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TREASURY DEPARTMENT

1

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

By telephone yesterday noon Mr. Knoke mentioned confidentially to me a circular letter which had come to the attention of the Federal Reserve Bank at New York. This was a mimeographed letter addressed by the New Haven office of the F. B. I. to all commercial banks in Connecticut. The communication pointed out the desire of the F. B. I. in the interest of national defense, to receive reports upon accounts held with the banks by Italian, Russian, Japanese, German and French Governments, or nationals of those countries having definite political leanings. The letter was signed by Mr. McGuire, Special Agent in Charge of the F. B. I., with offices at 510 Trust Company Building, New Haven. Knoke was worried lest a communication of this sort might become public and cause embarrassment. It was my understanding that President Harrison of the Federal Reserve Bank at New York would take this matter up directly with Secretary Morgenthau.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:30 yesterday noon Mr. Page telephoned me from the Department of State. He informed me that Under Secretary Welles was to receive Soviet Ambassador Oumansky at 4:30 yesterday afternoon. Mr. Welles had asked Page to have in form the contemplated exchange of notes between the State Department and the Russian Embassy dealing with the question of importation of gold and silver from Russia to the United States. Mr. Page had received from Mr. Welles a sheet of paper whereon had been typed a formula of assurances which might be given the Ambassador in the premises. Mr. Page did not know how to use this in the draft communication, which had been submitted to the Treasury Department some weeks ago, and which the Treasury had modified slightly and I had returned to the State Department through Mr. Livesey under cover of a memorandum dated September 11. It was decided that this matter could best be settled if Mr. Page came to the Treasury Department.

Mr. Page arrived at my office at 1:00 and Mr. Bernstein joined us at my suggestion. We worked out two alternative alterations to the draft above mentioned and Mr. Page returned to the Department of State taking these with him, with the understanding that he would check back with the Treasury Department between three and four o'clock to learn which the Treasury favored.

At three o'clock I recounted the foregoing to the Secretary. He let me know that the typed sheet to which Mr. Page referred was one prepared in his office, after he had taken down in his own hand the exact phraseology which Ambassador Oumansky suggested. Consequently the Secretary was agreeable to the first of the two alternative drafts, which utilized the phraseology in question.

Upon returning to my office I told Messrs. Foley and Bernstein of the discussion which I had just had with the Secretary. I thereupon telephoned Mr. Page and told him that it was agreeable to the Secretary of the Treasury that the letter to the Soviet Ambassador contain the first of the alternative drafts. As a matter of record, there is attached hereto a copy of this complete and revised draft, as approved by the Treasury.



DRAFT OF AMERICAN REPLY

Sir:

The receipt is acknowledged of your note of 1940, in which you state that the Government of the Union of Soviet Socialist Republics would appreciate certain assurances from the Government of the United States relating to the purchase of Soviet gold in the United States.

In announcements of January 31 and February 1, 1934, the Secretary of the Treasury stated that, until further notice, the United States would buy gold imported from abroad at the rate of \$35 per fine troy ounce, less the usual mint charges and less one-fourth of one percent, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934. Such gold purchases have been made continuously thereafter and without discrimination.

The foregoing continues to be the policy of the Government of the United States and assurances are given to the Government of the U.S.S.R. that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In talking by telephone with Mr. Knoke of the Federal Reserve Bank of New York on the afternoon of October 23, the question came up as to possible means of gold being shipped into the United States which the Germans might have taken in the areas which they have invaded. One possibility would be to work through the Central Bank of Portugal, which is now making some few shipments to the United States by direct steamers. A second method would be to let the State Bank of Russia ship the gold by rail to Vladivostok and thence by steamer to San Francisco. The Soviets are now selling to our Mint in San Francisco some gold which they shipped from Vladivostok directly, and some shipped via Japan. A third, but perhaps remote possibility, would be for the Germans to send gold from Dakar to Natal, Brazil, by air, and thence to New York as South American gold, either directly from Rio de Janeiro, or via Buenos Aires. A recent Bank of England visitor to the Federal Reserve Bank estimated at \$200,000,000 the amount of gold which the Germans may have captured in the countries which they have invaded..



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 3:00 yesterday afternoon the Secretary received Mr. Jay Crane, Treasurer of the Standard Oil Company of New Jersey. Messrs. White and Cochran were present. Mr. Crane had telephoned the Secretary the preceding evening about an important matter, and had now come down, under instructions of his Board of Directors, to familiarize the Secretary of the Treasury with the full details of the proposal, as far as it has developed. The Secretary's stenotypist took down the conversation. To summarize, the Standard Oil Company of New Jersey has been approached through a representative of the I. G. Farben, in Switzerland, as to whether the Standard would be willing to sell, against dollars, its oil wells in Hungary. Mr. Crane stated that the Deutsche Bank had sounded the company out on such a proposition earlier, but nothing had come of it. It was Crane's belief that the Farben people would probably be making the purchase in behalf of the German Government. Crane explained to us that the wells of his company are the principal, if not the only, oil producers in Hungary and that the present output thereof is around 300,000 tons per annum. The development of this field has been conservative and scientific to date, but production could be increased rather quickly to perhaps around 1,000,000 tons per year. Considering the important investments which the Standard Oil Company now has in Europe, and the danger of loss therefrom, Crane thought this might be a welcome opportunity to his company to get out of one of its investments safely. Consequently this matter ought to be considered carefully and quickly by the Directors. After the Rumanian experience, the Standard Oil people would naturally prefer to sell their Hungarian wells for cash rather than see the Germans come in and take them over. No figure has been mentioned yet by the Standard Oil Company to the I. G. Farben, but Crane thinks the Standard would ask \$30,000,000 for the property. In answer to the Secretary's inquiry, Mr. Crane stated that he had come directly to Secretary Morgenthau with this information, and had not taken it to the State Department. He welcomed, however, the idea of the Treasury informing the Department of State in the premises, if Secretary Morgenthau thought this should be done. The Secretary endeavored to reach Mr. Atherton of the Department of State by telephone while Mr. Crane was present, but did not succeed.

In accordance with the agreement reached by the Secretary and Mr. Crane, I spoke with Mr. Atherton at 4:45 yesterday evening and summarized the above conversation. I added that the Secretary had quite secretly let Mr. Purvis know the preceding evening that something of this sort was proposed. Mr. Atherton appreciated our informing him. I told him that the Secretary had told Crane to go ahead with his exploration of the proposal and that Crane had promised to keep us informed of developments.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Stopford of the British Embassy called on me last night at 6:00. He showed me the pencilled true reading of a cablegram which he had just received from the Ministry of Economic Warfare at London, which he was instructed to burn after reading. This message stated that on October 6 the Italian Institute for Foreign Exchange had told Podesta (the representative of the Institute and of the Bank of Italy in New York) that between October 10 and 15 the Yokohama Specie Bank would put \$4,000,000 at his disposal for investment. Our record of transactions reported to us by the Federal Reserve Bank at New York does not yet reveal such an operation as that above described.



LAR

PLAIN

Athens

Dated October 25, 1940

Rec'd 6:35 a.m., 27th.

Secretary of State,
Washington.

261, October 25th.

To permit acquisition of urgently needed shipment of 4500 tons Rumanian coal by Greece it would be appreciated if Department could facilitate issuance of license by Treasury authorizing Guaranty Trust Company, New York, to refund to National Bank of Greece forty one thousand one hundred dollars paid by Greek importers to credit of Banca Roumaneasca, Bucharest, with Guaranty Trust about October 7 and subsequently refunded to Guaranty by Bucharest Bank. Understand Guaranty has made necessary application.

MacVEAGH

WVO

LAR

GRAY

Bucharest

Dated October 25, 1940

Rec'd 8:49 a.m., 26th.

Secretary of State,
Washington.

661, October 25, 6 p.m.

The following statistics taken from official Rumanian sources may be of interest to the Treasury in connection with applications for licenses involving cotton imports into Rumania.

During the five year period 1934-1938 average annual imports into Rumania of cotton in all stages of manufacture including raw cotton, cotton yarn and finished cotton goods was 36,620 metric tons. Including the small domestic production during the same period estimated total consumption would average 36,900 per annum for the period. In 1939 imports of raw cotton were 13,328 tons of cotton yarn 15,537 of finished goods 818 domestic production 1,051 total available for consumption in 1939 30,554 or about 7,000 tons short of estimated normal requirements.

For the period January through August 1940 Rumanian imports were: raw cotton, 12,223; yarn, 5,022; finished goods, 7,039; estimated domestic crop for 1940, 3,975 tons. Total known thus far to be available for 1940, 21,959 or a deficit of about 15,000 tons in

addition

IAR-2- 661, October 25, 6 p.m. from Bucharest.

addition to deficit of previous year.

Customs figures show no reexport; imports during September and October believed to be negligible though not yet published. In estimating future requirements rough allowances should be made for loss of textile mills and of population in the ceded area.

GUNTHER

KLP

GROUP MEETING

October 25, 1940
9:30 a.m.

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

H.M.Jr: How are you?

Viner: Fair.

H.M.Jr: That is right, Bell said he needed you today, didn't he?

Bell: I will put him to work.

H.M.Jr: This - where is White?

Bell, supposing you take this and bring it up with White. I know that some of these agencies are bringing in copper with a four cent duty. If we buy it for stock piles, certainly the President could --

Bell: Make an exception?

H.M.Jr: I should think so.

Bell: It should be that way.

H.M.Jr: I know what they are thinking of. They are thinking of buying some copper from Chile. It ought to help them out also to keep the price of copper from going up.

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- Bell: That would be as a strategic material?
- H.M.Jr: Right. It seems stupid to pay a four cent tax.
- Bell: In one pocket and out of the other.
- Cochran: What is the difference?
- H.M.Jr: It will make it easier for them to buy this copper, and according to Stettinius' announcement, they need it. There are three or four things that there is a shortage of. It is an inflationary trend.
- Viner: You pay the four cents to yourself --
- H.M.Jr: Don't you think these fellows buying it would feel lots better if they were buying at four cents less cost? You don't think so?
- Viner: They are buying it for you at your price.
- Bell: It would save the appropriation.
- H.M.Jr: Surely Jesse Jones would feel better about buying it for four cents less. He has to buy it. Well, it would come in the whole picture, wouldn't it, Jake?
- Viner: The only thing I see there is that the appropriation would be used up.
- Gaston: The Office of Naval Intelligence asked us to look into a contract signed by a corporation called something like the Pan-Pacific Export Company to export several thousand tons of petroleum to Japan. An export license has already been granted by the Division of Export Controls of the State Department.
- In a preliminary investigation by Customs agents, they find that one of the incorporators

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is a former bootlegger and narcotic violator and the rumor is that the license filed for non-aviation gasoline - that it was gasoline to be exported, while the license doesn't permit it to be aviation gasoline, is actually to be so close to the limit that it will amount to the same thing, and the reason I tell you is that the White House has heard about it and is quite interested in it.

- H.M.Jr: Well, let them do it, Herbert. The last time I did it I got nowhere.
- Gaston: There is nothing to be done. I just wanted to let you know about it. We are working on it and getting the information.
- H.M.Jr: When the White House gets ready, that they want to stop aviation gasoline going to Japan, we are ready to act, but I am not going to waste my time.
- Gaston: I just wanted to tell you what we are doing. We are going to take samples of every barrel of that stuff that goes out and see that it doesn't go over the line.
- H.M.Jr: All right. You work yourself up into a lather, and then the State Department says, "Let the damn stuff go." If you want to go through the motions, it is all right.
- Gaston: There is a legitimate thing that we have to do there. We are doing something else at the request of Naval Intelligence; that is, we are getting some information which we wouldn't normally - we would expect somebody else to get. That is, we are looking into the incorporators, and so on.
- H.M.Jr: Nelson Rockefeller is doing some intelligence work in South America. He is sending you

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a copy of what he is doing. He has kept it very hush-hush. When it comes, I would like to see it. I told him to send it to you, everything on intelligence stuff.

Gaston:

Yes.

There are a couple of political matters I would like to talk to you about.

H.M.Jr:

Stay behind.

Foley:

We have received a settlement check in the Darryl Zanuck case.

H.M.Jr:

Anything else?

Foley:

No.

Sullivan:

I have one thing I wanted to see you about.

Cochran:

You mentioned Rockefeller. Did you see the memorandum which I wrote on Ravinsky's visit?

H.M.Jr:

And I spoke to Rockefeller like a Dutch uncle and said I would much rather have him with his enthusiasm running over like a steam roller - that we might have to be kicking him urgently to do something, but if he wanted something out of the British Treasury, would he in the future please either have Ravinsky ask you or White to take it up with the British Embassy. He appreciated it very much and felt very badly about it, and so forth and so on, but I was nice about it and he was nice about it. If they want something, please to take it up with us. Especially, if it is my idea. I didn't say that, but he simply said he was - it was the only good suggestion anybody had made to him, that they were crazy about it and they wanted to go to town on it, but I

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did take it up with him at lunch yesterday, and I think you will find that in the future he will consult either you or White.

Bell: They have heard, haven't they, it wasn't a new suggestion as far as the British were concerned?

H.M.Jr: I told the British about it.

Bell: That is what I thought.

H.M.Jr: And the British asked me could they send somebody in to sit in when the Argentinians were here, and I said yes, so they are having somebody here at the same time. After all, it is their securities. I took it up with them. Isn't that about the way it happened?

Cochran: Yes.

H.M.Jr: Then I mentioned to Rockefeller the sort of thing that could be done and he just put Ravinsky on it. It is all right. As I say, I told him all power to him. He can run over me a couple of times if he wants to try to get something done, and I told him that. I don't mind being run over as long as a fellow is doing it in the right direction, which he is. He liked it and felt badly. White says, "You know, you can do those things in business, but you can't do them down here."

I will see you (Viner) sometime this morning.

Pehle: We have been checking into the property held at the World's Fair by the various governments whose funds are frozen here, and seeing what steps we could take to see that that property - the French, for instance, have almost three million dollars worth of property there - see that it wasn't sold to raise

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foreign exchange for Germany, and we think that much of it we can control through one device or another. It has been discussed with Mr. Foley, and I think they want to send someone down in New York to look over the situation, coordinate it with Customs.

A bunch of the property is held under bond.

H.M.Jr: Does that mean that Foley has got to take in the World's Fair?

Bell: Tomorrow will be too late. Sunday is the last day.

Sullivan: Just under the wire.

Pehle: If it is all right, we will go ahead on that.

H.M.Jr: What do you mean, this "we" stuff? Are you all going down? (Laughter)

Pehle: I think they intend to send one lawyer down and someone from the New York Fed who will handle the administrative end.

H.M.Jr: Okay.

Thompson: Speaking of the World's Fair, Mr. Secretary, we are bringing back these fiscal exhibits. Most of them will be put on display at the Bureau of Engraving.

H.M.Jr: Good. What else?

Pehle: That is all.

Young: Would you like to send Rockefeller a summary of our South American operations on aircraft and war supplies?

H.M.Jr: Good.

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Young: I have a copy of this table you inquired about this morning. I put a few penciled notations on it to verify some of the types. The little sheet is the engines and the big sheet is planes.

H.M.Jr: Oh, this will be the engine order?

Young: Yes. They are comparable tables.

Finland wants to buy 400 tons of 87 octane aviation gasoline as a replacement order for a shipment they made last spring which was torpedoed. They were in yesterday on that.

H.M.Jr: Write a letter for my signature to Mr. Hull and that will take care of that. You see, you write that letter to Mr. Hull and that takes care of that. It reads perfectly all right.

What else?

Young: That is all.

H.M.Jr: George?

Haas: I have nothing this morning.

H.M.Jr: This just shows - I just picked it up. It shows Mr. Willkie is so worried about the future of the United States Government paying their securities that he invested 21 million dollars of his own company's money in U. S. securities.

Foley: That must have been on a hope.

Sullivan: Isn't that a public record through the SEC?

H.M.Jr: Is it a public record?

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Sullivan: Through the SEC?

H.M.Jr: Well, this is a public record. This is the Treasury Department.

Sullivan: Well, I was just wondering about using it. I would rather use it from some other public record.

H.M.Jr: Well, it is for use. I am sending it over to the White House for the President to use. I mean, his consolidated companies had that much confidence in the Government.

Foley: Dan asked me if I needed advice, and I said none here.

Bell: No, I was asking him if that information came from the income tax returns.

H.M.Jr: Oh, no.

Haas: That is a published balance sheet, isn't it?

H.M.Jr: Yes.

Schwarz: There is a story that just came through on the ticker of another large shipment of gold from Russia to the West Coast that might revive some editorials. I would do nothing about them.

H.M.Jr: All gold looks alike to me.

Schwarz: That is all.

H.M.Jr: Also, all that glitters is not gold.

Harold, how are you getting along with that personnel investigation?

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Graves: Why, we are practically finished, Mr. Morgenthau. Our estimates are on the verge of going to the Bureau of the Budget and as submitted to Mr. Thompson, some substantial decreases will be made in the estimate. Mr. Thompson and I have carefully canvassed that whole situation and our conclusion was to eliminate all increases from the budget for this division of personnel and put it on a somewhat more restricted scope.

H.M.Jr: Well, until I get the whole picture, I wouldn't know whether I agreed with you or not.

Graves: But I think we are all straight on that. I am having --

H.M.Jr: When you are ready, will you let me know?

Graves: I am having an investigator contact all the Bureaus as you suggested, to find out.

H.M.Jr: In the Treasury?

Graves: In the Treasury.

H.M.Jr: Good.

Graves: And also, of course, we have the usual Irey investigations in the department of all the key men.

H.M.Jr: Well, as soon as you are ready.

Graves: Yes.

H.M.Jr: Okay.

Bell?

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Bell: There was a report last night indicating we had about a million four of the hundred million dollar order. We will probably get in the mail enough to bring it up around two or better.

H.M.Jr: Will you see that Schwarz gets a release on it?

Bell: Monday we will have the lot of it.

H.M.Jr: Yes. Anything else?

Bell: That is all I have.

H.M.Jr: Norman?

Thompson: I have nothing this morning.

H.M.Jr: Okay.

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 1 p.m., October 28, 1940.)

Telegram from London dated 25th October 1940.

The following summarizes our negotiations with the Argentine Government up to the present.

We informed the Argentine Government that probable value of imports which we need and can ship during the second year of the war will not exceed £30 million, but offered to increase the purchases up to total of £40 million and if necessary leave part of our purchases unshipped on following conditions:-

- (1) We should no longer set aside physical gold in respect of surplus sterling though we would continue to give guarantee of gold value of such sterling (? not) used to purchase Argentine sterling securities.
- (2) We are asking for some concessions on rates of exchange.
- (3) We asked that for time being the Argentine Government would not ask us to earmark the sum of one and a half million pounds for service of public external debt payable to countries other than to the United Kingdom.

The Argentine Government are prepared to accept these proposals only if we increase our purchases to a level of £40 million a year. Discussions on this are continuing.

Meanwhile the Argentine Government Finance Minister has expressed his willingness to consider forthwith a modification of a plan made in 1938 under which a new Argentine Corporation would be set up for gradual transference of ownership of Argentine railways from existing bond and shareholders to Argentine Government. We would welcome such a scheme. These negotiations may take some time as any settle-

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ment will require Argentine legislation. This might fit in with Secretary of the Treasury's ideas indicated in your cable which we would of course welcome.

(1) G.H.S.P.

BRITISH EMBASSY,

28th October 1940.

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October 25, 1940
9:53 a.m.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good morning, Henry.

H.M.Jr: Hello, Arthur. Two things. If you're going to want to see me today you had better speak early - I'm practically booked up now.

P: Are you? Well, now, there is - there are one or two things that it might be wise - they're not absolutely essential but I think just to keep contact on the progress of things it might be wise if you can possibly squeeze it in.

H.M.Jr: Well, I can do it about a quarter of 12.

P: I'll be there.

H.M.Jr: Now, I've organized a meeting for Tuesday - Army and Navy and Defense and R.F.C. to talk over this air plant program financing and anything else that has to do with financing.

P: Oh, good. That's Army, Navy, Defense and R.F.C.

H.M.Jr: Right.

P: Excellent. I'm very glad to hear that.

H.M.Jr: I'll let you know the time and I think you ought to be in the building on call, you see.

P: Yes, exactly, as before. We'll do that with the greatest pleasure with anybody that you think should be there.

H.M.Jr: Now, Phil Young is going to work up the agenda. See.

P: Good. Well, in that case I shall be here Monday with a view to - I shall probably

- 2 -

go up this evening and be here Monday again with a view to going over it with him.

H.M.Jr: Well, you could ask him what time it is. You may not have to get here until Tuesday, I don't know.

P: Oh, I see. All right.

H.M.Jr: But I thought we'd tie it all up and

P: Oh, I think that's simply excellent. I'm delighted.

H.M.Jr: Besides Knudsen, I'm going to ask Stettinius and Nelson because - well, they seem to be a little bit more enthusiastic.

P: Yes. Yes, exactly.

H.M.Jr: So I think they'll pep it up a little bit.

P: You know I became a little aware - well, I'll mention that a quarter of 12 - there's one point I wanted to mention to you. But, one other thing - is there anything else before I give you one?

H.M.Jr: Yes, there's one thing. You know, Arthur, I asked about oh, a week or so or ten days ago, just as soon as England gets those P-40's in the air

P: Exactly.

H.M.Jr: I'm sitting here with my tongue hanging out waiting to hear the result.

P: For a report.

H.M.Jr: Yes.

P: Well, I've already taken that up - I'll check today exactly where it stands.

H.M.Jr: Well, when you talk to Salter again, won't you tell it to him on the phone?

P: I will.

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H.M.Jr: See. They must have some in the air by now.

P: Yes. I'll try and speed that up.

H.M.Jr: Right.

P: May I say one thing then?

H.M.Jr: Please.

P: In regard to those two cables last night - I realized that I left with you - I don't know whether you've had time to glance at them

H.M.Jr: Well, I read the one.

P: Well, now, what I wanted was this - as they are documents that I shouldn't really put out, I wonder if once you've read them once if I left with you when I see you a 2-page resume which would be something that would be all right to leave and take these back, would that be all right.

H.M.Jr: Oh, sure.

P: It gives a little more - if they are read once, it gives a little more background, I think, and I'll leave you a little brief.

H.M.Jr: That gives me time to have them photostated.

P: Thank you very much.

H.M.Jr: Did you hear what I said.

P: Yes, I heard that but - (laughs) - I'm safe, I think. I'm safe.

H.M.Jr: (Laughs). I thought I'd try to get a laugh out of you.

P: Make it very careful will you now. I think I've exceeded my - I think I went a little far in putting those on the table, do you see?

H.M.Jr: Oh, really?

P: Well, I mean, they belong in - it would be all right

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H.M.Jr: I was - if you haven't had your breakfast
yet I won't pick on you.

P: (Laughs).

H.M.Jr: All right. All right.

P: All right. Thank you very much.

October 25, 1940
10:41 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello, Arthur.

Arthur
Purvis: Yes, Henry.

H.M.Jr: I have Commander Stevens here of the Navy who is just back from England and I wondered if you knew now who was coming over representing Air Marshal Portal.

P: We know one name and are expecting to hear at any moment another. One name is Slesser.

H.M.Jr: Slesser?

