Legation in Washington, in regard to the application for the transfer of 311,000 ounces of gold from the account of the Bank of France to the account of the Swiss National Bank with the Federal Reserve Bank at New York.

At 4:30 this afternoon I managed to reach Dr. Somary. I told him of cablegram No. 3 of June 17 from Cariguel of the Bank of France at Bordeaux and of No. 64 dated June 17 from the Swiss National Bank, Basel, in regard to this transaction. I asked Dr. Somary if he knew anything about this business. He promptly stated that he had received no instructions on the proposition, but was aware that the National Bank of Switzerland had for a long time held with the Bank of France a considerable amount of gold. The Swiss had hesitated to remove this gold lest the French interpret it as lack of confidence in France. A few weeks ago, however, about the time the Netherlands was invaded, the Swiss National Bank decided it could no longer risk leaving this gold with the Bank of France and gave instructions for it to be shipped to New York. Dr. Somary said that he could not calculate in ounces, without a pencil and paper, but he told me without hesitation that the amount of gold which the National Bank of Switzerland had been holding with the Bank of France was approximately 50,000,000 Swiss francs. This corresponds closely with the number of ounces covered by the application. The value in dollars is around $11,000,000.

Dr. Somary gave the above information without any hesitation, and I am convinced that he knows the facts. He has frequently consulted me in regard to the location of Swiss gold and possibilities for its transfer to the United States. He told me that he would hesitate in present circumstances to telephone the Swiss National Bank on such a point as this, which I thoroughly understood.

I mentioned consequently to Dr. Somary that I had recently had word from Belgrade that some gold had arrived there from Switzerland. Dr. Somary thought this might be either Egyptian gold, which has been held in Switzerland and now being returned to Egypt, or Swiss gold on route to Piraeus, Greece, for shipment on a Greek vessel to the United States.

[Signature]
TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I came out from our Exchange Control Group meeting at 5:15 and telephoned Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, in regard to two proposed transfers of French assets which were up for consideration, and concerning one of which, namely, a transfer of $20,000,000 to the French Embassy in Buenos Aires, he had discussed with me the preceding day. Leroy-Beaulieu could not give the exact details of the later transaction, but understood that a part of the $20,000,000 was to pay the expenses of French diplomatic consular officers in Argentina, and that the other part was to pay for purchases of canned beef, etc. He again asked that we facilitate this transfer. He said that a transfer of at least $5,000,000 of the twenty was immediately urgent, if the entire amount could not be paid across without delay.

Leroy-Beaulieu knew nothing of the contemplated transfer of a certain amount of gold from the account of the Bank of France to the account of the Swiss National Bank with the Federal Reserve Bank at New York.

Leroy-Beaulieu brought up the question of applications pending on behalf of the Bank of Indo-China and urged that some relief be given. He stated further that the French Ambassador had called on Assistant Secretary of State Berle yesterday afternoon to discuss the whole question of French funds. This morning I received a note dated June 25 from the French Embassy reading:

"As Leroy-Beaulieu suggested, I send you herewith a note that my Ambassador is delivering today to the State Department and in which are summarised the various requests made by French banks outside France for obtaining the liberation of these blocked accounts in America."

There is attached a translation of the enclosure.

After talking with Mr. Leroy-Beaulieu, I telephoned Mr. Livesey at the Department of State to see what his opinion was as to the Treasury proceeding with the applications for the transfer of $20,000,000 from the account of the Bank of France to the French Embassy in Buenos Aires, and for the transfer of gold from the earmarked account of the Bank of France to the National Bank of Switzerland. I told Livesey that I understood Mr. Berle had been approached by the French Ambassador yesterday afternoon on the general subject of French funds. Livesey appreciated that an important question of policy was involved which could only be settled by the higher officials of our two departments, and might conceivably have to go to the President. I gave this information to my colleagues in the Group Meeting. Mr. Bernstein subsequently received a call by telephone from Mr. Berle.
June 25, 1940

His Excellency,
Mr. Cordell Hull,
Secretary of State.

The Financial Attaché of the French Embassy has made the following requests of the Treasury:

1) that the Federal Reserve unblock $20,000,000 in the Special Account of the Bank of France and pay them into the account of the Banco Frances del Rio de la Plata at the French American Banking Corporation for the account of the French Embassy at Buenos Aires;

2) that the Federal Reserve unblock the dollar accounts of the agencies of China in the Banque de l'Indo-Chine and in the franco-chinese Bank. The unfreezing of these funds is necessary to assure the maintenance of the corps of occupation and the functioning of the French concessions in China. If this measure did not occur shortly, the agencies of the two principal French banks in China would find themselves under obligation to suspend their payments;

3) that a special license be granted to the French American Banking Corporation of New York to permit this firm to pay the Chase National Bank, for the account of the Banque de l'Indo-Chine, a sum of $750,000, necessary to assure the functioning of the Embassy and the Consulates of France in China;

4) that the Federal Reserve authorize the transfer to the agency of Shanghai of the balance of the dollar accounts which the Banque Franco-Chinoise of Paris possesses at the Irving Trust Co.;

5) that the Federal Reserve unblock the accounts actually withheld in the United States by the "Credit franco-portugais", whose operations are made exclusively on the Portuguese market. The "Chase National Bank" would have taken some step on this subject with the Treasury;
6) that the Compagnie française du Boleo, a copper mining exploitation whose commercial operations are made exclusively in Mexico and the United States, be authorized to dispose of funds which it deposited with the French American Banking Corporation of New York.

The Treasury having indicated to the Financial Attaché that it consulted with the State Department concerning these various cases, the French Ambassador would be grateful if His Excellency the Secretary of State would take the necessary steps to have these requests thoroughly studied.

M. de Saint-Quentin is pleased to take this occasion to renew to the Honorable Cordell Hull the assurances of his highest consideration.

Washington, June 25, 1940

His Excellency,
The Honorable Cordell Hull,
Secretary of State of the United States,
Washington,
D. C.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE: June 26, 1940

TO: Secretary Morgenthau
FROM: Mr. Cochran

STRICTLY CONFIDENTIAL

At 11 o'clock this morning the Secretary received the Ambassador of Argentina. Messrs. Bell, White and Cochran were present, and Mr. Duggan of the Department of State arrived just after the conversations began.

The Secretary proposed to the Ambassador of Argentina that he obtain information from his Government as to whether a contemplated transfer of $20,000,000 by the Bank of France from its account with the Federal Reserve Bank of New York to the credit of the French Ambassador in Argentina represented a commercial transaction, and whether the Argentine Government might prefer that this amount be transferred to an account of the Central Bank of Argentina. The Secretary explained that he was anxious that Argentina be paid for any sales to France, but remarked that this was a rather large sum to be transferred in present circumstances.

The Ambassador came into my room and telephoned Buenos Aires. He talked with Mr. Prebisch, the General Manager of the Central Bank of Argentina. The Ambassador stated that it was the understanding here that the funds in question would be utilized for paying expenses of French diplomatic and consular establishments in Argentina, and also for purchases of meat and other foodstuffs. He inquired of Mr. Prebisch and was informed that there were important contracts for such foodstuffs and this could be looked upon as a normal transaction. He confirmed the same point to me when I also spoke with Mr. Prebisch, whom I have known for several years. Mr. Prebisch told the Ambassador and myself that the funds would be carefully looked after in Argentina, since a control of French assets which has been informal the past few days will become official today. In answer to the Ambassador's inquiry, Prebisch stated that it would be his preference that the funds should be held with the Central Bank of Argentina, if transferred to that country.

While we were on the telephone, the Ambassador brought up another transaction which had come to his attention. That is, the instruction from the Netherlands Bank to New York (I am not sure whether the instruction was to the Federal Reserve Bank or the Guaranty Trust) to pay $200,000 to the Central Bank of Argentina. An application for this transaction has been around for some time. Prebisch answered the Ambassador that this was an entirely normal transaction, of which he was aware, and asked that the payment be facilitated.

I reported the above information to Messrs. Bell and Bernstein at about 12:30 noon, after terminating the conversation with Argentina. I pointed out to Mr. Bell that we would be better protected by having the transfer made simply into the
French American Banking Corporation in New York than to any account of the Central Bank of Argentina. Such a procedure would be in accordance with the request from Leroy-Beaulieu, as reported in my memorandum dated June 24. It was also found that the formal application envisaged such a transaction. After a conversation between Messrs. Bell, Bernstein and Cochran with Messrs. Knoke and Logan it was agreed that the license should be granted in accordance with the application, stipulating that the funds should be labeled as "French".
At noon today Mr. Bell told me that the Secretary desired that I phone the Belgian Embassy and convey the message that the Secretary was revoking the general license in favor of the National Bank of Belgium and the Belgian Government.

I got in touch at 12:15 with Baron de Gruben of the Belgian Embassy and read to him the revocation of General License #7 which the Secretary had signed, but with which we desired to familiarise the Consul before it was actually issued. The Baron de Gruben asked if I could tell him the reasons for the Treasury's action. I explained that we were lacking information as to the whereabouts from day to day of the Belgian Government and of the officers of the National Bank of Belgium who are authorized to sign. I pointed out that the National Bank of Belgium officers had been reported in the proximity of the bank of France officials, but that difficulty was being experienced by the Federal Reserve Bank of New York in hearing from the officers of the two banks. Furthermore, it had recently become necessary to cancel the signing authority of three Bank of France officials, since the latter had fallen into German hands. We thought, therefore, that the revocation of the general license was to the interest of the Belgians themselves, as well as to the banks involved in this country.

In answer to the Baron's inquiry as to whether the basic reason for our action was to prevent the paying out of funds under duress, I confirmed that this had been the basis for our whole freezing policy, and that the present step was taken toward that end.

Incidentally, the Belgian Consul told me that one director of the National Bank of Belgium is at present in London. He has power to carry out operations to conserve the resources of the bank, but cannot draw on its account. This officer is Mr. Baudewyne, who is the Foreign Exchange Manager of the bank, in which capacity I have known him for several years.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 26, 1940
TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke telephoned me at three o'clock this afternoon to the effect that the National Bank of Iceland desired to ship its gold, some $500,000 worth, to New York, and to open an earmarked account with the Federal. Before putting this proposition to his directors tomorrow, Knoke desired as categorical a statement as possible from the Department of State as to whether Iceland is recognized by the United States as a sovereign state.

I have transmitted to Mr. Knoke a copy of the letter from the Secretary of State to the Secretary of Treasury, dated April 15, 1940, which covers this point clearly, as indicated by the attached correspondence.
Federal Reserve Bank of New York,
33 Liberty Street,
New York, New York.

Attention: Vice President Enke

Dear Sirs:

In accordance with the request received by telephone from Mr. Enke this afternoon, I have pleasure in attaching hereto a true copy of a letter addressed to the Secretary of the Treasury by the Secretary of State under date of April 15, 1940, concerning the sovereign status of Iceland.

Very truly yours,

Under Secretary of the Treasury.

Enclosure

ENC: dm: 6.26.40
April 15, 1940

My dear Mr. Secretary:

Mr. Vilhjalmur Thor, the Icelandic Trade Commissioner in New York City, has telephoned this Department that banks in New York, including the Federal Reserve Bank, have interpreted the President's Executive Order of April 10, 1940 and the regulations issued thereunder regarding Norwegian and Danish credits in the United States as applying also to Iceland and to Icelandic subjects.

In the view of the Department of State Iceland is a sovereign and independent Kingdom. The King of Iceland is also the King of Denmark, and by the terms of the Act of Union between Denmark and Iceland the Danish Foreign Office and its representatives abroad carry on the foreign relations of Iceland, which are, however, determined by the Icelandic Government itself. Denmark and Iceland are, however, two separate political entities. Acting under the authority of a provision of the Icelandic Constitution the Icelandic Parliament has within the past few days passed a resolution stating that since the King of Iceland is not now in a position to carry out his Constitutional duties with respect to Iceland, the Icelandic Government has assumed for the time being the exercise of the Royal prerogatives and the entire control of Icelandic foreign relations.

In view of the foregoing it would not appear that Iceland falls within the definition of the term "Denmark" in Section 11 of the above-mentioned Executive Order.

Since the Icelandic Trade Commissioner has urgent need of Icelandic Government funds now on deposit in New York, it would be appreciated if appropriate action could be taken to release the funds in question as soon as possible.

Sincerely yours,

(Sgd.) COHDELL HULL
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2:45 yesterday afternoon Vice-President Allan Sproul of the Federal Reserve Bank at New York telephoned me that Mr. Guy Richards, a special writer on the New York Daily News, had just talked with Mr. Sanford of the Reserve Bank, and had let him know that he had written a story in regard to the arrival in New York on an American cruiser of "$140,000,000" of gold which had been transferred to the cruiser in mid-ocean from French merchant vessels. The Federal refused to give any information, stating that statistics on gold arrivals were given out only by the Department of Commerce. Richards would not accept the suggestion that he telephone the Department of Commerce for information saying that he had a "scoop" which would be ruined if Government officials were learned that he knew the inside story and decided to give out a general release.

While I was talking on the phone with Mr. Sproul, Mr. Basil Harris came to my office and reported that Collector Henry Durning had just telephoned him from New York in regard to the above story. I gave this information to Secretary Morgenthau at 2:50 p.m.
490 MILLION IN FRENCH GOLD ON US. WAR VESSEL

Behind a routine announcement from the Treasury and Navy Departments yesterday lay the story of one of the strangest and most secretive missions ever undertaken by the United States Navy.

The statement, issued in Washington, said only:

"Some time ago the United States purchased a sum of gold from the French Government. It was transported to the United States aboard the U. S. S. Vincennes, which was returning home from abroad."

PUT AT $490,999,000.

Estimates of the amount ran as high as $490,000,000 - if correct, the largest gold hoard ever to be shipped on a single vessel.

Up to the time the announcement was made, utmost secrecy had surrounded the whole matter. Although the Vincennes, a heavy cruiser, had docked at the New York Navy Yard, Brooklyn, on Thursday, the Navy insisted she was "still in Portugal." With two destroyers, the Truxton and the Simpson, she had been sent to European waters on May 28.

All day Monday a steady stream of trucks transferred 3,500 green canvas bags, each containing 164 pounds of gold, from the Navy Yard to the United States Assay Office at Old Slip and
South Street. Officers and men of the Vincennes, as well as the
civilian truck drivers, had been sworn to silence.

Nevertheless, it was learned that the gold was taken
from Casablanca, French Moroco, by three heavily camouflaged
freighters to a secret rendezvous, where it was transferred to
the Vincennes.

Her mission completed and the fabulously valuable cargo
safe in the vaults of the Assay Office, the cruiser sailed for
an unannounced destination at 2:45 P.M. yesterday.
June 26, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

Upon receiving from the Department of State this afternoon the attached third person note, I telephoned Mr. Lewis Clark, who handles the Belgian desk, and confirmed that a copy of the letter of June 25 from Ambassador Thesleff has today been forwarded to the Federal Reserve Bank at New York under cover of an initial third person note. I telephoned Mr. Bake to this effect at 3:15 this afternoon, since he is awaiting this letter before giving final consideration to the proposed payment by the National Bank of Belgian to the Swiss Banking Corporation, New York.

[Signature]
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a note of June 23, 1940 from Mr. Georges Theunis, Ambassador of Belgium on special mission, containing confirmation of certain orders cabled by the Banque Nationale de Belgique to the Federal Reserve Bank in New York City.

Enclosure:

From Mr. Georges Theunis,
June 23, 1940
Sir,

I have the honor to inform Your Excellency that I have recently received two cables: one from the Belgian Minister of Finance, the second from the Banque Nationale de Belgique. These cables represent a confirmation of certain orders cabled by the Banque Nationale de Belgique to the Federal Reserve Bank in New York City. The latter has received notification from the Banque Nationale de Belgique that confirmation of these instructions would be sent to them through official channels. The Federal Reserve Bank of New York has therefore requested me to send the text of the telegrams to the Department of State, in order that my letter may be authenticated.

The following are the texts of the telegrams above mentioned:

The first message was sent by Mr. GUTT, Belgian Minister of Finance, from Poitiers, France, on June 16th 1940, and reads as follows:

"PRIÈRE CONFIRMER FEDERAL RESERVE NEW YORK QUE BANQUE NATIONALE BELGIQUE FERA VERSER CHEZ SWISS BANK CORPORATION NEW YORK 15 NASSAU STREET SOUS DE DOLLARS TROIS MILLIONS TROIS CENT QUATRE VINGT TROIS MILLE CENT QUARANTE SOIXANTE HUIT EN VUE REMBourseMENT CREDIT CONSENTI PAR SWISS BANK".

The second telegram was sent to me by the Banque Nationale de Belgique from Kont de Marsan, which was the address of the Banque Nationale de Belgique in the office of

The Honorable
The Secretary of State
Department of State
Washington
of the Banque de France, and was dated June 20th, 1940.
It reads as follows:

"PRIERE CONFIRMER A FEDERAL RESERVE NOS CABLES
CI-APRES NO. 209 REALISATION OR CONCURRENCE
50,000 DOLLARS SECUNDO TENIR DISPOSITION
VAN DER STRATEN PONTHOZ 50,000 DOLLARS TERTIO
NO. 211 REALISATION OR CONCURRENCE 3,550,000
DOLLARS QUARTO NO. 2121 VERSEMENT ORDER TRESOR
BELGE 3,383.140 DOLLARS 68 A SWISS BANK
CORPORATION NEW YORK AGENCY 15 NASSAU STREET
POUR REMBOURSEMENT CREDIT SUISSE."

May I have recourse to Your Excellency's courtesy
in order to have an official confirmation of the present
letter sent to the Federal Reserve Bank of New York.

In thanking Your Excellency for what He will be kind
enough to do in the matter, I avail myself of this occasion
to renew the assurances of my highest consideration.

GEORGES THEUNIS
Ambassadeur Extraordinaire
Ambassade de Belgique

I hereby certify that the
signature affixed above is
the signature of
Mr. Georges Theunis
Belgian Ambassador Extraordinary

( SEAL )

Count van der Straten Ponthoz
Belgian Ambassador

COPY

Regraded Unclassified
June 15, 1940

Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Kolosowski, Financial Counselor of the Polish Embassy, telephoned me this afternoon. He stated that his Embassy in Washington had received urgent telegraphic messages from the Polish Legation at Shanghai and from the Polish Embassy in Tokyo. It appears that the Legation at Shanghai has a dollar account with the branch of the Bank of Indo-China in that city, from which the Shanghai and Tokyo diplomatic officers of Poland are paid. An effort has now been made by the Polish Legation at Shanghai to withdraw $12,000. The Bank of Indo-China has refused to make payment, stating that all of its dollars are on deposit with the French American Banking Corporation in New York and that this account is blocked. Consequently, the Polish Embassy asks for assistance. Kolosowski stated that a cablegram on the subject had also been received by the French American Banking Corporation from the Bank of Indo-China at Shanghai, but that this gave less information than the cablegram from the Shanghai Legation. Mr. Kolosowski asked that this matter be given the earliest possible attention. His telephone number is Sector 3-0562, New York. I have telephoned the above information to Mr. Pohle.

[Signature]
COPY OF INCOMING CABLEGRAM

Amsterdam, June 26, 1940

Federal Reserve Bank of New York

New York

No. 172

Please cable whether you have received
for the credit of our account with you on May 13
or later $400,000 from Banque de Paris et des Pays
Bas Paris for account of their office in Amsterdam.

De Nederlandsche Bank
COPY OF INCOMING CABLEGRAM

ACKNOWLEDGE OF CABLEGRAM

We received a cablegram from you on July 2, 1940 which decoded reads as follows:

Amsterdam, July 2, 1940.

Federal Reserve Bank of New York

New York
No. 173

Selected items from our statement of last Monday in millions of florins are as follows

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home bills</td>
<td>73</td>
</tr>
<tr>
<td>Loans in current account</td>
<td>234</td>
</tr>
<tr>
<td>Advance to Government</td>
<td>15</td>
</tr>
<tr>
<td>Gold Reserves</td>
<td>1116</td>
</tr>
<tr>
<td>Notes in circulation</td>
<td>1249</td>
</tr>
<tr>
<td>Balance of Government</td>
<td>nil</td>
</tr>
<tr>
<td>Balances of Others</td>
<td>216</td>
</tr>
</tbody>
</table>

De Nederlandsche Bank
Federal Reserve Bank of New York
New York
No. 174

From incomplete reports from United States we gather that on May 10 United States President issued a decree with regard to transactions in your country in which property of the Netherlands is involved. We should be very grateful if you would kindly furnish us with some information as regards the following points:

ONE Are transfers from one Netherlands dollar account to another allowed under said decree?

TWO Are transfers from a Netherlands account to a United States account permitted?

THREE Are United States Banks henceforth allowed to credit Netherlands account with amounts received from accounts other than Netherlands accounts and if so are the amounts thus credited to Netherlands accounts at the free disposal of the holders?

Thanks All well here.

De Jong
De Nederlandsche Bank
Amsterdam, July 10, 1940.

Federal Reserve Bank of New York
New York
No. 175

Selected items from our statement of last Monday in millions of florins are as follows:

- Home bills: 76
- Loans in current account: 223
- Advance to Government: 10
- Gold reserves: 1116
- Notes in circulation: 1246
- Balance of Government: nil
- Balances of Others: 204

De Nederlandsche Bank
Amsterdam, July 11, 1940.

Federal Reserve Bank of New York
New York
No. 176
Did you receive our cables 172 to 174 inclusive Please wire.

Nederlandsche Bank.
June 26, 1940
8:50 a.m.

H.M.Jr: Hello.
Leon Henderson: This is Leon.
H.M.Jr: What the hell time do you think I go to work?
H: I don't know, but do you know what time I was at work this morning?
H.M.Jr: No. What time?
H: Quarter of six.
H.M.Jr: What were you doing? Hoeing your garden?
H: No, I was here. I was up at .......
H.M.Jr: Well, I'm glad to know because I start at 5:30 and I've got nobody to talk to at that hour, so from now on I'll call you.
H: Well, you can call me here at almost any time from 6:30 on.
H.M.Jr: I see, all right. (Laughs) What's on your mind, Leon?
H: Why, it's -- I asked Floyd Odlum to come in and give me some help along this line. We've got a number of propositions in which economists and lawyers can't give me what I call the business feel of things, and I got Abelson, who is from -- was the Commerce representative on the TNEC, a very able fellow. I'm after Whitmore Hodges, I've got Dick Landsburgh back and I asked Floyd to come in on some things and after I'd asked him I found out -- I just got a fleeting glimpse of something that you may have had some objection to him. If you've got any objection to him I don't want to use him on anything that might even touch the Treasury.
H.M.Jr: Well, I'll say this much for Lauch Currie, he's a persistent devil.

H: Well, now Lauch had nothing to do with this.

H.M.Jr: Aw, go on.

H: No, he didn't. No, he didn't. No, I talked with Jerome about men that I was -- the kind of men that I was trying to get, and we talked about -- we'd just had a dinner for Pike at which George Howard from United Corp. was present and I like him very well and I like Floyd, and I said, they're the kind of fellows I'd like to have. And Jerome said, well, you might get Floyd on a part-time basis. Now it wasn't Lauch at all.

H.M.Jr: Well, I tell you .......

H: It may have come through -- (laughs) Lauch and Jerome may have worked it.

H.M.Jr: (laughs). Oh, sure, sure. Well, anyway, be that as it may -- this is between the two of us?

H: Sure it is.

H.M.Jr: Well, what Lauch was trying, after all, what he's trying to get the President make me do was to take Floyd on as my advisor on aviation -- engines, and so forth. See?

H: Yeah.

H.M.Jr: Well, he's heavily invested in Curtiss-Wright and I didn't want anybody advising me that had any stock interests in any aviation company ......

H: ....... and on that ground, I turned him down.

H: Well, you haven't got any ......
H.M.Jr: That was all. I just didn't want anybody close to me who was heavy in aviation securities.

H: Yeah.

H.M.Jr: Outside of that I don't know the man, I told the President I'd be glad to take his wife as an expert.

H: (laughs)

H.M.Jr: The President thought that .......

H: That's smart.

H.M.Jr: What?

H: That's smart.

H.M.Jr: Jacquelin they tell me knows a lot.

H: Yeah.

H.M.Jr: Flies high, but my objection was purely on the ground that he was heavily invested in Curtiss-Wright and I didn't think a fellow like that should be sitting in advising me.

H: Well, he can advise me on this whole question of plane expansion or he might advise me on this difficult subject of priorities.

H.M.Jr: Well, that's up to you, but that was my sole objection and I think it was a good one.

H: It was and I wouldn't, as I say, I wouldn't want him if you had .......

H.M.Jr: No, that's all. He's chairman of the board, I think, of Curtiss-Wright or something like that, you see?

H: Well, I'm going to use him mainly to get the business feel of things on some of these propositions because as you see if I should stand in the way and hold up one of these
things and it turn out that I had trusted some wet-behind-the-ears mathematical economist, they would get the old beheading block for me.

H: Let me ask you this, just as a matter of curiosity. You fellows over there -- all of these people they're bringing down -- do any of them -- do they clear at all with the White House, or do they just bring down anybody.

H: They just bring down anybody they want.

H.M.Jr: I usually, as far as I'm concerned, I'm -- if I'm going to bring a business man in, I ask John Biggers and Stettinius both. If they're going to bring an economist in, they usually ask me.

H.M.Jr: I see.

H: I mean, Stettinius does. I've got a good working relationship on most things with Stettinius .......

H.M.Jr: Did they ask you about Yntema?

H: Yes, and he said -- Ed said, is he a good statistician? And I said, he certainly is, I hired him myself. He says, well, now, you know Yntema is really a liberal. I said, let's don't go into that.

H.M.Jr: (Laughs)

H: Well, we understood each other very well. I didn't raise any question on Yntema's capacities, which he has really done. He worked for me .......

H.M.Jr: Well, anyway, thanks for calling me, but that was my sole objection. Outside of that I don't know the man at all.
H: Well, now, another thing. If I ran over some morning when you got in -- arrange for -- come over just quietly and talked to you about .......

H.M.Jr: I'd love to see you.

H: I'm getting organized here on some ideas and I want to talk to you.

H.M.Jr: Well, let me know the night before.

H: All right, I will.

H.M.Jr: Will you?

H: Fine.

H.M.Jr: ....... love to see you.

H: All right.

H.M.Jr: Good-bye.
June 26, 1940
10:42 a.m.

H.M.Jr: George?
George Harrison: Hello, Henry.
H.M.Jr: How are you?
H: First rate, thank you.
H.M.Jr: Well, I'm delighted to see that you're going to be with us six months more.
H: Well, I am too, quite frankly.
H.M.Jr: And I just wanted to call you up and tell you so.
H: Well, you're awfully nice. I would have called you myself on Monday, but I was not in town and I didn't know that the other fellows had formally acted until after it was out in the press myself.
H.M.Jr: Well, it's the best sense I've seen in a long time.
H: Well, you're awfully nice to tell me so and I feel very much relieved too.
H.M.Jr: Right. I hope you'll be down not too far off to see me here in Washington.
H: Well, I can come down any time. I hadn't planned to go down at any particular time.
H.M.Jr: Well, I mean, it's nothing special but a lot of things brewing.
H: Yes, well, I tell you, I'll look over my plans and see how I can fit them in and call you back and see if I can make an appointment with you.
H.M.Jr: Thursday -- possibly Friday or Monday?
H:  Monday, I'd rather if that's all right with you.

H.M.Jr:  All right. You can call back.

H:  All right, first rate.

H.M.Jr:  I'm delighted, George.

H:  Well, you're nice to call me. Thank you.

H.M.Jr:  Good-bye.

H:  Good-bye.
June 26, 1940
10:57 a.m.

Jesse Jones: Hello, Henry.

H.M.Jr: How are you?

J: All right. How are you.

H.M.Jr: Sumner Welles called me up yesterday and asked me whether I wouldn't get back into this Colombian debt business. See?

J: Uh-huh.

H.M.Jr: Don't know whether they called you or not.

J: No, he did not.

H.M.Jr: Well, you know I said I wouldn't get back into again and he said that, well, if they just could have the meeting in my office he thinks he can sew it all up. It's on the permanent debt thing.

J: Uh-huh.

H.M.Jr: So I had him have young Duggan come over here and explain it all to me, and I told them that if they could get an agreement along the line that they were talking about and providing that you'd also sit in on it, why I'd meet with them once more.

J: All right.

H.M.Jr: Now, if that's agreeable to you.

J: Entirely, Henry, and I'll be glad to come whenever you fix it up.

H.M.Jr: I tell you what I'll do. I'll have Duggan contact you and give you a copy of the same memorandum which he gave me, and -- you know Duggan?

J: Duggan -- Duggan.
H.M. Jr: He's the head of the South American Division.

J: Yes.

H.M. Jr: And I set it tentatively for 10:30 Monday morning.

J: All right.

H.M. Jr: As I understand the proposition, the permanent settlement is 3% on the $50 million and then 3% on half of the interest in arrears, which doesn't sound bad.

J: No, it doesn't sound bad.

H.M. Jr: What?

J: No, it doesn't sound bad. Any kind of a decent settlement is a good thing, I think, Henry.

H.M. Jr: Well, I'll tell Duggan to explain it to you and then if you've got any ideas why we can get together before we meet these fellows.

J: O. K.

H.M. Jr: But I didn't want to get in it again, but Welles made such a point that if they could only sort of meet in my office he thought they can close it.

J: Well, he may be right about it.

H.M. Jr: O. K.

J: I've been wanting to see you about several things, nothing in particular, and some of these days I'd like to have a visit with you.

H.M. Jr: Well .......

J: No particular hurry, just at your convenience sometime. If you've got a free day for lunch, or fine. I'll jot down the things I've got in mind, maybe, and then visit.
Well, then, I'm pretty busy today. I'll give you a ring tomorrow.

J: Right.
H.M. Jr: O. K.

H.M. Jr: Then we'll have lunch next week. I tell you what we'll say now let's have lunch next Tuesday.

H.M. Jr: Well, let's do that.

H.M. Jr: What?

H.M. Jr: Let's do that?

H.M. Jr: And if there's something in the meantime that you want why I'm available, but I just happen to be tied up for lunch.

J: O. K. Well, we'll call it next Tuesday and in the meantime I may call you.

