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RE EXCESS PROFITS TAX

July 9, 1940
10:45 a.m.

Present: Mr. Sullivan
Mr. Foley
Mr. Paul
Mr. Schwarz
Mrs Klotz

H.M.Jr: Would you mind telling me for the benefit of the Stenotype what happened last night?

Sullivan: There were present at the conference Mr. Paul, Mr. Foley, Mr. Kades and myself from Treasury.

Foley: I have got a memo on this if you want it.

H.M.Jr: No, it is all right, sit down.

Tell Schwarz to come in.

(Mr. Schwarz entered the conference)

Sullivan: There were also Mr. Biggers, Mr. Henderson, Mr. Forsythe, Mr. Nelson, Mr. Ginsberg --

H.M.Jr: Well anyway, I don't care about that so much.

Sullivan: And one other on the Advisory Committee. There were several points discussed, first the desire of the Commission to send this bill up immediately, either today or tomorrow, and by this bill I mean the special amortization bill. They felt that it would be very unwise to have this subject to the delays which might occur in the excess-profits bill. They weren't disposed to change their minds, even though we pointed out to them that the Congress might be reluctant to give special amortization to corporations without knowing what was to be recaptured in excess profits.

There was then a long discussion about the rate of depreciation and it eventually developed that no company had refused a contract, that the contracts were now being held up by the lack of appropriations and that they anticipated that after the appropriations were granted, contracts might

- 2 -

then be held up because of lack of amortization, because that is the way the business men were speaking, but no contract had yet been held up for lack of amortization.

- Paul: In fairness, I think you should add there that they didn't claim the contracts would necessarily be held up, but that an additional price would be put in any contracts and that is the practical way it would work out.
- H.M.Jr: They want the bill, do they?
- Sullivan: They want the amortization bill and there was then a long discussion as to the period of time over which it should run and they --
- H.M.Jr: May I excuse myself?
- Sullivan: Yes.
- H.M.Jr: What I would like to do is this: I would like to call up Mr. McReynolds, if you gentlemen agree, and tell him, "Now look, Mac, these are the people who were here and they said you can't have this thing except as a piece of the bill. Now, you tell that to the Commission and let me know what their answer is."
- Sullivan: Right.
- H.M.Jr: O. K.?
- Foley: Right.
- Paul: That is all right, but there are a number of other points. It has been a point of when. Now, the point of what --
- H.M.Jr: The point is, certainly, today being Tuesday, the rest of the week the thing cannot go up. That gives them - they are going to meet on the 29th.

- Foley: If they adjourn on Tuesday, it is only two days. When they come back on the 22nd after the Convention - they won't get any consideration of it in the meantime.
- Paul: They are not coming back until the 29th, according to Senator George.
- Foley: The 29th then, what is the difference?
- Paul: I don't want to appear to be disagreeable, but as I understand their point, it is not that - they think the excess profits tax bill will take some time to pass even after it is first put in. Therefore, they want this bill separated so it can go through quickly, so we don't meet our problem that way.
- Foley: I pointed that out last night, Randolph, and I said that if it all goes in on the 22nd or the 29th, whenever they come back, it could be separated if there is going to be a hold-up.
- Paul: That is all right.
- Foley: It can be separated by a Committee down on the Hill.
- Paul: That would meet their point.
- H.M.Jr: And their answer was, they wanted it all one bill, but the point I want to get over to McReynolds now, these gentlemen who were here this morning said certainly they don't want a separate depreciation bill coming up on the Hill in advance of an excess profits bill. Is that right?
- Sullivan: That is right.
- H.M.Jr: They want to treat the whole thing as one.
- Foley: And they are troubled by Walsh's change of the Vinson-Trammell Act.

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H.M.Jr: He can give that to them and call me back and let me know what their reaction is.

Paul: That is all right.

H.M.Jr: That doesn't close the door on the point you are talking about. That is subject to more argument. Are you satisfied?

Paul: Yes.

(Telephone conversation with Mr. McReynolds follows:)

July 9, 1940
10:54 a.m.

H.M. Jr: Hello.

Operator: McReynolds.

H.M. Jr: Hello.

Wm. S.
McReynolds: Good morning, sir.

H.M. Jr: Good morning, Mac. I don't know whether you were at that meeting last night

McR: I was, yes.

H.M. Jr: All right. Well, I tell you. We've been here since nine o'clock -- you're on the loudspeaker and just my own people are in the room though -- and Pat Harrison, Senator King, Senator George and Jere Cooper just left here.

McR: Yeah.

H.M. Jr: I told them as well as I could what the wishes were of the Defense Council and Senator Harrison is very sympathetic to getting the Defense Council what it needs. But when it came to the question of sending up a request from the Administration for special treatment in connection with depreciation in advance of an all-inclusive tax bill, they said that they would have parliamentary trouble and that they just couldn't handle it. Now yesterday when we saw the President -- I don't know whether Peoples told you this -- he was opposed to sending up a special request to cancel the Vinson-Trammell bill and he said that the thing all has to be handled at the same time.

McR: Yeah.

- 2 -

- H.M.Jr: But they all agreed and in the meantime Harrison repeated that he wanted this Defense Council to have what they needed. They all agreed that to set the thing up separately -- in advance, rather, not separately -- but in advance. The question of separate wasn't discussed.
- McR: Yeah.
- H.M.Jr: I understand that that's a point, but we didn't discuss that -- as to whether when it goes up it would be treated as two separate bills, but in advance. Is that right?
- McR: Yeah.
- H.M.Jr: In advance as this group which -- you know who they represent -- were unanimously opposed to it.
- McR: Yeah. Well, I have no doubt that that -- why I had no doubt in my own mind that that would be the reaction from the people on the Hill and I'll communicate that of course to the boys and they'll have to be satisfied with it. After the talk last night, going into this thing at some length in a more or less desultory fashion, I admit, but I came pretty much to the conclusion you'd reached yesterday morning that that damn thing's not going to amount to a hell of a lot anyhow.
- H.M.Jr: In other words, they were kidding themselves.
- McR: Yeah. I think a number of people had more or less the same impression and I'll tell these fellows what the answer is.
- H.M.Jr: And they can come back at me through you if they want to. I'm available through you, but I can't talk to five people but I'll be glad to -- you tell them that if they want to come back at me through you that I'm here.
- McR: O. K.

H.M.Jr: But, Mac, there's one point that Sullivan tells me that I'm vitally interested in -- up to now, nobody has refused a contract on account of the taxes. It's a question -- they haven't got the money to place the orders.

McR: That's right.

H.M.Jr: What?

McR: That's correct.

H.M.Jr: Well, I think that that's terribly important and I just -- I want to give these fellows all that they

McR: I told them -- they realize that you do.

H.M.Jr: What?

McR: They realize that you do. I talked to Bill Knudsen yesterday about this question of cooperation from every point, including cooperation with the Treasury particularly and he has no criticism and no fault to find.

H.M.Jr: Well, I don't think he has any grounds for it.

McR: No, he hasn't, of course, but the President raised the question -- not that he thought there was any substance to it but he said it was being circulated around and merely in the precaution to find out -- I had a chance to sit down and talk to Bill for a little while after lunch yesterday and his -- mind is entirely clear on it. He has no feeling at all that there is any lack of all the help that could possibly be given by Treasury.

H.M.Jr: Now as to being practical on this thing, they're only going to be here two days more then everybody's leaving Thursday.

McR: Yes, of course.

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H.M.Jr: to Chicago and if they sent this thing up they couldn't get it through in two days anyway.

McR: No.

H.M.Jr: So, I mean, even if I said let 'er go, nothing would happen and what they are proposing to do is to adjourn until the 29th.

McR: 29th, huh.

H.M.Jr: So I mean, even if they take the bit in the teeth and say, O. K., we'll send it up, nothing will happen and all they'll do is to get everybody sore.

McR: Yeah. O. K. Well, of course, they won't send it up. The President won't send it up. I told them that it was the silliest thing they could possibly do. I said, disregarding the question of the courtesy due the Treasury with respect to anything involving taxes, if you should go to the President and get him to send something up without -- himself, instead of having the Treasury do it, which is the regular course, that would merely mean that you'd be setting yourself back so far as Congressional action is concerned because they will not -- they'd feel perfectly helpless in Ways and Means on the thing that they hadn't had Treasury advice on and that's the way they ought to feel.

H.M.Jr: Well, I understand that. When they begin to talk to the papers over there about this and the columnists, please make it plain to them that it's -- this is the legislative leaders in Finance and Ways and Means and not the Secretary of the Treasury. Never mind the courtesy due me -- I haven't got any since I've been here and I don't expect any while I'm here, but when they begin to talk over there to columnists, let them make it plain it's the leaders. See?

- 5 -

McR: Yes, sir.

H.M.Jr: Mac, you and I understand

McR: I'll see that -- that's true.

H.M.Jr: What?

McR: I'll see that that is

H.M.Jr: See that the columnists get it straight,
Mac.

McR: You bet.

H.M.Jr: O. K.

McR: O. K. Good-bye.

- 5 -

Paul: That is a pretty tough assignment you gave him, that last one. The columnists never get anything straight.

H.M.Jr: Did you see the thing in the Wall Street Journal?

Schwartz: Yes.

H.M.Jr: Where does that thing go? Yesterday morning I was awfully careful with that bunch not to say anything. Did I say to them that I was in favor of doing away with Vinson-Trammell?

Paul: I think you --

Sullivan: Yes, you did.

Paul: I think you did, but that wouldn't explain --

Foley: But you said you wanted to keep it within the four walls of our offices and you said you wanted to be fair with them and you would tell them how your mind was running. You were going to walk across the street and these were the things you were going to talk about, excess profits, doing away with the Vinson-Trammell Act, and some special treatment for plant installation for national defense needs. Now, you said, "Is that fair? Do you want any more?" And they said, "Well, that is fair."

H.M.Jr: Here they say at the same time Congressional circles confirmed the fact that the Treasury experts are considering the possibility of asking the repeal of the special profits limitation in the Vinson-Trammell Act. This is Dow-Jones.

Sullivan: Sandy Klein called me yesterday afternoon about 6:00. He said, "Well, what are you and your gang and that national defense group going to talk about tonight?" And I said, "Sandy, what in the world are you driving at?" He said, "No, I know you are all working

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on this thing down in your offices tonight," and I said, "I give you my word, Sandy, I am leaving here in five minutes and I am not coming back until five minutes of nine tomorrow morning."

- Schwarz: It is the people on the staff that are doing the talking to him, not the top men.
- H.M.Jr: They have got some pretty good talkers over there.
- Foley: That is the second story the Wall Street Journal has had.
- Paul: This doesn't explain the great detail there is in this story. The defense council wasn't told any detail and there is almost as much detail here as there is in your memorandum.
- Sullivan: There were two other matters that came up last night that I think you should know about. We got discussing the technique that we used in Curtiss-Wright --
- (Unrecorded telephone conversation)
- H.M.Jr: Well, let's get through here now.
- Sullivan: We were discussing the Curtiss-Wright technique.
- H.M.Jr: I am going to stop now, unless you think it is important.
- Sullivan: Only that Jones had said they weren't going to go through with the idea, that the obligation that we pay would cease with the emergency.
- Foley: Well now, wait a minute.
- H.M.Jr: Do you mind letting me quit now, because I really - I have got to clear a Greek ship with food on it for Genoa.

- 7 -

- Sullivan: Do you want me to prepare an answer to Doughton?
- H.M.Jr: Yes, and I would like also if you would dictate a little bit of what happened this morning and then you can have this bill ready day before yesterday.
- Sullivan: We had it ready before we got to your place last Saturday afternoon.
- H.M.Jr: You never are going to let me forget that it was two months off, are you?

BRITISH EMBASSY,
WASHINGTON, D.C.

July 9th, 1940.

Personal and Secret

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Hurai

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London
on the evening of July 8th.

Following is summary of present
situation regarding main units of French Fleet

- 3 battleships and 5 cruisers in British
hands in home ports and Alexandria.
- 2 battleships, 1 battle cruiser (at Oran)
and 1 six inch cruiser believed destroyed
or out of action.
- 1 battle cruiser (damaged) and 9 cruisers
in Western Mediterranean ports.
- 2 new battleships and 1 cruiser off Morocco
and West African coast.
- 1 aircraft carrier, 1 training cruiser and
1 cruiser in West Indies.

On July 6th British warships
attacked shipping in Bardia harbour (Libya).
2 supply ships heavily hit and probably sunk.
Our warships were subsequently unsuccessfully
attacked by enemy bombers. One British submarine
severely damaged in enemy air attack on Malta.
One mine sweeper and 1 M/S trawler slightly
damaged by enemy air attack in home waters.
One Italian ship sunk in western approaches.
One British ship and one Swedish ship and one
tanker also attacked in same area.

Enemy aircraft operating against United Kingdom displayed increased activity yesterday directing their main effort against South Coast ports and shipping in Straits of Dover. No material damage to war industries but 27 persons killed and over 40 injured. Our fighters shot down 3 Messerschmitts 109s, 1 Dornier 17 and 1 Junker 88 (confirmed) and 1 Messerschmitt 110 (probable). One Hurricane shot down and 3 missing. Anti-aircraft guns shot down 1 Messerschmitt 109. Enemy activity last night below normal and mainly over East Coast. No serious damage reported up to the present.

Blenheim aircraft yesterday attacked oil targets, air frame works, airdromes and barges in northwestern Germany. One aircraft reported concentration of barges and trawlers at Ostend. Two Blenheims missing. One aircraft was attacked by five Messerschmitt 109s of which one is reported to have been shot down. Last night heavy bombers attacked targets in northwestern Germany including shipbuilding yards and dockyards. Two aircraft missing. Medium bombers attacked Ostend report direct hits on one large ship and on dockyard gates. Mine laying operations continue. Reports received of considerable railway disorganisation in Rhineland and Westphalia. Traffic blocks in areas such as Hamm and Soest, Dusseldorf and Cologne, are increasing.

MSYP 4/

Egypt. British casualties destroyed

12 out of 20 enemy motor vehicles engaged in western desert yesterday. July 5th Blenheim successfully attacked enemy aircraft on airfields near Tobruk and mechanised transport and troop concentrations near Bardia. All our aircraft returned. On the same day enemy aircraft attacked airfields and armoured troops in western desert. Damage and casualties not serious. Our forces have cut pipe line Bardia-Capuzzo.

Enemy aircraft attacked dock area and airfields at Malta yesterday and preceding night, few naval and civilian casualties caused but no serious material damage reported. One enemy aircraft shot down by anti-aircraft fire and one by fighters. Enemy aircraft recently bombed repeatedly for three days British convoy in Eastern Mediterranean but with no result, although convoy escort was weak in anti-aircraft defence.

We have been forced to withdraw temporarily from main positions in Gallabat area but are sending reinforcements from Gedaref. Italian casualties during occupation of Kassala estimated at three hundred personnel and eight light tanks and probably aircraft.

July 9, 1940

My dear Mr. President:

Attached is a copy of Ed Foley's memorandum giving his reasons why the limited excess profits provision of the Vinson-Trammell Act should be repealed when a general excess profits tax is enacted by Congress. This is the memorandum which I told you yesterday I would send over for your information in support of my recommendation concerning the repeal of the Vinson-Trammell Act.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President
The White House

Attachment ✓

HEF:sp
7-9-40
S. J. H.

By Messenger 4 15

11
JUL 1 - 1940

COPY
Secretary Morgenthau

Mr. Foley

At a night session in 1934 the House of Representatives adopted a rider to the Vinson-Trammell Naval Construction Act offered by Senator (then Congressman) Tobey of New Hampshire which purported to limit profits on contracts for naval vessels and naval and military aircraft.

In any communication the President sends to Congress recommending the imposition of an excess profits tax there ought to be a recommendation that the Tobey rider to the Vinson-Trammell Act be repealed. The Tobey rider is a snare and delusion. Not only does it deprive prudent businessmen of incentive to participate in the national defense program, but it affords no effective limitation of profits and is proving a very serious hindrance to rapid production under the national defense program.

I

The Tobey rider imposes a flat 100% excess profits tax on the industries only.

This form of profit limitation discriminates unfairly among manufacturers supplying material to the Government.

For example, the manufacturer of an engine (or part thereof) for a tank is not covered by the Tobey rider, but the manufacturer of an engine for an airplane is subjected to its provisions; the maker of a machine gun for general purposes is not covered, but if he manufactures one for an airplane the rider applies to him and his subcontractors.

II

The Tobey rider sets a limit on profits without regard to a fair return.

This form of profit limitation has no proper relation to the manufacturer's actual investment or risk. The profit allowed is a percentage of the contract price and of cost.

Regardless of the time in which capital is turned over and regardless of the extent to which the Government supplies needed working capital, either by advances on account of work and materials supplied or by loans, the profit per unit of production is the same.

A percentage of contract price, or of a cost which is practically guaranteed through a five-year carryover not only of losses but of deficiency of profit, although small in itself, may give an exorbitant profit as applied to each unit of a large production.

III

The Tobey rider encourages waste and results in increased Government expenditures.

This form of profit limitation increases the prices which the Government must pay for naval vessels and naval and military aircraft.

The higher the contract price the greater the allowable profit.

Moreover, contractors receive the same amount of profit, however wasteful they may be, and have no incentive to avoid unnecessary costs.

In fact, the contractor derives an increased profit from uneconomical management thus breeding indifference to excessive cost.

IV

The Tobey rider disrupts usual channels of supply by burdening contractors and subcontractors with complex cost accounting and federal policing.

This form of profit limitation delays a contractor in securing his supplies. It applies to all subcontracts exceeding \$25,000 for all items which ultimately become a component part of a naval vessel or naval or military airplane. It applies to spare parts, repair parts and fabricating supplies back to the raw material.

Even though a subcontractor supplying, for example, cotter pins has only a small portion of his business devoted to the filling of an order for cotter pins going into a carburetor for an aircraft engine, he must educate himself as to what costs are allowed and what items are not considered proper elements of cost before he is in a position to make a firm bid to the carburetor subcontractor or to expand his plant facilities to accelerate production.

It is necessary for every contractor and subcontractor down along the line to the quarries and mines to establish a cost accounting system of a technical, complex and intricate nature and to admit to his business establishment a force of federal auditors and inspectors who will police his costs.

There is understandable hesitation and reluctance on the part of small contractors to take work involving such necessary but mighty annoying red-tape.

V

The Tobey rider is hardly self-supporting.

This form of profit limitation has not been productive of any substantial revenue.

From the date of enactment of the Tobey rider in March, 1934 through May of this year, the Treasury Department has collected about \$3,700,000 in excess pre-

- 3 -

fits on 3,077 contracts and subcontracts completed during that period. Of these 1,266 returns are still being audited.

Many elements of uncertainty require difficult judgments concerning the proper allocation of costs in plants having commercial and Government work not covered by the Tobey rider, as well as Government contracts subject to its restrictions.

VI

The Tobey rider was hasty, ill-advised legislation.

Notwithstanding that the Tobey rider levies a 100 per cent excess profits tax over and above the percentage limitation, it has never been studied by either the House Ways and Means Committee or the Senate Finance Committee.

In these committees is vested the function of initiating tax legislation. These committees are by experience best qualified to determine the economic and fiscal effects of excess profit laws.

VII

The Nye Committee criticized the Tobey rider as ineffective.

It is also noteworthy that the Special Committee of the Senate on the investigation of the munitions industry (consisting of Senators Nye, George, Clark, Bone, Pope, Vandenberg and Barbour) in a report made on June 19, 1936 concluded:

*** there is no effective profit-limitation law today *** the price of real enforcement of the attempts of Congress to limit profits is a costly policing force of accountants and auditors *** and a series of costly law suits after these audits have been completed *** the attempts to enforce profit limitation are being thwarted ***
 [Senate Report No. 944, Pt. 7, pp. 12-13, 74th Cong., 2d sess.]

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

MEP:mg
7-1-60

July 9, 1940

11:15 a.m.

Present:

Mr. Bell
Mrs. Klotz

Mr. Bell: This is a Greek ship. It's 5500 tons of wheat and barley and the origin is Canada. It came through Buffalo to be exported from New York. It's consigned to a man

HM, Jr: Excuse me. Exported from New York?

Mr. Bell: Exported from New York. Came by train from Buffalo and loaded on to this ship at New York. Consigned to a man by the name of Andreas in Switzerland, clearing, of course, for Genoa, Italy, and handled by the Granac Grain Company. Basil Harris is trying to find out a little bit more about it, whether or not this ship is one of the twelve, but he had not been able, at ten o'clock, to find out anything. I tried to get Berle and he was out of the building. He will call me when he gets back.

(At this point, HM, Jr spoke to Mr. Basil Harris and transcript of their conversation is attached.)

Mr. Bell: Having originated in Canada, I should say it is fairly safe....

HM, Jr: Doesn't mean a thing these days. I will try to get Berle.

Mr. Bell: Berle was out when I called him.

The State Department wants a conference, I think on the searching of consular mail, and asked me if I would

-2-

come over and see George Moore.

HM,Jr: What's that?

Mr. Bell: On the Executive Order issued by the President which permits Federal Reserve Banks to have the man to whom the mail is addressed open the mail in the Federal Reserve Banks. We have never been able to get to consular mail which we think is quite an avenue of escape and we sent a memorandum over there, about two weeks ago, pointing out this was an avenue and we thought something ought to be done about it and it has been shunted back and forth in the Divisions over there and I think there are a couple of schools of thought and they wanted to know if we would have

(At this point, HM,Jr spoke to Mr. Hull and a transcript of their conversation is attached.)

HM,Kr: I am not going to fool around with any of these people any more and it's up to Hull.

(At this point, HM,Jr spoke to Mr. Hull over the White House phone.)

HM,Jr: Mr. Hull said he can't see any objection to letting this Greek vessel go. It's Canadian grain. After all, Great Britain is in control of the sea and it's up to Great Britain to do what it wishes.

(At this point, HM,Jr spoke to Mr. Basil Harris and copy of their conversation is attached.)

July 9, 1940
11:14 a.m.

H.M.Jr: Did you hear anything more about this Greek ship?

Basil Harris: Well, I don't know how much you know.

H.M.Jr: Well, I know that it's consigned to a man by the name of Andreas in Switzerland.

H: Yes.

H.M.Jr: Well, do you know -- is it one of the twelve ships?

H: Well, that's what I'm waiting word on now. I ought to have word any minute. The grain actually is Canadian grain.

H.M.Jr: Yeah, but have you heard -- have you talked to the Swiss Legation?

H: Well, no. I haven't talked to the Swiss Legation. Would you suggest that?

H.M.Jr: Sure.

H: Yes.

H.M.Jr: Supposing you call up the Swiss Legation and ask them if they've got this consigned to this fellow Andreas and do they know about it and will they -- can they give us any guarantee it is for consumption within Switzerland.

H: Yes. All right, I'll do that immediately.

H.M.Jr: Will you do that right away?

H: Yes, sir.

H.M.Jr: Thank you.

July 9, 1940
11:16 a.m.

H.M.Jr: Hello. (Pause) Hello.
Operator: They said they were putting him right on.
H.M.Jr: Will you call me when you get him.
Operator: All right.

11:18 a.m.

H.M.Jr: Hello.
Cordell Hull: Henry, I apologize. I couldn't get that stuff -- they crowded in here yesterday and ran me crazy and I couldn't get that stuff ready until this morning.
H.M.Jr: I see.
H: And Admiral Richardson came in early -- he'd flown from Hawaii to have a talk with me and I just had to talk with him.
H.M.Jr: Uh-huh.
H: Why on that oil business to the Canaries, I had this idea in mind after talking around that one thing you could do would be to ask those fellows to come down here for a talk about all angles of this and then you could say things to them that you might not want to put in writing in any way. Another thing is that from our viewpoint it's dangerous for American flagships to be carrying stuff to the Canaries -- don't know when they'll get bumped off and

H.M.Jr: Well, these aren't American flagships -- they're South American. I think somebody

- 2 -

in the State Department better talk to them. I think it's too much out of my line.

H: Yes. Well

H.M.Jr: Basil Harris brought it to me but this thing of whether they should take this Venezuelan oil or Colombian oil and shoot it over to the Canary Islands -- they brought it to me and I only found out afterward -- I don't think there are any American flagships involved.

H: I see.

H.M.Jr: So I think I'm going to leave it with you and whatever you decide -- it's your business.

H: Well, whatever you want to do.

H.M.Jr: No, I don't think I'd better get in on it. But I have got something which I've been desperately trying to get an answer to. We talked to Berle last night and we've had no answer. We've been holding up a Greek flagship loaded with Canadian grain. It wants to sail for Genoa -- the grain to go to a man in Switzerland.

H: Yeah.

H.M.Jr: And we've held this ship up and I've been after Berle -- we've just got to get an answer one way or the other.

H: Yes. Well, I think we can answer you right away. I'll go back in my other office and check on that for about -- for just a few minutes

H.M.Jr: Would you?

H: Yeah.

H.M.Jr: Because I hate to

- 3 -

H: Well, that's the way things will happen under that blanket ruling, you know.

H.M.Jr: I know, but this is the first case and this is Canadian grain, came down through Buffalo on board a Greek flagship, consigned to a man by the name of Andreas in Switzerland.

H: Yes. This is going from Canada.

H.M.Jr: It's going to sail from New York.

H: I know, but it's Canadian-owned stuff, presumably.

H.M.Jr: It was Canadian grain.

H: Yes, I see.

H.M.Jr: And in a Greek flagship, going to Genoa, consigned to a man by the name of Andreas in Switzerland.

H: Well, I'll get in touch with you presently.

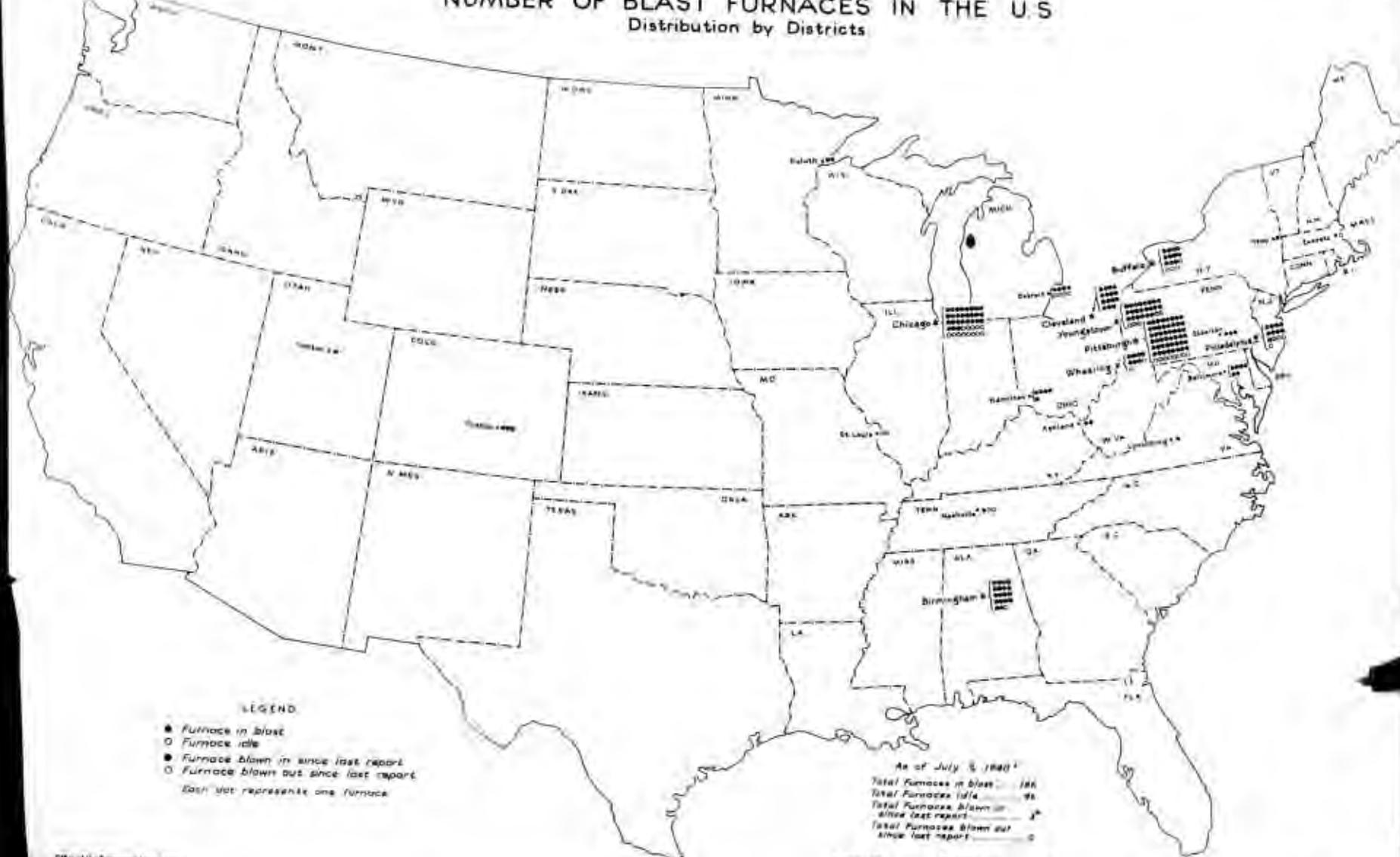
H.M.Jr: And you'll let me know.

H: Yeah.

H.M.Jr: I'm ever so much obliged.

July 9

NUMBER OF BLAST FURNACES IN THE U.S. Distribution by Districts



- LEGEND**
- Furnace in blast
 - Furnace idle
 - Furnace blown in since last report
 - Furnace blown out since last report
- Each dot represents one furnace

As of July 6, 1940*

Total Furnaces in blast	186
Total Furnaces idle	96
Total Furnaces Blown in since last report	3*
Total Furnaces Blown out since last report	0

July 9, 1940
2:15 p.m.

New York
Operator: Hello, Mr. Morgenthau.

H.M.Jr: Hello.

Operator: Yes, Operator, he's on the line.

N.Y. Opr.: All right, go ahead please.

Mr. Loree: Hello.

H.M.Jr: Yes.

L: Mr. Morgenthau, this is Loree. Mr. Morgenthau, I have been pretty much disturbed today over an announcement that the post office is going to take mail for Europe to Lisbon tomorrow.

H.M.Jr: You mean

L: Now the difficulty I see there is that we're -- our lawyers here are rather of the opinion that we may have to send out statements and advices of credits to individual and bank accounts and it seems to me it would be perfectly terrible for these Germans to get advice of who's got money over here.

H.M.Jr: Well, now, look, Mr. Loree. I don't quite get this but could I get a stenographer and have you

L: Yes, sir.

H.M.Jr: dictate -- I could switch it to another room, you see what I mean.

L: That's right.

H.M.Jr: And you could dictate to somebody what you have in mind. I tell you, the best way to do it -- if Mr. Cochran is in, let me switch you to him.

- 2 -

L: All right, fine.

H.M.Jr: Just a moment, then you tell him and he can give it to me.

L: All right, sir.

H.M.Jr: Will you hold on?

L: Absolutely.

Mr. Cochran's
Secretary: Yes, sir.

H.M.Jr: Is Mr. Merle Cochran in?

S: I'll see. (Pause)

Operator: Yes, sir.

H.M.Jr: Is Mr. Merle Cochran in?

Operator: They have an answer now -- just a second.
(Pause) Yes, sir he's here.

H.M.Jr: Ask him to talk to Mr. Loree and after he's talked to Mr. Loree I'd like to see him.

Operator: All right.

H.M.Jr: Are you still there?

Loree: Yes, thank you, sir.

H.M.Jr: O. K.

L: All right, sir.

RE FREEZING ORDER

July 9, 1940
3:30 p.m.

Presents: Mr. Bell
Mr. Harrison
Mr. Foley
Mr. Bernstein
Mr. Chamberlain
Mrs Klots
Mr. Cochran

H.M.Jr: I am taking advantage of Governor Harrison being here because I thought the New York banks, Mr. Loree in particular, were trying to put a little too much responsibility on me, see. He called up - Loree is head of a committee there which Mr. Harrison formed in New York of all the banks that have to do with foreign exchange. I think they have got about 60 members, haven't they?

Harrison: Well, there are nine members of the committee.

H.M.Jr: But I mean institutions.

Harrison: Well, exclusive of the stock market houses, the stock exchange companies, I would think there are between 50 and 60.

H.M.Jr: Well, the point he was raising, it seems that the first United States boat is sailing on Thursday for Portugal, taking all mails and he said he was very much disturbed that if he had to send statements of the accounts to their depositors, let's say to Holland, on this boat, it would get in the hands of the Germans and would give them a chance to find out what some of these Netherlanders had, and he was under the impression, without knowing any laws, that when a U. S. boat sails, if you have any mail, the law says it must go. There is no law that says I have got to drop a letter in the mailbox. Right?

Chamber'n: No.

H.M.Jr: Just common sense.

Chamber'n: That is all.

H.M.Jr: And he wanted us to do something about it and I haven't had a chance, but it seems to me if the Guaranty Trust or any other bank has any statements which they are at all worried about and feel that the requests for them might not be legitimate or they are the least bit worried about these getting into hands that may injure their customers that rather than we taking it up with the Post Office - I haven't consulted anybody - that all they have got to do is just use their horse sense and say, "If this is going to injure our customers, we just won't mail it." Does that make sense?

Chamber'n: I think further than that you have got this Netherlands decree of the Government in London, for whatever that is worth, which you can't place any regulations on but which the New York bankers must know of. I understand they do. Under the Netherlands decree --

H.M.Jr: This is George Harrison's pet committee.

Foley: This is the Dutch decree which was published and has been given official cognizance by the State Department here and the decree expressly provides --

H.M.Jr: According to Protocol, in order for Mr. Loree to call me up, he should have done it through George Harrison.

Foley: If anybody here sees the request as to the status of an account from somebody now in Holland, that bank could properly say that the request should be mailed by the person in Holland to the Minister in this country, who is trustee for the property, and let him be responsible.

Chamber'n: Of course, the Secretary couldn't take any such action.

Foley: No, but the bank could do it.

- 5 -

H.M.Jr: George Harrison can call up Loree if he thinks this is wise - what is Loree's first name?

Harrison: Bob.

H.M.Jr: He can say, "Look here, Bob, what the devil do you call up Morgenthau for when I am down in Washington?" That is number one. Number two, we have had a meeting down here and he does or doesn't think this is wise and if Loree is worried about his customers, tell the committee of 60 if they have got any doubts, just tell them to do it.

Harrison: I don't see yet why he asked you to do it for.

H.M.Jr: Merle Cochran was here. He was awfully excited. Is he an excitable person?

Harrison: Merle Cochran?

H.M.Jr: No, Merle hasn't got any nerves. Loree.

Bell: He wanted us to rule that these statements or accounts were evidence of indebtedness and therefore came within the order, the freezing order.

(Mr. Cochran entered the conference)

H.M.Jr: Merle, Governor Harrison questions what I have been saying so will you tell Mr. Harrison just what Mr. Loree said to me? It seems unbelievable. I can't believe it.

Cochran: These are the notes I made. He telephoned that he read in the paper that this ship was sailing Sunday and it gave a list of the countries for which mail was being taken. It included a number of the occupied countries and he said that the Post Office people had given him to understand that they were obliged to send mail when their work was for dispatch in the mail and he

- 4 -

said that it might be detrimental to some of these people who had accounts with the banks in New York if the Germans - or he said certain people - had the chance to see statements of the accounts which the Guaranty would send out. He mentioned one particular account in Rotterdam where that bank's account had been debited for \$50,000 in favor of a man and wife whose names were given. He said if people got hold of this specific piece of information it might be used to their disadvantage. He asked if the Secretary would care to take it up with the Post Office Department with the view to having an order gotten out saying that mail should not be accepted for those countries, and I told him that we had been considering whether or not our own freezing regulations were applicable to statements of brokerage concerns and banks and I spoke to the Secretary about it.

- H.M.Jr: What do you mean, George?
- Harrison: I still don't understand Loree and I don't understand the Postmaster. I just can't believe the Postmaster tells me I have got to write to everybody in Europe that I know.
- Bell: He didn't say that. He said he had got to send his mail, if any.
- Foley: I think he said that if you drop a letter in the box addressed to somebody in Holland, the Postmaster has got to put it on a boat. He can't hold it up, and I think that is probably what he asked him and that is the answer he got.
- H.M.Jr: But there is no law saying he has got to go to the post box.
- Foley: No, he hasn't got to put it in the box.
- Harrison: Probably what is bothering Loree is that he has an arrangement with all of his customers that he will send statements once a month or every two months, you know, and having

- 5 -

that arrangement, he feels that from his standpoint he probably ought to put it in the post box and in that event it will go, unless you have the Postmaster say he won't deliver it.

H.M.Jr: But why call up the poor Secretary of the Treasury and ask him?

Harrison: I don't know.

H.M.Jr: Would you do this for me? I am terribly serious now. I think - I heard you say you were leaving at 5:00 o'clock. If you could use our phone wherever you want to use one and call up Loree and tell him to get his group together and if there are people like he mentions, unofficially I am glad. It seems to me that the thing is just humane, to delay sending those. I mean, where it is a matter of life or death to these people, it is just a matter of decency on the part of the group not to send them. I didn't say withheld them, just delay sending them. Do you agree, George?

Foley: And they have got to get protection.

Harrison: Yes, I agree.

H.M.Jr: Professor Chamberlain?

Chamber'n: Yes, I certainly would do it.

H.M.Jr: I would like to go that far in answer to Loree, if you will transmit that to him.

Chamber'n: Unofficially, of course, Mr. Secretary, yes, just one human being to another.

Harrison: Yes. Knoke is on his vacation.

H.M.Jr: And what are you?

Harrison: Well, it is more of a vacation than it is in New York.

- 6 -

H.M.Jr: George, would you get that message to Loree?

Harrison: I will do it right away.

H.M.Jr: Don't you think - if you were there wouldn't you withhold it if you knew that this fellow getting this thing --

Harrison: I don't know what his contract is with these people.

H.M.Jr: But the boys say he has legal protection.

Harrison: The thought in my mind is whether he couldn't, if he feels he is under a great legal difficulty, just mail it to the Minister in Washington under this decree.

Foley: Sure.

Chamber'n: There is no objection to his doing that and telling the Minister that under the terms of the decree he will send to him - understanding that the Minister is acting --

Foley: The Minister will know what to do with them.

Chamber'n: He might go ahead and explain that under the terms of the decree the Minister is acting as sort of a custodian, because he says the property will be retained and therefore he is sending it to him as custodian under the terms of the decree.

Harrison: I think I wouldn't do that unless he feels impelled by circumstances.

Chamber'n: No, and I wouldn't suggest it to him unless - until he has made a good deal of study of what the situation is. I don't think I would go further than the Secretary suggested at this time, and then later, if you want to - when you see him, talk with him. You might find out what the trouble is and suggest to him that this decree exists.

Harrison: Well, the first question, as I understand it,

- 7 -

put to the Secretary, Mr. Cochran, was will the Secretary try to get the Postmaster General to say he will not take mail for the occupied countries. I think the Secretary should say that is none of his business.

The second question he asked, the question was what - is that the only question he asked the Secretary?

Cochran: That was the only question. I told him that we had been going over the question, as we had, but I didn't mention that I discussed it with your bank, as to whether brokers and bankers should under our regulations continue to give payments to foreign clients in those occupied countries.

Harrison: I don't think the regulations help one way or the other on that.

Cochran: I didn't give him any decision.

H.M.Jr: Are we all right, George?

Harrison: Yes, I am all right.

H.M.Jr: And would you mind leaving word with Bell whether you want to talk to them?

Harrison: Yes, I will do it now.

*File & ... with meeting
with ...
July 9/40*

MEMORANDUM

A number of New York brokers have recently received communications purportedly sent by their clients in the Netherlands requesting such brokers to furnish to the Dutch clients statements of account and other records relating to the accounts of the Dutch clients. The communications state that the reason for the request is the fact that the records held by the Dutch clients have been destroyed during the war. The New York brokers, in some instances at least, feel that the requests for the statements of account, etc., either were not sent by their clients or were sent by such clients under compulsion. Accordingly, such brokers apparently do not wish to respond to the requests which they have received. The brokers have inquired of the New York Federal Reserve Bank whether the sending of such statements of account is prohibited by Executive Order No. 8389, as amended. In at least two instances, applications for licenses authorizing the sending of such documents have been filed.