P: Yes, Commodore Slesser - Jack Slesser, I think it is, a man who knows, I understand, the game through and through in one way that we want, and there is a possibility of another man coming through within - we sent off a further cable last night making some suggestions. Self and Monnet and I, as a matter of fact, have tried to think up other people and then we sent a cable giving the type that could be added to give a sort of facade, if you like, or face to it which would be a little better.

H.M.Jr: Well, Commander Stevens says that none could be better than Slesser.

P: Oh, good! Well, we regard him as the man who would bring all the actual stuff, but there is just the possibility that a ranking - a higher rank man with him, in view of the fact that his rank is the same as two men we have over here already, would be helpful. So that discussion was that he might be - whereas he'd be the man who would really bring the goods, we might have another sort of on the Air Marshal status.

H.M.Jr: You don't know who the other person is so that I could ask him

- 2 -

P: What's that?

H.M.Jr: Who are you thinking of?

P: Well, one man that we had thought of - if they could send him - was Hugh Baer, who has done so well on his broadcasts and that kind of thing. You see? To dignify.

H.M.Jr: Well, he says he's one of the best also.

P: Well, I don't know whether we can get him but that's the way - I'm glad to hear him say that, but I'm sure we are at the right people because Self, who knows them all, personally went over them name by name.

H.M.Jr: He says if you got Hugh Baer and this other man you would be getting the cream.

P: That's it. That's what we're after because we're taking it that when you asked for this it was a serious matter.

H.M.Jr: Yeah, he said you would be getting the cream, but I thought it was worth checking because he's just back, you see.

P: Yes, exactly.

H.M.Jr: All right.

P: Splendid.

H.M.Jr: Thank you.

October 25, 1940
11:46 a.m.

H.M.Jr: Hello.

Henry L.
Stimson: Hello. I was just starting to the White House when your first call came for me. Your papers came in in which you asked for an immediate consultation.

H.M.Jr: Yeah.

S: Well, I have just - since I got back I've been trying to master this new paper. It means a very considerable change I should say and increase and as usual mainly at the expense of the Army.

H.M.Jr: Well, I haven't gone into it far enough - we started with Knudsen - I don't know whether that was the right place to start or not.

S: You see, my recollection is pretty old and stale, but I was present that day when Purvis sprung his rabbit out of a bag and proposed this new, as I understood, a new additional program on top of ours, behind it.

H.M.Jr: That's right - on top of it.

S: Well, it was not to come until

H.M.Jr: You people got yours.

S: we had gotten ours.

H.M.Jr: That's right.

S: Then he says that Knudsen changed that to the extent of 1230, which I didn't know about somehow or other, which seems to have been an entering wedge into - getting into our program, and now he proposes some increases. The camel having got his nose under the tent inside he's beginning to get his neck in.

H.M.Jr: (Laughs). Well, here's the suggestion that I'm making, if it's agreeable to you: that

- 2 -

you and Knox and Knudsen and I get together Tuesday morning

- S: Well, the trouble is I've got a date that morning at 9:30 with Knox already.
- H.M.Jr: Oh.
- S: Now, it may take an hour - it may not take quite so long.
- H.M.Jr: Well, would you rather do it in the afternoon?
- S: Let's see. I don't think I have anything in the afternoon, but I'd much rather not do it - if we could get - no, at 12 o'clock I have to draw the button don't you know on the draft. Tuesday is an awful full day.
- H.M.Jr: Well, do you want to do
- S: I don't know how long that performance takes - someone told me it was a luncheon (which I hated).
- H.M.Jr: How about 3 o'clock in the afternoon?
- S: Well, I have a date - that would come right after 3 but it's
- H.M.Jr: Would you rather do it the first
- S: How about Monday?
- H.M.Jr: I hope not to be here Monday.
- S: Well, good for you.
- H.M.Jr: How about the first thing Wednesday morning?
- S: Well, Wednesday morning I had another date, in fact, next week is pretty full. I was going down to Langley Field Wednesday.
- H.M.Jr: Well, can't we work it Tuesday somehow?
- S: Well, Tuesday afternoon is the only time, but I hate to do that Tuesday afternoon. I can come very shortly after 3 o'clock.

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H.M.Jr: But you don't like it.

S: Well, I mean, I'm not on my toes for it.

H.M.Jr: This thing with Knox couldn't be shifted to Monday, could it?

S: I don't think so very easily. It's rather an important conference.

H.M.Jr: Oh.

S: I don't know, I can see. Perhaps I can do that but I

H.M.Jr: The trouble is Knudsen won't be ready until Monday. He said he isn't going to be ready as I understand it.

S: Well, what in general does this thing do to our own program.

H.M.Jr: I don't know that it does anything, but I wouldn't

S: Well, I, myself, can see it does something - very serious things.

H.M.Jr: Well, I don't want to

S: And I'll have to get the people who know more about Army matters to look at it.

H.M.Jr: Will the one with Knox last more than a half an hour?

S: No, I don't think so. I'll see if I can shift that. You see, the trouble is I'm right behind that - is this drawing at 12.

H.M.Jr: Well, supposing we set 10:30 Tuesday.

S: Well, I can get there then all right, but you see, what I mean is, where is the Interdepartmental Auditorium - the Labor Building.

H.M.Jr: Well, that's in the Labor Building, and from here it's about - not to exceed five minutes, if that, from the Treasury.

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S: Well, I've got to be there promptly, you know, because I suppose that's a ceremony - the President is going to make a speech and

H.M.Jr: I know. Well, if we had an hour that would give you half an hour to get over there.

S: Well, I can get to you I think by 10:30 but I'm worried about putting that in - I don't - that gives me no time at my desk, absolutely, which has a great deal going over it that I have to handle nowadays.

H.M.Jr: Well, you don't want to do it - you'd rather

S: I'd rather - let me see first whether I can shift this other damn thing.

H.M.Jr: Well, will you tell me at Cabinet?

S: And in that case, I'll tell you at Cabinet.

H.M.Jr: Right, and I'll do nothing until I hear from you at Cabinet.

S: All right.

H.M.Jr: Thank you.

S: Good-bye.

RE BRITISH PURCHASING PROGRAM

October 25, 1940
12:00 Noon

Present: Mr. Purvis
Mr. Young
Mrs Klotz

H.M.Jr: Have you met Commander Stephens?

Purvis: No, I haven't met him.

H.M.Jr: You ought to ask to meet him. Phil, maybe you can arrange that. Forrestal said twice to see him. It is Commander Stephens, U. S. Navy.

Well, I told them what was happening, these people - he was most enthusiastic. He said it is just what should be done. I asked him how these things happened, these orders come, and he said they originate from these people and then go up through to the War Cabinet, where most likely Beaverbrook dominates everything.

Purvis: Yes.

H.M.Jr: But he says these people would be a tremendous help.

Purvis: Well, I am very glad.

H.M.Jr: And the thing which I didn't know, and this won't take a minute, it seems that they are again having about eight or ten experimental planes, to make sure that the Germans don't get the jump on them, in England. For a while Beaverbrook stopped all that. He said it only lasted a while and he saw he had made a mistake, so he went back to it again. These men who are coming over will be entirely familiar with the most advanced experimental work in England.

Purvis: The very point you asked for.

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- H.M.Jr: You see, and the things, for instance, that they know, that when they get each one of these German planes that come down, a good one, then they fly it, so they know the good and the bad points of it. I didn't know that the English have - they have kept it quiet - several squadrons of the two-engine fighter, Bristol something.
- Purvis: Not the Bolton Defiant?
- H.M.Jr: No, a two-engine fighter. Then the other thing, I asked him about what was the best dive bomber, because you have on your list the Brewster with which we are having so much trouble. So he said there are only two dive bombers, both of which are still on the drawing boards. One is Curtiss and the other is Brewster. As they stand today, Curtiss has a little bit the edge and there is no comparison between them.
- Purvis: None at all.
- H.M.Jr: I think both of you should arrange to have Stephens for lunch.
- Purvis: We might get one or two of the Air people there.
- H.M.Jr: Definitely. Forrestal had him out to his house for supper, and Knox was there. But the more I talk to him, the more I am convinced that these men that are coming are just what you need at this time, just what you need.
- Purvis: Yes. Well, I think it was an excellent idea. It emanated from this room.
- H.M.Jr: Listening to a man like Stephens --

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- Purvis: Yes, and I am glad we told them not to wait.
- H.M.Jr: One other thing. I just talked to old Stimson. For ten minutes he argued with me yesterday why he couldn't have this meeting on Tuesday or Wednesday, and he is talking about Monday, and I said well, I didn't think I would be here Monday, but anyway that Knudsen wouldn't be ready Monday, but if it is Monday, I will come back. I will give up what I am going to do. I will come back.
- Purvis: It is terribly important, I agree.
- H.M.Jr: But he has a spot at 9:30 Tuesday morning which he is going to have a meeting with Knox in, and well, he didn't want to shift it. After lunch was this and that and the other thing, but I kept at him, didn't I?
- Klotz: Oh, my.
- H.M.Jr: So be sure and ask me when I come back from Cabinet. I suggested 10:30 Tuesday.
- Purvis: Which would give Knudsen the time.
- H.M.Jr: Tuesday would be perfect, but I am willing to come down. I can come down and go back up again. I am trying to play hooky to hear the President speak Monday night.
- All right, now that is about - about all I have done so far.
- Young: You will let me know after Cabinet?
- H.M.Jr: Mrs. Klotz will.
- Klotz: Do you think you will be able to fly?

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- H.M.Jr: I haven't paid much attention.
- Klotz: It is raining.
- Purvis: It has clouded over since I came down.
- H.M.Jr: Now, how is friend Morris Wilson?
- Purvis: I had quite a talk with him last night and I think it has been excellent. I think - I tell you where I noticed it. I noticed it in the attitude of Self and Fairey, too, though Fairey, of course, I have always gotten along very well with, but I think I notice a different point of view.
- H.M.Jr: Oh, really?
- Purvis: And I think it is a realization, otherwise, which perhaps goes down to the point of really trying hard to establish a unity that will be worth while, so I think it is good. Every reaction I have had in the last 18 hours has been very good.
- H.M.Jr: I wasn't too --
- Purvis: Oh, no.
- H.M.Jr: There was no dregs in the cup?
- Purvis: Frankly, I don't think anything less or anything more was needed.
- H.M.Jr: There were no dregs?
- Purvis: No, I think we are all right, now.
- H.M.Jr: I did it very quietly, as I told you. Don't you think it has been good?
- Purvis: Oh, I think it has been good.

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- H.M.Jr: And did they find out who put the story in the paper?
- Purvis: He tells me he found out, and it reminds me very much about the story I told you about the man who regretted that the paper carried the story because he had told the reporter that it was confidential.
- H.M.Jr: Yes.
- Purvis: Well, the explanation is that Morris Wilson's man, A. J. Taylor, who was fixing up the offices down here, received the correspondence at the offices and told him the story in strict confidence, and therefore it is --
- H.M.Jr: It doesn't help matters any.
- Purvis: It simply doesn't challenge the question.
- H.M.Jr: Well, it was in their mind.
- Purvis: But that was the only explanation.
- H.M.Jr: Well --
- Purvis: So I think the thing was extremely valuable.
- H.M.Jr: Good.
- Purvis: And I will do everything I can now to utilize this opportunity to bring about something of worth.
- H.M.Jr: So far, I have done all the talking.
- Purvis: P-40's, I mentioned that. Tuesday meeting, we have mentioned that. The discussions that have been going on with regard to types of equipment, the ordnance end, I thought I ought to tell you the situation as it exists

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today. I have no doubt you know it in general, but briefly put, it is this. Arising out of these discussions, General Lewis and Vance suggested that one way to bridge the difficulties of the situation would be if the British placed orders for U. S. types with an understanding that - I mean, this is apart from any orders they have placed for British types. It might ease the situation in regard to their ability to place orders for British types if they placed orders for American types equal - with the same factories that the American program is placed with, developing those facilities to the very fullest extent.

H.M.Jr: You wouldn't place twice as much?

Purvis: No, no, but equivalent to ten divisions, equipment for ten divisions.

H.M.Jr: I see.

Purvis: And that equipment would then be available to the British and they would place that as a separate - you might say almost expeditionary force, based on Canada, with the equipment not filtering to England and into the machine and gumming up, therefore, types there, but be looked upon as an entirely separate ten divisional basis.

H.M.Jr: That is really a novel idea.

Purvis: It is novel, and I think - my only regret was that it emanated from the American and not from the British end, because I think we might have thought it up. On the other hand, it involves, as I understand it from the Army people - and this, I understand, has since been confirmed with Secretary Stimson yesterday and with Marshall - the

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advantage from the American view is that it blows up the amount of output of U. S. types to a very respectable degree. If, for instance, anything happened by chance that you needed that equipment, it adds that to whatever you are planning today, we being the vehicle for producing it in the meantime and placing the orders and undertaking the commitment, so that it has an advantage and an obvious advantage to us, because irrespective of whether that equipment is ultimately used for an expeditionary force, an additional expeditionary force, or in the possible event of war coming to this country, it being used for ten more divisions that would otherwise not have been available for this, it obviously is an excellent increase in the total weapons available, so I thought I ought to just - and that is in process and apparently is approved by the War Department.

- H.M.Jr: That is particularly interesting because at this Knudsen-Stettinius-Nelson luncheon I tried out your idea, would they let them have the machine tools in Canada to increase production, and they said no. They said they don't consider it is any different, whether it is in Canada or this country. It is just the same.
- Purvis: Yes. As a production problem, that is true.
- H.M.Jr: I was just telling you. Their immediate reaction was no.
- Purvis: You didn't see much hope there, as a matter of fact?
- H.M.Jr: I see no hope. This was Nelson. He was very emphatic. He can't see any difference between sending machine tools to make the 25-pounders in Canada, and doing it here. This was Nelson,

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very definite, and the way he said it, I don't think you would have a chance to get any changes.

- Purvis: I am glad to get that, because I have mentioned that as a possibility.
- H.M.Jr: But this other thing, you see, is quite different. This is a much better thing.
- Purvis: Exactly. I think it is very good if it can be worked out, and apparently the type of commitment that the War Department are willing to consider in this matter in the next few days would button it up.
- H.M.Jr: Now, what else have you got?
- Purvis: M. W., we have talked about that. There is a question - I am going to send you over something on these two. I want to go over it a little more carefully, so that will come over.
- H.M.Jr: For a moment you didn't laugh this morning. I was worried.
- Purvis: I will tell you, you were nearer true - I had just, as a matter of fact, finished my brief. What happened was, I went to bed last night so tired that I decided I would put no call in, and I slept until ten minutes to nine.
- H.M.Jr: Wonderful.
- Purvis: So I am feeling very much better today. I really needed that.
- H.M.Jr: What is that private telephone number of yours at New York?

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Purvis: Columbus 5-7057.

H.M.Jr: All right.

Purvis: Very good. All right?

Klotz: There was something you (Secretary) wanted to tell him.

H.M.Jr: I did.

Purvis: The original - the question of price of air-planes at Boeing. Have we anything we should --

Young: I spoke of that this morning. There is only one other point I found out since that I didn't mention this morning, which is that Boeing is, according to the air section, forcing the British to sign a contract this Saturday unless they take the original price.

H.M.Jr: Forcing them to do what?

Young: Sign a contract on Saturday on the basis of the original price.

H.M.Jr: How can they force them to do it?

Young: Well, they don't have to, but they say they have to sign it then or stay out of the way.

H.M.Jr: Well.

Young: I wrote you a memorandum on it.

H.M.Jr: I can't do it on the fly. I just don't understand it, and I don't know why they want more planes there. Is that part of the --

Young: Boeing is building the Douglas bomber.

H.M.Jr: I didn't understand that.

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Young: Yes.

H.M.Jr: Do they want more Douglas bombers?

Young: Yes, 140 additional.

H.M.Jr: Can't they get it from Douglas?

Young: Evidently Douglas seems to be full and Boeing is licensed out, and that is where your element of extra cost comes in, royalty to Douglas.

H.M.Jr: I can't do it. You fellows will have to handle that. I haven't got time to assimilate it today.

Purvis: All right. Now, I don't think I have anything more except as I say --

Young: I will give you a memorandum on it in the meantime.

H.M.Jr: All right, but the important memo is on those Siamese planes. How am I going to get that to Cabinet?

Young: You don't go until 2:00 o'clock, do you?

Purvis: I am going.

H.M.Jr: What are the prospects of getting it?

Young: It is on its second draft now.

H.M.Jr: Can you get it into Mrs. Klotz's hands so I will get it?

Young: Yes.

H.M.Jr: That is the ten, eleven.

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Young: Both the ten and the six, treated as a unit.

Purvis: Do you insist on time to read your memoranda before you speak about them?

H.M.Jr: Yes.

October 25, 1940
12:23 p.m.

H.M.Jr: Hello.

Operator: Mr. Patterson.

H.M.Jr: Hello, Henry talking.

Robert
Patterson: Hello, Henry.

H.M.Jr: Are you alone?

P: No, but I can talk to you.

H.M.Jr: Can you?

P: Yeah.

H.M.Jr: Are you in your own office?

P: Yeah.

H.M.Jr: Bob, I'm sort of groping. You know, the English have come through with another big program where they want 9,000 more planes. Well, I sent it all over to Mr. Stimson.

P: I've just been talking to him about it, but I don't know anything about it really.

H.M.Jr: Well, this is what I'm calling you up about - we've sent an awful lot of things over to Mr. Stimson and I wondered if there wasn't some way that you and I could sort of help him - you know?

P: Yeah.

H.M.Jr: I sort of feel that I'm ^{maybe} crowding him with all this English stuff with everything else that he's got.

P: Yeah.

H.M.Jr: And if there is any way of making the load lighter for him - if you had any ideas of anyway of helping him, or anyway I could help him or anyway you could help him

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P: Well, it would be a good thing because he's pretty well confused by it.

H.M.Jr: I know and just because he has so much and this is so important, I don't want it to get an unfavorable reception. Am I being - you understand.

P: Yeah.

H.M.Jr: So if you could think about it and

P: I will. I'll do what I can.

H.M.Jr: Because I'm afraid we've been sending out, first, all that stuff from Layton and then this, but it's all terribly important to them and I think to us.

P: Yeah. I'll do what I can.

H.M.Jr: Thank you.

P: All right. Good-bye.

RE BRITISH PURCHASING PROGRAM

October 25, 1940.
3:45 p.m.Present: Mr. Purvis
Mr. Young
Mrs Klotz

H.M.Jr: Well, I have got good news. I just thought you would like to hear the high spots. At Cabinet, I suggested in view of various remarks that various people had made that it might be well to see in this country if the President would announce himself this program as an accomplished fact, that what the English were proposing to do --

Purvis: Excellent.

H.M.Jr: And he is going to.

Purvis: Oh, I say, that will be simply grand.

H.M.Jr: So old Stimson will have to - we will both have to --

Purvis: That is beautifully done.

Young: That will kill Stimson.

H.M.Jr: It is a good cause.

Klotz: Sure, kill one man and save so many others.

H.M.Jr: Now, here is the thing, I swear. If you don't get this fellow Layton out of town, I am going to phone Churchill to take him out. Well, it seems - Stimson still seems to think that Layton has sent word to Churchill and is waiting to hear about these ten divisions, and all of that.

Purvis: Oh, no. Don't make me suffer. I have looked at the cable.

H.M.Jr: Did he send it?

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- Purvis: I think it has gone. It was to go. I saw it at about 1:00 p.m.
- H.M.Jr: Well, here is the thing I am asking you, on behalf of the President of the United States. I want a cable back from Mr. Churchill on Monday, in Churchill's own language, that the President can announce what the British - what this program is, what the British want.
- Purvis: As to --
- H.M.Jr: As to everything they want to buy.
- Purvis: As to whether this covers everything they want to buy?
- H.M.Jr: No, I want them to start all over again. I want a statement in Churchill's own language - he is a writer - that the President of the United States can use to the "Boston Irish." He said it would be good for them. For you, it is Wednesday night, but I want it Monday morning, because we have got to show it to the whole kit and boodle of them, see, but I want a statement from Churchill covering the whole program that is in this thing here, how many guns and this, that and the other thing, you see, how many airplanes. This is what we want, and the President is going to announce his approval.
- Purvis: It is the basis for the announcement.
- H.M.Jr: Do you see?
- Purvis: Yes.
- Young: Would that be based on a capacity rate or on the total quantity figure?
- H.M.Jr: No, this is the way I envisage it, you see.

- 3 -

I envisage it like this, that the English - this is the way I envisage this thing. I would have had both Layton and Morris Wilson over here on this thing, but I thought a little discipline --

Purvis: It would be good, yes.

H.M.Jr: Right now, so I had just had you, the Director General. Well anyway, this is the way I envisage this thing. If you are a General, you have got to have some privates. (Laughter)

Purvis: At least two.

H.M.Jr: Well, this is the way I envisage this. This fellow Young is such a factual fellow. I envisage this that the additional program that England wants to place are so many bombers, so many fighters, and so many flying boats, and so many this, or they may want to just put it 9,000 additional planes; that I don't know. I don't know how they want it, but maybe they want to break it down. Maybe they want to say so many dive bombers, so many heavy bombers, so many trainers, I don't know, or 9,000, you see, and you have got 11,000. If you want to boost this thing - here, as since October 1, if you want the figure here, it is 11,000.

Purvis: You don't mind if it is high?

H.M.Jr: Not a bit. Do you?

Purvis: Not a bit. (Laughter)

Klotz: Perfect teamwork.

H.M.Jr: Now, the same on engines, and when you come to the same one, for instance - well, I am looking here at guns.

- 4 -

Purvis: Yes. That we must find some way of making it look intelligible --

H.M.Jr: You want to place an order for 1800 field pieces and 10,000 anti-aircraft guns and 12,000 anti-tank guns.

Purvis: We keep out of the type questions in this cable.

H.M.Jr: All right, yes. And then the President will announce that this order is - this is the English, and we have the capacity, and that this order is going to be placed, and so forth and so on.

Now, you (Young) - when it comes, we want everything so it goes over to him in the form of a finished statement.

If you (Purvis) need a writer to help you, pull them in, someone from the William Allen White outfit, or somebody to give a good statement. It ought to come over --

Purvis: Yes. Would you like it addressed by Churchill to the President or to you?

H.M.Jr: No, I want it from the British Government, from you to me.

Purvis: Yes.

H.M.Jr: From the British Government, from you to me for the use of the President of the United States.

Purvis: Yes, all right.

H.M.Jr: No, from the British Government to you for me, to be used by the President of the United States.

- 5 -

Now, I have thought of a way how we are going to --

Young: Is he going to announce the quantities on these things?

H.M.Jr: Well, that is up to the British Government.

Purvis: But he will, if we give him the quantities?

H.M.Jr: Oh yes, sure.

Purvis: We had better not put the 500 "E" boats in that I am still hoping for. We had better leave out anything that is illegal.

H.M.Jr: Oh, yes. (Laughter)

Young: We will do that anyway, but you don't need to put it in the table.

Purvis: Components for.

H.M.Jr: This is the way to sell it and I sold it.

Purvis: This is more liable to do the job of work quickly than anything. It is magnificent.