H.M. Jr: All right, next Tuesday for lunch.

J: And we'll meet -- you've planned this other meeting for 10:30 Monday.

H.M. Jr: 10:30 Monday.

H.M. Jr: Thank you.
SECRETARY OF STATE
Washington

ATTACHÉ COMMERCE

"79. June 26th. During past week Japanese circles have adopted cautious attitude towards future commitments due uncertainty trend international developments. Although certain developments international situation have been viewed favorably business and industrial circles are not optimistic concerning future earnings because of certainty of more intensified official control over all phases Japan's economy. Various ministries and cabinet planning board reportedly engaged plans for establishment wartime trade control corporation to execute materials mobilization plan and foreign trade promotion schemes. Wartime trade bureau would embrace existing export trade promotion companies and associations as view held there need for improving efficiency these organizations. Proposed bureau would also exercise unified control over all important import and trading concerns.

Bureau
J-2-479, June 26, from Tokyo via Shanghai & N. R.

Bureau would be established under authority various articles National General Mobilization Act and under direct Government supervision although private interests would be represented one board of directors. Opinion reportedly developing in official circles regarding desirability of reform in Government exchange permit system in favor authorizing point control by various ministries concerned instead exclusive control Finance Ministry. Plan motivated by desire coordinate efforts all official agencies towards execution materials mobilization plan and foreign trade promotion schemes. Government reportedly planning introduce regulations governing ration card system from August last as present system has no legal basis except anti-profiteering decrees. Proposed legislation will provide adequate provision for punishment offenders of ration system. Many important government buildings destroyed by fire Tokyo June 20th. Buildings destroyed include Finance Ministry, Cabinet Planning Board, Aviation Bureau, Manchurian Affairs Bureau, part Welfare Ministry, and various Tokyo municipal buildings. Loss many valuable documents will undoubtedly restrict activities these ministries and bureau for some months although it has been officially stated that all have resumed normal functions in temporary
temporary quarters. New debenture issue sixty million yen of South Manchuria Railway reported over subscribed following announcement of offering by Industrial Bank Japan. Easy absorption of this issue reflects improvement debenture market although issue far more popular with rural banks than with city banks. Due heavy demand for funds for financing industrialists executing nation industrial expansion program, Industrial Bank Japan loans reportedly reached one five nine naught million June fifteenth. Despite slight improvement money market recent weeks difficulty anticipated raising further funds through flotation industrial bank debentures and financing circles anticipate bank will be forced adopt policy curtailing industrial loans acting months. Bond and debenture offerings first half nineteen forty totalled one naught seven six million yen compared one naught five five million during corresponding period last year, amount placed open market reaching six eight one million compared seven eight naught nanper. Firmsness money market and shortage materials and industrial plant equipment have reportedly restricted all but offerings gilt edged securities backed by Government. Maintenance favorable terms for bond debenture offerings attributable to technical manipulation of market by authorities.

Domestic
HI-4-79, June 26, from Tokyo via Shanghai & H. R.

Domestic offerings totalled six nine three million compared six four five million consanper and Manchurian and North China offerings three eight three million compared four one naught million consanper. Returns from all banks except Bank Japan show continued upward trend in bank deposits and loans during May. Total deposits reached two six one three eight million and May increase seven three naught million over previous month and five seven eight one million over consanper. Total loans amounted one six six three five million increase three six one million over previous month and three six naught seven million over consanper. Banks security holdings and May reached one three two eight three million increase million increase three one five over previous month and two five naught seven million over consanper. Report of Savings Bankers Association for May shows one one five million increase in savings deposits past month. Total deposits savings banks end May reached three eight five three million. New state life insurance policies issued April numbered one one three six thousand involving three naught two seven naught eight thousand yen, total policies outstanding end April numbered three eight six seven four involving amount

BEVER
seven sought three million yen. Note issue Bank Japan June twenty-second reached three to five three million increase one three six million during past week. Due demand for funds mid-year settlements financial circles anticipate that note issue will reach three six sought sought million by end June. Bank Japan loans reached five five two million June twenty-second increase three five million during week. Yen sterling exchange rates fluctuated between one three one quarter and one three seven eighths during past week. Yen dollar rates unchanged. Ministry Commerce Industry reportedly plans serious drive for self-sufficiency machine tools to offset effects of embargoes by present source supply. Expansion plants manufacturing heavy machine tools and precision machinery with aid Government subsidies being planned. Particular attention will be directed towards expanding facilities existing machinery research institute for public instruction manufacturing technique design and study materials entering into machine tool construction. Order encourage scale production yen bloc areas to compensate for reduced imports from north African countries. Ministry Finance reportedly authorized eleven yen per ton increase salt quotations. Meanwhile activities Japanese chemical
chemical industries reportedly curtailed due shortage industrial salt. Negotiations reportedly underway with Latin American countries for purchase salt those areas. Cotton spinners who decided voluntary curtailment ten per cent yarn production from May first due unfavorable outlook cotton export trade now considering further curtailment to eighty per cent of March nineteen forty production. Move prompted by increasing yarn stocks and slack cotton textile trade prospects. Telegraph services restricted from July first according announcement Finance Ministry since present traffic volume overloading facilities. Ordinary telegrams filed local offices after eleven p.m. will be held until eight a.m. following morning, new year's telegraph greetings entirely abolished, messages congratulations condolence between Japan, Chosen prohibited, and local messages congratulations condolence restricted as to number words. Heavy rains in western Japan have reportedly increased water supply hydro-electric power plants thus eliminating necessity imposing restrictions use electric power certain areas. Industrial appeals claim however that there are indications of power shortage during coming winter unless present coal supply and power generating facilities increased. Ability power concerns effect increased during next
next few months doubted. Financing of silk reeler during current year will require approximately four hundred million yen compared with normal requirements of two hundred twenty million yen due sharp rise cocoon prices. Speculative trend cocoon prices regarded with some apprehension due belief high prices may restrict silk exports to United States. May silk production reported at five four eight one thousand kin increase five four nine thousand kin over cocanmpor. Total production first five months seven three seven five five thousand kin decline five three thousand kin from cocanmpor. Raw silk market weak during past week with prices slumping from one five five eight one seventeenth to one four six five on twenty-second.

New trade accord with Italy reportedly reached as result negotiations by Japanese economic mission which recently visited Italy. Agreement which includes Manchuria reportedly based reciprocal trade principles and provides for exchange approximately twenty seven million yen worth goods annually. Japan will reportedly supply Italy with Dupion, silk textiles, camphor, provisions, and sundry goods in exchange for mercury, industrial salt, and machinery. Contrary to expectation exports middle ten days June showed sharp upward trend exports totalling one
JI-8-179, June 26, from Tokyo via Shanghai & N. R.

one one eight one two four thousand, increase one nine
three seven two thousand over previous ten days and
two one two six four thousand over consamper. Upward
tendency export business shared all important items
except rayon textiles, canned provisions, woolen
textiles, toys, and lumber. Imports totalled eight two
one four one thousand decline one one one one thousand
from previous ten days and five five naught naught
from consamper. Industrial share prices twenty second
average ninety point zero three index ninety two point
twenty seven weeks average ninety point sixteen index
ninety two point forty. End. Signed Smith".

INFORM COMMERCE.

GREEN

EIB
June 26, 1940.

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

Dear Mr. Secretary:

I have received your letter of January 25 with its enclosures. I am interested to have the information and appreciate your courtesy in sending it to me.

Very truly yours,

W. A. HARRIMAN
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Berlin, Germany
DATE: June 26, 1940, 4 p.m.
NO.: 2115
FOR TREASURY FROM HEATH, and for the information of the Department.

German economic writers, in the belief that Germany will win the war, have been filling newspapers and periodicals with speculative articles on Europe's new economic order and the new "großraumwirtschaft" (large scale regional economy) which is expected to develop under control of Germany. It is intimated or prophesied in many of these articles that there will promptly be set up in central, southeastern and northern Europe a system of strict control of production, trade, money and banking with the present German system as the model, which system will be planned and centrally directed from Berlin.

According to the writers, the purpose of this German-controlled regional economy would be self-sufficiency within this area and its dependent colonies. It is contemplated that trade with other areas of the world would consist for the most part of goods which in an emergency would be considered non-essential.

Much writing about new currency arrangements has appeared, and there are occasional articles to the effect that continuance of gold as a basic financial currency would be prevented by a victorious Germany.

However, I am reliably informed, despite discussion
of a new economic order in the press and by the party, that no such ambitious and revolutionary plans are being formulated or given consideration just now by the Government's main economic authorities - the Ministry of Economics, the Reichsbank, the economic organization under Goering (which includes the economic section of the National Defense Council and the four year plan) and the Foreign Office's Economic Section. The Ministries have apparently definitely stifled efforts from party quarters which were inaugurated by a Dr. Deitz to set up a special "Roumwirtschaft" organization. It is also reported that Dr. Schacht has been submitting views orally and in writing with regard to the economic reorganization of Europe; however, he has not received a commission to draw up a program, so far as can be ascertained.

The Reich's various economic authorities have, of course, been making some tentative studies of the future economic status of Germany, but they have not yet started an organized program. No directives toward this end have been given by Hitler, Goering or the other Economics Minister Funk, nor are any expected at least in the near future; however, it is reported in the Ministries that Hitler is now engaging in some discussion of the Reich's future economic problems, where heretofore he has shown little interest in economic planning, manifesting his interest
interest only in economic results.

As for European trade, at present the economic authorities are going on the assumption that after the peace even the countries which are now under German military occupation will possess a substantial degree of economic autonomy.

Note: There have now been concluded new clearing agreements with the Netherlands and Belgium, which agreements were made by the officials of these two countries remaining in the capitals.

It is frankly admitted by the German economic authorities that negotiations are being conducted now on a much more imperative basis on the part of Germany than before the war broke out. It was remarked by one German commercial counselor, recently brought back to Berlin for consultation, that when he returned to his post he would have to adjust himself to an entirely new situation. Every desired concession heretofore had necessitated long battles, but now he expected to be approached as though his capacity were that of an advisor whose recommendations would be accepted with not much opposition. It is intimated in the ministries that Germany will be particularly authoritative in directing changes and extensions in Rumania's agricultural production and trade.

For a considerable time, German economic officials believe,
believe, German trade in Europe will go on substantially as at present, with clearing agreements and blocked currencies. However, the statement is made that German policy is to transform these clearing agreements as rapidly as is possible into "payments agreements" under which trade payments would be made in free currencies, though subject to strict control.

The statement is made by important officials that the ultimate aim is to abolish restrictive exchange in these payments, or at least for normal transfers to relax it substantially. However, for the early perceivable future, there is no thought of returning to a really free economic system. It is frequently stated that eventually the control of payments and foreign trade will be an indirect one exercised through industrial and commercial organizations and cartels of Germany, operating under the supervision of the Government.

Undoubtedly the Reichsbank's influence will be directed toward exchange control relaxation. The ambition of the Reichsbank is to raise the Reichsmark to the dollar's status and standing as a free international currency. At the Reichsbank it is stated at the same time that before exchange control is abolished, some agreement would have to be reached with the leading financial powers as to stocks of gold, currency and international debts — reference: telegram
telegram of June 23, noon, from the Embassy, No. 2039.
It is occasionally observed here that the criticisms which
party members direct against gold as a currency base,
and their glorification of the alleged "labor base" of the
mark is merely making a virtue out of necessity. It is
stated that the Party, the Government and the people would
welcome eventual reestablishment of the mark as a currency
enjoying universal, international acceptance and having
a strong gold reserve to back it up.

Moreover, the Reichsbank is not the only force which
is working for a relaxation of the stringent economic and
monetary controls which the Third Reich has set up. It
appears that most of the economic staff under Goering has
conservative views. They frequently grumble about the
autocratic control measures which they have to administer accept-
ing contract only because they are necessary to fulfill
the Third Reich's military aims. In other ministries
too there are conservative tendencies regarding economic
and financial policy. The fact that some influence is had
by this conservative element is demonstrated by their recent
good feeling to postpone advancement of income and other
tax increases which after much inter-ministerial debate
was finally agreed upon. Reference: telegram of May 16,
noon, No. 1345 from the Embassy.

In summary of the above: It is not believed by the
main
main economic authorities in the Reich that they will be given directions to prepare any radically new system of economic and monetary organization in that part of Europe looked on as falling within the economic sphere of interest of Germany, although it is expected that German trade and economic authority in the area will gradually be extended. The possibility is admitted, however, that elements favoring rapid and complete German economic absorption of control of central, southeastern and northern Europe may influence Hitler. The Reichsbank's policy and that of other economic authorities just now is to work away from restrictive systems of clearing agreements and exchange control which now exist toward a system of trade and payments which is more free.

END OF MESSAGE.

HEATH.
POSITION OF THE UNITED STATES
ON CAPITAL ACCOUNT vis-a-vis GREATER GERMANY.

SUMMARY

By: Joseph P. Cotton, Jr.
Attached is a Summary and a More Detailed Study of the position of the United States on capital account vis-a-vis Greater Germany, which you asked me to prepare some time ago. French assets are not included in the German side of the account, and the position of the United States vis-a-vis Germany in this connection is not touched upon in the study. Otherwise, it is abreast of current events.

Mr. Gass and Mr. Wheeler of Dr. White's division have helped me in compiling the figures and Mr. Gass has given me the benefit of his general criticism, but the presentation and the responsibility for such conclusions as are contained therein are my own.

The figures are largely based on Department of Commerce estimates, and there is wide latitude for error. In so far as a comparison of the two sides of the account, United States and Germany, be the objective, however, I believe that the picture presented is broadly reliable. Under the circumstances, I did not believe it necessary or expedient to go outside Government circles in the preparation of the study. Within the Government, Mr. Amos Taylor and Mr. Dickens of the Department of Commerce, and Mr. Lincoln of the SEC, in particular, have been helpful. If the matter should be pursued further, I feel that Mr. Lincoln is particularly qualified to render assistance.
June 26, 1940

SUMMARY
POSITION OF THE UNITED STATES ON CAPITAL ACCOUNT vis-a-vis GREATER GERMANY.

In appraising the position of the United States, it would seem appropriate to exclude entirely all war debts of Germany and other countries concerned.

The total of American private investments in Germany and countries presently dominated by Germany is currently about $1,300 million less than the total assets in the United States of Germany and countries presently dominated by Germany. The balance in favor of Germany would increase to almost $2,700 million if Germany should expand to include Switzerland, Sweden and the Balkans. Moreover, in appraising the current or potential balance of account under existing conditions, it should be noted that the figures for American investments, which are based upon par and book values, are significant only, as an indication of maximum potential worth in the future, assuming a return of peace and a Germany with a willingness and the capacity to pay, or, presently, as an indication of the maximum fair value of claims which might be asserted currently, leaving out of account the heavy losses already realized which American investors in Germany have suffered. The figures for German and German-dominated assets in the United States, on the other hand, are minimum estimates and represent, in substance, currently realizable values.
The following table summarizes the United States' position on private investment account in relation to pre-war Germany (*), Greater Germany at the present stage of expansion (**), and the Mittel Europa which would result if Germany should expand further to include Switzerland, Sweden and the Balkans:

<table>
<thead>
<tr>
<th></th>
<th>American investments in Germany</th>
<th>German Assets in the U. S.</th>
<th>Balance in favor ( (\text{A}) ) or against ( (\text{C}) ) the U. S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Pre-war Germany</td>
<td>$ 517</td>
<td>$ 116</td>
<td>$ 401</td>
</tr>
<tr>
<td>2. Greater Germany with-</td>
<td>820</td>
<td>2,124</td>
<td>- 1,304</td>
</tr>
<tr>
<td>in present limits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. German Mittel Europa</td>
<td>1,029</td>
<td>3,707</td>
<td>- 2,678</td>
</tr>
</tbody>
</table>

In the accounting in relation to Greater Germany within present limits or the assumed German Mittel Europa, the relative importance, on the American side of the account, of investments in Germany proper and the relative insignificance, on the German side of the account, of assets in the United States of Germany proper, should be noted. Assets in the United States currently attributable to Germany proper are less than $100 millions compared with American private investments in the Old Reich of about $440 millions.

In the absence of further German expansion, no substantial change in the current balance of account in the immediate future is to be

(*) Including Austria, Czechoslovakia and Memel; also Danzig and Poland since breakdown impracticable. Only two-thirds of American investments in Poland included in view of the partition of that country.

(**) Including, in addition, Denmark, Norway, The Netherlands and Belgium-Luxembourg, overseas empires excluded.
anticipated in the ordinary course of events. So far as the American
side of the account is concerned, very few opportunities are now
available to Americans for sale of their investments in Germany to for-
signers. The German side of the account may be depleted in the course
of time to a limited extent if the United States, following current
practice in the administration of recently imposed exchange control
measures, continues to permit use of the assets of recently victimized
countries by their owners to pay for exports from the United States,
services rendered in the United States, and limited withdrawals for
use abroad. On the other hand, Germany is unlikely to attempt to
upset the status quo unless and until her conquest is firmly consoli-
dated, and the extent to which the owners or their governments, Ger-
many, or the American investor in Germany, may eventually benefit
from such assets would seem to depend largely on the policy which the
United States may adopt.

Germany, although she will probably attempt, as in the case of
Austria and Czechoslovakia, to secure control over assets in the United
States of other victims through exercising pressure upon the persons of
their owners, is unlikely, in the immediate future, to raise the issue
publicly with the United States or to take steps which might precipitate
further action by the United States with reference to such frozen assets.
However, if the United States should seize the assets in this country of
Germany and its victims to satisfy the claims of American investors,
Germany would almost certainly retaliate by confiscating American prop-
erty in Germany and by repudiating German obligations to American in-
vestors. Germany might so retaliate if the United States should take
steps to facilitate mobilization for war purposes of the assets of the
nationals of victimized countries in such a way as to amount to open
cooperation with the Allies.

By sequestering assets in this country of Germany and victimized
countries at this time, the United States could satisfy all American
claims on private investment account at their maximum fair value and,
in addition, either a part or, if Germany should expand further to
include Switzerland, all of the debts owing to this Government by
Germany and conquered states which arose out of the last war. The
point should be stressed, however, that virtually all of the assets
seized in pursuit of such a program would be owned by victimized coun-
tries or their nationals. By such action, which would be unprecedented
so long as the German conquest is contested and, if it be acquiesced in,
so long as we remain at peace with Germany, the United States would pre-
cipitate a triangular conflict of interests involving the American in-
vestor, in lieu of the now latent conflict of interests between Germany
and its victims as to their property in the United States.
I.

Any statement of the current position of the United States vis-a-vis Greater Germany, it should be emphasized, can have only limited significance. This is necessarily so because, due to the almost complete illiquidity of American investments in Germany and occupied territories, any figure for the American — in contrast to the German — side of the account will not represent currently realizable values. Moreover, any all-inclusive statement, such as that below, will include, in addition to investments proper on the American side of the account, a very substantial item which is largely of academic significance, namely the indebtedness to the United States Government arising out of the 1914 war.

With these major qualifications in mind, it may be said that the position of the United States vis-a-vis Germany — i.e. the Old Reich and under various alternatives assumed as regards German domination of adjacent minor European powers — is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amer. investments (including war debts) in Germany</th>
<th>German Assets in the U.S.</th>
<th>Balance in favor of the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Germany proper</td>
<td>$1,704</td>
<td>$100</td>
<td>$1,604</td>
</tr>
<tr>
<td>2. Pre-war Germany (*)</td>
<td>2,151</td>
<td>116</td>
<td>2,035</td>
</tr>
<tr>
<td>3. Greater Germany within present limits (**)</td>
<td>2,912</td>
<td>2,124</td>
<td>788</td>
</tr>
<tr>
<td>4. German Mittel Europa (***)</td>
<td>3,285</td>
<td>3,707</td>
<td>422</td>
</tr>
</tbody>
</table>

(*) Including Austria, Czechoslovakia, Memel; also Danzig and Poland, since breakdown impracticable. Only two-thirds of American investment in Poland included in view of the partition of that country.

(**) Including, in addition, Denmark, Norway, The Netherlands and Belgium-Luxembourg, overseas empires excluded.

(***) Including, in addition, Switzerland, Sweden, Hungary, Roumania, Yugoslavia, Bulgaria and Greece.
The table shows that the original balance in favor of the United States, which increased to a maximum of about $2,000 millions in relation to pre-war Germany, has been more than cut in half since the war and might be wiped out if Germany should expand further.

II.

It would seem more realistic in appraising the position of the United States on capital account vis-a-vis Germany to exclude entirely from the American side of the account all intergovernmental indebtedness owed by Germany and other states concerned to the United States. All this indebtedness was incurred, pursuant to agreements between the United States and the respective countries, to assure discharge of public and private claims of the United States arising out of or as an aftermath of the last war. Such indebtedness is a very substantial item, constituting about two-thirds of the respective totals shown for the American side of the account in the table under "T".

If war debts be eliminated, the position of the United States is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amer. investments (exclusive of war debts) in Germany</th>
<th>German Assets in the U. S.</th>
<th>Balance in favor or against (F) or against (-) the U. S. (In millions of dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Germany proper</td>
<td>$440</td>
<td>$100</td>
<td>$340</td>
</tr>
<tr>
<td>2. Pre-war Germany (*)</td>
<td>517</td>
<td>116</td>
<td>401</td>
</tr>
<tr>
<td>3. Greater Germany within present limits</td>
<td>820</td>
<td>2,124</td>
<td>1,304</td>
</tr>
<tr>
<td>4. German Mittel Europa</td>
<td>1,029</td>
<td>3,707</td>
<td>2,678</td>
</tr>
</tbody>
</table>

(*) Including Danzig and Poland in addition to pre-war victims since breakdown impracticable. Only two-thirds of the American investment in Poland included in view of the partition of that country.
In contrast to the picture presented under "I", it will be noted that the original balance in favor of the United States of $340 millions is already reversed. The excess over liabilities of assets in this country subject to German domination is currently about $1,300 millions and might increase to almost $2,700 millions in the event of further German expansion.

Indebtedness to the United States Government arising out of the last war, which was eliminated in the above presentation of the account, is divers in origin and nature, consisting for the most part of debt incurred by the Old Reich to assure discharge of both public and private American claims, and including debt owed by former allies and other European countries part of which was incurred after and for purposes not directly connected with the war. War debts of Germany proper currently amount to some $1,264 millions and are substantial in the case of Czechoslovakia, Poland and Belgium, detailed figures being given in Appendix "A". Selectivity in elimination on the basis of such distinctions would not, however, seem appropriate for present purposes. The fundamental fact is that, together with reparation claims, all this intergovernmental indebtedness arising out of or as an aftermath of the last war is a dead issue. It is highly unlikely, in a post-war world, that any future German Government would be disposed to honor, or that the United States would be in a position to press for further satisfaction of, any of this indebtedness.
In considering the position which the United States might be disposed to take with respect to such indebtedness, two facts, more fully discussed in Appendix "A", should be borne in mind. First, practically all of such indebtedness represents governmental claims as distinguished from claims asserted on behalf of American private citizens by the United States Government. This fact has significant implications, since it may be fairly assumed that, as a matter of policy, the satisfaction of Government war claims will continue to be considered of less moment than the satisfaction of similar private claims. Second, a substantial part of such indebtedness is computed on a basis which, although correct from the legal and accounting standpoint, results in an artificial and inflated figure.

In any event, whether or not it be appropriate, in appraising the position of the United States, to eliminate all or a part of this indebtedness to the United States Government arising out of the last war, it should be borne in mind that the figures for such indebtedness are not comparable with the figures for American private investment.

III.

The changes in the balance of account under the various alternatives assumed as to the extent of German expansion, as portrayed in the tables under "I" and "II", are largely due to the inclusion of The Netherlands and Switzerland in the accounting. These two countries,
and, to a lesser extent, Sweden, respectively, have a substantial excess of assets in the United States over potential liabilities to American investors. In the case of all other present and potential victims, the respective balances in relation to the United States are either negative or reversed. Appendix "E" shows the position of the United States with reference to the respective countries presently or potentially subject to German domination.

As the foregoing tables indicate, whether or not war debts are included in the American side of the account, the position of the United States in relation to pre-war Germany is not substantially different from the position in relation to the Old Reich. The notable change as between the current and pre-war balance of account is almost wholly due to the inclusion of The Netherlands, which has an excess of assets over potential liabilities in this country of over $1,350 millions. The current balance of account would change substantially if further German expansion should include Switzerland, which has an excess of assets over potential liabilities in this country of almost $1,250 millions, and Sweden, which has an excess of assets over liabilities of about $250 millions. German expansion elsewhere would not appreciably affect the balance of account.

Before attempting to appraise the position of the United States vis-à-vis Germany as portrayed in the foregoing tables, the nature of the American investments and of the assets on the German side of the account should be considered.
IV.

The American side of the account, after elimination of claims arising out of the last war, consists of investments proper aggregating some $820 millions. This compares with an investment of about $517 millions in pre-war Germany and of $1,029 millions assuming further German expansion in all directions. The geographical breakdown given in Appendix "B" indicates the preponderant importance in any such total of investments in Germany proper, some $440 millions, and fairly substantial investments in Denmark, Norway and Belgium, approximating $100 millions in each country. The following breakdown of the current total shows the relative importance of the major constituent items of investment:

1. Portfolio investments $391 millions
2. Direct investments 356 "
3. Short term credits 73 "

$820 "

As shown in Appendix "C", approximately the same relative proportions, as between the three categories of investment, are maintained if the American investment position be considered in relation to pre-war Germany or a Germany expanded beyond present limits.

The above figures for American investments are rough estimates, based in large part on reports of private investors, paying agents, etc., to the Department of Commerce which are not of very recent date. In connection with the most important category, portfolio investments,
there is particular scope for error in the attempt to estimate the extent of repatriation, or, more properly speaking, of repurchase by foreigners of German dollar bonds which has been a major factor in reducing American holdings thereof from an estimated $1,200 millions at the end of 1930 to some $163 millions at the present time. Some competent observers believe that American holdings are even less, and, although the Department of Commerce has recently revised its estimate downward, this conclusion is supported by deductions which reasonably may be drawn from data accumulated by the Securities and Exchange Commission in the course of independent investigations. The total shown above for American investments should be considered a maximum estimate.

It should be emphasized that the above figures for American investments represent face or stated values which bear little relation to market or realizable values at the present time. In the case of portfolio investments, which account for almost one-half the total, the figures for the most part represent par value of dollar bonds. German bonds and securities of German-dominated territories are, of course, now selling on our exchanges at but a fraction of their par values. Considering the situation of the American holders collectively, repayments and amortization of German bonds have been negligible in recent years and it is believed that since the war repurchases for foreign account, which were formerly a very important factor, have practically ceased. Likewise, the figure for short term credits represents a principal amount of indebtedness, no immediate prospects for the repayment of which exist, although interest thereon is for the most part being currently paid.
The figure for American direct investments is for the most part based upon book values as reported by foreign subsidiaries of American corporations. It is clear that these book values have not been written down to reflect a conception of going concern value under the uncertain conditions which have prevailed in Germany during the last decade, much less the impact of the present war. The existence of war, following a decade characterized by uncertainty as to the future of foreign investments in Germany and the operation of a rigid exchange control restricting repayment of capital and the transfer of interest and earnings, is, of course, the basic fact which renders artificial any figures for American investments in Germany and occupied territories which are based on face or book values.

V.

The total assets on the German side of the account is about $2,124 millions at the present stage of German expansion. The total in the case of pre-war Germany was only some $116 millions and, assuming further successful expansion in all directions, would be about $3,707 millions. The preponderance of non-German assets proper in the account is thus apparent. Moreover, as shown in the geographical breakdown in Appendix "B", the difference between the current figure on the one hand and the pre-war and potential totals on the other, is substantially accounted for in the former case by the inclusion of Dutch assets and in the latter by the inclusion of Swiss assets, amounting to $1,386 and $1,261 millions respectively. Belgian and Swedish assets in the United States, about $476 and $310 millions respectively, are also substantial.
These figures are largely based on Department of Commerce estimates. In contrast to the figures for American investments discussed under "IV", however, the above figures represent minimum estimates. Moreover, they probably understate the German position to a considerable extent. Balance-of-payment studies of the Department of Commerce show a large residual item for recent years, amounting to $1,000 millions or more annually in favor of the United States. This item cannot be broken down and allocated as between current and capital account but in large measure probably represents unreported capital inflow into this country. A substantial portion of such unreported capital inflow could reasonably be assigned to the rich present or potential victims of Germany, particularly Holland and Switzerland, the propensity of whose nationals for unostentatiously sending money abroad for safekeeping is notorious. This reasoning, although by no means determinative, points to the conclusion that the above figures for German assets in the United States are underestimates. This conclusion gains support from preliminary tabulations of the assets of certain countries involved, Denmark, Norway, The Netherlands and Belgium-Luxembourg, on the basis of reports furnished pursuant to recent exchange control measures of the United States. Withdrawal by Germany of most of the assets here which she directly controls — i. e., the $116 millions attributable to pre-war Germany including Danzig and Poland, — would be a minor offsetting factor, if recent newspaper reports to that effect be true.

It should be emphasised that the above figures for investment on the German side of the account, in contrast to the figures for investment
on the American side, discussed under "IV", represent, in substance, definitely realizable values. The following breakdown of the current total shows the relative unimportance of direct investments as compared with portfolio investments, the figure for which will approximate current market values fairly closely, and with the items of gold and dollar balances:

1. Security holdings $ 718 millions
2. Earmarked gold 561 "
3. Banking funds 497 "
4. Direct investments 348 "

$2,124 "

As shown in Appendix "D", the relative importance in the total of the item of gold and dollar balances would increase in the event of further German expansion.

On the other hand, the extent to which Germany may be able to realize upon assets included in the German side of the account is problematical. Except for some $100 millions attributable to Germany proper, all the assets included in the current total belong or did belong to victimized countries or their nationals. A substantial portion of the total consists of official gold reserves and bank balances under the control of emigre' governments and an even larger portion probably consists of assets embodied in securities or title documents which have been destroyed or removed from the respective countries by private owners. The extent to which Germany may be successful in establishing control over such assets, by methods similar to that applied to her own nationals and refugees, and in the Austrian and Czecho-Slovakian situations,
cannot be foretold. Much will undoubtedly depend on the exchange control administration and other action which the United States may take.