There are several possible ways of dealing with the foregoing matter:

(1) The Treasury Department might rule that the sending of statements of account, etc., to countries named in the Executive Order is prohibited by the Order. It is possible to contend that statements of account are evidences of indebtedness or evidences of ownership of property within the meaning of the Executive Order. It is also possible to contend that the sending of such documents is prohibited as a transaction which will have the effect of evading or avoiding the other prohibitions of the Executive Order. An apparent advantage of making such a ruling is that it possibly will prevent the Germans from obtaining information with respect to holdings in this country of nationals of the invaded countries.

(2) The Treasury might rule that the sending of transcripts of account, etc., is not prohibited by the Executive Order. Such a ruling would take account of the fact that it is not clear that transcripts of account, etc., are evidences of indebtedness or evidences of ownership within the meaning of the Executive Order. Such a ruling would also take account of certain practical considerations involved, namely, that we would be attempting to regulate practically all communications between banks and brokers in this country and banks and brokers in the invaded countries. Such attempted regulation would obviously involve considerable interference with business which has already been considerably restricted. Moreover, it would seem to be somewhat inconsistent to permit, as we do under certain general licenses, transactions to be carried out in this country for the account of nationals of the invaded countries, and at the same time, not to permit persons in this country carrying out such transactions, to furnish

- 2 -

their clients with information as to such transactions. It may be questionable whether the end to be achieved by the proposed form of regulation would justify the means. Even if the Germans discover the existence of property in this country, such property will still be subject to the control set up by the Executive Order.

(3) As an alternative procedure, the Treasury Department might advise Federal Reserve banks to advise brokers that for the time being, the Treasury Department is not requiring licenses to be obtained in order to permit the sending of statements of account, etc., to nationals of invaded countries. The advantage of this procedure is that it saves the question of whether the sending of such documents is prohibited by the Executive Order, and thus enables the Treasury to take the position at a later date, that such transactions are prohibited under license. At the same time, it avoids some of the disadvantages referred to under (2) above. On balance, this seems to be the most desirable procedure for the present.

July 9, 1940

My dear Mr. Secretary:

Thank you for your letter of July 3rd, with respect to the meeting of the National Munitions Control Board to be held in your office at 3:30 P.M., Tuesday, July 9, 1940.

As it is doubtful that I shall be able to attend this meeting, I have designated Mr. Philip Young to act as my alternate on the National Munitions Control Board.

Sincerely,

(Signed) H. Morganthau, Jr.

The Honorable,
The Secretary of State.

FT:bj

cc to Mr. Thompson

By Messenger 1205
(mailed in Mr. Young's
office)

July 9, 1940

My dear Mr. Secretary:

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Sincerely,

(Signed) H. Morgenthau, Jr

The Honorable,

The Secretary of State.

PY:bj

By Messenger



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
Co

July 3, 1940

My dear Mr. Secretary:

Section 12 of the joint resolution of November 4, 1939, prescribes that the National Munitions Control Board shall make a report to Congress on January 3 and July 3 of each year. A report to be presented to the Congress as of July 3, 1940 has been drafted by the Executive Secretary of the Board and is being submitted for consideration to the officers whom you and the other members of the Board have designated to act in liaison with him on questions pertaining to the activities of the Board.

I suggest, therefore, that a meeting of the National Munitions Control Board be held at 3:30 p.m. on Tuesday, July 9, in my office for the purpose of considering the draft which, if it is approved, should be signed jointly by the members of the Board.

I

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

I hope that the members of the Board will find it convenient to attend this meeting.

Sincerely yours,

A handwritten signature in cursive script that reads "Cordell Hull". The signature is written in dark ink and is positioned below the typed name "Cordell Hull".

RECEIVED
MAY 2 1943
OFFICE OF THE SECRETARY OF THE TREASURY

43

Excerpt from Paris' telegram dated July 9, 1940
via Berlin

Banking transactions have been suspended since June thirteenth. This situation was legalized by a prefectoral arrete issued on the twenty-fifth. All accounts existent on the former date are blocked. This embargo will be lifted progressively as funds are received from the Bank of France. No restrictions are placed on deposits made subsequent to June thirteenth. No transactions in foreign exchange are being effected. Efforts are being made to have the head offices of the banks return to Paris. A general moratorium on all notes, bills of exchange, drafts, checks and debts contracted prior to June thirteenth has been declared and will be effective until July twenty-fifth. All banks have been called upon to furnish a comprehensive statement covering their foreign exchange holdings, foreign securities, accounts held abroad and safety deposit box holders. The latter may not be opened except in the presence of a German official. An acute currency shortage created by the banks' compliance with the Bank of France's instruction to destroy banknotes in their possession has been partially alleviated by the issuance of five hundred million francs in notes by the Bank of France branch in Paris on July second, and by the increased circulation
of

of kreditkassen marks paid out by the German troops. Until further notice the exchange rate has been fixed at twenty francs to the mark. Plans to issue a municipal franc currency have been abandoned. French exchange control and import and export regulations will continue to be in force for the time being.

July 9, 1940

My dear Mr. Ambassador:

This will acknowledge receipt of your letter of July 8th inclosing a copy of the aide memoire which you gave Mr. Hull.

I have read this material with great interest and shall be pleased to discuss it with you at dinner tomorrow evening.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
The British Ambassador,
British Embassy,
Washington, D.C.

By Messenger

sent rec

9 in
Beck
Cochran
White
Young

46

BRITISH EMBASSY,
WASHINGTON, D. C.
July 8th, 1940

SWB
M. J.

Dear Mr. Morgenthau:

I enclose for your information an aide memoir which I gave to Mr. Hull at the end of last week. It represents the considered views of the British Government about the future of the war. The subject matter, some of it, I think, would be relevant to what, perhaps, we might talk about on Wednesday evening.

I propose, also, to ask for dinner Lord Melchett, who has been closely connected with a lot of our war preparations, and has some interesting side-lights upon their deficiencies.

Yours sincerely,

Lawson

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

C O P Y

AIDE MEMOIRE

His Majesty's Government in the United Kingdom desire to invite the attention of the United States Government to the grave consequences to the Allies and to the cause of civilisation, of the collapse of French resistance to totalitarian aggression. They feel that they are entitled to place the results of their own review of the conditions thus created before the United States Government, because the United States Government have repeatedly stated that they are deeply concerned with the preservation wherever possible of free institutions, because successive United States Administrations have declined to recognise the validity of the forcible annexation of territory by an aggressor, and because within the limits imposed by their international obligations and the Neutrality Act they have throughout rendered all the assistance they could to the Allies.

2. His Majesty's Government do not wish to discuss in this Aide Memoire the military consequences of the collapse of France further than to say that the economic and manufacturing resources of almost the whole of Europe are now at the disposal of the Nazi and Fascist Powers for the purposes of attack on Great Britain, now almost the last free country left in Europe. They would only repeat what they have said before, that the immediate sale of destroyers and power boats, aeroplanes and seaplanes, and guns, rifles and ammunition of all kinds is of the utmost importance if the impending attack on Great Britain is to be beaten.

off before winter sets in. His Majesty's Government gratefully acknowledge the great value of the war material that the United States Government have already released to them, but feel constrained to emphasize once more that further releases, if promptly made, would be of immeasurable value.

3. His Majesty's Government desire in this Aide Memoire rather to call attention to the economic situation which follows from the French collapse. In this field they desire to impress upon the United States Government the conviction to which they have been driven, that if victory over Nazi aggression is to be achieved, they must seek from the United States equipment, supplies of aircraft and other munitions and essential raw materials on an altogether larger scale than hitherto. This is partly because the Nazi successes in Europe have deprived the Allies of many sources of supply to which they have hitherto had access and partly because incessant bombing is likely to reduce their own manufacturing capacity, while intensive submarine and air blockade is likely to reduce the quantity of food-stuffs and materials they can import from abroad.

4. In these altered circumstances, His Majesty's Government believe that the United States Government will not take it amiss if they express the conviction, founded upon their own experience, that the United States Government will find that if they are to complete their own rearmament programme in the shortest possible time and at the same time provide the increased supplies necessary to enable Great Britain and the Dominions and their allies to maintain the struggle,

that/

that far-reaching changes in the industrial organisation of this country are essential. His Majesty's Government have found that their own programmes have suffered severely from slowness in realising this necessity and they are anxious to place their own experience in this matter at the disposal of the United States Government.

5. The natural tendency of all democracies engaged in rearmament is to believe that it is possible to expand the production of guns and to enjoy a full supply of butter at the same time. His Majesty's Government have found by bitter experience that this is not true and that full production cannot be secured solely by expansion and development of munitions and auxiliary industries, other industries being left unaffected. The establishment of requisite priority for labour, materials, machine tools, etc., necessarily involves the early curtailment of production for domestic civil consumption. This reorganisation becomes all the more necessary if more than one country is engaged in expanding its production of armaments and if raw material supplies are limited. Where total available supplies are restricted (e.g. raw materials such as aluminium and steel or machine tools) His Majesty's Government hope that the Administration will agree to open immediate discussions with them on allocations as between themselves, Great Britain and Canada to secure the maximum possible production with the utmost promptitude. As regards raw materials they hope also that it will be possible that those Central and South American States who are important producers should be included in the proposed arrangements.

6. So long as gold and other foreign assets at their disposal permit, His Majesty's Government will of course continue to pay cash for essential armaments, raw materials and food stuffs. They feel however that they should in all frankness inform the United States Government that it will be utterly impossible for them to continue to do this for any indefinite period in view of the scale on which they will need to obtain such resources from United States. Their immediate anxiety arises from the necessity of entering into long term contracts.

7. There is a considerable risk that, with the development of total war and the consequent great increase in the calls on the Royal Navy, the merchant marine serving the Allies may for a time at least suffer from a much higher rate of losses than hitherto. The temporary expansion of Allied shipping facilities due to the fact that certain Norwegian, Danish and other merchant vessels are now available would not offset the situation created by such losses. His Majesty's Government therefore feel compelled to ask whether the United States Government can take steps by whatever procedure seems most expeditious, to secure the withdrawal of the present prohibition on ships flying the United States flag entering the "combat areas" and belligerent ports to the extent necessary to permit such ships to bring imports to Great Britain. If they are prepared to do this His Majesty's Government would urge that the Administration jointly with themselves should immediately examine the possibilities of taking measures to secure the most effective joint use of the merchantile fleets of the United States, of the United Kingdom and their Allies and those of the Central and South American states.

8. His/

8. His Majesty's Government regard it as a matter of the utmost urgency, from the point of view of wartime control as well as from that of post-war reconstruction, that the plans of the British nations and their Allies for dealing with their export surpluses should be concerted with those of the United States and of the other American Republics for dealing with theirs, and this is especially so as regards those products of which there is likely to be a world surplus, e.g. cotton, corn, wheat, edible oils. A fuller statement of the views of His Majesty's Government on this subject is given in the British Ambassador's separate memorandum "A" of July 3rd, 1940.

There are a number of ways in which Germany and Italy might obtain resources from America, and His Majesty's Government accordingly desire to urge strongly that:-

(a) The United States Government should use any means in their power to cut off from Germany, Italy and the territories occupied by those states, including France, all direct and indirect exports from the United States of America; and to limit exports to other destinations from which they might subsequently reach German or Italian controlled territory. The more detailed views of His Majesty's Government on this vital subject are contained in the British Ambassador's separate memorandum "B" of July 3rd, 1940.

(b) The United States Government should take measures to block financial balances being sent to Germany or Italy as has been done in the case of occupied countries, and obtain any supplementary powers needed for this purpose. The previous exchange of views on this subject, ending

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with Mr. Sumner Welles' letter to His Majesty's Ambassador of 20th June, 1940, has not been overlooked, but His Majesty's Government would once more emphasise the great importance which they attach to action of this kind, and would urge that the previous decision should be reconsidered.

(c) Steps should be taken to prevent the return from the United States to Europe of German and Italian technicians either for military service or for employment as skilled operatives in the war industries.

9. In the event of His Majesty's Government in the United Kingdom deciding to invite the Governments of the Central and South American States to adopt measures parallel with those referred to in paragraph 8 of this Aide Memoire, His Majesty's Government wish to express the earnest hope that the United States Government may see their way either to take the initiative in the matter or to use their good offices with those Governments in support of that approach. These governments have an equal interest with the United States in preventing the Nazi and Fascist powers from obtaining the resources which may enable them to adopt a policy of aggression in America.

As regards financial measures, His Majesty's Ambassador had a preliminary discussion on the 26th June with Mr. Sumner Welles, who promised to look further into the matter. Certain action has been taken by the Governments of the Argentine Republic, Brazil, and Uruguay, but it does not appear to go far enough, while in Chile no action has been taken.

A note giving more detail of the direction in which action is desired will shortly be submitted to the United States Government.

10. His/

10. His Majesty's Government in the United Kingdom realise that in the above statement they are making wide and even difficult requests to the United States Government. It is only right therefore that they should conclude by stating in the gravest possible manner their considered opinion that the measures outlined are necessary if the civilisation which the United States and the nations of the British Empire share in common is to be successfully defended from attempts to overthrow it.

BRITISH EMBASSY

WASHINGTON, D.C.

July 3rd, 1940

A.

MEMORANDUM

His Majesty's Government in the United Kingdom are greatly interested in that part of the statement issued to the press by the President on June 21st relating to proposals which are being placed before other American Governments for cooperative economic action by the American Republics and possibly by other countries, to include an effective system of joint marketing of the important staple exports of the American Republics.

His Majesty's Government have themselves been making a survey of the problem of dealing with surplus commodities produced in territories of the British Empire and in such parts of the French, Dutch and Belgian Colonies as can be controlled. This survey will include the investigation of the possibility of dealing with surpluses by regulated sales, storage, destruction where necessary, and restriction of excess production.

His Majesty's Government will give full information to the United States Government on the progress of their survey. They hope that the United States Government will do likewise and that any decisions taken on the United States proposals at the forthcoming Pan-American Conference at Havana will not preclude cooperation with them.

The United Kingdom and the British Empire provide the principal foreign markets for a large range of surplus commodities from North and South America. At the same time British Empire surpluses of commodities which the American Republics also produce might, if unregulated, impinge upon American interests. From the point of view of wartime control and also from that of post-war reconstruction it appears to His Majesty's Government that

/American

American regulation and British Empire regulation should be brought into line, and it is their desire to find agreement with the United States as well as with other American countries on this question.

As regards those products of which there is likely to be a world surplus, (e.g. cotton, corn, wheat, edible oils) His Majesty's Government feel that it is of the utmost urgency that the plans of the British nations and their Allies for dealing with their export surpluses should be concerted with those of the United States and of other states in the Western Hemisphere.

His Majesty's Government realise that in origin the examination of the United States Government was directed to an economic and political problem while theirs is at least to an equal extent an urgent problem of withholding supplies from Germany and countries under her control. On this aspect of the question His Majesty's Ambassador is addressing a separate memorandum to the Secretary of State.

BRITISH EMBASSY,

WASHINGTON, D.C.

July 3, 1940.

B.

MEMORANDUM

In the altered situation following the capitulation of France, His Majesty's Government regard it as vitally important for the success of their war effort that supplies of all kinds should be denied to Germany and Italy and to all territories, including France, now occupied by them. A corollary to this is that all supplies to "dangerous" neutral destinations, i.e. to countries from which supplies could reach Germany and Italy and occupied territories, should also be strictly limited.

Hitherto the Allied Governments have sought to achieve this end by contraband control. On account of recent developments, however, the prevention of shipments to Europe by naval action may become increasingly difficult and incomplete. It is therefore extremely desirable and it may soon become essential to relieve as far as possible the actual machinery of the blockade. The only effective means of doing this is by the strictest possible control at the source.

His Majesty's Government realize that the immediate economic export problem confronting the United States and other American Governments is different in origin from their own, which is one of blockade. The two do, however, overlap. The sole object of the blockade is to embarrass totalitarian aggression and to bring the war to the earliest possible successful conclusion. His Majesty's Government, who have no intention of using the blockade for their own commercial interests, believe that the deterioration of economic conditions in Europe will

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(2)

be the most important influence in rendering German successes illusory, and in lessening their capacity for economic, political and military aggression on the American continents or elsewhere. This is the object of their policy, and a review of the factors as they exist to-day has convinced them that success can only be attained with the active cooperation of the United States Government. They therefore earnestly hope that the United States Government will regard it as an American interest to extend to the Allies full economic support by denying all supplies, direct or indirect, to Germany and Italy and to countries under German and Italian control, and by endeavouring to induce other American countries to take the same line.

BRITISH EMBASSY,
WASHINGTON, D.C.,
July 3rd, 1940.



LOCKHEED

Aircraft Corporation

BURBANK, CALIFORNIA

July 9, 1940

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

Dear Sir:

In the reports which we have submitted to date to Mr. George C. Haas, Director of Research and Statistics of the Treasury Department, we have not included certain projects which had been covered by contracts at hand, for the reason that the contracts included agreements between Lockheed and its customers not only that no publicity would be given the contracts but that the very existence of the models involved was to be kept strictly secret. It is fully realized that we were under obligation to the Government to furnish information desired, but until such time as we could be relieved of our contractual obligations, and in view of the fact that the loss on our factory imposed by these contracts was severe with respect to the immediate picture, it was felt that we must adhere strictly to our contractual obligations.

We are now permitted to reveal the existence of these obligations, provided we do not designate specifically the American customers involved therein, and provided it is agreed that this entire matter be kept completely confidential inasmuch as any breach of this condition would undoubtedly result in a suit for damages being brought against us by our American customers.

The airplanes involved and the contracted deliveries scheduled are as follows:

MODEL EXCALIBUR and EXCALIBUR "A":

Contracts with U. S. Commercial customers dated November 14, 1939, May 17, 1940 and June 11, 1940 for eighty-seven (87) airplanes, to be delivered two (2) in May 1941, 1 (one) in June, two (2) July, two (2) August, two (2) September, one (1) October, two (2) November, four (4) December, one (1) January 1942, two (2) March, three (3) April, three (3) May, and four (4) per month thereafter, concluding with two (2) in September 1943.

Royal Dutch Airlines, Batavia C., Java, Dutch East Indies, under contract dated April 6, 1940, eight (8) airplanes to be delivered one (1)

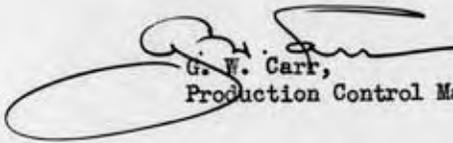
The Honorable Henry Morgenthau, Jr.
July 9, 1940 - Page 2.

in February, 1941, one (1) in March, one (1) April, one (1)
May, one (1) January 1942, two (2) February and one (1) March.

South African Airways, Germiston, Union of South Africa,
under contract dated April 15, 1940, two (2) airplanes to be
delivered one (1) in October 1941 and one (1) in November.

Yours very truly,

LOCKHEED AIRCRAFT CORPORATION



G. W. Carr,
Production Control Manager

July 9, 1940
8:53 a.m.

H.M.Jr: Hello.

Leon
Henderson: Hello. This is Leon.

H.M.Jr: Hello, Leon.

H: Say, we had a very good meeting last night. I don't know whether you've got any report from it or not.

H.M.Jr: No. The boys aren't in yet.

H: Well, they certainly pierced, I mean, they certainly went after very vigorously and actively all the various points in the proposal and while we didn't come to any understanding -- naturally, we couldn't, I think we canvassed nearly all of them.

H.M.Jr: Yes.

H: And we canvassed the question as to whether it ought to be dated in September, the time of the emergency, or now. I'm not particularly concerned on that one.

H.M.Jr: Did somebody make a commitment to some tank concern on that?

H: I don't know. I hear that they did and I have not been told. On this particular matter I didn't get in until around last Tuesday, I think it was.

H.M.Jr: Well, why wouldn't you know if they had?

H: Well, because of the way the Commission was set up, Henry, it was -- we're practically -- whoever set it up had in mind that we would not have a lot of clearance through the Commission as a Commission. The individual Commissionere would go boldly ahead. We are, however, making very satisfactory progress in getting things on a

- 2 -

Commission clearance basis. It doesn't suit me yet. There's too many things which are done on the old basis of taking them over to the Boss and getting an F.D.R. on them, but I assume from talking with Mac and from other things that that was the way the Boss wanted it done. I have -- to me it appalls me and I've been reaching back into the -- these individual operations and trying to drag some of them to the Commission table and I've been successful in some but still there is a lot goes on that I don't know about.

H.M.Jr:

Well, I'm glad you had a good meeting and I'll get the boys to tell me about it a little later.

H:

I've just said what I wanted to say to you. I think that this thing is a very important one, but maybe I've got it over magnified. If you people -- and I'm not anxious to do it -- if you want me to go down to the Hill when it goes down and undertake to defend it, you know you can count on me.

H.M.Jr:

Well, I'm glad to know that and I'll see you personally again. I want to talk to you about this thing -- this whole thing bothers me a lot and I'll see you privately, Leon, before I go anywhere.

H:

All right.

H.M.Jr:

O. K., Leon.

H:

All right then.

H.M.Jr:

Good-bye.

July 9, 1940
11:29 a.m.

Basel
Harrier:

I talked with Dr. Bruggmann. He says, yes, that is one of the ships that they've arranged through Andreas' company to send that grain into Switzerland, and he said Andreas' company are very reliable people acting for account of the Swiss Government and he said he could give me the utmost reassurance

H.M.Jr:

Well, why doesn't the so-and-so tell the State Department and the Treasury about it. I mean, it's perfectly silly. Ask him will he give us a list of any more steamers that are going to go then there won't be all this fussing.

H:

Yes. Very good.

H.M.Jr:

Please to give us a list of what other steamers are going to go as many days in advance as possible.

H:

Very good.

H.M.Jr:

And I'd like a letter covering this from him to you guaranteeing this, if this is for Switzerland.

H:

Yes. All right.

H.M.Jr:

And as much more -- ask him to cover this in a letter, will you?

H:

Yes. I will.

H.M.Jr:

And how many more.

H:

All right.

H.M.Jr:

Mr. Hull and Mr. Berle personally knew nothing about this.

- 2 -

H: Yes.

H.M.Jr: It's just the height of stupidity on the part of this man.

H: Very good. I'll get that cleared up.

H.M.Jr: Thank you.

H: All right.

July 9, 1940
4:32 p.m.

H.M.Jr: Kannee?

Henry
Kannee: Yes, sir.

H.M.Jr: Who gives Colonel Maxwell his orders?

K: Let me see -- what was that?

H.M.Jr: He's the fellow on strategic shipments --
export control.

K: I don't know, sir. I'll find out.

H.M.Jr: Well.

K: I'll find out and call you back. Shall I?

H.M.Jr: Well, I'm going to give him some. I don't
know how it'll sit.

K: You might try it, sir.

H.M.Jr: All right.

K: Right.

H.M.Jr: Thank you.

K: Thank you.

July 9, 1940
4:33 p.m.

H.M.Jr: Hello.

Operator: Colonel Maxwell.

H.M.Jr: Hello.

Colonel Maxwell: Colonel Maxwell.

H.M.Jr: Secretary of the Treasury speaking.

M: Yes, sir.

H.M.Jr: Colonel Maxwell, are you familiar with this $3\frac{1}{2}$ million rounds of 9 millimeter cartridges which are on board a Swedish ship?

M: I had a message from Mr. Young about that several days ago, sir, in which he said that there was a case of that kind coming up, but that's all the information that I have.

H.M.Jr: Well, they're now on the ship and this is the point. Using this as an example, it seems to me that all licenses should be revoked prior to the President's proclamation and then as these cases come up they can be re-issued.

M: Yes.

H.M.Jr: But there's 23,100,000 rounds of this ammunition on order for Sweden and $3\frac{1}{2}$ million are already on this ship and I hate to go with every little thing to the President but I know that he doesn't want this stuff to go to Sweden.

M: Yes. Well, I have that matter up with the President now and I'm waiting to hear any minute for clearance on the question of Sweden and the minute I get clearance on it we'll be able to handle this in a lump.

H.M.Jr: Well, now, how do you propose to handle it, if I may ask?

W: Well, we'll handle it by instructions to the Division of Controls in the Department of State.

H.M.Jr: Telling them what?

M: In which we'll require them to -- under which they will revoke all the licenses they had issued up to the time they received these instructions and then they won't issue any more.

H.M.Jr: To all countries?

M: No. To this particular country.

H.M.Jr: I see.

M: And that case is awaiting decision right at the moment.

H.M.Jr: You mean it's supposedly on the President's desk?

M: Yes, sir. And as soon as I get the check on that, the matter will clear up immediately. We'll be doing in effect just what you have suggested should be done.

H.M.Jr: But only in regard to Sweden.

M: That's correct.

H.M.Jr: Well, I'll take

M: Now there are other cases that are being developed by the State Department which we'll take up in a similar manner as soon as they're clarified.

H.M.Jr: Well, would it be helpful to you if I try to get the President now and ask him to give a decision now, because we're holding this ship.

M: Yeah. Well, General Watson is my point of contact over there.

- 3 -

- H.M.Jr: Well, he's mine too and he's gone home. That's my trouble.
- M: Yes. Well, I sent these papers over there earlier this afternoon and I've been hoping to hear any minute that -- to get my go-ahead from over there.
- H.M.Jr: Well, I think I'll -- I'll see if I can get the President and I'll say that I spoke to you and I don't know just what the status would be with this stuff already on the ship.
- M: Well, this is my Directive No. 5, addressed to the Division of Controls, the Department of State in which I set up the prohibition of exports of arms, ammunition and implements of war as defined in the President's proclamation 2237 of May 1, 1937, and I'm awaiting his action on that.
- H.M.Jr: Directive No. 5.
- M: That's right. A copy of that should be over there -- he should have seen it before this.
- H.M.Jr: And that would cancel all licenses issued to Sweden.
- M: On arms and ammunition.
- H.M.Jr: How about airplanes?
- M: Well, if they're included in that proclamation of May 31st -- May 1, 1937.
- H.M.Jr: Would this take care -- well, if he signs this will this take care of those Vultees and those other planes on order for Sweden?
- M: Well, there are some cases that are still-- that I -- some aspects of that airplane situation that wouldn't -- might not be covered and we'd put that in another Directive. But I wanted to get his action on this before we put anything else up along the same lines.

- 4 -

H.M.Jr: Well, we're awfully keen about this -- those airplanes, and I think they're going to begin delivery now any day. I don't want them to get -- be found with those airplanes on a ship and then somebody asks me to take them off the ship.

M: Yeah. Well, if we can get action on this one, we'll clear up the airplane questions immediately after that.

H.M.Jr: Thank you so much.

M: Yes, sir.

H.M.Jr: Good night.

M: Would you let me know, sir, what results you

H.M.Jr: I certainly will.

M: Thank you very much.

H.M.Jr: I'll call you if I have any luck.

M: Thank you.

July 9, 1940
4:40 p.m.

H.M.Jr: Hello.

Operator: Forster.

H.M.Jr: Hello.

Rudolph Forster: Yes, sir!

H.M.Jr: How's my life saver?

F: (Laughs) Thanks for the title.

H.M.Jr: Lieten, life saver, and I'm not talking to Ed Noble either

F: (Laughs)

H.M.Jr: I got, at least I have it -- they've loaded 3,250,000 cartridges on a Swedish boat sailing for Sweden. Everybody wants them not to go and I'm holding the boat.

F: Un-huh.

H.M.Jr: I just talked to Colonel Maxwell and he tells me Directive No. 5 is waiting in the White House for the President's signature.

F: What?

H.M.Jr: Directive No. 5, which would cancel all outstanding licenses which have been issued to the Swedish Government.

F: I haven't seen it. I haven't seen it at all.

H.M.Jr: Well, he sent it over there. Directive No. 5.

F: Well, I'll see if I can find it. I haven't seen it. Maybe Pa Watson -- he's away.

H.M.Jr: Well, that's the trouble. Pa Watson's away and I called him up.

- 2 -

F: Uh-huh.

H.M.Jr: And Maxwell says his only contact with the White House is Pa Watson.

F: Uh-huh. That's right.

H.M.Jr: Would it be on his desk or anything?

F: Well, I can find that out from Mrs. Dennison, if she has ever seen it.

H.M.Jr: But I'm really on the hot spot on this thing. Would you look it up and call me back?

F: Yes, sir.

H.M.Jr: Thank you so much.

F: All rightie.

H.M.Jr: Thank you so much.

F: All right.

July 9, 1940
5:04 p.m.

H.M.Jr: Hello.

Operator: Colonel Maxwell. Go ahead.

H.M.Jr: Hello.

Colonel Maxwell: Colonel Maxwell.

H.M.Jr: Colonel, Secretary of the Treasury speaking.

M: Yes, sir.

H.M.Jr: Mr. Forster, chief clerk of the White House after a great deal of trouble found that that so-called Directive No. 5 is in the safe in the War Department. It never came to the White House. They located Major Smith.

M: I see. He checked back with Major Smith.

H.M.Jr: Yes, and the thing is lying in some safe in the War Department now.

M: I see.

H.M.Jr: It never got to the President.

M: Yes. Well, I certainly am sorry to have put you to all that trouble.

H.M.Jr: Yeah. I am too, because this is supposed to be a national emergency and things are supposed to move and here we are with a ship with this ammunition on board and it's very embarrassing to us.

M: Well, I certainly am very sorry indeed and I'll start in from this end and

H.M.Jr: Yeah. Won't you please move in now on all licenses to Finland so we don't catch ourselves -- I mean, Sweden.....

- 2 -

M: Yes, sir. Well, I'll

H.M.Jr: Can't you do the airplanes? I mean, we're very anxious to have the airplanes done.

M: Yes, sir.

H.M.Jr: And it'll be helpful to us.

M: Yes, sir. Well, I'll get right after this and I'm sorry that

H.M.Jr: Do you have to fix up another Directive on the airplanes?

M: Yes, I think we will.

H.M.Jr: Well, if you could do it -- if you could do that tomorrow, I'd appreciate it.

M: Yes. Very well, sir. I'll let you know as soon as we get any action on it.

H.M.Jr: Thank you very much.

RE OPEN MARKET

July 9, 1940
3:00 p.m.

- Present: Mr. Bell
- Mr. Haas
- Mr. Hadley
- Mr. Murphy
- Mr. Edmiston
- Mr. Sinclair
- Mr. Eccles
- Mr. Ransom
- Mr. Harrison
- Mr. Goldenweiser
- Mr. Szymczak

H.M.Jr: George, have you got it all doped out? I don't want any arguments. Just each fellow say, "I want this." You will each have one choice.

Dan, what is yours?

Bell: Did you all get together on your prices?

Haas: Well, kind of wobbly on it.

H.M.Jr: Well, the price will be different, so don't worry.

Haas: He is absent now.

H.M.Jr: Good. Mr. Bell?

Bell: On the basis of Hadley's figures here, I would like a '54-'56, I think, which is selling at a minimum of 1.2 and a maximum of 1.10, but I think before you --

Hadley: I have one later than that.

H.M.Jr: The one I got says '54 - from 6 to 14. Is that all right?

Hadley: Well, yes.

H.M.Jr: What happened to the bond market today, did it go up or down?

Hadley: In the morning it was off as much as 6 and now it is up as much as 6, so it has moved through a range of 12/32nds during the day.

H.M.Jr: Mr. Bell, which one do you say?

Bell: I was going on the basis of this. I think possibly that is a little rich, that '54-'56, which makes that a little rich, you see. The top is all right there.

H.M.Jr: When are you going to date this thing?

Bell: July 22nd.

H.M.Jr: On a coupon?

Bell: December 15th and June 15th. Well, it all depends. If you make a maturity of December and June, then the coupon would be that. If you make a maturity of March, then the coupon would be March and September. The first one would be short in any case.

H.M.Jr: But if it is going to be March, it would be March back of us?

Bell: No, say you have a maturity in March '54, callable date, then the first coupon would run from July 22nd to September 15th.

H.M.Jr: September 15th?

Bell: Yes, you would have a six month's coupon.

H.M.Jr: What are you picking, Hadley?

Hadley: I like the '54-'56 or '57. '56 is a little bit rich and the '57 is on the borderline.

H.M.Jr: George?

Haas: I like the '54-'56 and I would rather have a

three year call period, but we had some disagreement on pricing the three year call period, so - with a short issue, two years is enough. It doesn't make any difference to me, Mr. Secretary.

Bell: It really doesn't make any difference.

H.M.Jr: Why not 700 million?

Bell: It is only a question as to whether you --

H.M.Jr: Why not 700?

Bell: Well, if you have a 500 million and then take 10% you will have 550 and 50 million trust funds would be 700 million. Before you go on, I would like to tell you what the market thinks. I think the market is going to be a little surprised to get a '54-'56, according to Rouse. They all wanted '50-'53 in that area. They didn't do much talking about a 2½ in the '54-'55-'56 area. "Salomon Brothers and Hutzler - Mr. Levy. He expects the market will sell off a little in view of the fact that additional offering by the Treasury will be made from time to time. The various possibilities for a new issue of Treasury bonds are as follows:"

Then he gives a range of 1-3/8 to 1-1/2.

"Banks would want the shorter maturity, namely, 1946 and 1947, while the insurance companies would prefer a 2-1/2% coupon provided it is well priced. His first choice would be to offer the shortest bond possible, that is, a bond callable in 1946 or 1947. His second choice would be to split the offering into short and long bonds and the small amounts of these issues could be added to in later financing. His third choice, assuming the Treasury decided to issue the longest possible maturity, would be a 2% 1949-52.

"C. F. Childs - Mr. Wood. The Treasury could sell any issue maturing between 8 and 15 years. His first choice would be a 1-3/4% bonds of June 15, 1949, which would sell at a 1.60 basis

equal to about 101-1/4. His second choice would be a 2% bond of 1950-52, which would be worth about 101. His third choice would be a split offering of a longer bond and an offering of notes. The foreign situation is still a threat and the offering should be kept within a reasonable limit. Conversations with their customers indicate a definite desire to keep the maturity within ten years.

*Bankers Trust Company - Mr. Schlichting. Most of the buying interest in Treasury bonds has been for the short ones. Owing to the foreign situation the maturity of the new issue should be kept within ten years. Their first choice would be a 1-3/4% bond due June 15, 1948-50 which would probably sell on a 1.60 basis equivalent to a premium of 1.4. Their second choice would be a 2% bond of March 15, 1950-52 which would probably sell on a basis of 1.85 to 1.87%. They believe a new issue of 2-1/4's of 1953-55 would be heavily over-subscribed but would not be retained by the banks. He also thought there was some question as to whether the savings banks and insurance companies demands were broad enough to absorb an offering of this kind. This maturity would be stretching it a bit and would cause a problem in the secondary distribution. They saw no necessity for two issues if the amount was \$700,000,000 or less.

*Travelers' Insurance Company - Messrs. Baker and Duffield. They advise that in view of conditions they are not interested in putting out long-term money. They did not seem too confident of that market. They would be interested in 8 to 10 years. A call date of 10 years would be their outside limit.

*C. J. Devine and Company - Messrs. Kennedy and Herman. The market for long bonds has been thin and small. What the market wants is a 9 or 10 year bond and a new issue in that area would be subscribed for and kept. As a result of a new offering the market for long bonds might need some support which it probably would get from the insurance companies since they would prefer a long to a short bond. Their first choice would

be a 1-3/4% bond due June 15, 1949. However, the Treasury might prefer a 1947-49 callable bond. Their second choice would be a 2% of 1950-52 and the only objection to this issue they had was the large amount of bonds already outstanding in this category. They believe the Treasury could sell a 2-1/4% bond of 1953-56 or possibly 1954-56, but they would not recommend it.

"National City Bank - Messrs. Burgess and Townsend. The Treasury should stretch the maturity of the new issue as far as it can safely do it, which would be the longest point at which the banks would take the bonds. Of course, insurance companies would take longer bonds than banks. The period of 1954-59 is a blank area and the Treasury might get away with a 1954-56 bond, but it would be taking a chance as this maturity is somewhat long for banks. The banks would take them and sell them later. The longest bonds his bank holds are 1951-54, which policy he believes is general with banks. The Treasury maturities up through 1948-50 are rather stout and the next vacant date would be 1950-52 or 1950-53. He thought a new 2% bond of 1950-52 out to be good for a premium of one point, assuming the market keeps it about present levels. Possibly the Treasury could do a 2% bond of 1950-53 but 1950-52 would be safer as these are uncertain days and the banks are still somewhat scary. His recommendation would be a 2% bond of September 15, 1950-52. He was glad the Treasury is offering a bond and while he feels the Treasury should keep pushing the maturity without and getting the bonds in the hands of other than banks, he does not feel that the situation is right to offer a bond with a maturity bond 1952. Although generally, he would like reopening some of the old issues, he does not think the present would be a good time to do it, although the Treasury could sell an additional amount of 1948-50's at a price of about 102 1/4 or 1 point under the market."

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That is just part of them. The rest of them are coming in. Rouse said that while that is - those are factors, he still isn't - he wouldn't be so disappointed with a 2 1/2% bond. He thinks it will go well and he thinks we might have some selling, but on the other hand, there has been a fluctuation in the market lately without any selling or buying.

(Unrecorded telephone conversation with Mr. Rouse.)

(Mr. Murphy, Mr. Edmiston, Mr. Sinclair, Mr. Eccles, Mr. Ransom, Mr. Harrison, Mr. Goldenweiser, Mr. Szymczak entered the conference.)

- H.M.Jr: Has the Board had a chance, or do I address myself --
- Eccles: The committee. We discussed this thing a little yesterday. John and George and Ronald and I checked and Dr. Goldenweiser.
- H.M.Jr: How are you all?
- Eccles: How are we?
- H.M.Jr: Or where are you?
- Sinclair: Well, after a year's absence I am glad to see our sense of humor is still with us.
- H.M.Jr: What do you mean? Have you been off the Committee for a year?
- Sinclair: Yes. I have been resting.
- Harrison: You weren't missed, John.
- H.M.Jr: I thought you were saying I hadn't had a Committee meeting in a year.
- Eccles: Hugh Leach was on last year, wasn't he?
- Harrison: Yes.
- H.M.Jr: What did the Committee think?

Eccles:

Well, I reported to the Committee the conversation that I had with you yesterday on the matter, and we discussed it pro and con and also talked with Rouse in New York and it was the unanimous view of the Committee that a two and a quarter percent bond would be preferable, even though, according to the report from Mr. Rouse, the dealers, some of the banks, seemed to favor a shorter issue, that the market was such that there should be no problem, it was our view, in spite of the fact that some of the banks and the dealers wanted a shorter issue, felt that it would be more desirable. It was our view there should be no problem in marketing a 500 or 700 million 2 1/4 issue. In spite of the conditions abroad that developed with the invasion into Holland, the market showed such underlying strength that it declined rather gradually, orderly, only around three points, and the Federal purchased in that period about ten millions as against 400 million here a year ago when the market went off seven points last September. The market then in the face of the French capitulation and Italy declaring war, continued to go up until it got back almost to the point that it was prior to the decline and that in spite of the fact that the Treasury sold about 20 million dollars worth of bonds on the upswing and the Federal sold about 25 million dollars and the announcement yesterday of this offering hasn't seemed in any way to affect the market. The market is up on long bonds, so that with all of the factors, it certainly would indicate that there should be no problem at all and that there is a substantial underlying demand for some long term-issues, or at least intermediate. This is intermediate, I would say, and it would look like '53-'56 or '53-'55 or possibly even '54-'56, especially if you are only going to put out 500 million, a '54-'56 would look possibly - to me at least, it would look better than a '53-'56 and there should be no trouble. If it went up to 700 million, 200 more, it may be advisable to give a little more favorable price.

H.M.Jr: Well, on the thing on the money, in talking with Dan, we were going to set aside 50 million for Treasury Trust Funds. They usually run about 10% over, so if it is 500 million, it would run 60, and if it were 600 million, it would run a little over 70.

Eccles: That is, you would take the over-subscription - I mean, you would take the --

H.M.Jr: Usually average about 10%. It runs 550 and then the 50 million extra which we announced we were going to take would bring it up to about 600 million. If it is 600 million, it runs about 710 million.