H.M.Jr: And you and I can both go on our so-called holidays.

Purvis: I am booked on the 9th on the Clipper.

H.M.Jr: I have been racking my brain how to get this darned thing through, and this is the way to do it. You see, Stimson can't fuss about it. The President first said Monday night, and I said, "Well, I don't think I can have it ready by Monday night." I can't even if I get it okay, because I want Knudsen to come out the next day and say it is impossible.

- 6 -

Purvis: Yes, everything has to be staged.

H.M.Jr: Like the other, you know.

Purvis: He remembers very well.

H.M.Jr: I got Knox and Stimson to say 3:30 Tuesday and I will have to dictate this in front of you.

The Siam memorandum that Philip Young gave me, the original request came from Cordell Hull to Stimson to me, and the President said provided under international law it was all right, it was okay, and that Hull should give it the okay, and then it would go down the whole line. The memorandum that you (Young) wrote me, which I no longer have a copy of, is now in the hands of Cordell Hull and it was his brainchild.

Young: Not the memorandum.

Purvis: As you know.

H.M.Jr: But this is - now, I feel I have earned my week-end. Isn't this nice?

Purvis: Oh, but nice! It is magnificent!

Klotz: It is everything.

H.M.Jr: Now, one thing. I said, "I understand they are going to have these troops in Canada," the way you told me, and Stimson says no, they are just going to base them in Canada, and the President said no, that would look as though the English were getting ready to fight our rear guard action.

Purvis: Oh yes, I see. That is a psychology I hadn't thought of. We thought in terms of an

- 7 -

expeditionary force.

- H.M.Jr: Knox says the rear guard action.
- Purvis: Oh, no. As a matter of fact, I think we are more full of expeditionary forces than I have ever heard of. We seem to be contemplating at least fourteen.
- H.M.Jr: You said it wasn't your idea. Whose idea was this thing?
- Purvis: I hesitate to put it on the record. I think it is Mr. Vance's. I awakened up in the middle of the night kicking myself for not having thought of it first.
- H.M.Jr: The Cabinet didn't like it.
- Purvis: Didn't they?
- H.M.Jr: Not to have it up in Canada.
- Purvis: Now, mark you, please, and understand that was just for the sake of argument. It was merely so that there would be no idea it was based in the United States. Otherwise, that was merely - that is a side remark, almost. The idea was, it is the equipment for ten divisions. It can be based anywhere, but in order to remove any possible taint of the idea of involving a number of troops in the United States --
- H.M.Jr: Well, let's tell your people that we have to have this Monday morning, and then if they fall down on us - I don't really want it, but it has got to run all around town.
- And you (Young) are going to call all this group in?
- Young: The convention is at 3:30 Tuesday.

- 8 -

H.M.Jr: It is nice.

Purvis: I will get busy on it now.

Young: Are you going to go over that at 3:30 on Tuesday?

H.M.Jr: That will be the meeting and --

Young: You are making up my agenda for me.

H.M.Jr: This is the agenda.

Purvis: We have delegated it.

H.M.Jr: You have never gotten yours through.

Young: You saw the memorandum, didn't you?

H.M.Jr: This gets the darned thing through.

CONFIDENTIALACTION REQUIRED

October 25, 1940

To: The Secretary

From: Mr. Young

The British Purchasing Commission has brought to my attention the fact that some United States aircraft manufacturers are attempting to overcharge the British on follow up orders. Original orders placed by the British included the cost of planes plus capital commitments for expansion of plant capacity, for personnel training, for income tax contributions, for development cost incurred by the United States Government, and for certain other incidental expenses. For instance, capital commitments of the British Empire in the aircraft industry as of October 12, 1940, totalled one hundred million dollars alone excluding the cost of the planes contracted for.

Now in cases where the British wish to place additional orders for planes already in production, the aircraft companies are attempting to charge the original price per plane which included a portion of the capital commitment cost referred to above, and for which the British have already paid once. It should also be pointed out that such follow-up orders maintain the maximum rate of production which in itself should tend to decrease initial cost. Furthermore, these contracts include materials and wages escalator clauses.

If the original price is maintained, it would have the effect of creating higher prices which, in turn, might be reflected in Army and Navy contracts. Also this situation places a premium on British business and will make it more difficult for the Army and Navy to secure the cooperation of aircraft manufacturers.

The Boeing Aircraft Company affords the first specific example of this situation, and Boeing has insisted that the British sign a contract with it this Saturday, October 26th, on the basis of the original price per plane. At the present time

- 2 -

the British Purchasing Commission has a contract with Boeing for 240 Boston bombers (Douglas DB-7) at a price of \$103,992.00 each, for delivery over the period May, 1941, to January, 1942. This price per plane includes a charge for tooling and a royalty payment to Douglas for allowing Boeing to build the Boston.

The British wish to place another contract with Boeing for an additional 140 planes, plus 20 per cent spares, for delivery five in December, 1941, and forty-five per month January to March, 1942. Boeing insists that it must receive the same price per plane as on the original contract and has refused to even discuss the matter with representatives of the British Purchasing Commission. It is estimated that if this new contract is made at the original price it will involve an overpayment of approximately \$10,000 per plane or a total of over \$1,500,000.

In this connection, it should be noted that the Advisory Commission to the Council of National Defense, the War Department, and the Navy Department have approved the allocation of this production capacity for the use of British orders.

It is my suggestion that the Army or the Navy or both, because of the interest of those Departments in this matter, should consult with Boeing officials immediately in order to clarify this situation.

P.Y.

EH

GRAY

Buenos Aires

Dated October 25, 1940

Rec'd 10:45 p.m.

Secretary of State.

Washington.

505, October 25, 8 p.m.

Embassy's telegram 486, October 15, 5 p.m.

The Director of the Exchange Control Office informed a member of the Embassy staff this afternoon that his office can now consider favored only those applications for prior permits for American merchandise which cover articles classed as "indispensable and urgently required for immediate use".

He explained with reference to the announcement of September 27 that the permits therein contemplated had all been granted and that no further applications would be considered unless it had been clearly established that the merchandise involved met the requirement of urgent necessity.

He added that the exchange control office had drawn up a short list of so-called indispensable articles which had been provisionally approved by the Exchange Committee subject to slight modification following a canvass of the

Union

Union Industrial Argentina. The list, he said, was largely restricted to medicinal supplies, chemicals, iron and steel products, such as wire and raw materials needed by Argentine industry. It will govern the granting of prior permits until Argentina's exchange position shall have improved when a more extensive list will become operative. It will not be published for the time being since, to avoid a flood of applications and accompanying pressure, the Government desires the impression to continue that the exchange control authorities are still studying the situation.

In a circular sent out by the Union Industrial Argentina yesterday the members of that organization were requested to report by October 29 whether they must import from the United States and if so what are the articles that are indispensable, what quantities are required, the value in pesos, the use to which the articles will be put and why they cannot be obtained from Great Britain. The circular explained that the scarcity of dollar exchange was creating a serious problem for Argentine industries which require raw materials that cannot be obtained elsewhere than in the United States. It added that the union's representative on the Exchange Committee was experiencing great difficulty in determining which articles are absolutely essential to save Argentine industry from coming to a standstill and that the information supplied in response to the

circular

- 3 -

circular would be used by the Exchange Committee in determining what distribution should be made of the available supply of exchange.

ARMOUR

HSM

eh

COPY

October 25, 1940

Files

Mr. Cochran

STRICTLY CONFIDENTIAL

At the 9:30 Staff Meeting today Secretary Hergutham let me know that at luncheon yesterday he discussed with Mr. Nelson Rockefeller the subject of my memorandum of October 23, namely, the approach of Mr. Novinsky to the British Embassy in regard to a triangular deal involving British-owned securities based on Argentine assets.

The Secretary stated that it was agreed with Mr. Rockefeller that hereafter when he has any plans involving the British Treasury discussion thereof with Mr. White or myself should be had before any approach is taken. The Secretary let Mr. Rockefeller know, however, that he was glad to see that Mr. Rockefeller was interested in the idea under reference.



October 25, 1940

TO MISS LE HAND:

The Secretary has asked me to furnish you the following for the President:

The Secretary sold yesterday for the United States Housing Authority \$100,000,000 of its guaranteed one-year notes with an interest coupon of $1/4$ per cent.

Tentative reports indicate that the offering was more than sixteen times oversubscribed.

(Signed) D. W. BELL

DWB:NLE

By Messenger 4³⁰

CONFIDENTIALFOR YOUR INFORMATION

October 25, 1940

To: The Secretary

From: Mr. Young

Attached herewith is an outline as to what can be done in order to transfer the North American planes ordered by Thailand to another country.

The nucleus of this arrangement is the RFC which puts up the money to pay Thailand for the planes when they are requisitioned and which, in turn, gets repaid by the country to which the planes are sold. It is my understanding that the RFC has already established a precedent for financing this kind of an arrangement in the case of machine tools.

By following out the steps indicated in the attached, the planes do not come into possession of the Army or the Navy so that probably no certification will be required by the Chief of Staff or the Chief of Naval Operations.

I might add that the attached does not take up the question as to whether country X could or could not secure an export license from the United States for the planes.

(Initialed) P.Y.

PY:bj

PLANTS ORDERED BY THAILAND

61

Export licenses for 16 planes and their spare parts ordered by the Government of Thailand from North American Aviation have been revoked. The armament for the planes was ordered from manufacturers other than North American. Ten of these planes and their armament are physically located at Manila. Six of these planes are at the North American plant at Inglewood, California. The spare parts and armament are also at this plant.

To dispose of these plants, parts, and the guns to Country X it is suggested that:

- (1) Arrangements be worked out with the Reconstruction Finance Corporation for the funds to pay for the requisitioning;
 - (2) The requisitioning be carried out in accordance with the Act of October 10, 1940 and the regulations issued thereunder by:
 - (a) Having the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, notify the Administrator of Export Control that it has been determined that it is in the interest of national defense to requisition the material in the interests of the United States;
 - (b) Having the Administrator of Export Control serve a requisition for the material by an officer or agent of the R.F.O. who shall take possession of the material and issue a receipt therefor;
 - (c) Having the Administrator hold the necessary hearings, etc. required by the regulations.
 - (3) The R.F.O. pay to Thailand, or its representative, the amount required by the regulations; and
 - (4) The R.F.O. then sell the planes, parts and guns to Country X and be paid by this country.
- A certificate by the Chief of Staff or Chief of Naval Operations, under Section 14 of Public No. 671 - 76th Congress, will probably not be required since title to the material will not vest in the Army, Navy or the United States.



TREASURY DEPARTMENT

WASHINGTON

OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

October 25, 1940.

MEMORANDUM FOR THE SECRETARY:

Captain Culligan, assigned by the War Department to the Draft Headquarters in charge of publicity, requested this afternoon that arrangements be made to make available to the War Department a vault into which might be placed the capsules in which have been inserted the numbers for the drawing next Tuesday under the draft and also requested that an armored truck be made available to pick up the capsules and bring them to the Treasury. This request is made inasmuch as it is of the highest importance that these capsules be given the utmost protection and vault facilities outside of the Treasury are not available for the purpose.

I have arranged to meet Captain Culligan's request.

I assume there will be publicity in the matter. I informed Chic Schwarz and he is contacting Captain Culligan, who will take care of this.

CURTISS-WRIGHT CORPORATION
30 ROCKEFELLER PLAZA
NEW YORK

OFFICE OF THE PRESIDENT

October 25th, 1940.

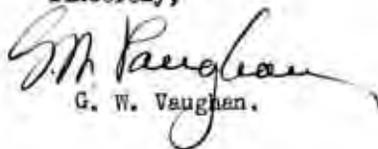
Honorable H. S. Morgenthau,
Treasury Department,
Washington, D. C.

Dear Secretary Morgenthau:—

I noted with a great deal of interest your complimentary remarks in the New York Times this morning about the Curtiss-Wright Buffalo division.

It is seldom we are complimented - but I can assure you that a little pat on the back once in a while goes a long way towards encouraging our personnel, and it is greatly appreciated by me.

Sincerely,


G. W. Vaughan.

GWV:JS

October 25, 1940

Personal

Dear Lew

I appreciate very much your personal note of October 21.

After President Roosevelt's re-election I would like to sit down and have a heart to heart talk with you.

Yours sincerely,

Henry

Mr. Lewis W. Douglas,
President, The Mutual Life
Insurance Company of New York,
34 Nassau Street,
New York, New York.

October 25, 1940

Personal

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Yours sincerely,

Henry

Mr. Lewis W. Douglas,
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34 Nassau Street,
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October 25, 1940

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Yours sincerely,

Henry

Mr. Lewis W. Douglas,
President, The Mutual Life
Insurance Company of New York,
34 Nassau Street,
New York, New York.

L. W. DOUGLAS
34 NASSAU STREET
NEW YORK

October 21, 1940.

Dear Henry:

I am writing this purely personal note to tell you how very fine you have been in trying to expedite all possible aid to the English speaking people.

In all good conscience I can't refrain from letting you know as a personal friend how I feel about your endeavors.

Always with kindest personal regards,
I am

Sincerely yours,



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

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

October 25th, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

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

Telegram received from London
dated October 22nd, 1940

1. Naval.

Dover was intermittently shelled and bombed during afternoon of the 21st and minor damage was caused.

Red Sea. A north bound convoy escorted by naval units including two destroyers and two sloops "Yarra" and "Auckland" was attacked at about midnight of the 20th/21st by two enemy destroyers in Southern Red Sea. The enemy fired two torpedoes at His Majesty's Australian Ship "Yarra" and shelled convoy. His Majesty's Ships "Auckland" and "Yarra" engaged enemy who retired in a westerly direction chased by two destroyers. At 2.50 a.m. on the 21st an enemy destroyer was engaged and after running aground was abandoned and later blew up. One of our destroyers came under fire from shore batteries and was hit in engine room either during action or by these batteries. She at first withdrew on one engine but later was taken in tow by another destroyer. At 7 a.m. on 21st these two destroyers were unsuccessfully attacked by aircraft.

Imports into Great Britain in convoy during week ending October 12th have for second week in succession exceeded a million tons, the average for previous ten weeks being nine hundred and fifty thousand tons.

Bombs/

-8-

Bombs believed to have hit Hipper class cruiser at Blohm and Voss shipyards Hamburg.

At Boulogne a.m. on the 21st direct hit was obtained on a large tramp steamer by British bomber.

2. Royal Air Force.

Daylight October 20th. Medium bombers attacked shipping at Boulogne and claimed a direct hit on a large tramp steamer. Single aircraft also bombed an aerodrome and docks in North Eastern France and a convoy off Dunkirk. One ship of the convoy is believed to have been hit.

Night of 20th/21st further report. It is evident that a very severe attack was made on a military objective in Berlin by 5 aircraft. 3 bursts were seen right across a large building. 1,000 pound bomb burst in the target area and fires which started in the immediate vicinity increased in intensity. Four marshalling yards in Berlin and a factory in the North West part of the city were also attacked.

Night of 21st/22nd. Aircraft attacked the following targets. Blohm and Voss shipyards at Hamburg resulting in many fires followed by explosions; Rhenania Ossag oil refinery at Reithals 4 large and small fires resulting; Hirth Motoren aircraft component factory at Stuttgart starting a small fire; Dusseldorf-Lugendorf marshalling yards causing several fires; Stade aerodrome./

-3-

aerodrome. 1 of our aircraft missing, 2 crashed on landing.

3. German Air Force.

Night of 20th/21st (further reports).

Casualties so far reported in the London area are 70 killed and 300 wounded. All fires caused were either extinguished or under control by the following afternoon.

Daylight October 21st.

Throughout most of the day visibility was bad and enemy activity consisted in raids by single aircraft using cloud cover.

These machines visited London and also the Midlands and Liverpool. In the afternoon activity decreased. Two heavy bombers were destroyed 1 by fighters and 1 by anti-aircraft fire and 3 heavy bombers were damaged.

Building losses. In the London area one factory was damaged and a large block of flats was hit. In the provinces some damage was caused to utility services at Liverpool and sporadic bombing which caused little damage took place in Kent and Sussex.

Night of 21st/22nd.

Considerable enemy activity developed from 7 p.m. onwards was concentrated on London and Liverpool areas and especially Coventry.

Incoming raids ceased at 3 a.m. except for 6 aircraft which visited South Wales. In London area bombing was widely scattered but much less severe than on recent nights. In one

-4-

district some large water mains were severed. At Coventry an aerodrome engine factory was severely damaged and production will be delayed; 5 other engineering works were hit and casualties so far reported are 8 killed and eighty injured. Excellent work was done by the fire services which had a number of fires quickly under control. No serious damage is reported from any other district.

4. Aircraft Casualties.

<u>Enemy</u>	Destroyed	Damaged
(Bombers)	2	3
<u>British</u> Missing		
Bombers	2	

5. Shipping Casualties.

From 2 convoys recently attacked 2 more British and 1 Allied ship totalling 15,500 tons are now reported as probably sunk.

A convoy of 18 ships arrived in home waters after sustaining heavy casualties already reported. Cargoes included 7 of lumber 4 of minerals 3 of cereals 1 of fuel oil and 1 of steel and aeroplanes.

6. Middle East.

Egypt. Air reconnaissance reports that a pipe line has been completed to 9 miles east of Sollum.

Sudan. On October 19th/20th 6 heavy bombers attacked petrol dumps in Eritrea and extensive fires were caused.

On October 19th a successful action was fought in Kassala sector. No further details are yet available.

Kenya. /

-5-

Kenya. On October 19th during an attack on Garissa aerodrome 1 of 3 Italian bombers were shot down and the crew of 5 captured.

Italian East Africa. The activities of rebels in Goggiam district are causing the Italian Command considerable trouble and they are even going to the extent of transferring certain chiefs of proven loyalty to the district by air in order to help check the spread of the rebellion.

Paraphrase of Code Radiogram Received at the
War Department at 12:45 P.M., October 25, 1940.

London, Filed 17:05, October 25, 1940.

One of the outstanding features of the British war effort is the extensive diffusion of responsibility for national success. In addition to the numbers of the armed forces secured by enlistment or conscription, there are few British adults who have no direct or distinct duties imposed or assumed.

Over one million men have been conscripted into the armed forces, two million have been exempted because of reserved occupations (essential workmen in industry - G-2) and will continue at these or be inducted into the armed services at a later date, one million seven hundred thousand have volunteered for the Home Guard and are performing well organized day and night duty under arms, and three and one-half million men and women belong to Air Raids Preventions organizations are carrying out admirably duties that are frequently dangerous and are suffering more casualties than the Army at present.

The women in the voluntarily enlisted but whole time, uniformed, paid organizations such as the Women's Royal Naval Service with the Navy, the Women's Auxiliary Air Force and the Air Transport Auxiliary (women pilots for ferrying duty - G-2) with the Air Force, the Auxiliary Territorial Service with the Army, and the Auxiliary Fire Service with the Air Raids Preventions are supplemented by uniformed but unpaid volunteers in such organized bodies as the First

CONFIDENTIAL

Add Nursing Reserve, the Mechanized Transport Corps, Women's Voluntary Service. These organizations utilize the enormous patriotism and energy of the women of the country and relieve men of other duties.

Add to these the civil servants, the regular members of the Police and Fire Departments and the industrial workers who regard themselves as combatants, since they frequently work under bombardment, and it is evident that no family and few individuals fail to have an immediate wholehearted responsibility for war efforts.

Although the United States is not at present as handicapped as Great Britain by limited man power, your attention is invited to the enormously important by-products of these civilian efforts in stabilizing and steadying the whole social political structure, reducing useless activities, and minimizing the irresponsible chatter and the epidemic apprehensions which so easily pervade unoccupied persons or communities.

It is suggested that some such program be adopted in the United States for the practical reasons set forth in the preceding paragraph and as an obvious corollary to the wholehearted recognition of the democratic principles underlying the Selective Service Act.

LSE.

Distribution:

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

-3-

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau
FROM Mr. Klaus

STRICTLY CONFIDENTIAL

The FBI reports:

October 22nd. The German Library of Information Director is expressing pride in the distribution in university libraries throughout the United States of a publication "regarding the results of German scientists," claiming the reaction to be the best he has ever observed in this country.

General von Boetticher, German Military Attache, is very friendly with Colonel Jose Machado of the Brazilian Embassy.

October 22nd. Mrs. Hamilton Fish had a telephone conversation with the wife of the Italian Ambassador in the course of which Mrs. Fish remarked that she did not believe the United States should defend English ports, that the Japanese "can now show face by pointing to the wonderful Japanese-Italian Alliance," and that she had told her husband it was awful of the United States to take over English harbors.

October 23rd. "Information has been received" that Goering has sent a World War German espionage agent named Stahlforth to the United States to start a "front" for a peace movement here that would not appear to be inspired by the German government and in which the United States government or prominent persons in this country would take the initiative to call a peace conference. Stahlforth has induced Norman Davis to interest himself in this movement. Stahlforth is reported to have said that Goering has authorized him to say that Germany wants nothing from France, Holland, Belgium, Norway or Denmark and only the return of her lost colonies from England but will not agree to the restoration of Poland; that Hitler feels the real danger to world civilization lies in the East and desires treaties with England, France, and the United States to restrain Japanese aggression.

October 23rd. Former pilots of the SCANTIA Line of Colombia, now dissolved, have organized a company known as Acme Continental Company in Colombia and in the United States and are seeking agencies for automobile supplies (tires, batteries, oil, etc.) in Colombia. Chief of the organization is Ernest Wilhelm Schnurbusch, a former colonel in the German air corps who has lived in Colombia for about twenty years. The State Department has requested surveillance.

S.H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

Mr. Cameron of the Federal Reserve Bank of New York gave us the following information regarding the transactions listed below in German accounts maintained at the Chase National Bank, New York.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
October 25	\$100,000	Reichsbank, Berlin	Chase National Bank, N.Y. for account of Stockholms Enskilda Bank A/B, Stockholm
	100,000	" "	Chase National Bank, N.Y. for account of A/B Svenska Handelsbanken, Stockholm by order of Allwafinag, Berlin
	50,000	" "	Chase National Bank, N.Y. for account of the German Consulate General, N. Y.
	62,134.69	Deutsche Gold Discount Bank, Berlin	Irving Trust Company, N.Y. for account of Carl Marks & Company, N. Y.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 25, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

The reporting banks' transactions in registered sterling were as follows:

Sold to commercial concerns	£100,000
Purchased from commercial concerns	£ 13,000

Open market sterling remained at 4.03 until late in the day. It closed at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 10,000
Purchased from commercial concerns	£ 30,000

The Swiss franc touched a new current high of .2322-1/2 this afternoon in very light trading. It closed at that level.

The Argentine free peso again had an easy tendency. It closed at .2350. Since the end of last week a decline of 30 points in the peso rate has taken place.

The Cuban peso discount widened to 8-15/16% as against 8-11/16% yesterday.

The other currencies closed as follows:

Canadian dollar	13-3/8% discount
Swedish krona	.2387
Reichsmark	.4005
Mexican peso	.2070
Braxilian milreis (free)	.0505
Lira	.0505

We sold \$4,000,000 in gold to the Bank of Portugal, to be added to its special account.