VI.

To recapitulate certain facts previously noted with reference to the position of the United States on capital account *vis-a-vis* Greater Germany:

It may be said that there is, currently, an excess of American investments over assets of Germany and its victims, only if war debts are included. The current balance of about $800 millions in favor of the United States, which compares with a favorable balance of over $2 billions in relation to pre-war Germany, might be reversed in the event of further expansion by Germany. If war debts be eliminated, the current balance is unfavorable to the United States by about $1,300 millions, contrasting with the favorable balance in relation to pre-war Germany of about $340 millions; and this unfavorable balance might increase to almost $2,700 millions in the event of further German expansion. Moreover, these figures almost certainly understate the extent to which the balance is or would be unfavorable to the United States.

A realistic appraisal of the United States' position is difficult in view of the artificiality of the figure for American investments in contrast to the figure for German and German-dominated assets which represent currently realizable values. Any given figure for American investments in Greater Germany is significant only as a measure of claims which may be asserted in the future, or as an indication of maximum potential worth assuming a return of peace and a Germany with a wil-
lengness and the capacity to pay. It is, of course, impossible to evaluate these investments on any criterion of realizable worth in the unforeseeable future. (*)

On the other hand, in appraising the position of the United States, it may be appropriate, under certain conditions, to assign a purely nominal value to the whole American investment in Germany and in countries which it may dominate. Such conditions would exist if the United States Government should lose all confidence in the potential good faith and capacity to pay of a post-war Germany and, at the same time, anticipate that Germany would continue to dominate other nations which it may occupy, for an indefinite future. Under the circumstances, the United States could seize and satisfy out of the assets on the German side of the account, all claims of American private investors at their maximum fair value, and also part or, if Germany should expand further to include Switzerland, all of the war debts of Germany and other countries concerned. It should be recalled, however, that the status of the balance of account which would make such course practicable — i. e., the fact of a substantial balance against the United States — is entirely due to the inclusion, on the German side of the account, of assets belonging to the victims of German aggression. The extent to which the owners or their governments, Germany, or the American investor in Germany may eventually benefit from such assets would seem to depend largely on the policy which the United States may adopt.

(*) The experience, since the last war, of foreign investors in Germany, sketched briefly with particular reference to the United States in Appendix "F", may throw some light on the potential value of the American investments in question.
APPENDIX "A"

The relevant indebtedness to the United States Government of the German and several other governments concerned, which arose out of or as an aftermath of the last war, is currently (*) as follows:

1. Germany proper $1,264 millions
2. Pre-war Germany $1,456
   (Austria 26)
   (Czechoslovakia 166)
   1,456
3. Greater Germany within present limits.
   $2,092
   (Poland 178)
   (Belgium 458)
   2,092
4. Mitel Europa $2,256
   (Greece 35)
   (Hungary 2)
   (Roumania 65)
   (Yugoslavia 62)
   2,256

(*) U.S. Treasury Public Debt Statement, March 31, 1940. Only two-thirds of the Polish debt is included in view of the partition of that country.

(1) Indebtedness of Germany proper.

This indebtedness, some $1,264 millions, constitutes a preponderant or substantial part of the above cumulative totals. For reasons noted below the amount of such indebtedness is not comparable with any figure for private investments and, although computed on a basis which is correct from a legal and accounting standpoint, would appear artificial and inflated.

In the first place, the dollar equivalent of the indebtedness, which was fixed in marks in the Funding Agreement entered into with Germany in 1930, has been very substantially increased due to the subsequent devaluation of the dollar relative to the mark. In the second place, the indebt-
Appendix "A"—continued. Page #2

In this connection, it will be noted that about $400 millions of the original indebtedness was allocated to discharge claims of the Government on account of the costs of the American Army of Occupation. The balance, about $850 millions, was allocated to discharge public and private claims under adjudication by the Mixed Claims Commission — about $250 millions to satisfy claims of the United States Government and about $600 millions to satisfy claims of American private citizens. The amount allocated to satisfy mixed claims awards — more than two-thirds of the stated total — would be reduced, in the event all mixed claims awards shall have been satisfied, by cancellation of amounts then due on outstanding bonds. The United States Government has received only about $50 millions on account of Army costs and nothing on mixed claims awards.

It is significant, however, that the balance currently due on mixed claims awards to American private citizens, plus the amount of such awards about to be certified, is in the neighborhood of only $115 millions. Moreover, some $71 millions currently due German nationals on war claims, as
determined by the War Claims Arbiter, might be offset against this figure. Although mixed claims awards are interest-bearing and a few new awards may still be made so that the amount eventually payable cannot now be determined, the discrepancy, between this $115 millions figure and the $600 millions face amount of bonds allocated to satisfy awards to American private citizens, obviously introduces another element of artificiality in the stated total of German indebtedness arising out of the last war.

(2) War indebtedness of other countries.

This indebtedness to the United States Government, different in origin and nature from the war indebtedness of Germany proper, is more nearly comparable to American private investments. The indebtedness of the several countries, fixed under respective funding agreements entered into in the early 1930's, is represented by interest-bearing dollar bonds. The indebtedness arose as the result of cash advances by the United States to allied governments made both before and after the Armistice for the purpose of assisting in prosecution of the war, and as a result of post-Armistice sales by the United States of surplus war materials and relief supplies on credit to allied and other governments.

The United States has informed Germany that it will look to the German Government for discharge of the Austrian debt but has not taken similar action with respect to the debts of other countries overrun by Germany.
APPENDIX "B"

BREAKDOWN OF POSITION OF THE UNITED STATES ON CAPITAL ACCOUNT vis-a-vis GREATER GERMANY.

I. Including War Debts.

<table>
<thead>
<tr>
<th></th>
<th>American investments in Germany</th>
<th>German Assets in the U. S.</th>
<th>Balance in favor (F) or against (-) the U. S.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In millions of dollars)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Germany Proper</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>$1,704</td>
<td>$100</td>
<td>$1,604</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland (*) and Danzig</td>
<td>173</td>
<td>16</td>
<td>431</td>
</tr>
<tr>
<td></td>
<td>232</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Pre-war Germany, in-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cluding Poland and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Danzig</td>
<td>2,151</td>
<td>116</td>
<td>2,035</td>
</tr>
<tr>
<td>Denmark</td>
<td>104</td>
<td>57</td>
<td>47</td>
</tr>
<tr>
<td>Norway</td>
<td>96</td>
<td>89</td>
<td>7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>30</td>
<td>1,386</td>
<td>-1,356</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>53</td>
<td>476</td>
<td>55</td>
</tr>
<tr>
<td>3. Greater Germany within</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>present limits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,912</td>
<td>2,124</td>
<td>788</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
<td>1,261</td>
<td>1,246</td>
</tr>
<tr>
<td>Sweden</td>
<td>29</td>
<td>310</td>
<td>-281</td>
</tr>
<tr>
<td>Hungary</td>
<td>54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roumania</td>
<td>118</td>
<td>12</td>
<td>317</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>98</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jugoslovia</td>
<td>52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4. German Mittel Europa</td>
<td>$3,285</td>
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</tr>
</tbody>
</table>

(*) Only two-thirds of American investments in and the war debts of Poland are included in view of the partition of that country.
### II. Excluding War Debts.

<table>
<thead>
<tr>
<th>Country</th>
<th>American Investments in Germany</th>
<th>German Assets in the U.S.</th>
<th>Balance in favor of the U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Germany Proper</strong></td>
<td></td>
<td></td>
<td></td>
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<td>Austria</td>
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<td>61</td>
</tr>
<tr>
<td>Poland (*) and Danzig</td>
<td>54</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. Pre-war Germany including Poland and Danzig</strong></td>
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<td>30</td>
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</tr>
<tr>
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<td>72</td>
<td>476</td>
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</tr>
<tr>
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<td>Greece</td>
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<td></td>
</tr>
<tr>
<td><strong>4. German Mittel Europe</strong></td>
<td>$1,029</td>
<td>$3,707</td>
<td>$2,678</td>
</tr>
</tbody>
</table>

(*) Only two-thirds of American investments in Poland are included in view of the partition of that country.
### APPENDIX "C"

**NATURE OF AMERICAN PRIVATE INVESTMENT IN GREATER GERMANY**

<table>
<thead>
<tr>
<th>Portfolio Investments</th>
<th>1/</th>
<th>Direct Investments</th>
<th>2/</th>
<th>Short-term Investments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>largely dollar bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(In millions of dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Germany proper</td>
<td>$163</td>
<td>$228</td>
<td>$49</td>
<td>$440</td>
<td></td>
</tr>
<tr>
<td>2. Pre-war Germany</td>
<td>207</td>
<td>261</td>
<td>49</td>
<td>517</td>
<td></td>
</tr>
<tr>
<td>3. Greater Germany</td>
<td>391</td>
<td>356</td>
<td>73</td>
<td>820</td>
<td></td>
</tr>
<tr>
<td>within present limits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. German Mittel</td>
<td>491</td>
<td>455</td>
<td>83</td>
<td>1,029</td>
<td></td>
</tr>
<tr>
<td>Europa</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


2/ Department of Commerce, American Direct Investments in Foreign Countries - 1936, 1938.

3/ U. S. Treasury figures, April 17, 1940.

4/ This figure includes short-term investments in Austria.

5/ Including Poland and Danzig, in addition to Austria and Czechoslovakia. Only two-thirds of the American investment in Poland included in view of the partition of that country.
APPENDIX "D"
## APPENDIX "D"

### NATURE OF GERMAN ASSETS IN THE UNITED STATES.

<table>
<thead>
<tr>
<th></th>
<th>1/ Security holdings</th>
<th>2/ Banking Funds</th>
<th>2/ Earmarked Gold</th>
<th>2/ Direct investments</th>
<th>3/ Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Germany proper</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ 100</td>
</tr>
<tr>
<td>2. Pre-war Germany/</td>
<td>$ 25</td>
<td>$ 21</td>
<td>$ ——</td>
<td>$ 70</td>
<td>116</td>
</tr>
<tr>
<td>3. Greater Germany within present limits.</td>
<td>718</td>
<td>497</td>
<td>561</td>
<td>348</td>
<td>2,124</td>
</tr>
<tr>
<td>4. German Mittel Europa</td>
<td>1,288</td>
<td>1,128</td>
<td>829</td>
<td>462</td>
<td>3,707</td>
</tr>
</tbody>
</table>

1/ Department of Commerce estimates for August 31, 1939.

2/ U. S. Treasury figures, May 8, 1940.

3/ Rough estimate

4/ Including Poland and Danzig in addition to Austria and Czechoslovakia.
I.

The existing foreign indebtedness of the Old Reich is the result of an era of extensive borrowing which began in 1924, following stabilization of the mark which ended the post-war German currency inflation and the entry into force of the Dawes Plan. This era culminated in 1930 when Germany’s external debt, apart from reparations, reached a high in the neighborhood of 25½ to 30 milliards of Reichsmarks, the then equivalent of some $6½ to 7½ billions. In addition, a substantial increase in direct investments and investments in German domestic securities by foreigners occurred during this period.

During this era the United States was by far the largest lender to Germany, accounting for almost half of the above total of Germany’s external debt. Likewise, intergovernmental debts aside, Germany thus became the largest international debtor of the United States. It has been estimated that American private investments in Germany, including portfolio, short term and direct investments, amounted to about $2,400 millions at the end of 1939. The American investment consists in about $1,250 millions of long term loans and $925 millions of short term loans (*), the direct investments of about $225 millions being relatively a minor item (**). Considering that the dollar treasuries of

(*) The following account is largely based upon “Germany’s Foreign Indebtedness” by C. F. S. Horris, 1935.

(**) According to the Wiggin Report.

(***). The Department of Commerce estimated direct investments at $217 millions at the end of 1929 and $264 millions at the end of 1933.
the Dawes and Young loans to the Reich amounted to only $208,250,000, it will be noted that by far the greater portion of the loans were made to private corporations and subordinate public bodies.

II.

In the history of default which followed this orgy of external borrowing by Germany, there may be significance for the future status of Germany's foreign creditors. The moral, if any, lies in the distinctive treatment accorded different categories of foreign investment in Germany, but, more important and cutting across such distinctions, in the discrimination between creditors along national lines based upon the degree of pressure their respective governments could bring to bear. American creditors and investors, in particular, have been subject to such discrimination. Before sketching the course of default, brief note should be made of the formal status of both the German and non-German indebtedness with which we are concerned.

III.

Aside from reparation claims to which Germany formally objected from the outset and which were finally, if unofficially, buried at the Lausanne Conference in 1933, Germany has not officially repudiated any of the external indebtedness, whether public or private, of, or confiscated foreign direct investments in, the Old Reich (*). In the case

(*) This general statement refers to the pre-war position, but requires qualification only in so far as the foreign investments of belligerent enemies of Germany are concerned. In this connection it is interesting to note that, even since the war, Germany has apparently continued partial service on all tranches of the Dawes loan, including bonds held by enemy aliens.
of the long term debt for instance, which has fared worse than other categories of investment, the German Government, in spite of the Nazi thesis that not only the Dawes and Young loans of the Reich but also the accumulated commercial debts of Germany were only reparations in disguise, has been constrained to recognize that the Dawes and Young loans are entitled to special consideration and to guarantee service of funding bonds issued to discharge interest accruing on the remaining long term debt. What Germany has done, as later detailed, is to restrict drastically, by exchange control and other means, the transfer of earnings by foreign investors and of debt service by German debtors, while maintaining service in part on the Dawes and Young loans of the Reich.

This German system was extended to include the Austrian and Sudetenland debtors. Limited transfer facilities were made available to European creditors in the case of the federal debt of Austria as well as in connection with the indebtedness of private and lesser public bodies of Austria and the Sudetenland, although the German Government refused to assume direct legal responsibility for the Austrian federal debt. In this connection, however, American creditors have received nothing. Although the German Government at one time appeared willing to do something about the American holdings of the non-federal debts of Austria and the Sudetenland debts and entered into negotiations with the Bondholders Protective Council, Inc., with respect
thereof, in 1939 it withdrew a registration statement pending with
the Securities and Exchange Commission which related to the assump-
tion of transfer obligations by the Reich with respect to these debts.
It should be noted in this connection, moreover, that nothing was of-
fered American holders of the Austrian federal debt in spite of the
fact that the United States, like other interested governments, by
formally raising the issue with Germany of responsibility for Austrian
indebtedness, in effect recognized German sovereignty over Austria.
To date the United States has not made formal protest or entered into
negotiations with respect to American investments in territories occu-
pied by Germany except in the case of Austria. As regards all catego-
ries of non-federal, as distinguished from federal, debts, it should
be noted that diplomatic precedent apparently exists for formal pro-
test and claim on behalf of the foreign creditor without implying
recognition of a change in the legal status of territories absorbed.
Non-recognition, however, undoubtedly affords Germany a formal basis
for evading responsibility if the question should be raised in the
case of the federal debts of present and potential victims, holdings
of which constitute a major portion of the total American investment
in those countries. In any event, the status of foreign investments
generally in territories other than Austria and the Sudetenland, which
have since come under German domination, has not been clarified. In
these situations, the question of legal responsibility under interna-
tional law is complicated not only by non-recognition on the part of
the major investing countries, but by partition and the survival of
former or emigre governments of the original debtors.

IV.

The imposition, following the Hoover moratorium on war debts and
reparations, of exchange control by the Bruening Government in the
summer of 1931, in an attempt to check the outflow of capital —
particularly the withdrawal of foreign short term funds under way on
a considerable scale since the New York stock market crash in 1929 and
much accelerated following the collapse of the Kreditanstalt in April,
1931 — marks the first step in German default. This move, supple-
mented by the Standstill Agreements which provided for the maintenance
of the existing volume of a substantial part of Germany's foreign short
term credit availabilities and which restricted transfer of capital re-
payments on outstanding credits, led to the accumulation in the hands of
foreigners of blocked mark accounts resulting from the gradual liquida-
tion in local currency of Germany's foreign short term indebtedness.

It should be noted, however, that the initial design and effect of
these measures was to restrict the repatriation of miscellaneous for-
egn investments and of foreign short term capital, which, moreover,
continued to flow out of Germany on a considerable scale as the adverse
effect of the world depression on German economy increased. Up until
the declaration of a transfer moratorium in 1933, following the rise
to power of the Nazis, the transfer restrictions resulting from ex-
change control and the Standstill Agreements did not have the con-
notation of unilateral default, and the interest on short term credits as well as full service on all external bonds had been met in foreign currencies by the Reich and other German debtors.

Although preceded by a conference with representatives of external creditors, the comprehensive transfer moratorium declared July 1, 1933, was a unilateral action of the German Government. This moratorium applied to practically all non-Reich external indebtedness except debts covered by the Standstill Agreements, and was supplemented by passage of a law which had the effect of radically altering the legal obligation of non-Reich German debtors. This law relieved the debtor of his obligation to pay in foreign currencies and required him to make all debt service payments in Reichmarks to the Konversionskasse, a special institution created under the control of the Reichsbank. At this time Germany also succeeded in securing modification of the current Standstill Agreement and an agreement to suspension of amortization on the Young loan. The effect of these developments and the concomitant tightening of the exchange control has been to cut down drastically the transfer of earnings and interest on, as well as practically to eliminate repayment of capital (except at sacrifice values which contributed to increase German exports and cheapen foreign travel in Germany in the process) on, foreign investments in Germany since 1933 to date. It seems fair to say that, since 1933, Germany has given scant consideration to the interests of foreign investors in the formulation of her economic policy and what the foreign investor has received has been as a result of pressure brought to bear upon Germany.
Among foreign investors American investors of all categories have suffered particularly from these measures — the fundamental reason being that, unlike other important creditor powers, the United States, due to its favorable trade balance with Germany, has not been in a position to bring effective pressure to bear.

4. Short term Creditors.

As between the major categories of investors, short term creditors and long term creditors, the former as a class have undoubtedly fared the better, as was to be expected in view of the more intimate connection between short term debts and the commercial credit standing of Germany. Also, a unified front on behalf of creditors of different nationalities was maintained as to the Standstill debt, which was not the case as regards other categories of investment.

The Standstill Agreements, renewed from time to time since 1931, covered the indebtedness to foreign banks which amounted to about two-thirds of the total short term debt of Germany in 1931. The Standstill creditors have continued to receive current interest at a rate which has reduced from time to time in line with prevailing short term interest rates, and in the early years received certain capital repayments in cash. The substantial reduction in the mark total of the Standstill indebtedness since 1931 has, however, largely resulted from the gradual cancellation of unused credit lines, the depreciation of foreign currencies relative to the mark, and, notably in the case of the American
share, via the registered mark method which involved a very considerable sacrifice by the creditor. By the sale, out of blocked accounts accumulated as a result of liquidation of Standstill indebtedness in local currency, of so-called registered marks for the use of travelers in Germany, the creditor was able to secure repayment of some fifty cents on the dollar while subsidizing cheap tourist travel in Germany. By these methods the American share of the Standstill indebtedness was reduced from about $450 millions in 1931 to less than $50 millions today.

B. Long term Creditors.

As a class, the long term creditors of Germany fared the worst and the American, compared with the bondholder of other nations, has been discriminated against. Holders of the Dawes and Young loans which amounted to about one-fifth of the total long term debt, have continued to receive full interest, except in the case of Americans who suffered a reduction in interest, and a certain amount of amortization. European holders generally of the non-Reich bonds received only interest at a reduced rate and that largely in the form of funding bonds and scrip of the Konversionskasse. In the case of American holders of non-Reich bonds, funding bonds bearing a lower coupon rate and only for interest accrued up to June, 1935, have been made available and only after such delay as to preclude taking advantage of certain offers of the German authorities to redeem these bonds at a discount in cash. Interest on the funding bonds, the transfer of which
is guaranteed by the Reich, has been met currently.

On the other hand, except in special situations or in relation to certain countries where Germany was subject to particular pressure through clearings or otherwise, there has been no substantial repayment of principal on the long term debt. However, by the use of blocked mark accounts, which accumulated in the Konversionskasse as the result of payment in marks by the German debtor, in part payment for German exports, and as a result of substantial repatriation of the funding bonds and of the underlying bonds for German account, which was permitted to secure bonds cheaply to meet amortization requirements and in connection with German additional export procedure, the foreign bondholder was able at a heavy sacrifice to realize upon his capital investment. In continuation of the trend in evidence since the middle 1920's, repatriation of German dollar bonds continued at an accelerated pace during the last decade. It has been estimated that, largely as a result of repurchase for foreign account, the American holdings of German dollar bonds totaling $1,250 millions in 1930 were reduced to about $163 millions at the present time.

C. Direct Investments.

As regards American direct investments in Germany, originally a relatively minor item, the available figures show an increase from $217 millions at the end of 1929 to $264 millions at the end of 1933, followed by a decline to $228 millions at the end of 1936. American direct investments in Germany today are probably substantially of the same magnitude as at the end of 1936. There is reason to believe,
however, that the major American controlled enterprises in Germany, although subject, in addition to the drastic exchange control, to the limitation on the rate of dividends payable which forced the investment in Germany of a large portion of accumulated earnings, have been in a relatively better position than the American bondholder to secure transfer of a reasonable return on invested capital while, at the same time, preserving the going concern value of their properties. This is probably true, however, only in the case of powerful enterprises engaged principally in the distribution of imported commodities or serving export markets from Germany, such as, for example, subsidiaries of Socony Vacuum Oil Company and General Motors.

Since the war, American holders of the Dawes and Young loans have continued to receive service on a reduced basis as in the past, and a renewal, in so far as American interests are concerned, of the Standstill Agreement has been reported. Due to the war, however, the possibility of further liquidation of the American short term creditors' position via the sale of registered marks for traveling expenses would seem very limited. Likewise, it is assumed that the position of American holders of non-Reich German loans, who for the most part were not receiving any service at the outbreak of the war, will be adversely affected due to the cessation of repatriation by purchase of bonds in our markets which formerly afforded the American holder some means of
realizing upon his investment although at sacrifice values. Similarly, it is assumed that the disruption of German trade relations due to the war will foreclose use of methods dependent on such trade which formerly prevailed on a limited scale to effect partial transfer of American blocked accounts and earnings on American direct investments.
June 26, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your several letters of recent date, as listed below, which I have received from you and for which please accept my thanks.

June 21 - Further report on the proposed purchase of aviation gasoline, probably for the Japanese Navy;

June 21 - Report on meeting of Communist party in Mexico City;

June 21 - Recent instructions to members of Nazi organization;

June 21 - Funds from Italy to the law firm of Topken and Farley in New York City;

June 24 - Supplemental information relative to financial activities of the Banca Credito Italiana of New York City.

Yours sincerely,

(Signed) F. Worsenhaus, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
June 26, 1940

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Yours sincerely,

(Signed) W. Morendine, Jr.

Mr. J. Edgar Hoover, Director,
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Washington, D.C.
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Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. J. Edgar Hoover, Director,
Federal Bureau of Investigation,
Washington, D.C.
The Honorable
The Secretary of the Treasury
Washington, D. C.

My dear Mr. Secretary:

Reference is made to my letters dated June 10 and June 15, 1940, with which I transmitted memoranda dated June 8 and June 15, 1940, respectively, concerning the proposed purchase of aviation gasoline by the Taiyo Sekiyu Kaisha, Limited, of Tokyo, Japan, allegedly for the use of the Japanese Navy.

I am transmitting herewith a copy of a memorandum dated June 20, 1940, which contains additional data concerning the same subject matter.

Sincerely yours,

J. E. Hoover

Enclosure

BY SPECIAL MESSENGER
June 20, 1940

MEMORANDUM

Information was obtained from Mr. W. S. Logan, tax attorney, Scarritt Building, Kansas City, Missouri, the original informant in this matter, to the effect that Mr. Hodge of the Hess Oil Company, Kansas City, Missouri, received a telephone call on June 17, 1940, from Mr. J. R. Webblett, who is apparently associated with Attorney Milton Cohen of Los Angeles, California, advising him that a general contract for either lubricating oil or aviation gasoline had been closed by Perry P. Schults and Shoji Matsuoka with the Gulf Oil Company.

Mr. Webblett also advised Mr. Logan that the officials of the Gulf Oil Company at Pittsburgh, Pennsylvania, are selling Schults and Matsuoka a "spot contract," consisting of 20,000 drums of aviation gasoline which is to leave the United States by July 1, 1940. It is believed that this sale was made by the Gulf Oil Company to the Taiyo Sekiyu Kaisha, Limited, through Schults and Matsuoka.

Mr. Logan further advises that to date no further progress has been made with him by Schults and Matsuoka for the purchase of one million gallons of aviation gasoline, but that he is expecting Schults and Matsuoka to arrive at Kansas City very shortly in order to complete this transaction. He also states that he is now of the opinion that these two individuals have not contacted the Phillips Petroleum Company with reference to their end of the contract, as previously mentioned in the memoranda dated June 15, 1940.

Inquiries were made of the Department of State by the Washington Field Office of the Federal Bureau of Investigation and information was developed to the effect that a letter dated January 2, 1940, signed by David Proctor, Law Department, Gulf Oil Company, Pittsburgh, Pennsylvania, advised the Department of State that 1,000,000 gallons of aviation gasoline was exported to Japan during the year 1939 and that an additional one million gallons of gasoline was to be exported shortly after January 2, 1940. It is reported that all sales were made for cash and the gasoline was to be transported in vessels furnished by Japan.
Information was confidentially obtained by the Los Angeles office of this Bureau from the Wilshire Oil Company to the effect that Perry P. Schultz and Shoji Matsumaki attempted to interest the Wilshire Oil Company in the manufacture of aviation gasoline for the Japanese government and offered a contract for $400,000 for the purpose of establishing a plant in Los Angeles, California, which sum was to be repaid in gasoline. Officials of the Wilshire Oil Company believe that Schultz and Matsumaki will return to the Gulf Oil Company in Pittsburgh, Pennsylvania, or to Kansas City, Missouri, for the purpose of closing the above-mentioned gasoline contract.

In connection with the export contract allegedly entered into with the Gulf Oil Company, Mr. E. P. Hewson, Vice-President in charge of Export Division, Gulf Oil Company, Pittsburgh, Pennsylvania, was interviewed in this regard, but he denied that the Gulf Oil Company entered into any such contract for the sale of aviation gasoline for export purposes. Mr. Hewson also advised that the Gulf Oil Company has not sold any aviation gasoline for export purposes for several months and that at the present time the company does not have any open orders. He further advised that he does not see any possibility of gasoline sold for domestic use being exported from this country. In the event his company receives any inquiries concerning aviation gasoline for export purposes, he advised that he will immediately furnish this information to the Pittsburgh office of this Bureau.
June 21, 1940

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

My dear Mr. Secretary:

As of possible interest there is being transmitted to you herewith a copy of a memorandum incorporating information received from a reliable confidential source relative to statements made by outstanding members of the Communist Party of Mexico at a party meeting held at the Theatre Hidalgo in Mexico City, Mexico, on May 31, 1940.

Sincerely yours,

[Signature]

Enclosure

BY SPECIAL MESSENGER

John Edgar Hoover
Director

Federal Bureau of Investigation
United States Department of Justice
Washington, D.C.
June 19, 1940

MEMORANDUM

The Communist party held a meeting at the Theatre Meralco from 7:30 P. M. to 11:00 P. M. on the night of May 31, 1940.

It was announced that President Dionisio Remina and Directors Andres Sallado and Rafael Carillo were not present due to the fact they were attending an important meeting in New York.

Conrado Clino was the first speaker and stated in substance:

"That the CIN, the CNV, and the Communist were now openly together. He spoke against the proposed plan of the Government of deducting from the wages of the R. U. employees and the oil workers to help pay the oil settlement and stated that the Communist Party was against any such arrangement. Instead they advocated the seizure of all the property of Montes de Oca, President of the Bank of Mexico, Petroleo Oil, former President, Almazan and any other capitalist, to help pay Mexico's debt."

The second orator was the Secretary of the Sterm (Department of Education Syndicate), who stated as follows:

"Ritterly attacked the Dies Committee and the activities of the United States in their recent army maneuvers. Said these were held to put fear into Mexico but that it would fail in its purpose."

The principal orator of the meeting was Ramírez y Ramírez, who stated as follows:

"That the Trotsky case was planned in the United States and was a fake brought about by elements in
the United States to prove that a "Fifth Column" was operating in Mexico. Criticized Diego Rivera as a traitor and a tool of American capitalists, said that the Communist Party of Mexico had been accused of having connections with foreign agents and that was absolutely true; that they had direct connections with the Government of Chile as it was a Popular Front Government; that they had connections with their comrades in France and Cuba; that they had a sworn pledge with their comrades in the United States to struggle to the death to defeat capitalism and President Roosevelt; that above all they had a direct connection with Stalin who is the "Lenin" of today; that they say a day will come when the "Red Star" will bring into the Americas the conquest of the doctrines of the proletariat. (Greatly cheered). That the United States was the eternal enemy of Mexico and regardless of the intrigue that had recently been manifest the Communist Party in Mexico was stronger than ever in the people of Mexico and all lines of activities, and were so strong that it will be impossible to kill the party as some elements had hoped. Regarding the Trotsky affair the Communist party of Mexico would not be foolish enough to attempt to kill Trotsky, knowing that the day is coming when he will be tried before a Soviet Tribunal and God help him when that day comes."

There were approximately fifteen hundred people present at the meeting. Included in the crowd were several hundred Spanish refugee Communists.
Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

June 21, 1940

PERSONAL AND CONFIDENTIAL
BY SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith as of possible interest, a copy of a memorandum incorporating information received from a source heretofore found reliable, relative to instructions recently issued to members of the Nazi Organization.

Sincerely yours,

[Signature]

Enclosure
MEMORANDUM

June 21, 1940

The following is a circular order from the Nazi Party to the members, under date of May 18, 1940:

"Strictly confidential. To be destroyed at once. Every kind of propaganda and explanation pamphlets no matter in what language, are to be destroyed entirely. Likewise address material if on hand. Communications to Party, Legation or members of the Party concerning Party, Party affairs must not be issued by mail or telephone. In urgent cases the Section Leader is to be informed by word of mouth. Any kind of contact with outside persons, regardless of its nature, without express orders is forbidden. All orders concerning this matter given in the past are cancelled.