Eccles: Well, we --

H.M.Jr: May I interrupt you? I again thought, or at least we will put it on the table for discussion, let anybody take \$5,000 worth if he will keep it for 90 days.

Eccles: Would you require them to register?

Bell: Yes, the same as we did last December.

Ransom: What was your experience with that last September?

H.M.Jr: It was good, wasn't it?

Bell: Yes. We had about 21 million out of that 570 million dollar issue, and at the end of the 60 days, we had a relatively small amount in for exchanges in the coupons. I think out of the 21 million it was something like 5 or 6 million.

Ransom: Five thousand was your then figure.

Bell: Yes.

Eccles: But you thought of going higher than five thousand.

Bell: Well, the Secretary did, yes.

H.M.Jr: I suggested ten, but Dan thought not. The President still says could he get something for the Hyde Park Church, but he never buys. He always kids me about it, but I never get him to put the money on the market.

Eccles: Interest rates are too low to suit him.

H.M.Jr: Yes. You have heard him, haven't you?

Eccles: Yes. He thinks for the Church funds, you ought to have at least 3%. He is like these insurance companies. He never did subscribe, did he?

Hell: I don't think so. We thought this time we would leave the \$5,000 subscription open until Saturday night, three days, and that we had better try it at the five instead of going to the ten and see how that works.

Eccles: It seems to me if you are going to do that at all, why not go higher. What you are interested in is getting a - the bonds to stay. You want to get them in the hands of the investors rather than in the hands of dealers who are going to sell them or in the hands of banks that might merely buy them to get the profit, so whatever you do, it seems to me whatever you can do to get them placed where they are going to stay is the thing you want to do. If you are going to do that at all - I mean, it would be a question in my mind whether to do it at all. But if you are going to do it, I would certainly go to a higher amount.

H.M.Jr: Ten?

Eccles: Well, even more than that. If you are going to get trustees, smaller institutions that you want to take these bonds and hold them, what difference does it make whether you give them ten or fifteen or even as high as twenty or twenty-five. You are going to have a lot of financing, possibly, to do over the next year.

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- Sinclair: If you get too high, it is much harder to cut it down later. I wouldn't object to going to ten.
- Harrison: If you get too high, you might as well register them for the period of the bond.
- Bell: If you go too high, you are going to get subscriptions to 500 million in that class and you are going to throw out all the others.
- Eccles: You want a wide contribution. Of course, on an issue of this size, maybe ten would be all right to try. You could try ten and see what happens.
- H.M.Jr: Last time it was 60 days. This time I want to make it 90.
- Eccles: Yes, at least 90.
- Harrison: I was wrong on both taxes. I thought it was ten thousand for six months. We must have discussed that and agreed on it and it was changed after we left.
- H.M.Jr: Now, is that nice, George?
- Sinclair: I would have bet you on that this morning but I lost every other bet and I lost my chance.
- Szymczak: Well, 60 days, it was.
- Harrison: I think there is some merit in not changing them till you are ready to consider whether you want to do the thing for a big basis and for a longer period of time.
- Bell: I think so.
- Harrison: I think there is a danger in going too high unless your period of registration is longer, because otherwise you might get three or four hundred million all unloaded on an unwilling market at the end of a short period of time and --
- Bell: Let's see whether there is any padding in this, first. There didn't appear to be very much

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in the last one, but after all, it was new and it took them more than a day to get onto it.

- Harrison: I will admit, if I may, just a slight qualification as far as I am personally concerned to what the chairman stated at first.
- H.M.Jr: I would be disappointed if you didn't.
- Eccles: So would I.
- Harrison: He said that we were unanimously in agreement that we preferred the 2½. Personally, I have been for that, but I must say that I don't want to put the thing so absolutely now in view of the report that you get from the market, which was pretty definitely for a ten year or at most a 2% bond. Probably a 2% bond, '50-'52. In the face of that, I would say not necessarily that I prefer the 2½ but rather that I don't see enough advantage in the 2% '50-'52 to justify recommending that in view - if, as I think, there is some advantage to the Treasury on account of maturity and having a 2½, so I am with you. (Eccles) in being for the 2.
- Eccles: I still don't see the distinction.
- Szymozak: You mean to scatter your --
- Harrison: I mean if the Treasury were for - for Treasury reasons, the 2% bond at '50-'52 which the market says would go better, I would have no objection whatever to that, but I think on account of the crowded maturities around '51, there is some advantage from the Treasury standpoint in putting maturity a little beyond that.
- Eccles: Well, under all of the circumstances, you prefer the 2½. I mean, that is, as I understood it. Now --
- H.M.Jr: You both arrive at San Francisco. One goes via New Orleans and one via Milwaukee, but you both end up at San Francisco.

- Eccles: That is right. I don't think anybody would say that $2\frac{1}{2}$ is more desirable than 2% if you didn't have all of these other maturities. I don't think it makes very much difference whether it is two or three years longer one way or the other, but in view of the fact that you do have the maturities that you have, it would certainly look like the preference for 2% is more than overcome by the congestion in the maturities in the shorter range. Therefore, you prefer $2\frac{1}{2}$, George?
- Harrison: Well, yes.
- H.M.Jr: Well, look --
- Harrison: I told you this morning if you said it that way I was going to say it the other way.
- H.M.Jr: You are satisfied to go along with $2\frac{1}{2}$?
- Harrison: Absolutely, yes.
- H.M.Jr: Okay.
- Harrison: All I meant was that I have no great preference for it so that if Treasury is for 2%, I would have no objection at all.
- H.M.Jr: I arrived at the $2\frac{1}{2}$ because I was trying to get out of the crowded area. In order to get out beyond '52, I had to go to $2\frac{1}{2}$ and I thought this was a good time to get beyond '52 and that is the way I arrived at the thing.
- Harrison: And the market all agrees that $2\frac{1}{2}$ would go. The only thing they have warned us about is the possibility of a secondary market that might not be so good if anything goes wrong in England or somewhere else.
- H.M.Jr: This group will take care of that.
- Harrison: That also I prognosticated, as you would say.
- H.M.Jr: You fellows are just so hungry over there for punishment.

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- Eccles: We sold 25 million dollars worth of bonds, and we have got to get them back here some way or other.
- Harrison: I think that probably there will be more than just one issue, is what I am getting at, Mr. Secretary. It is a much broader question than that.
- H.M.Jr: But selling this isn't going to crack the market. It ought to be good for the market.
- Harrison: I should think so.
- H.M.Jr: And I don't know when we will again have a chance to get beyond the '52.
- Eccles: It will save us having to sell some to keep it from showing too much strength, you see, so it is all right.
- H.M.Jr: How do you feel, Szymczak?
- Szymczak: About the same as Marriner. 2 $\frac{1}{2}$, '53-'55.
- Ransom: No difference.
- H.M.Jr: Doctor?
- Goldenweiser: I haven't anything to add. I haven't any market sense, Mr. Secretary. My feeling is that this is a good time for you to start on longer time issues. I have always been in favor of short issues, and I think the situation has changed now and that the thing to do is try to build up longer issues and discourage bank purchases and encourage wide distribution among permanent investors and that means long issues.
- H.M.Jr: What does Philadelphia think?
- Sinclair: Mr. Secretary, I don't have, personally, any question about the 2 $\frac{1}{2}$. The conversations I have had with two of our large insurance companies, two trust companies, savings funds, and all of our large banks, indicate they look with favor upon a 2 $\frac{1}{2}$.

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- H.M.Jr: How do you feel as between 5 and 700 million?
- Sinclair: I don't think it makes much difference. I think they will take 700 as much as they will take 500 quite frankly.
- Harrison: I would much rather have you go to 700 now than 500 now and put out a new issue later.
- H.M.Jr: Dan, if we do 700 million now and leave it - supposing we figure to let the bill market run off, say 200 million, just for argument's sake.
- Eccles: Why let any bills run off at this time? You have to let some run off a little later on unless you get this law changed covering this defense issue. You get up to the 45 billion toward the end of the year and you will have your baby bond money come in and your social security funds, and you will go over the 45 unless you pay something off at that time. I mean, isn't there that prospect?
- H.M.Jr: Dan told me yesterday that we had a billion and a half leeway, didn't we, on our debt limit?
- Szymczak: A billion seven.
- Bell: A billion seven.
- Eccles: That is now or after this issue?
- Bell: That is June 30th. Now, if you have 500 million dollars issued at this time, taking into consideration what you might get on U. S. Savings Bonds and trust funds, you would be down to 400 million debt limit on December 1st.
- Eccles: So from then on you have to either get the law changed or start retiring some of the market debt. You ought to get that law changed. That is the senseless thing.
- H.M.Jr: I invited you fellows to go up on the Hill

with me once. Not on this, on another thing. I got turned down.

Eccles: What was that on?

H.M.Jr: Oh, on this question of --

Eccles: You didn't advise, you asked us if we wanted to go.

H.M.Jr: Invited, I say, on this freezing of assets. You couldn't, Harriner, take my word for it. In the frame of mind in which we started, even Mr. Roosevelt - I finally asked him, "Well, you let me go up on the Hill and make a survey." We had to wrap it up in this package and we - I don't know what your particular objections are, but I don't know what you could get after they come back, but certainly the time I appeared before them they wanted to fool themselves.

Eccles: They were the only ones who were getting fooled. They weren't fooling the public.

H.M.Jr: I stood right up before them and said this wasn't perfect but I said, "If I had appeared before you three weeks ago and asked you to increase the ⁴⁵ million debt limit -" I said this right there before the people - I said, "You would have laughed me out of court. I am up here now and everybody says it is all right."

Eccles: But in the course of another - a month or two or three, you can't tell, Congress may be very --

H.M.Jr: What don't you like about this?

Eccles: Well, the earmarking of - the limitation. First, I don't like the - I think the five year, from 6 months to 5 year limitation, doesn't make sense.

H.M.Jr: Well, with this new thing - these men were here today, Harrison and that crowd. With that new 5 billion dollar request that I read about in the papers, they are going to

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ask for more taxes and at that time --

Eccles: Yes, at that time they ought to increase the debt limit to 50 or 55 billion and not put any strings on it, leave it open to finance it in whatever way seems to be advisable.

H.M.Jr: Well, to tell you a little story, about a month or six weeks ago the President agreed and the Director of the Budget agreed to earmark certain funds in the Virgin Islands because they couldn't get enough money. I wrote them a very strong letter opposing all earmarking of Treasury revenue. I don't believe in it. I got back a letter, "Dear Henry, go along with me this time and I will go along with you next time." He said, "In principle you are right, I agree with you, but go along with me this time because Ickes can't get any more money out of Congress and the only way we can get it is to earmark the funds." But I wrote and the boys said, "Well now, the President is on record and he can do this thing," and I said, "I want to go on record against earmarking the funds." It was only a little thing, but I wrote a very stiff letter with Dan's help, and that was the answer, "In principle I agree with you, but go along with me this time." So I don't think we have any - no differences as to underlying principle.

Eccles: If we have a chance, which we may have with that additional 5 billion, I would like to see the Federal Reserve join with the Treasury in trying to knock that out if we get a chance, because I think that it just --

H.M.Jr: I will be glad to.

Eccles: It is a handicap that is very undesirable. In the first place, from six months to five year defense notes would be taken almost entirely by the banks. The short term stuff, of that sort would be taken. That, in itself, of course, expands the volume of deposits. Instead of getting some of the existing idle

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funds into the - invested, and it is very much more desirable from a credit and a monetary standpoint to get idle investment funds into your Government securities, put out Government securities that will attract those funds and prevent further bank expansion at this time. Don't you agree with that, Dan?

H.M.Jr: I will talk for him. He - no, I don't - well, he is opposed to earmarking funds. I don't want to talk for you.

Bell: Go ahead, you were doing very well.

H.M.Jr: You answer him. I didn't mean to interrupt.

Bell: Well, I was opposed to it up to the time we decided it was a matter of policy. I am opposed to the marking of debts and also opposed to the earmarking of any kind of revenue, but the Secretary said we couldn't get it in any other kind of package except this and we had to accept it. Now we have got it, and I think we have got to operate under it. It is a restriction.

Eccles: You have no choice if Congress doesn't change it, but the question I asked you was, don't you think that with the present very large volume of deposits that the type of financing that ought to be done ought to be the type of financing that would induce the use of existing deposits by the investors, the owners of those deposits, rather than the bank financing the creation of new deposits?

Bell: I have been in favor of that right along. I have been in favor of these --

H.M.Jr: You have got nothing but support around here.

Eccles: Well.....

H.M.Jr: Let me put it this way. Everybody for one reason or another seems to be in agreement on 2½, irrespective of the yearage. We don't

have to decide the yearage today. I would like to decide the amount.

Bell: I thought you were going to telegraph the banks tonight.

H.M.Jr: Oh, do we do it that way? And tell the public Thursday morning?

Bell: Yes.

H.M.Jr: Have I got to make up my mind tonight?

Bell: That is what I understood that you were going back to the old policy of giving them a day to do their printing and getting it into the mail tomorrow.

Szymczak: Was that after the Dallas meeting?

Bell: That was strongly recommended down there.

H.M.Jr: You gave me those reports with the market so disinterested - I mean - how should I say - sort of leaning against it, I would like to have a day - they announce the 2 $\frac{1}{2}$ tonight and then decide how much - watch the market tomorrow and send out a telegram tomorrow night giving what years.

Szymczak: Today is Tuesday.

Eccles: That would give them - you would announce it to the market Thursday afternoon?

H.M.Jr: Thursday morning.

Eccles: Thursday morning.

H.M.Jr: I would like to do it on Friday.

Eccles: Advise the banks tomorrow after the market closed?

H.M.Jr: Yes.

Bell: That will be a little late. Do it tomorrow noon, because they have got to have it printed

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and in the mails to catch their train tomorrow night.

- H.M.Jr: We can do it Thursday morning.
- Szymczak: And the more time they have, the better chances they have of distributing it.
- Bell: That was one trouble.
- H.M.Jr: We can do it by one o'clock here, get it out by one o'clock here.
- Bell: If you make your decision by 12:30, we will get it out by one.
- Eccles: The question of how much of a premium do you figure you need to give them on 700 million. It figured today about $1\frac{1}{2}$ on a '53-'55. Of course, if the market is up, you might - that ought to be enough, hadn't it?
- H.M.Jr: For once in our life we were on the lean side of you fellows. Everybody here said '54-'56.
- Eccles: Certainly if you were only going 500 million, I would go '54-'56 and the way that market performed, we were talking about the '53-'55, it was since that the market has shown considerable strength. It has gone up with 5 or 6/32nds.
- Szymczak: Six thirty-seconds is the latest.
- Hadley: From a low this morning it has moved to 12/32nds.
- H.M.Jr: That is why I want to know --
- Eccles: So that it might well be the way that market closed today that a '54-'56 would look about as well as a '53 did this morning.
- H.M.Jr: Well, what would you make it, 5, 6, or 7?

Eccles: You mean the issue?

H.M.Jr: Yes.

Eccles: Do whatever you want. I don't think it makes any difference as far as the market is concerned.

H.M.Jr: Dan, I started to ask you, if you take 700 million, when do we have to go to the market again?

Bell: Well, we have got a Treasury bond in this picture of 500 million, 250 million of GGC at the end of this month, 300 million for RFC in September, 200 million for U. S. Housing Authority in October, and 500 million again in December, Treasury financing at some time or other, probably a defense note, and that gives you balances at the end of July of a billion two, thirty; August, a billion one fifty-seven; September, one, four fifty; October, one, three; November, one, one; and December, one, three. If you add two hundred million, the highest point would be one, six, and the lowest point would be about one, three.

Eccles: That is based on 700 million?

Bell: Yes, for a six months period.

Eccles: That would call for no new financing before December and assuming that the RFC and the Commodity Credit was done in the interim --

Bell: That is right, it would be 500 million in December.

H.M.Jr: Split the difference and call it six?

Eccles: Six would take care of you on that basis.

Harrison: I think you might.

Szymczak: Unless you have a lot of advances to make on that defense program.

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H.M.Jr: On the what?

Szymczak: On the defense purchases.

Harrison: And make it a two year.

Szymczak: Up to 30% advances, however, you are going to go on those expenditures - how far you are going on those isn't certain.

Bell: Oh, I don't know. They may spend quite a bit of money. They contemplated a hundred million in July, but there is no evidence of it so far. I think they will be delayed until August.

Eccles: What will happen to this, it will be better than you show, I bet.

H.M.Jr: Oh, sure.

Eccles: It always has been.

H.M.Jr: Jones has no use for any money. He hasn't done any business to speak of. He doesn't want any money.

Edmiston: This 300 million is to repay the Treasury?

Eccles: It is 300 or 350?

H.M.Jr: Three, RFC.

Bell: 350 million, including 50 million of PWA securities.

H.M.Jr: I think 600 is enough.

Eccles: Six is plenty.

Harrison: I think 600 and a two year call date rather than three.

H.M.Jr: We don't have to say that today.

Harrison: But I was just saying I hope you do that.

H.M.Jr: If I let the market know, it is 2½ and

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600 million and see what that does to the market, and then tomorrow I can give you all a ring on the telephone and we will decide the yearage.

Harrison:

Yes.

H.M.Jr:

What do you think, Dan?

Bell:

That is okay. The only question I had was the debt limit. It is getting awfully close to December 31st and I think we have got to sit down and go over that and see what we are going to do.

H.M.Jr:

You mean as between 600 and 500?

Bell:

Well, that only takes off a hundred. It will be down to 300 million on December 31st.

Sinclair:

You mean the whole problem of --

Bell:

Yes. I think we have got a problem here.

Eccles:

Why don't you go five and you pay off less notes. I mean, you get a little cheaper money in a way. That is what you are going to be up against, according to your point of view. If you borrow seven now, you may have to start paying off bills that much sooner.

Bell:

You see, we have only got, according to the latest figures, and what we will have after this 5 billion dollar program goes up, we have only got about a billion debt on regular account. That means we raise 3 billion dollars for national defense notes. We make this entire billion dollars through U. S. Savings Bonds, old age reserve, and unemployment and other trust funds, and still have probably 8 or 9 hundred million dollars left over, which means that you are going to have an excess of funds on your regular account. You have got to use that to retire a debt so as to get your debt limit down - keep it under the 45 billion.

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H.M.Jr: In other words, the more --

Bell: You could retire Treasury bills, but if you are going to retire notes and callable bonds next March, I think it ought to be announced pretty soon that in refinancing these maturities next year the Treasury will not give the privilege of 100% exchange, that there will be some percentage of that, so that the public will price them on that basis and not have these great high right values, and then come along and have to pay off for them.

Edmiston: This, of course, assumes no change in the law that might be considered within the next month or so.

Bell: That is right, but we are operating now under a law and we are not going to have much time to change it after January 1st.

H.M.Jr: Dan --

Edmiston: No, I mean after a month and a half maybe you would want to make such an announcement when you see that it wouldn't be changed, for example.

Bell: Yes, some time before this year is out.

H.M.Jr: That wouldn't make any difference, whether it is five or six.

Bell: No.

H.M.Jr: I kind of like six, gentlemen.

Szymczak: It gives you a leeway there.

H.M.Jr: I don't want to see you scared. I said between five or seven and I think six is better.

Harrison: I would prefer six to five.

H.M.Jr: If nobody objects, it is six. Well, supposing

- 24 -

we figure, Marriner, I will be on the telephone with you fellows tomorrow around half past eleven.

Eccles:

Okay.

H.M.Jr:

Or let's say a quarter of twelve. I will call you around a quarter of twelve. Where will you be, George?

Harrison:

I will be in New York.

H.M.Jr:

I will call you at a quarter of twelve.

Harrison:

Okay.

Eccles:

I hope --

H.M.Jr:

Sold to American Tobacco.

Eccles:

I hope we can give some thought to this means of trying to get bonds out in the hands of investors instead of banks, the question of registration, Dan, maybe for the life of the bonds.

INFORMATION TELEPHONED BY MR. ROUSE, FEDERAL RESERVE
BANK OF NEW YORK, ON THE NEW ISSUE OF BONDS

July 9, 1940

Salomon Brothers and Hutzler - Mr. Levy. He expects the market will sell off a little in view of the fact that additional offering by the Treasury will be made from time to time. The various possibilities for a new issue of Treasury bonds are as follows:

<u>Issue</u>	<u>Coupon</u>	<u>Possible Market Price</u>
Sept. 15, 1946	1-3/8	100.16
Sept. 1947-49	1-1/2	100.20
Sept. 1949-52	2	100.28
Sept. 1953-56	2-1/4	100.28
Sept. 1955-58	2-3/8	100.28
Sept. 1963-66	2-1/2	100.28

Banks would want the shorter maturity, namely, 1946 and 1947, while the insurance companies would prefer a 2-1/2% coupon provided it is well priced. His first choice would be to offer the shortest bond possible, that is, a bond callable in 1946 or 1947. His second choice would be to split the offering into short and long bonds and the small amounts of these issues could be added to in later financing. His third choice, assuming the Treasury decided to issue the longest possible maturity, would be a 2% 1949-52.

C. F. Childs - Mr. Wood. The Treasury could sell any issue maturing between 8 and 15 years. His first choice would be a 1-3/4% bonds of June 15, 1949, which would sell at a 1.60 basis equal to about 101-1/4. His second choice would be a 2% bond of 1950-52, which would be worth about 101. His third choice would be a split offering of a longer bond and an offering of notes. The foreign situation is still a threat and the offering should be kept within a reasonable limit. Conversations with their customers indicate a definite desire to keep the maturity within ten years.

Bankers Trust Company - Mr. Schlichting. Most of the buying interest in Treasury bonds has been for the short ones. Owing to the foreign situation the maturity of the new issue should be kept within ten

- 2 -

years. Their first choice would be a 1-3/4% bond due June 15, 1948-50 which would probably sell on a 1.60 basis equivalent to a premium of 1.4. Their second choice would be a 2% bond of March 15, 1950-52 which would probably sell on a basis of 1.85 to 1.87%. They believe a new issue of 2-1/4's of 1953-55 would be heavily over-subscribed but would not be retained by the banks. He also thought there was some question as to whether the savings banks and insurance companies demands were broad enough to absorb an offering of this kind. This maturity would be stretching it a bit and would cause a problem in the secondary distribution. They saw no necessity for two issues if the amount was \$700,000,000 or less.

Travelers' Insurance Company - Messrs. Baker and Duffield. They advise that in view of conditions they are not interested in putting out long-term money. They did not seem too confident of that market. They would be interested in 8 to 10 years. A call date of 10 years would be their outside limit.

C. J. Devine and Company - Messrs. Kennedy and Herman. The market for long bonds has been thin and small. What the market wants is a 9 or 10 year bond and a new issue in that area would be subscribed for and kept. As a result of a new offering the market for long bonds might need some support which it probably would get from the insurance companies since they would prefer a long to a short bond. Their first choice would be a 1-3/4% bond due June 15, 1949. However the Treasury might prefer a 1947-49 callable bond. Their second choice would be a 2% of 1950-52 and the only objection to this issue they had was the large amount of bonds already outstanding in this category. They believe the Treasury could sell a 2-1/4% bond of 1953-56 or possibly 1954-56, but they would not recommend it.

National City Bank - Messrs. Burgess and Townsend. The Treasury should stretch the maturity of the new issue as far as it can safely do it, which would be the longest point at which the banks would take the bonds. Of course, insurance companies would take longer bonds than banks. The period of 1954-59 is a blank area and the Treasury might get away with a 1954-56 bond, but it would be taking a chance as this maturity is somewhat long for banks. The banks would take them and sell them later. The longest bonds his bank holds are 1951-54, which policy he believes is general with banks. The Treasury maturities up through 1948-50 are rather stout and the next vacant date would be 1950-52 or 1950-53.

- 3 -

He thought a new 2% bond of 1950-52 ought to be good for a premium of one point, assuming the market keeps it about present levels. Possibly the Treasury could do a 2% bond of 1950-53 but 1950-52 would be safer as these are uncertain days and the banks are still somewhat scary. His recommendation would be a 2% bond of September 15, 1950-52. He was glad the Treasury is offering a bond and while he feels the Treasury should keep pushing the maturity without and getting the bonds in the hands of other than banks, he does not feel that the situation is right to offer a bond with a maturity bond 1952. Although generally, he would like reopening some of the old issues, he does not think the present would be a good time to do it, although the Treasury could sell an additional amount of 1948-50's at a price of about 102½ or 1 point under the market.

300

Extract of letter from Mexico City, July 9, 1940

The elections have taken place rather peacefully. A few hundred men killed or wounded is very few considering that this is the first time that there has been any show of election as far as my recollection goes back. I want to give you my personal opinion about it.

Early in the morning the people, who are not as I said in former letters 75%, but practically 90% for Almazan, slowly and carefully went out to the street and they found that there was nobody to stop them. They started to gather enough courage to voice their opinion and we see now for the first time in history or perhaps since 1910, that the public dared to give voice to their opinion, or what is the same, that for once we have a public opinion. The elections for Avila Camacho were badly organized and the terror by which they wanted to win was not effective. In fact, while public employees and laborers and all organized unions were led to the polls in complete formation, in many cases all these people risking their daily bread, revolted against the strict orders of the syndicate. This is very important for Mexico as it means a complete collapse of the tyrannic powers as held by the syndicates over their own people.

We do not know so far how matters stood in the interior. We know only that in some states the governors gave guarantees for expression of public opinion, while in others they suppressed completely every Almazan activity, including voting.

Who will be the next President is not decided; all depends on the decision which Cardenas will take. No doubt he is somewhat in a fix. If he declares himself pro-Almazan he will go down into history as a big man for respecting public opinion, but he will be antagonized by all his own followers. If he chooses Avila Camacho he does so against the expressed wish and will of the whole population.

Whoever will come out one thing is sure; we shall have a government very much directed to the right and who will do away - at least somewhat - with those tremendous abuses of the leaders of the syndicates and stop, to a certain degree anyhow, the tyrannical move of the leaders. In my opinion it is doubtful who will take a stronger hand against the labor leaders, Almazan or Avila Camacho.

As always in Mexican politics the decision rests with Washington.

The feeling here runs very high and apparently the people are resolved to do something to get their vote through. What they can do remains a mystery to me. The army is with Cardenas so far, but his hold will gradually weaken whatever decision he takes. Whomever he decides for, no revolution is possible without the benevolent attitude of Washington. All parties know that and will act accordingly.

-2-

However, should Cardenas decide for Almazan, there is no fear of a revolution either, as success creates success, and there is no country where it becomes truer than in Mexico, and probably in such a case we will see the Avila Camachistas run as fast as they can into the Almazan camp with the idea of saving their political reputation and their jobs. I also want to mention at this point that it was a remarkable fact that the army and the military forces, anyhow in Mexico City, kept order in a perfectly impartial way. Something never seen before in Mexico.

Whatever the outcome may be it will make no difference: We will see a strong turning to the right, removal of the union leaders and their powers and probably a derogation of the "ejido" system, which system will be turned from communal property into small private holdings.

How strong the resentment against the abuses of labor syndicates are being felt even by Cardenas at this moment is shown in the way in which he treated the Railroad workers by enforcing a 20% wage reduction, and his stand towards his "beloved" oil workers. In fact, there are people who predict here that if Cardenas would stay on for another six months he would be obliged to liquidate the labor leaders and labor rackets.

I still believe the next president will be Avila Camacho. Anyhow, it is a strong case of quien sabe.

Morgenthau's Surprise Bond Offering To Set a Treasury Low Cost Record

THE NEW YORK POST
July 9, 1940

By S. F. Porter

Secretary Morgenthau will establish a new low record for the cost of Treasury borrowing on his sale of \$500,000,000 to \$700,000,000 new government bonds this week, experts predicted today.

Financial Post Marks

The bond offering—which probably will appear tomorrow—is entirely for new cash and represents the first new money financing by the Treasury since Dec. 8.

Morgenthau's over-night announcement of his plans took Wall St. unawares, for this deal

will break a five-year precedent of the Treasury to finance only on the quarterly tax dates.

It will be a success. It will be heavily oversubscribed by banks, insurance companies, wealthy individuals. It's likely that immediately after the formal offering of the bonds at 100, professionals will be bidding for the securities at 100½ or at 101.

And it will tell the country in the most graphic way possible that the credit of the U. S. government is the best in the world.

Terms

Treasury officials are meeting with members of the executive committee of the Federal Reserve Open Market Committee this afternoon to decide the terms of the new financing. An invitation to investors to buy the securities, therefore, is expected within 24 to 48 hours.

A dozen alternatives are open to Morgenthau. He might sell 2 per cent bonds due in the early '50s and improve on his December offering of \$571,000,000 2s of 1950-48. But the Secretary remarked that he "could get my money cheaper than I did in December."

So, traders today forecast an offering of bonds due within 10 years and carrying a coupon of less than 2 per cent—say 1½ or 1¼ per cent.

The objective would be the lowering of the coupon rate rather than lengthening of the maturity on the securities floated, for America's bankers have clearly indicated their preference for bonds with comparatively short maturities. They'll accept the lower interest coupon without argument.

The lowest coupon on any outstanding government bond is 2 per cent.

In other words, the Treasury will be establishing an all-time low government borrowing cost—in the face of intense warfare abroad, political uncertainties

and world-wide economic upheaval.

That's an achievement that needs no word-embroidering to be impressive.

Balance and Debt

If the Treasury raises \$700,000,000 this week, the public debt will be pushed up to about \$43,667,000,000. That's an all-time peak debt, of course, but it's still \$1,400,000,000 below the old limit of \$45,000,000,000.

That old debt limit will not be exceeded during 1940, judging from this financing deal and from the current rate of spending. These bonds will come under the old limit, will not be a part of the defense debt of \$4,000,000,000 authorized under the revenue act of 1940.

As for the Treasury's working cash balance, this deal will bring it to around \$1,700,000,000—a comfortable level. The balance currently is below the billion-dollar mark, for years considered a minimum in times of possible emergency.

This deal will straighten out the Treasury's position nicely. And when the \$45,000,000,000 limit has been reached, the Treasury may start its national defense financing program. Under the law, issues sold for national defense may not bear maturities beyond five years.

Implications

Perhaps the most intriguing point about this government financing is its timing—the fact that it's coming this week of all weeks, that it's appearing immediately before a political convention and perhaps immediately before the feared blitzkrieg on Britain.

One thing the timing of the deal does indicate is Morgenthau's conviction that the market won't be upset by bad news during the next 48 hours. Apparently, he expects a few days of quiet on the Western front—

or he wouldn't schedule a major borrowing now.

As for the political aspects, Wall St. figures a government bond sale at the lowest interest rate in history will make good reading in Chicago next week. Unquestionably, that's so. The Treasury Dept.'s record under Morgenthau is a story of constantly decreasing borrowing costs, unparalleled successes in flotations.

Even the most bitter anti-New Dealers in the financial district admit he has done a remarkable job.

Shifts in Bonds

So far this year, the country's big life insurance companies have bought about \$1,500,000,000 of securities and mortgages, approximately the same amount of investments made in the identical 1939 period. But important changes have been managed in the types of securities and mortgages bought, an analysis of recent statements revealed today.

The companies have reduced their purchases of U. S. government bonds, for instance, have cut substantially their buying of utility, state, county and municipal bonds. But in comparison with 1939 totals, they have increased their investments in city property loans, industrial bonds, railroad obligations.

In the first six months, insurance companies bought \$117,000,000 in U. S. issues, against \$224,000,000 in the same period last year; \$257,000,000 in industrial corporation bonds, against \$133,000,000; \$188,000,000 in railroad securities, against \$113,000,000; \$231,000,000 in utility bonds, against \$297,000,000.

Philco Issue

Thursday probably will be the offering date for the Philco Corp's first public sale of 345,000 shares of common stock—to be brought into the market by A. Smith, Barney & Co. syndicate of 33 investment houses. Shares priced at \$15 each will be distributed to individual investors and institutions throughout the country by a large selling group.

The offering will be a mile stone in the 15-year history of that major radio manufacturing concern. For the first time the public will have an opportunity to buy Philco, a regular, active market for the stock will be established; and the shares should be listed on the N. Y. Stock Exchange soon. Of the total to be sold, 150,000 shares are coming from the company's treasury and will raise funds for the retirement of Philco's 25 preference stock, leaving only common outstanding. The remaining 175,000 shares are being sold by stockholders.

Incidentally, Philco's directors have established a 25-cent quarterly dividend rate on the common and they may declare some extras at the year-end.

JT

PLAIN

OTTAWA

Dated July 9, 1940

Rec'd 4:37 p.m.

Secretary of State,
Washington.

171, ninth.

Following Cabinet changes announced by Prime Minister in House session yesterday afternoon:

Ilsey, formerly Minister of National Revenue, now Minister of Finance; Gardin, now Minister of Public Works, now also Minister of Transport, relieving Howe of latter portfolio; Gardiner, now Minister of Agriculture, now also Minister of National War Services; Angus Mac Donald, formerly Premier of Nova Scotia, now Minister of National Defense for Naval Affairs; Colonel William P. Murlock of Toronto appointed Postmaster General; Colonel Colin Gibson of Hamilton, appointed Minister of National Revenue. Previously announced transfer Colonel J. L. Ralston from Minister of Finance to Minister of National Defense now confirmed.

MOFFAT

WSB

July 9, 1940

MEMORANDUM FOR THE SECRETARY:Re Pacific Coast Shipping Situation.

The Pacific Coast freight and charter market continued to soften last week, as the decline in buying interest in foreign countries gave operators a smaller volume of cargo to handle. In addition, the market was also being influenced adversely by the surplus of tonnage available for world trading, which has been blocked out of the European route.

The Pacific Coast-Orient trade was the only remaining major trading area still at peace, and, as such, was about the only place that was open for analysis. Business was generally quiet and rates were seeking lower levels. The volume of offering was scant and time charter rates were quoted at between \$3 and \$3.50 with about \$5.25 reported as being done. Some scrap fixtures for Japan were reported at \$15.50 f.i.o., this rate being approximately the same for berth lines. Negotiations for movement of salt to Japan were dropped and instead, it was understood the salt would be shipped to the West Indies. The f.i.o. rates on salt last week were quoted nominally at between \$11.50 and \$12.50, although no business was reported closed. Lumber from the Pacific Northwest was slack. Some wheat was reported to have been offering on the berth at about \$12.25 but as far as could be learned the business had not been closed late last week.

The intercoastal trade managed to hold fairly well despite the fact that this is the usual off-season. The reduced number of vessels on berth because of charters and war sales was in a large measure responsible for the condition. Perhaps the biggest feature in the intercoastal trade last week was the announcement by the United States Lines that its trans-Atlantic liners Washington and Manhattan would enter intercoastal operations.

David Harris

Rio de Janeiro, Brasil, July 9, 1940.

No. 3252

Subject: The Bank Of Brazil Requests Assistance Of The Embassy In
Obtaining Payment Of A Check Drawn On The Bank of Manhattan
Company Of New York.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to quote below the text of a letter from the Director of Exchange of the Bank of Brazil requesting the assistance of the Embassy in obtaining payment of a check in the amount of \$12,500.00 drawn by Kreditbank voor Handel en Nijverheid N.V. Antwerp on the Bank of Manhattan Company, and later forwarded to the Bankers Trust Company of New York, which acts as the Bank's correspondents in New York City.

" We wish to bring to your attention the following occurrence regarding settlement of a cheque for which payment had been guaranteed to the Banco do Brasil by a New York bank on April 15th.

" Messrs. Kreditbank voor Handel en Nijverheid N.V. of Antwerp, on April 11, issued cheque n° 132.383 to the amount of \$12,500.00, drawn on the Bank of the Manhattan Company, New York, in favour of Max Grossmann, which was paid by our Sao Paulo Agency.

" The above cheque was honoured by this bank in view of the following letter received from the Bank of Manhattan Co., dated April 15, 1940:

- 'We have today received the following cable from the Kreditbank voor Handel en Nijverheid N.V. Antwerp:

'Please confirm by letter Banco do Brasil S. Paulo that cheque 132.383 - \$12,500.00 drawn on you 11/4/1940 by our Polican Agency order Banco do Brasil S. Paulo and sent to latter for account of Max Grossmann is good for payment. ' -

'As requested by our correspondant, we confirm herewith that the above mentioned cheque is good for payment, and we shall be pleased to honour same upon presentation provided it is otherwise in order. '

" Notwithstanding this guarantee, the Bankers Trust Company of

New York, our correspondents, to whom the cheque was duly forwarded, telegraphed us as follows, on June 27:

- 'Protesting and holding remittance 2.739 your Central Branch. Reason President's executive order. '

" In view of the above, we request your kind attention to the matter, in order that payment of the said amount of \$12,500.00 may be duly authorized. "

The Department's cooperation in arranging for payment of the check will be appreciated.

Respectfully yours,
For the Ambassador:

Walter J. Donnelly,
Commercial Attachs.

File 851.6

WJD:KF.

July 9, 1940
2:56 p.m.

H.M.Jr: Hello.

Operator: Mr. Rouse.

H.M.Jr: Hello, Rouse?

Robert Rouse: Yes.

H.M.Jr: Morgenthau.

R: Good afternoon, sir.

H.M.Jr: How are you?

R: First rate.

H.M.Jr: Have you talked to the Metropolitan Life?

R: Yes I have.

H.M.Jr: What have they got to say?

R: The Metropolitan said that if a long-term bond were offered that they would subscribe for it.

H.M.Jr: They would or would not?

R: They would.

H.M.Jr: They would.

R: But if a 10-year obligation were offered they'd subscribe in a larger way.....

H.M.Jr: I see.

R: that they think it's a particularly good time for the financing to be done, there have been very few offerings in the past two or three months, and that the insurance companies and the savings banks are quite long on funds.

H.M.Jr: Are you at all worried about a 2½?

R: I believe it can be done. I think your secondary market may not prove to be satisfactory.

H.M.Jr: Well, you fellows have got to earn your salaries down there.

R: (Laughs) And the judgment of the market which we consulted today was very strongly to -- not over the 10-year option date.

H.M.Jr: Yeah. But they'd like a 10-year bond with 2½ coupon, huh?

R: Oh, sure. They prefer a 1-year, 4.

H.M.Jr: You're right. You've got it.

R: But the other side of it -- I think they're perfectly honest in their opinion because the 2½% bonds from the standpoint of the dealers would be more profitable because there'd be much more trading, they're bound to sell them at home. But they think from the standpoint of retention that the 2% bond with the 10-year call date or 10½-year call date would be much preferable. They sense in the investors a feeling that there will be a good deal of borrowing of one kind or another both Treasury and corporate, that the future is rather obscure and they'd rather confine their commitments to this 10-year and shorter. They're all quite conscious of an impending of impending European developments and the whole judgment tends to the 10-year call date.

H.M.Jr: O. K., Rouse. Thank you.

R: Thank you, sir.

July 9, 1940
3:38 p.m.

H.M.Jr: Hello.

Operator: Schwarz.

H.M.Jr: Yes.

Operator: Go ahead.

H.M.Jr: Hello.

Charles Schwarz: Yes, sir.

H.M.Jr: You can tell the boys for immediate release that the issue will be offered (1) on Thursday. (2) It will be \$600 million dollars.

S: \$600.

H.M.Jr: We're taking -- and on top of that take \$50 million on top of that for

S: Investment account?

H.M.Jr: Government investment account.

S: Yes, sir.

H.M.Jr: That's above the \$600.

S: A total of 650.

H.M.Jr: And that the coupon will be $2\frac{1}{4}$.

S:

H.M.Jr: We'll know that -- that we'll hold for Thursday morning announcement.

S: All right, sir. Thank you very much.

H.M.Jr: The maturities.

S: Yeah. That's right. Thank you.

MA

PLAIN

Berlin

Dated July 9, 1940

Rec'd 6:30 p.m.

Secretary of State
Washington

2644, July 9, 5 p.m.

My 2165, June 28, 9 a.m.