We purchased \$50,276,000 from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank reported that the following gold shipments had been consigned to it:

\$50,000,000	from Canada, shipped by the Bank of Canada, Ottawa, to be earmarked for account of His Britannic Majesty's Government.
516,000	from England, shipped by the Bank of England, to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.
\$50,516,000	Total

-2-

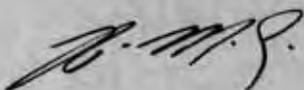
The Bombay gold price was equivalent to \$33.78-1/2, off 3-1/2¢. Silver was quoted at the equivalent of 43.57¢, off 1/2¢. It was reported from Bombay that the metal prices were easier on the circulation of peace rumors in that center.

The prices fixed in London for spot and forward silver were both unchanged, at 23-1/2d and 23-7/16d respectively. The dollar equivalents were 43.67¢ and 42.56¢.

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

We made two purchases of silver totaling 250,000 ounces under the Silver Purchase Act. One of these, amounting to 200,000 ounces, represented a sale from inventory, and the remaining 50,000 ounces consisted of new production from foreign countries, for forward delivery.

We also purchased 50,000 ounces from the Bank of Canada under our regular monthly agreement. Today's purchase raises the total bought from that source during the current month to 385,000 ounces, as compared with the agreed monthly limit of 1,200,000 ounces.



CONFIDENTIAL

October 26, 1940.

Dear Mr. Rentschler:

On behalf of the Secretary of the Treasury, may I thank you for your letter of October 22, concerning the expansion program of Pratt and Whitney. It has been read with interest, and may I express Secretary Morgenthau's congratulations on the job which you have done.

Sincerely yours,

(Signed) Philip Young

Philip Young
Member, President's Liaison
Committee

Mr. Frederick B. Rentschler,
United Aircraft Corporation,
East Hartford, Connecticut.

FY/mew

UNITED AIRCRAFT CORPORATION
EAST HARTFORD, CONNECTICUT

October 22, 1940

OFFICE OF THE
CHAIRMAN

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

My dear Secretary Morgenthau:

In view of your interest in and knowledge of our things, I am taking the liberty of sending you attached a folder showing a record of the performance of our engine division and our plans for the period just ahead.

Our normal production and shipping capacity a little more than a year ago was approximately 200,000 horsepower monthly. As you will note from the curve, our present capacity and actual shipments are approaching 1,000,000 hpr. monthly, or the equivalent of 1,000 - 1000 hpr. engines.

With the new construction and new capacity now well under way, by the second quarter of next year we are required, and it is our plan, to double our present production capacity which would give us a volume approaching 2,000,000 hpr. monthly.

You may recall it was approximately a year ago, on October 17th, that we began construction of our "French addition"; by January 1st the buildings were completed and we began the installation of machinery; by March 1st fabrication of parts began, and during May we were manufacturing parts at capacity, with capacity shipments in June, which was approximately 8 months from the time the project commenced.

At the end of May we concluded negotiations with the British Government and began a still greater expansion to meet their requirements. These buildings are now entirely completed and machinery is being rapidly installed, and to date our production schedule from these new facilities will again be approximately in line with the French expansion.

Although negotiations with our own War and Navy Departments for combined 1941-42 fiscal year requirements are concluded although the contracts are not, a month ago we began the buildings for these new requirements. These, too, are now well under way and again we are proposing to have these facilities in complete capacity operation in the same elapsed period of approximately 8 months from the time of starting.

It has been our theory that our quickest way in to new production was through a series of large extensions rather than

by attempting to accomplish this purpose through the construction of a complete plant at some other point. By doing it in bites, even though they are rather large, we have been able to maintain full capacity out of our existing operations and take on these extensions more or less in our stride. It is a fact that 8 months for capacity production from new facilities is the very minimum time in which this kind of a job can be done. This allows but 5 months for the completion of manufacturing facilities including special tools, jigs and fixtures as well as the delivery of machine tools, and receipt of materials, and then 3 months' time for actual fabrication of parts and assembly into engines. To accomplish these periods of time, of course requires 24-hour - 7 day per week operation, and, as pointed out, is certainly the minimum and I know of no other instance, except our own, where it has been actually accomplished to date.

I think you will be interested to know that we are right on schedule with all of our export deliveries, all of which are now for the account of the British Government. Schedules which 6 months or more ago seemed impossible to meet have been met. At this time our policy is to continue to meet all of these British requirements and in addition we are superimposing the requirements of our own Army and Navy, and we are planning, and hoping to meet those deliveries as well.

Pratt & Whitney Aircraft's own shipping requirements for Army and Navy for the fiscal years 1941-42 amount to approximately 17,000 engines. In addition, we are licensing Ford Motor Company who are planning in the two fiscal years involved, to produce approximately 4,500 of one of our engine types, and Buick for approximately 5,000 engines of another of our types. In both instances we are providing complete information for these companies, and are giving their organizations complete access to our facilities in Hartford and taking from our technical personnel to assist them with their problems. This, of course, is in addition to supplying them with complete drawings and bills of material of the engines as well as all of the special tools and equipment. These engines will be built under a manufacturing license agreement for which we are charging the nominal fee of \$1. per engine for any manufactured during the period of the emergency.

Certain of our figures I think are rather interesting and striking. Our engine plant account over a period of about 18 months has gone from our normal of \$6-7,000,000 and early in 1941 should be around \$40,000,000; our employment in the engine division alone will be increased from about 3,500 to approximately 20,000; normal manufacturing capacity level will rise from an original 100,000 hpr. to a final 2,000,000 hpr. level. Moreover, all this has been accomplished during a rather difficult period in which to procure machinery and special tools and even materials themselves.

We have been told from many sources which we believe to be authentic that the engine capacity in Germany is somewhere around 1,800 to 2,000 of the 1000 hpr. engines per month - this from all of their plants. Obviously, by the second quarter of next year our plant alone should be approximately matching their total production. It is believed from information we believe to be correct that this rate of production will be considerably in excess of the combined British engine production of the larger or combat types of engines.

I have gone into this at some length because I believe the ability of the established aviation engine manufacturers is

vitaly important now and for at least the next two years. I have long believed and stated that modern aviation engines cannot be placed in quantity production by any one without previous experience under a period of 18 months to 2 years. We believe General Motors' experience with Allison is tending to prove this theory. In our dealings with Ford Motor to date the responsible heads there believe they will begin to produce some engines in 12 months and may be producing at capacity in 16 to 18 months. I believe the Ford organization will probably make the best showing of anyone in the automotive field.

The average layman has been inclined to believe that existing automotive facilities would be immediately applicable to production of aviation engines. We have believed otherwise, and it is interesting to know that in the case of Ford they not only are planning completely new machinery and equipment but even a completely new building in spite of their own vast facilities which are of little use for aviation engine production.

I would not have dared risk boring you with such a long letter but I know how interested you have been in this whole subject and thought you would like to know how we have been getting along during this past year, and because of your early close association and valuable help with regard the earlier part of our program and plans.

With best wishes,

Sincerely,


Frederick B. Dentschler

RECEIVED

OCT 23 1930

THOMAS EDISON
LABORATORY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Jay Crane, Treasurer of the Standard Oil Company of New Jersey, telephoned at 12:15 yesterday. In answer to his inquiry, I stated that I had summarized to Mr. Atherton shortly after Mr. Crane left the preceding afternoon the subject of his conversation with the Secretary, and that there is no need for Mr. Crane now to go directly to the Department of State. I told him that he should, however, keep us currently informed and that the transaction under reference certainly should not be consummated without soliciting some expression from the Department of State.

Crane told me that after his visit with Secretary Morgenthau he had telephoned his people in New York who, in turn, had telephoned the I. G. Farben people in Switzerland the same afternoon. In this conversation the sum of \$30,000,000 was mentioned. The Farben spokesman was much surprised at this figure, stating that they had not been thinking in any such amount. This raises considerable doubt, therefore, in Mr. Crane's mind as to whether anything may come of the proposition.

With respect to Argentina, Mr. Crane told me that his company had received yesterday morning a cablegram to the effect that Minister of Finance Pinedo had made two proposals. The first of these was that American petroleum products shipped to the Argentine be paid for fifty percent in dollars and fifty percent in sterling. The second proposal was that fifty percent be paid promptly now in dollars and that fifty percent be paid through notes of the Argentine Treasury, issued in United States dollars, maturing in three years, and bearing interest at the rate of 2-1/2%. This is the first time that the Argentine Government has indicated its willingness to pay through dollar notes, although a suggestion had once been made that six months' securities of this type might be utilized. Under the present offer, the notes would have to be deposited in Buenos Aires and could not be discounted or taken out of the country until their maturity. The Standard of New Jersey has so far given no answer to Argentina on the foregoing alternative proposals. The Minister of Finance of Argentina had the preceding day told the oil companies operating in Argentina that they will have to contribute to the Argentina Treasury forty million pesos each one of the next five years. The Minister alleged that the oil companies had been making too high profits. One half or approximately twenty million pesos would come from the Argentine Governmental Oil Company; the other half would come from private concerns, principally the Standard and Shell, with the result that the Standard's share would be between eight and ten million pesos per year. Unless this contribution is done voluntarily Pinedo threatens to throw the whole petroleum question into the Argentine Parliament. Pinedo says there can be no rise permitted in oil prices to compensate for this contribution. The Standard in Argentina is now discussing this question with the other oil companies to which this proposal was only revealed the preceding day. In the circumstances, the Standard is holding the exchange proposition in abeyance pending the outcome of this contribution request.



TREASURY DEPARTMENT

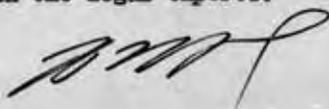
INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

After consultation with Under Secretary Bell, I telephoned Mr. Knoke yesterday afternoon that the Treasury Department approved the cablegram which the Federal Reserve Bank proposed to send to the Commonwealth Bank of Australia, and of which the Federal had telephoned the text to my office. I added, however, that I understood that there was one point in the draft, concerning "security custody accounts" which the Federal's General Counsel should discuss with Mr. Bernstein of the Treasury's General Counsel. That is, the Treasury approved the cablegram, subject to its final clearance between the legal experts.



PROPOSED CABLE TO COMMONWEALTH BANK OF AUSTRALIA

Reference your #108 indicating that your government and yourselves desire to arrange for transfer of accounts now in your name with us to accounts to be opened and maintained by us in name of your government.

We suggest that your government communicate its request, and the necessary instructions and authorizations regarding the operation of the accounts in the name of the Australian Government, to our Secretary of State for transmission to our Treasury Department and to this bank, that such communication be duly authenticated by the Consul General of the United States in Sydney, and that the request, instructions and authorizations therein contained include the following:

- (1) Request and instructions that Federal Reserve Bank of New York open and maintain dollar and securities custody accounts in name of Australian Government and transfer thereto the dollar balances and securities now in designated accounts with us in name of Commonwealth Bank of Australia.
- (2) Confirmation that such dollar balance and such securities are the property of the Australian Government.
- (3) Instructions to the effect that the Commonwealth Bank of Australia is authorized to manage and operate, and give all manner of instructions affecting or in connection with, said accounts.
- (4) Instructions to the effect that we are authorized to accept and act upon any telegram, cablegram or radiogram relating to such accounts which is received by us in the name of the Commonwealth Bank of Australia and which conforms to arrangements agreed upon between us and the Commonwealth Bank of Australia with respect to the authentication of telegrams, cablegrams or radiograms by the use of test numbers; and agreement that any such telegram, cablegram or radiogram will be binding upon the Commonwealth Bank of Australia and the Australian Government and will have the same force and effect in all respects as a letter signed in behalf of the Commonwealth Bank of Australia by its officers who are authorized to sign correspondence and documents containing instructions or other communications such as are contained in the telegram or radiogram.

We also suggest that the Commonwealth Bank of Australia cable us direct:

- (a) Instructions to make transfers as in (1).

-2-

- (b) Confirmation as in (2).
- (c) Agreement regarding telegrams, cablegrams and radiograms as in (4).
- (d) Appropriate instructions concerning the disposition of checks drawn on accounts with us in name of Commonwealth Bank of Australia subsequently presented to us and of amounts subsequently tendered to us for account of Commonwealth Bank of Australia.

(Received by telephone from Mr. Knobe's Office,
Federal Reserve Bank of New York, October 25,
1940, 9:45 a.m. - emk)

COPY

October 21, 1940.

TO: Mr. Bernstein

FROM: Walter S. Logan

Attached are copies of the following cables to which I referred when I telephoned to you this afternoon:

- (1) Cable No. 108, dated October 19, from Commonwealth Bank of Australia.
- (2) Our acknowledgment, cable No. 248, October 19.

W.S.L.

Atts.

COPY

COPY OF INCOMING CABLEGRAM

Sydney, October 19, 1940.

Federal Reserve Bank of New York

New York

No. 108 SECRET

- ONE We understand that funds previously held with you in the name of Bank of England were transferred recently to name of Government of the United Kingdom
- TWO The funds held with you in all three accounts of Commonwealth Bank of Australia are mainly required for purpose of our Government
- THREE We would greatly appreciate your agreement to open accounts in the name of Government of Commonwealth of Australia to which we would transfer the greater part if not all of the funds now held by you in the name of Commonwealth Bank of Australia and future holdings on account of Government
- FOUR The Government is fully in accord with this request and will authorize bank to operate on its accounts
- FIVE If above proposal is acceptable to you please advise procedure to be followed in opening new accounts.

Governor
Commonwealth Bank of Australia

EA
Postal 109 Private code
Test correct

copy

pf

COPY

COPY OF OUTGOING CABLEGRAM

Sent on October 19, 1940.

The Governor

Commonwealth Bank of Australia

Sydney

No. 248

SECRET

Have received your No. 108 and shall communicate with
you in this matter further next week.

FEDERAL RESERVE BANK OF NEW YORK

RCA 24

CB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When talking with Mr. Pinsent by telephone this noon, I let him know that the Secretary had had occasion to speak with Mr. Nelson Rockefeller in regard to the subject of a triangular deal involving British-owned securities based on Argentine assets which Mr. Rovensky had mentioned to the British Embassy some days ago. Mr. Pinsent told me that he was taking no action as a result of Mr. Rovensky's approach, and if this should be renewed he will consult the Treasury Department.



TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Reference is made to the copy of a letter addressed under date of October 21 by Norwegian Minister Morgenstierne to the Federal Reserve Bank of New York requesting the opening of accounts for the King of Norway, the Crown Prince of Norway and the Royal Norwegian Government.

After consultation with Mr. Bell I telephoned Mr. Knoke yesterday to confirm our original idea that the Treasury would not favor the opening of accounts by the Federal as fiscal agent of the Treasury for the King or the Crown Prince. The Treasury Department, however, would consider favorably an application for the opening of the account of the Norwegian Government, if this is submitted in the usual manner, that is, through the Department of State. He expects two representatives from the Norwegian Legation at New York next week, and will indicate to them the Treasury's position, and acquaint them with the formalities to be met in opening the Royal Norwegian Government special account.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Counselor of the Hungarian Legation telephoned for me yesterday afternoon, while I was in a meeting, and I did not return the call. At 10:30 this morning, the Hungarian Minister telephoned, stating that he had been out of town all week, returning only this morning, and was now anxious to learn whether the Treasury could give him any answer on the proposition which had been submitted to us. I told him that a group of us in the Treasury had studied the question under reference and that Under Secretary Bell had hoped to take it up with Secretary Morgenthau yesterday afternoon. I doubted, however, whether this had been possible since the Secretary left Washington immediately following the Cabinet Meeting.

The Minister then asked me if I could give him any "inkling as to which way the wind was blowing". I told him there was nothing I could say but that I would get in touch with Under Secretary Bell and see whether there was any information at all that could be given. If he did not hear from us further this morning, he should understand that the matter was awaiting the Secretary's return.



COPY

DEPARTMENT OF STATE
WASHINGTON

reply refer to

October 26, 1940

My dear Mr. Secretary:

Mr. Bell's letter of October 23, 1940 regarding Hungarian assets in this country has received careful consideration in this Department. The Department feels that at the present time it would be inadvisable to apply freezing control to Hungarian assets.

Sincerely yours,

(s) Cordell Hull

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

bfn

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

In conversation by telephone with Mr. Knoke yesterday afternoon, I told him that he could let the National City Bank know, with reference to the call at the Federal by one of the National City officers a few days ago, that the Treasury Department has not extended its control of foreign funds to cover Czechoslovakia. I thanked Mr. Knoke for sending us the copy of the memorandum in regard to the question posed by the National City Bank, which had been the subject of discussion by several of us in the Treasury.

B. M. H.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The attached draft of a proposed cablegram to be sent to the American Embassy at Rio de Janeiro, as prepared by Mr. Bernstein, was discussed with Under Secretary Bell yesterday. It was decided that the cablegram should not be sent in the drafted form, and that no message should be sent in the circumstances unless the General Counsel considers it absolutely imperative.



MEMORANDUM

October 21, 1940

Mr. Tiebout called today and indicated that he and Mr. Knobe felt that it was not necessary to obtain any confirmation of the authority of the Banco do Brasil to make withdrawals from the dollar account which has been established in its name, or in any way to call to the attention of the Government of Brasil that withdrawals have been made from such account. Mr. Tiebout indicated, however, that they had no objection to our sending a cable along the lines of the attached draft if we desired to do so.

JBF:dmb 10/21/40

Dr. Feis

Mr. Cochran

Will you kindly send the following cablegram:

American Embassy

Rio de Janeiro

From Treasury

Further reference your 532, October 16, 3 P.M. Pursuant to the instructions of the Banco do Brasil as fiscal agent of the Brazilian Government the Federal Reserve Bank of New York has transferred \$5,000,000 from the special dollar account of the Banco do Brasil as fiscal agent of the Brazilian Government to accounts of Banco do Brasil in the National City Bank and the Guaranty Trust Company. Kindly advise the Government of Brazil of the several transactions which have recently been consummated under the arrangement established by the letter of July 15, 1937 from the Secretary of the Treasury to the Minister of Finance of Brazil as supplemented and modified, and express to such Government this government's satisfaction with the action which has been taken and the hope that such arrangement will continue to be mutually beneficial."

BB
f.c.

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

Week Ended October 26, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	---	64,900 Bbls.	---	48,288 Bbls.
Crude -				
Blended or California High Octane Crude *	85,000 Bbls.	---	---	---
All Other Crude	150,019 Bbls.	---	---	---
Gasoline -				
Gasoline A **	---	---	---	67,000 Bbls.
Gasoline B *	35,139 Bbls.	97,000 Bbls.	42,000 Bbls.	---
All other Gasolines	---	---	20,000 Bbls.	7,976 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil ***	---	---	---	6,539 Bbls.
All Other Lubricating Oil	4,125 Bbls.	---	---	46,782 Bbls.
Tetramethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	4,069 Tons	---	---	5,965 Tons
All Other Scrap	16,619 Tons	---	---	6,728 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics. October 26, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

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

Aviation Gasoline.

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Claus

STRICTLY CONFIDENTIAL

FBI reports:

October 23rd. "According to a reliable source" the Germans are bringing pressure on South American republics to insist that the \$500,000,000 Export-Import Bank credits be in gold, not in dollars, with the purpose of obtaining possession of the gold through new reciprocal trading agreements between Germany and South American countries.

October 24th. Attempts have been made, so far (as a result of FBI interception) unsuccessfully, to transmit to Germany via South America blueprints of a phenol plant, the Durez Plastics and Chemical Company of North Tonawanda, N. Y., which is capable of producing 30,000,000 pounds of phenol annually compared with a 5,000,000 pound maximum output of a plant using the same process in Germany. The American plant in question was apparently constructed by a German concern under a contract providing that the German engineer should be free to send copies of the blueprints to anybody except persons in the United States, Canada, and Mexico. The War Department is interested in this matter.

80

G-2/2657-220

RESTRICTED

No. 230

SITUATION REPORTM.I.D., W.D.
October 26, 1940.
12:00 M.

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

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

During daylight of the 25th the Germans operated against southern England and the London area in increased force. Night activity was directed against London, Liverpool, Birmingham, another Midlands city, and the East Coast of Scotland. The weight of these attacks was very heavy, particularly over London.

The R.A.F. last night attacked German naval bases and oil targets in western Germany as well as airdromes in the occupied areas and gun emplacements near Calais.

German air activity is high today over the London area and southern England.

II. Mediterranean and African Theaters of War.

1. No ground operations reported. The Italians claim that their advance forces are now well to the east of Sidi Barrani.
2. The R.A.F. and the Italian Air Force continued to operate against communications along the Mediterranean. Sporadic attacks were also made by both sides in East Africa.

RESTRICTED

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

October 26th, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated October 24th, 1940

1. Naval.

A search has been carried out for His Majesty's Canadian Destroyer "Margaree" but up to the present nothing has been found except one lifebuoy.

His Majesty's Ship "Kimberley", damaged in the recent Red Sea action, has arrived in port.

2. Royal Air Force.

Daylight October 23rd.

Two aircraft attacked shipping off the Dutch coast without observed results and one bombed a factory at St. Nicholas and caused large explosions. Two aircraft of the Coastal Command attacked a convoy of 9 merchant vessels and 3 escort vessels off the Frisian Islands. 2 ships of about 4,000 and 2,000 tons respectively were hit by torpedoes after which the decks of one of the vessels were seen to be awash while the second was down by the stern.

Night of October 23rd/24th.

Aircraft were detailed to attack targets as follows. Docks at the Hook of Holland, fires started between railway station and docks; marshalling yards at Krefeld, Gremberg, Soest and Mannheim and Coblenz, reports not yet received; in the Berlin area the Paltitzstrasse and Lehrter marshalling yards, starting fires, the Klingenburg power station, the Tempelhof marshalling yards,

where/

-8-

where fires were started, East Wilhelmstrasse, large fires also seen near Charlottenburg electric power station; docks at Emden where bursts were seen in the target area and to the south caused large explosions and fires; aerodromes in Holland were also attacked, including Schipol, where two fires resulted and an enemy aircraft was burnt out. Two of our aircraft are missing.

3. Secret. German Air Force.

Night of October 22nd/23rd. Further reports.

Casualties in the London area amounted to approximately 25 killed and 60 injured. No major damage has been reported from any factories hit at Coventry but some parts of the city are temporarily deprived of utility services which it is hoped to restore to normal in 48 hours.

Daylight October 23rd.

With weather overcast very slight enemy activity occurred during the night and was confined to operations by single aircraft. A few casualties were caused in an outer suburb south of London. One enemy aircraft is reported as damaged. No British casualties.

Night of October 23rd/24th.

Intermittent enemy activity on a small scale occurred throughout the night. London was the main objective although a few enemy aircraft crossed the Yorkshire and Scottish coasts to the western seaboard. Minesweeping is suspected off Lancashire and the east coast. In the London area damage was done to the London Midland and Scottish

-3-

main railway line, slight damage was caused in one dock and minor bombing occurred elsewhere.

Secret. Slight casualties and damage were caused at Windsor and extensive damage to house property occurred at Tynemouth from two parachute mines.

4. There are no shipping casualties to report.

5. Middle East.

Egypt. On October 22nd our medium bombers escorted by fighters continued their attacks on the water pipe line near Sollum. The road and pipe line were straddled and hits registered on mechanical transport.