Participation in sessions, meetings, outings, etc. are to be only by express private invitation."

"Caution with conversations. Everyone is listening."
From: London
To: Federal Reserve Bank of New York
Date: June 26, 1940

For Knoxe,

Reference to our previous conversations we have discussed with American banks in London subject of dealing in sterling in New York at official rate. American banks here are sending the following cable to Foreign Exchange Committee, New York, for their consideration.

Begin

ONE. Bank of England advises as follows:

As from a very early date it is proposed

A. to allow official sterling accounts to be opened with banks in the United Kingdom in the names of United States banks under conditions set out in Paragraph 2 to Paragraph 6 below

B. to settle all permitted commercial and current financial transactions between the sterling areas and the United States (including dependencies) either in sterling over these accounts or in United States dollars through the United Kingdom Control

C. to allow sterling already held on United States account to be used for

   (1) for the settlement of definite commitments outstanding at
       the given date including bills and remittances in transit
       foreign exchange contracts, etc.

   (2) for transfer to other foreign accounts which are not
       governed by arrangements made or to be made regarding the use
       of sterling by other countries.

D. to prevent any future additions to the balances of free sterling

on United States accounts
The balances standing to the credit of these accounts will be repurchasable by the Bank of England either in London or through the Federal Reserve Bank of New York at 4.03-1/2. Bank of England and/or Federal Reserve Bank of New York will sell sterling for credit of such accounts at 4.03-1/2. Forward facilities will be made available for the reasonable requirements of trade between the United States and the sterling areas at the ruling rate.

Reasonable swap facilities at the rate ruling in London will be given to enable United States banks to establish a working balance on their official sterling account.

Official sterling may be transferred only from one United States official sterling account to another or to a resident in the sterling area.

Decisions regarding the admissibility of payment through official sterling accounts will be communicated in detail so that American banks may be assured of covering if the necessary formalities have been complied with.

The Bank of England will ask United Kingdom banks to make periodical returns of their official sterling accounts in order to keep an administrative check upon the working of these arrangements.

Existing credit facilities will be available only for the liquidation of past transactions and steps will be taken to place all credit facilities on the basis of official sterling.

Shall be glad of your comments.

Bolton
Bank of England

Rec'd by phone June 27/40 from Mr. McKeon's secretary - km
June 26, 1940

My dear Mr. Hoover:

I was very much interested in having the information contained in your letter of June 18th, furnished you by a former representative of an American bank in Germany. I shall keep in mind your kind offer to put me in touch with your informant.

Sincerely yours,

(Signed) H. Mowenstau, Jr.

Mr. J. Edgar Hoover, Director, Federal Bureau of Investigation, Washington, D.C.
June 26, 1940

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

By Messenger
June 18, 1940

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

My dear Mr. Secretary:

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

According to the informant, Nazi investments in the United States total about two billion marks and American capital in Germany totals about three billion marks. The earning power of the former in the United States is a principal source of revenue for Germany to carry on its activities here, and he believes that exchange control similar to that instituted by the Nazis would cut off American financial aid to that country. He further expressed the belief that most of the large German interests in the United States are camouflaged as Dutch, Swiss or Swedish corporations and that if this country could find some way of going behind these corporate screens to halt them, with the resulting loss of income, it would be a tremendous blow to the Nazis.
This Bureau's informant has further advised that for the immediate future at least German agents will probably ship their purchases of materials from this country in Japanese boats across the Pacific and via the northern water route to Murmansk, Russia, which he understands has been completed and is navigable and ice-free for about six to eight weeks per year during the months of July and August, thence by railroad across Finland and reshipment to German Baltic ports. He further added that Russia's bargaining position with the Nazis has been of sufficient strength to force them to furnish munitions, machinery and machine tools in return for oil. He also brought out that in speaking with a high military official in Germany he has been told that Russia's agriculture has been highly mechanized and that Russia needs about 50% of the oil she has for the operation of the farming machinery. This same source advised the informant that if Germany ever declared war against Russia she would immediately attack the Russian oil fields which would eventually starve that country within its own borders.

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

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

Sincerely yours,

J. Edgar Hoover
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of each of the following telegrams:

No. 22 of June 25 to Casablanca
No. 39 of June 25 to Bordeaux
PARAPHRASE OF TELEGRAM SENT
TO: American Consul, Bordeaux, France
DATE: June 25, 1940, 6 p.m.
FOR BIDDLE No. 39.
RUSH.
FOR MATTHEWS FROM TREASURY.
If the information which I have is correct, at present there are hundreds of sacks of American securities at Bordeaux and neither time nor freedom for destroying them is afforded. Therefore it is suggested that the sacks be immediately dipped bodily in a dye which will penetrate to the securities and put an indelible tint on them.

The suggestion comes from our chemists that the following readily available chemicals be used as alternative possibilities, in one percent solutions (balance water) in each case –

1. Fuchsin, and if it appears that the color is too deep it is suggested the solution be modified.
2. Rosaniline hydrochloride.
3. Menthol orange.

If none of the above chemicals is available, it is suggested that a probable substitute would be dry red wine, undiluted.

The sacks should be punctured before dipping in order to facilitate penetration of the dye.

EA: LWW

HULL (AAB)
PARAPHRASE OF TELEGRAM SENT
TO: American Consul, Casablanca (Morocco)
DATE: June 25, 1940, 8 p.m.
NO.: 22

You are requested to send by telegram information as to any American airplanes which may have arrived recently in Casablanca from North America. Please give the number and description, and indicate what disposition has been made of them.

You are requested to send by cable promptly similar data as regards any future arrivals of airplanes from North America.

HULL
(HF)
No. 3205.

Subject: Inquiry of the Bank of Brazil regarding funds of the Banco Frances e Italiano blocked in New York.

The Honorable
The Secretary of State,
Washington, D.C.

Sir:

With further reference to the Embassy's despatch No. 3197 of June 24, 1940, regarding the payment of dollar checks received by the Bank of Brazil from the Banco Frances e Italiano, I have the honor to report that the Director of Exchange of the Bank of Brazil now requests the assistance of the Embassy in obtaining payment of two additional checks Nos. 130689/1070 and 130690/1071, in the amounts of US $5,700.00 and $11,426.52, respectively.

The checks are drawn on the Chase National Bank and are in payment of the 30 per cent of official exchange purchased by the Banco Frances e Italiano for the Bank of Brazil.

Respectfully yours,
For the Ambassador:

Walter J. Donnelly,
Commercial Attaché.

File 851.6
WD:KF.
Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.
Telegram despatched from London on the afternoon of June 25th.

Large part of England up to line of the River Humber - Manchester and including central London received recurring air raid warnings last night. Preliminary reports indicate that number of enemy aircraft employed probably less than on previous nights. Bombing was sporadic, many bombs falling on country districts without causing damage. Bombs also dropped in centre of Bristol causing a fire, but no major damage reported. No reports of interceptions by fighters received.

2. Warship conveying British Ambassador and Canadian and South African Ministers from France arrived safely in England yesterday afternoon. Evacuation of Poles continues but no further figures are available.

3. Yesterday Eicheneims attacked oil targets in western Germany. Weather conditions hampered attack on main objectives but number of aerodromes in Holland were attacked. Coastal Command aircraft also carried out successful attack on De Kooy aerodrome (Den Helder), many buildings being demolished and fires started. Last night 107 heavy bombers attacked aircraft frame factories, synthetic oil plants, a chemical factory and...
and railway targets in western Germany. All aircraft returned except four Whitleys which have not yet landed. No report of operations yet available. As a result of attacks on western Germany on June 23rd-24th, 22 direct hits observed on aluminium works at Cologne and white target later seen to be in flames. Number of hits also made with heavy bombs at Lune and Gravenbeich. Explosions and fires also observed at air works at Bremen and Wessendorf. Mine laying in certain estuaries in western Germany also continued last night. All aircraft returned. Anson aircraft on ........patrol off Dover encountered 4 Messerschmidt 109's yesterday. In ensuing action one enemy fighter shot down.

4. French battleship "Jean Bart" has arrived at Casa Blanca and British liaison officers previously serving on board French warships based on Toulon have left for Gibraltar. Salvage of British destroyers recorded in my immediately preceding telegram as lying on her side in Perim harbour now reported impossible. Damage to ship was caused by bursting of air vessel of one of the torpedoes. One rating killed and three seriously injured. Corvette of Royal Indian Navy seriously damaged by explosion off Bombay June 23rd and subsequently sank. Five killed and 22 wounded. Investigations proceeding.

Italy

5. Further confirmation received of widespread effect of air raids on northern Italy. Many families have left for the south. Large
anti-Fascist element in industrial centres
reported temporarily demoralised by German
success but it is considered that these elements
may come........later. In Italian East Africa
aircraft maintenance difficulties and effect of
attacks of Royal Air Force and South African
and Rhodesian Air Forces have necessitated
curtailment of Italian air activity. Confirmation
received of Italian submarine reported sunk
near Perim in my immediately preceding telegram.
Sixty prisoners taken. Report that a sunk
Italian submarine was observed near Port Sudan
recorded in my immediately preceding telegram
is confirmed but crew have not been captured.
Of total force of eight Italian submarines
based on Massawa three and possibly four have
now been destroyed or captured.

6. One British ship torpedoed off west
coast of France yesterday. No further details
known.
June 27th, 1940

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your personal and secret information a copy of the latest report received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.
Telegram despatch from London
in the evening of June 26th, 1940

143 raiders reported over England last night, areas chiefly affected were Forth,umber,
Midlands, East Anglia, and South England. Bombs
dropped over wide area but from preliminary
reports no serious damage resulted. Numerous
fighters despatched and five enemy aircraft
believed shot down. Two of our bombers were
damaged on their aerodrome. Now estimated between
60 and 70 German aircraft took part in the raid
over England on the night of June 24th/25th.
Bombs dropped in Nottingham, Cambridge, Bristol,
Birmingham regions. Sixteen casualties caused.
No serious damage to military installations or
factories.

2. Evacuation of Allied forces from
Southern French ports completed. His Majesty's
Canadian destroyer "Fraser" has been in collision
with another British warship whilst engaged on
operational duties off the Western Coast of France
and has sunk. The Captain, 1st Lieutenant, 11
other officers and 116 ratings saved.

3. Lack of cloud cover prevented intended
operation by Heinkel aircraft against oil targets
in Western Germany yesterday afternoon. Aerodrome
and iron foundry were however attacked. All
aircraft/
aircraft returned. 9 Spitfires shot down
3 Messerschmidt 109's (confirmed) and 3 (unconfirmed)
over France yesterday. All the Spitfires returned.
30 heavy bombers attacked Essen and oil refineries,
marshalling yards, air frame factory and trains of
barges in Western Germany last night, all aircraft
returned, but reports not yet available. Coastal
command aircraft attacked oil tanks and tanker in
Bergen area, communications between the Rivers
Hass and Scheldt, and carried out mine-laying
operations yesterday. 2 aircraft missing. Attacks
by heavy bombers operating over Western Germany on
the night of June 24th/25th were generally
successful. 4 Whitleys reported not yet landed in
my immediately preceding telegram have now returned.
4. German aircraft were active yesterday
over English and French coasts. No interceptions
were made. Transport aircraft activity maintained.
5. Three British ships torpedoed in
Western approaches yesterday. One British ship
sank in home waters on June 24th. One Norwegian
ship sank in home waters on June 23rd.

Out aircraft have successfully bombed
various enemy aerodromes. Enemy attacked certain
of our aerodromes causing little damage. Italian
aircraft casualties through our air action up to
June 24th and 43 confirmed, and 14 unconfirmed.
Raids carried out by our troops in Kasala area
between June 19th and June 23rd caused Italian
forces severe casualties. It is reported that
energy/
energy shown by our forces whenever in contact with the enemy has had considerable effect on Italian morale in Libya and Italian East Africa. Although Italians have not yet carried out any major offensive action, the majority of their troops engaged in any African theatre have, up to the present, been native. Reported that Italians contemplate further reinforcement of Libya.
London
Dated June 27, 1940
Reo'd 5:40 a.m.

Secretary of State,
Washington.

RUSH,
1850, June 27.

FOR THE SECRETARY OF THE TREASURY.

Your 1409, June 26.

Thanks for Mr. Knudsen's statement. Matter has created considerable disagreeable comment here. Can you give me for my own information just why Ford would not make engines for the British. Incidents of this nature are quite likely to upset normal feelings here in England.

KENNEDY

REP
June 27, 1940.
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Herbert?

Gaston: Nothing. I don't know whether you noticed or not in the Saturday Evening Post that was issued yesterday, it published a retraction of their assertion that the Secret Service did not lift Dr. Albert's portfolio.

H.M.Jr: Did you write to them?

Gaston: No, no, I didn't, but somebody did.

H.M.Jr: Is that all?

Gaston: That is all. Oh, on those --

H.M.Jr: Do you want to give me a little page memorandum on what you were talking to me about in the last few minutes?

Gaston: Yes.

On those Belgian ships I spoke to you about yesterday, I talked to Captain Nixon who made the request yesterday and suggested that he get in touch with the State Department and find out what we can do. I told him that what we could do would be very temporary and he agreed to do that.
H.M.Jr: I think there will be a meeting - at least I hope there will be a meeting this morning with the President.

Foley: I have that draft of that legislation you spoke to me about the other night, whenever you are ready.

H.M.Jr: Yes.

Foley: And you were going to have --

H.M.Jr: Could you take that up - I would like that to go through Bell's committee. Who sits on your (Bell's) committee when you go before a foreign exchange?

Bell: Uphan and Pehle and Bernstein and Cochran and Viner, whenever he is here, and Harry.

H.M.Jr: Riefler is here today. Let him sit on it. Would you let it sort of go through that?

Foley: Sure.

H.M.Jr: And get their ideas on it.

Foley: Sure.

H.M.Jr: The idea I had was - we will see if I can remember - were two things, that no company - any company that is going to bid on Army and Navy contracts has got to file a statement, I suppose with S. E. C. or Justice, as to the stock ownership and if more than ten percent of the stock is owned outside of the United States, they have either got to readjust it or they don't get the contract. The thing that brought it to my attention, when Mr. Hoover investigated the Bausch Company, eighty percent of the stock had been transferred to Swedish ownership, which means German ownership, and they are making binoculars for the Army and Navy and eighty percent of it is undoubtedly German.

The other thing brought to my attention is that any company insured abroad has to send detailed plans of the factories to the insurance companies and these detailed plans go
England and France or Germany or wherever they are, so that all companies who had contracts would have to take out insurance with United States insurance companies.

What was the other thing?

Foley: In connection with bidding on a Government contract for national defense, they would have to make full disclosures of the stock ownership and the citizenship of their directorate and their principal officers. There is a statute like that on the books now, as far as aircraft is concerned. It was passed back in '26. It deals with stock ownership and requires that on airplanes seventy-five percent of the stock has to be owned by citizens of the United States.

H.M.Jr: I said ninety.

Foley: Yes.

H.M.Jr: But let it go through the group. Let them try to pick it apart. Now, that would cover American-Bausch? Is it aircraft and all its parts?

Foley: I don't think it covers the parts. I think it is just the airplane.

H.M.Jr: I mean, is the magneto for an airplane covered? What is an airplane? Didn't somebody in your shop rule that a bomb was a part of an airplane?

Foley: That is right, an appurtenance.

H.M.Jr: What does that make a magneto?

Foley: Well, I haven't looked at the statute with that in mind, Mr. Secretary.

H.M.Jr: The more I have thought of it the more I like it. Let it go through the group and see what they say about it. Now that wouldn't hit for instance, the thing that Knudsen was talking about yesterday if a wing of a plant is owned by the monies put up by another country. This is stock ownership I am talking about.
Foley: That is right.

H.M.Jr: But when they insure with a foreign company they have got to send full details of the plant out of the country. It is ridiculous. What else?

White: There are some big chemical companies, the Allied Chemical --

Foley: They have a huge holding of stock in Belgium. There is a big holding company here for that stock, but it will hit in a lot of peculiar places where you don't expect it if you make it broad and I think you have to put some exception in it - give some discretion in the fellow who can award the contract. Otherwise, you may find that you are not able to get things that are absolutely necessary. You take your strategic materials, Mr. Secretary. The reason why they are strategic is because they aren't available here. You have to buy those things from sources outside the country and there you would find --

H.M.Jr: But that doesn't mean you can't use a fully-owned American broker.

White: It might force the transfer of control.

H.M.Jr: You can buy rubber, but you don't have to buy it - if you are using a broker, you can use an American broker instead of an alien broker.

Harris: You wouldn't want the Allied Dye and Chemical Company to sell you their chemicals just through an American broker. That wouldn't change the stock ownership.

H.M.Jr: You mean over twenty-five percent of that stock is outside the country?

White: Yes. We just discovered that from these forms.

Foley: I think there is almost a majority interest controlled in Belgium.

Harris: It isn't quite a majority.
Foley: It is more.
H.M.Jr: That would be all the more reason.
White: That is right. In other words, there may be - the alternative may not be to deprive them of the orders but rather for them to make such rearrangement as is satisfactory to this Government and there are any one of several arrangements which they may make which would satisfy the requirements of defense.
H.M.Jr: And you might just as well look up the statute right now and the Alien Property of Custodians.
White: There is much more to that Bausch and Lamb case than just that. The record of that company and their activities --
H.M.Jr: Mr. Hoover sent me the whole thing.
White: Did you know that that originated here, Mr. Secretary?
H.M.Jr: Did it?
White: In our shop. We came across it on a dumping case.
H.M.Jr: But you might just as well look up the Alien Property of Custodian thing.
Harris: Of course, that was the outgrowth of that old Alien Property of Custodian thing, which in turn became Allied Dye and Chemicals. It was founded really by the old group in the last war.
H.M.Jr: Then we go back to two years ago, Walton Butterworth said to me this was the time to buy back our ownership in our own companies from abroad. And it is the time. Butterworth has been on that now, he has been hammering away to make them sell you their securities and not only the gold, and this is a possible way to force it. That Belgian trust - what is the Belgian investment stuff called?
Cochran: Sofina.

H.M.Jr: I think I am on a good lead. Let it go through.

Cochran: Dr. T. V. Soong telephoned me from the Ambassador Hotel in New York awhile ago and said he was coming down on the 12:30 train and would like to call on you personally at your home before he made any arrangements for official calls.

H.M.Jr: He will have to come through that door. There are three customs agents and two New York detectives with him.

Harris: He must be very safe.

H.M.Jr: Well, when is he going to get here?

Cochran: 4:30 this afternoon.

H.M.Jr: We will let him cool off a little bit. 10:30 tomorrow morning.

Cochran: Here at the office?

H.M.Jr: Yes, sure.

Cochran: All right, sir.

H.M.Jr: I think if you (Riefler) would in the first instance attach yourself to Mr. Bell and find out what is going on in all this stuff and then particularly on the freezing business.

Riefler: Okay.

H.M.Jr: Take a look in the refrigerator, will you please, and see whether we have got any cold cuts or if anything is spoiling. When I heard you were up at Cape Cod, if you had said, "Why don't you come up and see me?" I would have come up there.

Riefler: I couldn't say that this week. There was rain and cold and storms.

H.M.Jr: Nelson?
The State Department notified us of six thousand tons of tungsten and antimony belonging to the Chinese Government and French Indo-China which the French have been negotiating for and which was dropped so we arranged to buy it yesterday and it is being loaded on the boat yesterday and today. We bought it through R. F. C.

Have we really got it?

Yes, sir, it looks that way. They have told us they were going to start loading yesterday. It was just a question of beating the Japanese war ships there to get it out.

Well, I think it is marvelous if you really get it on board ship.

Well, the orders were sent out to load it last night.

Have we got ships there?

Yes, sir, there were two ships near there.

American flag ships?

Yes, sir.

Did you know that the Allies have been fooling around with that for six months?

They were trying to buy it very cheap and they wouldn't sell it to them.

Is that what it was?

Yes, sir. The French wanted to buy it for sixty shillings and the Chinese Government wanted ninety shillings and they just couldn't get together and it almost was lost.

The Allied-French blockade, they were talking about that.

There was a small amount of tin there. I don't know whether they bought it. We had nothing to do with that.
H.M. Jr.: Through whom did you actually buy that?

Nelson: Well, we bought it through Lee, a broker in New York.

H.M. Jr.: Oh.

White: I think we had some trouble with that fellow. Do you remember him?

H.M. Jr.: Oh yes.

Nelson: Well, everybody gave us a clearance on him. I didn't check with you --

H.M. Jr.: There wouldn't be any reason, but I hope you get it. How much does it cost us on board in dollars?

Nelson: It will be about three million dollars.

H.M. Jr.: What is that a ton?

Nelson: Let's see, it cost about fifty dollars a ton for the antimony and the tungsten. There was antimony and tungsten.

H.M. Jr.: It must be, then --

Nelson: It was concentrated.

H.M. Jr.: Tungsten is worth about a thousand dollars a ton, isn't it?

Nelson: Yes, sir, it is about a thousand dollars a ton for the tungsten. There was some antimony there and also some tin.

H.M. Jr.: Well, I hope you get it.

Nelson: We did everything we could, sir. If we didn't get it it wasn't anything that we failed to do, because we got right on it the minute we heard from the State Department.

H.M. Jr.: Just as a matter of curiosity, does Colonel Maxwell — no, he is on the stuff going out.
Nelson: Going out, not coming in.

Gaston: He is the stopper.

H.M.Jr: Well, I congratulate you but I say I have got my fingers crossed.

Nelson: I have too. We have done everything that we could do. We couldn't get to Indo-China to get it, but we did everything that could be done.

H.M.Jr: Anything else?

Nelson: No, sir.

H.M.Jr: Phil?

Young: I have no problems.

H.M.Jr: I didn't know - Mr. Purvis said last night - he said did we turn down the requests of Ireland as to what they needed.

Nelson: I have that to take up with you, sir. The situation, if you want to cover it in a moment, I can do it right here.

They submitted a list of stuff that they wanted. I think I mentioned it to you about the parachutists, you recall. I told you about the list.

H.M.Jr: That is right.

Nelson: And told you that the War Department were going to look it over and let us know whether there was anything we could have. They came back and said there was nothing they could spare and unless the President said it was a "Must" thing, that they couldn't sell it to Ireland or to anyone else. You see, Ireland came in after the Purchasing Board got first crack at it. What they wanted were twenty-five airplanes, a thousand Garand rifles, twenty-five tanks, armored trucks, a fleet of seventy-fives and ammunition, thirty-ball ammunition, just the things that have been drained dry.
H.M.Jr: Well, they are going to give me three pieces of paper now. One will be the requirements of Ireland, one requirements of Canada and one requirements of England and as soon as they come in I would like to see them.

Nelson: That is all, sir.

H.M.Jr: Chick?

Schwarz: Nothing.

H.M.Jr: George?

Haas: It was a new high week.

H.M.Jr: George, this stuff you are getting from the French Mission and English Mission, I would like to see the stuff, please.

Haas: Do you want me to bring them in?

H.M.Jr: Yes. I would like to see what a week's sample is, what do you get during the week, do you see.

Haas: Fine. I will send them in.

H.M.Jr: No, I want you to bring them in yourself.

Haas: Shall I see Mac?

H.M.Jr: I will tell you now. I can see you right after press, George. It will be about a quarter of eleven.

Haas: Fine.

H.M.Jr: And Phil Young might come in, too. Would you be interested, Mr. Nelson?

Nelson: Yes, I would.

H.M.Jr: I would like to put it all on the table, what are we getting.

Nelson: I would like to see that.
I would just like it on the table. I mean, I haven't seen it in a month now.

This is from the President for preparation of reply, confidential, memorandum, subject is the Control of Exports. (Referred from White House June 26).

I can't understand this. Last night the President telephoned me, or rather Watson telephoned me that the suggestion - a suggestion that they call a staff chamber meeting of Bell, Gaston and me and the President said he was very sorry but he was going to do it in his own way. That was his privilege and he would have this Colonel Maxwell directly responsible to him.

Gaston: Yes.

H.M. Jr: Now here comes Berle writing a memorandum to the President, Control of Exports, and the President sends it to me to draft a reply to Berle and I made my suggestion yesterday and the President said he didn't like my suggestion.

Gaston: Maybe he is taking up some other phase of it.

H.M. Jr: No, Colonel Maxwell --

Bell: Don't you think that might have been in the mill before he sent word over?

H.M. Jr: When was it received?

Klotz: Just this morning.

H.M. Jr: Who is handling this?

Gaston: I have been handling it.

H.M. Jr: You had better give me today's service on it. I have got another one here. Last night I made a suggestion to the President which we thought was a good one, that the control should be put in a department. I mentioned State, War and Navy or Commerce, that this man Maxwell should operate the way we do on
foreign exchange. It should be in a department. The President should delegate it to a Cabinet officer. He turned me down. Now comes this. Here is another one. This is on Authority for Negotiation of Contracts, from Compton:

"There is enclosed herewith a draft of a letter for your signature in accordance with provision of Section 2 to authorize the Secretary of the Navy to negotiate contracts for the acquisition, construction, repair, alteration, of a Naval vessel or any part thereof, spare parts, etc."

This is for a preparation of reply. Here is the way Navy wants it and the President wants this to be done.

(Referred to Treasury June 26.)

If I give him anything from the Treasury, I am going to hold on to it and say, "Sign here," and just hold my thumb on it.

Bell: The President didn't say that was the way he wanted it done.

H.N.Jr: No. It is the same, isn't it, Herbert?

Gaston: I just don't know yet what he is getting at. He encloses here the original form of the Board and not Colonel Maxwell's, with some corrections. That was the original form in which the thing was proposed and it isn't the final form. This is dated June 24 to the President. That was Saturday.

Klotz: It might be just in the mill. It might have been on the way over here from the White House.

Gaston: This was June 26 from the President.

H.N.Jr: You see, he signs his mail at night and --

Bell: He dictates a lot of it the night before.
Foley: These aren't signed, just notes with no signatures.

H.M.Jr: No, he doesn't sign those. Why don't you ask Watson whether that is the conflict or not.

Gaston: Well, I think maybe I will be able to figure it out and then I can talk to Watson.

H.M.Jr: I sent the President a copy of my memorandum to War and Navy on Vinson-Trammell, you see.

Foley: Yes. And those regulations, Mr. Secretary, will be ready --

H.M.Jr: Is Compton in tune or not?

Foley: I don't think it has anything to do with it. I think the President had an idea that it had something to do with Vinson-Trammell and that is why he sent it over here. What he wants is authority pursuant to the statute that has just been passed to negotiate contracts and I guess the President has to delegate the authority in order for the Secretary of the Navy to get it.

H.M.Jr: I want both of you to come in this afternoon and I want to clear them today. I don't want to hold them up.

Foley: Sure. I will have to see you on those regulations for the Vinson-Trammell. I think they will be ready today. We will have that sometime today. Another thing of interest, Annenberg is to be sentenced tomorrow and on the Schenck thing, John Cahill and his first assistant were down yesterday and they are getting quite interested now that we have got the indictment. They think that way back in the days when Schenck was a Brooklyn boy he has got a police record and they talked to Elmer about getting some help on that and they also want to send Matt out to the West Coast. They are afraid to impanel a grand jury back there because they say everything gets right back in the movie industry if you use that office out there and they want Matt to
examine it and so on and I have designated him special agent so that he would be empowered to secure witnesses and all that sort of thing and I think we ought to give him all the help we can.

H.M.Jr: But supposing the man did have a police record, what difference does it make?

Foley: It helps, you know, with the jury.

White: How many years ago?

Foley: I think it was --

White: Can't a man ever live his past down?

H.M.Jr: Well, Bioff - there was seventeen years that lapsed and he still had to serve his jail sentence.

White: He was bad right through the seventeen years.

H.M.Jr: But you don't know about Schenck. This is all in the room and has to be proved through a jury. We believe that Schenck bribed Bioff with a hundred thousand dollars cash. Now, that is our case. This is in the room. We also believe he bribed a treasury agent. That is also in the room. Those are the two things we believe are so. We have got to prove it. He is innocent until we prove it, but in both cases - I mean, we believe that he did both of those things. That is bad enough and in the Schenck case it is interesting that I never would have been in on the Schenck case if he hadn't tried to use a very, very important person to reach me and that is what got me interested in it.

Basil?

Harris: Two more French ships came in during the night. The total is now ten.

H.M.Jr: You heard about Summer Welles calling me up at the house last night?
Harris: No.

H.M.Jr: He called me up at the house last night with Lord Lothian sitting next to him and Lord Lothian wanted to take the French ship out of San Francisco and send it up to Vancouver and I told them please to sit tight and do nothing. What should be done?

Harris: I already have - I have two in Los Angeles.

H.M.Jr: Well --

Harris: The Wisconsin and another one.

H.M.Jr: Don't tell the San Francisco people that I got the two mixed up.

Harris: What was the answer to that?

H.M.Jr: My answer?

Harris: Yes.

H.M.Jr: I told him please to stall the Ambassador and not to embarrass me more than I already was. All right?

Harris: Yes.

H.M.Jr: Merle, would you go over and read the cables and see if they are getting anything out of Casa Blanca?

Cochran: Sure.

H.M.Jr: And if not, cable to Casa Blanca and I will be glad to pay for it, what is going on in Casa Blanca. I mean, I can't pronounce this fellow's name but is the French General fighting or isn't he fighting. I would like this Consul General at my expense to tell me what is the status.

Cochran: All right.

H.M.Jr: Everything at Casa Blanca.
Cochran: Go right after the meeting?
H. M. Jr.: If you will, please.
Cochran: Yes, sir.
H. M. Jr.: The story is that I have gotten out of it that this fellow is going to fight and I have also gotten the story that they are sending him stuff down there to fight with. I would like to know. It is very interesting and important. Incidentally, Ambassador Kennedy was tickled to death that I sent him the Knudsen statement. He says he gets nothing from the State Department and the English Press is terrible. The fact that we sent him that statement was most helpful to him.

Harry?

White: Please --

H. M. Jr.: Harry, I heard the President is going to receive the four cabinet officers this afternoon supposedly on this South American thing and I think you and I ought to get together on that, Harry.