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

The Reich's short term debt (including tax certificates outstanding) increased during April by 513,000,000 marks to a total of 22,674,000,000 marks. In March the short term debt had increased by only 102,000,000 marks but in the six months prior thereto the average monthly increase had been 1,623,000,000 marks. Of the total increase during April 503,000,000 marks was in the form of treasury bills and certificates and 193,000,000 marks increased use of the government's operating credit at the Reichsbank offset a decrease of 183,000,000 marks in tax certificates outstanding. No estimate concerning the total debt increase during April is possible. Undoubtedly, however, the bulk of the Reich's borrowing as in March was on long term.

KIRK

NPL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

In a quiet foreign exchange market, sterling advanced from an opening of 3.75 to a high of 3.78-1/4 late in the day. It closed at 3.77-3/4, a gain of 1-1/4¢ over yesterday's final rate.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £162,000, from the following sources:

By commercial concerns.....	£ 42,000
By foreign banks (Europe, Far East and South America).....	£ 100,000
By the Federal Reserve Bank of New York (for Yugoslavia).....	£ 20,000
Total.....	£ 162,000

Purchases of spot sterling amounted to £140,000, as indicated below:

By commercial concerns.....	£ 103,000
By foreign banks (Far East, Europe and South America).....	£ 37,000
Total.....	£ 140,000

Sterling in the amount of £40,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£35,000 by the Chase National Bank (for whisky)
4,000 by the Irving Trust Company (for paddles)
1,000 by the Guaranty Trust Company (for leather)
<u>£40,000 Total</u>

It will be observed that official sterling was purchased to be used to pay for shipments of leather and paddles, two commodities which hitherto have not appeared under this category. Their inclusion today reflects the reported tightening, by the British Control, of regulations on the use of free sterling to pay for exports. According to a cable received from London by the New York Foreign Exchange Committee which appeared in the press today, exports from the United Kingdom contracted for prior to June 8 must now be paid for in official sterling, except for those commodities (whisky, rubber, tin, jute and a few others) specified in the British regulations of March 9. Free sterling can still be utilized with respect to the latter, if contracted for prior to March 8, but importers are warned, according to the cable, that "further measures may be taken at any time, having the effect of limiting the volume of sterling obtainable otherwise than from the control."

With the exception of a further widening of the Canadian dollar discount, the other currencies showed little movement and closed as follows:

Swiss franc	.2267
Canadian dollar	14-1/2% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	9-15/16% discount
Mexican peso	.1990 bid, .2020 offered

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Portugal shipped \$1,329,000 in gold from Portugal to the Federal, to be earmarked for its account.

The Bombay gold price was equivalent to \$33.79, off 3¢.

Spot silver in Bombay was unchanged at the equivalent of 44.16¢.

In London, spot silver was unchanged at 21-11/16d, and the forward quotation was 1/16d lower at 21-9/16d. The U. S. equivalents were 39.43¢ and 39.20¢ 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 325,000 ounces under the Silver Purchase Act. Of this amount, 125,000 ounces represented a sale from inventory, and the remaining 200,000 ounces consisted of new production from foreign countries, for forward delivery.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
July 1	100	346	\$11	\$11
2	200	691	5,000	5,346
3	11,985	116,860	16,000	10,399
4	\$11	\$11	\$11	\$11
5	5,000	18,740	42,000	27,874
6	<u>3,000</u>	<u>11,145</u>	<u>341,000*</u>	<u>351,352*</u>
	20,285	147,782	404,000	394,971

Sales from February 22 to June 29

	<u>1,351,563 1/2</u>	<u>47,902,571</u>	<u>1,891,000</u>	<u>1,669,689</u>
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TOTAL FEBRUARY 22 TO JULY 6

	1,371,848 1/2	48,050,353	2,295,000	2,064,660
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Mr. Gifford reported that sales of non-vested securities for the week ended June 29 totaled \$1,000,000.

* The bond sales of July 6 included a total of 301,000 bonds, nominal, which were sold for \$328,677 in the following circumstances. A Mr. John A. Fielden had presented to the British Treasury the following securities:

- \$45,000 Pennsylvania R. R. Gen. 5's 1968
- \$87,000 U. S. Treasury 2 7/8's 1955/60
- \$87,000 U. S. Treasury 2 3/4's 1951/54
- \$82,000 Union Pacific 4's 1947

While these did not arise out of British vesting orders, they were actually disposed of by Mr. Gifford, and are consequently counted in the above table.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the understanding reached at the Saturday meeting of our Exchange Control group, I telephoned today and discussed with Mr. Atherton, American Minister to Denmark now on detail in the Department of State, the desire of the Bank of Denmark to have the Federal Reserve Bank of New York purchase with its funds on deposit with the Federal \$600,000 worth of dollar bonds of Denmark.

In answer to my inquiry, Mr. Atherton stated that there had been no evidence of looting of securities by the Germans when they entered. Mr. Atherton confirmed my understanding that the Bank of Denmark had followed for a considerable time, much in advance of German invasion of Danish territory, the practice of purchasing through their Central Bank Danish dollar bonds on the American market. This the Danes considered a good investment policy. When I asked Atherton whether he thought the Germans had any ulterior motive in permitting the Bank of Denmark now to purchase dollar bonds in excess of sinking fund requirements, he replied that he had the very definite impression that Germany was dealing with Denmark in such a manner as to convince the small country that it enjoys a special status, perhaps different from that of other countries into which Germany has marched.

I asked whether Governor Bramsnaes of the Central Bank had freedom of action, and Atherton replied that he was sure this was enjoyed, and added that Bramsnaes seemed to be getting on very well when he, Atherton, left Denmark and might possibly be considered for a post in the Cabinet. Atherton thought Germany would be interested in seeing Denmark improve its credit status on the American market. He failed to see anything exceptional in the above-described transaction.

After this conversation with Mr. Atherton, I renewed my recommendation that the transaction be permitted. It will be recalled that when I visited Denmark in February, 1939, I reported to the Department then that the Central Bank of Denmark was actively purchasing Danish bonds on this market. I think it is much to the interest of our own market and to American investors that this be permitted to continue.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to my memorandum dated July 3 reporting a conversation by telephone with Mr. Russell Leffingwell of J. P. Morgan and Company.

On the evening of July 5 Mr. Henry Alexander of Morgan and Company dropped by to see me after spending a day with the S. E. C. He referred to Mr. Leffingwell's offer made by telephone to give us a memorandum setting forth some observations on our freezing system. Mr. Alexander sketched the general idea of the proposed memorandum and said he would try to have it in my hands by Tuesday, July 9. There is attached a copy of a note from Mr. Alexander together with a copy of its enclosure which constitutes the memorandum in question.



23 Wall Street
New York

July 8, 1940.

Dear Mr. Cochran:

I enclose the memorandum which we talked about last Friday and which you said you would like to have me send down to you.

Yours very truly,

(Signed) Henry Alexander

Merle Cochran, Esq.,
Treasury Department,
Washington, D. C.

Enclosure

Memorandum Re Executive Orders Issued in 1940 With the Object of Preventing a Conquering Invader from being able to misuse the Banking and Security Assets of Governments and Nationals of the Invaded Country when such are located in the United States.

The conception behind the Executive Orders was unquestionably laudable and it is undeniable that the actual and psychological effect has been to preserve from immediate seizure the assets of nationals and governments of the invaded countries located in the United States. The language of the Orders is necessarily restrictive and the penalties for infractions are sufficiently severe so that American banking institutions feel quite properly that the responsibility for decisions in connection with doubtful cases should rest with the Treasury Department. From our observations the decisions by the Treasury Department have been reasonably prompt and have been made with the application of a good deal of common sense.

Whatever the beneficial effects, it is undoubtedly true that the freezing of the assets concerned is a neat and tidy way of keeping the assets intact against the time when, perhaps induced by threats of cruel and horrible consequences to the nationals in Europe of the invaded countries, it may be necessary for our government to recognize the right of local European governments dominated by the German Reich to assume control over these American assets.

If we realistically arrive at even the possibility of the foregoing conclusion becoming a fact, we must then believe

that it is in the interests of justice that the owners of such American assets should have the right to the free disposition thereof provided the United States is convinced that they are not subject to coercion at the time their instructions are given to the American bank.

Decision regarding possible coercion is a difficult one, particularly if the owner of the funds or securities is a resident in the invaded country, but when he, or if a corporation its authorized representative, has arrived in the United States or has been a resident here for some time it seems to be an unnecessary hardship to have the use of his funds restricted and to be put on a dole when free use of his funds might prevent an eventual confiscation by a German dominated government.

If the above assumptions are accepted, it might not be necessary to make any change in the existing Executive Orders, but instead of having the licenses granted on the basis of a policy of tight freezing, if the point of view of those responsible is being guided by a more liberal policy it might be feasible to issue a general license for such nationals located in the United States, and following the above philosophy to make very liberal interpretations in other cases as they come up.

As an illustration of the possibility of future injustices because of current decisions, may we give a few cases which have come to our attention -

1. A member of an old and reputable American family, now

located in the United States, but a French citizen by marriage, has very substantial holdings of securities and cash and it is necessary to make application for any withdrawals, such applications being granted only in very limited manner.

2. A Danish citizen, who was in France at the time of the invasion of Denmark but who we understand is now in Spain, has upwards of \$1,000,000. in cash and securities on deposit, but before any payments other than very meager sums are made to him it is necessary for him to explain the purpose of the payment and obtain a license.
3. On April 24th instructions were given us by mail by a Dutch firm to deliver a number of securities from their account to a Swiss institution. The letter was not received by us until May 11th when an application for a license was made. No license was granted.
4. On May 11th we received a cable from a banking firm in Amsterdam, no doubt despatched before the invasion, requesting us to transfer from their sub-account a substantial block of securities and an amount of cash to an account in the name of a Swiss bank in favor of a Spanish company. It seems to us that the transfer was requested because of the fear of invasion before it actually occurred. Application for a license was immediately made but has not yet been granted. The real owner of the Spanish company is we believe a citizen of Lichtenstein.

- 5. A Roumanian citizen, married to a French lady, has a bankers' Travelers Letter of Credit for a substantial sum, made out in the joint names of both. They arrived in America about a week ago and wished to withdraw money under their Travelers Letter of Credit. Application was made but the resulting license permitted them only to have the funds deposited in a frozen bank account. Application has been made for necessary living expenses and is pending.

- 6. There have been a number of cases of holding companies established originally for the express purpose of avoiding the hardships of an invasion situation; one of these we shall discuss as an example. A Panama corporation, predominantly of Swiss ownership has had a representative domiciled first in Canada and then since last September in Havana, whose duty it was to avoid the effects of an invasion of Switzerland, Holland or France. Upon the invasion of Holland he wished to make certain transactions and we, thinking that it was a Dutch controlled company, made an application for a license. In the meantime he furnished evidence to us that the company was principally Swiss owned and controlled, although the individual residing in Havana was a French citizen (at this time France had not been invaded). We submitted this further information to the Treasury Department but to date the license has not been granted.

- 7. Prior to the issuance of the Executive Orders, we, as undoubtedly is the case with many other institutions, issued for account of foreign correspondents our irrevocable com-

mercial Letters of Credit. We are obligated to make payment under these irrevocable Letters of Credit at the time drafts are tendered, if in accordance with the terms of the credit. It is necessary under the Order for us to apply for permission to charge the account on our books of our foreign correspondent. In the meantime we run the risk of having the funds of our correspondent attached before we are reimbursed ourselves for our payment. (This has actually occurred.) It would seem highly desirable that a general license should be issued permitting banks which have issued irrevocable Letters of Credit prior to the date of the Executive Order to charge the account for the payments without the necessity of incurring the delay involved by application for a specific license.

July 3, 1940.

July 9, 1940

Dear Harold:

Thank you for the extract of the letter which you received from Mexico City on July 5th.

I would appreciate your forwarding on to me any material of a similar nature which you may receive in the future.

Best regards.

Yours sincerely,

Henry

Mr. Harold K. Hochschild,
The American Metal Company, Ltd.,
81 Broadway,
New York, New York.

July 9, 1940

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Yours sincerely,

Henry

Mr. Harold K. Hochschild,
The American Metal Company, Ltd.,
61 Broadway,
New York, New York.

Extract of letter from Mexico City,
July 5, 1940.

Just before the elections I beg to repeat that there is not the slightest question that Avila Camacho will get by far the biggest majority of votes, as Government employees and all organized labor are practically carried to the urns, while the other side is much more reluctant to vote. That, of course, settles the matter.

The fact that the Government's income is decreasing, for which the exchange at five is greatly responsible, is being felt and you hear in Government circles less talk about 3.60 than before. My private opinion is that unless a big influx of dollars come to this country, which may of course come through extraordinarily large tourist trade, or Americans settling here, or through frightened capital returning or looking for a port in this country, the Government can possibly hold the exchange for some time at 5, but will have much difficulty to hold it afterwards at that rate.

Business is fairly bad and it remains to be seen if such fact is due to people being unwilling to engage in new business on account of the election or due to the economic situation.

Considering the enormous vitality of this country I am inclined to believe that such fall off in business is due to political fears and that after the election or when the new President is in, business will pick up considerably.

July 9, 1940

Under Secretary Bell

Mr. Cochran

STRICTLY CONFIDENTIAL

In accordance with the decision reached at our Exchange Control meeting on Saturday, I telephoned Mr. Duggan of the State Department yesterday in regard to the letter addressed to him by Ambassador Braden at Bogota, under date of June 28, 1940. I have asked Mr. Duggan whether he could tell me the bank in the United States in which the French citizen, Mr. Louis Dica has his account, which is reported to be frozen. Mr. Duggan stated that he did not have this information, but would seek it by cablegram from Ambassador Braden. I told him that we were also interested in knowing how long Mr. Dica had been a resident of the United States and whether he intends to remain here. Mr. Duggan promised to call me back as soon as he may have an answer from his cablegram to Bogota.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Mergenthau
FROM W. H. Hadley

2-1/4% TREASURY BONDS

<u>Term</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Estimated Market Price</u>	<u>Premium</u>
13 yr. 2 mo. - 16 yr. 2 mo. (9/15/53-56)	2.11 2.13	100 100	101.20 101.13	1 pt. 20/32 1 pt. 13/32
13 yr. 5 mo. - 15 yr. 5 mo. (12/15/53-55)	2.11 2.13	100 100	101.20 101.13	1 pt. 20/32 1 pt. 13/32
13 yr. 5 mo. - 16 yr. 5 mo. (12/15/53-56)	2.13 2.15	100 100	101.13 101.6	1 pt. 13/32 1 pt. 6/32
13 yr. 8 mo. - 15 yr. 8 mo. (3/15/54-56)	2.13 2.15	100 100	101.14 101.6	1 pt. 14/32 1 pt. 6/32
13 yr. 8 mo. - 16 yr. 8 mo. (3/15/54-57)	2.15 2.17	100 100	101.6 100.30	1 pt. 6/32 30/32nds
13 yr. 11 mo. - 15 yr. 11 mo. (6/15/54-56)	2.15 2.17	100 100	101.6 100.30	1 pt. 6/32 30/32nds

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In answer to Mr. Pinsent's renewed inquiries this morning, I told him that the Treasury had granted a license for the Far Eastern branches of the Bank of Indo-China to draw up to twenty-five percent of their deposits with American banks as of a certain date, plus deposits made subsequently. I let him know, in addition, that we had inquired through Shanghai as to whether any real difficulties were being experienced there by the branch of the Bank of Indo-China, but I had not yet received a reply. With respect to the Credit Lyonnais, I confirmed that we had made a twenty-five percent arrangement for two of its branches in Spain, of which the deposits on the American market were insignificant. Consequently, I told him that he should be able to report to his Government that our action with respect to these Spanish branches of a French bank constituted no deviation from or loosening of our control policy.

Mr. Pinsent referred to the cablegram of which he had given me a copy in regard to Denmark obtaining the release of funds blocked in New York with the view to paying interest on loans from Sweden. I told Pinsent that I had not yet ascertained whether the transactions of the type indicated had been the basis of applications to us for licenses. I had, however, circulated a memorandum to my colleagues indicating the British position. Pinsent asked very definitely if he could report to his Government that we would disapprove any arrangements in the sense indicated. If not this, could he report that the Treasury Department would consult the British Embassy before granting any licenses of the character under reference. I told Pinsent that my immediate reaction was that the Treasury could not undertake to consult the British Embassy, representing an unblocked country, in regard to transactions involving blocked countries. I would, however, look into the facts as to applications of the type mentioned, and also consult my colleagues on the general matter of policy.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 9, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In a conversation by telephone this morning, Mr. Pinsent asked me whether he could give a reply to his Government expressing Secretary Morgenthau's position as to whether the British should enter into negotiations with Mr. Charles McDaniels with the view to considering the latter's proposal involving the barter of securities and colonial products for other raw materials or manufactured goods amounting to perhaps £150,000,000 sterling.

I told Mr. Pinsent that I had obtained a little more information regarding Mr. McDaniels since speaking with him last. This was to the effect that Mr. McDaniels had reportedly made a good impression upon Senator Barkley and perhaps some other members of the Senate. Pinsent did not feel that friendship with members of the Senate could constitute the "official blessing" which McDaniels is alleged to have for his proposal. I reiterated that the Treasury's "blessing" on McDaniels' proposal had not been solicited and that we knew nothing of it except from the information which Pinsent had given. Furthermore, my inquiries in the Department of State had failed to reveal any knowledge there of the proposal. I told Pinsent that I was confident Secretary Morgenthau knew nothing of this matter and I did not feel that he should be pressed for an expression of opinion. I have given Pinsent ample information on which his Embassy should be in a position to make a recommendation to their Government as to whether this man may be in a position to carry out a transaction of the magnitude indicated. I assumed that the British would desire to make the usual banking and credit inquiries before entering such negotiations. As far as this Government is concerned, I pointed out that the State Department, rather than the Treasury, has negotiated on barter. As far as disposal of British securities is concerned, we made our only suggestion in the premises and the British acted on it, through selling their securities for cash on this market. Pinsent agreed to accept the above remarks as sufficient basis for his cablegram to London, and to consider the matter closed.

J. M. F.

July 9, 1940

Three things Soong asked me about at lunch. First, the President talked to him about the three-way loan -- Russia, China and ourselves. (The President and I discussed this before we had seen Soong.) Second, to help finance a corporation to build the Burma road. Third, a stabilization to the Bank of China.

He said the President said that they should keep on fighting -- I can't remember the exact words he used, but that something might happen which would bring the Democracies a break. (This is paraphrasing it.) He suggested that we make them a loan against wolfram and that they would use that money to buy from Russia. I said that that was too simple to suit the President. I said something about buying manganese from Russia on condition that Russia help China.

Soong said that the President said that he told the French to keep on fighting and Soong could not understand why the French did not withdraw to Africa and keep on fighting, as the President said, "If you fight until the last man is alive, you will get just as good peace terms from the Japanese as though you made peace terms today. And the same holds true with the French," the President said.

I tried to find out what he had in mind in the way of a three-way loan and he had nothing. Soong then said that the last loan we made at the time of the fall of Canton was very timely and helpful.

I asked him how they felt about Russia in China and he said that they were very, very appreciative because all of their airplanes and guns today came from Russia.

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July 9, 1940

My dear Mr. Hoover:

This will acknowledge receipt of the following communications which you have been good enough to send me:

- July 1 - Excerpts from a communication prepared by Justice Department official at San Juan regarding his observations made at Fort-de-France;
- July 3 - Further information on purchase of aviation gasoline, allegedly for use of the Japanese Navy;
- July 5 - Additional memorandum relative to Dr. Herbert Hoehne and Dr. Emil Wolff;
- July 5 - Further information on conditions at Martinique;
- July 6 - Employment of Russians who were formerly officers in Russian Imperial Army at Sikorsky Airplane Factory in Connecticut.

Yours sincerely,

(Signed) E. Maguire, Jr.

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

July 9, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

133

July 9, 1940

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Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

TO:

Mrs. Klotz or Miss Chauncey - 34

Mr. Gaston directed me to give
the attached to either of you and
say he has reported the substance of
it to the Secretary.

mel-R
7/2/40

From: Mr. GASTON

JOHN EDGAR HOOVER
DIRECTOR

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

35
Rec'd
7/9.

July 1, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

There are attached hereto pertinent excerpts of a communication prepared by an official of the Department of Justice at San Juan, Puerto Rico, recording his observations made at Fort-de-France on June 26, 1940.

It was believed that you would find the contents of the enclosure to be of interest.

Sincerely yours,

J. Edgar Hoover

Enclosure

BY SPECIAL MESSENGER

Baird
H. C.

"The French airplane carrier BERAN, with a reputed cargo of 240 Curtiss fighting planes, was anchored in the harbor. I actually counted 44 planes on the deck as I flew over in a PAA plane. I am told that the balance were in the below decks. I was further informed by most reliable authorities that the BERAN had sailed from Cayenne after the capitulation of the French and upon receipt of the news, her course was changed to Fort-de-France, Martinique. They are 14 Canadian fliers aboard who are en route to France."

The French training ship JEANNE D'ARC was anchored in the harbor upon my arrival but later moved into the docks. The French ocean cruiser EMILIO BERTAIN is at the docks."

From unimpeachable sources, such as Mons. Andre Garcin, director of the Credit Martiniquais; Mons. Aubery, leading industrialist of Martinique; Mons. Rene Cottrell, one of the leading business men of Fort-de-France, French officers, etc., I learned that there is 22,000,000,000 gold francs aboard this cruiser. This money was shipped from the Bank of France when the fall of Paris was imminent. I am told that the EMILIO BERTAIN'S first destination was a Canadian port and that upon arrival in Canada she was instructed by the Canadian or English Governments to remain at a Canadian port subject to their disposition. This she refused to do and proceeded to Martinique under forced draft. The English cruiser DUNDEE is in the harbor, as well as the English cruiser FIGI, which arrived during the later afternoon of June 28th. It is significant that both of the English cruisers are anchored in such a way as to effectively bottle the departure of any ship from the port of Fort-de-France. There are also five French fruit ships at deck, all of which are heavily armed. There are also three French tank ships and one small patrol boat."

On Friday, June 28th, the following British officials arrived at Fort-de-France by special PAA plane at 10:45 a.m.:-

- Sir Hubert Young, Governor of Trinidad.
- Sir Edward Cunard, traveling as aid to the Governor and apparently a high ranking British naval officer.
- Colonel Bannington of the British Army.
- Mr. G. C. George, a civilian.
- Mr. Errol dos Santos, Treasurer of Trinidad.
- Xavier de Fompigna, steamship director and agent of the French steamship line in Trinidad.
- Mr. S. K. Barclay, Manager of Barclay's Overseas Bank in Trinidad.

This party immediately went into conferences with the Governor of Martinique, Admiral Rebert, of the French Navy, Mons. Garcin, Director of the Credit Martiniquais and others. Reliable sources told me that the Trinidad delegation arrived in Martinique with the offer to take over the Island and pointed out that the economic situation (they have no pounds sterling or dollars to buy food commodities and it is said that the supply of food commodities is only for approximately two months and the supply of gasoline is limited to one month) was nearing a crisis and that the English Government would provide all necessary funds, etc.

"The report is that the Martinique officials indignantly replied to the English offer that they could not be bought and accused the Trinidad delegation of making the offer purely to obtain possession of the gold aboard the cruiser. The Trinidad delegation left by FAA plane at 2:30 p.m. The Governor of Martinique and the Vice-Admiral accompanied the Trinidad party to the FAA pier and the departure was amidst almost total silence."

"Later on in the afternoon I had an appointment with Mons. Garcin, the Director of the Credit Martiniquais. He was in a very excitable frame of mind and proceeded to speak freely of the result of the Trinidad mission. He said that they were convinced that the purpose of the visit of the English delegation primarily was to take over the gold and planes aboard of the airplane carrier BERAN, and that the officers and men of the SMILIC BETAINE would fight to prevent such an act. He also told me (and this was confirmed by returning fishermen and French patrol planes) that three or four English cruisers were to the leeward of Fort-de-France. Mons. Garcin went on to say that most anything could happen and that within the next 48 hours they propose to hold a council and it was not improbable that the results of this meeting would be to ask the U. S. Government to take over Martinique."

"Sailors from the British cruiser DUNDON and the cruiser FIGI, as well as sailors from the French naval unite circulated in the town of Fort-de-France during the night and it was obvious that tension was high and acute. This morning I was told that the gold was taken from the French cruiser SMILIC BETAINE and transferred to the fort southeast of the town of Fort-de-France.

On leaving by FAA plane this morning I requested the FAA pilot to fly some distance off his course in the hopes of seeing the English fleet that was reported off Martinique. We flew northwest to Latitude 15° 20', Longitude 62° 20', then north to Latitude 15° 50', Longitude

42° 10'. After completing this circle, we then proceeded north-east to Guadeloupe. Visibility was poor and nothing was sighted except two French patrol planes flying from Guadeloupe to Martinique. (we learned later that they were carrying the Governor of Guadeloupe)."

"On arriving at Guadeloupe, I learned that the Governor had pledged his allegiance to the Petain Government and that the people were for the Government being formed in England and would revolt if the Guadeloupe authorities attempted to recognize Petain. A converted French cruiser is standing by and reports are freely circulating that real rioting may be expected. The Governor of Guadeloupe flew to Martinique this morning ostensibly to ask aid."

CONCLUSIONS:-

"There is a marked feeling of unfriendliness of the people of Martinique toward the English. They primarily wish to remain French but they do not wish to join the Petain Government and prefer that the Government be forced in North Africa. If this cannot be done, they want to be taken over by the U. S. Government."

"The economic situation may develop into a crisis. The banks are full of French francs but there are practically no dollars on the island and fear is entertained for food commodities. Apparently some believe that the English propose to take the gold by force and also the planes, and it is not beyond the realm of possibility that such an action may bring on a real encounter. Apparently the situation is full of dire possibilities and the least flare will bring on a most chaotic condition."

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

July 3, 1940

PERSONAL AND CONFIDENTIAL

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

My dear Mr. Secretary:

Reference is made to previous correspondence with you concerning the proposed purchase of aviation gasoline by the Taiyo Sekiyu Kaisha, Limited, allegedly for the use of the Japanese Navy.

I am now in receipt of information indicating that Perry P. Schultz and Shoji Matsuzaki left New York, New York, on June 27, 1940, en route to Los Angeles, California. It is reported that Shoji Matsuzaki has been negotiating with the General Petroleum Corporation of California, at Los Angeles, California, and has entered into an agreement for the shipment of gasoline beginning in December, 1940. It is also reported that he has entered into a contract with the Seaboard Oil Company of Delaware, Los Angeles, California, the details of which are not available at the present time.

Information was also obtained from a confidential source to the effect that Milton M. Cohen, Fifth Avenue Hotel, New York City, a Los Angeles attorney, has been contacted by Shoji Matsuzaki and is apparently acting as an agent for the Taiyo Sekiyu Kaisha, Limited. According to confidential sources, a receipt in Cohen's name dated April 19, 1940, was issued by the Seaboard Oil Company in the amount of \$7,500, which receipt was seen in the possession of Shoji Matsuzaki.

Sincerely yours,

J. Edgar Hoover

BY SPECIAL MESSENGER

JOHN EDGAR HOOVER
DIRECTOR

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

July 5, 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 to you an additional memorandum relative to Dr. Herbert Hoehne, with aliases; Dr. Emil Wolff; Registration Act; Espionage, setting forth information regarding developments in this case at San Francisco, California.

You will be advised of further developments as soon as information is received.

Sincerely yours,

J. E. Hoover

Enclosure

July 3, 1940

MEMORANDUM

Information has been received to the effect that the trunk found in the possession of Dr. Emil Wolff upon his arrival at Balboa, Canal Zone, contained nine packages, all under seal and addressed to German Ministers and Consuls at Bogota, Colombia; Caracas, Venezuela; Lima, Peru; Quito, Ecuador; La Paz, Bolivia; Barranquilla, Colombia; Buenos Aires, Argentina; Asuncion, Paraguay; Rio de Janeiro, Brazil; Santiago, Chile; Montevideo, Uruguay. The total weight of the trunk was approximately 150 pounds, and numerous documents found in the trunk were apparently duplicates.

These packages were opened and contained numerous official codes, together with instructions for code keys to be used during the year 1941. Intelligent translations of these documents could not be obtained, however, due to the lack of a competent interpreter. These packages also contained pads of paper, apparently chemically treated, with instructions for developing, which instructions were all serialized. The packages also contained letters of instructions pertaining to the use of the codes and destruction in the event of an emergency. The documents are now in the custody of the Customs Inspector at Balboa.

Dr. Wolff is being held in default of a \$10,000.00 bond on a Narcotic charge. Unless immediate steps are taken to initiate prosecution on additional charges, Dr. Wolff will probably be discharged from the Narcotic charge at the time of his hearing which is presently set for Friday, July 5, 1940.

Information has been received to the effect that Captain Frederick C. Mensing, head of the Hamburg-American Lines in San Francisco, California, was departing from San Francisco on the night of July 3, 1940, enroute to Washington via New York and Philadelphia. Prior to his departure in a conversation with Fritz Wiedemann, Wiedemann remarked that he hoped he, Wiedemann, would not be punished for the time being in San Francisco.

Mensing advised on July 3, 1940, that it has been customary for the German Consul at San Francisco to make use of men passing through to South America as couriers when a man could not be spared from the Consulate; that Doctor Wolff had been picked up in Balboa, Canal Zone, in possession of a number of code books of the German Consulate which is the first occasion that anything has gone wrong in connection with the movement of such couriers and that the loss of the code books on the part of the German Consulate has resulted in embarrassment to the Consulate.

Loss of the code books is apparently the reason attributed by Wiedemann to anticipating punishment inasmuch as such loss will require a change in the entire code.

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

Personal and
Confidential

July 5, 1940

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

My dear Mr. Secretary:

With further reference to my letter of July 1, 1940, pertaining to conditions in Martinique, I wanted to advise you of developments subsequent to my previous letter to you. Not having heard from the State Department, to whom this information also was furnished, I on the afternoon of July 2nd instructed a member of my staff to contact Assistant Secretary of State Berle and determine from him whether he did not deem it desirable to have a Special Agent of the Bureau proceed to Martinique at once in order that we might be kept currently advised of developments in this situation. After some consideration the State Department instructed me not to take any further action in this matter even in the designating of a Special Agent to fly to Martinique, until I had been instructed to do so by the State Department. Abiding by the State Department's desires in the matter, I refrained from sending a representative to Martinique and up to the present time have heard no more from the State Department about the matter.

You can understand, of course, why I did not take further action in this situation but I did want you to know of all of the circumstances surrounding the matter.

Sincerely yours,

J. Edgar Hoover

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

July 6, 1940

PERSONAL AND CONFIDENTIAL

SPECIAL MESSENGER

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

My dear Mr. Secretary:

I am transmitting herewith a Memorandum dated July 2, 1940, which contains information obtained from a confidential source with regard to the employment of Russians who were formerly officers in the Russian Imperial Army at the Sikorsky Airplane Factory in Connecticut.

Sincerely yours,

J. Edgar Hoover

Enclosure

July 2, 1940

MEMORANDUM

Information has been received from a highly confidential source that Mr. Sikorsky, Manager of the Sikorsky Airplane Factory in Connecticut and who is by birth a Russian, has employed a number of Russians at the plant who were formerly officers in the Russian Imperial Army.

It is reported that some of these Russian officers have very strong pro-Nazi inclinations, and at a dinner held during the month of May where some of these officers were present they drank a toast to the success of Hitler in Holland and Belgium.

It is also reported that the Sikorsky factory is presently manufacturing airplanes for the Allies.

JR

PLAIN

London

Dated July 9, 1940

Rec'd 1:55 p.m.

Secretary of State,
Washington.

2076, 9th.

FOR TREASURY FROM BUTTERNORTH.

In introducing today a bill in the House of Commons for a further million pound vote of credit (my 1997 of July 5) the Chancellor of the Exchequer indicated that the pounds 700 million vote of credit made on March 13 was fast approaching exhaustion. He pointed out that "the present rate of war expenditure was in the neighborhood of rather more than pounds 50 million a week and that actually for the last four weeks the average rate of expenditure directly on the war had been pounds 54 million which was equivalent to a daily rate of pounds 7,500,000. The cost of the fighting services had risen from pounds 4 million in March last to pounds 6,500,000 a day and that accounted for the whole of the increase in total expenditure". Sir Kingsley Wood also indicated that both war and other expenditure was now at a rate of not less than pounds 9,500,000 a day; "the implications of these figures were not always sufficiently realized; the gap between revenue and expenditure was widening and a further contribution

2- #2075, July 9, from London.

contribution from taxation towards the cost of the war must really be the highest possible and must cover the widest possible field. It must be made soon."

KENNEDY

CSE

(COPY)

CG-P-0161 (7/9/40)

The Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Since the last Coast Guard emergency estimates were submitted to the Bureau of the Budget, both the national and international situations have changed so rapidly that it appears imperative to advise the Director of the Bureau of the Budget now of the situation confronting the Coast Guard with respect to national defense, and of the urgent need for additional national defense appropriations at the earliest practicable date.

A joint Coast Guard-Navy Board is sitting almost daily in Washington, bringing up to date detailed plans for the close coordination of the Coast Guard and the Navy during the present emergency, and for the use of the Coast Guard as a part of the Navy in time of war. In the field, similar boards, consisting of representatives of Coast Guard Districts and of Naval Districts, are developing local plans.

The needs of the Coast Guard to enable that Service to adequately meet the requirements of national defense may be divided into the following seven categories:

1. Conversion of Coast Guard vessels for Naval use.
2. Increased complement of officers and men to meet the expansion made necessary by national defense measures.
3. Facilities for the repair and construction of vessels.
4. Training of officers and men.
5. Additional vessels.
6. Additional shore facilities.
7. Funds for administrative expenses in connection with the entire program.

Funds for part of this program have been appropriated.

No funds for the national defense program of the Coast Guard are included in the Navy Budget--nor is the Navy, due to its own comprehensive preparedness program, able to perform for the Coast Guard the necessary services such as: training, repair and construction of vessels, etc. The Navy looks to the Coast Guard to obtain its own funds to carry out the national defense program of the Coast Guard. There is no duplication of effort, and no duplication in the expenditure of funds.

In addition to the national defense needs of the Coast Guard to carry out the program prescribed by the Navy for the Coast Guard, there are certain national defense duties carried out by the Coast Guard, in its own right, whether under the Treasury Department or under the Navy Department. The President, by proclamation, has placed the control, movements, and anchorage of merchant vessels in territorial waters of the United States and the supervision and control of the loading and discharging of explosives or inflammable material and other dangerous cargo in harbors of the United States and territories (except the Panama Canal) under the Secretary of the Treasury, who has, by regulation, placed these duties under the Coast Guard. The Coast Guard is establishing Captains of the Port in approximately 17 additional ports. Approximately 2,500 ocean-going vessels daily are affected by these regulations, as are also tens of thousands of tugs, lighters, barges, ferryboats and other harbor craft, and fishing boats. This does not include the large number of motorboats affected. Within the last week 500 additional men, with facilities to house them, are needed in New York Harbor to supervise the loading of explosives, and to police the harbor where dangerous cargo is being handled. Similar requests of similar importance, but not to the same extent, have been received from Houston, Texas; New Orleans, Louisiana; San Francisco, California; and other ports. Two cutters are in Greenland, and a third will shortly be en route there. Six cutters are on weather observation patrol, with every possibility that no relief from this duty will be forthcoming in the near future. The Navy Department has requested that the Coast Guard overhaul destroyers and build motorboats at its Curtis Bay (Maryland) Depot to the fullest extent of its capabilities, and have requisitioned Coast Guard communication trucks for a secret mission. Coast Guard makeshift training facilities for enlisted men are pitiful.

If funds cannot be made available to the Coast Guard from appropriations already made, detailed estimates, in the usual form, will be submitted to the Bureau of the Budget, if the Bureau deems such a course the proper one to pursue.

SUMMARY OF FUNDS REQUIRED AT THE EARLIEST
PRACTICABLE DATE BY THE COAST GUARD

1. Training of officers and men:

Training facilities for enlisted men ..	\$1,000,000	
Coast Guard Academy,	<u>800,000</u>	\$1,800,000

2. Additional shore facilities:

Radio stations,	\$1,838,410	
Port Angeles Air Station, extension..	<u>278,000</u>	\$2,116,410

3. Facilities for repair and construction of vessels:

Coast Guard Depot—		
(a) Floating drydock,	730,000	
(b) Two shipways,	910,000	
(c) Buildings and facilities,	<u>858,700</u>	2,398,700

4. Additional vessels:

Three cutters, HAMILTON class, w.....	10,800,000	
Four harbor cutters, for icebreaking, ..	1,400,000	
Cable boats,	1,100,000	
Cutter for duty in Greenland,	2,250,000	
Sixty cutters, 78-foot class,	<u>4,500,000</u>	19,750,000

5. Increase of 2,500 in the enlisted complement of the Coast Guard, 3,040,660

6. Emergency fund for Secretary of the Treasury, 5,000,000

7. Funds for administrative expenses in connection with the entire program, 1,800,000

TOTAL, 38,499,770

1. TRAINING OF OFFICERS AND MEN, \$1,800,000.

Training facilities for enlisted men -- \$1,000,000.

The Coast Guard has only makeshift training stations at Ellis Island, New York; Norfolk, Virginia; Fort Trumbull, Connecticut; Curtis Bay, Maryland; and Fort Leauderdale, Florida; all of which are totally inadequate. The buildings at Fort Trumbull are frame buildings, hastily constructed during the first World War. These buildings are entirely inadequate, unsuited, dilapidated, and a fire hazard. At Ellis Island, the Immigration Service allotted a space to the Coast Guard—a makeshift arrangement—totally unsuited for the purpose. Coast Guard trainees are trained alongside of immigrants awaiting deportation, many of whom are diseased and insane. This space could more appropriately be used to quarter the enlisted men used in New York Harbor to supervise the loading of explosives, as there is no other space in New York now available to house these men. At Norfolk, the Coast Guard is using aban-

done Navy buildings, which are totally unsuited for the purpose and in poor condition. At Fort Landerdale, wooden buildings, hastily constructed during the prohibition era to house men temporarily, are being used. At the Coast Guard Depot, Curtis Bay, the Coast Guard is using barracks constructed to house enlisted men from its ships undergoing overhaul and repair, and some dilapidated structures which should have been torn down long ago. The Coast Guard is training radiomen at Fort Trumbull, at the Coast Guard Depot, and for the Merchant Marine at Gallups Island (Boston) Massachusetts—thereby increasing the overhead cost, as well as following a makeshift plan. Nowhere on the East Coast are there any adequate training facilities for enlisted men of the Coast Guard, although this need has been urgent for many years past, and has now reached the point where the Coast Guard is seriously embarrassed during the present emergency. This condition will increase during the years to come, unless adequate training facilities are furnished. No other service that trains men is in such deplorable condition for training as the Coast Guard, and this at a time when the attention of the whole country is focused on training the youth of the country in all walks of life. The situation is so urgent that funds should be made available immediately, and not wait for the regular appropriation for 1942.

Coast Guard Academy, New London, Connecticut — \$800,000.

For extending facilities to accommodate 296 cadets, instead of the present 208 cadets, \$200,000 is needed. When the new class of cadets is appointed in July, it will necessitate three cadets being quartered in a room designed for only two. One hundred and twenty-five cadets will be appointed. If facilities were available, 150 would be appointed. The Coast Guard Academy Advisory Committee strongly recommended against placing three cadets in a room, but as other course is left open. The Coast Guard is woefully short of commissioned officers. \$300,000 is necessary for the construction of an infirmary. Part of the administration building is now being used for this purpose. This space is urgently needed for other purposes. \$200,000 is needed for a boathouse and wharf. At present, valuable boats are stowed in the open the year round, and additional boats will be needed with the increased number of cadets. \$100,000 is needed to provide better library facilities, which were strongly recommended both by the Coast Guard Academy Advisory Committee and by the Congressional Board of Visitors. Library books are now stored in the basement. A visit to the Coast Guard Academy will show clearly the need for this addition.

2. ADDITIONAL SHORE FACILITIES,\$2,113,410.

Radio stations — \$1,835,410.