Kenya. On October 21st two aircraft of the South African Air Force dive bombed Birpan and hit a factory and a wireless station.

Aden. Early on October 22nd Perim was bombed by enemy aircraft; no damage or casualties resulted.

RDS

(PARIS)
VICHY

Dated October 26, 1940

Rec'd 11 p.m.

Secretary of State,
Washington.

831, October 26, 4 p.m. (SECTION ONE)

Last night's Journal Officiel published the text of the law granting customs autonomy to Indo-China (please see paragraph 3 of my 743 of October 14, 5 p.m. and paragraph 6 of my 704 of October 7, 10 p.m.). The measure will become effective on January 1, 1941 and provides that such autonomy shall be exercised under the following conditions.

(A) Decrees signed by the French Ministers of Finance, Agriculture, Industrial Production and Colonies and proposed by the Governor General of Indo-China shall fix annually the lists of French and Algerian products which may be imported into Indo-China free of duty and vice versa.

(B) Similar decrees will cover the free importation into Indo-China of products originating in the French colonies, protectorates and mandates and vice versa.

MATTHEWS

EME

(COPY:FB:HES)

(PARIS)
VICHY

Dated October 26, 1940

Rec'd 7:50 p.m.

Secretary of State,
Washington.

831, October 26, 4 p.m. (SECTION TWO)

(C) The French Minister of Colonies after consultation with the Ministers of Foreign Affairs and Finance, shall issue annually decrees proposed by the Governor General covering "the list of products originating in each foreign country which shall be admitted free of duty into Indo-China in exchange for similar advantages that the same foreign countries shall extend to goods originating in Indo-China."

(D) Decisions of the government council and approved by decree of the Minister of Colonies shall fix the general and minimum import tariff duties to be levied by Indo-China on goods coming from France and its possessions and foreign countries. Reductions in such duties may be granted on a quid pro quo basis.

(E) The duties to be levied on Indo-Chinese goods under the French general and minimum import tariff rates shall be fixed by decree as well as those on imports into other French possessions.

MATTHEWS

RDS

GRAY

(PARIS)

VICHY

Dated October 26, 1940

Rec'd 7:50 p.m.

Secretary of State,
Washington.

831, October 26, 4 p.m. (SECTION THREE)

(F) Annual import quotas for goods entering Indo-China from all foreign sources (including France and its possessions) shall be fixed by the Government Council and approved by decree of the Minister of Colonies in agreement with the Ministers of Foreign Affairs and Finance.

(G) Indo-China export duties and prohibitions on merchandise exports will be fixed by the Government Council and approved by decree of the Minister of Colonies. However, in case of "serious emergencies or force majeure" the Governor General may introduce on his own responsibility temporary prohibitions on the export of Indo-China merchandise.

(H) Exemptions from or reductions in customs duties on merchandise imported into Indo-China may be granted provided the goods are in direct transit and are accompanied by documents in proof thereof. The Governor General may make exceptions to this general rule for merchandise in direct transit and following fixed routes.

(END OF MESSAGE)

MATTHEWS

EMB

1 copy to Bureau
1 copy to Mr. Graham

UNITED STATES TREASURY DEPARTMENT

109



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

October 26, 1940

To the Secretary

THE SHANGHAI GOLD BAR EXCHANGE

The gold bar exchange was first established mainly to serve the purpose of arbitrage for the import and export merchants at the time of a free market. The quotations of the gold bars were based, and followed closely, on London gold price first, and later on the New York gold price of US\$35 an ounce (taking into consideration, of course, freight, insurance, and other charges). Since 1935, with the introduction of Fa-pi (National currency) by the Government, the gold bar exchange began to lose its significance. After the outbreak of hostilities in 1937, the gold bar exchange was ordered closed by the Ministry of Finance. With the fall in exchange rates, many people turned their attention to the purchase of gold, commonly known as jewelry gold (jeweler's bars - 10 oz.) for hoarding purposes. It was then that many former gold merchants decided to set up a small unofficial exchange on a strictly cash basis. In other words, any purchase or sale to be taken up or delivered the same day. As time went on, this exchange became more active and the volume of business began to increase, and some exchange shops began to deal in paper bars. Such transactions were done on margin, and profit or loss was done on purely set-off transactions without actual delivery of physical bars. However, these transactions were understood to be carried on only by some small exchange shops, while many of the gold merchants still insisted on cash delivery.

In the past week a serious situation occurred when the longs demanded delivery of bars, while those who sold "on paper" found it impossible to deliver due to shortage of actual bars. *

On Saturday, October 19th, the situation became more acute when shorts

-2-

had to rush to cover, which accounted for a much smaller disparity between gold bar quotations and exchange rates (at one time the disparity was as high as \$600.00 and on Saturday, October 19, 1940, it was only \$150.00). The longs further maintained that in case of failure to deliver, the "set off" difference should be based on the parity of the prevailing exchange rate, namely \$5,980.00 on the basis of 5.27/32, while the shorts were willing to set off at the closing gold quotation on Saturday, namely \$5,830.00. It is learned that the longs finally conceded to the latter rate. Since October 19th the gold bar exchange has remained closed. Meanwhile, a movement is on foot to reorganize a new exchange and at a meeting of some 15 gold bar merchants the following resolutions were said to have passed: **

- (1) Every member will have to pay in advance \$20,000 as margin or security.
- (2) With this margin, a member will be allowed to do business up to approximately 50 bars, exceeding which an additional margin will be required. During periods of wide fluctuations an additional margin will be necessary.
- (3) All margins paid in by members will be deposited in a bank and a committee of seven will be formed to look after them.
- (4) The deposited margins will be examined by a chartered accountant and a report will be issued at a fixed period to be determined later.
- (5) Price-fixing will take place every half month. In case a seller can not deliver his cash bars, or a buyer fails to take delivery, the seller or buyer can transfer his commitments forward at a certain fixed change-over difference. Otherwise he will be forced to square up his position by the Committee of the Exchange, according to the parity price of the gold bar based on the Hongkong Bank's demand draft rate at settlement date.
- (6) Commission or brokerage will be \$0.10 per bar.
- (7) The difference between the selling and buying rate will be settled at noon.

-3-

(8) There will be two change-over days each month, and these will take place one day before each settlement.

Indications are that although this new exchange is of an unofficial nature, it will in future be operated on the above basis.

Oct.23,1940.

* Japs in Hongkew sold heavily and were unable to deliver and later refused to settle. This situation caused closing of exchange on October 19th.

Oct.26,1940.

** Very little business is being done under new order of things and this mostly by small fry speculators on fortnightly settlements. Agreement on resolutions not yet reached and big speculators and gold merchants are holding off.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 26, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£7,000
Purchased from commercial concerns	£2,000

Open market sterling was quoted at 4.03 throughout the morning. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£3,000

The Swiss franc was quoted at .2322-1/2 bid, .2324 offered. No transactions in that currency were reported. Yesterday's final rate was .2322-1/2.

The Argentine free peso rate continued to decline, reaching a low of .2330 at the close. A week ago, this currency was quoted at .2380.

The other currencies closed as follows:

Canadian dollar	13-3/8% discount
Swedish krona	.2385
Reichsmark	.4005
Mexican peso	.2070
Brazilian milreis (free)	.0505
Cuban peso	9-1/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

The State Department forwarded to us a cable stating that the B.I.S. shipped \$563,000 in gold from Switzerland to the Federal Reserve Bank of New York. The disposition of this shipment is unknown at the present time.

Metal prices in Bombay continued to display weakness. Gold was priced at the equivalent of \$33.71, off 7-1/2¢. Silver was quoted at the equivalent of 43.37¢, off 3/16¢.

CONFIDENTIAL

PARAPHRASE

The following is the substance of a telegram (no. 24) dated October 26, 1940, from the American Consul assigned to Saigon but now temporarily at Hanoi:

I refer to my telegram no. 23 of October 26.

With regard to the prohibition against reexportation of any merchandise, including petroleum goods, which was at any time in transit to China, the Secretary General's office has just informed me that there is no possibility at this time of rescinding the prohibition. Since the Secretary General said this morning that he would consult the Japanese mission, I presume this decision was reached after such consultation.

eh

COPY

P A R A P H R A S E

The following is the substance of a telegram (no. 23) dated October 26, 1940, from the American Consul assigned to Saigon but now temporarily at Hanoi:

It was confirmed this morning by the Secretary General that the loading at Haiphong of cargo for shipment to foreign ports is for the time being prohibited until the nature and ownership of the cargo is investigated. The Japanese have demanded that reexportation of "Chinese merchandise" be prohibited, he explained, as a result of the discovery of gas masks on the ship under charter to the United States Far Eastern Trading Corporation (the Sikiang). The Government General had already authorized reexportation to Hong Kong of petroleum products which are now being loaded by the Standard Vacuum Oil Company and the Texas Company, and in the case of other goods title to which had never passed to Chinese purchasers, similar permits for reexportation had been granted to other American companies (Dupont, etc.). I emphasized that classification of these shipments as "Chinese merchandise" would be incorrect, but the Secretary General regretted that only after consultation with the Japanese mission could a reply be given to me. That the goods in question were American property, that there should be the least possible delay in rescinding the prohibition, and that the matter was urgent, all were stressed by me. I refrained from mentioning the affairs of the United States Far Eastern Trading Corporation, and spoke only of the companies mentioned above.

- 2 -

Confidentially, the Japanese have seized upon the incident of the gas masks, it is apparent, to strengthen their position vis-a-vis the Government General, which must now to a large extent defer to Japanese wishes, and to tighten their control of Haiphong. The cessation of British vessels and airplanes calling at Indochinese ports is understood to have resulted from the Japanese protest to Vichy. That the present difficulty will be satisfactorily settled is possible, but it is fairly certain that the Japanese will assume greater control of Tongking affairs, to the detriment of American and British interests, and conditions will become more onerous.

TO THE DIRECTOR
GENERAL INVESTIGATION
DIVISION
WASHINGTON, D. C.

NOV 11 1941

RECEIVED
GENERAL INVESTIGATION
DIVISION

St. Pierre-Miquelon, October 26, 1940.

Exchange situation in St. Pierre-Miquelon.

I have the honor to refer to my report entitled Exchange Situation in St. Pierre-Miquelon dated October 24, 1940, File No. 851.51 and to transmit herewith a copy of the note dated today (enclosure No. 1) and of its enclosure (enclosure No. 2) addressed to me by the Administrator, Gilbert de Bournat, who had promised to send me such a note on the day after my interview with him on October 23, 1940.

There is also transmitted a translation (enclosure No. 3) made by me of the enclosure to the note referred to above. This document gives in detail the needs of St. Pierre-Miquelon which are believed to be approximately correct and based on a recent study made by the Administrator as a result of the estimated needs of local merchants who submitted them to him at his request. Some slight downward revisions could be made, particularly in the amount required for coal because at present most of this is imported from Sydney, Nova Scotia although, if funds were available for this purpose, the local representative of the Island Coal and Trading Company, 17 Battery Place, New York, would be in a position to order more than he has been able to bring in recently.

Respectfully yours,

Maurice Pasquet
American Vice Consul

Enclosures:

1. Copy of note from the Administrator.
 2. Copy of enclosure to above.
 3. Translation of enclosure No. 2
- Original and five copies to Department.

851.51
MF/ph

Translation

N O T E

concerning the needs of the islands of St. Pierre and Miquelon in American currency and the means of controlling these funds.

I - Considering that at present, imports by the islands of St. Pierre and Miquelon originate exclusively in the United States and Canada, there will be found herebelow the estimated import requirements from the United States for one year:

Foodstuffs.....	\$100,000.
Cloth materials and clothing...	25,000.
Hydrocarbons.....	25,000.
Coal.....	75,000.
Building materials, tools and materials made of metals and wood.....	25,000.
Other products.....	25,000.
Total for a year	\$275,000.
A maximum of \$25,000 per month.	

II -Control, by the American Government, of the use made of the funds destined to supply the needs of the islands of St. Pierre and Miquelon could be effected easily in the following manner:

a) Prohibit the French-American Banking Corporation from paying checks issued by the Treasury of St. Pierre-Miquelon to others than:

- "The Guaranty Trust Company of New York", correspondent of the Banque des Iles St. Pierre et Miquelon.

- The "Bank of Nova Scotia of New York", correspondent of the Banque Pierre Andrieux.

b) compel the Guaranty Trust Company of New York and the Bank of Nova Scotia of New York to use, exclusively, the proceeds of checks issued by the Treasury of St. Pierre-Miquelon * for payments to exporters of American merchandise making shipments to St. Pierre-Miquelon.

c) Periodic verification at the French-American Banking corporation that payments of checks issued by the Treasury of St. Pierre and Miquelon do not exceed the monthly average of \$25,000.

* Translator's note -- These checks, are in practice, in favor of the two local banks who send them to their respective correspondents in New York. The latter in turn cash these treasury checks at the French American Banking Corporation.

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

October 27th, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Frank Bunker

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated October 25th, 1940

1. Naval.

A British destroyer was damaged yesterday in home waters owing to the accidental discharge of a depth charge. 5 men are missing and 6 wounded.

British naval units carried out a sweep off the Norwegian coast on October 23rd. Only one small ship was sighted and sunk.

Total of mines dropped on land during last week ending October 24th - 114. Fair percentages were exploded and were rendered safe.

2. Middle East.

Egypt. A battalion supported by artillery and aircraft raided an enemy camp 14 miles east of Sidi Barrani on October 22nd/23rd. They were heavily engaged by enemy artillery. One company destroyed 8 bunker transport with Molotov bombs.

Sudan. Reference summary of October 22nd paragraph 6. In the Kassala sector a patrol of the Sudan Defense Force in 4 trucks and 2 armoured cars surprised approximately 1,000 enemy and attacked them in the rear from 100 yards. Enemy casualties were very heavy; ours were nil.

Eritrea and Ethiopia. On the night of October 22nd/23rd aerodromes near Asmara were attacked and a large fire was caused in a petrol dump area. Italian concentrations at Kassala were also bombed. On October 23rd 3 Blenheims bombed a destroyer base at Massawa and dive bombed 2 listening posts on the Red Sea coast.

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3. Royal Air Force.

Daylight October 24th. Single aircraft attacked shipping at Ostend, a convoy off Zeebrugge, and an aerodrome and railway targets near Calais. All returned safely.

Night of October 24th/25th. Owing to unfavourable weather conditions results of night operations were generally unobserved but aircraft were detailed to attack targets as follows. Channel ports of Flushing, Ostend and Dunkirk; Rhenania Ossag oil refinery at Hamburg, bursts seen on target and fires started; Gelsenkirchen synthetic oil plant; in the Berlin area the Putlitzstrasse and Lehrter marshalling yards; Blohm and Voss ship yards at Hamburg, large fires seen in target area; docks at Rotterdam, hits observed on northern and western benches of the dock and fires started; Cuxhaven where bursts seen across docks; communications at Bottrop, Osnabruck, Emmerich, Munster and Duisburg; Neuhof electric power station at Hamburg and warehouses at Veges where 4 fires started followed by small explosions; single aircraft also attacked aerodromes at Bahrenfeld, Hammstedt, Hamm, Haltern and Dokooy and seaplane bases at De Mok and IJmuiden. Two of our aircraft are missing.

4. German Air Force.

Night of October 23rd/24th. (Further reports.) Casualties in the London area were approximately 18 killed and 33 seriously wounded.

Daylight October 24th. Enemy activity was slight and limited to reconnaissances by single machines.

-3-

Two enemy bombers were destroyed and two more damaged, all by fighters. We had no losses. The only military damage reported was a fire at one aircraft factory which may temporarily slow down production.

Night of October 24th/25th. Only a light attack was made on London; fewer bombs were dropped than usual and most of them were south of the river. Birmingham was the centre of the attack.

In the London area although some minor damage to utility services was reported, no harm was done to railways or roads. Casualties are believed small.

At Birmingham several fires were caused and at one time 350 pumps were operating but by daylight this number had been reduced by two thirds and all fires were under control. Although damage to private property was considerable none appears to have been caused to factories, casualties so far known are 7 killed and 80 wounded.

October 28, 1940
10:52 a.m.

H.M.Jr: Hello.

Wm. S. Knudsen: This is Knudsen.

H.M.Jr: This is Morgenthau.

K: Good morning.

H.M.Jr: How are you?

K: Say, on this British thing, I've been wrestling with it some over the weekend and of course his problem sort of interferes with ours in this bomber program we're going to do.

H.M.Jr: Oh. Just how?

K: Well

H.M.Jr: I mean, could you explain a couple of minutes and explain it to me?

K: Yeah. We started out to do business with the Automobile Manufacturers' Association, you know, on 12,000 bombers - 4,000 4-motor and 8,000 2-motor - and I've been up there - I was up there on Friday again

H.M.Jr: I saw that.

K: and we've got it set up now to go ahead with it. Now the British come in with 1400 more a month to get from July 1st, 1941 to July 1st, 1942, and it's all right to put it in but we are not going to get them because we couldn't build and get that many planes set up in a hurry like that.

H.M.Jr: Well, now

K: I've already got two plants started for the 4-motor and 2-motor bombers and I don't want to start any British plants right now because on their 4-motor bomber they don't know what they want.

H.M.Jr: Yeah.

- 2 -

- K: They've got a thing called the Sterling bomber which they say they're going to send over here and have somebody look at and so forth. It's got 4 big motors in it while ours has got a smaller motor in it, you know, the 1800.
- H.M.Jr: Yes.
- K: So here's what I've doped out. There're certain places where we can place some of these British planes right away and I'm going to offer them in a little while, unless you have objection - I'm going to offer them the privilege of placing 3050 planes, see, and leave the rest of them in abeyance until we get more time to study and coordinate it with our programs.
- H.M.Jr: I see. Well, now, let me ask you a couple of questions. This 12,000 planes that you're placing on order - these 4-engine bombers and the 2-engine bombers - where does the money come for that?
- K: Well, we haven't asked for the money yet. We've got to wait until Congress lets us ask for it.
- H.M.Jr: Well, then you haven't got the money?
- K: We haven't got any money.
- H.M.Jr: No, that's what I thought.
- K: No, it's about a couple of billion dollars we need, see.
- H.M.Jr: Well, that's what I thought. Now, let me ask you this: if the English were willing to say, we'll take exactly the same bombers, see, just whatever Mr. Knudsen has planned, couldn't you use their \$500 million to start this thing going? I mean, instead of making it 12,000 - I don't know - if you made it 15 or 16,000, whatever it is, I mean, add

- 3 -

K: No, I'm not worrying about their \$500 million - you're supposed to handle that for me. I don't give a hang where the money comes from. I've got money for two plants, see.

H.M.Jr: Have you got the money?

K: I've got money for two plants, but I haven't got any money for the planes to go in them.

H.M.Jr: Well, I

K: But I got these two plants, you know, in the last appropriation.

H.M.Jr: Well, I didn't know that.

K: Yeah.

H.M.Jr: But I mean, as I say, supposing they'll take 100% identical - is there room for them in this show of yours?

K: Well, I think they could get 1200 out of the 4,000.

H.M.Jr: Out of the 4,000 4-engines.

K: Yeah. You see, they've got 1200 Sterlings here and if they'll take the standard 4-engine plane

H.M.Jr: They'll have to.

K: They'll have to take some of those 4,000, because I wouldn't want to make 5200 instead of 4,000. You see, they're asking for 1200.

H.M.Jr: Yeah, but let's say that they'll take just whatever you've planned, is there

K: Yeah. Then that 1200 will come out of the 4,000.

H.M.Jr: It will.

K: Yeah.

H.M.Jr: And how about out of the 8,000?

- 4 -

- K: Well, out of the 8,000 they've got 600 B-26's in here and I'm allowing them to place 300 of them right away. See? But that's all of the 2-motor bombers we've got in here.
- H.M.Jr: Oh, so they don't need any of the 8,000.
- K: Yeah, they are taking dive bombers, you know, and A-20's and Lockheed 37's
- H.M.Jr: Well, those Brewster bombers - they'll never get them.
- K: They what?
- H.M.Jr: If they order Brewsters, they'll never get them.
- K: Why not?
- H.M.Jr: Well, the boys were up to the plant and it was all 6's and 7's.
- K: Yeah, I know, but that'll all straighten out. Well, here's what I'm telling them they can do. They can place 600 Harvard trainers and 600 Hawks and 300 Brewster bombers and 300 A-20's and 750 Lockheed 37's and 300 Martin B-26's and there's 150 flying boats from Martin and 50 Consolidated flying boats, so that gives them 3,050 out of the 7650 planes.
- H.M.Jr: Now, what would they be short then?
- K: Well, they'll be short some of each.
- H.M.Jr: But I mean on the 4-engine bombers they'll be short
- K: Well, they ordered 1200 of them but they can't tell me what they want so I'll have to just throw them in with the other 4,000.
- H.M.Jr: Well, that's fair enough.
- K: So that's the way it'll be done. Now this plant business, why, you'll have to handle that.

- 5 -

H.M.Jr: All right. Now, let me ask you this: this is

K: You know that this doesn't to date - these figures that I take in here now, I'm putting them right in in the plants where they are now, I'm not building any addition to it.

H.M.Jr: I see.

K: So they get them on the tail-end.

H.M.Jr: Uh-huh, on the tail-end.

K: Yeah.

H.M.Jr: Of their own orders?

K: Yeah.

H.M.Jr: I mean, just wherever their order stops

K: Well, in the case of the Lockheed, they are running out of orders now so putting them in now, we'll get Lockheeds pretty quick and the same thing applies to Hawks.

H.M.Jr: I see.

K: But I'm not building anything for them on this, and I think I can get the motors that I require - I think I can add the motors to the present motor orders and get by with that. See?

H.M.Jr: Well, now, this is what I want for the President if I can possibly get it. It came up in Cabinet Friday. This is very confidential. I brought up this English order - whether he wanted to say anything about it along the line - I mean, not only planes but the guns, you see?

K: Yeah.

H.M.Jr: There're two things that he's thinking of saying Wednesday night in a speech. One, announcing what they've received, you see, up to date and, two, what they've got on

- 6 -

order actually in production and, three, that we will make room for this - let's call it their third program, if you want to. See?

K: You will make room for what?

H.M.Jr: This last program which is over

K: Well, I'm only making room for less than half of it here now.

H.M.Jr: Well, but

K: And the others will come as we consolidate it with our bomber program. You know I can't go too far out on the limb on these bombers. Supposing Congress says I can't have any money for them, then I'm up against it.

H.M.Jr: Well, I'm having this statement prepared. See? Hello?

K: Yeah.

H.M.Jr: And between now and 3:30 tomorrow when we're having a meeting - hello?

K: Yeah.

H.M.Jr: You've got a notice on that?

K: No.

H.M.Jr: You didn't get a notice?

K: No.

H.M.Jr: Gosh, I told Phil Young to let you know.

K: Well, I just came in this morning maybe that's the reason.

H.M.Jr: But I want to, if possible, clear a statement tomorrow at 3:30 - Knox and Stimson will be here and I asked your other fellows, Nelson and Stettinius, so that - I want them so that they say raw materials and the priorities and everything - simply that he can say that we're going to make room for this order on top of our own. See?