White: I want to see you on this.
H. M. Jr.: 11:00 o'clock?
White: I would like to see you after the meeting.
H. M. Jr.: You would?
White: There is the report that you may have noticed that the shipments from Indo-China to China have stopped and the British - the Japanese Government has brought pressure to bear against the British Government to stop shipments through the Burma Road.

H. M. Jr.: I saw that.
White: Which was completely - now with respect to Soong, reports are - I take it you may know it - that he is coming with Young for stabilization
and we have made a rather detailed and careful study of that situation but before you go into it seriously possibly you may want to -

... Jr: I am not going to go into it seriously. I will be glad to turn it over to you and Mr. Bell.

White: And there is a political situation there, too, that is involved.

... Jr: Harold?

Graves: The funds to move the gold from the New York Assay Office to Fort Knox will be available. We are meeting this morning in the Post Office Department to make the arrangements to move that as soon as we have the funds. We are planning to follow the precise arrangements which we made before.

... Jr: Does that mean that the Director of the Mint rides on the first truck or is she going to ride the first locomotive?

Graves: This will all be moved by the Postal Service.

... Jr: Can't she ride the first truck?

Graves: Yes, if she wants to.

... Jr: About three times a week or twice a week?

Graves: Twice a week. There will be six train-loads.

... Jr: Are they current on the silver up at West Point?

Graves: Yes.

Bell: It is about time we were thinking about the 1940 reports. I would just like to throw it out for discussion as to whether or not we shouldn't try to write a complete historical review of the past seven years.

... Jr: Fine.
Bell: It is quite a lot of work and I think there will have to be some organizing and spread it out.

H.M.Jr: George looks hefty.

Bell: And get some different people.

H.M.Jr: George got off easy on this tax bill.

Bell: It is really something that ought to be put in some place along the line this year.

H.M.Jr: Sort of a farewell address.

Bell: Maybe you can put it in the eleventh year, you don't know.

H.M.Jr: I won't be using it then.

Bell: I think it is a good thing.

H.M.Jr: It suits me. All right, George, don't make a Gettysburg address though, please.

Gaston: Does that mean you are a candidate for a third term or not?

H.M.Jr: Mr. Bell with his usual foresight thinks this is an apropos time for me to make a report to the people of the United States.

Bell: Like in 1936 I tried to get the President to put in a provision in the budget that the next President would make his budget message on February 1. He said, "Oh no, we won't need that until 1940." He might do the same thing here. But maybe we won't have time to do this, but it is something to think about. I think also we should take another look at the bulletin that is going out.

H.M.Jr: Want to put in some cartoons?

Bell: That might make it more interesting. I think it ought to probably go to George for editing like he does the annual report and see whether or not we are following too much routine.
He looks healthy. Give it to him.

All right. That is all.

Commissioner Helvering is discussing this morning the possibility of appointment of Mr. Alexander as District Supervisor in Alcohol Tax Unit. If Alexander decides he would like to have that job, we will have to get an executive order to give him civil service. A draft has been prepared in which I will present if Mr. Alexander decides to take the job.

What does he want to make him?

District Supervisor in New England.

Boston, vice Mr. Sherwood.

Vice?

In place of.

What are you doing with Sherwood?

He is at the White House.

What is he doing there?

Assistant to Mr. McReynolds.

What did I say about giving him our men?

Mac arranged it and I didn't know it.

Norman, you know my rule, when a fellow has made a mistake, tell papa first.

I didn't find it out until about a week ago.

Why have you waited so long?

Mac arranged it while I was away and he was Acting Administrative Assistant.

Not a friend in a carload. Well look, I thought that Mr. Sullivan was handling this matter.
Thompson: Apparently he was but yesterday Mr. Helvering brought it up.

Gaston: I think this is part of the set up that Sullivan approved, but to do it you have to have an executive order if Alexander accepts.

Thompson: It is a very good solution, though.

H.M.Jr: We will try it.

Bell: What is the salary?

Graves: Sixty-five.

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

Bell: What reduction is it?

Thompson: Thirty-five.

Bell: Thirty-five?

Thompson: Yes.

H.M.Jr: Find out how much the President is interested.
THE WHITE HOUSE  
WASHINGTON  

June 27, 1940.

My dear Mr. Secretary:

My attention has been called to the possibility of the general fund of the Treasury being charged with that portion of the cost of administering Title II of the Social Security Act which is paid from appropriations other than those made direct to the Social Security Board.

It is my belief that Congress intended that the entire cost of administering Title II of the Act should be charged to the trust fund created by the 1939 amendments to the Social Security Act. I wish, therefore, that you would discuss this matter with the Federal Security Administrator in order to determine whether there is any doubt as to the propriety of charging the trust fund with all of the costs of administering said Title II. If, after discussing the matter, it appears that the present language of the Act would require the charging of any of the costs of administering Title II to the general fund of the Treasury, the Treasury Department and the Federal Security Agency should jointly present and support clarifying legislation that would remove such doubt.

I am writing a similar letter to the Administrator of the Federal Security Agency.

Sincerely yours,

[Signature]

The Honorable,  

The Secretary of the Treasury.
TO Secretary Morgenthau
FROM Mr. Haas
SUBJECT: Railroad freight movement for export.

Receipts of freight for export during the week ended June 22 rose to a new high level for the period covered by our reports, both at New York and at 9 other North Atlantic ports. The increase of 1,313 cars, to a total of 7,891 cars for the entire area, represents the largest upturn of any single week in the period covered. (See Chart 1 and Table 1 attached.)

Exports from New York, on the other hand, declined somewhat further, according to our figures derived from reported data. (See Chart 2.) As a consequence, export freight has piled up at New York, raising the volume of lighterage freight in storage and on hand for unloading in New York harbor to above the February high. (See Chart 3.) Adequate storage space is still available, however, as shown by the detailed figures given in Table 2.
### TABLE 1

**RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK AND AT 9 OTHER NORTH ATLANTIC PORTS**

<table>
<thead>
<tr>
<th>Week ended</th>
<th>New York 1/ In carloads</th>
<th>9 other North Atlantic ports 2/ In carloads</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 6</td>
<td>4,000</td>
<td>1,251</td>
<td>5,251</td>
</tr>
<tr>
<td>January 13</td>
<td>4,056</td>
<td>1,433</td>
<td>5,489</td>
</tr>
<tr>
<td>January 20</td>
<td>4,060</td>
<td>1,557</td>
<td>5,617</td>
</tr>
<tr>
<td>January 27</td>
<td>4,389</td>
<td>1,825</td>
<td>6,214</td>
</tr>
<tr>
<td>February 3</td>
<td>4,274</td>
<td>1,498</td>
<td>5,772</td>
</tr>
<tr>
<td>February 10</td>
<td>4,617</td>
<td>1,590</td>
<td>6,207</td>
</tr>
<tr>
<td>February 17</td>
<td>3,974</td>
<td>1,637</td>
<td>5,611</td>
</tr>
<tr>
<td>February 24</td>
<td>4,550</td>
<td>1,667</td>
<td>6,217</td>
</tr>
<tr>
<td>March 2</td>
<td>4,577</td>
<td>2,388</td>
<td>6,965</td>
</tr>
<tr>
<td>March 9</td>
<td>4,059</td>
<td>2,445</td>
<td>6,504</td>
</tr>
<tr>
<td>March 16</td>
<td>4,072</td>
<td>1,845</td>
<td>5,917</td>
</tr>
<tr>
<td>March 23</td>
<td>4,424</td>
<td>2,033</td>
<td>6,457</td>
</tr>
<tr>
<td>March 30</td>
<td>4,150</td>
<td>1,492</td>
<td>5,642</td>
</tr>
<tr>
<td>April 6</td>
<td>3,979</td>
<td>1,551</td>
<td>5,530</td>
</tr>
<tr>
<td>April 13</td>
<td>3,957</td>
<td>1,866</td>
<td>5,823</td>
</tr>
<tr>
<td>April 20</td>
<td>4,333</td>
<td>1,557</td>
<td>5,890</td>
</tr>
<tr>
<td>April 27</td>
<td>4,346</td>
<td>1,248</td>
<td>5,594</td>
</tr>
<tr>
<td>May 4</td>
<td>4,255</td>
<td>1,522</td>
<td>5,777</td>
</tr>
<tr>
<td>May 11</td>
<td>3,793</td>
<td>1,619</td>
<td>5,412</td>
</tr>
<tr>
<td>May 18</td>
<td>4,165</td>
<td>1,583</td>
<td>5,748</td>
</tr>
<tr>
<td>May 25</td>
<td>4,794</td>
<td>1,826</td>
<td>6,620</td>
</tr>
<tr>
<td>June 1</td>
<td>5,071</td>
<td>2,361</td>
<td>7,432</td>
</tr>
<tr>
<td>June 8</td>
<td>4,888</td>
<td>1,698</td>
<td>6,586</td>
</tr>
<tr>
<td>June 15</td>
<td>4,726</td>
<td>1,852</td>
<td>6,578</td>
</tr>
<tr>
<td>June 22</td>
<td>5,334</td>
<td>2,557</td>
<td>7,891</td>
</tr>
</tbody>
</table>


## TABLE 2

**STORAGE SPACE OCCUPIED AND ADDITIONAL SPACE AVAILABLE IN NEW YORK HARBOR, AS OF JUNE 22 1/**

<table>
<thead>
<tr>
<th>Lighterage freight in storage (Carloads)</th>
<th>Additional space available (Carloads)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered piers</td>
<td>3,603</td>
</tr>
<tr>
<td>Open piers</td>
<td>235</td>
</tr>
<tr>
<td>Ground</td>
<td>1,518</td>
</tr>
<tr>
<td>Total</td>
<td>5,356</td>
</tr>
</tbody>
</table>

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR

1939
1940
CARLOADS
THOUSANDS

1939
1940

CARLOADS
THOUSANDS

* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL
AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

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

Regarded Unclassified
Conference Held in White House
Thursday, June 27, 1940, 3:30 p.m.

Present: The President
Secretary Hull, Morgenthau, Wallace, Hopkins
Mr. D. W. Bell
Mr. Milo Perkins
Mr. White

(The President thought that Chester Davis should be in on the conference and he was sent for and appeared about 20 minutes later.)

The President began to read a report on Latin America, and after the first page or so asked whose report it was but no one present seemed to know. Secretary Hull reminded the President that there was a report which the four Cabinet members present had signed and submitted to the President. The President said he remembered and after finding it, re-read it. He stated that the report was all right but he had understood that more progress had been made since that report was submitted and that some specific recommendations were ready. Whereupon Secretary Hull submitted a report which he said he understood the informal committee composed of the experts of the four departments had been working on. The President read a good deal of the memorandum aloud. Secretary Hull volunteered the information that it probably was a preliminary report since he had obtained it at the last minute.

The President expressed the opinion that time "was of the essence" and that it was necessary to move forward at once inasmuch as if England blew up Germany would begin making effective trade arrangements in Latin America and we would be on the scene too late. When the President read the paragraph in the report recommending that numerous agencies be represented on a committee to prosecute the program, he said that would make the committee too large for effective work. He said it was necessary to have a small number, and thought that cabinet members present would suffice for the committee. He suggested that Mr. Forestall, the new administrative assistant, would be an excellent man to coordinate the activities of the four departments represented on the Committee and would give the program the necessary push and continuity. He asked what the cabinet members thought of the suggestion.

Secretary Hopkins said that he didn't know Mr. Forestall but that, in his opinion, much depended on how he felt in his heart toward Germany. If Mr. Forestall were inclined to be sympathetic with a proposal of appeasement, then it would be most unfortunate to have him coordinating the Latin American program, as he could greatly diminish the effectiveness of any program. The President said that was quite true, but he didn't suppose
that Forestall did feel that way. However, if, he continued, they had someone else to recommend or suggest, he would be glad to consider it, but that in any case we might make some further investigation of Mr. Forestall's views to obtain further information.

Secretary Morgenthau asked whether Dillon Reed (with whom Forestall had recently been connected) hadn't some important bond interests in Latin America. The President thought it might well be likely, as so many of the investment houses had frozen Latin American loans. Nonetheless, he thought the Secretary might find out about it.

Secretary Wallace said that great care would have to be exercised in the formulation of any program to make sure that the American farmers could be carried along with it. There was danger that some of the middle west farmers would be strongly opposed to any scheme which they interpreted as increasing the crop supply in competition with their own surplus crops and that it would be essential that the cooperation of some of the men on the Hill be obtained before any publicity be given to the program and that any such publicity given should be gone over carefully to avoid opposition from the farm elements. The President agreed.

Chester Davis stated that the farmer would have more confidence in any proposed scheme to absorb Latin American crop surpluses if more success were evident in getting rid of our own crop surpluses. He thought that the proposal would have to be handled very carefully so far as the American farmer was concerned.

Wilo Perkins expressed the view that the farmer would feel less concerned if it were made clear to him that the thing were going to be handled on a broad scale and imports were to be handled as well as exports. He thought it was essential that some scheme should be developed that would envisage central control over buying and selling for the whole hemisphere. In such a scheme, special currencies would be necessary.

The President thought the idea of some special kind of currency was good but it couldn't be the dollar because of the Latin American susceptibilities and laughingly suggested "christobal".

Mr. Perkins said that the concept of including imports hadn't been given any consideration by the committee of experts. Mr. White stated that that wasn't quite accurate; it had been given a good deal of consideration by the experts and that the matter was still being discussed. He stated that the report which the President had before him was a very preliminary report and that it had been the intention of the committee to work over it a good deal more and emerge with more specific recommendations.

The President said then that the next step is to go ahead and prepare that report, and he said he would see that Mr. Forestall get in touch with the committee so that Mr. Forestall would get to know what it was about.

The meeting adjourned about 4:30 p.m.
OFFICE OF FOREIGN AGRICULTURAL RELATIONS

June 27, 1940

FOR CABINET MEETING

SUMMARY OF CABLES ON FOREIGN DEVELOPMENTS
(Received June 21 to June 27, 1940)

CANADA: Budget resolutions under consideration in the Canadian Parliament provide for the imposition of a tax of 10 percent on "the value for duty purposes" of all imports whether free or dutiable except products entered under the British Preferential Tariff. The Government pointed out that the new tax was not a protective duty but solely an exchange tax, and it expressed the hope that Canada in the near future would be able once more to resume its long-time policy of progressively lowering trade barriers and encouraging trade with other countries. Other budgetary measures include increased taxes on automobiles, tires and tubes; increased income taxes; increased taxes on excess profits; a new tax of 10 cents a pound on raw leaf tobacco; an increase in the tax on manufactured tobacco from 25 cents to 35 cents per pound; and an increase in the cigarette tax from $5.00 to $6.00 per thousand.

COLOMBIA: Measures recently approved by the Council of Ministries for reorganizing the national economy of Colombia include the following:
1. Refunding and consolidation of the internal public debt which will be serviced by the Bank of the Republic at interest rates of 4 and 6 percent;
2. A loan to the nation by the Bank of the Republic of 20,000,000 pesos obtained mainly from the Export and Import Bank loan; and
3. The use of 5,000,000 pesos out of that loan for the establishment of a department in the Agricultural Credit Bank which will make short and long-term loans to farmers and livestock producers.

DENMARK: The constantly increasing exports of Danish foodstuffs to Germany and the very limited quantities of coal, steel, and other raw materials imported from that country in return have resulted in a heavy clearing balance in favor of Denmark. That situation, in turn, is creating unemployment in Danish industry. The development of economic difficulties of a serious nature are anticipated in the near future.

Denmark concluded a trade agreement with Finland on June 4 effective for the balance of the year. Barter is to be the sole basis under which trade between the two countries is to be carried on. Trade negotiations with other countries are meeting with no progress. The realization is growing that trade agreements between Denmark and her Scandinavian and Baltic neighbors must be bilateral in character rather than purely reciprocal.

There has been no material change in the number of cattle and hogs in Denmark since April 1 but the number of chickens has declined about 10 percent. However, a 15 percent decline in the number of cattle, 50 percent in the number of chickens, and 50 percent in the number of pigs, is expected by the end of the year, owing to the blockade which will prevent the importation of foodstuffs from abroad.
Since April 1 there has been an increase of 50 percent in Danish cattle exports to Germany but none have been exported to other countries. Domestic butter consumption has increased a hundred percent but its production is now 10 percent below normal. Though much larger butter shipments are being made to Germany, there has been a decline of 50 percent in Denmark's total butter exports. There has also been a very sharp reduction in total exports of pork and bacon. For the first half of the year exports of eggs have declined 50 percent, though there has been an increase of 50 percent in purchases made by Germany.

Some anxiety over the grain crop is felt because of the late sowing resulting from the severe winter and a long dry spell. Preliminary estimates indicate that 1940 grain crops in Denmark will be from 15 to 20 percent below normal.

GERMANY: A decree of June 17 fixed the rations applicable in Germany for the period July 1 to July 28 at substantially the same level prevailing during May and June. However, the cheese ration was raised by 52.5 grams so that the ration for the entire 4 weeks will be 313.5 grams per capita as against 260 grams in May and June and 197.5 grams in the winter months. The coarse ration for children was increased for the July 1-28 rationing period from 62.5 grams to 125 grams.

The Foreign Office sponsored DIENT AUS DEUTSCHLAND carries under date of June 21 the following communiqué with respect to Germany's food situation: "The assertion of the London radio that during the coming winter Germany will be faced with a famine is characterized in authoritative German circles as a foolish and completely unfounded speculation. It is expressly stated that Germany as before has control over extraordinarily large supplies of cereal grains which are quite as large as at the beginning of the war. The supplies of butter, eggs and meat will be considerably larger at the beginning of the winter than was the case last year." The statement concludes with the announcement that the German Ministry of Food "is no longer concerning itself with the problem of the food supply for the year 1941, that is to say, up to the time of the 1941 harvest, but is now working upon the supply plan for the year 1941-1942."

HONG KONG: The Government of Hong Kong has prohibited the export of rice except under license. Hong Kong is a redistributing point for much rice from Indochina. Several shiploads for Shanghai and other Chinese ports have been held there by the suddenly announced restriction. The Hong Kong government informedly announced that the restriction may be only temporary pending information as to whether currently dislocated shipping facilities will permit the maintenance of sufficient local stocks to meet the needs of the Hong Kong population which is considerably larger than normal.

JAPAN: The entry of Italy into the war has further restricted Japanese trade activities because of the loss of North African, the Balkan and Near Eastern markets. Industrial circles are concerned regarding the cessation of Italian mercury imports and are directing efforts towards

Regraded Unclassified
the development of Mexican sources of supply. An unusual dry spell threatens a shortage of electric power due to the scarcity of water at hydro-electric stations.

Because of the possible effect of the drought on agricultural production the Japanese Ministry of Agriculture and Forestry has requested an appropriation of 8 million yen with which to supply farmers with portable irrigation pumps and varieties of dry-rice seedlings. Rainfall during the first 5 months of 1940, especially in Eastern Japan, was the lowest since 1934. Farmers are experiencing difficulty in transplanting rice.

Government regulations for the conservation of the cereals supply through the control of distribution of wheat and barley became effective on June 10. The regulations provide for the compulsory sale of wheat and barley by farmers to cooperatives. The latter are charged with the actual distribution of these grains to consumers.

Indications are that the Japanese Government intends to introduce rationing for a wide range of canned foods in order to assure adequate supplies for the army.

Due to the unfavorable outlook for the Japanese cotton textile trade mill operators and the Cabinet Planning Board are considering the establishment of a control agency to regulate raw cotton imports and cloth exports. The proposed agency would be authorized to develop new markets, restrict competition so as to maintain prices, execute planned production, and bring about a greater diversity in raw cotton purchases.

The expropriation of all private gold holdings is under consideration. Before such action is taken, however, the Finance Ministry will attempt to persuade individuals to sell gold voluntarily.

UNITED KINGDOM: The economic and financial results for Great Britain of developments in France during the past week are necessarily widespread and complicated although all of the implications and the actual extent of consequent readjustments are not yet fully apparent. The immediate reactions included sharp decline in commodity markets, notably rubber, tin, and cotton. The disappearance of France as Britain's largest coal export market following closely on the closing of the Italian market has relieved the recent pressure on coal production and has prompted an appeal to all British consumers to lay in immediately as large stocks as possible in order to absorb as much of the output as possible.

Other important foreign trade adjustments will obviously be necessitated. The progressive closing of Continental countries as markets and as sources of supply has been reflected in the May foreign trade figures which showed declines for both imports and exports compared with April. The chief import decreases were in dairy products, meats, papermaking materials, and iron and steel, all of which normally come largely from continental sources. Export losses to the continent were largely offset on a value basis by increased shipments to other countries, except in the case of wool and cotton manufactures, the total exports of which fell sharply.
The official cost of living index on June 1 was 81 percent above the base level for July 1914, representing an increase of 1 point compared with May. The increase is attributed by the Ministry of Labor to increases in coal and clothing prices. The food index figure declined 1 percent during the month due to reductions in prices of dairy products. It is officially stated that no extension of individual rationing is contemplated at present.

The Board of Trade advised that it will announce within the next few days the establishment of an official tobacco control agency. The control agency will exercise regulatory functions over raw material supplies up to the point of manufacture, i.e., to the point where the tobacco manufacturers' voluntary scheme becomes operative. While details are not yet decided, the control agency will concern itself in the beginning, it is understood, with maintaining a fair distribution of tobacco stocks and preventing speculative tendencies. Later on it will probably take over the control of imports. The Board emphasized that it had no intention officially to regulate the manufacture and marketing of tobacco products.

The United Kingdom is now the only large European importer of American raw cotton. British Government requirements have necessitated prolongation of overtime work and the introduction of double shifts in certain mills. Forwarding of raw cotton from merchants to mills is now above normal despite the very unsettled export business for textiles and reduced buying for civil home consumption. Effective September 30 the supplies of cotton piecegoods and make-up goods for civil home consumption will be drastically reduced. This, it is expected, will reduce raw cotton requirements considerably notwithstanding increasing production for government account and the emphasis being placed on increased exports.

The British Ministry of Food in connection with its previously expressed desire to acquire an emergency reserve of 9,000 long tons of American refined lard decided to proceed with the purchase through the American packers' agents in England on the basis of 41 s. per hundred weight ($7.37 per 100 pounds) cost and freight the United Kingdom, for a specific quantity based on each agent's normal share of the trade. The Ministry of Food has just announced that it had obtained the entire 9,000 tons on the basis mentioned.

**STRICTLY CONFIDENTIAL:** The British attitude toward a proposition made by the Canadian authorities for a substantial increase in the Canadian bacon quota at reduced price is not known. A large purchase of Australian dried fruits, principally raisins, at low prices has been made by the Ministry of Food.
No statement can be made as yet relative to crop conditions and the food supply situation in Europe. Such a statement will be issued as soon as Foreign Service officers in key locations abroad have replied to a request for information on that subject sent out by the Office of Foreign Agricultural Relations early last week. Information received to date may be summarized as follows:

(1) **ITALY:** Reports indicate that this year’s wheat acreage is larger than a year ago but that the crop is backward and will be smaller. However, the acreage under oats and corn, prospects for which are very good, will probably be large enough to offset the expected wheat shortage. No definite information is available as to the rice acreage but the crop is reported as backward. A larger crop of potatoes is reported and an average hay crop is expected. Olives and almonds have been damaged by cold weather.

(2) **CZEchoslovakia:** No official data are obtainable on food and feed crops in Bohemia, Moravia and Slovakia. Unofficial indications are that favorable spring conditions have improved crop prospects beyond previous estimates. Most winter-killed and injured crops were replaced by spring plantings of grain, beets, vegetables and forage crops. However, the rye crop is believed to be poor. The yield of breadgrains, including rye, is expected to be 25 to 40 percent below the record 1938 levels, the last year for which official figures were published. An increase of 25 percent over last year is reported in the sugar beet acreage. Fodder crops have also been increased. The first cuttings of hay show abundant yields.

(3) **Hungary:** Wheat and rye crops are reported below average but an above-average crop of spring barley and oats is expected.

(4) **Yugoslavia:** Prospects indicate that the wheat crop will be below average and that spring grain crops and corn are backward in development. It is possible, however, that the corn crop may yet overcome the effect of the late start providing weather conditions are favorable up to mid-August.

(5) **Rumania:** Sharp reductions in production are expected for most small grains due to the unusually severe winter, late and rainy spring, and the mobilization of farm labor since last September. In addition to current export prohibitions the government is contemplating the enforced reduction of the wheat content in flour so as to insure domestic needs for the winter. Grain exports are expected to be greatly reduced except possibly in the case of corn.

(6) **Denmark:** Preliminary estimates indicate that the 1940 grain crop in Denmark will be from 15 to 20 percent below normal as a result of the severe winter and the long dry spell this spring.
Federal Bureau of Investigation
United States Department of Justice
Washington, D. C.

June 27, 1940

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

Dear Mr. Morgenthau:

I want you to know that I am sincerely appreciative, both officially and personally, of the prompt and vigorous action which you have taken in an effort to have appropriate steps taken to examine certain foreign mail presently in transit through the United States. This Bureau has been in touch with Assistant Secretary Herbert E. Gaston in connection with this matter almost constantly for the past several days and I cannot speak too highly of the sincere and efficient action which Mr. Gaston has taken in an effort to work out some solution of this problem. As a result of the effort made, particularly in your Department, it has been determined that there is no legal means by which this mail may be examined. A program has, however, been worked out, as I know you have been advised, whereby this material will be examined through the British censorship at Barbados and I am confident that by this means we will obtain the benefit of any information or material contained in the mailed matter which is of interest to us.

Sincerely,

[Signature]

Edgar Hoover
Official sales of British owned dollar securities under the vesting order effective February 19:

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of Shares Sold</th>
<th>$ Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>$ Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 17</td>
<td>$11</td>
<td>$11</td>
<td>$36,000</td>
<td>$34,635</td>
</tr>
<tr>
<td>18</td>
<td>17,086</td>
<td>1,603,232</td>
<td>75,000</td>
<td>78,113</td>
</tr>
<tr>
<td>19</td>
<td>100</td>
<td>4,220</td>
<td>15,000</td>
<td>13,992</td>
</tr>
<tr>
<td>20</td>
<td>$11</td>
<td>$11</td>
<td>5,000</td>
<td>5,463</td>
</tr>
<tr>
<td>21</td>
<td>112½</td>
<td>3,311</td>
<td>5,000</td>
<td>5,216</td>
</tr>
<tr>
<td>22</td>
<td>$11</td>
<td>$11</td>
<td>4,000</td>
<td>4,121</td>
</tr>
<tr>
<td></td>
<td>17,298½</td>
<td>1,610,763</td>
<td>140,000</td>
<td>141,010</td>
</tr>
</tbody>
</table>

Sales from February 22 to June 15:

<table>
<thead>
<tr>
<th>Date</th>
<th>No. of Shares Sold</th>
<th>$ Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>$ Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>1,320,865</td>
<td>46,197,031</td>
<td>1,724,500</td>
<td>1,491,087</td>
</tr>
<tr>
<td>JUNE 15</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FEBRUARY 22 TO JUNE 22</td>
<td>1,338,163½</td>
<td>47,807,794</td>
<td>1,854,500</td>
<td>1,634,097</td>
</tr>
</tbody>
</table>

Mr. Gifford reported that sales of non-vested securities for the week ended June 15 amounted to $500,000. Mr. Pinesent is informed confidentially that important shipments of non-vested securities are being currently made from England to Canada.
TO Secretary Morgenthau
FROM Mr. Cochran

In talking by telephone with Mr. Pinsent today, I told him that the Treasury had received from the Federal Reserve Bank of New York the draft of a letter which the latter desired that the Secretary of State address to it in communicating the message from the British Government, transmitted by Ambassador Kennedy, with respect to transforming the Bank of England accounts with the Federal Reserve Bank at New York into Government accounts. Mr. Pinsent was glad to know that this business is going forward.
The Swiss Minister telephoned me this noon in regard to the transaction involving a payment by the National Bank of Belgium to the Swiss Bank Corporation in New York, totaling $3,550,000, and representing reimbursement of a loan made by private Swiss banks to the Belgian Government.

I told the Minister that the letter which the Federal Reserve Bank of New York had requested from the Belgian Embassy in Washington, confirming the telegrams involved in the case, had been forwarded by the Department of State yesterday, and had been received by the Federal Reserve Bank at New York. I told him the case would now be considered further by the Treasury and by the Bank at New York.

When talking with Mr. Knoke by telephone this afternoon I mentioned my conversation with the Swiss Minister. Knoke hesitates to go along with this transaction until he may know what action the State Department takes on the Federal's further request, transmitted through Mr. Bernstein, that the State Department undertake to confirm that the National Bank of Belgium has been located in the same city as the Belgian Government since the departure of the latter from Paris. Mr. Knoke told me that the Swiss Bank Corporation was in constant touch with the Federal Reserve Bank on this transaction and that White and Case were representing the Swiss institution. Furthermore, the Swiss Minister is in contact with the Federal Reserve Bank, as well as with the Board, and may visit the New York Federal Reserve Bank tomorrow.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 27, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my memorandum of June 26 in regard to funds for Polish diplomats in Japan and China. Mr. Zeltowski telephoned me again today to know what progress had been made. I told him that Mr. Pehle was in touch with the Federal Reserve Bank at New York and had requested the latter to contact the French American Banking Corporation with the view to having the latter apply for a license for the payment of $12,000 through the Shanghai branch of the Bank of Indo-China to the Polish Legation at Shanghai. I told Mr. Zeltowski that no decision could be reached until the Federal Reserve Bank had passed on to the Treasury the information which had been sought from the French American Banking Corporation, but that he would be informed as to the decision at the earliest practicable moment.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 27, 1940

to Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

After talking with Mr. Knoke by telephone yesterday, I told Mr. Livesey of the State Department this morning that he was authorized to summarize to the Turkish Ambassador in this city the memorandum which Mr. Knoke sent me some days ago, and of which I provided a copy to Mr. Livesey, of the conversation which Mr. Knoke had with the Commercial representative of Afghanistan in New York in regard to the opening of an earmarked gold account with the Federal Reserve Bank by the Bank of Afghanistan.

Mr. Livesey has promised me, in turn, to pass on to me for lending to Mr. Knoke the documents which the State Department has in its files which may be of assistance to the Federal Reserve Bank at New York in determining whether the bank in Afghanistan is an institution for which it can open an account.