One of the most valuable and vital assets of the Coast Guard in national defense is its communication system, which makes possible, through its coastal telephones, cable and radio communications, instant communication to practically every part of the Atlantic, Pacific, Gulf, and Great Lakes coasts of the United States. The primary radio traffic station in each Coast Guard district is the main artery of this system, and for years the Service has been compelled to carry on with improvised radio stations. The emergent needs in this respect are as follows:

(a) Chicago - Funds were allotted for the construction of this station under P.W.A., but these funds were rescinded. The Coast Guard owns the site, and preliminary work has gone ahead on preparation of land for the station. All work has been suspended, due to the lack of funds. - \$210,700.

(b) Seattle - Funds were allotted from P.W.A. for the construction of this station, but were rescinded. The property proposed is under lease from the city for a period of five years with a renewal provision. Preliminary work has been done. - \$220,150.

(c) San Francisco - The present station is located in the vicinity of Fort Funston, and is now in a very precarious condition, as it is gradually falling into the sea, due to erosion. It is proposed to construct the new station south of San Francisco on McSweeney Ridge. Negotiations for this property have been underway for some time. - \$240,700.

(d) Cleveland - A study has been made of the environs of Cleveland for the establishment of this station. It is necessary to acquire a site at a considerable distance from Cleveland. However, a suitable site is available for this purpose. - \$230,650.

(e) New Orleans - The present main traffic station is located in Mobile, Alabama, and connected to the District office by teletype. The distance between Mobile and New Orleans being considerable, there is danger of a breakdown in communications, due to the destruction of landwires by hurricanes, etc. The station at New Orleans has been surveyed, and a location selected on Lake Pontchartrain. The City of New Orleans has agreed to give this property to the Government, without charge, but negotiations have been held up, due to lack of funds for the construction of a station, and the desire not to involve the city until such time as funds were available for the completion of this project. - \$182,750.

(f) New York - This includes the construction of a main traffic station, complete with all facilities. The present location at Hockway Point, due to electrical interference, is entirely unsuitable for the location of a main traffic station, and it will be necessary to acquire a suitable site for this purpose. Funds were originally allotted for this purpose from P. W. A., but were rescinded. - \$240,000.

(g) Juneau - This includes the construction of a main traffic station, complete with all facilities. The recent consolidation of the Coast Guard and the Lighthouse Service necessitated the establishment of an additional District of Juneau, in which communication facilities are lacking. The former Lighthouse units in Alaska were administered from Etchikan, using the Army communication system for part of their communications. These facilities are totally inadequate to provide proper communications to administer the former Lighthouse units plus the Coast Guard vessels stationed in Alaska and the Bering Sea Patrol force in the far North. Except for the temporary portable equipment now in-

stalled by the Coast Guard at Ketchikan, there are no adequate Government facilities for communicating from Juneau (or Ketchikan) to the northern and western part of the District, except the circuitous Army radio route. The Army stations do not offer night service, therefore, the delays entailed in this method make adequate control and administration of mobile units of an emergency Service impossible. The proposed primary radio station for the Juneau District will provide the necessary communications. - \$250,000.

(h) Norfolk - This includes the construction of a main traffic station, complete with all facilities, to be located in the vicinity of Norfolk, Virginia. The present radio station is located in a discontinued lifeboat station at Princess Anne, Virginia, the design of which cannot be satisfactorily adapted to a radio station. This station is on an exposed beach subject to storm damage, and is entirely inadequate to handle increased traffic due to the limited land available and poor design of the building. This station has been rendered inoperative in the past by high water during storms. It is impossible to satisfactorily protect the present site. It will be necessary to acquire a new site for this station. - \$210,450.

(i) Jacksonville - This includes the acquisition of land, construction of transmitter buildings, and improvements to present radio equipment, to provide remote control. The scope of operations of this station has increased and more channels are necessary. These channels are not now available, as the close proximity of transmitters and receivers block reception. - \$50,000.

Coast Guard Air Station, Port Angeles, Washington, extension - \$275,000.

For extension of facilities at this air station - construction of roads, bulkheading, officers' quarters, etc.

3. COAST GUARD DEPOT,\$2,295,000.

The Curtis Bay Depot is a large plant used for building, repairing, and reconditioning Coast Guard vessels. It was established in 1898, and has been expanded from time to time under regular appropriations and P.W.A. and W.P.A. allotments, so that it now has a number of up-to-date shop buildings and related facilities, while at the same time there remain several antiquated frame buildings for shop and storage purposes and for officers' quarters. Under a recent P.W.A. allotment, shop facilities have been expanded to a considerable degree, and at present the Depot is equipped to do almost any character of ship repair work where drydock facilities are not required. The most pressing need of the Depot at the present time to round out a well-developed ship repair yard is the construction of facilities for docking the largest vessels of the Coast Guard. In addition to the drydock, with the provision of building ways, the yard could proceed with the construction of vessels up to 325 feet in length and approximately 2500 tons, without difficulty.

(a) The construction of one floating drydock to accommodate one ship with a length of 300 feet, a beam of 50 feet, and a displacement of 3000 tons, \$730,000.*

CG-7-0161

The comparison was made between a floating dock, graving dock, and marine railway, and it is believed, for our purpose, that the floating dock has many advantages over either of the other two. The advantages of a floating dock are a lower initial cost as compared to a graving dock, that it can be lengthened or moved to a new location at will, and the speed with which ships, particularly those of a small displacement, can be raised or lowered - and the bulk of the work at the Depot will be with small vessels. It has a longer life and lower maintenance cost than a marine railway, and it will not occupy any land area.

*This price for the floating drydock is based on the construction of two shipways hereinafter mentioned, and in this construction certain bulkheading and dredging incidental to the drydock is taken into consideration on the total project. If the shipways are not constructed, it will be necessary to complete this bulkheading to accommodate the floating drydock, which will add to the above figure \$100,000, making a total cost for the floating drydock of \$830,000.

(b) Two shipways, each to accommodate a vessel of approximately 350 feet in length, a beam of 42 feet, and a displacement of 3000 tons. These shipways will permit the simultaneous construction of two ships of approximately 175 feet on each way, \$910,000.

In the construction of these shipways, either one or two, the cost of dredging is the same. Therefore, in the construction of one way, the estimated cost is \$808,000. It is more economical and good business to make preparations for two ways than one way. These figures include the expansion of the present facilities to a reasonable extent to accommodate the construction of vessels up to the prescribed limits.

(c) Rebuilding quarters for personnel, \$455,700.

Due to the consolidation of industrial facilities, the old worn-out quarters for personnel, and the administration buildings, have become untenable. The old buildings are fire hazards. It has been planned for many years to separate the housing facilities and the industrial facilities, and this is now underway. With the development of shipways and drydock facilities, it is imperative that the personnel quarters be moved to the east side of Arundel Cove, completely separating industrial and living facilities. This is a self-liquidating project. It is proposed to construct quarters to accommodate eight families of commissioned officers, four families of commissioned warrant officers, and twelve families of chief petty officers. This figure includes the construction of an administration building, and providing the necessary equipment, utilities, wharves, walks and curbs.

Under date of May 29, 1940, the Acting Secretary of the Navy advised the Secretary of the Treasury that the Naval expansion program would tax the Navy Yards' facilities to the utmost, and requested that repair and construction

work on Naval vessels be undertaken at the Curtis Bay Depot. Under date of June 30, 1940, Admiral Robinson, Coordinator of Shipbuilding, U.S.N., advised the Chief of Naval Operations that an inspection of the Coast Guard Depot showed that the plant facilities are suitable for overhaul of 1200-ton destroyers and smaller Naval auxiliary vessels. Accordingly, arrangements have been made for reconditioning destroyers and constructing certain small craft for the Navy at the Depot. The provision of facilities for docking vessels and shipways for constructing vessels will not only permit the Coast Guard to convert the Coast Guard fleet for Naval use, as provided in the First Supplemental National Defense Act, 1941, but to perform overhaul and construction work for both the Coast Guard and the Navy, which cannot be undertaken at Navy Yards or commercial shipbuilding companies now for a period of years to come.

4. ADDITIONAL VESSELS..... \$19,700,000.

Three cutters of the HAMILTON class — \$10,800,000.

In January, 1939, the President allotted money for these cutters in the then pending National Defense Appropriation, but it was later withdrawn and given to the Army and the Navy. Enabling legislation was later approved by the Budget, and Congress authorized the construction of these vessels in the Act of June 3, 1939 (53 Stat. 797). Despite repeated efforts to have the money appropriated, no appropriation has been made. These vessels will replace three old cutters that have outlived their usefulness. The urgent need of additional vessels was described in the opening paragraph of this letter. The Alaskan work of the Coast Guard is now suffering by a lack of vessels - at a time when the Coast Guard force there should be increased rather than diminished. A careful scrutiny of the isolated waters of Alaska, particularly the Aleutian chain of islands, stretching nearly a thousand miles to the westward, and within a few hundred miles from the northern end of the Japanese archipelago, and the supervision of Japanese fishermen is more urgent now than it has ever been heretofore. It was necessary to take a cutter from Galveston, Texas, for the Cadet Practice Cruise, leaving only one large cutter - built in 1922 - along the whole Gulf Coast, from Brownsville, Texas, to Key West, Florida, as a protection to shipping against hurricanes and to carry out the other work of the Coast Guard in that territory. The shortage of vessels along other sections of the coasts is almost as acute.

Four harbor cutters, for icebreaking — \$1,400,000.

The need for carrying out the replacement program of old harbor cutters with vessels suitable for the dual purpose of harbor work and icebreaking, is more urgent now than ever before. The Commandant of the Washington Navy Yard has made strong representations to the Commandant of the Coast Guard, and to the Chief of Naval Operations, Navy Department, for icebreaking equipment to insure that the Potomac River and the Chesapeake Bay will be kept free of ice in winter - as, otherwise, the building program of the Navy will be seriously hampered. The same situation exists in the vicinity of other Naval bases and ammunition storage depots.

Cable boats -- \$1,100,000.

(a) One cable boat, of approximately 180 feet, to replace the FREQUY. In case of national emergency, it is essential that coastal communications be maintained. - \$900,000.

(b) Two 80-foot cable boats. These are to assist as outlined above in the maintenance of coastal communications. \$100,000 each.- \$200,000.

Outfit for duty in Greenland - \$2,250,000.

The proposed vessel will be constructed in general accordance with Coast Guard practice. She will be heavily reinforced, of steel construction to withstand ice pressures, and of such form as to enable her to successfully push through ice floes. The vessel proposed will be approximately 300 feet in length, 45- to 50-foot beam, and 18-foot draft. Her normal displacement with fuel, water, stores, and other Coast Guard equipment on board, will be approximately 2500 tons. The vessel will be so designed as to carry from 1000 to 1200 tons of stores or cargo in addition to the normal requirements of the vessel. A vessel of this character is needed for duty in Greenland.

Sixty cutters, 78-foot class -- \$4,800,000.

These 78-foot boats, which have a speed of 20 knots, are urgently required to carry out the tremendous increase in the duties of the Captain of the Port, or, in the absence of a duly designated Captain of the Port, of the senior Coast Guard officer present, at hundreds of ports on all coasts of the United States, caused by the regulations issued by the Secretary of the Treasury pursuant to the Proclamation of the Chief Executive dated June 27, 1940, putting into effect Section 1 of Title 2 of the Act of Congress approved June 15, 1917, 40 Stat. 230 (U.S.C., Title 50, sec. 191). This act places upon the Secretary of the Treasury responsibility for the anchorage, movement, inspection, and supervision of all merchant vessels, foreign and domestic, in all ports of the United States. The regulations issued by the Secretary of the Treasury place upon the Coast Guard not only the responsibility for the anchorage and movement of vessels in the territorial waters of the United States but also responsibility within the area of a port for the lading and discharging of explosives or inflammable material or other dangerous cargo. To afford an idea of the expansion of Coast Guard facilities to carry out these added duties, it is only necessary to state that orders have been issued by Coast Guard Headquarters to the Captains of the Port and responsible officers in charge at the hundreds of ports on all coasts of the United States that under these regulations they will be held responsible for any explosion or other mishap to shipping or property whether through accident, carelessness, or design. To carry out this duty with even moderate efficiency will require practically stripping the various stations of available and suitable small boats for the guarding, surveillance and protection of merchant shipping in the various harbors until such time as replacements can be effected. Plans for these 78-foot boats are on hand and bids for their construction can be

obtained immediately. No difficulty is anticipated in obtaining immediate construction of this small type of craft, and it is estimated that by spreading the construction over several plants deliveries will begin within four months.

5. INCREASE OF 2,500 IN THE ELISTED COMPLEMENT OF THE COAST GUARD, \$3,040,600.

These additional 2,500 men are needed immediately for duty in connection with the office of the Captain of the Port, or senior Coast Guard officer present, in the enforcement of the rules and regulations regarding the movement, anchorage, and supervision of merchant vessels as described immediately above and on page 2 of this letter.

6. EMERGENCY FUND FOR SECRETARY OF THE TREASURY, \$6,000,000.

This fund, to be expended in the discretion of the Secretary of the Treasury, is to enable the Secretary of the Treasury, without reference to section 3709 of the Revised Statutes, to increase the personnel and facilities of the Coast Guard as the demands for national defense and the increased duties of the Coast Guard may require.

7. FUNDS FOR ADMINISTRATIVE EXPENSES IN CONNECTION WITH THE ENTIRE PROGRAM \$1,500,000.

This contingency item of \$1,500,000 represents approximately 4% of the total to provide for the employment of technical and clerical administrative employees in the field and at the seat of government.

I shall be pleased to have the Commandant of the Coast Guard give you full details concerning these several items, which total \$35,499,770, as well as more complete explanation of the urgency which causes me to bring them to your attention at this particular time.

Very truly yours,

Spencer H. McGehee, Jr.
Secretary of the Treasury.

JUL 9 1940

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

My Dear Admirals:

Under date of April 24, 1939 I recommended to the Director of the Bureau of the Budget a reorganization plan abolishing the Bureau of Marine Inspection and Navigation, of the Department of Commerce, and dividing its duties among the Maritime Commission, the Bureau of Customs (Treasury Department), and the Coast Guard (Treasury Department). On January 18, 1940, I again recommended this reorganization plan to the Director of the Bureau of the Budget stating that "the enforcement of neutrality relating to merchant shipping has created a more imperative need for such a reorganization than when I made my first recommendation". Now that national defense measures are more urgent than at any previous time in the history of our country, a need for this proposed reorganization plan becomes even more imperative. The urgency of immediate action results from the need to increase materially the national defense value of the merchant marine and of the Coast Guard.

It is my understanding that you are well acquainted with this reorganization plan and that, therefore, I need only briefly review its provisions. The plan proposes:

(a) The transfer to the United States Maritime Commission of all functions now exercised by the Bureau of Marine Inspection and Navigation relating to the design, construction, and equipment of vessels, or material alterations of vessels or their equipment.

(b) Transfer to the Bureau of Customs (Treasury Department) of all functions now exercised by the Bureau of Customs for, and on behalf of, the Bureau of Marine Inspection and Navigation, and the functions now exercised by the offices of Shipping Commissioners. This includes the documentation, entry, and clearance of vessels; issuance of identifying official numbers and call letters; verification of possession of valid certificate of inspection of boilers and hulls; measurements of vessels; collection of fines and penalties for violations of law relating to maritime matters; collection of tonnage taxes and other navigation fees; and other miscellaneous duties now performed by the Bureau of Customs.

(e) Transfer to the Coast Guard (Treasury Department) of the other duties of the Bureau of Marine Inspection and Navigation, which would include the examination and issuing of licenses to Merchant Marine officers and men; investigating marine casualties and acts of incompetence or negligence on the part of Merchant Marine officers and certificated men; promulgation of rules and regulations requiring safe navigation and safety equipment; periodical inspection of Merchant vessels and motorboats; and the enforcement of maritime law generally.

In his memorandum to you of 23 May, 1940, the Commandant of the Coast Guard set forth in detail the many advantages that would accrue if this reorganization were put into effect, with particular reference to the beneficial results in connection with the national defense policy through the elimination of the duplication and overlapping of the functions recommended for transfer to the Maritime Commission, to the Bureau of Customs, and to the Coast Guard.

It is my understanding that the Bureau of the Budget has already made a comprehensive study of the plan, and it is my intention to again recommend to the Director of the Bureau of the Budget that this reorganization plan be adopted and it would be greatly appreciated if you would address a letter to me giving your approval thereto.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

JUL 9 1940

Rear Admiral Emory S. Land,
Chairman, U. S. Maritime Commission,
Washington, D. C.

My dear Admiral:

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(c) Transfer to the Coast Guard (Treasury Department) of the other duties of the Bureau of Marine Inspection and Navigation, which would include the examination and issuing of licenses to Merchant Marine officers and men; investigating marine casualties and acts of incompetence or negligence on the part of Merchant Marine officers and certificated men; promulgation of rules and regulations requiring safe navigation and safety equipment; periodical inspection of Merchant vessels and motorboats; and the enforcement of maritime laws generally.

I understand that the Commandant of the Coast Guard has, in previous correspondence, set forth in detail the many advantages that would accrue if this reorganization were put into effect, with particular reference to the beneficial results in connection with the national defense policy through the elimination of the duplication and overlapping of the functions recommended for transfer to the Maritime Commission, to the Bureau of Customs, and to the Coast Guard.

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Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

File to Mr. Thompson

The United Kingdom Government is extremely anxious to obtain a supply of the Norden bomb sights, and indeed of any other bomb sights - however elementary - which are stabilised. The United Kingdom is interested primarily in obtaining sights from stock, though priorities in the next few months would also be extremely valuable.

Brigadier General Lindemann, who is on this side, advises that it is not a question of obtaining information as to the American sight, the point being to obtain the sights themselves. The United Kingdom is prepared to show, and they hope to convince, the United States attaché or anyone that he cares to nominate, that the British sight is the equal of the Norden, and therefore that there will be no danger in giving us the release in question.

There may be a feeling of danger that the sight may fall into German hands. Here the United Kingdom Government believe the Germans also have a sight as good as the best U.S. or British models. Every effort will be made to prevent the bomb sight falling into German hands, however, because of the great loss which might otherwise result to the Fleet. This anxiety is in itself a guarantee that everything possible will be done to prevent the sights falling into enemy hands. Naturally also, any suggestions as to methods of destruction in the event of forced landings or crashes over enemy territory would be welcomed, if the adoption of these were important to the release of the sights.

The reason we are making this application is that our production of new stabilised bomb sights in the United Kingdom is disappointingly slow. The matter is very urgent, and your assistance would be appreciated greatly by the United Kingdom Government.

Robert L. Higgins

RE ALLIED PURCHASING PROGRAM

July 9, 1940
11:30 a.m.

Present: Mr. Young
General Arnold
General Brett
Admiral Towers

H.M. Jr: I wanted a little help from you people and I thought in return I might be of a little help to you. Have you (Young) got those two cables? The one that we sent when we asked for that particular information and the one from Kennedy?

Ambassador Kennedy on July 4 sent this cable, triple priority:

"Beaverbrook wants to know if you will ship him one or two Wright Duplex Cyclone aircraft engines, 18-cylinder, two-roll radial. He wants to fit it into his Tornado airplane and if it will work he would like to buy some if he can. He has been most cooperative on everything we want and I think definitely we should do this for him at once if at all possible."

Now, to save you time, I have been brought up to date directly that this engine that you have got, as I understand it, is 2,000 horsepower. The Army is getting ten and the Navy is getting ten, but you are not going to order any more. I am just repeating what they told me. But in September there is a 2200-horsepower engine coming off the line for Lockheed and Lockheed won't be ready for it for six months - it is Lockheed, isn't it?

Young: Lockheed or Pan-American.

H.M. Jr: And they won't be ready for it and they would be willing to release it.

Arnold: That engine has already been released for negotiation and I don't see any reason why it shouldn't go through, do you, Jack?

Towers: No, our release is not an exception from the policy, really. Aircraft engines will be released when it is considered by the War and Navy Departments to be of advantage to the national defense. That is wide open.

Arnold: It looks to me as if it is wide open.

H.M.Jr: The 2200?

Towers: Any engine.

Arnold: This particular engine you are talking about, that is right, isn't it, George?

Brett: Yes, I think it is the 3355-S. I don't know if that is a super-charged engine or not. I don't think it is. It is the same engine you and I were talking about the other day. They anticipated boosting it. We were getting them at 2,000, but they anticipated on further production they would get 3,200. The Navy has seven under order, we have seven under order, and the Lockheed has thirty-six and I suggested to Mr. Young that he get in touch with the Lockheed Company and then I saw the Lockheed man and told him to get in touch with Mr. Young.

Arnold: The Army has no objection to it.

Towers: The Navy has no objection.

H.M.Jr: Well, I want to dictate a cable in your presence, you see, and see if it is all right.

Young: I talked with Wright this morning and they say that the way they would like to do it there, two of these engines will be out in September. They would like to have them ordered direct from their export company and they will get those two engines and nothing will be said to their commercial customers on it.

H.M.Jr: Well, let's put it this way. This goes to Ambassador Kennedy:

"After conferring with General and Admiral Towers, the so-called 2,000 horsepower --"

Arnold: Why not give the type number?

H.M.Jr: Kennedy wouldn't know.

Arnold: We could say 3350-5, 2,200 horsepower.

Brett: I would refer to it just as he has referred to it there. I would describe it just as he has described it, because that is our 3350.

H.M.Jr: Is that --

Arnold: That is the same thing.

H.M.Jr: But what I wanted to explain to him was that the one which you are getting now, we think it is inadvisable for them to take them because they are not going to go into production on those, but the ones that are coming in September will be the first ones and they are going into production on those and if he wanted to place an order, he could get them. That is what I wanted to say. Does that sound all right?

Arnold: That is all right.

H.M.Jr: I wanted to explain - he wanted one tomorrow and I wanted to explain to them that this engine is not going into production and we are not satisfied with it, but we can recommend and I will mention the number. Is that all right?

Arnold: I think that's all right.

H.M.Jr: Let's start over again.

"Ambassador Kennedy: After conferring with General Arnold and Admiral Towers, please inform Lord Beaverbrook in strictest confidence that the present Wright Duplex Cyclone

engine number 3350-5, developing approximately 2,000 horsepower is not considered entirely satisfactory."

Is that right?

Arnold: Why not say it has been improved?

H.M.Jr: "...has been improved and there are only 20 of these engines which will be produced.

"The new improved Wright engine number 3350, developing 2,200 horsepower is the best engine of that type now being produced and if Lord Beaverbrook wants to place an order for two, the company is prepared to deliver two of these now in production about the first week in September. We consider this a great concession and I hope Lord Beaverbrook will appreciate it.

"On May 26, I cabled you asking for plans for the Spitfire and Hurricane, also for Frazier-Nash aircraft gun turret and also for two Junkers engines. Both Army and Navy are extremely anxious that they obtain at once all of the materiel asked for in this cable. Please advise me when we can expect it."

Let's change that to "...all of the items in my cable. We are very anxious for all of the items asked for in my cable of May 26."

Is that Frazier turret gun the one which has done the tremendous damage, which came out late in May and surprised the Germans?

Towers: You mean the Defiant? He is talking about the Defiant two-seat fighter, combat.

Arnold: They had that turret on the back.

Towers: It is a control --

H.M.Jr: It is power driven.

Arnold: Yes.

H.M.Jr: And is this the one that has done the trick?

Arnold: Yes.

H.M.Jr: Have you got anything else you want to add to that?

Young: I have another memorandum.

H.M.Jr: What is that?

Is this all right?

Arnold: Yes.

H.M.Jr: Then I would just simply say all of the material listed. I will go over the cable when you get it.

Young: I have already mentioned that to both General Arnold and Admiral Towers this morning.

H.M.Jr: Then you don't want to add anything to this and we can release these two engines and I will go over it. Write the cable and let Mr. Young have it. I will tell you what you might do. Just write the cable and possibly General Brett could stay behind and go over it with Mr. Young. Is that all right?

Brett: Yes.

H.M.Jr: I will read this from Young.

"Attached herewith is a request received from Mr. C. D. Howe, through Mr. Purvis, concerning a long range production program for aircraft suitable for the defense of Canada or for shipment to England.

"Canada wants to build airplanes using United States engines and propellers. The Canadian Government is inquiring informally as to whether the United States Government

- 6 -

is prepared to release the designs for the following aircraft for production in Canada:

"1. PBV Flying Boat, designed and manufactured by the Consolidated Aircraft Corporation, San Diego, California.

"2. Douglas B-23 Bomber, designed and manufactured by Douglas Aircraft Corporation, Limited, Santa Monica, California.

"3. Lockheed P-38, Twin Interceptor, designed and manufactured by the Lockheed Aircraft Corporation, Burbank, California.

"4. Cessna T-50 Trainer, designed and manufactured by Cessna Aircraft Company, Inc., Wichita, Kansas."

Arnold: That P-50 is a Grumman. Oh, T-50. Well, I am not so sure about that.

H.M.Jr: It is the first time I have seen it. I don't know how you men feel about this.

Towers: Navy has no objection to the release of the PEV-5, which is the only Naval type on that list. That is approved by Mr. Compton, Acting Secretary. I got his approval this morning. The first item there is okay. That is the only one that is of Naval type.

Arnold: The Secretary of War objected to the release of the other Army items on account of the fact that he said it would detract from production in the United States.

H.M.Jr: Well, with all due respect to the Acting Secretary of War, I don't mind his objecting, that is his privilege, but I think it is a rather weak excuse. I mean, if he wants to turn it down, that is his responsibility.

Young: General Brett has some very pertinent comments on this.

- 7 -

- H.M.Jr: Don't get the idea I am trying to sell this or boosting it.
- Brett: I don't know about the objection with regard to actual release of the design, but looking at it from a production standpoint, Canada has no mechanics; Canada has no machine tools; Canada has very little raw materials. Therefore, in building up a big productive center in Canada, I am seriously afraid that our present production schedule will be seriously interfered with.
- H.M.Jr: Well, that makes sense.
- Brett: I am very fearful of that. I was talking last night on the subject of aluminum alone and the problem of meeting our requirements on aluminum is going to be very, very great. It is going to be a very serious problem. The machine and tool market, as you know, is in very, very serious shape today. There is a big bottleneck. Canada, I don't believe, has any source of supply except the United States. Therefore, not basing it on any idea of the design or reproduction rights, I do think from a standpoint of production that this thing should be given very serious consideration before it is approved in any shape or form.
- Towers: As far as the PEY-5 is concerned, it is manufactured by Consolidated and they have a Canadian subsidiary at the present time.
- H.M.Jr: On the West Coast?
- Towers: No, in Canada.
- H.M.Jr: Oh, they have one?
- Towers: Yes.
- H.M.Jr: So what you say would not apply then --
- Towers: I just presume that they would turn these out in that same plant. They might have

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to expand. But I felt if they didn't get the right to build in Canada, that we would be confronted with a request to be permitted to place an order in the United States and if anybody can place orders for more big boats, we would be placing them.

H.M.Jr: What I would suggest your doing, in view of what you gentlemen said, ask them to give us full detail of how they propose to produce these things, where they are going to get the machine tools, where they are going to get the aluminum from, et cetera, et cetera, and the skilled labor. The full detail on this thing.

Brett: That is exactly how they planned to carry that thing out.

H.M.Jr: Canada, you know, has been giving a lot of hot air and they haven't done a damn thing up there.

Arnold: On their training program.

H.M.Jr: It is a complete flop.

Arnold: Yes, sir.

H.M.Jr: Did you ever get a report on that Spitfire?

Arnold: We had our people go up there and fly it. They flew it alongside of the P-40. Didn't you hear that?

H.M.Jr: Never got a word.

Arnold: That is my fault, then.

CONFIDENTIAL

July 9, 1940

To: The Secretary
From: Mr. Young

Attached herewith is a request received from Mr. C. D. Howe, through Mr. Purvis, concerning a long range production program for aircraft suitable for the defense of Canada or for shipment to England.

Canada wants to build air frames using United States engines and propellers. The Canadian Government is inquiring informally as to whether the United States Government is prepared to release the designs for the following aircraft for production in Canada:

1. PEY Flying Boat, designed and manufactured by the Consolidated Aircraft Corporation, San Diego, California.
2. Douglas B-23 Bomber, designed and manufactured by Douglas Aircraft Corporation, Limited, Santa Monica, California.
3. Lockheed P-38, Twin Interceptor, designed and manufactured by the Lockheed Aircraft Corporation, Burbank, California.
4. Cessna T-50 Trainer, designed and manufactured by Cessna Aircraft Company, Inc., Wichita, Kansas.

CONFIDENTIAL

July 9, 1940

My dear Admiral Noyes:

I will appreciate it if you will send the following cablegram via Secret Naval Code to Ambassador Joe Kennedy, London, England:

QUOTE - After conferring with General Arnold and Admiral Towers, please inform Lord Beaverbrook in strictest confidence that the present Wright Cyclone engine Number 3350-5 developing approximately two thousand horsepower has been improved. The new improved Wright engine of same type developing two thousand two hundred horsepower is the best engine of that type now being produced and if Lord Beaverbrook wants to place an order for two, the company is prepared to deliver two of these now in production about the first week of September. We consider this a great concession and I hope Lord Beaverbrook will appreciate it. On May 26, I cabled you asking for certain information. Both Army and Navy are extremely anxious that they obtain at once all of the items asked for in that cable - UNQUOTE

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

LNJ:mdp

By Secret Service man
2:23

17c
CONFIDENTIAL

July 9, 1940

My dear Admiral Noyes:

I will appreciate it if you will send the following cablegram via Secret Naval Code to Ambassador Joe Kennedy, London, England:

QUOTE - After conferring with General Arnold and Admiral Towers, please inform Lord Beaverbrook in strictest confidence that the present Wright Cyclone engine Number 3560-5 developing approximately two thousand horsepower has been improved. The new improved Wright engine of same type developing two thousand two hundred horsepower is the best engine of that type now being produced and if Lord Beaverbrook wants to place an order for two, the company is prepared to deliver two of these now in production about the first week of September. We consider this a great concession and I hope Lord Beaverbrook will appreciate it. On May 26, I cabled you asking for certain information. Both Army and Navy are extremely anxious that they obtain at once all of the items asked for in that cable - UNQUOTE

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

HMJ:shDap

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CONFIDENTIAL

July 9, 1940

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

HNJ:WHD:p

CONFIDENTIAL

July 9, 1940

To: The Secretary
From: Mr. Young

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1. PBV Flying Boat, designed and manufactured by the Consolidated Aircraft Corporation, San Diego, California.
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4. Cessna T-50 Trainer, designed and manufactured by Cessna Aircraft Company, Inc., Wichita, Kansas.

DY.

MEMORANDUM

Handwritten:
H. H. H. H.
- 107 201 -
Ch. H. H. H.
R. H. H.
7/1/46

The Honourable C. D. Howe has advised me that the Canadian Government is attempting to work out a long range production programme for aircraft suitable either for the defence of Canada or for use overseas. The desire is to build complete air frames in Canada using engines and propellers from the United States to complete the machines, thus abandoning the present policy of building only air frames and shipping them to the United Kingdom.

The following types are those in which the Canadian Government is interested:

1. PBY-5 Flying Boat, designed and manufactured by the Consolidated Aircraft Corpn, San Diego, Calif.
2. Douglas B-23 Bomber, designed and manufactured by Douglas Aircraft Corpn, Ltd., Santa Monica, Calif.
3. Lockheed P-38, Twin Interceptor, designed and manufactured by the Lockheed Aircraft Corpn, Burbank, Calif.
4. Cessna T-50 Trainer, designed and manufactured by Cessna Aircraft Co., Inc., Wichita, Kansas.

The Canadian Government has asked whether the U. S. Government is prepared to release the designs of these aircraft for production in Canada, always assuming that suitable arrangements can be made by the Canadian Government with the manufacturer.

Mr. Howe is making this request of you through me, and will await your reactions before any official request is made through other channels.

An early reply would be very much appreciated.

New York
July 6th, 1946

A. B. P.

Regraded Unclassified

MEMORANDUM

*Howe has
submitted
this copy
P.J.
7/4/40*

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Mr. Howe is making this request of you through me, and will await your reactions before any official request is made through other channels.

An early reply would be very much appreciated.

New York
July 6th, 1940

A.B.P.

BRITISH EMBASSY,
WASHINGTON, D.C.

July 10th, 1940.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Stovall

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Secret.

Telegram despatched from London
on the evening of July 9th.

As a result of attack on French battleship "Richelieu" at Dakar by depth charges laid by a naval motor boat, and subsequently by naval aircraft yesterday, "Richelieu" was reported to have settled by the stern and considered to be disabled. Later reported that "Richelieu" had been moved to shallower water where she is immune from torpedo attack. Shortly after above operation, French aircraft attacked our ships, but no damage has been reported. Our naval forces off Dakar have now dispersed.

2. Main enemy air attacks yesterday were directed on ports in southwest of England, East Anglia and Humber. Shipping was attacked off Sunderland and heavily attacked twice off Dungeness. Bombs dropped on Plymouth, Portland, Portsmouth, Teignmouth, Falmouth, Ipswich, Walton, Northcoates and Grimsby. Some damage caused to Falmouth docks but no other damage to war industry reported. Casualties reported up to the present, six killed fifteen injured. Seven enemy aircraft shot down. Three Spitfires lost. Last night enemy aircraft bombed various places on the east and south coasts. Preliminary reports one killed and one wounded and no serious

damage done. Usual minelaying and operational training continues. Transport aircraft activity from Germany to the west less numerous but traffic to Denmark and Norway was intensified.

3. Yesterday Blenheim successfully attacked German occupied aerodromes in Northwestern France. Large number of barges were observed in canals in northern Belgium. Minelaying also continued. Last night Royal Air Force attacked shipbuilding yards, marshalling yards and oil targets.

4. One anti-submarine trawler and one British ship sunk in home waters yesterday. Two British ships hit by enemy bombs in attacks in home waters yesterday. Three attacks made on enemy submarines in western approaches yesterday. Two of these thought successful.

5. Mediterranean. Naval aircraft successfully attacked Catania aerodrome on July 6th-7th. No fighter opposition encountered despite presence of large number of fighter aircraft in Sicily. Two enemy aircraft (confirmed) and one (unconfirmed) now reported destroyed in enemy attacks on Malta dockyard on July 7th. Five enemy aircraft dropped five bombs on Alexandria on July 7th. No damage and no casualties. Three aircraft bombed Gibraltar yesterday. No damage done. One enemy submarine sunk by air action in Eastern Mediterranean.

6. Italian East Africa. Present bomber dispositions indicate enemy intention of continuing

-3-

attacks along Sudan border and not on Aden but report received of movement of troops and enemy tanks towards Port Sudan. Three enemy aircraft bombed Athara on July 7th. Three minor casualties. British Royale shelled heavily on July 6th and indications point to enemy infiltration into Mandera triangle. Reinforcement of one Indian battalion has reached British Somaliland.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

You will recall that we have agreed with the British that the following communicate shall be made public by you at 12:00 noon, Washington time, Thursday, July 11, and by the British at 6:00 p.m., London time:

"The Secretary of the Treasury has announced that, upon his invitation, Sir Frederick Phillips, British Under Secretary of the Treasury, will shortly arrive in Washington for a visit. This meeting will provide the occasion for discussion of technical and other questions of the American and British Treasuries. It will be recalled that Sir Frederick Phillips visited Secretary Morgenthau in Washington during the Autumn of 1937."

I am attaching an extra copy for Mr. Schwarz.



July 10, 1940

9:25 a. m.

Present:

Mr. Foley
Mr. Sullivan
Mrs. Klotz

HM,Jr: What I am going to do is see if I can get the President, and you people get the story as I go along.

(The Secretary placed a call for the President and Miss Hackmeister said the President would speak to him in five minutes.)

(At this point, HM,Jr spoke to Mr. Knudsen on the phone while Sullivan and Foley were present. Copy of their conversation is attached.)

HM,Jr: I believe him too.

I can't tell you the source, but I learned this morning that the Krock stuff came from Jesse Jones. (NOTE: After the meeting was over, HM,Jr said to Mrs. Klotz: "Leon Henderson told me, last night, that Jesse Jones gave Arthur Krock the whole story. In order to protect Leon Henderson, I did not disclose this information to Foley and Sullivan.")

Did you tell him that?

Mr. Sullivan: No, sir. I did not.

HM,Jr: And that stuff that the boy had, I told him (Mr. Sullivan) this morning that I want to know which of our group were in Washington Saturday.

Mr. Sullivan: Tommy Tarleau came back Sunday night and did not see Stam. Blough came back Saturday

night. Did not see Stam. Carl Shoup came back -- was here Saturday afternoon and did not see Stam. The only person Shoup saw was Gene Duffield and he said "We did not talk shop at all."

HM, Jr: When did he see Gene?

Mr. Sullivan: Sunday afternoon.

HM, Jr: That's enough.

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

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

Mr. Foley: No. Gene had a party Sunday afternoon for the Aarons who have come back here to help. They were friends -- both come from Wisconsin -- have always been friends. There were a number of Treasury people there on Sunday afternoon for that affair, but I don't think Gene wrote the stories. The reason I know about it was because I was invited and I wasn't in town. I went away Thursday and did not come back until Sunday night.

HM, Jr: He had a swell pipe line because that story could not have been more accurate and that stuff -- earn it all! -- I have been trying to rack my brain. Saturday at the house up in the country was the first time I said I was willing to waive Vinson-Trammell. Saturday, at my house, was the first time, because I only read Ed Foley's memo Friday night. I only made up my mind after talking with you fellows Saturday.

Mr. Foley: I walked in here Monday morning and I did not know until the conversation that developed at the ten o'clock meeting that you saw eye to eye with me.

HM, Jr: I only crossed that bridge Saturday.

Mr. Sullivan: That's right. Because you talked to me at Rye -- you called me Wednesday afternoon and you told me about this memorandum and I told you I had talked to Mr. Foley and he was sending me a copy to New York. In that conversation that I had with you, you said, "Well, I don't know about this, but I think it would be well if

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you would discuss this with Magill and Paul and we can go into it," and I said to you, "Well, I am very much opposed to some of Mr. Foley's reasonings and I am going to be against it." You said, "I don't know anything about it, but just be ready to discuss it."

So I know very well at that time you had not made any decision and, as a matter of fact, Saturday forenoon I was very much surprised that you had come to a conclusion so quickly on it.

HM, Jr.: It wasn't so quick. I have been living with it a long time.

Mr. Sullivan: No, I mean as since Wednesday night when you had no opinion on it; had reached not even a tentative decision on it apparently.

Mr. Foley: I asked Chuck Kades if he could find out from Duffield, if he would tell where the stories were coming from.

(At this point, HM, Jr spoke to the President and the following is HM, Jr's end of the conversation.)

"Hello.

Good morning.

Fine.

Just had my teeth cleaned so I feel wonderful.

Good! Both of us getting ready for Chicago.

The reason I am calling you is this. My favorite storm signal barometer tells me I think it would be awfully good ball, in view of the buck passing and why they don't let contracts due to either depreciation or obsolescence, etc., if you could get Knudsen and myself and Jesse Jones together

No. But you see these leaders, Harrison and

-4-

others say they don't want the thing to come up alone. What the Defense Council wanted, they wanted the question of depreciation to come up immediately and not wait for the bill and these fellows were in here yesterday. Harrison, George, King, Jerry Cooper, all said it ought to come up at the same time. My thought was if you had Knudsen, Jones and myself and Harrison and Cooper in and had the Administration policy and you announced it that

Well, I don't think it will take 15 minutes.

No, I don't, because we covered two hours here. There is no trouble, but if it was understood that the question of excess profits, Vinson-Trammell and depreciation where private funds were all going to be treated and we had the Administration policy before Pat leaves tomorrow for Chicago, I think it will just nail to the mast the Krooks and the rest of them who are trying to make trouble between the Defense Council, Treasury and Jones, and it would not take you 15 minutes and I think it would be a swell move and I guarantee that 15 minutes will do it.

Twelve o'clock noon?

I? Or Pa?

Doughton is not here, so it would be Cooper.

Knudsen.

MacMorgenthau, and I would like to bring Sullivan and Foley.

Right.

I have no Finkelstein in the law firm, but you will have to make up for that.

He has not been in on it. B-b-b-iggers has been handling this for Knudsen.

Right.

Twelve o'clock. That would be wonderful. Thank you, Sir. Thank you."