- 7 -

- K: But I'm going to do it in two steps you understand.
- H.M.Jr: That's all right. That's all right.
- K: I see.
- H.M.Jr: But you'll see the statement - you'll have the statement sometime this afternoon so that you can go over it, because I don't want the President to make any statement that the Council of National Defense isn't entirely satisfied with.
- K: That's right.
- H.M.Jr: And I'm sending one to Stimson and to Knox and one to Jesse Jones, so that you can have plenty of time to look at it.
- K: Yeah.
- H.M.Jr: So that if he makes this statement Wednesday night, we're all back of him on it.
- K: I see.
- H.M.Jr: I don't want him to make anything unless everybody is back of it. That's fair enough isn't it?
- K: Well, I was going to call up Fairey and have him come over here and tell him about this split I'm making in it, because he seems to be the one that knows the most about it.
- H.M.Jr: Good. That's all right.
- K: But as far as the guns are concerned, we simply had to expand his present gun plants to take care of the 50 and 30 guns he requires with this quantity airplanes. You know he's got two gun plants now and we'll simply have to expand those gun plants to take care of the extra guns to go with this order.
- H.M.Jr: Well, I'm going to crowd everybody a little bit in order to try and get a clearance of

- 8 -

some kind of a statement tomorrow for the President.

K: Yeah. In other words, I'm telling him today that he can place those 3,050 planes if it's all right with you. See?

H.M.Jr: Sure.

K: But the balance will have to be held in abeyance until we get a chance to study it some more.

H.M.Jr: But there will be room for them somewhere.

K: Oh, we'll have to make room.

H.M.Jr: I mean, you've already said you could throw 1200 more into the 4-engine bombers if they'll take ours instead of the Sterling.

K: That's right.

H.M.Jr: I wouldn't fool around with any English airplanes.

K: What's that?

H.M.Jr: I wouldn't fool around with their models. I mean, I think at this stage they've got to take what we can make.

K: All right. Well, on these Hudsons, you know, they don't want them very bad. They put 1,000 down but they're not very anxious to get them.

H.M.Jr: That's the Lockheed.

K: Yeah, that's the 2-motor pursuit plane. Of course, they say the guy can't get out of there when he wants to bail out, and I guess that's right.

H.M.Jr: Oh. Well, that doesn't sound so good.

K: No. So I left them out of consideration altogether.

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H.M.Jr: Well, on anything that they'll order which is according to the specifications of Army and Navy, I'm willing to back them up, but when they want special stuff, I'm not going to back them.

K: All right.

H.M.Jr: Fair enough?

K: Yes.

H.M.Jr: Thank you so much.

K: I'll call up Fairey and have him come over.

H.M.Jr: Thank you.

October 28, 1940.
10:50 a.m.

H.M. Jr: Fairrey.

C. R.
Fairrey: Oh good morning.

H.M.Jr: Morgenthau. I understand Mr. Purvis isn't here yet.

F: I don't believe he's in, no.

H.M.Jr: I just had a long talk with Mr. Knudsen on this plane thing and he outlined what he thinks he can do in two steps and he wanted to know if it was alright to have you come over and see him and I said by all means, so I think you'll get a call if you haven't already.

F: I just have Mr. Morgenthau.

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

F: And I said Sir Henry Self and I will go right over there.

H.M.Jr: Right. Now I just want to say a thing which I told him because I want the Purchasing Mission to know this. Evidently there is no room at present for the production on the - for Sterling bomber - hello

F: Yes, I'm listening.

H.M.Jr: And there is room for at least 1200 or whatever they propose to build for ourselves and I told Mr. Knudsen, and I want you to know this, that as far as I was concerned, at this time, I would back the Purchasing Mission in anything other than buying what we could produce for ourselves.

F: I see.

H.M.Jr: So I just wanted you to know that.

F: Thank you very much.

H.M.Jr: On this new production that he has under way of 4,000 bombers which he expects the automobile companies to stamp the thing out - he will make room for 1200 of those for you.....

F: I see - 1200.

H.M.Jr:in place of the Sterling.

F: Yes.

H.M.Jr: And if I were you, if I might make the suggestion, I'd grab them.

F: (Laughs) Certainly.

H.M.Jr: Because I just don't think you're going to have any luck if you're going to insist on a separate one.

F: I see and what type is this that he's making arrangements for the 4,000.....

H.M.Jr: Pardon?

F: Which type is it he's making available on the 4,000.

H.M.Jr: Well the 4,000 is the four-engine bomber.

F: I see - the larger type - I see.

H.M.Jr: Well it will be the very latest.

F: The very latest.

H.M.Jr: And, of course, you will have a chance to sit in and advise as to what you think of the good and bad points.....

F: I see.

H.M.Jr:so you'll have ample chance to sit in but whatever is going to come off the line, it'll have to be one bomber.

F: And your advice is to grab it and not to haggle about which type it is.

H.M.Jr: Right, because he's got the engines for you and everything else, as I understand it.

F: I see.

H.M.Jr: But if you hold out for the Sterling, which he says takes a more powerful engine, I don't think you'll get it at all.

F: I see.

H.M.Jr: In fact I told him that in view of the way things are going - because he says he won't build more than two planes.

F: I see. Well I'm very much obliged to you.

H.M.Jr: So I'd take it and then you can make as good a bargain as you can to get everything that you want in whatever this four-engine bomber is going to be because as far as I know they haven't even started the drawings yet.

F: I see.

H.M.Jr: I may be wrong .

F: Well by the time that comes out it will be the most up to date there is.

H.M.Jr: Just the point, they're starting from scratch and this will be a good job and I think if the factory is willing to let you in at all on it it's good.

F: Yes, it is.

H.M.Jr: And he has the money for the plant, incidentally, and the other thing which is encouraging, as I get it - on all of these suggestions he's going to make, it doesn't call for any money for plants.

F: Oh it doesn't.

H.M.Jr: No.

F: You mean the bombers suggested only or.....

H.M.Jr: All.

F: Oh.

H.M.Jr: He's found room for everything.

F: Indeed.

H.M.Jr: Up to about - I think up to about 4,000 planes.

F: Indeed.

H.M.Jr: Yes.

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F: Oh, that's good news.

H.M.Jr: So I think that's good news.

F: It certainly is good news.

H.M.Jr: Right.

F: (Laughs) Oh, I'm much obliged to you. Thank you.
Goodbye.

WILLARD HOTEL, WASHINGTON, D. C.



TELEPHONE REPUBLIC 7860

BRITISH PURCHASING COMMISSION

Gen. Lt. H. W.

Dear Mr. Morgenthau

We had a most-satisfactory
interview with Mr. Kunder.

Please accept my very
sincere thanks.

Yours very truly

E. J. Hiney.

RE BRITISH PURCHASING PROGRAM

October 28, 1940
2:35 p.m.

Present: Mr. Young
Mr. Purvis
Mrs Klotz

Purvis: Do you want to start, and then I will --

H.M.Jr: No.

Purvis: I have this very most secret message, an original and a copy for you. (See Attachment "A")

H.M.Jr: Thank you.

Purvis: The list which comes with it I would like to talk with you about, because I think there is a question of form of the list which we can settle. We are ready to go ahead now.

H.M.Jr: I get you.

Purvis: Is that --

H.M.Jr: It is enough.

Purvis: The list which should accompany it is something on which I would like to talk to you. That, I take it, I can count on as a secret message to really acquaint you with the present situation. I mean, nothing would be published.

H.M.Jr: Well, I am not going to hand this to anybody but the President. Do I get the original and a copy?

Purvis: Yes, I gave the original and a copy to you. Would you like any more?

H.M.Jr: Well, I am going up to New York tonight and I am coming down on the train with the President --

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Purvis: I gave you two. Would you like more?
H.M.Jr: No, I will just take the one.
Klotz: Yes.
Purvis: Yes, one for you and one for him.
H.M.Jr: If you would seal this, Mrs. Klotz, and put it wherever it is most confidential.
Purvis: I am going to destroy all related papers.
H.M.Jr: Does Mr. Hull get one of these?
Purvis: That is up to the President. Whatever he decides in that regard, so far as the - it was only that no public announcement be made without - because that contains a great deal of data of first class importance.

Now then, the list which accompanies that, I wanted really to try and make sure that it was in the form which would be most useful to the President, and when you get into the aircraft situation, I would like to talk about the aircraft settlement, if I may, for a moment, as the result of a talk that Self and Fairey had with Knudsen today, of which I have a memorandum showing the result. So far as the ordnance is concerned, that suggestion of last week which arose out of the discussions with --

H.M.Jr: Just one second. I had something which I meant to tell Mrs. Klotz, and I can clear my mind.

(Discussion off the record)

Purvis: On the ordnance, it is a question of the

- 3 -

details desired, how it could be done. It could be talked, so many field guns - it depends a little bit on what the list will be used for. If the President was going to read it, it would be rather short. If he was going to build it to a --

H.M.Jr: No, mind you, you have been in politics so you know all about it. He asked me to do it. I think he wants it. Somebody may tell him that before a Boston-Irish audience is the worst place to do it, but he says no, he thinks it is a good place to do it, so we give it to him, you see.

Purvis: Now, what we give to him on that is something he should be able to tell them.

H.M.Jr: Oh, yes.

Purvis: That determines to a large extent the nature of that.

H.M.Jr: Definitely.

Purvis: What he uses of that is his affair.

H.M.Jr: Oh, this thing here is what I would call a preamble.

Purvis: Yes, which he dresses into such remarks as he may feel it is wise for him to make.

H.M.Jr: What really has happened is that Mr. Churchill has used this as an opportunity of getting something across which wasn't really called for in connection with what I asked for.

Purvis: No. His preamble is certainly longer than what I expected.

- 4 -

- H.M.Jr: I wouldn't say - well, it is irrelevant only as to what I asked for. It isn't irrelevant as to the situation.
- Purvis: Quite.
- H.M.Jr: Granted.
- Purvis: I think that is absolutely right, but I think it makes a really very good background as to reasons for the - now, we have got to make out of this at this end what we think should be announced without hurt to our situation.
- H.M.Jr: Let me just talk. I have done nothing but think about this thing.
- Purvis: Yes, quite.
- H.M.Jr: My brain has never stopped working.
- Purvis: Quite.
- H.M.Jr: And it seemed to me - if you would make notes on this, Phil - the thing for the President to say is this: "Our national defense went along on a more or less regular program up to the time when I addressed Congress." I think it was on the tenth of May, or something like that. "Now, prior to that," if you could use that as a date, or prior to July 1 - you will have to look it up - "the English and French placed so many million dollars worth of orders for armaments in this country," see, of which - this is the - "X" millions of dollars was for plant expansion.
- Purvis: That is right. That is something we can very easily get.
- H.M.Jr: I am thinking of July 1 as a cut-off date.

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Now, the encouragement to England and France to place this amount, to spend this amount for plant expansion, has broadened our whole base of production.

Purvis: I have taken --

H.M.Jr: You see? Just one second. Then from the first of July - I mean, you don't want to get too many figures. Or if you want to use the first of October date, whichever looks the best. The way I envisage this thing, it may be better to use October 1, I don't know. You will have to get all the help necessary, because I have got to have it tomorrow morning.

Purvis: Yes.

H.M.Jr: I don't know how Purvis thinks of it. Do you think of one program which reached its culmination on the first of October?

Purvis: I would say that your first July date that you mentioned is a perfectly good date.

H.M.Jr: That reaches the first thing, and then there is a second and a third program, this being the third program.

Purvis: Well, I think this is the big second program, you see. The real first one took in the air frame program in which we received assistance through releases of types.

H.M.Jr: But if you could work --

Purvis: I think I could. I have taken the liberty of doing something which is a slightly different attack, writing that on the plane coming down. (See Attachment "B")

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- H.M.Jr: And then what I was thinking about - then sort of saying by itself, "This is the stuff which we released and which was so useful and which came to them just after Dunkerque." Have you got it?
- Purvis: I don't know whether --
- Young: Do you want to label this "Surplus Release Stuff"?
- H.M.Jr: Yes.
- Purvis: I have done this lightly without the figures. The idea of figures could be stuck in anyway, but please understand this is very much a throw-off.
- H.M.Jr: I understand.
- Purvis: Then I hope you will take it in that spirit.
- H.M.Jr: I asked you yesterday when I spoke to you if you would do it.
- Purvis: Yes. As I went back in my mind over the things that have been done, which became very big things, five or six of them --
- H.M.Jr: You don't have to worry about Mr. Kennedy.
- Purvis: Oh, I am delighted.
- H.M.Jr: He is all right. He is speaking tomorrow night and he is for Roosevelt.
- Purvis: That might have been nasty.
- H.M.Jr: "Only _____ days ago the statement was made that far from carrying out a policy of giving all aid to Britain short of war, this Administration had in fact held back such aid and

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had given only the illusion of carrying out such a policy."

Purvis:

That has got to be checked.

H.M.Jr:

"Let us on this issue also examine the true facts. Long before the originator of this charge had tardily come to the realization that this policy provided one of the best opportunities of successful strengthening of United States defense, this Administration --

"(a) had expressed its condemnation of the aggressor actions of the totalitarian nations;

"(b) had asked the Congress to amend the Neutrality Act to permit of supplying the Allies with the weapons for which as democratic and peacefully inclined nations they had not prepared their factories in advance;

"(c) had assisted Great Britain and France in launching a great new airplane production program in the United States by releasing under suitable safeguards designs for the latest types U. S. airplanes;

"(d) had strengthened the forces of Britain against invasion by making it possible after Dunkerque for her to acquire very large quantities of guns, ammunition and other war equipment surplus to that required for U. S. defense, and

"(e) had even granted priorities and releases on certain Army and Navy newer equipment which the appropriate military and naval officers felt could be released

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without detriment to the defense --"

Purvis:

I think that is bad. I think it could be cleaned up to something more specific. It wouldn't cut any ice the way it is.

H.M.Jr:

"...without detriment to the defense of this country.

"And make no mistake - while all these steps were taken in fulfillment of the very policy to which we are now accused of paying but lip service - they were also taken in the same conviction as my worthy opponent himself has expressed, namely, that this course represents the best to keep war away from the shores of the Continent of the Americas.

"Of course there is more to do - not alone to enable that valiant country Great Britain and its Allies successfully to play their part in the defense of democracy, but in order to give us the best chance of remaining at peace on this side of the water. This nation must be prepared to make great sacrifices of its ordinary daily comforts in order to build up with every speed at our command our industrial armament capacity. By the prompt production of the still greater quantities of airplanes, guns, tanks, and ammunition required, we shall help insure the triumph of the democratic powers in resisting the brutal attacks made on them by the aggressor nations."

This is swell.

Purvis:

I just wrote this on the airplane coming down here.

H.M.Jr:

Good.

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"And I have not hesitated, in the interests of our country's safety, to harness to the purpose of that safety the desire of the democracies to buy from us weapons of all kinds. It is importantly as a result of such orders that we are beginning to reach a scale of production which is giving some would-be aggressors 'furiously to think.' Yes, safety now lies in achieving with every speed possible a great capacity of production of all weapons of all types. There is not an instant to lose, and in the knowledge that it helps the defense of our country this Administration will even intensify its efforts to continue giving real - not lip - service to the policy of 'All aid to Britain short of war', and will ask such sacrifices from our people as may be necessary to carry it out."

I think that is swell. That is just what I asked for.

Purvis: Good. I think that is helpful.

H.M.Jr: I am delighted.

Purvis: I didn't want it to be an impertinence, but I thought I would just throw it off.

H.M.Jr: I asked for it. I think that is swell. Now, have we the data to back this up?

Purvis: Yes. We must get the data, you see, to back that up and I thought if I put that down, we would know what we are attacking.

H.M.Jr: I think that is fine, don't you?

Young: Yes, I think it is a little too dignified, though.

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- Purvis: Well, I took out all the undignified portions. I didn't dare to bring it across in the way it was first written. I can put them back if you want me to. I didn't feel I had any right to present it except in --
- H.M.Jr: Well, I am not going to present it as coming from you.
- Purvis: Please, never! I think this is very strictly between us.
- H.M.Jr: Oh, I am going to tell the President, because he will love it, but outside of that, nobody. Surely, he is going to know where it comes from, but outside of that, nobody.
- Purvis: We can put behind that - I think, for instance, taking the first paragraph, I am getting teletyped down the newspaper account of the Willkie statement. In that there will no doubt be some phrases inadvisedly used. Those things always are. Then from that I think something might come. Then in the rest of it, I think it is a question of really seeing about the figures.
- H.M.Jr: I think so.
- Purvis: And would you like, for instance, when it comes to this - the great new airplane program under (c), would you like so many hundreds a month, for instance? I don't know whether that is wise or not.
- H.M.Jr: Let me tell you. I had the new head of the Air Corps over here today. Things are coming a bit my way. You know, Brett is a real fellow.
- Purvis: Yes.

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- H.M.Jr: And this is the way he sees the thing, that - if I can remember it. We were talking in terms of annual production and monthly production. The figures they had now, the way he said, before placing another order for you, the figures reached 3,000 per month production on February 1, 1941. No, that was October 1, 1941.
- Purvis: Including trainers, yes.
- H.M.Jr: Now, he can, by throwing in everything else - I think he will get a figure - this is something else, Phil, which you must keep after - which will reach over 4,000. When you reach over 4,000 a month - the President isn't going to say - he will say, "On such and such a date the productive capacity of airplane factories of this country will reach over 4,000 a month." Well then, somebody could take out their pencil and multiply it by 12. Actually, we won't produce 48,000 planes a year because we haven't got the orders, but he never intended that. He wanted the factories so that they could.
- Purvis: The capacity.
- H.M.Jr: The capacity.
- Purvis: The fact he used 50,000 was neither here nor there. That is merely a mark of capacity.
- H.M.Jr: He has always had capacity, so in talking with you, I think I would use capacity for months.
- Purvis: A very good way.
- H.M.Jr: Now, especially as they are going to put - this thing boils down this way, what they

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are going to put up to you. I got it awfully fast over the telephone from Knudsen, but I will just forget for a minute Knudsen, and stick to what General Brett had to say. The way it stands now, sometime in the summer of '42 - is that it?

Klotz: Yes.

H.M.Jr: Our program begins to run out. It goes down very sharply.

Young: In the spring of '42.

H.M.Jr: And they can add your program on there, and that is one way of doing it at no cost to you.

Purvis: Quite.

H.M.Jr: The other way to do it - you check me, both of you (Klotz and Young). He said that by spending a billion dollars they could begin to increase your production in 60 days. I don't know what he meant. Isn't that what he said?

Young: Yes. That means the creation of additional capacity over and above what is now occupied.

H.M.Jr: Let me give you a third factor and we will try to put them together, because Brett hadn't learned the story. Lyons had. This is what I sensed and I found out to be true. Congress provided that figure of 180 million dollars for new factories, supposedly for engine factories. Knudsen is taking that money to create an assembly plant to build 8,000 two-engine bombers and 4,000 four-engine bombers, but as I suspected, he hasn't got a dollar for orders.

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Purvis: Quite.

H.M.Jr: He hasn't. He has withheld certain information, but I suspected that, and I got that out of him this morning.

Purvis: Yes.

H.M.Jr: And when I asked him about where he could make room for you people, he said, "Now, what I didn't want you to know anything about was the Sterling bomber." I said, "Forget the Sterling bomber." I said, "In the first place, I will not help the English one iota at this time to create additional facilities for a model that we can't use."

Purvis: No, that is sound.

H.M.Jr: I said, "I do think, one, that you should make room for what the English want; two, give them an opportunity to give you the benefit of what they have learned through the fighting."

Purvis: Correct.

H.M.Jr: So Arnold says, "Well, that is what we have been trying to accomplish for months." I said, "I won't help them one iota, but they ought to have every opportunity." Now, right off the bat Knudsen said, "Well, you could have 1200 of the 4,000 four-engine bombers." Is that what it was?

Young: That is right.

H.M.Jr: You heard it.

Young: I heard it.

H.M.Jr: Is that what he said?

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Young: Yes.

H.M.Jr: I don't know how many Sterlings you wanted.

Young: 1200.

Purvis: 1200.

H.M.Jr: So he hasn't got a dollar and he hasn't gone out - now, we are talking very confidentially. He has made several addresses to automobile manufacturers, told them what isn't generally known - I put the two together. "Now look, gentlemen, you can't have a new '42 model." That is what I am sensing. "But in order to take the place of that, I am going to give you some orders to use your tool and die people, see, so that your tool and die people will be busy in an assembly plant." He has been bluffing them, because he has no money.

How much did he say he needed for 12,000 planes? Two billion dollars is the figure that he needs. He hasn't got it. I am not saying he can't get it, but --

Purvis: No.

H.M.Jr: Somebody said, "Who is going to go ahead and put the tool and die people to work when there are no orders?" And they are going to find that out, which I don't think is very smart. So it gives them a very swell place for you to come in, particularly as he has made the commitment of this 180 million dollars. He can't say that we are going to do this, and in the next breath ask the English to do it. I think Mr. Knudsen, with all of being President of General Motors - I don't think that bluffing all of the automobile manufacturers when he hasn't got the tools is very smart, or when he hasn't got two of a kind is very smart.

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Purvis: There is a certain community of interest there.

H.M.Jr: Absolutely. Now, what you people have to make up your mind about is this. He said there is room right now for some 3,000 planes before the 1200. Isn't that what he said?

Young: Yes.

H.M.Jr: So bringing in another 1200 brings it up to around 4200.

Purvis: This is the result of the discussion this morning.

H.M.Jr: 600 Harvards, 600 Hawks, 300 Dive Bombers (Brewsters), and if you people place an order with Brewster, I will never talk to you again because over the week-end I read Phil Young's report on Brewster, and if you want to have planes built in a skyscraper, that is a perfectly good place to build them. They might fly out of the sixth story, but I don't think a skyscraper is a very good place to build them. And your people were present. How can they recommend to you that you go to Brewster when it is absolutely - what was it, weren't some of the English along? (See Attachment C)

Young: Oh, yes.

H.M.Jr: How they can recommend Brewster is just beyond me. They are building it in a six-story building which was a Ford assembly plant, with a very low grade of help.

Purvis: And poor management.

H.M.Jr: You have got all kinds of trouble. It would be months and months.

750 Lockheeds, 300 B26's, 100 PBV's, and so forth. 4250 total. Now, the question on the 1200 --

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Purvis: They had to pry that out of Knudsen a little, because you gave him a slant on that and he mentioned the 3,000 without the 1200, so they pried pretty hard for the 1200.

H.M.Jr: Well, that checks.

Purvis: Yes.

H.M.Jr: That gives you 4250, but you wanted --

Purvis: Now, we wanted altogether 11,700, so that still leaves us with --

H.M.Jr: I thought you wanted 9,000.

Purvis: Well, yes, but 9,000 additional, and this includes three months, April, May and June, of the extension of the capacity that exists because our orders ended at the end of March, our 14,375 planes went to the end of March, so there are three months at 700 a month, or 2100 to 2200 planes which will be expected to come out of the capacity that has been created before.

H.M.Jr: But this he is ready to give you right away and resume the discussion in 60 days.

Purvis: Yes. The only thing - I am not being of a suspicious nature in any way, but I just wondered what the significance of 60 days was. It just comes out to January 20, I see, or is that just my heated imagination?

H.M.Jr: Oh, I think so.