Knoke prefers to follow the decision which we reached earlier this year, that is, of keeping this business an affair between the two banks, rather than going through the intermediacy of the Turkish Embassy in Washington, if this is possible.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE June 27, 1940

TO Secretary Morgenthau.

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Dr. T. V. Soong, head of the Bank of China, telephoned this morning at 9 o'clock requesting an appointment with the Secretary of the Treasury. Dr. Soong stated that he would arrive in Washington at 11:30 this afternoon, and preferred to come to the Secretary's residence for a private talk before making any other appointments in Washington. After mentioning this subject to the Secretary at the 9:30 hour meeting, I telephoned Dr. Soong that the Secretary would be pleased to receive him at the Treasury tomorrow morning at 10:30.

At 11:30 this morning I received by appointment arranged from New York, Mr. James C. Hart, Vice President of the National City Bank of New York, in charge of Far Eastern affairs, and Mr. James A. Mackay, Assistant Vice President of the National City Bank of New York, in charge of Far Eastern offices, with headquarters at Shanghai. Mr. Mackay had just arrived from China on leave of absence, and the two gentlemen had called on Mr. Hornbeck of the State Department earlier in the morning.

Mr. Mackay gave rather a blue picture of the outlook in China. He was particularly concerned lest the present move of the Japanese block facilities for the export of Chinese tung oil, tungsten, etc., and likewise makes it difficult for China to receive imports except from Russia. Mr. Mackay agreed with me that China could not be saved by any simple attempt at pegging a currency, particularly in a situation such as exists at present, where the foreign currency introduced to support the Chinese currency would go importantly into the hands of the Japanese. Mr. Mackay emphasized, however, the urgent need of foreign exchange if China is to prevent further deterioration of its currency, and if the war against Japan is to be carried on.

Mr. Mackay thinks that Dr. Soong's visit to the United States is highly important. He said that the Chinese have a childish faith in the United States and look to this country for their salvation. Now that France and England have disappeared as great powers in the Far East, the Chinese place all of their hopes on the United States. If material assistance can now be received from the United States, China would be anxious to pursue the war against Japan. If such assistance cannot be immediately forthcoming, the Chinese face the alternative of making a peace with Japan or of inviting Russia in, and then wage a red war against Japan. This could, of course, be the conversion of China into a red state. It is believed by Mr. Mackay that Dr. Soong will urge the United States to act as an intermediary toward achieving a peace with Japan, if the first alternative of America's giving material assistance to China is not possible.

Mr. Mackay told me that intrigues continue among the people at the top of the Chinese Government. These involve Dr. Soong, Madame Kung and the others, Mr. Mackay understands that Dr. Soong continues to refuse a position in the Government proper, preferring to remain at the head of the Bank of China.
A rise of more than 26% in the open market sterling rate occurred today, carrying the quotation into the neighborhood of the current official rate. From an opening of 3.78-1/4, the pound jumped to 3.90-1/4 within an hour. It advanced steadily during the rest of the day, reaching a high of 4.01 at the close.

The sterling turnover figures show that selling orders exceeded buying orders by more than £400,000. It is probable that the greater part of this excess was absorbed by the New York banks, in their endeavor to cover outstanding short positions as the end of June approaches. In this connection, it will be recalled that, on June 12, the New York Foreign Exchange Committee made public a proposed arrangement, reportedly sponsored by the Bank of England, whereby a New York market in official sterling would be created and the free sterling market would disappear within three weeks (about the end of this month).

Another factor that was believed to have contributed to the rise in sterling was the appearance, in this morning's press and on the news tickers, of unconfirmed reports that peace overtures were being made by Germany and England.

Sales of spot sterling by the six reporting banks totaled £524,000, from the following sources:

By commercial concerns...........................................£139,000
By foreign banks (Far East, Europe and South America)..............£385,000
Total..................................................£524,000

Purchases of spot sterling amounted to £117,000, as indicated below:

By commercial concerns...........................................£ 68,000
By foreign banks (Europe, South America and Far East)..............£ 49,000
Total..................................................£117,000

There were no reported sales of sterling to the British Control on the basis of the official rate of 4.02 1/2.

The Guaranty Trust Company stated that it had purchased £24,000 from the British Control at the official rate of 4.03 1/2, the funds to be used to pay for whisky and lumber shipments.
Developments in the other currencies were as follows:

The Swiss franc strengthened to .2266, probably under the influence of European peace rumors. It closed at .2264.

The Canadian dollar was quoted at considerably better rates today. The lowest discount in several months – 14-3/4% – was reached at the close. It is probable that today's improvement partly represented a sympathetic reaction to the rise in sterling. In addition, New York banks point to an increasing tourist demand. Actual Canadian currency, incidentally, is becoming increasingly hard to find in New York; such currency is now offered at a discount of only 12%.

The lira and the reichsmark were unchanged at .0505 and .4000, respectively.

The Cuban peso remained at a discount of 10%. The Mexican peso was slightly weaker at .1975 bid, .2050 offered.

We purchased $26,000,000 in gold from the earmarked account of the Bank of England.

There were no new gold engagements reported to us today.

The Bombay gold price declined sharply to the equivalent of $33.85, off $1.02.

The spot silver quotation in Bombay was equivalent to 43.57¢, off 1/2¢.

In London, spot silver rose 7/16d to 21-11/16 d. The forward quotation advanced 5/16d to 21-1/2d. The improvement in these prices was attributed to local short covering. The U. S. equivalents were 39.45¢ and 39.09¢, respectively.

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

We made two purchases of silver totaling 275,000 ounces under the Silver Purchase Act. Of this amount, 225,000 ounces represented a sale from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 100,000 ounces of silver from the Bank of Canada under our regular monthly agreement. So far this month, we have bought 930,000 ounces of silver from that source, as compared with the agreed monthly limit of 1,200,000 ounces.

CONFIDENTIAL
June 27, 1940
2:25 p.m.

H.M.Jr: Hello.
Operator: Mr. Hoover. Go ahead.
H.M.Jr: Hello.
J. Edgar Hoover: Hello. This is Hoover talking, Mr. Secretary.
H.M.Jr: How are you?
H: Fine. I hope you're the same.
H.M.Jr: Fine. You may or may not have gotten this message about the mail bags.
H: I just received word of the conference over there and I did want to thank you and also thank Mr. Gaston for what you fellows tried to do along that line.
H.M.Jr: Well, I think we've done something that you ought to be able to take care of now.
H: Yes, I think so.
H.M.Jr: I mean, this ship will stop at an English port and you can handle it from now on, can't you?
H: Yes, yes, sir, yes we can and it certainly was fine for you to work it out that way because it is so important, I think, that we get access to it. Mr. told me -- he went over to represent me -- I had to be at a conference with the Attorney General at the time so I couldn't go. But he told me how Mr. Gaston had steered that thing the way he did and it is certainly grand of you folks to give us that help on it.
H.M.Jr: Now the other thing is this. I have a very close friend, a man about fifty, who has written me a letter that he wants to be
useful. He's the President of the American Metal Company and they have large mining interests in Mexico.

H: Yes.

H.M. Jr: He also has an office in Mexico City. Well, a good many of their employees from back thirty years ago are Germans. I can vouch for this fellow absolutely.

H: Well, he would be very valuable for this reason ......

H.M. Jr: He's a bachelor -- he's a man of great wealth, personal wealth, and I can absolutely rely -- and he says he wants to go wherever things are most difficult. He says he's too old to fight but he'd like to be of use. He tried to get into Plattsburg and they turned him down on account of his eyes.

H: I see. Could you send me his name and his address?

H.M. Jr: What I thought I'd do is this. Are you going to be in town Monday?

H: Yes, I'll be here Monday. Yes.

H.M. Jr: I'll ask if he can come down and in the meantime I will give you his name. His name is Harold ......

H: Harold......

H.M. Jr: Hochschild. H-o-o-h ......

H: H-o-o-h ......

H.M. Jr: ...... s-o-h-i-l-d.

H: ...... s-o-h-i-l-d.

H.M. Jr: He's President of the American Metals ......
H/M Jr: President of American Metals.
H: 61 Broadway.
H/M Jr: 61 Broadway.
H: And .......
H/M Jr: I'll be very glad to see him personally.
H/M Jr: I think it's important enough because they have large interests in Mexico and .......
H: Well, he can help in two ways. Not only might he be able to do something personally, but, as you know, we're sending some of our men down there and we have to find someway to get them in under some suitable pretext.
H/M Jr: Well, he'd put them on his payroll and pay for it out of his own pocket.
H: Well, that would be fine because, naturally, we can't send them down as agents. They have to go down under some sort of cover.
H/M Jr: Well, that's what I had in mind.
H: That would be perfectly fine and I'd like to personally talk with him.
H/M Jr: Now for instance, when the President gave me the job to keep molybdenum from going out.
H: Yes.
H/M Jr: He and his family are the largest stockholders in -- Climax molybdenum. His attitude was, if that's what you want, none will go to Japan or Russia, and he stopped it.
H: Well, that certainly shows a fine attitude .......
H/M Jr: He said, I'm not interested in dividends.
H: No.
H.M. Jr: And he's in the metals -- the whole metal thing. He's got a picture of that which is nobody knows it as well as he does. And the whole South American copper situation, you see.

H: Yes. That would be very valuable in this plan that we're trying to work out anyway in Central America and South America.

H.M. Jr: You were talking about giving people commissions, this man you don't have to give any commission.

H: Well, he'd be just the type of person we'd like to have as a so-called unofficial reserve.

H.M. Jr: Exactly. probably

H: And who could not only/do something himself but who could help place some of our men with the proper cover and suitable pretext, you see.

H.M. Jr: Well, I'm going to see if I can get him down here Monday.

H: If he'll come down Monday I'll be here and I'll be glad to talk with him.

H.M. Jr: Right.

H: Fine.

H.M. Jr: O.K.

H: Good-bye. Thank you so much for the help on that mail too.

H.M. Jr: Well, that was a difficult job.

H: Oh, I know how difficult it was and just as soon as I get the report on it I'll let you know the contents of it too.
H.M. Jr.: I want to -- tell me, have you heard anything about that other thing?

H: Haven't heard a word. I've been waiting to get some indication or intimation. General Miles is coming over here this afternoon for a conference on some other matters and I don't know, he may make some reference to it when he's here. But if he does, I'll of course let you know.

H.M. Jr.: O. K.

H: Fine. Thank you.
GRAY
Buenos Aires
Dated June 27, 1940
Rec'd 8:23 p.m.

Secretary of State,
Washington.

258, June 27, 7 p.m.
Department's telegram No. 122, June 22, 6 p.m.

Today's papers give prominence to Government communique announcing the Export-Import Bank credit to the Banco Central. The announcement has had an effect, the peso has strengthened slightly and the reaction of all those with whom I have spoken has been very favorable. Officials of the Ministry of Finance refer warmly to this fine example of co-operation and assistance from the United States in helping Argentina at this difficult time. The Minister of Finance is tonight issuing a statement to the press expressing appreciation on the part of the Government, which is being cabled by the press services and which I understand Edward Tomlinson is using tonight in his broadcast to the United States.

ARMOUR
EMB
611.3531/
June 27, 1940

From DIRECTOR

To Hon. Henry Morgenthau, Jr.
Secretary of the Treasury.

For Sent at the request of Mr. Noble,
Under Secretary of Commerce.

James W. Young, Director.

Inclosure - Economic Developments and Foreign Trade Notes, 6/27/40.
ECONOMIC DEVELOPMENTS

THE COURSE OF BUSINESS ACTIVITY was definitely reversed in May although the forward movement at that time did not extend over a very broad front. It is now evident that an advance got under way in that month despite the adverse repercussions of German military successes mentioned in our report of a few weeks ago. Not only did industrial production make a moderate gain in May but income payments rose a little, after the sharp drop of the previous 4 months. The adjusted index increased from 86.7 in April to 87.0 in May in the face of a decline in adjusted agricultural income. The gain is therefore accounted for by expansion in nonagricultural areas—largely wages and salaries in manufacturing industry.

Total factory employment held steady in May following four successive monthly declines. As was to be expected from the rise in steel output and the weakness of consumer purchasing, employment in the durable goods industry increased on a seasonally adjusted basis, while non-durables showed a further recession, with movements in both cases very slight.

EXAMPLES:

<table>
<thead>
<tr>
<th>Indexes (adjusted)</th>
<th>December</th>
<th>April</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>128</td>
<td>102</td>
<td>105</td>
</tr>
<tr>
<td>Income payments</td>
<td>89.5</td>
<td>86.7</td>
<td>87.0</td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>97.9</td>
<td>93.1</td>
<td>95.7</td>
</tr>
<tr>
<td>Non-agricultural income</td>
<td>92.8</td>
<td>97.7</td>
<td>98.5</td>
</tr>
<tr>
<td>Pure income</td>
<td>79.0</td>
<td>82.5</td>
<td>80.5</td>
</tr>
<tr>
<td>Factory employment</td>
<td>104.5</td>
<td>99.2</td>
<td>99.2</td>
</tr>
<tr>
<td>Durables</td>
<td>100.0</td>
<td>95.0</td>
<td>95.1</td>
</tr>
<tr>
<td>Non-durables</td>
<td>108.9</td>
<td>103.3</td>
<td>103.1</td>
</tr>
</tbody>
</table>

SIGNIFICANCE: The fact that income payments rose in May is indicative of a general business upturn in that month—a statement we were unable to make some weeks ago on the basis of the production index alone. That factory employment failed to rise, however, shows the limited strength of the movement a month ago. The upturn has gained momentum during June and we expect both income and employment to show sizable gains for this month.
STONG SUPPORT FOR THIS EXPECTATION is provided by the May new order data of our monthly industry survey. Returns received to date indicate that manufacturers' new business in May was about 9 percent above the April total. This is the second month of significant rise in new orders, following the contraction subsequent to last October. Orders in April had risen about 4 percent.

The May pick-up in new business represents a more sizable gain than is indicated by the 9 percent figure as the seasonal expectation, especially in consumers' goods industries, is downward. There was an actual rise in nondurable lines, though the increase in the durable goods industries was more pronounced. As mentioned in a previous report, the iron and steel industry experienced a sharp rise in new business in May. But all the heavy industries, except railroad equipment, shared in the advance.

EXAMPLES:

<table>
<thead>
<tr>
<th>Durable goods</th>
<th>16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iron and steel</td>
<td>35</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>6</td>
</tr>
<tr>
<td>Other machinery</td>
<td>4</td>
</tr>
<tr>
<td>Nonferrous metals</td>
<td>22</td>
</tr>
<tr>
<td>Lumber</td>
<td>5</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Nondurable goods</th>
<th>3.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber</td>
<td>6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.5</td>
</tr>
<tr>
<td>Foods</td>
<td>2.5</td>
</tr>
<tr>
<td>Petroleum</td>
<td>1</td>
</tr>
<tr>
<td>Textiles</td>
<td>2</td>
</tr>
<tr>
<td>Apparel</td>
<td>-15</td>
</tr>
</tbody>
</table>

INCREASE OR DECREASE April to May

BECAUSE OF THE RISE IN NEW BUSINESS, the backlogs of unfilled orders in the durable goods industries increased about 3 percent—a significant percentage rise for this series. The decline in backlogs experienced from November to March ended in April when shipments and orders came into balance.

The rise in backlogs resulted partly from the fact that shipments increased only moderately and did not keep pace with new orders. Following four months of relative stability, shipments in May advanced only 2 percent. This small advance was to be expected from the moderate rise in production which occurred.
EXAMPLES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Undefilled orders (durable goods)</td>
<td>-4.5</td>
<td>-2.9</td>
<td>-3.6</td>
<td>+0.1</td>
<td>+3.0</td>
</tr>
</tbody>
</table>

Index — January 1939-100

Shipments Durables Nondurables

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipment</td>
<td>118.4</td>
<td>118.5</td>
<td>120.8</td>
<td>119.4</td>
<td>121.3</td>
</tr>
<tr>
<td>Durables</td>
<td>129.4</td>
<td>128.6</td>
<td>130.9</td>
<td>132.7</td>
<td>135.9</td>
</tr>
<tr>
<td>Nondurables</td>
<td>108.9</td>
<td>110.4</td>
<td>112.4</td>
<td>107.9</td>
<td>109.2</td>
</tr>
</tbody>
</table>

THE DECLINE IN MANUFACTURERS’ INVENTORIES which was initiated in March and assumed larger proportions in April was arrested in May. Preliminary indications are that stocks were virtually unchanged or slightly up—apart from the automotive industry which had a decline of seasonal character. (Data shown below include automotive industry). In April the large majority of industries showed some decline in inventories indicating the widespread nature of the liquidation. In May most industries either held stocks steady or expanded holdings with the iron and steel industry showing the only important stocking movement.

EXAMPLES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total manufacturers’ inventories</td>
<td>109.9</td>
<td>110.3</td>
<td>110.6</td>
<td>109.4</td>
<td>109.2</td>
</tr>
<tr>
<td>Durables</td>
<td>112.0</td>
<td>112.5</td>
<td>112.7</td>
<td>112.4</td>
<td>112.0</td>
</tr>
<tr>
<td>Nondurables</td>
<td>107.9</td>
<td>108.6</td>
<td>108.5</td>
<td>107.6</td>
<td>107.4</td>
</tr>
</tbody>
</table>

SIGNIFICANCE: All of this shows that general business improvement was initiated in May. The recovery was not spectacular as was that of last September and October but the basis was laid for a broad expansion. Initial recovery of the war put a sudden stop to inventory liquidation and stimulated production in heavy industries. It should be mentioned that it was largely activities which were changed by May developments. The effects for certain basic demand factors had been materially improved, although these had been too little time for the defense program to produce a significant impact. As the situation stood at the end of May, business was still vulnerable, should the war be terminated, despite the growing assurance that the defense program gave to longer term prospects.
<table>
<thead>
<tr>
<th>Group</th>
<th>1939</th>
<th>1940</th>
<th>Percentage increase, June 22, 1940 from—</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 24</td>
<td>Aug. 26</td>
<td>Sept. 16</td>
</tr>
<tr>
<td>All commodities</td>
<td>75.5</td>
<td>74.8</td>
<td>79.3</td>
</tr>
<tr>
<td>Farm products</td>
<td>62.7</td>
<td>61.1</td>
<td>69.7</td>
</tr>
<tr>
<td>Foods</td>
<td>67.4</td>
<td>66.7</td>
<td>75.5</td>
</tr>
<tr>
<td>All commodities other than farm products and foods</td>
<td>80.6</td>
<td>80.4</td>
<td>82.4</td>
</tr>
<tr>
<td>Hides and leather products</td>
<td>93.0</td>
<td>92.6</td>
<td>98.3</td>
</tr>
<tr>
<td>Textile products</td>
<td>66.7</td>
<td>67.4</td>
<td>71.4</td>
</tr>
<tr>
<td>Fuel and lighting materials</td>
<td>74.1</td>
<td>73.2</td>
<td>74.1</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>93.5</td>
<td>93.5</td>
<td>94.9</td>
</tr>
<tr>
<td>Building materials</td>
<td>89.3</td>
<td>89.7</td>
<td>90.7</td>
</tr>
<tr>
<td>Chemicals &amp; allied products</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>House-furnishing goods</td>
<td>86.9</td>
<td>87.0</td>
<td>87.1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>73.7</td>
<td>73.1</td>
<td>76.1</td>
</tr>
<tr>
<td>Raw materials</td>
<td>67.8</td>
<td>66.2</td>
<td>73.0</td>
</tr>
<tr>
<td>Semi-manufactured articles</td>
<td>74.2</td>
<td>74.4</td>
<td>82.0</td>
</tr>
<tr>
<td>Finished products</td>
<td>79.3</td>
<td>79.3</td>
<td>82.3</td>
</tr>
</tbody>
</table>

1/ Comparable data not available.

## SELECTED COMMODITY PRICE SERIES

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>1939</th>
<th>1940</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>June 26</td>
<td>August 30</td>
</tr>
<tr>
<td>carb, electrolyte, New York</td>
<td>per lb</td>
<td>10</td>
<td>10 1/2</td>
</tr>
<tr>
<td>cast, prompt shipment, New York</td>
<td>per 100</td>
<td>4.85</td>
<td>5.05</td>
</tr>
<tr>
<td>coke, New York</td>
<td>46 30/20</td>
<td>49 3/4</td>
<td>75</td>
</tr>
<tr>
<td>coffee, plantation, New York</td>
<td>per lb</td>
<td>16 1/2</td>
<td>16 13/16</td>
</tr>
<tr>
<td>cheese, Light native</td>
<td>do</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>ch, Chicago</td>
<td>4.56</td>
<td>2.72</td>
<td>3.21</td>
</tr>
<tr>
<td>cotton, middling, average, 10 markets</td>
<td>per lb</td>
<td>9.45</td>
<td>8.83</td>
</tr>
<tr>
<td>cot. cloth, 60 x 64, 1/2 inches, New Y.</td>
<td>per lb</td>
<td>4 1/2</td>
<td>4 5/8</td>
</tr>
<tr>
<td>cotton, July 1940 futures, New Y.</td>
<td>per lb</td>
<td>1/3</td>
<td>1/2 5.1</td>
</tr>
<tr>
<td>cow, reef, 90°, dairy</td>
<td>do</td>
<td>2.90</td>
<td>2.92</td>
</tr>
<tr>
<td>cow, Aera, New York</td>
<td>do</td>
<td>4.30</td>
<td>4.34</td>
</tr>
<tr>
<td>cow, Santa, No. A.</td>
<td>do</td>
<td>7 1/4</td>
<td>7 3/8</td>
</tr>
<tr>
<td>cow, cash, Chicago</td>
<td>do</td>
<td>6.02</td>
<td>5.65</td>
</tr>
<tr>
<td>machined oil, July 1940 futures, New Y.</td>
<td>do</td>
<td>1 1/2</td>
<td>1 1/2 7.61</td>
</tr>
<tr>
<td>hog, July 1940 futures, Chicago</td>
<td>per lb</td>
<td>1 1/2</td>
<td>0.70 1/4 1/2</td>
</tr>
<tr>
<td>corn, good and choice, 90-240 lbs., Chicago</td>
<td>per cu. ft</td>
<td>7.50</td>
<td>6.45</td>
</tr>
<tr>
<td>corn, feed, medium, 20-1,100 lbs., Chi.</td>
<td>do</td>
<td>6.90</td>
<td>6.86</td>
</tr>
</tbody>
</table>

**Sources:** All commodities, with the exception of wool tape, cottonseed oil, hogs, and corn, are taken from the Journal of Commerce; wool tape and cottonseed oil are taken from the Wall Street Journal, and hogs and steers are from the U.S. Department of Agriculture, Bureau of Agricultural Economics.
COMPOSITE PRICES OF PIG IRON, STEEL SCRAP, AND FINISHED STEEL

<table>
<thead>
<tr>
<th>Date</th>
<th>Pig Iron 1/</th>
<th>Steel Scrap 2/</th>
<th>Finished Steel 3/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Dollars per gross ton)</td>
<td>(Cents per pound)</td>
<td></td>
</tr>
<tr>
<td>1939:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 27</td>
<td>20.41</td>
<td>14.71</td>
<td>2.336</td>
</tr>
<tr>
<td>August 29</td>
<td>22.61</td>
<td>14.42</td>
<td>2.366</td>
</tr>
<tr>
<td>September 19</td>
<td>22.61</td>
<td>19.25</td>
<td>2.366</td>
</tr>
<tr>
<td>October 3</td>
<td>22.61</td>
<td>22.50</td>
<td>2.366</td>
</tr>
<tr>
<td>1940:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 18</td>
<td>22.61</td>
<td>19.92</td>
<td>2.361</td>
</tr>
<tr>
<td>June 25</td>
<td>22.61</td>
<td>19.36</td>
<td>2.361</td>
</tr>
</tbody>
</table>

1/ Based upon average for basic iron at Valley furnace and foundry iron at Chicago, Philadelphia, Buffalo, Valley and Southern iron at Cincinnati.

2/ Based upon No. 1 heavy melting steel quotations at Pittsburgh, Philadelphia, and Chicago.

3/ Based upon steel bars, beams, tank plates, wire, rails, black pipe, sheets and hot-rolled strip. These products represent 65 percent of the United States output.

Source: The Iron Age.
DEPARTMENT OF STATE
WASHINGTON

In reply refer to HA

June 27, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a note received from the Royal Legation of Rumania, dated June 27, 1940, regarding restrictions placed upon the New York dollar balances of Banca Comerciala Romana and Banca Chissoveloni.

Enclosure:

From Rumanian Legation,
June 27, 1940.

COPY
The Romanian Minister presents his compliments to the Honorable the Secretary of State, and, at the request of the Romanian Government, has the honor to inform him that due to a Presidential Proclamation, the New York dollar balances of Banca Comerciala Romana (Cable Address "COMRO") and Banca Chirsovoeloni (Cable Address "CHRISOVELONI"), both of Bucharest, have been made subject to licensing by the United States Treasury.

The said Banks have been so informed by their American correspondents, the reason given being that Franco-Belgian participation existed in their capital.

In the case of Banca Chirsovoeloni, I have already communicated directly with its correspondent, the Guaranty Trust Company of New York, advising that, at present, there is no French or Belgian participation in its capital.

With regard to Banca Comerciala Romana, I wish to state that it is a Romanian bank, its capital being represented by bearer shares.

In reference to the New York dollar balances of these two banks, they represent proceeds from Romanian exports to various countries, for which the Banks are accountable to the National Bank of Romania, to which they belong exclusively.
The Minister of Romania will greatly appreciate it, if, in view of the urgency of this matter, the Secretary of State will be good enough to take the appropriate steps immediately with the United States Treasury to have it authorize the New York correspondents of the two above-mentioned Romanian Banks to execute all orders already received, as well as those which may be received in the future.

June 27, 1940.

No. 2720/P-3-II-3a.
London
Dated June 27, 1940
Rec'd 12:35 p.m.

Secretary of State,
Washington.

1860, June 27.

FOR TREASURY FROM BUTTERWORTH.

1. The note circulation, up by £13 million, showed its fifth consecutive substantial increase, abnormal factors such as mentioned in my 1776 of June 21 continuing. There was a shift from bankers' to public deposits of over £20 million and securities in the banking department increased by £20 million.

2. The feature of the Stock Exchange is the slump in industrials and there is now some advocacy of minimum prices for some of these securities. Gilt-edged dealings are few and the new war bonds are said to be receiving a good response.

3. The Chancellor of the Exchequer in a speech yesterday made much of the importance of the financial weapon, the encouraging implications of a stream of gifts, of the £4 million loaned to the State free of interest, the success of the savings week and the necessity for an ordered economy, but revealed no date for a second budget.

4. The bill imposing the purchase tax is expected soon but no details are available.

KENNEDY
In reply refer to EA 842.5151/186

DEPARTMENT OF STATE

Washington

June 27, 1940

My dear Mr. Secretary:

With reference to Mr. Bell’s letter of June 18 regarding the draft of notes to be exchanged with Canada relative to the application of Canadian foreign exchange control to foreign currency and foreign securities held by nationals of the United States who are resident in Canada, I enclose texts of the exchange of notes which took place at Ottawa on June 18, 1940, as announced in this Department’s press release no. 314 of that date.

The text differs from that approved by the Treasury Department only in the substitution in the third line of the Canadian note of the words “regarding the” for the words “looking to”.

The statement in Mr. Bell’s letter that the Treasury Department has no objection to the notes on the understanding that the arrangement with Canada would not subsequently be construed or interpreted by the State Department

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.
Department as in any manner limiting the freedom of this Government in imposing or applying in any manner foreign exchange control or the requisitioning of foreign assets is noted.

The only relevant provision in the exchange of notes is in paragraph numbered 4, which provides that in the event certain measures should be enforced in the United States with respect to individuals ordinarily resident in the United States who are nationals of Canada and are not nationals of the United States, the Government of Canada shall consider itself released from the obligation to continue to grant such of the exemptions provided for in the agreement as may not be accorded to the said individuals. The full understanding between the two Governments in this regard is expressed in this text.

Sincerely yours,

For the Secretary of State:

/s/ Adolf A. Berle, Jr.

Adolf A. Berle, Jr.,
Assistant Secretary.

Enclosure:

Press release no. 314,
June 18, 1940.

COPY
Note signed by the Honorable O. D. Skelton for the Secretary of State for External Affairs of Canada to the American Minister to Canada, Mr. J. Pierrepont Moffat.

"Ottawa
June 18, 1940

"Sir:

"With reference to recent conversations between representatives of the Government of Canada and the Government of the United States of America regarding the extension to individuals ordinarily resident in Canada who are nationals of the United States and are not British subjects of certain exemptions from orders and regulations now or hereafter in force respecting the acquisition and disposition of foreign currency and foreign securities, I have the honour to propose an agreement concerning these exemptions in the following terms:

"1. Such individuals will be exempt from any required declaration or sale of, and will be permitted freely to use or dispose of, foreign currency and foreign securities held by them (in which no non-exempted resident has any beneficial interest) which were

"(a) acquired by them before the time of the coming into force of the Foreign Exchange Control Order, viz., before September 16, 1939; or

"(b) acquired by them subsequent to such time from non-residents of Canada, excluding any foreign currency and foreign securities so acquired (1) in
connection with exports from or imports into Canada of property not exempted by this agreement, or (2) as the result of business carried on in Canada.

"2. The foregoing paragraph shall apply to private individuals and not to corporations, companies, associations, firms or partnerships.

"3. Any of the exemptions mentioned above shall lapse if and when such individual becomes a British subject or consents to be a United States national.

"4. In the event similar exchange control measures should be enforced in the United States with respect to individuals ordinarily resident in the United States who are nationals of Canada and are not nationals of the United States, without like exceptions being granted such individuals, the Government of Canada shall consider themselves released from the obligation to continue to grant such of the exemptions provided for in this agreement as may not be accorded to the said individuals.