-5-

HM, Jr: He said how about St-st-st-stettinius and I said it's B-b-b-biggers. So I said, Let me bring Sullivan and Foley. He said, "We will have the famous background of Foley and Sullivan." I said, "We have no Finkelstein. You will have to take his place." He said, "That's out of a story book."

What was that book, written 6, 8 or 10 years ago about this Jewish lawyer that came up through the tenement, the story of this man, who handled the racketeers and suddenly he went straight. This man's life. Look it up. About a lawyer in New York who comes up through the tenement and his fight and he tells the whole inside story of New York. I think it was an anonymous story. Can't be so many stories about New York lawyers who tell the truth.

Isn't this good ball?

Mr. Foley: I think so. Sure.

Mr. Sullivan: The thing you have to be careful they will say, "Do you agree on the 25% a year?"

Mr. Foley: Agree in principal; will work out details.

HM, Jr: Well, let me get Knudsen on the phone and tell him what it is about.

Mr. Sullivan: I talked to Mr. Helvering (referring to Arthur Krock's column of 7/10). No such thing ever. The only thing any of us think of, neither Tarleau or Blough ever worked on any depreciation increase for Mr. Hanes and the only thing any of us can think of that during the time of the fight of closing agreements, he produced one day a memorandum initialed by the President.

HM, Jr: Who did?

Mr. Sullivan: John Hanes did. And Mr. Kades, Mr. Foley and Phil Young were there and that's the memorandum that he and Louis Johnson

HM, Jr: Oh, yes! I remember.

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(At this point, HM,Jr spoke to Mr. Knudsen and copy of their second conversation is attached.)

HM,Jr: I have done a day's work. I am very happy now.

Mr. Sullivan: Did you want me to continue with that other, on this Krock article?

HM,Jr: You might as well finish. I know that the President never approved that, did he?

Mr. Sullivan: He initialed it.

HM,Jr: That was the meeting that took place at Louie Johnson's office. He did initial it?

Mr. Foley: They wrote it together, Louie Johnson and John Hanes and

Mr. Sullivan: The President got scared and put Lauch Currie on it.

HM,Jr: That's right.

Mr. Foley: Then Lauch worked with us several days and his suggestion was we were right but it would be very helpful if we got up a memorandum that gave all the background for tax purposes and Vinson-Trammell purposes, of obsolescence and depreciation, and I got up a memorandum and you gave it to Jake Viner. That's all that ever happened and it never went any further.

HM,Jr: But the President never ordered Commissioner Helvering to do this?

Mr. Sullivan: No.

HM,Jr: If we said anything to Krock -- he knows about this Hanes-Johnson memo, so better let it lay.

Mr. Sullivan: I would forget it.

HM,Jr: But, you see, Krock is my pal and I will

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tell you why. I read his stuff. I am perfectly serious. Because he's my weather barometer and when Krock points to the storm, I get busy. Now, if I had not read this thing out at 6:30 this morning I would not have been fussing with this up to now. I would not have gotten the idea about this meeting. I would not have woke you (Sullivan) up at 7 o'clock. But this is my storm signal and I go to work and it's just like Mr. Arthur Krock who tipped us off on Janes Hanes and Associated Gas and Electric, and if it wasn't for Arthur Krock I would not have gone to work and had this meeting with the President and by one o'clock it will be on the ticker that here's what the Administration is willing to do.

Mr. Foley: He's a barometer for a lot of people. Bob Jackson said Arthur Krock reminds him of an old rooster they had on the farm up in Jamestown and that rooster would jump up on the manure pile and flap his wings and crow and he said every time Arthur Krock flaps his wings and crows there is something wrong underneath.

HM, Jr: I am not smiling because you told me that before.

Mr. Sullivan: Jackson told us at lunch on Washington's birthday.

Mr. Foley: Do you want us to get anything ready for the meeting?

HM, Jr: Yes. One piece of paper to show to the President. The Administration's three point program: excess profits

Mr. Sullivan: Amortization.

HM, Jr: Do you call it amortization or deprecation?

Mr. Sullivan: Amortization.

HM, Jr: Amortization and Vinson-Trammell out.

Mr. Sullivan: Excess profits substitute for Vinson-Trammell.

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HM, Jr: One piece of paper, and make it perfectly plain that this amortization is only for where private capital comes in.

Did I tell him Jones? Oh, yes. I did because he always says "Jesus H. Jones". That's what he always calls him.

oOo-oOo

July 10, 1940
9:30 a.m.

H.M.Jr: Hello.

Wm. S.
Knudson: Good morning.

H.M.Jr: How are you?

K: This is Knudsen.

H.M.Jr: Good morning.

K: These Packard fellows are going to be in here this morning and naturally they're anxious to have somebody here from the British Purchase Commission.

H.M.Jr: Yes.

K: Now, how do you want to handle that? Do I deal in the main with them and then they go from here to the British Commission?

H.M.Jr: I think, Mr. Knudsen, if -- I was talking last night to Mr. Purvis. See?

K: Yeah.

H.M.Jr: And he asked me how you were getting along and I said I didn't know. I think if you could make a deal which is satisfactory to the Government and then if you'd let me know, I think it would be good if you could explain it yourself maybe to Mr. Purvis, you see?

K: Yeah.

H.M.Jr: And then let him see Packard. How does that sound to you?

K: Well, what I was wondering about, you know when we were over in your office we sort of agreed that we would take him in on our basis.

H.M.Jr: That's right.

- 2 -

K: See? Now what they are worrying about of course is the responsibility of the British in case of a cancellation. So that you and I will have to settle.

H.M.Jr: That's right.

K: In other words, say that I'd go ahead as if I was dealing for 9,000 engines for United States. See?

H.M.Jr: Yeah.

K: And then you and I will have to get from Mr. Purvis the proper protection.

H.M.Jr: Well, how would this be as a suggestion? You get the thing sewed up and then you and I get together and Purvis wants to come down tomorrow anyway.

K: I see.

H.M.Jr: Would that be time enough?

K: Yes, that's all right.

H.M.Jr: Or do you want him down this afternoon?

K: No. No. There are two things. First is how much money will be advanced. Will they advance 30% like we will on the little job for working capital?

H.M.Jr: Will they? I think they'll do whatever you do.

K: I see.

H.M.Jr: They'll have to.

K: Then I'll tell them that I'll make the deal just as if the United States was handling the whole thing.

H.M.Jr: That's the only way you can.

K: All right.

H.M.Jr: And Purvis will have to go along.

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- K: Yeah. All right, sir.
- H.M.Jr: Now, while I've got you on the wire -- Purvis now has, I think, the whole plan so he tells me as to the needs of the British Empire. When I mean British Empire, I mean England, Canada, South Africa, and Australia. I think he's got that for the first time.
- K: Well, he's sort of kicking up a little fuss here because he's placing a lot of stuff and I don't know anything about it and I just told the men to come in here and talk about it -- I said, let them make their own deal with the British and we'll have to take it up later on.
- H.M.Jr: Well, now here's the point. Would you sort of save lunch time tomorrow if you're not engaged?
- K: No, no. I'd be glad to.
- H.M.Jr: Because I think
- K: I'm going to see you tonight anyway am I not?
- H.M.Jr: Yes, but we wouldn't have a chance to talk shop. But I think I'm going to have him bring down Mr. Howe, Minister of National Defense from Canada and let him put everything he has on the table. So would you save lunch time tomorrow?
- K: Sure. Here's what happened, Mr. Morgenthau, in one case. I've got Colt in here for machine guns, see, and I made a deal with him for Morgan machine guns and I didn't want to put any more in Hartford, see? I want to put another plant somewhere else in the area specified by the General Staff and then I find out that he can make a deal with the British for another bunch of guns in Hartford, see?
- H.M.Jr: That's not right.

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K: That's not right, sir.

H.M.Jr: No. Well, tomorrow I tell you what we'll do. I'll have Purvis here for lunch definitely.

K: I see.

H.M.Jr: If he'll bring Mr. Howe along we can talk with him, too.

K: All right.

H.M.Jr: And if not it'll be just you, Purvis and I. How's that?

K: Yeah. Fine.

H.M.Jr: And we'll talk turkey.

K: As long as we can get an agreement on how to proceed on this thing it's all right, see?

H.M.Jr: But I'll take the responsibility now, whatever deal you make with Packard he'll have to take his proportion.

K: All right.

H.M.Jr: Does that give you enough?

K: That's swell.

H.M.Jr: Now the other thing which bothers me -- all this stuff in the paper. Good God! I can't meet with those fellows over there but everything is in the paper about all this depreciation and everything else.

K: Of course, Mr. Morgenthau, you know I don't talk to any papers.

H.M.Jr: You're not in on this, but it's somebody in your associates.

K: I had a talk with them this morning about it but I can't find anybody that has had any contact and I don't talk to newspapers.

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H.M.Jr: But if you'll read the Wall Street Journal the story on this depreciation -- they've got every damn thing that's happened in my office.

K: No. I haven't seen that. I saw the article in the Times this morning riding down to work and when I came in I asked about it and both Stettinius and Biggers disclaim all knowledge of it.

H.M.Jr: Well, get somebody to get you the Wall Street Journal, the front page, right-hand column.

K: I see.

H.M.Jr: But I read that Krock article too.

K: No. I don't talk.

H.M.Jr: No. Well, I don't -- and I don't snipe.

K: Right.

H.M.Jr: But what this thing does -- I've had it now for over seven years. They try to make bad blood between the Treasury and your group.

K: Well, they aren't going to do that as far as I'm concerned.

H.M.Jr: Well, me neither.

K: Now -- but we had these airplane fellows in here yesterday and they've got a program that I'm going to show you a little later when it's in shape.

H.M.Jr: I'd like to see it.

K: All right.

H.M.Jr: Well, you put down lunch tomorrow and I'll have Purvis here.

K: All right, sir.

H.M.Jr: Thank you.

K: Good-bye.

July 10, 1940
9:54 a.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen. Go ahead.

H.M.Jr: Hello.

Wm. S.
Knudsen: Yes.

H.M.Jr: Knudsen.

K: Yes.

H.M.Jr: Morgenthau. I just got through talking with the President and I suggested that he have a meeting at his -- this morning on this question of Vinson-Trammell depreciation and excess profits, and he's going to have it at twelve o'clock. You're to be there and I'm to be there and Senator Harrison and Congressman Cooper.

K: All right, sir.

H.M.Jr: Now I just wanted to say this so that -- he said, would it take long. I said, not more than fifteen minutes. Now he did not invite Biggers although I suggested it, but he just wanted you. You see?

K: Right.

H.M.Jr: Now just so that you and I don't get into an argument, this is the position I took with this Committee. I'm willing to recognize that where private capital puts up the money to finance a plant which is certified by the Government as being necessary for munitions or part of the rearmament program that we give them special treatment on depreciation.

K: Yes.

H.M.Jr: I may have a little argument as to whether it should be four years or five years or whether

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they should be special carryover -- but that's not important and I'd much rather not get into an argument before the President, you see?

K: Yeah.

H.M.Jr: But I will recognize and have said so that these people should get special treatment. Now that's Don't you think that's far enough to go?

K: That's all right.

H.M.Jr: As far as the President goes and as to the refinements of it we won't have any trouble.

K: All right, sir.

H.M.Jr: Now, what I'm going to say to him today -- that when they send up this bill, see, on excess profits that we throw the Vinson-Trammell thing out of the window and that's number -- and that also where they put up private capital and some agency of the Government certified that this plant is necessary that they have special treatment on depreciation. Now is that going far enough?

K: Yes, but you're not going further than five years, are you?

H.M.Jr: Oh, I won't say -- I'm not -- I'll say special treatment, whether it's four years or five years or six years or whether it's a carryover, we can work that out.

K: I see.

H.M.Jr: But I want the President to have announced from the White House that this is an Administration policy and that the Senate and the House have agreed to this. Then you ought to be able to go ahead and write your contracts.

K:

H.M.Jr: Is that right?

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- K: Yes, I think that's all right, sir.
- H.M.Jr: I mean, I want it to come out of the White House that this is the President's policy, that Senator Harrison and Congressmen Doughton and Cooper have agreed to this, and the Treasury and the Defense Council.
- K: Uh-huh. You see, Mr. Morgenthau, these manufacturers, see, they have had special treatment in the Treasury before and they didn't
- H.M.Jr: How do you mean?
- K: I mean that they wanted to get special treatment and they didn't get any so we've got to sort of commit ourselves a little bit
- H.M.Jr: Well
- K: on the time factor, see?
- H.M.Jr: No. We couldn't give them any special treatment and I said so right along.
- K: Yeah. Well, they'll be a little bit suspicious. I had a whole bunch of them here yesterday -- about forty of them from the aviation industry and they were suspicious as hell.
- H.M.Jr: Now let's get it straight that I'd promised them something and hadn't lived up to it?
- K: Oh, no. Oh, no. But they went along hoping that it'd be straightened out later on and when they finally got to it there wasn't anything to straighten out because you said that, I suppose, rightly so that you didn't have the authority to change it.
- H.M.Jr: That's right. But they didn't say that I'd made them any promises.
- K: No, no, no. You didn't but somebody else did, see?

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H.M.Jr: Oh.

K: Over here on this side.

H.M.Jr: Who?

K: Well, I suppose the Army and Navy at the time -- this goes back to oh quite a long ways.

H.M.Jr: Oh, well.

K: And they all got up that bee story to tell, you know.

H.M.Jr: Oh. Well, I can't

K: But if you now have the authority and you'll go along on it, I think that'll straighten it out.

H.M.Jr: Well, I told them right straight along we had no authority.

K: Yeah, that's right.

H.M.Jr: But they didn't say that anybody in the Treasury had made them any promises.

K: No.

H.M.Jr: What?

K: No. That's where the promises went out the window.

H.M.Jr: Well, I've tried to tell them the truth.

K: (Laughs)

H.M.Jr: I try to tell them the truth.

K: Well, all right. I'll be ready, sir.

H.M.Jr: But I think this is a good move because this is going to be a White House statement and the Administration and everybody have agreed to it.

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K: Fine.

H.M.Jr: And what I'm so afraid of was that/this thing was heading up so that they'd have each other biting at each others heels.

K: I see.

H.M.Jr: And what I wanted to see is every -- I want to see this country rearm.

K: Yeah. Uh-huh. All right, sir.

H.M.Jr: Thank you.

K: That's twelve o'clock.

H.M.Jr: Yeah. You'll hear direct from General Watson but I wanted to let you know in advance.

K: All right, sir. Good-bye.

H.M.Jr: Thank you.

July 10, 1940
11:10 a.m.

General Watson: He came to the President.

H.M.Jr: Well, how in the hell can the President cancel it.

W: Well that's what I mean, Jesus Christ!

H.M.Jr: You and me both.

W: All right. Well, we'll go -- you and I don't have much trouble. Say, look here, he isn't going to give you any money on that Coast Guard he says. He said, no use talking to him about it.

H.M.Jr: He isn't.

W: No.

H.M.Jr: What a pal. Has he seen it?

W: (Laughs) He said he wasn't going to give you any.

H.M.Jr: Well, I'm going to try to make him change his mind.

W: All right. He said, just tell Henry -- don't bother to take up my time about that here, I'm not going to give him any money.

H.M.Jr: Yeah. Well

W: That's what he said. He might have been in a bad humor I don't know. Dan Tobin is here grinning and he's got a lot of papers too.

H.M.Jr: Yeah. Now while we're on that, did you straighten that thing out between F.B.I. and Signal Corps?

W: Yes, sir. They're working just like babies and they've reported -- they all reported up here and they've even apportioned certain things that he thought was covered by the Army that weren't, he's now covering -- J. Edgar Hoover.

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H.M.Jr: Is it satisfactory with him?

W: Absolutely! With all three of them. I've got two reports from them. The three of them meet now twice a week.

H.M.Jr: I know that but I wonder

W: They're all right as to that.

H.M.Jr: They are?

W: Hoover's taken over what you wanted.

H.M.Jr: He is.

W: He said there were certain things that he thought were being covered by the Army that weren't and now he was doing it.

H.M.Jr: Good.

W: In his last report. So I think that you can let that -- and now if anything goes wrong just tell Hoover because they've got instructions to go ahead and get everything they've got but keep each other informed as to what they have -- thoroughly informed.

H.M.Jr: O. K.

W: And that we've got -- between them I think they ought to give us all, but we didn't want to curtail anyone. Of course, the more you get the better.

H.M.Jr: Good. How many eggs did you have for breakfast?

W: Huh?

H.M.Jr: How many eggs did you have for breakfast?

W: Why, I didn't eat anything at all, Henry, I don't eat but practically every other day. Just don't go -- I go without anything at all.

H.M.Jr: (Laughs)

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W: Yes, sir!
H.M.Jr: (Laughs)
W: O. K.
H.M.Jr: All right. Good-bye.

July 10, 1940
11:40 a.m.

H.M.Jr: Yes.

Operator: Go ahead.

H.M.Jr: Hello.

George
Harrison: Hello, Henry.

H.M.Jr: Yes, George.

H: I'm calling you because I was afraid I might miss you. I have to go out in a few minutes to lunch.

H.M.Jr: Well, I told Bell to get in touch with you in view of something that happened here. I'm not going to be able to concentrate on this thing until two o'clock Washington time.

H: Oh, I see. Well, I'm sorry I bothered you.

H.M.Jr: No bother. I told Bell to call you. Maybe he hasn't got around to it.

H: Well, I tried to get him first and he had some people in there so that was the reason.

H.M.Jr: Well, I'm always easy to get.

H: All right.

H.M.Jr: And I'll be ready at two o'clock standard.

H: All right. Fine. Thank you.

July 10, 1940
11:45

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good morning.

H.M.Jr: Arthur?

P: Yes, sir.

H.M.Jr: Good morning. I wanted to give you this so that -- I didn't think I was going too far. Mr. Knudsen called me up this morning. He squared with Packard and he wanted to know how they should handle your end of the interest, you see and I said that I felt that whatever he did for the United States Government would be acceptable to you.

P: Yes. That would be my position.

H.M.Jr: Now that's what I said. Well, he said, the U. S. expects to put up 30% of the money in advance and I said, well, whatever we did I'm sure you'd be willing to do.

P: Yes. Of course, there was -- oh, yes, I see -- 30% of the value of the contract, yes.

H.M.Jr: I believe that's right.

P: Yes.

H.M.Jr: But I said he should drive the bargain for the

P: I think that's right. We can't possibly ask a man of that size not -- we've got to back his judgment, I think.

H.M.Jr: I think so.

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P: And after all, at least, let's try it that way and honor it that way and then if something went wrong, we'd have to be careful after.

H.M.Jr: Right. But I didn't feel I'd gone too far.

P: Not a bit. Not a bit. That's quite in line with what we talked in your office with him before.

H.M.Jr: Yeah. Now tomorrow you got word I'm expecting you and Mr. Howe for lunch.

P: Yes. I think that will be awfully nice.

H.M.Jr: Now Secretary Stimson's going to be there.

P: Oh, excellent.

H.M.Jr: And Mr. Knudsen.

P: Oh, good.

H.M.Jr: And I've asked the Canadian Minister if he's in town. I don't know whether he's in town.

P: I don't know whether he's well enough yet.

H.M.Jr: Well, I invited him.

P: That's very nice.

H.M.Jr: Now, Mr. Knudsen has this on his chest which I told him to unload. He feels that you're placing certain orders here which -- like with Colt, he used that for example -- which they don't know about and I told him I don't either so we'll have to work out some way on these big orders that you'll let us know so that we can let him know.

P: I quite agree and I think what is happening is that our people on the Colt end are assuming that the old discussions when we first started on Colt are all right provided they carry on with Army people. I discovered the other day

- 3 -

there have been some contacts with our people with Army people. I don't think there's any intention of starting off wrongly but I'll have to put a stop to that.

- H.M.Jr: Well, be prepared to meet that criticism tomorrow.
- P: Thank you very much. I'm very glad you gave me the warning.
- H.M.Jr: And the thought that I had tomorrow when you come down, if you could give us a picture of what your needs are going to be -- I don't mean down to a thousand rifles, but in general terms.
- P: I will be able to give you in most lines a very fair preliminary picture.
- H.M.Jr: And that will go, I take it, for Canada, Australia and South Africa as well.
- P: Well, I've got those people -- unfortunately, South African people only arrived yesterday -- the commercial end. They're in an air meeting now and I have warned them of this necessity and in addition to that Australia -- they're here with me now and I will put it up to them that either they've got to do that by tomorrow or they've got to add it. I warned them at the meeting this morning -- all of them -- that they would not get anywhere by going around placing orders indirectly because I heard last night that some of the technical people in the South African end had got in touch with some rigid intermediary so that I've given a warning to the members of Canada, Australia, South Africa and India, who were all in the room this morning -- it's the first time I've been able to get them because the Indian fellows just arrived -- that they must bear in mind that we can only work in complementary terms with the U. S.
- H.M.Jr: Well, now for example. I last night had dinner with Casey.

P: Yes.

H.M.Jr: He talked about 850 planes. Well, now using that as an example, what I'd like is not 850 planes for Australia or so much for each of the but the Empire wants so many planes.

P: The whole picture, yes.

H.M.Jr: And this type.

P: Well, this preliminary meeting that they're doing on that is this. They're trying to get out of Jacquin some divvy up on what the U. K. has done, you see?

H.M.Jr: Well, you ought to be prepared tomorrow to give a little talk and after all this will be Mr. Stimson's first approach and we've got to work out some way that you're going to talk plain and that -- then Knudsen -- one man can be delegated -- you know.

P: Yes, I understand exactly.

H.M.Jr: It's too much sixes and sevens.

P: Yes, I agree.

H.M.Jr: And you'll just have to tell these various Governments that from now on boil a thing down. If it's planes, it's for the British Empire; if it's machine guns -- all together but not broken up.

P: Very good.

H.M.Jr: And I'm doing this tomorrow to give you the chance.

P: Thank you very much, indeed.

H.M.Jr: Right.

P: That will be excellent.

H.M.Jr: Thank you.

July 10, 1940
11:52 a.m.

H.M.Jr: No. 1, you're expected for lunch tomorrow. Maybe they've told you.

Philip Young: Yes, sir. I heard that.

H.M.Jr: No. 2, Directive No. 5 has been signed.

Y: Has been signed -- by the President?

H.M.Jr: No. He's not going to sign it in the future. He's delegated the authority to Colonel Maxwell, but it's been approved by the White House. Hello?

Y: Yes, sir.

H.M.Jr: Now I'm terrifically busy and it's up to you to follow through and it's up to you to get that stuff off that ship.

Y: Joe Green just told me on the telephone that that Directive didn't cover this situation.

H.M.Jr: Well, you've got to just carry the ball.

Y: All right.

H.M.Jr: I'll not be available until three o'clock.

Y: Right.

H.M.Jr: You've just got to carry it.

CG-F-0161 (7/10/40)

JUL 10 1940

The Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Supplementing my letter of July 9, 1940, in which request was made for immediate consideration of the national defense program for the Coast Guard set forth therein, you are advised that on Tuesday, July 9th, the Commandant of the Coast Guard conferred with Admiral Harold R. Stark, U.S.N., Chief of Naval Operations, and discussed in detail every item for which I requested that funds be made available at the earliest practicable date. Admiral Stark gave his unqualified approval to each item and to the entire program as being immediately required in the interest of national defense.

A photostatic copy of a summary of all items contained in my letter to you of July 9, 1940, with the funds required, showing the signature of Admiral Stark approving the complete program, is inclosed herewith.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Inclosure.

File to Mr. Thompson

(Not mailed in Secy's office)

July 10, 1940

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This is the statement HM Jr took to
the 12 o'clock meeting at the White
House. He gave a copy of it to the
President.

MEMORANDUM FOR THE PRESIDENT

Proposed Tax Program

1. Amortization. Special treatment for income tax purposes shall be given to privately financed plant expansion upon certification by a governmental agency that the plant is needed for national defense purposes. This would be accomplished by permitting the capital cost of such expansion to be amortized over a reasonable period.

2. Excess Profits. A steeply graduated non-discriminatory excess profits tax should be enacted. A combination of the war profits and excess profits principles appears to be most equitable. The tax shall apply to all profits in excess of the rate of return on invested capital which the corporation has actually realized in the pre-emergency period, subject to two qualifications. (1) The company shall be allowed an exemption of not less than 4 percent of invested capital, and (2) in any case, it shall be subject to the tax on what it makes above 10 percent of invested capital. For example, (a) if the company made an average of 5 percent on invested capital in 1935-1939, its profits above 5 percent in 1940 will be subject to the tax. (b) If it made an average of only 2 percent in 1935-1939, any profits in 1940 above 4 percent will be subject to the tax. (c) If it made an average of 15 percent in 1935-1939, the tax shall apply to any profits in 1940 in excess of 10 percent.

3. Repeal of the Vinson-Trammell Act. The Vinson-Trammell act imposes a flat 100 percent excess profits tax over and above an allowed percentage of profit on two industries only on contracts and subcontracts in excess of \$25,000. It is necessary for every contractor and subcontractor clear back to the quarries and mines to establish a costly accounting system of a complex and intricate nature. It is the experience of the Advisory Commission that small manufacturers and suppliers hesitate to take work involving such necessary but annoying red tape. A general excess profits tax should be substituted for the discriminatory excess profits provisions of the Vinson-Trammell Act.

It is the opinion of the Legislative Leaders and the Treasury that these three matters be treated in a single bill. This bill is being prepared and will be ready for submission to Congress when it reconvenes after the Convention has recessed.

RE FINANCING

July 10, 1940
2:15 p.m.

Present: Mr. Bell
Mr. Hadley
Mr. Haas
Mr. Murphy
Mrs Klotz

Bell: I think the next one from the bottom is it.

H.M.Jr: Thirteen years, eleven months?

Bell: June 15, '54-'56.

H.M.Jr: Is that what they are talking about?

Hadley: Yes.

H.M.Jr: This extra year makes it a little sloppy, doesn't it?

Hadley: There is only three months difference between those issues, but the extra year in the call date is a little bit uncertain.

H.M.Jr: Do you think that, too, George?

Haas: Yes, sir.

H.M.Jr: Are you together on this?

Haas: We are together on just what he said, the June 15, '54-'56.

H.M.Jr: Where is the great Henry Murphy, sitting outside?

Haas: No, he is in his office. Do you want him in?

H.M.Jr: I haven't seen him in a long time. It seems to be taking this okay, doesn't it?

Hadley: Yes. There has been some insurance buying in the long bonds today.

Bell: This market has gone up on both sides of this area, hasn't it, Hadley, and they are just holding that area there, so after this is over

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I take it it is going up, too.

Haas: There is going to be a little wait in that.

Bell: Yes.

H.M.Jr: June 15. That means it would be dated this June?

Bell: It matures June 15, 1954. The first coupon due would be December 15, 1940. That would be a six months period.

H.M.Jr: Gentlemen, you fellows have got this thing down. Thirteen years, eight months; thirteen years, eleven months.

Bell: Let's see. There are three dates there, March 15 - you could put September 15 in there, too.

H.M.Jr: I am pleased with the way the market took this thing. I am sorry to hold you up, Dan, but this is terribly important.

(Telephone conversation with Randolph Burgess follows:)

July 10, 1940
2:16 p.m.

H.M.Jr: Hello.

Randolph
Burgess: Hello, Henry.

H.M.Jr: How are you?

B: Fine.

H.M.Jr: Well, what do you think, Randolph, about
this bond on the market.

B: Well, I'm very glad you're doing a bond in
the first place.

H.M.Jr: You are.

B: Because I think you've got a good market
to do it on and everytime you get a market
to stick something out further, it's a good
idea to do it.

H.M.Jr: That's what I think as long as we're in the
borrowing business.

B: Yes. I was a little surprised that you'd do
a 2 $\frac{1}{2}$ instead of a 2, but it's all right.

H.M.Jr: Well, if you'll look at the area from '52
down, it's awful much. It looks like we need
a little slum clearance.

B: That's right. That's right, and this will give
you.

H.M.Jr: Yeah.

B: It's just a question in my mind now between
a 53-5 and a 54-6.

H.M.Jr: 53-5

B: Or a 54-56.

H.M.Jr: 54-56, when? What date?

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- B: Well, I don't think that matters so much. I think this side of September -- June, say.
- H.M.Jr: What are you figuring? How much premium are you figuring.
- B: Well, it's very hard to figure that precisely. I think it's about a point -- a generous point.
- H.M.Jr: Well, our boys -- I've got here before me March 15th, 54-56, they figure .10/32nds as a low.
- B: I think the mathematics doesn't mean much right now, Henry, because it's all in the news of the day and I think either one will go. We'll probably sell up to a point premium. The problem is the after market and particularly if your friend, Mr. Hitler, acts up badly.
- H.M.Jr: My friend!
- B: I think a great many banks will subscribe to either one. I think that afterwards that a few more of them would sell the 54-6 than would sell the other so that your after market is apt to be not quite so good on the longer issue.
- H.M.Jr: Well, the market today the boys point out is good but in this immediate area they're holding it down.
- B: Yes, I think that's true. Yes.
- H.M.Jr: Well, that's -- but you have no doubts as to its success.
- B: No. That'll go all right. The 53-5 would be just a little bit safer but I don't think there's any real risk to the other. Of course, if something very bad happens, why they'll both look sour.
- H.M.Jr: Yeah.
- B: But I don't see how anything much can happen before tomorrow morning. The main problem is the after market.

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H.M.Jr: Right.

B: If you're getting bad news from abroad or are afraid of it, why the -- and want lots of insurance, why the 53-5 is the one. If you're feeling fairly courageous and your lunch is digesting pretty well, why do the 54-6.

H.M.Jr: O. K. Thank you.

B: (Laughs)

H.M.Jr: Hope to see you soon.

B: All right. I'll be down some time.

H.M.Jr: Good-bye.

B: Good-bye.

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Hadley: '53-'55 would give you about a point and three-quarters premium right now.

H.M.Jr: Too much.

How are you?

Murphy: Pretty well, Mr. Secretary.

H.M.Jr: What have you got, your bible there?

Haas: He has got a red bible.

H.M.Jr: That is sort of a new one. I have seen slide rules and everything else, but I never saw a man bring a bible to a financing meeting.

Haas: He will have to pray later on. That won't be so easy.

Bell: We haven't needed one yet, but we may.

H.M.Jr: I will take that tonight and pray that nothing happens tomorrow. What does the good book say?

Murphy: The good book says approximately the same thing that Mr. Hadley says. He said that if you make it '53-'55, you will get about a point and three-quarters premium and I just figured it out as Mr. Burgess said it over the phone that I got about one and 20/32nds premium.

(Telephone conversation with Mr. Devine follows.)

July 10, 1940
2:20 p.m.

H.M.Jr: Hello.

Operator: Mr. Devine.

H.M.Jr: Hello.

Mr. C. J. Devine: Hello, Mr. Secretary.

H.M.Jr: I'm sorry to have taken you off the golf links.

D: I wasn't on the golf links; I was out working my farm. I've lost about seven pounds out there. I'm shoveling stone and rock and gravel building a road.

H.M.Jr: Is that what you call a farm?

D: Sure.

H.M.Jr: Well, it sounds more like a graveyard to me.

D: Oh, no. I was 'way up in the wilderness out in Jersey.

H.M.Jr: Good. Well, how do you think a 2½% bond is going to go?

D: I think it's going to go wonderful.

H.M.Jr: You do?

D: I think you made a wonderful selection.

H.M.Jr: You do?

D: Yes, sir.

H.M.Jr: Now what yearage would you put on it?

D: I'd say -- I think a 54-57, September or December and I think the price would be worth a 101½ on September and a 101 on December.

H.M.Jr: I see.

- 2 -

- D: If you wanted to increase the outstanding issue, I think you could do it at 102-5/8ths to 102-3/4ths.
- H.M.Jr: The outstanding issue?
- D: If you wanted to.
- H.M.Jr: Yeah. Well, I don't.
- D: I say 54-57 -- someone has mentioned 54-56 to me since I came in and I say and I say 54-56 is quite attractive and it'll be worth 101-3/8ths, maybe 101 1/4.
- H.M.Jr: 54-56.
- D: Yeah. I think 54-57 with that kind of a coupon gives you a grand option -- 3-year option with that low coupon is all in your favor. It's really selling a 57 bond at a new all-time low.
- H.M.Jr: That's right. But anything in that area you think it'll go nicely.
- D: Yes, sir.
- H.M.Jr: Got plenty of customers lined up?
- D: I think -- I'd like to underwrite the issue at 101. (Laughs)
- H.M.Jr: Uh-huh.
- D: I think -- we had the New York Life in here this morning and on your 60-65's we could have sold them between 10 and 20 million 60-65's right on this market and maybe an eighth above the market if we sold them that size of a block.
- H.M.Jr: Is that right?
- D: Yes.
- H.M.Jr: But you couldn't get them?

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D: No, sir. We didn't sell them any. We have their order at 106-3/8th and we weren't able to confirm a bond.

H.M.Jr: Well, that sounds pretty bullish.

D: Well, the market acts very good.

H.M.Jr: Well, I'm ever so much obliged and back to the rock pile for you.

D: Well, I'll hang around here for a few days and see if I can't pay for that place out there.

H.M.Jr: (Laughs). O. K.

D: O. K. Thank you.

H.M.Jr: Good-bye.

D: Good-bye, sir.

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Bell: He is a bird.

H.M.Jr: He is smart.

Bell: You're darn right.

Haas: Who is that, Devine?

H.M.Jr: Yes.

Klotz: He is sensible. He takes exercise.

H.M.Jr: But none of these dates they are giving are here. You have got a set of dates all your own.

Hadley: I think he is over optimistic in reaching past June and Mr. Burgess is pessimistic in going back to March.

(Telephone conversation with Mr. Mills follows:)

July 10, 1940
2:24 p.m.

H.M.Jr: Hello.

Operator: Mr. Mills.

H.M.Jr: Hello.

Dudley
Mills: This is Dudley Mills, Mr. Secretary.

H.M.Jr: How are you?

M: Very well, thank you.

H.M.Jr: You sound as though you're up in Maine.

M: Well, I'm sorry. The market shows that the financing can be done very successfully.

H.M.Jr: It can.

M: Oh, yes. It has advanced in the face of an announcement of \$600 million more bonds.

H.M.Jr: What's that?

M: It has advanced in the face of an announcement of \$600 million more bonds.

H.M.Jr: Yeah. That makes me a pretty good guesser, doesn't it?

M: Yes, fine. (Laughs). We think that you're faced with two alternatives. To reopen the 50-51, 3's at about 102½ -- that's a basis of about 203.

H.M.Jr: Yeah. Well, I don't like that.

M: You don't like that.

H.M.Jr: I don't like to reopen.

M: Well, then, it comes down to putting out -- we think, it would be a 54-56 at par.

- 2 -

H.M.Jr: Yeah. What date?

M: What date?

H.M.Jr: Yeah.

M: Well, I think put it out in June -- June 54.

H.M.Jr: Uh-huh. I see.

M: That bond will sell about a 101, 6/10 depending on the over-night and over the weekend news before the trading begins, actually begins in the bonds.

H.M.Jr: How about a June 54-57?

M: Well, that's all right -- put another year on it.

H.M.Jr: How much would that cost us? -- I mean, in the way of a premium.

M: In the way of premium? Only about a 32nd or 2.

H.M.Jr: Is that all?

M: It wouldn't make much difference.

H.M.Jr: Uh-huh.

M: Now all investors prefer bonds at par.

H.M.Jr: Excuse me.

M: I say, most of the investors prefer bonds at par rather than to reopen the old 51, 3's.

H.M.Jr: Yeah, but say a June 54-57.

M: Well, I think that would sell around 101 -- well, about the same price -- 101-4 to 101-10 -- in that range.

H.M.Jr: I see. It wouldn't make much difference.

M: No.

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H.M.Jr: Uh-huh.

M: We think this bond is going to have a special appeal to insurance companies and savings banks.

H.M.Jr: Good.

M: And while attractive to commercial banks, and they will subscribe freely to the issue, nevertheless, I think the ultimate holders will be mostly insurance companies and savings banks.

H.M.Jr: You got a few customers lined up?

M: Oh, yes. And that'll leave the commercial banks open to subscribe for the defense obligation in the future.

H.M.Jr: Yeah. Right.

M: We think a 54-56 -- but if you want to take a 54-57 that will be all right.

H.M.Jr: Well, I'll stay in -- right in that area they're holding it down today, aren't they? Nobody is bidding in that area.

M: Well, we are. (Laughs).

H.M.Jr: Are you?

M: We've got some orders.

H.M.Jr: Are you?

M: Yes, we've got some orders right -- a little longer than that.

H.M.Jr: But you fellows are perfectly happy with this bond in that area.

M: Perfectly happy, sir.

H.M.Jr: Good for you.

M: And we think it'll go over very nicely.

H.M.Jr: Thank you.

M: Thank you. Good-bye, sir.

H.M.Jr: Good-bye.

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H.M.Jr: He had somebody on the wire, that is what cut down the power.

Bell: That was Herb Rapp, probably.

H.M.Jr: How they have changed since yesterday. It is fun to pick it right. I never think in terms of six or seven hundred million, but it is fun to pick them right.

(Telephone conversation with George Harrison follows:)

July 10, 1940
2:29 p.m.

H.M.Jr: George?

George
Harrison: Yes, Henry.

H.M.Jr: Well, I've been talking to a couple of fellows
and they seem awful cheerful on the bond
market.

H: Well, I think they should be.

H.M.Jr: Uh-huh. Why, have you got Rouse there with
you?

H: Right here with me.

H.M.Jr: Uh-huh.

H: The market is at the high of the day -- very
strong and considering the fact that this is
before an issue quite unusual. Usually you
have some preparation for a new issue, and
I think that going over all the facts and the
figures we would recommend June, 54-56.

H.M.Jr: June, 54-56.

H: Yes.

H.M.Jr: How would you feel if we made it June, 54-57.

H: I don't like it so well, but it'll go.

H.M.Jr: You don't like it so well.

H: No.

H.M.Jr: How important is it for my successor that
we make it three years?

H: How important is it for your success?

H.M.Jr: Yes.

H: Well, it's -- (Laughs).

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- H.M.Jr: I mean, who's going to be here in 54. (Pause)
Hello.
- H: I don't know that I get that, Henry.
- H.M.Jr: Well, I mean, somebody's going to be
Secretary of the Treasury in 54 and it
"ain't gonna" be me.
- H: Well, I know, but I think a 2-year call
date on a small issue like this is a plenty.
Don't you? Of course, you may fill it up
further later on but I think everything's
being equal I'd do the 54-56, if necessary
postponing the date, if you want to to
September or even December, though I think
June is a little better.
- H.M.Jr: How much do you figure the 54-56 June will
sell at?
- H: Well, about 101-6 to 101-16. That's the best
we can figure on that.
- H.M.Jr: And if it was the same date for 57 instead
of 54?
- H: Well, now, I'll get Rouse. I'll ask him on
that. (Talks aside) He says it'll knock
off probably about an eighth to a quarter,
which would bring it down pretty close to
101.
- H.M.Jr: I see.
- H: The market is in a frame of mind, Mr. Secretary,
where it's a case of getting a dish of ice
cream -- they prefer chocolate, but they'll
take vanilla just about as readily.
- H.M.Jr: Uh-huh. Well, how about making it chocolate
and vanilla?
- H: (Laughs).
- H.M.Jr: With just a couple of little walnuts on the top.
- H: Yeah. But just don't put a banana peel on it.

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- H.M. Jr: (Laughs). Well, we'll leave that for Jeff Coolidge.
- H: (Laughs). Well, Henry, you can do the 57.
- H.M. Jr: Well, I don't know. I've been talking and I think it's in between there. I haven't called up Marriner yet. I'll call him up and then
- H: But I personally think that as long as the market thought they wanted this the other day, I'm not so sure they were right -- the shortest term and with the world as it is, I think I would do the 54-56 on the theory that you -- that's pretty good spread. I think it will be many times over subscribed and I think that you'll probably find unless something busts loose it'll sell up.
- H.M. Jr: Yeah.
- H: Frankly, above the figures we've just been giving you.
- H.M. Jr: Well, aren't they holding that particular area down today?
- H: Well, it's the one area that hasn't gone up with the others.
- H.M. Jr: Yeah.
- H: The 2 $\frac{1}{2}$'s have been in some supply both outright and on trade but the rest of the market there's been a demand for.
- H.M. Jr: O. K. Thank you gentlemen.
- H: Right.