Purvis: Now, in that 60 days, is it my understanding that he is to try and develop what more could be done?

H.M.Jr: He didn't say anything to me about 60 days.

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- Purvis: I would hate to lose the 60 days in getting going with the extra - though I understand, if it is essential, it could come after civil usage.
- H.M.Jr: What General Brett said, he said if at this time we tried to place another tremendous order, looking forward to 3,000 a month on October 1, you might so completely disorganize the program that instead of getting 3,000 you might only get two.
- Purvis: Otherwise, what Knudsen is trying to do is to see how to fit in in the next 60 days, I think, to see how to fit in any further program in such a manner as not to interfere with the existing program.
- H.M.Jr: Thirty days; I wouldn't say sixty.
- Purvis: Sixty seems to me a little long.
- H.M.Jr: This would be production beginning when in most cases?
- Young: He said today in his conversation.
- Purvis: Of course, it comes in --
- Young: On something like the Lockheeds --
- Purvis: The delivery prior to June, '42, is what I think it is intended to be.
- H.M.Jr: Another reason why I take this now, the thing that bothers me on all of this is that these are all more or less existing types.
- Purvis: Yes.
- H.M.Jr: And it doesn't give you anything, so to speak, really new.

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- Purvis: On the other hand, the feeling of our air people is that if you are going to make any major acceleration on the top of a large program as they have today, that in fairness to the manufacturers you should try and go pretty fast on new types for another six months or so. Then when the industry has got used to that new level, then you begin to change your types bit by bit.
- H.M.Jr: Isn't this quite different from what he had the plan for several months ago? And mind you, Arnold, when I mentioned it - I mean, Brett doesn't know about this. Did he? He didn't seem to know a thing about this.
- Purvis: This was the way it came out to our people this morning. Now, the reaction of Self and Fairey was very good. They were encouraged, distinctly encouraged at the fact that there was a forward push on this thing.
- H.M.Jr: Well, my offhand inclination is this - I mean, I take this with the understanding that you immediately wanted to go to work on the next program, not waiting, but immediately.
- Purvis: Yes. Well, I felt that rather strongly. I didn't like 60 days and I told Self I didn't like 60 days.
- H.M.Jr: Couldn't you say this, that necessary new people are coming over?
- Purvis: Exactly; on their way. They will be here tomorrow. They got a plane early.
- H.M.Jr: Is the Vice Admiral coming?
- Purvis: That is the only man who is not certain. We

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have got the two men originally sent. The question of whether Joubert comes tomorrow is --

H.M.Jr: Who is coming?

Purvis: I don't know who the additional man is. They are a strong team alone.

H.M.Jr: Would you take this? And then you would like to have the opportunity to see what is on the drawing boards.

Purvis: And they in turn will be able to say what we are thinking of.

H.M.Jr: I wouldn't tie myself up to 60 days.

Purvis: It looked to me to be too long.

H.M.Jr: I would say all right, "We will take this. This is fine, but this is just part of what we want, but we want immediately --"

Purvis:to proceed with the studying of the next proper steps. I felt that way strongly.

H.M.Jr: You would like to see what is on the drawing boards. And now another thing that somebody told me - was it Knudsen or Brett - that you people really don't want any more Lockheeds because you now find that you can't bail out of a Lockheed.

Purvis: Yes. Apparently --

H.M.Jr: Who told me that?

Young: Knudsen.

Purvis: There was general agreement of all concerned that the Lockheed was not an easy machine to

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get out of, and in these days it is best to be able to get out.

H.M.Jr: Then why order 750?

Purvis: The idea is a change in design.

H.M.Jr: Because I, purely as very much of a layman, and listening to everybody that comes in, have always had grave doubts about a two-engine fighter, because I know what it takes to synchronize two engines.

Purvis: It is difficult, yes.

H.M.Jr: I have listened to the people trying to synchronize two engines, and they say well, they can do it automatically.

Purvis: That is nonsense.

H.M.Jr: And if Lockheed has capacity, why can't you take up this capacity for more bombers?

Purvis: Yes.

H.M.Jr: Use up his capacity for something. They say Lockheed is now running out of orders shortly. That is why they gave it to you.

Purvis: I imagine that what was happening was that Mansell was agreed on a new design of some kind in the Lockheed ships.

H.M.Jr: I would make awfully sure. I would say that you would take up the capacity of the Lockheed, but you don't want to say as to what model it will be.

Purvis: I think they probably have had some conversation of which I don't know. I know for instance that Self --

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- H.M.Jr: You see, after all, this Lockheed interceptor now is at least a year old.
- Purvis: Yes.
- H.M.Jr: You are getting the Curtiss P-40, which you will know shortly if it is any good, and then the next thing that comes along is the Bell. Now, you want something which is one step ahead of that and we are not at all sure the Lockheed interceptor is it. It is at least - it has been flying around for a year.
- Young: Isn't that just the point? Why shouldn't we pay more attention to increasing experimental facilities?
- H.M.Jr: Well, and I was thinking, for instance, if this Bell fighter which is really a new thing - because the engine is behind the pilot and you get this entirely different center of gravity, you get this cannon being fired through the propeller. If it is good and if Mr. Allison comes along with an engine which he thinks would go up to 1350 and you stick that thing in there, in that Bell fighter you have got something.
- Purvis: Yes, that is right. As you say, it is a fundamental change in type.
- H.M.Jr: But if you can go right from 1050 to 1350 - well, but I greatly question that Lockheed interceptor.
- Purvis: Yes. I can't help believing there is some new model situation that one doesn't know about in connection with that.
- H.M.Jr: That is why I wanted these men over here and let them immediately go out to Dayton and then make a swing around and find out what is there.

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Purvis: Yes, quite.

H.M.Jr: I have been getting down to too many details. Now, let's go back again and go over this thing. You are going to work with Philip today, tonight if necessary, and shall we meet at 10:00 o'clock tomorrow morning? Would you be ready?

Purvis: Yes.

H.M.Jr: At 10:00 o'clock tomorrow we will start in. Let's say 10:15. And at that time you will have something to support this.

Purvis: Yes, that is right, which you (Young) and I will have to work out.

H.M.Jr: Yes, to support this.

Purvis: That is right.

H.M.Jr: What?

Purvis: That is right. That I think we can do without too much difficulty. The thing that worries me a little more is the arriving - arriving at a list of - to accompany the message from the P.M. which can be without damage to the enemy, which can be announced if desirable, if the President finds it desirable.

H.M.Jr: Well, when you give it to me I am going to take it, and whatever you give me is - your Government will be ready to have that released.

Purvis: All right, then we have got to work on that this afternoon.

H.M.Jr: Don't give me anything tomorrow at 10:00 o'clock that you are not willing to have made public,

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because I mean - I only want it for publicity purposes.

Purvis: Quite.

H.M.Jr: Publicity.

Purvis: Quite. This message, of course, that I have handed you, was also partly with the idea, I think, that if there was - I mean that there might be more intimate news or something like that. There might be sort of a sweeping situation arise where this would sweep away the cobwebs and enable construction to go forward. But that is a different matter. We are dealing with two separate things here, as I see it. One is to get our orders placed very rapidly, which might require a lead from the President to those sections here which might otherwise be causing the machinery to correct unintentionally in the Cabinet itself, and the other is what he may feel it is wise for the public - allowing us to place fresh and large orders.

H.M.Jr: Have you (Young) checked everybody who is coming at 3:30 tomorrow? Knudsen said he didn't know about it.

Young: Yes, I saw that conversation. I checked back. His secretary did know it and has it on his calendar. Nelson is out of town and is down in Memphis and won't be in until tomorrow morning. It is put down on his calendar. Jones said he would call me today, because he would like to talk to me about it first, and I haven't heard anything from him.

H.M.Jr: Better follow it up.

Young: Do you want Schram, in addition to Jones?

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- H.M.Jr: No, let Jones come alone.
- Young: Stimson and Knox are all right, and it is very interesting. I had a long talk with Palmer Saturday. You know, he works for Stimson, Dr. Palmer.
- H.M.Jr: Yes, I know. Stimson calls him his "Philip Young."
- Young: Well, he is the fellow. He and I had a long talk Saturday morning on this whole outlook, including the financing program, which he hadn't any of the background on. He evidently had a long talk with Stimson about it, just outlining the general picture with broad sweeps of the brush and so on. Stimson is very enthusiastic and thinks it is wonderful and want to do something along those lines. I mean, presumably he had never had an adequate picture of it before or hasn't taken the patience to try to understand it, and Stimson told Palmer to tell me that he would be delighted if we had any other ideas if I would come over and talk with him about it.
- H.M.Jr: Well, don't you think it would be good for me to call up Knudsen and ask him that this thing that he has talked with Fairey, if he could get that over to Stimson this afternoon yet so he would be thinking about it?
- Young: Yes.
- H.M.Jr: So Stimson doesn't come in cold.
- Young: I can do it via Palmer again.
- H.M.Jr: Well, I think this way would be better. It is one thing when Stimson says, "I will send my man over," and it is another thing

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for me to ask him. I took some chances today when I sent for General Brett without asking.

Young: Have we paid any attention to developing experimental facilities?

H.M.Jr: Oh, yes.

Young: Where are they.

H.M.Jr: At Dayton. We haven't seen them, that is all.

Young: We don't hear anything about it.

H.M.Jr: I did when I went out there, Phil. They showed me everything. The few times I went around, I saw the secret engine that the Navy is going to get, hope to get from Lycoming. I saw the secret engine of Pratt & Whitney and Curtiss-Wright. They all have an engine coming along, you see. As to planes, I mean - when you don't travel any more, I am out at Dayton, because I haven't done it since when, May? And that is why it is so important to have these people.

(Telephone conversation with Mr. Knudsen follows:)

October 28, 1940
3:12 p.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Wm. S. Knudsen: Yes.

H.M.Jr: Henry talking.

K: Yes, Henry.

H.M.Jr: I'd like to make a suggestion if I may.

K: Go ahead.

H.M.Jr: Could you get over to Stimson and Knox tonight the things that you talked to me about on the planes and also that you talked with Fairey about?

K: Sure.

H.M.Jr: I mean, could you get it over to them so that they won't be

K: Sure. I've got it written up. Yeah.

H.M.Jr: Pardon me?

K: I've got it written up.

H.M.Jr: And send it over and mark it urgent so that if they have some questions

K: All right.

H.M.Jr: I had Brett over here this morning and Brett was absolutely cold on this thing.

K: He was what?

H.M.Jr: He was cold, I mean, he didn't know anything about it.

K: Oh, I see. Well, you had a talk with Stimson didn't you?

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H.M.Jr: I talked with Stimson. Stimson knows what it's all about, but I haven't told him what you told me this morning.

K: Well, of course I thought I'd tell it to the English first and I did and they said they'd be happy to get that far in the beginning. They're not ready to go ahead with their big expansion program so these planes that you're talking about - they go into the certain facilities. See?

H.M.Jr: But could you bring Stimson and Knox up to date?

K: Yes, I will.

H.M.Jr: today so that they have 24 hours to think about it.

K: All right.

H.M.Jr: Thank you.

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- H.M.Jr: He hadn't done it and wouldn't have done it. That is why I came back today, to give this thing this push.
- Purvis: Are any of those complimentary finance programs held up in Knudsen's office? They are not in Stimson's hands.
- Young: They are held up in Knudsen's office and RFC is very doubtful whether they will go ahead on some of it, for instance, unless there is some provision for the Army to buy the plant back. That is another stone wall.
- Purvis: Of course, we will never move this - we will never get orders placed unless that machinery can be oiled, will we?
- Young: Not unless you are going to pay for them.
- Purvis: In advance, you mean. We will pay for them anyway. The only question is in advance. But I think the answer is, it will have without question an effect upon the number of orders we will place, which I think again genuinely has an effect on U. S. defense.
- H.M.Jr: But Arthur, knowingly or unknowingly, I am not smart enough because I lay my cards on the table. What has happened is Knudsen is taking part of 180 million dollars for U. S. Army appropriation and going to build an assembly plant and he is offering you part of that production without the cost of a penny to you.
- Purvis: Yes, quite. That side of it is - I mean, that is - "hell, that is perfect," isn't that the story?
- H.M.Jr: Well, this is just a never ending fight. The days aren't long enough and --

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Purvis: No, that is right.

H.M.Jr: And I hope that my health can stand up, because if it keeps coming back so much on me --

Purvis: It does. It comes right through to here. That is what worries me. It seems to me that this is too cumbersome a machine to work that way. What is your feeling about it?

Young: Yes, if there is any other way to do it.

H.M.Jr: Well look, there are 800 people over there in National Defense, and whether it is 800 or 8 and whether you and I have got a corner grocery store or whether it is this thing, it all gets down to humanity, humans, and I am for the moment on the basis that I can call up Phil without his taking offense and say what he ought to know, "Would you get this thing over to Stimson tonight so General Brett can have a look at it before tomorrow so we don't have them coming here cold." They have to have three days to think about it. So all your committees and everything else, it just gets down to - and whether they are dealing in the state of the world or whether we are dealing in a monetary profit, it all gets down to the same thing.

Purvis: I would like to see this thing so that orders can be placed with reasonable rapidity.

H.M.Jr: Well, this thing of Churchill's here certainly ought to help a little. I don't think the President needs it, but I haven't kept running to the President and simply saying how terrible this is and that is. In fact, I have said practically nothing because I figured he had enough worries.

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- Purvis: If he could at a certain juncture, however, get together his Cabinet and indicate to them the desire to help in that situation of accelerating this placing of orders, it would provide a background for you (Young) that you don't possess today for the efforts that you and Cox and everybody have made.
- Young: Everybody kicks because there has never been any question of policy.
- Purvis: We would like very much for the policy to crystallize.
- H.M.Jr: After election I can get a little rough. I have had to hold back.
- Purvis: Yes, I have realized that.
- H.M.Jr: I mean, I can't get rough because of the pressure on these fellows.
- Just to give you a little story which - let's say it is correct - Joe Alsop has supper and he has Mr. and Mrs. Arthur Krock there for supper, and Martha Blair, who is Krock's wife, turns to Joe and says, "You know, I am sick and tired of having my home used as Republican National headquarters, because Arthur spends all his time on the telephone trying to get the various members of the National Defense to come out for Willkie," see. So I think considering everything, I think we have really done very well.
- Purvis: Oh, so do I. I have no doubt about that.
- H.M.Jr: I think we have done pretty well, but I can't get rough. I can't get to pounding the desk at a point where somebody - well, if they don't like it, they can leave town, but certainly if the President asks me to continue

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to do this after election, I am going to get damn rough.

- Purvis: If that could be used before you left to crystallize out an instruction to get ahead with the placing of these things along certain lines while you were away, then our people could work on that with your people here. It is the lack of that general policy thing which, as you say, perhaps can only be given after.
- H.M.Jr: I mean I can't get to the position where a fellow says, "Well, if you don't like what I am doing, you can go home," but I can do it the day after election.
- Purvis: Yes. Do you think it might be possible to give that policy four minutes of expression before you left?
- H.M.Jr: I am afraid not, because - I can't do that unless I get absolute orders from the President.
- Purvis: Yes, yes.
- H.M.Jr: And whether - certainly he isn't going to tell me that for a day or two after election, and if he sees me for a day or two after election, if he sees anybody for a day or two after election, but maybe I will have to wait until I can see him.
- Purvis: It is the essence of it, because I think all of the struggles have been ably made here.
- H.M.Jr: The way the thing is going, I am not going away until I do get this thing straightened out because I am not going to be down in Porto Rico or Kingston and - I just wouldn't be happy.

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Purvis: But what I can't stand just now is to get a thing like that.

H.M.Jr: You can't do it. You know what it is with your own people.

Purvis: I do.

H.M.Jr: Look, could somebody at the Embassy, if you would make a little note, send a cable for me? My daughter Joan has a friend at school who has gone to the Good Hope Ranch. It is across from Kingston and they say it is a very, very lovely place.

Purvis: Kingston, Ontario?

H.M.Jr: No, Kingston, Jamaica. They say it is a beautiful place, and could they find out if it is open - would they recommend that place or would they recommend some other place for us first to go to, please? Would you mind doing that for me?

Purvis: Oh, no.

H.M.Jr: Somebody in the Embassy. Joan has some friends there and they say it is a mile and a half up and then you go down.

Purvis: Yes, I will take care of that.

H.M.Jr: I suppose before I go away I will have to get this thing straightened out.

Purvis: Well, I am perfectly sure of this, that when it does become possible to get the policy and position in a broad way at the top, then we are off to the races. Until that, I think the struggles - which have been very ably - the beautiful working of this machinery, which does work but it works slowly --

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- H.M.Jr: That is also part of your Government's fault. They have come through now with this plane order which is only about ten days old.
- Purvis: Yes, that is right. We have made rapid progress.
- H.M.Jr: You have got 4,000, so I mean we are not doing so badly.
- Purvis: Oh, no.
- H.M.Jr: And also, they insist on this darned 25-pounder, which I told them that they - that I couldn't recommend. They have wasted a lot of time on that. General Strong told them that when he was in England, that they couldn't have it.
- Purvis: It was four months ago that I told them from here.
- H.M.Jr: So I mean it is --
- Purvis: Oh, I mean there is nothing - you know what my struggle has been.
- H.M.Jr: I don't think you have waited around an awful lot.
- Purvis: Oh, no.
- H.M.Jr: But you oughtn't to have waited at all.
- Purvis: Well, that is all right, but I mean it is merely that now, I think, as with all the delays that have taken place in making up their minds on the other side, thank heavens now they are ready. It is just a question of whether we can get this so it doesn't correct quite so much and I can quite realize the limitation of the existing days.

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H.M.Jr: Well, it is --

Purvis: The original idea on the airplane side that Self had wanted is that. (Handing document to the Secretary). He asked me to ask you whether he should go back - this is what before the meeting with Knudsen we have been thinking of telling you as the basis for any public announcement, that that was what we wanted. This is Self's draft. I haven't seen this before.

*See all to
meeting re
10/2-79
at 10:00 am*

H.M.Jr: That is no good for this purpose. What I envisage is this: if you have done so much, whatever the date is, that you have spent so much to increase your productive capacity and now we are in the process of negotiating orders for so many tanks --

Purvis: Yes.

(Telephone conversation with Mr. Stimson follows:)

October 28, 1940
3:25 p.m.

H.M.Jr: Hello.

Operator: Stimson.

H.M.Jr: Hello.

Henry Stimson: Hello, Henry.

H.M.Jr: How are you?

S: Well, I'm in sort of a maze. (Laughs). I apologize for calling you because I imagine you are very busy.

H.M.Jr: No, I'm never busy when you call.

S: Well, that's very good of you to say so, but I learned that after I had left here - I left here at 1 o'clock on Saturday that - Palmer went up with me on the plane, and he told me that he had heard through Philip Young that there was something on in the shape of a statement - a broad statement of public financial policy relating to the British demands that was going to be made.

H.M.Jr: Well, the way the President asked - you remember I made the suggestion to the President at Cabinet and he said to try to get something by Monday and I said I couldn't, but I hope to get it to him Tuesday night.

S: I guess you made it right after Cabinet didn't you?

H.M.Jr: No, at Cabinet.

S: Well, I didn't understand it. I didn't catch it at all.

H.M.Jr: No, and I said that I would give it to you and Knox to check before I gave it to the President.

S: Yes. Well, as I understood - perhaps Palmer gave me a different position - I thought it was a fine thing if I understood it right.

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It was apparently - I mean, as he represented it, it was to be a broad statement of what he intended to do in those lines and his policy.

H.M.Jr: That's right.

S: And laying the whole thing on the table.

H.M.Jr: That's right. Now, what we're doing is - we're drafting it and I hope to have it ready sometime by noon tomorrow, at which time I'll send you a copy. I'm sorry I don't have it ready earlier, and at that time - so that we can take it up at 3:30.

S: Yes, I see.

H.M.Jr: And if I don't have it

S: Well, I wanted to arrange so that there wouldn't be any delay by my

H.M.Jr: Well, the minute it's ready, I'll get it to you, but it isn't written yet because they had to cable over. You remember, I said they'd cable over and get the information? Well, Purvis

S: Well, I was thinking that it was the information about the other propositions that have come to me already on the

H.M.Jr: Well, this is the whole thing - the guns, the planes, everything.

S: Yes. Well, as to the planes, I haven't heard, I haven't had any consultation with you since I received the Britishers last proposition. The last proposition rather upset me. It was a good deal further than they had gone before.

H.M.Jr: Well, Bill Knudsen sent for the English Mission this morning after calling me first, and he made a proposal to them which goes

S: Who did this?

H.M.Jr: Knudsen.

S: Yes.

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H.M.Jr: And I just got through talking with him and asking him wouldn't he please send his proposal to you and Frank Knox at once.

S: Knudsen would.

H.M.Jr: Yes.

S: Well, I just heard from Arnold that Knudsen was against some of the things in this last proposal.

H.M.Jr: Yes, he is. But Knudsen is sending you a piece of paper - an explanation and one to Frank Knox at once on the planes.

S: Where is Knudsen? Isn't he here?

H.M.Jr: He's in his office.

S: Yes, then that may come here very quickly.

H.M.Jr: It ought to be there any moment.

S: And then, what do you want me to do?

H.M.Jr: Well, I thought that you'd

S: Is Knox here in town?

H.M.Jr: He said he wouldn't get back until tonight, but what I thought you would do would be to turn it over to your - to General Brett and let him study it for you.

S: Yes. Yes, I see. It's a corrected or amended British plan.

H.M.Jr: No, it's a Knudsen plan.

S: Yes, I know, but does it take the proposals of the British and amend them?

H.M.Jr: Yes, it amends it and it tells them what they could have in the next six months out of existing production without creating any new facilities, and also taking them in on this new plan as far as 4-engine bombers go.

S: Yes.

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H.M.Jr: Now you know, here's the thing that worries me sick: you most likely know this but I didn't until this morning. The Government has the money to build these two plants for these 4-engine bombers and the 2-engine bombers that Knudsen talked to the automobile people about, but they haven't got one dollar for orders. Did you know that?

S: You mean the companies haven't

H.M.Jr: No, the U.S. Government.

S: Oh

H.M.Jr: The United States Government hasn't

S: The Government hasn't got the money to pay for the orders?

H.M.Jr: Not a dollar. Not one dollar.

S: (Pause) Ah

H.M.Jr: I was quite shocked when I learned it. Not a dollar.

S: Well, they've been signing contracts for all the things that they have.

H.M.Jr: Oh, yes, but this is this so-called Knudsen assembly plan which he put up

S: Oh, yes. No, they haven't

H.M.Jr: which he put up to the automobile people last week. He has money to build the assembly plant but no money to give them any orders.

S: No, of course, they couldn't of had it unless there was some new appropriation up.

H.M.Jr: No, they have nothing.

S: Well, not being a financier I hadn't thought of that phase of it - I thought simply of getting the plant. (Laughs).

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H.M.Jr: Well, you're I think the same kind of financier that I am at home - that you don't want a charge account unless you can pay for it at the end of the month.

S: (Laughs). I don't usually.

H.M.Jr: What?

S: No, I don't usually.

H.M.Jr: But Knudsen made a suggestion to the English, which would make available at once production amounting to 4200 planes and that - his suggestion he's sending over to you and to Knox.