"5. 'Foreign currency', as used in this agreement, is defined as meaning any currency (excluding coin) other than Canadian currency, including bank notes and other notes intended to circulate as money in any country outside Canada and also postal notes, money orders, cheques, travellers' cheques, prepaid letters of credit, bank drafts and other similar instruments payable in any currency other than Canadian currency, and includes any foreign currency on deposit; and 'foreign currency on deposit' or 'deposit' means any amount in foreign currency of which a resident has a right to obtain payment by reason of a deposit, credit or balance of any kind at or with a bank, savings bank, trust company, loan company, stockbroker, investment dealer or other similar depositary or any other person or institution designated by the Canadian Foreign Exchange Control Board as a depositary.

"I have the honour to suggest that if an agreement in the sense of the foregoing paragraphs is acceptable to the Government of the United States this note and your reply thereto in similar terms shall be regarded as placing on record the understanding arrived at between the two Governments concerning this matter.

"Accept, Sir, the renewed assurances of my highest consideration."

"O. D. SKELTON
For the Secretary of State for External Affairs"

Note
Note from the American Minister to Canada, Mr. J. Pierrepont Moffat, to the Secretary of State for External Affairs of Canada.

"Ottawa
June 18, 1940

"Sir:

"I have the honor to refer to your note of today's date proposing an agreement between the Government of the United States of America and the Government of Canada concerning the extension to individuals ordinarily resident in Canada who are nationals of the United States and are not British subjects of certain exemptions from orders and regulations now or hereafter in force respecting the acquisition and disposition of foreign exchange and foreign securities in the following terms:

"1. Such individuals will be exempt from any required declaration or sale of, and will be permitted freely to use or dispose of, foreign currency and foreign securities held by them (in which no non-exempted resident has any beneficial interest) which were

"(a) acquired by them before the time of the coming into force of the Foreign Exchange Control Order, viz., before September 15, 1939; or

"(b) acquired by them subsequent to such time from non-residents of Canada, excluding any foreign currency and foreign securities so acquired (1) in connection with exports from or imports into Canada of property not exempted by this agreement, or (2) as the result of business carried on in Canada.

"2. The foregoing paragraph shall apply to private individuals and not to corporations, companies, associations, firms or partnerships.

"3. Any of the exemptions mentioned above shall lapse if and when such individual becomes a British subject or ceases to be a United States national.

"4. In the event similar exchange control measures should be enforced in the United States with respect to individuals ordinarily resident in the United States who are nationals of Canada and are not nationals of the United States, without like exemptions being granted to such individuals, the Government of Canada shall consider themselves released from the obligation to continue to grant such of the exemptions provided for in this agreement as may not be accorded to the said individuals.

"5. 'Foreign currency', as used in this agreement, is defined as meaning any currency (excluding coin) other than Canadian currency, including bank notes and other notes intended to circulate as money in any country outside Canada and also postal notes, money orders, cheques, travellers'
travellers' cheques, prepaid letters of credit, bank drafts and other similar instruments payable in any currency other than Canadian currency, and includes any foreign currency on deposit; and 'foreign currency on deposit' or 'deposit' means any amount in foreign currency of which a resident has a right to obtain payment by reason of a deposit, credit or balance of any kind at or with a bank, savings bank, trust company, loan company, stockbroker, investment dealer or other similar depository or any other person or institution designated by the Canadian Foreign Exchange Control Board as a depository.

"I have the honor to inform you that an agreement in the terms of the foregoing paragraphs is acceptable to the Government of the United States of America and that this note, and your note under reference, will be regarded as placing on record the understanding arrived at between our Governments concerning this matter.

"Accept, Sir, the renewed assurances of my highest consideration."

"J. PIERREPONT MOFFAT"

***
The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 97 of June 26 from Bordeaux.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, (Paris) Bordeaux
DATE: June 26, 1940, noon
No.: 97
FOR THE TREASURY DEPARTMENT FROM MATTHEWS.
Reference is made to telegram of June 25, 6 p.m.,
from the Department.

At ten o’clock this morning I saw Governor Fournier
of the Bank of France. In the first place, he said, the
information is not correct, and there are no American or
other foreign securities now in Bordeaux, to the best of
his knowledge. The securities belonging to the Bank of
France have been sent abroad with the gold of the Bank.
The securities belonging to all the private banks with
whom the Governor has talked are in "nonoccupied"
territory today. The Governor’s information is to the
effect that most of the French-owned American securities
had been left physically in the United States.

I urged that even in "unoccupied" territory it was
important to take the precaution of dyeing the securities
as indicated. However, he replied that later on there
would be plenty of time to consider the advisability of
such a move. He said that there was nothing to show that
it is the intention of Germany to seize such securities
in the immediate future. The Governor continued by saying
that he could well understand the objective of the United
States
States in keeping the securities out of German hands. However, from the viewpoint of the French, the advantages of thus "branding" certain securities as French-owned were not so apparent. It is his understanding that all French accounts have been blocked. However, it must be considered that the Germans will compel holders "at the revolver point" to dispose of foreign securities in their hands, and it would make it more difficult for a Frenchman to dispose of such securities in accordance with his own free wishes if they were thus dyed.

Therefore the Governor said he was not prepared to recommend that such securities be dyed unless the United States on its part were willing to give some "guarantee" as a "counterpart". I asked him what kind of assurances he would want, and he said he would let me know some time later, that he would have to think about the matter.

BIDDLE.
June 27, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of June 20th which inclosed a memorandum giving information with regard to conditions in Mexico.

I am also taking this opportunity to acknowledge receipt of your letter of June 15th concerning information furnished you by Mr. Donald P. Hess, President of the American Bosch Corporation. In this connection I am sending you a communication which I received from a Mr. Dana, referring to the American Bosch Company and other firms. I am sending you his letter for whatever use you may wish to make of it.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Encl. ✓
June 27, 1940

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Yours sincerely,

(Signed) E. Morgenthau, Jr.

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

Encl.

By Messenger
June 27, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

Enc.

By Messenger
June 26, 1940

S.E.C.

I just read today's dispatches that the new Bosch was used to Swedish banks, which I claim is under German influence.

A month ago a rumor cropped up from Sweden, that Sweden has become the German financial center, which was promptly denied by the Nazis from the above Sweden in the new Nazi financial center.

I believe if gold is blocked from flowing to Sweden or to any other country for the duration of the war we will effectively block Hitler's aims.

Seven men make a Lux soap flake was owned by the British, supplying arms to the Trojan Jachko-Slovakia prior to its overthrow. November right, the British officials could have tightened that, as the American branch of Cambridge was. If they did it in America we could do it in South America, but I don't care about reading that in the newspapers anymore.

Michele & Co. was the Italian agent in the U.S.A. and owned 2,000,000 shares of West High Coal Co.

Regards

Mr. Sand
Federal Bureau of Investigation  
United States Department of Justice  
Washington, D. C.  
June 15, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

As of possible interest to you in connection with the emergency defense production program, I should like to advise you concerning information furnished to this Bureau by Mr. Donald P. Hess, President, American Bosch Corporation, Springfield, Massachusetts.

Mr. Hess voluntarily contacted the Boston, Massachusetts, Office of the Federal Bureau of Investigation and stated that the company which he represents is presently engaged in the production of magnetos for the Air Corps and the United States Navy and is also conducting experimental work for the United States Army, particularly in the production of fuse caps. He also stated that the company is producing fuel injectors for Diesel engines which are used in motors produced for the Navy Department.

Mr. Hess advised that 80% of the stock of the American Bosch Corporation is owned by the Stockholm Enskilda Bank, Stockholm, Sweden, which purchased the stock from Mendelssohn and Company of Amsterdam, Holland, about eight weeks ago. The remaining 20% of the stock in this corporation is said to be owned by 1700 stockholders in America. Mr. Hess stated confidentially that the Stockholm Enskilda Bank is presently making arrangements to sell 250,000 shares of its stock on the open market at an early date, in order to establish the American Bosch Corporation as an American owned concern.
It was further pointed out by Mr. Hess that the American Bosch Corporation is related contractually with the Robert Bosch Corporation of Stuttgart, Germany, which latter company originally owned the American Bosch Corporation and controlled it until the property of the Corporation was taken over by the Alien Property Custodian subsequent to the World War and sold to a group of American bankers. Mr. Hess stated that he became President of the American Bosch Corporation on April 7, 1938, and immediately began a reorganization program whereby a number of company officials who were Germans were eliminated. He stated, however, that at the present time there are a number of German born employees in various portions of the plant operated by the American Bosch Corporation, but that there are only eight or nine German aliens in the employ of the company. He expressed considerable concern because of the presence of these individuals, particularly the German aliens, and the possibility that damage might be occasioned by these employees.

The American Bosch Corporation is listed for attention under the plant survey program of this Bureau and a survey of its facilities will be conducted in the near future. However, in view of the important position which the plant occupies in the aviation field, I thought you would be interested in the background of the Corporation and the opinions which its President expressed.

Sincerely yours,

J. E. Hoover
Federal Bureau of Investigation
United States Department of Justice
Washington, D.C.
June 20, 1940

PERSONAL AND
CONFIDENTIAL

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

My dear Mr. Secretary:

I am transmitting to you herewith, as of possible interest, a memorandum incorporating information received from a confidential source relative to conditions in Mexico.

Sincerely yours,

[Signature]

Enclosure

BY SPECIAL MESSENGER
President Cardenas has been interpreting the Mexican Constitution literally and has therefore made many changes in Mexico which were not to the liking of a great number of influential persons in that country. The silver purchases by the American Government and the income derived from American tourists constitute the only real income of the country. General Almanza is being backed financially by the few people in Mexico who still have large property possessions.

The present political setup is not based on a change in the Government but on the fact that the Mexican people are not getting what they need to exist. The Government has replaced the former land owners by setting up banks in certain areas. Agricultural agents have been placed in these areas to supervise the farming activities of the peasants. Through this system the peasants are permitted to borrow money from the banks, and not being able to produce enough to repay the loans, a situation has been created whereby the Government will take over all land presently owned by the peasants.

President Cardenas is not believed to have been in favor of confiscating American oil property in Mexico but was pushed into this deal by the various labor organizations.

The present Mexican labor unions are so set up that each individual worker is subject to dismissal if he refuses to obey an order handed down by the union and the dismissal under these circumstances prevents the worker from receiving any further employment in any type of work and he is also automatically dropped from the union.

Presidential candidate Camacho is relying strongly on the Labor Party and the Ejido system (Government farm control) for sufficient votes to carry him through to victory in the coming election. Camacho was nominated as a compromise between the Left and Right Wings through the refusal of the Right Wing of the Government to agree on C. T. M. leader Toledano despite the fact he had complete support from President Cardenas.
Camacho, in order to retain the labor support has given "lip service" to the Cardenas program, whereas General Almazan has come out openly for a return to capitalism, peasant ownership of their own land, and no interference with industry.

The present setup in Mexico is such that all Government officials holding office at the present time belong to the Party Revolutionary Movement and all election officials are appointed by the Government. For this reason the Government will select its own candidate regardless of the outcome of the election.

At the present time there have been numerous campaign workers of General Almazan slain. The purpose of these slayings has been to keep the people from voting and to drive General Almazan to violent retaliation which would automatically give President Cardenas the right to declare a status of national emergency and retain the office of President for himself for the next two years, in line with a provision in the Mexican Constitution which gives the President the right to act in this manner in the event of internal disorder or national emergency.

The present situation in Mexico will very probably develop into a violent revolution. The Communists are carrying on their propaganda activities largely through individuals who are living in Mexico and are giving their services free to the Communist cause, whereas the Nazi propaganda which is being distributed has the financial support of the German Government. The two groups, however, appear to be working together and are attempting infiltration into the ranks of both Almazan and Camacho with a view to creating such confusion on both sides that disturbances will be unavoidable. The Communists are concentrating their work on the Cardenas-Toledano faction while the Nazis are trying to put General Almazan under their obligation in some way.
June 27, 1940
12:15 p.m.

RE FREEZING ORDER

Present: Mr. Gaston
        Mr. Harris
        Mr. Bell
        Mrs. Klotz

H.M. Jr: I want Basil this afternoon and Foley. Who else is on this ship business? You are, with Coast Guard, aren't you?

Gaston: Yes.

H.M. Jr: You and Basil and Foley. Forrestal was in. He says he has no assignment, was just told to come on down.

(Mr. Bell entered the conference.)

H.M. Jr: I say Forrestal says he has no assignment. He was just told to come on down and make himself useful.

        All right, Dan.

Gaston: That is a surprise.

H.M. Jr: Why? That he has no assignment?

        Shoot.

Bell: Well, six bags of mail that we have been talking about have now increased to sixteen. They are accumulating, and I understand they have been going across this country for two or three months and this is an accumulation within the last ten days. There was this meeting last Monday in the State Department to see whether they could open this mail.
and find out what is in it.

**H.M.Jr:** When?

**Bell:** Last Monday. Those represented, as I understand, were the State Department, the Post Office Department, the Army and the Navy, and I believe the Department of Justice, he said. There was no one from F.B.I. there. I guess the Department of Justice wasn't there either. They discussed it entirely from a point of censorship and didn't discuss as to whether there were any securities. They decided that there wasn't much they could do in view of the International Postal Convention which has been entered into by all the countries of the world. It almost holds the mails inviolate.

This conference this morning discussed it from the standpoint of securities. We think the authority is there to probably open it when we suspect there are securities in it.

**H.M.Jr:** To open the pouch?

**Bell:** To open the pouch. The difficulty with this thing is that this pouch, these pouches are addressed to exchange centers in these countries, not to individuals.

**H.M.Jr:** What do you mean, exchange centers?

**Bell:** Well, they have an exchange center where the pouch goes and there they open the pouch and distribute it to the individuals.

**Gaston:** It is really the foreign section of the Post Office in each country.

**Bell:** To follow out the procedure we have in the domestic mail where the mail is not opened by us but is delivered to a post office or it is delivered by the post office to the Federal Reserve Bank and then we notify the addressee to come there and open it in the presence of the post office man and a Federal Reserve man and if there are securities,
we take them and give him a receipt for them. Here it is difficult because we don't know who the addressee is and we would have to open the pouch that is addressed to the post office exchange center of a foreign government with which we are on friendly terms. That is rather difficult. It also involves our Good Neighbor Policy with South America, and therefore becomes high policy. I don't think anybody there this morning was worried about the country of origin, which in this case was Germany, but they are worried about the country of destination, of which about six are South American and which we are trying to keep in good relationship with.

Gaston: Those post office boys were inflexible.

Bell: Yes. I thought Miles, the Solicitor, was the most lenient one of the crowd. The other two have been there for years and they have been on these Postal Conventions and they have always discussed as to whether or not you should put in a provision in these Postal Conventions that would cover war, and every time they have voted it down.

Now, of course, these countries that are at war, they violate the Postal Conventions, naturally, when they censor the mails, but they usually have an act of that country to justify it.

Gaston: We got Miles to agree that as far as Germany is concerned, we don't owe her anything. She has breached the Postal Contract as far as she is concerned.

Bell: And so has Great Britain.

H.M.Jr: What was the decision?

Bell: Well, the decision, if we are going to open the mail, should come certainly from the President and we will have to give the Post Office an order. There is this possibility: These boats that are going to South America have in the past stopped at some British
possession. I understood they have stopped that.

Gaston: It is a U.S. Line boat.

Bell: If we could make arrangements whereby this boat would stop at a British possession down there --

Harris: Moore-MacCormack. Is it registered, Bell?

Bell: Some of it is, no doubt.

Gaston: Six pouches they spoke to me about yesterday they said were all registered.

Bell: This has increased to sixteen. If this boat stops at some British possession, we could tip off the British diplomatic representatives and have it censured at that spot and we might put an F.B.I. man on this boat to be conveniently available when it is done. That is one thing.

Gaston: The difficulty with our procedure is that we have to advertise to all the countries concerned what we are doing.

H.M.Jr: This is the way we will do it.

Harris: And we can get the boat to stop at a British possession. That is the reason I wanted you in on this conference.

H.M.Jr: They could stop at this place Trinidad to refuel.

Gaston: Warren said he understood they were going to stop at Barbados. We could make sure of that, couldn't we?

Harris: Yes.

H.M.Jr: And let the F.B.I. know that in advance and let them work with the English Intelligence, which they can.

Bell: Then that is your --

Gaston: We should have State and F.B.I. take it up with the British.
Bell: I think that is what should be done.

Gaston: And we will make sure she will stop there.

Bell: I had Warren of the State Department here this morning. I told him to tell Berle what had happened and that Berle ought to discuss this matter with Hull and bring him up to date, because I thought it might be discussed between you and Hull at the White House.

H.M.Jr: It doesn't have to be. This is the way to do it. I told you if I gave you the right answer on this thing I would be good. I called up General Watson and said I would like to see the President and told him what it was about last night, and word came back, the President was too busy, he couldn't see us, to write a memorandum, which I did. This is on ships. Foley wrote it. I signed it, and I have sent it over to Hull and Jackson and asked them to sign it and we are just sending it over to lay it on the President's desk and he says he is too busy. This is on the South American cartel thing. I told you if I gave you the right answer — this is this economic conference this afternoon, and I would like you (Bell) and White to go over. White is coming in at 2:30 and bring me up to date on it.

Bell: I haven't been brought up to date, either.

H.M.Jr: Two thirty?

Bell: Yes.

H.M.Jr: I was amazed at the President. That was the answer I got, so we wrote a very simple memorandum recommending that they do the thing all inclusive and he said he would try to get to see Bob Jackson and Hull to sign it and have it on the President's desk at one.

Bell: When is the White House conference, three o'clock?

H.M.Jr: Three o'clock.
Harris: You will give me the name of the ship?
Bell: Yes.
Harris: The chances are she goes out Saturday.
Gaston: To Argentina.
Bell: Friday night or Saturday morning. They have got to know by tomorrow noon.
H.K.Jr: Who is going to let J. Edgar know?
Bell: What do you want us to do? Shouldn't we clear it first with the State Department and say this is the way we think it ought to be done and we can get the boat stopped and they should take it up, together with the F.B.I. man?

(Mrs. Klotz entered the conference.)

H.K.Jr: Did it originate with F.B.I?
Gaston: Yes, as far as we are concerned. The F.B.I. brought it up to us.
H.K.Jr: If I may suggest something, I would call up Mr. J. Edgar Hoover and tell him about this. Tell him we are going to have the boat stopped and the rest is up to him now.
Bell: Does he have means of contacting them?
H.K.Jr: Yes, sir, he does.
Bell: Okay, suit me.
Gaston: I will call --
H.K.Jr: I would call up Hoover and tell him we have been through this thing and that the boat will stop and he had better have a man on the boat and it will stop either -- you (Harris) let him know where, and the rest is up to him.
Gaston: It is Tamm that contacted me and Tamm was at the meeting. I will call Tamm.
H.M. Jr.: I would do it that way.
Bell: All right, and you (Gaston) will do it?
Gaston: I will call Tamm.
Harris: It would facilitate things if you could arrange to have those 16 sacks stowed on top.
Gaston: Yes.
Harris: And we will just take a look at them.
Gaston: I think Post Office will do that for F.B.I.
H.M. Jr.: But that is the way to handle it. Just tell J. Edgar Hoover.
Bell: We should tell the Post Office.
Gaston: Let them tell the Post Office.
Bell: I mean where to stow it.
H.M. Jr.: If the boat stops, it is up to him, and let him make the arrangement. He has a way of communicating directly with them.
Gaston: We will undertake to assure them that the boat will stop.
H.M. Jr.: Yes, but you have got to let them know which place so they can be there to receive it.

Thank you, gentlemen.
Dear Mr. Harriman:

With further reference to my letter of June 25, 1940, I am sending you hereewith a copy of the weekly report on railroad freight movement for export, for the week ending June 22, 1940.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. V. A. Harriman,
The Advisory Commission to the Council of National Defense,
Room 2050 Suitcases Building,
Washington, D. C.

Enclosure

Copy Mr. Haas' weekly memo dated June 27th on railroad freight movement for export.

CC to Thompson.

FILE COPY

By Messenger 1150

Regraded Unclassified
Dear Mr. Baa;

With further reference to my letter of June 25, 1940, I am sending you herewith a copy of the weekly report on railroad freight movement for export, for the week ending June 22, 1940.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Ralph Baa, Commissioner,
The Advisory Commission to the Council of National Defense,
Room 2052, Federal Reserve Building,
Washington, D.C.

Enclosure
cc Mr. Haas' memo dated June 27th on railroad freight movement for export.

FILE COPY
By dear Mr. Secretary:

May I express my appreciation for the way in which the Navy Department expedited the shipment of surplus materials last week-end. The willing and efficient cooperation of Admiral Forlong, Chief of the Bureau of Ordnance, was especially helpful both in making the materials available to the War Department and in arranging the prompt shipment of the supplies.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Lewis C. Compton,
Acting Secretary of the Navy,
Washington, D. C.

cc: Thompson

Date: 27 June 1940

Regraded Unclassified
Memorandum for the Hon. Henry Morgenthau, jr.,
Secretary of the Treasury.

SUBJECT: Shipment of Surplus Materials.

1. Complying with the urgent requests of Mr. Young of your office on Saturday afternoon, the Navy Department got out despatch orders for shipments of the materials which had been turned over to the Army on that day.

2. Knowing your interest, this is to inform you that of the eight depots involved from Yorktown, Va., to Mare Island, Calif., one shipment left that day, all the others left the following day, Sunday, except one, which left by Monday 8 a.m.

W. R. PURLONG,
Rear Admiral, U.S. Navy,
Chief of the Bureau of Ordnance.
June 27, 1940.

Dear General Marshall:

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

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

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

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

Sincerely,

(Signed) H. Morgenthau, Jr.

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

FILE COPY By Messenger 9 1/2 on 6/28
June 27, 1940.

Dear Admiral Stark:

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

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

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

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

Sincerely,

(Signed) H. Morgenthau, Jr.

[Address]

FILE COPY

By Messenger 9/15/40

Regraded Unclassified
DEPARTMENT OF STATE
WASHINGTON

June 27, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 99 of June 26 from Bordeaux.

See corrected record page filed 7-1-40
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Bordeaux, France
DATE: June 28, 1940, 3 p.m.  
RECID 1 p.m., 27th.
NO.: 99

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.
Reference is made to telegram of June 26, noon, my No. 97.

After we had discussed the matter of dying of securities, Governor Fournier explained to me for 20 minutes the extreme embarrassment caused him by the failure of the New York Federal Reserve Bank to communicate with his Bank. For practically 15 days, he said, the Federal Reserve had been silent; they did not answer even the most routine cables. There was no acknowledgement of instructions having to do with accounts of the Bank of France. Reference, telegram of June 25, 7 p.m., my No. 96: the Governor said that he had not even had confirmation of such credit transfers as that to the Swiss National Bank, which he said had been designed entirely in line with the policy of the United States in keeping Swiss gold from getting into the hands of the Germans.

The Governor felt that at least some explanation was due from the Federal Reserve out of common courtesy. He said that he was still the governor general of a central
central bank in close relationship with the Federal Reserve of the United States, and it was "totally inexplicable" that it had failed to communicate with him.

The Governor said that through your kind intervention he had received official confirmation of the crediting to the Bank of France account by the recent gold transaction. Reference: your telegram of the nineteenth of June. Up to the present the Governor had not even yet received direct confirmation from the Federal Reserve nor any reference to the 5 percent which remained to be credited. In the most emphatic way he asked that we try to get some satisfaction, or at least an explanation of the reason.

At no time have I seen the Governor as indignant as he was about this.

Last night Rueff came in to say good-bye; He has departed for (Chat?), having been named to the armistice commission. Wiesbaden may be his immediate destination.

BIDDLE.
ORDER ESTABLISHING THE OFFICE FOR COORDINATION
OF NATIONAL DEFENSE PURCHASES

Pursuant to authority vested in it by section 2 of the Act of August 29, 1916 (39 Stat. 649), the Council of National Defense, with the approval of the President, hereby establishes as a subordinate body to the Council an office to be known as the Office for Coordination of National Defense Purchases, at the head of which there shall be a Coordinator of National Defense Purchases (hereinafter referred to as the Coordinator). The Coordinator shall serve as such without compensation but shall be entitled to actual and necessary transportation, subsistence and other expenses incidental to the performance of his duties.

The Office for Coordination of National Defense shall, in cooperation with the Advisory Commission:

(1) establish and maintain liaison between the Advisory Commission, the several departments and establishments of the Government and with such other agencies, public or private, as the Coordinator may deem necessary or desirable to insure proper coordination of, and economy and efficiency in, purchases by the Government of supplies, equipment, munitions, and other material requirements essential to the national defense;

(2) determine the most economical and effective methods of purchase of repetitive items common to several agencies and to assign the purchase function to the agency or agencies best qualified to perform it, provided that the War
and Navy Departments shall have authority for making purchases necessary for the national defense, subject to such coordination as may be required to establish priorities;

(3) collect, compile and keep current statistics on purchases made by Federal agencies;

(4) coordinate the research in procurement specifications and standardization now conducted by the different Federal agencies;

(5) determine and keep current combined immediate material requirements of all Federal agencies, and estimate future requirements so as to facilitate purchases and to cushion the impact of such orders on the National economy;

(6) review existing laws and recommend to the President such new legislation and simplification of existing legislation as may be necessary to make Government purchasing more efficient and effective;

(7) investigate the necessity for and make recommendations to the President relative to the granting of priority to orders for material essential to the national defense over deliveries for private account or for export.

Donald M. Nelson is hereby appointed Coordinator of National Defense Purchases.

L. Johnson
Secretary of War

acting
Secretary of the Navy

Secretary of the Interior
H. A. Wallace  
Secretary of Agriculture

W. A. E. Miller  
Secretary of Commerce

William B. Daniels  
Secretary of Labor

APPROVED:  
Franklin D. Roosevelt  
THE WHITE HOUSE  
1940  
June 27
MEMORANDUM FOR THE PRESIDENT:

The draft of letter attached to the memorandum of Acting Secretary of the Navy Comptroller relates to section 2(a) of H. R. 9622 (the Naval Shipbuilding Expediting bill now before you for approval). This section does not relate to the profit-limiting provisions of the Winson-Trammell Act, but authorizes the Secretary of the Navy upon receipt of authority from the President during the national emergency declared on September 8, 1939 to exist, to negotiate contracts for the acquisition, construction, repair or alteration of naval vessels or aircraft, or any portion thereof, including plans, spare parts and equipment, as well as machine tools. These contracts can be negotiated without competitive bidding.

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

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

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.
By order Mr. Secretarys

Pursuant to the authority vested in me by section 2(a) of an act entitled "An Act to expedite naval shipbuilding, and for other purposes" and subject to the provisions and conditions of said section, I hereby deem it to be in the best interests of the national defense during the national emergency declared by me on September 6, 1939, to exist that the Secretary of the Navy be authorized, after the date of approval of said Act, to negotiate contracts, for the acquisition, construction, repair or alteration of complete naval vessels or aircraft, or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment, without advertising or competitive bidding.

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

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

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

Sincerely yours,

(to be signed by Pears)

The Secretary

The Acting Secretary of the Navy.
THE WHITE HOUSE
WASHINGTON

June 26, 1940

MEMORANDUM FOR
SECRETARY MORGENTHAU

For preparation of reply.

F. D. R.

Enclosure
MEMORANDUM FOR
SECRETARY MORGENTHAU

For preparation of reply.

F. D. R.

Enclosure
DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

My dear Mr. President:

Subject - Authority for Negotiation of Contracts.

There is enclosed herewith a draft of a letter for your signature which, in accordance with the provisions of Section 2(a) of the Bill H.R. 9822, would authorize the Secretary of the Navy to negotiate contracts for the acquisition, construction, repair or alteration of complete naval vessels or aircraft, or any part thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment.

Sincerely yours,

The President,
The White House
In pursuance of the authority contained in Section 2(a) of the Act approved 
(Federal No., 76th Congress, 3rd Session), I hereby determine it to be in the best interests of the National Defense to negotiate contracts for the acquisition, construction, repair, or alteration of complete Naval vessels or aircraft or any portion thereof, including plans, spare parts, and equipment therefor, that have been or may be authorized, and also for machine tools and other similar equipment.

The Secretary of the Navy is hereby directed to negotiate such contracts wherever, in conformity to the requirements of said Act, the price is determined by him to be fair and reasonable.
REGULATIONS FOR THE PRESIDENT

June 27, 1940

Pursuant to your instructions to the Secretary of the Treasury over the telephone last Monday, orders have been given through the Department of Commerce that no clearance is to be given to French vessels in our ports pending further instructions. Since last Monday, no French vessels have departed nor have any masters asked for clearance.

In the meantime, State, Treasury and Justice have been devising ways to implement the legal and policy bases for this action and similar action which may be taken in the future.

Accordingly, the attached proclamation and regulations pursuant to section 191 of title 50 U.S.C. have been drafted. The usual letter of approval from the Attorney General is also attached. The proclamation is supplementary to your proclamation of September 8, 1939, declaring a limited emergency and stating that from time to time specific directions and authorizations for (1) the safeguarding and enforcing of our neutrality and (2) the strengthening of our national defense within peace-time limits would be issued. The proclamation and regulations govern the anchorage and movement of all vessels, both domestic and foreign, and provide for taking possession and control of all vessels if necessary to secure them from damage or injury, or to prevent damage or injury to our harbors and waters, and to secure observance of rights and obligations of the United States. On instructions from the Secretary of the Treasury, collectors of customs are required to refuse clearance to vessels. While the regulations provide for licensing of lighters, barges, tugs, motorboats and other harbor craft, it is not presently intended to require such craft to obtain licenses.

Insofar as the Panama Canal Zone is concerned, the proclamation is broad enough to authorize the Governor of the Panama Canal to issue regulations, if desired, similar to the attached regulations to be issued by the Secretary of the Treasury. Should the Governor of the Panama Canal determine to issue such regulations, they likewise would be subject to your approval.

It should be noted that the proclamation and regulations do not single out for special treatment French vessels. It was our thought that it would be better from a standpoint of policy to deal alike with all vessels and leave to the administration of the regulations the vessels to be held and the vessels to be cleared.
It is our recommendation that you sign the proclamation and approve the regulations.

A suggested press statement is also attached.