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H.M.Jr: I don't know whether you people get the social significance of my remark about Jeff Coolidge, but he is Chairman of United Fruit, who are in the banana business.

Bell: Oh, I thought it was the auction bonds.

Haas: He always ate a banana here for lunch, too, I noticed.

H.M.Jr: He is full of bananas. What did he do with the peels?

It is narrowing down, isn't it? I get quite a kick out of this, because yesterday everybody in the street advised against it. That timing of that publicity gives them a day or so.

Bell: It is very good. That settles it down.

H.M.Jr: I am sorry to hold you up, but that statement that came over the ticker on taxes was terribly important.

Bell: It doesn't hurt us so much here as it does the mailing in the banks. I am afraid they don't have time enough to catch the trains out in the country, but they have got this thing all set up except the dates.

H.M.Jr: They most likely have even got that put in.

Bell: Don't fool us.

H.M.Jr: What did you put in?

Bell: I left that blank. We have got everything else but that.

H.M.Jr: I will call up Kilbee and ask him to check up on you.

Bell: Had it in yesterday, just taking a chance, but today we cut it out.

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Hadley: We have gained about six months in the last two days.

H.M.Jr: Incidentally, for Chick Schwarz, the Tribune was all mixed up on the story. I said I was going to sell it for less money and they couldn't figure it out. You can show Chick how on a yield basis this is considerably cheaper than it was on September 8. The coupon is the same but the spread over the period --

Haas: The longer one.

H.M.Jr: Will you point that out to Chick?

Hadley: Yes, I will do that.

H.M.Jr: You are getting three years for nothing. It is two and a quarter, '51-'53.

(Telephone conversation with Marriner Eccles follows:)

July 10, 1940
2:30 p.m.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Marriner.

E: Yes, Henry.

H.M.Jr: I was working on that tax thing this morning so I had to let the thing go until this afternoon.

E: Yeah. Dan called up.

H.M.Jr: How does it look to you now?

E: Well, this is the -- what I would recommend.

H.M.Jr: Please.

E: June, 1954-56. The market of course as you know has shown increasing strength today. That would yield approximately 2.2 and it would give a premium here of somewhere around 101-12 to 15/32nds -- 101½ to a half, which -- there's this thing that I've observed about this offering, I never remember a bond offering when the market hasn't gone down where there has been certain selling in an effort to be prepared to subscribe. Here is a case where since this announcement was made the market has shown unusual strength two days hand-running, showing that the market is entirely bare and hungry to get the issue.

H.M.Jr: That's right.

E: Now on a basis of that, I think that this is plenty sweet.

H.M.Jr: I agree but the only difference that we have we're talking about possibly making it 54-57.

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E: That's all right. I wouldn't kick at all about that. I think you can go 57 without a bit of trouble, and the other is just a little bit more favorable but I think the market the way it closed today -- that you can go 57 without a bit of trouble, and I would agree with that.

H.M.Jr: But either one will be agreeable to you.

E: Yes.

H.M.Jr: Well, we'll talk about it a few minutes. It'll be one or the other, Marriner.

E: Well, I don't -- I wouldn't say that I'm necessarily recommending 56 -- 57 will be just as satisfactory.

H.M.Jr: Fine, and I think the market has behaved beautifully.

E: Well, I've never seen it with such underlying strength in the face of an announcement.

H.M.Jr: Thank you, Marriner, very much.

E: All right.

H.M.Jr: Thank you.

E: Good-bye.

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(Mr. Schwarz entered the conference)

H.M.Jr: Well, what do you say?

Bell: Well, I think the '54-'57 would go. There is a little difference of opinion here between Haas and Hadley on the pricing of that extra year and I think on the curve, it will show you that there ought to be a greater difference than it shows on this sheet and the market takes what Hadley has figured out here but sometime they are going to take it the other way and that spread is going to be nearer half a point than it is the 3 or 4/32nds, I am afraid. I think '54-'56 would certainly go and probably sell on a better basis than what Hadley has got. I also think the 57 would go, but I do think you have got that other difference, which the market now doesn't recognize but which it may.

H.M.Jr: They are figuring it to the nearest date. Let me see your curve, Murphy, will you?

Murphy: This is last night's.

Bell: Here are all of your bonds with your two-year call, you see, and here are your bonds with your three and here are your five. Do you see that spread?

H.M.Jr: Yes.

Bell: It gets a little closer as they get farther out, but nevertheless there is that difference. That is about half a point there, about 12/32nds, and Hadley only shows a difference of about five, but in theory that is right, but the market, they don't pay much attention to it.

H.M.Jr: You say '54-'56?

Bell: To be sure, I would say that.

H.M.Jr: Hadley?

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Hadley: That is my preference.

H.M.Jr: George?

Haas: That is mine.

Murphy: Same.

H.M.Jr: Chick?

Schwarz: Whatever the experts say.

H.M.Jr: I feel a little courageous. I don't know whether to make it '54-'57 or not.

Bell: Seven will go and I think it will probably sell on a better basis than the show on this sheet because this market in this area is going up after this announcement, I feel.

Haas: You have still got a World War, though. Everything is beautiful, more than anybody could anticipate or expect.

Murphy: I figure it is, so to speak, "ex-whoopee."

Klotz: I don't know what that means.

Murphy: With the push the market has, it might put it above the corresponding level with outstanding issues.

H.M.Jr: Marvelous, that is good. How do you spell that?

Murphy: There is a hyphen after the "ex."

H.M.Jr: I hate to go against everybody's wishes. I don't get thanked for making it '54-'57 and if it should slip a little bit, I get damned.

Bell: I think it is just being a little safer on the '56.

Haas: I would say if you feel safe on the '57, I am willing to go along on your elbow.

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H.M.Jr: I feel a little whoopee.

Murphy: So does the market. They might feel different, of course, if there was a blitzkrieg tomorrow morning.

Hadley: If there was one, it wouldn't make much difference, but I think the way the market stands now, this '56 is more conservative.

Bell: Aubrey Lanston says this '54-'56 bond will sell between 1 and 3/8ths and 1 and 3/4ths. He says it will settle down within a week to 101 and 3/4ths in this market. Nobody has said that.

H.M.Jr: Oh, you fellows depress me. You take all the whoopee out of life.

Klotz: You won't live that down, Mr. Murphy.

Bell: You can always hope that they will be out of the way on June 15, 1954, and you don't have to worry whether it is two or three years.

H.M.Jr: Is there anything coming due on that date?

Hadley: Yes.

H.M.Jr: There is? What is it?

Hadley: Two and three-quarters of 1951-'54.

Murphy: A billion six hundred twenty-seven million, 2 and 3/4ths at '51-'54.

Bell: Callable June, '51, and every six months thereafter, so you really have six periods in which to get rid of that.

H.M.Jr: What is that date?

Hadley: '51-'54.

H.M.Jr: Oh well, it will come due in '51.

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Bell: No, callable in '51 and due in '54. If you had a billion six there you wouldn't call this one.

H.M.Jr: I am deflated. We will make it '54-'56. There is no use taking any chances. Everybody says it.

Hadley: Well, from that market report you got over the phone, you have people pulling in both directions, away from June toward December and back.

H.M.Jr: That comment doesn't help me much. I tell you, I think if they were so scared yesterday and they are so good today, I always say when Wall Street is bullish I had better get bearish. '54-'56. Do I have to sign anything?

Bell: Yes. It will be ready about 3:00 o'clock, I think.

H.M.Jr: If you could get in a minute or two ahead of these Senators --

Bell: What time is that?

H.M.Jr: 3:00 o'clock.

Bell: I think I can beat them.

H.M.Jr: Here, Murphy, take along your whoopee chart.

RE MUNITIONS EMBARGO

July 10, 1940
3:15 p.m.Present: Mr. Young
Mr. Foley
Mr. Cairns

H.M.Jr: Here are two things. This has nothing to do with what you (Cairns) were talking about. There is a ship that is going up to Petsamo that has got three and a quarter million rounds. It is a Finnish ship. This stuff is headed for Sweden. This fellow Maxwell won't do anything about it and I just - this is on the theory I am going to pick my fights. Three and a quarter million rounds isn't such a hell of an amount, is it?

Young: No, it is a small amount.

Foley: Is that about three and a half million dollars worth?

Young: I don't know.

Cairns: The Vel-Ragner is the name of the vessel.

H.M.Jr: Yes.

Foley: Somebody told me it was very much in rounds but not in dollars.

Young: The first part of a 23 million round batch.

Foley: I see.

Young: Which was to be exported in March or June.

H.M.Jr: Has this boat applied yet?

Foley: Yes.

Cairns: It applied for clearance and the clearance was revoked yesterday.

H.M.Jr: No, up to last night --

Foley: It had never been granted.

Cairns: Basil told me --

H.M.Jr: He doesn't know half the time what he is talking about.

(To Lieutenant McKay) Mac, ask the man downstairs whether this boat has applied for clearance. Last night they hadn't cleared.

Foley: She is out in the middle of the channel so she won't have to pay wharfage charges. She hasn't been cleared and there has been no revocation.

Cairns: She has not applied for a departure and I don't think she has yet applied, but she - Basil said she has applied for clearance.

H.M.Jr: Well, he said that yesterday and we checked up and we found she hadn't and that was yesterday afternoon. I checked it myself. I have to spend all this time on this stuff and I keep getting misinformation. I don't think for three and a quarter million rounds I am going to fight the State Department. After all, it is their responsibility. We will let the damn thing go.

McKay: They say it hadn't applied for a license, as far as they are concerned.

H.M.Jr: Do you think I ought to fight for this thing?

Young: It is just the principle.

Foley: I think there is a principle involved here, Mr. Secretary.

H.M.Jr: They are going to talk about principles. That takes time, Mac.

Foley: We ought to get the procedure straight. As I understand it, Green has taken the position, and Maxwell agrees with him, that the export license which Green has to grant under the Neutrality Act if certain procedures in the Neutrality Act, in so far as registration and

- 3 -

other things of that character are complied with, makes it unnecessary for any other application for a license to be made. In other words, under the recent provision whereby no arms can be exported, if there is a determination that they are needed for our national defense purposes, Green takes the position that that doesn't apply and I think it does and I think that there should be a formal certification by Maxwell that these arms are not necessary for national defense purposes before anybody goes to Mr. Green to find out whether or not they may be exported.

- H.M.Jr: Well, who is going to fight this out?
- Young: Well, I think there ought to be some determination as to just what that Act and proclamation means, don't you?
- Foley: Yes, I do.
- Young: Because I think both Maxwell and the State Department are entirely off on the wrong foot.
- H.M.Jr: Supposing I do this: Supposing I call Mr. Hull and ask whether he will see you gentlemen sometime tomorrow. Will that give you time to prepare a brief?
- Foley: Yes, sure. I have got a little memo on it on my desk.
- H.M.Jr: In the meantime, don't you think we ought to let this boat go?
- Cairns: Unless you want to hold the remainder of the shipment.
- H.M.Jr: That has got nothing to do with it, just this one.
- Cairns: The precedent - it will make it more difficult for us.
- Foley: No, we are holding the boat, Huntington, on the grounds that Maxwell and Green ought to get together.

- 4 -

H.M.Jr: Excuse me, we are not holding it. She hasn't applied yet.

Foley: Sorry.

H.M.Jr: I mean, she has not yet applied.

Cairns: You understand the difference in the clearance and the departure?

H.M.Jr: No.

Cairns: That is a point I ought to make, then. The Collector issues a clearance in addition to the Secretary of the Treasury issuing a departure permit. Basil told me the clearance had been applied for and was revoked yesterday by the Collector.

Foley: But whether they have a clearance or not, you can't go unless you get a departure permit and the departure permits are what they deal with downstairs.

H.M.Jr: (To Lieutenant McKay) Mac, on this Finnish boat, they say that they applied for a clearance permit and it was given to them and then revoked.

Cairns: A clearance.

H.M.Jr: And then it was revoked.

Cairns: Yes.

H.M.Jr: Ask the boys downstairs to check that on the teletype with the Collector of Customs in New York.

Cairns: As distinguished from a departure permit.

H.M.Jr: He knows. I don't, but he does.

Well, let's say the clearance - I still think we ought to let the boat go. I am not going to run this. I made a recommendation to the

- 5 -

President and he didn't do it. Why should I take on all of his grief?

- Young: Well, I thought he approved the policy that no exports should be made to Sweden.
- H.M.Jr: That is my understanding.
- Young: It is mine, too.
- H.M.Jr: And furthermore, it is my understanding that I talked to Watson today and recommended to him that all outstanding export licenses be revoked. He said, "I agree with you and if State agrees to it, I will tell Maxwell to do it," but it has gotten now to where General Watson won't bother the President. He is making Maxwell sign the stuff if Hull and I agree to anything. That settles it. That is the way Watson is running it.
- Young: You and Hull?
- H.M.Jr: Yes.
- Foley: I think we ought to get it straightened out, Mr. Secretary, so we won't get into another situation with Green.
- Young: And we have something to say about it.
- H.M.Jr: I thought I did.
- Foley:as we did in the Spanish situation.
- H.M.Jr: I thought you were going to say the Spanish-American War.
- Foley: No. You remember that difficulty.
- H.M.Jr: Spanish-American War?
- Foley: No, about that Spanish Loyalist situation.
- H.M.Jr: I called up Mr. - the Secretary of War today and he said, "I just wanted to let you know

- 6 -

the last thing that happened before I left New York, the court confirmed the decision." That is the case you were talking about?

Foley: That is the Spanish silver case. I wasn't talking about that case. I was talking about the controversy that appeared in Drew Pearson's column in regard to the attitude in so far as arms exports to Spain and Germany and Italy are concerned, to help Franco.

H.M.Jr: And Drew called Hull a liar, didn't he, or vice versa?

Foley: That is right.

H.M.Jr: (To Lieutenant McKay) Mac, ask Mr. Hull's office whether sometime tomorrow at his convenience could he see Mr. Phillip Young and Mr. Huntington Cairns and Mr. Edward H. Foley of Syracuse, New York, on the question of policy in regard to the export of arms and ammunition in my behalf, if you please. And you can tell Admiral Waesche that General Watson told me that the President wouldn't see me or Waesche because the President wasn't going to give a penny to Coast Guard. That is what he said. That is only the first round, though.

McKay: I have got a letter out here with a photostat of Admiral Stark's okay on all those items.

H.M.Jr: Well, we will send it over to him.

Young: There still are those two other angles to that problem: One, the fact that the British ships in which we are definitely interested are waiting in New York because they can't get export licenses due to the fact that Green and Maxwell are not functioning properly; secondly, the fact that this particular ammunition order is holding up all of the British ammunition orders.

- 7 -

H.M.Jr: Well, you mean that this is ahead of it?

Young: Yes, and they can use it.

H.M.Jr: Well, take up all three points with Mr. Hull tomorrow, will you? Take up all three. I think it is desirable, but - you can see what the three of you can do. There is nobody else interested, is there, in the Treasury?

Foley: No.

H.M.Jr: Okay? See what you can do. Put all the vim and vigor in over there.

Young: What will we do with the ship?

H.M.Jr: Let her go, that is what I say.

Foley: I think that is all right. Let her go if she applies and then we will clarify the procedure in so far as Maxwell and Green go.

H.M.Jr: I tell you what we can do. Let's hold her up and tell Mr. Hull we are holding her for two days and you go over here tomorrow - maybe it is a little bit more dramatic. "Here is a ship waiting in New York harbor with 3½ million rounds of ammunition. The President says no ammunition to Sweden. Do you want to let her go?" Put him on record. Let's hold it.

Cairns: I think that is better to give him that concrete example. He will have something to decide.

H.M.Jr: Phil, put all your vim and vigor in over there. You and Huntington Cairns can blaze the way and Foley will smile and give you his benediction.

Young: I talked to Maxwell on the telephone.

H.M.Jr: Now, one other thing while - you might as well listen. What is Basil Harris so

- 8 -

interested in this American oil tanker for, that is going to Spain? Why is he so interested?

Cairns: I don't know. We have had four applications for clearance from Spain for this oil. I might state at the beginning the policy I am following is, first, no French vessels leave; secondly, no supplies go to the Axis. That is the general policy I have followed. Herbert cleared two vessels, two tankers for Spain, and they carried oil. Yesterday I cleared an American tanker with oil, thinking in terms of supplies only. Today we have the fourth and Basil was in my office when the Coast Guard called and I told him about it. He said, "Well, it oughtn't to go on the ground that the British might take it into the combat zone." I said, "I hadn't thought about that." I was thinking only in terms of supplies.

Foley: Is it an American oil tanker?

Cairns: Yes. I mentioned one to you yesterday.

Foley: Yes, I remember that.

H.M.Jr: The one today that wants to sail with a --

Cairns: That is American, owned by the Texas Company. It is a small vessel, 400 feet long, carrying to ports in Spain.

H.M.Jr: From where?

Cairns: Port Arthur.

H.M.Jr: She hasn't sailed yet?

Cairns: No, she has applied for a permit.

H.M.Jr: Let me ask him. I have got to ask him something else, anyway.

Supposing we had all our stuff piled up downstairs.

(Telephone conversation with Cordell Hull follows:)

July 10, 1940
3:35 p.m.

H.M.Jr: I got your message -- Henry talking.....

Cordell
Hull: Yeah.

H.M.Jr: about this meeting in Cuba.

H: Yes.

H.M.Jr: Do you want somebody to do down?

H: Well, I thought you people would.

H.M.Jr: I see.

H: Now, it's not that we don't expect to do anything there on monetary and economic matters except to talk and answer questions and then come back and report to the Inter-American Committee -- Economic Committee here on all of those problems.

H.M.Jr: Would Harry White be acceptable to you?

H: Yes. He'd be a No. 1 man.

H.M.Jr: Fine. Well, then, do you need more than one?

H: No. No, it's just you will get in touch with -- familiar with the atmosphere down there and

H.M.Jr: Fine. Well, I'd be glad to have him go if that's agreeable to you.

H: Yes, well, I was just as a matter of courtesy I wanted to invite you to send a man, if you'd like.

H.M.Jr: Thank you. Now, I've got another problem.

H: Yeah.

H.M.Jr: I take it I'll tell him and he'll receive official word from you?

- 2 -

H: Yeah. We'll leave about the 18th, I think.

H.M.Jr: The 18th.

H: I think so. I'll have them to notify him.

H.M.Jr: Right. Now, the other day I talked to you about oil tankers going to the Canary Islands but flying a foreign flag.

H: Yes.

H.M.Jr: Now, we've got a Texas oil company tanker flying an American flag that wants clearance to Spain.

H: Well, of course, it's a little dangerous for them to go in over there. We don't go there ourselves -- the question of -- do you know where the oil -- of course, the oil is intended I guess for Germany.

H.M.Jr: Well, I don't know. All I know it wants to clear from Port Arthur, Texas for Spain. And this is the second one. I find they did clear one yesterday or the day before.

H: I see.

H.M.Jr: But we could -- if the one that cleared yesterday -- we could catch it with Coast Guard and bring it back.

H: Was it under American flag?

H.M.Jr: It was. I only heard about it a few minutes ago.

H: Yeah. Well, it's sort of a difficult proposition really unless we knew more -- of course, there's about three or four times as much oils of different kinds -- lubricating and other kinds going in there than is customary and that means that it's going there for some ulterior purpose. Suppose I talk with my folks and get in touch with you a little later.

H.M.Jr: Will you? Then we'll hold up this one at Port Arthur.

- 3 -

H: Yes. All right.

H.M.Jr: Thank you.

H: Right.

- 9 -

H.M.Jr: Will you take care of that?
Cairns: It is held up. I have held it.
H.M.Jr: Will you tell Basil?
Cairns: Yes.

July 10, 1940

MEMORANDUM

TO: Mrs. Klotz
FROM: Mrs. McHugh

Major Smith telephoned and asked me to give you the following message:

"Please tell the Secretary that Colonel Maxwell's Export Directive No. 5 with respect to Sweden has been okayed. I told General Watson that Mr. Morgenthau approved this action, but I would like to be sure that I am right about this."

If the Secretary does not approve of this action, Major Smith would like to have you let him know.

Note:

Mrs. Klotz called Major Smith today and told him that Mr. Morgenthau had talked to General Watson and told him he was in favor of the above action; in fact, he had been begging for it.

CONFIDENTIALACTION REQUIRED

July 10, 1940

To: The Secretary

From: Mr. Young

Despite the fact that Colonel Maxwell's Directive No. 5, which, as I understand it, restricts exports to Sweden, has been approved and signed, Colonel Maxwell advised me late this morning that no reconsideration would be given to the licenses of March 21st and June 7th covering the Winchester 9 mm ammunition on order for the Government of Sweden. Colonel Maxwell did say, however, that some reconsideration might be given to these licenses before any more of the ammunition in this order is ready for shipment.

With respect to the 3,250,000 rounds now loaded on the Finnish ship and held in New York, the Colonel definitely said that neither he nor the State Department would consider removing that ammunition, because the action would be too drastic.

I might add that over 1 million rounds of this same ammunition is already packed and awaiting shipment from the Winchester warehouses. This Swedish order is definitely holding back production on British orders placed with Winchester.

Only two courses of action are open: (1) to let the ship go, and, (2) have it made clear to Colonel Maxwell that the restrictions on exports to Sweden given in Directive No. 5 are just as applicable to shipments for which licenses have already been granted as to shipments for which license applications are pending.

R.Y.

MA

PLAIN

The Hague

Dated July 10, 1940

Rec'd 7:44 p.m.

Secretary of State

Washington

363, July ten.

Department's 377, July six only received yesterday morning.

I have had conferences yesterday and today with Wohlthat, German Commissioner at the Netherlands Bank from which the following emerged. In reply to the Department's questions under (A) and (B) Wohlthat (of whom the Department of course knows and who is the highest authority here on such matters) gave me the following replies. None of these assets may be transferred to the United States. As regards their being expended locally, bank deposits and inheritances may be freely used locally; cash values of insurance policies are subject to the restrictions put on insurance companies by Dutch law on or about May ten; accounts receivable and debts due from Dutch subjects may be freely used locally subject only to restrictions of Dutch law (six months grace for debtor under certain conditions, et cetera);

real

MA -2- tel # 363 July 10 from the Hague.

real estate may be freely sold and the proceeds expended locally.

Wohlthat developed his personal opinion that our government by its action in freezing credits of countries occupied by Germany had gone much further than the Germans had in action against the assets of American citizens resident in such countries. In his capacity of German Commissioner at the Netherlands Bank he proposed that with respect to individual Americans who may in the immediate future be granted permission to leave Holland they should be allowed to take with them sufficient money to pay for the portions of their trip which cannot be paid for in The Hague (e.g. rail and bus transportation between Geneva and Lisbon) as well as subsistence up to Lisbon. As to remaining currency and credits which they may possess Wohlthat is prepared to release these Americans from compliance with the foreign currency regulations which became effective here on June twenty seven compelling all inhabitants of the Netherlands to offer their foreign currency checks drafts, et cetera to the Netherlands Bank at fixed rates of exchange (for the dollar one point eighty eight and three sixteenths guilders) and to let them take these assets out

MA -3- tel # 363, July 10 from The Hague.

out also, on condition that this be compensated for by an exemption on our part from the operation of our freezing regulations for an equivalent amount of Dutch blocked credits in the United States. The proposal set forth in the preceding sentence applies to all foreign currency and credits of the remaining Americans in Holland who may later be evacuated in large groups or en bloc.

Wohlthat called my attention to our Treasury order of May thirty one granting exemptions from the operation of our freezing regulations to Dutch banks in the East and West Indies. He also read from a report just received from the German Embassy in Washington stating that on June eighteen our Treasury granted exemption from freezing operations to all American citizens resident in the Dutch East and West Indies as well as to the Banco Hollandese Unido operating in various South American countries.

In his capacity of German Commissioner at the Netherlands Bank Wohlthat said he would like to initiate negotiations with a view to reaching an agreement between the Netherlands Bank and the Federal Reserve Bank permitting the sale of Dutch-held securities in the United States under adequate guarantees against disturbance of our stock markets.

GORDON

NPL

CONFIDENTIALFOR YOUR INFORMATION

July 10, 1940

To: The Secretary

From: Mr. Young

Colonel MacMorland advised me late this evening that the Finnish ship now being held in New York with the 3,250,000 rounds of 9 mm cartridges for Sweden also has on board 2 million rounds .45 calibre ammunition from Remington, and 33,000 gas masks, all destined for Sweden.

R.Y.

FEDERAL RESERVE BANK
OF NEW YORK

July 10, 1940.

Mr. H. Merle Cochran,
Technical Assistant to the Secretary,
Treasury Department,
Washington, D.C.

Dear Mr. Cochran:

Enclosed is copy of the cable from the Bank
of England (No.692/40, dated July 10, 1940), which I
read to you over the telephone this afternoon.

Yours faithfully,



Allan Sprout,
First Vice President.

Enc.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

82 SI 11 JUN 15 28

TECHNICAL ASSISTANT
RECEIVED

July 10, 1946

Dr. Fols

Mr. Cochran

A cablegram along the following lines is suggested:

"American Embassy,

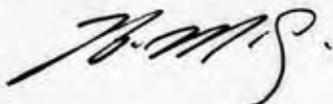
London.

For Ambassador Kennedy

Reference is made to your cablegrams No. 1914, July 1, 7:00 p.m. and No. 2024, July 6, 3:00 p.m. and to Department's No. 1645, July 6, 4:00 p.m.

Considering regularity and volume in which gold is now being shipped from England to this continent on other vessels, this Government does not feel warranted in endeavoring to arrange to acquire title to gold abroad and import it to this country on United States war ships as was done very exceptionally in the Vinconas case.

The Treasury Department has not been consulted by American banks on any question of canceling credits to the London market and hesitates to make any inquiry in the premises pending the arrival of Sir Frederick Phillips."



HMG:smo 7.10.46

TELEGRAM SENT

JT

PLAIN

July 10, 1949

AMERICAN EMBASSY

LA BOURBOULE

44, tenth.

The Department is receiving numerous inquiries from American citizens in regard to the status and protection of their interests in France. These interests consist of bank deposits, real and personal property including merchandise on consignment and claims for merchandise delivered, and inheritances, insurance policies, accounts receivable, et cetera. Please telegraph any information now available which would be helpful to the Department in replying to these communications and keep the Department currently informed by telegram of important developments in this connection. In particular are there any conditions under which bank deposits or other funds such as cash values of insurance policies and securities, proceeds of estates, accounts receivable, et cetera, may be realized and (a) expended locally, or (b) transferred to the United States? If so please specify conditions and procedure.

THE

-2- #44, tenth, to La Bourboule

The Department proposes to inform the appropriate consular officer from time to time of specific cases brought to its attention in which American citizens have interests in France, and to request him to investigate and report the status thereof, and should occasion arise to extend such protection to the American interests involved as may be appropriate and feasible. Have you any suggestions or comment to make?

HULL
(RVM)

EU:LC:AMR LE EA FA SD DCA

SAME TO:

American Embassy, Paris, via Berlin as No. 720.

July 10, 1940
4:32 p.m.

H.M.Jr: Hello.

I. Edgar Hoover: Hello. Hoover talking, Mr. Secretary.

H.M.Jr: How-do-you-do.

H: Fine.

H.M.Jr: Mr. Hoover, I was talking to General Watson today and asked them what they did about this thing between yourself and me -- Signal Corps. He said everything was lovely.

H: (Laughs) Well, this is what happened on the thing. He apparently talked to the Signal Corps and then talked to M.I.D. and C.N.I. I was in New York last week. When I got back here on Tuesday, they had the Intelligence conference here Tuesday morning and I asked General Miles and General -- Admiral Anderson about it. They said they had talked with Watson about it and Miles stated that the thing that they had been doing was monitoring the radio and messages going in and out abroad that had been largely of military value. Well, I said that's just the thing that we want to get a pooling of. I said, it can't all be of military value. And he said, well, they were not doing the actual telephones at the present time. I said, all right. I said, I want to have that cleared. If you're not doing it, we will do it.

H.M.Jr: Good.

H: I said, we must have a pooling of the information and I said, in regard to these messages that have gone back and forth, I said, I would like to have you check back and make certain that there's nothing in those messages of a commercial or a subversive character that we should have.

H.M.Jr: Right.

H: In other words, however, I can't believe that all of it was military, you know. And I think that was just more or less of a -- an alibi after the story got going pretty hot. So now they're checking back and have assured me they will get to me this week any material that is of the economic type or of a subversive type that has gone through on those messages.

H.M.Jr: Well, now, let me ask you two questions.

H: Yes.

H.M.Jr: You are now covering the telephones.

H: Yes. Yes, we're going to do that.

H.M.Jr: Oh, you're going to do that.

H: It'll take us about a week to get that started through the telephone company here.

H.M.Jr: Well, I understand, because if you had had that at the time you had this fellow -- that man with those papers out in San Francisco and others, you might have caught some good telephone conversations.

H: Well, as a matter of fact, we did catch some calls.

H.M.Jr: I know you did, but you caught them at the San Francisco

H: That's right and we don't know that they were talking to New York or some other place

H.M.Jr: They might have called up New York on the thing or anyplace.

H: Right. Or they could have called New York and asked them to send a message abroad by short wave you know.

H.M.Jr: Right.

H: And we didn't have that. All we had was the San Francisco angle.

- 3 -

H.M.Jr: But you have got the telephone -- the privilege now.

H: Yes, we have and we'll have that done within the course of this week.

H.M.Jr: Well, I was just checking up because I promised to get you that.

H: Yes, well, I certainly am happy, because if it hadn't been for you there would have been all of that needless red tape. Now there's another matter that has just been clarified and that's this

H.M.Jr: Will you wait one second?

H: Oh, yes, sure. Sure.

H.M.Jr: I don't understand what you mean that they've monitored the wireless. What wireless are they monitoring?

H: They're trying -- are monitoring the messages that go out -- the Signal Corps have been monitoring these messages that go out as to the wireless radio messages that are sent out from the stations at New York to these foreign countries.

H.M.Jr: Oh, you mean, all messages.

H: All messages, yes.

H.M.Jr: Not just particularly this

H: No, no, not just/^{this} particular network. Well, of course, they were more interested in anything that was going to that particular country or coming from this particular place here.

H.M.Jr: I see.

H: Now, I'm checking into that also because the President sent through a few days ago a request to me to call a conference to find out exactly and to get clarified if we can what's being done relative to the checking of all of these various radio communications.

H.M.Jr: Right.

H: That the Radio -- the F.C.C. have a fund of a \$1,300,000 for the purpose of doing some of this stuff and apparently they are doing it only on a very limited way and we are getting no benefit of the information. Now what I'm going to try to do is -- by Monday or Tuesday and I was hoping that Mr. Gaston would be back by that time, would be to have him sit in and M.I.D., O.N.I. and State with F.C.C. to, in order that we can be assured that copies of all that material will be sent to each one of the interested agencies, because that's what's not being done.

H.M.Jr: I see.

H: And it's a thing that I think is a great weakness in our whole procedure, so I'll have that worked out in the course of this next week and I will make a report to you about it at that time.

H.M.Jr: Well, I admired your nerve on the Panama thing.

H: How's that?

H.M.Jr: I admired your nerve in connection with that Panama incident.

H: Well, we just had to act, you know. I got tired of this procrastination and I finally got action on Martinique, too.

H.M.Jr: Did you?

H: Yes, I sent a man out last night from Miami.

H.M.Jr: Really.

H: We were being delayed with the State Department you know on that and they didn't know whether they wanted it or whether they didn't want it and finally I talked with Berle and I got him to the point where he said that he'd have no objection. So I decided that the thing to do was to do it.

- 5 -

- H.M.Jr: Well, you know when I asked two weeks ago, nobody knew about that.
- H: Exactly. Exactly.
- H.M.Jr: And we still don't know what's going on.
- H: No. We don't. In the first place there's no consul down there, which is a bad set-up. And another thing that I think is awfully bad -- I was talking to a Consul General of the State Department yesterday -- I imagine he'd get into a hell of a jam if they knew it -- but they of course know the facts but probably are not paying much attention to it, and that is that in every one of our Consulates abroad the clerk is a native of the country in which the Consulate is located.
- H.M.Jr: That's right.
- H: And the reason for it is that you can get in Germany a German clerk for \$90 a month whereas an American clerk would cost \$2400 a year. But it seems to me we'd better be spending some money along that line and get real Americans in those places.
- H.M.Jr: I know and the other thing is -- the excuse they give is on account of the languages.
- H: Yeah. Well, that's all poppycock.
- H.M.Jr: There oughtn't to be anybody in there but 101% U.S.
- H: Absolutely, because this Consul General said to me, he said, I can't send any report over here on any of these things because I have nobody to dictate it to. And, he said, my clerk happens to be a German and, he said, this particular clerk said to him, please don't ask me to do things because the day may come when the Gestapo may summon me and demand that I tell what I know and I want to be in a position of not knowing anything. Well, that's a hell of a situation, you know.

- 6 -

H.M.Jr: Well, I was just checking up because when I start something, I usually

H: Well, you certainly accomplished it.

H.M.Jr: Right.

H: Did you get that message I sent over that came in from -- the instructions of the Fuehrer, sent over to you yesterday -- a very confidential one.

H.M.Jr: Of the Fuehrer.

H: Yes. The instructions he's issued to his propaganda ministers.

H.M.Jr: No. That hasn't come yet.

H: I sent it over last night. It was an amazing document.

H.M.Jr: Well, a couple of envelopes came from you which I was taking home tonight.

H: Well, it probably will be in one of those.

H.M.Jr: I read them at night.

H: Yes. It's an amazing document, even more startling than the so-called Zimmerman note the last time, you know. And I will have in the course of a week or ten days the photostat of the original. I mean, he definitely states what his intentions are here.

H.M.Jr: Right.

H: And I thought you'd be interested in it.

H.M.Jr: Thank you so much.

H: Good-bye. Thank you.

H.M.Jr: Good-bye.

July 10, 1940

My dear Mr. Hoover:

This will acknowledge receipt of your letter of July 2nd, containing further information concerning Dr. Herbert Hoehne and Dr. Emil Wolff, and your letter of July 3rd regarding Vomenicio Trombetta and Generoso Pope.

Thank you for sending me this material.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

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

July 10, 1940

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

JOHN EDGAR HOOVER
DIRECTOR

H. Gaster or Elmer [unclear] 7b3
Please open

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

July 2, 1940

PERSONAL AND CONFIDENTIAL
SPECIAL MESSENGER

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

My dear Mr. Secretary:

Mayor Fiorello LaGuardia has conferred with the Special Agent in Charge of the New York City Office of this Bureau with regard to Vomenicio Trombetta, who publishes the Italian newspaper Urido Della Stirpe. According to Mayor LaGuardia, Trombetta has exhibited a definitely pro-Fascist attitude in the editorial policies of this newspaper and for this reason, the Mayor while in Washington on June 24, 1940, spoke to the President concerning Trombetta and proposed an appropriate investigation be instituted of Trombetta's financial status and activities, with a view to determining the source of the funds used in operating the newspaper, it being Mayor LaGuardia's opinion that a part of the finances of this paper were contributed by the Italian Consulate in New York City. Mayor LaGuardia expressed the belief that Trombetta should be made to change his editorial policies, since the newspaper mentioned, although a small one in New York City, does tend to excite the Italian element in that city to a rather dangerous extent.

Mayor LaGuardia feels that an investigation in this matter should be conducted for the purpose of determining whether Trombetta has evaded payment of income taxes and that depending upon the results of this investigation appropriate efforts should be made to change the attitude of Trombetta. According to Mayor LaGuardia, the President gave his approval to this idea and suggested that the matter be discussed with a representative of the New York Office of this Bureau.

The Secretary of the
Treasury

- 2 -

Mayor LaGuardia has also called attention to a similar pro-Fascist attitude exhibited by Generoso Pope, the publisher of an Italian newspaper in New York City. He is of the opinion that arrangements should be made for an investigation based on the income tax returns submitted by Pope beginning with those submitted for 1937.

Mayor LaGuardia has expressed a desire to discuss these matters with the Agents assigned to the investigations prior to the time that they initiate efforts along the lines suggested. I might state that Mayor LaGuardia has exhibited considerable interest in this matter and appears very anxious for investigation to be initiated.

I am instructing the Special Agent in Charge of our New York Office to advise Mayor LaGuardia that his requests have been referred to you for consideration.

Sincerely yours,

J. Edgar Hoover

JOHN EDGAR HOOVER
DIRECTOR

271

L. Charles Gray

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

July 3, 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 for your information a copy of a memorandum dated July 3, 1940, containing additional information with regard to the matter entitled "Dr. Herbert Hoehne; Dr. Emil Wolff; Registration Act; Espionage."

Sincerely yours,

J. E. Hoover
John Edgar Hoover
Director

Enclosure

July 2, 1940

MEMORANDUM

Re: Dr. Herbert Hoehne
Dr. Emil Wolff

Registration Act
Espionage

Information was received on the evening of July 2, 1940, to the effect that the Yasukuni Maru arrived at Balboa, Canal Zone, on July 2, 1940, where it was promptly boarded by Customs officials, Military Intelligence officials, Civil Intelligence officials, Immigration officials, and an Agent of the Federal Bureau of Investigation.

The statement of Dr. Wolff was entered, where the steamer trunk was located, Dr. Wolff and the trunk being taken ashore. The trunk contained a diplomatic seal, although Dr. Wolff was only carrying a regular passport reflecting no diplomatic status. The diplomatic seal was broken and the trunk opened by Customs officials in connection with a search for narcotics, and the material described in the letters and documents taken from Dr. Hoehne's possession were found in the trunk apparently intact, inasmuch as the diplomatic seal had not in any way been tampered with. At the time the Yasukuni Maru was boarded, the vessel was in American waters, and Dr. Wolff was encountered by the officers and identified while on the gangplank. The documents found in the trunk are very voluminous and are being reproduced photographically and photostatically, and will be forwarded to Washington by air express.

Dr. Wolff had in his possession a letter addressed "To Whom It May Concern", dated June 19, 1940, and signed by Hermann Loper, Chancellor of the German Consulate General in San Francisco, California, which letter reflects that Dr. Wolff has in his possession a trunk bearing the diplomatic seal of the Berlin Foreign Office and that this trunk is in the custody of Dr. Wolff as diplomatic courier from San Francisco, California, to Valparaiso, Chile. Dr. Wolff admitted that he is carrying the trunk on instructions from the German Consul at San Francisco, California, to Valparaiso, Chile.

Dr. Wolff is presently being temporarily held by the Customs officials in connection with a suspicion of having violated narcotic laws.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:30 this morning I spoke by telephone with Mr. Pinsent, Financial Counselor at the British Embassy. I referred to the information which I had given him yesterday concerning the license which had been issued covering branches in Spain of the Credit Lyonnais, and I supplemented this with further data which had been provided me by Mr. Pehle. Mr. Pinsent thanked us for the information. He realized the insignificant amounts involved and was making this point in his cablegram to his Government.

With reference to Pinsent's representations in regard to Denmark obtaining the release of funds blocked in New York with the view to paying interest on loans from Sweden, I told him that I had discussed this question at our Exchange Control group meeting last evening. No one of us recalled having seen applications for transactions of the type under reference. We would, however, be on the lookout for such applications and had noted carefully the interest of the British Government therein. I told Pinsent that the foregoing should be the basis of his reply to his Government. I told him, however, that he should not press the point which he raised yesterday, questioning whether we would follow the British suggestions entirely, or whether we would refer the applications to the British Embassy for advice in case they are received. I made it clear that we could not go on record as admitting the privilege of a nonblocked country's representative being consulted with respect to the applications concerning the assets of a blocked country.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau

FROM Mr. Doehran

STRICTLY CONFIDENTIAL

Late yesterday evening the Federal Reserve Bank of New York telephoned the text of cablegram No. 2 to Mr. Loree of the Guaranty Trust, and of his proposed answer to London on the matter of British exchange regulations designed to dry up the free sterling market in New York. Copies of these documents were distributed to the interested officers, including Mr. Livesey in the Department of State. Similar distribution had been made of the memorandum handed to me on July 8 by Mr. Pinsent, quoting a cablegram from London on the subject of British exchange policy, particularly with respect to "registered accounts". After conversations this forenoon by telephone with Messrs. Pinsent, McKeon and Livesey, and after discussion in our Department, I telephoned Mr. McKeon at noon in regard to the Loree cablegrams. I told Mr. McKeon that it was the feeling here that there was no objection to Loree's reply going out as drafted. McKeon should, therefore, tell Mr. Loree that the Treasury did not find any reason to question his message. Furthermore, Mr. McKeon was to let him know that the Treasury Department was in touch with the British Embassy and was doing everything it could to see that our people obtain fair treatment under the new exchange plan. I told McKeon that the copy of the Pinsent memorandum which I had sent him was for the Federal's confidential information, and not for the Loree Committee.