S: But he needs money for it.

H.M.Jr: No, this is for the English.

S: This could be done with English money.

H.M.Jr: Yeah, with English money, but the English wouldn't have to put up any money for plant.

S: Yes, yes, I see. Well, that's good. What kind of planes?

H.M.Jr: Well, just what they've asked for except it's less - I mean, it's the 4-engine bombers, 2-engine bombers, dive bombers, training planes

S: Well, I'll be glad to see that. I want to get it just as quick as it gets here. Well, now the other thing is, I was called up at lunch just a little while ago by Layton. Have you heard from him?

H.M.Jr: From Layton? No.

S: Well, he's got his telegram back from the people abroad approving of the Ordnance plan.

H.M.Jr: I see.

S: That's all to the good.

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H.M.Jr: Fine.

S: But he talked in vague terms about a second one which - (laughs) - apparently he's scared to death to speak to me about because of the objections that Purvis and not he should speak, and that, coupled with the hazy information that I got from Palmer, has left me in a whirl. I don't know where I am.

H.M.Jr: Well, would you like to see Purvis any time today because

S: (Laughs). Oh, no.

H.M.Jr: You don't.

S: No. As long as I'm going to get it from you tomorrow, Henry, that suits me all right.

H.M.Jr: Well, you're going to get two things - Bill Knudsen is going to give you his counter proposal to the English this afternoon and I'm going to give you a draft covering the whole program which I'd like your advice on before I submit it to the President.

S: I see. Well, I'll try - if Knudsen will get that to me, I'll try to get it in the hands of Brett and get his views on it and try to get to talk with Knox just as quick as he gets back and as quick as I can get hold of him.

H.M.Jr: Right.

S: All right. You make me feel better. I felt as if I was somehow wandering like Mohammed's comet - often between the heaven and earth without touching anything.

H.M.Jr: No, you've got both of your feet on the ground.

S: All right. Thank you very much.

H.M.Jr: Thank you.

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H.M.Jr: Your friend Layton called him up at noon today to tell him he has gotten an answer on the thing. He is all upset and he is between heaven and earth. That is the way he felt. He didn't know where he was at, and all that stuff. Well anyway, you heard my end of the conversation.

Purvis: Yes, quite.

H.M.Jr: So I think we are about as far as we can go.

Purvis: I think so, and we will try and get these in shape.

H.M.Jr: I just wanted - 10:15 is time enough.

Purvis: You were saying that the way --

H.M.Jr: It is only repetition. I have told you.

Purvis: So many tanks, so many guns, so many airplanes --

H.M.Jr: And the fact, for instance, that you want, say, 9,000 for the moment - Knudsen has only given you four. The figure you want is nine, not four, and you are in the process of negotiation for nine, not four.

Purvis: That is right.

H.M.Jr: Thank you.

Mr. Salter 10/27/40

MOST SECRET

London,
October 27, 1940.

To: Purvis
From: Salter

Please request Mr. Morgenthau to convey the following message to the President from former naval person:

"We have not yet heard what Vichy has agreed to.

If, however, they have betrayed warships and African and other Colonial harbours to Hitler, our already heavy task will be grievously aggravated. If Oran and Bizerta become German-Italian submarine bases, our hopes of stopping or impeding the reinforcement of the hostile army now attacking Egypt will be destroyed, and the heaviest form of German-organized Italian attack must be expected. The situation in the Western Mediterranean will also be gravely worsened. If Dakar is betrayed, very great dangers will arise in the Atlantic unless we are able to rectify the position, which will not be easy.

On the other hand, the announcement of Vichy's terms may lead to much desired revolt in the French Empire, which we should have to aid and foster with further drains upon our slowly expanding resources.

Either way, therefore, immense exertions will be required from us in the Mediterranean during the next year.

We are endeavouring to assemble a very large army in the Middle East, and the movement of troops thither from all parts of the Empire, especially from the Mother country, has for some months past been unceasing. The campaign which will develop there certainly in the new year, and which may involve Turkey and Greece, makes demands upon our shipping and munitions output and resources which are enormous and beyond our power without your help to supply to a degree which would ensure victory.

All the time we have to provide for the defence of the island against invasion which is fully mounted and for which sixty of the best German divisions and superior Air Forces stand ready.

Lastly the U-boat and air attacks upon our only remaining life line, the northwestern approach, will be repelled only by the strongest concentration of our flotillas.

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You will see, therefore, Mr. President, how very great are our problems and dangers. We feel, however, confident of our ability, if we are given the necessary supplies, to carry on the war to a successful conclusion, and anyhow we are going to try our best.

You will, however, allow me to impress upon you the extreme urgency of accelerating delivery of the programme of aircraft and other munitions which has already been laid before you by Layton and Purvis. So far as aircraft is concerned, would it be possible to speed up deliveries of existing orders so that the numbers coming to our support next year will be considerably increased? Furthermore can new orders for expanded programme also be placed so promptly that deliveries may come out in the middle of 1941?

The equipment of our armies, both for home defence and overseas, is progressing, but we depend upon American deliveries to complete our existing programme which will certainly be delayed and impeded by the bombing of factories and disturbances of work.

A memorandum on the technical details is being furnished you through the proper channels, and having placed all the facts before you I feel confident that everything humanly possible will be done. The world cause is in your hands."

} see Schmitt
A attached
to 10:10 am
meeting 10-24-41

Only days ago the statement was made that far from carrying out a policy of giving all aid to Britain short of war, this Administration had in fact held back such aid and had given only the illusion of carrying out such a policy.

Let us on this issue also examine the true facts. Long before the originator of this charge had tardily come to the realization that this policy provided one of the best opportunities of successful strengthening of United States defence, this Administration -

(a) had expressed its condemnation of the aggressor actions of the totalitarian nations;

(b) had asked the Congress to amend the Neutrality Act to permit of supplying the Allies with the weapons for which as democratic and peacefully inclined nations they had not prepared their factories in advance;

(c) had assisted Great Britain and France in launching a great new aeroplane production programme in the United States by releasing under suitable safeguards designs for the latest type U. S. aeroplanes;

(d) had strengthened the forces of Britain against invasion by making it possible after Dunkirk for her to acquire very large quantities of guns, ammunition and other war equipment surplus to that required for U. S. defence, and

(e) had even granted priorities and releases on certain Army and Navy newer equipment which the appropriate military and naval officers felt could be released without detriment to the defence of this country.

And make no mistake - while all these steps were taken in fulfillment of the very policy to which we are now accused of paying but lip service - they were also taken in the same conviction as my worthy opponent himself has expressed, namely that this course represents the best to keep war away from the shores of the continent of the Americas.

Of course there is more to do - not alone to enable that valiant country Great Britain, and its Allies, successfully to play their part in the defence of democracy, but in order to give us the best chance of remaining at peace on this side of the water. This nation must be prepared to make great sacrifices of its ordinary daily comforts in order to build up with every speed at our command our industrial armament capacity. By the prompt production of the still greater quantities of aeroplanes, guns, tanks and ammunition required, we shall help ensure the triumph of the democratic powers in resisting the brutal attacks made on them by the aggressor nations.

-2-

And I have not hesitated, in the interests of our country's safety, to harness to the purpose of that safety the desire of the democracies to buy from us weapons of all kinds. It is importantly as a result of such orders that we are beginning to reach a scale of production which is giving some would-be aggressors "furiously to think". Yes, safety now lies in achieving with every speed possible a great capacity of production of all weapons of all types. There is not an instant to lose and in the knowledge that it helps the defence of our country this Administration will even intensify its efforts to continue giving real - not lip - service to the policy of "All aid to Britain short of war", and will ask such sacrifices from our people as may be necessary to carry it out.

Received from
Person's Oct. 28/40

181 "C"

Additional Orders Proposed by Mr. Knudsen
For Immediate Release

600	Harvards (N. American)
600	Hawks (Curtiss)
300	Dive Bombers (Brewster)
300	Bostons (Douglas)
750*	Lockheed 37 (Lockheed or Hudsons)
300	B26 (Martin)
150	PBY3 Flying Boats (Martin)
50	PB2Y do. (Consolidated)
? <u>1200</u>	B24 (Consolidated) new plant
<u>4250</u>	TOTAL

*In addition to 360 Hudsons approved for delivery prior to June 1941.

- 1) No plant cost to U.K.
- 2) Engines and propellers supplied by U.S.
- 3) Guns supplied off U.K. contracts in U.S.A.

Resume discussions on further development of new capacity in 60 days time.

Washington
October 28, 1940
ABP

G-2/2657-220

RESTRICTED

No. 231

SITUATION REPORTM.I.D., W.D.
October 28, 1940.
12:00 M.

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

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

The German Air Force conformed to its established pattern of operations on the 26th and 27th. Daylight attacks on the South of England were light on the 26th and normal on the 27th. Night attacks centered on London, Liverpool, Birmingham and Coventry. They were heavy on the night of the 26th-27th, and very heavy last night. In addition German planes, probably based on Norway, attacked along the north coast of Scotland on the 27th.

The R.A.F. was hampered in its night operations on the 26th-27th by bad weather. However Berlin, Leuna, Stettin and Cologne were attacked. Last night normal operations were conducted against communications in western Germany and against Berlin.

II. Greek Theater of War.

Following the rejection of an Italian ultimatum, hostilities began between Greece and Italy at 6 A.M. today. No information is available as to ground or naval operations. News reports indicate that the airdrome at Athens and the harbor of Patras have been bombed.

III. Mediterranean and African Theaters of War.

No ground operations reported. Widespread minor bombing raids were carried out by both sides in North and East Africa.

RESTRICTED

Paraphrase of Code Dispatch
Received at the War Department
at 09:35, October 29, 1940.

CONFIDENTIAL

London, filed 12:10, October 28, 1940.

1. The Bomber Command dispatched twelve planes on daylight missions on Sunday, October 27th, but the results of the attacks were inconclusive. That night 108 sorties were planned, 48 against oil targets, 20 against Berlin, 12 against enemy communications, eight against Czechoslovakian factories, nine against enemy airdromes, six against Channel ports, and five for minelaying. The bombing attacks scheduled for the night of October 26-27th were carried out successfully with 89 planes, of which one is missing and one crashed on landing. The day and night missions of the Coastal Command consisted of 88 sorties, 20 convoy escorts and 55 patrols, with one plane missing. The Fighter Command operated 967 planes on 66 patrols.

2. The German Air Force made four main daylight attacks over Southeast England on October 28th, consisting of about 60, 60, 35, and 115, respectively. Almost all of these were fighters. In addition, there was an attack by about 50 planes over Southampton. A total of about 500 German planes came over Britain. That night German operations were less than the previous night with attacks on airdromes at dusk and attacks over wider areas the outstanding features. After 1:00 A.M. only nuisance raiders operated.

3. German plane losses were ten confirmed, seven probable and nine damaged. The British lost nine planes and five pilots.

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4. The Royal Air Force in the Eastern Mediterranean carried out its usual active operations, losing no planes. Three Italian planes were destroyed.

5. Of the total of 16 airfields attacked, five reported a few casualties and damages to non-essential buildings, with five planes damaged. The remaining fields suffered little or no damage. The details reported indicate that these attacks were rather half-hearted, consisting in some cases of nothing more than machine gunning and in no cases strong enough to neutralize these fields. Many fires in Coventry were started by a heavy raid on that city but they were soon under control after four munitions factories had been affected. Elsewhere one airplane plant and one tinmith shop were damaged and production stopped. The attacks on London resulted in the blockade of two railroads. The London water supply has been somewhat crippled lately, but is now almost normal. The work of the Royal Engineers has been of great assistance in salvage work.

6. A total of 15 ships from the convoy which suffered heavy losses on October 19-20th have arrived in Britain. Another convoy of 23 ships has reached port without losses. The Express of Britain is afire but still floating. Four trollers were reported sunk, one by mines and three by bombs; and one was damaged by a collision. Two submarines are now overdue and given up as lost. A Polish destroyer was damaged in a collision.

CONFIDENTIAL

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7. Reliable information just received confirms the fact that German preparation and training for an invasion continues, but there is no indication of an immediate attack.

8. Unoccupied France is overrun with German commissions requisitioning war material and controlling the rationing system, exit permits, French industry and Government appointments.

9. The head of the Intelligence Section in the War Office yesterday expressed the conviction that Germany will not go to war in the Balkans but will use the coming winter to hove from within. He believes that the enemy is somewhat perplexed as to how he can end the war before the very large resources of the United States become available. He expects a strong and insidious German peace offensive to be launched at an early date.

LMB

Distribution:

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

CONFIDENTIAL

October 28, 1940

Dear Randolph:

Thank you for your letter of October 23rd furnishing me with your available information on Chile and Japan.

Your prompt compliance with my request for such data is very much appreciated.

Yours sincerely,

Henry

Mr. Randolph Burgess,
The National City Bank,
New York, New York.

October 26, 1940

Dear Randolph:

Thank you for your letter of October 23rd furnishing me with your available information on Chile and Japan.

Your prompt compliance with my request for such data is very much appreciated.

Yours sincerely,

Henry

Mr. Randolph Burgess,
The National City Bank,
New York, New York.

October 25, 1940

Dear Randolph:

Thank you for your letter of October 23rd furnishing me with your available information on Chile and Japan.

Your prompt compliance with my request for such data is very much appreciated.

Yours sincerely,

Henry

Mr. Randolph Burgess,
The National City Bank,
New York, New York.

The National City Bank
of New York
ESTABLISHED 1812

New York October 23, 1940.

OFFICE OF
THE VICE CHAIRMAN
OF THE BOARD

Dear Henry:

Since talking with you on Friday I have tried to get together a few facts about the position of Chile, and find the usual difficulties. At the risk of some margin for error it seems fair to say that the position of Chile is likely to be less seriously impaired than that of a number of other South American countries. While copper exports were curtailed with the closure of European markets, substantial exports of copper are now being resumed and I am informed that the copper companies are stepping up their production rapidly so that for the whole year the returns to Chile from copper are likely to be about as good as last year, and 1941 should be a good year. Their nitrate exports are likely to show a substantial decrease. I am told that their current exchange position is about \$6,000,000 or about one month behind; that is, their control has applications for dollars which are that much in arrears. Compared with some previous times and with some of the other countries this could be worse.

As against the benefits Chile will derive from increasing copper production in the broader sense it appears that, due to the lag in payment dates, the amount of taxes which the government will receive from copper companies in 1940 will be several millions of dollars below 1939. This would be offset to some degree by the substantial profits which presently should be available from the exceptionally good nitrate year which ended

- 2 -

June 30 last.

Imports are on the increase. The following comparative figures are in thousands of gold pesos, say five to the dollar.

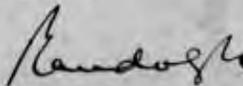
	<u>1939</u>	<u>1940</u>
April	28,732	39,857
May	35,545	36,855
June	32,402	38,517
July	37,287	47,137
August	40,677	48,574

Almost half the imports in July and August 1940 came from the United States. As there have been no important foreign capital investments in Chile recently, and as Chile has not been able to borrow abroad, some observers feel that she has imported excessively.

The most difficult part of the Chilean picture is the political one, and on that point I am enclosing a few paragraphs from a letter we have just received from Chile written early in October.

Our information about the economic position in Japan is scanty, as our people do not feel free to write to us very intimately. I am, however, enclosing quotations from two letters, one from one of our own people, and another from an American business man who was temporarily in Hawaii. These give some light on the situation.

Sincerely yours,



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

WRB.H
encl.

October 8, 1940

Extracts from a letter received from Chile:

"Chile - During the month the President of the Republic met with the leaders of the Political parties of the opposition and asked for the cooperation of their parties' representations in Congress in order to obtain the rapid approval of some projects of Law of great national interest. The President of the Radical party and the Minister of Finance also attended this meeting.

"The opposition leaders are reported to have informed the President that their cooperation along the requested lines would be subject to the following conditions:

- Dissolution of the Chilean Confederation of Labor
- Liquidation of the Communist party
- Return to the country of Mr. Gustavo Ross Santa Maria
- Withdrawal of the present Minister of Finance
- General Amnesty
- Electoral guarantees for the Right Parties in the 1941 elections
- Suppression of the Socialist militia
- Strict application of the labor code to avoid strikes and labor conflicts.

"The meeting and subsequent conversations did not result satisfactorily and in reply to the demands formulated by the parties of the Right the President issued a manifest to the country in which he analyzed the present political situation. According to the President he had been unable to arrive at any harmonious agreement with the opposition parties for obtaining the rapid approval from the Congress of some laws of the greatest importance for the country or to modify the financing of other laws already approved on a basis considered impractical and inconvenient by the Executive. He added that the conditions imposed by the opposition parties are unacceptable and that he would not break the obligation contracted with the Governing parties forming the Popular Front and that regardless of the circumstances he will continue to comply with the program even though the same political parties which elected him might become indisciplined and divided. In his opinion it was the duty of the Parliamentary majority (the rightists) to give to the Executive the means indispensable for governing the country. He then referred to the laws causing the differences between the Executive and Congress such as the budget law and those which increased the salaries of the Army, Navy, Police and teachers and professors, the amnesty law covering political crimes, etc.; on these matters he will make use of his Constitutional prerogatives and reject any dispositions considered inconvenient for the Government.

"The directors of the opposition parties, the Conservatives and Liberals have replied to these charges, making a public declaration in which they declare to the President that if they merit any reproach it would be for their excessive complacency in always seeking harmonious compromise between their view points and those of the Executive, and in their desire not to produce any disturbances in the Constitutional order in Chile. They also made a detailed explanation of the reasons for passing the laws in the form which the President objects.

"Congressional activities - The Minister of Finance caused a sensation when he addressed the Senate in an effort to have that body reject the financing proposed for the law increasing the salaries of teachers and professors by means of loans. He demonstrated the inconvenience of such financing not only for this law but in the case of other laws increasing salaries which would make necessary the floating of internal loans for more than 70,000,000.-pesos. He pointed out also that the monetary situation of the country would not permit such financing because the credit and banking institutions of the country could carry such increased loans only by rediscounting with the Central Bank, thus increasing the currency used and even depreciating the peso. He added that the financial situation of the country was uncertain because there were sufficient statistics on hand to permit him to state definitely that many of the sources of income of the Nation would not yield the amounts calculated in the budget now in effect. The laws therefore, should be approved in the form in which they were presented by the President, financed entirely by an increase in certain taxes.

"The members of the Defense Commission of the Chamber of Deputies and the Defense Minister called on the President to inform him that the bill calling for 1,000,000,000.-pesos for the acquisition of armaments was not sufficient and that studies so far carried out indicated that 6,000,000,000.-pesos would be needed for this purpose. They also presented to the President a plan for financing such expenditures.

"Congress approved laws for the increased salaries of the police force, Army, Navy, professors and teachers, effective January 1, 1940, representing the increase in expenses for the year for the items of 225,600,000.-pesos. Means for financing these increases were fixed as follows:

1) Difference in sale of foreign exchange of nitrate more or less	20,000,000.-pesos
2) Increase in tax on real estate	10,000,000.- "
3) Tax on gross income	8,000,000.- "
4) Increase in ad valorem tax on imports	17,000,000.- "
5) Tax on beer	3,000,000.- "
	<u>58,000,000.- "</u>
Surplus for 1939 budget	30,000,000.- "
Funds from the Caja de Amortizacion	30,000,000.- "
Increase in ordinary budget income	20,000,000.- "
	<u>138,000,000.- "</u>

"For the remaining amount the Government is authorized to contract loans with maturities of from 3 to 7 years up to 70,000,000.-pesos.

"The President had presented these bills for a total of 200,000,000.-pesos financed entirely by new taxes which would have yielded a total of approximately 219,000,000.-pesos without touching the budget surplus for 1939 or the excess income in the ordinary budget, the funds of the Caja de Amortizacion, or the exchange profit referred to."

*copy to Thompson
letter*

EXTRACT FROM LETTER FROM
AMERICAN BUSINESS MAN IN JAPAN

193

Hawaiian Hotels, Limited
Honolulu, Hawaii, U. S. A.
August 13, 1940.

We are pleased to be again on American soil for our vacation and I must say it is a great relief from what we have been going through. It is a welcome change to be where there is butter, coffee, bread, good eggs, good chicken, gasoline, toilet paper, matches and countless number of other things which we did not really appreciate when we had them.

Also it is a relief to get away, even for a short time, from the tenuousness and unpleasantness of the situation now existing in Japan and the entire Orient.

The change is so great that I have been perfectly amazed at the abundance of everything here. Here there is a prosperous business activity that makes one feel good. There seems to be building going on everywhere, new businesses and stores opening up in most every direction; old ones remodeling; increased number of tourists together with the American fleet in addition to the vast amount of money being spent by the Government, this place is booming.

Being here gives me an opportunity to write you more freely about Japan matters than I could in that country or aboard a Japanese steamer.

Business and living conditions in Japan are worsening all the time. More restrictions and additional controls are being instituted. It is becoming most difficult to procure the bare living necessities. Sugar, matches, rice, charcoal, gas, electricity are all being rationed, card systems are in use. We are now experiencing much difficulty in getting bread. Rice is prohibited in restaurants or other public places. Automobiles are rapidly disappearing, due to the ban on the use of gasoline and the law against importing new or second-hand cars. The taxis that operate in the larger cities are gradually falling apart due to lack of spare parts, tires, etc. The driver of a taxi will not take you until the taxi fills up with passengers going in the same direction. That is another new regulation to conserve gas.

Shoes cannot be repaired due to lack of leather. We have brought our shoes to Honolulu for overhauling. Rubber heels cannot be bought in Japan, nor leather.

The farmers are feeding their hogs and hens a poor quality of food as well as an abundance of fish. The result is that for us Americans it is quite impossible to eat these chickens that have been fed fish. The taste and the stench is awful, and the eggs are watery and poor. Ham smells and is tainted due to the fish being fed to the hogs.

Since arriving here, we have both been busy stocking up on canned goods and purchasing a supply of everyday commodities that should last us for several months.

We have always been watched and checked by the authorities but in recent months the checking is closer which makes it quite unpleasant and uncomfortable at times. Our belongings are constantly being handled by the police in search of papers when we leave our house. I know that my desk, books and files at the office are constantly checked. And one has to be very careful in conversation as plain clothes men are always nearby. Several of our British acquaintances were arrested just before we sailed.

October 2, 1940

Extracts from a letter received from Japan:

"We have all been very disturbed by these recent developments. Some people think a minor crisis may arise in a fortnight when a decision has to be reached regarding the opening of Burma road, and, after the turn of the year, there will be more rapid action."

"I am especially apprehensive lest some drastic incident may bring our two countries to the verge of hostilities. All difficulties could be ironed out quite easily by a few small concessions on either side. We may never agree to the principle of armed force but I don't think the American people want to start a war on the other side of the Pacific Ocean in order to help out third countries. Of course, the Germans would be only too glad to see us involved in such a struggle and I dare say this present mess is largely of their making. A conflict out here would certainly interfere with our granting help to Great Britain."

"I hope the Japanese do not start to persecute Americans as they did so many Britishers. They have not arrested any Americans yet for espionage, but I have no doubt that their suspicion will increase just as rapidly as our relations deteriorate."