(Signed) Cordell Hull
Secretary of State

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

(Signed) Robert H. Jackson
Attorney General
CONTROL OF VESSELS IN TERRITORIAL WATERS
OF THE UNITED STATES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA
A PROCLAMATION

WHEREAS, a proclamation issued by me on September 8, 1939, proclaimed that a national emergency existed in connection with and to the extent necessary for the proper observance, safeguarding and enforcing of the neutrality of the United States and the strengthening of our national defense within the limits of peace-time authorizations, and that specific directions and authorizations could be given from time to time for carrying out these two purposes,

WHEREAS, the continuation of the conditions set forth in said proclamation of September 8, 1939, now calls for additional measures within the limits of peace-time authorizations,

WHEREAS, Under and by virtue of section 1 of title II of the Act of Congress approved June 15, 1917, 40 Stat. 220 (U.S.C. title 90, sec. 191), it is provided as follows:

*Section 1. Whenever the President by proclamation or Executive order declares a national emergency to exist by reason of actual or threatened war, insurrection, or invasion, or disturbance or threatened disturbance of the international relations of the United States,
the Secretary of the Treasury may make, subject to the approval of the President, rules and regulations governing the anchorage and movement of any vessel, foreign or domestic, in the territorial waters of the United States, may inspect such vessel at any time, place guards thereon, and, if necessary in his opinion in order to secure such vessels from damage or injury, or to prevent damage or injury to any harbor or waters of the United States, or to secure the observance of the rights and obligations of the United States, may take, by and with the consent of the President, for such purposes, full possession and control of such vessel and remove therefrom the officers and crew thereof and all other persons not specially authorized by him to go or remain on board thereof.

"Within the territory and waters of the Canal Zone the Governor of the Panama Canal, with the approval of the President, shall exercise all the powers conferred by this section on the Secretary of the Treasury."

AND, WHEREAS, it is essential, in order to carry into effect the provisions of said Act, which are quoted herein, that the powers conferred therein upon the President, the Secretary of the Treasury and the Governor of the Panama Canal be at this time exercised, or available for exercise, with respect to foreign and domestic vessels.

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America, by virtue of the powers conferred upon me by the provisions of the said Act of Congress quoted herein, do hereby declare the continuation of the conditions set forth in my proclamation of September 8, 1939, and the existence of a national emergency by reason of threatened disturbance of the international relations of the United States.
AND, I therefore consent to the exercise, with respect to foreign and domestic vessels, by the Secretary of the Treasury and the Governor of the Panama Canal, of all the powers conferred by the provisions of said Act.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this day of
in the year
of our Lord nineteen hundred and forty
and of the Independence
of the United States
of America, the one
hundred and sixty-fourth.

By the President:

Secretary of State.
June 15, 1917, 40 Stat. 770 (31 U.S.C. title 30, sec. 191), provides in part as follows:

To Collectors of Customs, and Officers of Ports and Docks Concerned,

Section 1, title II, of the so-called sequestration act, approved in the Territorial Waters of the United States,

(31 U.S.C. 191) (a) For the enforcement of the regulations for the control of vessels in

Department

Approved by the President

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

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

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

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

(4) The captain of the port or other officer designated by the Secretary of the Treasury pursuant to section (2) hereof is hereby authorized to cause to be inspected and searched at any time any vessel, foreign or domestic, or any person or package thereon, within the territorial waters of the United States, to place guards upon such
of the United States is required, unless the principal customs officer
in charge of the port of departure shall have been authorized by the
Secretary of the Treasury to permit the departure.

(s) H. MORGENTHAU, JR.

Henry Morgenthau, Jr.
Secretary of the Treasury.

Approved June 27, 1940.

(s) FRANKLIN D. ROOSEVELT

Franklin D. Roosevelt,
President.
The President

The White House.

My dear Mr. President:

I am transmitting herewith (1) a proposed proclamation entitled "Control of vessels in territorial waters of the United States" and (2) proposed Regulations entitled "Anchorage Regulations."

The proposed proclamation and Regulations, prepared in the Treasury Department and informally submitted to me this date, have my approval as to form and legality.

Respectfully,

/s/ Robert H. Jackson
Attorney General.
June 27, 1940
5:35 p.m.

Present: Mr. Bell
Mr. Gaston
Mr. Foley
Mr. Schwarz
Mr. Norman Thompson
Mrs. Klotz

HM Jr: You saw the White House announced it. What happened? Do you know?

Foley: I only know what Chic told me.

Schwarz: Steve Early put out a mimeographed statement.

Bell: You mean the ship thing?

Foley: There was a press release attached to the papers.

HM Jr: Is the seal on it?

Schwarz: They crossed off the last line.

Foley: Copy of the proclamation and regulations are attached and they crossed that off because the seal had not been put on the proclamation. And Norman called Rudolph Forester and he said it would violate all the rules of the White House for the seal to be attached unless they had authorization from the President, and the President had gone for the day and he would make it the first order of business tomorrow morning.

HM Jr: And in the meantime they put out the press release?

Schwarz: They will have their day with the press release and we will have our day with the regulations tomorrow.
Foley: It does not have to be on the wire tonight. Nothing pressing.

HM Jr: Who has the authority to run it? I know it's mine but who in the Treasury?

Foley: I think the Customs Bureau is the one to administer it because the instructions would go from you to the Collectors of Customs. Contacts should be through the Commission of Customs.

HM Jr: But it's from me?

Foley: So it would be Herbert.

Gaston: It would be absolutely Harris.

Foley: I was thinking he was Assistant Secretary in charge of customs.

HM Jr: He is not.

Gaston: Just interfering.

HM Jr: My thought is - and I haven't had time to think on it - is to take the ablest officer in Coast Guard and an assistant to him and place this responsibility on him so that he can be on a 24-hour duty. Basil Harris is at the Philadelphia Convention tonight. He is here only three or four days a week.

Gaston: You don't have to do it through him. You could do it through me.

HM Jr: I would have him responsible to you.

Gaston: Of course, he won't make policy decisions. They will have to come from somewhere else.

HM Jr: I want somebody I can call up day or night who can follow this shipping - a captain in the Coast Guard and give him an immediate junior officer as his aide so there will be two men day and night on duty on this thing.
Gaston: We have regular 24-hour duty of officers over there.

HM Jr: I want some one person. I'm willing to argue about it. Just got this idea five minutes ago.

Gaston: I think it is all right.

HM Jr: But somebody who comes over to the office of the Secretary of the Treasury of which you and I are part. I want Norman to think about it. We'll just talk about this for a minute. Maybe the idea is no good.

Gaston: You mean to bring him in . . . . .

HM Jr: I want him attached to the office of the Secretary of the Treasury to run this thing, and give him a junior or lieutenant commander under him, so these two men will be the office of licensing, and so there will be somebody on the job 24 hours a day.

Foley: I don't think it's going to be big enough to require that but I should think he can familiarize himself with all the ships that are in our harbors, when they are expected to come in, when they are expected to go out, and ownership, and their cargo and destination - all that stuff. He could have all of that.

Gaston: We are running regular lists of vessels in American ports.

HM Jr: Who does that?

Gaston: Coast Guard Intelligence.

HM Jr: I want somebody that I can call up, somebody that knows about these tankers, somebody right up to the minute on every single ship.

Gaston: Yes.

Thompson: You can detach a Coast Guard officer.
Bell: There is a tieup between our office and Gaston.

HM Jr: Let's put it this way. You have Rose in your office. There is no reason why you should not have a captain.

Gaston: No. Fine.

HM Jr: And occasionally if I want to cut corners I reserve that right.

Gaston: Yes, sure.

HM Jr: But Rose is not enough and Basil Harris is on duty only half the time. I don't want to move too fast.

Gaston: And we don't have to go through Congress on this, the Secretary of the Treasury's orders hold this ship?

Foley: That's right. It works this way. If the Collector himself feels it is in the public interest to hold a boat, he can refuse clearance, but he has to communicate his reasons at once to the Secretary of the Treasury. On the other hand, if the Secretary of the Treasury tells him not to let a particular ship clear then he cannot clear that ship. That is the way it works.

Gaston: Yes, yes. Have to get some general instructions to Collectors of Customs.

Foley: That's right.

HM Jr: Suppose I want to call up at eleven o'clock at night or six o'clock in the morning - I want to call a captain or a commander, "What is the situation?" But I think the man should have an office with you (Gaston).

Foley: That's right. That's the place. Then you have Coast Guard and Customs in the same place.

Regraded Unclassified
Gaston: That will be three men. That will be a captain and two lieutenant commanders so you can have a 24-hour trick.

HM Jr: That's right.

Gaston: I'm trying to envisage the detail on it. I think we need something like this because we need to get a lot of preparatory information and we will need to get out general instructions to collectors. I don't imagine there will be much action but some of it might be quite troublesome.

HM Jr: The point is I don't want to call up Basil Harris and get him out of the Philadelphia Convention, or Mr. Johnson who is not particularly well. He has not recovered from his accident. And have it understood that if the President or the Navy or anybody wants it that these fellows are here, but you (Gaston) are their boss. But I reserve the right once in ten times to butt in.

Gaston: They could operate here in this building or over in Coast Guard, either one.

HM Jr: I think over here. We have a room downstairs for them.

Foley: I think they ought to be over here.

Thompson: They might start over here any way and maybe in the course of time put them back in Coast Guard.

HM Jr: This supersedes Commerce. I asked this question and Commerce is out. I am personally responsible and I want to do a bang-up job. I want to do the best job possible on this thing.

Foley: We had better get hold of Commerce in the morning and have them come over and put the proclamation and regulations before them so they will understand what has happened.

Gaston: You haven't any copies of that thing, have you?
Foley: Yes.

HM Jr: What do you think, Norman?

Thompson: I think Coast Guard are the people to do it. I don't think anybody in Customs will be as satisfactory as Coast Guard.

Gaston: They have 24-hour service any way.

HM Jr: Are you (Gaston) entirely happy about this?

Gaston: Yes. I think one way would be through routine Coast Guard channels by Designating somebody over there who could be the contact man all the time and duty officer, or add to the duty trick special officers to do the trick.

HM Jr: Do you mind if I don't want to do it that way because the officers on duty at night don't have sufficient intelligence.

Gaston: Do you know Hirschfield? Pretty smart fellow.

HM Jr: Not particularly. The fellow I have in mind is the fellow in New York, second in command.

Gaston: Bayliss?

HM Jr: Oh, yes.

Gaston: Oh, we have to have him up there. We have a terrifically complicated condition up there on explosives.

HM Jr: Is he good?

Gaston: Yes.

HM Jr: That's what I wanted to know. He has guts. Excuse me, ladies. (HM Jr then placed call for Admiral Waesche.)

Gaston: He planned to leave for Alabama tonight for his son's wedding; be back Saturday.
HM Jr: Well, set it up tonight.
Gaston: I guess it's tomorrow morning he's flying.
HM Jr: Is Bayliss a captain now?
Gaston: No, he's a commander. You might find a man you want among the commanders. I would have a better chance of finding him there than in the captains.
HM Jr: Bayliss is good though, isn't he?
Gaston: Bayliss is good. We have some other good ones.
HM Jr: He was the fellow who took that ship across to Spain two years ago when the captain said he couldn't go.
But, Herbert, if I am moving too fast, tell me.
Gaston: No, that's all right; you're not moving too fast. I think we want a good smart commander.
HM Jr: Bayliss is a bachelor.
Gaston: We need Bayliss in New York.
HM Jr: Something has happened to my hearing.
Foley: Bob Jackson couldn't hear any of it this afternoon.

(At this point, HM Jr. spoke to Admiral Waesche on the telephone and copy of their conversation is attached following this page.)
HM Jr: That's fair enough.
Gaston: I don't think this job is going to be as important as the job Bayliss has in New York. He's not going to make policy decisions.
HM Jr: He has to have a clear head though.
June 27, 1940
5:50 p.m.

Admiral
Waesche: Yes, Mr. Secretary.

H.M.Jr: Admiral, I have Mr. Bell, Mr. Foley, and
Schwarz, Gaston, Thompson and Mrs. Klotz
here around me and my loudspeaker and the
President -- we didn't realize it -- he
released this proclamation putting all
shipping under the Secretary of the Treasury.
No ship can sail from any United States port
now without ........

W: Mr. Secretary, I didn't quite get it all.

H.M.Jr: No ship can sail without the permission
of the Secretary of the Treasury from any
port in the United States.

W: Yes, sir.

H.M.Jr: Now, we've been talking this thing over
and I want to get from you three Coast Guard
officers so they can be on 24-hour duty.

W: Yes, sir.

H.M.Jr: Bring them over to the office of the Secretary
of the Treasury, but place them under
Mr. Gaston ........

W: Yes, sir.

H.M.Jr: ....... and to handle this licensing. Every
ship that is going to sail is going to have
to have a license.

W: I see.

H.M.Jr: I mean, whether it's a foreign flag or
American flag. Now, I want your very, very
best officers.

W: All right, sir. I'll see that you get three
good officers.
H.M.Jr: Well, now, who?

W: Well, the first one will be Lieutenant Commander Richmond. Richmond will be the first one.

H.M.Jr: Who's that?

W: He's a Lieutenant Commander -- Richmond, who's been standing day duty over there at Coast Guard headquarters, and an officer who's one hundred percent. He's had a law course and he's got a lot of good common sense and ......

H.M.Jr: What's his name?

W: Richmond. R-i-c-h-o-n-d.

H.M.Jr: Where's he located?

W: He's right here in Washington.

H.M.Jr: What's the matter with Baylis?

W: Why, I could bring Baylis down. My only thought was that Baylis is practically running New York Harbor and I'd hate to take him off of that job.

H.M.Jr: Yeah, well, this is running all the shipping in the whole of the United States.

W: Well, in that case, why Baylis would be the best man we have.

H.M.Jr: Well, who is better -- Baylis or Richmond?

W: Baylis is best to handle that. I was going to ask you what the duties of these three officers will be -- practically to control shipping.

H.M.Jr: Complete charge of all shipping. This supercedes Commerce.

W: Yeah, I see.
When are you leaving -- tomorrow?

I'd planned to leave at 9:00 o'clock tomorrow morning, but I don't have to leave until later. I'm flying down to see my boy get married.

Well, have you got a passage on an air--

No, I was going down in a Coast Guard plane and I can be delayed any time to suit your convenience.

Well, I mean, up until when?

Up until evening. He's not going to be married until Saturday morning at 9:00 a.m., so it will be no inconvenience at all to me, Mr. Secretary, to delay that until any time tomorrow evening.

Well, what you'd better do is -- you'd better do some homework tonight and Mr. Foley is entirely familiar with this, you see? Now let me just ask him? (Talks aside -- when could you see him so he can study this tonight?)

Mr. Foley will send the proclamation and the regulations out to your house.

All right. That will be fine.

And supposing you be at my office tomorrow morning at 9:00 o'clock.

I'll be there.

See?

Yes, sir.

And by that time, I think, Mr. Gaston has been protesting about Baylis, but I just suggested him because I think he's got courage and judgment.

Yeah, Baylis is a good man. I just -- he's practically running New York Harbor and I just hate to take him off of that job. That's my only objection to that. However, I'll
have this ironed out as to three officers for you tomorrow morning at 9:00 o'clock.

H.M.Jr: Well, this is placing a tremendous responsibility on me and I want it well done, and I'm paying Coast Guard the compliment.

W: Well, I realize that, Mr. Secretary, and we're going to give you good officers. Now in regard to Baylis -- Baylis is a very good action officer. Baylis is not as good a planning officer for -- hasn't got both feet on the ground quite as well as other officers we have.

H.M.Jr: Well, you've got all night to think about it.

W: Yeah. I'll be there all primed for you at 9:00 o'clock tomorrow morning as to who they should be.

H.M.Jr: And you bring it over to me and I'm going to hold you personally responsible.

W: All right, sir.

H.M.Jr: I'm going to hold you personally responsible.

W: All right.

H.M.Jr: I mean, I ......

W: I understand the responsibility of the job, Mr. Secretary, and you can rest assured that we're not going to fall down on it.

H.M.Jr: O. K. Thank you.

W: All right, sir.

H.M.Jr: Good night.

W: Good night.
Gaston: He has to have a clear head.

Foley: You stop the boats you want to stop and that's all.

Gaston: And that's a matter of issuing the order.

Foley: All you have to do is tell the Customs Collectors in the various harbors that they are not to grant any clearance without consulting you first.

HM Jr: Do you mind my stopping you right there? Don't do it in a negative way - every ship sails unless you stop it. I would do it, no ship sails . . . . Isn't it up to me to make the regulations? The President doesn't make the regulations. Did he sign the regulations?

Foley: The regulations and proclamation were together.

HM Jr: Couldn't that be changed?

Bell: The proclamation stops everything, doesn't it?

Foley: No, it merely delegates to the Secretary the power the President has under that statute and authorizes the Secretary to issue regulations. Regulations were prepared and drafted and were attached. Did you sign the regulations?

HM Jr: I'm not sure.

Foley: If you did, you did it over there.

HM Jr: I don't know whether I did or not. The point I am getting at is this. If you say no ship sails without a permit it seems to me as a matter of public relations that is better than saying every ship sails unless we put a finger on it. Because if you say no ship sails without a permit, then the question of issuing the permit, you can stall long enough for me to get Mr. Hull to make up his mind. If I say, "Mr. Hull, I want to stop that ship," and I have to get out a special order I don't get anywhere. I think if every ship has to have a clearance it is more work and I can fuss around, and I can bawl the thing up for a week if necessary while we are trying to get out the permit.
Foley: This is all shipping. A boat wants to go from New York to Philadelphia. I think that's too much. No tug can go out of the harbor if you put it on that basis. This way you could put out the ones you want.

Gaston: We could make the regulations cover the foreign. A ship would have to have a permit to clear foreign; domestic ship would not have to have a permit unless we stopped her.

HM Jr: Do it that way. Anything to foreign, get a permit; anything United States port, okay.

Foley: You want the Collectors to report that request has been made for clearance but not give the authority to clear until they had got that from you.

HM Jr: Upstairs on the third floor is a teletype. That thing comes in in split seconds. They bring it down to this office. All he has to do is say "Okay", send it up, and it goes back in five minutes on the teletype. How many foreign ships do you think are clearing?

Foley: Not many.

HM Jr: Between fifty and a hundred?

Foley: I wouldn't say that many.

HM Jr: My reaction as of tonight is no foreign ship can sail without a permit. Then you can fuss around getting a permit for a tanker. What do you think, Norman?

Thompson: I think it's fine.

Bell: Freeze all and get permits for other than intercoastal.

HM Jr: That's what we do on the foreign. Give a general permit. I told the President today - he said, "I have my eye on that Stabilization Fund," and I said, "Yes, you and about a half dozen other people."

All right, gents.

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DEPARTMENT OF STATE
WASHINGTON

June 27, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of telegram No. 43 of June 26 from Casablanca.
Your 22, June 25, 8 p.m.

I hope to have accurate information tomorrow. On Saturday two steamers arrived, one from France and the other from New York, both with boxed American aircraft. In the opinion of Colonel Smith Piggot of the British air service, there were about 150 American planes en route to Casablanca when the armistice was signed.

Colonel Jacquin of the Anglo-French purchasing commission may have detailed information on the subject.
Secretary of State,
Washington.

RUSH.
1850, June 27.

FOR THE SECRETARY OF THE TREASURY.
Your 1409, June 26.

Thanks for Mr. Knudsen's statement. Matter has created considerable disagreeable comment here. Can you give me for my own information just why Ford would not make engines for the British. Incidents of this nature are quite likely to upset normal feelings here in England.

KENNEDY

REP
MEMORANDUM FOR THE SECRETARY:

One of the members of the British Ministry of Shipping told Deputy Commissioner O'Keefe in New York that he thought the Italians might try and move the REX and CONTE DI SAVOIA from Italy around to Bordeaux.
June 27, 1940.

MEMORANDUM FOR THE SECRETARY:

One of the members of the British Ministry of Shipping told Deputy Commissioner O'Keefe in New York that he thought the Italians might try and move the MM and GENOVA to Savoia from Italy around to Bordeaux.
June 27, 1940

Last night, at the house, Purvis asked me whether they could come forward now with more requests or should they wait four or five days. Instinctively I said, "Give us your requests and we will go ahead." I did not realize what was in the mind of his mind. A little later on he said, "Well, what about help? How much help can we expect?" So I said, "I don't think you can expect any more help or any less help than we are giving you now until after election." He said, "Well, Monnet was on the wire today pressing me very hard on the destroyers" and he said that he told Monnet to wait until the Republican Convention was over this week.

I told him to give me his requests -- what he wanted for Canada on one piece of paper, England on another and Ireland on a third, and I would use my discretion as to what use I would make of them.

I told him that I was very anxious to have Sir Frederic Phillips come over and he was both surprised and pleased because he, Purvis, is fearful he is going to have trouble with Civil Service in England and he says that Sir Frederic Phillips is going to succeed Sir Horace John Wilson who now heads the Civil Service in England.

Upon thinking the matter over, I thought it was sufficiently important so I spoke to Kennedy at 6:30 this morning and asked him wouldn't he please ask the Government to send Sir Frederic Phillips over here and he asked why.

I said "to discuss frozen assets" and he said he understood.

Kennedy thanked me profusely for sending him over the exact statement of Knudsen, because he said it was played up in the English papers and made a very bad impression and had hurt a lot. He said, "What was back of it?" I said, "Simply that Ford said that he did not want to manufacture for England because he thought it would help to get us into the war." And I said, "But maybe the State Department has kept you informed," and Kennedy answered, "The State Department does not keep me informed on anything."

I said, "I just want to tell you that Arthur Purvis
is doing a swell job, but that he needs more backing because he said he sends his cables to England and it's like sending them into the thin air. He never gets an answer half the time.” Kennedy said, “I am not surprised. Everything here is at 6's and 7's.”

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Regraded Unclassified
June 27, 1940

To: Mr. Rans

From: Mr. Young

Re: Distribution of Anglo-French Purchasing Board Reports and Treasury Analyses.

As a result of a conference this morning with Secretary Morgenthau, it was arranged that copies of the following would be sent on a weekly basis to the Secretary of State, Mr. Eden, and to Colonel Burns and Admiral Spaar of the Liaison Committee:

Detailed A B C reports (compiled by ANB)

Statistical Summary and Tabulation of Airplane Orders and Deliveries, and Airplane Engine Orders and Deliveries (compiled by Treasury)

Statistical Tabulation of Orders for all Commodities — Classified (compiled by Treasury)

Summary of Capital Commitments (compiled by Treasury).

Copy for Mrs. Klotz
Original and file given to Secy. to take to White House. Mrs. Robertson sent a this. (Mrs. R. said it was addressed to Mr. Forster, White House.)
June 27, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

The report of the inter-Departmental Committee as submitted to you yesterday disposes, I believe, of the question raised in Mr. Berle’s confidential memorandum to you. As I understand the text of the proposed proclamation it provides that the decisions with respect to export licenses shall be made by the Administrator of Export Control (Colonel Maxwell). I am informed by Mr. Gaston, who attended two of the committee meetings, that this was the understanding reached in committee. Representatives of the State Department specifically stated that they wished to be freed of the responsibility for making these decisions.
June 27, 1940

HIM, Jr returned the original of Berle’s memorandum to Pa Watson and said, "The President turned me down once and I don’t want to go into this again."
FROM: MR. GASTON'S OFFICE

TO: The Secretary

I talked to Colonel Watson, who said he believed the Berle memo and the President's answer must have been written before the report was received and that a simple memo for the files would be sufficient.
THE SECRETARY OF THE TREASURY
WASHINGTON

June 27, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

The report of the inter-Departmental Committee as submitted to you yesterday disposes, I believe, of the question raised in Mr. Earle's confidential memorandum to you. As I understand the text of the proposed proclamation it provides that the decisions with respect to export licenses shall be made by the Administrator of Export Control (Colonel Maxwell). I am informed by Mr. Gaston, who attended two of the committee meetings, that this was the understanding reached in committee. Representatives of the State Department specifically stated that they wished to be freed of the responsibility for making these decisions.
June 27, 1940

MEMORANDUM

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June 27, 1940

REMEMBER

To: The President

FRG: Secretary Morgenthau

The report of the Inter-Departmental Committee as submitted to you yesterday disposes, I believe, of the question raised in Mr. Seilo's confidential memorandum to you. As I understand the text of the proposed proclamation it provides that the decisions with respect to export licenses shall be made by the Administrator of Export Control (Colonel Maxwell). I am informed by Mr. Carter, the attendant here of the committee meetings, that this was the understanding reached in committee. Representatives of the State Department specifically stated that they wished to be freed of the responsibility for making these decisions.
June 27, 1940

MEMORANDUM

TO:  The President
FROM:  Secretary Morgenthau

The report of the inter-Departmental Committee as submitted to you yesterday disposes, I believe, of the question raised in Mr. Berle's confidential memorandum to you. As I understand the text of the proposed proclamation it provides that the decisions with respect to export licenses shall be made by the Administrator of Export Control (Colonel Maxwell). I am informed by Mr. Gaston, who attended two of the committee meetings, that this was the understanding reached in committee. Representatives of the State Department specifically stated that they wished to be freed of the responsibility for making these decisions.
June 27, 1940

MEMORANDUM

TO: The President
FROM: Secretary Morgenthau

The report of the inter-Departmental Committee as submitted to you yesterday disposes, I believe, of the question raised in Mr. Barle's confidential memorandum to you. As I understand the text of the proposed proclamation it provides that the decisions with respect to export licenses shall be made by the Administrator of Export Control (Colonel Maxwell). I am informed by Mr. Gaston, who attended two of the committee meetings, that this was the understanding reached in committee. Representatives of the State Department specifically stated that they wished to be freed of the responsibility for making these decisions.
June 27, 1940
10:30 a.m.

Operator:
H.M.Jr: Foley.
Operator: Thank you. (Pause) Mr. Foley.
H.M.Jr: Ed.
Ed Foley: Yes, Mr. Secretary.
H.M.Jr: General Watson just called. The President is too busy to see Mr. Hull and Jackson and me on this matter. Draw up a memorandum with a recommendation and put it on General Watson's desk and he'll take it in to the President.

F: O. K.
H.M.Jr: Now, what you've got to do is to draw up a memorandum and have three places to sign, you see?

F: Yeah.
H.M.Jr: Hull, me and Jackson. I'm willing to sign first.

F: Yeah.
H.M.Jr: Then we'll send it over to Jackson. Hello?

F: Yeah.
H.M.Jr: Get him to sign it and then you'll have to walk it over to Mr. Hull.

F: All right.
H.M.Jr: You see?

F: Yeah.
H.M.Jr: And the minute it's ready, the document, I'll drop whatever I'm doing, you see?
F: All right, I'll ......

H.M.Jr: I'll call up Jackson and ask him to see you and tell him what happened, and I'll call up Hull. But that's the way the President wants to work and we'll do it and the recommendation we'll make is that he signs this proclamation putting all the shipping, as I understand it, under me except Panama Canal, and that goes under the Governor.

F: That's right. O. K. I'll do it right away.

H.M.Jr: I tried to explain it to him -- well, you've got the thing and make the recommendation.

F: O. K.

H.M.Jr: And look, Ed, I'd try to have it -- a chance .........
June 27, 1940
4:57 p.m.

Operator: Mr. Foley.

H.M.Jr: Ed.

Ed Foley: Yes, Mr. Secretary.

H.M.Jr: Without hardly reading my memorandum or rather yours -- the one I signed, the President signed this whole business, at 4:30 today.

F: Oh, I see.

H.M.Jr: There were no seals on it so I gave it to Forster and told him to follow through on it.

F: I see. That's the proclamation and the regulation.

H.M.Jr: He signed everything.

F: I see.

H.M.Jr: Now don't you think that we ought to pick it up somewhere along the line?

F: Yeah, there's a press release attached to it also. Did you leave it all with Forster?

H.M.Jr: Everything.

F: Well, suppose I get in touch with Forster.

H.M.Jr: Now, if you don't mind, let Norman Thompson.

F: I'll get Norman to do it.

H.M.Jr: Tell Norman what to do and he'll handle the whole thing.

F: And I'll pick it up and then we can release the news from here. I've had that release mimeographed so Chick can give it out.
H.M. Jr: Well, you wouldn't release it tonight, would you? You know, let the White House do it.

F: All right. Well, then we can send over what we've mimeographed to the White House and let them do it.

H.M. Jr: Can I leave it with you and Norman Thompson?

F: Yeah. You leave it with us and I'll take care of it. It'll have to be published in the Register and I'll have that done also.

H.M. Jr: Yeah, now, I'm charging you with it.

F: All right. I'll take it.

H.M. Jr: The President signed it at 4:30.

F: O. K.

H.M. Jr: I tried my best to explain to him what was in it. Cordell Hull wouldn't even listen. He walked out while I was trying to explain.

F: Well, had he signed it?

H.M. Jr: He signed it.

F: Good.

H.M. Jr: He signed it and .......

F: So there was a unanimous recommendation.

H.M. Jr: ....... the only thing he said just to make life easy -- well, there should be no publicity. So Bell talked up -- but, Mr. President, it's got to go in the Register.

F: Yeah, that's right.

H.M. Jr: Well, there shouldn't be any publicity.

F: I see.
H.M.Jr: And then the President said, did you get my message about a Belgian ship? I said, no. He said, well, he said, let the Belgian ship sail, tell the British so they can sink it at the 3/4 mile limit. (Laughs)

F: (Laughs)

H.M.Jr: So I said, I want some legal status for what I'm doing, Mr. President.

F: That's right.

H.M.Jr: And he signed it. But I know there's machinery on it and I'm going to ask you to carry through.

F: O. K. How about the -- that other memorandum on the Navy business.

H.M.Jr: I got it and I brought it back because I wanted the whole thing photostated. We're sending that over this afternoon. Mrs. Klotz is taking care of that.

F: Oh, I see.

H.M.Jr: So you can forget it. Mrs. Klotz is carrying that one.

I told him (Purvis) that I was very anxious to have Sir Frederick Phillips come over and he was both surprised and pleased because he, Purvis, is fearful he is going to have trouble with Civil Service in England and he says that Sir Frederick Phillips is going to succeed Sir Horace John Wilson who now heads the Civil Service in England.

Upon thinking the matter over, I thought it was sufficiently important so I spoke to Kennedy at 6:30 this morning and asked him wouldn't he please ask the Government to send Sir Frederick Phillips over here and he asked why. I said, "To discuss frozen assets" and he said he understood.