At 12:40 I spoke again with Mr. Pinsent by telephone and told him that the following could be considered as the Treasury's reply to the message which he had delivered to us on July 8:

"The Secretary of the Treasury thanks the Chancellor of the Exchequer for his message of July 5 and for keeping him informed on the question of exchange policy involved therein. The Secretary has no new comments to make on this policy.

"If we should, however, have any complaints from American interests resulting from the operation of this new plan, some aspects of which are not entirely clear from the message under reference, we naturally reserve the right to present them."

While I told Pinsent that the first paragraph above quoted was our official answer, I felt that he should have the observations made in the second paragraph also. He indicated that he would like to cable the second paragraph also, to which I agreed. He seemed entirely satisfied with the reply, admitting that the message as received from London was somewhat obscure and sharing our desire to settle the matter without further exchange of correspondence, since this question has already been the subject of negotiation through so many different channels.

- 2 -

Mr. Pinsent asked in connection with the above matter as to whether there was anything further to do on the complaint of our rubber importers in regard to British application of recent exchange orders. I told Pinsent that it had been my understanding that the two messages which he had shown me recently as coming to him from London were for our information, and required no reply on his part. I told him that messages exchanged between the Loree group and London seem to indicate that his Government had taken a definite position in the premises. I told him that we would not raise the question for the present, but that we might have some word from our Embassy in London or from the interested importers in New York, directly or through the Federal Reserve Bank or the State Department, which might cause us to bring the subject to the Embassy's attention again.

When I had spoken with Mr. Livesey in regard to the Loree cables and the message of July 5 from London, question of the rubber importers was also revived. Mr. Livesey and I agreed that the question of treatment of the rubber people had been very thoroughly and fairly talked out recently and that there seemed no justification for further representations on our part at this time. We have had certain reservations in our minds for some time in regard to any losses which the rubber people may suffer, and the State Department has not received very convincing proof from the rubber people on this point. We have, however, both directly and through the Embassy at London, made representations toward receiving fair treatment for American interests.

Since we are sympathetic with the idea of the British eliminating the free sterling rate as far as possible and holding a steady official rate, we obviously should not block such a policy except for very good reasons. We have had no objections to the present British policy from any importers other than the rubber group. Those American interests fearing competition from imports in depreciated sterling should naturally be quite pleased with the arrangement now being consummated.



No. 652

Santiago, July 10, 1940

Subject: Blocked funds of Belgian Minister to Chile.

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

Sir:

I have the honor to report that the Belgian Minister to Chile, M. Maxime Gerard, has requested information or assistance with regard to his funds on deposit with the Banque Belgique pour l'Etranger (Overseas) Ltd., 67 Wall Street, New York City. M. Gerard on June 27 issued his check No. 14031 to the order of Steinsapir, a Santiago broker; and the bank has stated that it cannot pay out the funds which it is holding to M. Gerard's credit.

If the Department can furnish aid or suggestions I should greatly appreciate a response by air mail at the earliest possible moment. M. Gerard appears to be loyal to the Belgian Government still allied with England, assuming such a Government to be in existence.

Respectfully yours,

CLAUDE G. BOWERS

WF:bxr

C O P Y

ATP

GRAY

ROME

Dated July 10, 1940

Rec'd 3:10 p.m.

Secretary of State,
Washington.

707 July 10, 5 p.m.

My telegram No. 693 July 8, 8 p.m.

Today Senator Giannini handed me the following memorandum. "The Italian Government has ordered the payment in non transferable lire of the bonds placed abroad as regards the maturities falling due beginning with June 10 this being due to the material impossibility of transfer of exchange. As soon as the difficulties which have led to this measure are eliminated regular transfer of the lire will be provided for.

It must be pointed out that Italy has always regularly met its engagements. The present step has been dictated by the present exceptional situation of an absolute lack of influx of foreign exchange."

PHILLIPS

OSB

July 11 1940 11

Conference Held in the Secretary's Office — Wednesday, 12 o'clock

Present: Secretary Morgenthau, Mr. Forestall, Mr. White

Mr. Forestall called to learn what the Secretary was willing to do in the way of making stabilization loans to Latin American countries. The Secretary told him that he was prepared to make gold loans to appropriate Latin American countries for the purpose of strengthening their monetary system and to help stabilize their currencies. He stated that he was also willing that the countries with which such arrangements were made should be permitted to keep the gold or silver used for stabilization purposes in their own central banks or treasuries if they so desired. An essential condition of such loans, the Secretary added, was that the Secretary of the Treasury would have to be in charge of all the arrangements made involving use of the stabilization fund, in order to make certain of adequate protection to the fund.

The Secretary also referred to the plan which had been proposed with Brazil two years ago. He told Mr. Forestall that he would be glad to make the material bearing on the proposal available to Mr. Forestall for examination.

Mr. Forestall asked the Secretary whether, in his opinion, it were better for an American yeast company, which proposed to spend a half million dollars for the construction of a plant in Brazil, to utilize dollars obtained here or milreis obtained in Brazil. The Secretary indicated that if there were a choice between using local capital and foreign capital that it might be better to tap the dollar market and leave the local capital market free for other uses. This assumed, of course, that the question of ownership of the plan was not at issue.

MPH

RDS

GRAY

Berlin

Dated July 10, 1940

Rec'd 6:30 p.m.

Secretary of State,
Washington.

2667, July 10, 3 p.m.

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

The German press has announced the establishment of a new central bank in Belgium to replace the former Banque Nationale. The Societe Generale will assist in the establishment of the new bank. The banks have published an appeal to the public to bring back hoarded notes which are said to amount to many hundred millions into circulation as otherwise, it will be necessary to issue large amounts of new notes. In one newspaper article it is claimed that approximately five billion francs of currency have been taken out of Belgium by refugees. Negotiations are said to be under way for the establishment of a postal check clearing system in which the newly established central bank will also play a role.

KIRK

EMB

MA

TELEGRAM SENT

PLAIN

July 10, 1940

AMERICAN EMBASSY

BERLIN

1906, tenth.

Treasury states allowance at rate of \$1200 per year is granted Heath for fiscal year beginning July 1, payable quarterly in advance. Does Heath prefer that a check be deposited quarterly with his bank in the United States or that arrangement be made for payment through the Embassy? Please give a reply indicating bank in United States if first alternative is preferred. STCOR.

HULL

BL

EA:FL:MSG DA

(Text supplied by Treasury).

MA

TELEGRAM SENT

PLAIN

July 10, 1940

AMERICAN EMBASSY

LA BOURBOULE (FRANCE)

49, tenth.

Treasury states allowance at rate of \$1200 per year is granted Matthews for fiscal year beginning July 1, payable quarterly in advance. Does Matthews prefer that a check be deposited quarterly with his bank in the United States or that arrangement be made for payment through the Embassy? Please give a reply indicating bank in United States if first alternative is preferred. STCOR.

HULL

(BL)

EA:FL:MSG DA
(Text supplied by Treasury).

July 10, 1940.

282

the Secretary of the Treasury:

On Tuesday afternoon, July 9th, I conferred at length with Admiral Stark, Chief of Naval Operations, regarding the national defense program for the Coast Guard outlined in your letter to the Director of the Budget, forwarded this date, going over item by item the entire program, and Admiral Stark gave his unqualified approval to each item and to the complete program, stating in effect that there was no question of the fact that the facilities of the Coast Guard should be immediately increased as set forth in your letter to the Director of the Budget in the interest of national defense. A photostatic copy of a summary of the national defense program of the Coast Guard, showing the signature of Admiral Stark in approval of all items, is attached hereto.

In view of Admiral Stark's strong approval I have prepared a letter to the Director of the Budget supplementing your letter of July 9, 1940, advising the Director of the Budget of the approval given by the Chief of Naval Operations to the request of the Secretary of the Treasury for immediate expansion of the facilities of the Coast Guard in the interest of national defense. This letter is forwarded herewith for your signature.

R. R. WARREN.

CG-F-0161 (7/10/40)

10 July 1940

The Director,
Bureau of the Budget,
Washington, D. C.

Sir:

Supplementing my letter of July 9, 1940, in which request was made for immediate consideration of the national defense program for the Coast Guard set forth therein, you are advised that on Tuesday, July 9th, the Commandant of the Coast Guard conferred with Admiral Harold R. Stark, U.S.N., Chief of Naval Operations, and discussed in detail every item for which I requested that funds be made available at the earliest practicable date. Admiral Stark gave his unqualified approval to each item and to the entire program as being immediately required in the interest of national defense.

A photostatic copy of a summary of all items contained in my letter to you of July 9, 1940, with the funds required, showing the signature of Admiral Stark approving the complete program, is inclosed herewith.

Very truly yours,

H. Morgenthau, Jr.

Secretary of the Treasury.

Inclosure.

SUMMARY OF FUNDS REQUIRED AT THE EARLIEST
PRACTICABLE DATE BY THE COAST GUARD

1. Training of officers and men:		
Training facilities for enlisted men, ..	\$1,000,000	
Coast Guard Academy,	800,000	\$1,800,000
2. Additional shore facilities:		
Radio stations,	\$1,835,410	
Port Angeles Air Station, extension, ..	278,000	\$2,113,410
3. Facilities for repair and construction of vessels:		
Coast Guard Depot—		
(a) Floating drydock,	730,000	
(b) Two shipways,	910,000	
(c) Buildings and facilities,	653,700	2,293,700
4. Additional vessels:		
Three cutters, HAMILTON class,	10,500,000	
Four harbor cutters, for icebreaking, ..	1,400,000	
Cable boats,	1,100,000	
Cutter for duty in Greenland,	2,250,000	
Sixty cutters, 78-foot class,	4,500,000	19,750,000
5. Increase of 2,500 in the enlisted complement of the Coast Guard,		
		3,040,660
6. Emergency fund for Secretary of the Treasury,		
		5,000,000
7. Funds for administrative expenses in connection with the entire program,		
		1,500,000
	TOTAL,	35,499,770

1. TRAINING OF OFFICERS AND MEN,

Training facilities for enlisted men — \$1,000,000.

The Coast Guard has only makeshift training stations at Ellis Island, New York; Norfolk, Virginia; Fort Trumbull, Connecticut; Curtis Bay, Maryland; and Fort Lauderdale, Florida; all of which are totally inadequate. The buildings at Fort Trumbull are frame buildings, hastily constructed during the first World War. These buildings are entirely inadequate, unsuited, dilapidated, and a fire hazard. At Ellis Island, the Immigration Service allotted a space to the Coast Guard—a makeshift arrangement—totally unsuited for the purpose. Coast Guard trainees are trained alongside of immigrants awaiting deportation, many of whom are diseased and insane. This space could more appropriately be used to quarter the enlisted men used in New York Harbor to supervise the loading of explosives, as there is no other space in New York now available to house these men. At Norfolk, the Coast Guard is using aban-

JR

PLAIN

London

Dated July 10, 1940

Rec'd 1:13 p.m.

Secretary of State,
Washington.

2094, July 10.

FOR TREASURY FROM BUTTENTORTH.

Further financial blackout is revealed today in the publication of the exchequer returns for the first six days of the second quarter of the fiscal year. What looks like a mechanism for concealing inflation is evident in a new form which omits the figures showing the make-up and volume of the floating debt as well as all details as to how the deficit was financed by different borrowing methods (such as those quoted for the quarter ended June 30 in the second part of my No. 1913 of July 1). Only a blanket figure equal to the deficit is given for net issues of money raised by the creation of debt. However, some indication of total savings will be available in the weekly figures for national savings certificate sales, subscriptions to baby defence bonds and 2-1/2 per cent "on top" bonds and loans free of interest. The TIMES city editor's laconic comment is that the step "is scarcely calculated to help investors to the fuller realization
which

-2- #2084, July 10, from London.

which Sir Kingsley Wood is apparently so anxious they should have." (See my No. 2076 of July 9). THE FINANCIAL NEWS referring to its prediction that changes in the form of returns were likely states "there is no doubt that the measures now adopted go far beyond the city's expectations and are greatly to be deplored. The city must remain to a large extent in the dark as to the success of official efforts to cover the gap between revenue and expenditure by attracting savings. From this it follows that it will no longer be possible for a close watch to be maintained to see that inflationary tendencies are kept within bounds." The DAILY TELEGRAPH financial editor comments that "the innovation leaves a blank in the accounts which is a retrograde step". THE DAILY MAIL states, "suppression of this vital information will not be welcomed by the city". The city editor of THE DAILY HERALD says, "I think it is a pity that the Treasury should thus hide its head in the sand". THE NEWS CHRONICLE city editor states, "the heavy hand of censorship has fallen on the weekly exchequer return. Will this obscurantism help the war effort? I am confident it will not". Though Sir Kingsley Wood as quoted in my No. 2076 of July 9 stated that taxation must be as high as possible and must cover the widest possible field, it seems likely that labor's
stiff

-3- #2094, July 10, from London.

stiff opposition to the purchase tax is a straw in the wind indicating that any substantial taxation of the working man will be as politically impossible as a compulsory savings scheme. The only alternatives are (a) a cumbersome and costly extension of rationing to a field comprehensive enough to push voluntary savings to much higher figures, or (b) an inflationary price rise of no mean proportions. If inflationary trends are to be concealed by suppression of published details the presumption seems justified that alternative (b) is regarded as inevitable--at least to a degree which would be unpalatable if evident weekly in the exchequer returns. The setting in which the new budget is now being framed may be seen from the following: with expenditure now at the rate of pounds 3,500 million per annum as compared with Simon's budget estimate of pounds 2,867 million only pounds 1,234 million of which was provided for by taxation, the gap to be filled even if expenditure does not increase is well over pounds 2,000 million. The weekly average intake from savings certificates and baby bonds in the six weeks May 25 to July 6 was about pounds 11 million--or at a rate of pounds 572 million per annum while subscriptions to 2-1/2 per cent on top war bonds in the first week of their sale

was

-4- #2094, July 10, from London.

was pounds 61 million. Around what weekly average the ~~income~~ from these bonds will settle down to cannot be predicted--but if say a weekly average of pounds 10 million is taken the total from these three sources in a year would run to about pounds 1,100 million leaving a gap of nearly pounds 1,200 million to be filled (a) by new and increased taxes, (b) by further issues of war loans and (c) behind the scenes through ways and means advances, tap Treasury bills and the new deposit receipts.

KENNEDY

GH

AS

GRAY

Zurich

Dated July 10, 1940

Rec'd 8:10 a.m.

Secretary of State,
Washington.

158, July 10, 10 a.m.

Referring to Department's telegram 190, eighth.

According to a gentlemen's agreement between Swiss National Bank and banks in this country foreign exchange is being released since May 15 to individuals of firms domiciled in Switzerland for import payments only. Funds of persons or firms domiciled in foreign countries deposited in Swiss banks prior to May 10th are not (repeat not) subject to transfer restrictions. Transfer of such funds deposited subsequently requires authorization of Swiss National Bank. This restriction does not (repeat not) apply to American or other foreign banks which may still transfer funds freely. Transfer of interest on securities is not (repeat not) restricted. Foreign exchange granted liberally to emigrants and for remittances to relatives residing abroad.

The only legal restrictions concern transfer of funds to Belgium and possessions, Denmark, France, (possessions, colonies, protectorates, and mandates) Luxembourg, Netherlands exclusive possessions, and Norway. Payments to the aforementioned must be made through the Swiss National Bank. The right of disposal of property situated in Switzerland or administered for the account or on behalf of persons or firms domiciled in above countries is likewise restricted.

ALTAFFER

WSB

C O P Y



THE COMMANDANT OF THE UNITED STATES COAST GUARD

CONFIDENTIAL

WASHINGTON

10 July 1940.

MEMORANDUM FOR - The Secretary of the Treasury

With reference to Coast Guard matters recently discussed with you, I have to advise as follows:

1. REGARDING COAST GUARD NATIONAL DEFENSE ESTIMATES - \$35,499,770:

I discussed these estimates with Admiral Stark and he approved all of them - in the interest of national defense - and wrote his name across the bottom of the estimates to indicate approval. A photostat copy of the estimates, with his signature, will be transmitted to the Bureau of the Budget through your office.

2. REGARDING TRANSFER OF THE BUREAU OF MARINE INSPECTION AND NAVIGATION:

Both Admiral Stark and Admiral Land have replied to your letters, approving in toto the reorganization plan submitted as being "sound in principle and that it is distinctly in the interest of national defense". A letter is being prepared for your signature again transmitting the reorganization plan to the Bureau of the Budget, with photostat copies of the letters from Admiral Stark and Admiral Land.

3. REGARDING EQUIPPING COAST GUARD STATIONS FOR DEFENSE AGAINST HOSTILE AIRCRAFT AND SUBMARINES:

I have discussed this thoroughly with Admiral Stark. He suggested that I write him a letter outlining the plan, which he would take up with the Joint Army-Navy Board. This has been done.

4. REGARDING PROPOSED LEGISLATION TO SEMI-MILITARIZE THE COAST GUARD RESERVE FOR USE IN CARRYING OUT NEUTRALITY DUTIES, PARTICULARLY CAPTAIN OF THE PORT DUTIES RECENTLY ASSIGNED TO THE COAST GUARD AS A RESULT OF THE PRESIDENT'S PROCLAMATION:

This was discussed with Admiral Stark, and he requested that we submit to him a copy of the proposed bill for study. This will be done within the next day or two.

R. R. WAESCHE
Rear Admiral, U.S. Coast Guard,
Commandant.

10 July 1940.

MEMORANDUM FOR - The Secretary of the Treasury

With reference to Coast Guard matters recently discussed with you, I have to advise as follows:

1. REGARDING COAST GUARD NATIONAL DEFENSE ESTIMATES - \$35,497,770:

I discussed these estimates with Admiral Stark and he approved all of them - in the interest of national defense - and wrote his name across the bottom of the estimates to indicate approval. A photostat copy of the estimates, with his signature, will be transmitted to the Bureau of the Budget through your office.

2. REGARDING TRAINING OF THE BUREAU OF MARINE INSPECTION AND NAVIGATION:

Both Admiral Stark and Admiral Land have replied to your letters, approving in toto the reorganization plan submitted as being "sound in principle and that it is distinctly in the interest of national defense". A letter is being prepared for your signature again transmittting the reorganization plan to the Bureau of the Budget, with photostat copies of the letters from Admiral Stark and Admiral Land.

3. REGARDING EQUIPPING COAST GUARD STATIONS FOR DEFENSE AGAINST HOSTILE AIRCRAFT AND SUBMARINES:

I have discussed this thoroughly with Admiral Stark. He suggested that I write him a letter outlining the plan, which he would take up with the Joint Army-Navy Board. This has been done.

4. REGARDING PROPOSED REORGANIZATION TO SEMI-MILITARIZE THE COAST GUARD RESERVE FOR USE IN CARRYING OUT NEUTRALITY DUTIES, PARTICULARLY CAPTAIN OF THE PORT DUTIES HERETOFORE ASSIGNED TO THE COAST GUARD AS A RESULT OF THE PRESIDENT'S PROCLAMATION:

This was discussed with Admiral Stark, and he requested that we submit to him a copy of the proposed bill for study. This will be done within the next day or two.

R. R. FARSONE
Rear Admiral, U.S. Coast Guard,
Commandant.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Lewis Clark, who handles the French and Belgian desks in the Department of State, telephoned me this noon the substance of the attached cablegram sent from our Ambassador Cudahy to Brussels, via the American Embassy in Berlin. After speaking with Mr. Bernstein, I told Mr. Clark that the Treasury felt that the suggestion made with respect to a procedure for foreigners to destroy their American securities in the presence of officials who could testify thereto was certainly equally applicable to American citizens if they desired to have recourse thereto. We entirely approved of the idea that American consular officers should perform the notarial service, without requesting local officials to act as intermediaries, when it is a question of dealing with the property of American citizens.



EH

PLAIN

Berlin

Dated July 9, 1940

Rec'd 3:11 p.m.

Secretary of State,
Washington.

2615, Ninth.

From Brussels.

187, Fourth.

With reference to the Department's telegram No. 64 May 13, 1 a.m. recommend that Treasury authorize a procedure for American citizens similar to that proposed for the Netherlands and Belgian nationals. Under existing circumstances it would probably be preferable to have American consular officers act as witness. Matter pressing. Immediate reply requested. In a few days I believe such procedure will no longer be practicable. Cudahy.

CSB

KIRK

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

The foreign exchange market was dull today. Sterling opened at 3.77 and remained near that level until mid-afternoon. It subsequently moved off and closed at 3.74.

Sales of spot sterling by the six reporting banks totaled £172,000, from the following sources:

By commercial concerns.....	£ 29,000
By foreign banks (Europe, South America and Far East).....	£143,000
Total.....	£172,000

Purchases of spot sterling amounted to £147,000, as indicated below:

By commercial concerns.....	£111,000
By foreign banks (Far East and Europe).....	£ 36,000
Total.....	£147,000

Sterling in the amount of £3,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£2,000 by the Guaranty Trust Company (for whisky)
1,000 by the Irving Trust Company (for paddles)
£3,000 Total

The other currencies closed as follows:

Swiss franc	.2267
Canadian dollar	14-5/8% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	9-15/16% discount
Mexican peso	.1990 bid, .2025 offered

We purchased \$700,000 in gold from the earmarked account of the Central Bank of the Colombian Republic.

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

\$1,210,000 shipped by Sharps and Wilkins, London, to the First of Boston International Corporation, New York.

835,000 representing six shipments from London to various New York commercial banks.
\$2,045,000 Total

The Federal Reserve Bank of New York reported the following shipments of gold:

From England, shipped by the Bank of England
to the Federal Reserve Bank

\$25,015,000 to be earmarked for account of the Bank of England.
 3,149,000 to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.
 1,046,000 for account of the Royal Norwegian Government, disposition unknown.
 1,015,000 to be earmarked for account of the Swiss National Bank.
 819,000 for account of the Bank of Finland, disposition unknown.
 392,000 for account of the Bank of Portugal, disposition unknown.

Other shipments, for sale to the U. S. Assay Office

\$14,580,000 from Canada, representing three shipments by the Bank of Canada for its own account to the Federal Reserve Bank.
 80,000 from England, shipped by the Guaranty Trust Company, London, to its head office at New York.
 18,000 from Ceylon, shipped by the Eastern Bank Ltd. to the Guaranty Trust Company, New York.
\$46,114,000 Total

The report of July 3 received from the Federal Reserve Bank of New York giving the foreign exchange positions of banks and bankers in its district, revealed that the total position of all currencies was short the equivalent of \$14,349,000, a decrease of \$4,012,000 in the short position. The net changes in the positions are as follows:

<u>Country</u>	<u>Short Position June 26</u>	<u>Short Position July 3</u>	<u>Decrease in Short Position</u>
England	\$ 5,315,000	\$ 2,276,000	\$3,039,000
Europe	8,465,000	7,484,000	981,000
Canada	124,000 (Long)	39,000 (Long)	85,000 (Decrease in Long Position)
Latin America	170,000	243,000	73,000 (Increase)
Japan	3,686,000	3,502,000	184,000
Other Asia	880,000	862,000	18,000
All others	31,000 (Long)	21,000	52,000 (Increase)
	<u>\$18,361,000</u>	<u>\$14,349,000</u>	<u>\$4,012,000</u>

The reduction of \$3,039,000 in the sterling short position of New York institutions was almost entirely the result of a decrease in the commitments of one leading New York bank.

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on July 3, showed that such deposits totaled \$38,516,000, an increase of \$1,293,000 since the last report as of June 26. Included in this total were \$29,243,000 in deposits with

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the Yokohama Specie Bank, New York, made by its branches in China. As in the case of the June 26 report, no funds were held by this bank for its head office and Japanese branches on July 3. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$63,915,000, a reduction of \$2,216,000 since June 26.

The Bombay gold price was slightly higher at the equivalent of \$33.81.

Spot silver in Bombay was equivalent to 43.97¢, off 3/16¢.

In London, the price fixed for spot silver was 21-15/16d, up 1/4d. The forward quotation was 21-3/4d, a gain of 3/16d. The U.S. equivalents were 39.88¢ and 39.54¢, 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 one purchase of silver amounting to 75,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau

3:00 P.M. (Market Close)

FROM W. H. Hadley

2-1/4% TREASURY BONDS

<u>Term</u>	<u>Yield</u>	<u>Offering Price</u>	<u>Estimated Market Price</u>	<u>Premium</u>
13 yr. 8 mo. - 15 yr. 8 mo. (Mar. 15, 1954-56)	2.12 2.14	100 100	101.17 101.10	1 pt. 17/32 1 pt. 10/32
13 yr. 8 mo. - 16 yr. 8 mo. (Mar. 15, 1954-57)	2.14 2.16	100 100	101.10 101.2	1 pt. 10/32 1 pt. 2/32
13 yr. 11 mo. - 15 yr. 11 mo. (June 15, 1954-56)	2.14 2.16	100 100	101.10 101.2	1 pt. 10/32 1 pt. 2/32
13 yr. 11 mo. - 16 yr. 11 mo. (June 15, 1954-57)	2.16 2.18	100 100	101.2 100:27	1 pt. 2/32 27/32nds



TREASURY DEPARTMENT
WASHINGTON

July 10, 1940.

MEMORANDUM FOR THE SECRETARY:

For the period October 26, 1939, through June 30, 1940, the Maritime Commission has approved transfer to alien ownership of 43 vessels whose average age is 21 years. The amount of money realized was slightly under \$21,000,000. This money has been ear-marked for new construction.

Seventy-nine vessels, average age over 23 years, have been disposed of for about \$21,000,000. These latter ships are mostly coastal and inter-coastal vessels. Most of this money will find its way into new construction.

David Harris.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE July 10, 1940

TO Secretary Morgenthau
FROM Mr. Haas *MA*
Subject: Railroad freight movement for export.

Receipts of freight for export at New York declined sharply last week, which included the Fourth of July holiday. With a slight decline at 9 other North Atlantic ports, the export freight receipts in the North Atlantic area were reduced by 926 cars to a total of 6,419. (See Chart 1 and table attached.)

The volume of freight exported from New York last week likewise showed a sharp reduction from the high figure of the previous week. (See Chart 2.) The number of carloads exported, according to our compilations, again failed by a slight margin to equal the amount received for export, hence the volume of lighterage freight in storage and on hand for unloading at that port shows a slight further gain. (See Chart 3.)

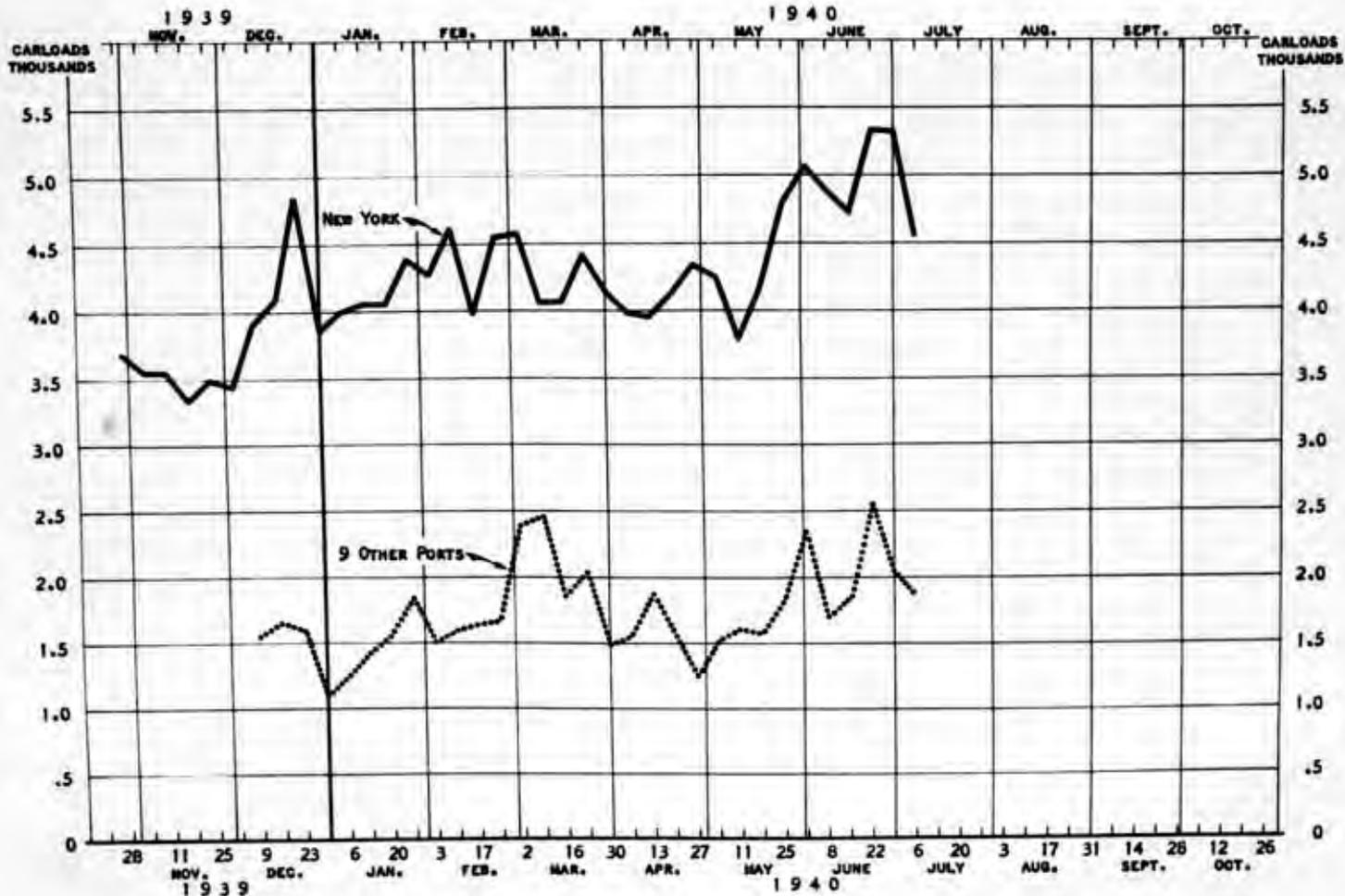
RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS

Week ended 1940	New York <u>1/</u>	9 other North Atlantic ports <u>2/</u> In carloads	Total
February 3	4,274	1,498	5,772
February 10	4,617	1,590	6,207
February 17	3,974	1,637	5,611
February 24	4,550	1,667	6,217
March 2	4,577	2,388	6,965
March 9	4,059	2,448	6,507
March 16	4,072	1,845	5,917
March 23	4,424	2,033	6,457
March 30	4,150	1,492	5,642
April 6	3,979	1,551	5,530
April 13	3,957	1,866	5,823
April 20	4,133	1,557	5,690
April 27	4,346	1,248	5,594
May 4	4,255	1,522	5,777
May 11	3,793	1,619	5,412
May 18	4,165	1,583	5,748
May 25	4,794	1,826	6,620
June 1	5,071	2,361	7,432
June 8	4,888	1,698	6,586
June 15	4,726	1,852	6,578
June 22	5,334	2,557	7,891
June 29	5,323	2,022	7,345
July 6	4,548	1,871	6,419

1/ Source: General Managers' Association of New York, Daily Report of Operating Conditions in New York Harbor.

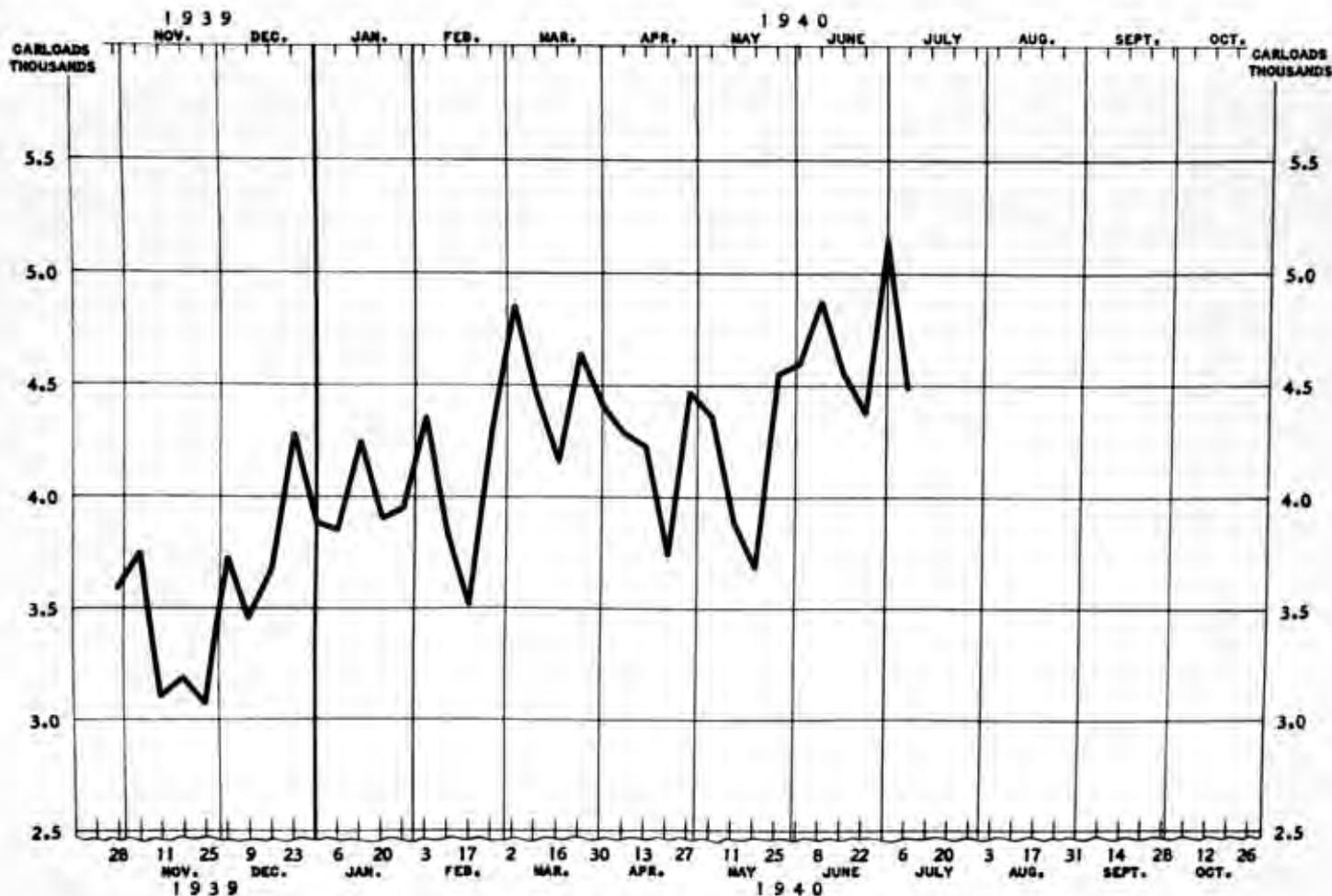
2/ Source: Association of American Railroads, Car Service Division, Report of Carload Freight for Export and Coastal Vessel Movement. Includes Searsport, Portland, Boston, Providence, Philadelphia, Chester, Wilmington, Del., Baltimore, and Norfolk (or Hampton Roads).

RECEIPTS OF FREIGHT FOR EXPORT AT NEW YORK
AND AT 9 OTHER NORTH ATLANTIC PORTS



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Chart 1

CARLOADS OF FREIGHT EXPORTED FROM NEW YORK*



* AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.

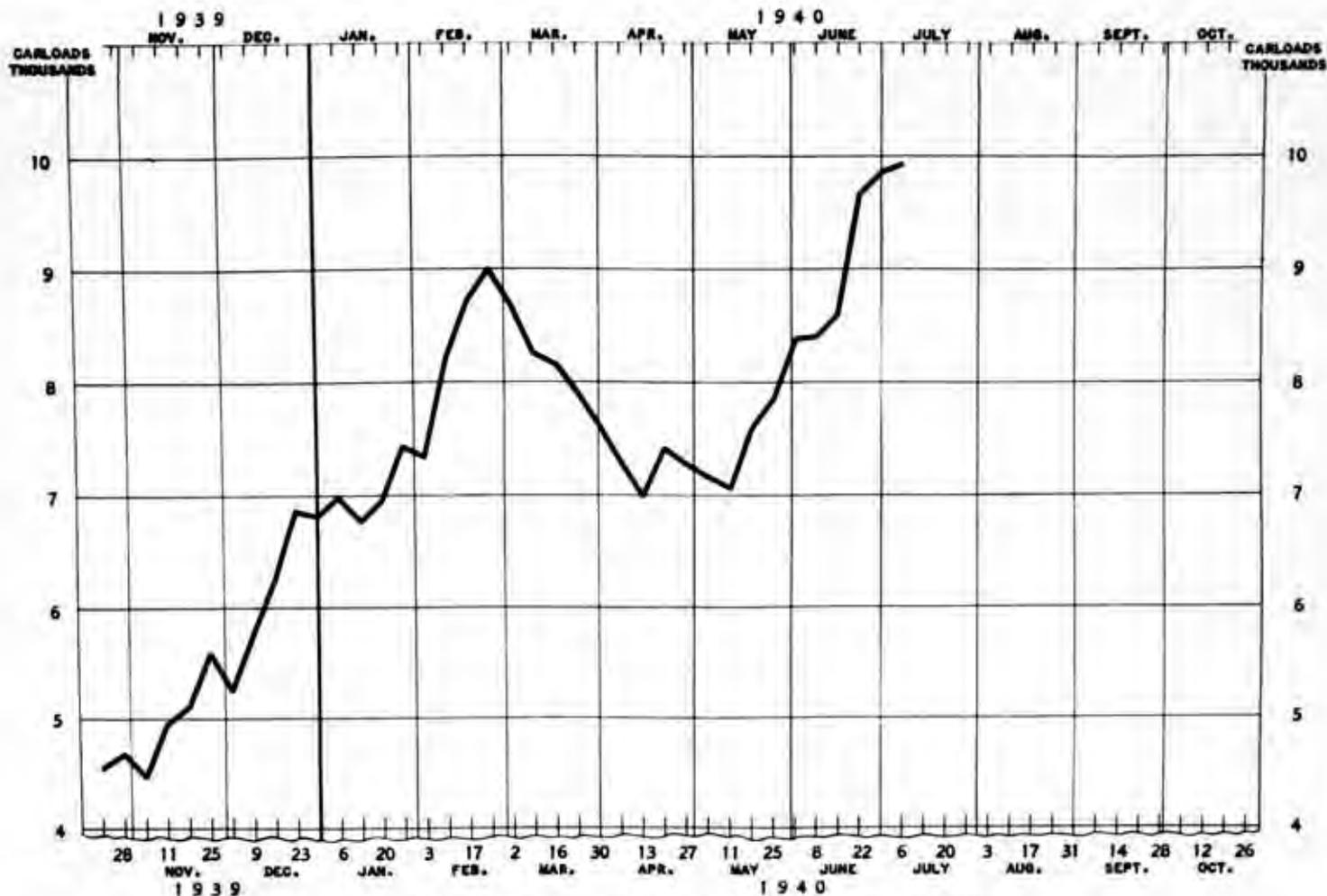
Office of the Secretary of the Treasury
Division of Research and Statistics

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Chart 2

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LIGHTERAGE FREIGHT IN STORAGE
AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



*LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE BARRIN.

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

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Regraded Unclassified

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